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**OPINION OF THE AGENCY FOR THE COOPERATION OF ENERGY
REGULATORS No 19/2014**

of 18 December 2014

ON ENTSOG'S WINTER SUPPLY OUTLOOK 2014/15

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 Regulators¹ (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 1775/2005², and, in particular, Article 9(2) thereof,

HAVING REGARD to the favourable opinion of the Board of Regulators of 17 December 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 3 November 2014 the Winter Supply Outlook 2014/15 pursuant to Article 8(3)(f) of Regulation (EC) No 715/2009.
- (2) ENTSOG has submitted Winter Supply Outlook 2014/15 to the Agency for its opinion on 3 November 2014 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 2014 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 2014/15:

¹ OJ L 211, 14.8.2009, p. 1.

² OJ L211, 14.8.2009, p.36.

1. The Agency welcomes the publication of the Winter Supply Outlook 2014/15. The Outlook represents a highly anticipated analysis in the light of increased concerns over the security of gas supply for the winter of 2014/2015, driven by the then lack of agreement between the relevant Russian and Ukrainian gas companies regarding the delivery of natural gas to the Ukraine in the winter season of 2014/15³.
2. The Agency notes that the Winter Supply Outlook 2014/15 was developed by ENTSOG while it was simultaneously providing input to the European Commission's Energy Security Stress Test exercise⁴ and the related Commission Communication⁵, which took stock of the short term resilience of the European gas system with special regard to the winter of 2014/2015.
3. In this context the Agency underlines the importance of the main conclusions which are pointed out in the Winter Supply Outlook 2014/15, notably:
 - The European natural gas transmission system is robust enough to serve almost all European markets even in the case of a severe winter demand and/or of a short-term gas disruption.
 - The high level of gas in the EU Member States' underground gas storage facilities in the autumn of 2014 contributes to a relatively high level of operational flexibility for this winter season.
 - The indicator of *remaining flexibility* increased in Denmark compared to the last outlook, due to its enhanced connection with Germany, and it is also expected to improve in Hungary with the commissioning of the interconnection between Slovakia and Hungary in January 2015. The increased flows in the integrated market area between Belgium and Luxembourg are expected to ensure the necessary level of remaining flexibility in these Member States in the autumn of 2015.
 - However, in spite of the improvements in recent years in infrastructure development on a European level, large parts of South-Eastern Europe remain vulnerable to a gas disruption through the Ukraine.
4. The Agency notes that several infrastructure projects, which could remedy the situation in South-Eastern Europe and which are supported by the European Union, are facing obstacles in their implementation.
5. In the Agency's view, the inclusion of the assumptions for gas deliveries to additional Third Countries⁶ in the Outlook is a step to better involve countries neighbouring the Union. The Agency encourages ENTSOG to fully integrate each relevant Contracting

³ http://europa.eu/rapid/press-release_IP-14-1238_en.htm

⁴ http://ec.europa.eu/energy/stress_tests_en.htm

⁵ COM(2014) 654 final

⁶ Ukraine and Moldova

Party of the Energy Community in its future outlooks on the basis of an active cooperation and data provision by the respective transmission system operators.

