ACER

European Union Agency for the Cooperation of Energy Regulators

CEER

Council of European Energy Regulators

Webinar presenting the Gas Volume of the Annual Report on the Results of Monitoring the Internal Electricity and Gas Markets

Tuesday, 6 July 2021 / 10:00 – 11:00 CET

Introduction

The 2020 edition of the ACER/CEER MMR Report will consist of:

1. Gas Wholesale volume
2. Electricity Wholesale volume
3. Energy Retail and Consumer Protection volume

Today we’ll present the Gas Wholesale volume, the Electricity Wholesale and the Energy Retail + Consumer Protection volumes will follow until the end of 2021

Introduction

- The 10th edition of the MMR Gas Wholesale volume will be released on 14 July
- It consists of four chapters:
  - Status of the internal gas market
  - Gas sector decarbonisation - **NEW**
  - ACER Gas Target model
  - Market effects of gas network codes
- The volume includes recommendations to overcome barriers

Agenda

- **Introductory remarks**
  Annegret Groebel – President, CEER

- **Key findings from the Market Monitoring Report - Gas Wholesale Volume**
  Joaquín García and Mitja Maletin – Gas Market Monitoring Officers, ACER

- **Report Recommendations**
  Markus Krug – Co-Chair of the Regulatory Gas Strategy Work Stream, CEER

- **What is your view on how these findings relate to future EU policy challenges and priorities?**
  Bartek Gurba – Team Leader, DG ENER, European Commission

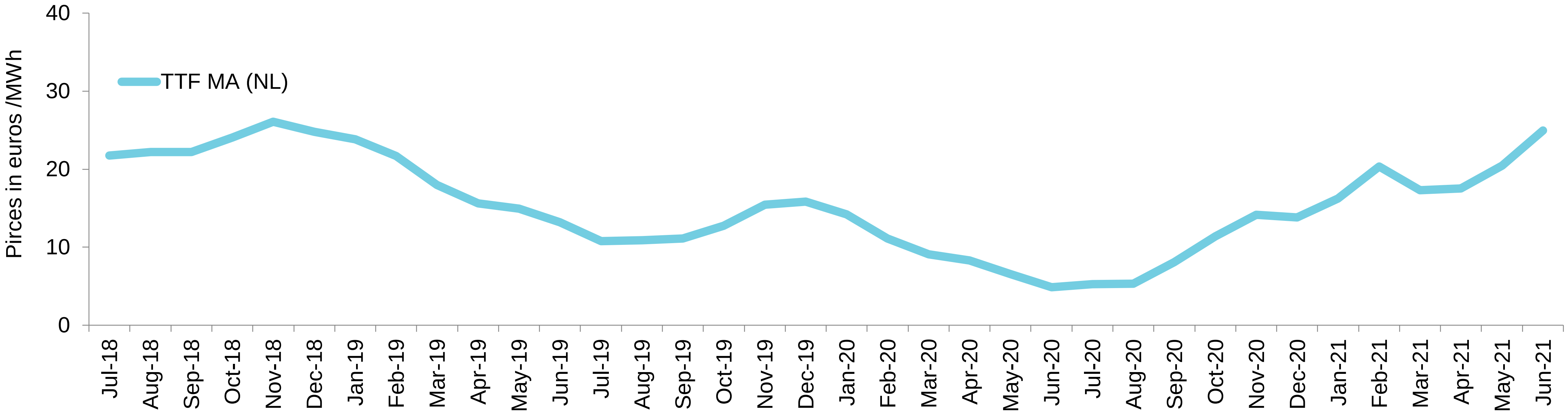
- **Q&A**

- **Conclusions**
  Dennis Hesseling – Head of Infrastructure, Gas and Retail Department, ACER

