



## **ELENGY's comments to ENTSOG's Informal Public Consultation on the development of a CBA methodology for Project of Common Interests (PCIs)**

Elengy welcomes the opportunity to take part in ENTSOG's Informal Public Consultation on the development of a CBA methodology for PCIs.

Elengy is an infrastructure operator fully dedicated to LNG terminal activity. It owns 100% of the Montoir and Fos Tonkin LNG terminals, and more than 70% of Fos Cavaou LNG Terminal.

Elengy would like to make the following comments.

### ***Q.1. Do you agree with the approach taken by ENTSOG to the development of the methodology? Which additional elements should be included in the ENTSOG approach?***

We understand that the CBA methodology will comprise an Energy System Wide (ESW) Analysis based on the ENTSOG TYNDP and a standardized Project Specific Analysis for the project promoters to apply to their projects.

We consider that in addition to the ENTSOG TYNDP, the ESW Analysis should also be based on the data from other stakeholders, in particular from the market, in order to use supply and demand scenarios as realistic as possible and to reflect at the best the effective economical situation and investment climate. From this point of view, we would like to highlight that the quality of the data is more important than the number of cases analysed.

Moreover, GLE and GSE should be consulted as storages and LNG terminals may constitute efficient alternatives to pipelines (see below, in particular our answer to Q.10). This should contribute to a better equitability, by avoid a single entity, i.e. ENTSOG, to be both judge and party.

Regarding robustness, it is important that the methodology provides logical results in line not only with the Regulation, but also just with the common sense. The necessity for the results to comply with common sense consistency check should go without saying. Nevertheless, bizarre results have already been reached in the framework of the first PCI ranking process.



***Q.2. Considering the obligation to prove a project's cross-border impact, what information could the project promoters provide to demonstrate this?***

Cross border impact can be demonstrated by an increase of a cross-border gas flow (direct cross-border impact) but also by a decrease of a cross-border gas flow ; this latter case may happen when the development of a new infrastructure (e.g. a LNG terminal or a extension of a LNG terminal) in a country contributes to reduce the import through another existing cross-border infrastructure, thus increasing the available flow in the adjacent country (indirect cross-border impact). Moreover cross-border impact can also be managed by LNG shipping (cargo diversion, reloading and short sea shipping... ), as clearly demonstrated by the data of year 2013 (see also below, in particular our answer to Q3).

***Q.3. Should we consider any additional information for the ESW modelling in order to reflect the impact of candidate PCI projects?***

It is of paramount importance that the specific criteria (i.e. market integration, security of supply, competition, and sustainability) are implemented in real equitable way and do not induce any discrimination between categories of gas infrastructure, in particular at the detriment of LNG terminals.

Regarding the clusters' proposal, it's interest has to be clarified.

Moreover, with respect to PCI projects, it would be interesting to fine tune the analysis under the different categories of infrastructures (pipelines, LNG terminals, storages) in order to be able to assess possible discriminations.

***Q.4. What assumptions should ENTSOG make for the ESW CBA on the sustainability criterion?***

In addition to its environmentally-benefits, natural gas is an ideal partner of variable renewable energy sources as it provides the flexibility needed to compensate for the intermittency of solar or wind. And from this point of view, LNG terminals and storages offer genuine qualities that have to be taken into account.

Indeed, LNG terminals and storages when and where efficiently located are much better placed in the merit order than any other category of infrastructure, as they (i) can provide very high level of flexibility and (ii) can be located closest to where they are the most needed.

***Q.5. How should the CBA methodology reflects the contribution of Gas infrastructure to sustainability, for instance by replacing other fossil fuels plants by gas-fired power generation or through micro-cogeneration and transportation?***

***Q.6. What assumptions should ENTSOG make for the ESW CBA on the competition criterion considering the existing TYNDP methodology?***



See answer to Q.3. at § 1.

By definition, as LNG market is a world global market, LNG terminals offer a high level of diversification of supply sources, supplying counterparts and routes. Compared to pipeline gas from Russia or Algeria for example, LNG offers obviously much more diversification in terms of routes, sources and counterparts. The rapid and very significant rise in Japan's gas supplies after the catastrophe of Fukushima has proved it.

These qualities of LNG terminals should be recognized by and taken into account in the competition criterion.

*Q.7. According to the Regulation (Annex III. 2), the project promoters of potentially eligible PCIs shall submit, as a first step, to the Regional Groups an analysis on the fulfillment of the relevant criteria defined by the Regulation*

*Considering that for projects not mature enough, the promoters will not have to submit a PS CBA, do you consider useful to have guidance on how such an analysis should be carried out by the project promoters in a consistent way across the Regional Groups? If yes, please provide details on what such guidance should include.*

*Q.8. In addition to the approach described by ENTSOG in developing CBA, what other elements do you consider to be relevant for the development of the Methodology?*

*Q.9. Which effects, related to the Regulation criteria, do you consider to be the best for quantification and/or monetisation within the PS CBA? For example, in assessing security of supply as one potential effect of implementing a project, do you consider appropriate to assess the impact of a disruption? If yes, please explain your answer.*

*Q.10 According to the Regulation, UGS and/or LNG Terminals may have cross border impact. What recommendations would you give for such assessment of this type of infrastructure along the specific criteria requested by the Regulation? Which should be the main parameters for such analysis*

First of all we would like to highlight that LNG terminals and storages and may have cross border impact not only because it's according to the Regulation, but above all because it's a physical and contractual reality.

