



ACER



European Union Agency for the Cooperation
of Energy Regulators

Market Correction Mechanism - ACER's Preliminary Data Report

Broader context & main findings

Council Energy Working Party

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Brussels, 31 January 2023



- Key findings of ACER's Preliminary Data Report
- Broader context & latest market developments
- Main highlights of the ACER Report
 - Demand, supply and congestion
 - Hubs and trading

Key findings of the ACER Report

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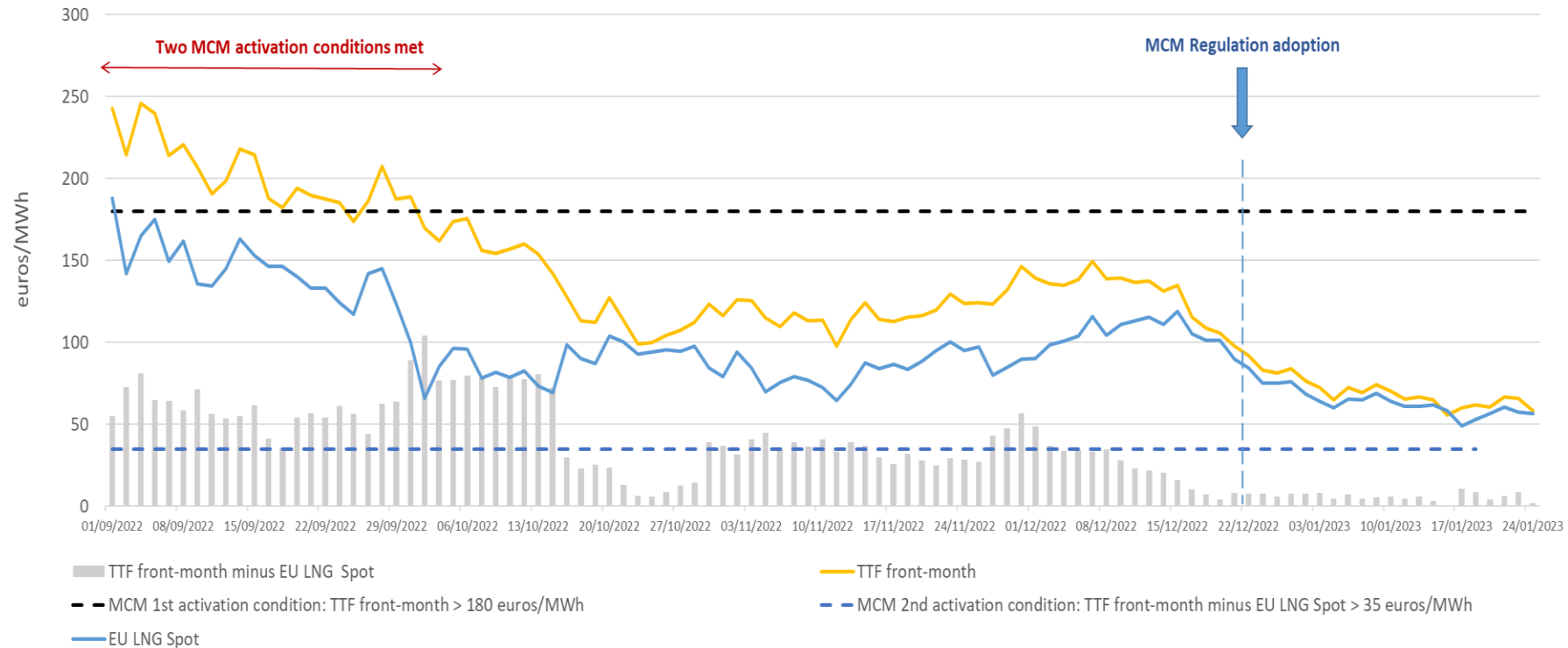
- ***“The effects of the Regulation seem to remain limited.*** No significant impacts can be unequivocally and directly attributed to the adoption of the MCM.”
- ***“It cannot be concluded that the MCM has played a relevant role in reducing EU gas prices.*** The lower prices seem driven by fundamental supply and demand factors.“
- ***“Gas supply has remained reasonably stable following the adoption of the MCM Regulation and security of supply has been well ensured.”***
- ***“The MCM Regulation has not prompted a discernible shift in trading activity.”***

ACER and ESMA published the two preliminary reports with indicators to continue monitoring market developments and detect potential impacts and risks of the MCM.

Broader context & latest market developments

Prices are well under MCM activation levels

Front-month TTF and EU LNG reference price evolution (euros/MWh) – 01 September 2022 – 24 January 2023

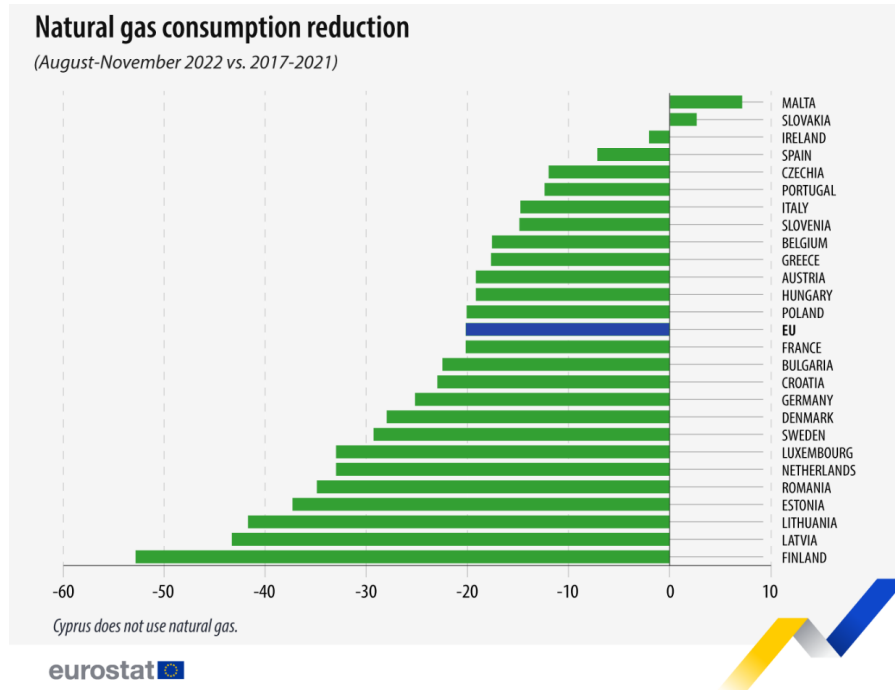


Better than expected demand-supply balance has driven the prices far from the MCM activation levels. The spread between the TTF front-month and the EU LNG import prices has also narrowed.

