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Position Paper

The Evolving Role of Storage in Flexibility Markets and Implications for European Energy Regulation

- The European policy goals aim at creating a more environmentally sustainable, a more competitive and a more regional (European) gas market where Europe's gas supply is secured and where gas comes from a diversified set of suppliers and via diverse routes. Flexibility tools such as gas storage are crucial in this picture.
- Driven by European energy policy and changes in the European gas supply mix, flexibility markets are evolving that are rapidly becoming more regional and competitive. Flexibility services are offered today independently from the gas itself and are no longer merely seen as ancillary services attached to gas transmission services.
- Physical flexibility instruments such as gas storage, arbitrage between gas and electricity markets and arbitrage in the LNG markets already compete with virtual, contractual instruments such as spot markets, contractual swaps, supply contract flexibility and interruptibles. This competition will increase with the development of a well-functioning gas market in Europe, thereby making flexibility instruments near-perfect substitutes.
- In the flexibility market non-regulated contractual flexibility instruments may compete with physical flexibility instruments, which are to a varying degree regulated. To maintain a level-playing field further liberalisation of the flexibility market should be considered by selective deregulation of physical flexibility instruments such as gas storages across Europe.
- Regulation should provide a general framework to both protect the interests of customers and supply the markets with the right incentives to invest, should be flexible enough to adapt to changing market conditions, acknowledge the variety of markets and be reliable and predictable so as to create a level-playing field.
- GSE believes that regulation should aim to support all goals of the European energy policy (increased competition – security of supply – sustainability) in a well-balanced manner, taking into account the specifics of different markets. Focus on one policy goal e.g. competition should not go to the detriment of other policy goals.
- Whereas it is important that basic regulatory boundary conditions such as TPA, transparency, non-discriminatory treatment and others agreed in the GGSSO should remain in force, GSE strongly advocates that regulation should be market-driven and refrain from detail and micro-regulation that may have unintended consequences for investment incentives (e.g. detailed Open Season requirements).
- GSE shares the view that availability of sufficient gas storage capacity is important both from the point of view of a well-functioning market and for security of supply. With increasing gas import dependency and increasing deployment of renewables in Europe more gas storage capacity will need to be developed. In order to ensure optimal use of flexibility options across markets an appropriate level of geographical distribution of flexibility instruments and network connectivity should be achieved. Together with all stakeholders involved, GSE will continue to contribute to reaching this goal.