



European Union Agency for the Cooperation  
of Energy Regulators

**CEER**

Council of European  
Energy Regulators



# ACER Gas Wholesale Market Monitoring Report 2021

Key findings and Recommendations

Online webinar, 8<sup>th</sup> July 2022

# Welcome

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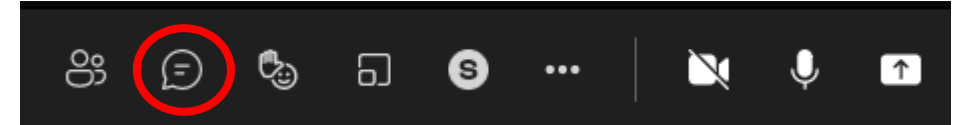
# To enable everyone to contribute To ensure a productive workshop

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



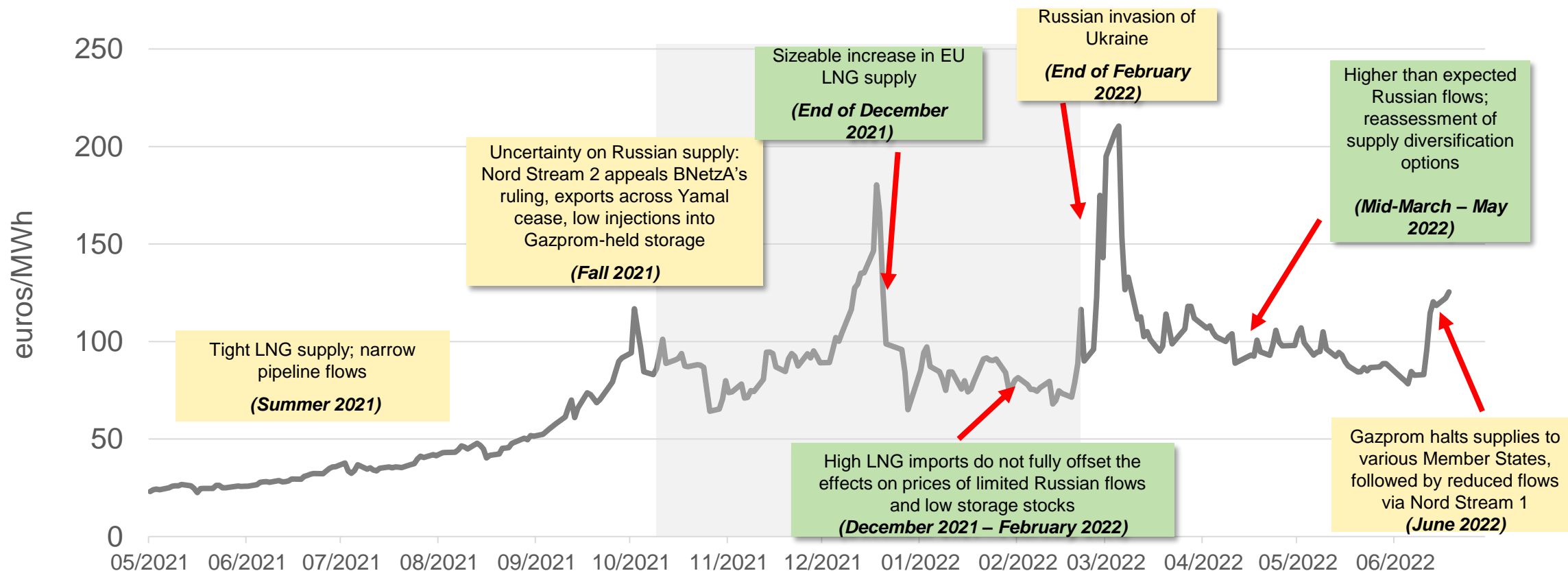
|               |   |
|---------------|---|
| 10.00 - 10.05 | <b>Introductory Remarks</b><br>Annegret Groebel, CEER   |
| 10.05 - 10.25 | <b>Key findings: Gas Wholesale Market Monitoring Report (MMR)</b><br>Joaquin Garcia Gimenez, ACER<br>Mitja Maletin, ACER<br><br><b>Gas Wholesale MMR Recommendations</b><br>Csilla Bartok, ACER<br>Markus Krug, ACER/CEER |
| 10.25 - 10.30 | <b>Views on how these MMR findings relate to the future RePower EU strategy</b><br>Miguel Gil Tetre, DG ENER, European Commission   |
| 10.30 – 10.40 | <b>Views on how these MMR findings relate to price volatility developments</b><br>Pawel Lont, European Federation of Energy Traders (EFET)<br>Bronagh O'Hagan, Eurogas  |
| 10.40 - 10.55 | <b>Q&amp;A</b>  |
| 10.55 - 11.00 | <b>Conclusions</b><br>Dennis Hesseling, ACER  |

# Key findings of the Report

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# Three phases, each with different dynamics

