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Potential entry barriers for LNG

Regulator analysis of the current EU situation

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GLE workshop on the EU Strategy for LNG
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Entry barriers in the LNG sector

Potential entry barriers for LNG can be of 3 kinds:

- ▶ **Regulatory barriers:** does the regulatory framework promote competition (access to LNG terminals, transparency, congestion management procedures, etc.)?
- ▶ **Physical barriers:** can the EU attract LNG and deliver it where it is needed (for instance are there sufficient regasification and/or transmission capacities)?
- ▶ **Market barriers:** do LNG market dynamics and designs restrict the use of LNG?





ARE THERE REGULATORY BARRIERS FOR LNG IN THE EU?



TPA should ensure that there is no barrier to LNG in Europe

- General principle in EU legislation: LNG terminals are regulated and subject to open access
- TPA exemptions to promote investment, but without prejudice to competition and security of supply
 - ▶ Exempted terminals are subject to the application of congestion management procedures and transparency obligations
- European energy regulators have dedicated resources to implement a regulatory framework which promotes competition:
 - ▶ Guidelines for good third party access (harmonization of capacity allocation and congestion management procedures)
 - ▶ Review on access conditions to LNG terminals (to assess if small players can access facilities)
 - ▶ Transparency Templates (to facilitate access to information provided by LSOs)



Status of LNG terminals regulation

- **CMP provisions**

- ▶ All LNG terminals in the EU have functioning CMP provisions
- ▶ The capacity released was not often subscribed due to a low EU demand for LNG, in the past few years

- **Secondary market**

- ▶ The secondary market is active in Belgium, France, Greece, Portugal, Spain, the Netherlands and the UK
- ▶ Active shippers are more numerous in regulated terminals than in exempted ones

- **Access to terminals**

- ▶ CEER did not report any access denial between 2009 and 2013, except at the Greek LNG terminal where capacity requests were denied due to a lack of storage capacity.

- **Ancillary services**

- ▶ LNG terminals have adapted their facilities to the dynamics of the LNG market, developing flexibility services

The current regulatory framework in the EU guarantees a fair, transparent access to LNG infrastructures, effective congestion management procedures and functioning secondary capacity markets at most LNG terminals



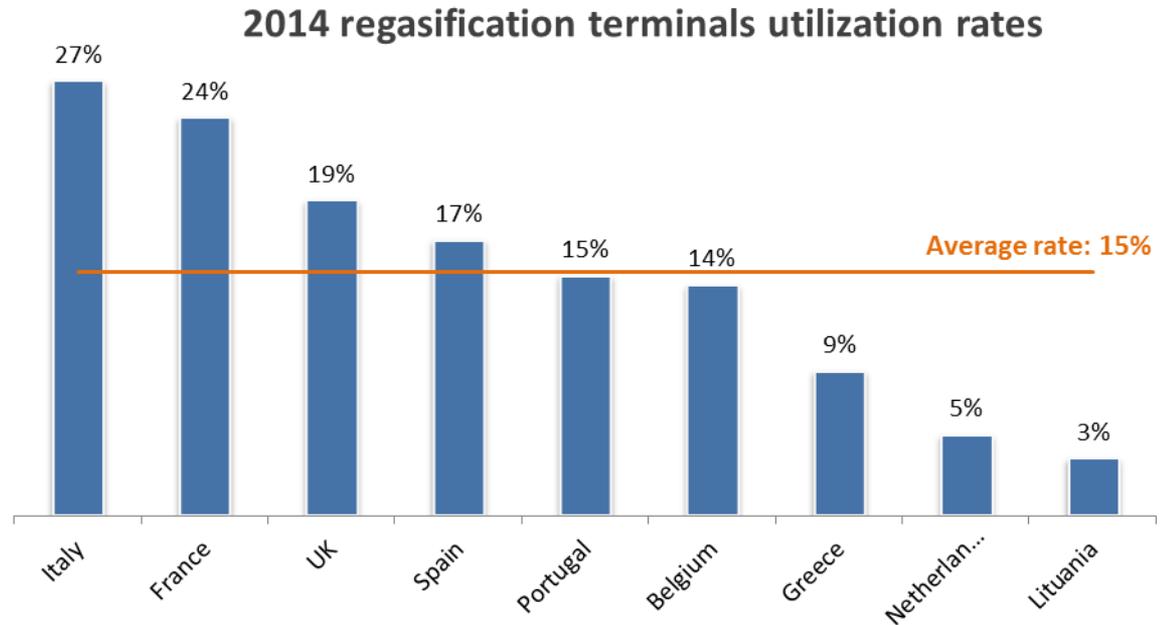
ARE THERE PHYSICAL BARRIERS FOR LNG IN THE EU?



