

Statement

Consultation on the Results of the Self-Evaluation and Regional Perspectives for the Gas Market

March 31, 2017

Trans Austria Gasleitung GmbH ("TAG GmbH") would like to thank Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft ("E-Control") for the possibility to comment on the market integration study.

TAG GmbH believes that a more detailed analysis, in particular taking into account more recent data, would present a clearer picture on the benefit of a potential market integration. In particular TAG GmbH has the following comments on the study:

- The infrastructure base case scenario indicates the direct supply sources. In general with the entry/exit systems all the sources are already accessible via the interconnected existing capacity. The treatment of the transit countries should be clarified. For example, Russia and Libya are considered as direct supply sources whereas their supply transit via other countries (Ukraine and Tunisia) to respectively Austria, Czech Republic and Italy.
- A high score for the Herfindahl-Hirschman Index (HHI) might be misleading in situations where the storage business is regulated. In this case the concentration does not hamper the competition and the efficiency of the services that are guaranteed by the national regulation.
- The theoretical interconnection deficit does not reflect the peak demand condition which should be considered in order to determine the free allocable capacity to be guaranteed under this condition.
- Regarding the cost benefit analysis ("CBA"), it should be carefully evaluated if the effect of the merging will in general determine a net benefit for all the integrated markets. As an example, it should be assessed if this would imply a decrease of the prices: theoretically, if the market with the highest price is bigger in terms of exchanged volumes, there might be an increase of the marginal price in the area with the lower price. The last accepted offer in the merged market area might be at a higher price than the smaller market area in this case. The market design and the combination of the offers should be therefore carefully evaluated.
- In general the study takes into account 2015 data. More recent data should be taken into account.

Notwithstanding the statements above, TAG GmbH's understanding is that the aim of the market integration is to improve the social welfare (expressed via the Target Model indicators): Allowing gas exchange with efficient costs, assuming that enlarging the scale of the market increase the liquidity will include lower prices and attract more gas volumes, improving therefore also the security of supply. TAG GmbH underlines that the interconnection capacity at the Austrian/Italian boarder is already in place in both flow directions and will be soon granted as freely allocable also up to Baumgarten for potential export towards the western, eastern and northern countries on a long term basis which will potentially facilitate this purpose.

TAG GmbH believes that a step-by-step approach should be followed to evaluate the viability of a market integration which should be subordinated to key principles, such as:

- The stability and security of the network operation.
- The guarantee of the full cost recovery of the TSOs.
- The stability of the tariffs and tariff methodology.
- The stability and clarity of rules and responsibilities of different subjects (e.g. market rules and regulatory framework).
- The efficiency of the cost for the implementation.

Regarding the stability and security of the network operation, new agreements should be discussed for the coordination of the dispatching activity in particular with respect to the gas transportation program and network optimisation where the interconnection point ("IP") disappears.

Clear mechanism for full cost recovery have to be determined before evaluating which market integration model should be pursued. An agreement on the methodology and principles for an effective TSOs inter-compensation has to be included in the discussion for the integration model.

Regarding the tariffs stability, it should be considered that the reference price methodologies and the resulting tariffs have to be agreed by and between the relevant NRAs within their respective independence. By defining the necessary tariff adjustments, in case an IP between different systems disappears, the reference price methodologies should minimise tariffs volatility and cross-subsidisation between network users.

Regarding the stability and clarity of rules and responsibilities, the efforts for the harmonization need to be carefully assessed. Clear roles and responsibilities, among the increasing number of stakeholders should be defined, to prevent decision bottlenecks or conflicts, which would affect the perception of riskiness for the market. A clear process with determined step might facilitate the necessary implementations.

Regarding the regulatory framework, much has been already done, i.e. with the realisation of a full Third Party Access and harmonized service provision, through the implementation of the EU Network Codes. Capacity Allocation Mechanism (CAM), Balancing (BAL), Interoperability (INT) and in the near future Tariff (TAR) and CAM amendment implementation will further enhance this process. However, many items will require further clarification and detailed analysis, such as:

- Balancing rules. Complexity may arise due to and not limited to the different granularity of the balancing regime (hourly versus daily), the credit security system, the settlement of imbalances (balancing group system versus non-balancing group system, etc.), information provision models, definition and coordination of the balancing responsible entities, imbalance charges.
- Interoperability rules. When an IP disappears, different requirements, such as those regarding gas quality, pressure or metering specification, need to be readdressed. The rules and responsibilities, which are now provided for with by the existing Interconnection Point Agreements ("IPAs"), should be redefined taking into account the new configuration.
- General Terms and Conditions ("GT&C"). Complexity may arise due to and not limited to different quality of the capacity products and interruptible tariff discounts, management of the credit security, different capacity contracts among the systems.

The necessary measures to solve the above described rising issues should be evaluated taking also into account efficient costs and by extending the cost benefit analysis and the resulting net benefit for the market.

TAG GmbH is available to participate through dedicated working groups to the process of cost benefit evaluation following E-Control's discussion on potential further steps.