Key findings from the Market Monitoring Report: Gas Wholesale Volume

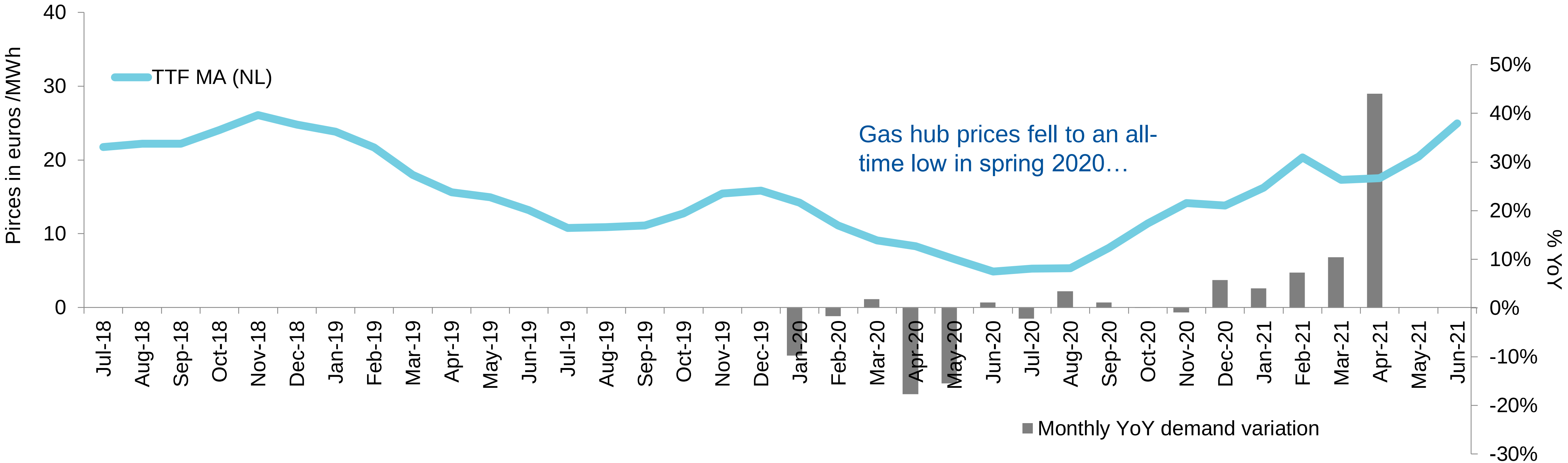
Joaquín García and Mitja Maletin – Gas Market Monitoring Officers, ACER

A combination of drivers will determine the price of natural gas in the coming years[1]



[1]e.g. In July 2021, TTF is quoting approx. 25 euros/MWh

A combination of drivers will determine the price of natural gas in the coming years[1]

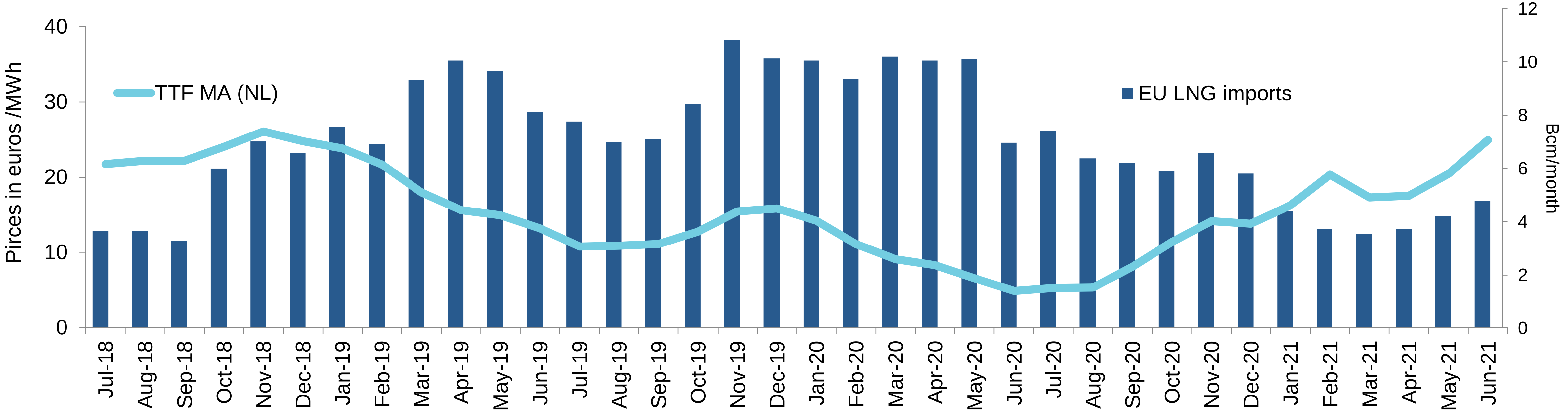


…due to the substantial demand reduction in the second quarter of the year caused by COVID-19……

[1]e.g. In July 2021, TTF is quoting approx. 25 euros/MWh

A combination of drivers will determine the price of natural gas in the coming years[1]

