Update on Europe’s high energy prices and ACER’s forthcoming assessment of the current EU electricity market design

Informal Ministerial meeting - Council Presidency of France
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Agenda

- Latest market developments & near-term outlook
- ACER’s upcoming April assessment:
  - Consumers, retail suppliers & volatility
  - Driving sufficient investment
  - Driving sufficient flexibility and capacity
  - What remains ‘at the margins’
Latest market developments
The high gas prices follow various demand and supply fundamentals. Additionally, however, anxiety about potential supply shocks going forward seem to be playing a contributing role. This ‘tension’ also impacts forward prices.

The evolution of prices: The bigger picture

EU LNG deliveries recovered in Q4 2021; to some extent redirected per higher prices. However, the added deliveries do not fully offset impact of lower pipeline flows.

Main driver: Scarce (and thus relatively expensive) LNG supply.

Additional drivers: Lower pipeline flows exacerbated by record-low storage stocks. Increased ‘tension’ an additional factor.

Source: ICIS Heren, ENTSOG and ACER calculation.
‘Unpacking’ this bigger picture a bit further …

Nord Stream 2 operator appeals against BNetzA’s ruling.

Gas prices soar due to:
• Tight LNG supply;
• Low EU gas storage stocks;
• Lower pipeline supply.

Summer 2021

Gazprom announces that it will refill its gas storages from November.

October 27th

Uncertainty on supply going forward leads to record-high prices.

End December

Russian President comments on gas supplies to EU soon to increase.

October 6th

Russian exports to the EU cease across Yamal.

October 30th to November 1st

Prices plunge (relatively) due to lower heating and industrial demand and not least increase in LNG cargoes.

Underscores the impact of price signals (for example spot LNG, mainly from the US, directed to the EU as the high-priced market)

Prices rise again as higher LNG imports do not fully offset low pipeline flows.

Mid-January 2022

Source: Platts and ACER calculations.
Near-term outlook: A moving target

Forward prices have sizeably increased since November 2021:
- Gas prices for the whole of 2022 have risen by 40%
- Power prices for the whole of 2022 have risen by 50%

Source: Platts, Refinitiv, EEX and ACER calculations.
Towards April: Consumers, retail suppliers & tackling volatility
• EU power bills rose on average by 30%, despite government interventions in most Member States to reduce taxes and levies

• The energy component moved on average from 35% to 52% of the bill

• Retailers’ indicative gross-margins moved into negative values*, at times prompting bankruptcies and/or market exit. Hence more consumers supplied through last resort entities

* Retailers’ indicative gross-margins assess the difference between the energy price charged to household consumers and the actual power-procurement costs for retailers. Retailers’ costs are dependent on procurement strategies. The negative margins are higher when solely considering spot power purchasing.

Source: European Household Energy Price Index (HEPI) assessed by Vasaa ETT, E-Control and MEKH. HEPI assessment considers the incumbent’s standard tariff plus the tariffs offered by the two other main players in each city, according to their respective market shares.
Consumer exposure (2/2)

- Focus on supplier-of-last-resort mechanisms
- Focus on retail suppliers, including possible hedging obligations and/or collateral requirements
- Underscores dilemma going forward:
  - Shielding from excessive price volatility impacting affordability …
  - vis-à-vis retaining price signalling to drive desired behaviour (e.g. greater efficiency) and/or incentivise new investment
Towards April: The wholesale electricity market design
Driving sufficient investment in low-carbon generation

Low-carbon technologies are often CAPEX-heavy. How to ensure sufficient investment in low-carbon generation, whilst retaining the benefits of EU market integration? Is there a need for additional mechanisms to ensure this; if so, which ones? What about the role of non-market barriers to increased investment?

Source: IEA’s ‘Net Zero By 2050’ report of 18 May 2021 (LINK). CAPEX overview is from IEA and ACER figures.
Driving sufficient investment in flexibility & capacity

Increasing amounts of intermittent generation will increase the need for flexible and back-up low-carbon resources; and this across multiple time frames. How to ensure adequate incentives for e.g. demand-response and (both shorter and longer-term) storage in order to provide adequate flexibility and capacity, thereby ensuring supply of supply?

Source: IEA’s ‘Net Zero By 2050’ report of 18 May 2021 (LINK) and IRENA’s ‘Power System Flexibility for the Energy Transition’ report of November 2018 (LINK).
Outlook for the near-term: Gas demand likely to increase, in particular outside Europe, presumably impacting gas prices. For Europe, gas is likely to remain ‘at the margins’ as a relevant driver of electricity prices.

A key issue: What will clear ‘at the margins’ (2/2)

With increasingly limited coal-to-gas / gas-to-coal switching, alternative supply and demand oriented solutions ‘at the margins’ may prove key to ‘outcompete’ the contribution of gas. Hence, the relevance in appropriate incentives for such solutions. And conversely, in the absence of such incentives, are these solutions likely to materialise at scale?

Source: ACER.
Thank you for the opportunity. Looking forward to the discussion.
Back-up slides
ACER: Role & governance

• **Supporting the integration of energy markets in the EU** (by common rules at EU level). Primarily directed towards transmission system operators and power exchanges.

• **Contributing to efficient trans-European energy infrastructure**, ensuring alignment with EU priorities.

• Monitoring the well-functioning and transparency of energy markets, **deterring market manipulation and abusive behaviour**.

• Where necessary, **coordinating cross-national regulatory action**.

• Governance: **Regulatory oversight is shared** with national regulators. **Decision-making** within ACER is collaborative and joint (formal decisions requiring 2/3 majority of national regulators). **Decentralised enforcement** at national level.
Alternative market design approaches

ILLUSTRATION OF THE CURRENT ELECTRICITY WHOLESALE PRICING METHOD AND POSSIBLE ALTERNATIVES

Other approaches recently raised, e.g. the notion of ‘decoupling’ bids and the respective clearing price and/or introducing price ceilings per particular technologies.

Source: ACER elaboration.
Recalling the value of interconnectivity

COUNTRIES AND THEIR EXPOSURE TO HIGH ELECTRICITY PRICES IN SEPTEMBER 2021