Moreover, and in addition to our above answers in particular to Q.3, Q.4 and Q.6, we would like to underline that LNG terminals can be a genuine alternative to gas pipelines, and that this specificities shall not be ignored for an equitable CBA; in particular:

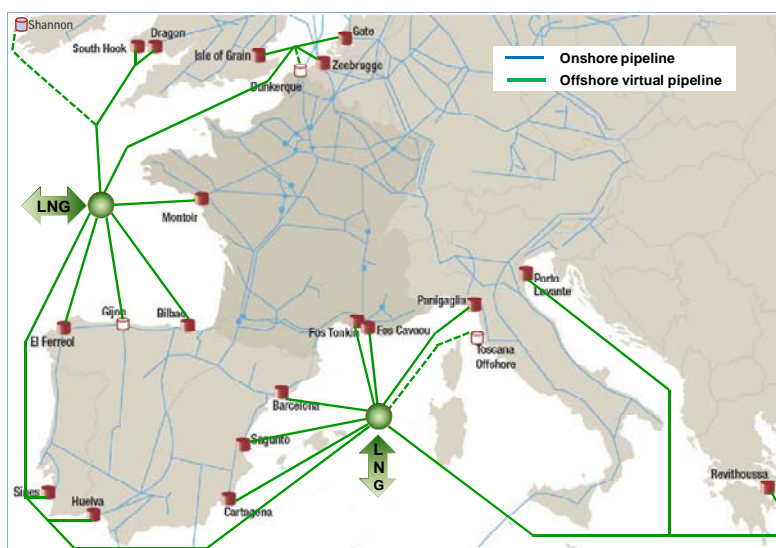
- LNG offers the advantage of being able to be delivered closest to the point of consumption, by optimising pipeline and sea transportation. Thus, well located LNG regasification terminals



should be a better economical solution compared to lengthy and costly pipelines, in particular if the pipelines are intended to transport regasified LNG coming from much further LNG regasification terminals. Well located LNG regasification terminals should make even more sense, if they allow avoidance of pipelines that have to cross seas or mountains.

- LNG terminals projects assist in achieving market integration and price convergence. Similar to pipeline gas, LNG responds to prices signals and flows to where the price is the highest. So, when LNG is sent to region A instead of region B because of difference in prices, the gas supplies available to meet demand in region A will increase, while being reduced in region B. This will lead to prices in region A and region B tending to converge (depending on possible constraints, exactly in the same manner as for gas pipelines).

Indeed, LNG shipping behaves like a virtual offshore pipeline and this is achieved thanks to two features unique of the LNG supply chain (i) cargo diversion (ie. unloading arbitrage to higher price markets) or (ii) reloading and short sea shipping (cf. fig. below). It should be noted that more and more LNG terminals now propose reloading services.



*LNG shipping, reloading & diverting as a Virtual Offshore Pipeline*

- LNG terminals can provide even greater price convergence, by relieving possible congestion in interconnection pipelines. For instance, if regions A and B are already interconnected with a pipeline, any LNG diversion (or reloading) from A to B, will free up corresponding pipeline capacity, that will then be available for short term trading, thereby increasing market integration and price convergence between regions A and B without additional investment in pipelines. In this manner, LNG terminals may also relieve congestion in the pipeline system of a member state which is used to transit pipeline gas to another member state.

***Q.11 Which are, in your opinion, “other relevant parameters” (as referred to in the Regulation) to be considered within a sensitivity analysis?***



*Q.12 According to the standard approach described in the DG Regio CBA Guidelines, the economical flow derives from the financial flow. Do you consider this translation as applicable considering the lack of some necessary data? For the purpose of creating the economical flow, how do you consider that the externalities can be reflected?*

We consider that a primarily market-based investment approach is of paramount importance in order to avoid market distortion. Therefore ENTSOG should be very careful regarding the way externalities may be taken into account.

*Q.13. An indicator can demonstrate a beneficial effect across a number or all the criteria defined in the Regulation. To what extent do you agree with this assessment?*

*Q.14. How do you see the applicability of HHI indicator at the capacity level? Please explain.*

As indicated in the present consultation, HHI is a measure for the level of competition on a market, measuring the relative share of market players to the size of the market.

With respect to development of gas infrastructures capacities whose access is offered to the market under transparent and non discriminatory procedures, we don't understand what is the meaning of a HHI indicator at the capacity level. It seems that there is a confusion between shippers and infrastructure operators.

*Q.15. Considering the crucial importance of choosing the correct discount rate to be applied for the economic analysis, what factors do you consider important to be included in the guidance?*

*Q.16. What references to discount rates could be used in the methodology?*

*Q.17. How do you consider that price convergence effect could be reflected for the different types of projects (Pipeline, UGS, LNG)?*

See answer to Q.10 here above.

*Q.18. ENTSOG has defined the development process in line with its Best Practices that have also been appreciated by Stakeholders in previously run processes like Network Code and TYNDP Development. Considering the very tight timeline allowed for the CBA methodology development, do you have any suggestions for the improvement of the consultation process?*