Ms Ursula von der Leyen  
President of the European Commission

European Commission  
Rue de la Loi / Wetstraat 200  
1049 Brussels  
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Athens, XX.XX.XXXX

Dear President von der Leyen, dear Ursula,

I am writing to you regarding the rapidly evolving economic threat in the gas wholesale market, that I believe needs to be addressed swiftly and decisively to prevent further damage to European Union citizens’ lives, Member States’ economies, and the success of the European Green Deal.

The evolution of wholesale natural gas benchmark prices in recent months, and especially since December 2021, has no longer been driven by the normal market forces of supply, according to recent research from both the European Union Agency for the Cooperation of Energy Regulators (ACER) and the EC Gas Coordination Group. In fact, prices are now largely impacted on by political statements and fears stemming from the Russian invasion in Ukraine that lead to uncertainty, massive price fluctuations, and speculation.

The ongoing crisis in Ukraine has effectively overridden the natural mechanics of price formation and unfortunately every attempt to address this issue up to now by our Union has fallen short of counterbalancing the huge burden on households and businesses. The paradox is that neither the production capacity nor the supply chains of natural gas have been affected by the current crisis. This means that we don’t have a quantity problem, but we do have a price problem.

In the mid to long term this can be alleviated by reducing the Union’s reliance on Russian natural gas. But in the short term I believe a targeted and temporary market intervention is necessary to normalize the situation. All such measures should focus on gas prices rather than quantities, be time-limited, and with well-defined triggers and exit clauses. By intervening in the market in this respect, our Union can protect its members by pausing the “weaponization” of natural gas against our economies and decoupling the geopolitical crisis from the energy crisis, without affecting production and supply of natural gas in the short term.

It should be noted it is unlikely that this problem will go away as soon as demand for heating gas subsides. If we don’t act now it will persist on electricity prices -which are linked with gas prices in the wholesale markets- in the following months of spring and summer putting an enormous burden on households and businesses.

After careful assessment of the available options, I would like to propose a ‘Six-Point Plan’ for your consideration. Each element of the Plan aims to counteract the current escalation in the gas wholesale market:

1. **A Price Cap:** A cap on title transfer facility (TTF) prices, i.e. referencing the highest historic gas price before the crisis
2. **Daily Price Guardrails:** A fluctuation band on TTF prices limiting volatility, for example, to +/- 10%
3. **Emergency Price Setting:** Stress-related TTF fixed-price setting, as an emergency reaction only, to declarations regarding pipeline gas flows from Russia
4. **A Profit Cap:** Gross profit margin caps in the wholesale electricity markets, for example, 5% based on market regulators monitoring production costs and LCOE on production assets
5. **Physical-delivery trading:** Consideration of a time-limited option to only allow trading with physical delivery
6. **Liquidity Enhancement:** Increasing liquidity in the natural gas market by market coupling among US/EU/Asia. For example, by enhancing cooperation with China on LNG cargoes, potentially with caps on transportation costs to disincentivize speculation

All these policy options clearly represent considerable market interventions which however have been used in extraordinary cases in the past in other markets to rebalance them or are even standard features in certain markets. I strongly believe that unusual times require unusual measures. These actions only aim to protect the proper functioning of the gas wholesale market, which has been under considerable stress following the deepening conflict in Ukraine with severe side effects in the electricity produced by gas as well.

While the mid to long term goal must be to return to a normally functioning market, it is the obligation of governments and regulators to intervene when extraordinary circumstances unhinge otherwise healthy market mechanics.

The Six-Point Plan is designed to protect and re-set the gas and electricity wholesale markets and ensure that the European Union, its citizens and Member State economies, but also the global economy, do not unduly suffer in an already challenging period.

I hope you find my rationale and my proposal timely and I remain at your disposal for a more detailed exchange on the matter.

Yours sincerely,

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Cc:

Frans Timermans, Executive Vice-President, European Commission

Kadri Simson, Commissioner, DG Energy

Ditte Juul Jorgensen, Director-General, DG Energy