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GASNATURALLY RECOMMENDATIONS ON REPOWERING THE EU'S ENERGY INDEPENDENCE

GasNaturally supports the EU's ambition to increase its energy independence alongside the implementation of the Green Deal objectives. To deliver on the secure and just energy transition towards climate neutrality holistically, the gas sector requires fit-for-purpose investments, the uptake of innovative technologies, and an enabling regulatory framework.

GasNaturally supports the Communication on the REPowerEU Plan and its objective to boost gas supply diversification, energy savings as well as an accelerated deployment of renewable gases and hydrogen with ambitious targets. We strongly believe that by accelerating the deployment of renewable gases, such as renewable hydrogen, biomethane, bioLPG, bioLNG, the EU can offer its citizens and businesses sustainable solutions to strengthen the EU's open strategic autonomy with the aim of reaching the net-zero goal by 2050. To ensure cost-efficient and secure energy supplies to EU consumers, it will be critical to retain a legislative framework that upholds the dynamic domestic energy market with free and transparent price formation and intelligent demand-side solutions.

In this regard, we are concerned about the Plan's modelling of forecasts for gas demand reduction, in addition to the previously planned Fit for 55 measures. On top of Fit for 55 projections (reducing gas consumption by 116 Bcm), REPowerEU projects a further reduction of gas demand by 134 Bcm, which leaves a total of 131 Bcm in 2030 (excluding diversification of supply). Based on industry-own gas demand calculations, we question the credibility of these scenarios and strongly recommend that the European Commission conduct a full impact assessment of the new gas demand calculations.

Moreover, we find the forecast for reducing 37 Bcm of gas by increasing the energy efficiency of heat pumps extremely challenging. The renovation rates of buildings, skilled labour force, and manufacturing capacity are insufficient for the time being, and local electricity distribution grids are largely not fit to handle peak demand. We are also concerned by the high hopes regarding hydrogen imports, which are unlikely to materialise at desired scale already by 2030, as an entirely new value chain needs to be developed.

Finally, the assumption that the reduction of 24 Bcm of natural gas will be compensated by the delayed phase-out and more operating hours for coal power plants to 2030 runs counter to our common carbon neutrality objective.

The sector needs predictability to provide investor certainty and attract new gas supplies. REPowerEU should be rooted in sound evidence and scenario modelling and acknowledge the role of gaseous fuels in the clean energy transition.

On EU energy market integration



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It is essential that new measures do not undermine the successful establishment of the integrated EU energy market:

- Long-term contracts between producers, suppliers, transportation and storage operators, and consumers along the value chain are the backbone of secure gas supplies, including during times of peak demand.
- Price variations are an inherent element of market-based price formation. They represent the instrument to allow that supplies (especially LNG) are directed where the demand is and can also send demand reducing signals.
- Any regulatory interventions on gas prices at the wholesale level should be carefully considered; any potential new mechanisms in this direction should avoid as much as possible distortions at the wholesale level between gas suppliers.

Direct government interventions into functioning markets, including market-based price formation, may have unintended long-term consequences. **Where required, policymakers may best address energy poverty with targeted financial support and solidarity measures for vulnerable/low-income and other severely impacted consumers, as established by the EU Security of Supply Regulation.**

On security of supply

GasNaturally agrees that security of supply (SoS) is a matter of strategic interest. We acknowledge that, to enhance energy independence, the EU needs a rapid improvement in energy efficiency and increased investment in renewable energy.

At the same time, given the war in Ukraine and the unreliability of Russia to provide gas supplies, the EU will need to look for alternative sources of gas in the short to medium term to be able to replace Russian gas in the aspired timeframe.

A key priority for the EU in this respect should be a renewed focus on using the remaining resources of natural gas available within the EU, Norway and better linking gas resources in the Mediterranean area. SoS can be achieved through the **ramp-up of domestic production, a sustainable gas storage market, and the diversification of imports**, ensuring better preparedness against unreliable sources and volatile markets. We support the REPowerEU Plan's goal to diversify EU gas supply, which can be achieved by **increasing domestic renewable, low-carbon, and natural gas production in Europe.**

Today, natural gas production in the EU and Norway amounts to about 210 Bcm/y and meets around 40% of Europe's demand. The EU and Norway together still hold around 3,500 Bcm of reserves, and an additional 5,000 Bcm of resources part of which could be produced should economic and technological conditions be met (Rystad Energy 2022).

While demand reduction measures and supplies from alternative sources and regions are expected to substitute a substantial part of the 155 Bcm of Russian gas imports, a broader range of energy



products will be needed. Readily available supplies of LPG may contribute a fair share to the EU's diversification efforts.

In addition, we encourage the EU institutions to consider the **impactful role liquid gases** – fossil LPG today and its renewable forms in the future – **can play** in creating a more resilient energy mix especially to serve remote areas and consumers. Over 90% of today's renewable liquid gases are produced in Europe and foreign import origins are diverse, making the switch of supply sources feasible as and when required. With the rigid supply chains of LPG, access to energy and fuel can be guaranteed even in times of market disruptions.

