The European Union of the Natural Gas Industry

EEF dinner debate in Strasbourg on 15 January 2013

Ms Beate Raabe, Eurogas Secretary General

Approx. 10 minutes

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Ladies and Gentlemen,

Thank you for following the invitation of the EEF to attend this dinner debate, hosted by Eurogas on the subject of "Gas and Renewables – Friends or Foes?".

Why did we choose this subject, why this title?

For a long time, gas received no attention. It was either ignored or taken for granted. As it risked falling through the cracks in energy and climate policy, the gas industry started making noises.

We started drawing attention to the fact that gas would not only be needed in addition to renewables to keep up energy supply but could also do a cost-efficient job in achieving large greenhouse gas emission reductions quickly.

Eurogas issued its *Roadmap 2050*, identifying the combination of actions that could be undertaken in terms of technology penetration, energy efficiency, fuel substitution and behaviour changes for each sector of energy use to achieve 80% emissions reduction by 2050, compared with 1990. The study shows that emissions could be reduced flexibly by switching from higher carbon fuels to gas, by increasing both energy efficiency and the share of renewables and by using gas with CCS later.

Together with other gas associations, we launched the GasNaturally initiative, which is supported by Members of this House and received the attention of the Council and other stakeholders.

And we were successful. Attention to gas is growing. Awareness is increasing that greater use of gas instead of higher carbon fuels is a prime measure towards 2030 and beyond. The realisation that costs can be reduced or spread out is widening, technical obstacles can be overcome, and public acceptance can be won if we move more gradually and more flexibly towards a low-carbon economy. A more gradual and more flexible approach does not mean that we have to give up our vision.

However, those who believe that future energy supply can be ensured quickly only by reducing demand and by increasing renewables feel threatened. They believe that the role of gas should be reduced to the minimum necessary to back up intermittent power from renewables.

In this light, I have asked Johannes Meier of the European Climate Foundation to be my co-speaker and sparring partner tonight. I am very pleased that he agreed to join us here in Strasbourg and enrich the debate by giving his view on my views, as well as on yours.

To launch the debate, I would like to make three main points:

Firstly, renewables and gas can, indeed, be friends. The high flexibility and efficiency of combined-cycle gas turbines make gas the best complement to renewables.

Gas should also be seen as a friend of green power in the transport sector. If electric vehicles based on renewable power are part of the solution for passenger cars, gas vehicles are the best option economically and environmentally in heavy duty and maritime transport.

In the residential sector, too, gas technologies are an obvious partner for renewables, for example in the combination of solar and gas.

Secondly, the way current energy and climate policy have worked out, gas is being displaced by coal. The market share of gas has declined while that of coal has increased. This is particularly the case in the electricity sector where coal has pushed gas out of the merit order and consequently has altered the potential reduction of CO_2 emissions from the power sector.

There is a very acute risk – where there is not a shortage already – that flexible and efficient gas-fired power stations will not be available to back up electricity supply from intermittent renewables.

What are the reasons? These are mainly the economic crisis, the coal and gas price development with coal being much cheaper than gas, and the interaction between the 20-20-20 targets.

I am aware that the Commission takes a different view on this latter point. The Commission says that the 20-20-20 targets had been well coordinated and that only the economic crisis had not been reckoned with.

Others, including me, are of the opinion that this combination of objectives negatively impact the effectiveness of the Emissions Trading System and are one reason why the price of carbon dioxide allowances is so low. The Commission itself said in its working paper on auction back-loading that it expects the Energy Efficiency Directive to reduce the effectiveness of the ETS.

We also need to recognise that one of the reasons why our electricity supply is at risk is that renewables in their development stage received – and deserved –special treatment: large subsidies, primary grid access, no balancing responsibility and so on.

This protective bubble has enabled renewables to grow, but it has also contributed to the displacement of gas under non-competitive conditions, and it has taken us to a point where more protection and intervention is considered to prevent gas-fired power stations from closing down. This is why we are discussing capacity remuneration mechanisms and the Commission is running a consultation on them because if not carefully done, there is a risk that they might lead us away from a sustainable and well-functioning internal energy market.

Thirdly, the opponents of gas are concerned that large volumes of cheap gas produced as LNG all over the world or even unconventional gas produced in Europe could make it even harder for renewables to become competitive and to be fully integrated into the market. This is considered improbable because new LNG projects will be expensive and exports from the US are expected to be too limited to affect gas prices in Europe.

The other concern is that large volumes of gas could tempt governments to do less about carbon dioxide emission reductions and to remain content with the reductions achieved by gas replacing coal. This, however, is a matter of energy and climate policy, and this leads me to my conclusions:

It is important to adjust energy and climate policy in such a way that:

a) CO_2 emissions can be cost-efficiently reduced by an ambitious greenhouse gas target and an effective emissions trading system.

   Eurogas supports auction back-loading and encourages the European Parliament to support the Commission’s proposals, if they are part of a longer term reform of the ETS.

b) Competitive pressure – and not another target - will bring down the costs of mature renewables further and ensure their continued growth.

   They will assume balancing responsibility.

c) Subsidies are limited to non-mature low-carbon technologies and include gas technologies.

d) Gas is not disadvantaged and allowed to substitute coal for immediate emission reductions.

   It is allowed to reduce emissions in all energy sectors through to 2050 and it is allowed to play its partner role with respect to renewables.

   A clear and enabling policy on CCS within the Member States now is important to have CCS available in the longer term.

I thank you for your attention and I am very pleased to give the floor to Johannes to agree and/or disagree with me or to highlight other aspects that I have not touched upon within my time slot.