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Eurelectric Comments on the Commission Report on Council Regulation 2022/2576

Eurelectric position paper

November 2023

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

WG Power & Gas Interactions

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KEY MESSAGES

Following Article 30 of the Council Regulation 2022/2576 "enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders", the Commission published on September 28th a report "on the main findings of the review of Council Regulation (EU) 2022/2576 of 19 December 2022, in view of the general situation of the gas supply to the Union."

The Commission report aimed at assessing the results of the Council Regulation and envisage the possible extension/integration in other texts of some of the measures. For this reason, Eurelectric would like to comment on certain conclusions which, in our view, deserve more consideration.

- **Firstly, even if it is premature to comment on the real results obtained from the joint purchase of gas triggered in April, Eurelectric has doubts about the added value of this platform, both concerning its impacts on prices and its ability to attract new LNG volumes. In any case, the Commission should release some fact-based info or data on the deals or transactions effectively concluded in the frame of this joint purchasing scheme**. Since the purpose of the Aggregate EU was not to mobilise demand per se, we consider that more data should be provided on the contracts actually signed. This is necessary to assess the real effectiveness of the instrument and to allow a sound and accurate assessment of the value delivered by the platform based on concrete and fact-based results.

- **Secondly, the joint purchase of gas was a temporary instrument conceived for emergency situations and should not be institutionalised.** Hence, it should not be enshrined in the Hydrogen and Decarbonised Gas Market package. Moreover, if so, it should be preceded by a deep and fair impact assessment, namely on the potential additional benefits of this platform to the mechanisms already in place, together with a wide public consultation.

- **Lastly, while not being a major concern, Eurelectric does not see the need to continue using the LNG benchmark and the related LNG transaction reporting process.** Looking at only EU transactions, this tool revealed itself as not fit for the reality of the LNG market, which is a global market where Europe takes part via transactions with non-EU stakeholders. In addition, the LNG benchmark does not bring new value on top of the numerous existing LNG indexes in place in Europe.

The Uncertain Results of the Joint Purchase of Gas

The Commission in its report concluded under sub-chapter 6 (cf. mandatory use of AggregateEU) that the *"demand aggregation obligation was a good way to mobilise demand in some EU Member States"* and under sub-chapter 3 (cf. demand aggregation and joint purchasing) that *"[...] The fact that the total volumes aggregated during the first two rounds alone doubled mandatory demand aggregation showed that market players considered the demand aggregation for gas to be very useful in the crisis context. This is an indication that market actors may be interested in having a similar mechanism operated on a voluntary basis."*.

Eurelectric has a more doubtful opinion toward the effective value brought by AggregateEU up to now and to which extent it enabled to deliver the intended outcomes *"to contribute to the security of supply (both in terms of volume and affordability)"*.

First of all, the real price impact on gas contracts based on the matchmaking process of Aggregate EU, if any, is unknown. Given the Council Regulation 2022/2576, Member States, eventually via their domestic market participants, are obliged to proceed with demand submission for aggregation purposes. Following the bid submission from potential sellers in the matching stage, a bilateral negotiation between the buyer and the seller is done outside the platform. Consequently, the final outcome of the bilateral negotiation process is unknown, both in terms of volumes and prices, and has not been subject to any reporting or publication yet. **Therefore, the affordability objective of AggregateEU cannot be assessed.**

Accordingly, we would like the Commission to disclose the effective number and volumes of deals that were concluded, to be able to determine or get a fact-based opinion on the effectiveness of this instrument, even via anonymous reporting. The lack of data on the concluded (if any) contracts but also on the source and volumes of suppliers' offers cannot lead to any accurate assessment of the potential benefits for the EU security of supply (cf. the targeted international outreach objective - attracting additional volumes of gas to Europe).

Moreover, even though we are seeing lower gas prices today than last year, this does not mean that the matched interests between potential aggregated buyers and bidders lead to lower prices than the ones observed on the EU wholesale market (either exchanges or Over-the-Counter). In other words, there is no evidence at all, so far, that the platform enabled the conclusions of aggregated gas deals at lower prices than individual transactions cleared on the market. Furthermore, it could be argued that the obligation for mandatory demand submission can potentially bring a "misleading" or a double counting demand that can lead to an unfounded price increase on EU wholesale gas markets.

As mentioned on the Commission website, the AggregateEU objective was *"to contribute to the security of supply (both in terms of volume and affordability), with a focus on Liquefied Natural Gas (LNG)."*. Nevertheless, considering the gas flow dynamics observed today across Europe, **it is clear that the mechanism has not succeeded in its goal of attracting more LNG volumes shipped to Europe since its implementation.** In the immediate future, the recent events in Israel and their swift influence on gas prices suggest that the wholesale gas markets recognize the absence of any increase in gas volumes through new administrative purchasing channels. This acknowledgement highlights the potential for any anomaly or hazard to affect the fluctuation in gas prices and impact supply flows to Europe and other regional markets, as fully part of the dynamics or functioning of wholesale energy market dynamics.

In conclusion, the joint purchase of gas and AggregateEU were some emergency interventions conceived in a crisis situation. Therefore, **Eurelectric thinks that these mechanisms should not be**

extended further or enshrined in the "Hydrogen and decarbonised gas market package" currently under discussion. If that is the case, we stress the need for this tool to remain voluntary and be preceded by a deep impact assessment and a fully-fledged public consultation to collect stakeholders' views.

The Unclear Necessity for the LNG benchmark to become permanent

In its report, the Commission emphasizes the importance of extending the temporary measures to enhance transparency in LNG import pricing and maintain fair competition among EU Member States. Therefore, they proposed to integrate that permanently in REMIT. **While not being against it, Eurelectric does not see the added value of this tool.** The LNG benchmark is considering only the transactions happening within the EU border. However, **with the European market being increasingly exposed to LNG, which is an international/global market, the indicator risks not being very representative.** While being partial, the LNG benchmark is also one among many indicators already existing that are more comprehensive and already familiar to the market.

For these reasons, while not being opposed to this indicator, **Eurelectric is sceptic of its added value in the future reality of the European gas market.**

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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EU Transparency Register number: 4271427696-87