

**Danish opinion further to the joint comments of the Competent Authorities of Belgium, Denmark, Germany and the Netherlands to the European Commission's Consultation Paper on the Revision of Regulation (EU) No 994/2010) concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.**

Denmark prioritizes

- a more flexible definition of non-protected customers, allowing for critical parts of the consumption to be protected,
- obligations on Member States to ensure that restrictions are not introduced on gas flow at cross-border interconnections, and
- an unchanged division of competences between Commission, Member States, TSO's and gas undertakings in an emergency situation.

*General Remarks*

Denmark welcomes the Commission's intentions to amend the EU Regulation 994/2010 concerning measures to safeguard security of gas supply. Denmark finds that the main instruments of the regulation should be market-based, thus supportive of the EU's endeavours to achieve a well-functioning internal market for gas. Only in an emergency where the market is not able to meet the gas demand due to a significant supply disruption non-market based measures might be introduced.

Denmark also finds that more flexibility is needed regarding provisions that could have negative effects on growth and employment.

A final general remark is that Denmark supports initiatives in relation to the amendment of the Regulation to improve energy efficiency and fuel-switching to renewable energy from natural gas. Energy savings is a cost-effective tool to improve energy security and so is fuel-switching.

### **Main points**

#### *The role of Commission, Member States, TSO and gas undertakings*

Denmark finds that the current regulation has an appropriate division of responsibilities between the Commission, Member States, TSO's and gas undertakings. Denmark appreciates the Commission's active role in monitoring and coordinating the security of gas supply situation in the current geo-political situation, including the risk of serious interruption of gas supplies to Europe. The Commission's monitoring and coordination are important tools for Member States, TSO's and gas undertakings for enabling them to promptly take the necessary national actions in order to limit the damage to society of a serious interruption of gas supplies.

There are major differences between Member States with regard to the role of gas in the national energy mix, number of gas suppliers and the liquidity of the gas market. Therefore the Regulation should take the national circumstances into account and become more flexible.

#### *Solidarity*

In case of an emergency situation it is vital for neighbouring countries that restrictions are not introduced on gas flow at cross-border interconnections. The revision of the Regulation should deal with this issue in order to allow for cross-border trade to function freely also in an emergency situation.

#### *Definition of non-protected costumers – market based model*

Denmark believes that households, essential social services, small and medium-sized enterprises and also district heating plants should be protected costumers as these customers are normally not able to switch to other fuels. The challenge in the Danish gas market is to establish the most socio-economical way to define the non-protected consumers.

To ensure a well-functioning gas market a new model to define non-protected customers should be based on the market mechanism. This can be achieved by introducing e.g. a market based auction approach to identify partly or fully commercially interruptible customers in an Alert and Emergency situation and compensate them economically for their fuel flexibility. The auction should be

open for the entire group of potentially non-protected customers and the auction could be carried out on a regional level in order to maximize the economic benefits for the entire group of potentially non-protected customers. A market based model would thus be more efficient in meeting the needs of the customers and maximizing the benefit for industry and society. The Danish TSO in cooperation with the Danish Energy Agency is working on such a model in order to have it in place from October 2015.

The current regulation has a rigid administrative approach to the definition of non-protected customers, in that non-protected customers cannot be “partly protected”. Danish non-protected industrial customers have explained that part of their gas-fuelled production is completely dependent on gas delivery without any possibility for fuel-switching due to the natural gas specific combustion technique. Therefore it is a huge problem for some industries if the entire supply of gas is interrupted in case of an emergency situation. This will cause damage to the production assets and in some cases the entire production must stop as a consequence of missing gas to a smaller “critical supply”-part of the production. This could be remedied through a more flexible definition of non-protected customers, allowing for critical parts of the consumption to be protected. As an example it may be mentioned that a leading global health care company has explained that the entire production of some medicine products has to be closed down in case the entire supply of gas is interrupted. If they can maintain 10-15 % of the gas supplies the whole production can be maintained in an emergency situation.

### *Storage*

Denmark calls for initiatives to ensure that the market is given the right incentives to use gas storage facilities in an optimal way by ensuring that the level of gas in storage is sufficient to meet the needed gas demand in case of emergency situations. However, legal provisions are needed to ensure the right market price signals to gas undertakings.

The Danish TSO and the Energy Agency is at request of non-protected customers investigating whether it would be possible for non-protected consumers to have gas on storage to be withdrawn and supplied to non-protected customers in case of an emergency.

### *Responsibility and efforts to reduce demand*

Solidarity goes hand in hand with responsibility. Denmark finds that focus on reducing demand in an emergency situation is needed. The revision could

therefore include an obligation for Member States to have in place plans to reduce gas demand for e.g. heating purposes in households in an emergency and to let rising market prices have immediate effect on consumer prices.

## **Other points**

### *Regional co-operation*

Denmark agrees that strengthening the regional co-operation is an important tool to improve the security of gas supply on regional and Union level. Regional emergency plans is an option that might further improve the security of gas supply and preparedness on a regional level and might ensure supplies to protected consumers in one Member State instead of supplying non-protected customers in another Member State.

### *Preventative action and emergency plans*

In order to improve and uniform the national plans and ensure fast and smooth consultations between neighbouring countries the plans should be based on common obligatory templates and compulsory English translations. This would make the consultations more transparent and meaningful to the benefit of the regional co-operation.

### *Supply Standard*

Denmark believes that the separation of the infrastructure standard and supply standard is essential. N-1 is an excellent indicator concerning infrastructure. However, the current definition of the supply standard in Article 8 should be tightened. It is e.g. a fact that natural gas undertakings in reality are not able to guarantee supply to the protected customers in case of a major disruption of gas supplies from third countries if the contractual gas obligations are not fulfilled.

Furthermore, gas is delivered by private companies and e.g. traded at gas hubs without public control. This has led to divergence between physical gas flows and trade flows and it is more or less impossible for the Competent Authorities to monitor and control that the natural gas undertakings meet the requirements.