

**VIEWS OF EUROGAS ON STOCK TAKING DOCUMENT "TOWARDS A NEW ENERGY STRATEGY FOR EUROPE 2011-2020"**

1. Eurogas welcomes the Commission's document on a new energy strategy for Europe for the next decade. The document usefully recalls the significant advances that have been achieved in implementing a European energy policy on a comprehensive basis since 2007, as well as identifying the challenges that have to be met, to enable Europe to make progress towards a low carbon, sustainable, energy future.
2. Eurogas can largely endorse the directional policies and the key points identified in the document for making further progress and especially the strong emphasis given to investment issues for gas. Natural gas has a vital role to play in a sustainable energy future, and can make an important contribution to reducing greenhouse gas emissions in the period to 2020, and for decades more. The current dip in gas demand is largely due to the economic crisis. Gas demand will recover, and gas will be needed in the energy mix. Therefore planning must continue to ensure the necessary investments are made conducive to diversified future supplies and routes.
3. In the view of Eurogas, a new energy strategy for Europe should focus on the pragmatic lines of approach set out below.

**Confidence in the Market**

4. It is clear from the document that the achievement of the identified policy aims will require a range of measures and implementing instruments. Strategy, however, should be underpinned by a confidence in the dynamics of the market to deliver the necessary progress.
5. Eurogas is committed to ensuring a competitive and non-discriminatory energy market, in which gas plays a full part. Progress in establishing an internal gas market has been good, but Eurogas agrees that more should be achieved. However, inappropriate market design or regulation could be counterproductive to the development of a robust and secure market and must be avoided. Proper and effective implementation of the Third Package delivering market-driven solutions is the key to progress. The basic structures for more market progress are now in place, improved institutional arrangements, an emphasis on market mechanisms, and effectively unbundled companies. The resulting well functioning wholesale and retail market will attract gas supplies to Europe, optimize use of existing infrastructure and, providing the regulatory framework allows for appropriate returns, incentivise investment in new infrastructure all of which will support supply security. Environmental concerns will also most effectively be addressed through market-based instruments.
6. Eurogas wishes to be involved in the process to develop harmonized technical codes and rules on which further successful market development will depend. In their roles in accordance with the Third package, ENTSOG and ACER have to involve all relevant stakeholders in a transparent consultation process, heeding the views and know-how of system users in relation to the perceived needs of a truly European market.
7. Eurogas attaches importance to the transparency and integrity of wholesale energy markets, and supports the concept of an energy specific regime for the trading of energy products, in preference to an application of a financial markets based approach.

8. With regard to the retail market, Eurogas affirms that the competitive model is designed to ensure that the needs of consumers are met. Competition motivates suppliers to deliver high quality customer services, not only in gas supply but in a wide range of other energy related services, including those related to achieving more effective demand-side management and energy efficiency. Suppliers in a competitive market have to develop a sound understanding of the customers' requirements. As competition grows, it will stimulate other market-driven good practice. We also support the emphasis on consumers being able to choose suppliers on an informed basis.

#### **Eurogas considers that**

- **The underlying industry and regulatory framework must be supportive to market needs. The basic regulatory principles must be stable to ensure the necessary medium and long term visibility by market stakeholders.**
- **With the basic industry and regulatory structures established, procedures should promote market stakeholders' involvement to elaborate the underlying necessary interoperable market arrangements, including the harmonisation of rules relating to capacity allocation and congestion management, system balancing, transparency of information etc.**
- **In the retail market, competition encourages high quality customer services and innovation in energy supply. Eurogas recognizes that intervention in the retail market is sometimes necessary to meet other policy goals but the principle should be to intervene as little as possible, and to avoid market distortions.**

#### **Mitigating Climate Change**

9. As the paper notes, there is an urgent need to replace ageing power generation capacity. It is welcome news that collectively Member States are expected to over-achieve the share of 20% renewable energy in 2020, but significant power generation issues will remain to be tackled. It is unrealistic to see the future mainly in terms of nuclear and renewables, supported by carbon capture and storage (CCS) for coal-fired electricity production. As natural gas is the cleanest fossil fuel emitting much lower levels of CO<sub>2</sub> on combustion than either coal or oil, its increased use substituting higher carbon emitting fuels offers an economic and already available means of reducing further Europe's CO<sub>2</sub> emissions. New gas technologies and applications have a major role to play in meeting the challenges of climate change.
10. Furthermore, natural gas-fired power is needed to complement a higher penetration of renewables in power production. Solutions have to take account of the intermittency of both wind and solar, and natural gas-fired power offers the most suitable complementary back-up.

#### **Eurogas considers that**

- **Policy should recognize the significant potential of gas in protecting the climate by favouring a framework which promotes competition between technologies and energy sources, and prioritizes the cost-effectiveness of climate protection and efficiency enhancement measures, thus creating a framework where natural gas is able to be an integral part of a sustainable energy future in Europe.**

### **Innovation and technology; smart energy systems**

11. The document correctly recognizes the importance of innovation and technological development in future energy policy, but more emphasis should be placed on a holistic approach to Europe's energy future, and the synergies to be explored between different fuels and energy forms, especially as electricity systems become increasingly decentralized. Smart systems should facilitate energy efficiency, for which gas is a fuel of choice, but they should also bring opportunities for hybrid solutions, including natural gas with solar, or "greened" by biogas or hydrogen. A wider appreciation has to be shown towards efficient gas technologies and applications.
12. Eurogas also asks that reference is made to natural gas vehicles. Natural gas vehicles (NGVs), a fully proven technology, offer important benefits in terms of lower emissions of CO<sub>2</sub> (and pollutants). The benefits of NGV fleets in particular should be promoted in local energy solutions and the foreseen development of the "smart cities" initiative.
13. Among the leading options as a vehicle fuel is natural gas in conjunction with biogas. One of the most efficient ways of introducing biofuels in the transport sector is through NGVs. An additional advantage of biogas is that it provides an economic, efficient way of reducing organic waste.
14. Furthermore there is opportunity in the period to 2020 to address the potential of hydrogen. Natural gas can be combined with hydrogen or reformulated to hydrogen, enhancing the potential for hydrogen to bring a bigger contribution to the future energy mix after 2020.
15. In general, there should be a greater emphasis on an integrated approach with the relevant framework research programmes, in which gas-related technological projects should be included.

