



EUROPEAN COMMISSION

Ursula von der Leyen
The President

Brussels, 5 October 2022

Dear Members of the European Council,

Dear colleagues,

We are at a critical juncture once more. The energy crisis is severe and has entered a new stage. Only a common European response can reduce energy costs for families and businesses and provide energy security for this and coming winters.

Russia's unprovoked war of aggression against Ukraine and its weaponisation of energy supplies have exposed our dependency on Russian fossil fuels, tested our tools to ensure security of supply and driven energy prices to unprecedented levels. Tight supply conditions and high uncertainty in global energy markets have increased Russia's attempts at blackmail by arbitrarily disrupting pipeline gas supplies. Instead of honouring its long-term contracts, Russia unilaterally is cutting pipe-gas deliveries, driving up the prices on the spot market and increasing its LNG deliveries – thus increasing profits despite significantly lower supplies.

We have reacted with unity, determination and solidarity. Our gas storage capacity is already filled at close to 90%. We compensated the reduced Russian pipeline gas supplies by more diversified imports from trusted and reliable partners. And thanks to the strong commitment of our Member States and the Presidencies, we reached rapid agreements on the gas saving and electricity emergency interventions. Work is also ongoing to address liquidity problems in the derivatives exchanges that support the energy markets.

While gas prices have come down in the past weeks, they remain very high and are putting a heavy burden on people and our economy. We need to protect our single market, which has time and again provided resilience in the face of crisis. Moreover, we need to preserve our jointly agreed climate ambition, which will also enhance our sovereignty. To avoid serious fragmentation, we need a united and common European response. We need to preserve a level playing field, without distortions of the single market and act together in a spirit of strengthened solidarity between Member States and with our neighbours.

After carefully listening to the discussion of the Energy and Finance Ministers in the past days and ahead of our upcoming discussion in Prague, let me lay out our roadmap for further action.

First, we need to take actions that can dampen the price we pay for our gas imports, while preserving security of supply.

./...

I therefore recommend stepping up negotiations with our reliable suppliers to reduce the prices of imported gas of all kinds. Thanks to trusted partners like Norway and the USA, we have been able to substitute Russian pipeline gas at record speed. A negotiated corridor that lowers costs of supplies from these partners would be in our mutual interest. Our ongoing talks with Norway should result in a long-term energy partnership that reflects our shared decarbonisation ambition, offers a perspective for lower gas prices amid the present crisis.

The European energy platform should play a central role in securing our access to globally competitive gas supplies. I call on you and companies to step up the joint outreach. To enable the Platform to play its role effectively, I envisage a proposal to set out rules for Member States' and industry's participation. The joint EU energy platform should, first and foremost, coordinate joint filling and storage management in view of the next filling season. We have to avoid a scenario in which member states are outbidding each other and driving prices up. Joint purchasing will strengthen our hand to reduce suppliers' high rents in the current market situation. It may also result in greater access to new or additional gas sources across EU Member States, avoiding costly and inefficient outbidding. With Member States and companies on board, it could engage in longer term partnerships with suppliers, providing a perspective from the current emergency to a future renewable hydrogen supply.

Secondly, I propose that we work together with Member States to develop an intervention to limit prices in the natural gas market.

Today, much of Europe pays a higher price for its gas, in particular LNG, than its global competitors. The main price benchmark for all gas traded in the EU, the Title Transfer Facility (TTF), is no longer representative of the imported gas. The Commission has kick-started work on a complementary EU price index to better reflect Europe's energy reality of today and ensure a better functioning market conducive to lower prices.

Pending the introduction of such a complementary benchmark, we should consider a price limitation in relation to the TTF in a way that continues to secure the supply of gas to Europe and to all Member States and that would demonstrate that the EU is not ready to pay whatever price for gas.

As the EU imports almost all the gas it consumes, the deeper the public intervention on gas prices we envisage, the more demand reduction and supply solidarity we need. We therefore need to acknowledge the risks that a cap on gas prices entails and put in place the necessary safeguards. More demanding gas savings obligations will need to be prepared, enabled by EU-wide demand reduction auctions, as well as binding solidarity agreements between Member States. The Commission will work closely with your

authorities to design a possible capacity-limiting measure, mindful of national differences in the energy market.

../...

Thirdly, high gas prices are driving high electricity prices. We should limit this inflationary impact of gas on electricity, everywhere in Europe. That is why, accompanying our action on imported gas, we are ready to discuss the introduction of a temporary cap on the price of gas that is used to generate electricity. This should reduce electricity prices, in anticipation of a structural reform of the electricity market. Such an EU-agreed cap would need to be designed so that it does not increase overall gas consumption. Such a measure requires both binding saving requirements to compensate for weaker price signals and safeguarding cross-border flows of subsidised electricity and to our neighbours.

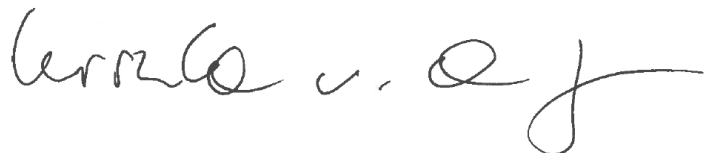
Fourthly, I believe we need to boost investment to accelerate the transition to energy independence. Investments in infrastructure such as pipelines, interconnectors or renewables and energy efficiency (like insulating houses and installing heat pumps) will help all of us become less exposed to high fossil energy prices and foster our strategic autonomy. With REPowerEU we have taken important first steps of solidarity. However, it will not be sufficient to ensure a necessary level of reform and investment in all member states needed in this energy-crisis. The Commission will look into complimentary sources of funding to enhance the firepower of REPowerEU.

Finally, we will continue our work on the structural reform of the electricity market design. By the end of the year we will present our ideas to Council and Parliament for a reform that makes our electricity market fit for a more decarbonised future.

Let me also come back to the recent sabotage of the Nord Stream 1 and Nord Stream 2 pipelines. We cannot tolerate any deliberate disruption of European energy infrastructure. I look forward to presenting you measures regarding preparedness, stress testing, response, international cooperation and information exchange.

I look forward to our informal discussion in Prague before the European Council in October. I trust it will enrich the proposals the Commission is ready to put forward, reflecting our joint response to the enormous challenge we jointly face in the coming winter.

Yours sincerely,



Ursula von der Leyen