



Case Study: Europe

PAEM Committees: Session 2

27 February 2023

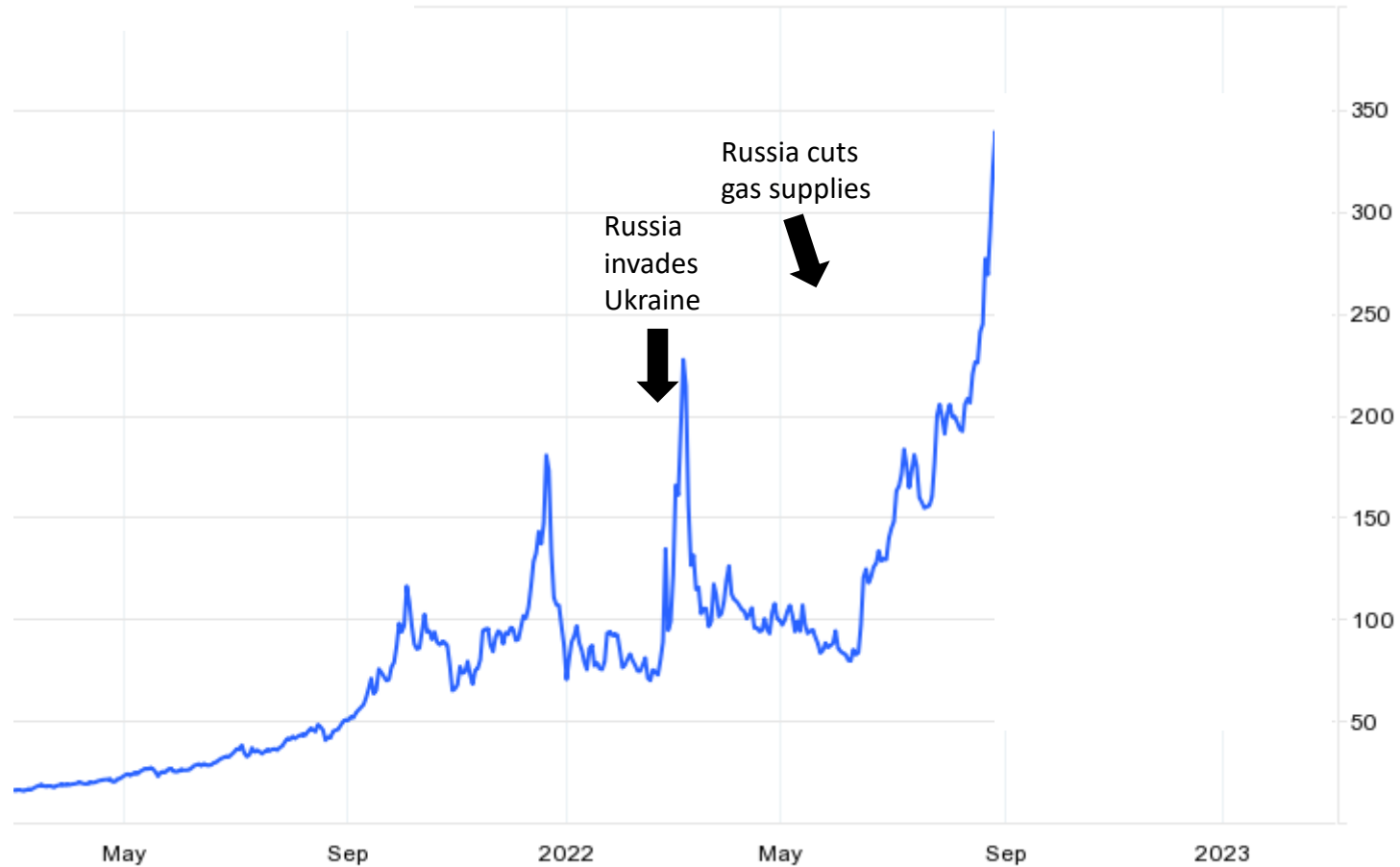
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Gas Prices