GasNaturally fully supports the EU's ambition to **accelerate biomethane production to 35 Bcm and accelerate renewable hydrogen production and imports to 20 mt by 2030**. Additionally, we commend the Commission's call for smart investment in energy systems, including LNG infrastructure. Alongside these proposals, we encourage the Commission to consider the following to achieve diversification and long-term security of supply:

- The proposals relating to security of supply should have a solid grounding to ensure investment security and smooth trade relations between the EU and third countries.
- The needs of off-grid communities will require a cost-effective mix of decarbonization technologies using renewable, low-carbon gaseous fuels like bioLNG and bioLPG, for example to complement the roll-out of heat pumps in buildings.
- As to solutions for residential heating, a balanced mix of technologies, including heating systems ready to run on low-carbon and renewable gases, is needed in order to achieve carbon neutrality whilst guaranteeing a secure and affordable supply of energy and the flexibility of the system.
- In the transport sector, renewable gases (bioLNG and biomethane) can immediately replace fossil sources, particularly for heavy-duty vehicles, in the maritime and agricultural sectors.

On gas storage level measures

With a total of 1,148 TWh of existing technical working volume¹, gas storage facilities are the main flexibility providers in Europe's energy system today, creating market value, optimizing gas and electricity system costs, and ensuring security of supply in case of unexpected supply-demand imbalances.

The current negative summer/winter spread limits incentives for market participants to put gas into storage and do not provide sufficient incentives for suppliers to factor in possible security of supply risks. **Proposed minimum filling requirements for gas storages**, including filling targets and filling trajectory, **are timely in periods of crisis** with lack of market signals. While they will provide some

¹ Gas Infrastructure Europe (2021) Storage database, accessible at: <https://www.gie.eu/transparency/databases/storage-database/>



guarantee that the gas has been injected on time and not fully withdrawn before the end of the winter period, it is essential to ensure that they will still **enable storage users to benefit from arbitrage value and do not heavily constraint market behaviour**.

GasNaturally recognizes that current market dynamics emerging from the geopolitical situation require particular attention. We recommend that the Commission and Member States consider the following in designing any regulatory measures to address gas storage levels:

- Well-designed measures regarding gas storages should take insurance, system, and market realities into account.
- The flexibility that seasonal storages offer to ensure continued gas supply during cold spells in winter should be recognised when considering the establishment of intermediate targets.
- Multi-cycle storages should be excluded from possible filling obligations to maintain their important role in the short-term balancing of the gas system to avoid sudden cost increases to meet end-user demand.
- Filling level requirements should ideally be established at Member State level and be incentivized first by appropriate market-based mechanisms to ensure an efficient allocation of gas storage capacities. To reflect the extraordinary situation for 2022 and considering the implementation time of this proposal, only one intermediary target should be set up in September while ensuring that it does give storage users the opportunity to revise contract clauses previously agreed on. From 2023 onwards, three intermediary targets could be considered.
- LPG used in rural, off-grid communities inherently offers an opportunity for bulk energy storage in on-site tanks and at distributor depots, creating opportunities for smart metering to encourage energy efficiency and using bulk tanks to build a summer inventory for winter consumption.

On possible gas price caps and common gas purchases

More broadly, EU energy market interventions require a **balanced approach to avoid unintended consequences** with potentially long-lasting negative effects on an otherwise well-functioning market.

To accommodate a sudden and unexpected short-term need for large gas volumes, GasNaturally understands that the Commission has raised the options of (1) setting a price limit for trading gas in the EU as a last resort instrument to reduce consumer prices of gas and electricity and (2) coordinated action on common gas purchases via a dedicated EU Energy Platform. In assessing the impact of these instruments, we recommend that the Commission considers the following aspects:

- If a price cap is set too low, it would be difficult to attract additional gas or LNG supplies to the EU, as gas/LNG supplies compete in a global market.



- Artificially reduced consumer prices would need to be accompanied by strong demand management to avoid increased gas consumption.
- A price cap and any common gas purchases would impact existing (long-term) gas supply contracts, thereby resulting in interventions into existing contracts.
- A price cap would limit the functioning of the internal EU gas market to balance markets and allocate gas where it is most needed.
- The financial impact of a price cap on market participants would need to be compensated.
- The coordination of LNG purchases across multiple market parties would be a major intervention into free market competition. The independent purchase and sale of natural gas by market parties in competition with each other is a core element of a functioning, competitive, liquid market, and a cornerstone of the EU single Energy Market. We suggest that governments and authorities have a role in facilitating the conclusion of commercial agreements but should not become a party to them.
- Collective purchasing of gas over the long-term risks significant reductions in competition and unwinding the benefits of a competitive market that have been established over the past decades.

GasNaturally is a partnership of eight associations from across the whole gas value chain. Our members are involved in gas exploration and production, transmission, distribution, wholesale and retail operations, as well as gas in transport.

