



Μερικές σκέψεις πάνω στην τρέχουσα Ενεργειακή Κρίση και τις Τιμές

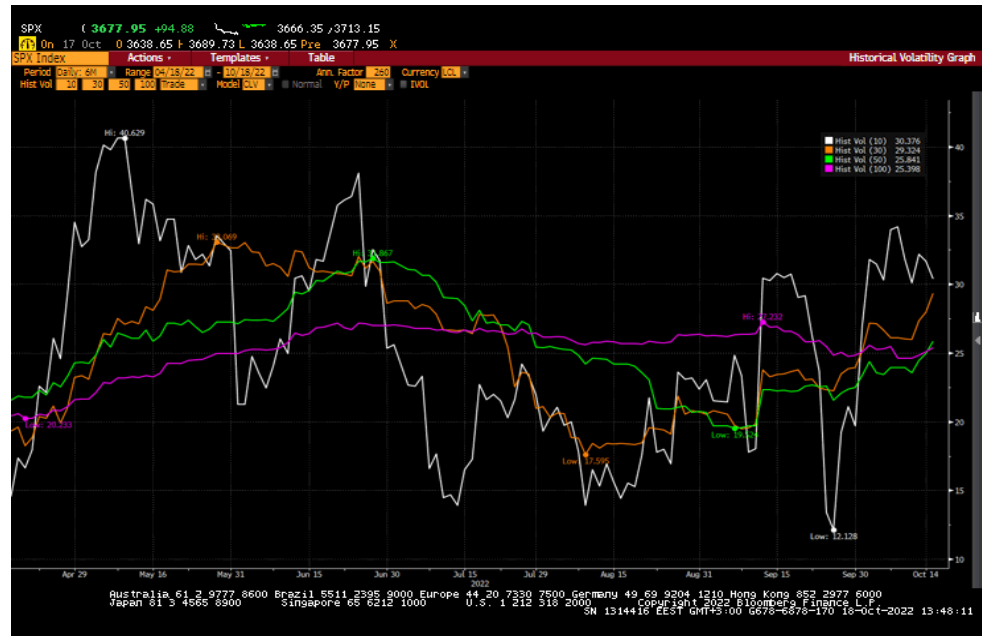
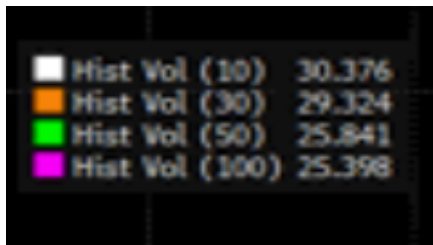
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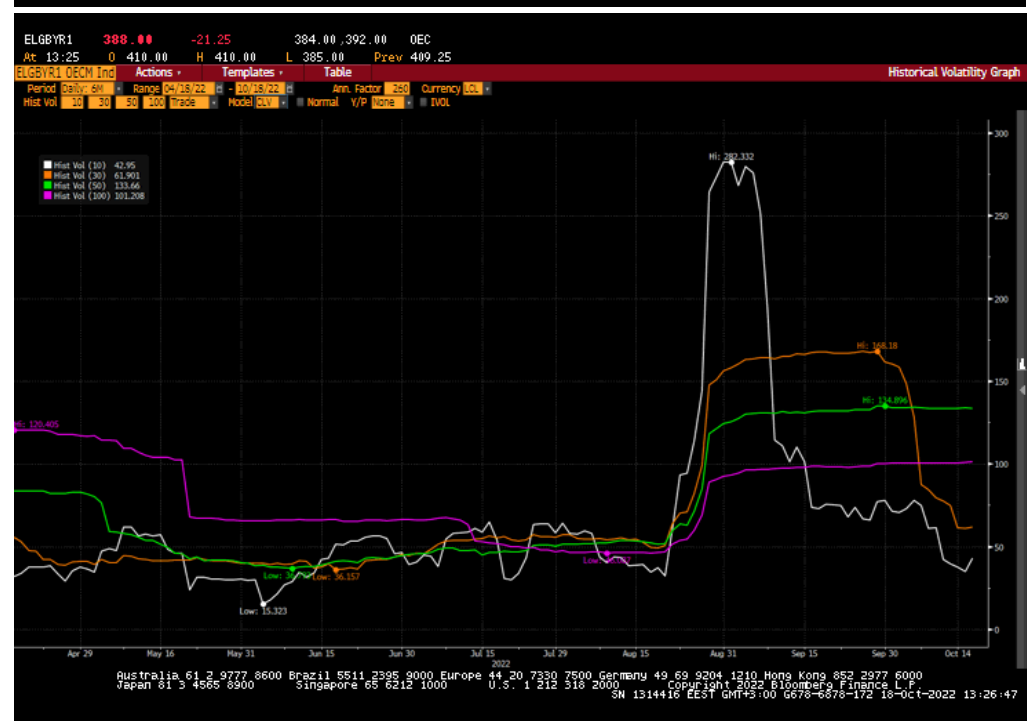
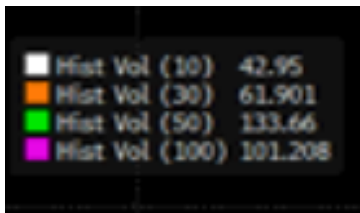
6 months Prices of S&P 500 equity index and their Volatility

