Scotia Gas Networks response to the consultation on the European Investment Bank energy lending policy

Overview

We set out our thoughts on the future of gas in our eight year Business Plan, which was submitted to Ofgem earlier this year. These form an appropriate context to many of the questions in the consultation;

‘The UK has one of the most developed gas infrastructure networks in the world with the distribution networks being worth over £16 billion alone. Gas provides 69% of the UK’s total heat and 87% of households are currently connected to the gas network. The use of gas for heating is safe and reliable and can also assist those living in fuel poverty as a result of the low relative costs of gas and the efficiency at which it can be used.

Although an entirely electric future is one route to meet carbon targets, it has implications from an economic point of view. This is as a result of the capital investment required for the increase in electricity generating capacity and the reinforcement of the electricity networks, as well as the stranding of existing gas network assets. A more balanced future in which existing assets including gas transportation infrastructure are used requires less investment in electricity generation capacity and other infrastructure but still allows carbon targets to be met. The gas networks are an invaluable asset and there is a strong likelihood that alternative or ‘green’ sources of gas (e.g. bio-methane) will
be used in the medium to long term; and in the long term our infrastructure could even be used to transport hydrogen.

There are clearly a range of scenarios of how the UK energy system will be in 2050 but at the moment it is too early to decide exactly what the future holds. Therefore, choosing between gas and electricity at this time means taking a significant risk and all options must be kept open. On top of this, there are also a large range of new areas including hydrogen transportation in which the gas networks could become involved.’

SGN, as part of the wider Gas and Electricity Network face unprecedented challenges. Significant investment will be required over the next decade to develop smarter networks, to meet environmental challenges and to secure energy supplies. Against this backdrop, we will be required to demonstrate we are giving consumers value for money. We believe Gas Distribution will continue to play a vital role in the transition to a low carbon economy and as such, should be an important part of the European Investment Bank lending policy.

Annex 1: Specific questions relevant to SGN not addressed in our overview:

- How does investment in the energy sector contribute to growth and employment? Are investments in all energy sub-sectors equally valuable? And how does investment in the energy sector rank relative to other investments in the economy which support growth and employment?

  Networks require substantial investment over the coming decades in order to accommodate the low-carbon transition. This provides vital employment to both Scotland and South of England.

4.2 Renewable Energy

- The Bank’s economic justification for supporting emerging renewable energy technologies, whose cost is significantly above that of conventional and mature renewable energy technologies, is that continued investments in these technologies will eventually lead to cost reductions and will ultimately be the least-cost approach to meeting the EU’s renewable energy targets. Do you agree with this approach? Is there an alternative approach to the economic justification of these technologies which you consider more appropriate?

  Investment should take account of technological potential as well as least cost. We also agree that increase in scale should lead to longer term cost reductions.

- What evidence is there that the cost of emerging renewable technology is falling? Larger scale investment in Biomethane should drive costs down in this area – it is at an early stage in Gas Distribution with SGN driving forward several schemes.
• What level of investment in renewables do you expect in the short and medium term?
  We are forecasting 26 new renewable connections onto our Network in Scotland and 42 in the South of England over the next eight years. The total investment will be in the region of £50m however, development of connection policy will determine where this obligation ultimately sits between transporters and operators.

• Do you agree that there is significant scope for investment in renewable heating and cooling?
  We agree there is scope in the UK with the renewable heat incentive and target and support funding in this area.

4.3 Energy Efficiency

• What do you think are the main barriers to energy efficiency investments? What might be done to overcome these?
  Further guidance on this issue could help to overcome this, covering funding available – this should be widely publicised.

4.4 Security of supply

• Is the traditional model for electricity transmission and distribution changing? What implications does this have for future investments in electricity networks?
  The model for transmission and distribution will undoubtedly change in both electricity and gas and will require significant investment in upgrading these networks which will include distribution networks.

Shale gas

• What is the scope for the development of shale gas resources in the EU?
  Shale gas is a relatively new gas source for which exploration technologies continues to develop. In itself, large gas resources support a low-cost transition to a low-carbon energy system.

• Do you expect the share of natural gas in EU primary energy consumption to grow further?
  We do expect the share to grow in the UK, primarily for power generation as we replace ageing plant with gas generation. Development of unconventional gas should also increase gas use.

• What would be the best approach to increase security of gas supply and reduce import dependency?
  The best approach should be to continue focus on energy efficiency and investigate options for development of greener sources of gas.
4.7 RDI

- Which are the key innovative energy technologies under development? The development of which key innovative low-carbon energy technologies should receive most financial support?
  SGN are putting particular emphasis of developing low carbon gas production and connection e.g. green gas such as Biomethane.

Other areas to respond on

- For EIB investments in renewable energy, should different criteria be applied to mature and emerging technologies?
  We support the use different risk profiles for different technologies.

- How best to support gas-investments? What kind of low-carbon criteria could be applied?
  Development of the gas network and greener gas technologies should be supported for reasons set out earlier in this note.