



European Union Agency for the Cooperation
of Energy Regulators

Reflections on the IEA's Q1 2022 Gas Market Report

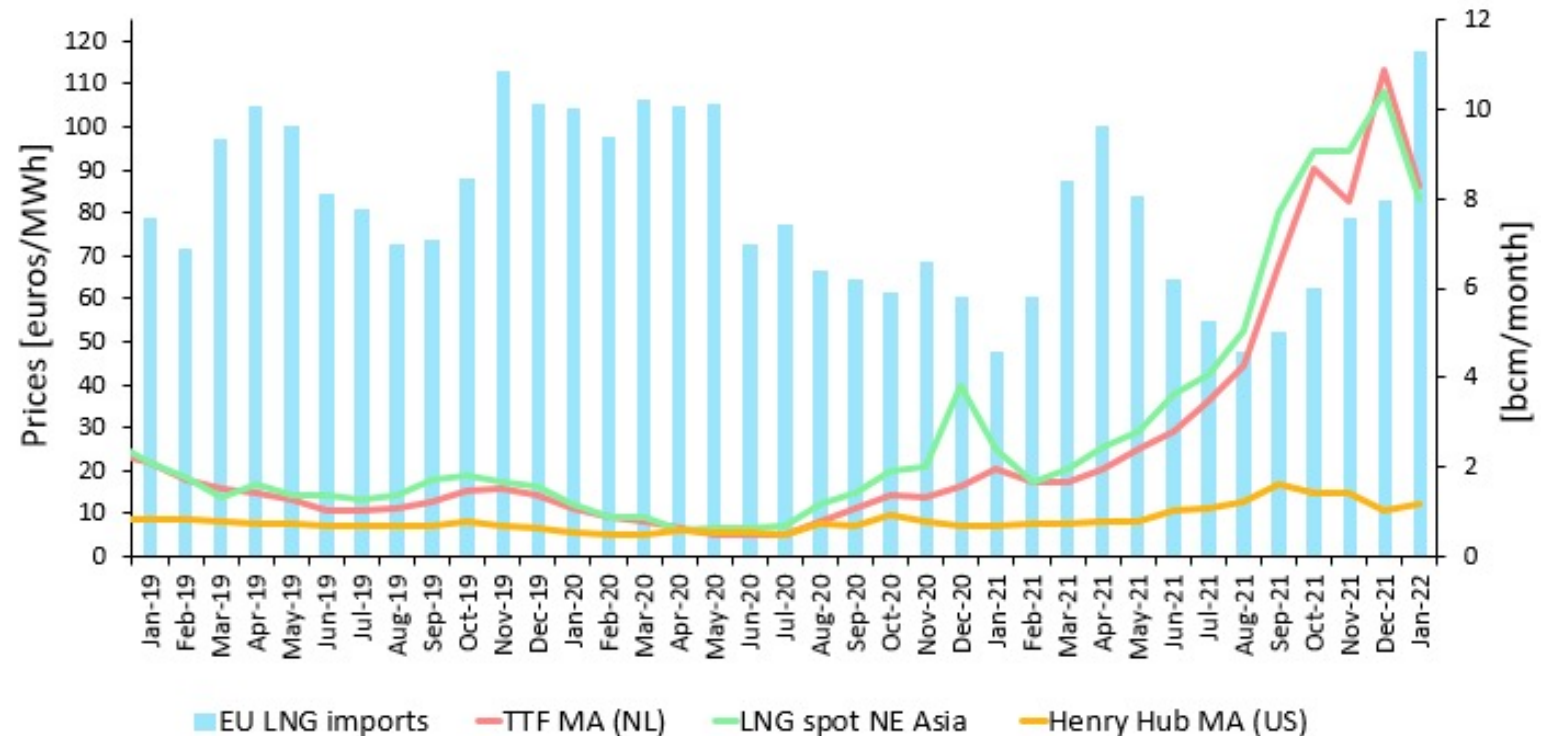
February 1, 2022

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Virtual*

LNG deliveries highly determined by developments in global gas markets

- **Two trends** were observed:
- **From Q1 to Q3 2021**, global competition for LNG led to less arrivals into the EU, which acts as the global ‘swing market’.
- **From Q4 2021**, EU LNG deliveries recovered (+32% YoY), chiefly from the US. Yet the extra LNG remained insufficient to offset the effects on prices of lower pipeline flows and low underground storage stocks.

