



Security of gas supply regulation

Brussels, 16 February 2016

The Commission proposes a new security of supply regulation.

Why is the Commission proposing a new security of supply regulation now?

Ensuring secure energy supplies at all times to all EU citizens is the overarching goal of EU energy policy and it is also the backbone of the Energy Union strategy with a forward looking climate policy which was endorsed by Member States last year. Since the gas crises in the winters of 2006 and 2009, significant progress has been made on many fronts in mitigating the risk of possible future gas supply crises. Today Member States are much better equipped to deal with a possible gas crisis: energy systems are much better linked through pipelines and, with the help of a functioning internal energy market, rules for network use have been put in place to increase regional cooperation, avoid cross-border infrastructure congestions, and reverse gas flow options have been created. Thanks to the security of gas supply regulation (EU 994/2010), all Member States now have Preventive Action Plans and Emergency Plans to deal with crises and all Member States have made sure that gas supplies will be guaranteed to households and other protected customers for a certain period of time, as a minimum, even in the case of a failure of the main gas infrastructure in the country.

Nevertheless, the experience gained with the implementation of these measures has proven that the current design is still insufficient. As demonstrated by the EU-wide stress tests in 2014, national policies do not sufficiently take into account the security of supply situation in their neighbouring countries. There are also serious shortcomings in taking into account external risks which includes the lack of access to information on commercial gas supply contracts. This can make difficult the risk assessment, the introduction of efficient preventive measures, and an early reaction by market-participants as well as, if needed, public bodies, in a potential crisis.

What is new in the regulation?

The new regulation introduces a new and more efficient approach to preventing and mitigating possible security of gas supply crises. In particular, it:

- for the first time, introduces a **solidarity principle** according to which, as a last resort, neighbouring Member States will help ensure gas supplies to households and essential social services, such as healthcare and security services, in the case of a severe crisis.
- proposes a **shift from a national approach to a regional approach** when designing security of supply measures. It is necessary to ensure better coordination between Member States, including a more accurate assessment of common risks, possible simultaneous crises and available resources. This would help to increase the effectiveness of security of supply measures and reduce their costs for EU consumers.
- reinforces cooperation with EU neighbours: **Energy Community countries will be involved** in ensuring a more effective prevention and management of gas crises at the borders between the EU and the Energy Community Contracting Parties in preventing and tackling possible supply crisis.
- Proposes additional transparency measures for certain security of supply relevant contracts which will have to be automatically notified by the natural gas companies to the Commission and the Member States upon their conclusion or modification.

What are the main novelties for Member States and natural gas companies under the new law?

Member States will have to:

- prepare Risk Assessments, Preventive Action Plans and Emergency Plans at regional level and update them every four years. Common templates will be used;
- agree on the technical, legal and financial arrangements to apply the solidarity principle and include them in the Emergency Plans;
- jointly decide on the construction of bidirectional capacity (reverse flows) at each cross-border

interconnection point and involve other Member States potentially concerned along the supply corridor in the decision. Under duly justified circumstances, Member States may request natural gas companies to provide additional information before potential emergencies, in order to assess the security of supply situation at national, regional or EU level.

Natural gas companies will have to notify Member States and the Commission about some security of supply relevant contracts upon their conclusion or modification.

What will the Commission's role be?

The Commission will play a key role in the overall coordination of the security of gas supply, ensuring that the security of supply framework is correctly applied and no measures are taken by Member States that could jeopardise the security of supply of another Member State, region or the EU as a whole. In particular, the Commission:

- will ensure that measures adopted do not hamper the functioning of the internal market or the developments of national markets, given the central importance of functioning markets as a reliable instrument in ensuring secure supplies in a cost-efficient manner;
- will organise a peer review of the Preventive Action Plans and Emergency plans prepared at regional level. Where measures foreseen can have a negative impact on the security of supply of another Member State or region or hamper the functioning of the EU internal market the Commission may request the Member States to amend their plans accordingly, first in an opinion and secondly, in the absence of a proper justification by the Member States, via a legally binding decision. Amendments to the Plans may also be requested where the Plans are ineffective in mitigating the risks identified by the Risk Assessment;
- will review new non-market based preventive measures, before they enter into force, to assess their compliance with the EU's internal market rules or their impact on the security of supply of other Member States. The Commission may require the amendment of such measures when they are likely to have a negative impact on the internal market or the security of supply of other Member States;
- will continue to chair and coordinate the work of the Gas Coordination Group as the key forum for the discussion of security of supply policies with experts responsible for the design and implementation of this policy area.

