

# Consultation on the integration of gas markets of Czech Republic and Austria



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## TRU(e) Consultation Document

### TRU – Trading Region Upgrade

#### Consultation on CZ-AT Gas Market Integration

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## A. Introduction

This public consultation is organized by the Austrian and Czech regulators, Energie-Control Austria (E-Control) and Energy Regulatory Office (ERU).

E-Control and ERU together with the gas network operators Gas Connect Austria GmbH (GCA) and NET4GAS, s.r.o. (N4G) established a voluntary working group with the objective to develop a proposal for connecting closer both gas market areas of Austria and the Czech Republic and integrate markets in the Central European region. This document was prepared by the working group and provides the reasoning for the selected approach to market integration, as well as information on how such integration could work. Gas market integration between Austria and the Czech Republic is also supported by the governments of both countries.<sup>1</sup>

The main objective of consultation is to introduce the Trading Region Upgrade option and to receive overall feedback from the market participants on this service.

### Market Integration – Targets and the Gas Target Model (ACER)

In general, market integration can be understood as development and implementation of measures, which foster gas-to-gas competition, enhance the liquidity at gas hubs and should lead to a decrease of gas prices as well as lower gas price differences between hubs of different European gas market areas.

Specific market integration measures are described in the ACER Gas Target Model (GTM)<sup>2</sup>. The GTM is based on three main pillars: enabling functioning wholesale markets, tightening connections of markets and enabling secure supply patterns. Integration measures are as follows:

- Network Codes, i.e. the development and implementation of appropriate TPA rules. Examples are Congestion Management Procedures, Capacity Allocation Mechanism, Balancing as well as Interoperability and Data Transfer Rules. Network codes for the harmonization of transmission tariff structures and procedures for incremental capacity investments are currently under development.
- Investments, i.e. the planning and execution of investments into transmission asset in order to establish new interconnections or to increase existing capacities between market areas, improve the of the connectivity of market areas,
- Enlargement of market areas, i.e the establishment of cross-border market areas, trading regions or satellite markets. Examples for those are 'Belux Integrated Gas Market' or the Austrian gas market areas Vorarlberg and Tirol with the German gas Market area NetConnect Germany.

Integration measures, which could potentially be applied for bringing the Austrian and Czech markets closer together, have to be analyzed in detail against the existing technical, commercial and

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<sup>1</sup> See for example <http://www.vlada.cz/assets/media-centrum/aktualne/Austerlitz-Declaration.pdf> and [http://www.mzv.cz/jnp/cz/udalosti\\_a\\_media/tiskove\\_zpravy/x2014\\_04\\_03\\_ministr\\_zaooralek\\_navstivi\\_rakousko.html](http://www.mzv.cz/jnp/cz/udalosti_a_media/tiskove_zpravy/x2014_04_03_ministr_zaooralek_navstivi_rakousko.html)

<sup>2</sup> Developed in 2011 and updated in 2014. Published by ACER in January 2015 at <http://www.acer.europa.eu/Events/Presentation-of-ACER-Gas-Target-Model-Documents/European%20Gas%20Target%20Model%20Review%20and%20Update.pdf>

regulatory/legal background. In this regard the following specifics of the Austrian and Czech gas markets have to be considered:

- Access to both markets is offered via an advanced entry-exit system with virtual trading place and a high level of firm freely allocable capacities. Gas exchanges are linked to the VTPs offering spot and future market products. Existing EU network codes are applied; upcoming network codes will be implemented and applied in the same manner.
- Both transmission systems provide congestion free access to all end users and storages and considerable transit capacities to neighboring markets. When integrating both markets, transmission functions (national transport and transit) should be maintained.
- Although being neighboring countries the Austrian and Czech gas markets are not directly interconnected on transmission level. Therefore, the project of the Bi-directional Austrian Czech Interconnector, BACI, was developed. Because of its market integration functionality it is approved as Project of Common Interest on the 1<sup>st</sup> PCI list as well as on the updated 2<sup>nd</sup> PCI list.

### **Possible models for integration of the Austrian and Czech gas markets**

Specific market integration measures should have the potential to offer further possibilities meeting customers' expectations in the national market as well as in the neighboring markets.

