



**GIE POSITION PAPER REGARDING
COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS
ON
ENERGY INFRASTRUCTURE PRIORITIES FOR 2020 AND BEYOND -
A BLUEPRINT FOR AN INTEGRATED EUROPEAN ENERGY NETWORK**

GIE welcomes the proposals from the European Commission in the Communication on “Energy Infrastructure Priorities for 2020 and beyond - A Blueprint for integrated European energy network”, to develop new European tools aiming to simplify and accelerate permitting process and to give a more stable framework for investment in energy infrastructure through improved cost allocation and optimisation of financing sources.

This paper sets out GIE’s position towards the Energy Infrastructure Priorities for 2020 and 2030 and Security of Supply, in particular concerning gas infrastructure.

THE ROLE OF GAS INFRASTRUCTURE

GIE is convinced that natural gas will play a key role in the European energy market for - at least - the next decades. Gas transmission, storage and LNG infrastructure will be crucial for security of supply, liquidity of the energy market and moving towards a low carbon energy system¹.

Security of supply

The 2009 gas crisis underlined the crucial role that gas infrastructure had to mitigate supply disruptions through flexibility in the redirection of gas flows (pipeline and LNG), increased reverse flows capability, and the use of commercial storage. Additional measures have been taken since 2009 but additional commercial storage, LNG terminals, interconnection and reverse flow capacities remain needed.

Liquidity of the gas market

Gas infrastructure operators have proven their willingness and ability to facilitate the European gas market. Europe’s gas infrastructure links gas sources and gas markets which allows to diversify gas sources. This gas infrastructure based on market demand, with a life cycle of over 50 years, is the foundation of the current European interconnected gas system. For the next decades, the functioning of the European gas market needs this interconnected gas infrastructure and the development of new infrastructure and interconnection capacities to enhance market integration, accommodate declining domestic production and provide the necessary back up for renewable energy production.

¹ See: GIE response to DG-Energy’s public consultation on : Stock taking document – towards a new Energy Strategy for Europe 2011-2020 – Ref : 10GIE060 – 2 July 2010



Towards a low carbon energy system

Replacing coal fired power plants by gas fired power plants, results in significant emission reductions. In addition, gas fired power plants will be a necessary support in the development of renewable energy production. Intermittency and unpredictability of renewable energy sources like wind and solar require a flexible back-up which gas can provide efficiently. Finally, with a possible extension of nuclear power generation in some of the Member States, gas fired power plants gain importance for peak shaving.

Due to their important variation of load factor, new gas fired power plants will need a high level of flexibility from gas infrastructure, which will require additional storage, LNG and transmission infrastructure.

Gas infrastructure: a platform for an efficient energy market

Gas infrastructure is the basis of a well functioning and integrated energy market. It accommodates increased competition between sources and suppliers of gas. This competition in the whole sale market ensures more choice and more efficient price setting for end customers.

In addition, gas infrastructure facilitates the use of renewables and the way towards a low carbon energy system. Thus the development of gas infrastructure remains crucial in the coming decades for the energy market and should be clearly recognised, when dealing with the issue of longer term networks².

INFRASTRUCTURE CHALLENGE

GIE supports the main analysis and proposals suggested by the European Commission but would like to underline the following:

- Natural gas will continue to play a crucial role in the European energy mix for - at least - the coming decades; resources are abundant and natural gas will gain importance as the back-up fuel for variable electricity generation. Furthermore with the decline of domestic production new infrastructure will be needed to bring new gas to Europe. Any proposal on energy infrastructure has to reflect this;
- There is a need for consistency in the current energy policy: while the EC recognizes the need for more gas infrastructure, from a whole range of possible developments the EC advocates scenarios with a decline in gas demand in the long term. This tends to discourage investors. Considering the role attributed to gas in the energy mix and the corresponding role of gas infrastructure, GIE believes that more positive political messages on natural gas from EU bodies could provide leverage for more investment in gas infrastructure and for more commitments in capacity booking in the long term.
- Gas quality, especially with increased supply through LNG, and new supply sources could need additional attention.
- Concerning cost allocation for interconnections following the Security of Supply regulation a proper system needs to be developed. In its Communication the Commission suggests that

² See chapter 4.2 of the Communication: preparing the longer term networks



investment costs should be allocated to TSOs in neighbouring network even for market based investments. This would contradict normal procedures for building additional capacity which should be based on commitments from shippers.

