Balancing market and SoS interests in storage regulation

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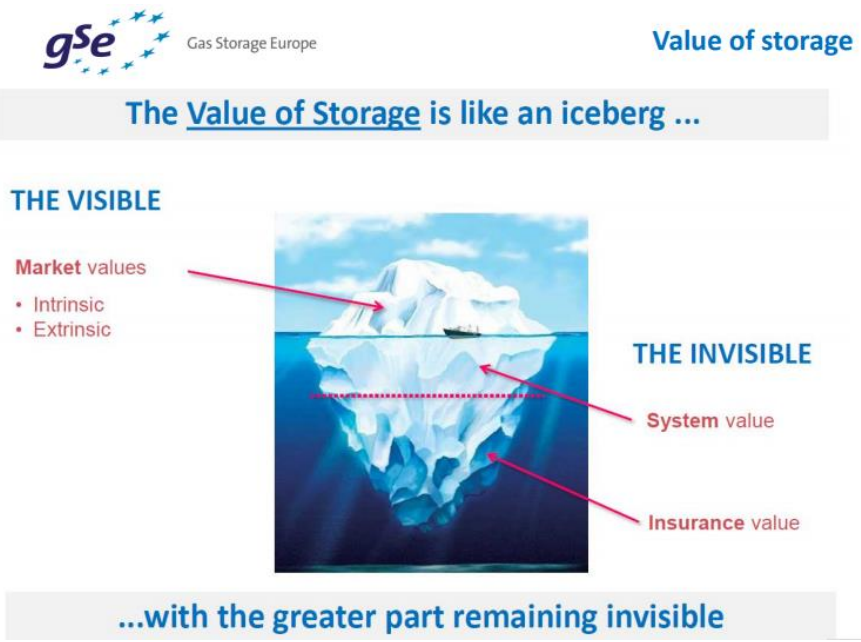
Cyril HARRY – Chair of the Working Group Gas to Power

Contents

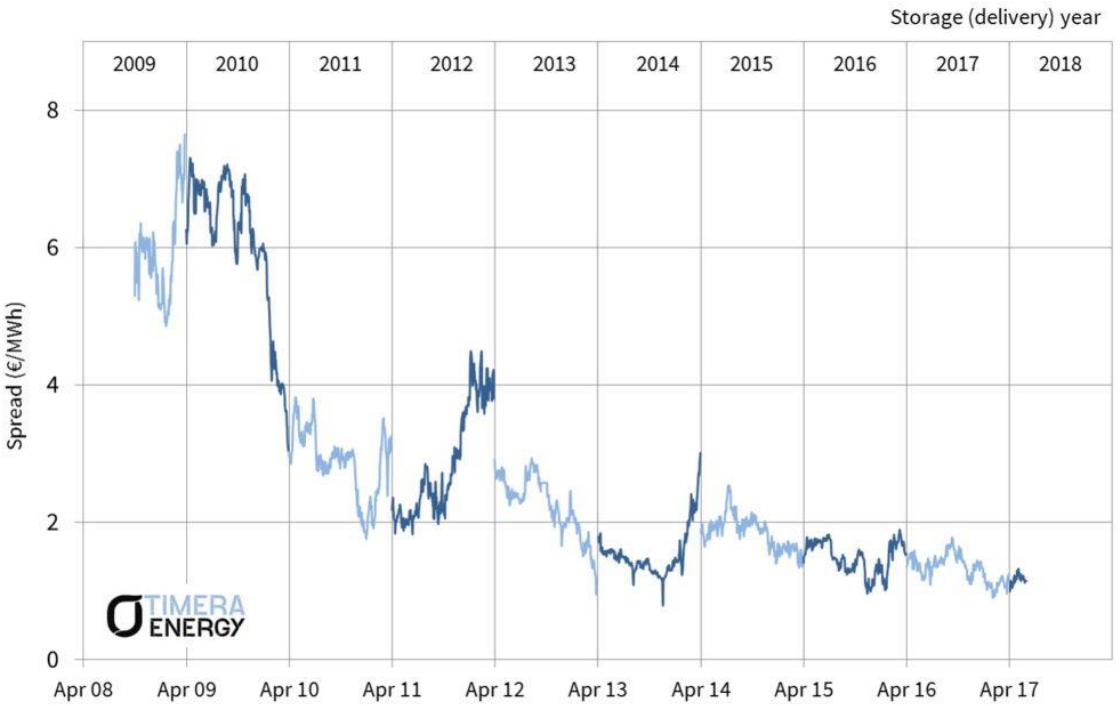
The full value of storage and current market conditions