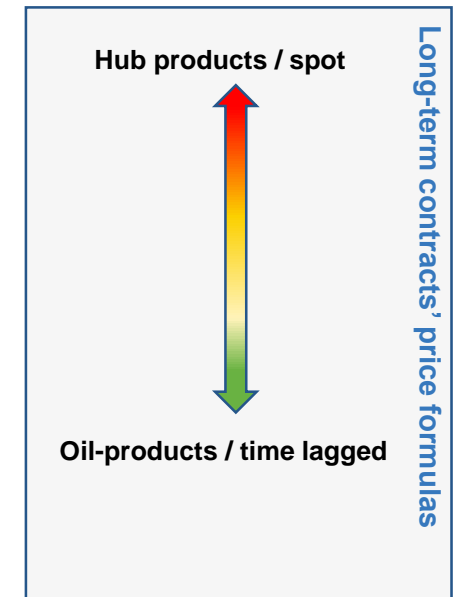
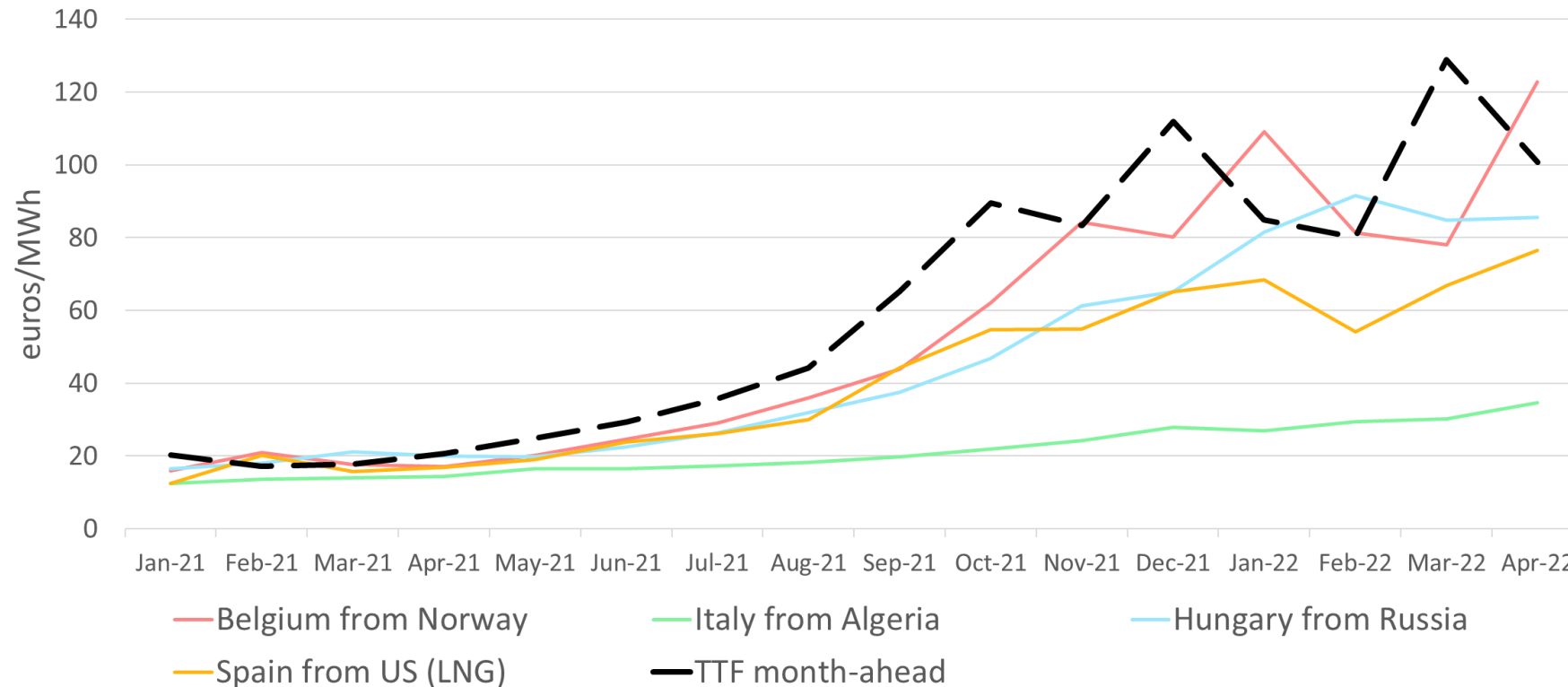
## Overview of events and market fundamentals driving EU gas prices - TTF month-ahead contract (euros/MWh) - May 2021 - June 2022



**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**

# Selected long-term contracts are significantly cheaper than hub-priced gas supply

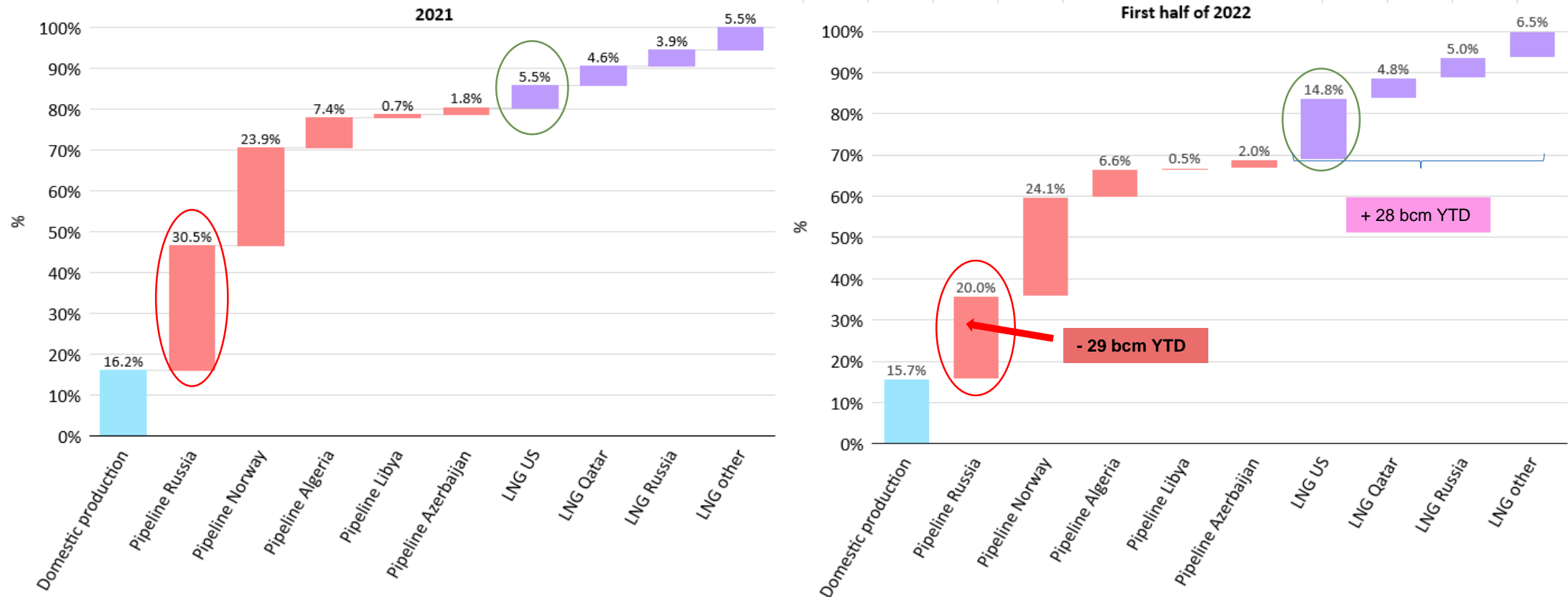
Estimated prices of long-term supply contracts at selected MS from selected supply origins - euros/MWh -  
2021 – April 2022



