The European Union of the Natural Gas Industry

6 April 2012

POLICY STATEMENT ON THE *ENERGY ROADMAP 2050*

A. Executive Summary

1. Eurogas has elaborated policy conclusions that can be drawn from the work the Commission accomplished for its *Energy Roadmap 2050*. In preparing these, we have borne in mind the comments made by the Commission's advisory group and by a wide community of consumer and industry representatives at the 7th February stakeholder consultation on the *Roadmap*. The Council of Ministers is expected to adopt Conclusions relating to the Energy Roadmap at its meeting in June 2012. The European Parliament may also adopt a Resolution.

2. Certain **general principles** should be respected. The first is the need for political recognition that a growing role for natural gas offers a fast and cost-effective route to less carbon in the energy mix, and that gas is highly adaptable to work with future zero-carbon technologies. The second is that greenhouse gas reduction should stand as the key target in order to avoid that targets work against each other. The third is that subsidy-based approaches to support low-carbon technologies should be for a limited time only.

3. With respect to investment incentives and **market design**, the price mechanism should take the leading role. The goals of the Emissions Trading System (ETS) for delivering a technology-neutral framework should be respected. The option of capacity payment mechanisms is being considered to provide renewables with the backup support required to make up for their variability. Detailed discussions with all relevant stakeholders would be beneficial.

4. **Energy efficiency** should continue to receive priority policy focus, particularly in market sectors outside the scope of the ETS. State-of-the art high-efficiency natural gas equipment represents a major opportunity to contribute to achieving low carbon results across all sectors of the European economy: in household heating, in power generation, and in fleet and maritime transport.

5. Gas, including biogas and synthetic methane, can also contribute to emissions reductions in **transport**. It offers a broader policy approach than total dependence on future electrification, and provides an immediately available option to reduce both CO_2 and to improve the local environment.

B. Policy Conclusions

In the light of the policies that the European Commission intends to develop, building on the analysis presented in its *Energy Roadmap 2050*, Eurogas draws the attention of the Council and the Parliament to the following points:

General Principles

- In considering the balance of competitiveness, sustainability, and security of supply a supportive EU policy stance should be taken with regard to a growing role for natural gas in a high-efficiency, low-carbon energy sector.

- Policy should envisage a two-phase approach, comprising:

    - Firstly, fuel substitution by renewables and by gas, without carbon capture and storage (CCS), in the interest of achieving fast and large GHG emission reductions;
    - Secondly, when zero-carbon technology will have become more cost-effective, by the combined use of gas with CCS and with renewables.

- Policy should emphasise the importance of technological innovation in energy, keeping open all technological avenues towards low-carbon solutions, with a level economic playing field among alternative options.

- If post-2020 objectives are to be set, at EU and national level, these should be based on a key target for greenhouse gases or CO_2 emissions. Multiple targets that overlap or work against each other should be avoided.

- Where low-carbon policy requires subsidies for technologies in the demonstration phase, such subsidies should be available for a limited time only.

Market Design

- Eurogas believes that markets and price signals should be the main incentives for low-carbon investments.

- If other policy instruments are employed to achieve EU decarbonisation objectives, they should not undermine the effectiveness of the Emissions Trading System, nor impair the technology-neutral framework that the Commission seeks to develop.

- In view of the expected need for sufficient backup capacity to deal with the variability of a rising share of renewables in electricity generation, Eurogas recognises that the option of capacity payment mechanisms is being considered. Eurogas encourages a detailed discussion with relevant stakeholders. Where there is an increased frequency of short-notice stop and start operations in power stations, the consequences for gas distribution and storage capacity are also likely to need examination. Market design consultations should therefore include the links between electricity market and dispatching needs on the one hand and gas delivery capacity on the other hand.

Energy Efficiency

Efficient use of energy should continue to be a leading priority of policy, particularly in market sectors outside the scope of the ETS. To this end:

- Improvements in household energy efficiency should continue to be encouraged, in a technology-neutral way, by means of the eco-design programme.

- Policies for power generation should take into account the quick and cost-effective carbon-reducing potential of further penetration of high efficiency combined cycle gas turbine (CCGT) and combined heat and power (CHP) plants into the generating fleet.

- Public sector technology and R & D programmes should support high-efficiency next-generation equipment in micro-cogeneration, and low-carbon energy storage systems such as carbon-absorbing synthetic methanization.

Transport

In transport, as in other sectors, the policy aim should be efficiency and emission reductions, rather than total electrification for its own sake. Gas, including biogas and synthetic methane, offer an immediately available option to reduce both CO_2 and local pollutants, including particulates. As CNG gas is of particular interest in fleet and other vehicles, including hybrids. As LNG, it is ideally suited to freight and maritime transport.

Taxation policy should continue to be structured to support network development for these environmentally-beneficial fuels.

