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EU gas market reforms to respond to the crisis

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LNG Price Responsiveness in Asia

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How to Design EU-Level Contingency Plans for Gas Shortages? Evidence from Behavioural Economics, Policy Research and Past Experience

Karsten Neuhoff, Isabella Weber, Kacper Szulecki and Andreas Goldthau



Capping Prices, Saving Gas

A European Initiative on the Energy Crisis

EUROPA

What to cap?
Emergency Interventions in the European Electricity and Gas Market

Report | September 2022

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UNIVERSITY OF CAMBRIDGE | Energy Policy Research Group

Defining gas price limits and gas saving targets for a large-scale gas supply interruption

EPRG Working Paper 2212
Cambridge Working Paper in Economics CWPE 2239

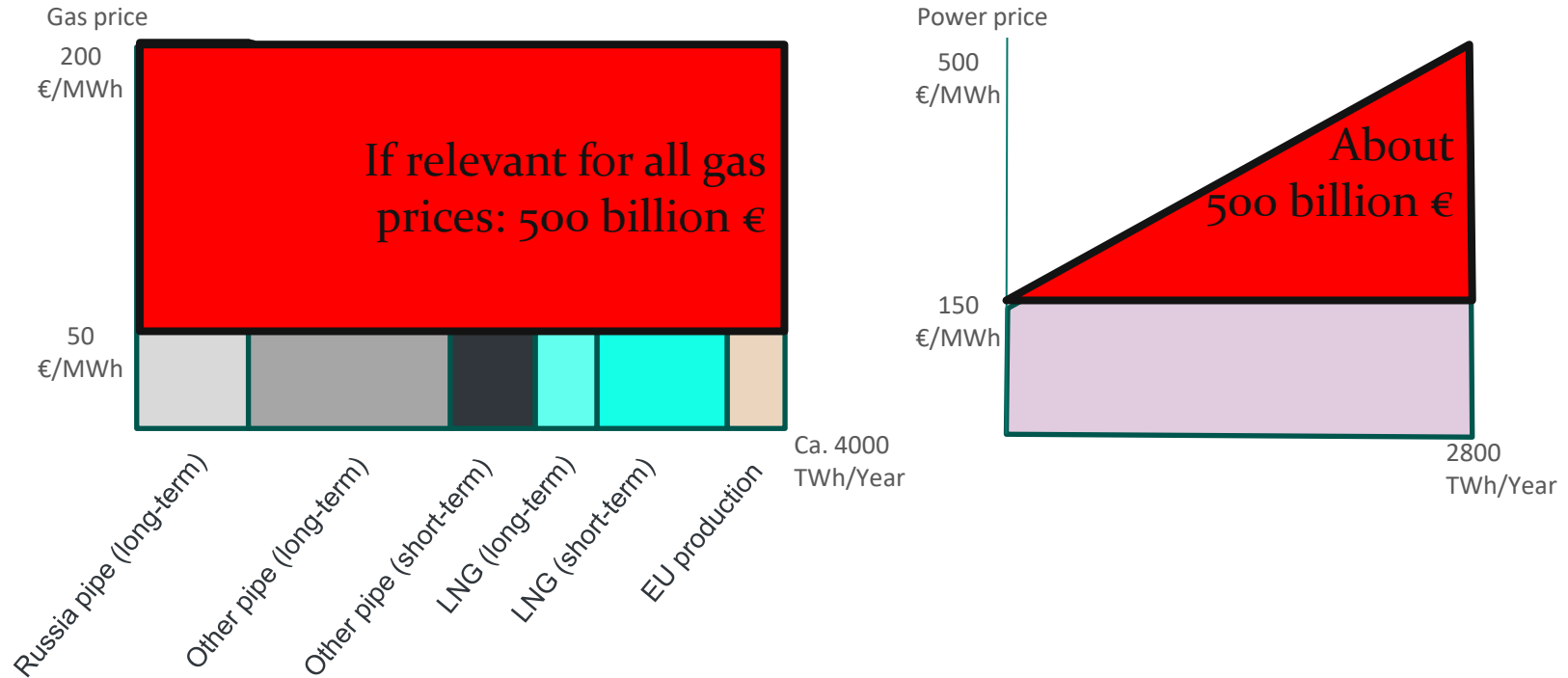
1 Gas market intervention to respond to abuse of dominant position