Large regasification capacities across the EU, with important spare capacities

- The EU has 19 regasification terminals with high unloading capacity available

- ▶ Total regasification capacity of 201 bcm in 2015
- ▶ Good repartition among Member states, from South to North: 9 countries having a sea coast have at least a terminal
- ▶ Total LNG deliveries in 2014 of around 33 bcm



Source: GLE

Actual LNG infrastructure in Europe is sufficient to face the expected increase of LNG imports by 2020 (the IEA expects LNG imports will double to 90 bcm in 2020)

Optimising infrastructure complementarities in Europe

- ▶ European gas networks have been designed to flow gas from the East to the West: it is difficult for LNG from terminals in Western Europe to reach Eastern countries
- ▶ How can we ensure that countries that do not have access to LNG can take advantage of it?
 - Investments in **regasification plants**. Yet, they are already massive in the EU
 - Investments in **transmission capacities**, to reduce proven networks bottlenecks
 - Any new investment should answer a **market need** and be subject to **cost-benefit analysis**



Detailed information on LNG terminals available at www.gie.eu, Maps & Data

An efficient use of current infrastructures is recommended, especially in a context of decreasing gas demand in Europe



ARE MARKET DYNAMICS POTENTIAL ENTRY BARRIERS FOR USING LNG?





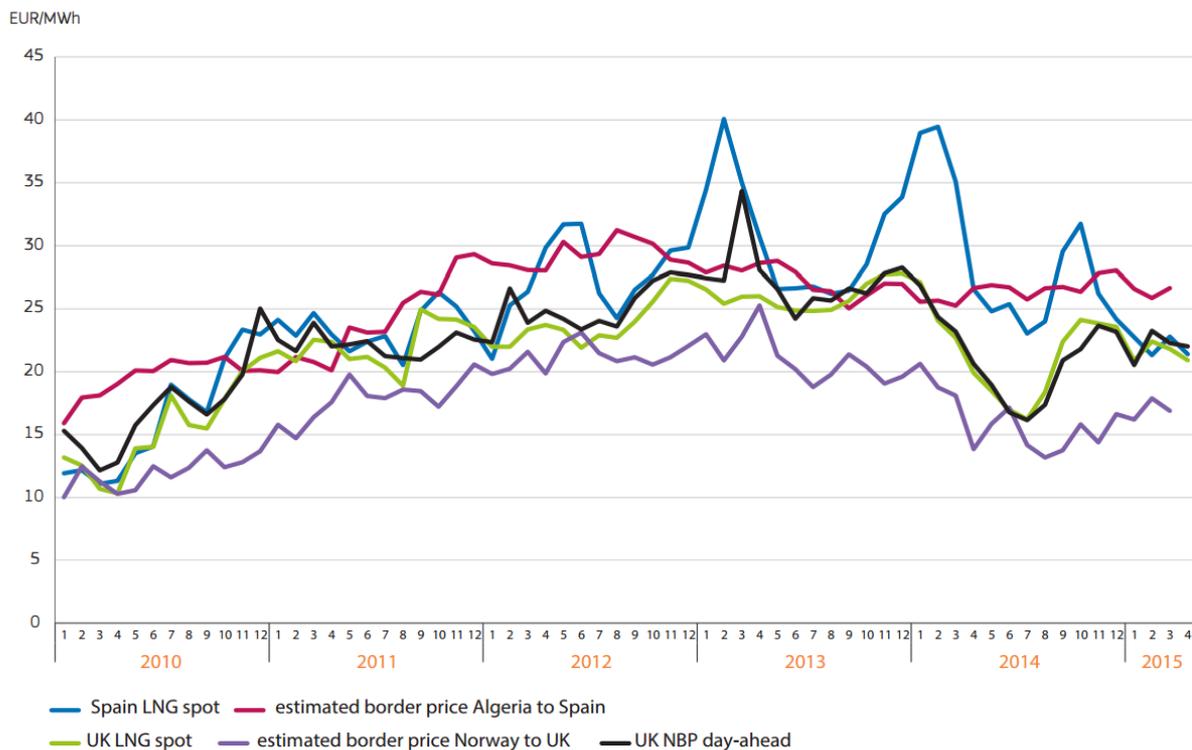
▶ 2012-2014: EU LNG imports decreased: the **EU is exposed to LNG global market dynamics**