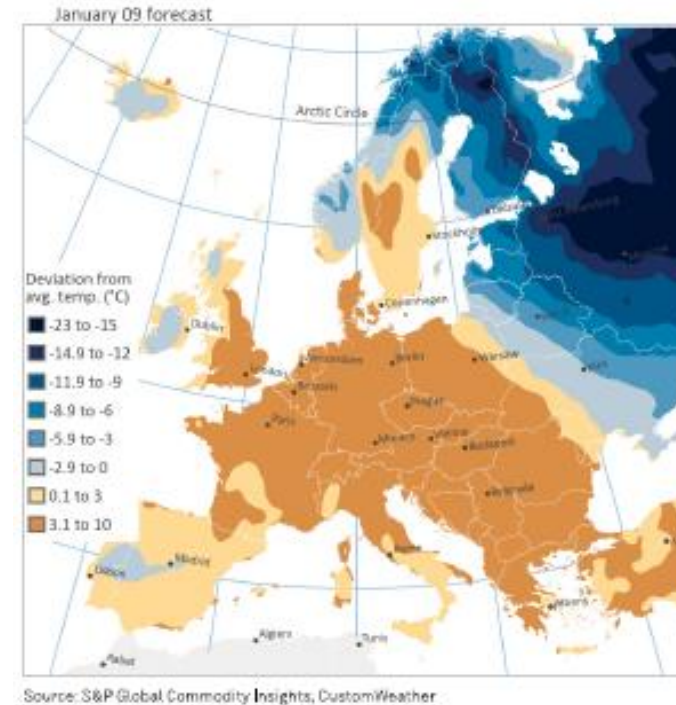
Various factors explain the price decrease (1/4)

EU gas consumption is down 20.1%

... with warmer, rainier, windier weather playing a role



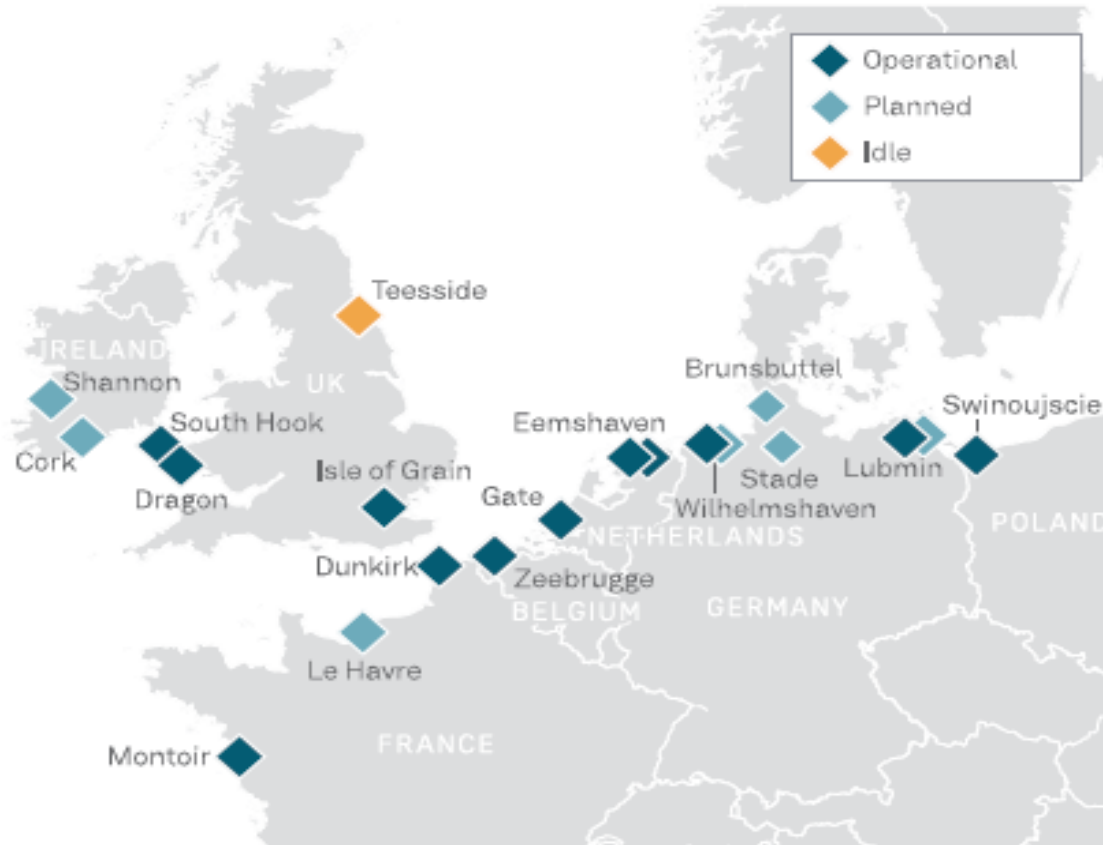
5-day-ahead temperature deviation forecast



The mild winter weather contributes to lower heating needs, next to overall demand reduction efforts. Electricity consumption dropped as well but to a lesser extent.

Various factors explain the price decrease (2/4)