Dutch TTF, EUR/MWh

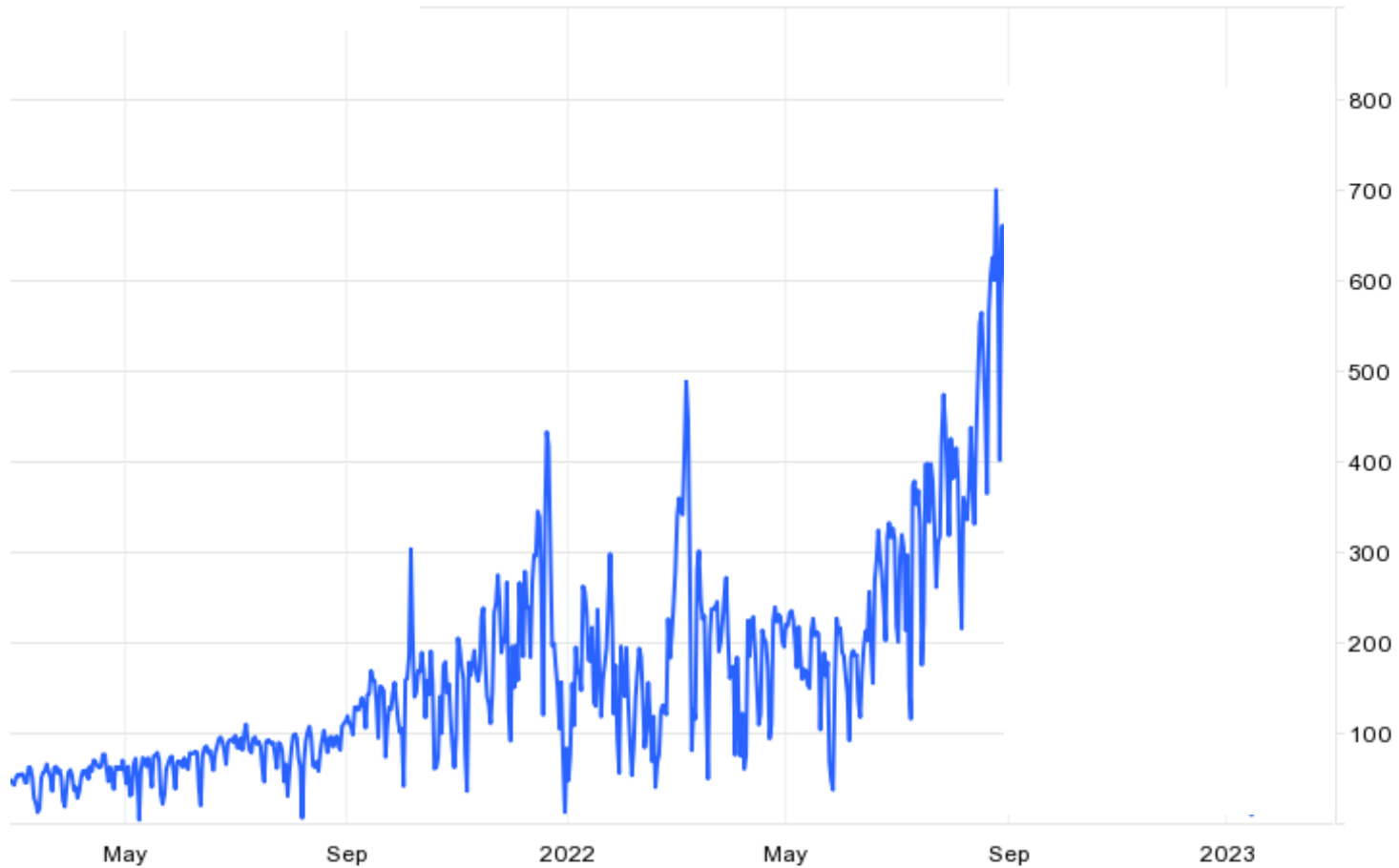


source: tradingeconomics.com



Electricity Day Ahead Prices

Germany, EUR/MWh



source: tradingeconomics.com



Makes Headlines

6m households to have savings wiped out after energy price cap surge

The Telegraph, Aug 26, 2022

Why Are Energy Bills Rising When Suppliers Are Making Record Profits?

Huffingtonpost, Aug 11, 2022

A broken market

As wholesale costs ballooned last year, 31 smaller UK energy companies — who traditionally offered competitive prices — went bust, forcing millions of customers onto the books of bigger suppliers, and to pay higher bills.

