

CEE Bankwatch Network reply to the European Ombudsman

Complaint ref. 327/2021

5/11/2021

Dear Ms O'Reilly,

Many thanks for the opportunity to comment on the European Commission's response to our complaint.

Indeed, although the Commission's response does not change anything in terms of our original allegations, we would like to underline the following points:

1. Methodology stacked in favour of gas

In its response, the Commission did not respond to the fact – underlined by the REKK consultants themselves – that the PECIs assessment methodology could show only greenhouse gas emissions reductions from gas infrastructure, and not emissions increases, and that this might be incorrect, because the gas infrastructure might replace renewables rather than coal. Or it might generate entirely new energy demand, in which case emissions would obviously be higher than previously. Please see the Commission's reply to question 2 in Part IV.

2. CO2 pricing cannot fix an incorrect methodology

In its response, the Commission makes much of the fact that a CO2 price was included in the methodology, which it claims is a forward-looking move because the countries do not have to pay such a price currently.

However, a CO2 price does not help if the underlying assumption is wrong – that gas will only replace coal, not renewables, and that it will not create additional demand. If the methodology is stacked in favour of gas by showing only potential benefits and not emissions increases, the same trend will be reflected in the CO2 costs of the infrastructure.

So, for example: if a CO2 price of EUR 60 per tonne is applied:

Scenario in which gas replaces coal: If gas combustion replaces coal combustion, it might save eg. 30 per cent of greenhouse gas emissions. Let's say that the gas from a pipeline

will replace a coal plant emitting 2.5 million tonnes of CO₂ per year, which would pay a carbon price of EUR 150 million annually. In that case, the emissions from gas would be 1.75 million tonnes and the carbon price would be EUR 105 million per year. So the investment reduces GHG emissions and saves money by doing so.

Scenario in which gas replaces renewables or creates additional demand: If gas combustion replaces sources which do not emit greenhouse gases during operation, or if it creates new, additional energy demand, it would also create new CO₂ costs (for example EUR 105 million per year having to be paid by a gas power plant) which increase the cost of using gas might mean that the investment in gas infrastructure is uneconomic.¹

But as the PEGI methodology excludes the second type of scenario, applying a CO₂ price cannot show the gas infrastructure as uneconomic, so it does not help at all to assess which infrastructure is future-proof and which not.

In general, considering that most of the countries in question are EU accession countries, and that international financial institutions such as the European Bank for Reconstruction and Development and European Investment Bank have been applying a carbon price in their project assessments for years, we find the Commission's emphasis on this issue to be quite overblown. It would have been extremely embarrassing had a CO₂ price *not* been included.

3. Exaggeration of potential emissions benefits from coal to gas switch

The reduction of emissions from a coal to gas switch is not as significant as the Commission is stating, due to methane leakage from natural gas production. These emissions are heavily under reported and have yet to be addressed by regulators and industry. It is a fact that natural gas when burned emits about half the amount of carbon dioxide than coal for the same energy produced. However, methane (CH₄), as the principal constituent of natural gas, is also a potent greenhouse gas (GHG). According to the IPCC, the Global Warming Potential (GWP) of methane is 82.5 times higher than of carbon dioxide over a 20-year period (and 29.8 times higher on a 100-year scale). GWPs are multipliers applied to greenhouse gases such as methane (CH₄) to equate the impact they have on the increase of the Earth's temperature with that of carbon dioxide (CO₂). During oil and natural gas production some processes are designed to vent CH₄ to the air, and CH₄ is also emitted unintentionally due to the leaks in the system. The best available peer-reviewed observational estimates are for an average leakage rate of 2.3% for the full oil and gas supply chain (Alvarez et al., 2018). This means that when looking at a 20-year scale the emissions from coal and natural gas are at a comparable level and fuel switching from coal to gas cannot be an option to mitigate global warming.

4. The Commission was aware of the issues with the methodology early enough to request changes

Furthermore, we would like to reiterate that the Commission was aware of the issues with the methodology early enough in the process of the adoption of the PECl and PMI projects, as follows from the timeline:

- Already in May 2019, the Regional Group in the PCI process “observed that the ENTSOG calculation of the sustainability benefits includes significant limitations: the key underlying assumption in the CBA was that all gas projects would automatically show only positive benefits towards CO₂ mitigation, while the methodology excludes any negative impacts (such as the possible increase in CO₂ emission)” and that “the use of the proposed methodology would have led to more gas projects having a positive assessment and becoming PCIs”.
- The first meeting of the PECl/PMI 2020 group was in January 2020.
- The Ombudsman’s Inquiry concerning the assessment of PCI projects started in February 2020.
- PECl/PMI assessment methodology was confirmed at the second meeting of the PECl/PMI group in March 2020.