Northwest European LNG terminals



Germany's LNG terminal in Wilhelmshaven welcomes 1st LNG cargo

BUSINESS DEVELOPMENTS & PROJECTS

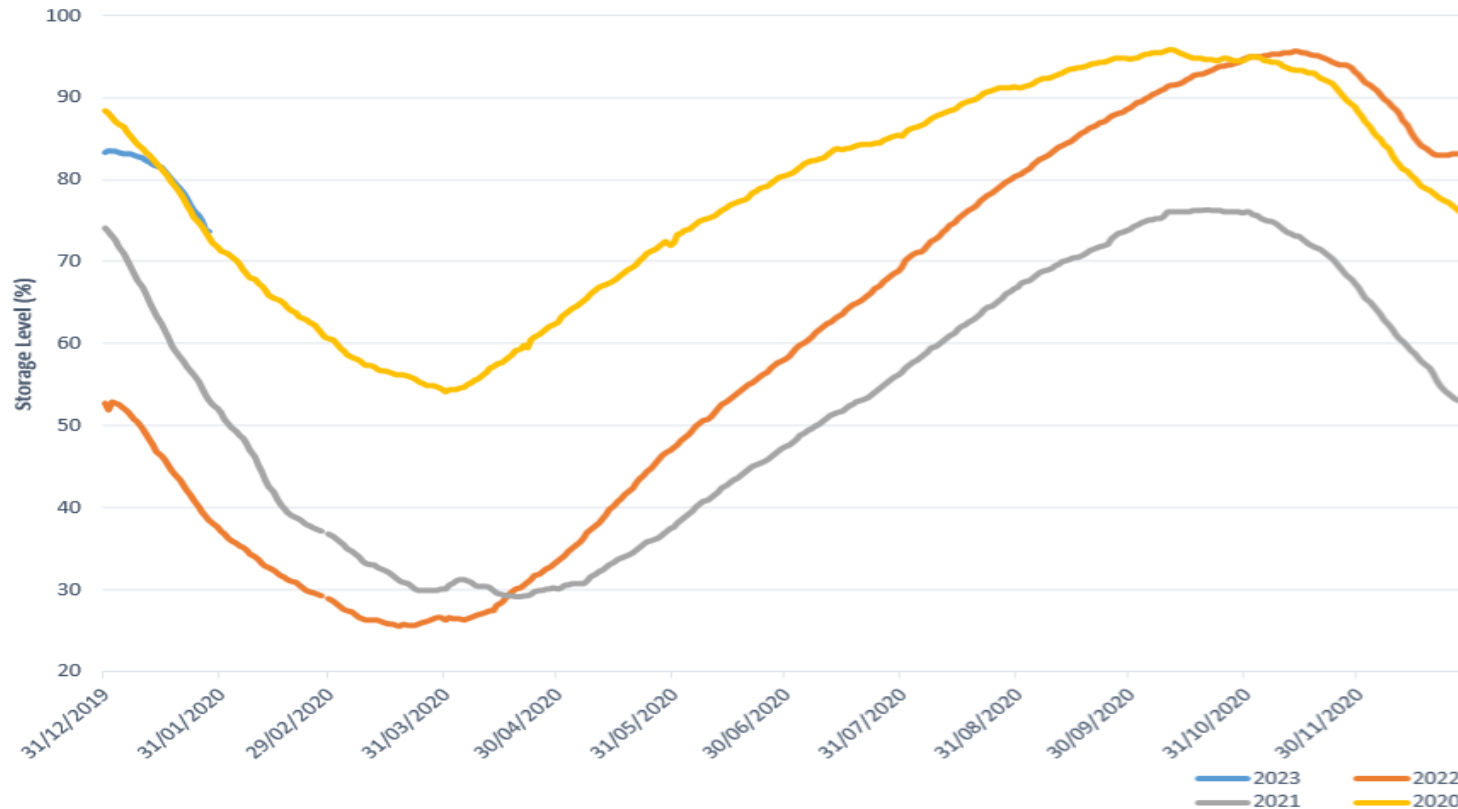
January 4, 2023, by Fatima Bahtić

German energy company Uniper has delivered Germany's first full cargo of liquefied natural gas (LNG) to the new LNG terminal in Wilhelmshaven.

**More LNG terminals coming online in record time.
Quicker planning, permitting and building for what normally takes several years.**

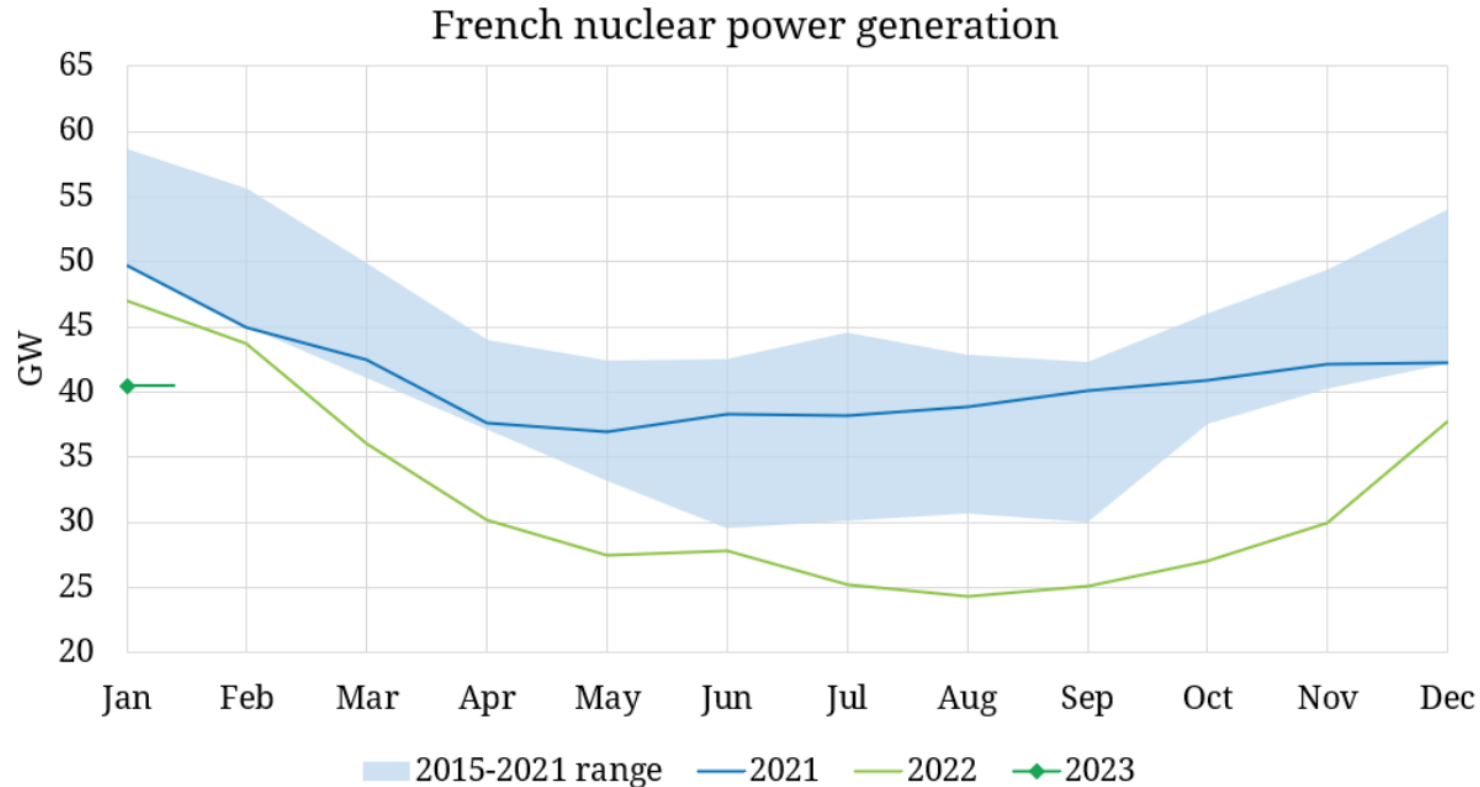
Various factors explain the price decrease (3/4)