- Gasprom as pivotal supplier creates shortage with uncertain and extremely high gas prices
- EU bears extreme economic costs in gas and power markets
- National compensation for energy prices put strain on budgets and green strategies and create economic and political tensions

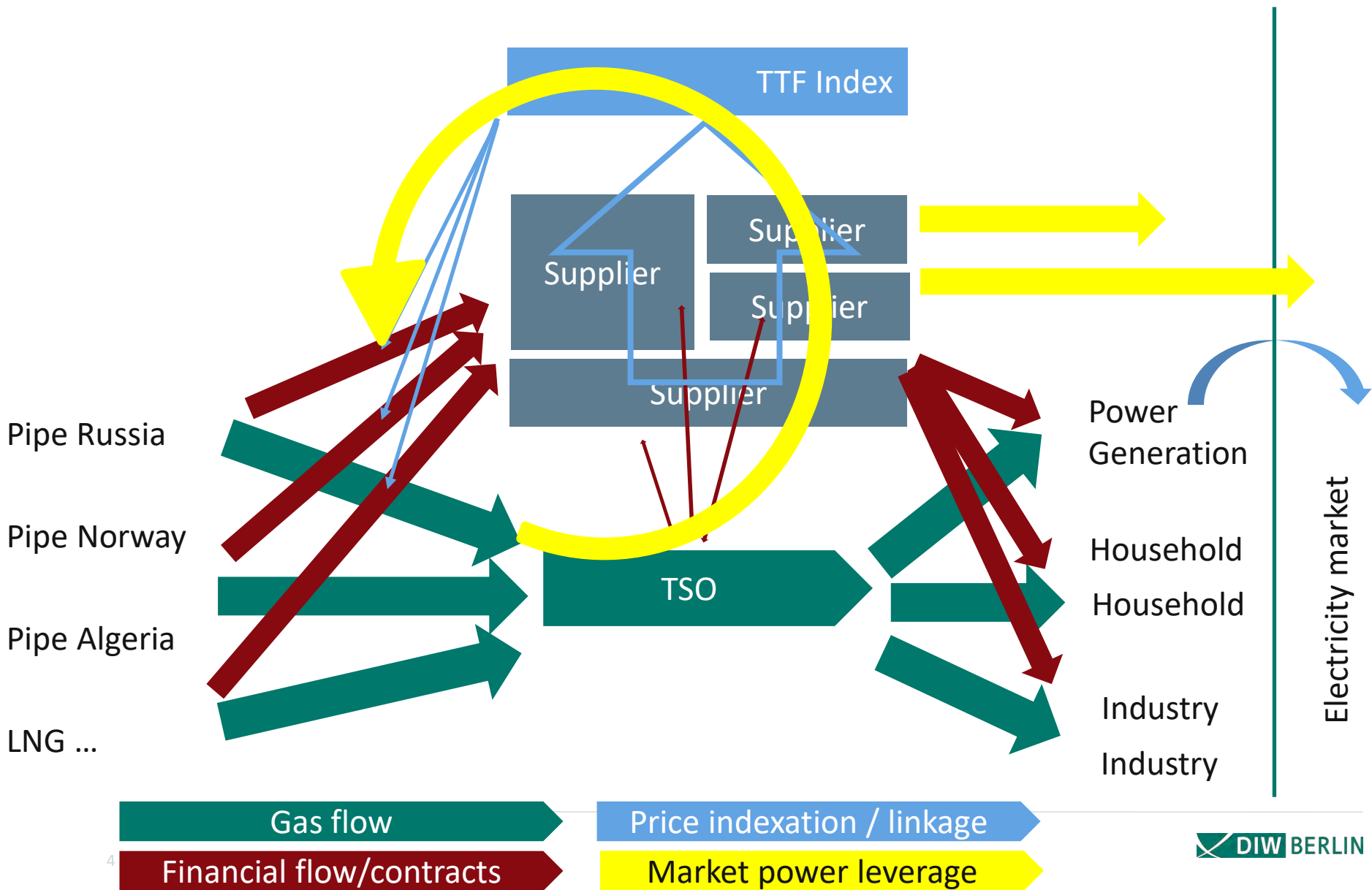
Compounding effect:

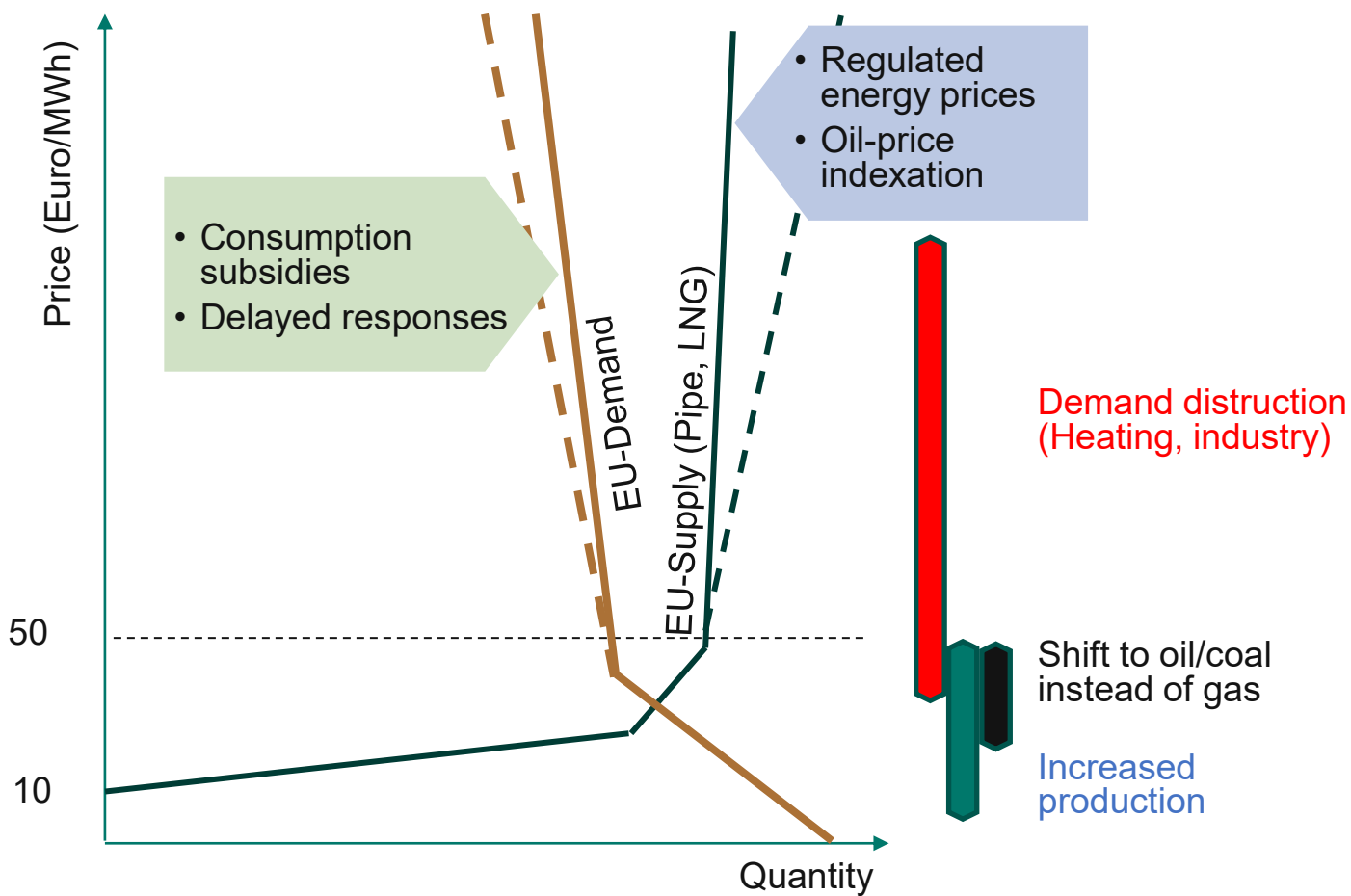
- EU retail market regulation induced a shift of long-term import contracts from oil indexation to short-term TTF indexation
- As a result, high spot prices affect entire energy delivered (in contrast to Asian LNG importers secured with oil index LT-contracts)

