

Comments concerning the methodology for the identification of gas system needs for the TEN-E priority corridors

1. Ensure projects are essential/answer to a crucial need

We welcome that the EC highlights that only projects that are essential or answer to a crucial need (re security of supply, competition, diversification (or sustainability)) will be given PCI status. This overall criterion has, however, already been highlighted in the PCI process for the 4th list and didn't seem to lead to a significant change in the final draft PCI list in the end. We recommend to clearly implement the requirement for projects to be crucial, and to also include into this one criterion that has been mentioned but finally not fully implemented also in the 4th PCI process: The aim to automatically drop all those PCI project candidates that did not show significant process for the past 3 years.

We want to highlight that making sure a project answers to a crucial need must include taking into account non-infrastructure solutions, energy efficiency, system integration and, very importantly, sustainability (see more below) from the start. This point is underlined by a study carried out by Artelys, finding that none of the 4th PCI list projects would be needed from a security of supply point of view and that investments *“in the gas projects proposed in the 4th PCI list would therefore likely result in an oversized gas network, with billions of EUR in potential stranded assets”*.¹

In a number of cases (e.g. on the Iberian Peninsula), EU Member States do not have any PCI candidate projects for the 5th list, although ENTSO-G's assessment finds that there is a pressing need for further infrastructure. These cases are telling and should be illustrative for and leading principle to strictly scrutinize alleged needs and how crucial a project really is. This scrutiny should make sure that candidate projects which are seeking PCI status and getting project promoters' or member state's support due to underlying other reasons (e.g. purely political motivations, receiving EU subsidies, enhancement of local network without EU benefit etc.) are not being included on the PCI list.

We welcome the current wording in the methodology stating *“A need in the framework of the current TEN-E means a problem/issue related to market integration, security of supply and competition, sustainability which proves to have as **sole** [own highlight] solution the further development of infrastructure.”* We would greatly support a thorough implementation of, and indicators for this principle. This would mean that infrastructure needs are strictly tested against viable alternative solutions like non-infrastructure solutions, with a view on an integrated energy system. Taking into account the finding of the Artelys report mentioned above, this can have crucial implications for the actual need of any infrastructure solutions. It would be very useful to have a comparison of actual capacity increases needed (eg. between member state 1 and member state 2) to meet a problem and of total capacity increases proposed by projects through specific project candidates. This should avoid the support of overcapacities and stranded assets (e.g. a pipeline with a capacity of 5bcm while the assessment only finds a need for additional capacity of 0.2bcm in a given case). This would

¹ <https://www.artelys.com/wp-content/uploads/2020/01/Artelys-GasSecurityOfSupply-UpdatedAnalysis.pdf>

also align with the current wording in the methodology document following which “*large-scale energy infrastructure projects require a cautious approach to new investments in the gas sector in order to avoid over-investment and additional costs for consumers*”. Again, actually implementing these principles will be key, as in the past statements like this have not seen actual following-up by the PCI process.

2. EU Green Deal proofing the 5th PCI list process

The EU Commission promised in response to opposition to gas projects included in the 4th PCI list that the process of the 5th PCI list must be EU Green Deal proof. We understand that this should cover the entire process and not just parts of it, particularly since for all preceding PCI lists the entire process for assessing projects’ sustainability contribution has been gravely inappropriate/missing.

An EU Green Deal aligned approach is to be understood as a key principle, overarching all other pillars. This means that already at the needs-assessment stage it is crucial that fossil gas demand decreases in line with net-zero by 2050, and the Paris Agreement’s 1.5 degree target have to be taken into account.

ENTSO-G has had a history of inflating gas demand and of not providing sufficiently ambitious scenarios. This should not lead to a watering down of the sustainability criterion of the PCI process from the start. Strong oversight by the EU Commission and seeking and duly taking into account opinion by the regulators (ACER) is crucial. Genuine alignment with the Paris Agreement is key in order to avoid the creation of stranded assets with EU tax money and to ensure that only essential projects get the PCI label.

