

Summary of the high-level ad hoc thematic dialogue on energy on 9 November 2022 in Frankfurt am Main and via videoconference

Participants

- Members of the ECB Governing Council or their alternates
- Renowned experts in the field of energy and energy economics: Javier Blas (Bloomberg), Spencer Dale (BP), Natalia Fabra (Universidad Carlos III de Madrid), Amy Myers Jaffe (Tufts University Fletcher School), Christian Zinglensen (European Union Agency for the Cooperation of Energy Regulators)
- Senior ECB officials from the Directorate General Economics, Directorate General Monetary Policy, Directorate General Research, Directorate General International and European Relations, Directorate General Macroeprudential Policy and Financial Stability and Directorate General Secretariat, as well as from the Counsel to the Executive Board, and the ECB's Chief Compliance and Governance Officer

Summary

The high-level thematic dialogues complement existing high-level dialogues (Banking Industry Dialogue, Institutional Investor Dialogue, Non-Financial Business Sector Dialogue) thereby further broadening the ECB's interaction with stakeholders. The thematic dialogues serve as a forum to gather information and enhance insights on important sectoral developments or specific topical issues, thereby deepening the Governing Council members' understanding of the implications and issues relevant for policymaking. As the leading theme for the high-level thematic dialogues is decided depending on the specific relevance of a development or topic, they do not follow a pre-determined pattern but are organised on an ad hoc basis.

The thematic dialogues are chaired by the President of the ECB and the participants consist of ECB Governing Council members and representatives and selected experts of the specific sector or field on which the dialogue is focussed.

The President introduced the high-level thematic dialogue on the energy crisis in the euro area and welcomed the speakers, whose expertise covered topics including the energy crisis and energy security; energy transition and investment; European gas and electricity supply in the near and medium term;

and electricity market design and government interventions. In line with agreed practices, the summary minutes would be published on the ECB's website.

The dialogue then proceeded with short introductions from all experts, followed by a discussion. The discussion evolved around the following topics: energy crisis and energy security, energy transition and investment, European gas and electricity supply in the near and medium term, electricity market design and government interventions.

Energy crisis and energy security

Factors contributing to the current energy crisis were discussed, including changes in the oil market pre-dating the pandemic, a sharp rise in energy demand after the pandemic, underinvestment in the energy sector, and pressures on oil and gas markets in the context of the Russian invasion of Ukraine. These factors led to an “energy trilemma”, whereby energy must become secure, affordable, and sustainable. Experts raised concerns about the real economy implications of the current crisis, which is lasting longer than expected.

Recent developments in the oil and gas markets were discussed, with some experts arguing that recent developments cannot solely be attributed to fundamentals, with speculation potentially also playing a role, and some arguing that regulatory interventions in markets may be needed. In addition, some experts expressed concern that the episode of relatively lower gas prices over the late summer/autumn period should not be overinterpreted by policymakers as a reaction to announced EU policies.

Energy transition and investment

For the energy transition to be successful, energy demand needs to be reduced together with fossil energy supply, and renewable technologies and their supply needs to be ramped up. If economies fail to achieve this, the transition may be disorderly and costly. Experts saw the risk of there so far being a mismatch between the reduced fossil energy supply and (relatively stable) energy demand, exacerbated by underinvestment in renewables.

Some experts saw the current energy crisis and renewed focus on energy security as possibly benefitting the transition by way of accelerating some of the necessary changes, including an increased focus on more localised renewable energy production. It was however warned that more localised production can also entail risks through higher exposure to local shocks (e.g. weather), which should be considered and mitigated through stronger market interconnection.

Most experts considered that energy efficiency should play a bigger role in the transition. Progress in energy efficiency was seen as strongly related with progress in digitalisation, allowing a more efficient deployment of technologies such as smart meters, but also to manage and better distribute energy use

across the system. Overall, a declining energy intensity of the economy was seen as necessary for a successful transition.

European gas and electricity supply in the near and medium term

Several experts described a constellation of shocks hitting the electricity and gas markets, with several factors having come together and added to pressures on wholesale gas and electricity prices.

As for gas, EU supply in the medium term was expected to depend on storage levels after the 2022/23 winter, the extent of liquefied natural gas (LNG) imports into the EU, the extent of demand reductions, and the weather. Most experts expressed the view that (strong) demand reduction would be necessary beyond the 2022/23 winter in order to ensure security of supply also into the winter of 2023/24 and beyond. Though surrounded by high uncertainty, wholesale gas prices were expected to remain at higher levels over the next few years than compared to pre-crisis prices. However, this was not seen to imply further strong increases and therefore further mounting pressures on consumer gas price inflation. Persistently higher than pre-crisis wholesale gas prices were seen as challenging for real income and investment.

Experts saw EU electricity markets as the most problematic energy market segment due to large structural differences across European countries and regions. As well as being coupled to the price of gas, wholesale electricity prices were also strongly affected by uncertainty around the availability of French nuclear power, and hydro energy. This was also considered to be reflected in increasingly diverging futures curves across different EU Member States, including due to differences in renewables potential and gas dependency.

Electricity market design and government interventions

Experts exchanged opinions on the topic of electricity market design, and possible government interventions in the design, with divergent opinions on how quickly and ambitious such reforms should take place.

Some experts expressed the view that the current market design fostered extraordinary profit margins for some energy suppliers, implying wealth transfers from consumers to electricity utilities and not benefitting firms' investment decisions. Some experts also argued that the current electricity market design had aggravated inflation in Europe.

Experts found that some sort of government measures were necessary to reduce and stabilise wholesale electricity prices in the near and longer term. Mechanisms based on capping gas prices were not seen as free of potentially significant side-effects, including by weakening incentives to reduce gas consumption for electricity production. Some saw the need for a more ambitious redistribution of

“inframarginal” generators (i.e., those that produce electricity at lower marginal cost than the price-setting technology), using them to provide targeted support to households. In the longer term, the need was seen for the price of electricity to reflect the cost of electricity generation and ensure investment incentives. Discussion focussed on how on one hand, the marginal price setting mechanism implied that developments in wholesale gas prices have also pushed up wholesale electricity prices, but that on the other hand, the prospect of very low electricity prices with high shares of renewable generation could disincentivise investments (as low prices would imply that not all costs could be covered in the future).