Comparison of international Gas Front Month prices vs EU LNG imports: 2019 – 2021



Lower LNG and Russian flows led to a higher reliance on storage withdrawals

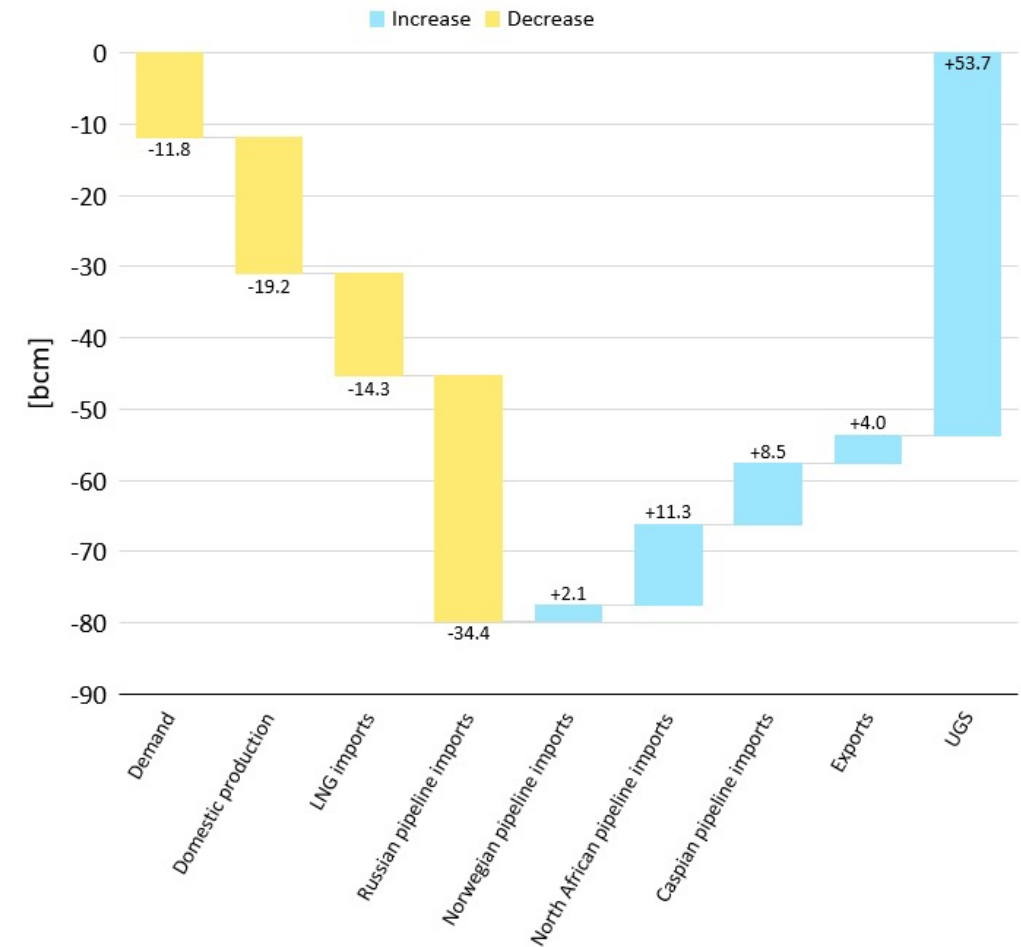
From Q1 to Q3 2021:

- **EU LNG deliveries** dropped, attracted to the higher-priced Asian markets (-18% YoY).
- **Larger storage withdrawals were needed** to meet improving demand and **offset falling LNG deliveries** and declining domestic production