Snapshot from Bloomberg



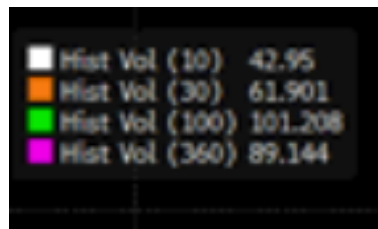


6 months Prices of German 1 Year Ahead BL Electricity contract and their Volatility *Snapshot from Bloomberg*





3y (2019-2022) Prices of German 1 Year Ahead BL Electricity contract and their Volatility



- ❖ Huge Price increases together with huge Volatility => Instability!
- ❖ Energy Markets are immersed into Nervousness & Uncertainty!



Energy Crisis: Five key questions and answers

- What is going on?
 - The 'Perfect Storm' creates huge uncertainty in the energy markets.
- What is the issue?
 - Affordability due to scarcity, combined with inelasticity of demand.
- What works and what does not work?
 - Markets have actually worked quite well showing the scarcity and the lack of competition of supply (gas market) so, don't shoot the messenger!
 - Huge volatility in the markets indicate that issue cannot be addressed by markets alone, hence some sort of intervention is to be discussed.
- What to do and what not do to survive now (short run)?
 - Consumer protection via capturing and redistributing inframarginal rents (*Robin Hood measures*) combined with state subsidies if fiscal space exists
 - Think of all possible ways to reduce demand and spend efficiently
 - Intervention in the Gas market ***** => the Big Elephant in the room!
- What are the lessons for the future (longer run)?
 - Redesign markets to distinguish among Units with variable cost and without (e.g. RES and storage having just Capex vs conventional Units)
 - Competitive corporate PPAs market for I-t contracts for new RES entrants
 - Real diversification of gas sources



Intervention in the Gas market (cap) ***** What do we mean?

1. Wholesale or retail cap?
2. Gas price cap to electricity gener. & gas subsidy? (Iberian Model)
3. Price cap via import ban?
4. Price cap via regulated tariffs or levy?
5. Price cap to imports? (Russian gas? all?)
6. Cap achieved through Diplomacy?
7. Joint EU Member States gas purchasing?
8. Emergency cap? (if suspension of market's functioning)
9. Intervention on Hub prices ('Circuit breakers'? TTF only?)?
10. Better/other benchmark for gas prices?



