



## **Public consultation on the green paper: A 2030 framework for climate and energy policies**

### **Enagás response to DG ENER's public consultation**

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## 1. Details on the contributing stakeholder

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## 2. General Questions

### General

- I. Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?
  1. When designing policies for 2030 the EU should take account of the current economic situation. The 2020 targets were designed under the perspective of economic boom and prosperity, not having forecasted the economic crisis, thus leading to a non-balanced implementation of the 20-20-20 objectives.
  2. It has to be borne in mind when designing the policy objectives of 2030 that in such a long time frame, the economic situation might experience different cycles, therefore, they have to be adequate for all possible scenarios.
  3. Moreover, the EU should be more cautious when implementing measures to comply with objectives that are established at international level as it may put its competitiveness at risk. It is of utter importance not only to raise competition amongst Member States, but to remain competitive as a whole vis-à-vis our international partners.

### Targets

- II. Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?
  4. If the EU was to set objectives, there should be a single EU objective for CO<sub>2</sub> emissions, supported by a working ETS as technology-neutral market-based instrument to reach that target on a cost-effective way. It seems reasonable that the target stays at around 40% to be in line with the agreed EU target of 80-95% by 2050. However, it should be noted that for this target to be successful, our global partners should also be committed to in the framework of the Global Climate Change negotiations.

5. In order to achieve this target, it should be taken into account that natural gas is the cleanest fossil fuel and it benefits from the most efficient power generation technologies. But with rapid increase in demand and declining domestic production, security of gas supply has become a key issue for European gas importing countries. Moreover, although natural gas has a major role to play in the energy mix, it is still not clear whether the EU considers or will consider gas as a bridge or a low carbon energy source.
6. The EU should therefore be clear in its energy policy and stand firm on advocating for the deployment of natural gas to a major extent, as it can substantially reduce CO<sub>2</sub> emissions on the short-term and contribute to the EU's long term decarbonisation policy objectives.

III. [Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?](#)

7. Yes. The three pillars of the EU energy policy rely on; sustainability, competitiveness and security of supply. Whereas the EU has made great efforts in developing regulation to incentivise the deployment of renewable energy and reduce CO<sub>2</sub> emissions, it looks like, and the current situation so determines, that competitiveness has been set aside.
8. In a globalized market, where competition is the main driver *vis-à-vis* the rest of the world, the EU should have sought for a better balance between the three pillars of the energy policy.
9. We are now suffering the consequences of a non-balanced EU policy which is resulting in many Member States turning towards the production of coal instead of renewables due to its impact in prices and the failure of certain regulatory measures in place. Whereas other competitive industries such as the US, have been able to reduce their CO<sub>2</sub> emissions not only due to the discovery of new reserves (shale gas) but also due to the replacement of coal power by gas turbines.
10. In addition, financial support for renewables has been granted without taking into account that basic gas infrastructures are the enabler for renewable integration, i.e., gas transmission, LNG and gas storage facilities. The remuneration framework for basic gas infrastructures, on which the integration of renewables is based, should be adequate and predictable.
11. A poor remuneration scheme for gas basic infrastructures, in particular for LNG, could put at risk the whole strategy for integration of renewables. It would be inconsistent to introduce in some countries significant capacity payments to reward Combined Cycle Gas Turbines (CCGTs) for their availability, having these being originally built on a competitive environment, assuming the possible risk

of underutilisation, and at the same time to maintain a comparatively poor remuneration for LNG facilities where they have been built on a fully regulated environment as regards capacities and revenues.

12. Moreover there has been a lack of consistency with regards to reducing CO<sub>2</sub> emissions. Regulatory measures which were targeted at reducing CO<sub>2</sub> emissions have proved to be poorly designed, as it was not forecasted that carbon prices would come down to such levels which makes it more economically viable for industries to emit CO<sub>2</sub>, rather than trade certificates under the ETS system. Whereas ETS is a tool with potential, as it is technology-neutral market-based instrument, the price of CO<sub>2</sub> remains an issue.
  13. In addition, current policy measures have contributed to substantial carbon leakage: companies have moved outside Europe due to increased costs, thus leaking emissions outside of the EU cap, possibly producing there at lower efficiencies, thus potentially leading to reductions of CO<sub>2</sub> emissions but not contributing to the overall objective of reducing global temperature by 2°C as agreed in the Copenhagen Accord.
  14. The EU should rethink the 2030 framework in the way that measures are designed taking into account the overall target, and show consistency between each other.
- IV. Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO<sub>2</sub> reductions for passenger cars and light commercial vehicles?
15. The ETS should be the main policy instrument. The ETS should extend to sectors that are currently not covered by the ETS if their emissions and reductions are verifiable and their inclusion is practically feasible; for example the transport sector which currently produces around 30% of the CO<sub>2</sub> emissions in the EU. Non-ETS sectors sensitive to the price of CO<sub>2</sub> should also bear the costs associated with CO<sub>2</sub> emissions.
  16. However, the 2030 framework should at the same time provide some guidance to Member States on the instruments that are most suitable to fulfil the share of emissions reductions.
  17. In order for other sectors to reduce their CO<sub>2</sub> emissions especially in the transport sector, the EU should promote alternative and innovative fuels such as the use of LNG and CNG for Small scale services. Natural gas is at the moment the best option to reduce CO<sub>2</sub> emissions in this sector. In this sense, Enagás welcomes the Clean Power for Transport Package, which contains a Communication on a European alternative fuels strategy and a Proposal for a Directive on the deployment of alternative fuels infrastructure and an

