

## **Non-paper on gas prices in the European Union**

*the need for a “set of measures” rather than to “set one measure”*

*to set Europe on a truly preventive pathway*

The high level of energy prices, initiated by Russia’s war of aggression against Ukraine, poses a severe challenge for households and companies in the European Union. The European Union must act together to address these challenges. It has already made substantial progress to increase stability on energy markets, to strengthen our security of supply and to provide relief for customers from high energy prices. Beyond, many Member States have followed the “Tool-Box” recommendation by the European Commission and have adopted measures to relieve the effect of high gas prices on customer bills. However, this has also caused concerns with a view to a level playing field as Member States are affected differently by the gas prices and have different financial abilities to respond and take part in the European gas market.

Therefore, **we need to do more and in a joint European approach. We need to jointly lower gas prices** and to become independent of Russian gas as soon as possible, thereby **ensuring the security of supply and avoiding the rationing of gas**. Failure to take sufficient measures would weaken our internal market, harm our economies and the solidarity among citizens as well as among Member States and would undermine confidence in our political systems.

The constructive discussions we had with other Member States also showed that one of the causes of high prices in other regions than Northwest Europe is that the price of gas traded via the Dutch Title Transfer Facility (TTF) is (partially) used as a reference or index for (long term) contracts. The high TTF price does not directly affect the wholesale price of the Non-TTF-zone with lower prices due to cross-border trade, as price convergence ends once the interconnector capacity is exhausted. Instead, it is indirectly affected due to the “indirect spill-over-effect” due to indexing gas contracts to TTF.

In the intense debate over the last months it became very clear: there is no one simple solution to the problem. We need a coordinated effort on a set of measures rather than one single measure. Any measure that is solely aimed at the symptom, a high gas price, falls short of the need to effectively solve the root cause of the problem: high gas demand, uncoordinated gas purchasing leading to undue windfall profits also by our partners, missing infrastructure, and low supply coming from gas alternatives.

Therefore, we propose the **following action package of no-regret-measures that are leading to a prevention pathway for Europe:**

### **1. Joint purchasing: swift implementation of the Joint Gas Purchasing Platform**

We need to bundle the European purchasing power to ensure that Member States are no longer in a position that they have to accept any price. It is important that measures are taken to avoid that the different regional groups established under the EU Energy Platform are going to compete with each other for scarce resources, thereby driving up the price and hampering security of supply. We need to act together as one building block.

Therefore, it is imperative to get the **Joint Gas Purchasing Platform of the European Union operationalized immediately**. Bundling the EU’s gas purchasing would help avoiding **out-bidding each other and hampering security of supply**.

It is essential **that energy companies and large gas consumers are involved in the process** and take a leading role. These parties also bring essential know how and expertise on purchasing. We particularly see **a key role for state-owned companies and private companies on which storage obligations have been imposed** to negotiate import contracts and purchase gas volumes for the purpose of filling the gas storages.

**2. Coordinated and earlier filling EU gas storages and addressing interconnections**

We need to coordinate the filling of EU gas storages in 2023 and 2024 to avoid internal grid constraints in the North-Western-European “high price zone”. Filling storages at the same time with large volumes leads to congested grids, driving up gas prices. Our analysis of the last storage season clearly shows that “steep storing” (late start, high ambition) has driven gas (TTF) prices to a significant extent. Countries like Germany filled their gas storage much more rapidly than in normal years. We have observed rapid increases in gas prices coinciding with the filling of gas storages in Europe.

