Briefing for Director-General Juul Jørgensen

Request (ENER/6631) – Meeting with [redacted], Total Energies
Contact Points: [redacted] (ENER.B4, Sos); [redacted] (C3, gas package, energy prices); [redacted] (TF, Energy platform)

SCENE SETTER

<table>
<thead>
<tr>
<th>Who</th>
<th>[redacted], Total Energies</th>
</tr>
</thead>
<tbody>
<tr>
<td>When</td>
<td>17 May 2022 at 11:30</td>
</tr>
<tr>
<td>Where</td>
<td>08/84</td>
</tr>
</tbody>
</table>
| Why     | • Your role: Main interlocutor on DG ENER side  
          • Purpose: Discuss the main topics that might be relevant for Total Energies |
| Topics  | • Gas security of supply  
          • Energy Platform  
          • Gas package and regulatory framework  
          • Energy prices |

KEY MESSAGES

On gas security of supply

• As decided in the conclusions of the European Council (EUCO) held at the end of March in Versailles, the European Union should aim at phasing out its dependency on Russian gas, oil and coal imports as soon as possible, bearing in mind national specificities, as set out in the Versailles Declaration.

• Gazprom’s unilateral decision to stop delivering gas to certain Member States (Poland and Bulgaria [redacted]) is Russia’s latest attempt to use energy as an instrument of blackmail. As President von der Leyen said, “this is unjustified and unacceptable”.

• We are working on our detailed REPowerEU Plan, which will be presented in the coming weeks.

• The Commission also brought forward the security of supply and affordable prices communication of 23 March and a legislative proposal to introduce a gas storage obligation of 90% - and for this year 80%.
The Commission is working with the Member States to reinforce the preparedness of the EU and its Member States to possible large-scale disruptions of gas flows from Russia. A first analysis of our winter preparedness for the last winter was done just after the start of the war. We are now doing a new review of preparedness ahead and during the winter to come.

The goal is to reinforce the security of supplies for all Member States. To do this we have reassessed scenarios of partial and full disruption of gas flows from Russia and are helping all Member States revise their gas supply contingency plans and better coordinate their efforts in a spirit of solidarity.

Our preparedness relies on our ability to substantially and effectively diversify supplies from our main supplier and to fill our gas storages before the next winter begins. The more we develop biogas or renewable electricity to replace natural gas and gas fired power plants, the better it is.

In case of partial or full gas disruption from Russia, LNG and alternative pipeline supplies would need to play an even more important role to replace the missing gas in the short term.

**EU Energy Platform**

The European Council gave a clear mandate to the Commission and Member States to work together on voluntary common purchase of gas, LNG and hydrogen, on security of supply and interconnectivity.

The Platform is articulated around three pillars:

- The first one is the **aggregation of gas demand for (joint) purchase** to attract meaningful and timely supply volumes from the global markets;
- The **optimisation of infrastructure usage** in the EU, be it LNG terminals, pipelines and storages in order to maximise contribution to security of supply, including through the replenishment of storage.
- The **coordinated outreach to international partners** in order to prepare ground for stable long-term cooperation framework with international partners, looking beyond gas and including hydrogen and renewables.

The Platform will also consider the specificities of the gas market in various part of the EU, through the **Regional Groups**. As a first operational case, a first Regional Group was established under the Platform in Sofia.

When it comes to the aggregation of the demand and the possibility of joint purchase, there are multiple options are currently on the table. All of these options put the companies at the centre of the mechanism.

The **Platform will also include the expertise of the private sector**, potentially through the establishment of a dedicated advisory group. The practicalities in that respect still have to be defined but the inception shall happen in the coming weeks.

There is a **clear progress on the coordinated outreach** where the dialogue with the US is already delivering concrete results in terms of LNG deliveries.
**Gas package and regulatory framework**

- **Renewable and low-carbon gases**, including biomethane and hydrogen, will help the EU to decarbonize its gas system.
- They represent a sustainable alternative to importing fossil gas increasing energy security and EU’s energy system resilience.
- The Commission published last December the **Hydrogen and Decarbonised Gas Package**. These proposals cover the market design for gases, including hydrogen, and access to existing natural gas networks for renewable and low-carbon gases.

- Package has 5 objectives:
  - Enabling development of dedicated hydrogen infrastructure and market;
  - Facilitate access of renewable and low-carbon gases to existing gas network;
  - Fostering network planning electricity, gas and hydrogen;
  - Promote consumer protection and engagement in renewable and low-carbon gas markets;
  - Improve resilience and security of supply.