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

# Lower Russian supply balanced so far by increased LNG supply and lower consumption

EU and UK gas supply portfolio by origin – 2021 (100% = 480 bcm) vs First Half 2022

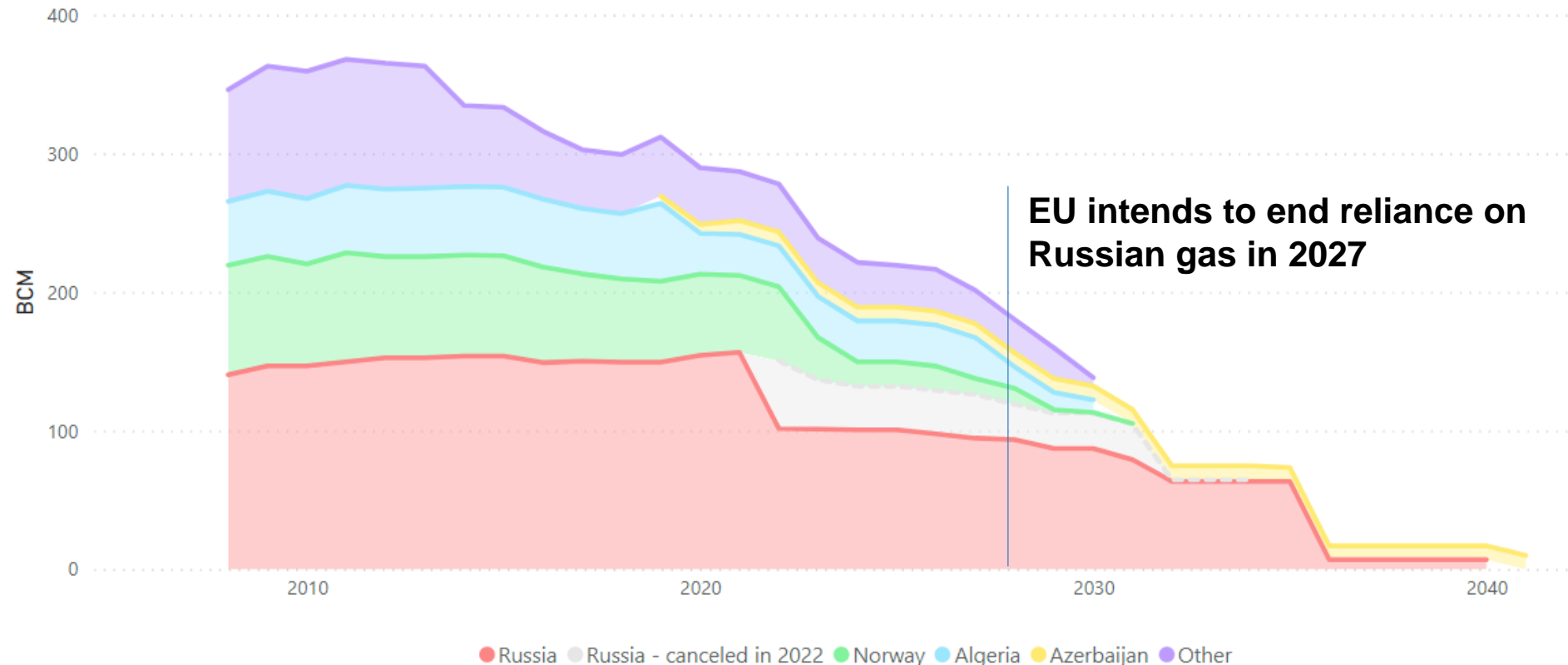


**While LNG supply is rising significantly (+60% YTD), mostly coming from the US, it will be a challenge to meet the targeted two thirds reduction of Russian supply (-40% YTD)**



# Russian long-term contracts cancelled in 2022 account for a modest share of prevailing supply commitments

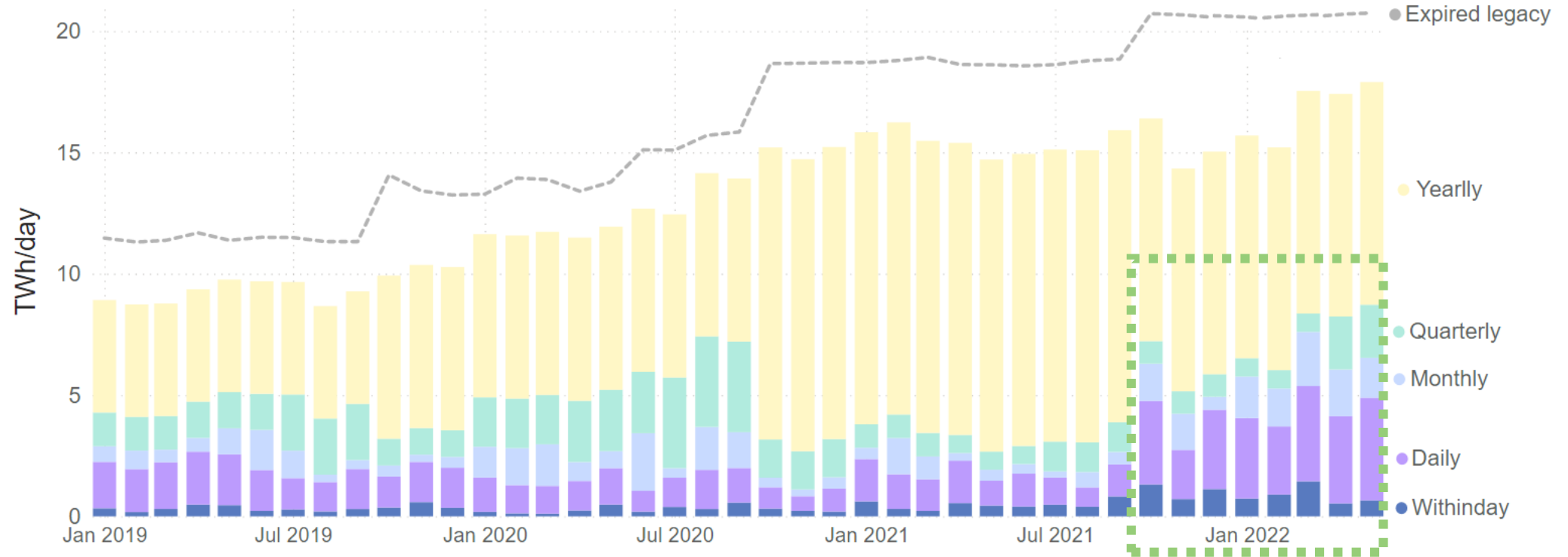
## Evolution of the nominal capacity of pipeline long-term supply contracts prevailing in the EU and expiration calendar – bcm/year



