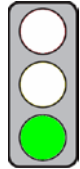


## KEY ISSUES

**Objective of the Communication:** The Commission reports on the insufficient resilience of the European gas system and recommends corrective measures to the Member States.

**Affected parties:** Economy as a whole, particularly companies in the natural gas industry



**Pro:** (1) The Commission rightly calls on Member States to waive export restrictions on gas.

(2) Member States should check whether the existing exemptions from the obligations on reverse flow capability are still justified.

(3) Increased cooperation between the Member States may alleviate the social consequences for the public in the hardest-hit countries.

**Contra:** -

## Content

### Title

**Communication COM(2014) 654** of 16 October 2014 on the short term **resilience of the European gas system**

### Brief Summary

#### ► Context and objectives

- With the continuing tensions between Russia and Ukraine, the risk of disruption to European gas supplies has increased.
- The Commission has carried out a "stress test" to simulate the impact of major disruption to gas supplies in winter 2014/15 on the security of European gas supplies.
- The Commission presents the results of the stress test and recommends measures which will have a positive effect on security of the gas supply in Europe. The recommendations concern in particular
  - the gas supply to "protected" – i.e. particularly vulnerable – consumers such as private households or hospitals [for a definition see Regulation on Security of the Gas Supply (EU) No. 994/2010, Recital 10 and Art. 2 No. 1],
  - the gas infrastructure,
  - the coordination and cooperation between the Member States in the event of shortfalls in supply and
  - measures to reduce demand for gas.

#### ► Stress test methodology

- The stress test is based in particular on
  - current reports, firstly from the Member States and secondly from the Ukraine, Switzerland, Turkey and other countries on
  - the impact of disruption in supply and
  - planned government measures to rectify shortfalls in demand,
  - supply disruption models by the European Network of Transmission System Operators for gas (ENTSOG) and
  - input from various industry associations, the International Energy Agency and the G7.
- The stress test simulates a disruption in supply of up to 6 months between September 2014 and February 2015, firstly based on "average winter conditions" and secondly based on a "cold spell" in February 2015. In so doing it distinguishes between (p. 2)
  - the failure of all supply lines passing through Ukraine and
  - the failure of all Russian gas supplies to Europe, i.e. supplies which do not flow via Ukraine.

#### ► Stress test results

- The report concentrates on the impact of a failure of all Russian supplies.
- In the event of the failure of all Russian supplies, there would be a shortfall of up to 9 billion m<sup>3</sup> of gas. This corresponds to 2% of the EU's annual gas consumption. (p. 4)
  - Only 78% of the missing gas volumes can be replaced which takes place by way of (p. 5)
    - additional imports of liquid natural gas (33%),
    - withdrawals of gas from storage facilities (28%),
    - additional supplies of gas from Norway (13%) and
    - an expansion of local gas production (4%).

- If countries do not cooperate in the event of shortfalls in supply, this may result inter alia in a fall in available gas volumes of over 60% in Bulgaria, Estonia and Finland in February 2015 (p. 8).

► **Securing the gas supply for "protected consumers"**

- The Regulation on Security of the Gas Supply [(EU) No. 994/2010] stipulates:
  - Member States must take precautions in order to safeguard supply to "protected customers" for a "minimum period" ("supply standard" ) (Art. 8; see in this regard cep**Compass** Climate and Energy Policy, p. 63 et seq.).
  - This may, in an emergency, justify intervention in the internal gas market [Art. 10 (1) and (3) in conjunction with Annex III]. Such intervention may involve, inter alia:
    - government directions to release gas from storage facilities or
    - a restriction on gas supplies to "non-protected" consumers.
- In the event of shortfalls in supply, the Member States intervene in the gas market at different times. This is due to the fact that [SWD(2014) 325, p. 5 et seq.]
  - the scope of the group of "protected customers" differs and
  - the national supply standard in some cases exceeds the minimum EU requirement.
- The Commission reminds the Member States that
  - an increased national supply standard must not result in "unlawful distortions of competition" in the internal gas market [Art. 8 (2) Regulation on Security of the Gas Supply (EU) No. 994/2010] and
  - gas supplies within the internal gas market must "not be unduly" hindered by export restrictions [Art. 11 (5) Regulation on Security of the Gas Supply (EU) No. 994/2010], and calls on the Member States to conduct themselves accordingly (p. 19).

► **Gas infrastructure**

- All infrastructure of importance for security of the gas supply – particularly liquid gas terminals and cross-border pipelines – will be completed on time and put into operation without delay.
- In principle, cross-border pipelines in the EU must also be capable of "reverse flow" transmission [Art. 7 Regulation on Security of the Gas Supply (EU) No. 994/2010].
  - The Member States can however permit exemptions where the benefit to security of supply is too small [Art. 7 (1) (b) Regulation on Security of the Gas Supply (EU) No. 994/2010].
  - Only 21 of the 53 cross-border pipelines in the EU currently have reverse-flow capability [SWD(2014) 325, p. 11].
  - Member States will examine exemptions based on the results of the stress test (p. 26).
- Security of the gas supply is given too little attention when it comes to the use of gas storage facilities. The Commission recommends financial incentives – e.g. payments to the owners of gas in storage – so that natural gas is not withdrawn from storage "too fast" whilst other sources such as liquid natural gas are available (p. 20).
- The Commission will examine whether pipeline operators should be made responsible for concrete measures to ensure security of supply. These measures could include (p. 23)
  - gas purchases in the event of shortfalls in supply and
  - contracting storage capacities.