What will happen if there's a supply crisis? Who will do what?

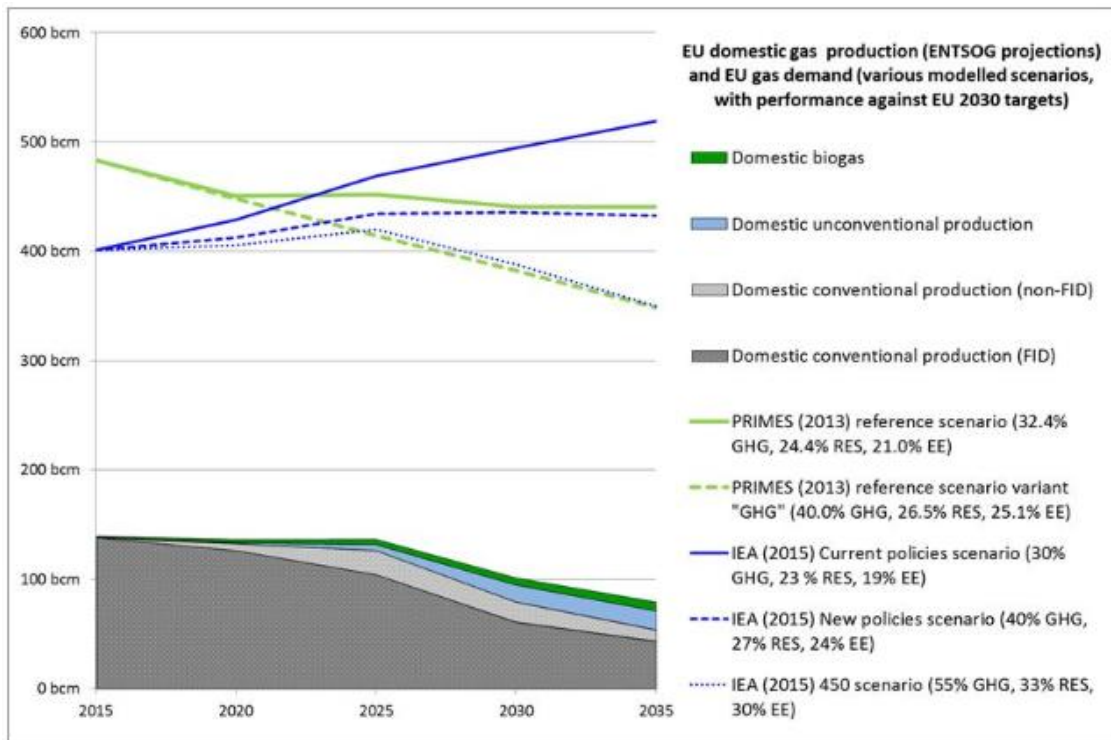
The main goal of this Regulation is to prevent gas crises but we should also be properly prepared to mitigate their impacts should they nevertheless occur. In case of a crisis, a three level approach will apply which would involve firstly the relevant natural gas companies and industry, then Member States at national or regional level, and then the EU.

This Regulation should enable natural gas companies and customers to **rely on market mechanisms for as long as possible** when coping with disruptions. When markets alone are no longer able to deal adequately with a gas supply disruption, the measures contained in the Emergency Plans will be triggered. As a last resort, and if the situation deteriorates to the extent that the supply to households and essential social services such as healthcare and security services, is endangered, the **solidarity principle** will apply: the gas supply to protected consumers - households and essential social services - in the Member State in an emergency will be prioritised over the supply to consumers other than households and essential social services in neighbouring Member States.

In the case of an EU or regional emergency the Commission will ensure the timely exchange of information, by convening meetings of the Gas Coordination Group or a crisis management group. The Commission will also help ensure the consistency and effectiveness of action at Member States and regional levels and will coordinate the actions with regard to non-EU countries.