INFRASTRUCTURE PRIORITIES

GIE agrees with the Commission on the fact that considering a diversified portfolio of physical gas sources and routes is and will remain very important for the EU future gas market.

However, GIE notes that the essential role of LNG terminals in the supply chain doesn't appear in the Communication. LNG is a very efficient way to diversify supply sources, in long term and in the short term with lots of arbitration possibilities, and to contribute to security of supply, helping to mitigate crises effects in re-routing LNG cargos. Thus the Commission should clearly consider in the priority corridors the development of well distributed LNG facilities as network entry points of the European market.

Moreover, it is important that any new permitting or financing instrument should not be limited to projects on this shorter EU priority list. There is a danger of introducing two different tiers for infrastructure projects.

PERMITTING PROCEDURES

Permitting procedures remain challenging due to their complexity and length, also for gas infrastructure projects. In particular, the coordination of cross-border permitting procedures and the technical specificities of underground storage and LNG projects are substantial challenges. Therefore, GIE welcomes the initiative to facilitate and accelerate permitting procedures. It is however our experience that local support remains crucial for successfully implementing projects.

GIE notes that some aspects relating to permitting will remain in the domain of national legislations, in line with the subsidiarity principle. Nevertheless, GIE would like to offer the following remarks with regard to the Commission's proposal:

- Rather than a generic time limit projects need to have certainty in the duration of the permitting process and in the duration of possible recourses. Any time limit should be adaptable to the kind of projects and to regional situations and should be predictable.
- GIE notes that due to subsidiarity issues the guidelines proposed by the Commission could only focus on cross-border projects and not change national legal procedures. As mentioned above this could possibly lead to different tiers of projects. It could also fail to increase the transparency and predictability of the permitting process.

Therefore GIE considers that facilitating and accelerating permitting procedures needs actual legal harmonisation among EU countries on this issue.

FINANCING

A sound investment climate together with a stable regulatory framework providing the appropriate incentives for investment constitute the prerequisite for the development of new gas infrastructure which will trigger further market integration and enhance security of supply. A proper regulatory



framework will by itself help respond to many infrastructure challenges without resorting to extraordinary tools.

GIE would like to reiterate that gas infrastructure investment entails long-lead times and thus requires long-term visibility. Regulatory frameworks should therefore be clear, in-keeping with the longer-term policy perspectives and consistent across borders. This should be recognized as a prevailing principle spanning to all infrastructure projects, be it priority projects or not.

In addition, GIE would like to note that the following sentence in the §5.4.1 of the Communication is not true for natural gas storage, where access can be arranged through a negotiated regime : “electricity and gas infrastructure in Europe are regulated sectors, whose business model is based on regulated tariffs collected from users [...]”. Therefore, when speaking about cost allocation, a clear reference should be made to infrastructure subject to regulated regime only.

With respect to financial mechanisms tailored toward the specific financial risks and needs faced by projects at the various stages of their development, and in order to facilitate investment decisions, GIE identifies two major tasks:

- Facilitate taking Final Investment Decisions: these mechanisms shall take into consideration the need for long term commitments in the booking of capacities which are facilitated by clarity, stability and visibility in the market and in its regulation framework;
- Provide cheaper loans for infrastructure projects: only cheaper financing through cheaper loans can reduce the cost of projects and facilitate their development.

In addition, GIE would like to point out the following issues:

- When investments involve several countries, the risk for infrastructure operators increases due to higher complexity and increased length of the projects, and due to the transfer of risk from end-user market to infrastructure operators. This higher risk is not considered in regulated tariffs.
- With new financial tools, some financing could come from new sources which may only accept higher rate of return than infrastructure operators currently do. Such financing would help projects but would lead either to increase tariffs or to reduce the RoR for infrastructure operators. The long term impact of new financial tools on infrastructure development and on the gas market should be carefully examined, taking into account the situation of regulated and of non-regulated infrastructure.
- The long term benefit considerations should not be ignored in view of the current national and EU budget difficulties, and financial sustainability and the competitiveness of European industry have to be taken into account as well.

REGIONAL COOPERATION

Despite that some of the existing Regional Initiatives have had high progress, further successful regional cooperation is needed to enhance the working of the internal market and security of supply. The current fragmentation of regional cooperation should be replaced by more focussed regional initiatives in which TSOs, SSOs and LSOs, Member States, the EU and regulators are represented on an equal basis.