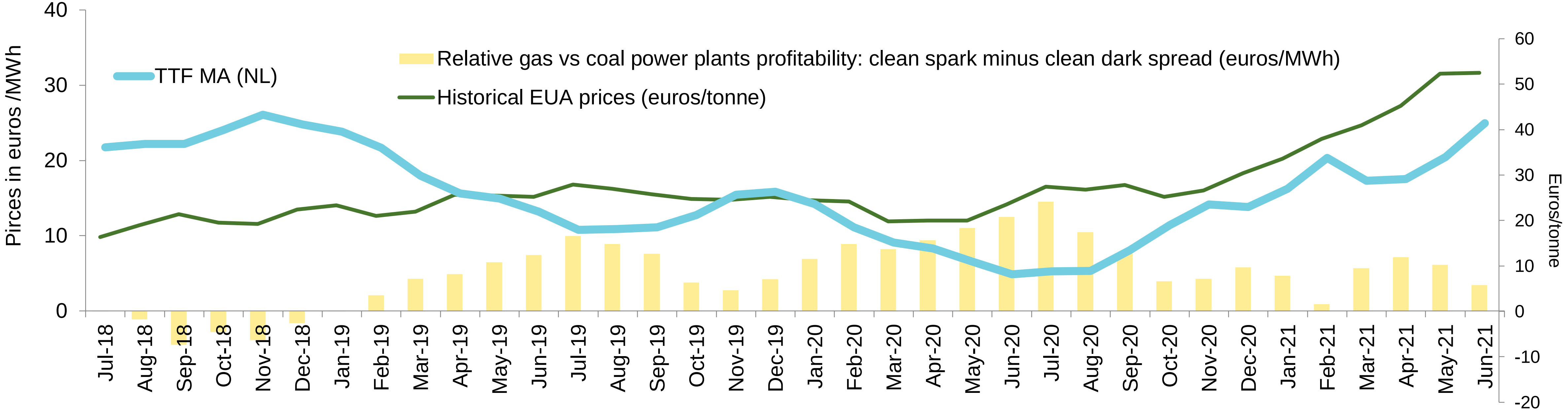
…coupling with abundant LNG. Since end summer EU LNG imports commenced to decline and gas prices increased….



[1]e.g. In July 2021, TTF is quoting approx. 25 euros/MWh

A combination of drivers will determine the price of natural gas in the coming years[1]

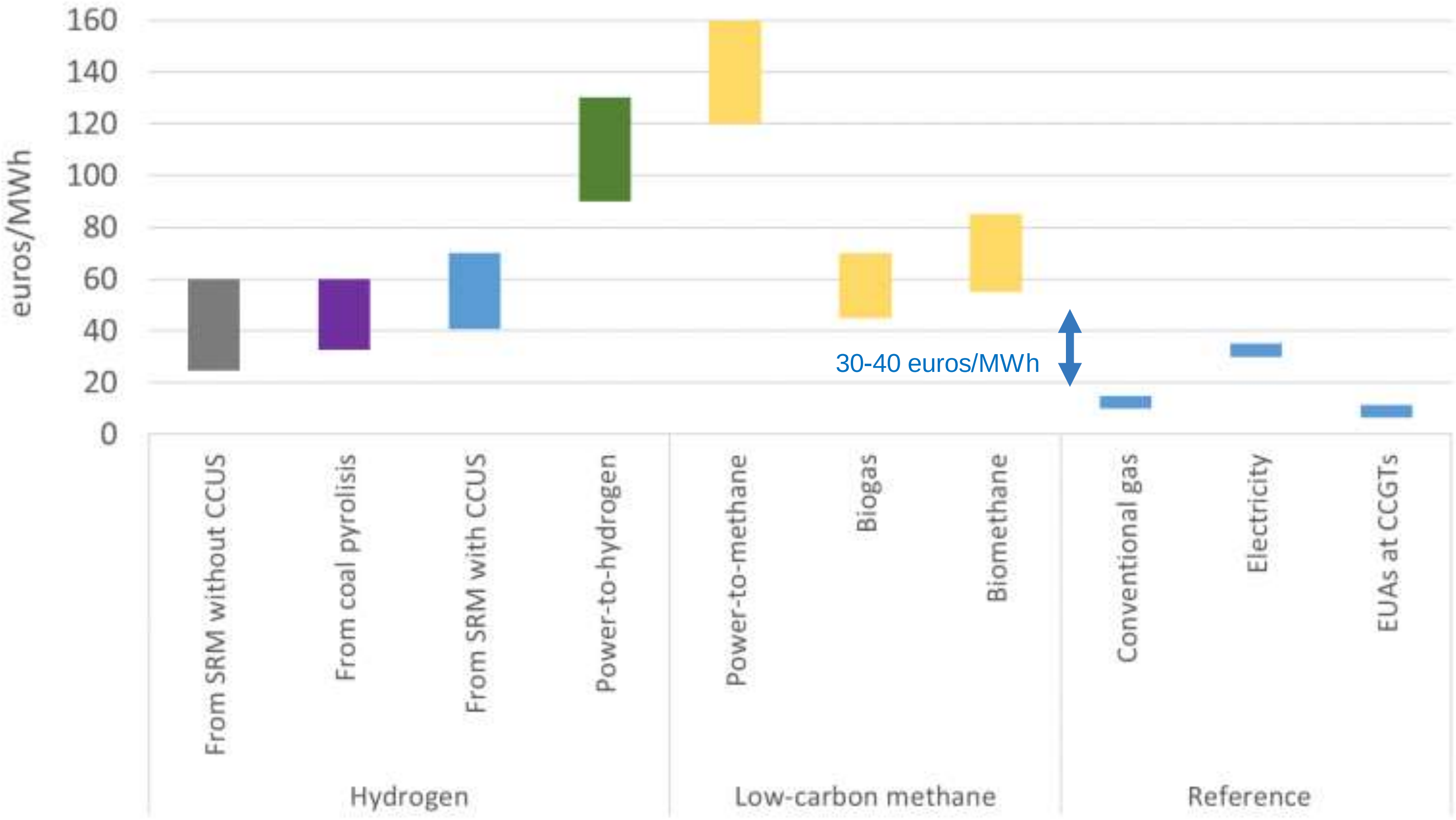
…while the rise in EUAs prices assisted coal to gas switches in power generation, moving demand and gas prices up to 10 years max in end June 2021



