

**EUROGAS RESPONSE ON THE COMMUNICATION "TOWARDS SECURE, SUSTAINABLE AND COMPETITIVE EUROPEAN ENERGY NETWORKS"**

The January supply crisis underlined the timeliness and importance of reviewing European policy on European energy networks. Eurogas welcomes the renewed emphasis on a coherent strategy to help enhance the framework for energy investments.

The following considerations underpin Eurogas's comments:

- The share of natural gas in the European Union's energy mix will continue to grow in the near to medium term, as companies switch to lower carbon emitting and cleaner fuels. Natural gas will be a fuel of choice for electricity generation, especially as in a number of regions it may be increasingly used in back-up to Renewable Energy Sources.
- It is a matter of concern that some areas still exist within the EU which have no physical link with the integrated continental gas grid, or have available only limited interconnection capacity. Recent events have shown that in some regions this poses severe problems in the event of supply problems, and in any case it is inimical to the objective of a well functioning internal market.
- Energy has to be able to move freely and efficiently. Every additional connection would enhance the overall security of supply level but should still be supported by economic and commercial rationale. There is also interest in enhancing the possibilities for gas reverse flows.
- Europe must improve physical links with its traditional energy partners (both transit and producing countries). Confidence of producers in long-term security of demand generally supported by long term contracts and in the benefits of interdependence will contribute to promoting the necessary upstream investments.
- All Member States have to place emphasis on their diversification policies and gas companies should prioritize this objective in their supply portfolios in accordance with national frameworks.
- New import routes are needed for gas. All major new pipeline projects are needed, to enhance diversification of both suppliers and physical routes. More LNG regasification terminals/facilities are also needed, if industry and customers are to benefit from global gas supply opportunities.
- Clear and stable legislative and regulatory frameworks will be an incentive to new energy investment, but for some routes, especially the planned new pipelines to bring gas from non-EU suppliers, the investment will be facilitated if there are good understandings between consuming and producing and also transit countries. Companies' entrepreneurial objectives have to be supported by solid political relations.

Eurogas still considers therefore that in principle, energy networks should be market-driven and self-financing. For this approach to be maintained, regulatory authorities should recognize the long term benefits from investments which are not always quantifiable. Analysis should take into consideration also qualitative elements such as enhancement of security of supply and eventual enlargement of market options, and helping ensure future regional solidarity. Especially in the light of January's events, we agree that financial support is sometimes necessary for new projects or to extend existing projects, in addition to a regulatory regime conducive to investment, but economic viability for the investors remains a paramount consideration and market distortions should be avoided.

Eurogas recalls that for a seamless operation of gas supply, it is also necessary to achieve improved co-operation and co-ordination among TSOs. We hope this will emerge in the implementation of the Third Package. Eurogas therefore would support market-driven co-operation among TSOs. With regard to cross-border infrastructure, Eurogas looks forward also to the setting-up of the Agency and the added-value it should have in the resolution of cross-border issues.

Gas projects, whether new pipelines or plant, are designed and constructed with the highest attention to health, safety, and environmental standards. Eurogas shares the Commission's concerns at the delays that can be caused to major projects because of problems arising in the planning and permitting process. Eurogas would support proposals to facilitate these processes. While recognizing that land-planning is not within the competence of the EU, the Commission could potentially facilitate the sharing of best practice between Member States, at national and local level and help ensure a framework for co-operation between the relevant authorities at Member State level.

The answers to the questions should be taken in the context of the above principal points.

### **Responses to Questions**

#### **1. What do you consider to be the main barriers to the development of a European grid and gas network? How far can they be addressed at national/regional level, and when should the EU act?**

Main barriers are

- Not enough emphasis is placed on developing the concept of a European network, in particular to improve cross-border interconnections with a view to meeting users' future needs.
- The realization of more interconnections, on a co-ordinated basis to meet both EU and national needs, has to be more effective.
- There is slow progress in the co-ordination and convergence of regimes and measures to improve security of supply.