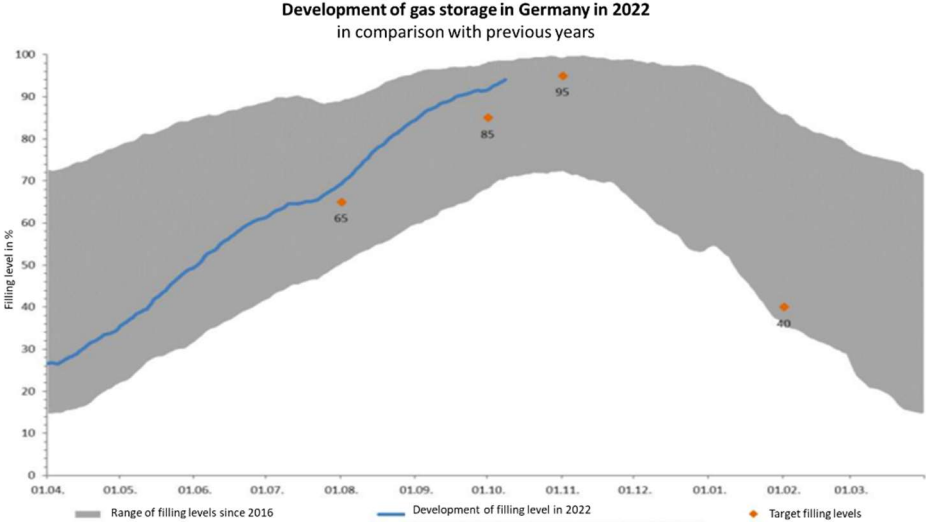


Figure 1: Storages were filled up much more rapidly in Germany in 2022 than in normal years

Now that the storages are adequately filled, prices have decreased again.

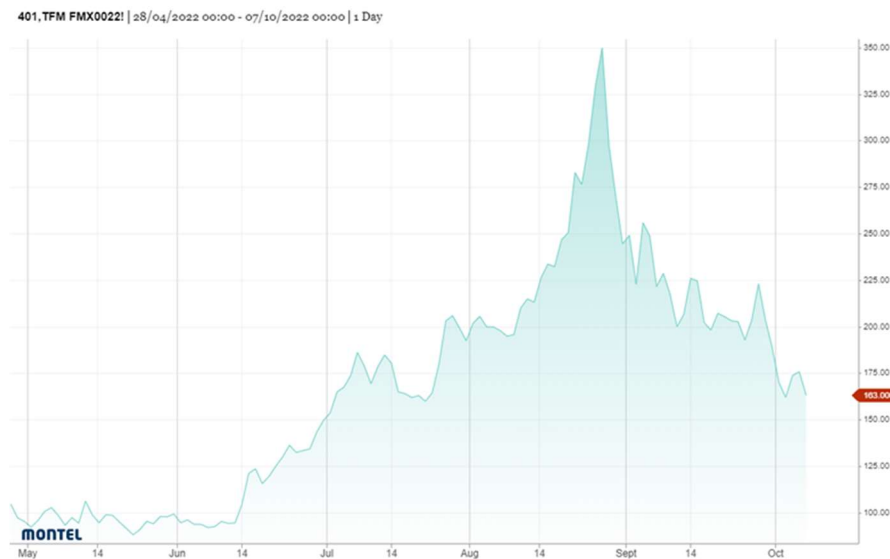


Figure 2: TTF price development in 2022

It must be the EU's priority to **address this element of the root causes** of high gas prices and prevent the same situation as seen this summer from happening again in 2023. Coordinated and more balanced filling trajectories, spread out over the whole filling season and a possible expansion of the filling season are a key solution.

Beyond, Europe should aim at further measures to **address the physical limitation** problem:

- **increasing its storage capacity.**
- Optimizing interconnections should also be a priority among member states.

We agree with the Commission that the Joint Purchasing Platform should first and foremost coordinate joint filling and storage management in view of the next filling season by setting joint tender rules.

### **3. Coordinated and more intense energy diplomacy for gas with reliable partners**

Europe stands united in the challenge to substitute Russian pipeline gas by gas from reliable partners, primarily suppliers of LNG. The EU must **enter into more intense negotiations aiming at strong partnerships and new gas supply arrangements with its reliable partners**, including (but not limited to) Norway, Algeria and the US, to ensure the import of gas at reasonable prices. Russia's war on gas prices leads to undue windfall profits in our partner countries and Europe's industry suffering. This cannot be in our mutual interest. When bundling the EU's gas needs, **the EU could also offer more long-term contracts**. Long term contracts might give an incentive to our non-EU suppliers to reconsider the price. Beyond, long term contracts bring stability and a positive investment climate for parties investing in LNG production facilities as well as parties investing in import capacity in Europe. Looking ahead, the EU can also outline a pathway towards **sourcing climate-neutral hydrogen** from its gas suppliers, thus avoiding a carbon lock-in. The joint purchasing enables the EU to find the right mix between short term contracts, medium term contracts and long term contracts and agreeing with our partners to use some of the avoided windfall profits to invest in (renewable) hydrogen infrastructure.