[1]e.g. In July 2021, TTF is quoting approx. 25 euros/MWh

The price of low carbon gases is expected to decrease….

Overview of low carbon gases production costs in 2020 – euros/MWh

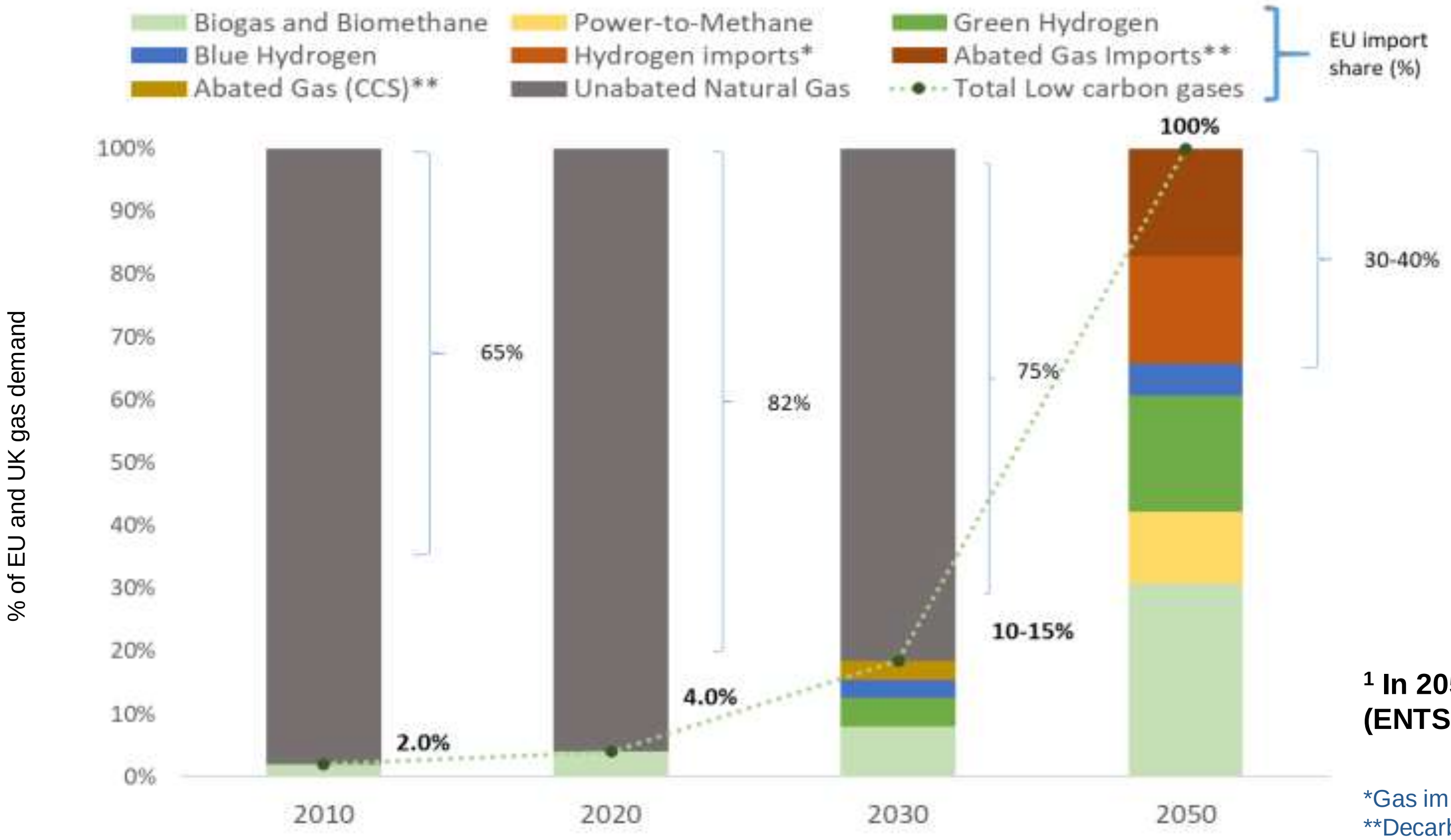


Main future price drivers:

- Technology evolution and investment scale
- Cost of RES-E
- Cost of raw materials
- Cost of upgrading the grid
- ……

Source: ACER based on estimated average prices of EC, OIES, IEA, Hydrogen Europe, JRC, EBA and IRENA