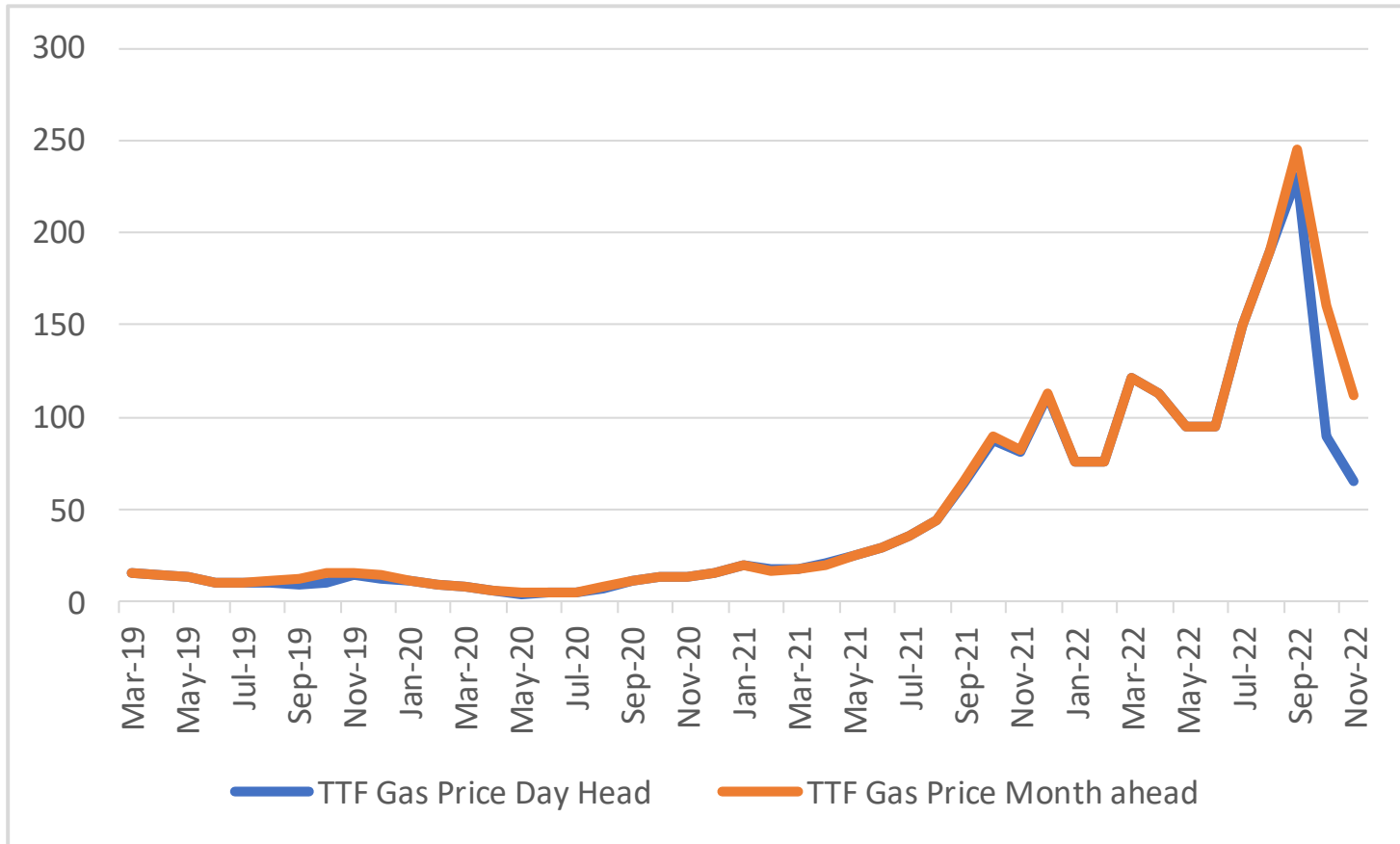
Cost imposed by Russian gas interruptions



How can Gazprom/Russia abuse dominant position?



