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INFORMATION NOTE

From: General Secretariat of the Council
To: Council

Subject: Any other business
Winter preparedness 2023/2024
- Information from the Commission

In view of the Transport, Telecommunications and Energy Council on 19 June 2023, delegations will find in Annex an information note from the Commission.

BACKGROUND NOTE ON WINTER PREAPREDNESS 2023/2024

2022 was one of the most challenging years for European energy policy, after Russia's weaponisation of gas supplies caused major disruptions to our energy market and security of supply. One year after the adoption of REPowerEU, the rapid and successful implementation of the plan has helped us to drastically reduce the share of Russian gas in our imports, to have enough gas for the winter and to keep energy prices down. This allowed us to get through the winter without major difficulties and today we are in a better situation than anyone expected, putting us well on the way to achieving our goals before the next winter. However, the crisis is not over and we must therefore continue our efforts to prepare for the next winter in the spirit of solidarity that characterised our response to the crisis.

1. Security of supply

For natural gas, security of supply in Europe has improved significantly over the past year and the share of Russian gas as part of EU imports was reduced considerably, putting the EU on track to meet the targets set out in the REPowerEU plan. **In 2022, total Russian imports have fallen to around 80 bcm, compared to 155 bcm/a pre-crisis.** However, last year **Russian LNG imports slightly increased from 14 bcm in 2021 to 19 bcm in 2022.**

In Q1 2023, total Russian imports, pipeline and LNG, amounted to approximately 11 bcm.

With Ukraine and Turkstream being the only remaining pipeline import routes for Russian gas, the share of Russian gas in total EU pipeline imports has fallen from around 50% in the pre-crisis years to around **8% since January 2023.** During the same period (Q1 2023), **Russian LNG imports remain limited and on a slight downward trend** with only 5.8 bcm imported (8% of the EU import).

Thanks to the important diversification efforts and reduction in demand, the EU has been able to compensate for all the missing Russian volumes, easing the pressure on the energy markets and thus reducing energy prices, which have been at around EUR 25/MWh since 25 May. Nevertheless, **some risks remain**, such as a complete stop of Russian imports and; infrastructure incidents which would have to be compensated by LNG imports and this **may stretch our regasification capacity**. Also, droughts, warm summers, cold winters, unplanned nuclear outages or limited hydropower supply could lead to a higher use of gas for electricity production in the EU. In addition, at a global level there could be an increase in demand for gas, especially in South-Eastern Asia. **If a number of these risks materialised**, they might **tighten the markets** despite the EU's winter preparedness.

The decrease in Russian LNG imports is expected to continue as Member States are increasingly inviting their companies not to sign any new deal to import Russian LNG. The EU is **in line with its REPowerEU policy objectives** and an **orderly phase-out** of Russian LNG would allow to meet the target soon. **Russian revenues have significantly decreased due to lower prices. At current prices, phasing out Russian LNG would have a limited impact on Russia's revenues**, as Russia could simply divert LNG sales to other regions in the world. As a result, global LNG prices could rise due to the increase in transportation costs. In the current circumstances, Russian LNG imports are expected to represent circa 20 bcm yearly volumes. The winding down of Russian LNG should continue gradually and take into account security of supply considerations for the next winter.

In electricity, no incidents or adequacy issues were observed during past winter thanks, among others, to efforts to reduce demand, proactive measures to save gas in the electricity sector, the **improvement of hydro stocks** in certain regions before winter and an accelerated deployment of renewable energy generation. For the upcoming summer, the Summer Outlook 2023 prepared by ENTSO-E pursuant to the Risk Preparedness Regulation¹, has not identified major adequacy risks. Some risks were identified in islands or areas with limited connections under certain conditions. For next winter, a **more abundant and less costly supply of electricity** is expected, with lower gas prices (which impact on the marginal gas-fired generation units) and **improved nuclear power**. On the demand side, electricity consumption is expected to be **contained due to expected moderate growth**, yet weather remains difficult to predict. Moreover, markets should still be closely monitored to see whether any critical factor evolves differently than expected or new factors appear. In particular, a close look should be taken at **hot weather** and **droughts** that could impact hydropower output, and **unexpected maintenance** or other factors that reduce the availability of the nuclear power fleet. Overall, there is a general perception that all actors are better prepared than last year, in part thanks to the efforts to fill gas storages. However, risks remain and will require a similar level of preparation as well as a **careful monitoring of all risk factors**.

