Flame 2013

Panel Session: Investment in Gas Infrastructure in the European Market
14 March, 12:30 – 13:15
Okura Hotel, Amsterdam
Extract from the GIE President Intervention

Panel: "Investment in Gas Infrastructure in the European Market Europe"

Session 2: The end of liberalisation? Can We Both Protect Investment In Gas Infrastructure In Tough Economic Times & Follow The Principles Of Market Liberalisation?

Moderator:

- **Francisco de la Flor** – Director of Regulation- **Enagás**

Panel discussion members:

- **Jean-Claude Depail,** *President,* **GIE** *& Executive Vice President, Infrastructures Business Line* **GDF SUEZ**
- **Jesco Von Kistowski,** *Managing Director,* **ECONGAS**
- **Stephan Kamphues,** *President,* **ENTSOG**

Questions addressed to the GIE President:

Question 1:

Mr. Depail, let's look to the gas infrastructure industry with a more general perspective and let's focus on the three pillars of the EU energy policy that we mentioned before.

First of all, we have the third energy package and the network codes which try to bring an integrated and competitive market. Secondly, we have the EU regulation on security of gas supply which aims to provide our gas market with a high level of security of supply. Thirdly, we have the EU environmental and climate policies which are reflected in elements like the 20/20/20 targets, the Energy Roadmap 2050, and the 2030 energy framework. Finally, we have the Energy Infrastructure Package which has been recently approved in order to encourage further investments. Are all these EU regulations fitting together? Do you see a coherent approach on all of them? What is the resulting effect of all of them on the investment climate for the gas infrastructure industry?

Answer:

Well, clearly all the different regulations that you have mentioned have a direct or indirect effect on the investment climate within Europe. At the moment, we can see that all of them are trying to address an important aspect of the development of our internal energy market. However, although in many occasions they complement each other quite well, there are certainly major issues where they don't fit together at all.

Let me explain this point.

At the moment, we are receiving contradictory messages, or, even, observing contradictory results, from the EU policies.

1. **Role given to gas** :

- On the one hand, we heard during the approval of the Energy Infrastructure Package that **Europe needs vast investments in gas infrastructure** (let me remind our audience that the EC estimated an amount of 70 billion Euros to be invested in gas infrastructures until 2020).
- **However, on the other hand, the Energy Roadmap 2050 presents some scenarios where gas has a decreasing role.**
- Moreover, we know that the **EU wants to further develop the renewables sector**. The current projection is that renewables will be the big winners of the EU energy policy. If renewables enter the market as it is foreseen, then gas capacity demand for CCGTs will remain, but the gas volume will strongly decrease. **Gas fired plants will have predominantly a security of supply role, and this means that our gas infrastructure will have lower load factors and that gas plants will be drastically underutilised.**

➔ In this situation, where the capacity remains but faces a move towards lower load factors, not only the gas infrastructure operators but also third parties, like the European Investment Bank, are wondering how the gas investments will be paid back**. The risk of having stranded assets due to the EU regulations/policies is there and it is not being addressed properly**.

2. EU policy targets and CO2 emissions :

- The EU has one major objective : to decrease the level of CO2 emissions in Europe
Despite the development of renewables, it is surprising to see how, during the last two years, the CO_2 emissions have increased within the EU. **The EU has been very “successful” in spending thousands of millions of euros in subsidies for renewables, but at the same time, the EU has not been successful in preventing CO_2 emissions from increasing as a consequence of a major consumption of coal**.

- The ETS tool is not working, and just now, **we are moving towards an economy with more renewables but also with more coal, and with more CO_2 emissions, and this does not give good signals for investments in gas infrastructure. The functioning of ETS should be reinforced and improved so that it gives the right signals for investments**.

3. Tariffs issue:

We see that **the draft Tariff framework guideline is promoting short term trading**; in order to reach this goal, it favours short-term behaviour, by imposing TSOs to offer cheap short-term capacity bookings at the expense of long-term bookings…this puts too much risk on infrastructure operators, which might enter into an under recovery situation whatever the design of the revenue recovery mechanism may be.

