

ARIADNE WORKSHOP: SCANNING THREATS TO THE EU INTERNAL ENERGY MARKET

Brussels, 2 December 2022



AGENDA

- › Introduction, Objectives of the Workshop
- › Presentation and initial discussion of main threats
- › Selection of threats for in-depth discussion (two groups)
 - Coffee Break ---
- › Group discussion: Assessing the significance of selected threats
 - › How likely is it that the threat materialises / intensifies?
 - › How detrimental (or beneficial?) would it be if the threat materialises?
 - › What could be political responses, what are research needs?

OBJECTIVE OF THE WORKSHOP

- › Decisive decade meets polycrisis: massively increased uncertainties in key dimensions (economic, political, regulatory) – at a time when radical changes need to be initiated
- › Numerous threats on the horizon – focus today on threats related to the EU internal energy market
- › Political response happening with RePowerEU amending Fit-for-55 – many moving parts in an already complex system
- › Collectively, work toward a better understanding of:
 - › What are the main threats, and how likely are they to materialise, by when, and for how long (temporary or permanent)
 - › What could be their potential impact on energy transition and transformation to climate neutrality – positive or negative
- › Provide orientation – including for the next phase of Ariadne research

OVERVIEW: SIX THREATS TO THE EU INTERNAL ENERGY MARKET



➤ Erosion of solidarity among EU Member States in the management of the energy crisis

EROSION OF SOLIDARITY AMONG MEMBER STATES IN THE MANAGEMENT OF THE ENERGY CRISIS

Faced with physical energy shortages and skyrocketing prices, how high is the risk that Member States prioritise their own supply over that of EU neighbours – be it by prioritizing gas for domestic consumers, or limiting electricity exports?

Energy crisis affecting EU Member States in quite different ways – due to past misjudgements, (lack of) efforts to decarbonise and diversify, or sheer bad luck.

Might we see a re-nationalisation of energy policies?

Is there a risk of beggar-thy-neighbour policies?

And what risk would that pose for the transformation to a climate-neutral energy system?

Opinion

Germany's latest response to energy crisis raises questions

Only a common and united European response can preserve our industry and protect our citizens

Expand



European Commissioner in charge of the Economy Paolo Gentiloni (L) and European Commissioner in charge of Internal Market Thierry Breton (R) at the start of the European Commission weekly college meeting, in Brussels, Belgium, 28 September 2022. EPA

Thierry Breton
Paolo Gentiloni

Mon Oct 3 2022 - 19:05





➤ Increasing readiness and willingness to intervene in energy markets

INCREASING READINESS AND WILLINGNESS TO INTERVENE IN ENERGY MARKETS

- › To curtail rising energy prices, Member States have intervened in energy markets in a variety of ways, including price caps or windfall taxes.
- › Perception that policy should assume responsibility for energy prices and must intervene to address price developments that are perceived as excessive.
- › How permanent is this trend, and what are implications for climate and energy policies?

EU proposes long-awaited gas price cap

By Kira Taylor | EURACTIV.com 📅 Nov 22, 2022 (updated: 📅 Nov 23, 2022)



EU energy commissioner Kadri Simson presented a proposal to limit price spikes on the gas market in Strasbourg on Tuesday [Valentine Zeler / EC Audiovisual Service]

Languages: Français | Deutsch | Spanish | Italian



The European Commission **tabled its long-awaited proposal** for a measure to limit excessive gas prices on Tuesday (22 November) following months of pressure from EU countries.

➤ Accelerated electricity market reform
with unclear objectives

ACCELERATED ELECTRICITY MARKET REFORM WITH UNCLEAR OBJECTIVES

- › Volatility on energy markets supersedes the discussion on electricity market reform in Europe – but also blurs the objectives?
- › Current market design was in need of reform anyway to make electricity markets fit for ever growing shares of renewables. But: high prices have a role to play to incentivize investment, reward flexibility and efficiency.
- › The recent experience with rising electricity profits (and associated windfall profits) has led to claims that the market is broken, and calls to move away from marginal cost pricing and the merit order.
- › How large is the risk that, in the light of current price dynamics, EU electricity market reform is hastily put together and based on flawed premises?

EU chief announces electricity market overhaul amid 'skyrocketing' prices



"This market system does not work anymore. We have to reform it, we have to adapt it to the new realities of dominant renewables," European Commission President Ursula von der Leyen told the European Parliament in Strasbourg. [European Union 2022 - Source : EP]

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➤ Eroding acceptance of price-based climate policy instruments

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ERODING ACCEPTANCE OF PRICE-BASED CLIMATE POLICY INSTRUMENTS

- › Sky-rocketing energy prices put distributional effects front and centre in the climate and energy discussion.
- › Carbon pricing and higher fossil prices clearly differ in terms of the causes, the scale of the issue, and the potential for redistribution – but hardly so in terms of their effects on household energy bills and associated political risks.
- › What are the implications for carbon pricing (and the outlook for transformative carbon prices), what is the risk of regulatory freeze or roll-back?