ALTERNATIVE EU EMERGENCY MEASURES

OPTIONS

- 1. Maintain wholesale gas market and cap consumer prices through tariffs
- 2. Apply a price cap to all European wholesale gas markets
- 3. Establish a new LNG-based index to complement the TTF index
- 4. Establish a Single Buyer to procure gas on behalf of all European buyers
- 5. Cap the price of gas used for power generation (Iberian Model)


ASSESSMENT OF OPTIONS

vis a vis

- A. Security of supply
- B. Impact on consumer bills
- C. Efficient gas allocation
- D. Fiscal burden
- E. Ease of implementation

Source: AURORA Energy Research
Epico KlimaInnovation, Oct. 2022

Overview assessment of options

	1. Maintain wholesale gas market and cap consumer prices through tariffs	2. Apply a price cap to European wholesale gas markets	3. Establish a new LNG-based index to complement the TTF index	4. Establish a single buyer to procure gas on behalf of all European buyers	5. Iberian model: cap the price of gas used in power generation
Ensures security of supply	 Avoids diluting price signals, ensuring security of supply	 Trade-off between setting cap high enough to secure supply and incentivising demand reduction	 LNG index can be set at high enough level to attract sufficient supply of LNG to Europe	 Procurement price needs to be globally competitive and challenging to assess required supply	 Incentivises higher use of gas in power sector and risks of power exports to non-EU countries
Reduction in consumer bills	 Households protected from high prices, necessary to ensure industry is also covered adequately	 If cap is set high enough to attract supply potential cost reductions for consumers are eroded	 LNG likely to maintain a premium to TTF to incentivise getting LNG from offshore	 Centralising purchasing power will likely lead to lower prices although Europe will still need to outbid other regions	 Reduces power prices, but does not decrease price of gas for other sectors (may even increase price due to higher overall demand)
Enables Efficient allocation of gas	 Price signal preserved as allocation mechanism	 In absence of price signal a centralised mechanism is required to allocate gas	 If the LNG index converges towards TTF, then buyers continue to secure volumes based on willingness to pay	 If targeted only towards filling gas storages next Spring, allocation during heating season can remain market-based	 Inefficient use of scarce gas in highly interconnected European power market and reduces gas available for other purposes
Low fiscal burden	 Requires substantial additional funds at EU level and risks reducing fiscal space and increasing borrowing costs	 No direct fiscal burden	 No direct fiscal burden	 No direct fiscal burden beyond setting up single buyer entity	 Will need to be funded by new levy/tax or EU-level funds
Ease of implementation	 Very politically challenging to raise required funds	 Challenging in setting cap high enough to attract global LNG, dynamically adapting gas savings target	 Index could be established relatively quickly but legislative action likely required to compel companies to use it	 Complex in terms of administration and governance, will likely take months to set up	 Relatively simple and quick to implement



CONCLUDING THOUGHTS Pros & Cons

- All measures require important gas savings (5%,10%,15%?) across all EU, to mitigate the Rebound effect of reducing gas price => increasing gas consumption.
- Most effective option to raise additional funds (issuance of joint EU debt) to fund direct payments to consumers => Fiscal impact and big political challenge.
- A new LNG index could be developed in parallel, but => legislative action needed to compel companies to use it, may in fact converge to similar or even higher price with the TTF one.
- Single gas buyer platform helpful, EU will use its purchasing power while maintaining some market based elements => bears administration and governance challenges.
- Straight cap on all wholesale gas prices creates uncertainty to Security of Supply, needs a mechanism (e.g. mandatory reduction of demand) to maintain supply-demand balance => may not be the best option at this point.
- Cap on gas prices for electricity generation, easy to implement => does not deal with high prices to all other gas uses, risk of customers switching to electricity.
- A multi-dimentional problem, all options have benefits and risks => No free meal!

Negotiations of gas contracts and prices with all global LNG supplies should go on, in parallel with any other chosen measures to be implemented, plus reduction in demand and active energy and gas savings.



Thank you!

Q & A

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