



E3G

# **Gas lock-in: strategic meaning of gas, gas infrastructure and promotion of LNG**

Jonathan Gaventa

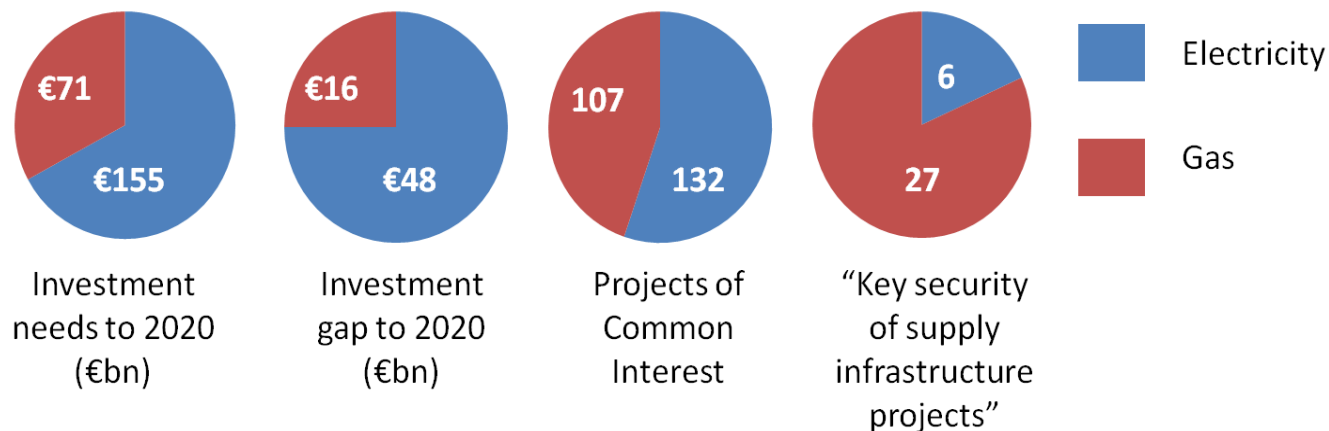
Rosa Luxemburg Stiftung, 5 October 2015



# Gas infrastructure – just how much do we need?

- Gas infrastructure pipeline: Southern gas corridor - 10-100bcm. Nordstream 3&4- 50bcm. Turkstream - 50bcm. ~18 LNG candidate Projects of Common Interest. EU shale gas. Mediterranean gas production. North African gas. Etc...
- There is a gap is emerging between gas infrastructure proposals and gas demand patterns.

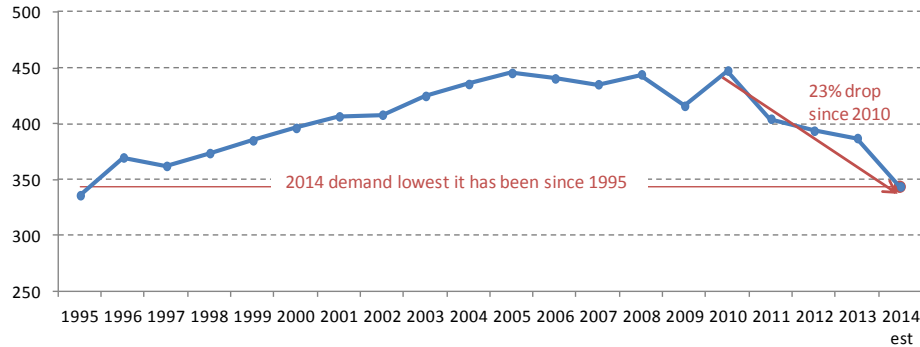
EU infrastructure investment needs and prioritised projects





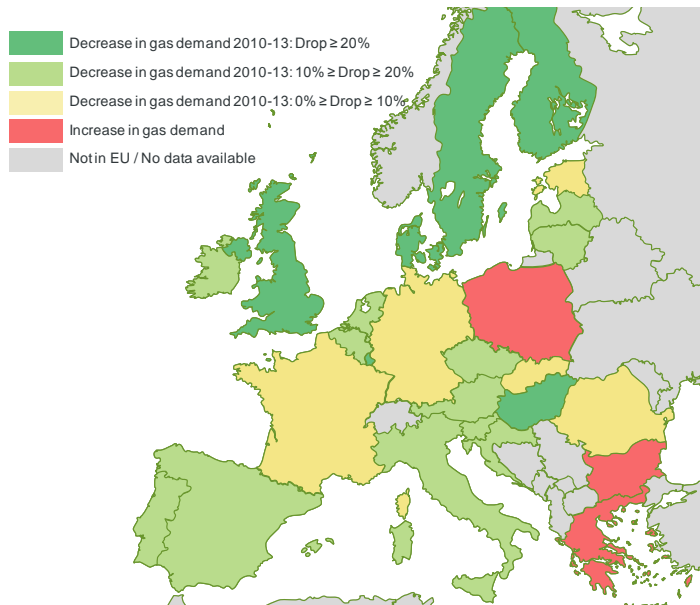
# Is European gas demand really falling?

