

Gas crunch: a call for accelerating renewable deployment as an hedging strategy against high fossil fuel prices

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Gas prices have risen all over Europe highlighting the risk of dependence on volatile fossil fuels, particularly susceptible to geopolitics and global interdependencies

Front-month future prices, \$ per m Btu



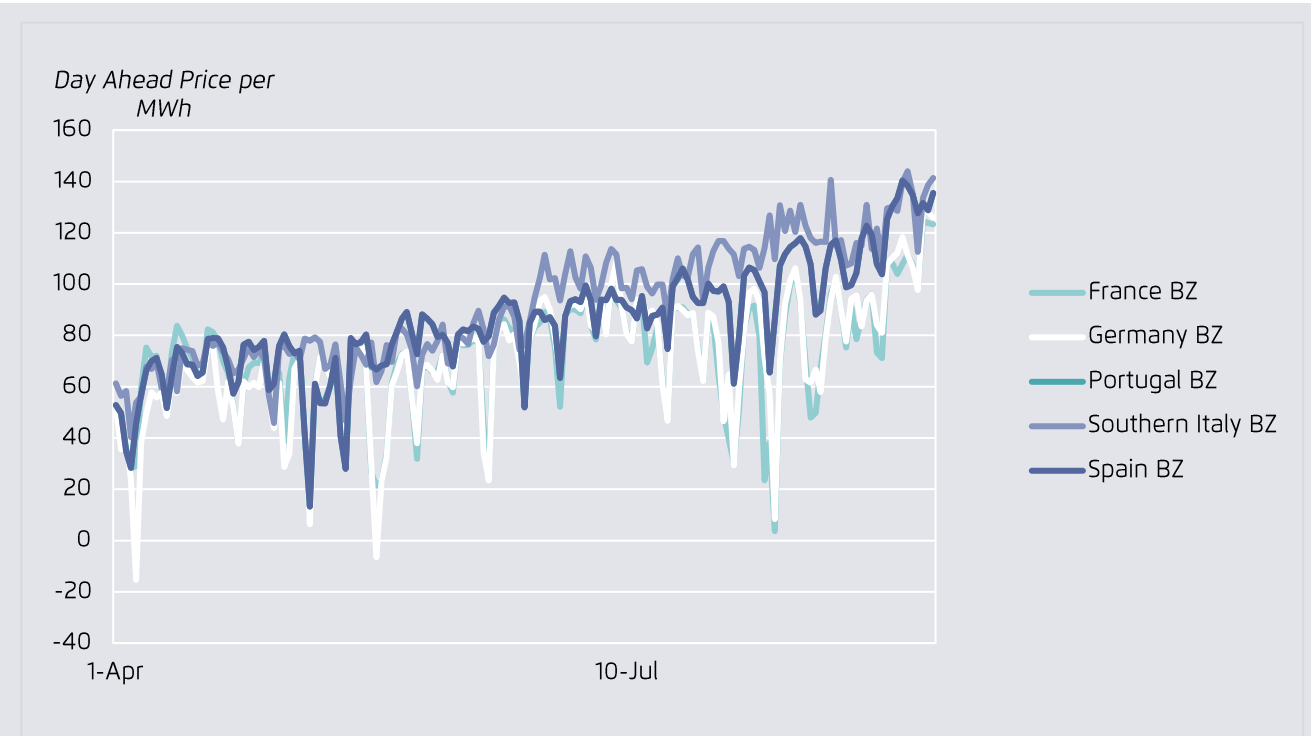
ICIS, Gas infrastructure Europe in The Economist (2021)

Main reasons for the EU gas price increase

- **Global demand rose** post-COVID 19
- **Reversal of previous gas glut**: decline in EU gas production, decline in LNG imports
- **Reduction of Russian flows** (via Belarus and Ukraine) : possible political motivation as prioritization for North Stream 2
- **No additional LNG inflows to EU**, despite high gas prices, as suppliers preferred markets with larger growth (Asia, LATAM)
- **Harsh and long winter 2020** depleted storage levels in the EU
- **Consumer over-reliance on spot prices**: a risky choice
- **Increase in carbon prices** accelerated coal-to-gas switch. Trend now reversing with high gas prices (gas-to-coal switch)

Electricity prices have increased all over the EU fuelling a political debate on high consumer bills

Day ahead wholesale prices from April to September 2021 in some EU countries



Entsoe

- Wholesale electricity prices have increased almost everywhere in Europe*
- Complex interdependencies between markets (commodity, carbon, power) drove power prices further (CO2 price above 60€/t)
- The gas crunch is happening in the context of the adoption of the ambitious EU climate package “Fit For 55”
- Commission to publish a **toolbox** next week on how to react on the gas crisis. EU Countries divided over whether to intervene or not
- Some countries** have rolled-out **subsidies and tax breaks** to cut consumers’ bills. They are calling for a **EU response**, including the creation of a **strategic gas reserve** and a **reform of the power market design**
- Other countries more cautious***