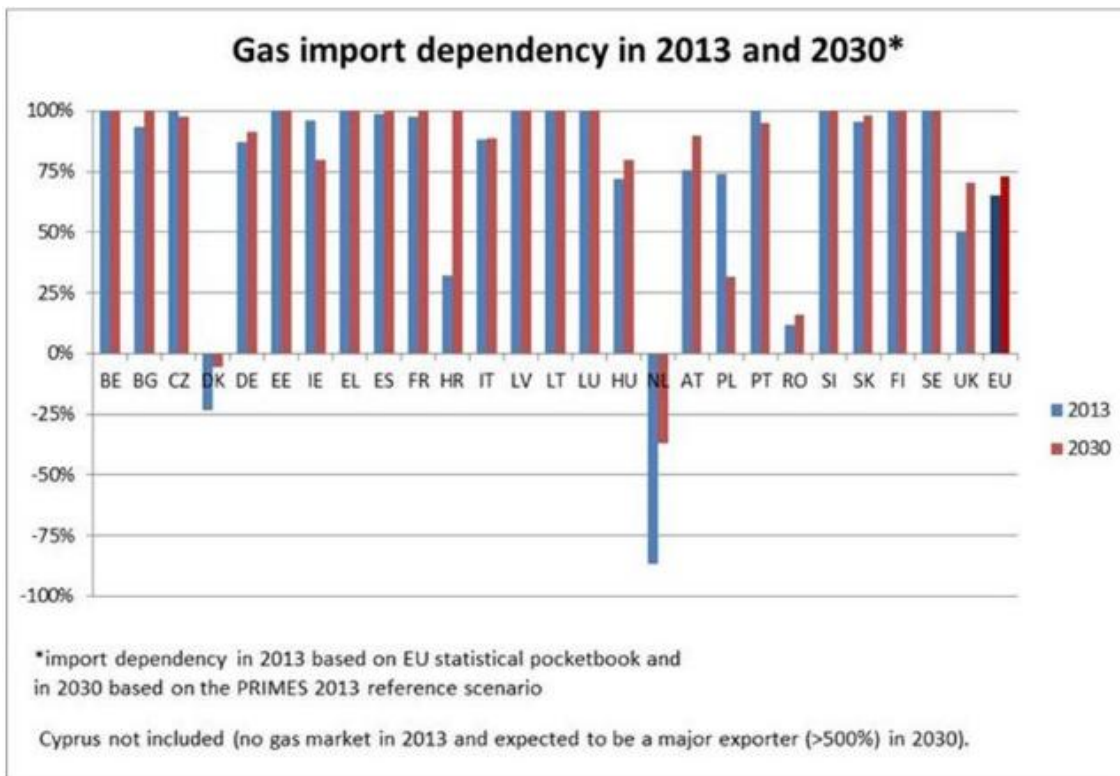
What is the role of gas in the EU's energy mix? To what extent does the EU depend on gas imports?

Natural gas currently represents around a quarter of the EU's overall energy consumption. The EU's **gas demand** today is around 400 billion cubic metres (bcm) and based on currently adopted policies **is projected to remain relatively stable** in the coming years. It has to be noted that the expected decline in domestic gas production also has an impact on gas imports. However further policies designed to achieve 2030 energy and climate targets may lead to a reduction in gas usage, particularly due to energy efficiency improvements in heating and industry.



Domestic gas production accounted for 34% of gross inland consumption in 2013. The Netherlands (47%) and the UK (25%) are the largest producers of natural gas, followed by Germany (6.7%) and Romania (6.5%).

The **gas import dependency** of the EU was at about 65% in 2013, increasing from 43.3% in 1995 (a 50% increase of gas dependency over the period). In 2013, about 39% of imports came from Russia, 30% from Norway and 13% from Algeria.

