

Gas security and decarbonisation in Europe

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Brookings Institution, Washington, DC -- 21 October 2010

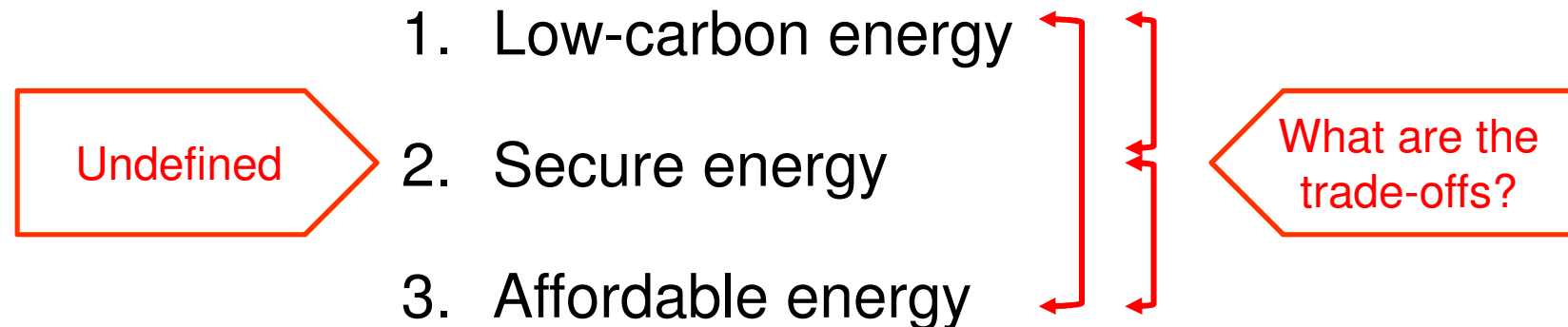
European Energy Policy

Brussels' version

1. Sustainability
2. Security of supply
3. Competitiveness

3 objectives are left largely undefined

British government's version – *more precise*

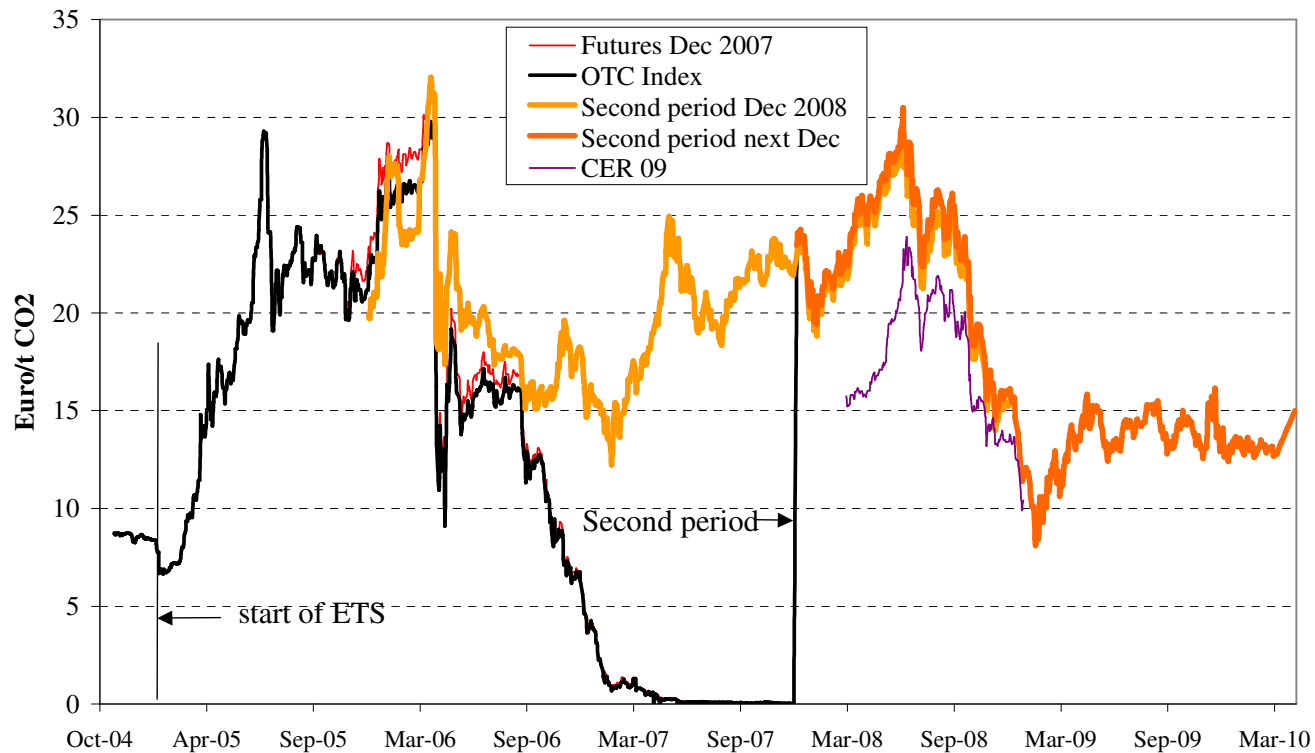


Messages

1. Europe's two main instruments (ETS & renewables subsidies) are at war with each other
2. Large-scale intermittent renewables create unmanageable uncertainty – at a very high cost
3. Abundant gas offers relatively cheap de-carbonisation option (by displacing coal)
4. We need
 - To make Russian gas contestable in central Europe
 - A 'rising floor' under the carbon price
 - Subsidies targeted at learning potential

