



**EUROPEAN ENERGY FORUM**  
**Online Briefing Session**

# Wholesale energy markets: the effects of the energy crisis in Europe

In cooperation with the EEF Associate Member

**EFET**  
European Federation  
of Energy Traders



**Chatham House Rule**



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# The European wholesale electricity market design

*Presented by* **Arben Kllokoqi**

*Director for Electricity Market Design, EFET*



# Let's start from risks

- Political risk
- Legal/regulatory risk
- Market/price risk
- Credit/counterparty risk
- Cash-flow risk
- Operational risk
- Weather exposure





# Trading timeframes & market places



## *Bilateral trading*

*(bilateral credit arrangements)*

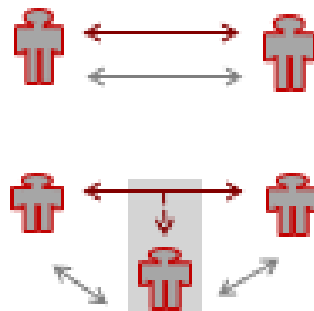
*Structural/bespoke contracts*

*PPAs*

*OTC*

*Brokers via screen or phone*

*Standard contracts*



## *Exchange*

*(centrally cleared contracts)*

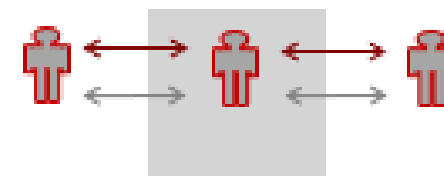
*Continuous trading*

- Standard contracts

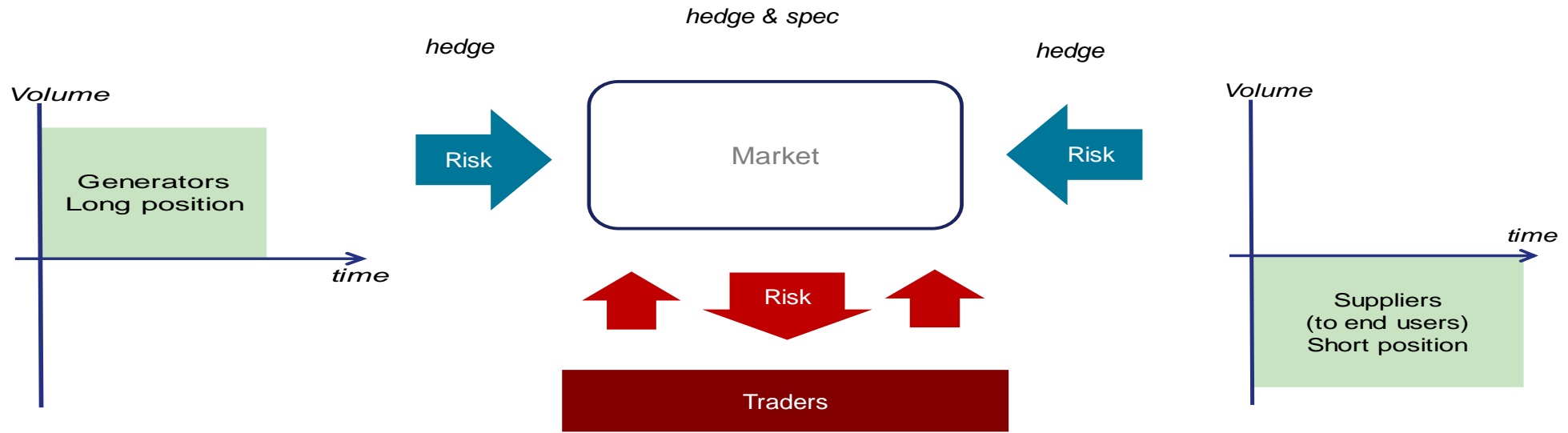
*Auctions*

- Hourly day-ahead products

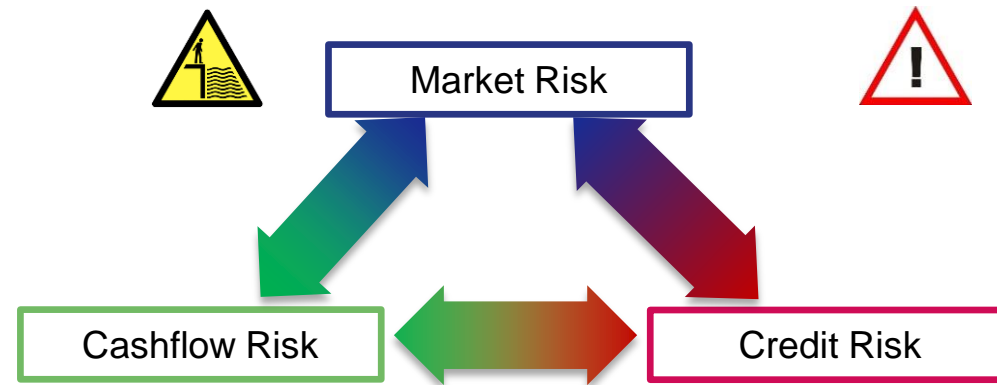
- Intraday too, in some cases



# Managing risks



*Producers & suppliers  
hedge the risks in the  
market*



*Traders take over risks:*

- **price them** in the market,
- **mitigate** them using different market instruments & platforms

