– Position paper –

Gas storage neutrality charges fragment the European Internal Energy Market and endanger security of supply

Brussels, 26 February 2024| **After a "gas storage neutrality charge" was introduced at cross-border Interconnection Points (IPs) in Germany in October 2022, the idea is starting to gain momentum in other EU Member States. This is a perilous development and dangerous trend for European natural gas and the Internal Energy Market as a whole: it is already undoing and risks to further undo market integration, endangers security of supply and ultimately leads to higher energy prices for European consumers. Europex urges decision-makers and regulators to end "neutrality charges" (NCs) as they fragment markets, go against the principle of energy solidarity and raise serious questions as to their compatibility with EU law.**

Background

Germany initially introduced a "gas storage neutrality charge" in October 2022 to alleviate the high costs of strategic gas storage filling it incurred in the summer and autumn of the same year. A highly unconventional approach to buying natural gas in the spot market without selling it forward by the German market area manager did not contribute to reducing these costs. A *de facto* levy on natural gas flows exiting the German grid, the neutrality charge was initially set at 0.59 EUR/MWh and subsequently increased repeatedly to finally reach 1.86 EUR/MWh in January 2024. In addition, several EU Member States currently consider introducing a neutrality charge of their own and this might result in a further spill-over effect.

Key implications of neutrality charges

- **Market Fragmentation and Reduced Solidarity**: charging additional levies on gas volumes exiting a market area creates market fragmentation and diminishes solidarity among EU Member States. These additional charges increase price spreads between market areas, discourage gas trading and impede market integration as they lead to higher costs and reduced demand. As buying natural gas becomes overall more expensive, it also weakens the position of the EU on the global gas markets.

- **Increased Price Divergence and Reduced Efficiency**: levies at interconnection points raise the economic threshold for gas transportation between neighboring markets, leading to price divergence and reduced liquidity. This undermines the efficiency of balancing markets and capacity utilisation, and contributes to higher price volatility. Ultimately, they discourage cross-border trade and artificially inflate both wholesale and consumer prices.

- **Negative Impact on Security of Supply and Market Competition**: the implementation of neutrality charges hinders EU's diversification efforts and compromises the security of supply, especially in Central, Eastern and South Eastern Europe by making gas flows from Western routes less economically viable. Moreover, these charges distort competition by imposing additional costs on market participants and incentivise pipeline gas imports of Russian origin (directly or indirectly) via legacy routes where such levies are not imposed.

- **Questionmarks over compatibility with EU law**: gas storage neutrality charges potentially violate EU legislation. They contravene the principles of transparency, proportionality, and non-discrimination as outlined in EU law, and jeopardise the proper functioning of the EU Internal Energy Market.

Recommendations

We advocate for **stable regulatory frameworks** that support market integration, including cross-border flows, efficient price formation and transparency. Sudden changes , such as the introduction of gas storage neutrality charges, disrupt market dynamics, erode investor confidence and market stability.

State interventions should be refrained from and **market-based mechanisms favoured** to ensure security of supply and affordability of natural gas for European end consumers, including for the direct consumption of natural gas as well as the production of electricity from natural gas. If costs of past market interventions need to be recovered, the charge should be borne without inhibiting the well-functioning of the Internal Energy Market.

The German **NC should be ended urgently** and other EU Member States should abstain from introducing NCs of their own. Germany is a crucial transit country for gas flows which are at the core of European efforts to diversify gas supply routes and ensure security of supply – especially when looking at West-East flows. The German NC already led to a decrease of eastwards gas flows due to the higher transport costs, thus increasing price spreads between the different hubs. Countries in Central, Eastern and South-Eastern Europe bear the bulk of the NC's adverse effects as they face additional, pancacked costs of gas coming from Western routes.

Conclusion

We would like to reiterate our strong opposition to the implementation of gas storage neutrality charges anywhere in Europe. These charges pose significant risks to market functioning, security of supply and competition, and contradict the principles of the Internal Energy Market and EU energy and competition law. In an already challenging market and economic environment, they artificially inflate gas and electricity prices and contravene EU efforts to diversify gas supply sources. We therefore call on all Member States to refrain from adopting measures that could undermine the integrity and efficiency of European wholesale gas markets and instead pursue solutions that promote market integration, efficient market functioning and fair competition.

About

Europex is a not-for-profit association of European energy exchanges with 33 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.

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