In oil, Member States are well prepared and are **holding their emergency oil stocks** in line with EU legislation and the Commission recommendation of 6 December 2023. The outlook for the oil security of supply is stable, however a pick-up in economic growth or possible production cuts by OPEC could result in market tightness. The Commission is closely monitoring crude oil markets together with Member States' experts and is in contact with producing countries and members of the IEA. The sanctions and price cap **did not affect the EU's oil security of supply** as supplies of Russian seaborne oil was replaced from the other market sources, without significantly impacting the oil price. Russian oil supplies have been rerouted to Southeast Asia and being sold with significant discount, thereby cutting Russian revenues. Also, as a reaction to price cap and to limited access to shipping capacity, a large number of vessels with unknown origin have appeared, presenting **a risk to circumventing the sanctions**. The Commission has addressed both these topics in the proposal of 11th package of sanctions.

¹ Regulation (EU) 2019/941, OJ L158, 14.6.2023, p.1-21.

2. Diversification of supply and joint purchasing

Since Russian invasion of Ukraine, Europe has achieved an unprecedented energy shift in Europe. We have **almost completely replaced flows from Russia**, our historic supplier, with flows from alternative suppliers. **Norway** and the **US** have replaced Russia as our main gas suppliers, a trend which is expected to continue in the coming years. **LNG** has been key in this shift, with imports from outside Russia rising from **68 bcm** in 2021 to **118 bcm** in 2022. In 2023 between January and April, the EU has received **41 bcm of LNG**, reaching an all-time historical high level in April (11.3bcm). To accompany the growing share of LNG in our energy mix and to enable the increase in imports, **25 bcm** of new import facilities have been installed in Europe since 2022 and based on the updated development plans, this capacity will be further increased by **45 bcm by 2024**. By taking their export capacities to their maximum, alternative **pipeline flows** from **North Africa, Azerbaijan** and **Norway** have also played an important role in our diversification and reached a total of **130 bcm in 2022**. This trend is set to continue in 2023 with **36 bcm received in Q1 2023**.

AggregateEU platform plays an important role in our diversification efforts in our preparations for next winter. The **first tendering round was a success**: 110 companies have expressed interest in AggregateEU and have subscribed to the services. From the demand aggregation side, **64** companies from across Europe submitted their gas demand, demonstrating strong interest. **More than 11.6 bcm of gas demand for the next 12 months were aggregated**. From the supply side, we managed to attract and match bids from a total of 25 suppliers who **offered the equivalent of more than 13.4 bcm**. Next round will open on June 26 and in every 2 months thereafter. AggregateEU offers the possibility to indicate a demand in each case till March 2025.

3. Gas storages

In 2022, the new storage policy contributed to a historically **high filling level of 95% in November**, exceeding the requirements of the Storage Regulation and placing us already on the good trajectory for 2023. With the measures in place, the EU reached more than **56% of storage filling level at the end of the heating season 2022 - 2023**, and is already exceeding its July filling trajectory with storages **almost 70% full as of 1 June**. Additionally, all Member States are on track with their interim targets and almost all of them are above their July targets. In its latest Summer Outlook, ENTSO-G concludes that storage levels are set to **reach 90 bcm (90%) by the end of October**, even without pipeline supplies from Russia. Certification of storage operators is ongoing to avoid specific ownership or rights of certain storage operators, jeopardising security of supply.

In order to further strengthen our winter preparedness and increase flexibility on energy markets, the EU could consider storing in neighboring countries, such as Ukraine. The country has important storage capacities (over 30bcm), of which about **23.4 bcm is located in depleted gas fields in western Ukraine**. Currently, **Ukraine has stored 9.3 bcm** of gas and has offered to EU Member States and market operators to rent some of its storage capacities. To this end, Ukraine made important efforts to abide by the European storage rules under the scope of the Energy Community. In April 2023, **UkrTransgaz has been certified as an independent storage operator** which enables the company to continue storing gas volumes intended for the EU market and notably gas bought through the joint purchasing mechanism. Moreover, AggregateEU, allows to request gas delivery to Ukrainian storage sites, which is an exception from the general approach and gives more visibility to this opportunity. In total, **10 bcm of Ukraine's storage capacity could be available to European companies this year**. Austria, the Czech Republic, Germany and Slovakia are the EU Member States most likely to benefit from this opportunity. However, it should be noted that it might not be possible to reach this 10 bcm target before winter **due to pipeline capacity constraints** (40-50 mcm/d) and a late start to injections. It is also important to note that the volumes stored in Ukraine by EU market operators **will not count for their minimum storage in Member States** as only gas stored in underground storage facilities that are located within the territory of EU Member States is to be considered, as stipulated in Article 6a of the Gas Storage Regulation.

