

## **GIE President's Closing Speech at the 11<sup>th</sup> GIE Annual Conference May 24, 12:40 Hilton Molino Stucky, Venice**

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Dear Commissioner Oettinger,

Ladies and Gentlemen,

The 11<sup>th</sup> Annual Conference is coming to its end. During the last two days, a group of selected experts have addressed many relevant and important topics. I will try to summarise in a few minutes the main messages and share with you some conclusions.

We have heard many speakers talking about the serious situation that our economy is experiencing, affecting many businesses, including the gas industry. The demand for gas decreased by 10% in 2011 and by 2.2% in 2012. In Europe, the emissions of CO<sub>2</sub> increased, while in the US, where the climate policy is not so ambitious, they have decreased! In Europe, gas fired power plants are underutilized or mothballed. All the experts agreed that gas is not competing well against coal.

GIE is convinced that gas has a key role to play in the energy future, since it can address the 3 EU energy policy objectives: competitiveness, security of supply and sustainability.

**But it is crucial that EU officials confirm the key role of gas now, in the medium term and in the long term.**

The Commission states that the future role of gas depends on several factors, among them, its price, the creation of a well functional internal market, dynamic inter-fuel competition, innovation, appropriate investment signals into the new long-term and short-term environment and, last but not least, an ambitious climate policy framework for 2030. The EU wants to foster the implementation of the necessary interconnections through various initiatives, including the TEN-E regulation.

**However, although the intention of the Commission is good, GIE warns that these infrastructure projects will come through only if the market is convinced that there is a role for gas in the long term.**



## **What are the challenges for a fully integrated market?**

ACER and the Commission are very committed to the achievement of the internal gas market by 2014 and beyond. The development of the network codes and their fast implementation should contribute significantly to the objective of free gas flows and liquid hubs. In order to reach these targets, many pilot projects have been implemented across Europe. Although ACER is satisfied with these initiatives, there are still some key steps left towards the Internal Energy Market. The next key challenge will be to tackle the topic of incremental capacity, and then there are a lot of other areas that, according to ACER, need to be investigated.

ENTSOG is reaffirming that strong cooperation between all stakeholders is key for the success of the European gas market. Good results are already visible in terms of development of the network code. The early implementation has started through the pilot projects. **On the formal side, we are very successful.**

**But looking at the reality, especially on the 3 pillars of the EU policy, ENTSOG outlined that there are some important issues :**

**As regards sustainability,** we are facing the comeback of coal. The United States were much more successful by relying on natural gas. Emission targets in Europe are endangered, but the US are doing much better!

**Regarding competition:** we have increased liquidity at hubs, there are more players, but we are facing the dominance of producers.

**Concerning Security of Supply: Who has the responsibility for what? The market responsibilities are fragmented. Everybody optimises its portfolio according to market signals, which do not value the security of supply as it should.** There is a lack of investment signals and incentives. Are we ready for huge price volatility due to missing infrastructure?

Moreover, storage operators are concerned that there will be no gas available in case of peak gas demand. Why? Given the very low market spread, around 1€, nobody wants to inject gas in storages. In some countries, the gas injections are at the moment too low and there is a high concern with security of supply. Public Service obligations might help to find a solution and storage operators could eventually elaborate a toolbox to foster efficient action.



Ladies and gentlemen,

**What are the financial expert views on investments in infrastructure and what do investors want ?**

We could see that investors focus on regulation because it is there where things can go wrong (they particularly fear state intervention).

They clearly asked for regulatory stability, regulatory periods long enough to formulate reliable forecasts, predictability and stability of flows and returns, growth (not spectacular, but solid and visible). As long as the regulation stable, the cost of financing will be low.

They fear a weak regulation which does not allow for a full and timely pass through of costs and an adequate return on investments. The RAB is also used to value the attractiveness of a company.

The financial institutions have focused their investments on a number of key quality assets, and so far the infrastructure industry has been considered as being part of this category. But financial institutions are currently paying attention to the lowering returns.

**How innovation in gas infrastructure can serve the three pillars of Europe?**

Gas infrastructure can serve in many new areas: power to gas, green gas carrier, energy storage for electricity.

We have heard this morning that gas is the most promising tool for the large-scale storage of energy and the most efficient energy to ensure the reduction of CO<sub>2</sub> emissions in a cost effective way.

Natural gas as such can efficiently contribute to the reduction of greenhouse gas emissions and the development of biomethane will even more contribute to this objective. On the medium term, power-to-gas sounds very promising to enable the cost efficient development of renewables. In addition, we saw this morning an interesting presentation of project pilots currently launched in CCS and we learnt how IT systems might make a very relevant contribution to our business.

In order to foster the development of these new areas, we need signals and effective support from the EU and national policies.



To conclude, I would like to see a complete transformation from the current EU policy to take into account the numerous issues which are affecting the European businesses, including the energy sector.

I think that the EU approach should be drastically reviewed, integrating the following positive actions:

- First of all, set reasonable and affordable targets in order to ensure meaningful climate action, while taking seriously into account the European competitiveness and our deindustrialization. Can Europe act alone? The answer is clearly NO, because of the competitiveness issue, the climate action should be globally taken.
- Second, send clear and positive signals on the role that gas will play beyond 2030, otherwise investments will not be made. This is my request: we need a clear roadmap for gas and gas infrastructure.
- Third, ensure regulatory stability both at EU and national levels, which is a key element for financing the necessary investments.
- Fourth, support new low carbon technologies such as power to gas, green gas, energy storage, small scale LNG and others.
- Fifth, improve the functioning of the ETS, redesign it so as to favour the competitive transition from coal to gas.
- Last but not least, support the achievement of the Internal Energy Market. I want here to outline that GIE is of course supporting the development of cross border trade, but this should not be done at the expense of the infrastructure operators. For instance, regarding the tariff harmonisation process, setting zero or low prices for short term capacity should be avoided, since this decision would shift all the risk on TSOs and result in deterring investments in gas infrastructure.

You can be sure that GIE is highly committed to continue contributing to the discussions and to the actions to be taken in order to improve the energy policy framework in Europe.

Thank you very much for your attention.