

## **IFIEC RESPONSE “ENERGY REGULATION: A BRIDGE TO 2025” DISCUSSION PAPER ON GAS**

17<sup>th</sup> December 2013

### **Strategic context**

*G1. Do stakeholders agree with our view of the gas specific strategic context and in particular with our views on:*

- Declining demand for gas, and in which sectors such decline is seen;
- Increasing role of imported gas and uncertainty surrounding unconventional gas supplies in Europe; and
- Increasing role for a flexible gas supply to support growth of renewable electricity generation.

IFIEC agrees with the proposed strategic view presented in the discussion paper. In particular IFIEC would like to add some remarks to the specific points:

#### **Declining demand for gas, and in which sectors such decline is seen**

The view, that there will be a decline in gas in the heating sector resulting from improving energy efficiency and the installation of heating pumps is shared by IFIEC.

As correctly stated in the document, the demand for gas from industrial users relies heavily on competitive gas pricing in the EU. Industrial consumers in the EU pay up to four times more for their gas than their competitors in the US. As a result, IFIEC currently observes more and more investments which are not made in Europe and which are shifted to the US. A prominent example is the evaluation of BASF and YARA for a joint investment into a world scale ammonia plant at the U.S. Gulf Coast.<sup>1</sup>

Europe's advantage is its excellent infrastructure covering a broad value chain with short transport routes. If the price gap between Europe and the US tends to persist over time not only investments from basic materials industries will be shifted to the US. In IFIECs view it is of utmost importance for the European Union to convince suppliers of natural gas that globally competitive gas prices for European industrial consumers will lead to a win-win-situation for both parties.

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<sup>1</sup> <http://www.basf.com/group/pressrelease/P-13-486>

## Increasing role of imported gas and uncertainty surrounding unconventional gas supplies in Europe

IFIEC supports the presented view on the import dependency and encourages the Commission and ACER to continue their efforts to preserve transportation capacities for third parties, which are willing to enter into the European market.

An additional option to lower the import dependency is a European regulatory framework for unconventional gas supplies as a first step. Early studies suggest that Europe has significant resources of shale gas spread throughout the continent. In fact according to the American Energy Information Agency, Europe has almost as much technically recoverable shale gas as the United States, at around 639 trillion cubic feet –three times more than the continent’s conventional gas reserves. However, exploration and development of shale gas remain at a very early stage, due to political and regulatory uncertainty. Whilst the challenges faced in extracting shale gas in Europe are different than those in the US, it nevertheless has the potential to form a medium term ‘strategic bridge’ to a longer term greener energy solution – whilst at the same time allowing Europe access to a competitively priced energy source, which will help in retaining industry and jobs. At the same time, Europe has a well developed supply infrastructure which will allow rapid development of shale gas resources, with an increased security of supply and less reliance on Russia and the Middle East and with lower prices compared to a European energy market where shale is not developed.

IFIEC believes that shale gas development in Europe offers a number of benefits for member states. Aside from the wider issue of significantly improving each countries trade balance (through reduced imports of gas), by exploiting its indigenous reserves, Europe can diversify and add security to its gas supply. This additional gas availability will increase competition and make the European gas market more globally competitive, which will turn into benefit for European industry and households. Furthermore, development of shale gas would also strengthen Europe’s negotiating position against gas exporters. We therefore welcome and encourage initiatives to safely explore the shale gas potential in various member states.

More information on the IFIEC position on unconventional gas can be found online:

<http://www.ifieceurope.org/docs/IFIEC%20FE%20shale%20gas%20%20position%20paper%2021%2002%2013.pdf>

## **Competitive and integrated wholesale markets**

### *Remaining competitive concerns and the current lack of liquidity in wholesale markets*

*G2. Are concerns about competition in gas markets and concerns that liquidity at most hubs is insufficient to achieve functioning wholesale markets sufficient to warrant some form of intervention?*

Additional benefits around 30 billion a year for European consumers can't be ignored. As stated before, the European gas prices are not competitive on the global scale. Europe cannot afford not to intervene. Furthermore the internal energy market needs to be implemented as quick as possible.