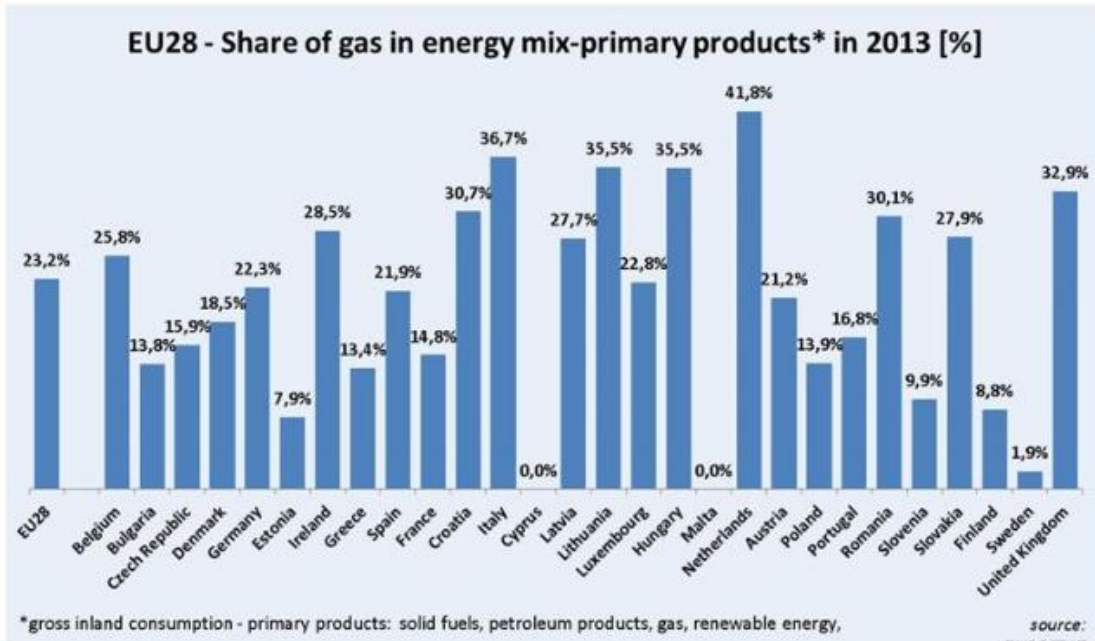


According to the Eurostat preliminary data, in 2014 the Member States **least dependent on gas imports** were Romania (5%) and Croatia (28.6%). Denmark and the Netherlands have been net exporters of gas whilst Malta and Cyprus reported no use of natural gas. All other Member States have been dependent on gas imports in a share of more than 70% of their gross inland consumption.

However, **the overall security of supply vulnerability of a certain country depends** on many aspects, e.g. on the possibilities to diversify its energy sources, suppliers and routes, the preventive and emergency measures in place and on the size of its domestic production. Moreover, the integration into the European pipeline network (i.e. the level of interconnection and the reverse flow possibilities)

plays a crucial role.

Regarding the **overall energy import dependency**, according to [Eurostat](#) the least energy import dependent Member States in 2014 were Estonia (8.9%), Denmark (12.8%) and Romania (17.0%), followed by Poland (28.6%), the Czech Republic (30.4%), Sweden (32.0%), the Netherlands (33.8%) and Bulgaria (34.5%). The **highest energy import dependency** rates were registered in Malta (97.7%), Luxembourg (96.6%), Cyprus (93.4%), Ireland (85.3%), Belgium (80.1%) and Lithuania (77.9%).



How does the Commission design the regions relevant for security of supply?

In defining the regions a number of criteria has been considered, mainly what the likely cooperation scenarios will be (i.e. who has to necessarily cooperate with whom in case of a major crisis), the level of interconnections as well as market development and maturity. Moreover, it is essential to have a limited number of Member States per region, particularly where markets are less connected and/or mature, in order to have meaningful and effective Risk Assessments and Plans. In this regard, the regions proposed in the revised Regulation are sub-groups of the regional groups established already under the Regulation on trans-European energy infrastructure from 2013 ([EU No 347/2013](#)), which were considered too large in size for the purposes of the revised security of gas supply Regulation.

Additionally, the revised Regulation foresees the possibility to amend the composition in the regions, should it become necessary in the light of the experience and future developments, in order to avoid a static and rigid framework.

Regions for the preparation of Risk Assessments and Plans at regional level



What is new with regard to the reverse flows?

