Security of Supply & Solidarity

The magic formula?

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Setting the scene

Definitions
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Security of Energy Supply – always a hot topic

• For IEA energy security is “the uninterrupted availability of energy sources at an affordable price,” whereas acknowledging different long- & short-term dimensions.
• The EU’s overriding priority regarding SoS is “to ensure that the best possible preparation & planning improve resilience to sudden disruptions in energy supplies, that strategic infrastructures are protected & that the most vulnerable member states are collectively supported.” (European Energy Security Strategy, 2014)
• The U.S. credo: “ensuring domestic access to energy, securing the electric grid, encouraging the development of global markets, & supporting alliances & partnerships that strengthen energy security”. (19.01.2017)
• From an economic angle, a lack of SoS is an externality that causes macroeconomic consequences which are (mostly) not considered in decision processes.
Solidarity w.r.t. energy SoS – more than a mute

- Article 194 Lisbon Treaty: “1. (...) Union policy on energy shall aim, in a spirit of solidarity between Member States, to:
  a) ensure the functioning of the energy market;
  b) ensure security of energy supply in the Union;
  c) promote energy efficiency & energy saving & the development of new & renewable forms of energy; &
  d) promote the interconnection of energy networks.”

- Solidarity: “Unity or agreement of feeling or action, especially among individuals with a common interest; mutual support within a group.” (Oxford Dictionary)

- The underlying principle in the EU SoS framework is to create trust & ensure solidarity as it guarantees that member states act on their national responsibilities & collectively enhance SoS. (European Energy Security Strategy, 2014)
A clear political dimension is evident

- SoS was mainly a national task in the past & governments have taken it more or less seriously.
  - Implementation/exercise of responsibility has not always been particularly effective.
- Responsibility was often explicitly or implicitly transferred to TSOs or incumbents.
  - Either by specific laws or by political advises without sound legal basis.
- Today (more or less) all countries are treaty allies &/or trading partners, which – one could assume - have an interest in each other’s (& their own) prosperity & security.
- “The use of energy supplies as a means of political coercion or as a threat to security is unacceptable. The crisis in Ukraine makes plain that energy security must be at the centre of our collective agenda & requires a step change to our approach to diversifying energy supplies & modernising our energy infrastructure.” (Brussels G-7 Summit Declaration, 2014)
- However, not only due to a growing number of sanctions (un-deliberately ?) targeted at energy companies it is evident that security of energy supplies is not (only) about energy.
Wide variety of experiences exists

- Experience shows that nationally different SoS approaches did not always work well.
  - EU gas crisis in 2006 & 2009,
  - Major Italian blackout 2003, or Indian blackout 2001 & 2012,
  - Enron crisis 2000,
  - Oil crisis 1973, etc.
- Several incidents have revealed the need for an EU-wide & harmonized approach.
- Many ideas to improve EU SoS are framed in EU legislation:
  - Electricity SoS Directive 2005/89/EC,
  - Gas SoS Directive 2004/67/EC,
- However, some ideas were not further pursued (so far), as
  - Collective purchase of gas, or
Dimensions of risks are growing as well.

- Generation adequacy
- Unexpected events
- Cyberattacks
- Accidents
- Natural disasters
- Terrorism
- Political decisions

Disruption of supply

- Energy poverty
- Production stop
- Heating
- Public transport
- Safety
- Banking
- Health service
However, the picture is not always clear

- Depending on a magnitude of different factors assessments, positions & therefore also actions may differ.
- E.g. Nord Stream 2 can either be seen as a gas pipeline
  - Increasing transportation capacity & reducing transportation risk, or
  - Changing market dynamics & influencing SoS differently in different regions.
- EU approach to overcome such different assessments is clearly: transparency, co-operation & (internal) negotiation.
- However, the world consists of more than 28 countries (plus European Commission).
- Positions need to be agreed & agreed on time as well as represented in order to be relevant.
Electricity vs. Gas, or Electricity & Gas?