CNN, Aug 19, 2022

Why Europe's Electricity Prices Are Soaring

New York Times, Aug 25, 2022

U.N. chief urges tax on 'grotesque greed' of oil, gas companies

Reuters, Aug 3, 2022

Britain's energy market is blatantly rigged

We must tackle the marginal pricing racket to end the scandal of overpriced energy

The Telegraph, Feb 19, 2022



EU Consultation

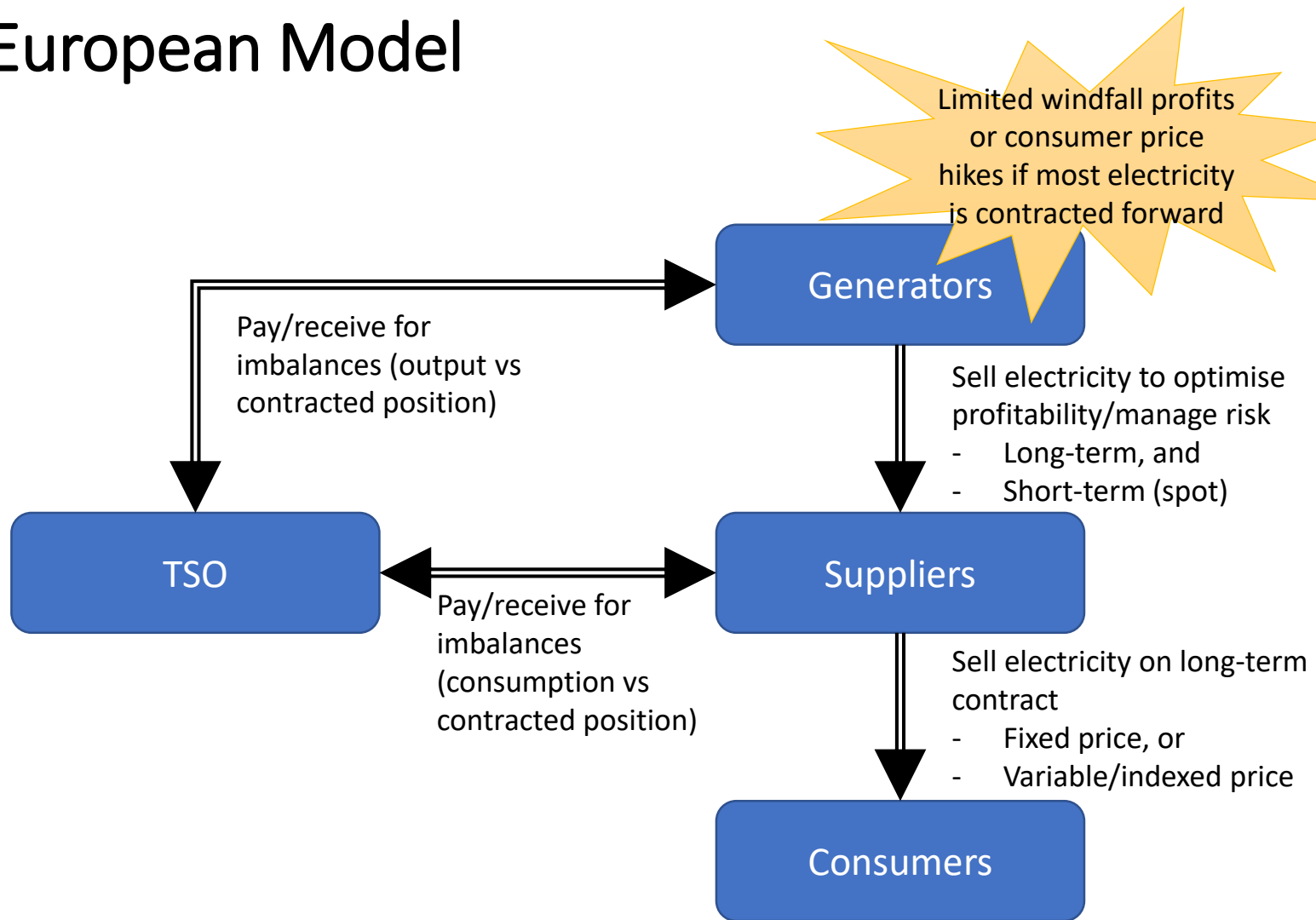
The European Commission is undertaking a public consultation on possible reform of the European Union's electricity market design

Focus on four main areas:

- Making electricity bills less dependent on short-term fossil fuel prices, and boosting the deployment of renewables;
- Improving market functioning to ensure security of supply, and fully utilize alternatives to gas, such as storage and demand response;
- Enhancing consumer protection and empowerment;
- Improving market transparency, surveillance and integrity.



