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EU: no progress on gas price caps

Agata Łoskot-Strachota

The issue of how to reduce gas and electricity prices in the EU was once again discussed by European heads of state (at the 20–21 October summit) and also by energy ministers (at the energy council on 25 October). At the summit a number of joint measures were agreed in line with earlier proposals put forward by the European Commission, including:

- joint gas purchases. These involve binding demand aggregation for a volume corresponding to 15% of the amount needed to fill storage facilities (i.e. about 13.5 bcm for the 2023/2024 season), and anything above this volume will be covered by voluntary joint purchases or according to national needs Joint purchases will also be open to the members of the Energy Community (the Balkan countries as well as Ukraine, Moldova) and Georgia. They will also be linked to intensified negotiations with reliable EU partners on supply;

- the creation of a new complementary benchmark to the TTF hub by early 2023 that should better reflect the new market situation in the EU, including the growing role of LNG;

- increased market transparency and the reduced risk of liquidity constraints;

- the implementation of default solidarity rules in the event of gas supply disruptions at the national, regional and/or EU-wide level.

At the same time, EU leaders agreed to give a mandate to the European Commission to propose two types of measures to limit gas prices:

- a temporary dynamic price corridor for gas transactions concluded on the TTF;

- a temporary framework to cap the price of the gas used for electricity generation, which would mean EU-wide use of the so-called Iberian model. It should to be implemented in a way that, firstly, does not modify the merit order principle(according to which electricity produced at a lower cost enters the grid first) and, secondly, does not increase demand for gas and addresses the adverse effects on energy flows outside the EU.

Agreement was made possible by concessions from the EU countries opposed to price caps, namely Germany and the Netherlands, and the details of the mandate for the European Commission were supposed to be clarified at a meeting of EU energy ministers on 25 October. Ahead of this energy council, the commission sent a non-paper tomember states outlining possible areas for action and their implications, including a warning against increased gas consumption due to the introduction of price caps and an outflow of cheaper electricity outside the EU. However, due to the persistence – despite earlier agreement – of major differences between the positions of individual EU countries, no agreement was possible at the energy council on the details of the two types of price caps that are needed

for the commission to advance work on these instruments. Nor is there agreement from all member states on the creation of a special EU fund (as advocated by Italy, Spain and France) to support EU energy consumers (both households and businesses) in relation to high gas and electricity prices.

Commentary

- A new EU package to reduce gas and energy prices could be adopted at the next extraordinary energy council, which the Czech presidency has scheduled for 24 November. The new instruments would make it possible, among other things, to start the joint purchase of gas intended primarily to refill storage facilities after the current heating season. However, all indications are that, in the absence of a detailed mandate from the member states and the failure of the European Commission to propose the concrete instruments, the issue of gas price caps will not be included in the upcoming package of measures to be adopted in November. In view of the continued, profound differences of opinion and interests among the individual member states on how to limit gas prices as well as the serious and EU-wide consequences of the implementation of the interventions under discussion, the decision on both the precise guidelines for the commission and the acceptance of any instruments that may be developed will be taken unanimously.
- Germany and the Netherlands have expressed doubts over the issue of price caps. They have been joined in this by the EC and, among others, the European Federation of Energy Traders (EFET). These critics are fearful of the adverse effects the introduction of price caps could have on the functioning of gas and energy markets (among others, limiting the possibility of the EU importing LNG). There are also opinions that in the current record pace of EU work on new instruments, it is difficult to thoroughly analyse the effects of such interventionist measures. There is also no doubt that price caps will have different consequences for different EU countries. The widespread application of the Iberian model would, for example, bring clear benefits to countries with a smaller share of natural gas in their domestic energy generation (e.g. France), but will incur high costs for those that use larger volumes of gas (for example, Germany, the Netherlands and Italy). Persistent divergences on such an important issue for the economies and societies of the member states as energy prices are also leading to a deterioration in relations between individual countries, including those between France and Germany, which is widely criticised in the EU.
- The pace of work on intervention mechanisms may be slowed by the recently improved situation in the European gas market. Due to unusually high seasonal temperatures, record full storage facilities (94% on average in the EU) and more unloaded LNG ships queuing off the European coasts, the gas prices on the day-ahead market fell to their lowest levels in months – on 24 October they remained below 30 euro/MWh. However, this situation is undoubtedly only temporary, with monthly contract prices for this winter ranging from over 130 euro/MWh (for December) to over 140 euro/MWh (for January–March 2023).