

Consultation to the Amendment of the gas market rules Questionnaire with the presentation on the interim results presentation by KEMA

Continuing the participation in the consultation of the new market rules for the Austrian Gas Market we hereby provide our responses to the questionnaire published on E-Control Austria's (ECA) website regarding the presentation of the interim findings by ECA's consultant KEMA. In general EFET likes to refer to the statement given on Dec 15th, 2011 to the consultation of the punctuation, and repeat what EFET laid out, that the overarching goal of the new market rules should be to give new players effective access to the Austrian gas market, to give them the possibility to bring in gas from outside Austria and notably to allow them to trade gas at one liquid hub. The new regime should also facilitate exports from Austria to other markets.

The new market rules should in particular aim at making the use of transport capacity in the Austrian network more efficient. We have noted that in previous years, capacity was often under-utilized, where it was fully booked contractually. New entrants have hence been unable to book any of the available capacity. Therefore, a more flexible model for allocation of short-term capacity should be developed, also considering that European rules (framework guidelines / network codes CAM) require that at least 10% of capacities should be reserved for products with duration of less than one quarter. Auctioning of all Austrian transmission capacities, best done on one central platform for all pipelines and TSOs, would be very helpful in this context, as it should lead to more capacities becoming available.

In addition, we believe that market participants should be enabled to make a more flexible use of interconnectors. Cross-border capacities should be adapted to changing market conditions, e.g. an increased use of reverse flows (physical and/or virtual) should be made possible, in line with EU requirements in the 3rd package.

We strongly support the creation of one single hub and one single balancing zone in Austria, so as to maximize liquidity. With regard to the balancing regime, we prefer an end of day balancing regime. There should not be any separation between wholesale and retail layers, as this might artificially create bottlenecks and replicate the separation between transit and national markets.

EFET appreciates the amount of work reflected in the slide packages prepared by KEMA to show the interim status of their study as available for download on ECA's website, but unfortunately EFET is not in the position to comment before final findings have been published.

All the responses by EFET to ECA's questions given below had been made without full knowledge of the context of the final market rules and might include assumptions, based on EFET's view of an ideal market set up.

Entry-Exit Tariff Setting

Questions to market players:

- 1) The presented concept contains an option for a single capacity marketer incl. an inter-TSO compensation mechanism. How do market participants see this option and are there alternative approaches?

The concept of a working Entry-Exit-Model is based on a market area where a shipper has only to book entry capacity (at a border point, production or storage site, unless the producer or SSO does not book the entry capacity to provide their services or gas directly at the virtual trading point), and exit capacity at such point where the gas leaves the system (either into a neighboring country or for final consumption or through injection at a storage, where again the SSO might decide to book the exit capacity to be present with their services directly at the VTP).

Gas might then be physically transported by a number of TSOs, as in the existing Austrian system, where several TSOs are involved. Anyhow the resulting relation amongst the TSOs has to be solved between TSOs. Shippers should only have to book entry and exit capacity. Any separation into smaller TSO-sized E/E areas not motivated by physical congestion has to be avoided since it would severely affect the effectiveness of the market model.

Whether such E/E capacities are to be marketed by the TSO individually or aggregated into one single capacity marketing place (a good example seems to be Trac-X in Germany, where one platform auctions all primary and secondary capacity on behalf of the TSOs) is more a question of transparency and practicability, as long terms and conditions (T&Cs) of all TSOs are congruent. In this case Germany is providing a somehow negative example: although the basic terms and conditions are fairly congruent through so called Cooperation Agreement, each TSO was free to add individual clauses, which forces a user of Trac-X to first accept the respective TSO's T&Cs before he will be enabled to book or auction capacity with this TSO.

However, for this to be successful, it is critical that the secondary capacity market is well-designed. Capacity products, and their secondary transfer and assignment must be clearly described within the network access conditions. For a functioning secondary capacity market it is essential that the rights and obligations of capacity and their transfer are clearly defined and used in the same manner by all TSOs and shippers throughout the whole system. Additionally, it is important that capacity can be traded bilaterally and registered ex post on a platform without incurring fees. In many cases, capacity is traded alongside gas, and onerous rules around capacity transfers would inhibit the trading of gas and the efficient operation of gas markets.

As long as the proposed model introduces a level playing field for all shippers, EFET is indifferent whether one central institution reconciles the tariffs among the TSOs or whether the TSO which sold the capacity has to share with the other operators involved on the way to/from the virtual trading point. Again a one-stop-shop, which could be auctioning on behalf of the individual TSO or acting as a single point of reference, would be preferred due to practicability and transparency. Therefore EFET would appreciate use of Trac-X or the implementation of a platform like that for Austria.

- 2) With a direct allocation of network costs to storages, how do market participants see the network charges at storage sites set solely on the basis of annual capacity products? Should network charges reflect the individual usage of the storages (e.g. through short-term capacity products)?