2.1. Sustainability

It is highly problematic that the methodology states that “*considering the fact that there are no specific European targets on the amount of GHG reductions from the gas sector and integration of renewable gases, the sustainability indicator will not be used to determine specific infrastructure needs in individual EU countries but will be applied in the project assessment.*”

The EU Commission’s LTS storylines look at reductions of fossil gas from 60% - 90% until 2050², this should be at the very least a base criterion already applied at the needs assessment stage. Even with conservative assumptions, there are existing targets that can be included into a first sustainability assessment and would greatly improve the compared to a process in which sustainability is not considered at all at this stage.

Sustainability has been gravely neglected since 2013, so it is crucial to keep word now and implement the EU green deal proofing throughout the process! As the proposal stands now, a bad impression is given as it looks like the strategy of pushing the sustainability criterion out of the process is set to continue. This basically happened during the last PCI processes, a decision that has been criticised by various NGOs and even the EU Ombudsman. The

² https://ec.europa.eu/clima/sites/clima/files/docs/pages/com_2018_733_analysis_in_support_en_0.pdf p. 85

Ombudsman decision found that in the past, gas projects have been included on previous PCI lists without a proper assessment of their sustainability.³

We welcome, that the EU Commission tasked Artelys with an analysis of the sustainability assessment carried out by ENTSO-G, and the findings are more than worrying. It is high time to change this and not opt for further delays on dealing with sustainability. As indicated in the study⁴, it is crucial to move away from an approach that measures an automatic contribution to greenhouse gas emission savings by all fossil gas projects. The methodology should clearly explain from the very start and in a transparent manner how all along the process the recommendations of the Artelys study are being taken on board.

In an EU Green Deal-compatible PCI process, it is highly inappropriate to measure the emission-related impact of gas PCIs against the most polluting alternatives, and to exclude methane emissions. More and more evidence is being published, indicating that supporting gas infrastructure means facilitating the expansion of a fossil fuel that is problematic and in many cases even worse than other fossil fuels.⁵ The needs methodology has to put these considerations at centre stage in order to avoid supporting potentially failed projects that endanger the EU's alignment with the 1.5 degree target.

This includes, but not exhaustively so, providing a realistic assumption of greenhouse gas emissions related directly and indirectly to infrastructure (i.e. mid-stream emissions, but also up- and down-stream emissions). The assumption should not only focus on CO₂, but very importantly also methane emissions associated to fossil gas, which occur throughout the life cycle of gas. Knowledge around methane emissions is growing fast, and there are more and more discoveries of underestimation of these emissions and their importantly harmful role in global warming. Therefore, we recommend to consider at least a representative average of supply chain methane emissions based both on a compilation of estimations⁶ as well as – where already existing – appropriate measurements. This average should take into account flexibility for improvements in measurements of methane emissions from fossil gas and a 20 years' timeline which result in a global warming potential of 86 compared to CO₂ (GWP 1).

3. Actors leading/involved in methodology – Conflict of Interest

Next to discussions in the Regional Groups, the methodology for defining the PCI needs is also greatly dependent on ENTSO-G data, namely the TYNDP data. We acknowledge that to this point in time there is a lack of alternative - i.e. truly independent data -, but want to point out to the grave risk of relying on ENTSO-G as umbrella organisation of those organisations which are almost exclusively those who profit from the PCI process. ENTSO-G members received 75% of all CEF money allocated to gas PCIs so far.⁷ Given that ENTSO-G members' business model also depends on expanding the gas network, this represents a clear conflict of interest and risks resulting in a selection of projects that are not crucial, of insufficient quality and not in line with overarching EU aims.

