

IOGP response to the EU Energy Security Package

Introduction

The International Association of Oil and Gas Producers (IOGP) representing companies that supply around one third of the world's oil and gas, including a substantial share of the EU's gas, welcomes the Commission's recognition of the strategic importance of gas for Europe, including the focus on the growing role of LNG. The emphasis in the Energy Security Package on market connectivity, trading hubs and market signals is welcome, as forms of direct policy intervention often distort the market and lead to inefficient infrastructure investments. The shift towards regional cooperation in the context of the Gas Security of Supply Regulation, and the request for contract notification and disclosure, are areas where clarifications are needed. At the same time, the drive to replace gas with electricity in the Heating and Cooling sector undermines many of the positive signals towards gas suppliers in the LNG and Gas Storage Strategy. This policy confusion is unlikely to provide gas investors with the confidence necessary to reinforce the vital role that gas should play to satisfy Europe's energy demand, including meeting the climate objectives agreed in Paris at COP21.

Gas Security of Supply Regulation

- EU security of supply has improved over the last decade, with new market-driven investments in infrastructure such as LNG terminals and interconnectors, as well as the Gas Security of Supply Regulation which has raised awareness of potential supply disruption risks and led to new tools with which to monitor security of supply. Around 60% of the EU's gas is supplied by domestic production including Norway. This is a key source of gas market supply and complements LNG, storage and pipeline gas as sources of supply and flexibility at the European trading hubs.
- Competitive gas markets cover 80% of the EU gas market. In particular, the gas hubs of north-west Europe are well supplied and liquid, and capable of responding to supply disruptions in a way that ensures efficient and market-based security of supply. The Energy Union should focus on supporting the development of gas hubs in other parts of Europe as part of efforts to make the EU gas market more resilient. This can best be achieved by implementing existing EU gas market rules.
- There are localised regions of Europe that remain dependent on one source of supply. It is important that in addressing security of supply challenges in these

locations, the well established and functioning gas markets in the rest of the EU are not distorted by a one-size-fits all approach.

- The focus in the new Regulation on regional integration and dismantling barriers is welcome and IOGP notes that this problem primarily affects eastern and south-eastern Europe. The proposal to replace national prevention and emergency plans with regional plans may assist with encouraging Member States to further address cross border trade barriers and with addressing specific vulnerabilities at the regional level. It may also lead to unintended consequences such as market fragmentation, if not handled with sufficient flexibility and attention to Member State requirements.
- IOGP supports the Regulation's strong emphasis on the importance of the market and market-based measures in addressing emergency situations. Non-market measures represent market distortions and extra costs for the system that will ultimately be paid for by end-consumers.
- It will be important to encourage Member States to coordinate preventive and emergency plans at an equally comprehensive and coordinated level with neighbours that are not included within their regional groups. Once implemented, the regional groups ought not to have the effect of structurally reducing the flexibility of Member States to mitigate and respond to supply risks using the most cost efficient and market-based approach that may be available to them at the time.
- It will also be important to ensure that, as proposed by the Commission, the Solidarity provision only applies in emergency situations, and that Member States are not able to invoke this clause unless they are faced with a crisis situation. IOGP notes that where Member States feel able to freely call upon the resources of a neighbour, including its gas storage facilities, the market would face significant and unnecessary distortions.

Gas Security of Supply Regulation: Information Exchange

- IOGP would welcome clarification that the proposal for contract disclosure and reporting does not duplicate already existing national reporting obligations and the REMIT requirements that were introduced for standard gas contracts in October 2015 and non-standard gas contracts in April 2016. Any overlap with reporting obligations would not be efficient for industry and Member States, and may conflict with the principles of Better Regulation.
- Gas producers and shippers would also welcome clarification by the Commission of the way in which these proposals may go beyond REMIT, in order that industry stakeholders are clear about the distinct roles and responsibilities of market participants in each of these reporting frameworks.
- Further clarifications are also necessary on the way the 40% supply threshold is notified to the Commission, in terms of the timing of notification, the identity of the information requesting *and* reporting parties, and how the 40% should be applied for gas supply contracts that are intended to supply a region and not only the Member State where gas enters the EU.
- It is vitally important that the data provided under any new reporting requirements is kept confidential given that these contracts include commercially sensitive information.