In Q4 2021:

- **EU LNG deliveries recovered** as an outcome of lower Asian imports, improving global LNG production and record high EU hubs' prices (+32% YoY).
- However, **Russian pipeline flows plunged** by 25% YoY in a very tense political scenario

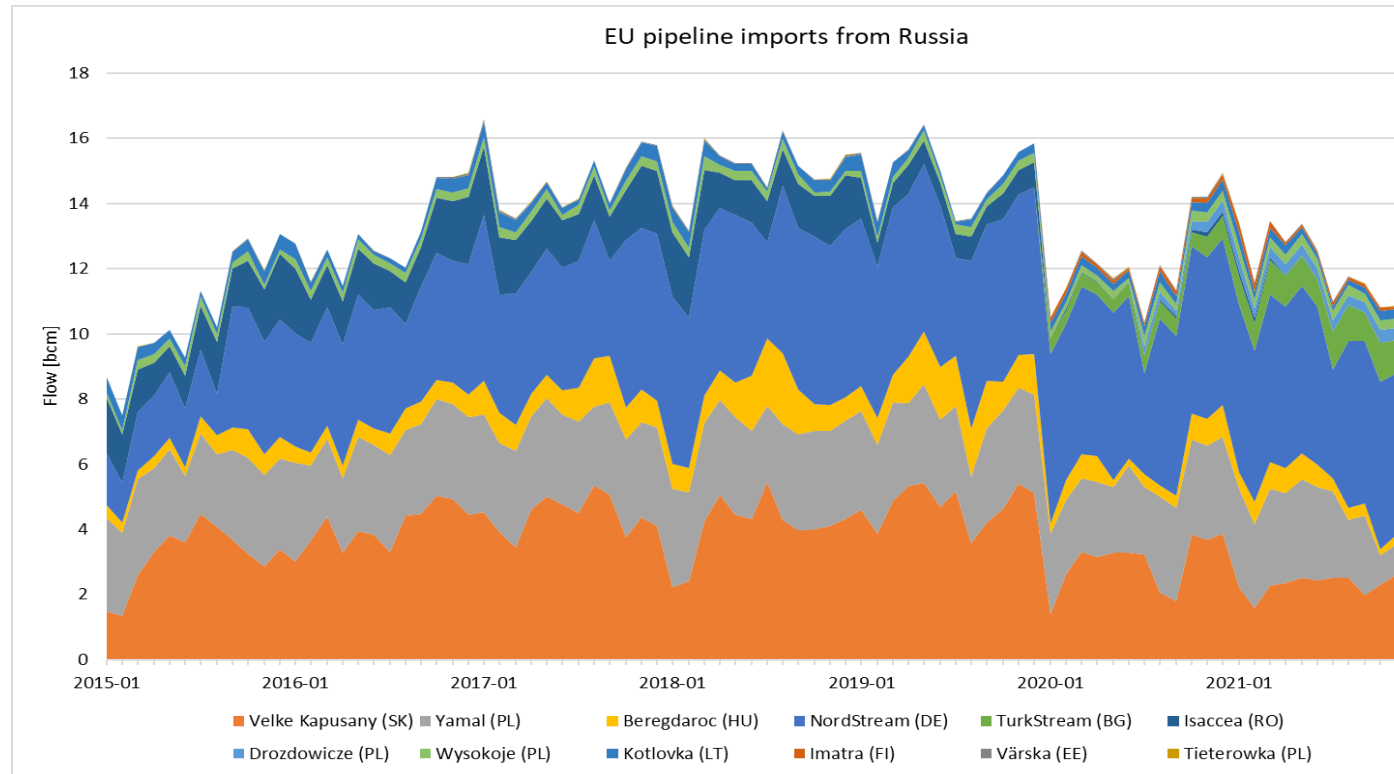
Changes in gas supply to the EU, 2021 vs 2019 – bcm



Decreases (i.e. supply tightness) results from rising demand and reduction in supply. Increases (supply ampleness) result from lower demand or larger supply. For storages, any increase in withdrawals and/or reduction in injections is an increase in supply and vice versa. For exports, lower exports from the EU elsewhere are an increase of available gas.