### **Eurogas considers that**

- **More support for gas should be included in research framework programmes, aimed at enhancing the potential of gas/renewables hybrid schemes, gas-fired energy efficiency applications, and natural gas vehicles.**
- **More resources should be allocated to**
  - **examining the feasibility and impact of biogas and also hydrogen in the gas networks**
  - **developing smart-gas solutions and improving energy demand-management offered by micro CHP and other improved technologies for space heating**
  - **improving the interoperability of gas networks, as well as their integrity, durability, and robustness**
- **Policy should recognize the significant potential of gas-fired plant and appliances in contributing to more efficient energy use.**

## **Supply Security**

16. Diversity in the sources of energy is the best means of ensuring that Europe continues to have access to the energy it needs. Policy requires a combination of various forms of energies, optimized on a cost-efficient basis. With reference to gas, diversification of gas supply routes and sources offers an important basis for improved supply security, reinforced by sufficiently available commercial storage.
17. The EU will become more dependent on gas imports, because European production is declining while demand will rise, although possible development of unconventional gas could partially offset this production decline. Increased import needs, however, should not be presented as problematic or disadvantageous, as the EU will continue to benefit from its privileged position in the centre of 70% of the world's natural gas reserves. Suppliers' portfolios will become more diverse, as long-term contracts, existing and new, are complemented by the spot market. New trading opportunities will emerge, particularly as the stream of LNG increases.

## **Eurogas considers that**

- **The policy framework should facilitate a sound business environment for companies, in which they can build on diverse supply portfolios, complementing their diversified long-term supply contracts with new trading opportunities.**

## **Investment**

18. Eurogas therefore welcomes the strong emphasis on investment for tapping new supply sources and in transport infrastructure, as well as in energy efficiency. A long-term view has to be taken to energy project planning and investments with an appreciation of the balance of risk/returns, and Eurogas also supports the need for a coherent and better targeted approach to energy infrastructure in the EU.
19. Eurogas looks forward to the forthcoming initiative on infrastructure. Eurogas responded to the Communication of last year on this issue, urging in particular the importance of stable, transparent, and predictable frameworks conducive to sound market-based investment decisions, and improvements in the planning and permitting process. We are pleased to read that these issues will be taken up in the Infrastructure Package.
20. Eurogas also welcomes the emphasis given to a necessary European dimension to the grids. Industry as well as the institutional bodies ACER and ENTSOG have a responsibility to maintain the focus on this concept. It is a matter of concern that some Member States are still not connected to the main EU gas grid or have only limited interconnection. Policy should reaffirm the need to achieve the 10% of electricity and gas interconnection capacity identified in the 2007 Energy Action Plan. This will boost market liquidity and also supply security.
21. Eurogas also notes that, in the wake of financial decisions to support energy infrastructure projects in the EEP package, the issue of finding an optimal balance generally between user and taxpayer funding is to be addressed. Eurogas considers that, in principle, energy infrastructure projects should be market-driven, benefit from appropriate returns and be self-financing. Financial support may sometimes be necessary for new projects or to extend existing projects, but economic viability for the investors remains paramount and market distortions should be avoided.

**Eurogas considers that**

- **The new infrastructure package should place the necessary emphasis on appropriate remuneration for sound investments, and the need for a stable, regulatory and transparent framework conducive to this objective.**
- **At the same time, the package has to address the issues of permitting and planning for necessary investment, addressing also necessary ways to address more effectively the issue of public acceptance of needed energy infrastructure.**

**External Energy Policy**

22. Eurogas agrees with the need for a strong and coordinated external energy policy. Energy dialogue with producing and transit countries is essential, and the political framework has to be conducive to sound business relations. The approach, however, to this issue should recognize a clear division of roles and responsibilities: EU institutions can have a valuable facilitating role in determining future EU supplies, but it is not the responsibility of EU institutions to enter into commercial negotiations with gas producers. Gas supply negotiations are a commercial matter for companies, acting on an entrepreneurial basis.
23. Therefore Eurogas is concerned at the reference to "possible mechanisms to leverage the EU's buying power". It is unclear what is meant by this as gas supply contracts are the responsibility of market participants.

**Eurogas considers that**

- **EU energy dialogue should reinforce energy partnerships with Russia, Norway and other gas producing countries in the Middle East, the Caspian region, and Africa. Joint ventures and joint projects including technology transfer contribute to the creation of interdependence based on mutual interest, conducive to sound business relationships.**
  - **Specifically EU policy can also support international pipeline projects involving more than one Member State as well as third countries including transit and producing countries, and work to minimise political, legal and administrative barriers.**
  - **Policy should recognize that it is the responsibility of companies to secure gas supplies but it is essential that their commercial activity is supported by sound political relations, in bilateral and most importantly European dialogue with producing and transit countries.**
24. In conclusion, therefore Eurogas endorses the broad thrust of the analysis and future plans. The next Energy Action Plan should, we agree, promote a co-ordinated effort at all levels, and the different roles and responsibilities of the institutional bodies and other parties should be clear.

...