4. Demand Reduction

The success of the EU's new storage policy was made possible thanks to its complementarity with Council Regulation (EU) 2022/1369 setting a voluntary gas demand reduction target of 15% (or 45 bcm) between August 2022 and March 2023. In reality, **EU gas consumers reduced gas demand by 18%**, compared to the average of the reference period (August 2017 to March 2022). This translates into **53 bcm of gas saved**, demonstrating that **voluntary demand reduction measures are effective**. Households contributed about 50% to the reduction in gas demand. Industry also contributed about 43% to the reduction in gas demand, especially due to the shift in demand during the summer months, while the power sector accounted for only 7% of the overall gas demand reduction, due to low availability of hydropower and nuclear capacity. Part of the demand reduction was achieved through energy efficiency measures and the switch to less carbon-intensive fuels, thus **a further downward trend in gas demand is expected**.

The extension of the voluntary target to March 2024, as adopted on 28 March 2023, is estimated to **save 60 bcm of gas**. Compliance with the regulation should support the filling of gas storages, keeping prices down and securing enough energy supplies. The rate of decline in demand has slowed and overall demand has increased since April amid improved energy market conditions. **It is however, important to maintain demand reduction efforts over the coming months to prevent any deterioration of the market**.

5. Revision of the 2022 emergency regulation

Last year, the Council adopted five emergency regulations based on Article 122 TFEU to tackle the energy crisis, some of which are **due to expire at the end of the year**. The situation has improved, but the Commission believes the crisis is not over. Therefore, the Commission is in the process assessing if an extension of some of these Regulations might be relevant.

As regards the **Regulation 2022/1854 on addressing high energy prices**, the Commission has adopted a report on June 5 and concluded that EU electricity market supply and prices have now changed considerably from the record high last year, a prolongation of these emergency measures does not seem necessary at the current time.

As regards the **Solidarity Regulation 2022/2576**, there might be a gap between the expiry of the regulation on 29 December and the entry into force of the Hydrogen and Gas Package regulation where solidarity provisions are foreseen to be agreed upon as a result of the trilogues. The Commission is currently assessing if there is a need to bridge that gap, in order to **guarantee an adequate level of preparedness for the next winter** and what could be the possible solutions. The Commission is also assessing the prolongation of the EU's **joint purchasing mechanism** AggregateEU to prepare for winter 2024-2025.

With a view to the **Market correction mechanism**, the Commission continues to monitor the market situation.

6. Annexes

Figure 1: . Monthly gas flow along the East corridor 2016-2023 (in bcm/month).

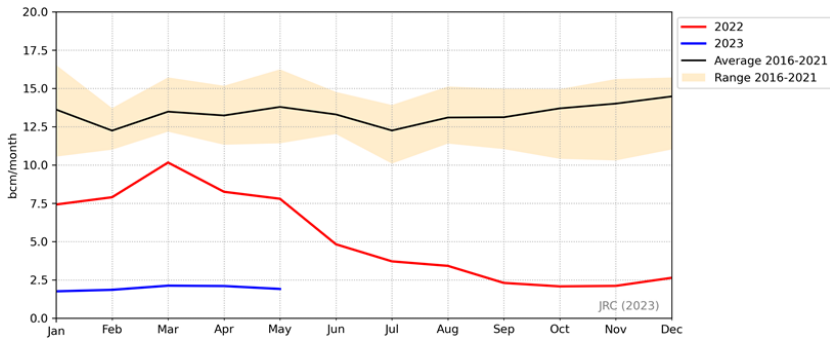


Figure 2. Evolution of EU UGS filling level compared to the 6-gas year average and range.

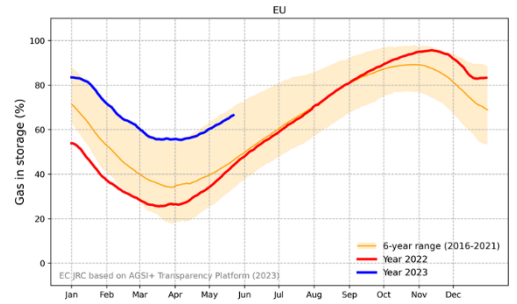
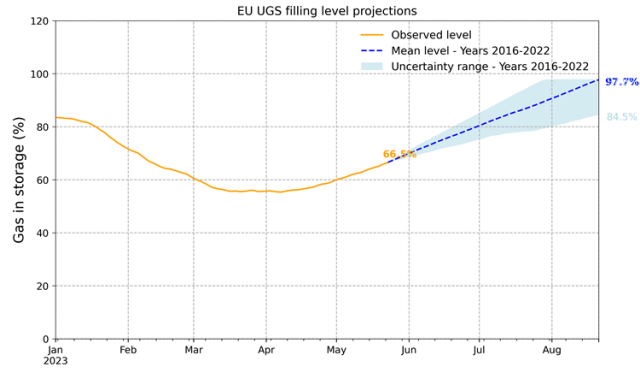


Figure 3. Storage projection for the next three months.



Source: JRC (raw data from AGSI+ Transparency Platform).