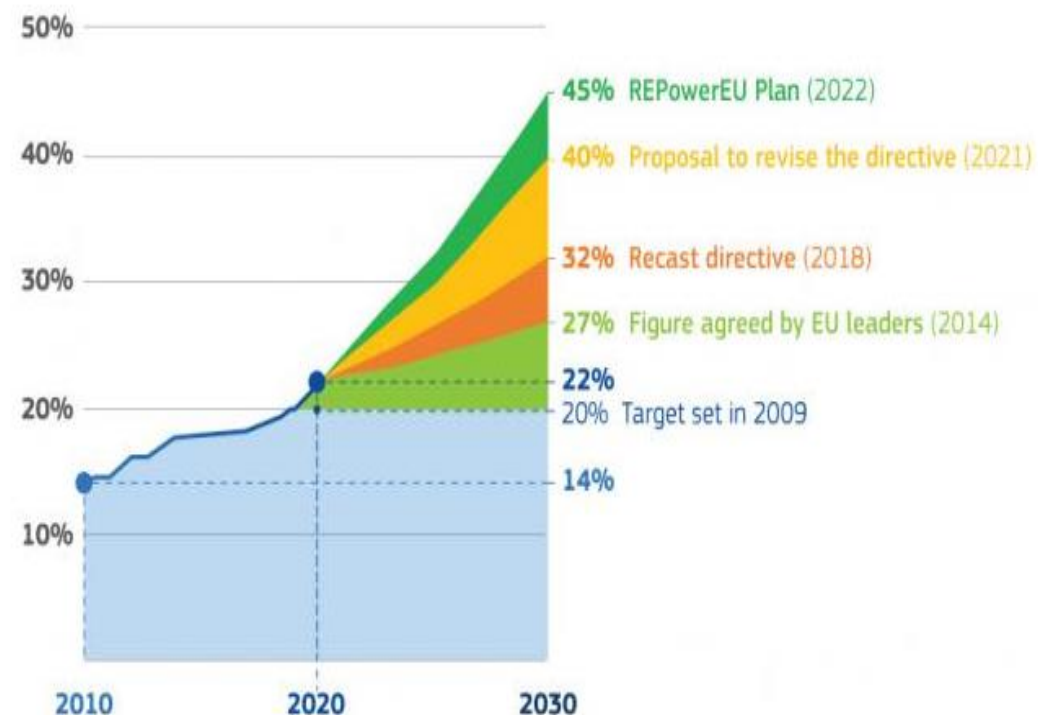
# Supporting decarbonisation

## Targets 2030:

- EC proposal – reducing GHG by 55% compared to 1990 levels (existing target 40%)
- 32% renewable energy on energy consumption
- 32.5% energy efficiency compare to projection (+13% in REPowerEU)

*Flexibility (DSR, storage) target/needs mentioned in the EMD proposal*

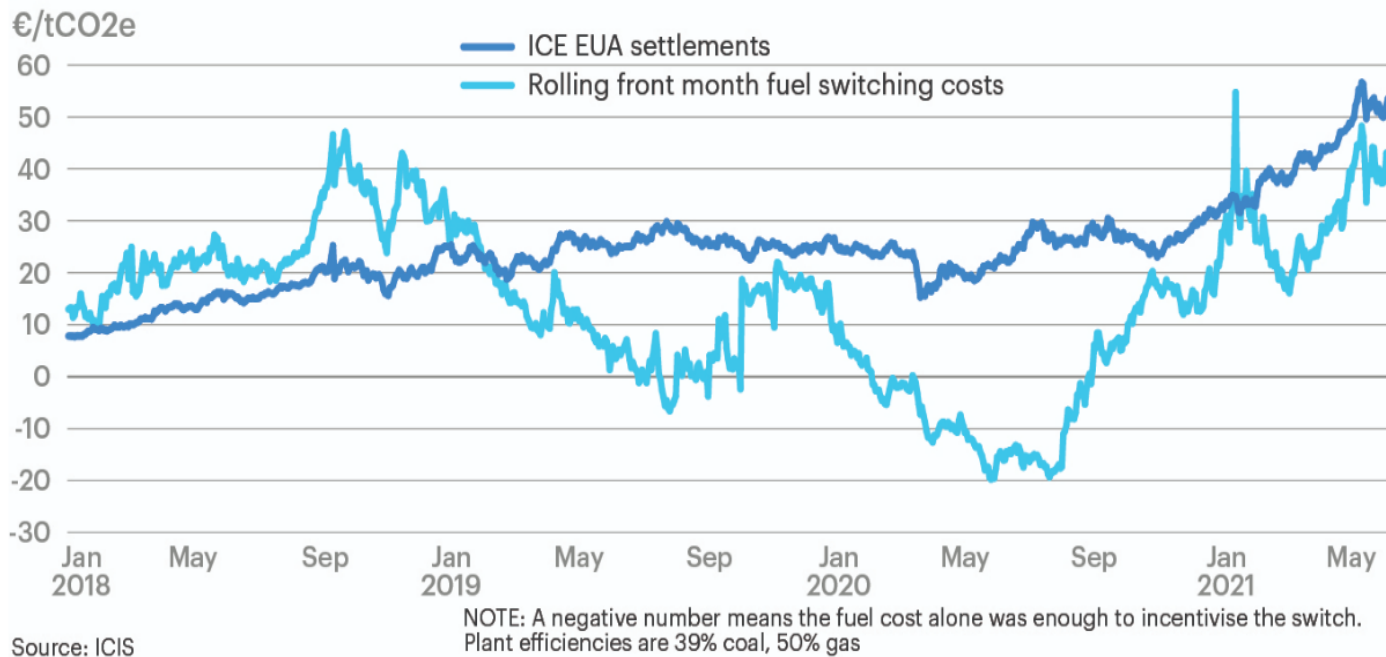
*Market mechanism: EU ETS & GoO*





# Market incentives are key for decarbonisation

## Carbon prices have climbed above German baseload fuel switching costs



Today: 1t of CO<sub>2</sub> near 98 EUR

*With increase in CO<sub>2</sub> price, there is a linear increase in the marginal costs of fossil fuel PP*



Marginal costs of fuels that emit more CO<sub>2</sub> per MWh of electricity grow faster  
=> fuel switch



Continued increase  
=> switch to clean + demand side response

<https://ember-climate.org/data/data-tools/carbon-price-viewer/>



 | 

# Empowering consumers [?]

- **Choice without information** exposes consumers even more
- **Consumers need:**
  - *Sufficient information*
  - *Framework that allows their participation, directly or through an intermediary (DSR, PPA, self-consumption, energy sharing, etc.)*
  - *Tools/infrastructure*
  - *Market/price incentives*
  - *Support (where needed)*
- **Protection** of the vulnerable ones
- **Obligation on suppliers** to offer different types of contracts





# Strengthening EU resilience



1. Market integration throughout Europe (**harmonisation & consistency**)
2. Better use of existing transmission infrastructure (**optimisation & efficiency**)
3. Crisis management procedures only on exceptional circumstances (**clarity & stability**)

Better investment climate



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# The invasion of Ukraine and its effects on trading in the wholesale gas market

