

Gastech 2012

Panel Session: Europe – “Security of Supply versus Liberalisation”

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Excel conference & exhibition centre

London, UK

Speaking Note - GIE President

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Moderator:

- **Prof Jonathan Stern** - *Chairman & Senior Research Fellow* - **Oxford Institute for Energy Studies**

Panel discussion member:

- **Alexander V. Novak** - *Minister of Energy* - **The Russian Federation**
- **Stefan Judisch** - *Chief Executive Officer* - **RWE Supply & Trading**
- **Chris Finlayson** - *Executive Director & Managing Director* **BG Advance** - **BG Group**
- **Jean-Claude Depail** - *President* - **Gas Infrastructure Europe**

Speaking note:

Ladies and Gentlemen,

It is my pleasure to be here today with all of you representing Gas Infrastructure Europe or what is the same GIE.

GIE represents the gas transmission, storage and LNG operators in Europe. Gas infrastructure operators are fully committed to ensure a proper and secure functioning of the gas market.

Nowadays, EU Policy makers want to move towards a fully liberalised gas market. The idea behind this is of course to avoid monopolies, promote competitiveness, which will translate into lower prices for customers.

However, a fully liberalised and competitive market presents also some risks. Liberalisation induces companies to focus on projects with high short-term profitability. Market players start to focus primarily on the short term, while trying to avoid commitments for long-term investments on security of supply unless they are obliged to do so by law.

In the energy sector, liberalisation requires some regulation on security of supply. True, the European Union has placed security of supply amongst the 3 principal objectives of the European Union, together with competitiveness and sustainability.

These three objectives are understandable, justified, but they are not spontaneously coherent. Therefore, the EU has to find the right equilibrium.

Today, more is needed to ensure the adequate level of security of supply in Europe. Let me give you a few examples:

- First of all, **the lack of a long-term visibility for the natural gas**

There is a need for a better interconnection of gas markets in Europe, which will reinforce security of supply. This requires significant investments in Europe.

Gas infrastructure is a long-term capital intensive business. Just today, we are building the infrastructure which will be used by 2050; for this reason, we need a sound investment climate; we need stable and predictable regulatory frameworks, but overall we need visibility. We need to attract investors: **this requires strong signals from the EU Policy makers, recognizing the fundamental role gas will play by 2050 and beyond. Otherwise, investments on gas infrastructure will not take place.**

- Second, **the increasing integration between gas and electricity**

The electricity market relies on the gas market. The interactions between both markets are enormous. We again learnt this lesson during the last cold spell in February. We saw that the power sector was heavily dependent on the situation in the gas grids and that the security of supply was not ascertained through the current structure of the market. Regulatory changes, policy changes, lack of investments, congestions in the power or gas sector might impose a risk on the other market and vice versa.

Therefore, if we want a liberalised and secure power and gas market, then this aspect has to be addressed carefully.

- Third, **the development of renewables and the various scheme supports for renewables**

Currently in Europe, the variable production of energy by the renewables is putting the power and gas networks under stress. Backing up the strong fluctuations of the renewables requires more gas and electricity infrastructure which will operate with low load factors. In addition, each member state is deciding its own scheme to support the development of renewables.

- These national support schemes are not stable; the flip-flop policies are very bad for the industry, they impact very negatively the business and create an uncertain climate which is not proper for investments.
- Moreover, since gas and power and gas markets are more and more inter-linked, the different national schemes to support renewables are introducing significant distortions in both the power and hence in the gas market

If we want a liberalised and secure power and gas market, an EU approach to the support schemes could be needed.

- Fourth, **the tendency to a centralised planning** as fixed in the third package and in the upcoming Energy Infrastructure Package. This is actually something quite paradoxical in a market which aims to be more and more liberalised.

In some specific circumstances, such as security of supply or solidarity, we understand that some infrastructures investments may not be based on market demand and they might even receive EU funds.

However, GIE considers that most infrastructure investments should be market based. The tendency to replace the market-based investment by central-planning investment is a risk which might lead to inefficient or inappropriate investments. This might have an impact on security of gas supply too.

- At last, but not least, **the lack of pragmatism in this liberalisation process** : too many communications, directives, roadmaps, regulations, network codes follow one after another. As a consequence, this is extremely difficult for the whole industry and for the consumers to cope with this legislative diversity. The European legislation in the energy sector should be more simple, more visible and more pragmatic. All these new texts become dogmatic. They don't leave time for implementation and sense of perspective, which is yet essential for achieving the European gas internal market.

Liberalisation versus security of supply. How to make them compatible? Where is the risk?

At the end of the day, the major risk for the gas market is only one: the regulatory risk.

We need an EU policy framework which is able to attract gas supplies and promote massive investments in gas infrastructure. These investments have to be based on long-term commitments with the regulator and/or with the network users. Without gas infrastructure, you can be sure nor liberalisation neither security of supply will be possible.