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News : EU gas price cap expected to trigger changes in market behavior: EFET

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- Governments should prepare for next level of decision-making
- Political intervention reduces industry confidence: trader group
- **EU** ministers agreed a market correction mechanism Dec. 19

European energy trader group **EFET** has warned that the newly agreed **EU gas** market correction mechanism is likely to lead to changes in market behavior and reduce industry confidence in the longer term.

EU energy ministers agreed Dec. 19 to implement the market correction mechanism that imposes a **TTF** price ceiling of Eur180/MWh from Feb. 15, 2023.

EFET said the ministers had voted for the **gas** price cap "in spite of warnings from **EFET** and other industry representatives."

"Even with some useful safeguards to limit or suspend the mechanism, we can still expect there to be changes in market behavior," **EFET** said Dec. 20. "Governments should prepare for the next level of decision-making," it said.

EFET said there remained concerns about the mechanism's potential impact on supply dynamics.

"Whose contracts should be interrupted first if a **gas** shortage ensues? Which countries should get **gas** if signals about where it is most needed disappear? How will **Europe** attract additional **gas** supplies?" it asked.

"And what support will commercial organizations now need to justify storage injection next summer?"

EFET said that political intervention remained one of the biggest risks faced by the energy industry and had the long-term effect of reducing confidence.

"Authorities will need to monitor closely what happens to **EU gas** supply and demand in the light of this decision -- a process which **EFET** will seek to support -- and make sure the mechanism can be suspended if the effects are seen to be damaging," it said.

The new mechanism comes with a number of safeguards that would see the price cap deactivated if it was shown to be causing unintended side effects.

But exchange operators in **Europe** remain skeptical about the plan.

Commodity exchange operator **ICE** said Dec. 20 it would consider its options with regard to the operation of **TTF** markets in light of the decision.

ICE -- which hosts **gas** trading on its **ICE** ENDEX exchange -- said it had consistently voiced its concerns about the "destabilizing impact" a **TTF** price cap would have on the market and the risks it presented to financial stability.

"We are reviewing the details of the announced market correction mechanism, its technical feasibility, the impact on financial stability, and whether **ICE** can continue to operate fair and orderly markets for **TTF** from the **Netherlands** as per our **European** regulatory obligations," **ICE** told S&P Global Commodity Insights on Dec. 20.

"This will involve undertaking technical due diligence, engagement with the market, fulfilling governance and regulatory obligations, as well as considering our options. This will take time."

EEX position

Fellow exchange **EEX** said Dec. 20 it had also consistently voiced its concerns about the mechanism. "**EEX** continues to be concerned about the implications of such a price cap on the markets," it said.

EEX said that upon activation of the price cap, it would no longer permit the order entry or trade execution for affected contracts above the cap, except in certain exception cases outlined in the regulation.

"Trading participants shall not enter orders exceeding the imposed price cap. Any exceeding orders (and trades) will be cancelled," it said.

It added that the **EEX** settlement pricing procedure applied without changes and settlement prices would continue to reflect the "fair" market value.

But **EEX** warned that the market correction mechanism was a "significant intervention in the transparent and reliable price formation procedure of trading venues."

It added that the mechanism might impact the way central counterparties calculate their margin requirements or perform their default management.

The **European Council** said Dec. 19 the market correction mechanism would be automatically activated if two events occurred -- that the **TTF** month-ahead price exceeded Eur180/MWh for three working days and the **TTF** month-ahead price was Eur35/MWh higher than a reference price for **LNG** on global markets for the same three days.

Platts, part of S&P Global Commodity Insights, assessed the benchmark **Dutch TTF** month-ahead price at an all-time high of Eur319.98/MWh on Aug. 26.

Prices have weakened since on the back of healthy storage and demand curtailments, though prices remain historically high with Platts assessing the **TTF** month-ahead price Dec. 20 at Eur106.90/MWh.