

Extraordinary TTE (Energy Council) of 9 September 2022

Possible emergency measures to mitigate high energy prices

Presidency background paper

1) Introduction and background

Rising energy prices and extreme volatility caused by continued supply cuts from Russia including recent full and indefinite interruption of Nord Stream 1 pipeline operation and the unprovoked invasion of Ukraine have been steering the markets, especially the gas one. High energy prices and volatility are feeding rising inflation, and have severe impacts on all businesses and consumers, including, but not limited to the most vulnerable, energy poor, and increasingly also middle-income households. In addition, electricity generation capacity in the EU has been significantly lower than usual, notably due to the shortfall of nuclear power in some Member States, the decrease of European hydropower generation, low levels of Rhine and other rivers affecting the transport of coal, and unfavourable wind conditions, among other factors. Shortages in power generation from these energy sources are driving gas demand.

In such situation, it is critical to take stock of market developments and identify possible measures to address high electricity prices driven by high gas prices. Further to the Commission's toolbox of October 2021 and building on the REPowerEU Plan published in May, the Member States have already adopted various measures to remedy the impacts at national level, but as the situation on the market is deteriorating, social partners call for swift implementation of EU-wide solutions that would mitigate the negative impacts on the European markets. It is clear that the upcoming heating season will test the resilience of the EU energy market.

Most recently, liquidity concerns for electricity trading have emerged as a new challenge to the EU internal market putting pressure on market actors hedging positions. Daily price fluctuations have sometimes resulted in significant increases in margin requirements for futures contracts. This makes it almost impossible for increasing number of companies to keep their hedging positions open, triggering their withdrawal from the futures markets. Lower levels of participation in the futures markets decrease liquidity in these markets and, in turn, exacerbate price volatility in a negative feedback loop.

In order to tackle the above-mentioned issues, Member States have introduced various national measures. To further address the challenges at the EU level, the following options can be considered.

Options considered

A) Decoupling/limiting the impact of the price of gas on the price of electricity

- Temporarily capping the price of gas used for the production of electricity;
- Temporarily capping the price of imported gas from specific jurisdictions;
- Temporarily excluding the electricity production from gas from merit order and price setting on the electricity market.

B) Increasing liquidity on the market

- Immediate credit line support for market participants experiencing very high margin calls, including the case for specific solution at European level, for instance through the role of the ECB;
- Modifying the trading rules on energy exchanges, such as modifying temporarily the regulatory requirements for collateral in electricity trading including revisiting automatic price ceilings adjustments;
- Temporary suspensions of European power derivatives markets; or subject the trading of futures to specific bands.

C) Coordinated demand reduction measures for electricity

- Demand reduction measures in the electricity sector, for example similar to coordinated demand reduction measures in the gas sector as adopted in July 2022.

D) Limiting the revenues of inframarginal electricity producers

- Temporarily capping the electricity price earned by inframarginal generators.

E) Impact of the EU ETS system

- Assessing the options of how to make use of the EU ETS in addressing current high electricity prices and ensuring that the Council makes swift progress towards the agreement on the REPowerEU chapters in Recovery and Resilience Plans (RRF), including the possibility of using allowances from the Market Stability Reserve.

The following basic principles of EU energy policy and related objectives should be observed in any relevant future intervention:

- security of supply of electricity and gas at European level should be preserved;
- internal energy market and related benefits should be preserved;

- measures should not lead to an increase in gas consumption, nor should they jeopardise the efforts to reduce gas consumption in Europe;
- response should be simple to implement and coordinated EU-wide;
- measures should alleviate the impact on consumer's energy bills;
- consistency with the European Green Deal objectives and implementation.

The above-mentioned options for emergency measures are intended as an immediate response to the current extraordinary situation. Yet, we should continue discussing a systemic upgrade of the Internal Energy Market Design so that it would be better prepared to similar market conditions in the future. Such an upgrade must be properly considered, build upon thorough analysis and impact assessment and take into account progressive implementation of a future decarbonised energy market.

Questions:

1. *Do you agree that there is a need for EU-wide measures to be proposed by the Commission to be adopted in time for the upcoming heating season? If so, which of the outlined or alternative options should be pursued?*
2. *What kind of specific instruments would you deem appropriate to achieve swift resolution of the above-mentioned problems?*