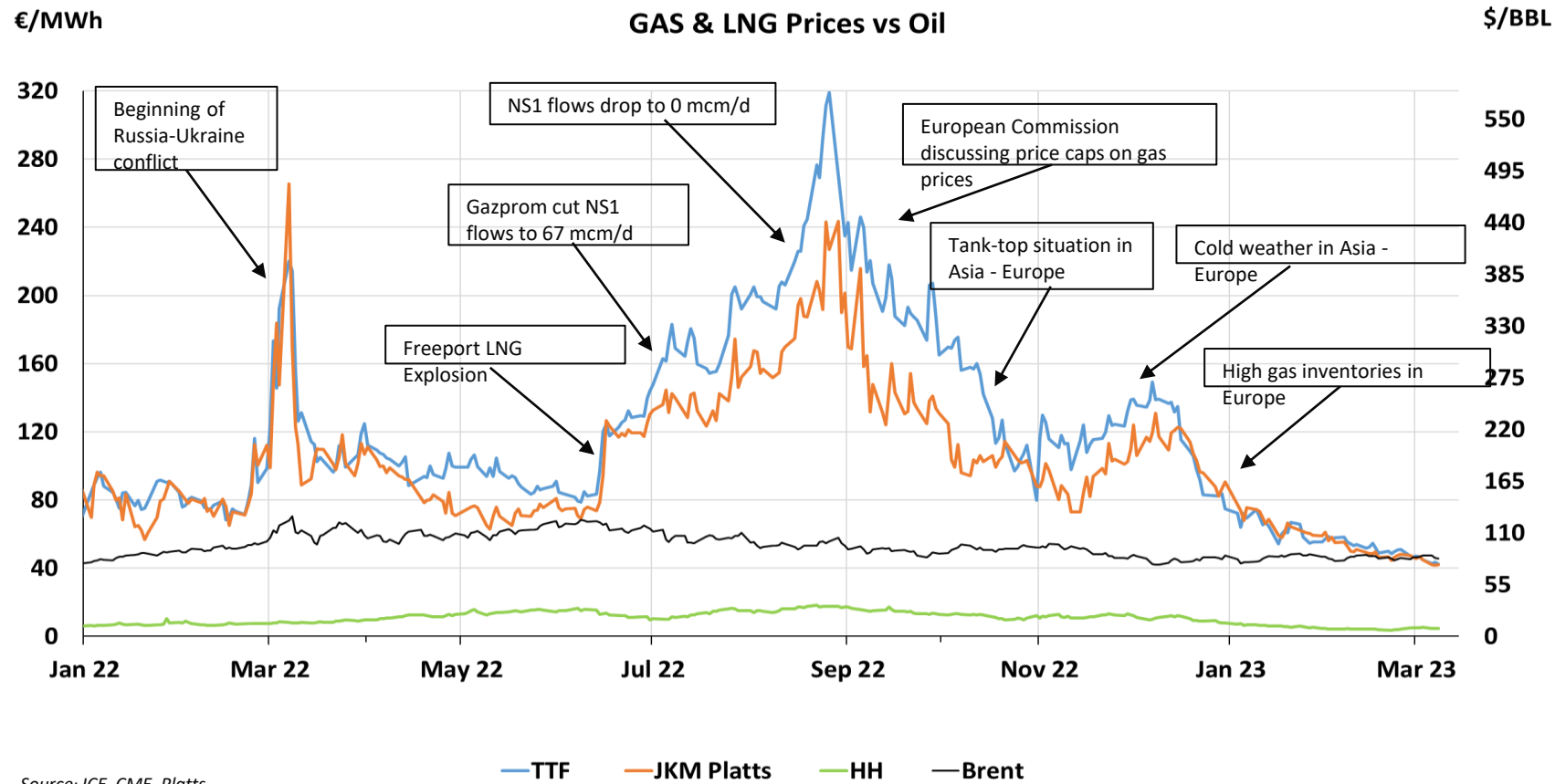
*Presented by* **Mark Simons**  
Board Member, EFET



# Gas supply in the EU since February 2022



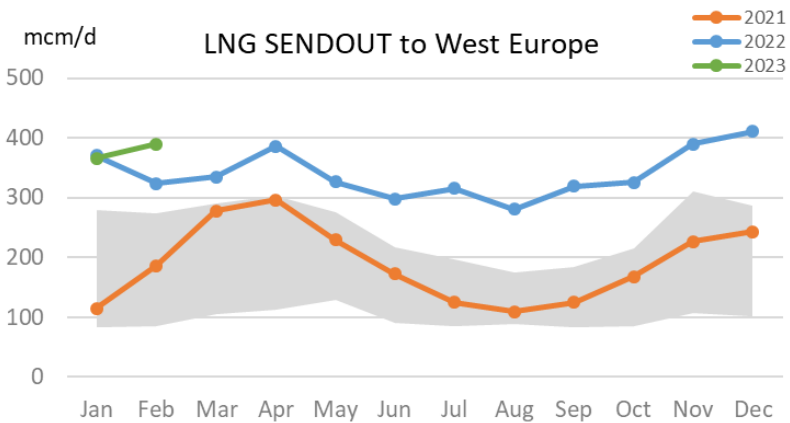
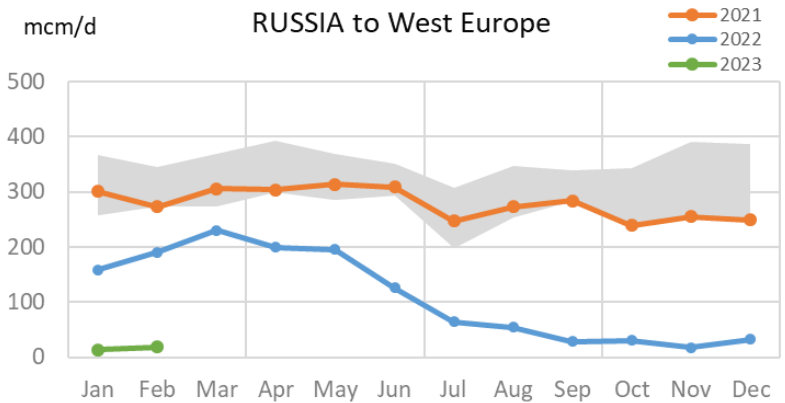
# EU's gas market has proved to be extremely resilient, to the loss of its largest supplier