In addition, specific barriers hinder the development of supranational networks. Firstly the project financing and return on investment is a key issue for developing very high capital intensive projects such as building new gas pipelines. Strict national regulation rules may still offer insufficient incentives, especially on higher risk projects. Investments in a market driven environment require an adequate predictable, transparent and early return-on-investment. Where national regulation fails to provide an adequate financial framework, then Guidelines could be drawn up by the Agency, to include best practice and ensure that long-term issues are sufficiently recognized in access tariff arrangements.

The internal market must provide a stable and sound investment climate, to encourage the necessary (public and private) investment in infrastructure, while taking into account specific national circumstances. Here, it has to be kept in mind that for connection of border regions to existing EU transmission systems further network development will be needed – this development should be encouraged by coherent EU regulatory framework and appropriate return on investments.

Improvements are needed to planning and permitting processes to ensure vital projects can be delivered in a timely manner. At present these can be lengthy and complex. This is not covered in the Commission's paper.

There is insufficient cross-border infrastructure planning. The implementation of the Third Package especially the setting-up of the Agency and the requirement on TSOs to co-operate must deliver improved regional co-operation on investments with the support of Member States' governments and NRAs. The implementation of a requirement to develop a ten year investment plan should also contribute to the emergence of the concept of a European network, and accelerate the achievement of a well functioning market.

**2. What circumstances justify an EU intervention in local planning disputes related to energy infrastructure? In those circumstances, what should the EU do?**

The EU objective is to create a fully integrated, operational and efficient energy wholesale market, and for that a fully robust and interoperable grid is necessary. An integrated and flexible European Energy Network has to build on national systems that were built to assure the efficient and effective use of the networks according to national priorities, but today has to take into account as well the European dimension, including the needs of the internal market and cross-border synergies.

National planning and authorization laws usually offer suitable procedures to decide upon local disputes and to find solutions. However, European energy grids face enormous challenges (e.g. necessary integration of renewable energy resources, intensifying energy trading activities, increasing cross-border flows etc.) that require immediate investments and leave little room for delays.

The EU, through the TEN-E instrument, can have a beneficial intervention in various ways:

- Improving the resolution of cross-border planning issues.
- Accelerating the authorization procedures for national or cross-border projects of European importance.
- Contributing to the local and national explanations about the wider European dimensions as this might reduce any local resistance.
- Promoting good planning practices in Member States
- Promoting dialogue between local authorities and market players

**3. Is a more focussed and structured approach to research and demonstration relating to European networks needed? How should it look?**

Research and development in energy processes and their impact on the network is of major importance.

Innovative infrastructure projects might require a focused financial support for research activities and professional analysis. Such innovation can be e.g. for gas: combining use of gas driven power plants with wind power or CCS pipelines connecting generation plant to carbon storage sites. However, a future research programme should be designed to meet the specific needs of all relevant market players. To ensure that the needs of the industry are met, such research must be led by the industry itself. The call for proposals in the 7<sup>th</sup> research framework has a potential to support TEN-E in this respect, as it has a sufficiently wide scope.

**4. What do you think is the most important activity for the EU in network development?**

The EU should focus its activities on delivering a stable and predictable regulatory framework for investments and removing legal and financial obstacles (national and cross-border) for infrastructure developers /market participants, thereby enabling market players to develop European energy networks and other associated infrastructure.

The EU should promote through the work of ENTSO-G a ten-year plan that takes full account of the European dimension, ensures that the viewpoint of shippers is taken into account, provides

sufficient available capacity for all market players and among other things identifies priority cross-border projects that will contribute variously to market development and back-up supply capacity in the event of needed supply reroutings.

The ten-year plans of national TSOs and of ENTSO-G should also ensure adequate networks to service LNG plants (see also 9).

Further competencies for the EU in respect of TENs should be granted only in specific cases, where market forces fail to accomplish satisfying results for the development of sufficient and efficient networks of regional or European interest.

The EU might also add value to the network development process by bringing together possible investors and others (as a facilitator) in a joint approach to find solutions which would not have been possible in a single approach.

**5. Should the EU be more involved in facilitating infrastructure projects in third countries? If so, in what way?**

The past has shown that energy companies are fully qualified and competent to develop projects in non-EU-countries and –regions. However, in cases, in which investment in third countries imply exceptional risks caused by political, economic or other factors, the EU might support infrastructure projects as a coordinator, mediator or through investment guarantees.