accompanying document describing an action plan for the development of LNG in shipping.

18. The EU should acknowledge the benefits of gas as a transport fuel in both maritime and road transport. LNG in shipping will for example help to reach EU environmental targets with regard to emissions of sulphur, particulate matters and CO<sub>2</sub> emissions. Developing CNG and LNG infrastructure will be of key importance to enable the roll out of gas as a transport fuel.
- V. [How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?](#)
  19. Support schemes should reflect the maturity of technologies.
  20. In the case of renewables, energy policy should move towards integrating them in the market, so that subsidies will be phased out as they mature. In any case, support should focus on technologies that can have economic viability and should not affect the final price of energy. Only non-mature technologies should be supported in a well-targeted manner for a clearly limited period of time.
  21. The resources targeted to these non-mature technologies should also be limited and be subject to a performance analysis.
  22. Many renewable sources have stated that they already produce at competitive costs, therefore, in these cases, subsidies should be eliminated.
- VI. [How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?](#)
  23. In the gas sector, there have already been quite a substantial number of measures taken to tackle Security of Supply. Regulation 994/2010 concerning measures to safeguard security of gas supply establishes the instruments to ensure that SoS is guaranteed. Moreover, the recently approved Regulation 347/2013 on Guidelines for Trans-European Energy Infrastructure, complements the Third Energy Package and the SoS Regulation in to ensure that EU energy objectives are met. The EU should closely monitor the implementation of these policy instruments.
  24. Some Member States have envisaged introducing Capacity Remuneration Mechanisms (CRM) to face the economic challenges that CCGTs are facing. Enagás believes that these mechanisms should be assessed carefully in order to avoid distortion of the markets, especially detrimental impacts on other sectors such as natural gas.

## Instruments

VII. Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

25. Yes. The EU should seek for coherence between national and EU levels, otherwise there could be a mismatch between objectives fixed at EU level.

26. Implementation of current regulatory developments should be carefully monitored to ensure that all Member States achieve the EU objectives at the same point in time.

27. Coordination of national measures between the concerned Member States is essential to reduce negative side-effects on neighbouring countries.

VIII. How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

28. Measures should be concentrated first at the EU level, to ensure that CO<sub>2</sub> emissions are reduced in the EU where this is most cost-efficient, supported by the internal energy market and the EU-wide ETS. Other EU and national measures should be secondary to the internal energy market and the ETS.

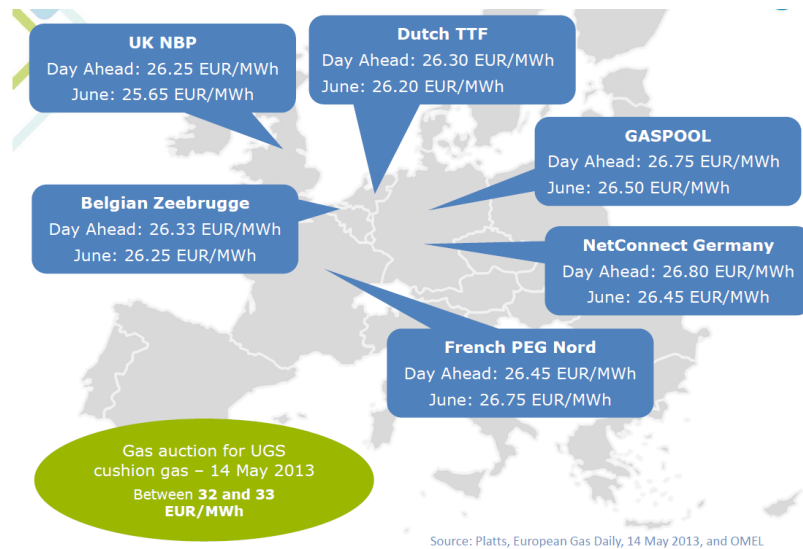
IX. How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

29. In order to avoid fragmentation of the internal energy market and to mobilise investment it is extremely important that the EU ensures a stable, predictably and reliable regulatory framework, as well as a coordinated approach in the development of policy instruments.

