EFET
European Federation of Energy Traders

High charges at gas interconnection points increase market fragmentation and reduce solidarity

Levies introduced to finance the costs of strategic, national gas stocks, should not be charged on cross-border points at the expense of consumers in other Member States. This creates uncertainty, fragments markets, increases price spreads between countries and goes against the spirit of energy solidarity. It also favours Russian gas imports through direct historical routes. We call upon national authorities to ensure that any costs of their past interventions are not charged on gas volumes exiting their country.

Key points

- Levies increase the threshold of price movement needed before it is economic to bring gas from neighbouring areas while covering higher transportation fees.
- This in turn contributes to de-linking of prices at adjacent hubs and increasing market fragmentation. High Interconnection Point tariffs contribute to price divergence and reduced efficiency of balancing markets and capacity utilization.
- These negative effects were also recognised in EU Regulation 2022/1032[1], which expressly prohibits the collection of the costs of national regulated storage obligations from cross-border levies requiring that *those costs should indeed be covered by consumers or citizens from the same Member State*[2]. The cost definition should be better clarified to avoid circumvention.

Circumstances giving rise to the issue

Rushed procurement of strategic gas stocks through non-market measures in 2022 incurred significant costs that national authorities knew would need to be underwritten. With total expenses now counted in billions of euros, Member States are considering additional charges on volumes exiting their gas grid to other countries in the EU, in an attempt to export related costs to neighbouring markets. Such levies, as already introduced by Germany, are encouraging other authorities to follow suit. Italy and Austria have announced consideration of similar approaches and others may follow.

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[1] Regulation (EU) 2022/1032 of the European Parliament and of the Council of 29 June 2022 amending Regulations (EU) 2017/1938 and (EC) No 715/2009 with regard to gas storage

[2] As also expressed in the EU regulatory authorities views on the amendment of Regulation (EU) 2017/1938 (April 2022)

Adverse effects on the market and supply security

The first effect will be to open spreads and possibly reduce gas flows between neighbouring hubs that currently have good regional alignment. There will need to be bigger price differentials between hubs for it to be economic to bring gas from one market to assist balancing in its neighbour. The consequential reduced liquidity in each market can in turn lead to higher price volatility.

Prices in neighbouring hubs will therefore start to diverge, leading to capacity at interconnection points (IPs) being left unused and capacity bookings being reduced (and therefore TSO revenues). This had previously been emphasised as a key concern of the Quo Vadis study in 2018 which identified that distortive IP tariffs created barriers to trade, reduced efficiency in balancing and acted against market integration[3].

We further note that neutrality charges placed on exit points from countries like Germany, Austria or Italy **will also translate into an economic incentive to import gas from Russia**. Furthermore, storing in Ukraine will become more expensive. Should levies charged at interconnection points be deemed legitimate, many countries in Central and South-Eastern Europe may end up facing additional, pancaked costs of importing gas from western routes that cross more boundaries. **This goes directly against Europe's efforts to diversify supply** away from Russian-sourced gas volumes.

Potential areas for action

EU prohibited the recovery of some costs related to meet the filling targets set pursuant to EU Regulation 2022/1032 through IP charges, but these are limited to regulated facilities and this does not prevent Member States attempting to recover other kinds of costs related to the same EU objective. To this end, the Commission may seek to clarify that a broader range of costs should be borne internally by Member States.

Further action could be taken to mitigate costs that must be recovered. In most cases there has been no plan on how volumes held in store could be monetised or returned to the market. Sales of gas held in store could reduce the cost burden.

Conclusion

Levies charged at IPs threaten EU market integration and security of supply. At a time where energy solidarity is critical, European Union support for a regional approach would better maintain **the spirit of energy solidarity quoted in art. 194 of the Treaty on the Functioning of the European Union**. Levies charged at IPs **also frustrate the REPowerEU Plan** that stresses the need to move away from Russian gas imports. **We therefore call upon the EU and national authorities to ensure that any such plans to charge additional levies on gas flows between Member States are abandoned.**

[3] *Quo vadis EU gas market regulatory framework – study on a gas market design for Europe*, European Commission, February 2018