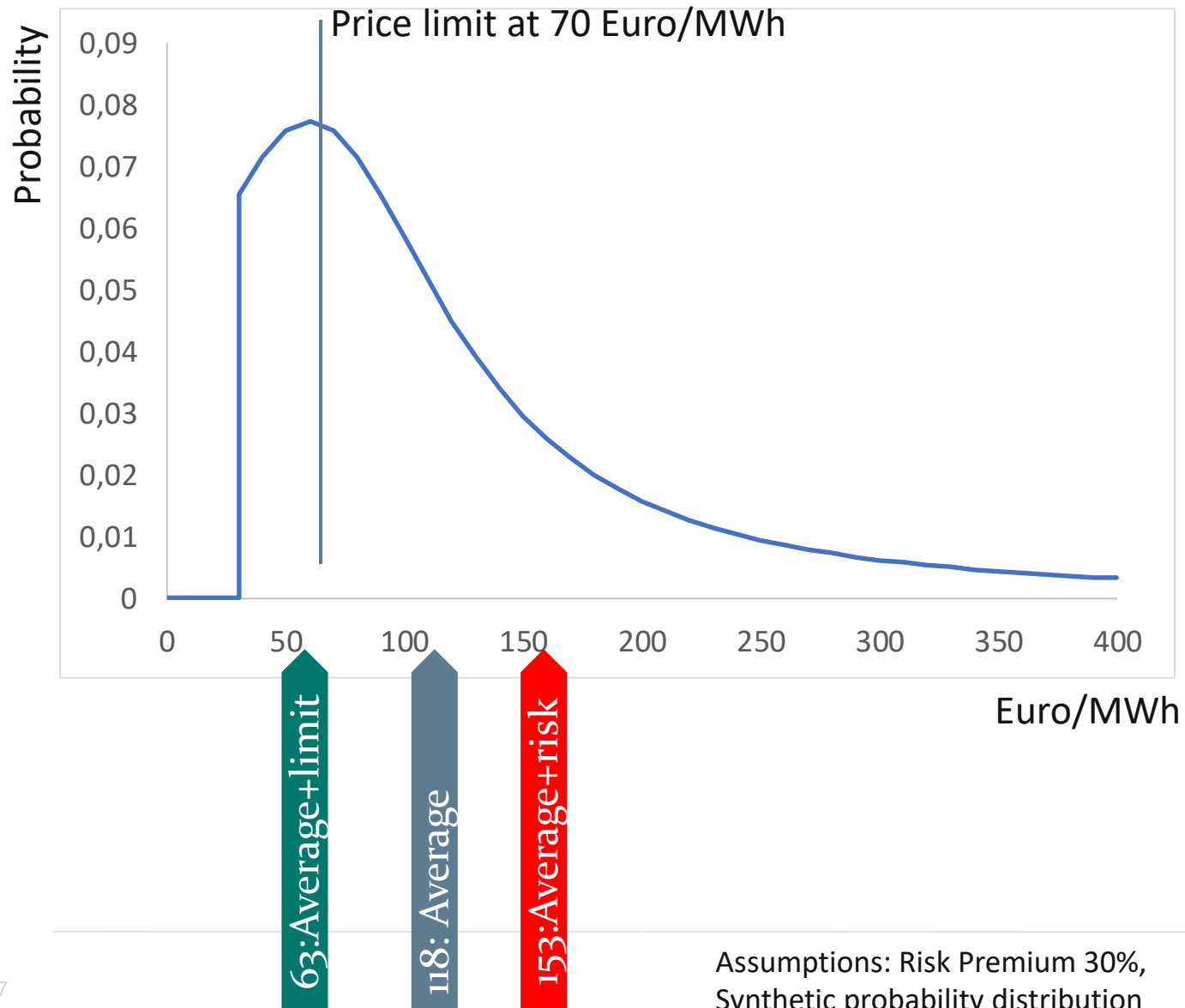


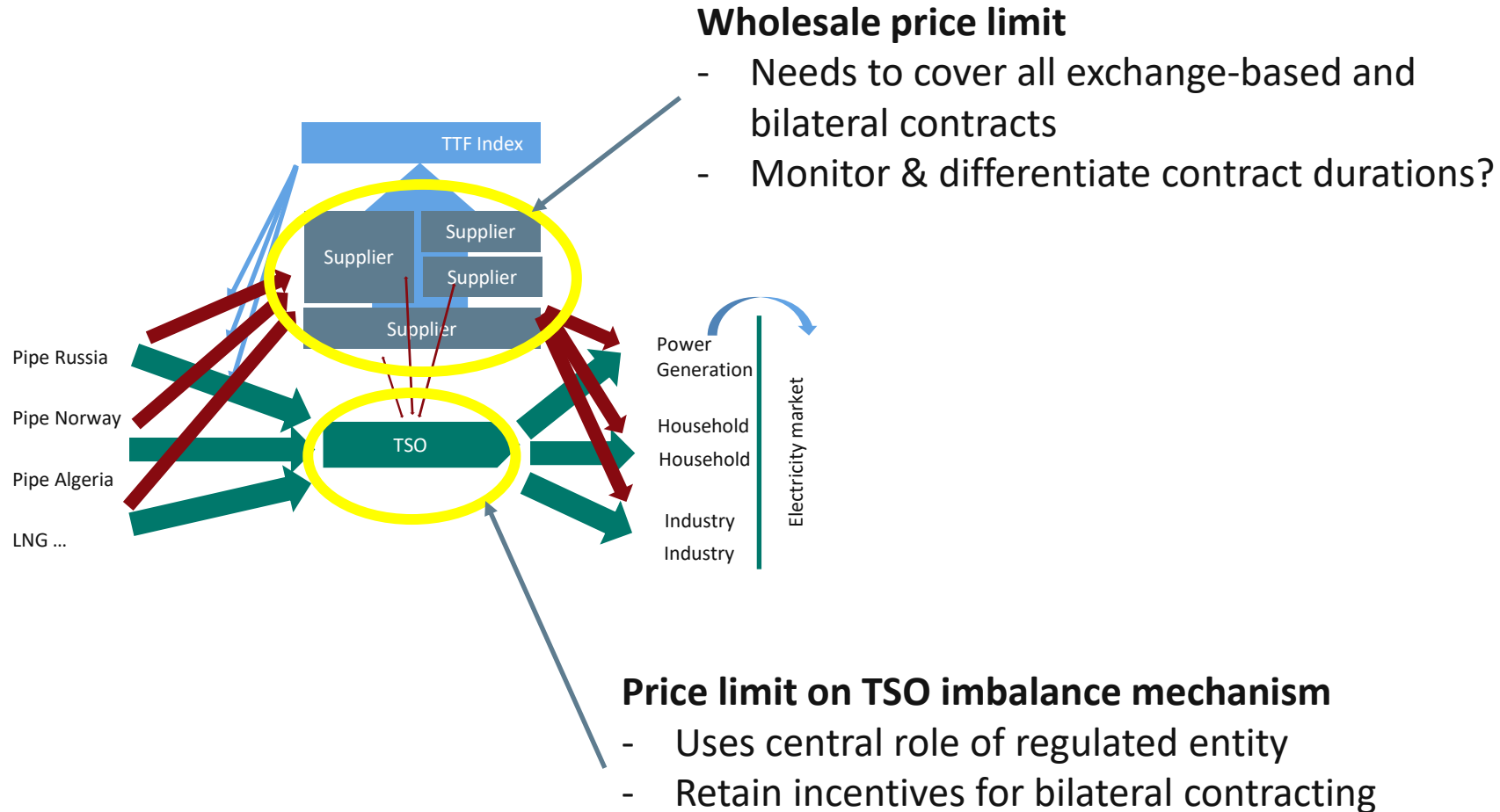