6. As regards the methodology applied for the Outlook, the Agency – in line with its comments to previous versions of the Summer and Winter Supply Outlooks – maintains the view that examining physical flows and the seasonal availability of gas supplies is equally important as focusing on technical cross-border capacities and the ability of the transmission system to handle supply shocks or demands spikes. The capability of supply sources to provide the necessary gas in peak periods, the bottlenecks within national systems and the administrative measures linked to security of supply are all factors which may influence the level of cross-border gas flows in certain scenarios. Similarly, the potential in commercially interruptible contracts and in market-based demand-side management can provide a more refined picture about Member States' vulnerability in high demand situations. The Agency recognizes the efforts undertaken so far by ENTSOG to better assess the commodity dimension. ENTSOG is encouraged to further explore how the above-mentioned supply elements could be better integrated in the upcoming supply outlooks.
7. The Agency highlights that ENTSOG's Winter Supply Outlook assumes "Optimal crisis management" in the high daily demand situations, which entails gas flows fully following price developments, and perfect cooperation between Member States. While this assumption represents the desired state to be achieved, it is currently an overly optimistic scenario.
8. In terms of disruption scenarios, the Agency finds that the use of the chosen scenario in the Outlook⁷ is understandable and justified in the current context. However, for future supply outlooks, ENTSOG is invited to broaden the scope of possible supply disruptions of external sources – or internal for that matter – to be able to give a full picture of the resilience of the European gas system, including both the physical supplies and the infrastructure. As spelled out in ENTSOG's Winter Review 2013/14, several events related to supply disturbance occurred in that period in North Africa (Algeria and Libya) and in Norway. A more comprehensive analysis focusing on what is the absolutely necessary minimum level of gas from each supply source that cannot be substituted by others during the winter season could provide valuable insight into both the flexibility and robustness of the internal market and the merit order of the supply sources. The stronger inclusion of the flow dimension in the analysis could identify where those "compartments" or fracture lines would be located, along which certain national markets would stop functioning and hence would need to introduce non-market based measures in the case of supply disruptions from various sources and routes.
9. The Agency takes note that the scenarios are run by ENTSOG assuming 100% use of the OPAL pipeline, a scenario which, together with the constructive participation of market players, should fully respect the conditions of the applicable exemption decision.

⁷ Russian gas disruption via Ukraine

10. The Agency welcomes that ENTSOG applied different deliverability curves for underground gas storages provided by GSE in each area, representing the weighted average of the facilities, which gives a more realistic view of storage use potential.
11. While the Agency fully recognizes the added value of the GSE's AGSI transparency platform, it also highlights that several storage facilities in the Union, and thus a certain level of storage capacity and stocks, are not included in the platform. A full coverage of the facilities in the platform would be beneficial for the accuracy of the outlooks.
12. As regards the indicator of the remaining flexibility, the Agency invites ENTSOG to better explain in the upcoming supply outlooks the concept and the ideas behind the applied methodology. The calculation and meaning of the indicator must be clear to avoid giving an incorrect impression of security or signal of alert.
13. Without prejudice to the specific timing needs related to the Stress Test exercise⁸ and the need to ensure consistency between the data in the Commission's Communication⁹ and the Winter Supply Outlook 2014/15, the Agency encourages ENTSOG to publish its seasonal outlooks well ahead of the season to enable stakeholders to make the necessary preparations in case some actions are required.
14. The Agency welcomes the Winter Review 2013/14 prepared by ENTSOG on a voluntary basis. The assessment is instrumental to improve the quality of medium and longer term historic analysis, and it gives a useful overview of the sensitivity of gas use in relation to the weather conditions in winter and the changing level and demand patterns. It is remarkable that while the overall gas demand in the winter of 2013/14 was lower than in the previous years, some Member States (Bulgaria, Latvia, Poland, Portugal and Romania) experienced an increase in the peak day consumption. The Winter Review 2013/14 also offers an insight into how the availability of gas supplies or congestions in the infrastructure can hinder the alignment of gas prices in European gas hubs (i.e. the premium of PEG SUD in France in comparison to other gas hub prices during the winter 2013/2014).
15. The Agency takes note of the continued trend of the decreasing use of gas in power generation since 2009. The role of gas and the necessary measures to foster the transition to a low-carbon electricity generation will be discussed among other topics in the Agency's review and update of the European Gas Target Model.
16. The Agency is of the view that the Winter Supply Outlook 2014/15 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.
17. This opinion is addressed to ENTSOG.

⁸ http://ec.europa.eu/energy/stress_tests_en.htm

⁹ COM(2014) 654 final

Done at Ljubljana on 18 December 2014.

For the Agency:



Alberto Pototschnig
Director



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