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ACER
Agency for the Cooperation of Energy Regulators

OPINION OF THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS No 02/2014

of 30 January 2014

ON ENTSOG'S WINTER SUPPLY OUTLOOK 2013/14

THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS,

HAVING REGARD to Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators[1] (hereinafter referred to as "the Agency"), and, in particular, Article 6(3)(b) thereof,

HAVING REGARD to Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005[2], and, in particular, Article 9(2) thereof,

HAVING REGARD to the favourable opinion of the Board of Regulators of 23 January 2014, delivered pursuant to Article 15(1) of Regulation (EC) No 713/2009,

WHEREAS:

(1) The European Network of Transmission System Operators for Gas (hereinafter referred to as "ENTSOG") has developed, adopted and published on 28 November 2013 the Winter Supply Outlook 2013/14 pursuant to Article 8(3)(f) of Regulation (EC) No 715/2009.

(2) ENTSOG has submitted the Winter Supply Outlook 2013/14 to the Agency for its opinion on 28 November 2013 pursuant to Article 9(2), first subparagraph, of Regulation (EC) No 715/2009.

(3) Pursuant to Article 6(3)(b) of Regulation (EC) No 713/2009, the Agency shall provide an opinion to ENTSOG on, *inter alia*, relevant documents referred to in Article 8(3) of Regulation (EC) No 715/2009, as submitted to the Agency pursuant to Article 9(2), first subparagraph, of Regulation (EC) No 715/2009.

(4) ENTSOG's 2013 Annual Work Programme foresees work and deliverables as described in Article 8 of Regulation (EC) No 715/2009, including the development of annual summer and winter supply outlooks,

HAS ADOPTED the following Opinion on ENTSOG's Winter Supply Outlook 2013/14:

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[1] OJ L 211, 14.8.2009, p. 1.
[2] OJ L211, 14.8.2009, p.36.

1. The Agency notes that ENTSOG published the Winter Supply Outlook 2013/14 on 28 November 2013. The Agency welcomes the production and the publication of the Winter Supply Outlook 2013/14 and expects future winter supply outlooks to be published further ahead of the winter season, preferably by mid-October at the latest. The Agency believes that such practice would enable earlier action by stakeholders in cases where the outlook identifies potential gas supply shortfall or negative impacts on gas infrastructure operations.

2. The Agency acknowledges that ENTSOG has taken into account the Agency's earlier recommendations regarding the need to give greater attention to short-term supply and transmission trends based on historic gas flow data. Data about the actual monthly gas supply and gas injection into storage during the last two summer seasons is now part of ENTSOG's analytical framework, rather than the previously used hypothetical flat supply and injection patters. The Agency appreciates the use of real-life data in the analyses and considers it as evidence of ENTSOG's desire to incorporate in its seasonal outlooks critically important aspects of actual gas supply, along with the equally important analyses related to the robustness of the gas supply infrastructure.

3. The Agency welcomes the tracking of the evolution of UGS inventory for each country based on network modelling, a procedure designed to capture local gas scarcity on a daily basis, in a manner similar to the one used for the preparation of the Summer Supply Outlook 2013. However, the Agency notes that the network system model is based on a topology with existing interconnection points merged into one virtual cross-border point per entry-exit zone, an analytical set-up which could overlook some country-specific demand-supply unbalance cases. The Agency recommends the use of a more detailed topology at a level where low remaining flexibility and scarcity of gas supply could be detected within regions and zones.

4. The Agency notes that LNG supply is treated analogously to pipeline gas supply (the short-term storage level is treated as neutral), and that UGS and the storage component of LNG are used to balance demand.

5. The Agency notes that ENTSOG applied an enhanced "one-size-fits-all storage" UGS deliverability curve, which is a less conservative one than the curve used previously, and that a 75% average storage level has been applied where storage volume has not been reported by GSE. The Agency suggests to ENTSOG to consider ways in which the data used for the deliverability curves and the storage volumes of UGS could be as fully up-to-date and realistic as possible.

6. The Agency notes that the 14-day high-daily-demand case has been moved from January to March in order to capture the impact of low storage availability, and that winter demand-supply balance is assuming the maximum conserving of the available gas volume in UGS with lowest volumes in storage (France and Hungary), an assumption which may not be justifiable.

7. The Agency welcomes the application of a sensitivity analysis to check the ability of the infrastructure to:

a. cover the full winter demand under different supply and demand conditions;
b. enable shippers to meet different high daily demand situations in each country;
c. enable shippers to face disruption of Russian gas through the Ukraine under high daily demand situations.

