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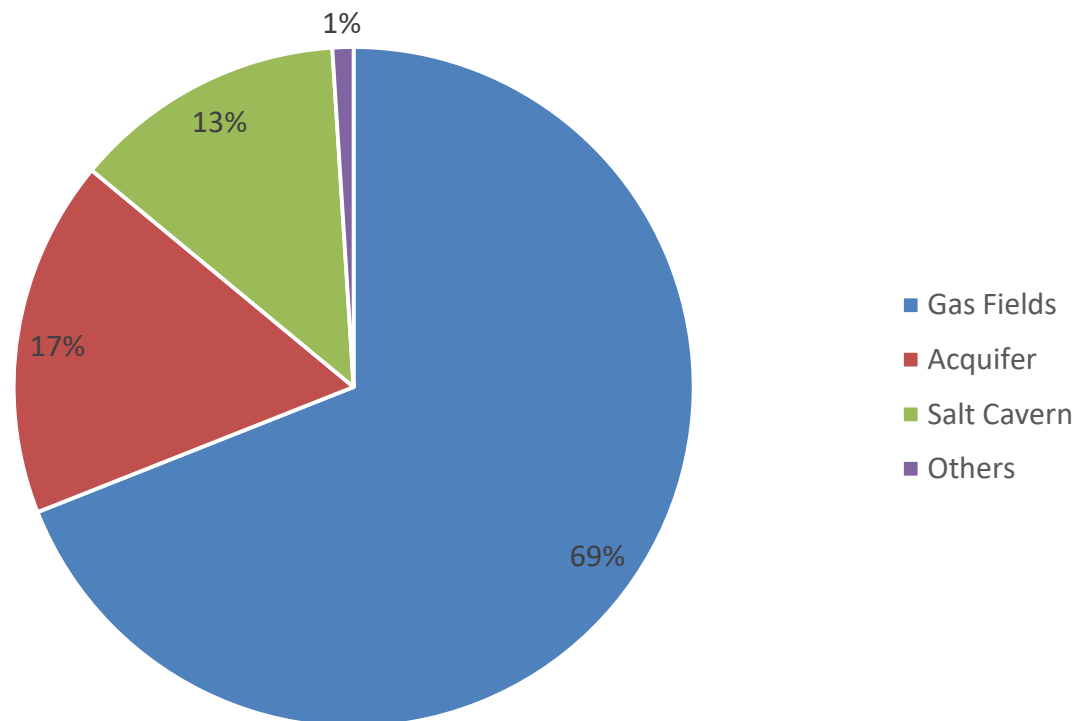
30 November 2019

