ACER

European Union Agency for the Cooperation of Energy Regulators

Price disruptions in wholesale markets: outlook and policy considerations

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Price drivers in gas markets:

additional considerations



Impacts more uniform for gas than for power.



Source: Reuters and ACER calculation (for gas); ACER calculation based on ENTSO-E (for electricity).



- Despite Q3 and Q4 2021 unprecedented price rally, convergence has remained strong
- Convergence has been stronger for gas than for electricity
- In most trading days and among most EU hub-pairs, price spreads are today below 1 euro/MWh



Day ahead price convergence between TTF and selected EU hubs – 2019–2020 – % of trading days within given price spread range





- Stakeholders turning their attention to ACER / NRAs: Are high prices the result of market or manipulation?
- Currently, no evidence of systematic manipulative behaviour or insider trading under REMIT causing the high energy prices. Surveillance is ongoing
- ACER / NRAs should be extremely prudent and must remain coordinated sharing information about market abuse
- For investigation and enforcement of a potential REMIT breach an NRA requires approximately 2 to 3 years
- The supervision on carbon markets is out of scope of REMIT



"The Commission will together with ACER and national authorities ensure REMIT is effectively enforced ..." 13 October 2021



CHANGE IN SUPPLY TO THE EU MARKET: 2019 vs 2021 in bcm



Increase Decrease Total





- Currently more an issue of high prices and high volatility than of actual shortage of gas
- Current EU gas market design is resilient and has delivered significant benefits to consumers over the last decade
- Balance to be struck between efficiency and flexibility of market operation and insurance mechanisms to dampen price shocks. Question if a more harmonised storage regulation could efficiently support Sos.
- Various regulatory options available and need to be analysed.



Outlook & policy considerations

Trends & trade-offs



Tight market conditions expected to relax in spring

Figure 6: Electricity forward curve



Figure 7: Gas forward curve



Source of figures 6 and 7: ACER calculation based on ICIS Heren and Refinitiv data

MARKET EXPECTATIONS MOST LIKELY DIRECTED TOWARDS:

- Global LNG supply constraints
 easing up
- Increasing Russian flows (possibly via Nord Stream 2)
 - Expected demand decrease
- Larger renewable energy production



- **15 countries in electricity** and **14 countries in gas** have some form of public price intervention for household customers.
- For non-household consumers, public price intervention is reported to exist in 9 countries in electricity and 4 in gas.
- Seven MSs have public intervention for vulnerable customers in electricity and three in gas.
- Five countries in electricity and seven in gas have committed to a roadmap for a price intervention removal in the household segment.





MMR insights : Switching rates

- Switching rates decreased in 2020 potentially in response to introduction of disconnection bans
- EC New Consumer Market Monitoring Survey shows that consumers that switch find the process easy.
- Significant portion of consumers that have alternative supplier options have never switched and are paying more than they need to.
- Utilisation of comparison tools can assist consumers in the switching process.



EC 'toolbox': what's next for ACER?

- EC Communication "tackling rising energy prices: a toolbox for action & support" (13 October) tasked ACER with:
 - studying the benefits and drawbacks of the existing electricity market design & proposing recommendations for assessment by the EC by April 2022;
- European Council conclusions (21-22 October) invited:
 - EC to study the functioning of the gas and electricity markets & the EU ETS market, with the help of ESMA.
 - the EC and the Council to **swiftly consider medium and long-term measures** for energy prices affordable for households & companies, increase the resilience of the EU's energy system and the IEM provide SoS and support the transition to climate neutrality.
- Preliminary assessment of the situation in the electricity market published on 15 November
 - ACER will hold a workshop with stakeholders in the first half of February 2022.





Policy considerations (1/3): Short-term relief.





Policy considerations (2/3): Market design.

PRICE SETTING MECHANISM





Producers bid true costs and get the market clearing price.

RENEWABLES MORE CAPEX HEAVY





Policy considerations (2/3): Market design.



volatility is here to stay. The new busiliess



Policy considerations (3/3): Managed transitions.





To conclude ...



- Global gas (LNG) supply/demand dynamics key factor impacting energy prices. CO2 allowances, weather etc. play secondary roles.
- Impacts all of Europe. Differences in power prices.
- Market surveillance efforts are ongoing.
- Next six months a bearer of high prices. Winter a key variable. Storage likely to prove key.
- Policy considerations are significant. Shortterm vs. longer-term. Managed / orderly transitions becomes 'the way to go'.

Thank you for the opportunity. Looking forward to the discussion.

Follow-up questions or comments welcome via dennis.hesseling@acer.europa.eu

The contents of this document do not necessarily reflect the position or opinion of the Agency.



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An optimistic scenario for winter. Mitigating factors.





Winter domestic production

■ Winter pipeline imports

WINTERS 2013/2014 WINTER 2019/2020 WINTER 2020/2021 TO 2018/2019

SCENARIO 2021 -2022



Energy Prices

- Electricity prices slightly decreased (-1.8%) to 21.3 euro cents/kWh in 2020 compared to 2019 due to Covid-19.
 - Prices in **2020 were the second highest price** since 2008. Compared to 2008, **electricity prices have increased approx. 30%** in nominal terms.
- Gas prices for households decreased by -2.9% to 6.8 cents/kWh.
 - Since 2010, the average final gas price for household consumers **increased by** +14.41% in nominal terms.
 - The price evolution in 2008-2020 was lower on average than the inflation evolution over the same time period.
- Large variations Germany households paid more than three times (30.3 euro cents/kWh) the electricity price paid by Bulgarian households (9.9 euro cents/kWh).
 - Final price paid by household gas consumers in Sweden (10.3 euro cents/kWh) was three times higher than the 3.0 euro cents/kWh paid by Latvian household gas consumers







- The correlation of wholesale and retail prices has regularly weakened during periods of wholesale price decreases.
- Negative mark ups observed in Poland and Hungary in electricity
- In gas, negative mark ups are observed in Romania and Hungary but overall gas correlation appears stronger





Select policy considerations

Observations

- Price rises of up to 40% have occurred or are expected to occur in various Member States.
- The electricity system is likely to remain inherently more volatile.

• Rising concerns about gas price levels and security of supply.

Considerations

- Reallocation of tax or carbon revenues to protect consumers + energy efficiency + enact social policy measures.
- Incentive technologies that can smooth volatility (DSR, storage, energy communities)
- Address consumer protection issues, e.g. ways to cushion potentially excessive effects of volatility.
- Maintain the hub-based target model for gas that has delivered significant benefits.
- Appropriate analysis as regards gas storage obligations or possible centralised purchases. Complex measures that may risk reducing competition and liquidity; if so, potentially exacerbating current concerns.



Average EU electricity bill breakdown 2020 (%)