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Security of supply and affordable energy prices: Options for immediate measures and preparing for next winter

Delegations will find attached document COM(2022) 138 final.

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
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REGIONS**

**Security of supply and affordable energy prices:
Options for immediate measures and preparing for next winter**

INTRODUCTION

Over the last 12 months, the retail prices of natural gas and electricity have been rising by respectively 65% and 30%. Russia's invasion of Ukraine is adding supply concerns to this difficult situation and has exacerbated the price volatility. High-energy prices are feeding inflation and hurting Europe's economy and impacting its recovery from the COVID-19 crisis.

As part of the response to this exceptional situation, in October 2021, the European Commission adopted a **toolbox for action and support**¹ to mitigate the effects on consumers and businesses at the EU- and Member States levels. Targeted support measures to help reduce energy costs for consumers, households and industries, have helped alleviating the pressure.

On 8 March 2022, the Commission's **REPowerEU Communication**² provided further guidance to Member States on how to mitigate the increase in electricity prices for households and businesses, and on how to use high profits earned by some electricity producers to finance these measures. To ensure a more sustainable energy system, the Commission will propose in May a plan to phase out Europe's fossil fuel dependence from Russia while increasing the resilience of the EU-wide energy system.

In **Versailles on 10-11 March 2022**, EU leaders agreed³ to phase out the EU dependency on Russian gas, oil and coal imports as soon as possible and invited the Commission to put forward a plan to ensure security of supply and affordable energy prices during the next winter season by end of March. In parallel, the EU leaders committed to urgently address and consider concrete options, building on the Communication of 8 March 2022, for dealing with the impact of increased energy prices on our citizens and business, especially our vulnerable citizens and SMEs, including at the next meeting of the European Council on 24-25 March 2022.

This Communication responds to the Leaders' call. It presents the benefits and drawbacks of concrete exceptional short-term options to temper price spikes. It also proposes collective European actions to address the root causes of the problem in the gas market with a view to ensure security of supply at reasonable prices for next winter and beyond. To this end, EU partnerships with third countries would allow collective purchases of gas and hydrogen. Finally a proposal for a European gas storage policy aims at improving the resilience of the EU-wide energy system.

OPTIONS TO ADDRESS HIGH ELECTRICITY PRICES IMPACTS ON CITIZENS AND BUSINESS

Several options for emergency measures to limit the impact of high electricity prices have been put forward by Member States, stakeholders and in the academic debate. They aim at providing relief to end-consumers, while not distorting the longer term overarching Green