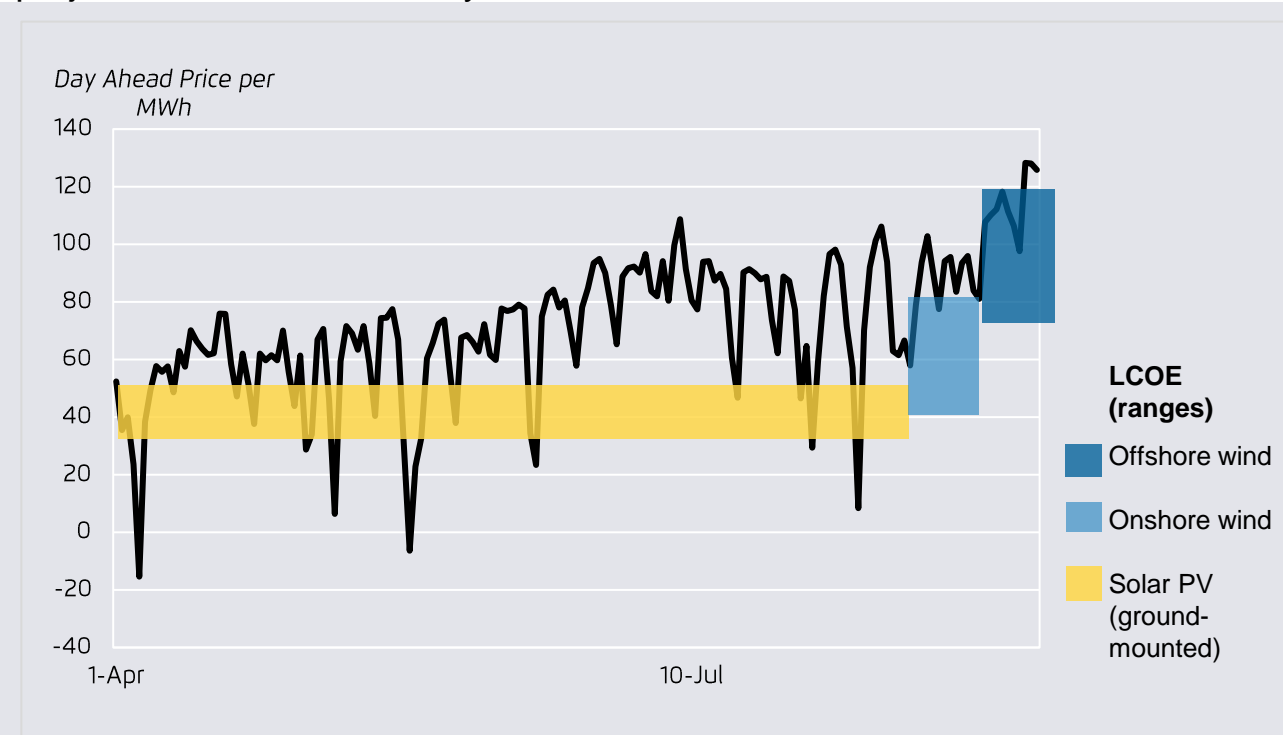
* Except in the Nordic countries relying on hydropower

** France, Spain, Greece, Czech Republic, Romania

*** Germany, Netherlands, Belgium, Finland

The quicker the EU can move towards renewables, the quicker it can protect citizen against high and volatile fossil prices

German day ahead prices in 2021 (daily average) and LCOE of RES for new projects in 2021 in Germany



Entsoe, Fraunhofer (2021), own calculation

- **New RES are cheap** in Europe, with costs lower than fossil-fuel generators, and below average market prices. BUT consumers in Germany **still carry an historic cost** for the development of those technologies, which is reflected in their current high electricity bills.
- Renewables (and energy efficiency) are an **hedging strategy** against fossil fuel price fluctuation. They **reduce the exposure to fossil fuels price volatility** (no variable fuel costs). They increase energy independency.
- Prices on the market are reduced in period of high renewables in-feed (**merit order effect**). And high **prices reduce the amount of RES payment** (feed-in-Premium system)
- Germany should **multiply by 3** the deployment of RES to achieve its climate targets. This will also have a positive impact on prices.

On behalf of



of the Federal Republic of Germany



Thank you for your attention!

Questions or Comments? Feel free to contact me:
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