

Capping the price of gas in the EU

Alberto Pototschnig and Ilaria Conti

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Preliminary considerations

- The EU gas market can be broadly split into two segments
 - The gas produced in the EU or imported into the EU via pipelines ('pipeline gas')
 - The gas imported into the EU as LNG
- There are limited opportunities for external pipeline exporters into the EU to redirect the gas destined to the EU or to liquefy and export it as LNG
- The EU has a limited ability to influence the international LNG market
- There might be regulatory tools to intervene on the price of pipeline gas in the EU

A two-part strategy

1. The adoption of measure(s) to contain the price of pipeline gas traded in the EU

1.a. The regulatory use of technical functionalities of gas exchanges, such as the Interval Price Limits (IPL) of ICE, to steer the price of gas traded on these exchanges downwards

1.b. A regulatory mandate to TSOs to sell/buy gas in the balancing mechanism at a predefined price or price range

2. The organisation of auctions for sourcing LNG for the EU on the global market

1.a. Containing the price of pipeline gas in the EU Using technical functionalities of gas exchanges

**Using gas exchanges' technical functionalities (e.g. Interval Price Limits)
to guide the gas price down**

Spot gas trading will clear at prices within the
allowed range, which is gradually moved downwards

Long-term contracts indexed to the spot price would
eventually align to the capped price

**If the limits apply only to gas traded on Organised
Market Places, possible leakage to the OTC market**

1b. Containing the price of pipeline gas in the EU Using the balancing mechanism

Cap on the price of balancing gas

TSOs to offer unlimited quantities of gas in the balancing market at a predefined price or price range

No market participant would buy/sell gas on the spot market above/below the predefined price or price range

The price of spot trading would therefore align to the predefined price or price range

Long-term contracts indexed to the spot price would eventually align to the predefined price or price range

However the imposition of a predefined price may reduce the supply of pipeline gas to the EU, leading to 'missing gas' volumes

Dealing with possible 'missing gas' volumes

Energy saving measures are introduced to minimise the 'missing gas' volumes

A Single Buyer entity will procure any 'missing gas' volumes on the LNG market through auctions

LNG suppliers bid the price premium with respect to the predefined price or price range

The cost of the premia paid on LNG is recovered through regulation

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<https://fsr.eui.eu/publications/?handle=1814/74868>

FSR Policy Brief 2022/51 October 2022

Securing gas for Europe

(a follow up to the policy brief on Capping the European price of gas)

by Alberto Pototschnig and Ilaria Conti

<https://fsr.eui.eu/publications/?handle=1814/74941>

POLICY BRIEF

Capping the European price of gas

*Don't you have a better bad idea than this?
This is the best bad idea we have, sir. By far.
from "Argo" (movie)*

Highlights

The price of gas in Europe has increased manifold over the last year. Beyond several measures adopted at Member State level to cushion the impact of high energy prices on consumers, imposing a cap on the price of gas in the EU is now being discussed. This Policy Brief proposes a strategy for implementing a cap on the price of gas in the EU, in case this is decided at political level.

The strategy is based on the assumption that the European gas market could be considered as composed of two segments: (i) the gas produced in the EU or imported into the EU through pipelines (also called 'pipeline gas') and (ii) the gas imported into the EU as liquefied natural gas (LNG). We also assume that external exporters of pipeline gas to the EU have limited opportunities to redirect this gas to the international LNG market.

The strategy is composed of two main elements: (i) the adoption of measure(s) to reduce the price of pipeline gas traded in the EU and (ii) the sourcing, on the global market, of any additional LNG volumes required in the EU through auctions organised by a Single Buyer entity (or by TSOs).

Authors*

Alberto Pototschnig | EUI, Ilaria Conti | EUI

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Thank you for your attention!