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

# IP bookings flexibly reacting to shifting flow patterns, although network bottlenecks and auction issues emerged

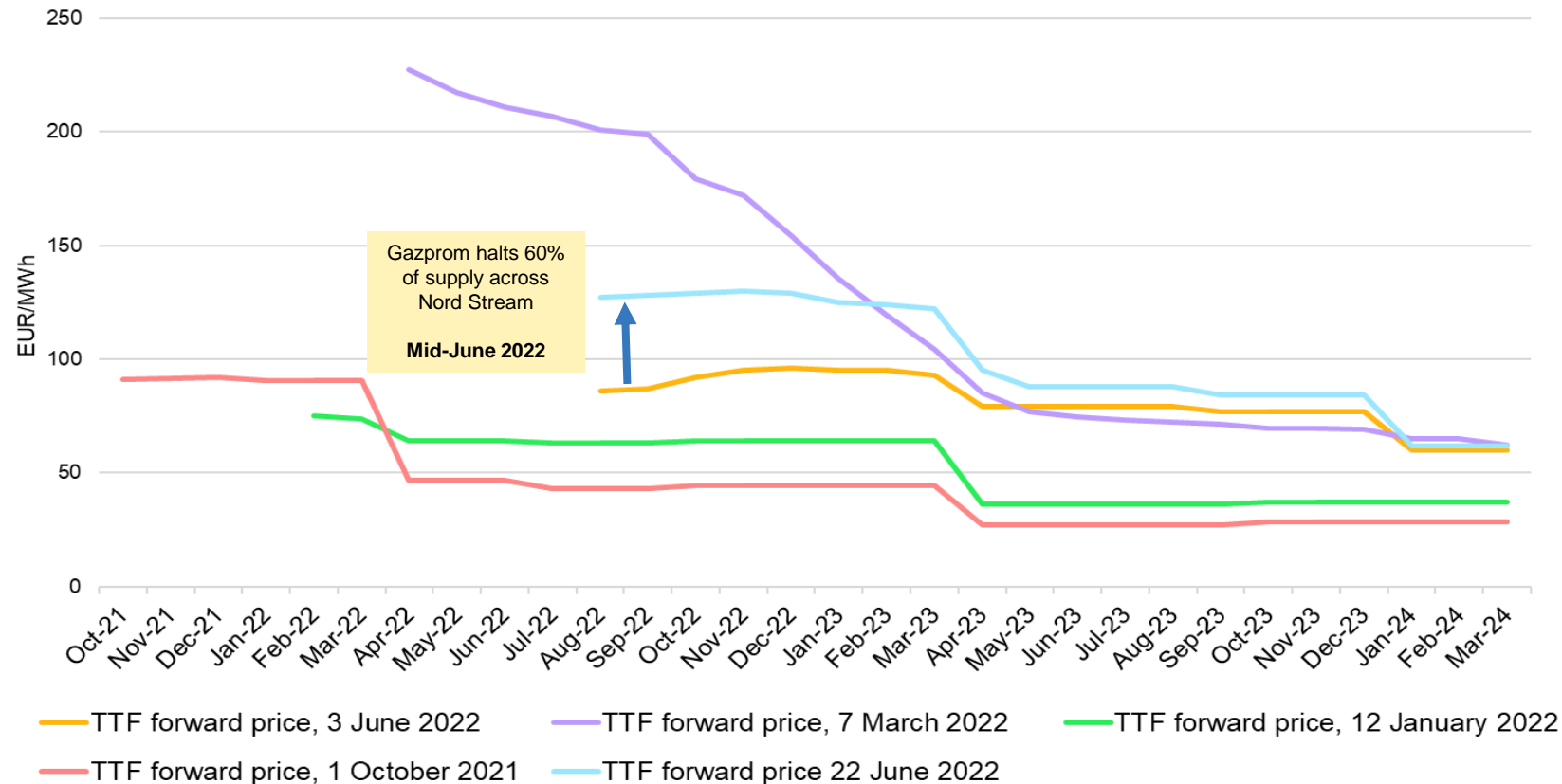
**Gas capacity booking trends - breakdown of CAM booked transportation capacity and expired legacy booked capacity –  
MWh/day yearly average – 2019 – May 2022**



**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**

# 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**

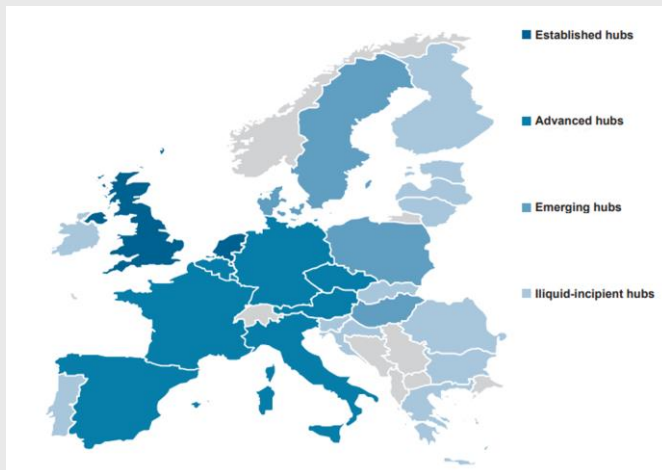
# Recommendations

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# Area I: Gas contracting equilibrium