Pipelines routes to import Russian gas have changed

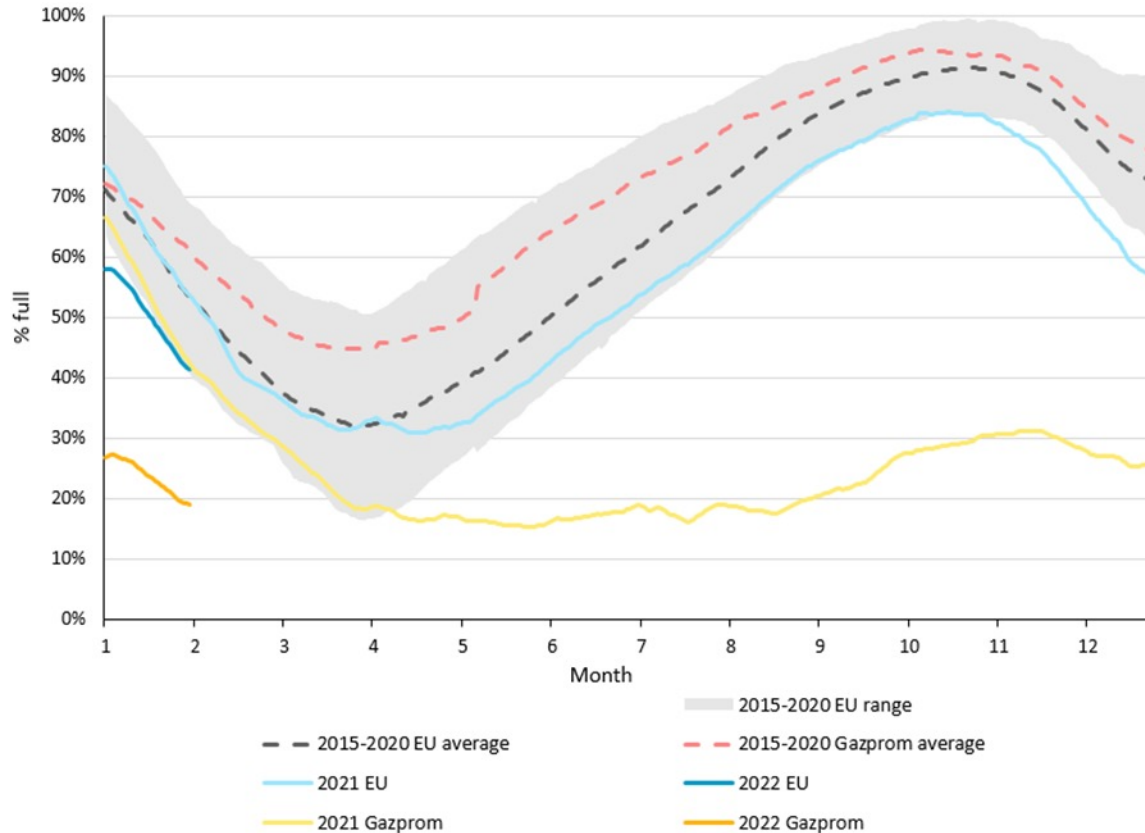
COMPARISON OF EU NATURAL GAS IMPORT FROM RUSSIAN ORIGIN: 2015 – December 2021, bcm/month



Pipeline imports have kept steady, not responding to surging demand. Certain physical constraints in/for Russia. Discussions on possible tactical considerations.