Gas demand in the EU28 (Mtoe)



- It peaked in 2010.
- 2014 EU gas demand was 23% below its 2010 peak.
- In 2014 it was the lowest it had been since 1995.
- It is falling in all sectors, and almost everywhere.
- The reasons are structural: due to shifts in the European economy and significant progress on EE.

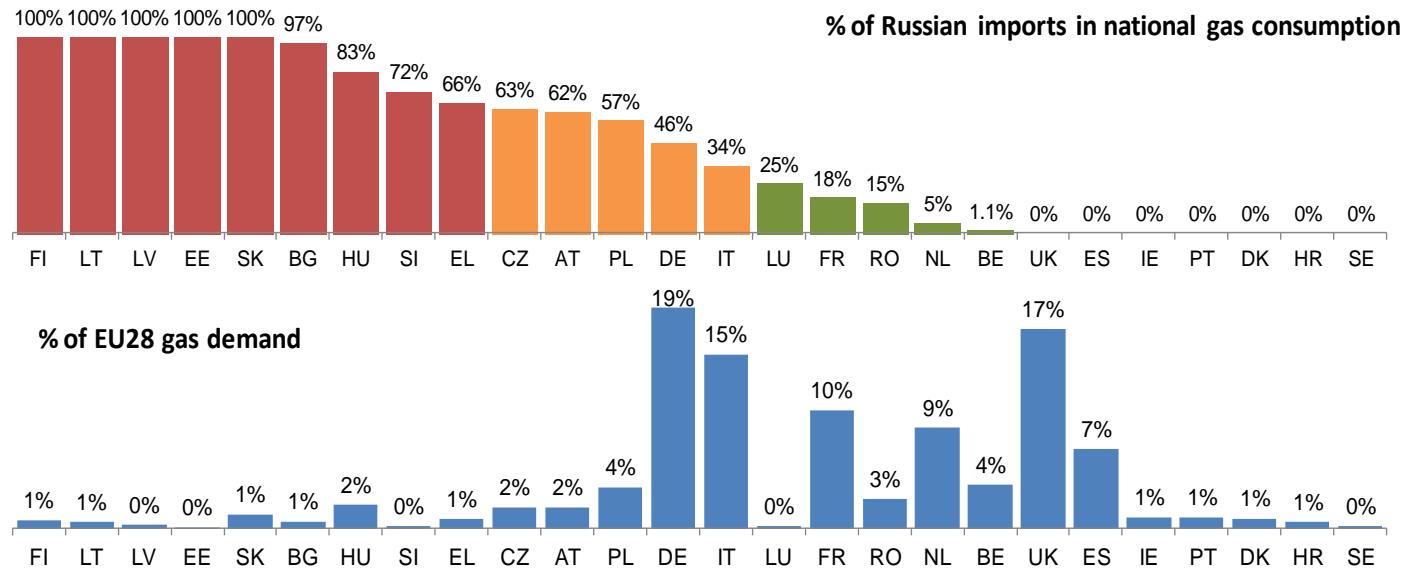
Evolution of gas demand between 2010 and 2013 across the EU





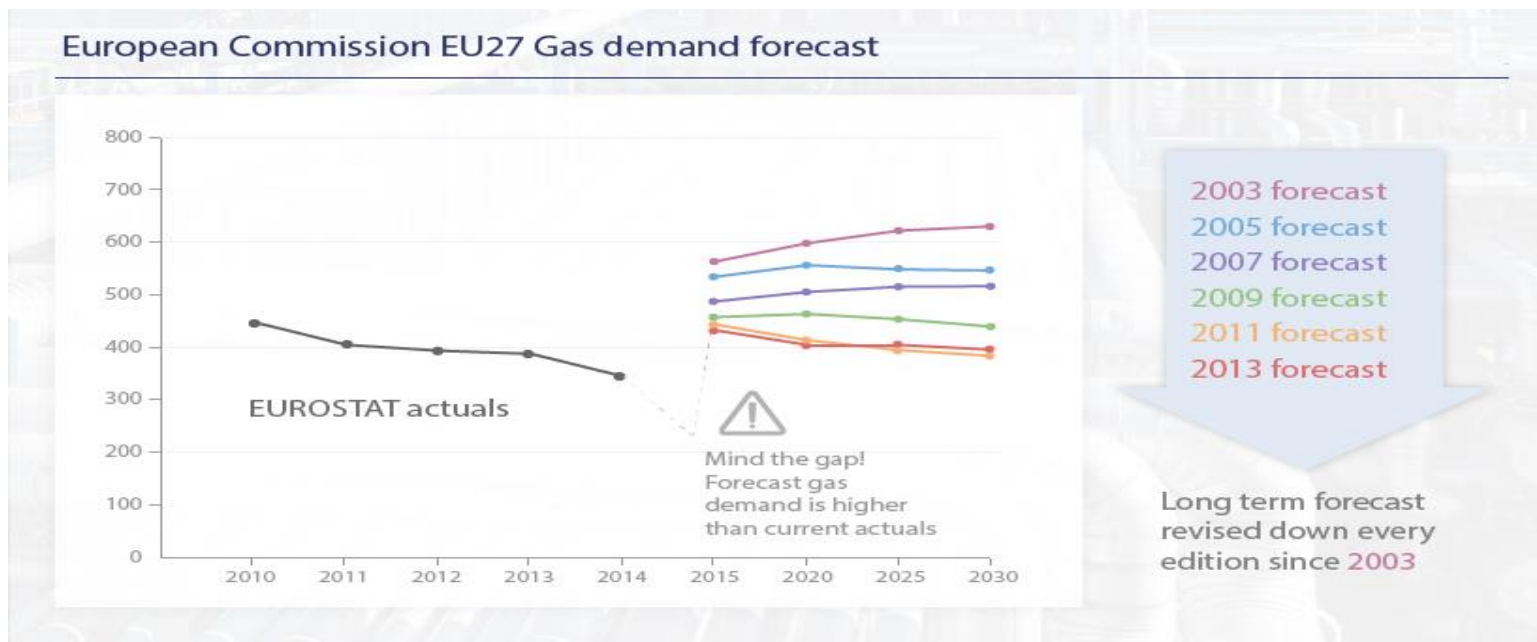
# Gas security: Western or Eastern problem?