## 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

### What to preserve?

- ✓ **The current low barriers to cross-border trade**, also facilitated by harmonised network codes
- ✓ **The improved cross-border transportation capacities**, including reverse flows, that are enabling diversifying gas supply away from Russia

### What to accelerate?

- ✓ **Speed up targeted 'LNG and congestion' related investments**. Do that under a regionally coordinated approach, to optimise resources. Allow new infrastructure to flow hydrogen
- ✓ **Implement demand saving strategies** in a coordinated manner and based on CBAs

### What to change?

- ✓ **Further promote demand-side response**. Implement competitive processes that compensate consumers offering to limit consumption
- ✓ **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

# Views on MMR findings

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- 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

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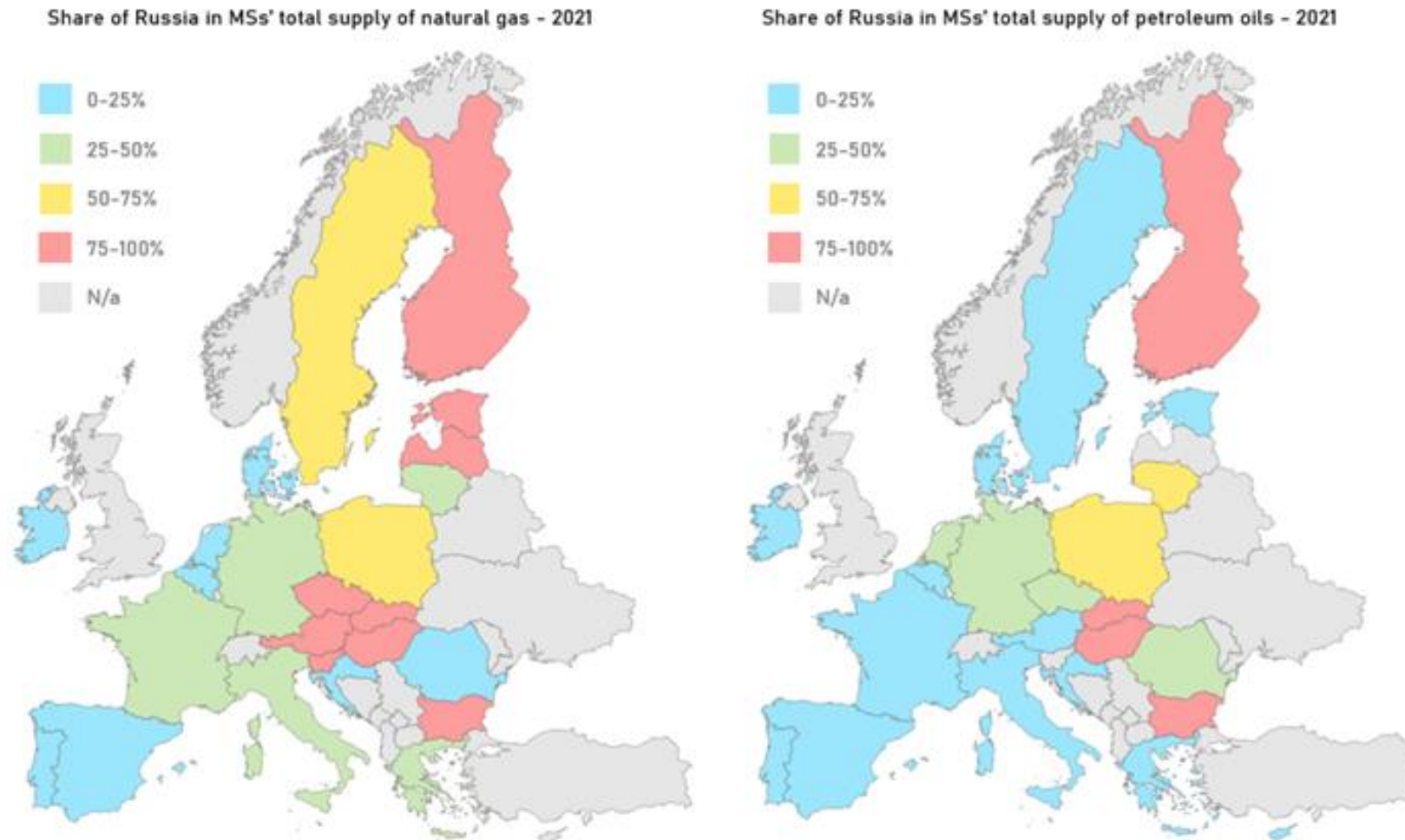
# Back-up