**Energy prices**

- Our goal is to keep energy prices affordable without disrupting supply nor dis-incentivising investment in the green transition.
- To address the current extraordinary circumstances, options for emergency measures to limit the contagion effect of gas prices in electricity prices are put on the table and discussed.
- The REPowerEU Communication of 8th March contains measures to respond to soaring energy prices. It includes guidance for Member States on regulating retail prices in exceptional circumstances, as well as redistributing revenues from high-energy sector profits and emissions trading to consumers.
- The Commission issued on 23rd March a third Communication setting out options for emergency measures to deal with the impact of increased energy prices. Measures can include a financial compensation (like the introduction of a cap price on the fuel price for fossil generators) and or be a regulatory action without financial compensation (like establishing a regulatory cap for the maximum price that certain baseload generators can charge).
- In the meeting of 24 and 25 March, the European Council tasked the Commission to reach out to the energy stakeholders, and to discuss, if and how, the options would contribute to reducing the gas price and addressing
its contagion effect on electricity markets, taking into account national circumstances.

- We are also looking carefully at the design of our energy markets, assessing options to optimise the electricity market design to reap the benefits from low cost energy.

**REPowerEU Plan**

- Tomorrow, the Commission will adopt a REPowerEU Plan, with further details on how Europe intends to diversify its energy supplies and infrastructure in the years ahead.

- It will present further measures to (i) phase out dependence on Russian fossil fuels; (ii) limit the impact of high energy prices and; (iii) accelerate the transition to renewable energy and become more energy efficient.

- The European Green Deal will remain its central element. Full implementation of the European Green Deal’s ‘Fit for 55’ proposals could reduce our annual fossil gas consumption by 30% by 2030. Together with additional gas diversification and more renewable gases, frontloaded energy savings and electrification, we have the potential to gradually remove at least 155 bcm of fossil gas use even before 2030, which is equivalent to the volume imported from Russia in 2021.

- The REPowerEU Plan would include:
  
  - a partial update to impact assessments on the renewable energy targets to support co-legislators as they negotiate the European Green Deal/Fit for 55 package.

  - coordinated actions to increase the production of hydrogen from renewable energy.

  - a legislative proposal and recommendation on faster permitting, together with a solar energy strategy, including a European Solar Rooftops Initiative, to support more projects on renewables. Measures on biomethane are also in the pipeline. We also foresee an EU-wide energy savings campaign.

  - measures to strengthen the supply chains of electrolyzers, solar and wind technologies and heat pumps. This includes reinforcing the circular economy, and ensuring sufficient availability of skilled workers.

  - revised guidance to modify national Recovery and Resilience Plans. [In relation to this, the 2022 European Semester is likely to address some further country-specific challenges in the area of energy, taking into account measures in REPowerEU to curtail dependence on Russian energy and tackle high energy prices.]

  - a new strategy on EU external energy engagement in a changing world. It will explain how the EU intends to implement the external aspects of RePowerEU. It will focus on accelerating the global energy transition, diversifying Europe’s fossil fuel imports and supporting partners most affected by the impacts of the current energy crisis. The strategy will present global energy priority actions that are mutually beneficial and reinforcing between the EU and international partners.
In view of the electricity market system the Commission will carefully analyse the final ACER Report from 29 April and other contributions on the functioning of the electricity market and will propose a way forward.

DEFENSIVES

ON STORAGE PROPOSAL

*Why is the Commission proposing a minimum gas storage obligation?*

- Current EU rules on the security of gas supplies do not sufficiently equip us with measures to deal with today’s security of supply risks and gas markets volatility.
- Gas storage has an important role to play in guaranteeing the EU’s security of supply, covering, in a normal winter, 25-30% of gas consumed across the EU.
- In addition, gas storage sites owned by some third country operators have been particularly underfilled.

*Why 80% refilling target this year and 90% from next year onwards? How the Commission came up with intermediate steps?*

- The 90% target reflects average historic EU storage filling levels (with an average of 87% in the last few years). This is also the target used by Transmissions System Operators and the European Network of Transmission System Operators for Gas when they do contingency planning.
- For this year, we take into account that Member States will have less time to refill their storage facilities because although we count on your full support to ensure a quick adoption of our proposal, we do not know exactly when this will happen. This is why we propose that for this year the refilling target is of 80% on 1 of November.