The joint working group analyzed several alternatives regarding the practicability and feasibility for making use of one of the above-mentioned specific integration measures. The results of these analyses can be summarized as follows:

- Integration via linking one market area to the other (satellite market) is not applicable, as both markets are fully developed and equipped with VTPs and gas exchanges.
- Integration via merging of markets or implementing a functioning trading region (most extensive form of integration) would require the installation of large-scale capacities because of considerable transit functions of both networks, accompanied by substantial investment costs to be allocated to end users. Being indirectly interconnected via Germany and Slovakia the benefits of such a large scale integration were jointly estimated as uncertain. Subsequently, it was decided to start with a small scale integration, enabling future extensions, collection of experience and gaining a better idea about resulting effects on gas prices and impacts on the markets.
- The preparation and construction of a physical connection between the markets needs time and according to the current planning of the BACI project the working group members expect that the integration of both gas markets on a basis of this direct connection should start not earlier than in 2020/21 (technical capacities of 750,000 m<sup>3</sup>/h in both directions. See also the PCI 6.4.).

In May 2015 GCA and N4G launched a Market survey to receive feedback from the market whether the incremental capacities should be offered on a new interconnection point or through a new concept reflecting the principles of Market Integration. The result of the market survey was a preference for Market Integration. The members of the working group discussed the possibility of first gaining experience for the further development of market integration measures by using existing capacities.

Such an approach requires the design of a completely new integration measure on the basis of cooperation between TSOs, in compliance with the existing and expected Third Party Access (TPA) rules.

The first result of the work of the joint working group is a **concept for a TRU option**, as described below (see section D).

The option can be purchased by anyone. It can be used by anyone, who has booked entry capacity at cross-border points, physical and virtual storage points as well as production points in the transmission

grids of GCA and N4G. By upgrading booked entry capacities, the transfer of gas quantities into the associated Austrian (or Czech) gas market and the transfer into the adjacent Czech (or Austrian) gas market becomes possible. In principle, this enables to trade gas quantities originating from one entry point on both gas markets areas. Therefore, the option is named Trading Region Upgrade (TRU).

The promoters of the TRU Option are prepared to finalize the development of this concept and start testing it as soon as possible. The estimated date for the start of TRU is with the annual yearly capacity auctions in July 2017 for use as from 1 October 2017.

## B. Objective of the consultation

The aim of this consultation is to find out, whether there is a true interest of market participants in a TRU service. Therefore, the involved parties would like to

- (i) Provide insight in the status of the developed market integration model and the functioning of the selected market integration model and
- (ii) Receive feedback from the market participants before further detailing and implementing the TRU model on the following details:
  - Level of interest in the TRU Option
  - Comments on the functioning of the TRU Option

## C. Rules of the public consultation

Energy regulatory office and E-Control are launching a public consultation regarding the integration of gas markets of the Czech Republic and Austria. The aim of the consultation is to gather input for the evaluation process in order to assess the implementation of the proposed concept for gas market integration between the Czech Republic and Austria. This concept has been developed by relevant TSOs and NRAs. NRAs hereby provide for an independent and transparent consultation framework to any interested stakeholder.

We ask responding organisations and individuals to follow these rules of the public consultation:

1. The consultation is open from 30 March to 19 April 2016. Comments received after the closing date will not be taken into consideration.
2. Please use only the following email addresses to deliver your replies: [plyn@eru.cz](mailto:plyn@eru.cz) and [marktregeln@e-control.at](mailto:marktregeln@e-control.at).
3. Please use plain English or Czech and avoid acronyms.
4. Views are sought from any interested stakeholder.
5. Please structure your contribution. Please identify which part of the consultation document you are referring to. Please be clear what questions you are answering. Please make your contributions as concise as possible.
6. Your statements are expected to be promoted with a justification.
7. Indicate, whether you consider your contribution anonymous.
8. Any contribution can be shared (in part or fully) within the working group, ensuring anonymity under the previous point.
9. All contributions will be considered as public and will be published on the NRAs' websites (and via reference on the websites of the TSOs).
10. A summary of the results of the consultation will be published on the NRAs' websites (and via reference on the websites of the TSOs).

## D. The TRU idea

Fostering of Market Integration between AT and CZ by offering more possibilities in terms of connectivity without the need for a dedicated investment. The TRU idea is to create a service that reflects the need for more flexibility in gas transmission.

