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Will Europe have enough gas for the winter - the last risky season



The European Union has done most of its homework in order to avoid turbulence and a gas supply crisis ahead of the upcoming winter.

Reduced demand and full gas storages seem encouraging a month or 2 ahead of the season of increased consumption. However, there are still risks that might make the forthcoming winter just one more in a series as Europe struggles with its energy crisis.

The EU has recently announced that it had reached the planned goal of 90% gas storage occupancy 2 and a half months before the planned deadline of November 1.

This is one of the crucial parameters that should remove concerns of a repeat of the crisis similar to the one from a year ago, the principal consequences of which were largely avoided due to mild temperatures during the winter months.

The success of anti-crisis measures

Europe achieved this goal by combining several anti-crisis measures - reducing consumption, increasing the share of renewables in the energy balance, and particularly reorienting purchases from Russia to other sources.

Full storage, with around 100 billion cubic meters of gas, is sufficient to meet up to a third of market demands during the winter months and is, therefore, strategically significant for the Union's energy security.

"The EU energy market is in a much more

stable position than it was this time last year, in good part because of the measures we have taken at EU level", said Kadri Simson, the EU Energy Commissioner.

The stimulation of reducing gas consumption is one of the measures that will continue to be in effect over the forthcoming winter. This measure has shown to be one of the most significant in reducing dependency on gas from Russia.

Given that demand dropped by 18% between September 2022 and May 2023, this measure was extended as effective for the following year.

This means that European consumers will continue to be in crisis mode to a certain extent, as necessary to preserve the still fragile energy security.

This "new normal" has also been confirmed by the International Energy Agency since it further reduced its assessment of demand in Europe last July, so it expects demand to be lower by 7%, not 5% as they estimated last May.

With a strong emphasis on renewables as an alternative and reduced electricity consumption, this projection was revised downward because lower gas consumption was recorded in the energy sector (as much as 15%).

Additionally, the IEA estimates that gas consumption in industry will remain at the crisis and frugal levels of a year ago, which predicts that gas demand growth will follow in 2024 at a modest 1.5%.

Weather is the biggest risk and unknown

However, despite all efforts, the European gas market remains quite unstable, which does not provide reassurance that the previous year's catastrophe has been forgotten as we approach winter and increasing consumption.

Whether the EU will have enough gas during the coming winter will be influenced by several factors, which are not easy to predict at the moment - the continuation of reduced demand, the stability of LNG supply, the increase in the share of renewables and the factor that leaves the most uncertainty - whether the winter is mild, or cold.

If the winter is harsh, demand will naturally experience a boost, both for heating households and electricity production.

The cost of gas will also change dramatically depending on the weather. The price in Europe will be cut in half from its current level to approximately €15 per megawatt-hour in the event of another mild winter, which is feasible but not guaranteed, according to a Morgan Stanley prediction from last July.

In a negative scenario, and in the event of a cold and harsher winter than usual, the price of MWh could rise to €100.

Another negative variable is taken into account here: if renewable energy sources are unable to produce the anticipated amounts of electricity, the demand for gas will also increase.

One of the risks the EU could not avoid during the coming winter is its major reorientation towards importing LNG as a substitute for the gas it used to procure through pipelines from Russia.

Earlier this year, LNG imports exceeded the quantities that Europe procured through

pipelines for the first time, and this trend will continue as one of the market security measures.

LNG is a commodity traded on the international market, which affects its price. As a result, in the event of increased demand from Europe, the supply will be determined by the needs of other global buyers, and the price will undoubtedly rise.

The last risky winter

However, this will not affect the EU's strategic decision to replace Russia as a supplier. From the previous 41% imported in August 2021, Russia decreased the share of gas transported through pipelines to only 8% in less than a year.

Despite the risks, the Europeans will probably not experience the same level of anxiety they did the winter before, when the gas supply was questionable and prices were at an all-time high.

If gas needs are at their usual level, or less, for which the weather is crucial, the EU could count on the coming winter to be the last one they need to worry about.

The decision to eliminate completely the gas supply from Russian sources by the end of the decade is unquestionable. During the coming winter, it will probably have its last test in partially crisis conditions.