



– Position Paper –

Europex cautions against Market Correction Mechanism

Brussels, 8 November 2022 | Europex broadly supports the European Commission's proposal for a 'Council Regulation on enhancing solidarity through better coordination of gas purchases, exchanges of gas across borders and reliable price benchmarks. We particularly **welcome the Commission's proposals on joint purchasing, the efficient operation of gas infrastructure and improving security of supply**. The proposed instruments effectively tackle the root causes of the current energy crisis, namely the external supply shock predominantly caused by continuous cuts of Russian gas supplies to Europe.

However, Europex is concerned about the practical implications of the Market Correction Mechanism as set out in Article 23 of the draft Council Regulation and would like to highlight that any such mechanism must meet the conditions outlined in Article 23 (2) (b)-(j). Particularly, we are concerned that the mechanism, if applied to the wholesale market, would decouple the price formation mechanism from its fundamental physical basis. If wholesale prices were no longer reflective of the actual value of gas, i.e. what market participants are willing to pay for it, it will lead to a deterioration of security of supply and risks to financial stability.

Concretely, it will lower the attractiveness of EU destinations for global gas supplies and reduce incentives to bring down demand, worsening the overall security of supply level. Moreover, it will significantly decrease market liquidity especially in long-term markets which will undermine their role as an early indicator of future spot prices and an important investment signal. In addition, if only applied to trading venues, market participants will seek their counterparties in the bilateral OTC space, thus reducing the overall transparency of the market. Furthermore, as margins are no longer calculated based on transparent prices, it will add risk to Europe's financial stability.

Consequently, if implemented, the temporary Market Correction Mechanism should be designed in way to dynamically reflect gas price fundamentals and not unduly limit price formation and incentives to demand reduction.

Finally, we believe that the current crisis should be used to accelerate the energy transition to provide a sustainable way forward. A renewables-dominated energy mix, a well-functioning price signal and adequate social measures constitute the most promising short- and long-term options.

About

Europex is a not-for-profit association of European energy exchanges with 31 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

Contact

Europex – Association of European Energy Exchanges

Address: Rue Archimède 44, 1000 Brussels, Belgium

Phone: +32 2 512 34 10

Website: www.europex.org

Email: secretariat@europex.org

Twitter: @Europex_energy