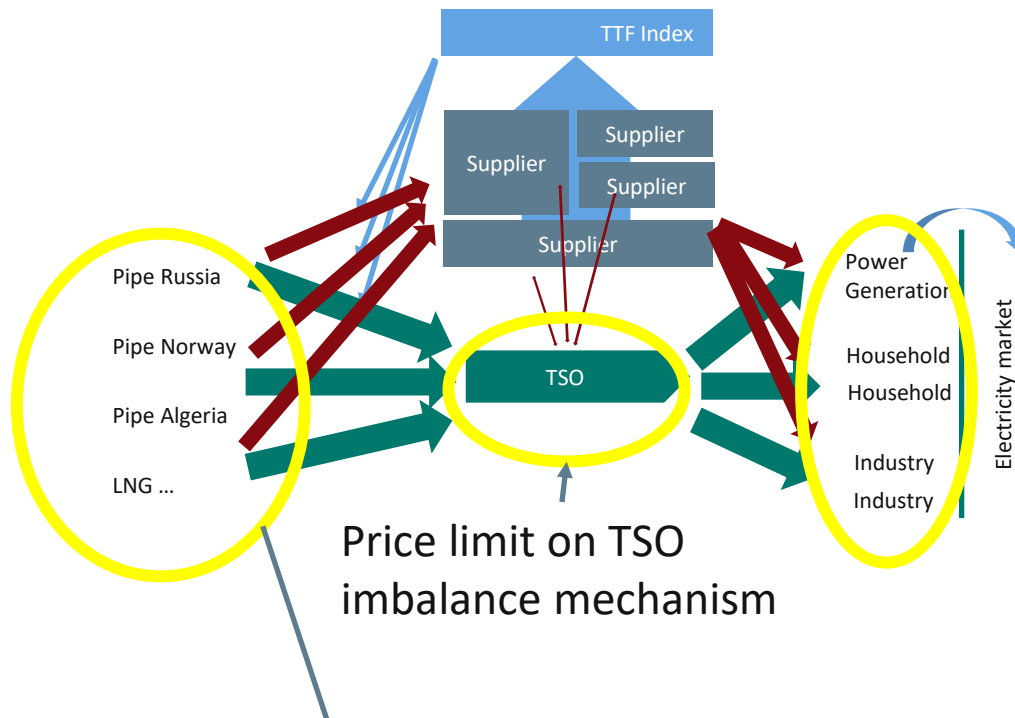
Forward prices have driven spot prices as long as there was storage capacity

