

To:

Miguel Arias Cañete, Commissioner for Energy and Climate Action
European Commission – Berlaymont building
Rue de la Loi / Wetstraat 200
1049 Brussels

Brussels, April 27th 2018

Object: European Commission cost benefit analysis of the PCI France-Spain STEP/MidCat gas pipeline

Dear Commissioner,

Last week, some investigative articles were published by Reuters¹ and La Marea² on a study commissioned in 2016 by your services from the Finnish consultancy Pöyry, and unpublished since then. The study compared the costs and benefits of the Project of Common Interest (PCI) STEP gas project, which would create a third gas interconnection between France and Spain.

This project (*“considered as the first stage of a greater project, MidCat”*, according to Pöyry) has been strongly supported by the European Commission since the start of the PCI list process in 2013, and received significant financial support through the Connecting Europe Facility programme (around 7.5 million EUROS of public subsidies granted to Enagas and Térega, the promoters of the project, for conceptual and engineering studies).

Yet, according to this study³, the project seems very far from meeting the conditions justifying its presence in the PCI List. Energy security reasons and needs to diversify gas supplies are very often used to explain why a PCI project like this one is necessary for Europe and for the countries where the project is built. However, the Pöyry study debunks such justifications:

- Pöyry confirms, despite denials from the promoters, that STEP is a foot-in-the-door for the much more expensive and bigger MidCat project: *“STEP has not been conceived to provide a specific level of capacity, rather it is considered as the first stage of a greater project, MidCat, which aims at providing a substantial increase in cross-border capacity between France and Spain.”*
- Pöyry develops five different scenarios to assess in which case/s STEP could have a positive impact:
 - Only in the case of an extremely unlikely combination of 20-year long hypotheses (low gas demand + steep drop of Algerian gas exports + much higher LNG prices) could STEP have a benefit to Spain, though not to France.
 - The ‘normal’ Green Revolution Scenario is the scenario officially used by the European Commission for the third PCI list⁴. It is therefore the most legitimate one among the 5 scenarios used by Pöyry to assess the project.

¹ <https://mobile.reuters.com/article/amp/idUSKBN1HO34R>

² <https://www.lamarea.com/2018/04/18/informe-rentabilidad-gasoducto-espana-francia/>

³ <https://www.lamarea.com/wp-content/uploads/2018/04/Informe-gasoducto-La-Marea.pdf>

⁴ <https://cloud.foeeurope.org/index.php/s/5AbMbntT5yD5bKc>

- According to the Green Revolution scenario, Pöyry observes that no gas will flow from Spain to France, despite opposite claims and statements by Enagas (notably in their PCI application).
- According to the Green Revolution scenario, STEP is not cost-effective with a 'Benefits to Costs Ratio' (BCR) at only 0.33. Pöyry concludes that *"for the Green Revolution, the impact of STEP on disruption costs is not sufficient to reach the required level of monetized benefits, regardless of the probability of disruption assumed."*
- On the impact of STEP on gas tariffs, Pöyry observes a *"lack of correlation between price spreads and flows"* between Spain and France, and concludes that *"it is not clear that additional capacity (i.e. STEP) would reduce price spreads today."* It is even worse for France as *"gas prices generally increase in France, as a consequence of STEP."*
- The study makes it very clear that STEP doesn't have any impact on the security of supply of both countries. Many stress tests have been carried out, including disruption of supply from different countries (for quite unlikely long periods of winter months), peak demands and historical weathers: Yet, Pöyry concludes that *"the inclusion of STEP in the stress tested situations did not materially change the impact of the situations – i.e. STEP did not provide any additional benefits in these situations. The results of this analysis show that whilst the stress tests impact the European market, STEP does not change either the level of unserved energy or the resulting system costs."* The same applied for the N-1 indicator where Pöyry concludes that *"the N-1 indicator for Spain is already high and STEP does not provide a significant improvement because its capacity is limited. (...) STEP does not affect the N-1 for France, as there is no South to North firm capacity."*
- Pöyry adds that in terms of *"pertaining to price convergence; supply source price diversification; remaining flexibility & demand disruption; security of supply (N-1); import route diversification and bi-directionality, (...) none of these indicators are significantly impacted by STEP"*. Pöyry concludes that *"both France and Spain already enjoy healthy levels of security of supply according to the N-1 measure."*
- According to the Green Revolution scenario, STEP even becomes completely stranded and loses money from the middle of the 2030's, only around 10 years after its potential commissioning date (see p.75, 86 and 117-118).

We, trans-European, national environmental NGOs and local groups of concerned citizens, are therefore deeply worried to see a project like this one still prioritized by the EU while it clearly does not meet the objectives or conditions set under the TEN-E Regulation. It is even more concerning to see that your services had already access to the conclusions of this study when they decided to maintain the presence of the project (STEP or MidCat, one does not go without the other) in the latest PCI list. While we do understand the European Commission needs to find sometimes difficult agreements with Member States as part of this PCI process, we know the European Commission has used its power to take unnecessary projects out of the list (such as with the two Estonian LNG terminals). We strongly believe, based on the evidence provided by the study that you commissioned, that the MidCat/STEP project should have received the same treatment.

For these reasons, we are asking you the following:

- As part of the design process of the 4th PCI list, we are urging you:
 - To take out of the PCI list the MidCat project and its different components;
 - To commission and publish similar independent cost benefit analyses for all the other gas projects. It is legitimate to question what a similar Pöyry methodology would say about the other 100 gas projects from the list. The risk seems high that similar conclusions could be made for a large number of the current PCI gas projects.
 - If it was the case, it would seriously question the support that the Commission gives to these infrastructure projects, especially considering their climate impacts. Gas is a high carbon fossil fuel incompatible with Europe's climate objectives⁵. We cannot afford a new fossil fuel addiction.
- As part of the Connecting Europe Facility programme, we are urging you not to provide any additional support to the project: If venture capitalists want to risk their own money for a set of exceptionally unlikely circumstances, that's one thing, but the case for prudent public investment and infrastructure in the public interest certainly has not been made. We consider it an illegitimate use of scarce public funds to allocate money to this project.
- We also urge you, in the context of the Paris Agreement and the EU's own commitment to end harmful subsidies, not to provide support to gas projects in the new Multi-annual Financial Framework.

Kind regards,

European and pan-European organisations:

Friends of the Earth Europe
Food & Water Europe
Transport & Environment
Corporate Europe Observatory
350.org
The Gastivists Collective

Asociación de Cultura Popular *Alborada*
Ecoloxistes n'Aición d'Asturies
Comité Ciudadán de Emerxencia da Ría de Ferrol
Ingeniería al servicio de la Sociedad
WWF Spain
No Más Gas

Spanish and Catalanian organisations and groups of concerned citizens:

Ecologistas en Acción
Observatori del Deute en la Globalització
Amigos de la Tierra
Plataforma Resposta al MidcAT
Plataforma Ciudadana *Zaragoza sin Fractura*

French organisations and groups of concerned citizens:

Les Amis de la Terre
Collectif contre le Gazoduc Transfrontalier Step MidCat dans les Pyrénées-Orientales
Attac
En Commun 66
Groupes d'actions de la France Insoumise des Pyrénées-Orientales

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⁵ <http://www.foeeurope.org/NoRoomForGas>