

GIE President's Speech at the XVIII Flame Conference

19 April, 11:40-12:05

Hotel Okura, Amsterdam

1. Introduction

Ladies and Gentlemen,

It is for me a great pleasure to be here today and to present the GIE's views on investment in gas infrastructure. Gas Infrastructure Europe (GIE) is the European association which represents gas infrastructure operators in Europe. We currently have 70 members distributed in 25 different countries. Our members are transmission system operators, storage system operators and LNG system operators. The GIE membership covers the vast majority of the current transmission, storage and regasification infrastructure in Europe.

GIE voices the views of its members towards European institutions, regulators and other stakeholders. Our mission is to actively contribute to the construction of a single, sustainable and competitive gas market in Europe, underpinned by a stable and predictable regulatory framework as well as by a sound investment climate.

GIE is also a proud member of GasNaturally, an initiative launched by 7 gas associations representing more than 300 different gas companies from all parts of the gas value chain. This initiative aims at showing the essential role of natural gas in the forthcoming energy transformation, I mean, the low carbon economy. I will speak a little bit in detail about GasNaturally at the end of my presentation.

[pause]

So, having made this brief introduction, I am now going to speak about a crucial topic which must be addressed carefully : investment in Gas Infrastructure is one of the biggest challenges the EU energy market is currently facing.

If Europe wants to achieve its climate and energy policy objectives, we need more energy infrastructure. And I said this, because Europe will not be able to achieve the three pillars of its energy policy without the right level of gas infrastructure in place.

We are still facing a double challenge : realising significant investments, in an adequate regulatory framework, while at the same time maintaining the value of the existing investments.

2. Do we need more gas infrastructure?

If we look to the three pillars of the EU energy policy, that is to say competitiveness, security of supply and sustainability, we might easily understand why we need more gas infrastructure :

- Security of Gas Supply

The European Markets are more and more dependent on gas supplies coming from outside the EU. Europe is currently importing more than 65% of its gas from non-EU members. By 2020, according to ENTSOG, we expect that more than 80% of the gas supplies will be brought into the EU market. This will mean new situations and new challenges, but overall, this change means more supply routes and more gas infrastructures to be built which are more resilient to either man-made or natural disasters.



- Competitiveness

A key factor for gas success is affordability. In order to ensure gas competitiveness, it is essential to get various sources of supply and ensure free gas flows throughout Europe.

The creation of a liquid, well-interconnected and competitive EU gas market requires additional gas infrastructure. More cross-border capacity is needed, more import routes and import points have to be in place, more flexibility and storage capacity is needed and the existing gas infrastructure has to be upgraded.

I remind you that infrastructure costs generally represent less than 10% of the European consumers' gas bill. Nevertheless, investments in infrastructure have to be optimized in order to maintain gas competitiveness and preserve its value.

- Sustainability

The transition towards a low-carbon economy, as targeted in the EU climate policy objectives, will undoubtedly trigger new energy infrastructure which needs to cope with the ever more variable energy generation from the renewables.

Capacity requirements are likely to increase to provide the back-up for gas-fired power generation, while the load factor in these installations is expected to be lower.

Sufficient gas infrastructures, including storages and LNG terminals, have to be in place in order to provide the flexibility that renewables require. Without the adequate gas infrastructure, it would not be possible to allow the integration and development of more renewables within the EU energy market.

- Regarding figures:

The Commission has estimated the investments needed on electricity and gas transmission infrastructures of European relevance at about 200 billion Euros for the following years up to 2020.

Regarding gas infrastructure, the Commission has identified within its legislative proposal for the *Energy Infrastructure Package*, investments needs about 70 billion Euros from now until 2020. This amount refers to gas transmission pipelines, storage and LNG terminals project. The Commission has also stated that the investment volumes for the period 2011 up to 2020 will increase by 30% for gas compared to the levels in 2010.

Moreover, the Ten-Year network development plan prepared by ENTSOG in 2010 showed that the investment needs on gas infrastructure for the next 10 years are at least 89 billion Euros.