**6. What sort of support should the EU provide to developers of new energy networks to have the greatest impact, considering that resources are limited? Is the approach of TEN-E still relevant? How can the EU help improve the conditions for investment?**

EU policy recognises that additional infrastructure investment is needed in order to respond to changes in sources and production of both gas and electricity in the coming years, to improve connections and increase pan-European flexibility and help ensure continued security of supply to European citizens.

There are three key areas where the EU can play an important role. These are regulatory framework, planning and authorisation procedure and communication.

A stable regulatory framework is an essential component in managing investment risk. Not only must an appropriate legal and regulatory framework be on the statute books, its implementation must be monitored for compliance. The Third Energy Package should support this and help drive investment synergies, efficiencies and innovation in energy networks. Thus a rapid and robust assessment of priority interconnector plans, the 10 year investment plans and other work put together by TSOs and ENTSO-G and the Agency will be essential.

Planning and authorisation difficulties across Europe must be addressed. Whilst the EU has no power on land planning, as already mentioned declaring projects to have priorities or encouraging best practice could facilitate planning (see 2). The role of EU coordinators has already been shown to help improve the speed at which projects are dealt with when crossing more than one country. This includes the identification and continuous monitoring, via regular, ongoing dialogue, of the required steps and agreed timetable.

The EU's communication function may cover several tasks. The EU could potentially have a role as coordinator and mediator where public and private parties cannot agree on the way forward on key projects with a European impact. Key here is the promotion of public understanding and solidarity in order to help achieve the 20-20-20 targets and secure energy supplies.

Support mechanisms are today in place, but knowledge of them may not be equally high across all parties. Coordinated communication by the EU would improve investment

opportunities. Improving coherence between these programmes could also improve their efficiency. The EU can also coordinate communication through the use of existing groups for discussions among market players.

A sound investment climate, however, above all requires a regulatory framework that allows for appropriate returns. The Agency should ensure a more co-ordinated European approach to realize this objective.

**7. In view of the proposed revision to the TEN-E guidelines, how can the EU improve the focus, effectiveness and impact of the TEN-E policy within its existing budget?**

Whilst TEN-E is important, it is not the only support mechanism available to developers. Today TEN-E funding is but a small share of the total cost of investment; the label "TEN-E project" should act more as a catalyst to lever investment support. The EU could play a pivotal role as coordinator to align suitable projects with other financial funds and institutions. The EU's role can also add value in the delivering of non-financial support (see e.g. response to 6).

The EU must ensure a robust, consistent and transparent use of existing instruments to drive rapid progress on priorities identified for community action and support under the TEN-E programme. To be effective, the TEN-E policy must be aligned to current EU policy goals. The third energy package and green package will bring about changes to energy markets, and these must be recognised by new project proposals.

Specific suggestions for adapting the TEN-E are:

The TEN-E programme could give more visibility to projects and act as "certifier" that a project is of great importance to the EU. Projects identified could be declared to have a priority in European and national decision-making projects and this might be a driver for financial support.

An up-to-date list of TEN-E projects on a transparent basis could be developed; as well as a categorization into groups of projects to be realized in short-term, mid-term or long-term in order to focus and facilitate appropriate political, financial and administrative support. The list should be focused on a number of projects that boost cross-border connections and supply security.

Among developments from the third energy package there should be a role for ENTSO-G within the process.

The limited TEN-E financial support may be best served by supporting general studies that serve a number of projects. These could include R&D, technology or environmental impact studies that are common across a region or the EU as a whole.

**8. Should TEN-E be extended to oil infrastructure? Should it also be extended to new networks for CO<sub>2</sub> biogas or other networks?**

The extension of TEN-E to infrastructure other than that used for gas and electricity should be taken into consideration in ensuring the TEN-E Programme keeps abreast of policy needs. The resulting instruments should be separated according to the fuels transported (e.g. regarding the pipelines) to take account of special market conditions and ensure flexibility.

Oil infrastructure (as for gas and electricity) is aging. Further consideration of oil pipelines within TEN-E may be warranted, especially given the increased volume of maritime oil transportation as this potentially carries risks to the maritime environment.