*Can we reach the 80-90% if there is a disruption of Russian gas?*

- This of course depends on the exact circumstances, and I don’t want to speculate on that.
- What is clear is that the sooner we start filling our gas storage and the sooner we get close to that filling target, the better prepared we are for the next winter.
- The Commission also stands ready to create a Task Force on common gas purchases at EU level. This Task Force could be instrumental to help Member States fill in the storage facilities.

*What is the current storage level of gas in Europe?*

On 9 May gas storage is at 36.16% in Europe.

RUBLES

*Reports say some EU companies have paid in roubles for Russian gas, does this go against your guidance?*
First of all, we don’t comment on press reports, as you are aware – in particular on anonymous comments by sources close to Gazprom.

Our advice is for EU companies to continue paying for gas supplies in euros, as we believe this would still be possible in spite of the Russian Decree of 31 March.

EU companies could make a clear statement that they intend to fulfil their obligations under existing contracts and consider their contractual obligations regarding the payment already fulfilled by paying in euros or dollars, in line with the existing contracts.

**How does this decree breach our sanctions?**

- The Decree introduces a new payment procedure, whereby Euros or Dollars need to be converted into roubles for EU companies to be deemed to have fulfilled their contractual obligations.
- This process is entirely in the hands of the Russian authorities and would allow Russia to involve the Russian Central Bank in the process.
- This is prohibited under the EU sanctions.

**DIVERSIFICATION**

**How much additional LNG can we expect and where would it come from?**

- Our assessment is that it’s possible to ramp up LNG supplies by 50 bcm a year. We have already seen a significant increase in LNG deliveries, which reached record-breaking 10bcm in January and remained historically high in February.

**GAS PACKAGE (Unbundling)**

**What is the objective of unbundling?**

- Our objective is to create a hydrogen market with several players competing on a level playing field, with transparent and free access to the network, ensuring the most competitive price for consumers.

- To get there, we need to ensure that no one can use an initial position of advantage to acquire a market power that will prevent other players to get into the market or to set prices in an arbitrary way.

- This requires a clear separation of competitive activities, like supply or production, from natural monopoly, like transport through the network.

**Will gas network companies be able to have hydrogen networks?**

- Companies owning and managing hydrogen and natural gas networks should create a new legal entity to deal with the hydrogen networks (e.g. as subsidiaries of a parent company).

- This means that companies owning hydrogen and gas networks can therefore be owned by the same parent company. However, the two group entities should run separate accounts and, as a general rule, the development of hydrogen networks cannot be financed from revenues generated with natural gas network activities.
ACER FINAL REPORT: What are the main lines?

- ACER published its full assessment of the benefits and drawbacks of the current wholesale electricity market design.
  - The market design must deliver the signals necessary to incentivize investments in renewables and to reach the objectives of the European Green Deal on one hand, and mitigate price volatility to shield consumers on the other hand.
- In particular, ACER report:
  - Explains why and how the current market design brings benefits, and detail which challenges need to be addressed;
  - Proposes ways to improve the wholesale market design, in particular with competitive and liquid long term markets enabling better “insurance” against high prices;
  - Addresses the retail markets with better consumer protection against price volatility and bankruptcy of suppliers.

- As tasked by the European Council, the Commission will follow up from this report and make proposals to address the excessive electricity prices, by end of May 2022.
## BACKGROUND

### Storage Proposal
- Commission brought forward the security of supply and affordable prices communication of 23 March, where among others, a gas storage obligation of 90% (with an exception for this year, 80%). In addition, a filling trajectory is proposed, with intermediary targets for August, September and October (for 2022) and February, May, July and September (for 2023 and beyond).
- Furthermore, proposed certification of operators of storage facilities will ensure better preparedness of risks related to third country ownership of storage facilities.
- Important provision of this legislative proposal is to ensure a burden sharing mechanism, which will lead to a fair distribution of additional security of supply costs. Member States without storage facilities need to ensure that market participants have access to storage facilities in neighbouring Member States, corresponding to at least 15% of annual gas consumption.
- There is a real risk of lack of discipline of MEPs from all groups being tempted to address all sort of issues at the same time, not directly related to underground storage – if they do so this could give argument to the Council to use Article 122 of the TFUE to urgently adopt the text without having to negotiate with the EP).