LNG and Storage Strategy

- IOGP welcomes the focus in the LNG and Storage strategy on developing competitive gas markets in Europe. The role of properly functioning and liquid gas markets is particularly important in ensuring security of gas supply. IOGP supports the emphasis on avoiding policies that distort the gas market, including forms of public support for gas infrastructure such as LNG terminals and storage facilities.
- Investments that have not been made in accordance with market signals are unlikely to be efficient, and will send counterproductive signals to the market.
- Europe has abundant LNG import and gas storage infrastructure and the focus now must be on implementing the existing rules for their efficient use as set out in the third energy package and network codes.
- LNG is part of a wider portfolio of gas producer flexibility, which also includes commercial gas storage, domestic gas production and new pipeline routes. It is important to think about LNG not as a separate category of gas requiring its own policy framework but rather as a method of transportation that helps to promote supply diversification and competition.
- Market-based new or incremental investment in LNG terminals or other internal gas market infrastructure more broadly should not be considered as future 'stranded assets' or as the result of over-investment in gas infrastructure in the event that such infrastructure is operated at levels which do not represent full utilisation or capacity. The value of European gas infrastructure is also in the commercial flexibility and optionality it provides to market players, and not whether such infrastructure is used at maximum utilisation. Moreover, interconnectors and measures to complete the internal gas market should also be considered in the context of security of supply requirements in specific parts of Europe where market connectivity is low. Where such infrastructure is currently missing, the Commission has policy instruments such as PCIs and the Connecting Europe Facility to support investment and should not therefore seek to shape investment or demand by alternative, non-market methods.

Heating and Cooling Strategy

- IOGP believes that efforts to promote the shift to a low-carbon heating and cooling sector should be as technology and energy source neutral as possible, since energy sector investors have greater policy predictability and stability when EU policymakers take a technologically-neutral approach, rather than a preferential approach which highlights the benefits of one technology.
- The Heating and Cooling Strategy promotes the objective of electrification and displacing gas in the heating and cooling sectors. With heating and cooling accounting for around half of the EU's gas demand this creates concern among gas producers and suppliers to the EU. Establishing an objective which involves phasing out this source of demand also sends a negative signal to gas investors in the EU. Strong and consistent demand signals for gas would help to reassure investors that gas has a long-term role in the EU energy mix, and such reassurance would help to pave the way for additional investment, particularly in terms of commercialising the significant gas discoveries around the EU.

- The electrification of the EU's heating and cooling sectors as described in the strategy risks being a cost inefficient solution to decarbonising this sector. Furthermore the net benefits of such an approach in terms of carbon emissions and air quality will be very dependent on the power mix itself being carbon efficient. Deploying modern efficient natural gas fuelled technologies will help to promote decarbonisation in the EU heating and cooling sectors but this should be complemented by parallel efforts to encourage the role of gas in Europe's power sector, in particular as a substitute for coal.
- The Commission's strong focus on electrification in its Communication on Heating and Cooling Strategy risks neglecting other low carbon options that are immediately available and affordable, such as high efficiency gas-based and hybrid heating options, which can achieve an increase in energy efficiency and also contribute to GHG emission reductions. New gas-condensing boilers, which have the lowest upfront costs compared with other heating appliances, are up to 20% more efficient than traditional boilers. In addition, replacing Europe's old stock with gas-condensing boilers could reduce greenhouse gas emissions by 7% in one year alone.¹ The Netherlands has so far been the only Member State that has fully equipped almost all of its heating stock with condensing boilers over the last 30 years.

About IOGP

The International Association of Oil & Gas Producers (IOGP) is the voice of the global upstream industry. Oil and gas continue to provide a significant proportion of the world's energy to meet growing demands for heat, light and transport.

Our Members produce more than a third of the world's oil and gas. They operate in all producing regions: the Americas, Africa, Europe, the Middle East, the Caspian, Asia and Australia.

We serve industry regulators as a global partner for improving safety, environmental and social performance. We also act as a uniquely upstream forum in which our members identify and share knowledge and good practices to achieve improvements in health, safety, the environment, security and social responsibility.

Contact us

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¹ Source: Delta Energy and Environment, 2050 Pathways for Domestic Heat, 2012