- Commonly (?) agreed: security of energy supply is at least cross-border issue.
- So far gas SoS is treated more or less apart from electricity SoS (or vice versa).
- However, with growing digitalisation (& environmental legislation) at least major electricity outages have also strong implications for gas SoS, as well as the needed time for re-starting the electricity network after a blackout.
- 2014 (gas) stress test showed that (38) European countries need to cooperate to avoid negative effects on customers.
  - Furthermore, switching from gas to electricity might cause spill-over effects in some countries as well.
- Future energy system will cause new challenges in this respect.
Framing the scene

Regulatory framework
Competencies
Co-operation
Basic principles of EU SoS policy approach
All homework will never be done

- EU legal SoS framework is fairly good & up-to-date regarding risk scenarios:
  - Electricity SoS Directive 2005/89/EC, measures more at national levels,
  - Proposal for risk-preparedness in the electricity sector under discussion,
  - Cybersecurity Directive (EU) 2016/1148
- However, questions are not easy to answer:
  - Is the overall energy security level higher?
  - Will new risks be treated accordingly?
  - Does a “price-war” (if something like this exists at all) qualify for SoS measures?
  - How far has it been from solidarity?
  - Can countries rely on neighbouring countries?
Responsibilities are distributed differently

• Gas SoS approach from a theoretical point of view a very smart idea.
  • 1st level action: Energy undertakings based on market mechanisms.
  • 2nd level action: Member States measures.
  • 3rd level action: Coordination of national measures by European Commission.
• “As long as the market works everything is fine.”
  • Oil-indexation in gas contracts is more expensive than hub pricing.
  >> “at affordable prices” criteria met?
• However, at the 2nd level, we face different “types” of Competent Authorities (CA), which in practice might cause difficulties.
  • Gas SoS Regulation: appr. 72% ministries, remaining: NRAs or different agencies.
  • EU-wide Coordination Group(s), however, address(es) this & allows to build working relationships between CA via continuous dialogue.
• Even though it is a three-tier approach all players need to be active (at least carefully listening) during & before any (possible) incident.
Cooperation to be lived in many respects

Efficiency & effectiveness
Information exchange is basis for effective SoS

- Not only in times of fake news sound information & transparency is key.
- The EU legal framework puts a lot of effort into
  - Transparency,
  - Information standardisation,
  - (National) data collection, as well as
  - National & cross-border exchange of relevant information.
  - “Quality over quantity”?
- Regular practising at national & regional level is necessary to identify
  - possible issues (e.g. governance) or
  - “blanks” as well as to develop routines.
- EU-RF Early Warning Mechanisms for oil, electricity & gas established post-2009.
- Information exchange & dialogue are the basis as well as
  a measure to avoid (to a certain extent) SoS situations in general.
Decisions have to be taken on time

- Energy SoS is an issue of interest for many actors, thus discussions need to (& will) take place.
- However, decisions have to be taken timely, especially if safety or health, but also if economic or even state interest is concerned.
- But who is really the one who can take decisions nationally in case of a real emergency?

Head of CA?  Elected politicians?  TSOs?
Dispatcher?  European Commission?  (Former) incumbent?
What it means

Real-life effects
Solidarity
Future Energy System
Energy SoS is not a theoretical risk

• Several events demonstrate the SoS relevance but also that it is
  • not only a theoretical risk or
  • not “only” about money, but
  • It is very much about people.
• However, economic risks are immense & thus very valid.
  • E.g. Gazprom & Naftogaz rhetoric’s after the 2017/18 Stockholm verdicts indicate the dimensions of conflict (in terms of money & bilateral relations).
• Risks for energy SoS are a reality & need to be treated seriously.
• Therefore, it is the vital interest of all actors to life existing & future SoS measures.

To avoid a…
The meaning of solidarity

• The 2014 Stress Test highlighted that with solidarity cost of a gas SoS situation can be drastically reduced.
• Gas SoS Regulation foresees solidarity as a last resort action in exchange for fair & prompt compensation.
  • Member states are also free to accept offered "solidarity".
  • Bilateral arrangements between member states.
• However, "trust" is nothing that a legal text can implement.
• Solidarity can not mean charity.
  • In case of gas SoS Regulation, it certainly does also not do so.
Everything “easy” in the future?

- Present age challenges are to be tackled first.
- Not clear how the future energy system will look like, however, challenges will come along for sure:
  - (Intermitted) RES,
  - All-electric world,
  - Sector coupling,
  - Digitalisation, etc.
- Future questions will as well not be easy to answer:
  - What's next?
  - What to do?
- However, it is time to bring energy back into focus when we are talking about security of energy supply.
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