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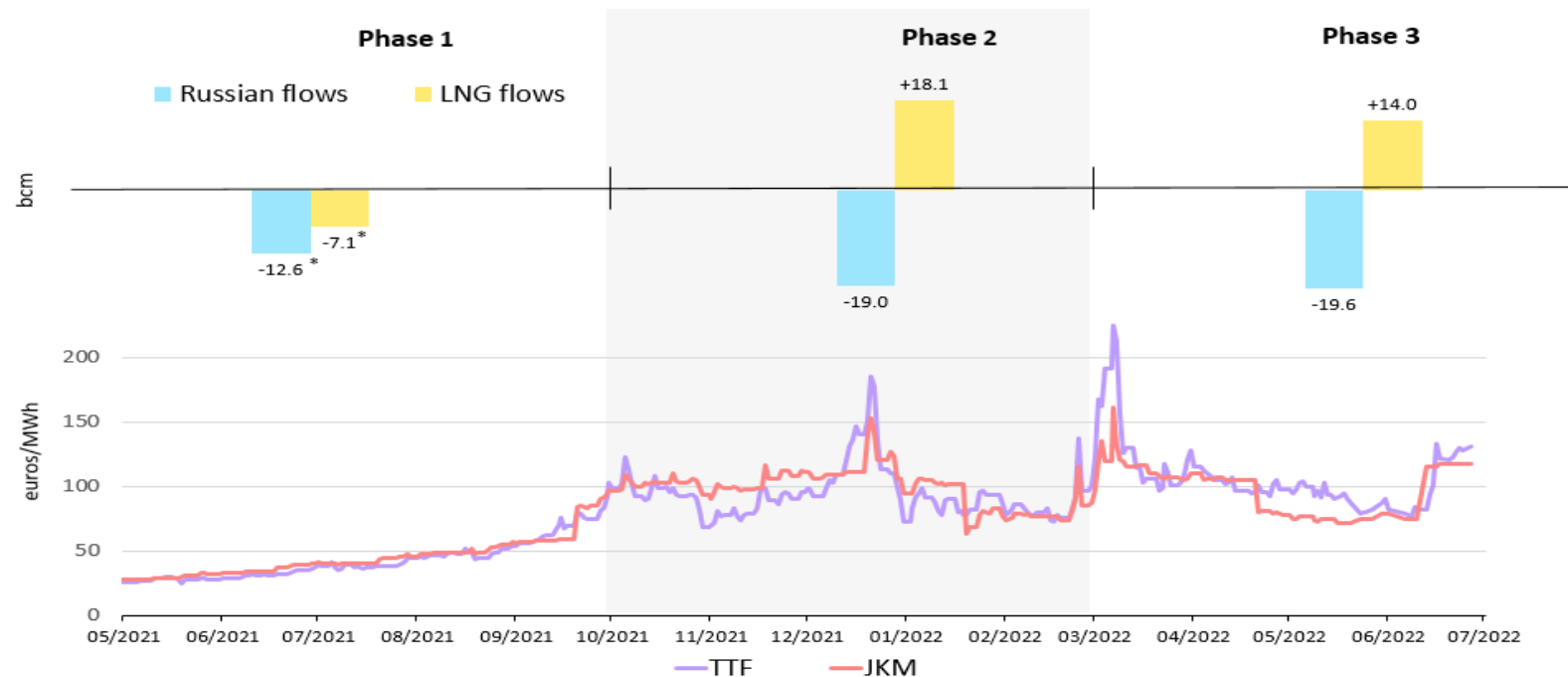
# Energy dependence on Russia is significant although gradually declining

## Share of Russian physical gas and oil in total supply of individual MSs – 2021 - % ranges



# Increasing LNG deliveries are addressing the reduction in Russian supply

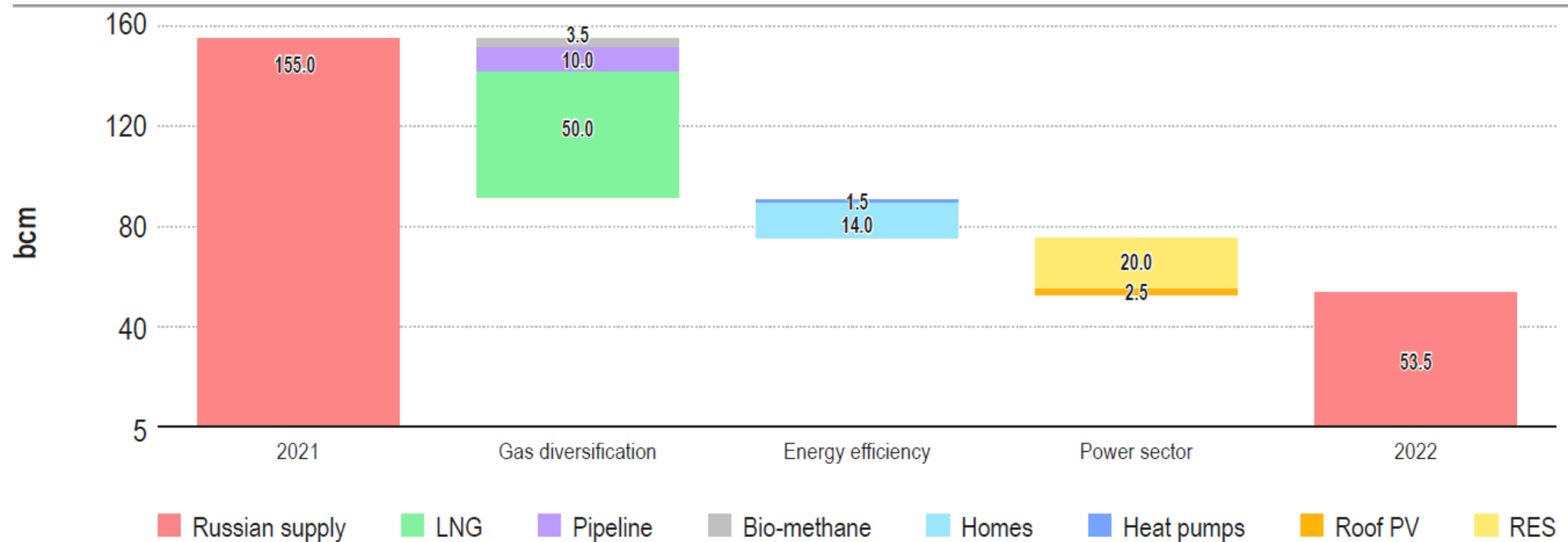
Comparison of European and Asian wholesale price spreads vs EU+UK LNG and Russian pipeline imports – 2021 to July 2022 – euros/MWh and bcm/period



