



Future of gas 2020-2050 in the changing energy landscape

Challenges and opportunities for the European energy industry and investors in a rapidly evolving environment.

Baringa Partners hosted a roundtable discussion on 23rd November 2017 in partnership with EUROGAS (European gas industry association), National Grid (international electricity and gas company and operator) ^[1], and with the support of ENTSO-G, (the European Network of Transmission System Operators for Gas). The event was attended by over 30 senior European energy industry stakeholders with investment, utility, academic and regulatory backgrounds who reflected on the question: what is the future of gas in Europe? Baringa shares its reflections on the discussion.

A functioning market

Gas remains a cost-effective element of Europe's energy mix, and with global prices projected to remain relatively low, gas is an affordable, plentiful fuel, which efficiently delivers and stores significant energy content.

Europe remains an integral part of an increasingly globally interconnected gas market, with significant import capacity – pipeline and LNG – providing access to global supply sources and in return providing a mature, stable destination market.

After many years of work and progressive liberalisation, the Internal Energy Market (IEM) is working increasingly effectively. In the case of gas, this means that 75% of gas in Europe is today priced to within €1/MWh of TTF (the gas trading hub in the Netherlands and de facto Europe market price). Whilst work remains to be done, an interconnected, liberalised gas market has emerged and continues to develop in Europe.

In this context, policymakers should not pick winners in the fuel mix. Respecting markets and consumer choice, governments should focus on setting frameworks for fuels to compete recognising the three dimensions of the energy trilemma: affordability, security of supply and decarbonisation.

Infrastructure advantage

A clear asset of the European gas industry in retaining material relevance in the future is its infrastructure network. Existing gas pipelines, distribution networks, underground storage and LNG import terminals provide huge optionality for Europe's future energy system, best exploited if Europe's electricity and gas sectors work together more closely in terms of both investment planning and operations.

Increased electrification will drive some change in the role of gas in the energy mix and considered coordination between power and gas will be required to ensure the most efficient interaction to deliver baseload and peak energy demand.

An integral part of a decarbonised future

Gas offers tremendous potential in Europe's decarbonisation pathway in replacing higher carbon emitting fuels, and working in partnership with renewables to provide energy demand and flexibility needs. Via the development of biogas, and even hydrogen, gas can also be renewable and need not share the fossil-fuel association of natural gas and associated risk of phase-out as Europe decarbonises.

Gas is particularly effective in the provision of heat; decarbonising heat is challenging, and full electrification would be very costly. The way gas can meet peak and flexibility needs at low cost is under-recognised and perhaps the suitability of doing the same purely with electricity over-stated. These relative qualities are not adequately appreciated and reflected in policy-making.

It is critical that the gas sector develops a clear narrative for the role it can play in decarbonising heat and communicates this effectively.

A battle to retain its role

Industry response to the challenges gas faces – and promotion of its qualities – must be addressed with urgency. A few more years of policy drift and the potential market size for gas in the long-term may be greatly reduced, even if a reality check shows this would be limited by factors like the feedstock role of gas, and continuing heavy reliance on gas for heating across Europe.

The gas industry must argue strongly – and in an aligned way – for its value in the energy mix and focus on innovation to remain relevant.

Part of the innovation is defining gas more broadly, recognising that the future of gas is likely to be threefold: natural gas + biogas + hydrogen. For gas as a fossil fuel, the role of carbon capture, usage and storage (CCUS) will be pivotal in its long-term future. Demonstrating it can be economically implemented, supported by an appropriate regulatory framework and carbon pricing mechanism, would be a significant boost to the gas industry in Europe.

The Future of Gas

Gas – both natural and other forms – undoubtedly has a place in Europe's future energy economy. To secure that future, and establish it as integral and not transitory, requires some work from the industry, not least in demonstrating its benefits. That work must take place soon, to head off the risk that Europe's decarbonised energy future does not include gas to the extent it could.

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[1] Visit National Grid's Future of Gas website www.futureofgas.uk to join the debate and see the latest news on National Grid Future of Gas activities.

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