

Gas Storage and SoS Briefing Note

| | |
|-------------|--|
| Date: | 21 June 2022 |
| Region: | European Union, Germany, Austria, Poland, Czechia, Slovakia, Iberia |
| Focus item: | Overview of upcoming supply support measures and storage obligations across EU |

EU level

Russian gas supplies:

- Nord Stream 1 down to 45% of its capacity due to Russian cuts.
 - Russia announced on 15 June a reduction in gas supplies through the Nord Stream pipeline to 67 mcm/d from 167 mcm/d after second Siemens gas turbine unit was forced to stop at the Portovaya compressor station. Gazprom blamed the lower flows on maintenance work on pipeline compressor stations and Canada's reluctance to send back crucial equipment because of sanctions levied against Russia.
 - From 11 July to 21 July 2022, Nord Stream 1 will temporarily shut down both lines of its gas pipeline system for annual routine maintenance works, meaning no Russian gas flow directly to Germany for a ten-day period.
- Flows to Hungary via Serbia around 11 Mm³/d.
- Around 0.4 Mm³/d from PL – UA and around 1.2 Mm³/d from UA – HU
- No nominations from UA/RO
- IP Megelsheim/Obergailbach between Germany and France closed – so, no Russian pipeline gas to France is secured.
- Lithuania, Latvia, Finland, Poland and Bulgaria: no gas supply from Russia, the gas transmission systems are balanced, and no issues for SoS are observed. Around 4 Mm³/d flow from Russia to Latvia and is mainly injected into storage.
- No forced curtailments are taking place as yet. LNG flows have been high (up 66% in the first five months of this year compared to the same period in 2021), allowing storage injections. However, the LNG import terminals are now close to their technical maximum. No lasting effect on the gas balance.

Transit flows via Ukraine:

- ENTSOG reports no Issues for SoS for the time being, however:
- Compressor stations Novopskov, Kupiansk, Borova on the territory of UA and operated by GTSO UA still manned by Russian people.

- The situation on the compressor station Novopskov has not changed. GTSOUA employees on this station were informed by the Russians that the assets of gas transmission system in the region will be expropriated and nationalized by the company responsible for gas transmission in the so called LNR. The UA employees have been also told to apply for joining the local gas transmission company, and if they refuse, they will not be allowed to access the facilities anymore. The EC was informed about the issue in more detail directly via GTSOUA.
- Gazprom still nominating quantities (32.6 mcm/d) for Sokhranovka despite the declared Force Majeure by GTSOUA.
- Confirmed nominations for Sudzha around 41.7 Mm³/d, of which around 37 Mm³/d are foreseen for transit to Slovakia and the rest for the domestic market in Moldova.
- Remaining capacities stemming from IP Sokhranovka and which could be used via IP Sudzha around 35 Mm³/d on firm basis

Split between European buyers/offtakers to settle in roubles for Russian gas:

- Refused to comply with Russian rouble decree and subjected to halt of gas supplies:
 - Poland's PGNiG: company rejected the rouble payment method on April 12; supplies halted April 27. May sue for supply reinstatement under contract.
 - Bulgaria's Bulgargaz: payment refused; supplies halted April 27.
 - Finland's Gasum: Finish government rejected new payment method April 28. Supplies halted May 21.
 - Dutch GasTerra, Shell Energy for its contract of 1.2 bcm to supply gas to Germany
 - Denmark's (partially) state-owned company Ørsted (contract for about 2 bcm of gas),
- Continued payments via Russia's Gazprombank:
 - Hungary's MVM
 - Germany's VNG, RWE, Uniper
 - France's Engie
 - Italy's ENI, albeit reported reduction of Russian gas to the IT trader ENI: 15th June 15%, 16th June around 35 % and for 17th June around 50% of the requested quantities.
 - Austria's OMV, albeit observed 20% reduction of Russian gas
 - Czech Republic's CEZ
 - Slovakia's SPP
 - Slovenia's Geoplin

Early Warnings notifications declared by the following EU Member States:

- On 21 June 2022, Sweden issued an Early Warning as per Article 11 of the gas SoS Regulation.

