

REACTION OF BOG TO THE KEMA INTERMEDIARY PRESENTATION ON 20/12/2012
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As one of the parties expected to take its share in the organization of the future market model for Austria, BOG welcomes the opportunity to react to the intermediary presentation of the KEMA study organized by E Control Austria on December, 20th 2011.

We understand that due to a very constrained and ambitious time schedule, and in spite of efforts of all contributors, the documents presented have the nature of a presentation of the methods rather than preliminary results. However we are willing to supplement our views already expressed on December 14th, 2011 on the ECA previous document.

Although we see definite **limitations** in the scope and the methods used for the KEMA study, which will prevent the results to be immediately applicable, we see **a strong benefit in the association of stakeholders** in the process of shaping the Austrian market model.

Taking that into consideration, **the feedback of the stakeholders throughout the process will ensure a better clarification, understanding and hopefully acceptance of the tradeoffs** which always need to be made in such a process. These tradeoffs include definition of the risk-carrier (which of the market participant is exposed to a which risk: technical breakdown, general behavior of market users inducing exceptional flow patterns, investment risk, etc.) and also policy choices (e.g. socialization between “peaky” and “stable” customer, regional perequation, etc.).

I - THE LIMITATIONS WE SEE ARE THE FOLLOWING:

I.1 - On the En/Ex part of the study.

It is rather unclear to what extent the use of status input data of 2011 and 2011 situation of the network could have a determining effect on the study results. Until 2013, major network development will have occurred: reversibility on almost all pipelines in Austria develops new capacities, a major expansion of WAG will enter into operation, etc. Indeed different projects result in pipelines with different “investment to capacity” ratio. Since the method proposed by KEMA strongly relies on the investment cost and capacity scheme, **we consider that the results based on the assumed 2011 status will be materially inadequate when applied in 2013.**

Moreover, the model is presented in the form of an apparently purely mathematical approach. In our experience the method used (lesser-square method), when applied to gas network tariffs, requires one parameter to be arbitrarily fixed. Further adjustments are also foreseen in the presentation which constraint the solutions found by this method.

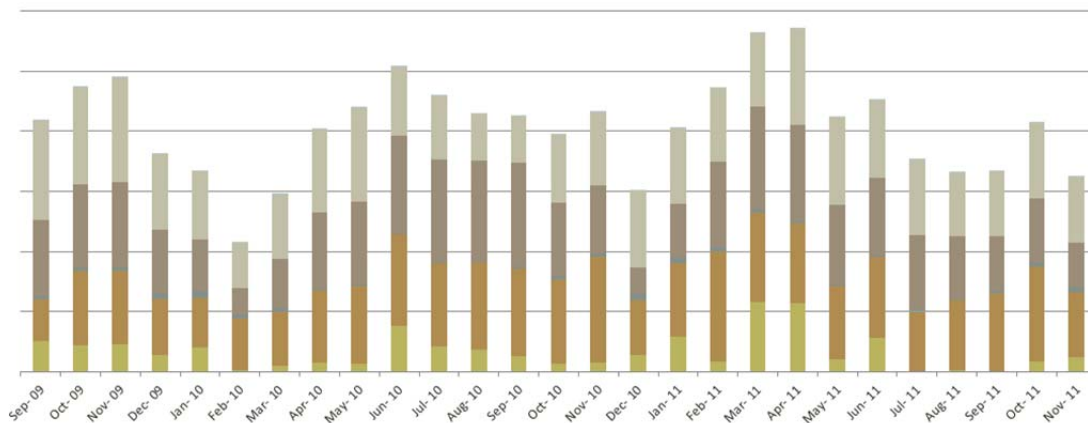
For the sake of transparency in the process, **ECA shall explicitly explain the choices made to the stakeholders and the reasons behind the adjustments made to the model.**

I.2 - On the balancing study

We see a need for the consultant to elaborate further on the duties linked to the specific role of Austria in the European gas network. Austria is a country where the international aspect, be it for transmission of flow or storage of gas, is predominant. **A simple “copy/paste” of balancing methods from a neighboring country**, where statistically infrequent network situations have ultimate consequences limited to some consumers in a part of the country, **is not adequate for Austria which takes a noticeable role in the overall European gas flow equilibrium.**

We notice throughout the documents an approach which **misses some of the specificities of the Austrian situation** and are happy to bring our expertise of the network's behavior in this process. Typically, the consultant bases his presentation on a temperature dependent transmission/distribution flow, whereas the winter/summer situation on the Austrian distribution network is heavily influenced by the storages. This leads to a counter-intuitive behavior at transmission/distribution interfaces (see illustration of seasonal monthly variation at WAG/distribution interface below).