**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**

# Future LNG needs for the EU are significant

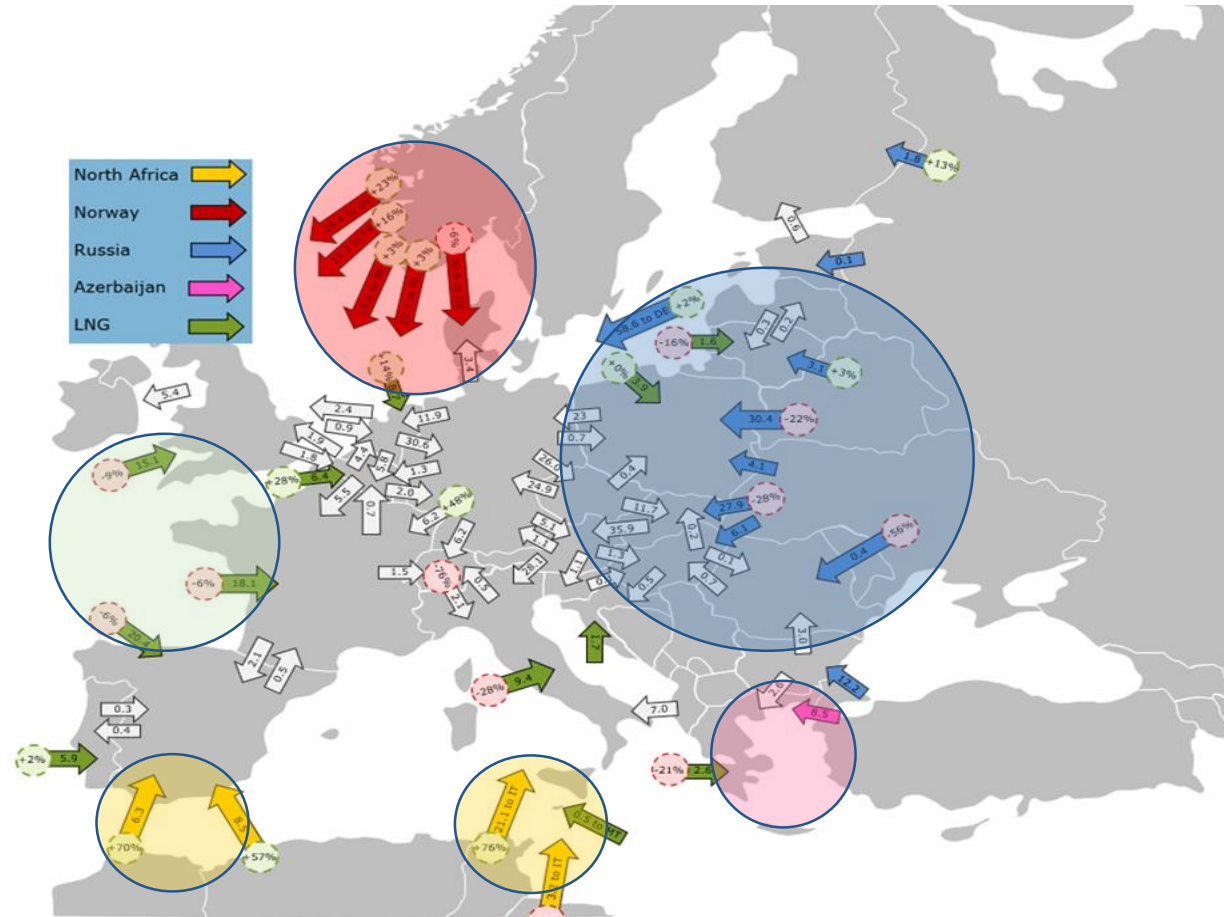
REPowerEU gas supply diversification and Russian supply reduction efforts in 2022 – bcm



**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.**

# Geography matters: ‘East-to-West’ pipelines dominate

EU and Energy Community countries cross-border gas flows (2021, bcm/year)



# 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

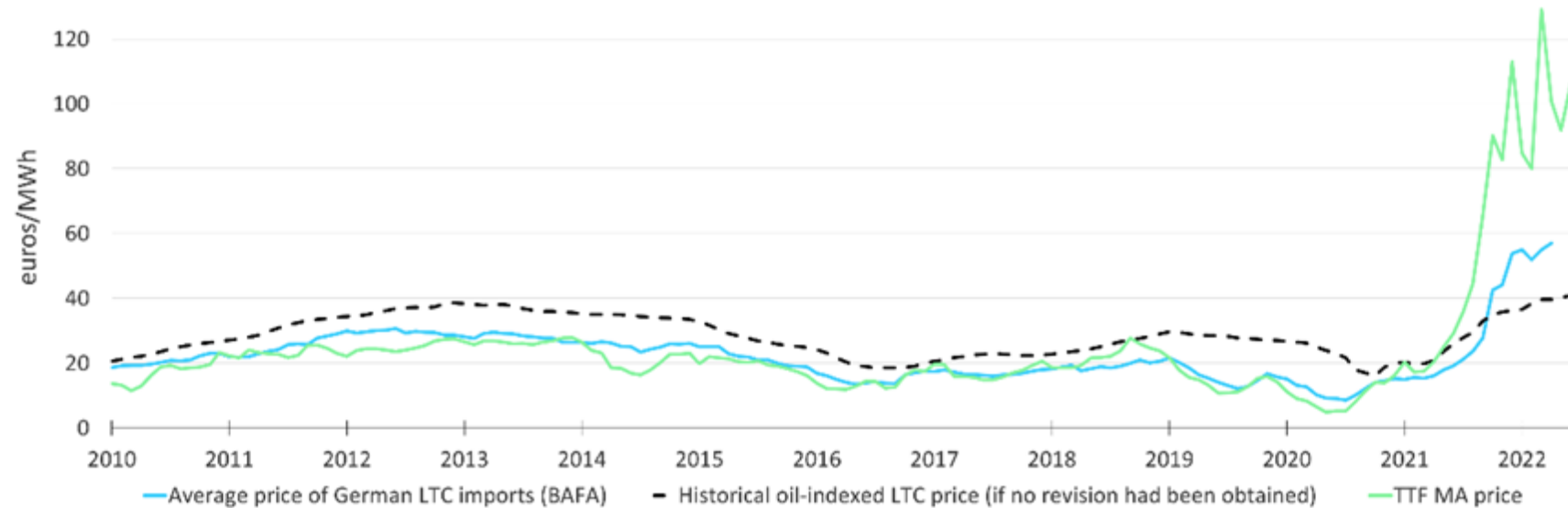


**Price differences mainly result from dissimilar LNG deliveries along with cross-border interconnection capacity constraints**