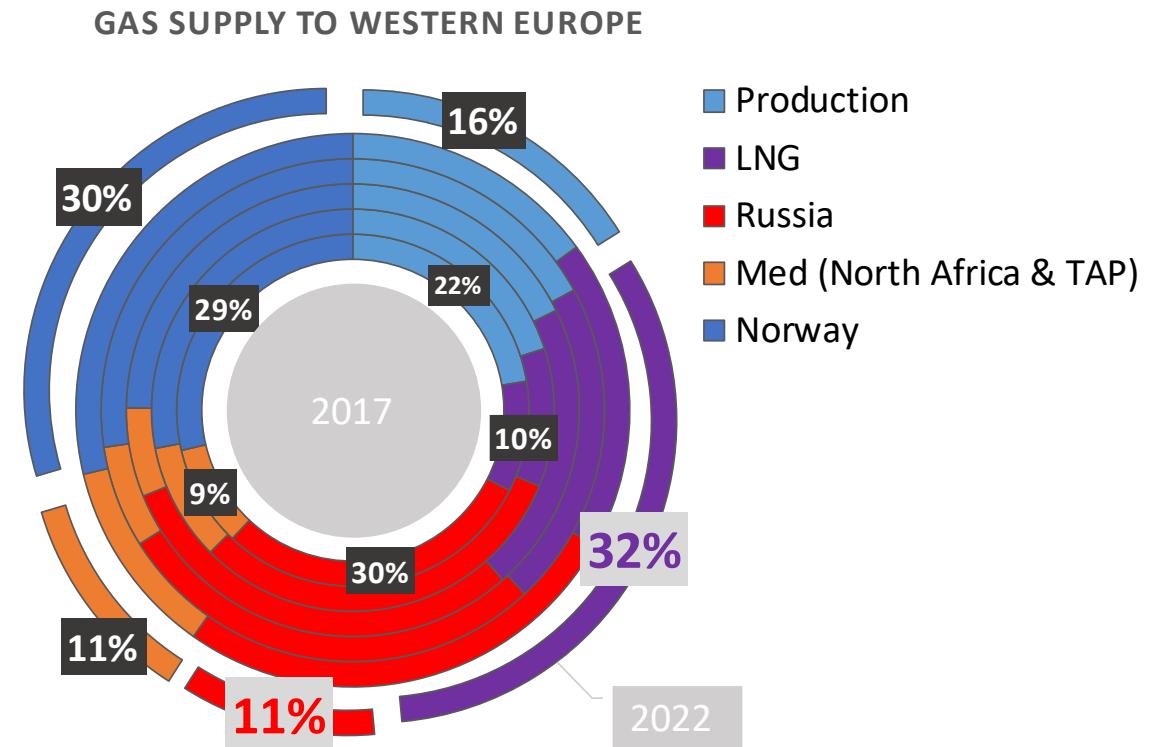
Source: ICE, CME, Platts



# Supply: Record LNG imports have been critical to replace Russian supply



Source: European Transport System Operators

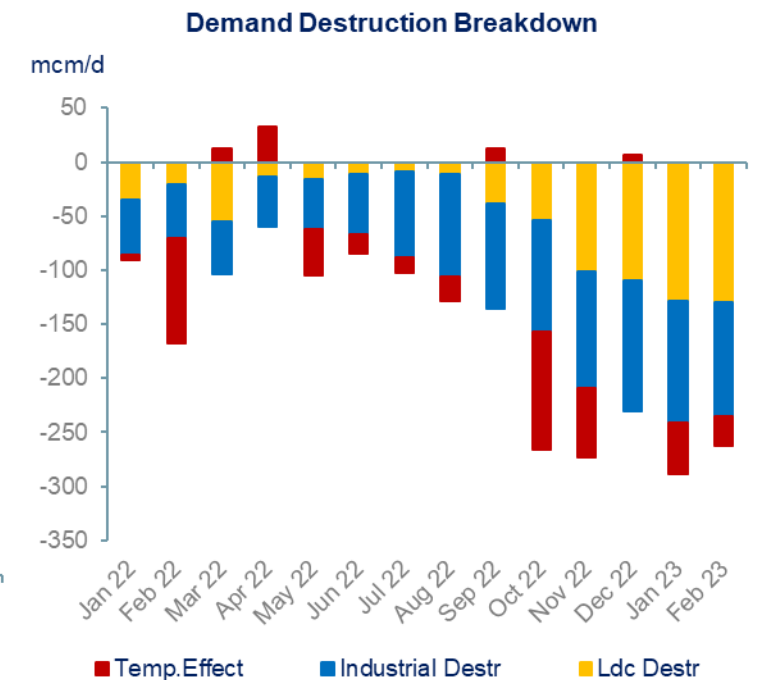
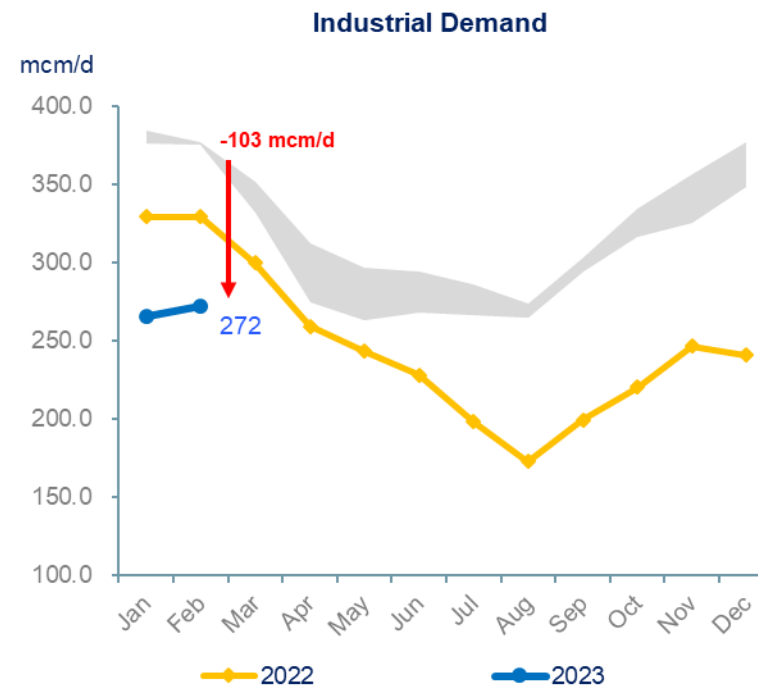
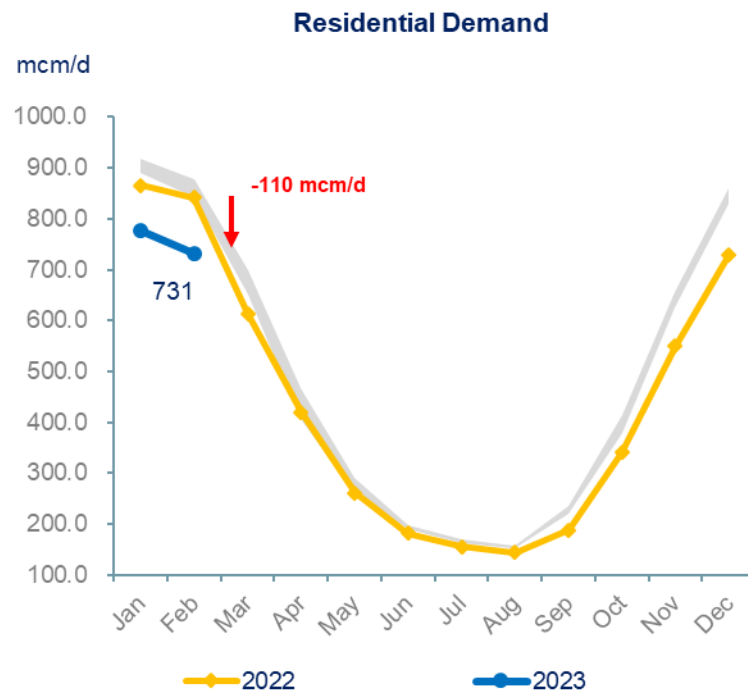


Western Europe or EU10: UK, France, Belgium, Netherlands, Germany, Check Republic, Slovakia, Austria, Italy, Spain