6

What would be the effect of a price limit on forward prices?







Price limit on TSO
imbalance mechanism

Will delivery on long-term
contracts continue?

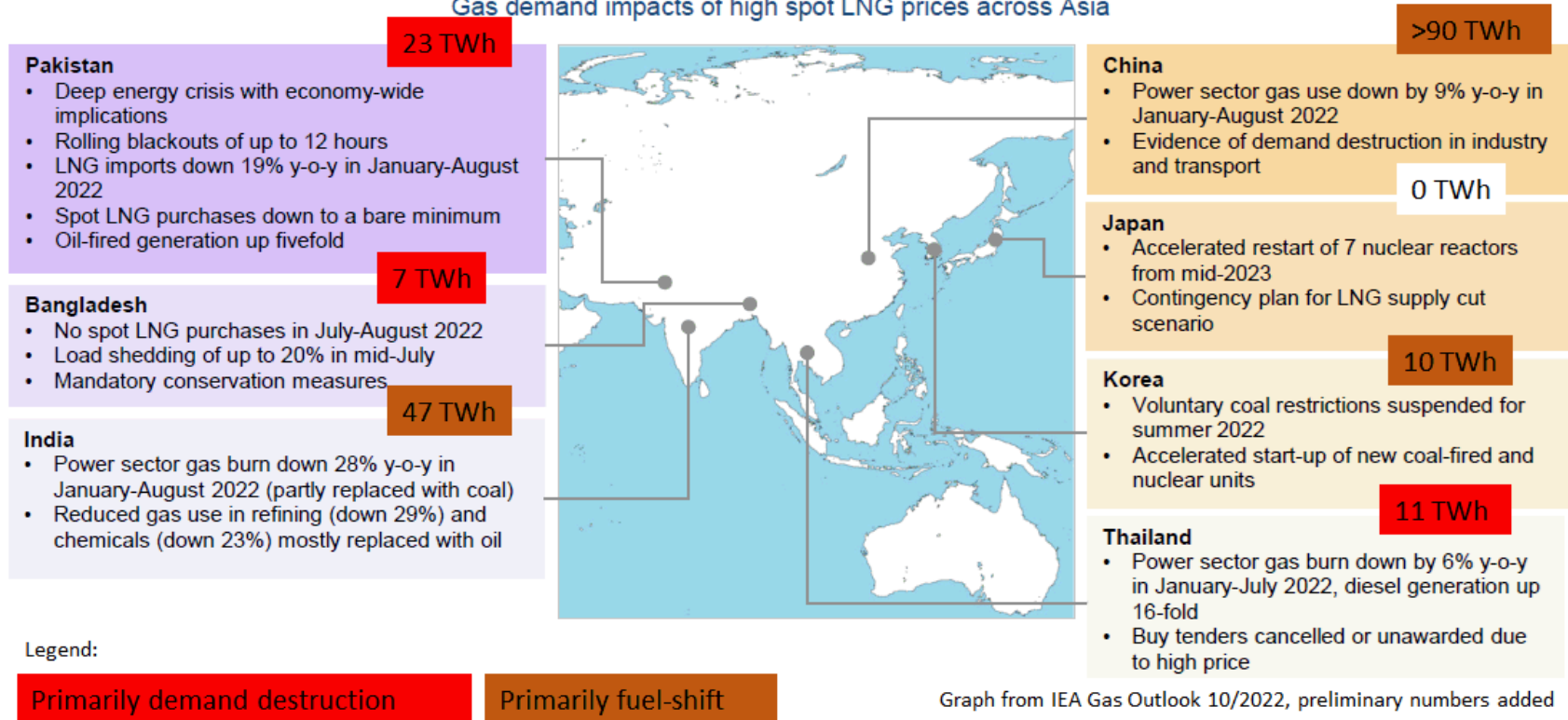
Will pipeline partners deliver
beyond long-term contracts?