We interpret this question in a way that the gas act requires the SSOs to book the respective E/E capacities to connect their storages to the market area and selling their products virtually at the trading hub. Another option would be to let SSOs (also) offer at the storage site and to let the shipper decide on what and how much capacity to book. If the first option will guarantee that a storage get secure access to the VTP it has clearly some advantage, but our preference would be to let market participants decide, as long they get the access.

Second part of this question would be whether in case storage is clearly used seasonally, the booking of annual capacity by any of both, shipper or SSO, would block capacities in zones of entry and/or exit points. During phases of injection the storage connection would only use exit capacity from the grid, while the entry capacity of that zone could be used by other participants and v.v. during withdrawal. In case the system foresees seasonality factors on shorter term bookings (see also question no 6), the shipper or SSO could be incentivised to book the full annual capacity and cause unnecessary contractual congestion here.

- 3) In how far do market participants consider the offer of non-firm capacity products, e.g. in the form of interruptible capacity products with several different classes of probability for interruption to be acceptable?

The separation of interruptible capacity into different classes according to the probability is a difficult tool to be used. The better approach would be to allow shippers to receive the necessary information and transparency to decide on their own, whether they prefer to book or not. Thru true auctions the market will show the true value of such capacity.

- 4) How do market participants see capacities with a limitation on the free allocability? Are these capacities necessary to ensure a sufficient amount of firm capacity? Do market participants consider that other instruments as for example load flow commitments or interruptible capacity products could achieve the same result?

An E/E system should always allow gas to have access to the virtual trading point, any limitation on the allocability would result in classic point-to-point transport and withdraw volumes and liquidity from the trading hub and therefore hamper competition. Therefore EFET clearly prefers either firm or interruptible capacity but no other "innovative" capacity products, which only provide firm p-2-p rights, but conditional access to the VTP based on temperature or load flows etc. The more of such limited capacity products exist, the more difficult a cross-border or cross-market area bundling of capacities will become [see the arguments laid out to German regulator BNetzA in a letter by the German Task Force Gas as attached to this statement].

If it will be necessary to allow load flow commitments or buy-backs to increase the amount of firm capacity in the system, we insist on transparent tender processes in small enough lots, that all shippers become able to participate.

- 5) How do market participants see the potential for load flow commitments in Austria and how would they need to be designed?

Further to the argumentation as above in 4), load flow commitments should be based on the reserved capacity and not, as suggested in the KEMA presentation on the commodity only.

- 6) How do market participants see the application of seasonality factors for short term capacity products?

The better approach would be to price transportation contracts with a term of a fraction of a year with exactly the same proportion compared to an annual tariff, no matter which season, as the starting price. With an appropriate auctioning mechanism the market will show the real value of the capacity compared to the respective time of the gas year.

Finally we would like to address our concerns on congestion management rules. We believe that TSOs have to be incentivised to at first use the tools of overselling and buy-back before as a last resort solution the proposed strict UIOLI rules on daily basis to relief contractual congestion are taken into consideration. This option would imply the elimination of renomination rights of primary capacity holders and therefore a mean of within-day flexibility. Although the draft Comitology guidelines under debate allow Member States to introduce non-harmonised measures, we believe that a more effective solution like capacity overselling and buyback should be introduced. Such an option would remove any incentive to strategic capacity hoarding whilst relief contractual congestion.

Balancing

Questions to market players:

Questions under the assumption of separated balancing systems for the transmission system and the distribution area

(Under this model, a daily balancing regime is applied only at transmission level following the European rules in framework guidelines and network codes. In the distribution area, the current balancing system and gas day will remain unchanged)

As already laid out in the above introductory remarks, and more in detail in the statement to the punctuation, EFET does not believe that a split market model with the separate layers of transmission and distribution can reasonably be supported. As long it is not clear what system will be implemented and under what context of further market rules it is felt very difficult to respond to the following specific questions.

- 1) In case of different prices for balancing energy at transmission and distribution level, how can individual optimisation strategies by network users that negatively affect the overall system stability be avoided?

Individual optimisation strategies are the basis of any activity in the market and have generally to be allowed. EFET interprets ECA's question in the way that a "misuse of the system" here is meant. Regarding the implementation of the balancing regime, such will be avoided if arbitration possibilities against the system simply do not exist. In a situation where different prices for balancing energy at transmission and distribution level exist, market

players present at both levels are practically obliged to optimise (as any rational business entity). Such misuse could only be avoided by penalties or additional fees. Nevertheless such penalties or fees would be set at a random basis and unduly distort market conditions; in addition they would need to be updated frequently thus creating instability.

The best alternative to avoid any misuse of the system for balance energy is to apply a homogenous and integrated model for balance energy valid for DSO and TSO level.