However, simulations considering disruption of other main European gas sources, such as Norway or Algeria, would enrich the supply outlook.

8. The Agency welcomes basing the investigation of the impact of a demand increase due to a cold winter (on average by 6% across all countries) on actual country-specific data for demand variation during the previous four seasons, instead of the previously used flat across-the-board 10% increase.

9. The Agency invites ENTSOG to clarify in greater detail the added value of providing a warm winter demand case (decreased demand of 8%).

10. Volume perspective results

10.1. The Agency notes that, according to the Winter Supply Outlook 2013/14, the lowest potential storage level at the end of March is just 7% of UGS active gas volume (14% in the reference case), which corresponds to a withdrawal rate of 50% of the maximum technically possible withdrawal rate. The Agency notes the importance of ENTSOG's effort to identify at country level the potential negative impact of low levels of gas in storage at the beginning of the winter season, and of ENTSOG's finding that such low levels of gas in storage may endanger the ability of South-East Europe (Hungary, Romania, Bosnia-Hercegovina and Serbia) to meet the reference case gas demand at the end of the winter. The Agency concurs with ENTSOG's view that the low stock levels at the beginning of the winter are a reason for concern, especially having in view that, in order to mitigate any potential negative impact of absence of gas in stock at the end of the season, the average delivery of gas from Russia via the Ukraine should be 14% (50 GWh/d) higher than during the last two years. In the case of a cold winter, the additional call on supply from Russia would need to be twice as large (100 GWh/d). The Agency notes that in ENTSOG's analysis in the Winter Supply Outlook 2013/14 of the relationship between UGS active gas volumes, their country-level implications, and the flows of imported gas identifies a lack of infrastructure resilience which has no short-term solution, an identification of great practical value, and draws the attention of stakeholders to this early warning provided by ENTSOG.

10.2. The Agency notes that according to the Winter Supply Outlook 2013/14, in the reference case the demand-supply balance in Denmark and Sweden depends on the availability of 20 GWh/d of interruptible capacity from Germany, that in the case of a cold winter around 50 GWh/d interruptible capacity from Germany to Denmark will be necessary, and that in case of unavailability of domestic production in Denmark the demand for such capacity would further increase. The Agency welcomes the information that new interconnection capacity is expected to be commissioned before the winter of 2014/2015 to address this risk.

11. Capacity perspective results

11.1. Based on ENTSOG's experience, the use of the remaining flexibility indicator may lead to an optimistic vision of events under certain situations, as the indicator is calculated by assuming the use of all entry points of all systems at their maximum capacity simultaneously. The Agency supports the work that ENTSOG is planning to improve the capacity perspective results already in the course of preparing the next TYNDP 2015-2024, in line with the approach proposed by the Agency in its Opinion on ENTSOG TYNDP 2013-2022.

11.2. The Agency notes that deliverability of gas from UGS at the average level is used as a proxy in all countries, an assumption which is not in line with the *status quo* as identified by ENTSOG. The Agency invites ENTSOG to carry out a further analysis based on realistic assumptions, such as ENTSOG's own findings about the possible impact of low gas-in-storage levels at the start of the season in France and Hungary, on the ability to meet high daily gas demand during the winter.

12. The Agency welcomes ENTSOG's Winter 2012/13 Review, a document developed on a voluntary basis and released as part of the Winter Supply Outlook 2013/14. The Agency notes that the Winter 2012/13 Review provides information about supply disruption events, monthly hub prices and demand by sector, winter demand evolution during the last four years, daily and 14-day seasonal peak demand, simultaneity of the European and country-specific peak demands (96% simultaneous), supply trends including decreasing LNG imports (-32%) and national production (-8%), compensated by increased UGS withdrawals (+40) and Russian imports (+8%), evolution of stock levels, and other important indicators. The Agency believes that the identified values, trends and events would be a valuable input for the development of the next supply outlook scenarios, particularly for setting realistic cases, actual values of parameters, and a credible sensitivity analysis.

13. The Agency believes that the Winter Supply Outlook 2013/14 meets the objectives of Regulation (EC) No 713/2009 and Regulation (EC) No 715/2009 in terms of contributing to non-discrimination, effective competition, and the efficient and secure functioning of the internal natural gas market.

Done at Ljubljana on 30 January 2014.

For the Agency:

Alberto Pototschnig
Director

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