### Ongoing process preparedness
- (1) At the end of March DG ENER have sent a second questionnaire to Member States, which has been the backbone of the new immediate preparedness report that we are preparing together with ENTSOG and JRC.
- (2) DG ENER is going through your latest national plans to identify existing measures, including those related to curtailments.
- (3) ENER in parallel have organized bilateral meetings with all Member States to exchange views/give additional explanation on the questionnaire, discuss existing measures, limitations and whether you see a gap and potential ways out both on the demand as well as on the supply side. ENER had also some discussions on potential curtailment, to understand the impact on EU-wide value chains by curtailing certain sectors and its cross-border effects.

### Related links
- [Extraordinary Transport, Telecommunications and Energy Council (Energy) - Consilium (europa.eu)](https://ec.europa.eu)
- [Communication on security of supply and affordable energy prices - annex (europa.eu)](https://eur-lex.europa.eu)
- [Statement by the President on disruption of gas deliveries (europa.eu)](https://eur-lex.europa.eu)
**Weekly overview**

*02 May 0 – 06 May 2022*

- **EU storage filling level** is 36.8% with daily increment of 0.51% and net injections in all countries.

- **Total flow along East corridor**: 292 mcm/d.

- **Russian gas**: Flow along Yamal recommenced on 2 May, stable at 16.9 mcm/d. Flow at Imatra (Russia-Finland) continuing to increase, now at 4.0 mcm/d. Total **Baltic+Finland route** increasing to 9.5 mcm/d.

- **Gas transit through Ukraine**: 98.7 mcm/d. (109.6 per contract)

**EU LNG terminals’ send-out even higher than last week**, having increased to 348 mcm/d (7-day average). Utilisation of capacity now at 70% (last week: 68%).

**Ukraine and Moldova**: Energocom electricity auction was cancelled on 29 April following confirmation from Gazprom on the delivery of contracted volumes of natural gas.

Volatility gas prices rose due Russia announcing halting supply to Poland and Bulgaria on April 26.

Heating demand in May is expected to weaken further as temperatures rise. However, Next week, colder temperatures are expected with **1 to 6°C higher seasonal in Western Europe**.

International reach out to gas and LNG suppliers continues, with a DG level call with Israel energy minister on 04/05, meeting with Nigerian embassy on 06/05. Meeting scheduled on 07/06 with Angola.

The European Commission presented on 4 May its sixth sanction package proposal which would contain a progressive embargo on Russian oil to phase out Russian oil and refined products by the end of the year.

OPEC+ met on 05 May to revise the production targets for June and approved a 432,000 b/d increase.

**On roubles payment and deliveries suspension**

**Russian gas suspension**: after cutting supplies to PL and BU, small gas contracts expiring this year and next year are at risk, but the vast majority of contracts will remain in place through 2024.

**Situation in Poland after suspension of Russian gas for the domestic market**: stable and balanced, no transit. On 1 May the commercial and physical operation of new gas interconnection between Poland and Lithuania started.

**Situation in Bulgaria after suspension of Russian gas for the domestic market**: Stable and balanced, transit ongoing to Romania, Greece, North Macedonia and Serbia, and via Serbia further to Hungary and Bosnia and Herzegovina.

**EU Energy Platform**

The EU Energy Platform has been launched as an initiative of the Commission to support security of gas supply. It replies to the mandate of the European Council to work with Member States to improve security of supply, interconnectivity of networks and organise joint purchase.

Member States confirmed their support for the Platform at DG level on 7 April and first regional meetings have been organised on 12-13 April. A Regional Taskforce has also been launched under the EU Energy Platform.
in Sofia on 5 May
The aggregation and joint purchase mechanism under the Platform shall be launched as soon as possible. Options have been submitted at political level in the Commission for endorsement.

Total Energies
TotalEnergies is a broad energy company that produces and markets energies on a global scale: oil and biofuels, natural gas and green gases, renewables and electricity. Our 100,000 employees are committed to energy that is ever more affordable, cleaner, more reliable and accessible to as many people as possible. Active in more than 130 countries, TotalEnergies commitment has four dimensions:

- Sustainable energy: leading the transformation of the energy model to combat climate change and respond to people’s needs.
- Well-being of people: being a leading name as an employer and a responsible operator.
- Environmental excellence: accelerating progress on environmental stewardship.
- Creating value for society: generating shared prosperity across regions.

TotalEnergies has also committed to contributing to the achievement of the United Nations’ Sustainable Development Goals and to using them as a framework for measuring and prioritizing all of its impacts more effectively.