Berlin freezes carbon price in the name of crisis relief

By Nikolaus J. Kurmayer | EURACTIV | Sep 5, 2022 (updated: Sep 6, 2022)



The German government has frozen the country's carbon price in order to alleviate the strain on citizens amid the ongoing energy crisis. [EPA-EFE/HANNIBAL HANSCHKE]

Languages: Français



The German government will suspend the price increase of its domestic carbon price for one year as part of a €65 billion relief package meant to alleviate the strain of record-breaking energy prices.

The €65 billion burden relief package resulted from late-night talks within the German government and combines direct cash hand-outs with plans to siphon “windfall” profits from electricity



› Threats to energy infrastructure
(physical or cyber)

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THREATS TO ENERGY INFRASTRUCTURE (PHYSICAL OR CYBER)

- › The explosion of the North Stream pipelines has been a stark reminder that Europe's energy infrastructure is also physically vulnerable
- › Similar attacks (physical or cyber) on other components of the energy infrastructure could have massive implications on the priorities for Europe's energy policy:
 - › prioritizing more resilience and redundancy over faster decarbonization, or
 - › driving up the cost and slowing the implementation of infrastructure projects given the need to factor in greater security.
- › Is this already materializing, and how long-lasting are the implications?

'No accident': Nord Stream gas pipeline explosions believed to be sabotage

At least two explosions hit the key Baltic Sea pipelines on Monday, causing dramatic gas leaks.

By Cédric Pietralunga and Anne-Françoise Hivert (Malmö (Sweden) correspondent)

Published on September 28, 2022 at 12h16, updated at 12h38 on September 28, 2022 · 3 min. · [Lire en français](#)

Subscribers only



Photo shared by the Danish Defense Command showing a gas leak at the Nord Stream 2 pipeline in the Baltic Sea off the Danish island of Bornholm on Sept. 27, 2022. HANDOUT / AFP

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› Implications of accelerated energy transition
on the stability of the (electricity) grid

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IMPLICATIONS OF ACCELERATED ENERGY TRANSITION ON GRID STABILITY

- › in the light of the current energy crisis, several Member States have made sweeping changes to their plans for the energy transition – ramping up renewable capacities, prioritizing gas exit over coal phaseout, delaying nuclear phaseout, accelerating electrification of end uses such as transport, space heating and industrial heat.
- › Result: additional uncertainty for management of electricity grids, challenge for existing grid development plans, but also for the markets for ancillary services.
- › Are existing structures and mechanisms able to cope under the changed circumstances, or is there a risk for grid stability in Europe?