- On 20 June 2022, Denmark and the Netherlands issued an Early Warning, after companies in those countries refused Moscow demands to pay in roubles.
- The list of EU Member States declaring early warnings now includes 10 countries: Latvia, Italy, Austria, Germany, Croatia, Finland, Estonia, Denmark, the Netherlands, and Sweden. For detailed information, please refer to the Annex “Summary of Early Warnings issued per Member State”

EU Regulation (EU) No 2017/1938 on Minimum Gas Storage (Legislative Proposal):

- The European Commission’s proposal establishes requirements on a mandatory minimum level of gas in storage facilities of 80% for 1 November 2022 and increasing to 90% in subsequent years. It also establishes intermediary targets for August, September and October 2022, and in 2023, from February, May, July and September.
- The European Parliament and the Council reached a provisional agreement on the file during inter-institutional (trilogue) negotiations on 19 May 2022. The Parliament will vote to adopt the provisional agreement as its first reading position during a voting session on 23 June 2022. Member State Ambassadors are expected to approve the provisional agreement on 24 June 2022. The Energy Council is then expected to formally adopt the Regulation on 27 June 2022.

REPowerEU Plan

The Communication, published on 18 May 2022, sets out a range of actions that the EU will take over the next years with a view to: (1) save energy; (2) diversify supplies; (3) substitute fossil fuels by boosting the EU's clean energy transition; and (4) combine investments and reforms. In addition, it also sets out further measures in response to high energy costs.

It underlines that the implementation of the proposed actions will reduce the EU’s energy dependence on Russian fossil fuels, achieve a more resilient energy system and pave the way for reaching climate neutrality by 2050. The REPowerEU plan Communication was presented as part of a package including the following:

- (1) targeted proposal for a Directive amending Directive (EU) 2018/2001 (Renewable Energy Directive), Directive 2010/31/EU (Energy Performance of Buildings Directive) and Directive 2012/27/EU (Energy Efficiency Directive).
- (2) Communication on the solar strategy.
- (3) Communication on a European strategy on external energy engagement.
- (4) Communication on EU 'Save Energy'.
- (5) Communication on short-term market interventions and the electricity market design.
- (6) Recommendation on permit-granting processes and power purchase agreements for renewable energy projects.
- (7) Proposal for a Regulation amending the Recovery and Resilience Facility (RRF) Regulation as regards REPowerEU chapters in recovery and resilience plans.

EU coordinated demand reduction plan

A coordinated EU demand reduction plan will be set up to identify common criteria for curtailment and critical industrial interdependencies. The Commission will identify best practices among Member States’

demand reduction plans. The plans would be implemented on the basis of an early warning system to ensure effective and efficient EU coordination. The Commission will issue guidance, including criteria for identifying priority non-protected consumers

The European Commission is focussing on demand-side options including the three stages:

1. Leaving prices uncapped to reach levels where consumers self-interrupt. So far, stage 1 has been enough, as this is more about emergency planning.
2. Targeted intervention to curtail non-essential sectors on a priority list taking into account social and economic factors. The advantages are that the market could remain open and uncapped.
3. TSOs managing further supply shortfalls via interruptions on grounds of safety, and implementation of emergency measures if necessary (the least economic, but necessary if stages 1 and 2 do not go far enough).

EU Energy Platform

- The European Commission has officially established the EU Energy Platform Task Force. The establishment of this Task Force aims to support the EU Energy Platform's work and implement REPowerEU's aim of diversification of supply, following the mandate from the European Council in March 2022. The main Communication and documents are available at [REPowerEU: Commission establishes Energy Task Force \(europa.eu\)](https://ec.europa.eu/energy/en/communication-commission-establishes-energy-task-force).