**Underground Gas Storage in South Kavala
– opportunities and challenges**

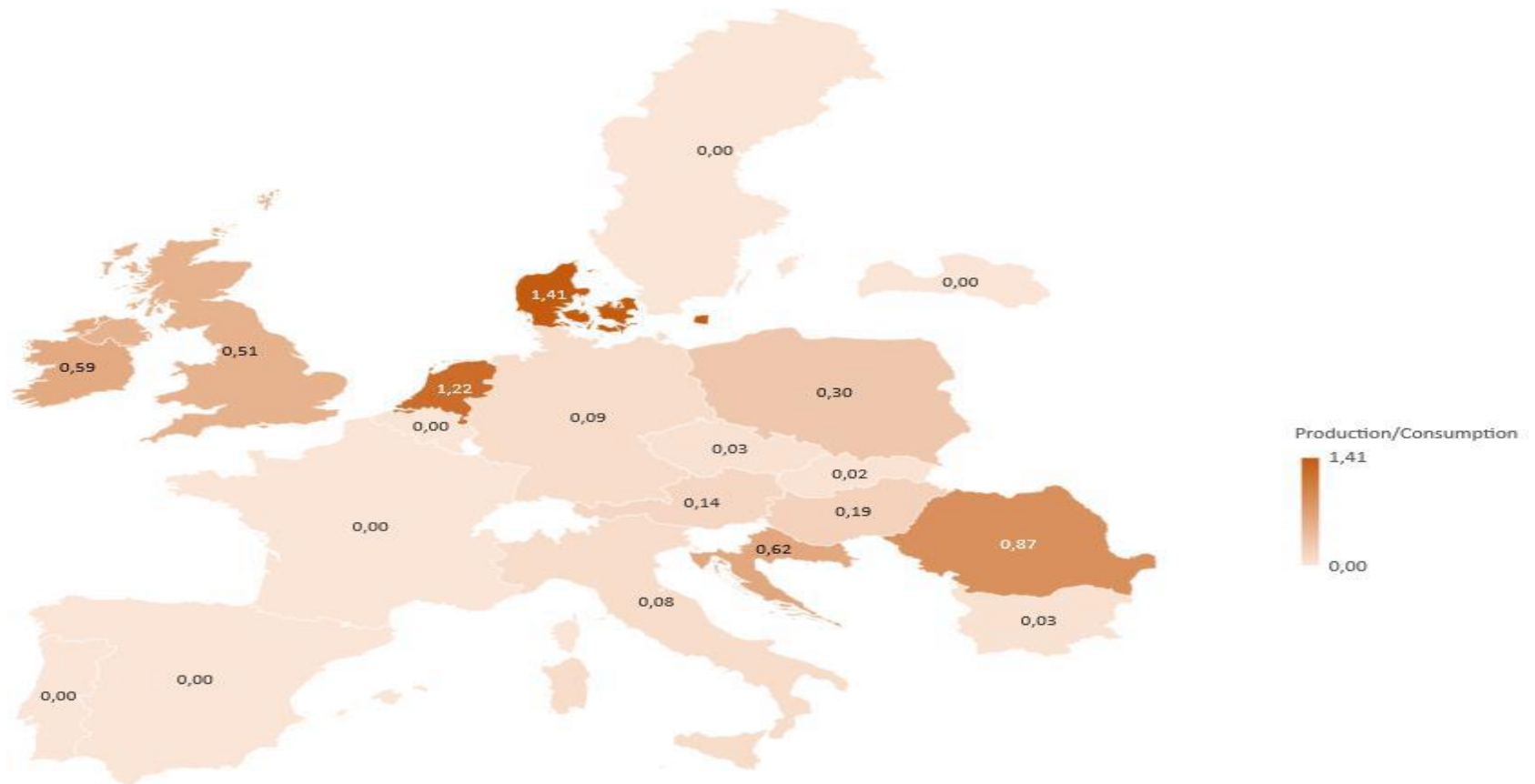
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UGS in Europe: Working Gas Volume Distribution by Storage Types



Some characteristics of EU Gas market : Production / consumption rate



UGS : Contribution to energy safety

- ❖ In the event of political crisis or technical perturbations a feeling of energy safety may quickly fade away, because EU is heavily depending on imports from specific countries (Russia, Norway, Algeria and Libya) with a domestic production, and LNG fulfilling a small part of the demand.
- ❖ Therefore, underground gas storage is one of the key tools for reducing and managing energy risks as it can be used to collect strategic reserves in case of disruption of the gas supplies.

UGS : Contribution to competitive markets [1]

- ❖ **Underground gas storage (UGS) is an essential element of the gas system that affects all stages of the process of production, transmission and distribution of natural gas. During the production phase UGS enables the rational exploitation of natural gas reserves, which should be carried out in a stable manner without rapid changes in the production level. Gas transmission grids also requires stable flow rates. Since gas consumption is subject to strong fluctuations, it is necessary to store gas during periods of reduced demand.**
- ❖ **Consequently the traditional functions of UGS are:**
 - **strategic reserve in case of interruption of deliveries,**
 - **seasonal balancing,**
 - **optimisation of gas production,**
 - **overcoming of local restrictions of gas grids,**
 - **general gas system optimisation,**

UGS : Contribution to competitive markets [2]

❖ Liberalization of the market, LNG revolution and development of infrastructure (pipelines, interconnectors, LNG terminals etc.) have also changed the use and financial evaluation of UGS facilities. New functions of UGS appeared like:

- Short term storage
- Short term balancing
- Gas prices arbitrage, and
- underlying asset for financial derivatives

Still the problem of viability / profitability because financing UGS under market conditions is getting more serious due to the fact that seasonal differences in gas prices (spreads) can be lower than cost of storage.