European Model





Personal observations

In general, the electricity markets have worked rationally and efficiently

- System security and reliability margins have been maintained
- Spot markets have correctly indicated scarcity and high associated marginal costs
- Prices have triggered coal-fired generators to be made available and investment in LNG capacity

To be expected that major, disruptive events will have short-term effects – including windfall gains or losses – irrespective of market design

Long-term price hedging is key, and need to address any structural reasons for suppliers and generators not contracting adequately. Handling long-term credit risk is likely to be an important issue



Beware unforeseen consequences

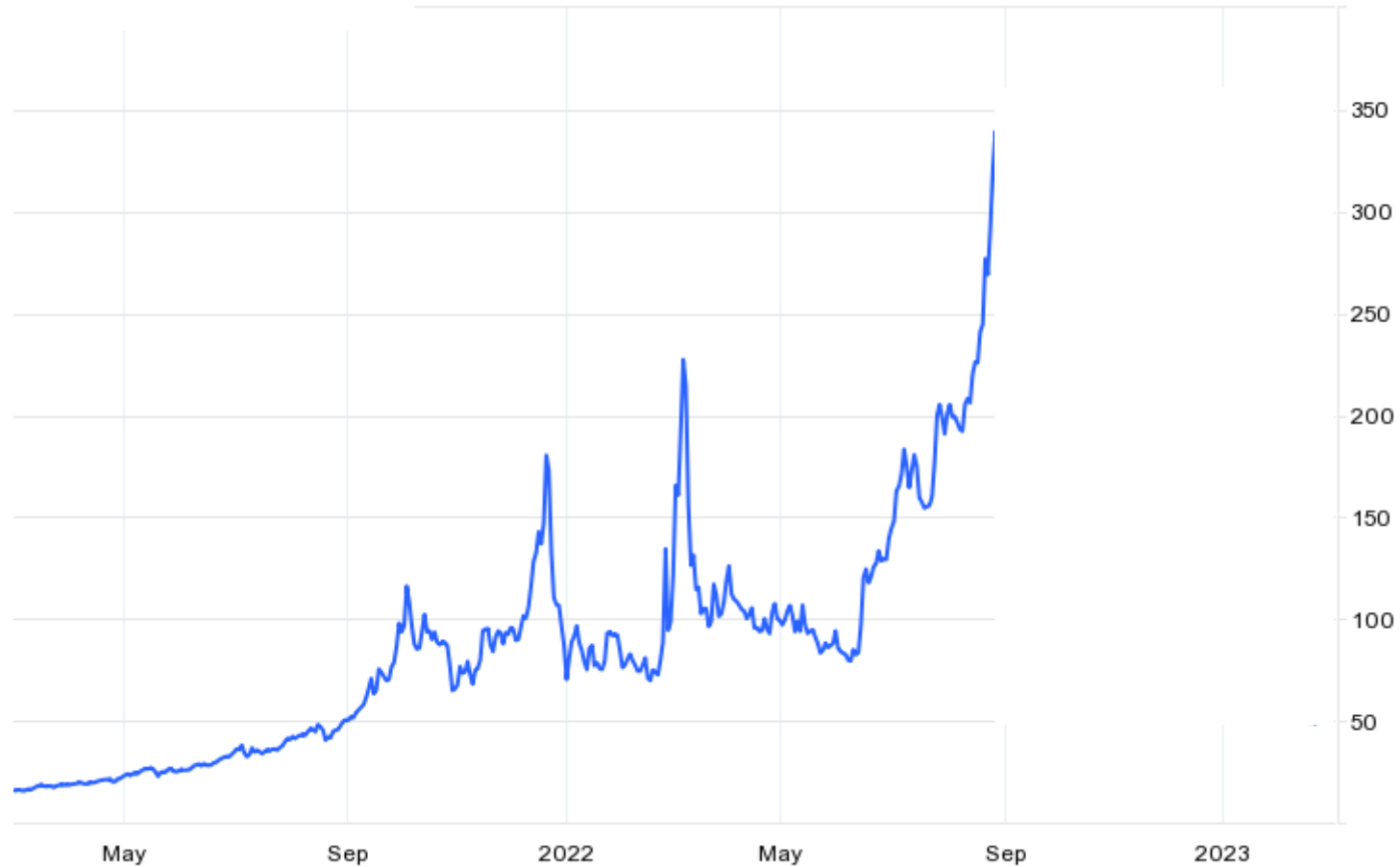
Policy objective	→ Intervention	→ Unforeseen Consequence
Reduce CO2 emissions	Subsidised RES	Undermine investment case in controllable generation capacity
Ensure adequate available generation while letting market find most efficient technology	Technology neutral capacity mechanisms	Over-reliance on strategically vulnerable fuel sources
Encourage supplier competition	Minimal regulatory barriers to be a supplier	Rapid growth in suppliers lacking the capital and skills to manage price spikes Costs of supplier failure borne by society, not the customers who chose them (market failure)
Ensure adequate gas reserves for winter 22/3	Pressure to secure gas for storage	Gas price spike magnified
Recoup excessive profits to help compensate others	Windfall taxes/levies	Increased investor risk Marginal investments uneconomic