► **Coordination and cooperation of Member States**

- When it comes to assessing their supply risks and drawing up prevention and emergency plans, the Member States currently pay too little attention to the impact on security of supply in other Member States.
- The Commission calls for closer cross-border cooperation and coordination by the Member States on ensuring security of energy supplies.
  - This may prevent individual Member States from making false assumptions about possible gas supplies from neighbouring Member States in the event of a crisis situation (p. 22).
  - Joint Preventive Action Plans [Art. 4 (3) Regulation on Security of the Gas Supply (EU) No. 994/2010] can be concluded to ensure that, in the event of a crisis situation, all "protected customers" are supplied with gas first (p. 17 and 23).

► **Reduction in demand for gas**

- The demand for gas from households and businesses can be reduced by (p. 22/23)
  - decreasing room temperatures and
  - energy efficiency measures such as
    - fitting radiator reflector panels,
    - pipe lagging or
- plans to switch 10% of heating needs to renewables, which will be accelerated with funding from the European Social and Investment Fund (p. 22).
- Switching to other fuels, especially oil and biomass, should be tested in public buildings – particularly where they are connected to district heating systems ("fuel switching potential", p. 22).

## Statement on Subsidiarity by the Commission

The Commission does not explicitly address questions of subsidiarity but does emphasise the advantages of cross-border coordination on emergency measures.

## Policy Context

In 2010, in reaction to the Russian-Ukrainian gas crisis of 2009, the EU tightened regulations intended to guarantee natural gas supplies [Regulation on Security of the Gas Supply (EU) No. 994/2010, see [cepStudy](#)]. In June 2014, in the wake of the latest Russian-Ukrainian conflict, the Commission, at the request of the Council, published a Communication on a strategy for a more secure European energy supply [COM(2014) 330, see [cepPolicyBrief](#)] in which the Commission announced a stress test for the European gas system. This Communication presents the results of the stress test.

## Options for Influencing the Political Process

Directorates General: DG Energy (leading)

# ASSESSMENT

## Economic Impact Assessment

### Ordoliberal Assessment

The repeated conflicts between Russia and the Ukraine highlight the risks of being too dependent on energy imports in the EU. The stress test carried out by the Commission and the Member States shows that in cases of urgency – such as a total failure of Russian gas supplies over a six month period – the current precautions are insufficient to guarantee security of the gas supply in all EU countries.

### Impact on Efficiency and Individual Freedom of Choice

Member States should continue to be able to lay down a supply standard for "protected customers" which goes beyond the EU requirements because a failure of the gas supply may, on the one hand, have different social and economic consequences depending on the Member State; on the other hand, the attitude of the public as to how best to adjust to the economic and social consequences of a shortfall in the supply of gas, varies between the Member States. The applicable EU law expressly provides that differing national supply standards must not result in distortions of competition or a restriction on gas supplies in the internal market.

**The Commission therefore rightly reminds the Member States to refrain from intervention, such as the imposition of export restrictions, in the internal natural gas market when maintaining higher national supply standards.**

A dense network of pipelines is essential for security of supply in the EU. This is the only way to guarantee that individual Member States – particularly in Central and Eastern Europe – can be supplied with natural gas via various channels and are not dependent on individual suppliers or transmission routes. **The Commission therefore correctly points out that liquid gas terminals, gas pipelines and other infrastructure projects of importance for security of supply, must be completed and put into operation on time.**

**Member States should examine, based on the results of the stress test, whether the existing exemptions from the obligation to provide reverse flow capacity, which have been granted to some operators of cross-border gas pipelines, are still justified** because higher reverse-flow capacity could allow substantially larger volumes of gas to be supplied from western to central and eastern Europe in the event of a crisis situation. This may increase security of gas supply at little cost.

The Commission rightly criticises the fact that the Member States have only agreed a few joint prevention and emergency plans to ensure that all protected customers in the participating countries are supplied first in the event of severe shortages. **With greater cooperation between the Member States – as the results of the stress test show – the social consequences for the public in the hardest-hit countries can be alleviated.**

At the same time, the cost of maintaining the national supply standard would be reduced because in the event of a severe disruption in supply, the necessary savings in gas consumption take place in the country where it is the cheapest option.

A cooperative approach may also avoid the situation where the hardest-hit Member States, hoping for solidarity in a crisis, refrain from essential measures to increase security of the gas supply in their own country or do not contribute to the cost of gas infrastructure necessary for their own security of supply, such as storage facilities, liquid gas terminals or pipelines in other Member States.

In principle, when it comes to the production of electricity and heat, renewables can also replace gas. However, as regards security of supply, a 10% share of heat production provided by renewables is not as important as the ability to switch fuels at short notice in the event of gas shortages, e.g. by replacing natural gas with biogas or oil in district heating systems. This allows even those countries that obtain all their gas from Russia to significantly reduce the economic and social impact of severe gas shortages.

## Impact on Growth and Employment

The measures proposed by the Commission may increase security of the gas supply. This, in principle, also has a positive effect on growth and employment, particularly in industries which are dependent on gas.

## Impact on Europe as a Business Location

A reliable gas supply is also a material factor for some international companies when deciding on a business location. The proposed measures therefore increase Europe's attractiveness as a business location.

## Legal Assessment

### Legislative Competency

Unproblematic. The EU can take measures to ensure security of the energy supply (Art. 194 (1) (b) TFEU).

### Subsidiarity

Unproblematic. Coordination of measures by the Member States can only take place at EU level (Art. 5 (3) TEU).

### Proportionality with Respect to Member States

The recommended measures do not exceed what is necessary in order to ensure security of the energy supply (Art. 5 (4) TEU).

## Conclusion

The Commission rightly reminds the Member States, to refrain from the imposition of export restrictions and correctly points out that infrastructure projects that are of importance for security of supply must be put into operation on time. Member States should check whether the existing exemptions from the obligations on reverse flow capability are still justified. Increased cooperation between the Member States may alleviate the social consequences for the public in the hardest-hit countries.