³ <https://www.ombudsman.europa.eu/en/decision/en/135095>

⁴ <https://www.artelys.com/wp-content/uploads/2020/11/Measuring-the-contribution-of-gas-infrastructure-projects-to-sustainability-as-defined-in-the-TEN-E-regulation.pdf>

⁵ <https://energywatchgroup.org/natural-gas-makes-no-contribution-to-climate-protection>

⁶ See eg.

https://www.researchgate.net/publication/308940027_The_Natural_Gas_Supply_Chain_The_Importance_of_Methane_and_Carbon_Dioxide_Emissions

⁷ https://www.foodandwatereurope.org/wp-content/uploads/2020/12/briefing_-_how_the_gas_lobby_infiltrates_eu_energy_policy.pdf

Independent oversight is therefore key. Part of this can be carried out by ACER who can and should have already now (not just after a revision of the TEN-E regulation) get a stronger role.

This also concerns the definition of thresholds for infrastructure needs. Thresholds should be approved by ACER and their implications made as transparent as possible. This should take into account the difficulty of assessing the impact of a threshold for indicators for a number of stakeholders and affected communities

Moreover, the gas transport industry's own approach to assess demand needs should be scrutinized: e.g. ENTSO-G has been criticised of aggregating peak demand of all EU member states at once. This is something that is virtually impossible to happen, unnaturally drives up gas needs, and has an impact on identified need for infrastructure. There is a number of other points of criticism arising concerning ENTSO-G's approach, which in all cases result in an alleged need for more gas infrastructure. This criticism should be taken very seriously and avoiding further shortcomings should be key.

4. Timeframe

The methodology states so far that the main timeframe for the PCI needs assessment is 2030 which is highly problematic.

Firstly, gas PCIs have a tradition of delays and being rescheduled for several years. A majority of the gas PCI candidates applying to get on the 5th list already now have a planned commissioning date in 2023 or far beyond this date (by which, so earlier statements by the EU Commission, the EU gas network would be finalized). In addition to this, many of them are already delayed. Many of the projects would therefore likely not have any influence on the EU gas market before 2025 or even 2030, leading ad absurdum the too short-sighted needs assessment.

Secondly, gas infrastructure is built to last decades, up to 80 years. In economic terms a project needs to make sense during a timeframe of around 2-3 decades too. It is therefore essential to include a view up to 2050 by when we need to have reached the net-zero goal.

Due to these reasons, also the National Trends scenario developed by ENTSO-G which only has a timeframe until 2040 is unacceptable and is not in line with the EU Green Deal proofing promise.

The argument of building of "hydrogen-ready" infrastructure that can allegedly easily be transformed to transport hydrogen in the future must not influence the decision on whether or not a candidate project is included or risks becoming a stranded asset. Even in the case that a very limited amount of repurposed fossil gas pipelines might be useful at some point to carry hydrogen, requirements in terms of coating, volumes, transport routes and length, connection to fossil gas supply routes etc. are differing highly from the infrastructure needs a hydrogen network might have in the future. Accepting that hydrogen is used to avoid the discussion around stranded assets and decommissioning the costly, dense EU gas network risks building an even bigger bubble of stranded assets with EU support and must be avoided.

5. Scenarios

We welcome that the EC decided to use the low-infrastructure level as well as the ENTSO-G scenario with the lowest gas demand. It is, however, not clear why it is not possible for ENTSO-G to draft a scenario which is taking fully into account the EU Commission's own data, like the LTS storylines etc. and provide much more ambitious gas demand curves estimations. As things stand, the "most ambitious" scenario provided by ENTSO-G now is simply not ambitious enough to be credibly in line with EU Green Deal and the Paris Agreement targets, risking to ridicule the EU Green Deal proofing approach.