To be continued



Act in haste, repent at leisure

Dutch TTF, EUR/MWh

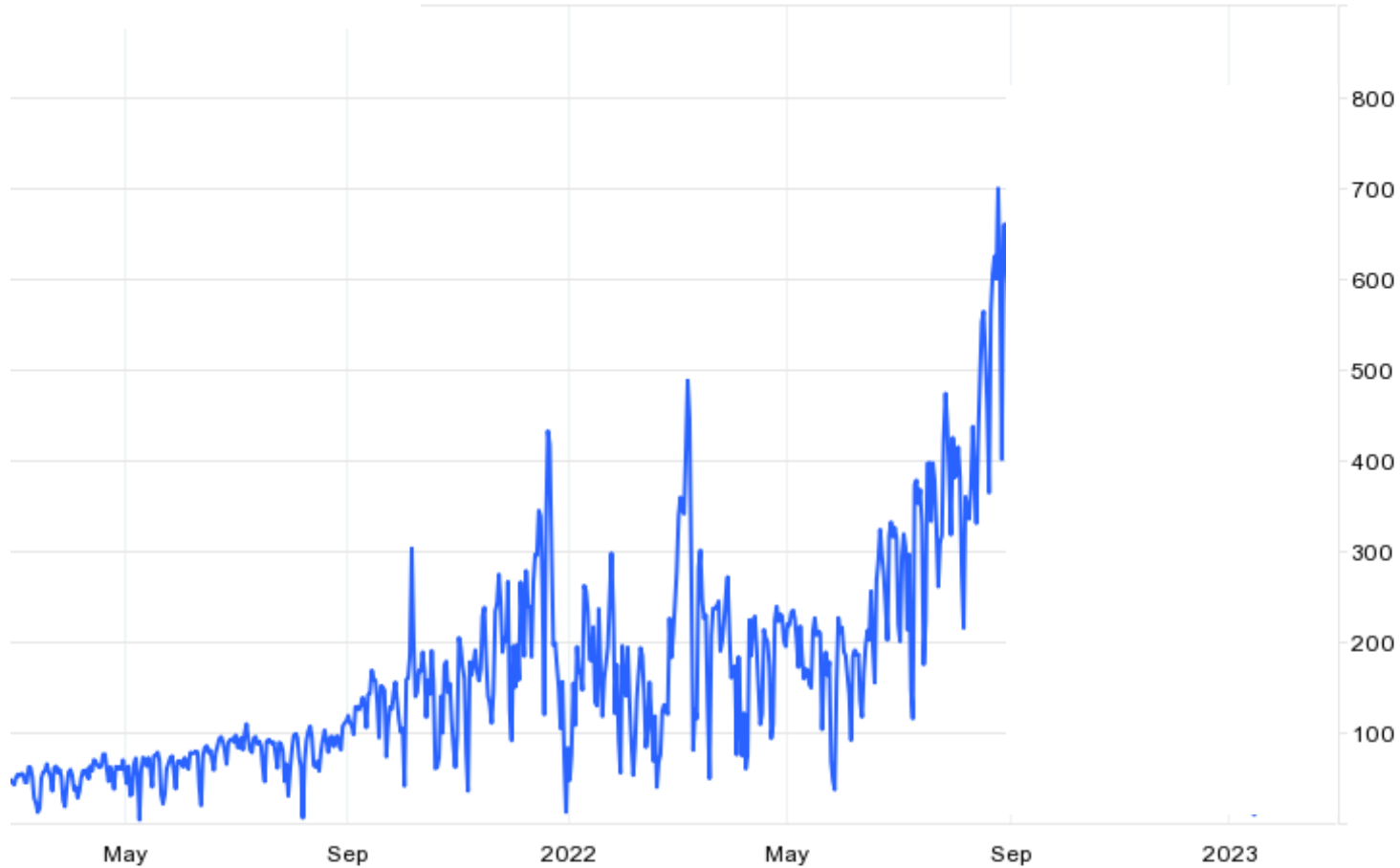


source: tradingeconomics.com



Act in haste, repent at leisure

Germany, EUR/MWh



source: tradingeconomics.com



Key messages

- Markets work within a policy and regulatory framework. This needs to evolve over time, responding to emerging challenges and building on experience
- Avoid repeating other's mistakes: learn from and share experience (good and bad)