▶ Since end 2014: Contracting price spreads between Asian and EU LNG markets: **increasing volumes have reached the EU**

- In Q1 2015, imports rose by 24% year on year
- **Disparities in the EU:** Spanish and French imports decreased by 22%, but the UK, Dutch imports tripled

▶ Price have converged between LNG and pipe prices: arbitration between different supply sources

LNG is back to Europe



Note: Landed prices for LNG.

Source: Platts, Thomson Reuters, European Commission estimates based on Eurostat COMEXT data



Which role for the EU in a context of changing LNG market?

- Importing countries have been competing to get LNG:
 - ▶ In 2014, according to the IEA, worldwide regasification capacities (981 bcm) were 2,4 more important than liquefaction capacities (406 bcm)
- After a few years of tightness in the LNG markets, a supply wave is expected
 - ▶ 175 bcm of liquefaction capacities are under construction
 - ▶ **New volumes in the market result in an easier access to LNG resources**
- With ample LNG supply, LNG markets will become increasingly flexible
 - ▶ Aggregators contract new volumes, notably in the US
 - ▶ Higher destination and contractual flexibilities: market conditions will prevail over historical long term contracts
 - ▶ Due to Europe's ability to source with pipe gas, is **Europe set to stay a swing market, importing what other regions in the world do not need?**

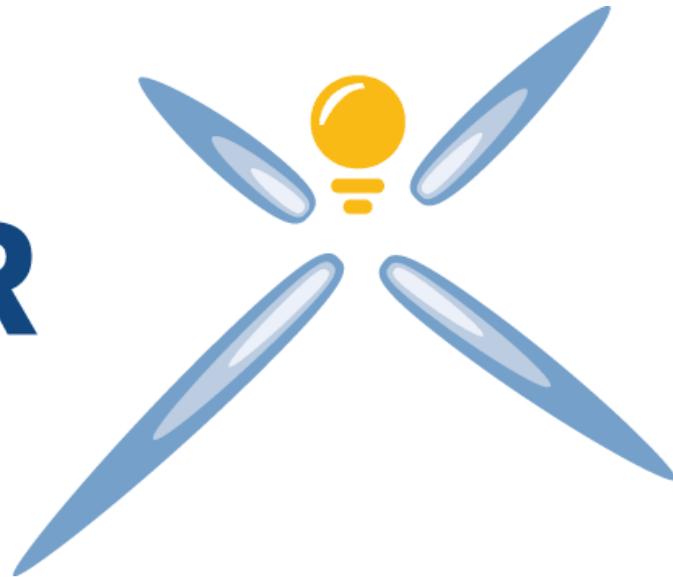
LNG markets are increasingly flexible and short-term oriented: which resilience for the EU LNG market in this context?



Thank you for your attention!

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