# Demand: warm winter and fuel switching have been crucial to the gas market's resilience



\*Demand is weather corrected

Source: European Transport System Operators

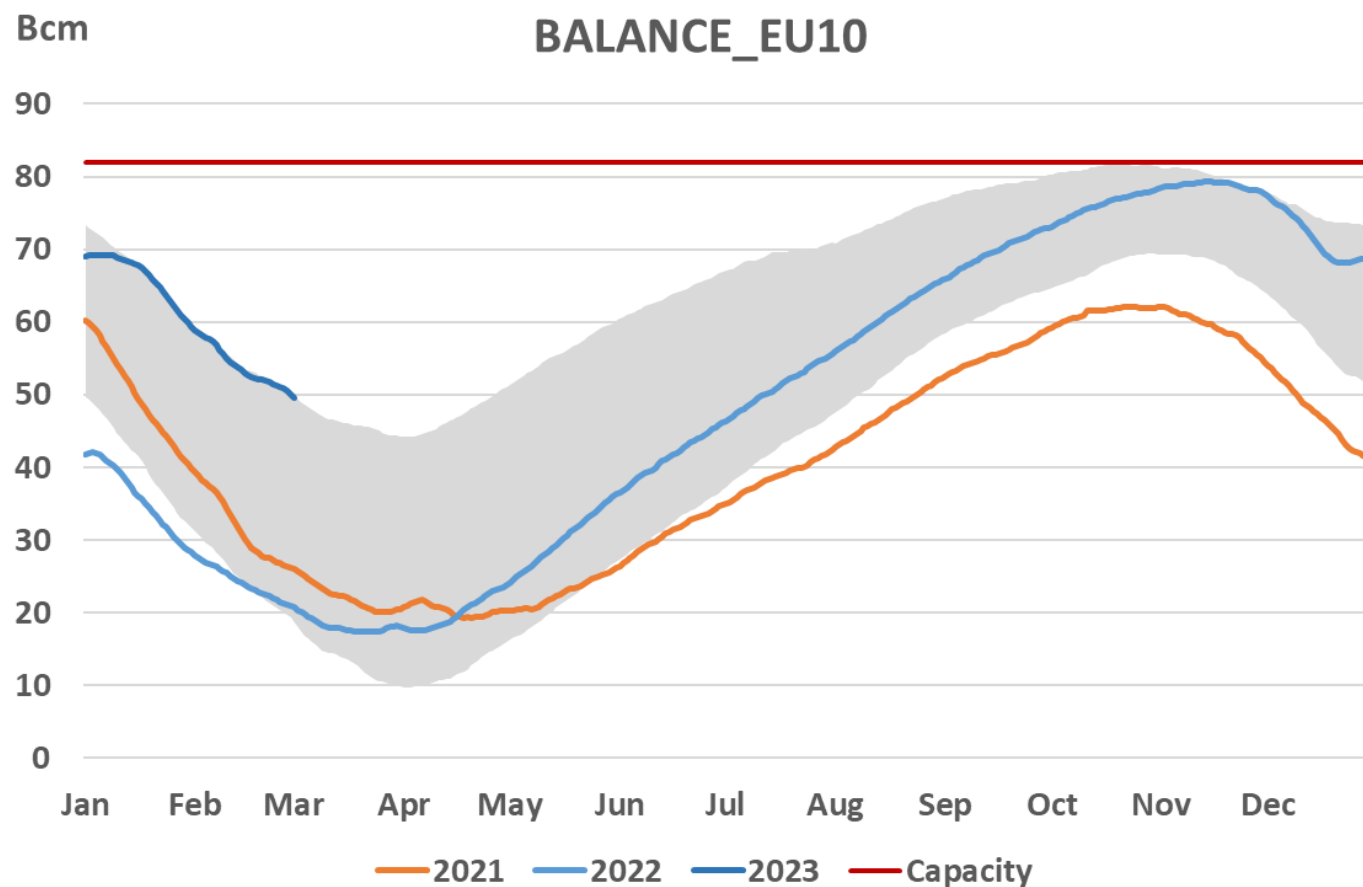




# The outlook for winter 2023/2024



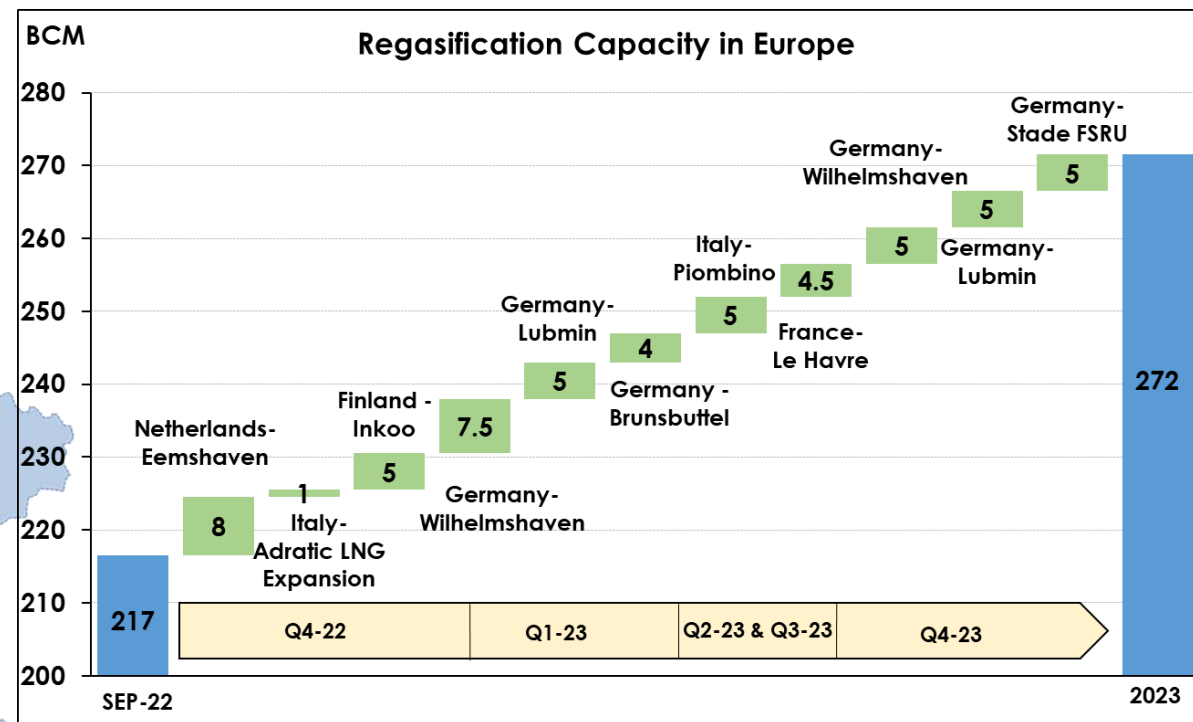
# Record LNG imports and lower demand means gas storage stocks remain high