*G3. Should increased market integration be sought to address issues of non-competitive markets and a lack of liquidity? Are there other more effective measures to be sought in this respect?*

In the last ACER monitoring report the following statement can be found on page 179:

*“Finally, in the EU, approximately 60% 260 of gas supplies are still linked to long-term, oil-indexed contracts (LTCs). Even if the tendency is for those contracts that were historically oil indexed to be gradually renegotiated and indexed to hub prices, the price increments observed on the global oil market in 2012 did influence European oil-indexed contracts and, in turn, put upward pressure on hub prices.”*

If long term oil-indexed contracts are the reason for non competitive gas prices, this problem must be tackled by the European Commission. IFIEC prefers gas prices which are not linked to a fossil fuel, which is controlled by a cartel. Gas prices should be generated by real demand and supply.

#### *Diversification of supply and improved access to markets*

*G4. Would efficient use of existing infrastructure and the building of efficient new infrastructure facilitate competition between gas producers?*

Yes, IFIEC believes that the efficient use of infrastructure and the building of efficient new infrastructure will facilitate competition between gas producers. In this matter it is crucial that the “new” gas has always the option to enter the system. A general basis for the efficient use of infrastructure is transparency. The data must be provided in an easy and computable way.

*G5. Can upstream competition be improved with physical infrastructure redundancy or is it an issue of market structure (oligopoly)?*

In IFIECs view it is both. Although the instruments for the EU to influence the oligopolistic structure of the gas suppliers have certain limits the EU can at least create the infrastructural surroundings in a way which gives “new gas” the chance to enter the European market. Therefore physical infrastructure redundancies are supported by IFIEC when needed to improve competition.

*G6. Should regulatory incentives be placed on TSOs to improve the efficient use of existing gas infrastructure?*

Yes, IFIEC supports incentives on TSOs to improve efficient use of infrastructure. TSOs have no natural incentive to monitor their customers as foreseen in the congestion management guidelines.

*G7. What are your views on the future investment climate for new gas infrastructure in Europe? What are the major challenges ahead?*

The regulatory framework has to take care of several influencing factors like strategic relevance of the investment, demand by market participants or amount of capacity to be built. In addition it must be assured, that new build capacity will not be exclusively allocated to those market participants with the “biggest pockets”.

*G8. Should regulatory frameworks recognise externalities in order to improve investment decision making?*

Yes, IFIEC definitely supports the proposal that regulatory frameworks should also recognise externalities like additional competition or security of supply.

#### Integration of market zones

*G9. Are cross-border market zones or regional trading zones practical ways to integrate market zones?*

Yes they are. The network codes, which aim to create the internal energy market by harmonising the rules for the member states are confronted with a situation, where different regions are in different states of market development. Trying to link those market zones or regional trading zones first, is the right way to go and economically efficient.

#### **Contribution to sustainability**

##### Reduce exposure of gas plants and improve coordination between sectors

*G15. What concrete possibilities for demand response in gas do you envisage?*

Many industrial consumers have the option to influence their gas demand in certain limits. They are willing to offer these flexibilities to the market, if the incentives are higher than the associated costs. These flexibilities can be used in cases of gas crisis situations Therefore it is necessary to create a system where consumers are able to offer their flexibilities to the TSO. Ideally the system is market based. In a crisis situation for example the TSOs could provide demand response offers on a platform in €/MWh for affected areas in the network. If the price is right users will accept the offer. If not, the TSOs raise the offers up to the point, where the demand response needs are fulfilled. One advantage is that also consumers with firm capacities could also decide to offer their flexibilities on a short basis. Additionally TSOs can create a legal ranking with that market based tool. Customers with low switch-off-costs will be switched of first, while customers with high switch-off-costs will be switched off last or can even continue to consume gas. IFIEC would welcome an initiative leaded by ENTSOG to create such a demand response system together with the market participants.