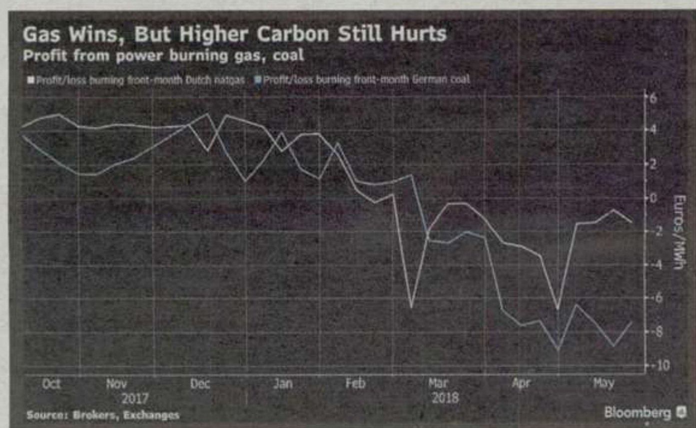
TENAGA NASIONAL
Better. Brighter.

| Headline | Gas supply crunch thwarts EU`s plan on fuel switch | | |
|---|---|---|---|
| MediaTitle | The Malaysian Reserve | | |
| Date | 25 May 2018 | Language | English |
| Circulation | 12,000 | Readership | 36,000 |
| Section | Corporate Malaysia | Page No | 24 |
| ArticleSize | 482 cm² | Journalist | N/A |
| PR Value | RM 9,129 | | |
| | | | |

# Gas supply crunch thwarts EU's plan on fuel switch

*Depleted gas stores after the coldest winter since 2012 have driven prices to their highest level in at least 5 years*




**LONDON** • Europe wants its industry to burn more natural gas instead of coal to reduce global warming. The problem is, there isn't enough gas at the right price.

Depleted gas stores after the coldest winter since 2012, coupled with pipeline constraints on flows from Russia and Norway, have driven prices to their highest level in at least five years. The result: Generating electricity from gas is unprofitable for many utilities, according to *Bloomberg* calculations based on the cost of fuel, power and emission permits.

The upward drift in gas prices complicates the plans of policymakers from German Chancellor Angela Merkel to UK Prime Minister Theresa May, who have set their sights on reducing the emissions blamed for damaging the atmosphere. That requires utilities to switch away from coal in the coming years toward a fuel that isn't making them money at the moment.

"It'll become harder to achieve the European fuel switch if there's not enough gas flowing," said Trevor Sikorski, head of natural gas, coal and carbon at Energy Aspects Ltd, an industry consultant in London.

For decades, the European Union (EU) has worked to drive up the cost of polluting in hopes that utilities from RWE AG to Uniper SE will shut off their coal plants and switch to gas and renewables. They started a cap-and-trade system for carbon dioxide emissions in 2005 that for the first time in years has produced a cost on pollution that theoretically should push utilities away from burning coal.

Emission permits have doubled this year, rising more than any other major commodity, to their highest level since 2011. They've sailed through the €13-to-€15 (RM70)-per-tonne band that utility Fortum Oyj says should produce a benefit for those who shut their least efficient coal plants and fire up more modern gas stations.

And yet utilities are clinging to their coal plants, reluctant to shut off assets that required billions of dollars of investment. At RWE, Germany's biggest power generator, executives have mothballed some gas plants as a flood of electricity from wind and solar plants made more of their traditional plants unprofitable.

The chart above illustrating margins from gas and coal plants shows RWE's predicament.

It helps explain why RWE and other coal generators don't know exactly when they will need to complete the shift, something the German government has said will take decades — even if it means missing its 2020 climate target.

"RWE is still evaluating the economic situation of gas-fired power plants," said spokeswoman Stephanie Buchloh, adding it's testing its Moerdijk-1 plant in the Netherlands, while the Claus C facility remains mothballed.

One issue for the utilities is where to find more gas supplies. Consumption is set to rise 0.4% this year and as much as 1.7% in 2019, increasing competition for the fuel that's used both to produce electricity and in factories making everything from plastics to fertilisers.

Output is declining from the North Sea. It's been dropping in the UK since 2000, and the Netherlands earlier this year set out plans to shut Europe's biggest onshore gas field. So much gas has been drained from the Groningen field that earthquakes have damaged nearby homes.

The real crunch time for supplies could come early next decade, according to Jonathan Stern, senior research fellow at the Oxford Institute for Energy Studies. High Asian demand could draw liquefied natural gas (LNG) away from Europe, and a "crisis situation" would emerge if Ukraine and Russia fail to agree on a new transport deal, he said.

Centrica plc, the UK's biggest utility, says supplies could get tight next winter already.

"If we get cold weather, especially in the beginning of this coming winter, the market could get tight in Northwest Europe," said Nazim Osmancik, VP of group economics and fundamentals at Centrica.

European factories already pay gas prices that are about double the prevailing level in the US. And the rising rates may force utilities to do what policymakers dread: Raise bills for millions of home owners.

But there's also a chance prices could slump if Asian demand for LNG disappoints, leaving more available for European buyers, UK researcher Timera Energy said on Monday.

For now, the European Commission says much of the fuel switching it predicts might not happen until the second half of the next decade. Coal may lose market share to gas by 2030 as the cost of emission permits rises and politicians bring forward more restrictive pollution rules, according to Klaus-Dieter Borchardt, an internal energy market official at the regulator.

There's also consensus among analysts that the carbon rally has further to go. Futures could even reach £20 and beyond next year when the region will begin to cut the supply of permits to deal with an accumulated glut, according to Carbon Tracker Initiative, a UK researcher.

That won't necessarily persuade utilities to use more gas. Without enough low-cost supply for the fuel switch, the only quick way Europe has to meet its emission targets is to curb economic output, which is not a terribly attractive option, Sikorski said.

"Carbon will keep trying to encourage the fuel switch, while gas will keep discouraging it." — *Bloomberg*