Storage stocks reached record low levels, driven by behaviour of 1 major player

Evolution of EU's and Gazprom's storage stocks



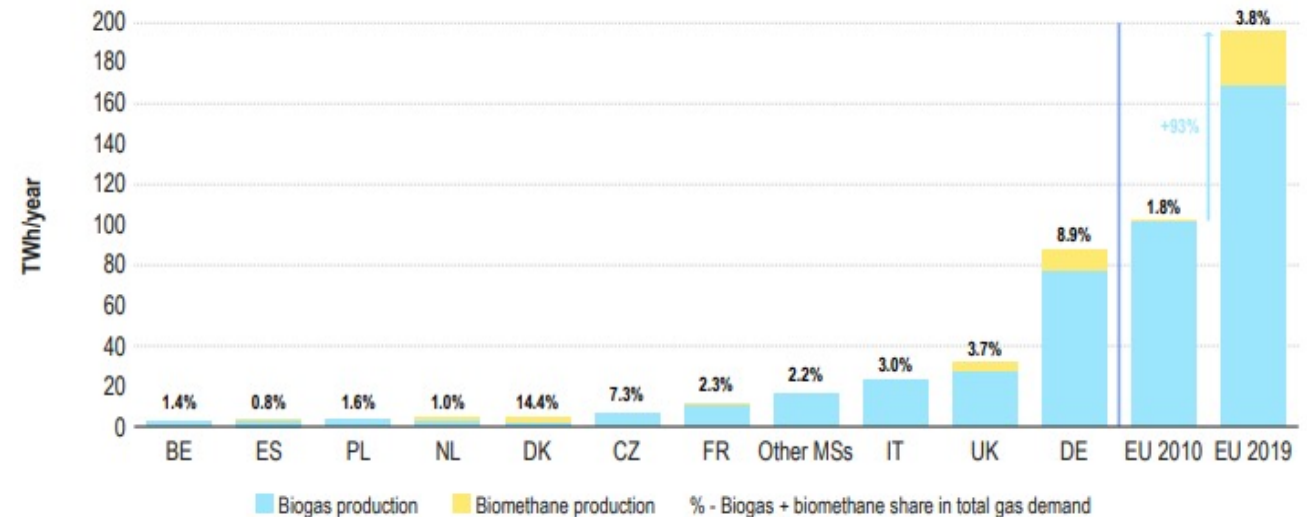
- In **Q1 2021**, fading LNG arrivals and a prolonged winter required larger than usual storage withdrawals
- Injections were rather limited in **Q2 and Q3 2021** (-15% YoY); LNG kept being attracted into higher-priced Asian markets, whilst the narrow EU hubs' seasonal spreads reduced the cost-effectiveness of injecting gas
- Storages' stocks were at record low levels at the beginning of Q4 2021 (-15 bcm in comparison to October 2020)

Gazprom's lower gas stock levels were the major driver of the low EU gas reserves for the winter

Carbon-neutral gases: growth of biogases

- Volume of low-carbon gases doubled in the last decade, starting from low base
- Production has focused on biogas and biomethane, which account for 15% of EU domestic gas production and 3.8% of consumption in 2019¹.
- Most biogas is consumed close to production site, for heating, electricity generation, or CHP
- Biomethane injections are generally lower, due to higher production costs, gas quality and other technical constraints
- EU production of biogas could double by 2030, quadruple by 2050, covering 30% of demand

Biogas and biomethane production in selected leading MSs in 2019 and for the whole EU – 2010–2019 – TWh/year and % of total gas demand relative to production



Consumer exposure: dilemma



- Gas retail prices have increased significantly, with wide variations across the EU
- Government interventions to limit price increases, e.g. by reducing tax/levies
- Supplier bankruptcies: supplier-of-last-resort mechanisms ensured no consumer without supplies
- Retail suppliers: hedging obligations / collaterals?
- Underscores dilemma going forward:
 - Shielding from excessive price volatility impacting affordability ...
 - *vis-à-vis* retaining price signalling to drive desired behaviour and/or incentivise new investment

**Thank you for the opportunity.
Looking forward to the discussion.**

***Follow-up questions or comments welcome
via dennis.hesseling@acer.europa.eu***

The contents of this document do not necessarily reflect the position or opinion of the Agency.



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