UGS : Viability/Profitability and general regulatory issues [1]

- ❖ Important investments that need to be backed by public subsidies.
 - Member States resources : Compatible State Aids → legal basis of article 107 para 3, letter c).
 - State aid N 660/2009 – Poland Aid to PGNiG for underground gas storage : Construction of a new UGS plant and expansion of three existing owned by an unbundled entity (Storage System Operator –SSO) dominantly controlled by the incumbent gas operator. Third Party Access (TPA) and tariffs were regulated. Capacity was allocated after an open call and on a proportionate basis.

According to the Commission :

1. Is the aid measure aimed at a well-defined objective of common interest (i.e. does the proposed aid address a market failure or another objective of common interest)?
2. Is the aid well designed to deliver the objective of common interest? In particular:
 - (a) Is the aid measure an appropriate instrument, i.e. are there other, better-placed instruments?
 - (b) Is there an incentive effect, i.e. does the aid change the behavior of firms?
 - (c) Is the aid measure proportional, i.e. could the same change in behavior be obtained with less aid?
3. Are the distortions of competition and the effect on trade limited, so that the overall balance is positive?

UGS : Viability/Profitability and general regulatory issues [2]

- ❖ **The Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01) comprise a specific provision for UGS (paragraph 215) according to which : “the Commission will carry out a case-by-case assessment of the potential distortions of competition taking into account, in particular, the degree of third party access to the aided infrastructure, access to alternative infrastructure and the market share of the beneficiary”.**
- ❖ **EU Funding : Projects of Common Interest – PCIs – Regulation (EU) No 347/2013. By way of Delegated Regulations every two years the European Commission revisits the PCIs list.**
- ❖ **The question of definition of the storage fees : that depends on the regulatory model chosen by every Member State. Basically, third party access (TPA) can be regulated or commercial. That will depend on the global capacity of the UGS infrastructures in comparison with the overall demand of gas in every Member State. Scarcity of UGS will plead in favor of characterizing relevant infrastructure as “essential facility”, which means that a regulated TPA regime will be needed. Article 33 of the Gas Directive (2009/73/EC as in force) allows both models of TPA (regulated or commercial) and leaves up to the Member States the relevant choice.**

UGS of South Kavala : Brief History and technical characteristics

The 'South Kavala' UGS project in brief:

- ❖ 'South Kavala' gas field was discovered in December 1972 and came into production in May 1981; Initial GIP: 995 mil.m³
- ❖ Cumulative gas production to date approx. 847 mil.m³ (RF 85%) and estimated remaining gas volume approx. 148 mil.m³
- ❖ 'South Kavala' UGS: Working Gas Volume: 360 mil.m³ with an Annual Cycling Capability of twice per year (in 90 days) (hence total gas storage capacity of approx. 720 mil.m³, that represents approx. 10% of the annual consumption of the country in gas).
- ❖ Withdrawal Rate: 4 mil.m³ / day
- ❖ Injection Rate: 5 mil.m³ / day
- ❖ Estimated Investment: approx. 400 mil. Euros (€)
- ❖ Strategic Location (Thracian Sea) vs. ITGI, IBG, TAP, etc.