Grey area: 2007-2020 range  
EU10: UK, France, Belgium, Netherlands, Germany, Czech Republic, Slovakia, Austria, Italy, Spain



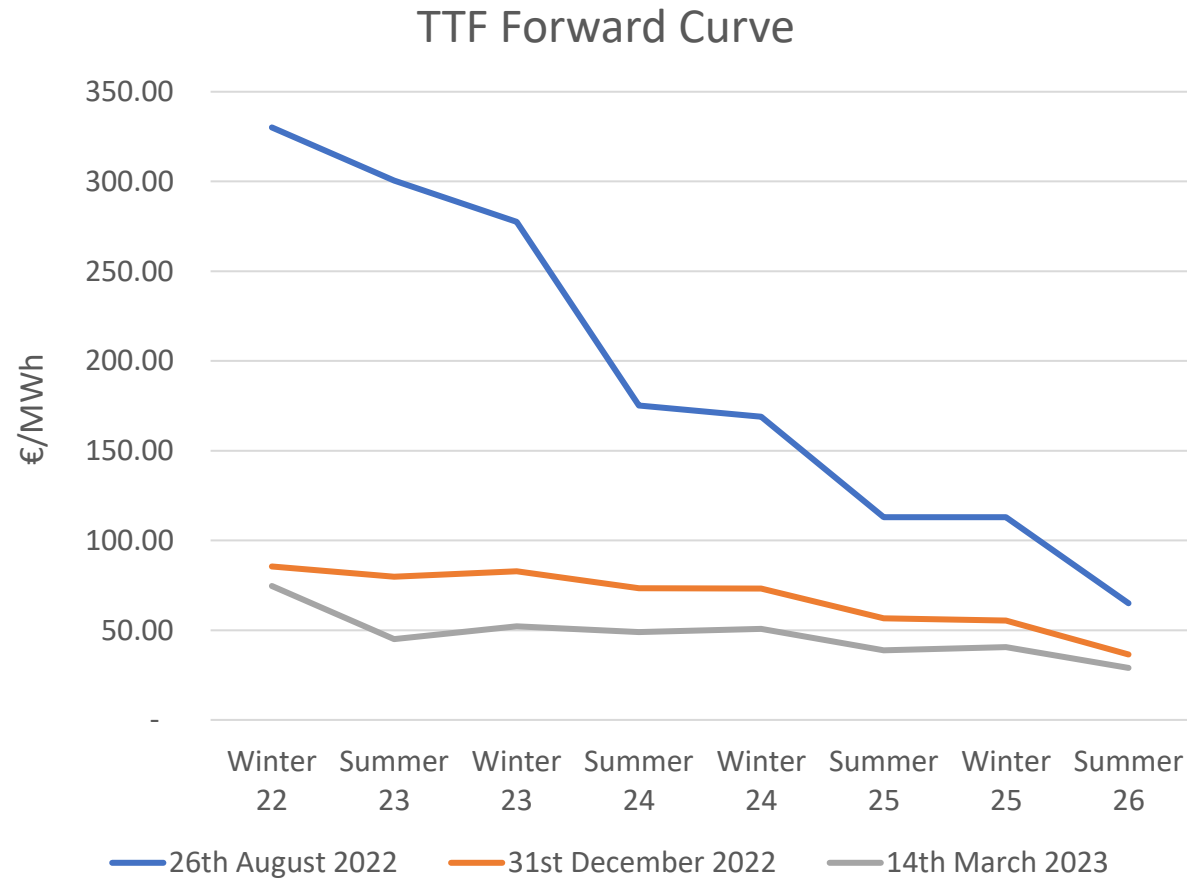
# In 2023 Europe's LNG import capacity will increase by 20% reducing supply constraints



- Existing LNG terminals
- Planned FSRUs terminals (FSRU secured)
- Announced FSRUs (FSRU not secured and/or location not confirmed)
- Operational FSRUs



## TTF market more relaxed about the future



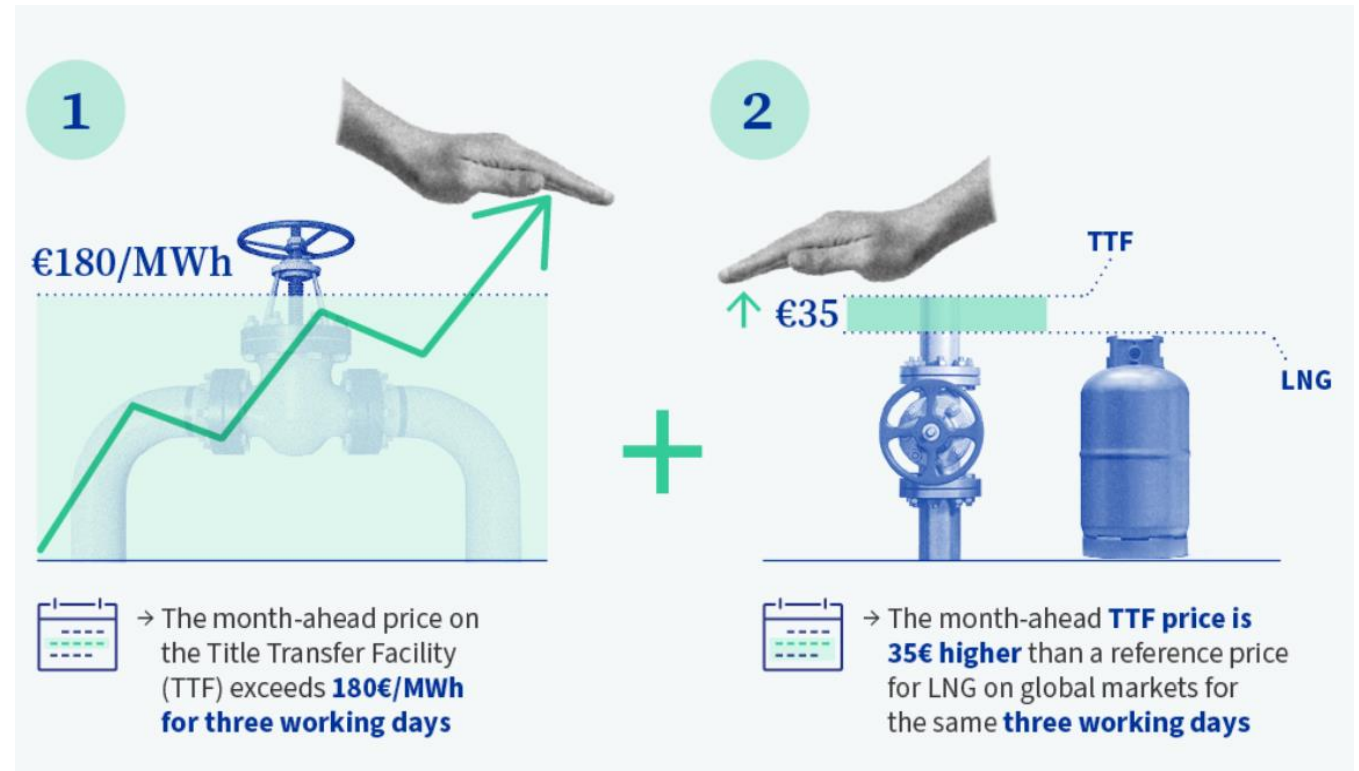
- But uncertainties remain:
  - Chinese LNG imports post lock-downs
  - Russian gas flows through Ukraine
  - French nuclear problems
  - Infrastructure failures
  - Weather



