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Findings from CEER study Future Role of Gas from a Regulatory Perspective

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Agenda

- Introduction / Motivation for the study
- Commodity perspective
- Infrastructure perspective
- Wrap-up

“Understanding of change” as motivation for this study

- The CEER Gas Working Group commissioned DNV GL to prepare a study aiming to evaluate the potential future role of gas (incl. its infrastructure) and the consequent regulatory measures that may be required
- The work is structured along the following distinct perspectives:

Commodity perspective

Commodity “natural gas” in its current form or any substitutes of it (from biomethane up to synthetic methane)

Infrastructure perspective

Infrastructure especially for transport but also storage and actual consumption, etc. of the commodity as described above

- The results shall enable the regulatory community to:
 - ▶ identify key issues deriving from the future development of the natural gas sector both from a commodity and infrastructure perspective
 - ▶ develop proposals for potential future regulatory initiatives that may be needed to reflect these developments

Main findings: Commodity perspective

- Competitiveness of natural gas and penetration of decarbonised gas will determine the future efficient use of gas infrastructure
 - ▶ Natural gas remains competitive in the residential/heating sector
 - ▶ Regulatory measures focus on the enhancement of retail competition
- Natural gas competitiveness is high in transportation sector (through the use of CNG and LNG as a fuel)
 - ▶ On a policy level, there are multiple measures that can be considered to support the use of natural gas (e.g. technology neutral well-to-wheels emission targets instead of current tank-to-wheels emissions targets, incentives and tax breaks for the purchase of natural gas vehicles)
 - ▶ These measures aim to promote the development of certain new technologies with favourable environmental impact (positive externalities and innovation)
- Natural gas retains a key role in power generation to back-up RES
 - ▶ AGTM recommendations still valid: striving for win-win-win situations for generator, TSO/DSO, and market by introducing short-term capacity products with reasonable short-term multipliers for gas-fired power generation
 - ▶ Further improvement of the effectiveness of the wholesale gas market, for example merging of hubs/market zones when economically efficient, subject to CBA

Main findings: Infrastructure perspective I

- **Decarbonised Gases and the Role of Regulation**
 - ▶ Regulation for biogas/biomethane and hydrogen infrastructure could be included in an early phase
 - ▶ Specific tariffs could be set for decarbonised gases injected into the natural gas network or to be used to produce heat and electricity
 - ▶ The use of green certificates can be used to support the establishment of regional markets for decarbonised gases
 - ▶ Certificates similar to the ones used in the power sector for renewable energy can also be used to certify the decarbonised nature of the gas being purchased
- **Innovation and Decarbonisation**
 - ▶ Activities in the areas of research and development, product development and prototype development can generally be defined as innovation initiatives and be granted regulatory support
 - ▶ This can be incorporated into the regulatory framework by using special allowance based on a proportion of the allowed revenues

Main findings: Infrastructure perspective II

- CNG / LNG and Infrastructure Development
 - ▶ Network operators have already decided in some cases to get involved in contestable activities as the delivery of LNG or CNG for transportation, but also P2G plants and others and become enablers of development of new technologies
 - ▶ Regulators could recognise explicitly the specific circumstances and the motivation for such involvement of the regulated business into contestable activities
 - ▶ A coordinated European approach would support the development of fuelling infrastructure
- Major interventions may be required in a low demand scenario
 - ▶ Stranded assets could be dealt with from a regulatory point of view
 - Ideally early on, before stranding emerges
 - When stranding has emerged
 - ▶ Clear policy framework will enable NRAs to deal with stranded assets in the least disruptive way for final customers
 - ▶ Coordinated decommissioning of infrastructure assets may be required for assets crossing or affecting two or more Member States

Wrap-up

- The gas sector shows significant potential to contribute to the decarbonisation process
- Effective forward-looking regulation of gas markets requires policy clarity regarding the future role of (decarbonised) gas and its underlying infrastructure
- CEER work in 2018 will focus on
 - ▶ Addressing the challenges in greater detail and
 - ▶ Developing specific regulatory measures and initiatives

Thank you for your attention!

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