



Denmark's position paper on the future EU security of gas supply architecture

Denmark's main priorities for the forthcoming revision of the EU framework governing the gas supply security

The future EU gas security of supply framework should be guided by the following principles:

- Protection of industrial production critical for societal functions.
- Well-functioning market mechanisms and a higher level of default resilience to bolster the security of supply *ex ante*.
- A 'market first' approach, leveraging the market's ability to distribute and store gas effectively.
- Updated solidarity provisions to ensure effective responses in situations of crisis.
- A balanced approach to navigating the changes in the gas system on the path to net zero.

The principles should be supported by the following key actions:

- Revising the definition of protected customers to cover critical protected consumption.
- Ensuring adequate market-based incentives for commercial market actors to strengthen their resilience.
- Prioritising demand reductions to prevent the activation of solidarity arrangements.
- Establishing clear and balanced rules for cross-border coordination of decommissioning and repurposing existing methane infrastructure, while maintaining the security of supply.

The 2022 Russian invasion of Ukraine brought energy security to the forefront of the political debate in Europe. The resulting gas crisis underlined the critical importance of secure gas supplies for the strategic autonomy of the European Union and the need to maximise the utilisation of the existing capacity, including import routes from reliable third countries. Furthermore, it underscored the great potential of the renewable energy transition in ensuring affordable, competitive and secure energy.

In response to the crisis, the EU worked diligently to address numerous political, legal, market and physical challenges. However, the urgency of the situation led to remedial and inherently short-term measures, leaving structural responses largely unaddressed. The European Court of Auditors, in their report from June 2024, concludes that while the crisis-response objectives were met, the outcomes were uneven and the causality often difficult to demonstrate. The market did, however, prove its ability to adapt and adjust. With the learnings from the crisis, it should be a political objective to empower the market to handle situations of scarcity and volatility, with market intervention only serving as a measure of last resort.

Yet the EU is still set to face considerable challenges in the pursuit of independence from Russian gas supplies. With the anticipated security of energy supply package, including the revision of the regulation concerning measures to safeguard the security of gas supply (EU 2017/1938), now is the time for a strategic, structural and futureproof approach. To this end, Denmark recommends the next Commission mandate to advance regulatory measures based on the **key action areas** outlined in this position paper. These actions are guided by the **overarching political goals** of improved resilience, competitiveness, and strategic autonomy, and are intended to support the transition to a net-zero energy system by 2050.

Revising the definition and scope of protected customers

The current regulatory framework for the security of gas supply emphasises safeguarding vulnerable consumer groups during supply disruptions. While this principle is equally legitimate and justified, the energy crisis underscored the importance of preventing a full curtailment of industrial operations and other critical societal functions. Maintaining economic activity during supply crises is crucial for industrial value chains across Member States and the overall competitiveness of the EU. Furthermore, several major gas-consuming companies supply products and services essential to various societal functions. In the Commission's review of the application of Regulation (EU) 2017/1938, the Commission also acknowledged that the definition of protected customers may need reconsideration to adapt to changing demand profiles and the transition to a green gas system.

To this end, Denmark proposes to maintain the core principle of protecting vulnerable consumers, while also safeguarding critical gas consumption. This approach should be based on the following key actions:

- Revise the definition of protected gas customers to protect critical consumption, including household costumers connected to the gas distribution network.
- Introduce a minimum EU-wide share of non-protected gas consumption, while allowing Member States the flexibility to define the default protected consumption during a gas supply crisis.
- Increase Member State flexibility to protect a later defined share of critical industries' gas consumption to keep vulnerable value chains intact during a crisis.

Building a higher level of default resilience into European energy consumption

A critical element in avoiding a new gas supply crisis is to build a higher level of default bottom-up resilience into European energy consumption. Default resilience requires increased sector coupling and a structural shift towards a more diversified energy mix and greater use of domestically produced gasses, which in turn holds the promise of significantly reducing the need for market intervention and remedial emergency measures. To this end, Denmark proposes to explore possible models for a bottom-up, market-based and technology-neutral approach that incentivises large commercial gas consumers to strengthen the resilience of their activities, e.g. via supply diversification or by appropriate use of gas storage. The approach should be based on the following key actions:

- Motivate large commercial gas consumers to strengthen the resilience of their activities. This requires incentives to further supply diversification.
- Duly consider the lessons learned from existing gas storage filling requirements, including market outcomes and functionality, feasibility of implementation, and disproportionate risks and burdens faced by Member States, when making any potential future adjustments to storage regulations.
- Promote transparency in Member State's resilience to uncover vulnerabilities and avoid cross-border cascade effects in case of supply disruptions.
- Ensure that the regulatory framework gives prominence to and fosters the increasing role of domestically and regionally produced renewable and low-carbon gases.

Updating the existing solidarity provisions

The solidarity principle is heavily reflected in the regulatory framework governing gas security. The current regulatory framework for the solidarity principle relies on a complex set of new processes and untested governance structures that may not align with the practical functioning of the gas market. In line with the principle of mutual obligations, we recommend an updated solidarity mechanism based on the following guiding principles:

- Prioritise demand reductions as a first step to ensure all Member States have measures in place to lower their demand, thereby reducing overall stress on the common system. Member States should demonstrate that they have effected/realised a specified level of demand reductions before requiring support from neighbouring Member States.
- Allow Member State flexibility in using emergency gas from their strategic storage to meet demand reduction requirements.

Setting clear rules for cross-border cooperation on decommissioning and repurposing

The European gas system is set for major changes on the path to net zero, with some existing methane pipelines expected to be decommissioned or repurposed for alternative usage, such as hydrogen transport. If not properly managed, these changes could disrupt methane pipeline flows and threaten security of supply. It is essential to balance reducing capacity with creating opportunities for the future energy system. Therefore, it is necessary to establish a framework for managing a future characterised by declining methane consumption and a transition to hydrogen as a fuel in some Member States. This framework should support "frontrunner" initiatives while also mitigating adverse impacts on methane-related markets and ensuring the security of supply in neighbouring Member States. Thus, Denmark recommends the following key actions:

- Include the question of decommissioning and repurposing in the ongoing CAM NC revision process.
- Provide further transparency by prioritising a swift and consistent implementation of articles 7(1) and 55(2) in the recently adopted Hydrogen and Decarbonised Gas Markets Directive.