ACER Gas Wholesale Market Monitoring Report 2021

Key findings and Recommendations

Online webinar, 8th July 2022
Meeting will be recorded

Participants are muted, except speakers

When you have a question, please:

1. Post your question in the chat
2. Include your name and affiliation in the question
3. Questions will be answered in the Q&A session
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<td>10.00 - 10.05</td>
<td><strong>Introductory Remarks</strong>&lt;br&gt;Annegret Groebel, CEER</td>
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<td>10.05 - 10.25</td>
<td><strong>Key findings: Gas Wholesale Market Monitoring Report (MMR)</strong>&lt;br&gt;Joaquin Garcia Gimenez, ACER&lt;br&gt;Mitja Maletin, ACER&lt;br&gt;&lt;br&gt;<strong>Gas Wholesale MMR Recommendations</strong>&lt;br&gt;Csilla Bartok, ACER&lt;br&gt;Markus Krug, ACER/CEER</td>
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<td>10.25 - 10.30</td>
<td><strong>Views on how these MMR findings relate to the future RePower EU strategy</strong>&lt;br&gt;Miguel Gil Terte, DG ENER, European Commission</td>
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<td>10.30 - 10.40</td>
<td><strong>Views on how these MMR findings relate to price volatility developments</strong>&lt;br&gt;Pawel Lont, European Federation of Energy Traders (EFET)&lt;br&gt;Bronagh O'Hagan, Eurogas</td>
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<td>10.40 - 10.55</td>
<td><strong>Q&amp;A</strong></td>
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<td>10.55 - 11.00</td>
<td><strong>Conclusions</strong>&lt;br&gt;Dennis Hesseling, ACER</td>
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Key findings of the Report
The gas price surge can be split into three distinct phases. In the latest phase, price developments are since recently affected by supply scarcity risks.

Source: ACER based on ICIS Heren’s price data
Selected long-term contracts are significantly cheaper than hub-priced gas supply

Estimated prices of long-term supply contracts at selected MS from selected supply origins - euros/MWh - 2021 – April 2022

Long-term supply contracts’ prices show a considerable variation depending on the employed price formulas

Source: ACER calculation based on ICIS Heren and Eurostat Comext
Lower Russian supply balanced so far by increased LNG supply and lower consumption

While LNG supply is rising significantly (+60% YTD), mostly coming from the US, it will be a challenge to meet the targeted two thirds reduction of Russian supply (-40% YTD)

Source: ACER calculation based on International Energy Agency, Refinitiv, Gassco, ENTSOG and Eurostat
Russian long-term contracts cancelled in 2022 account for a modest share of prevailing supply commitments.

Evolution of the nominal capacity of pipeline long-term supply contracts prevailing in the EU and expiration calendar – bcm/year

EU intends to end reliance on Russian gas in 2027

Russian long-term contracts towards EU markets last significantly beyond 2027. This adds complexity to current considerations.

Source: ACER calculation based on Cedigaz and National Regulatory Authorities
IP bookings flexibly reacting to shifting flow patterns, although network bottlenecks and auction issues emerged

Gas capacity booking trends - breakdown of CAM booked transportation capacity and expired legacy booked capacity – MWh/day yearly average – 2019 – May 2022

From Q4 2021 rising short-term bookings are observed in view of the EU gas system reconfiguration: i.e. rising LNG, West-to-East rising flows

Source: ACER estimate based on ENTSOG, PRISMA, RBP and GSA
Market expectations point to current high prices persisting until 2024

Evolution of gas (TTF) forward prices comparing the contractual outlook (October 2021 - June 2022)

Forward gas prices have risen recently due to reduced gas deliveries, in particular via Nord Stream 1

Source: ACER calculation based on ICIS Heren
Recommendations
What to preserve?

- Hub prices and hub trading have managed to attract additional supplies into the EU as well as sustained market integration

What to accelerate?

- Re-establishing security of supply is key. That might entail signing new long-term supply contracts. Companies shall aim for as much supply flexibility as possible, in view of the reducing role of gas
- Explore the use of the EU energy purchase platform to enhance the EU buyers’ negotiation power and to avoid outbidding each other

What to change?

- Consider implementing oversight measures over interval price limits at gas trading hubs
- Implement centralised and mandatory reporting of long-term contracts in the EU
Area II: Preparation for the next winter: Enhance infrastructure flexibility, demand savings and monitoring

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<th>What to preserve?</th>
<th>What to accelerate?</th>
<th>What to change?</th>
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<td>✓ The current low barriers to cross-border trade, also facilitated by harmonised network codes</td>
<td>✓ Speed up targeted ‘LNG and congestion’ related investments. Do that under a regionally coordinated approach, to optimise resources. Allow new infrastructure to flow hydrogen</td>
<td>✓ Further promote demand-side response. Implement competitive processes that compensate consumers offering to limit consumption</td>
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<td>✓ The improved cross-border transportation capacities, including reverse flows, that are enabling diversifying gas supply away from Russia</td>
<td>✓ Implement demand saving strategies in a coordinated manner and based on CBAs</td>
<td>✓ Ensure that storage regulation is resilient against external supply shocks. ACER backs the EC and Member States ongoing initiatives addressing these issues: e.g. filling targets</td>
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Views on MMR findings
• Markets continue to work and support supply security
• Strong preference for long-term contracts may have its consequence
• Storage filling obligations can help ensuring a tool for direct crisis response, but do not offer more gas under the current shortage
• Many barriers to trade still exist throughout Europe and need to be addressed.
Q&A
Back-up
Energy dependence on Russia is significant although gradually declining.

Source: ACER based on Eurostat data.
Increasing LNG deliveries are addressing the reduction in Russian supply

Comparison of European and Asian wholesale price spreads vs EU+UK LNG and Russian pipeline imports – 2021 to July 2022 – euros/MWh and bcm/period

The price spreads between Europe and Asian gas markets, along with the need to replace Russian flows, have highly determined the volumes of LNG shoring into the EU across last months

Source: ACER calculation based on ENTSOG, Refinitiv and ICIS Heren data.
Future LNG needs for the EU are significant

REPowerEU targets to replace up to 50 bcm of Russian gas per year via extended procurement of LNG. This is more than 10% of EU 2021 gas demand and ~10% of global 2021 LNG trade.

Source: ACER based on European Commission
Geography matters: ‘East-to-West’ pipelines dominate

The gas system has so far accommodated flows in response to price signals. New emphasis on West to East flows requires new investment.

Source: ACER calculation based on IEA and ENTSOG
Record-high hub price differences are emerging since Q1 2022

Day-ahead price spread between TTF and NBP, TRF and PVB hubs – 2021 June 2022 – euros/MWh

Price differences mainly result from dissimilar LNG deliveries along with cross-border interconnection capacity constraints

Source: ACER calculations based on ICIS Heren and national exchanges.
Oil-indexed long-term contracts have become significantly cheaper than hub-priced gas supply

As a result, the welfare gains achieved from the revisions of LTCs into hub-indices have been offset and even turned negative

Source: ACER estimations based on Refinitiv, BAFA, and ICIS Heren
Gas often drives electricity prices

Electricity prices have also reached record-highs, driven by the rise in gas-fired power generation costs, as gas units tend to set the marginal price reference in most EU pay-as-clear power markets.

Source: ACER based on ICIS Heren
Filling gas storages for upcoming winter is crucial

Storages filled at ~60% beginning of July, roughly on track to meet the target of 80% by 1 November 2022. Storage remains key for winter resilience.

Source: ACER based on GIE data (excluding Ukrainian and Serbian sites).