CO<sub>2</sub> capture, transport and storage is a new technology for the energy industry. At this stage, it could be queried whether the technology is sufficiently mature to warrant inclusion within

the TEN-E programme. There is, however, a large consensus that demonstration projects should be realized and, if the results are positive, CCS pipeline infrastructure should be included in the TEN-E programme within a separate instrument.

The scope and role of biogas varies between Member States, but is expected to grow. In some Member States it is being blended and incorporated into the natural gas supply system. In others its use is as a renewable source for power generation. Depending on the national policy and support mechanism in place, biogas may thus already be in receipt of support.

In any case, it should be kept in mind that the financial means of the TEN-E are very limited. The question of extending its scope could lead to a need to revise the role and objective of the programme: either to grant to the TEN-E programme additional financial means or make it a reference programme for external finance (catalyst).

**9. Do you have views on, or suggestions for new priority projects which the EU should give backing to?**

All ways of bringing gas to the EU market by new diversified pipeline routes and/or from new suppliers should be investigated for potential EU funding, and their viability and suitability assessed. At the same time actions have to be taken to promote the LNG market in the context of EU-producer dialogues, especially to ensure access to new suppliers. Transport pipelines from LNG terminals/facilities have to be reinforced. Any financial support available should also aim at identifying and facilitating projects that will carry substantial volumes of gas to Europe's markets and/or will improve the position of markets currently isolated from the main European grid or dependent on one supplier.

See above (7) for other points.

**10. Would it help TEN-E/EU to gain more impact and visibility if it was turned into an operational security of supply and solidarity instrument? – The EU Energy security and Infrastructure Instrument**

The New Instrument proposed by the European Commission will offer more possibilities of supporting the development of TEN-E. The Instrument incorporates enhanced financial possibilities offered already by the existing TEN-E Decision concerning financing of the priority infrastructure. Unfortunately, the Green Paper provides too little information on the operation of the New Instrument. Therefore, for the time being it is rather difficult to assess its future effectiveness.

It should be borne in mind, then, that the effective functioning (and – generally – any functioning) of the Instrument will be dependent on, among others, the following conditions:

- ensuring budget necessary for the financing of actions to be covered by the New Instrument,
- ensuring effective and efficient allocation of funding,
- finding a way to draw commercial companies' attention to the implementation of decisions made on the governments level and to improve all round communications on funding availability and a project's potential benefits.

**11. What additional EU measures beyond those mentioned in this Green Paper would help secure a sustainable infrastructure for the EU?**

Eurogas is of the opinion that the implementation of new projects, taking actions and employing means proposed by the Commission in the Green Paper entitled "Towards a Secure, Sustainable and Competitive European Energy Network" will contribute to the increase of infrastructure investments in Europe.

The extension and expansion of the gas infrastructure will require companies to implement very costly and long-term investments. Business entities will not engage in investments, if return on the invested capital is not assured. What will help is also the stability and transparency of the regulatory environment allowing investors to prepare business plans. What should be taken into account are also serious problems connected with the implementation of line investments such as objections of local societies. All this together has its impact not only on costs but on the timeliness of investments implementation as well. Therefore education and communication campaigns must include local as well as national authorities to ensure they are informed of the need for investment by the energy industry.

Certain solutions will have to be applied in order to:

- Ensure the priority of the implementation of investments that are most important from the perspective of Europe's security of supply and internal energy market by way of creating mechanisms giving the possibility of sorting out issues hindering the implementation of these investments. Facilitate on a case by case basis the process of obtaining TPA exemption in the case of justified investments that are vital from the security point of view. This provides an additional incentive for companies to build such an infrastructure.
- Streamline as far as possible the process for obtaining all permits necessary for the implementation of investments that are essential from the security point of view (simplification of procedures).
- Create stable and predictable regulatory framework.
- Ensure a fair, transparent return on new investments having the nature of strategic investments influencing the energy security of EU Member States. Maybe, the development of an EU legal framework might prove to be useful in giving specific privileges for strategic investments.
- Ensure that the access regime gives the correct investment signals.