3. What are the drivers for Investment in Gas Infrastructure?

Gas is a no regret choice.

It can deliver the highest, quickest and cheapest reduction of greenhouse gas emissions by substituting coal and oil by gas immediately. CO₂ emissions from gas are only half of the emissions from coal. In addition, natural gas contains no sulphur and releases no fine particles.

Existing high-tech gas technologies are offering new possibilities both in the retail and industrial markets. For instance, cogeneration or Combined-Heat-and-Power (CHP) installations, condensing boilers, micro-CHPs and gas heat pumps are without doubts offering higher efficiencies never seen before.



Natural gas also provides immediate opportunities for reduction of carbon emissions in the transportation sector. Compressed natural gas (CNG) is an alternative to gasoline and diesel for motor vehicles, while liquefied natural gas (LNG) is a credible alternative to fuel oil for ships and trucks.

Gas will be critical for the transformation of the energy system. Substitution of coal (and oil) with gas in the short to medium term will help to reduce CO₂ emissions with existing technologies until at least 2030 or 2035.

What are the drivers for investments on gas infrastructure?

- The deployment of new CCGTs

Gas demand will stay high in the power sector over a longer period.

Gas today provides reasonable certainty of returns to investors, as well as low risks and therefore it is interesting to invest in gas-fired power stations.

Gas-fired power stations have lower upfront investment costs, are rather quickly built and relatively flexible in use.

- What about the residential sector?

In the residential sector, for each existing customer, energy efficiency measures will lead to a decrease in consumption.

But several factors will offset this decrease; for instance, new usages of gas are emerging, such as NCG and NGV; moreover, there are still countries like in France where there is a potential to gain new clients; at last, biogas, together with the global evolution of smart networks, will play an increasing role. All this will necessitate investments in the distribution network.

- New gas infrastructure for achieving a single, competitive, internal gas market.

The achievement of a single and competitive gas market will enable gas to maintain its competitive advantages as a fuel for electricity generation. Long term gas supply contracts will still be necessary to underwrite investments in gas production and transmission infrastructures.

The Energy Roadmap 2050 envisages an increasing share of renewable energy sources in the future energy mix of Europe. In countries where renewable energy sources are already important in the energy mix (i.e. Spain, Germany, Denmark), efficient gas-fired power plants are already taking this role cost-effectively.

4. How to carry out investments on gas infrastructure?

GIE believes that investments in gas infrastructure have to be market-based. This approach should be the cornerstone of all investments.

However, GIE acknowledges that some infrastructure investments which are not based on direct market demand (as for instance, security of supply) might need financial support to ensure implementation. In this case, the EU public funding is justified, on the following conditions : it does not introduce market distortion and it is not detrimental for existing projects, or projects being underpinned by the market.



5. What can be done to make investments in Infrastructure more appealing in these volatile times?

There are a number of requisites which are essential to make investments on gas infrastructure more appealing in these volatile times. I would mention the following ones:

- Sound investment climate at both EU and national levels

Project sponsors need a project which is “bankable”. Investments in gas infrastructure require a stable, visible and predictable regulatory framework. Gas infrastructure is a long-term capital intensive business with pay-back periods of 30 to 50 years. When a project sponsor has to decide whether to invest or not, he needs to know the rules, he needs to understand how the framework will evolve over time and to have the certainty that the regulatory conditions under which he is investing will evolve in a controlled and predictable way during the whole pay-back period of his investment. Without the right frameworks (both national and European), the investments on gas infrastructure will not happen. Project sponsors will simply not assume the risk associated to a poor regulatory framework, and it will be difficult anyway to raise enough finance from the banks.

- Recognition of the significant role of gas in the long term

As I said earlier, gas infrastructure has a pay-back period of 30 to 50 years. Therefore, investments in this sector will take place only if the role of gas is recognised in the long term. I will come back to this later on, since this is a crucial matter.