Overview of low carbon gases penetration prospects - share of total EU gaseous energy demand[1]



Other future production drivers:

- Carbon emissions under the EU ETS
- Level of incentives
- Policies governing their accessing
- Setting of targets
- ……

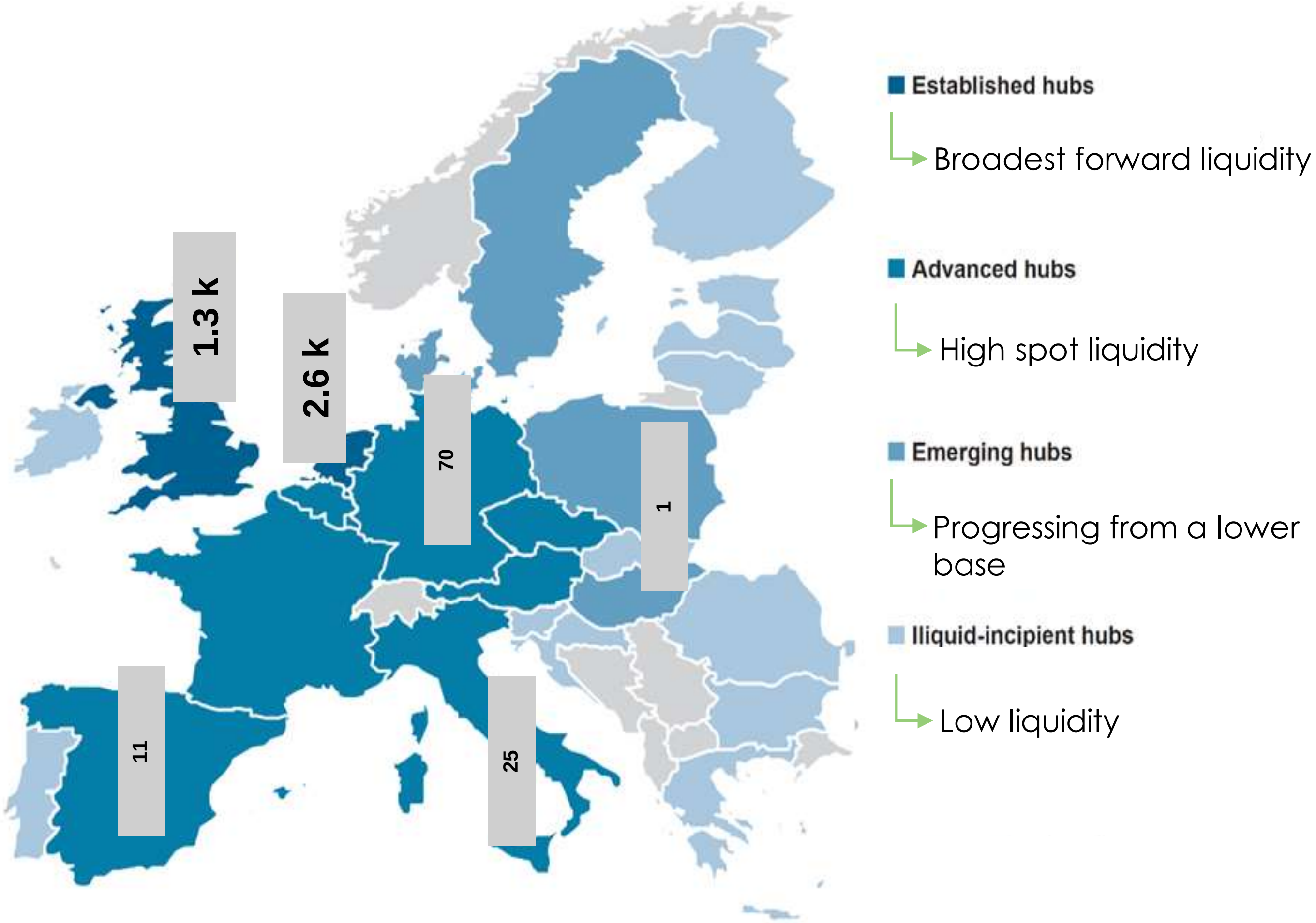
[1] In 2050 total gaseous energy demand could fall from 20% to 40% vs 2020 (ENTSOs TYNDP scenarios)