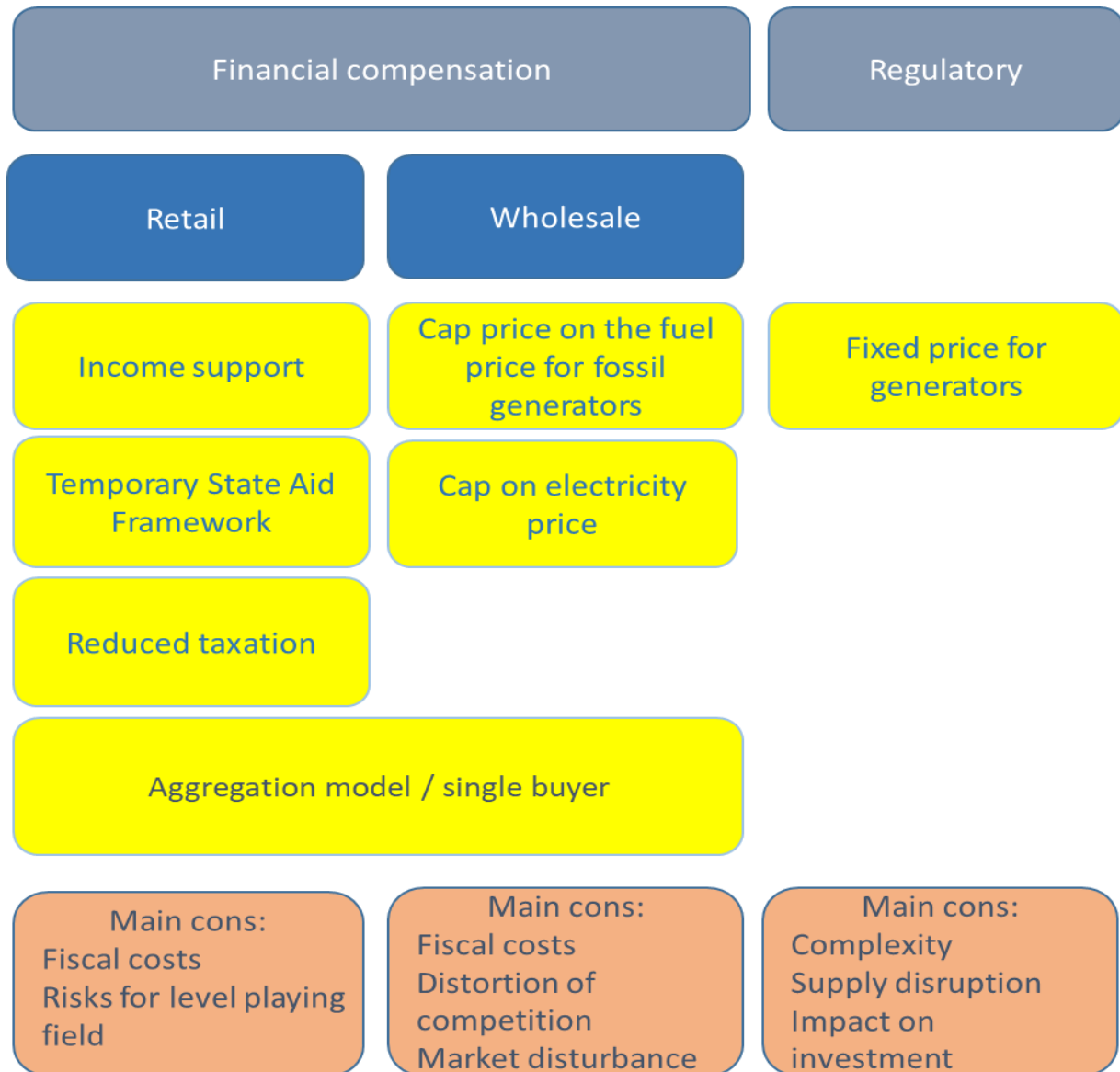
¹ Communication on tackling rising energy prices: a toolbox for action and support, COM(2021) 660 final, (13.10.2021)

² Communication on REPowerEU: Joint European Action for more affordable, secure and sustainable energy, COM(2022) 108 final, (8.3.2022)

³ [20220311-versailles-declaration-en.pdf](#)

Deal, including decarbonisation and energy efficiency, objectives. To be successful, these temporary and targeted exceptional options need to be fiscally manageable and should not compromise security of supply and level playing field in the internal market.

The short-term options on the electricity price can be broadly grouped in two categories:



Intervention options including financial compensation

These options aim at lowering electricity prices, either directly on the retail side or indirectly on the wholesale market.

Retail side

These options aims at cushioning the effects of the high prices on end-consumers while letting the European electricity and gas markets set the price at wholesale level. In line with the Commission’s October toolbox⁴, 26 Member States have introduced such crisis measures.

⁴ COM(2021) 660 final, (13.10.2021)

Within these measures, direct support to vulnerable end-users targets the aid to those most in need and State aid can help businesses struggling with excessive energy prices. The latter will be supported by the **new State Aid Temporary Crisis Framework**⁵, adopted on 22 March, enabling support for undertakings directly or indirectly affected in the form of limited direct grants, liquidity support and aid for increased gas and electricity costs.

A majority of Member States have put in place reduced VAT rates for gas, electricity and/or district heating. However, **many possibilities, notably in the framework of the Energy Taxation Directive**⁶, **including reduced rates or exemptions for households, are not yet fully exploited.**

The Commission considers providing guidance to Member States on how to make best use of the legal framework, including on targeted country-specific derogations under the Energy Taxation Directive⁷ so as to avoid distortions to the Single Market.

All the options on the retail side aim at providing direct relief to citizens and businesses. Using higher revenues from energy tax and carbon pricing or from abnormal profits of some energy companies can help finance such targeted and temporary measures in support of vulnerable households and businesses⁸.

Wholesale side

Member States can consider setting up an **aggregator model** under which an entity would buy electricity on favourable commercial terms and make it available to certain consumer categories below market price passing onwards the advantages to the consumers, essentially subsidising the difference between lower retail prices and higher wholesale ones.