Negotiations with our partners to look for mutually beneficial partnerships are much preferred to a cap on gas import prices.

#### **4. A more representative, voluntary benchmark for LNG imports**

We are **open to new LNG import benchmarks** that more accurately reflect the LNG-market conditions. We understand the concerns of our European Member States regarding the volatility of the TTF, given that they have linked their long-term contracts to the TTF index as one of the most liquid trading hubs and are now concerned that the TTF might have lost its representative value.

We call on the Commission to develop such a benchmark and thereby assessing carefully whether such a new benchmark has to remain voluntary to respect existing contracts and agreements.

We also ask the Commission to explore options to address this spillover effect on existing contracts without affecting the TTF wholesale market price.

#### **5. Import price cap on Russian gas**

**A cap on RUS pipeline gas can be considered** if it represents a practicable solution for those member states most affected. The consequences in terms of security of supply must be well understood and clarified ahead of time. Rationing need to be avoided.

#### **6. Reducing gas demand further**

We have already agreed on reliable and significant gas and electricity savings. **These demand reductions should be extended and topped up** to even more **ambitious and binding targets**. In the EU gas storage Regulation, we have already agreed to increase gas storage. Adapted targets for the coming year can help smoothing price peaks and strengthen security of supply in the long run.

#### **7. TTF**

In the context of rising prices, many EU countries have raised concerns regarding the volatility on the gas futures market and questioned the role of the Dutch Title Transfer Facility (TTF).

We are open to discuss additional measures such as **circuit breakers to address high volatility and margining**. Exchanges where Dutch TTF Futures are traded already have circuit breakers in place. The development and application of additional circuit breakers on the energy derivatives markets could alleviate intra-day volatility. For example, circuit breakers up to a few minutes that are related to the percentage of price increase in a certain timeframe could improve market functioning. It is essential that exchanges, in cooperation with their respective national supervisory authorities, remain responsible for the calibration of these circuit breakers to ensure proper market functioning and mitigate the risk that prolonged absence of price transparency or liquidity leads to increased OTC-trading and more risks in the system.

We call for an assessment of further elements of the market rules whether they lead to undue market behavior, however, without affecting the financial stability of the market system.

We also support measures aimed at increasing supervision and transparency and considering the development of reliable alternative benchmarks.

#### **8. Gas effect in electricity sector**

As we are now focusing on implementing the inframarginal rents approach in the electricity sector and on addressing the high gas prices, measures in the electricity sector which might increase the

gas demand and targeting the same inframarginal rents should be considered very carefully and also should include burden sharing.

## **9. Boosting renewable energies**

Renewable energies remain key to tackle the current challenges. We need a booster accelerating the deployment of **renewable energies, heat pumps and energy efficiency**. Regulatory barriers and lengthy permitting processes prevent our transformation towards becoming more independent from fossil fuels. We need to overcome this problem long term. However, the implementation of the new Directives of the Fit For 55 – package will take too much time (until mid/end 2024). We therefore need to adopt a temporary accelerator, i.e. a set of measures ensuring that renewables, heat pumps and efficiency will benefit from a “right of way” in the next 2 years.

The emergency measures taken now, in the light of the energy crisis, must not stand in the way to achieving a climate neutral EU by 2050, but must be the catalyzer for the necessary transformation.

In our view, this is justifiable under Art. 122 TFEU, since preventing a crisis can by no means be limited to price interventions but need to answer to the root cause of the problem in a crisis mode.

## **10. Impact Assessment**

Finally, we call upon the European Commission to incorporate in its proposal a thorough analysis of any proposed measures on the effect on gas demand, security of supply and the energy transition, as well as the effect on physical and financial markets (and settlement of market party positions) together with DG FISMA, national and European financial supervisory authorities, market parties and gas exchange operators.

We are open to jointly discuss further measures in a spirit of solidarity among member states, to mitigate effects of the crisis at hand in the short run, as well as bring preventive solutions for the long term.