# Market interventions and price caps

# Market Correction Mechanism

- Introduced in Council Regulation (EU) 2022/2578
- Function is to limit episodes of excessive gas prices in the EU (*when prices reach levels beyond world market prices*)
- Applies only to derivatives
- Temporary measure
- The fall in prices means it is unlikely to be triggered
- Settlement prices not impacted

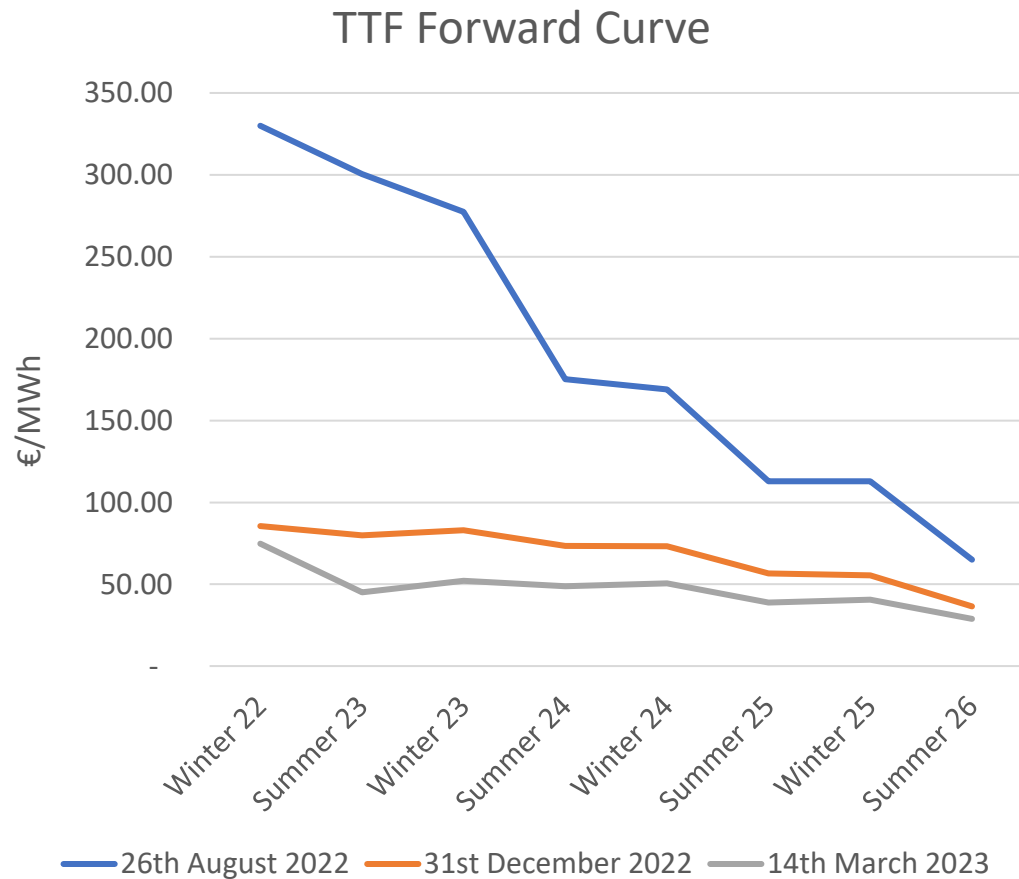


Source: European Council Infographic



# Gas markets and interventions

- The market has responded to high prices:
  - New LNG supply was imported
  - Domestic customers reduced demand
  - Industrial customers switched to competing fuels
- New regas projects and LNG supply mean EU will be more resilient for the next 'crisis'







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# Initiatives and sanctions in Europe following the invasion of Ukraine

*Presented by* **Jan Haizmann**  
EFET Legal Committee



# The effects on wholesale energy contracts

Contractual solutions in terms of trade restrictions/sanctions



## Effects: dealing with disruptions

- Supply disruptions following the closure of international transit pipelines provide for force-majeure scenarios and frustrated long-term gas supply contracts
- Multiple arbitration proceedings against Gazprom Export expected
- German EnSiG requires buyers to sue Gazprom Export in order to benefit from subsidy system
- German EnSiG price adjustment clause would trigger meltdown of OTC portfolio
- Unilateral price adjustment leads to high risk of domino-insolvencies
- Supply cut has triggered the nationalization of Gazprom subsidiaries in Europe, the biggest being Gazprom Germania, now known as SEFE and subsidiaries (GMT)
- EU Member States fund gas purchases of Russian gas buyers, thereby preventing their bankruptcy (biggest rescue action: UNIPER)



## Effects: Standard Solution for sanctions relating to Russia §7(a) Non-Performance Due to Trade Restrictions

- §7(a).2 – Release of the Trade Affected Party from Delivery, Acceptance and Payment Obligations for the period of time and to the extent affected
- §7(a).3 – Notification and Mitigation (if permissible)
- §7(a).4 – Effects on Other Party
- §7(a).5 – Accrued Amounts
- §7(a).6 – Long Term Trade Restrictions Limit  
(P) „*have been adversely affected*“ – if the Supply Period only commences in the future?