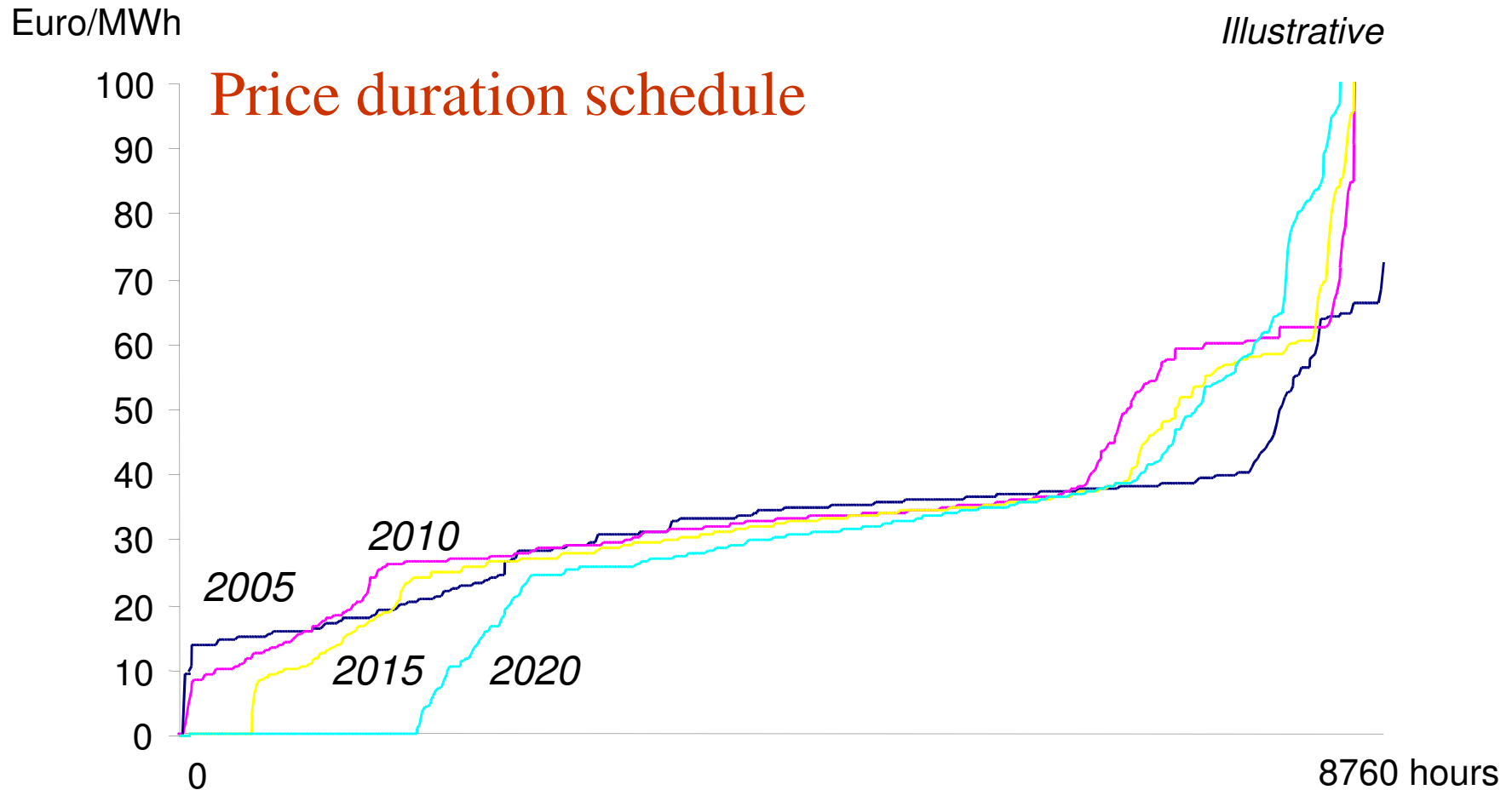
Carbon price too low, to volatile

EUA price October 2004-April 2010



