Eurelectric position on the gas neutrality charge

Eurelectric position paper

March 2024

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal:

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KEY MESSAGES

- **The gas neutrality charge**, introduced by the German government on 1st October 2022 to cover the costs induced by the minimum Storage filling requirements set over summer 2022 as a last resort measure, **is now being considered for an extension until March 31st, 2027.**

- **The charge applied to both domestic exit and cross-border points has been escalating significantly since its introduction (from 0,59 €/MWh at inception to 1,86 €/MWh in January 2024) and has had a pronounced impact on cross-border trade**, notably evidenced by diminished gas flow dynamics between Germany and Austria, thus reshaping trade patterns in the region.

- **Concerns regarding the risks of gas market disintegration within Europe, stemming from such a unilateral, non-coordinated national measure and potential threat to Security of Supply have emerged** for adjacent countries due to the underutilisation of interconnection points at the German border and potential economic disincentives for diversification efforts for gas shippers and market participants.

- **The national levy is clearly against the spirit of key EU provision, which highlights the urgent need for Member States to repeal this neutrality charge** and establish robust *ex-ante* coordinated practices, such as solidarity agreements at regional level, to address exceptional situations collectively.

The neutrality charge is damaging the internal market

On 1st October 2022, the German government introduced a neutrality charge attached to the exit component of transport tariffs. Such a levy aimed at recouping a portion of the costs associated with the German Gas Storage Act, which imposed, as a last resort measure, specific storage filling requirements tasked to Trading Hub Europe (THE), on top of the filling targets and interim trajectories provisions set by the EU storage Regulation 2022/1032 dated 29 June 2022 for Member States.

The neutrality charge is applied to volumes withdrawn by a balancing group from all exit points, connecting users with standard or metered load profiles, including both physical and virtual cross-border interconnection points.

Initially anticipated to end on March 31st, 2025, the government is currently advocating for an additional two years extension, until March 31st, 2027. Moreover, the charge has progressively escalated in value, starting at 0.59 €/MWh and currently standing at 1.86 €/MWh — an increase of 215%.

Beyond Germany, other countries such as Italy investigated in the last weeks the adoption of similar measures. Even if the Italian regulator recently stated that it will not pursue its implementation because "it could endanger energy solidarity and undermine efforts to diversify sources of supply[1]" However, it is crucial to recognize that such measures pose significant challenges to the integrity of the EU internal gas market and to its security of supply. These elements will be elaborated upon in subsequent sections.

The negative impacts of the neutrality charge

Cross-border trade disruptions & impacts on gas flows

The impact of the German neutrality charge on cross-border trade is profound and unmistakable. By extending to interconnector points, the charge imposes significant additional burdens on neighbouring countries.

These States through their consumers (incl. gas-fired power plants), actually subsidize *ex-post* gas storage injection carried out by THE (the latter not being a market player) into Germany during summer 2022. Moreover, this last resort storage filling provision fuelled the major price hike faced by most EU market participants during that period (*cf.* TTF *day-ahead* and *month-ahead* price > 200 €/MWh in August and September 2022, at times when end-users gas demand was low).

While EU market participants borne very high gas purchase costs in 2022 at their own expenses, gas shippers operating in adjacent countries are now facing additional undue costs stemming from the German neutrality charge, resulting in inflated prices for the gas supplied to their customers.

The escalating price induced by this – gradually increasing – neutrality charge since 2022 has already left a noticeable mark, particularly evident in the gas flow dynamics between Germany and Austria. Given its landlocked position, Austria heavily relies on gas imports from Germany and Italy. However, since the introduction of the charge, the gas exchange between Germany and Austria has diminished, reshaping Germany from an Entry-Exit-Zone to merely an "Entry-Zone."

[1] Autorità di Regolazione per Energia Reti e Ambiente (ARERA), press release, 12th March 2024).

Security of supply concerns

The impact of the German neutrality charge on cross-border trade extends beyond market dynamics and significantly affects Security of Supply considerations. By reducing gas flow and fostering price discrepancies between adjacent hubs, the charge leads to underutilization of interconnector points and decreased capacity bookings at the German border.

In the wake of Russian aggression against Ukraine and the subsequent shift in European gas supplies from West to East, the potential expansion of this charge to other countries could jeopardise the free allocation of gas across the EU and undermine system optimisation.

Moreover, withdrawal conditions of that injected gas in Germany have not been issued by THE, thus remain unknown to the market. However, the abnormally high filling rate observed in Germany since then, particularly at the end of winter periods (e.g., 66% WV in as of the 12th of March 2024), suggests that such stored gas has not been released, effectively reducing available gas supply in the EU market.

This scenario of price discrepancies around hubs in Germany would create a domino effect, particularly for Eastern countries, making gas imports from the West more costly. Such a development would not only serve as an economic disincentive for countries seeking to phase out reliance on Russian gas but also undermine the EU's efforts towards diversification.

The German gas neutrality charge is against the spirit of EU norms

In addition to its adverse effects on market integrity and Security of Supply, the neutrality charge is against the spirit behind many EU provisions, such as:

- Art. 28(1), Art. 110, and Art. 194 of the Treaty of the Functioning of the European Union
- Art. 6(2) of Regulation 2017/1938 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010
- Art. 6b(2, 3) of Regulation 2022/1032 amending Regulations (EU) 2017/1938 and (EC) No 715/2009 with regard to gas storage

Even the ACER & CEER joint report released on March 8th on the impact of the measures included in the EU and National Gas Storage Regulations explicitly points out that *“cost recovery mechanisms should not include charges and levies imposed at cross-border borders",* considering that it *“has adverse impacts on the functioning of regional markets (...) and/or the security of supply (e.g. by impacting gas flow supply patterns)”*.

In light of these findings, we strongly urge Member States that have implemented such tariffs to repeal them immediately. Additionally, those considering their implementation should refrain from doing so. The Commission must take proactive steps to engage with Member States, urging the removal of these barriers to the internal energy market.

Furthermore, the EU should glean valuable lessons from this experience and establish robust *ex-ante* practices for addressing exceptional situations. This entails fostering solidarity agreements that prioritize collective action at regional level over unilateral measures, ensuring that policy decisions consider the broader impact on all countries affected. Such proactive measures are essential for upholding the integrity of the internal energy market and promoting cohesion within the EU.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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