## Effects: §7 Risk and Force Majeure

An event beyond reasonable control of  
Party claiming Force Majeure



that it could not reasonably have  
avoided or overcome



makes it impossible for the claiming  
party to perform its delivery or  
acceptance obligations





# **EU and Russia: sanctions and countersanctions**

Historic development





# Evolution of the sanctions regime following the invasion of Ukraine

Situation 2014 – sanctions start amidst the occupation of Crimea

## US sanctions

- Comprehensive US sanction regime, affecting mainly crude oil projects and upstream gas & oil production
- Limitations on refinancing investments in the Russian financial & energy sector, based on 4 directives
- Refinancing window of 60 days affects long-term energy trades with Russian companies.
- Gas and Power Trading with Russian entities remains out of scope of US Sanctions, apart from limitations for trade finance

## EU sanctions

- Sectoral sanctions cover oil exploration and production (but not electricity or gas).
- Financial restrictions on a number of major Russian banks and entities without material impact on energy trading in Europe.
- Switzerland issued no sanctions regime
- Gas and Power Trading with Russian entities remains out of scope of EU Sanctions, apart from limitations in trade finance



# EU/US Sanction Regimes run in parallel

Situation 2022 – sanctions deepen against the military aggression in Ukraine

## US sanctions

- Blocking sanctions targeting Russian financial institutions
- Nord Stream 2 AG and its subsidiaries listed on sanction list
- Individuals within Vladimir Putin's inner circle listed
- Financial restrictions from 1st March 2022
  - US banks are prohibited from Ruble-denominated bonds or other currencies if issued by Russian central bank or Russian Ministry of Finance
- 24th March 2022
  - Transactions involving VEB or its subsidiaries are prohibited
- 26th March 2022, no more transactions with Sberbank or subsidiaries, and other major Russian Banks - no more transactions involving new debt of longer than 14 days maturity or longer
- Export control restrictions on Russia, Russian aircrafts banned from US airspace
- No specific sanctions for electricity or gas trading

## EU sanctions

- Blocking sanctions for major Russian banks
- Sanctions on growing list of Russian state executives, including Putin and Lavrov.
- Financial restrictions impacting Russian Central Bank and major Russian banks, e.g. Sberbank, VTB Bank, Gazprombank and VEB
- Prohibitions related to capital market activities and accepting deposits from Russian original of > 100,000 Euro.
- Cut-off from Swift International Payment System
- Energy industry: prohibition on the sale, supply, transfer or export of certain listed goods and technology suited for use in oil refining to any natural or legal person, entity or body in Russia or for use in Russia
- Temporary exemption to the prohibition for supplies under contracts concluded before 26<sup>th</sup> February 2022.
- No prohibitions impacting electricity and gas trading with Russian counter-parts



# Russia counter-sanctions

New payment scheme for European buyers of Russian gas

- **Russian President's Decree No. 172 of March 31, 2022:** buyers of Russian natural gas based in “unfriendly states” (or in cases when gas is supplied to an “unfriendly state”) are obliged to pay for gas in Russian roubles:
  - Non-compliance with this requirement could lead to a halt to further supplies.
  - The requirement is somewhat mitigated by the special payment procedure, according to which buyers of gas must open accounts in both Russian roubles and non-rouble currency at *Gazprombank* and initially pay for gas in non-rouble currency, which is then sold by *Gazprombank* on the *Moscow Exchange* against Russian roubles credited to the buyer's rouble account and subsequently paid to the seller of gas.
- NB: European Commission's Guidance on “Gas imports FAQs – as of 21 April 2022”
- Gazprom's suspension of gas deliveries to Poland and Bulgaria “due to absence of payments in roubles” as of 27 April 2022.



# Russia counter-sanctions

- **Russian President's Decree No.252 of 3 May 2022** "On retaliatory special economic measures in connection with unfriendly actions of certain foreign states and international organisations"
- **Decree of the Government of the Russian Federation No. 851 of May 11, 2022** "On measures to implement the Decree of the President of the Russian Federation of May 3, 2022 No. 252"

- |   |  |   |
|---|--|---|
| 1. Gazprom Germania GmbH (Germany)                  | 13. WINGAS Sales GmbH (Germany)                              | 23. Gazprom Marketing & Trading Singapore PTE. Ltd. (Singapore) |
| 2. Gazprom NGV Europe GmbH (Germany)                | 14. WINGAS Holding GmbH (Germany)                            | 24. Gazprom Marketing & Trading Retail Ltd. (UK)                |
| 3. Astora GmbH (Germany)                            | 15. Industriekraftwerk Greifswald GmbH (Germany)             | 25. Gazprom Mex (UK) 1 Ltd. (UK)                                |
| 4. ZGG – Zarubezhgazneftehim Trading GmbH (Austria) | 16. VEMEX ENERCO s.r.o. (Slovakia)                           | 26. Gazprom Mex (UK) 2 Ltd. (UK)                                |
| 5. Gazprom Schweiz AG (Switzerland)                 | 17. WINGAS Benelux s.r.l. (Belgium)                          | 27. PremiumGas S.p.A. (Italy)                                   |
| 6. WIEE Hungary Kft. (Hungary)                      | 18. Gazprom Marketing & Trading Ltd. (UK)                    | 28. VEMEX s.r.o. (Czech Republic)                               |
| 7. WIEE Bulgaria EOOD (Bulgaria)                    | 19. Gazprom Global LNG Ltd. (UK)                             | 29. VEMEX ENERGIE a.s. (Czech Republic)                         |
| 8. IMUK AG (Switzerland)                            | 20. Gazprom Marketing & Trading Ltd. France SAS (France)     | 30. WIEE ROMANIA SRL (Romania)                                  |
| 9. WIBG GmbH (Germany)                              | 21. Gazprom Marketing & Trading USA Inc. (US)                | 31. EuRoPol GAZ S.S. (Poland)                                   |
| 10. WIEH GmbH (Germany)                             | 22. Gazprom Marketing & Trading Switzerland AG (Switzerland) |   |
| 11. WINGAS GmbH (Germany)                           |  |   |
| 12. WINGAS UK Ltd (UK)                              |  |   |



# Policies in the EU and Member States

Historic development



# Sanction Policies in EU/Member States

Evolving situation in 2022/2023

## Member States (national policies)

- EU Member States (and Switzerland) have followed the same EU Sanction Regime
- Additional national sanction regimes limited to very few Member States issuing additional sanctions next to the EU Sanctions (Poland)

## EU sanction policy

- EU has issued 10 sanction packages covering wide field of industrial goods and services relating to the conflict against Russia, the last being:
- Council Regulation (EU) 2023/426 of 25 February 2023 amending Regulation (EU) No 269/2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine
- Council Regulation (EU) 2023/427 of 25 February 2023 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine



# Policies: EU/Member States

Evolving situation in 2022/2023

## EU Member States and national policies

- EU Member States aim at reducing income of Russia from exporting commodities to Europe
- Reduce import from EU by a growing list of products and commodities to dampen the performance of the Russian economy
- List of individuals relating to the Putin Regime or individuals specifically involved the war in Ukraine

## Effect of Policies for Commodity Trades

- Prices for commodities, notably gas and power have peaked as a market-response to sudden supply disruptions
- After initial price shocks in 2022 market prices for power and gas have sharply declined in 2023
- Commodities continue to flow into Europe, Russian pipeline gas exports continue on low level, increased gas supply via LNG by Russian sellers and international sellers
- Gas Trade continues as gas trading remains out-of-scope of sanction regime