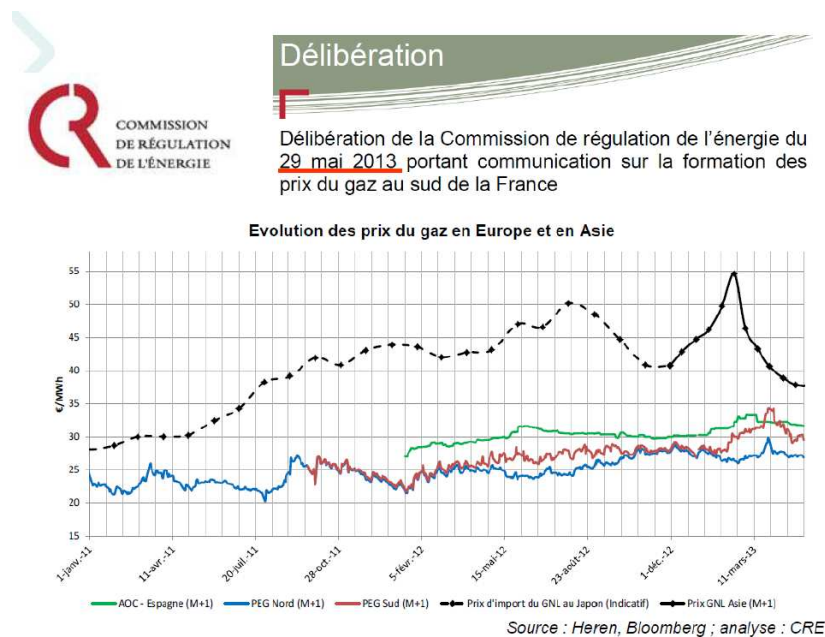
30. The implementation of the internal energy market should be pursued. Good progress is being made on the development of network codes and framework guidelines for gas. Coordination of national measures between the concerned Member States – throughout the whole implementing phase – should reduce fragmentation and unintended effects in neighbouring countries.

31. When designing the framework, the ultimate objectives should be borne in mind at all times not to lose perspective. It is also important that stakeholders who will have a role in administrating the process are called to participate in the process from the beginning.

32. Finally, but not less importantly, it is crucial to ensure that the correct interconnection capacity between Member States is in place, to avoid situations like the current price differentials that Europe is experiencing. (See graphs below).



Gas Prices in Europe on 14 May 2013



Sustained Prices differentials between Spain and France

33. The graphs show a sustained price difference between France and Spain, which is not only due to the evolution of the LNG market, in particular the impact of the Fukushima accident in the global LNG prices, but also due to the lack of interconnection capacity between the Iberian Peninsula with the rest of Europe.
34. This issue could be easily solved if further interconnection capacity between the Iberian Peninsula and France was built, ie. Through the MidCat project,

otherwise the risks that 58 million inhabitants remain isolated from the European gas market will persist.

- X. Which measures could be envisaged to make further energy savings most cost effectively?

35. -.

- XI. How can EU research and innovation policies best support the achievement of the 2030 framework?

36. It is necessary to assess the role that natural gas can play, as it produces less CO<sub>2</sub> emissions compared to other fossil fuels. Long term targets should be achieved through gradual steps which allow the gradual adaptation towards a low-carbon economy, where natural gas should play an important role, especially taking into account the potential of unconventional gas (shale gas).

37. In addition, the natural gas industry is constantly innovating and investing in research and development to make further energy savings most cost effectively through for example the use of Small Scale LNG.

38. Carbon Capture and Storage (CCS) is also considered as a mechanism able to achieve significant emission reductions; according to the IEA, without this mechanism the overall costs of reducing greenhouse gas emissions could be much higher. To achieve the European target in the field of climate change, funding and legislation to support this mechanism are necessary for both the demonstration and early development of CCS.

39. The impulse of a common regulation throughout the EU may favour the development of CCS since there are many difficulties in certain parts of the chain due to uneven regulation in different countries and territories (permissions for the path of pipeline and exploration, for example).

40. Promotion of CO<sub>2</sub> applications other than only storage can be an economic driver that gives momentum to the CCS and gives the society the right message of putting all our efforts in reducing CO<sub>2</sub> emissions.