Solidarity agreements – state of play:

5 bilateral agreements signed:

1. DE-DK on 14 December 2020
2. DE-AT on 2 December 2021
3. EE-LV on 4 January 2022
4. LT-LV on 10 March 2022
5. FI-EE on 25 April 2022

Ongoing process of signing other five solidarity agreements between: IT/AT - IT/SI - DE/IT - SE/DK - PT/ES

The Netherlands

Compensation via LNG volumes:

- Gasterra contract was due to end Oct 2022, but Russian gas deliveries stopped subject to their refusal to settle in roubles. However, there is no need to declare an early warning. Preparatory measures are taken via LNG.
- Gate can be expanded from 12 to 16 bcma at short notice, to be made available to existing users in first instance. FID has yet to be taken on the Gate extension.
- Gasunie has contracted a floating unit for another 4 bcma. Capacity will be auctioned, final offers to be made by 10/6.
- Gasunie has option on a second floating unit for Eemshaven, for another 4 bcma
- It is expected for the new units to be exempted and therefore subject to negotiated TPA.

Storage rules published:

- Dutch Government has reached agreement with Shell and Exxon as owners of NAM to fill Alkmaar, Norg and Grijskerk
- Subsidies to be made available for Bergermeer if summer/winter spread goes negative (but is currently positive).

Tariffs 2023:

- The ACM has published the GTS [Tariff decision](#) 2023. GTS allowed revenue has increased by 4% and overall tariff have increased by 18% compared to 2022 tariffs.

Germany

Next level of emergency

- According to the German Economy and Climate Minister Robert Habeck, Germany considers a “set of tools” to face emergency. This includes (a) upgrading existing coal plants to temporarily compensate the decline of energy production from gas-fired plants; (b) a “gas auction model” to encourage industries to save gas through reward scheme to be launched this summer.
- It appears that Minister Habeck is already planning for calling the next SoS level to come between 8-10 days from now. The EnSIG will therefore be triggered in 8-10 days unless there is a last minute change.
- Supply disruptions have potential for 1-2 bcm shortfall, but have been able to optimise across portfolio via trading team. Gazprom Germania are replacing their lost volumes in market. BMWi are considering provision of liquidity support to ensure continuity of business and backing them with a loan of around 10 billion euros secured through state investment bank KfW.
- BNetzA has a separate department for security, including cybersecurity, but they have had 30 people working on gas crisis planning since early 2021. Challenge is a large number of sites consuming gas and a need for fast decision-making. They are working towards the following priorities:
 - Identifying impacts on non-protected sites, especially large sites, at company level through interviews and polls. Need to understand (e.g.) risk of permanent damage from interruption.
 - Establishing processes and communication, building an IT platform to communicate with customers, TSOs/DSOs, MAM in real time.

Trusteeship over Gazprom Germania (GPG) GmbH

- The ownership can only change if (1) shares are sold on the basis of a share-purchase agreement between a buyer and GPG; or (2) through expropriation by the German State. As neither 1 nor 2 has been properly implemented, it is understood the shares in GPG are owned 100% by the Russian state. The stewardship does not touch on the ownership of the shares. It simply makes it impossible to manage the shareholding through the owner as the day-to-day management is assumed by the administrator.
- OAO Gazprom requested to stop using their name. London-based Gazprom Marketing and Trading are in the process of changing their trading name to GMT Ltd UK to remove the word Gazprom ahead of a fuller rebrand in longer timescales. The energy trading, storage and transmission business in Germany will be renamed Securing Energy for Europe GmbH.

German Energy Security Act Reform (EnSiG)

- The amended Energy Security Act from 20 December 1974 recently passed through Parliament in Germany and was voted into law on 20th May: [link](#). The ENSIG provides for the legal basis for expropriation of assets from owners of critical infrastructure and generally prepares German state intervention in case of gas supply emergency. It includes rules on *inter alia*:
 - granting authority to issue specific governmental regulations to secure the energy supply in Germany,
 - on trusteeships of entities operating critical energy infrastructure in Germany, and
 - on potential expropriations of entities operating critical energy infrastructure in Germany
- Section 24 of the Energy Security Act creates substantial risks for trading companies, as the scope of the price adjustment and termination rights is unclear. It is unclear whether energy wholesale trading contracts (both on-exchange and OTC) are at all covered; whether contracts with delivery points outside Germany could be affected; whether foreign governing laws will recognise the statutory intervention into the contractual price adjustment and termination rights etc.
- EEX adopted position stating that the reference to s.104 of the German Insolvency Code takes exchange transactions out of scope of s.24 EnSiG.

