

Defining gas price limits and gas saving targets for a large-scale gas supply interruption

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Abstract

Should deliveries of Russian gas by pipeline be interrupted for an extended period of time, then gas prices could explode to up to several hundred Euros per MWh due to scarcity of supply. This risk is already reflected in future and spot gas prices and has caused much of the current extremely high gas price levels and volatility. Any additional price increase after a potential large-scale gas supply interruption would likely trigger even more government interventions in EU's energy markets, with the objective to limit costs for households and other consumers. To avoid such ad-hoc measures, the EU Commission has proposed in the REPowerEU communication to agree already now, ahead of any potential large-scale interruption, on a coordinated European response to a large-scale gas supply interruption. We explore how the proposed measures, which include binding national gas saving targets and limits to the gas price in the case of large-scale gas supply interruptions, would impact supply and demand after an interruption. We also assess how the level of the price limit would impact the supply and demand balance after an interruption and the price formation prior to it.

Keywords: Price cap, Security of Supply, Gas saving, Consumer welfare

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