### **Competitiveness and security of supply**

- XII. Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

41. It is a matter of urgency that the Commission gives adequate attention to the competitiveness of the European Union in its impact assessments of proposals related to climate and energy policies. A technology-neutral approach, a level playing field and cautious use of support schemes are the very basic prerequisites for effective competition and competitiveness.



XIII. What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

42. See answer to question III.

43. As long as the EU's global partners in the fight against climate change do not commit themselves thoroughly enough, it will be effortless for the EU to continue fighting on its own against climate change.

44. Carbon leakage could be mitigated if the products which are subject to the counting of CO<sub>2</sub> emission carried a footprint and paid a certain tax for the emissions produced at the point of consumption. Given that this option presents implementations difficulties, options for its implementation should be carefully assessed taking into account possible side effects on other parts of the economy.

XIV. What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

45. The price of energy is generally determined by the global market. Diversity of supply from indigenous and external sources and diversity of supply routes is an important factor in ensuring that the price paid is competitive. The EU policy should encourage both indigenous production and imports by adopting appropriate and reliable long-term policies on the one hand and fostering good relations with export countries on the other hand. At the same time, the EU should ensure that the correct infrastructure is in place in order to allow gas to flow freely across Europe. (See answer to question IX).

46. To obtain a clear picture of energy costs, all elements need to be taken into account, including the cost of the energy as such, but also taxes, other levies (such as those used to finance support schemes), the price of carbon, etc. It has to be borne in mind, that the cost of infrastructure is marginal (around 10%) if compared to the overall cost of natural gas.

XV. How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

47. It should be taken into account that in 2011, greenhouse gas emissions in the EU only accounted for 11% of the global emissions. If it is the EU alone who leads this initiative without the support of other countries, besides having little effect on the overall impact on the environment, the European economy can severely be damaged.

48. The climate and energy policies proposed for 2030 should help the EU to continue to lead international climate negotiations and to be credible when

urging for a global agreement by which the global climate objectives can be achieved. These measures should take account of the competitiveness of the European Union.

49. Until an equitable global agreement is not reached, the competitiveness of the EU economy should appropriately be addressed and be set as first priority.

50. Moreover, the EU should look for a coordinated energy policy that includes the set of legislative proposals to achieve the desired goal.

XVI. [How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances \(e.g. progress in international climate negotiations and changes in energy markets\)?](#)

51. Generally, confidence should be given to the market that investment in energy will not lead to stranded assets or important drops in return on investment. Climate and energy policies should be clear and long-term measures should not be retroactive, changes or adaptations should be predictable, and the timeframe should be foreseeable.

52. In the case of infrastructure, it has to be borne in mind, that infrastructure is designed bearing long life cycles, therefore remuneration has to be established accordingly and not suffer changes throughout its life cycle.

53. However, in the framework of international climate negotiations the EU should not act alone. As mentioned earlier on, if the EU alone leads this initiative without the support of other countries, besides having little effect on the overall impact on the environment, the European economy can severely be damaged.

XVII. [How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?](#)

54. -.

XVIII. [How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?](#)

55. -.

XIX. [How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market \(e.g. through the development of necessary interconnections\), and externally by diversifying energy supply routes?](#)

56. It has been stated in several reports that "the scarcity of [gas] interconnection capacities is increasingly becoming a problem and might soon become a serious

barrier for the further development of the large intermittent generation potential in the Iberian Peninsula"

57. The development of further natural gas interconnection capacity between Spain and France ("Iberian corridor" or "South-western corridor") should be a key priority for the European Union.

58. This corridor would not only allow to better integrate renewables, but would facilitate the completion of the internal energy market, and would contribute to Security of Supply through diversification by increasing the share of LNG in the European Union portfolio, and by allowing to bring more pipeline gas from Algeria into Spain, going through France and possibly into Central Europe.

### **Capacity and distributional aspects**

XX. [How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?](#)

59. The EU should acknowledge that not all EU Member States are in the same situation (economic) to further implement climate and energy measures. Under the current situation, the EU should put more efforts in proposing measures to reactive the economy rather than punishing those EU Member States which are not fully compliant with climate measures.

60. Relaunching the European industry by having available energy at competitive prices is the most important issue to tackle at this point in time.

XXI. [What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?](#)

61. -.

XXII. [Are new financing instruments or arrangements required to support the new 2030 framework?](#)

62. Instead of putting so many efforts in designing and innovative financial instruments the EU should strive to ensure that a stable, predictable and consistent regulatory framework is in place.

63. For investments to be encouraged investors need legal certainty, simplicity and stability. Changes in the regulation half way through the game lead to uncertainty and put the investment climate at risk.