*Gas imports converted to hydrogen within the EU or hydrogen imports
**Decarbonised gas imports or post-combustive CCUS

Source: ACER based on estimated average projections of IEA, Hydrogen Europe, EBA and ENTSOs IRENA and other studies

Market integration is today quite effective in areas covering three-quarters of EU gas consumption

Ranking of EU gas hubs in 2020 and average daily number of month-ahead hub trades



Source: ACER calculation based on REMIT data. Sourcing cost based on Eurostat and ICIS Heren data and ACER proprietary methodology

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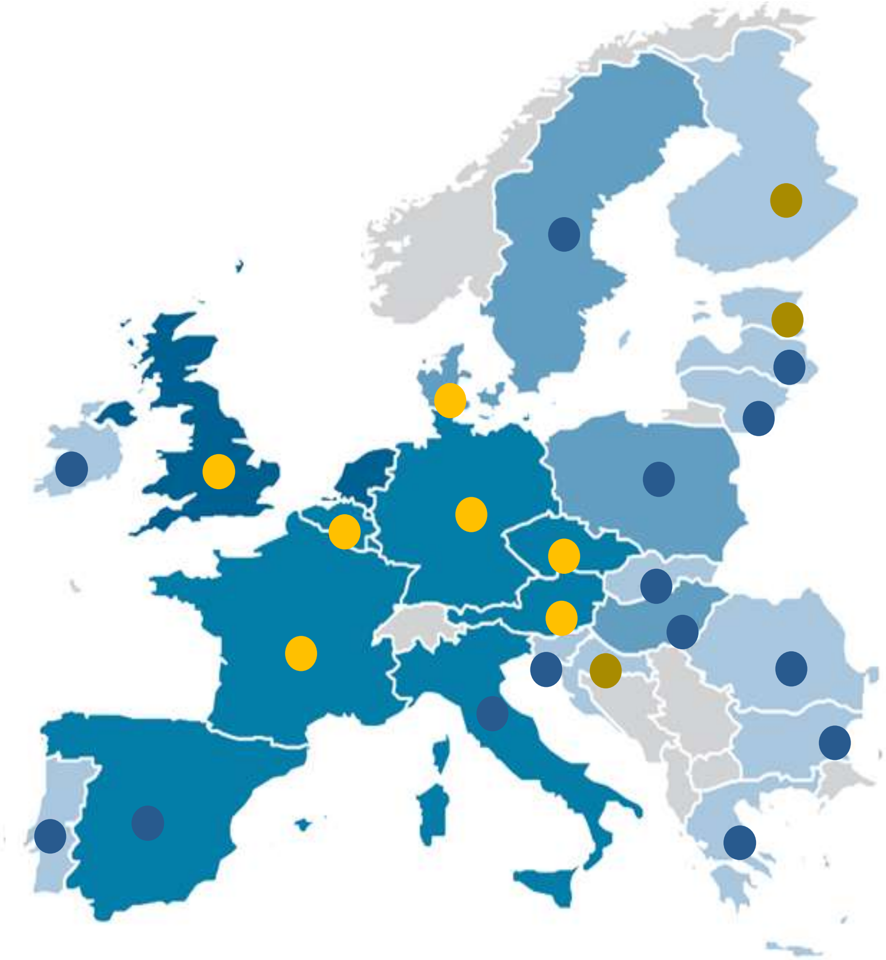
Market integration is today quite effective in areas covering three-quarters of EU gas consumption

Ranking of EU gas hubs in 2020 and average gas sourcing price differential to TTF



Established hubs
- Broadest forward liquidity

Advanced hubs
- High spot liquidity

Emerging hubs
- Progressing from a lower base

Illiquid-incipient hubs
- Low liquidity

Additional consumer benefits can be delivered by the complete implementation of the ACER Gas Target Model, to unlock the full potential of the Internal Gas Market

