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E.ON response to e-control questionnaire concerning entry-exit Tariff setting and balancing

Dear Sir or Madam,

E.ON appreciates the possibility to comment and respond to the questionnaire of e-control and the KEMA interim reports with regard to entry-exit tariff setting and balancing.

Entry – Exit Tariff Setting

- 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?

As the European energy market becomes more and more complex, simplicity is highly valued by shippers. Therefore, E.ON supports the concept of having just one marketing platform for capacity in Austria. A very good example of a single marketer is the German internet capacity platform “trac-x”, which gives easy access to the available capacity in all German market areas.

- 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)?

From our perspective the network charges should reflect the usage of each individual storage customer and not the storage site in total. Therefore we recommend a usage depending price which could be a commodity fee (price per kWh) for the network charge. There should be no discrimination against different storage sites, as seasonal storage sites could also be used for trading purposes and vice versa.

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- 3) To what extent 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?

Interruptible capacity is valuable when managing capacity portfolios, but again for the sake of simplicity it should be limited to one product. Shippers should be provided with sufficient information by the TSOs to be able to assess the probability of interruption.

- 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?

Capacity which is not freely allocable should be limited to the absolute minimum and should be used only as a last resort after interruptible capacity and load flow commitments have failed to ensure sufficient availability of firm capacity.

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

E.ON would favor a capacity based approach when designing load flow commitments. This approach should also be applicable for remuneration of flow commitments. E.ON therefore does not support commodity based remuneration of flow commitments.

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

E.ON is of the opinion that the demand situation for products should be reflected in the reserve prices, i.e. if demand is lower during summer months the reserve prices for those products should be lower than during the winter and vice versa. However, shorter termed products should not be discriminated against longer termed products when deriving reserve prices.

Balancing

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")

- 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?

- 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?

It is E.ON's view that rules for balancing systems should be equal, i.e. equal balancing systematic, one balancing price and one entity responsible for accounting and settlement. According to our understanding trading of gas volumes, supply of end customers and CEGH should take place at the same trading point. In case separated balancing systems shall be implemented, shippers should be given the possibility to net volumes between the systems to avoid internal arbitrage possibilities which would not be very supportive of the system. Purchase of and pricing for balancing energy should take place at the same trading point and should in any case be market based.

*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 believe 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. In this case we do not believe that specific levy accounts should be put in place for different customer groups, since we support balancing rules to be applied to the entire portfolio of a single market participant for the entire balancing area, without distinction in customer groups.

- 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?

E.ON supports the implementation of a harmonized balancing regime with a single end-of-day cash-out throughout the EU, as this will improve the connection between different markets and allow for better flow of gas across borders. Concerns about possible impacts on system stability as a consequence of non-harmonized balancing mechanisms in neighboring markets can be considered only on the basis of concrete proposals. As a result appropriate limits may be introduced as interim measure and further harmonization should be sought.

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

We reiterate our view that within-day obligations should not be implemented, unless proven to be necessary. If within-day obligations exist, TSOs must provide information as frequent as necessary to enable shippers to adjust inputs and off takes accordingly. For example, where inputs can only differ from off takes within a certain bandwidth during the day and where any imbalance beyond this bandwidth is penalized, at least hourly information on shippers' balancing status would be necessary.

Questions for both models

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

In order to balance their portfolio and make intra-day offers, market parties should be provided with information close to real-time on the system balance status. In a situation of pure daily balancing without restrictions, information on individual balancing status has to be provided by TSOs at least twice per day. If within-day obligations exist, TSOs must provide information as frequent as necessary to enable shippers to adjust inputs and off takes accordingly. Please refer to our answer to question 5. TSOs shall make available forecasts, in cooperation with DSOs, of consumption of non-daily-metered (NDM) sites, using standard load profiles. TSOs must publish all balancing actions close to real-time, in addition to information on the system average and marginal prices relating to the balancing activities of the TSO.

- 7) 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?

E.ON supports a harmonized EU balancing regime, with a 24 hour balancing period and a single end of day cash out. We believe it is correct to place responsibility for the technical and operational safety of the system in the hands of the TSO and support the obligation to provide an incentive to market parties to balance their portfolio at the end of the day. Within the balancing period, entry and exit should be decoupled, meaning that input and off take flows may differ on an hourly basis to an eligible level defined by system integrity.

Ex-post balancing might be possible only under specific circumstances and for a limited period of time (e.g. until information on individual shippers' balancing status are available). However if sufficient information is provided and nomination and re-nomination procedures (at any point) allow network users to adjust their balancing status throughout the day, an ex-post balancing could be avoided.

E.ON welcomes the presentation of Interim results of the Balancing Study and Principles of Entry-Exit Tariff Setting in which it is stated that the implementation of the new model should be based on a smooth transition.

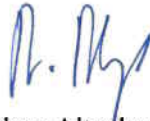
However, the interim reports do rather provide conceptual results based on assumptions and choices which need further reasoning and explanation.

In particular the Interim result on entry-exit tariff setting does not indicate if transportation capacity which is currently declared as firm, could be offered to the market under the new model as firm in the same quality and amount. Furthermore it is not clear if and how and to what extent transportation contracts currently in place for firm capacity might be affected.

Yours sincerely,



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