Exits from WAG System on distribution network
(measured quantities)



II - HOWEVER THE STUDIES ALLOW TO ADDRESS SEVERAL RELEVANT ISSUES:

The process proposed, even if it is limited in the applicability of the output, allows identifying some of the issues where the feedback of the stakeholders shall be sought in order to seize practical consequences of market rules proposed. In particular we would like to react on the following aspects:

II.1 - On the En/Ex study:

The method used disregards the structure of the gas industry in Austria. Austria is a country where major projects are foreseen with various sponsors, in the short term. If

the En/Ex calculation method implies massive Inter-TSO Compensation, any decision for an new investment will imply a specific assessment of the inter-TSO relations which will complicate the investment decision and increase uncertainties for investors. **Although we understand that a simplified model as the one proposed by KEMA might be useful for conceptual work, we are concerned in the practical consequences of ignoring the existing organization of the industry.**

The study plans to exclude specific scenarios when calculating En and Ex. We would welcome more details on the consequences of this assumption. The capacity demand in Austria is heavily influenced by the general flow scheme in Europe. Major changes in the flow scheme in a remote part of Europe might influence the use of the network in Austria. A typical example is the possible substitution of Ukrainian route towards NW Europe by North Stream route. The consequences on the flow pattern and the willingness to book capacity on the “historical” route are still hard to assess.

A tariff which will not rely on a robust set of assumptions will expose all parties to a strong variability depending of out-of-Austria events.

In that case **the decision to exclude some scenarios from the assumptions might require later adjustment of tariff for different En or Ex, knowing that some Ex are “captive” (e.g. inland to end-consumers) and some Ex are more volatile (e.g. cross border for “pure” traders).**

The Austrian system for tariff is composed of several levels. The Transmission level (Fernleitung) is in our view the place where cross-border flows and inland flows are meeting in order to allow a trading region to take place.

On this level we advocate **a maximum price-reflectiveness in order not to lose the price signal to the adjacent systems.**

Just below the transmission level is the so-called “level 1” of distribution. The Ex from transmission to inland will be booked by a single buyer: the Distribution Area Manager (VGM). Therefore **we see no benefit in taking a position to perequate all Exit prices from Transmission to Distribution.** The intra Austrian regional concerns could be addressed efficiently through the calculation of level 1 fee, where E Control has extensive influence.

On the contrary, the perequation of Ex prices from transmission to distribution would disregard the cost-reflectiveness and lead to cross-subsidies between inland users and cross-border users, and/or eventually give inadequate signals for the coordinated development of the transmission and distribution networks.

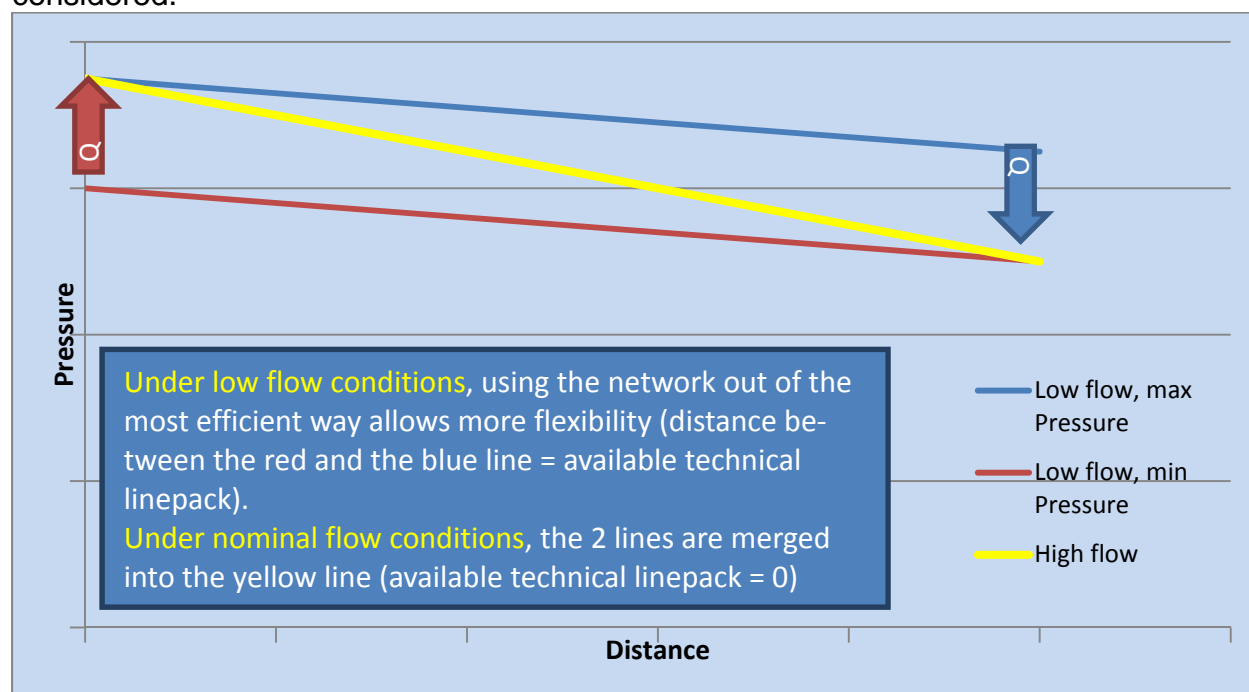
Concerning cross-borders prices, we understand the concern that different sources for the Austrian market shall not be discriminated. However the solution proposed (all Entries at the same price) might fail to hit the target: **the hub-to-hub cross border prices are composed of 2 parts and the Austrian tariff is only one part of the total price** (e.g. cross border at Oberkappel means one Ex from Germany and one En to Austria). Moreover, **with the use of auctions the real cross-border price will be determined by the market.** Therefore we would rather avoid fixing a too strict rule or at least consider the full picture when setting the cross-border prices.