- 50% of EU's gas demand comes from Germany, the UK and Italy. With France, Netherlands and Spain, they account for 75%.
- Member States most dependent on Russian gas imports only represent 7% of total European gas demand.



# EU gas demand projections are not keeping pace with falling gas demand

- The European Commission has had to lower its gas demand projections every single time it produced a new reference scenario since 2003. Current projections of what gas demand will be in 2015 have decreased by 23% over the past 10 years.
- Current does show a slight decrease in gas demand to 2030, but still shows 2015 demand to be 22% higher than actual 2014 demand.
- Despite obvious inconsistencies, most current projections still show an increase in gas demand.. ENTSO-G projects a 13%-35% increase in gas demand by 2030.



# What's the problem? Miscalculating future gas demand in the EU has significant implications.



An expectation of rising demand could:

- Lead the EU's energy security strategy to focus on accessing new sources of gas, rather than on alternative approaches such as demand reduction or strengthening internal connections.
- Put gas infrastructure investments at risk of becoming stranded assets if the increase in gas demand does not materialise.
- Skew the economic evaluation of new projects, thus diverting public money to uneconomic projects from higher value projects in other sectors.
- Create 'lock in' to levels of gas consumption that are in conflict with EU decarbonisation goals.
- Create a(nother) set of political vested interests in missing EU climate and efficiency targets



# What to do?

- Impose a reality check on European Commission gas demand scenarios.
- Ensure that the selection and prioritisation of projects in the PCI list and Connecting Europe Facility is based on scenarios consistent with EU GHG, RES and EE targets.
- Introduce a hierarchy of actions when evaluating gas import projects: test cost effectiveness against: a) demand side investment b) electrification c) greater utilisation of existing infrastructure.
- Introduce conditionality to infrastructure funding to ensure MS are delivering on their existing EE commitments before seeking EU support for new infrastructure.

# Role for LNG and gas storage in EU strategy



- Liquefied Natural Gas quick facts
  - Alternative to supply in gaseous form through pipelines. LNG seen as option for greater diversification – especially as response to vulnerability to a prolonged interruption of Russian supplies.
  - Existing capacity & imports
    - 197bcm/a vs 490bcm/a of pipeline capacity (i.e. 29% of total, in theory enough to cover gas import projections to 2040).
    - Utilisation factor of only 24% - 94% existing import capacity in West (Spain, Portugal, France and UK), infrastructure bottlenecks in N/S and W/E directions, several CEE countries have no access at all to this source of supply.
    - Volume: ~7% of current European imports.
    - New capacity: LNG terminals long-lived and capital heavy
- European Commission to develop a ‘comprehensive strategy for LNG’ to be released early Jan 2016. Consultation closed 30 September.



# Do we need an LNG strategy, or something else?



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We propose:

- A broad gas strategy for Europe which sends a strong political message that the EU is serious about lessening its gas dependency, guides Europe through the necessary decline of unabated gas, places safeguards protecting European consumers against wasting money uneconomic projects;
- An efficiency strategy to accelerate the reduction in dependence on imported gas, with a specific focus on ending fuel poverty and reducing the number of people living in cold homes in Europe’
- An action plan to specifically target Member States most vulnerable to disruptions in Russian gas supply and help them develop alternatives;
- A Foreign Policy Strategy to reduce Europe’s exposure to an increasingly uncertain and competitive geopolitical landscape, and manage Europe’s relationship with Russia.
- An initiative to strengthen the evidence base and metrics that European decisions makers use to support strategic infrastructure choices decisions and evaluate the added value of new projects.