6. Diversification

As in the past years, we again criticize the methodology's approach of counting LNG as only one supply source in the MASD (minimum annual supply dependence) criterion. It is a fact that the presence of LNG in the supply mix enables countries to have gas from a wide range of LNG suppliers, via different contracts and with different geopolitical frameworks. The methodology mentions that "*the MASD represents the minimum share of a given source in the supply mix being the source share that cannot be substituted by other supply sources*". This already indicates that counting LNG as only one source is problematic, as e.g. an LNG shipment from Qatar can be exchanged by an LNG shipment from Norway without posing any problem on infrastructure level. Therefore, we once again ask for a methodology that counts LNG as a real multi-supply source.

6.1. Geopolitical considerations

The current TEN-E has been drafted with a view to help EU member states diversify routes and reduce dependence on deliveries of Russian gas. A number of countries has, however, benefited from EU support for gas PCIs at the same time as it has continued building out gas infrastructure to import Russian gas. In the needs assessment methodology, particularly in the diversification assessment, member states' decisions to increase capacities connected to supply countries that they are already highly dependent on, should be taken into account to avoid a veritable infrastructure expansion boom. This should not be seen as a penalty but as treating the build-out of infrastructure increasing connections to the main supplier as a manifestation of the fact, that such supply connections are not considered as problematic, particularly within the framework of a rapid reduction of gas demand.

7. Competition related needs

The draft methodology states that "*If a country has access to less than three sources, that country is considered as having a Commercial supply access problem.*" Given the fact that the EU Commission intends to phase out TEN-E support for "classic" fossil gas infrastructure in the near future, as well as the significant cost of constructing and maintaining infrastructure, it seems questionable why there is still a competition benefit expected from further increase of access to supply sources today. Moreover, there is a risk around the assumption that competition will lead to reduced prices. If more infrastructure is built, it risks rather leading to the opposite: It likely leads to higher gas prices for consumers and tax payers in the end, which directly and indirectly carry part of the infrastructure bill. Particularly with the needed

phase-out of fossil gas and as a consequently expected reduced number of gas consumers, they might end up paying then an even higher bill.

8. Demand curtailment (CD)

We urge you to consult and consider on this topic the abovementioned study by Artelys⁸, shedding a light on the fact that none of the 4th PCI list projects is necessary from a security of supply point of view and that in few cases, non-infrastructure solutions will solve any remaining needs.

From the first PCI list onwards, demand curtailment has been a strong argument to support a fossil gas infrastructure build-out. Recent analysis from GlobalWitness found that EU tax money wasted on failed gas PCIs amounts to around €440million⁹. Behind this background it is even more crucial that the argument of alleged demand curtailment is considered very carefully.

9. Other indicators

It is clear that isolated EU regions/member states should not be disadvantaged by the PCI selection process. It needs to be mentioned, however, that in some cases there is either no gas network in place at all yet, and/or there is a particularly high potential for renewable energy generation. Most crucially, however, is that building new large transmission infrastructure and a fossil gas lock-in is not acceptable at a time when there should be no doubt about a need to a swift phase out of all fossil fuels, which will result in a rapid decline of gas consumption in the mid-term. This puts these isolated areas at even more risk of investing in stranded assets and delaying a needed leapfrogging from current use of fossil fuels to renewables. We therefore warn against a build-out of infrastructure in the affected areas with the argument that ending “physical” isolation is needed, meaning an actual pipeline connection between the EU gas grid and the isolated area/country.

A similar comment has to be made concerning the adaptation from l-gas to h-gas. Firstly, despite its inclusion in former lists, this project type is not in line with the overall cross-border impact criterion. Secondly, leapfrogging to truly clean energy instead of receiving support for transitioning from one fossil source to another one is harmful and risks leaving the investment stranded if we want to move towards a future-proof energy system.

⁸ <https://www.artelys.com/wp-content/uploads/2020/11/Measuring-the-contribution-of-gas-infrastructure-projects-to-sustainability-as-defined-in-the-TEN-E-regulation.pdf>

⁹ <https://www.globalwitness.org/en/press-releases/hundreds-millions-taxpayer-money-wasted-eu-failed-gas-projects/>