# Oil-indexed long-term contracts have become significantly cheaper than hub-priced gas supply

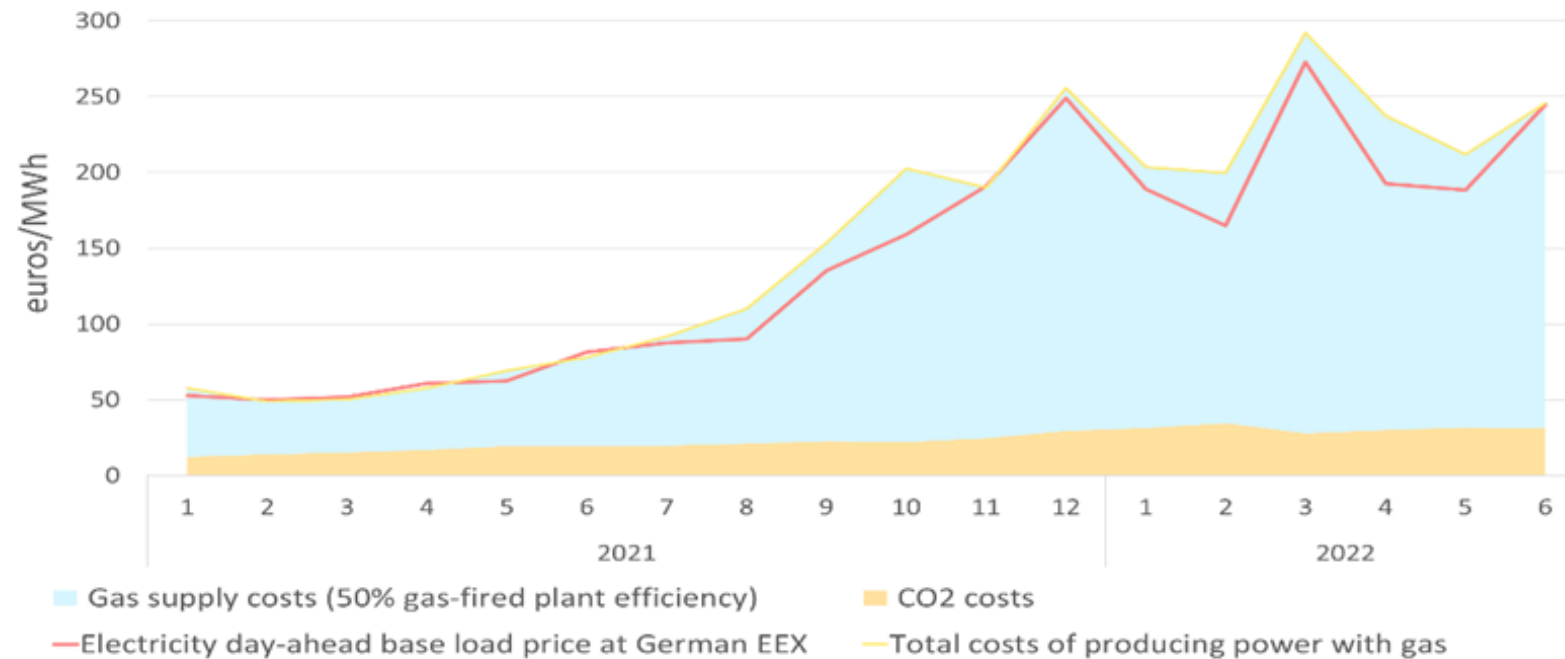
Evolution of selected gas supply price references in the EU, 2010 – June 2022 – euros/MWh



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

# Gas often drives electricity prices

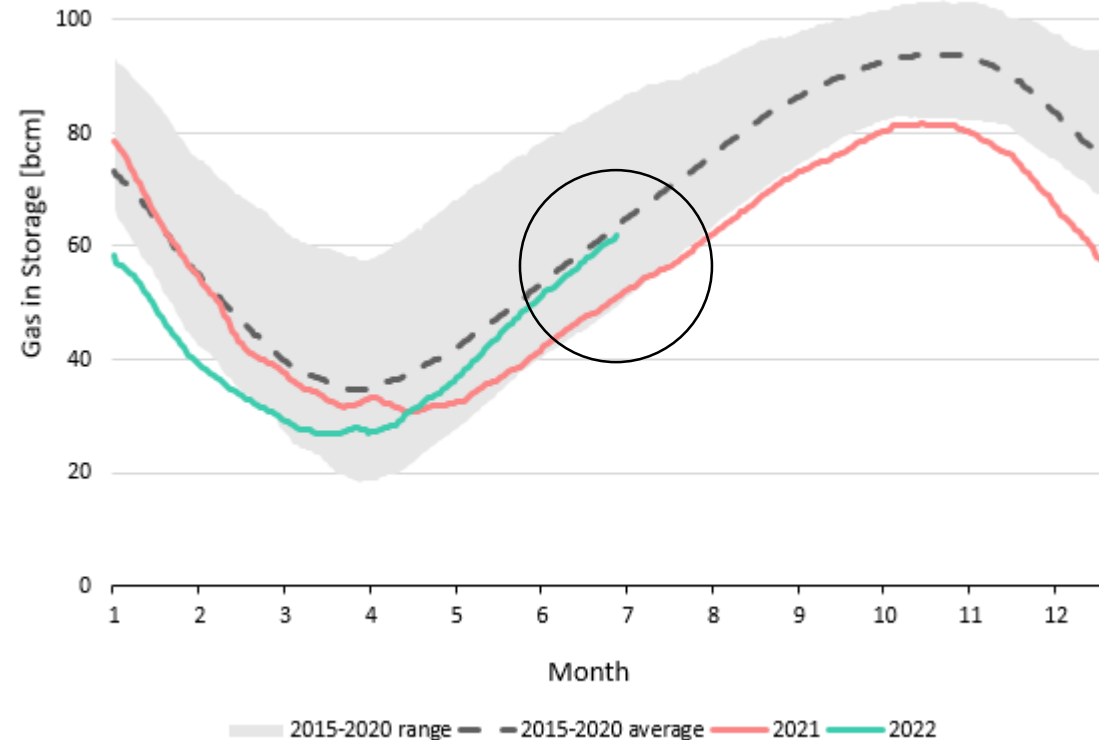
Electricity price development in Germany and breakdown of the costs of producing electricity from gas (May 2021 – June 2022) - (EUR/MWh)



**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**

# Filling gas storages for upcoming winter is crucial

Evolution of EU storage site levels – 2015 to June 2022 – bcm



**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.**