The 3 value of gas storages



Source : Gas Storage Europe – Gas storage and Security of Supply – 4 June 2015

TTF seasonal price spread (2008-17)



Source : Timera Energy – Options confronting gas storage owners – 12 June 2017
http://www.timera-energy.com/options-confronting-gas-storage-owners/

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Follow-up study to the EU's LNG and storage strategy : key issues for storage (*cf.* stakeholders workshop held 27 September 2017)

- **Current market conditions financially challenging for storage :** low SU/WI spreads lead to poor appetite of market participants for storage, in a context of falling demand and competition with abundant sources of flexibility (incl. LNG and IPs)

- **Some of the values of storage may not be fully valued by market participants**

- Low WI/SU spreads imply cost recovery ("missing money") issues for SSOs, jeopardizing their profitability : **low market value of storage will force SSOs to make dismantling decisions in the coming years**

- **A – too – large dismantlement could jeopardize security of gas supply (SoS) in Europe,** as sufficient gas in store is physically needed for SoS (i.e. adequacy requirements)

⇒ **Need for interventions to appropriately value SoS :**

Access to storages capacities should be implemented through market-based mechanisms (e.g. auctions for capacity bookings, *cf.* the Italian case), thus enabling competition with other flexibility assets

Storage and balancing market interests

From a physical perspective (i.e. seen from gas infrastructures operators)

Gas storages contribute to the smooth functioning of balancing system, as :

- Storage is the closest gas source to consumptions' points
- Storage is one of the fastest tools to physically solve any imbalances (e.g. pressure drops or rises on networks)

From a contractual perspective (i.e. seen from market participants)

Gas storages allow market participants to proceed with renominations in very short notice periods (i.e. on a *within day* basis), which is of high value :

- For any gas market participant, in case of need for rebalancing its position on the balancing zone considered via a local tool (easier than cross-border rebalancing operations)
- In particular for gas-fired power plants, in case of need for rebalancing in a very short timeframe (*cf.* ramp-up or ramp-down periods)

Storage and security of gas supply interests

Revised Regulation of gas SoS adopted 9 October 2017 (repealing Regulation 994/2010)

Gas-fired power plants need gas SoS, as Member-States may decide to prioritize the gas supply to certain critical power plants over the supply to certain categories of protected customers during an emergency (*cf.* Article 10, 4.a) : **gas SoS *does* secure electricity SoS.**
Access of power generators to gas storage and balancing tools, through market-based mechanisms, will provide them with the necessary tools to secure their own operations, while, at the same time, it would serve both electricity and gas SoS interests

***Cf.* CRMs in force or under implementation in some MSs to meet SoS requirements in electricity**

Adequacy requirements of power systems imply need for maintaining availability of some physical power assets :

- Some power generation capacities are exclusively required to meet demand in peak periods → CRMs required for such plants on behalf their insurance value
- In a similar manner, storages are required for gas SoS, whereas their value in the current market design is too low to ensure their sustainability

Gas SoS requirements imply a need for storage, even for cross-border use at regional level

e.g. Slovakian storages for Germany or German storages for Poland

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Conclusion : storage regulation : an adequate framework able to meet both balancing market and SoS interests ?

Alike power plants in the electricity sector, value in the current market design does not suffice to ensure LT availability of gas storages required for both SoS and balancing needs

Storages obligations are not market-based mechanisms and can be detrimental to the optimised use of storage capacities by market participants, while introduction of strategic storage measures, as well as stocks dedicated to TSOs for balancing services, should be carefully evaluated to avoid crowding out storage capacities from the market

There is room for improvement in the way gas storages capacities are currently contracted, while market-based mechanisms should prevail for subscription.

→ could storage regulation address those issues ? Would it provide an adequate framework to meet both balancing market and SoS interests ?

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