EU storage levels in 2020 – 2023 (%)



Storage filling levels are well above last years' averages whilst withdrawals are lower. Hence, the ability of storages to meet this year's winter demand seems less critical. That said, storages still play a key role as flexibility provider.

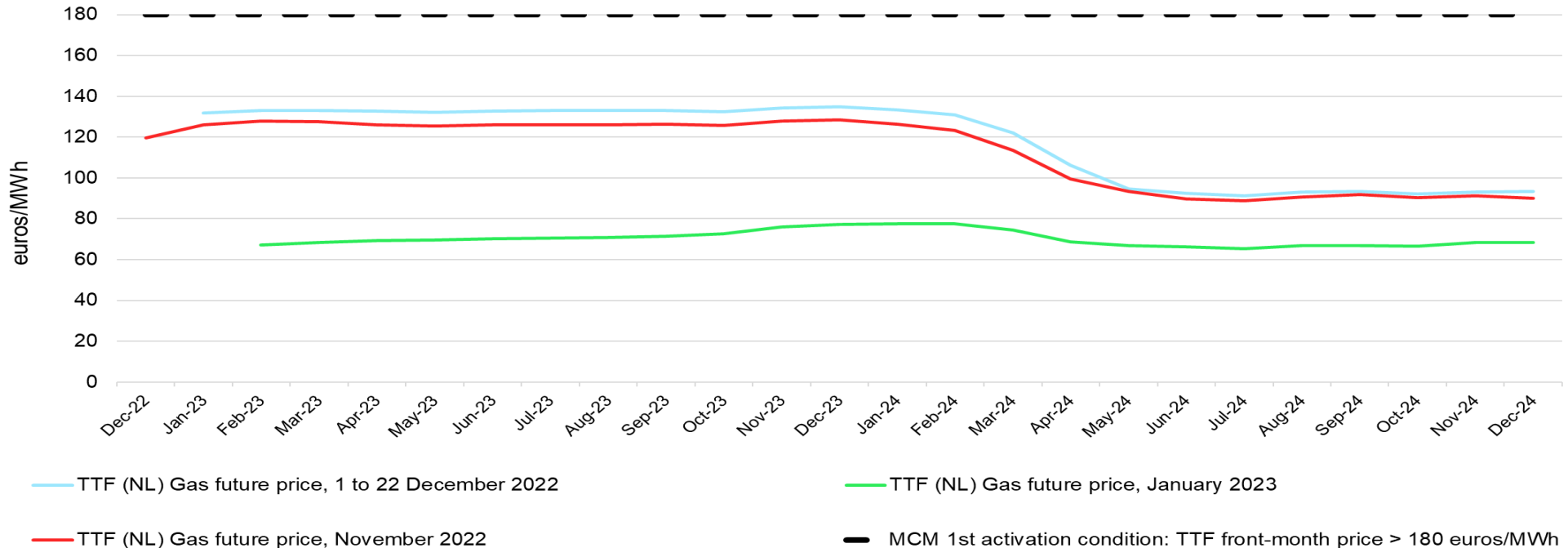
Various factors explain the price decrease (4/4)



Electricity is facing less supply scarcity than in the summer and autumn. French nuclear generation has recently picked up, hydro reservoirs are more full and wind generation has increased.

Shorter-term gas outlook is viewed more positive

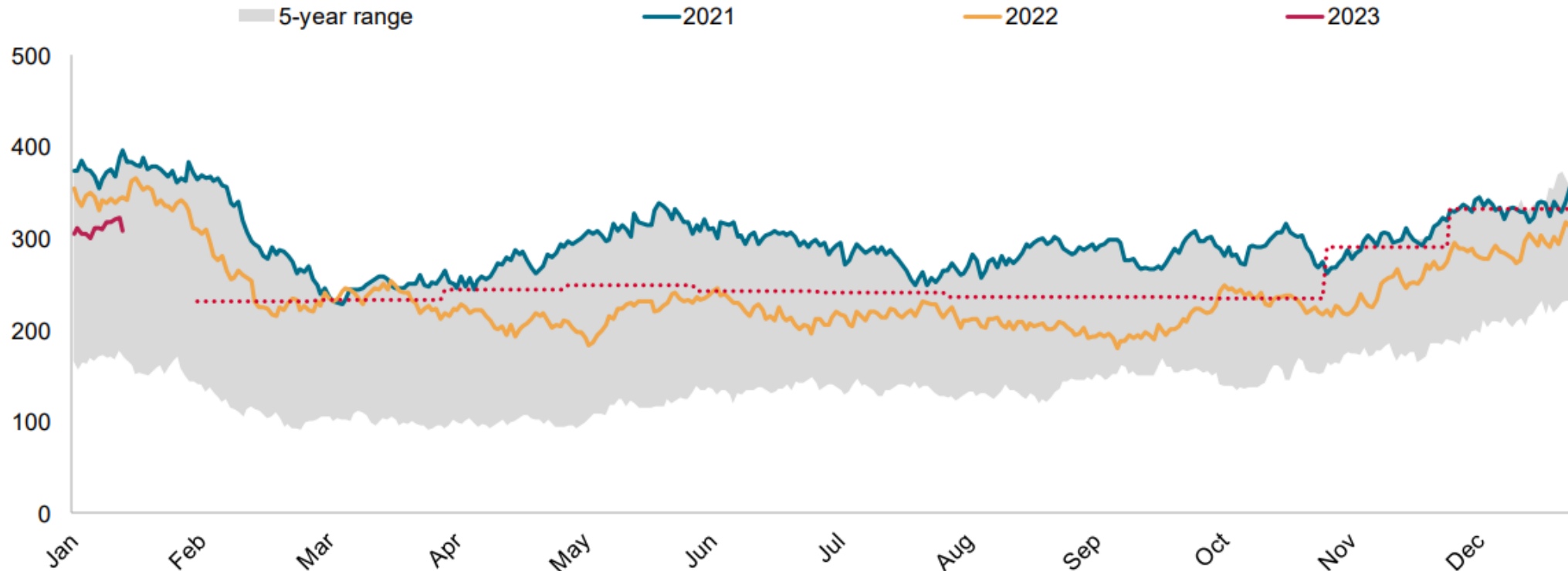
Gas future prices across 2023 and 2024 for contracts negotiated in Nov & Dec 2022 and Jan 2023 (euros/MWh)