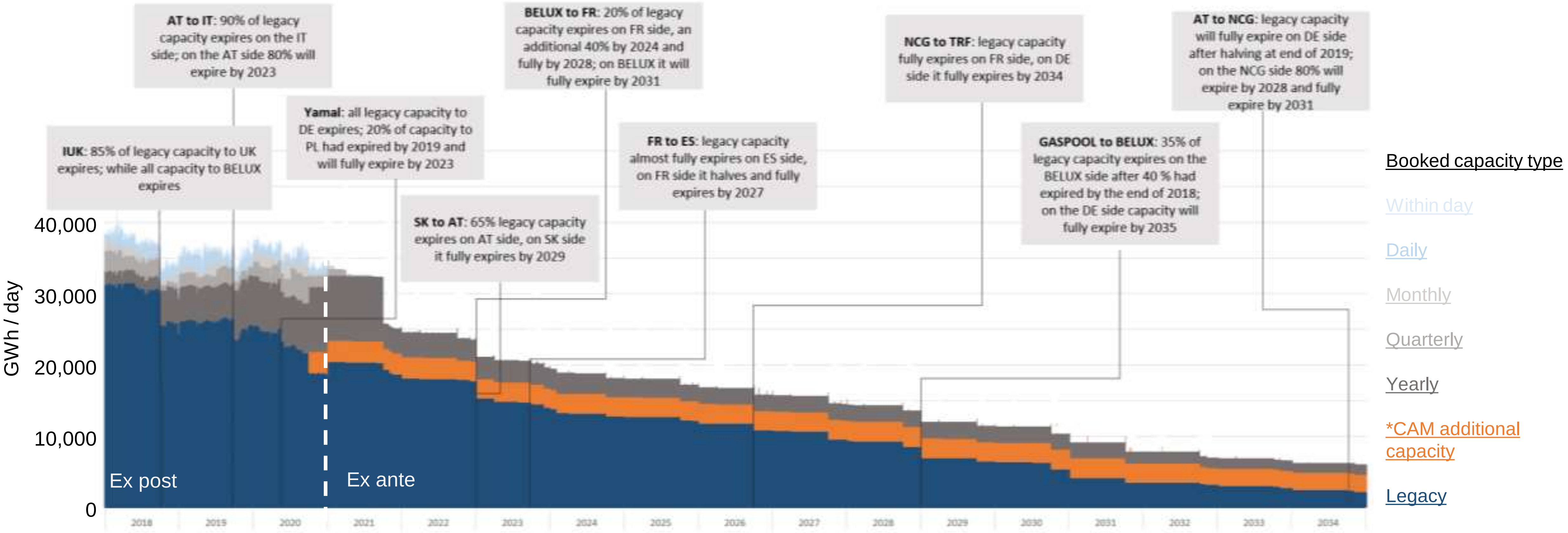
Average MSs gas price differentials vs Dutch TTF, 2015-2020

<=1 euro/MWh   1-3 euro/MWh   >3 euro/MWh

Source: ACER calculation based on REMIT data. Sourcing cost based on Eurostat and ICIS Heren data and ACER proprietary methodology

The CAM NC is facilitating a more efficient and flexible booking of IP capacity

Evolution of booked capacity and expiration of legacy capacity contracts at CAM relevant points (2018 - 2035)