- Permitting

National Permitting processes for energy infrastructure are still too long (averaging 12 years). These procedures often delay or freeze projects and discourage investment decisions in a context (sometimes) of higher public opposition and delays.

Therefore, project promoters need some certainty about the maximum duration of the permitting process.

- Financing

The lack of adequate financing instruments might hamper investments in the middle of the current financial crisis. As I said before, EU funds have a role but their use should be carefully assessed.

EU funds can be needed to support specific investments which are not fully based on market demand, but which are necessary due to their externalities. However, detrimental impact on existing gas infrastructures and/or market distortions due to these funds should be avoided. Furthermore, EU funds can be also used to support the financing of a project but without giving a direct subsidy to the project sponsor.

- Cross-border projects

The investments in cross-border projects involve several regulatory frameworks, several Member States, several NRAs and several TSOs as well as many stakeholders. This means that we need a coordinated investment process ending up with a fair cost allocation and remuneration for the project sponsors. We need also visibility and stability in the rules that will be defined.

- Energy Infrastructure Package

GIE welcomes the Commission’s proposal on the so-called Energy Infrastructure Package which addresses many of the problems which I have mentioned before. This package, which is currently



under discussion in the Parliament and Council, is presenting some good measures to improve the investment framework in the EU.

However, as GIE we would like here to remind that a clear distinction between gas and electricity should be made. The nature and the investment process are quite different and can't be considered the same way.

Moreover, the proposal should be complementary to what is already stated in the legislation (concerning transparency rules, involvement of the public, tariff setting and incentive regulation); it should not add rigid rules at the European level, which may contradict the existing ones.

In addition, the process relating to the Projects of Common Interest (PCI) may, if not done carefully, lead to market distortion by disadvantaging other projects. Thus, the impact of the proposed measures on the functioning of the market needs to be further and carefully assessed.

GIE would also like to see all infrastructure operators - not only transmission operators - involved in the overall process: LSOs and SSOs should play an active role in the Projects of Common Interest (PCI) selection process and in the Cost Benefit Analysis.

6. GasNaturally

At last, I would like to finish my speech by coming back to the GasNaturally campaign I mentioned at the beginning. This campaign involving the whole gas industry was launched last December and since then, it has been developing a number of activities.

Next week, GasNaturally will celebrate the first GasWeek at the European Parliament. I am now inviting all of you to drop by the Parliament, visit our exhibition and participate at the events which are in the program such as the Public Hearing or the sessions in the exhibition.

GIE is part of GasNaturally, because we also want to see a long-term role for natural gas in Europe. For us, this visibility is even more crucial because of our activity. As I said before, investing in gas infrastructure is a long-term capital intensive business with a pay-back period of 30-50 years. This means that just now, the GIE members are building the infrastructure which will be used in 2050!

At that time, according to the Energy Roadmap 2050 published by the Commission, the power sector has to be decarbonised by 85-95%.

According to this Energy Roadmap, to achieve this decarbonisation target, there should be decarbonisation technologies (such as CCS) in place in our sector after 2030.

- If Carbon Capture and Storage (CCS) is available and applied at a large scale, gas might become a low-carbon technology.
- But without CCS or an equivalent technology, the long term role of gas may be limited to a flexible back-up and balancing capacity.

The future of CCS crucially depends on public acceptance and adequate carbon prices; it needs to be sufficiently demonstrated on a large scale and investment in the technology ensured in this decade, and then deployed from 2020, in order to be feasible for widespread use by 2030.

I insist on the fact that these ambitious targets on decarbonisation only make sense if a global international agreement is reached in this area. If we act alone, our efforts will be useless; in Europe, we will have to face several issues, including lack of competitiveness, carbon leakage and job losses.



Therefore, we need to see some strong signals from the Policy makers. We need to see that they recognize the crucial role of natural gas in the EU energy mix for the long-term, and we need to know that our gas infrastructures will be filled with gas in 40 years time. Otherwise, investment on gas infrastructure will not take place.

Thank you for your attention.