TTF futures' prices have sizeably dropped as a result of predicted market trends. The market anticipates that gas prices remain well below the MCM activation levels.

Evolution in Asian LNG demand remains key

Chinese LNG imports in 2021 – 2023 (Mcm/d)

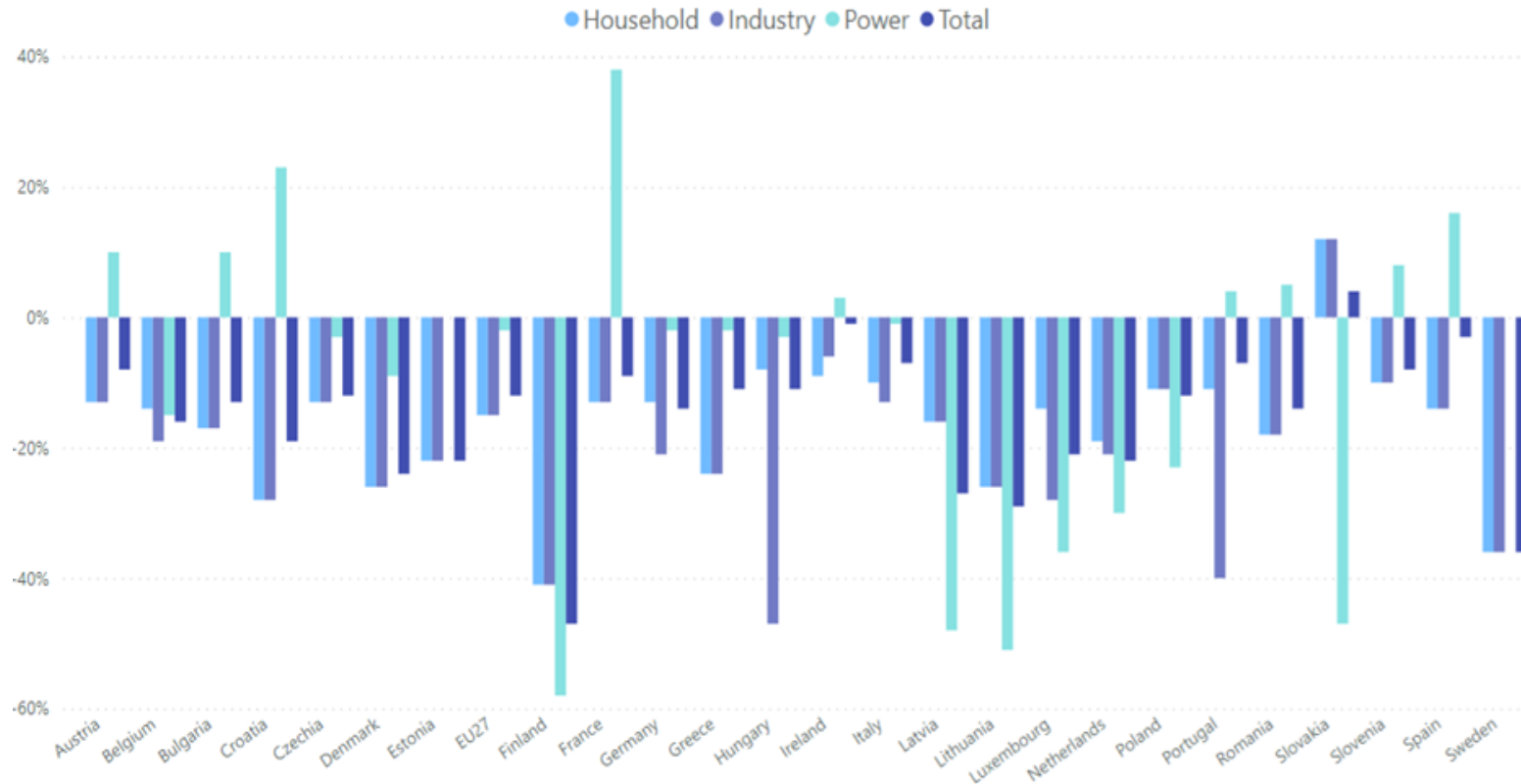


The global LNG market may tighten over the course of 2023 if and when Chinese gas demand gradually recovers, potentially putting more pressure on global LNG prices.