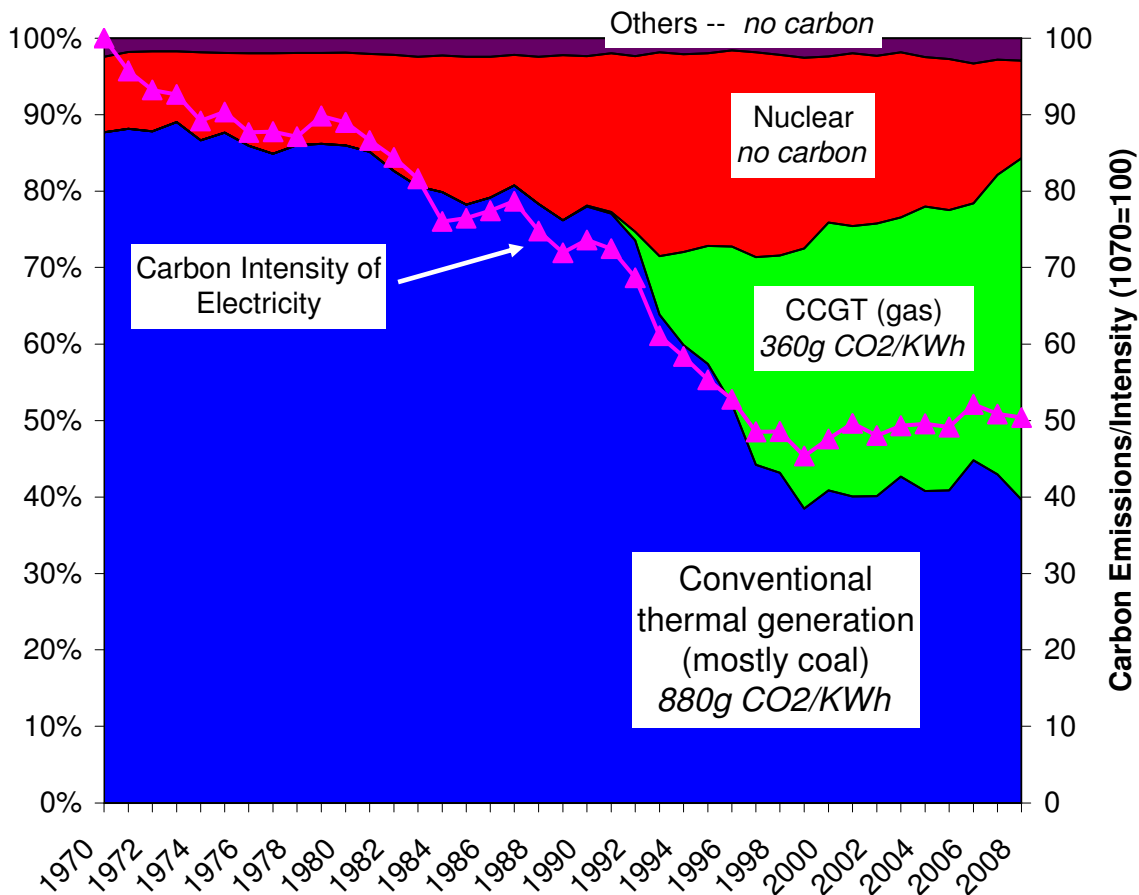
Source: graph by Prof David Newbery, Cambridge