Concerning the choices of capacity marketing there are outlined pros and cons for either integrated or individual marketing. We would like to have clear reasoning what is the rational preference for the Austrian market model. In our opinion **an individual capacity marketing by the TSO which is one of the core activities given by the Directive shall be coordinated by the TSOs under an appropriate capacity platform** in order to facilitate the capacity booking (e.g. trac-x or similar platforms).

II.2 - On the balancing study:

Here also the choice of “probable” scenarios shall be tackled with the utmost care. The balancing regimes are still not stabilised in the adjacent countries. Due to the major impact of cross-border capacities, **any discrepancies between the Austrian balancing system and the adjacent systems might lead to unexpected behaviour of market participants beyond TSO reaction abilities.** The method proposed by KEMA is based on simulating “disturbances” on top of what seems to be an “everyday” situation.

The capacity of the network to react to a deviation depends strongly on its use as illustrated below. This use, in the case of WAG, is mainly influenced on trans-european flows. The presentation by KEMA falls short of describing which flow situation serves as a reference (average day, maximum contracted flow, etc.), and which disturbances are considered.



Depending on the robustness of the hypotheses taken, the balancing commitments which the TSOs can take towards other market participants (adjacent systems, shippers, ...) could be reduced down to the nature of « best efforts » or interruptible hour-ahead services, with an unassessed risk of not being executed.

The presentation does not tackle the issue of which use is considered for the internal network flexibilities (available technical linepack). **We consider that the flexibilities available shall be used primarily for network stability and support between operators to ensure a flawless service (in the form of OBA).**

Only when the network stability is ensured, the network flexibilities allowed by a specific flow situation can be offered as a service to network users, in a cost-reflective and non-discriminatory way. It is worth noticing that the market-based balancing is dependent on the opening time of the market, whereas the needs of stability of the network is a 24x7 issue.

Considering that there will probably be a possibility to have network flexibility, the use of **the flexibilities embedded in the OBA between operators (TSO/TSO and TSO/DSO) shall not be misused as a competition to commercial balancing services.** The dedication of the whole TSO network flexibility solely to Inland usage for example will in effect hinder the creation of a cost-reflective price for balancing, since the cost at peak balancing periods could be « shaved » by the use of costless transmission/distribution OBA flexibility.

In that sense we advocate a pragmatic approach where the OBA levels and usage between TSO and DSO level are established on the same basis as the ones established at cross-borders, and their use progressively optimized in order to make more flexibility available on an interruptible base for market use. An incentive for TSOs to increase in time the flexibility they make available for the market will ensure the appropriate balance between network stability and market support.

II.3 - On the transmission products definition:

We find in the presentation that some arguments are incomplete or limited. Typically the support to Flow Commitments (LFZ) against Dynamically Allocable Capacities (DZK) is explained by the fact that DZK refrain quantities to reach the VTP. In our view both DZK and LFZ have the same effect, which is to subtract some quantities from a free trade on the VTP (in the case of LFZ a network user commits to trade in a certain way, therefore does not trade freely).

The essence of their difference lies the risk-carrier: in DZK the network user who owns DZK carries a risk of limitation of his trading abilities and potentially receives a rebate for this. This is transparent to him and the risk is easy to assess and mitigate. In the case of LFZ, the TSO carries the risk not to find a network user ready to commit at a reasonable price, therefore the costs are unsure and will ultimately be spread through the transmission tariff amongst all network users. **We would welcome that the choices of this kind are addressed in a transparent manner, and not rebuffed with inadequate arguments, in order for all stakeholders to clearly assess their implications.**

II.4 - Other remarks of a technical character:

On the network model used for simulation we do not see the Pyrrhnleitung. This pipeline connects the storages in western Austria to Styria and therefore might be relevant for the study considered. We would welcome an assessment of the interest to include this pipeline in the simulation model.

The proposed “operational optimization” in the balancing study will be at best a rough estimate. In our understanding the Simone model used for compression cost is a very basic one (compression cost directly proportional to compression) and cannot represent the real compressor behavior (recycling, fixed quantity of energy used at startup, ...). Exchanges with neighboring TSO and our own experience indicate that optimization of compression is a long and complex process which reaches far beyond the simplified model used here (including maintenance costs, ...). Therefore any optimization resulting from this model has in our opinion to be regarded at best as indicative.