

# Security of gas supply and liberalisation: What are the challenges ahead of us?

**T**he European authorities are of the opinion that liberalisation is the best solution to provide consumers with reliable gas supplies at competitive prices. However, a fully liberalised market also presents some risks. Liberalisation induces market players to focus primarily on the short-term benefit. Market players try to avoid commitments for long-term investments ensuring

security of supply unless they are obliged to do so by law. This is the reason why liberalisation should be accompanied by a stable regulatory framework which guarantees security of supply.

Today, Europe is facing new situations which are challenging the existing levels of security of gas supply. The following list tries to enumerate a number of areas

where EU policy makers should act as soon as possible:

## **THE LACK OF A LONG-TERM VISION FOR NATURAL GAS**

Significant investments in gas infrastructure are currently required across Europe. However, in order to attract investors, a long-term vision for gas must be provided. Gas infrastructure requires long-term capital intensive investments. Gas



Photo: RWE



infrastructure built now will last until at least 2050. EU Policy makers should recognise the fundamental role gas is going to play till the year 2050 and beyond. Otherwise, investments for gas infrastructure will not be realised. Furthermore, the development of new low-carbon technologies such as power-to-gas or CCS should be further supported and promoted by the European authorities.

**THE INCREASING INTEGRATION BETWEEN GAS AND ELECTRICITY**

The electricity market relies more and more on the gas

market. The interactions between both markets are enormous. The potential challenges were made evident during the cold spell last February. Regulatory changes, policy decisions, lack of investments and congestions in the power or gas sectors might impose risks on one or the other market. The EU is yet to fully account for this in its energy policy.

**NATURAL GAS AND THE DEVELOPMENT OF RENEWABLE ENERGY SOURCES (RES)**

Gas is the cheapest, most competitive and quickest way to

bring immediate reductions in CO<sub>2</sub> emissions when replacing higher-carbon fuels for power generation. However, we are seeing in EU an effort to mainly promote RES development. The fluctuating production of energy from renewable energy sources challenges the power and gas networks in Europe. More flexibility is needed to cope with the variable production of electricity coming from wind and solar. In this sense, gas is also the ideal partner as enabler for RES. The flexibility provided by gas infrastructure is paramount to facilitating the integration of renewable energy sources. New

Photo: PGNIG



market design rules should better recognise the role of natural gas in this new framework.

#### **THE VARIOUS SUPPORTS SCHEMES FOR RENEWABLE ENERGY SOURCES**

Currently, Member States are deciding about the schemes to support the development of renewable energy sources at national level. These national support schemes differ between member states are not consistent and have proven to be unstable. The continuous fluctuations in energy policy is negatively affecting the market, and driving prices for consumers up. In order to avoid distortions, a clear, consistent and affordable framework for supporting investment in renewable energy sources needs to be adopted across the EU.

#### **THE TENDENCY TOWARDS CENTRAL PLANNING**

In general, the market will deliver the best signals for efficient investment. Under some specific circumstances, such as security of supply or solidarity, infrastructure investments may not be based directly on market demand. They might even receive EU funds. However, there seems to be currently a trend for Member States to intervene or drive specific types on investment, and return to a central-planning type approach to investment. This approach should only be considered when the industry is not able by itself to realise investments that are needed.

In summary, there is one major risk for the gas market: the regulatory risk. Europe needs to make liberalisation compatible

with a policy framework which ensures competitiveness and security of supply, and which is able to attract gas supplies and promote investments in gas infrastructure. Without adequate gas infrastructure, neither liberalisation, nor a high level of security of supply can be achieved. ●

#### **Contact details:**



GIE - Gas Infrastructure Europe  
avenue de Cortenbergh 100  
B-1000, Brussels  
**T** +32 2 209 05 03  
**F** +32 2 209 05 01  
**M** +32 496 125 951  
abel.enriquez@gie.eu  
www.gie.eu