Poland

No major disruptions recorded. Supplies from LNG also for DE, LT, SK; domestic production helping. Storage at 95%, expected to top out injection later. Poland terminated Intergovernmental Agreement Poland-Russia from 1990s for Yamal, not planning to use it after 2022 anyway.

Czechia

ERO has issued a price decision No. 2/2022. which is an amendment of the price decision no. 7/2021 on supply of gas, which alters the yearly price for booked firm transmission capacity, CZ in CZK/MWh/d, for virtual points of storage facilities and changes the name of „MND Gas Storage a.s.“ to „MND Energy Storage a.s.“.

Czech version only. <https://www.ero.cz/verejny-konzultacni-proces-k-navrhu-cenoveho-rozhodnuti-energetickeho-regulacniho-uradu-kterym-se>;
<https://www.ero.cz/energeticky-regulacni-vestnik-32022>

ERO has issued a price decision on prices related to the supply of gas. Points 2.2 and 2.3 (regarding a yearly price of the reserved fixed transmission capacity and price for an incremental transmission capacity for 2023) of the price decision are effective as of 3 June, 2022.

Czech and English versions available.

<https://www.ero.cz/sites/default/files/obsah/prilohy/erv042022.pdf> ;
<https://www.ero.cz/sites/default/files/obsah/prilohy/price-decision-no-320220.pdf>

Slovakia

Natural gas supplies for Slovakia are secured until the end of 2023. The biggest gas supplier SPP has signed a contract for the supply of Norwegian natural gas that should cover some 32 % of Slovakia's annual consumption. The company has also signed contracts for supplies via LNG gas tankers to cover an additional 34 % of gas consumption in Slovakia. At the same time, Slovakia is still buying gas from Russia. According to the Ministry of Economy, more gas is flowing into Slovakia than it currently needs, therefore the gas storages can be filled for the next winter.

Source: <https://www.mhsr.sk/top/dodavky-plynu-ma-slovensko-zabezpecene-do-konca-buduceho-roku>

Iberia

The European Commission has approved a €8.4 billion Spanish and Portuguese measure aimed at reducing the wholesale electricity prices in the Iberian market (MIBEL) by lowering the input costs of fossil fuel-fired power stations. (see [EC Press Release](#)).

The updated Royal Decree was published in the [Spanish Official Gazette](#) and the starting date of the adjustment mechanism is June 14, 2022. This means that market participants will internalise the amount of the adjustment, according to Article 3 of [Real Decreto-ley 10/2022](#), for the matching of the day-ahead market of the following day, June 15, 2022.

Italy

[ARERA launched consultation on Tariff regulation criteria for natural gas transportation and metering service for the sixth regulatory period \(6PRT\)](#) with a deadline 27 June 2022.