UGS of South Kavala : the Greek regulatory framework: National Natural Gas System (NNGS or ESFA) versus Independent Natural Gas System (INGS or ASFA)

- ❖ **According to article 93 of the Energy Law (Law 4001/2011 as in force), UGS in Greece can operate under a regime of NNGS according to article 67 of said Law or under a regime of INGS according to article 74 of said Law. A concession is needed for the operation under NNGS or INGS of any UGS space belonging to the Greek State.**
- ❖ **By Joint Ministerial Decision are defined the procedure and the conditions of the concession and every specific issue and / or necessary detail. According to press information the long awaited JMD has been signed off by the Ministry of Energy but has not yet been published in the GG.**
- ❖ **For any UGS for which a hydrocarbons exploitation license has been granted, the licensee can apply for an INGS license for as long as its license is in force and provided that said JMD has been issued (that is of relevance for the UGS of South Kavala).**
- ❖ **The main difference between NNGS and INGS options from a regulatory point of view is the fact that in case of integration to the NNGS a regulatory TPA will apply ipso jure, while in case of a INGS license, a commercial TPA could (also) apply.**

UGS of South Kavala : Viability of the project and regulatory Stakes

- ❖ **After some tensions caused by the position of the Greek authorities resulting in the disintegration as part of the respective PCI of the electrical interconnection between Crete and Attica, in the finalized list of the PCIs 2019-2021, UGS of South Kavala is finally reattributed the status of PCI [see Document Brussels, 31.10.2019, C(2019) 7772 final, under project 6.20.3]. That is important for assuring the necessary financial resources for the investment.**
- ❖ **According to press information, the government examines the transposition to it of the French model. The purpose is to strike a balance between assuring the viability of the project and burdening the less possible the consumers.**

UGS of South Kavala : TPA and storage fees – some possible hints / open issues

- ❖ **UGS would operate under a fixed Allowed Revenue (AR) scheme. This can enhance the viability of the project as it will procure stable revenues to the investor. Stills to see how this AR will be calculated.**
- ❖ **The consumers will not pay the entirety of the AR but only the difference between the AR and the fees of storage charged to the users.**
- ❖ **Stills to see how was determined the TPA regime and how said storage fees will be defined:**
 - **Proportional access / regulated tariffs**
 - **First come, first served basis**
 - **auctions / fees according to market price**
- ❖ **Definition of a minimum of free storage capacity (e.g. 20%) for reasons of energy safety**

UGS of South Kavala : the tender and the timeframe

- ❖ According to the decision 195/27.10.2011 decision of the Interministerial Committee of Restructuring and Privatizations the pecuniary rights and the right of concession of the use, development and exploitation of the UGS of South Kavala are transferred to the HRADF (“the Fund”) for a period of 50 years.
- ❖ The existing exploitation license of ENERGEAN OIL AND GAS and KAVALA OIL is prolonged until 23.11.2020 (extendable by another 1 year). However, the exploitation license will cease if prior to the aforementioned dates, a concession agreement with the preferred investor comes into force pursuant to a public tender organized by the Fund.
- ❖ The tender is in preparatory stage. Financial and legal advisors of the Fund have been appointed. The procedure of selection of technical advisors has been closed on 9 September 2019. The issuance of the aforementioned JMD will permit to pass on to the next stages.

Conclusions – Perspectives

- ❖ Greece is the only EU Member State that does not have in operation any UGS infrastructure. So the project of the UGS of South Kavala, once realized, will enhance significantly energy safety of the country and will boost competition in the Greek gas market.
- ❖ The UGS of South Kavala will not be in antagonism but in complementarity with other important infrastructure projects, such as the LNG upgrades (Revithoussa and FSRU of Alexandroupolis) and the development of important transnational interconnections and pipelines (IGB, TAP etc.)
- ❖ Time is of essence. The project of the UGS of South Kavala is stagnant for several years. If not commenced rapidly, it is expected that it will not be comprised in the next PCIs list, which could seriously undermine the financing of the project. The aim is to launch the tender within the first semester of 2020. Competent authorities (Ministry, RAE) must undertake all the necessary actions so as to put in place timely the relevant regulatory framework.



Thank you for your attention !

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