- 2) At transmission level, shall tolerances be applied for balancing groups? How should they be designed (e.g. hourly or cumulative) and how high should they be?

Unfortunately without the necessary context, EFET prefers to wait with a comment on this until a later stage when the final market rules are available in case such non-preferred solution of separate balancing layers in on market area should be intended. In any case timely information for market players will be necessary.

Questions under the assumption of a single balancing system for market area
(Under this model, a daily balancing regime is applied for the whole market area that meets the requirements of the underlying physical network)

- 3) Shall there be specific levy accounts for different customer groups for within-day balancing? How do market participants see a freedom of choice for network users to opt for a certain type of customer group related within-day balancing system versus a compulsory classification?

(We have assumed the German version of this question to be relevant for our answer below, as we felt the English text above somehow misleading upon comparing both.)

Soll es unterschiedliche, kundengruppenspezifische Umlagesysteme für die untertägige Strukturierung geben? Wäre eine Wahlfreiheit des Netznutzers, sich einer bestimmten untertägigen Kundengruppe anzuschließen (etwa über einen Modulationstarif) einer zwangsweisen Einordnung vorzuziehen?

EFET believes that within day balancing requirements should not be implemented, unless proven to be necessary. Even then, they should only be allowed to be put in place on an interim basis and only once necessary information on individual balancing status is made available to market parties. Specific levy accounts for different customer groups for within-day balancing most probably trigger uneven balance costs for different customer groups. Such balance cost could negatively burden costs on specific customers and favor other groups in a way which is not fair. For instance intraday modulation tariffs in France put a burden mainly on CCGT operators, which are to be qualified as an additional commercial problem for power generation in a situation, which already is extremely tough for CCGT operators.

It would be much more efficient to use line pack as much as possible. When exceeding such tolerances, balance energy could be charged to those who really trigger such imbalances. But again in the purely daily balancing system as preferred by EFET no intra-day restrictions would be needed and any decision for a balancing group obsolete per se.

- 4) In case of different prices for balancing energy in neighboring market areas, how can individual optimization strategies by network users that negatively affect the Austrian system stability be avoided?

As above in question 1) on balancing we read the term of individual optimization strategies as a misuse of the system. An efficient model for avoiding bottlenecks at cross border entry/exit points and harmonised rules and procedures to incentivise x-border trading in the short term will make neighboring markets more easily accessible. Levels of gas prices will harmonise, structural differences in gas prices will only be triggered by market developments. The more neighboring gas markets are harmonised in such a way, the less likely different prices for balancing energy will occur.

The harmonisation of gas balancing procedures with neighboring markets is important because cross border gas volumes are the largest with Germany and Italy, therefore convergence with these markets is crucial in order to avoid misuse by network users that could negatively affect the Austrian system stability.

- 5) Shall within-day obligations be determined on an hourly or cumulative basis?

We reiterate our view that within-day obligations must be duly motivated and supported by appropriate information provision. In case this prove to be the case we believe that it makes sense to meter all large consumers and gas withdrawal from the Austrian grid at cross border exit points at an hourly interval. Each balance group must be in a position to have real time access to their gas flow data.

Questions for both models

- 1) Which publication and information obligations are necessary to meet the goal of a market-based balancing regime?

First: Real time information about all entry and exit points (available capacity, actual gas flows on an hourly basis), the status of the system (gas flows at key points, pressure levels, total gas volume in the system on an hourly basis, available line pack, minimum/maximum volume in the system including distribution grids etc.).

Second: Individual real time information about the status of every balance group (at all key points of the system, in order that a balance group can at any time influence its behavior).

Third: Continuous trading information at the virtual trading point (daily products, intraday products, intraday balancing market) A balance group/supplier/shipper must be able to balance position by transactions at the virtual trading point, by individual behavior or using instruments available such as storage, re-nominations of gas contracts, interruptions of supply to end customers etc.

- 2) On which basis shall tolerances be calculated?

Again without the necessary context EFET prefers to respond to this question at later stage.

- 3) Do market participants prefer a balancing regime with an obligation to balance forecasted flows close to real time or a balancing regime which allows ex-post balancing under certain circumstances?

EFET prefers a balancing regime with an obligation to balance flows close to real time. A balancing regime which allows ex-post balancing would distort allocation of occurred balancing costs to shippers. Only in a situation where the system remains stable, because shippers' deviations level out each other or line pack is sufficient without injections or withdrawals of balance energy ex-post balancing could be considered as interim measure. However if there is sufficient information about the status of the system and the position of the individual balance group within the system, such ex-post balancing will not be relevant anyhow.

- 4) Should tolerances be applied that reflect the degree of stability of the overall network? Shall network users have incentives to contribute to overall system balancing?

Yes, this could definitely make sense. Yet, tolerances applied which reflect the degree of stability of the overall network – depend on the availability of real time information about the whole system for all market participants.