C. *The Commission's Energy Roadmap 2050*

Looking at the details of the Commission's work, Eurogas:

Recognises that the *Energy Roadmap 2050* is prepared in the context of global climate action and in particular 'of necessary reductions by developed countries as a group'[1] and in parallel with the decarbonisation objectives of other sectors.

Notes that the Commission intends the scenarios it has presented to be used:

- To assess the long-term impacts of energy policy choices
- To develop a technology-neutral framework for that assessment
- To provide long-term predictability for the regulatory framework.

Welcomes many of the conclusions and conditions extracted from the scenario analysis, notably the conditions relating to **energy efficiency**, to **technological innovation,** and to **regulatory and structural shortcomings**[2].

Notes that the Commission in the *Energy Roadmap 2050* remarks that 'the scenarios are rather conservative with respect to the role of natural gas'[3] and that these scenarios do not underpin the sense of urgency for new gas infrastructure investments.

Cost-effective Carbon Reduction

Notes that the Commission expects, whether with current policies or with any of its decarbonisation scenarios, that the societal and economic cost of energy can be expected to increase to more than 14 percent of GDP in Europe (up from about 10.5 percent at present)[4].

Observes that, at today's prices, this represents an additional cost of approximately 600 billion euros per year, which will not be available for Europeans to spend on other goods and services.

Observes that the Commission's analysis suggests that there would be little difference in the overall economic cost whether Europe follows current policies or whether it adopts any of the various decarbonisation scenarios, and notes that the reasons for this are unclear. This apparently surprising result might not therefore be a reliable guide for policy.

[1] *Energy Roadmap 2050*, COM (2100) 885/2, page 2, para 2.
[2] *Energy Roadmap 2050*, COM (2100) 885/2, pp 19-20, conditions (2), (4) and (5)
[3] *Energy Roadmap 2050*, COM (2100) 885/2, page 12, para 3.
[4] *Energy Roadmap 2050*, COM (2100) 885/2, page 5, para 2.

Suggests that there is a need to take stranded costs into account and to explore lowest cost routes to reducing the carbon impact of the EU's economic activities, and expects that more extensive use of natural gas will be amongst the lowest cost routes.

Notes that the Commission's scenarios do not take into account any potential role of new sources of domestic gas production in their estimate of future energy import dependency, while observing that domestic production of any form of natural gas, should be conducted according to the highest environmental and safety standards.

Considers, on the basis of Eurogas' own analysis[5], that a lower cost route to deep decarbonisation is consistent with an increasing share for natural gas in the European energy economy, together with more rapid roll-out of advanced technologies to increase the efficiency with which energy is used.

Energy market integration and infrastructure needs

Agrees with the Commission that the gas market still needs more integration, liquidity and diversity of supply.

Notes that considerable progress has been achieved in recent years in all these areas, although at a varying pace in different European regions.

Agrees with the Commission's position on the need for substantial investments, particularly in infrastructure; and welcomes the importance, signalled by the Commission, that needs to be given to the public acceptance issue for new infrastructure.

Technology innovation

Notes that the public acceptance issue is particularly urgent for CCS projects and, unless resolved, might create insuperable barriers to efforts by the gas industry to develop this technology in order to be ready for roll-out on a wide commercial scale in the longer term, if it is economically efficient.

Acknowledges the importance of, today unknown, technological vectors by which cost-effective carbon reductions may be achieved in future.

Notes in this context the attention drawn by the Commission[6] to the possible contribution of cost reductions in zero-carbon technologies such as solar and wind power, and to possibilities in carbon capture and storage.

[5] *Eurogas Roadmap 2050*, available at www.eurogas.org
[6] *Energy Roadmap 2050*, COM (2100) 885/2, page 10, para 6

Adaptability to technological change and complementarity with renewables

Observes that, looking at already established technology developments, natural gas and renewable energy should be considered as being complementary to each other; they do not need to be depicted as each other's competitors.

Notes that in future, natural-gas fired power plants can in principle be adapted into a role of enhanced backup support, in the event of a much larger economic role for variable wind and solar power, and/or as candidates for the roll-out of CCS technologies.

Calls attention to the fact that whereas today CCS with gas is considered as most suitable for base-load use and that flexible use of gas for backup support is considered difficult to combine with the application of CCS, efforts are already being made to improve the technological parameters which may lead to more flexible options in the future.

Stresses that ensuring a continued role for already existing gas infrastructure, especially given its high energy transmission and storage capability, notably in the gas distribution infrastructure, should be seen as a significant opportunity, given the increasing energy storage needs implied by a growing share of renewables, in order to achieve a low-cost solution for transforming the energy system.

Summary

Considers that the all-round advantages of:

- fast, subsidy-free carbon reductions by means of substituting use of natural gas for higher carbon fuels in highly efficient equipment that is already available today, and
- long-term adaptability to future lower carbon objectives whether by back-up for renewables or via CCS

will represent a no-regrets policy option, preventing the risk of carbon lock-in.

Recommends that EU energy policy should take full account of these advantages of natural gas.