Other options would involve **intervening directly in the functioning of the wholesale electricity markets**. These consist in either **compensating financially fossil-based electricity generators** for part of their extraordinary high fuel costs so that they reduce their offered price in the wholesale market or in **directly capping the electricity price in the wholesale market** by establishing a reference benchmark and compensating the difference with the offered price.

Such options would aim at reducing the negative impact of very high gas prices in the wholesale electricity market. Their main drawbacks relate to their fiscal cost, potential distortion of competition, risks to cross-border trade and hence security of electricity supply, the extent of which depends on the design of such options.

⁵ Communication on Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia, C(2022)1890 final, (23.3.2022)

⁶ Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (OJ L 283, 31.10.2003, p. 51)

⁷ In accordance with its Article 19 (1).

⁸ Some (inframarginal) electricity generators currently get excessive profits from the very high electricity prices. These excessive rents can be taxed or clawed back temporarily in line with the guidance the Commission has presented on 8 March (see COM(2022) 108 final, (8.3.2022)).

Regulatory options without fiscal compensation

These options consist in establishing a **regulatory cap for the maximum price** that certain baseload generators can charge. Whilst this option would bring the costs down in the longer term, its added value in the short term is to address the excessive profits of certain technologies.

The main drawbacks of these options are related to implementation challenges as they would require access to information on cost and revenues for the generators that might not be accessible to public entities and possible legal challenges. They would also induce regulatory uncertainty, as such options may remove some incentives for private investments in renewables which are key to achieving our long-term goals of a resilient, sustainable and secure energy system.

All options are presented and analysed in more detail in the Annex.

Based on this assessment, **the Commission considers that there is no single easy answer to tackle the high electricity prices** given the diversity of situations among Member States. Some options are only suitable for specific national contexts. At the same time, some interventions would require an EU- legislation and/or EU level common approach to be effective and not harmful for the internal market and supply security. They all carry costs and drawbacks, including for the functioning of the single market.

ENSURING SUPPLY OF GAS AT REASONABLE COST FOR NEXT WINTER AND BEYOND

While many options put forward in the public debate address the symptoms, **the root cause of the current high electricity prices is the gas market**. Today's high electricity price is driven by the high gas price, as gas-based generators are still often the energy providers coming last into the electricity market to close on actual demand. In the gas spot market, volatility is high and not fully linked to fundamentals.

Capping or modulating the gas price through regulatory means is an option that may be considered, as it would have an immediate impact on price levels. It can give an important signal that the EU will not pay any price for gas but such an intervention should only be envisaged as last resort, as it entails some drawbacks in terms of security of supply of gas flows.

With the gas replenishing season starting now, it is urgent to agree on a common strategy. The current context of high prices and tight gas markets makes the refilling of storage for the next winter more challenging than in normal years. Using the collective leverage of the Union to help secure gas imports in the best possible conditions is essential to avoid Member States bidding against each other for the same supplies.

The EU is stronger when acting together. The EU should act jointly to harness its market power through negotiated partnerships with suppliers.

The Commission stands ready to create a **Task Force on common gas purchases at EU level**. By pooling demand, the Task Force would facilitate and strengthen EU's international outreach to suppliers of LNG and of gas, with the view to secure well-priced LNG and gas

imports ahead of next winter. The EU can better ensure LNG, gas and hydrogen at affordable prices from third countries in the short term, if it engages with those countries on the long term, setting up long-term renewable gas partnerships which would also lay the basis for future hydrogen imports

Thus, the Task Force will prepare the ground for **energy partnerships** with key suppliers of LNG, gas and hydrogen in the Mediterranean region, with our partners in Africa, but also the Middle East and USA.

The Task Force would be supported by Member States representatives in a Steering Board. A joint negotiation team led by the Commission would hold talks with gas suppliers. It would be inspired by the experience from the COVID-19 pandemic, where EU wide action was crucial to guarantee sufficient supplies of vaccines for all.

The Task Force would also promote the efficient usage of EU's gas infrastructure notably LNG terminals, but also storage facilities and pipelines.