Large-scale renewables increase volatility



Source: graph by Prof David Newbery, Cambridge

Gas as a decarbonisation option

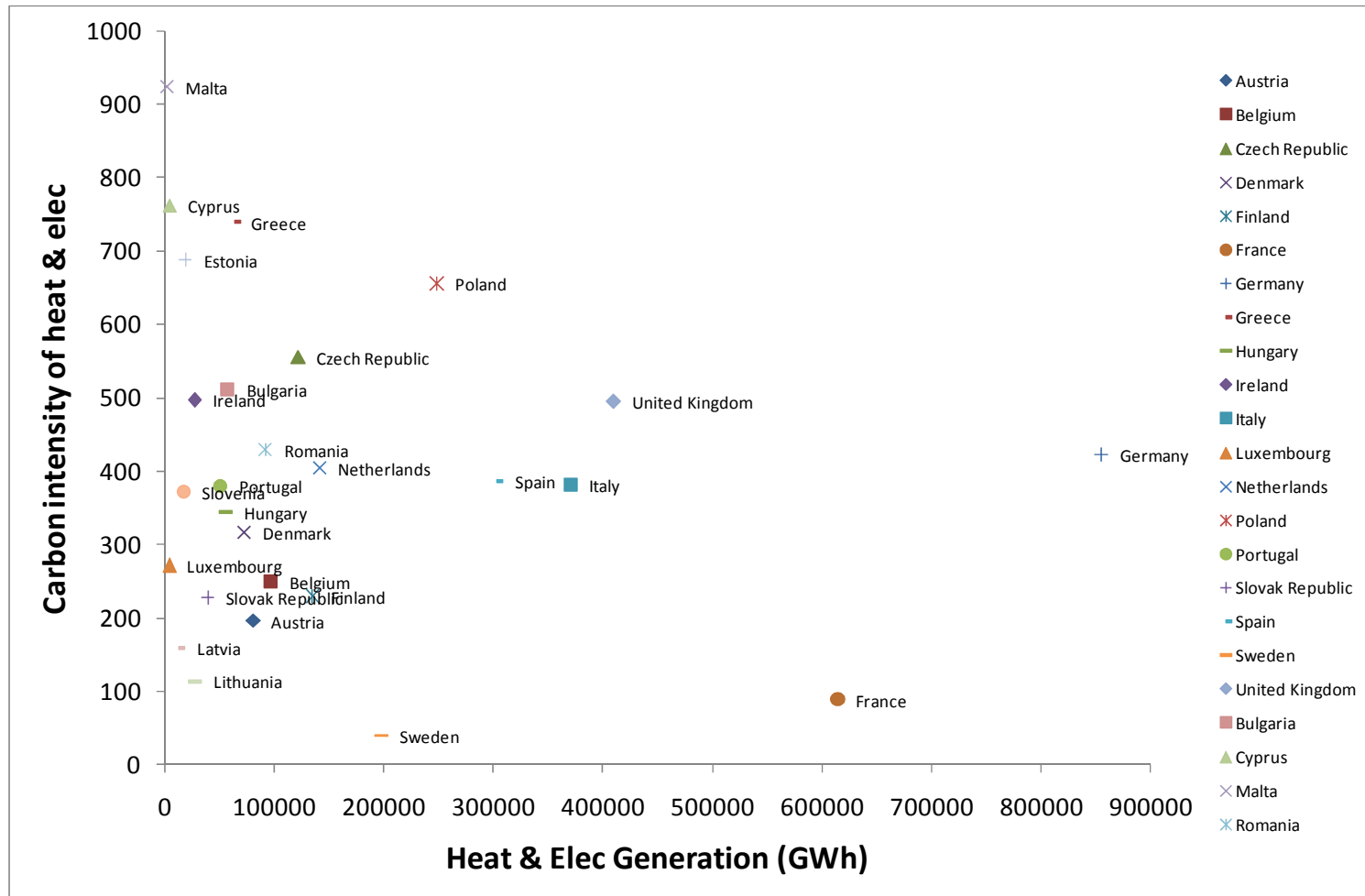


gas less than half
the carbon
intensity of coal

Data source: DECC

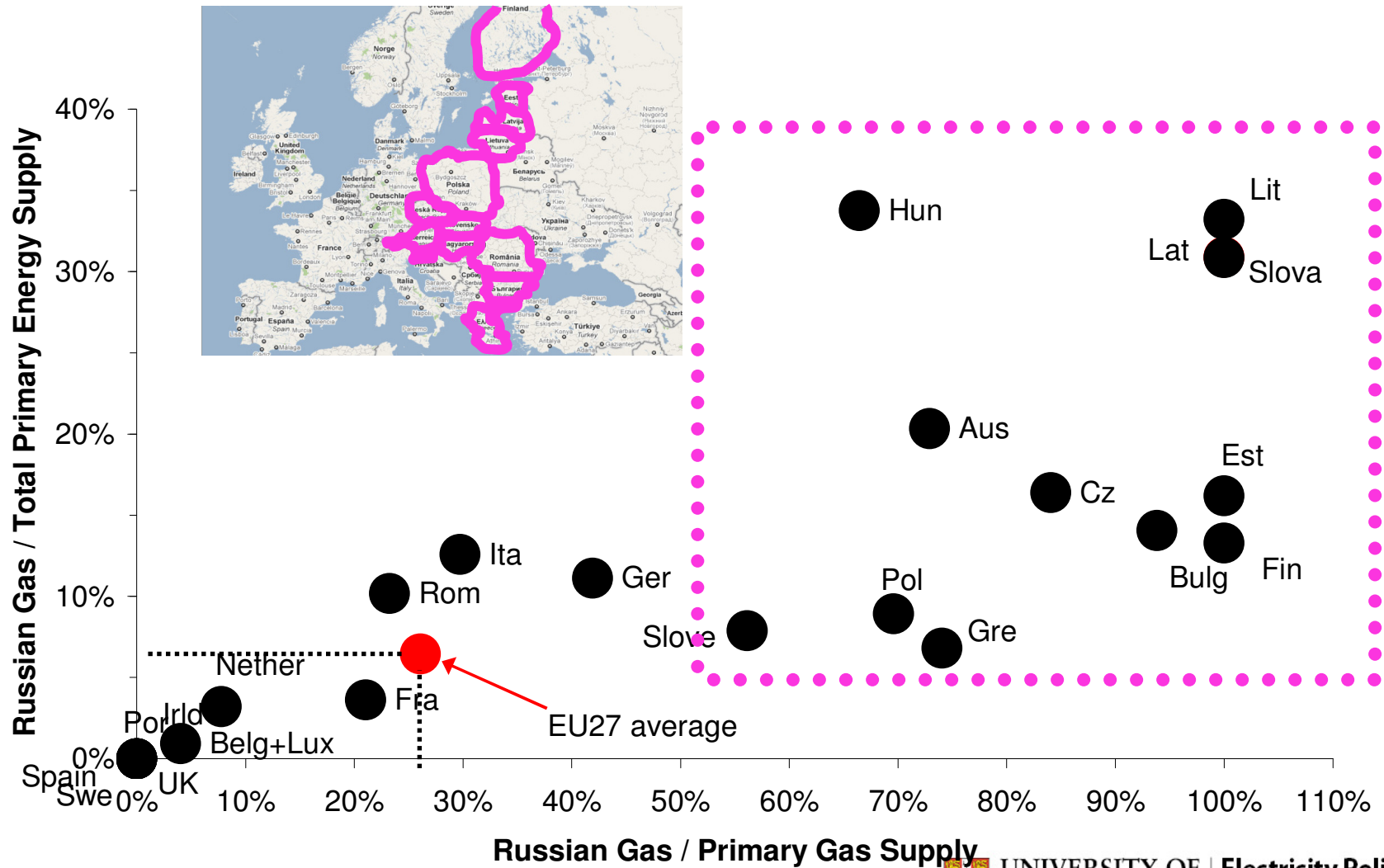
UK fuel mix in power generation. Data source: DECC

Carbon intensity of heat & power



Data sources; IEA; Eurostat

Russian gas in Europe (3)



Source: National statistics; BP Statistical Review of World Energy 2009

Conclusion

1. Refocus the energy policy on decarbonisation
2. Gas is our friend – short term, affordable decarbonisation
3. We need
 - To make Russian gas contestable in central Europe
 - A ‘rising floor’ under the carbon price
 - Subsidies targeted at learning potential
 - **And let the market work!**