

FLAME 2014

Views from the speaker zone

It is a pivotal time for the European gas sector, with a range of views on whether the sector faces continued decline, or potential resurgence. FTI Consulting professionals joined senior gas sector professionals at the 2014 Flame conference and sought the views of some of the industry's most prominent experts on the future of gas.



Edouard Sauvage, Director of Strategy,
GDF SUEZ

1. In light of the 2030 policy framework for climate and energy proposed by the European Commission, how might the future of gas evolve?

A great deal of the future of primary gas demand in Europe will be determined by the development of gas for power, hence the ability of the legislators to strengthen the European carbon market. Indeed this market based instrument should play its role and deliver a price signal which should incentivise the use of low carbon technologies, such as gas, instead of higher emitting fuels. It is very important that gas has a great future in Europe in order to accompany the development of renewables. That's why it is urgent to restore the functioning of the EU ETS and to place it as a key element of the 2030 framework. At the same time, it is really important to ensure a fair remuneration of gas power plants by installing capacity remuneration mechanisms coordinated at EU level. Policy makers need to consider all of the side effects and consequences when considering new initiatives. For this to happen policy makers should engage in credible discussions with industry members, which take account of the merits of natural gas in meeting climate change goals.

2. What are the prime drivers for future customer energy demand?

Customer gas demand will be determined by two main drivers; energy efficiency, and substitution between fuels. For the latter, innovation plays a key role. Micro-cogeneration, stirring engines, gas and hybrid heat pumps could have a role to play in the medium term in competing with residential energy solutions. The development of the gas-to-transport segment will also be significant, in particular for fuelling trucks or ships by river or sea. GDF Suez LNG Solutions is already very active in providing this services to transport and shipping companies in the Netherlands.

Howard Higgins, Managing Director,
Macquarie Capital Funds (Europe) Limited

1. In light of the 2030 policy framework for climate and energy proposed by the European Commission, how might the future of gas evolve?

Gas has and will have a role to back up the renewables. However in a back-up role gas is uneconomical and the renewables subsidies will need to be reversed into gas.

2. What are the prime drivers for future customer energy demand?

In my view European demand is flat and potentially declining. I've just bought a new energy optimisation system for our home in the UK which will reduce our energy consumption by 60%- fully controllable heating and hot water through the iPhone and linked to the local weather. Smart meters are dead before they take off!

3. How robust are European energy markets to potential security of supply shocks?

Generally Europe is robust at the moment with plenty of diversity. Renewables are still growing, coal is "king" and there is lots of gas. Politically the US can fill the gap should Russia decide not to. Conservation has yet to really kick in. Gas will need subsidies to build new capacity. The only real hole is nuclear. An energy strategy without nuclear seems wrong.

Sean Waring, Managing Director,
Interconnector (UK) Limited

1. In light of the 2030 policy framework for climate and energy proposed by the European Commission, how might the future of gas evolve?

Gas has an uncertain future; while the benefits of an abundant and affordable energy supply are clear in the pursuit of carbon reduction, the gas industry has still to convince the European authorities. The US and Asia will remain buoyant markets for gas, insulating producers from Europe's problems. It will be left to the mid-stream and network companies to make the case for gas in Europe.

2. What are the prime drivers for future customer energy demand?

Cost!

3. How robust are European energy markets to potential security of supply shocks?

It would be wrong to assume this is not an issue for NW Europe, although there are clear regional differences. Security of supply is a fundamental requirement of an industry that heats people's homes, and can never be taken for granted. With an overwhelming drive to the short term there is an increasing problem of how security of supply assets are paid for; this hasn't been solved yet and the risks are obvious.

Derek Russell, Manager, I&C Business,
Business Markets - Electric Ireland

1. In light of the 2030 policy framework for climate and energy proposed by the European Commission, how might the future of gas evolve?

We have to stop assuming that gas will always be there to provide a back-up for renewables and actively encourage it in this critical role. More widely we already have the infrastructure

in place for gas, under pre-agreed regulated frameworks, so why not use it? We have to pay for the gas infrastructure even if we do not optimise its use. We need to reduce market distortions caused by subsidies supporting renewable generation, allowing a market where everyone competes on a level playing field so we can get the true picture of market prices to the benefit of all stakeholders, including customers.

2. What are the prime drivers for future customer energy demand?

Customers want greater transparency on what makes up their energy bills. Their willingness to pay will be higher if they were better able to understand the individual elements. We also see customers driving demand for electric vehicles, which in turn supports renewables as a clean input fuel. We are also expecting overall energy demand to reduce as home insulation and smart technologies are deployed at increasing scale.

3. How robust are European energy markets to potential security of supply shocks?

Europe is very vulnerable given its high import dependency for gas. Europe's move to renewables makes sense in the long term to diversify sources of supply although the cost of subsidies may impact Europe's competitiveness in the short term.

Laszlo Varro, Head of Gas & Electricity,
International Energy Agency

1. In light of the 2030 policy framework for climate and energy proposed by the European Commission, how might the future of gas evolve?

The 2030 framework is ambitious in its climate target and will require a major transformation. One factor that makes it more difficult is the uncertain future in Europe of nuclear, which is still the largest single low-carbon source by far. Fully private, market-based investment into nuclear is unlikely, even with carbon prices, and only a few governments, like the UK, have explicit policies for nuclear investment. There will also be a large scale decommissioning of coal capacities. While renewables grow strongly, they are unlikely to be able to compensate for the loss of both, creating room for gas to recover. However, as it will replace a high and low carbon source, it could be part of the solution or part of the problem depending on circumstances.

2. What are the prime drivers for future customer energy demand?

Even in countries that recover from the Eurozone crisis nicely, such as Germany, energy demand growth is very weak. Energy efficiency is improving, and energy-intensive heavy manufacturing is increasingly relocating from Europe, leaving economic growth to be driven by the non-energy intensive sectors. However, electricity demand will benefit from the decarbonisation of other sectors such as heat pump heating and electric cars.

3. How robust are European energy markets to potential security of supply shocks?

Europe has made strong progress in setting up functioning gas markets and expanding interconnections. Some bottlenecks persist, but the creation of a single market is on track. There has also been a significant expansion of storage capacity. On the other hand there has been very little progress on either shale gas or import diversification, and in fact with LNG being redirected to Asia, reliance on Gazprom is at a historical peak. Decreasing fuel-switching flexibility also cuts resilience. Weak demand and strong storage fill provide a buffer, but should not lead to complacency.

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