Main highlights of the ACER Report: Demand, supply and congestion

Demand keeps falling, but sector contributions differ

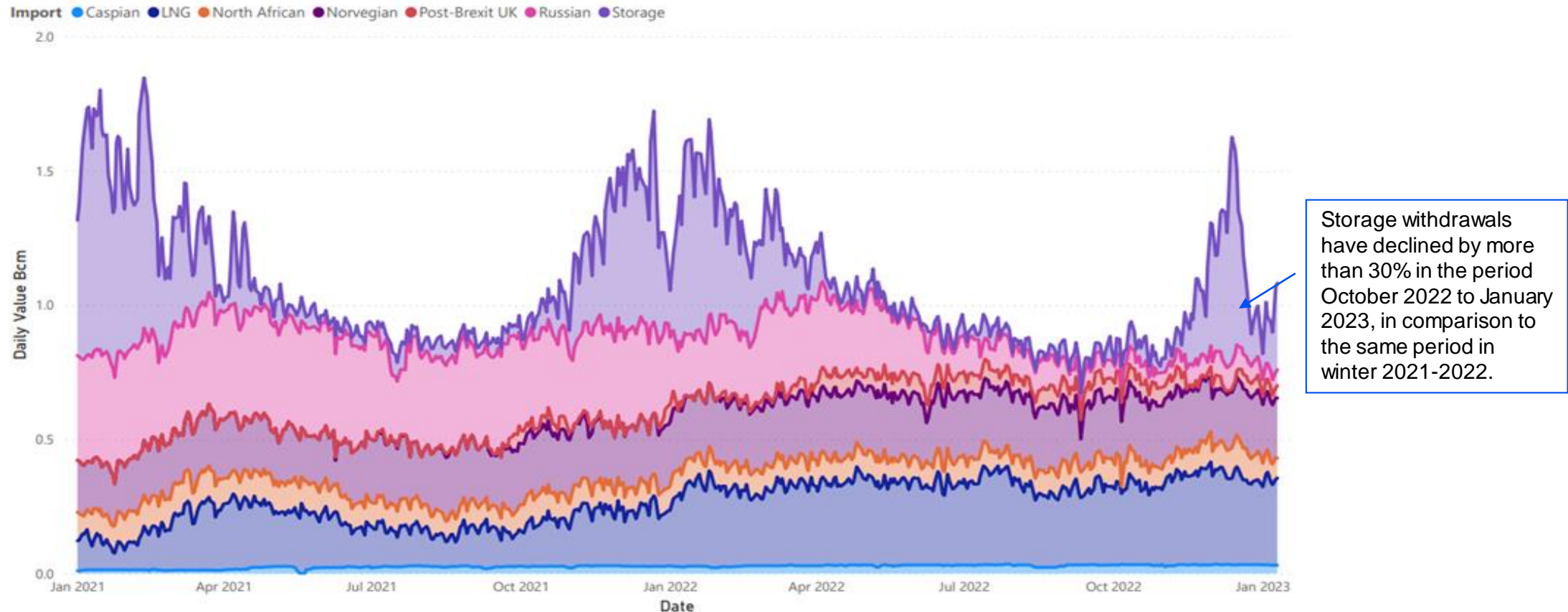
Total and sectorial demand evolutions across Member States – 2022 vs 2019-2021 average (%)



The drop in gas demand has been led by industrial demand: destruction due to high prices and savings due to higher efficiencies. Households' consumption has generally decreased. The power sector contributions vary.

Russian pipeline supplies replaced by LNG

Daily evolution of imports by supply route from January 2021 to January 2023 (bcm/day)



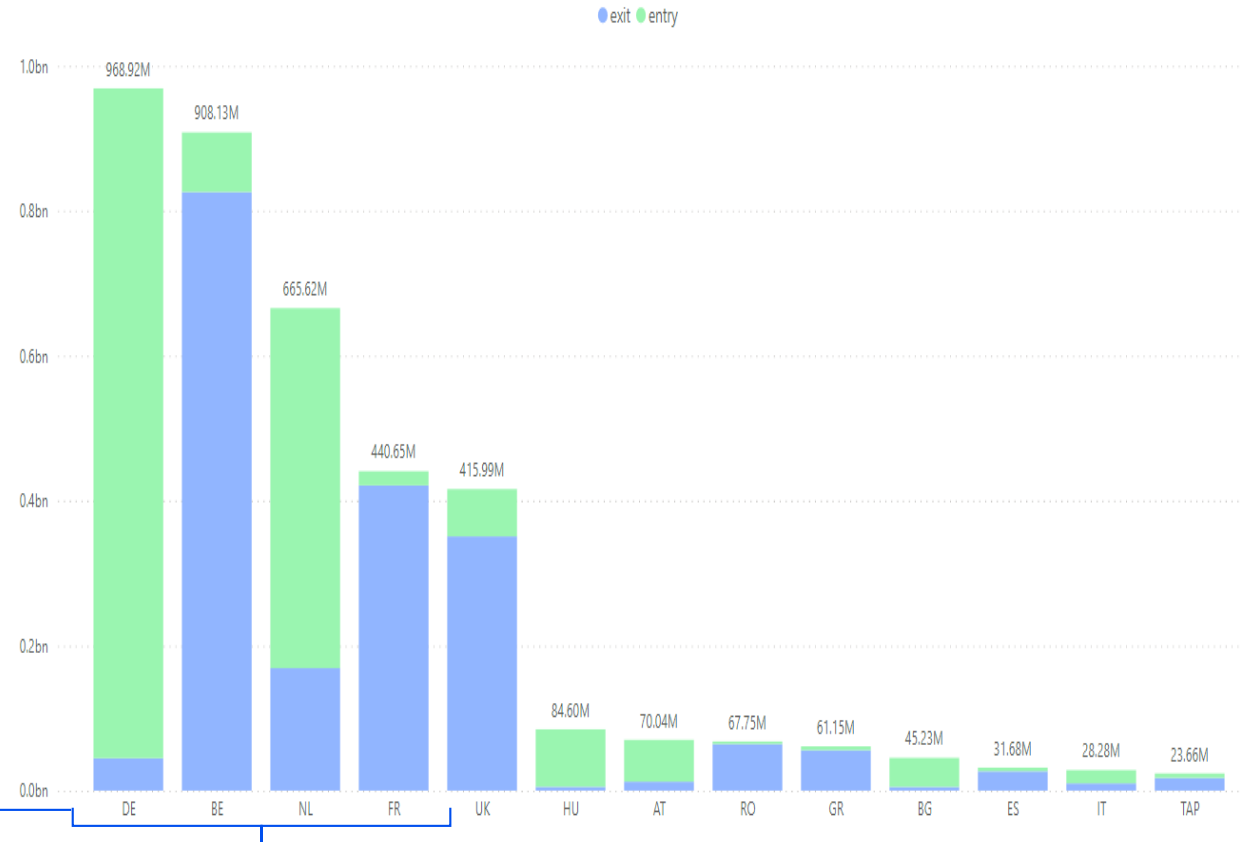
The drop in Russian supply continues to be offset by rising EU LNG deliveries and consumption drops. As a result, storage outflows meeting demand so far this winter are lower.

