

Designing the Austrian gas market model

Discussion paper in preparation of the transposition of the 3rd energy package (as of 12 November 2010)

Principles

- Where there are transmission pipelines in a market area on Austrian territory (which is currently the case for the Eastern market area only), this market area will not be split up but shall function as a single entry/exit zone.
- Gas shall be traded at the virtual trading point (VTP) in the market area. For this purpose, the organised markets (OTC and exchange) in place at the Integrated Trading Area Baumgarten (ITAB) and in Oberkappel will be transferred by CEGH to the VTP. CEGH will remain the central matching agent (CMA) and enable intraregional interconnection instead of ITAB. The CMA platform will not work as a trading location; all gas trading shall be done at the VTP.
- The transmission system operators (TSOs) will appoint a market area manager that ensures coordinated operation of the entire grid in the market area.
- A distribution area manager (DAM) will be in charge of managing the interface between the transmission and distribution grid.
- The market area's balancing regime will distinguish between clearing and settlement with regard to consumption and with regard to trading.
- The market model can accommodate all unbundling options given by the Gas Directive.

Definitions

To ensure mutual understanding among all parties concerned, for the purposes of this paper, 'balancing group' means the combination of shippers, wholesalers, retailers and consumers in a virtual group within which incoming energy and outgoing energy are balanced;

'market area' means the area covered by the networks of several (transmission and distribution) system operators within which grid users can freely allocate booked entry and exit capacity, supply consumers, input gas volumes into balancing groups or transfer them into other balancing groups;

'interconnection point' means a point at which grids of different system operators meet and are connected with each other;

'virtual trading point' (VTP) means a notional point at which gas can be traded within the market area after injection and before offtake. The VTP is not a physical entry/exit point but

enables grid users to transfer energy from one balancing group to another within the market area without the need to book capacity. Traders and grid users can sell and buy at the VTP without holding capacity rights.

Supplier switching and the ‘rucksack’ principle

A consumer’s capacity ‘rucksack’ in the entry/exit regime will reach from the exit point (i.e. metering point) at the consumer’s facility to the VTP. Direct contractual connection of a consumer’s exit capacity at the metering point with an entry point would contradict Regulation (EC) no 715/2009, which requires separate booking of entry and exit capacity.

The civil law contracts the respective natural gas undertakings must conclude with each other on behalf of a consumer, i.e. of the party entitled to grid access, continue to form the legal basis for the capacity rucksack. In the entry/exit system, these contracts include but are not limited to provisions for the distribution area manager to book supply-related exit capacity at the exit points into the distribution grid with the TSO. The grid capacity formerly used for the customer up to the VTP continues to be available to the customer in the event of a change in supplier.

The new system bears the advantage that all gas trading activities will be handled in a single market area that includes the transit and domestic systems, at a single VTP Austria; this will enable supply to consumers even without entry capacity. Harmonised balancing rules for the transmission and distribution grids will be required. Where these conditions are not (yet) in place, the rucksack will most likely need to be extended by a right to upstream capacity at the entry point in the case of a supplier switch. Where a new supplier cannot otherwise honour its supply agreement with the switching customer, it will need to have the possibility to claim the capacity booked for the customer from the current supplier. The new supplier must detail the grounds for such request to the old supplier.

Transition to the entry/exit regime

The entry/exit regime will not interfere with existing long-term reservations of capacity for domestic transport and transit. A provision in the *Gaswirtschaftsgesetz* (Natural Gas Act) shall ensure that existing contracts cannot be terminated on the grounds of the new regime being introduced.

The entry capacity for domestic transport booked by OMV Gas GmbH at the market area borders shall be transferred in full to the balancing group representatives it is assigned to. All suppliers must be enabled to continue fulfilling their supply agreements to the fullest extent. When the balancing group representatives become parties to the long-term capacity

contracts with the transmission system operators in this capacity transfer process, they likewise inherit the duties arising from these contracts, including payment of entry charges to the TSO. The balancing group representatives shall offer to allocate capacity rights to the suppliers in their balancing group in accordance with the mutual contractual obligations in place. In case suppliers do not make use of this capacity offer and the balancing group representatives do not want to keep the residual capacity, it shall be auctioned.

Balancing and clearing

Each grid user must be registered with the market area manager and is subject to the applicable balancing rules. There will be a distinction in balancing and clearing between balancing groups that supply consumers and such that do not. The existing clearing system involving AGCS will be maintained for the former type only.