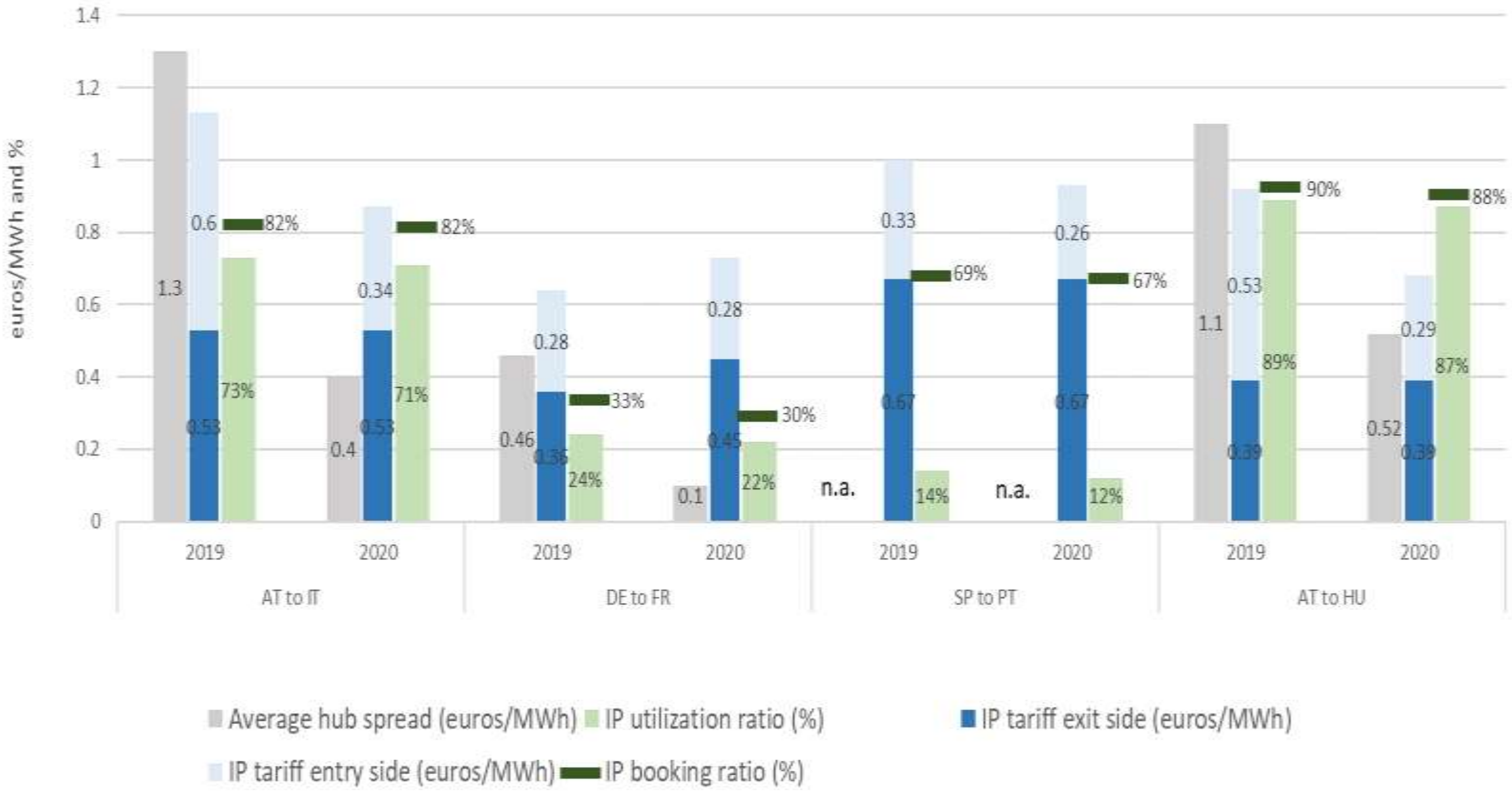


Source: ACER calculation based on ENTSOG TP and booking platforms

*Long-term capacity allocated in 2017 via CAM auctions in an ad-hoc open season for IPs located along the routes for further transport from Nord Stream II.

The new tariff methodologies set in accordance to the TAR NC are bringing some changes in the tariff levels of selected gas systems

Overview of the evolution of hub spreads, IP tariffs and IP booking and utilization ratios at selected hub pairs following new TAR NC RPMs implementation – 2019 and 2020



- Assessing the impact of tariff changes over hub price levels and IPs use is complex
- Hub price convergence improved in 2020. However, factors like LNG and COVID-19 modified the normal setting

Source: ACER calculation based on ICIS Heren and ENTSOG TP

Key findings from the Market Monitoring Report: Report Recommendations

Markus Krug – Co-Chair of the Regulatory Gas Strategy Work Stream, CEER

Recommendations

- **The AGTM vision requires promoting the functionality of national hubs and enhancing the accessing between markets. To do that:**
  - Keep fully implementing the gas Network Codes, which have proved to facilitate market access
  - Targeted regulation could be applied to address specific shortcomings
- **Provide a certain flexibility, to adapt to evolving market circumstances. e.g.:**
  - Explore the frequency of CAM auctions or the variety of products
  - Regularly monitor the effects of multipliers and of the changes to gas transportation tariffs on market functioning
  - Assess where and when regulatory changes will be required to address effects on transmission tariffs' evolution against future changes in network utilisation
  - Overall, network codes need to fit the decarbonisation shift in the coming decades
- **This MMR chiefly brings in the Recommendations expressed by ACER and CEER in the hydrogen and power to gas regulation white papers .e.g:**
  - Maintain the principles that govern the IGM today for new low-carbon gases
  - Clear separation between regulated network activities and market-based production activities
  - A flexible and gradual approach to regulating hydrogen networks is recommended
  - Network tariffs should not be used to subsidize low-carbon gases uptake
  - Well-functioning Guarantees of Origins need to be set as they will be instrumental to enable low carbon gas trade

What is your view on how these findings relate to future EU policy challenges and priorities?

Bartek Gurba – Team Leader, DG ENER, European Commission

Q&A

Please submit your questions with your name and affiliation via the Questions function.

Conclusions

Dennis Hesseling – Head of Infrastructure, Gas and Retail Department, ACER

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Thank you!

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