Congestion revenues reveal transportation bottlenecks

Utilisation ratio for selected EU IPs in Jan. 2018 – Jan. 2023 (% of technical capacity)

Flow Direction	Interconnection Point	Average utilisation 2018-2021	Average utilisation 2022	Average utilisation 01/11/22 to 19/12/22	Average utilisation 20/12/22 to 11/01/23
AT to DE	VIP Oberkappel	10%	5%	30%	13%
AT to IT	Tarvisio-Arnoldstein	67%	26%	9%	3%
BE to DE	VIP THE-ZTP		138%	119%	145%
BE to FR	Virtualys	26%	0%	0%	0%
BE to NL	VIP-BENE	24%	79%	64%	93%
DE to AT	VIP Oberkappel	52%	79%	28%	22%
DE to BE	VIP THE-ZTP		0%	0%	0%
DE to FR	VIP France - Germany	45%	14%	0%	0%
DE to NL	VIP TTF H		46%	55%	49%
ES to FR	Vip Pirineos	3%	33%	52%	51%
FR to DE	VIP France - Germany	0%	44%	45%	64%
FR to ES	Vip Pirineos	41%	15%	5%	5%
IT to AT	Tarvisio-Arnoldstein	0%	3%	8%	12%
NL to DE	VIP TTF H		70%	117%	95%
NL to DE	VIP TTF L	44%	30%	36%	33%
NO to NL	Emden	2%	35%	25%	28%
PL to DE	Yamal	77%	1%	0%	0%
PT to ES	VIP Iberico	4%	12%	14%	8%
UK to BE	Zeebrugge IZT	18%	71%	56%	96%

Congestion revenues per country in 2022* (EUR)



Congestion revenues have increased drastically to EUR 4 billion in 2022 (compared to EUR 55 million in 2021). Germany and the Netherlands have the most congested entries, while Belgium and France have the most congested exits.

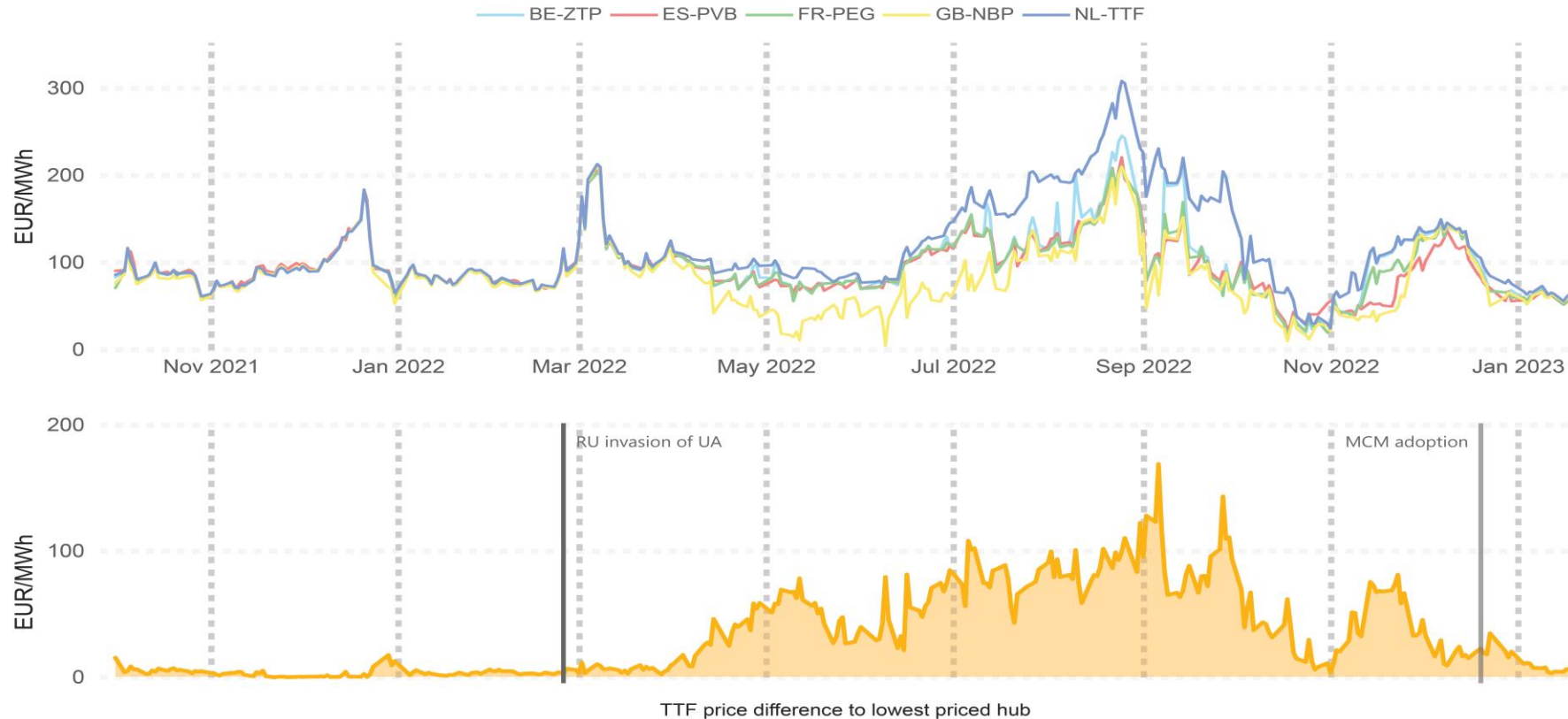
Source: ACER based on GSA, PRISMA and RBP - gas transportation cong. revenues calculation is based on auction time (in 2022), not on delivery time (i.e. includes prod. for delivery after 2022)

Note: *Mem. States & third count. with cong. reven. exceeding EUR 10 MM during auctions held in 2022. (Swiss cong. reven. for transit Wallbach-Passo Gries, estimated at EUR 245 MM, but not depicted.) **10**

Main highlights of the ACER Report: Hubs and trading

Spreads between TTF and other EU hubs are falling

Day-ahead price and spread between TTF and selected EU hubs – 1 Jan. 2021 to 18 Jan. 2023 (euros/MWh)