This ultimately endangers the realisation of new investments as well as security of supply and integration of the EU gas market.

→GIE therefore requests higher tariffs for short term bookings compared to long term booking, insofar as this reflects the risk profile of a regulated infrastructure provider.

Otherwise, as I already mentioned, the realisation of new investments will be jeopardized.

4. Issue of competitiveness

We share of course the objective of protecting the environment; however, **the EU has to find the right balance between environmental considerations and the competitiveness of our industries**.

The competitiveness of our European business is at stake right now, let's also focusing on it, this issue is not properly addressed.

5. Conclusion :

So, to sum up, we have good tools in our hands but also contradicting policies. Some of them are inviting us to develop long-term capital intensive investments, to heavily invest... but on the other hand, the climate policies together with the Framework Guidelines, and their declination in short-term oriented network codes are introducing uncertainty about how we will recover our investments…

Just today, we are investing on gas infrastructure which will be used by 2050 and beyond. The payback period of our investments is 30-50 years and our industry is mostly regulated with regulated rates of return.

We need to have more certainty and less regulatory risk in order to encourage new investments. Long-term commitments with the users and/or regulators will remain being essential. We must not forget that Gas infrastructure has a key role to play if we want a reliable, affordable and sustainable energy supply.

The EU should implement a consistent policy, ensuring the energy at the best cost.

Question 2:

Mr. Depail, we are talking about investments; how to protect them, how to encourage them in tough times. Someone could think that in these difficult times of economic crisis, financing is the big barrier to investment. But is this true? When thinking about barriers to investment, I remember an internal investment survey that GIE conducted among its members. In this survey, GIE was analysing the major barriers to investments. Could you comment on these barriers? Could you present some proposals of how to remove these barriers and improve this investment climate?

Answer:

Yes, effectively GIE run this internal investment survey among our members a few years ago, but the conclusions are still valid today. Before coming to Amsterdam, I dedicated some time to check these conclusions with many members of the GIE Board and we have found that just today these conclusions are still giving a very good overview of how the gas infrastructure operators perceive the current investment barriers.

Everybody knows that infrastructure projects need a stable and attractive investment climate. **The main barriers to investment are therefore the following ones** (I will start with the most important ones and I will move towards the less important):

1. Mixed political messages about the role of gas in the future

2. National and European Regulatory barriers:
    a. Low rate of return
    b. Unstable regulation
    c. Low/Zero Prices for short term capacity
    d. Capacity quotas (too important % reserved for the short term)
    e. Retrospective Cost Treatment (negative retroactive measures)
    f. Lack of proper transposition of European legislation.

3. Reluctance from the market to support investments which are only needed for SoS or sustainability purposes

4. Permit Granting (very lengthy, uncertain periods, too easy for local opposition to block them for an undefined period of time)

5. Financing

So in conclusion, financing is not actually the main problem of the infrastructure operators. Furthermore, the Energy Infrastructure Package and the Connecting Europe Facility, in cooperation with the financial institutions like the European Investment Bank, will contribute to solve this problem.

Regarding measures to improve the investment climate, the main ones would be:

- **A clear role for gas and gas infrastructure in the EU roadmap to a low carbon economy by 2050**

- **The improvement of the National regulatory frameworks, so that they offer a fair rate of return taking into account the risks involved**; these frameworks would not apply negative retroactive measures, they would not approve regulatory measures allocating higher risks on the infrastructure operators, such as quotas, low prices for short-term capacity, etc.

- **The improvement of the ETS tool to favour the competitive transition from coal to gas**

- **The fast implementation by all the member states of the EU regulations** including the Third Energy Package, the Security of Supply regulation and the Energy Infrastructure Package.

- **The support from the EU and national authorities to develop low-carbon gas technologies as power-to-gas, green gas, energy storage or small scale LNG.**