Annex: Summary of Early warning issued per Member State

| Date | MS | Motivation | Early warning measures contained in national emergency plans |
|---------|----|---|--|
| 26-Feb | IT | <ul style="list-style-type: none"> Encourage early storage injection Most gas passes through UA, SoS risk Raise awareness among gas users | <ol style="list-style-type: none"> Increase in imports, using flexibility of existing contracts; Reduction of gas demand through using commercial interruptible contracts; To use alternative fuels in industrial plants, based on specific agreements or clauses in supply contracts. |
| 9-Mar | LV | <ul style="list-style-type: none"> Anticipation of gas cut by Russia as retaliation against EU sanctions. Prioritization of LT LNG and acceleration of storage injection. No possibility to prioritize gas flows otherwise. | <ol style="list-style-type: none"> Daily reports to the ministry concerning gas supply and demand forecasts and storage capabilities. Ensure communications with market actors by publishing information on its website. Systematize developments of the supply situation and systematize the changing of the crisis level. Publish information about the early warning on its own website and on ENTSOG's Transparency Platform, and inform users of the transmission system and GET Baltic Gas Exchange. |
| 30-Mar | AT | <ul style="list-style-type: none"> To prepare for of a full Russian disruption | <ol style="list-style-type: none"> Ongoing analysis of the supply situation. Check with TSO whether available capacities can be fully provided and whether additional volumes can be activated upon TSO request. Check whether storage operators can secure additional quantities Notify interruptible customers of a possible disconnection. Exploit alternative supply sources and check with large customers whether voluntary substitution of gas is possible. Survey free capacities at storage and production companies. |
| 30-Mar | DE | <ul style="list-style-type: none"> To increase preparedness in case of a Russian escalation | <ol style="list-style-type: none"> TSOs have to do a daily report to ministry of economic affairs. TSOs must coordinate measures with each other to maintain the stability of their networks Gas undertakings have to actively participate in the crisis team and support the ministry |
| 25-Apr | HR | <ul style="list-style-type: none"> Considers it likely that a disruption could occur. Encourage storage injections, which were absent at time of declaration | Gas producers, TSO, storage operator, DSOs and suppliers must provide the Ministry with relevant information (production, transmission, distribution, storage, supply) |
| 06-May | FI | <ul style="list-style-type: none"> Russian decree to pay gas contracts in rubles | Enhanced monitoring of gas market and status of SoS by NESA and Gasgrid Finland. |
| 18-May | EE | <ul style="list-style-type: none"> Anticipation of possible Russian gas disruption in spring or summer. Russian Decree to pay gas in Rubles. Klaipeda LNG is not sufficient to supply the Baltic-Finnish region. | <ol style="list-style-type: none"> According to the existing contract between AS Eesti Gaas and OAO Gazprom, it is possible to supply up to 7 mcm/d. Agreements with system operators in neighboring countries for the diversion of gas flows to ensure security of gas supply. Option to inject landfill gas and biomethane into the network. Increase LNG |
| 20-June | NL | <ul style="list-style-type: none"> Gazprom request to demand that the payment for Russian gas should follow a special payment method. The necessity to ensure a timely and adequate filling of the Dutch underground gas storage capacities before the upcoming winter given the high dependence of the Dutch energy system on natural gas. | <ul style="list-style-type: none"> Enhanced monitoring of the security of supply situation as described in Article 14 (1) of the Regulation. A substantial increase of the energy savings and energy transition efforts. Expansion of the Dutch LNG import capacities. Additional measures to ensure a timely and adequate filling of the Dutch underground gas storage capacities with at least 80% before the upcoming winter. |

| | | | |
|---------|----|---|--|
| | | <ul style="list-style-type: none"> The specific situation of the Netherlands with regard to low calorific gas, also and in particular with regard to neighbouring Member States. | <ul style="list-style-type: none"> A limited increase of coal fired power generation to substitute for gas fired power generation. The development of a gas savings tender. |
| 20-June | DK | <ul style="list-style-type: none"> Anticipation of possible Russian gas disruption. Gazprom request to demand that the payment for Russian gas should follow a special payment method. | <ul style="list-style-type: none"> Early Warning gives the Danish TSO the possibility to increase imbalance prices giving shippers a stronger incentive to balance their portfolios. This may especially be relevant in situations where high volatility in the market reduces the normal incentives to balance. |
| 21 June | SE | <ul style="list-style-type: none"> Denmark announced the crisis level early warning on 20 June 2022 due to reduced gas deliveries to Europe via Nord Stream 1 and because of the political uncertainty in gas supplies. Sweden follow Denmark in crisis level by declaring early warning for the western Swedish natural gas system. The customers connected to western Swedish natural gas system, and in particular industrial customers, need to strengthen the preparedness for the pre-emptive demand reduction of pipeline gas. | <ul style="list-style-type: none"> Increased national coordination with market actors, customers and Swedish government agencies to strengthen the preparedness for, and to minimize the consequences of, a supply shortage in the western Swedish natural gas system. Increased regional coordination and information sharing with Member States and with the European Commission to minimize potential disruptions to key supply chains and essential customers. |

Status: 21 June 2022

© Correggio Consulting Limited 2022

Contact: info@correggio-consulting.eu