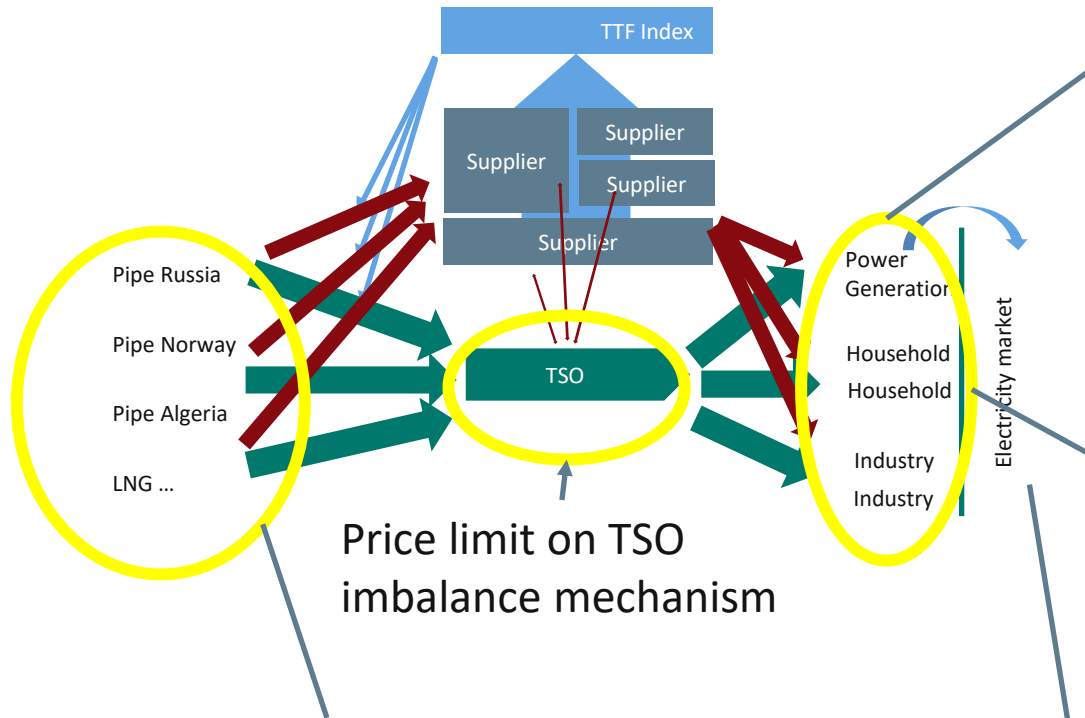
What happens to short-term
LNG imports?

What triggered additional LNG imports to EU in 2022?

Demand response to high LNG prices varied widely among the main importers in Asia

Gas demand impacts of high spot LNG prices across Asia





Price limit on TSO
imbalance mechanism

Will delivery on long-term
contracts continue?

Will pipeline partners deliver
beyond long-term contracts?

What happens to short-term
LNG imports?

How to ensure households save gas?

- Extra charge for demand exceeding 80% of previous year
- Establish a gas saving norm
- Frequent information for learning
- Support retrofit, heat pumps ...

How to ensure industry saves gas?

- Extra charge for demand exceeding 80% of previous year
- Tender to pay for firms to save gas

How to reduce gas power generation?

- Electricity saving target
- Redispatch or 2nd clearing to limit operation of gas power stations

Firm gas savings targets at EU scale essential

Conclusion: An EU deal on gas saving targets with saving incentives and a price limit

- Pivotal supplier Gazprom can create shortage with uncertain and extremely high gas prices – escalating its revenue and cost for EU
- Price limit at EU scale has potential to effectively respond to abuse of dominant position
- Price limit needs to be combined with firm gas saving targets at EU scale
- EU agreement on gas saving targets can also involve commitment to retain marginal incentives
- An effective solidarity mechanism requires both gas-saving targets and a price limit
- Combination of firm gas saving targets and price limit makes an EU agreement attractive for all EU countries
- Price limit at EU scale will mitigate risks for developing countries