Weekly monitoring of energy prices

- Russian invasion in Ukraine and international energy-related sanctions are deeply affecting energy markets resulting in a very substantial increase in prices, volatility and uncertainty on energy supply. After commodity prices reaching a new all-time high on 8 March, the market seems to perceive a lower risk of an interruption of supply which had a positive effect on prices despite sanctions threat on both sides. This weekly report covers the week from 2 May to 8 May.
• **Electricity wholesale:** Last week, average electricity wholesale prices decreased slightly to 201€/MWh (-5% decrease week-on-week and +286% increase year-on-year) driven mainly by lower gas prices (marginal fuel used in the price setting). Since mid-February, we roughly observe a high correlation between gas and electricity prices, with a two-fold leverage effect. With the adoption of the EU embargo on Russian coal (it will enter into force on 10/08), month-ahead prices slightly increased by 15% to around 235 EUR/ton but end of April prices returned to pre-embargo level (due to market players possibly overestimating the impact of a disruption of supply in early March). The embargo helped decreasing uncertainty on coal markets and reduced volatility. Year-ahead coal prices were up to 245 USD/ton on 10 May. Gas to coal switching potential is close to its maximum as we are witnessing an inelastic demand of gas for power generation.

• **Electricity retail:** Driven by unprecedented high wholesale prices, retail prices increased again in April 2022 (remarkable +8% in one month and +46% year-on-year). While increasing wholesale prices is putting upward pressure on retail prices, government interventions in some Member States are helping to alleviate the bill for consumers. Most impacted countries are the Netherlands (+216% year-on-year), Austria (+126%), Italy (+117%), Belgium (+105%), and Estonia (+90%). On average, wholesale electricity costs already represent 61% of final retail prices in Europe (+2pp compared to last month and +20pp y-o-y).

• **Gas wholesale:** Last week, average TTF price decreased to 95 €/MWh (-3% decrease week-on-week and around +291% increase year-on-year) fuelled by lower risk of interruption of supply perceived by market participants and reduced gas demand for heating. JKM and DES NWE hubs are trading at discount compared to TTF month ahead. This dislocation reflects the fact that LNG regasification capacity in Europe is running at full capacity and set to remain a bottleneck preventing incremental LNG from accessing premium European markets over the coming month. On 9 May, TTF month ahead prices closed at 98 €/MWh.

• **Gas retail:** Pushed by high wholesale prices, retail prices increased in April 2022 (+10% in one month and +90% year-on-year). While increasing wholesale prices is putting upward pressure on retail prices, government interventions in some Member States are helping to alleviate the bill for consumers. Most impacted countries are Belgium (+254% year-on-year), Germany (+197%), Austria (+196%), Netherlands (+181%), Estonia (+171%), and Greece (+139%). EU gas demand below 5-yr avg. in Q1-22 by 9.3 bcm. On average, wholesale gas costs represent 63% of final retail prices in Europe (+3pp compared to last month and +21pp y-o-y).

• **Oil:** End-April, E95, diesel and heating oil increased by respectively 28%, 45% and 89% compared to last year. E95 and diesel prices stayed below the 2€/litre threshold previously reached in mid-March. From 1 April, rebates on petroleum products have been introduced in some Member States like France (15 cts/litre) and Spain (20 cts/litre) helping to alleviate prices. Prices of crude oil (Brent oil around 100-115 USD/barrels over the last weeks) continue showing volatility and high levels. The implementation of the US plan to release their strategic oil reserve (1 million barrels a day for 6 months) and other IEA members action (an additional 120 million barrels of their emergency oil reserves) helped to put downward pressure on prices of crude oil and petroleum products.

• **EU gas storage:** EU storage increased at 37% of capacity (+4pp week-on-week as some Member States are starting to refill storages). EU storage is now at higher level than it was in 2021, getting closer to average seasonal filling level.
- **EU ETS**: Last week, carbon price weekly average increased to 87€/tCO₂ (+6% week-on-week and +75% increase year-on-year) as the deadline for companies required to surrender permits to account for their emissions was at the end of April. Rising inflation risks seem to have supported the EU carbon price in the context of uncertainties around trading limitations and demand destruction. Early May 2022, CO₂ costs for power generation represent less than half of coal-power generation costs and less 1/6 of gas power generation costs.

- **EU inflation**: Energy accounted for more than half (4.36 percentage points) of the 7.4% total euro area annual inflation in March 2022 according to Eurostat. This is due to the 44% annual increase of prices of energy products included in the consumption basket of consumers (energy component of inflation in the Euro-area). Euro area annual inflation is expected to be 7.5% in April 2022 according to a flash estimate from Eurostat.