Filling sufficient gas storage will provide European customers with some protection against risks of supply shortages and potential disruptions by providing some stability. This is why the Commission proposes a **European gas storage policy**, common and strategic, implemented through coordinated joint action and burden-sharing across the 27 EU Member States. Over the next months, the Task Force will help in promoting filling of storages ahead of the winter in close cooperation with the Gas Coordination Group.

Common efforts are necessary to **optimise the use of existing storage infrastructure**. Storage measures taken jointly rather than individually avoid over-investments since gas is a transitory energy source and any new infrastructure should be useable for cleaner energy sources in a longer term perspective, notably for hydrogen.

To guarantee a sufficiently high filling level, the Commission has made a **legislative proposal on energy storage** aiming at ensuring that the existing storage infrastructure are filled up to at least **90% of their capacity by 1 November of each year**; a target which can be adjusted over time if the economic and geopolitical realities, as well as the energy supply security change. Recognising the specific situation of the current year, a lower target of 80% and a flexible path to ensure smooth phasing-in will be provided. Member States should already take action to ensure adequate storage filling for next winter, anticipating the legislative proposal.

Solidarity is fundamental. Joint gas storage is an insurance benefitting everyone, and to which everyone should contribute in a fair way. This is why Member States without storage should contribute to the storage filling levels in other Member States and in exchange benefit from enhanced security of supply. The burden sharing mechanism embedded in the proposal ensures a fair allocation of security of supply costs among all Member States as they all benefit, thanks to the EU energy market, from lowering the risks of supply disruption regardless of where storage is located in the EU. This mechanism builds on the solidarity agreements which should be concluded without delay to allow that gas be shared effectively

in case of an emergency as proposed in December 2021⁹. Equally important is transparency and monitoring of the progress towards reaching the filling target. The Gas Coordination Group will monitor the progress in filling towards the target and consider appropriate actions to sustain the storage filling effort if necessary.

Finally, as gas storage infrastructure is critical to EU's security, the **certification** of storage operators will provide the necessary safeguards against risks related to the ownership from third country operators from a security of supply perspective.

CONCLUSIONS

The options for dealing with the impact of increased energy prices on our citizens and business, presented in this paper cover emergency time-bound interventions to limit the rise of energy prices, which should not jeopardise the long term objectives of the Green Deal, nor the functioning of the Single Market. None of them is a silver bullet and all of them carry advantages and drawbacks.

What is urgently needed is to contain the rise in energy prices and ensure adequate gas supply for next winter and beyond. The best option is to work as EU27, together in a coordinated approach, to save costs and use the leverage of our joint strength.

In the medium term, more structural solutions are needed, including interconnections to fully integrate the energy market, much more renewable energy, energy efficiency measures and the diversification of energy supply to avoid dependencies. The REPowerEU plan will accelerate the introduction of measures on all those fronts. The Commission will table its detailed **REPowerEU plan in May**. In that context, the Commission also stands ready to propose a Union-wide energy savings plan.

With the roll-out of REPowerEU, the EU regulatory framework needs to be made fit to a substantial larger share of renewable energy in the energy mix in line with the EU's ambitious decarbonisation targets. The Commission will assess options to **optimise the electricity market design by May**. This exercise will consider the final assessment by the European Union Agency for the Cooperation of Energy Regulators (ACER) on the benefits and drawbacks of the EU electricity market design, and other contributions on the functioning of the electricity market¹⁰.

Over time, accelerating the uptake of renewable energy sources and encouraging more efficient energy consumption, together with a European storage policy and diversification of supply through a more coordinated engagement with reliable suppliers, will provide structural solutions to ensure access to affordable energy.

The options and proposals outlined in this paper call on all Member States to rely on Europe's best strength: unity and solidarity.

⁹ Proposal for a Regulation of the European Parliament and of the Council on the internal markets for renewable and natural gases and for hydrogen (recast), COM(2021) 804 final, (15.12.2021)

¹⁰ . Some elements of the envisaged options for short-term interventions, such as the procurement of new capacity through two-way contracts of difference or the use of the aggregator model could help pave the way for future changes to Europe's long-term market design, helping protect consumers against high price volatility in the future and increase the resilience of Europe's energy market.

Leaders at the 2022 March European Council are invited to provide steer for proceeding with the work at Commission and legislative level to ensure security of supply and affordable energy prices now, for next winter and beyond.