



**European Business Congress – Working Committee ‘Energy’
1, rue d’Astorg – 75 008 PARIS**

Intervention Jean-Claude Depail, GIE President

Ladies and Gentlemen,

It is a great pleasure for me to rise to speak today and to present Gas Infrastructure Europe’s views on investment in gas infrastructure.

Indeed, since one of the European Business Congress’s objectives is to promote a fruitful dialogue between politics and private business, the Working Committee ‘Energy’ offers an excellent opportunity to share views on investment in gas infrastructure in Europe.

Firstly, who is Gas Infrastructure Europe (GIE)?

This association, that I have the honour to chair, 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 in December 2011 by 7 gas associations representing more than 300 different gas companies from all parts of the gas value chain.

This initiative intends to showcase the essential role of natural gas in the forthcoming energy transformation, I mean, the low carbon economy.

[*pause*]

So, having made this brief introduction, I am now going to speak about a paramount issue, which must be carefully addressed: 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, in particular gas infrastructure.

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

1. Do we need more gas infrastructure?

Looking at the three pillars of the EU energy policy - that is, competitiveness, security of supply and sustainability - , one can easily understand why we need more gas infrastructure:

- **First, 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 over 80% of gas supplies will be brought into the EU market. This means more supply routes and more gas infrastructure to be built and meant to resist any supply disruption.

- **Second, 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.

Keep in mind that infrastructure costs account for 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 which is pursued by the EU climate policy, will result in additional gas infrastructure. Why? Because the EU is fostering renewable power generation, which is by nature intermittent and therefore requires gas-fired power generation as a back up. Sufficient

gas infrastructure, including storages and LNG terminals, has to be in place in order to provide the flexibility required by gas-to-power.

- **Regarding figures**

The Commission has estimated the investments needed in electricity and gas transmission infrastructure of European relevance at about 200 billion Euros from now until 2020, of which 70 billion Euros in gas infrastructure. This estimate comes from the *Energy Infrastructure Package* legislative proposal. This amount covers gas transmission pipelines, storages and LNG terminals. The Commission 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.

In addition, the latest version of the Ten-Year Network Development Plan issued by ENTSOG in February 2013, evaluates the need for new gas infrastructure until 2022 to over 73 billion Euros.

2. What are the drivers for investment in gas infrastructure?

- **Gas is a 'no regret' choice towards a low carbon-emitting economy**

It can deliver the highest, quickest and cheapest reduction of greenhouse gas emissions by replacing coal and oil in power generation.

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 offer 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 unparalleled efficiency rates.

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 medium term will help reduce CO₂ emissions with existing technologies until at least 2030 or 2035...

- **Today's closing or mothballing of gas-fired power plants should not hide their good prospect in the longer term**

As you know, there are several reasons for the difficulties undergone today by CCGTs:

- the gas glut of course, combined with
- a weak demand due to our ailing economies,
- a fierce competition with coal, both enjoying low prices - because it has been chased out from the US by unconventional gas, and benefiting from low prices of CO₂,
- a rather paradoxical competition with renewables, which enjoy a tremendous growth, being heavily subsidized. On the one hand renewable sources of power need gas-fired generation as back up, and on the other hand they contribute to taking the share of CCGTs in the electricity mix and hence decreasing their profitability,

But don't get me wrong: on the medium term, gas-fired power generation should enjoy good perspectives, provided the EU climate policy is not diverted from its target.

- **What about the residential sector? Here too, gas infrastructure networks should enjoy a promising future**

For each individual user, energy efficiency measures will tend to reduce gas consumption. But fortunately several factors will offset this bearish trend: for example, new uses of natural gas are emerging, such as NCG and NGV; or biogas, together with the rise of smart networks. All this will generate new investment needs on distribution networks.

- **Lastly, the completion of a single competitive gas market should require new CAPEX in gas infrastructure**

The achievement of a single and competitive gas market will both require additional infrastructure to closer link market zones with one another, and enable gas to maintain its competitive advantages as a fuel for power generation.

3. How to select investments in gas infrastructure?

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

However, GIE acknowledges that some infrastructure investments which don't meet a direct market demand, for example security of supply, could receive public funding, provided that doing so doesn't introduce any market distortion and is not detrimental to other market-based projects.

4. What can be done to make investments in gas infrastructure more appealing in such adverse 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**

Gas infrastructure is a long-term capital intensive business with pay-back periods of 30 to 50 years, while each tariff regulation period usually lasts 4 to 5 years.

Any investor wants to make sure he will be paid back in due course, and that his investment will be awarded a fair rate of return.

This calls for a stable and predictable regulatory framework. Sponsors need to know how the game rules will change over time, and that they will evolve in a controlled and predictable manner over the pay-back period. Otherwise projects won't find funding and simply won't go through.

- **Ensuring a significant role for gas in the long term**

This issue is of paramount importance. The simple idea here is to make sure that the pipelines we are building now will be filled with gas during their lifetime.

We want natural gas to play an essential role in Europe, not only in the short and medium term, tomorrow in 2030, but also after tomorrow in 2050.

For us, this visibility is key, because of our activity. As I said earlier, gas infrastructure is a long-term capital intensive business, with a pay-back period which exceeds the Energy roadmap period.

Just think that right now, our GIE members are building the infrastructure which will be used, I hope, beyond 2050!

- **Permitting**

Permitting procedures for energy infrastructure still last 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 permitting processes. And I am sure an appropriate balance can be found between the competitiveness of our industries in Europe, and environmental considerations, which need to be properly addressed.

- **Financing**

The lack of adequate financing instruments might hamper investments in the middle of today's financial crisis. As I said before, EU funds have a role to play, which however should be carefully framed.

- **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.

6. To conclude, let me sum up some key messages

First, I want to point out that very ambitious **targets on decarbonisation** make sense only if a global international agreement can be reached in this area.

Can Europe act alone? For me, the answer is clearly NO, because of the competitiveness issue.

Second, infrastructure operators need **clear signals from policy makers** that gas will play an essential role beyond 2030... Otherwise investments in gas infrastructure, which are expected on the short term to complete the

internal gas market, to ensure security of supply and to accompany the rise of renewables, will not be made.

Third, a **sound investment climate**, a stable regulatory framework are absolutely necessary to attract investors.

Last but not least, **GIE supports the achievement of an integrated gas market** and is of the opinion that the development of cross border trade is essential.

But this should not be done at the expense of TSOs. For instance, the draft tariff framework guidelines favor too much short term booking, at the expense of long term booking, ending up in increasing difficulties for TSOs to recover revenues, hence increasing risk and volatility.

Thank you for your attention.

[*20 minutes environ*]