

GME NEWSLETTER – The new issue has been published

Rome 13 July 2023 – The new issue of the Gestore dei Mercati Energetici (GME) newsletter is online, downloadable from the www.mercatoelettrico.org. The newsletter opens with a speech by Agata Gugliotta and Gian Paolo Repetto of RIE on gas supply and demand in Italy in the first half of 2023 *"In 2022, the European natural gas system experienced a historical crisis, both from the point of view of security of supplies and prices which have reached their all-time highs – underlined the two RIE researchers –. The structural process of replacing Russian gas, which is continuing in 2023, has produced important results, but ahead there is a long and tough path to achieve new supply/demand balances and reach a new stability, as it can also be noted by the market volatility shown in these last weeks"*.

For what concerns national demand, *"after a drop of around 10% (-7.5 bln m³) which occurred in 2022 compared to the previous year, in the first half of 2023 national gas demand continued to remain very weak - highlighted Gugliotta and Repetto –. Comparing total consumption with the same period of 2022, there is a decrease of 16.6%, for 6.4 billion m³. This decrease is even higher and equal to 18% if the comparison is made with the average for the years 2019-2021-2022. 45.3% of the decrease recorded in the first half is related to the drop in consumption for thermoelectric use (2.9 bln m³), 41.8% (2.7 bln m³) to lower withdrawals from urban distribution networks mainly linked to consumption for heating (household and tertiary sector) and 11% to lower consumption by industries connected to the transport network (0.7 bln m³); the remaining 1.9% is related to system consumption and other items"*.

In any case, this national dynamic is strongly connected with a European context of further contraction in gas demand after that one of 2022. *"In the first five months of the year, the EU-27 recorded a reduction in consumption of 10% (-13% in 2022 if compared to 2021)",* specified the two RIE analysts, while the supply system in the first six months of 2023 that *"is continuing its transformation process aimed at the complete replacement of Russian gas, at least through pipelines"*.

For this reason, *"total national imports amounted to 31.9 bln m³, with a decrease of 11.6% if compared to the first half of 2022. National production was approximately 1.4 bln m³, equal to 4.3% of the gas that enters the national grid and down by 7% compared to 2022"*, stated Gugliotta and Repetto, adding that if in 2021 gas of Russian origin had represented 40% of national imports, covering 38% of domestic gas consumption, in 2022, volumes from Russia *"decreased to 14 bln m³, with an impact on total imports down to 19%"*.



Finally, the same goes for gas stocks which closed on 31 March "with a filling level of 59% if compared to the critical 30% of 2022 and a five-year average of 38.5% - said the two RIE researchers –. *Situation that has eased injection needs: from April to the end of June 4.4 bln m³ were injected, compared to an average of around 6 bln m³ over the last five years. Despite the fewer injections, the starting situation made it possible to achieve a filling rate of 82% at the end of June, compared to 59% in 2022 and the average 69% in the previous five years".*

These data show that "the national (and European) gas system is trying to find new balances", said Gugliotta and Repetto. "But the upcoming winter season could be less forgiving than the past one, affecting the extent of the use of storage. Thermoelectric uses will also be sensitive to the productivity of renewable electricity capacity and the availability of the French nuclear power plants. And above all, the right and proper process of replacing Russian gas remains a complex issue, and it will take time for a market readjustment and for a consolidation of this situation as the new 'normal' status".

"The increased weight of LNG in the supply portfolio to compensate the lack of Russian gas via pipeline also gives flexibility to the system, but can lead to greater instability in supply and higher price volatility, also due to the latent Asian competition in an international market which, in the short to medium term, seems to remain short – confirmed the two RIE analysts -. A further uncertainty factor is given by the concrete risk of a failure to renew the agreement for the transit of Russian gas through Ukraine in 2024, which would also deprive Europe of the last 'trickles' of gas from Russia. It will therefore be necessary - Gugliotta and Repetto concluded - to complete the process undertaken by further increasing, possibly through a stable process, volumes from new supply sources and strengthening those from traditional suppliers, given that in the transition gas will still be an indispensable source for a long time to the security of the European and national energy supply".

The new issue also includes the usual technical comments relating to the national and European electricity and environmental markets and exchanges, the section dedicated to the analysis of the trends in the Italian gas market and the analysis section on the trends in Europe, which explores the trends on the main European commodities markets. The new GME publication also reports, as is now customary, the summary data of the electricity market for June 2023.



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