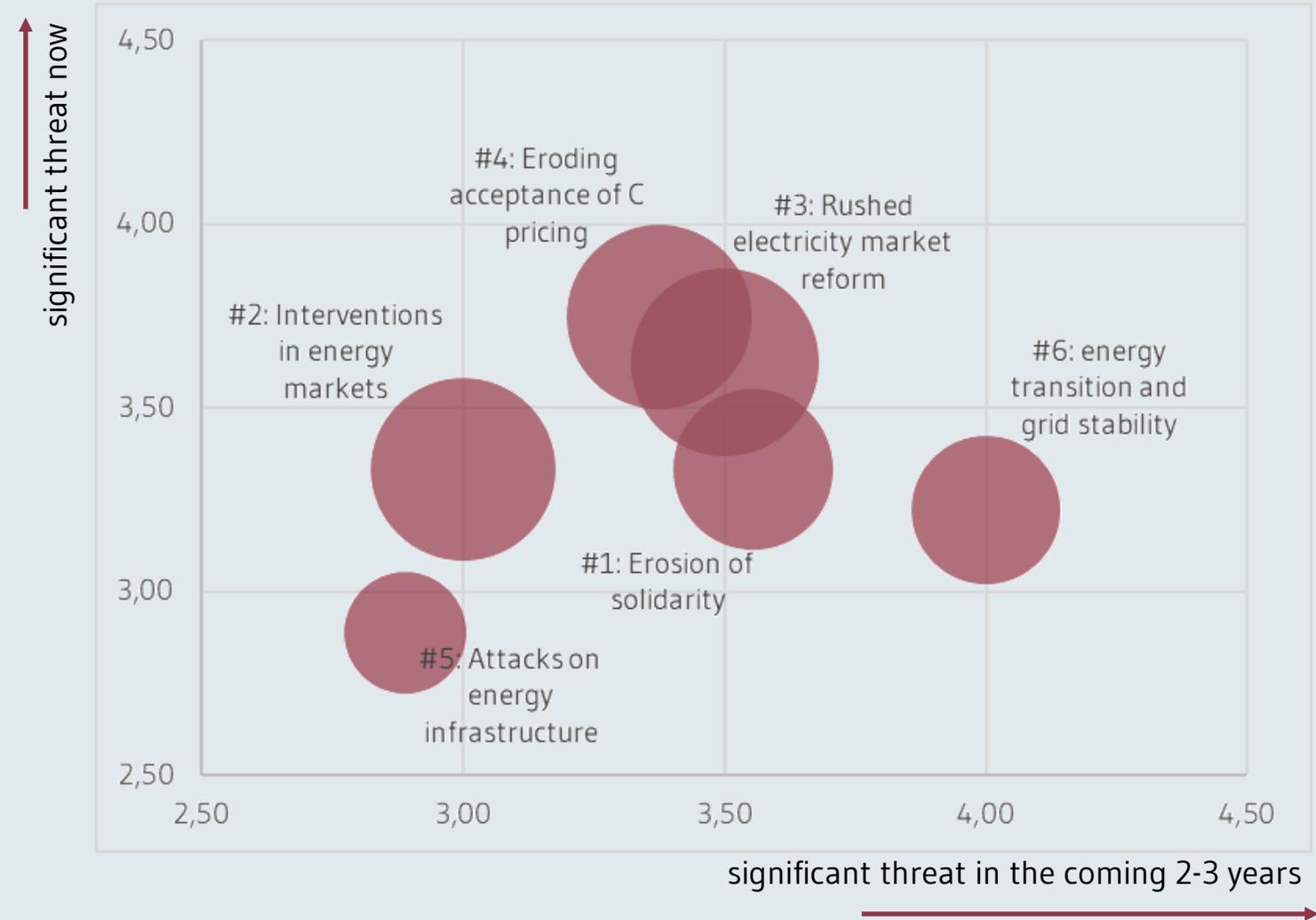
INITIAL DISCUSSION OF THE THREATS



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SIGNIFICANCE OF THREATS: INITIAL VIEWS FROM THE POLL

- › Feedback from the online poll (9 responses)
- › Which threats are currently significant, which will be significant in the coming 2-3 years?
- › Size of bubbles indicates the (self-assessed) expertise
- › Note truncated axis (complete scale 1-5)



QUESTIONS FOR THE DISCUSSION

- › Framing of the six threats presented: something missing, something needs to be added / changed?
- › Additional threats that should be discussed?

Candidates from the poll

- › Supply shortage of natural gas/LNG as countries compete for the commodity
- › Availability and access of critical components for renewable and storage technologies
- › Macroeconomic instability (+ rising public debt + rising interest rates)
- › Risk that we design an energy market geared towards lowering gas price rather than one that favours demand reduction.
- › Risk that the energy security imperative becomes neo protectionism, with the illusion that an independent system is a secure one.

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➤ Erosion of solidarity among Member States in managing the energy crisis



➤ Increasing readiness and willingness to intervene in energy markets



➤ Accelerated electricity market reform with unclear objectives



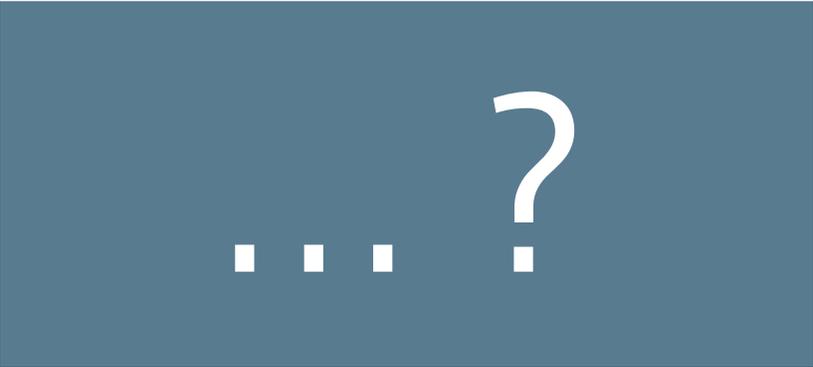
➤ Eroding acceptance of price-based climate policy instruments



➤ Threats to energy infrastructure (physical or cyber)



➤ Implications of accelerated energy transition on grid stability



ASSESSING THE SIGNIFICANCE OF THREATS FOR ENERGY TRANSITION AND THE TRANSFORMATION TO CLIMATE NEUTRALITY



ASSESSING THE SIGNIFICANCE OF SELECTED THREATS

- › Split into two groups (in-person group in Brussels + online group via zoom)
- › Identify 1-2 threats to be discussed in each group: menti.com > code **3467 6217**
- › Discuss along the following guiding questions
 - › How likely is it that the threat materialises / intensifies?
 - › If it materialises, is this a matter of weeks, months, years?
 - › How detrimental (or beneficial?) would it be if the threat materialises?
 - › What could be political responses, what are research needs?
- › Feed back results to the other group



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