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IENE Comment

From Energy Security to Dancing with Lady Luck



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*By Irina Slav**

For the second year in a row, Europe is about to end winter heating season with record gas reserves and declining prices.

Yet the reason for this is not so much concerted action on securing continuous, stable supply of the fuel. The reason has a lot more to do with luck.

Like winter 2022/23, winter 2023/24 was mostly mild. Ironically, this could probably be attributed to the climate change that the European Union is actively fighting with any means at its disposal. Yet it is these mild winters that have saved Europeans from energy poverty for two years in a row.

In fairness, the EU's strategy of mandating a minimum gas storage fill-up levels for every member state yielded results by making sure the bloc starts the winter with comfortable levels of heating fuel.

However, had winter turned out to be colder – which Germany got a taste of back in November – these comfortable levels would have become uncomfortable, and fast. And prices would have skyrocketed yet again because of Europe's new and overwhelming dependence on liquefied natural gas.

As things stood this winter, demand for gas and electricity was lower than the worst-case scenario, both because of the weather and a creeping deindustrialisation. This allowed the EU to get through the cold months without worry of an energy shortage. Yet one question begs to be asked in this context. Just how long will we continue to get lucky and is it really wise to rely on luck in an area as critical as energy supply?

Of course, the answer to the latter part of that question would be a resounding no, while the former part could only draw speculation. A potentially more concerning question, however, would be what happens when our luck runs out. The answer: what happened in 2022 but possibly worse.

The European Union has stated repeatedly that energy security is a priority for its leadership—as it should be. Yet it has gone about ensuring this energy security in often questionable ways. By far the most questionable is the focus on building out wind and solar power generation capacity.

The security argument in favor of these sources of energy seems straightforward enough: local generation is always preferable to imports. Yet wind and solar are unreliable sources of energy because of their absolute weather dependence, which necessitates considerable backup capacity.

Europe's leaders pretended for a long time that baseload backup was unimportant and all we had to do to have secure energy supply was to keep building wind turbines and solar systems. Now, they are beginning to admit the need for backup, with Germany notably allocating billions of euro for several new gas-fired power plants. Last week UK's government followed suit.

This is certainly a step in the right direction, provided Germany – and others who have realised the importance of baseload generation – finds takers for its gas plant offer. Because generating energy from hydrocarbons has become a risky and expensive business, thanks to the EU's carbon permit market. The punitive system deliberately seeks to discourage more generation from hydrocarbons, which significantly reduces any potential motivation of power plant developers to take advantage of what Germany or others are offering in terms of support for new capacity.

Essentially, the EU's behavior looks like giving with one hand while taking with the other. This sort of approach to anything is not really known for producing desired results, as evidenced recently by a poll on transition policies in France, Germany, and Poland.

The poll found that people see a lot of transition policies as quite unpalatable, chief among them the ICE car ban and the idea of carbon taxes. Not even the proposal to have a rebate on carbon taxes, floated by Germany's Greens, has changed sentiment towards a carbon tax. After all, just how much more expensive could politicians make life for regular people before those regular people say "Enough"?

So, in their quest for greater energy security, the leaders of the transition in Europe have essentially achieved the opposite, substituting strategic long-term planning with luck, of all things. This is not, to put it mildly, a sustainable course of action. It is also not an economical course of action. In fact, it is quite paradoxical.

On the one hand, the EU's leaders want to ensure secure energy supply. To that end, they have instituted mandates on gas storage and collective gas buying. On the other, long-term deals are not favored in view of transition targets that may or may not be met.

On the one hand, the EU is encouraging a lot more wind and solar generation capacity, which would reduce demand for baseload generation capacity from hydrocarbons. On the other,

new hydrocarbon generation capacity is also being encouraged as backup, even though this backup status lowers the economic case for new hydrocarbon capacity, along with carbon permits.

As obstacles on the way to the electrification of everything continue multiplying and causing the bill for the transition to swell, now might be a good time for those running the energy show in Europe to take a step back and review progress on all fronts, starting with energy security. Because luck never lasts forever. And deindustrialisation is not something to be celebrated, even as it leads to an overall reduction in energy consumption.

** Energy Journalist and Contributing Editor, IENE Newsletters*

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3, Alex. Soutsou Str. 106 71 Athens, Greece, T: +30-210 3628457, 3640278, F: +30 210 3646144, marketing@iene.gr, www.iene.eu

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