The Natural Gas Act shall define a period of time for harmonising the balancing regimes of the transmission and distribution systems, by the end of which balancing in the market area shall follow a uniform regime that must comply with the requirements of the European Framework Guideline on Gas Balancing and the corresponding Network Code.

A consultation process for this harmonisation of balancing regimes to build on shall also be required by the Natural Gas Act.

The regulatory authority can define the conditions for balancing energy supply by order, respecting the future ENTSOG Network Codes and the targets to be set by the Natural Gas Act (e.g. that the balancing energy system must enable efficient grid access, address market needs, disincentivise abuse of balancing services etc.).

As has hitherto been the case, the detailed balancing rules shall be defined in a thorough process in cooperation with the market participants.

Balancing energy (incl. storage and production offers) should be procured primarily at the virtual trading point. Balancing of the grid users' nominations shall be handled at the VTP.

The balancing rules currently in place in the distribution system can be maintained for the time being and be further developed together with market participants in a second step (as has been the practice with the market rules).

A comitology procedure on Regulation (EC) no 715/2009 will most likely establish EU-wide binding balancing rules for the transmission grid that will be directly applicable, i.e. without national transposition. These transmission balancing rules might impact on the balancing rules applicable in the distribution network, e.g. as far as defining the gas day or the balancing period is concerned. Operational balancing accounts concluded between the TSOs limit the need for balancing activities by grid users but do not eliminate it altogether, e.g. where interruptions occur in line with interruptible entry/exit capacity.

The amount of the gas transported is determined in the balancing groups, and settlement takes place there as well. Gas can be traded among balancing groups after it is injected and

before it is offtaken from the entry/exit zone. All trades are executed at the virtual trading point. Each grid user must be member of a balancing group. There are no exceptions; membership of balancing groups is not optional.

Balancing groups that supply consumers will inevitably need to balance the differences between supply and actual demand.

Where OBAs are in place at the entry and exit points of the transmission grid, nominated energy is taken to be equal to allocated energy at each individual point but balancing groups which only depict the use of the transmission grid through nominations can still be imbalanced, e.g. when the total of all their actually allocated energy is calculated. EU legislation provides for market-based balancing rules that incentivise grid users to balance their injections and offtakes, but it does not impose restrictions upon grid users' nominations (i.e. an obligation to nominate the same amounts of entry and exit capacity). The introduction of the entry/exit regime will therefore also create the need for balancing the transmission grid. All balancing activities controlled by grid users by way of nominations shall be executed at the VTP together with trading activities. Imbalances that arise because actual consumption deviates from forecasts will continue to be handled by AGCS ex post.

Coordinated grid operation

A market area's grid should be used in a holistic, uniform and continuous manner. Network interconnection contracts for coordinated grid operation shall be concluded. They shall explicitly refer to the principle of efficient grid operation and foresee the creation of operational balancing accounts at interconnection points. The accounts shall be as large as technically possible so that they can provide direct access to linepack among system operators. European standards for operational balancing agreements shall be taken into account.

Coordination of network operators

The network operators in a market area jointly appoint a market area manager (MAM). As most of the tasks of the MAM are currently performed by OMV Gas, the latter shall be appointed for this role.

It will be the MAM's task to:

- Coordinate the transmission system operators' actions in the market area
 - Coordinate TSOs' network development plans, which must be approved by the regulatory authority. Apart from TSOs represented in ENTSO-G, the MAM will also coordinate with the DAM, i.e. ensure concerted action between the transmission and distribution system.

- Procure (and control dispatch of) accrued balancing energy in the market area
- Coordinate with the DAM to establish a uniform calculation methodology for the determination and publication of capacity at the market area's entry/exit points
- Publish information about the market area
- Organise the registration process required for gas transport and balancing
- Manage the balancing groups. AGCS shall remain settlement agent for consumption-related balancing energy.
- Ensure that the VTP is established and non-discriminatory access to it granted
- Organise the establishment and operation of the online capacity platform for offering and trading capacity rights

A virtual trading point shall be established in the market area. To enable efficient trading and increase liquidity, the transmission system operators shall cooperate with the existing trading platform CEGH.

It will be the DAM's task to:

- Assume the duties hitherto fulfilled by the control area manager in relation to the distribution pipelines listed in an annex to the Natural Gas Act (high pressure distribution pipelines)
- Book and manage supply-related exit capacity

The Natural Gas Act shall include an obligation for the MAM and DAM to cooperate with a view to the above coordination tasks.

The Act should create the possibility to integrate the tasks and functions of the DAM into the MAM, should the owners wish so.