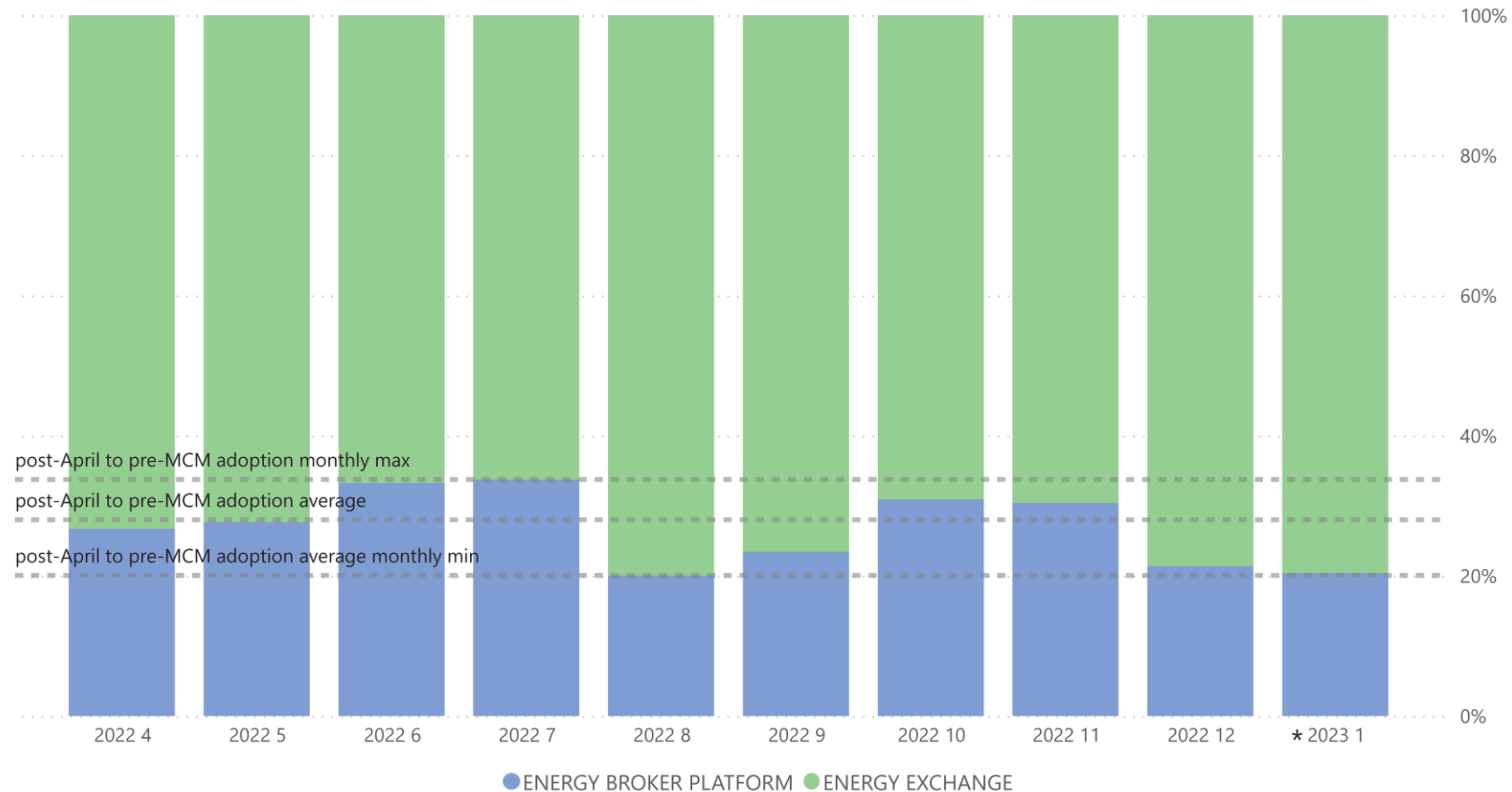
Price differences between EU hubs have lessened, an outcome of lessening demand and higher LNG capacity availability in North West Europe. However, hub spreads still hover above historical values, reflecting some congestion.

Source: ACER based on ICIS.

Note: Shows the daily evolution of day-ahead prices traded at the five listed hubs.

The MCM has not prompted a shift in trading

Share of brokered and exchange-traded volumes at TTF – 1 Apr. 2022– 13 Jan. 2023 (% of total hub traded volumes)



Exchange and OTC trading platforms’ operators report that the market is working under normal conditions with no shift in relative shares. In their view, this results from the current prices being well below the MCM activation conditions.

Source: ACER calculation based on REMIT, based on physical volumes.
 Note: * includes data up to 13th January.

In conclusion ...

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- **No significant impacts** (positive or negative) attributed to the adoption of the Market Correction Mechanism (MCM).
 - The significant **price decrease was driven by market fundamentals**: robust supply, demand decrease and mild winter weather.
 - The **near-term outlook is significantly more positive** than in the autumn of last year.
 - Gas cannot always flow to where it is valued highest. As a matter of priority, the relevant NRAs and TSOs **need to address congestion** in North-West Europe.
 - The MCM still carries **risks for the orderly functioning of derivative markets and hedging**.
 - **Anticipating potential market events and active monitoring of market developments** remain key to managing these risks.

For context: key conclusions of the ESMA Report

“At this stage [...] ESMA could not identify significant impacts that could be unequivocally attributed to the adoption of the Regulation.”

“However, this should not be interpreted as the MCM not having any effects on financial and energy markets [...] by curbing the key price discovery function of regulated markets, [...] may have an effect on the ability of all market participants to effectively manage their risks.”

“It would appear likely that market participants adapt to the MCM by redirecting their trading activity to those contracts / venues / execution types not affected by the MCM [...] which is likely to further lower open interest and ultimately reduce available liquidity on regulated markets for TTF contracts.”

“The MCM is expected to impact the relevant CCPs and the clearing ecosystem. The use of less reliable price sources for the CCP’s margin calculations and default management may affect the CCP’s ability to manage risks”

“The potential effects in the trading and clearing environment **might only unfold when the activation of the MCM is imminent** and not in the current environment [...] it [market participants adjusting their behaviour] could trigger significant and abrupt changes of the broader market environment, which could impact the orderly functioning of markets, and ultimately financial stability.”



***Thank you for your attention.
Looking forward to the discussion.***



- **Supporting the integration of energy markets in the EU** (by common rules at EU level). Primarily directed towards transmission system operators and power exchanges.
- **Contributing to efficient trans-European energy infrastructure**, ensuring alignment with EU priorities.
- Monitoring the well-functioning and transparency of energy markets, **detering market manipulation and abusive behaviour**.
- Where necessary, **coordinating cross-national regulatory action**.
- Governance: **Regulatory oversight is shared** with national regulators. **Decision-making** within ACER is collaborative and joint (formal decisions requiring 2/3 majority of national regulators). **Decentralised enforcement** at national level.



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