

European Commission launching measures to prepare for potential further gas cut-offs

Teneo Insights / July 2022



On 20 July, the European Commission published the ‘Save Gas for a Safe Energy Winter’ plan, a set of recommendations to mitigate the impact of a possible natural gas supply cut-off by Russia. The communication asks for immediate market- and non-market-based demand-side measures to free up gas volumes. Moreover, it provides guidelines to identify critical sectors of the economy and industrial installations that would be prioritised in gas supply rationing during an emergency. Finally, it proposes a sequence of three stages in response to a threat of major disruption at the EU level, authorising the Commission to declare a Union or regional emergency at the request of one or more member states.

With the proposed measures, the Commission is proactively setting the rules for a resilient, coordinated response to potential further disruptions to the energy system. Early actions are intended to reduce the impact of sudden supply disruptions by a third. According to the International Monetary Fund, the impact on countries in Eastern and Central Europe

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is expected to be the most severe, (6% GDP reduction in Czechia, Hungary and Slovakia), while the rest of EU would see a GDP contraction by maximum 1%.¹

The plan is a response to what is described as Russia's weaponising of gas supply. Gazprom, the Russian gas export monopoly, has already cut or curtailed gas deliveries to 12 EU countries. The European Network of Transmission System Operators for Gas (ENTSO-G) has predicted that with a full disruption of gas supplies in July, the gas storage would reach ca. 65-71% in November. The simulation shows that with normal winter conditions, this could mean a gap of 20 to 30 billion cubic metres of gas this winter. In such a scenario, many countries would reach low levels of gas at the end of the winter, potentially also causing a challenge for the following winter.

In this context, the Commission is proposing that the Member States take early action and is offering best practice guidelines for demand reduction ahead of the winter. At the same time, the Commission is also proposing strengthening of the solidarity framework to support the Member States that may face challenges with meeting gas demand.

Preventive measures and good practices

The communication recommends the following measures and good practices:

- **Fuel switching both in industry and electricity production** to renewables if possible should be encouraged by Member States to pre-emptively save gas and enhance preparedness. Alternative fuels can be considered for power generation on a temporary basis. Temporary relaxation of environmental regulatory restrictions is permissible (e.g., switch to coal, derogation of Industrial Emissions limits).

- **Market-based instruments** include **auctions or tender systems** through which Member States incentivise a reduction in demand by large consumers, mainly industrial ones, by offering compensation. Another recommendation for industrial customers is to agree in **advance to contractual swaps of their production** from a region exposed to disruptions to a less exposed region. Finally, the Commission encourages the use of **interruptible contracts for gas consumption** as a voluntary market-based measure that facilitates flexibility.
- **Heating and cooling** awareness-raising campaigns in each Member State are recommended to encourage consumers to start saving gas where possible. The Commission also recommends a **mandatory reduction of consumption** in buildings operated on behalf of public authorities and a **reduction of consumption** in commercial centres, offices and public spaces. Public authorities are requested to set **new temperature levels** for heating and cooling and heating curves should be agreed contractually to gradually reduce gas consumption.

Criteria to prioritise critical non-protected customers

According to the proposal, the Commission is authorised to declare a Union or regional emergency at the request of one or more Member States. The Save Gas for a Safe Winter Plan prioritises specific vulnerable consumer groups whose gas supply needs will always be met first if the emergency is declared. These consumer groups, which normally account for around 37% of energy usage, are households, district heating to households, essential social services and SMEs, as well as certain critical gas-fired power plants. It also suggests common

¹<https://www.imf.org/en/Publications/WP/Issues/2022/07/18/Natural-Gas-in-Europe-The-Potential-Impact-of-Disruptions-to-Supply-520934>

criteria for prioritisation of non-protected consumers across the internal market. The following criteria for demand reduction in pre-emergency or emergency situations will have to be implemented in the emergency plans of Member States:

- **Societal criticality:** Considerations for prioritisation should focus on **health, safety & environment, security, defence, refineries and food** industries.
- **Cross-border supply chains:** The Member States should keep in mind the effects on integrated European supply chains, particularly the **downstream effects of upstream gas reduction** and the **market weight and knock-on effects** of a certain company's potential gas reduction.
- **Substitution and reduction possibilities:** The communication encourages the use of **alternative input fuels, the postponing and rescheduling of production, a shift of production to an EU region without gas shortage or the use of substitution in the global value chain.** These options or lack of their availability should be taken into account in prioritisation decisions.
- **Damage to installations:** The communication also **considers lasting impact of disconnection or reduction** of gas supply on industrial tools and installations an important criterium in the prioritisation process, particularly in sectors running continuous processes. The **sectors with continuous processes** include most of the chemical industry, gas production, textiles, pharmaceuticals, fertilizers, glass, steel, aluminium, refineries, lime, ceramics and more.
- **Economic considerations:** In order to determine the least costly sectors to curtail, the communication highlights the following indicators – **value added, employment**

related to the level of natural gas use, the importance of a specific sector in the value chain, integration of a given industry via cluster sites, gas intensity and considerations of flexibility.

Crisis response stages, measures and solidarity framework

The Commission suggests stronger EU coordination and solidarity between Member States. This solidarity is handled on the national level, through bilateral solidarity agreements which clarify the technical, legal and financial arrangements to provide gas to the legally protected customers of neighbouring countries.

The Commission outlines the updated three-step crisis response process:

1. National voluntary demand response:

This stage started in May 2022. The communication encourages a proactive approach, including communication campaigns, fuel switching, auctioning systems and measures to reduce gas demand.

2. EU coordinated demand reduction before an emergency:

This stage will be triggered when there is a high likelihood that an event will result in significant deterioration of the gas supply and lead to the emergency level being triggered in several Member States. The Commission presented an assessment to this effect on 20 July.

The second stage suggests the reduction of gas demand in all Member States, daily monitoring, auctions or tenders motivating consumption reduction, use of interruptible contracts, provision of incentives for fuel switching, an obligation for public buildings to control temperature, activation of other demand-side measures, gas consumption reduction of non-critical gas fire power plants and monitoring of the impact of demand

reduction on critical sectors across the EU. To mitigate possible negative impacts in case of disruptions, Member States and the EU will intervene primarily but not exclusively by market instruments.

3. EU coordination of emergency measures during EU/Regional emergency:

The Commission may declare a Union Emergency or a Regional Emergency for a specifically affected geographical region upon the request of a Member State. If the request comes from at least two Member States, the Commission must declare a Union or regional emergency. The national gas security of supply emergency plans specifies in detail the measures planned by Member States, including a plan for releasing gas from strategic storage and potential curtailment and prioritisation. The criticality and prioritisation of non-protected consumers will be determined based on the criteria listed above. Each member state may first conduct an independent analysis of the national industrial landscape and its criticality, possibly and preferably directly involving the industrial stakeholders. On top of bilateral contacts and existing regional fora, consultation and coordination can be conducted within the Gas Coordination Group, but also other EU industrial policy fora, such as the High-Level Working Group on Competitiveness and Growth of the Council or the EU Industrial forum managed by the Commission.

Proposal for a Council Regulation

The Commission proposes a Council Regulation to enable effective action to address the risk of an imbalance between supply and demand in the European gas market, including through the necessary governance framework. A Council Regulation is a regulation where the European Parliament is consulted and is only applicable in limited policy areas, such as sanctions, competition law and financial matters.

The draft Regulation asks all Member States to continue investing in alternatives to Russian gas and to reach a voluntary gas demand reduction target of 15%; to update their existing national emergency plans; to set out a governance framework to assess efforts performed by all Member States and to introduce an EU alert process. The Commission may also activate binding demand reduction targets to secure the necessary overall EU reduction for a safer winter for all.

Next steps

- The next **EU Energy Council** will take place on 26 July. Energy ministers will hold an exchange of views on the security of energy supply in the EU and further measures to be taken ahead of next winter. The International Energy Agency called on the EU to take measures immediately. Given that this is a Council Regulation, only Parliament consultation is required, dramatically shortening the timeline for adoption.
- The COREPER is also discussing the possibility of holding another meeting of the Energy Council in August. The final decision is likely to be taken at the July Energy Council meeting because of the urgent need to agree on a common approach, especially if Russia decides to reduce the supply significantly.
- **Working party on Energy:** Meetings scheduled for 1, 6, 8 and 13 September.
- **General Affairs Council:** 20 September
- **EU Council:** 6 October



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