Member States are already today obliged to enable bidirectional capacity (reverse flows) at each cross-border interconnection point, as one of the fastest ways to ensure gas can flow to where it is needed most, including from the west to the east in the case of a gas crisis. Under the new rules such decisions can no longer be taken unilaterally. Instead, all decisions, including exemptions from the obligation to build reverse flow capacity, will have to be jointly adopted by Member States at both sides of the interconnection point. Moreover, other Member States potentially concerned by the reverse flow along the gas supply corridor will also have to be involved in the joint decision. The joint decision will have to be scrutinised by the Agency for the Cooperation of Energy Regulators ACER. Moreover, the Commission may adopt a decision requesting amendments to the joint decision.

Independent EU gas companies have gas supply contracts which may contain clauses that may negatively affect the security of gas supply in a Member State. What will be done about this?

Natural gas companies will have to automatically notify Member States and the Commission certain security of supply relevant contracts upon conclusion or modification. Such information should allow Member States to adequately consider all risks in the Risk Assessment and adopt the necessary preventive measures in the framework of the Preventive Action Plans and Emergency Plans. The Commission may also request the amendment of the Plans on the basis of the notified contracts.

How will the peer reviews of Preventive Action Plans and Risk Assessments work?

Once the regions adopt their Preventive Action Plan and Emergency Plan, a peer review team will assess these Plans and prepare a report containing their assessment. There will be a peer review team per region composed of experts from Member States other than the Member States in the region (up to five) and from the European Network of Transmission System Operators for Gas (ENTSO-G). The Commission will select the members of the peer review and will also participate, as an observer, in the peer review. The peer review's report will be presented and discussed at the Gas Coordination Group with a view to ensuring the coherence of the different plans among the different regions and the EU as a whole. The peer review's report will also be published by the Commission.

Who will be considered as protected customers?

According to the Regulation, all household customers connected to a gas distribution network are to be considered as protected. SMEs and essential social services, connected to a gas distribution or transmission network, may also be considered "protected" if the Member State so decides, but only in case they do not represent more than 20% of the final use of gas. Member States may also decide to include district heating installations in their definition of protected customers, provided that such installations deliver heating to other protected customers (i.e. households as well as SMEs and essential social services) and are not able to switch to other fuel.

The Regulation includes a requirement to guarantee 30 days of supply to protected consumers. Why does the new Regulation not raise the number of days?

In its Impact Assessment that accompanies this proposal, the Commission assessed the possibility of increasing the number of days for which the gas supply needs to be guaranteed. However, the assessment concluded that such an increase could have a significant impact in costs and, consequently, in gas prices for consumers, that would not be justified by the potential increase in security of supply, particularly in functioning markets with hubs. This assessment is in line with the results of the [public consultation](#) carried out earlier in 2015, where the majority of respondents, including Member States, regulatory authorities and industry, advocated against increasing the number of days for the obligation to ensure the gas supplies.

What impact will the new rules have on the EU's neighbouring countries?

The proposed Regulation covers all the countries in the European Economic Area. The EU has a vital interest in expanding the common regulatory space between the EU and the Energy Community Contracting Parties by creating a functioning regulatory framework in the field of security of supply. Not only would a common approach help to ensure that the principles of the internal energy market are fully adhered to in times of a supply crisis, but it would also allow for a better risk assessment and more efficient crisis management, at EU level. Therefore the Regulation proposes that some of its measures (e.g. cross-border consistency of Risk Assessments, Preventive Action Plans and Emergency Plans) also apply between the EU Member States and the Energy Community Contracting Parties.

Moreover, given that the Regulation seeks to limit the impacts of supply disruption and better prepare Europe for such disruptions, suppliers from non-EU countries will have less room to exert pressure as a dominant seller. With the continuation of a well-functioning market and fair rules for all stakeholders Europe will continue to be an attractive market for selling gas.

More information:

Website DG Energy: <https://ec.europa.eu/energy/en/news/commission-proposes-new-rules-gas-and-heating-and-cooling-strategy>

[Press release](#): Towards Energy Union: the Commission presents sustainable energy security package

MEMO/16/308

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