Below the features of TRU are described, which are

- TRU capability - more opportunities
- TRU definition - upgrade option
- TRU flexibility - compatible to all entry capacity qualities
- TRU allocation - based on CAM-regulation
- TRU booking - available for everyone
- TRU usage - according to the needs

### TRU capability

**TRU** offers the possibility to upgrade booked Entry Capacity at each entry point in the transmission grids of GCA and N4G. **TRU** enables to access the Austrian virtual trading point ("VTP"), the Czech VTP or even both VTPs at the same time. This enlarges the flexibility of Entry Capacity with the ability to reach also the neighbouring market and both market areas can serve as a bigger turntable. **TRU** represents a capacity upgrade in terms of opportunities.

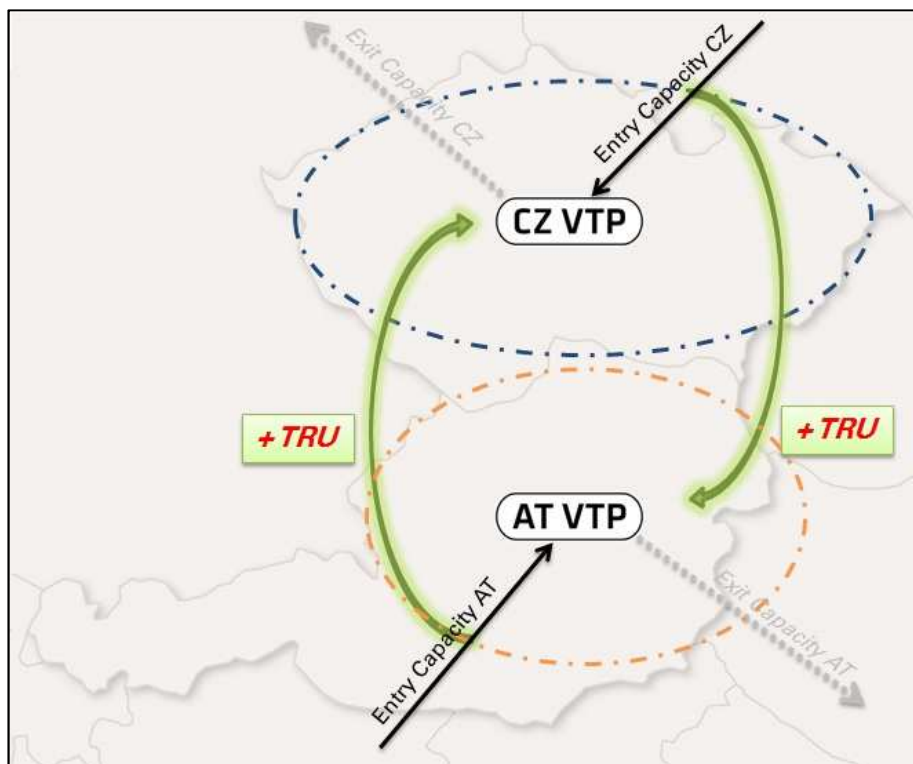


Figure 1: TRU possibilities

## TRU definition

TRU is an upgrade service giving the additional right to nominate Entry Capacity not only to the Market Area where this Entry Capacity is contracted but also to nominate Entry Capacity towards the adjacent Market Area.

By attaching the TRU (green coin) to standard Entry Capacity products FZK, DZK and UK (red coin) network user transforms its original capacity product to TR\_FZK, TR\_DZK and TR\_UK (yellow coin) enabling the access to the other Market Area (AT or CZ).

The details of the TRU Option are described in Figure 2.

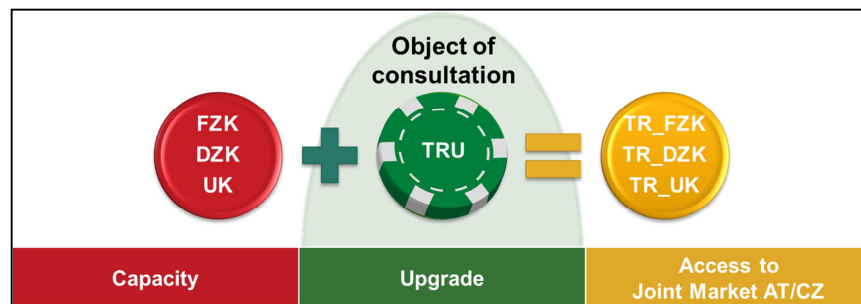


Figure 2: Capacity and TRU

### Legend:

- FZK: Freely Allocable Capacity (Frei Zuordenbare Kapazität)
- DZK: Dynamically Allocable Capacity (Dynamisch Zuordenbare Kapazität) – not available in the Czech E/X-System
- UK: Interruptible Capacity (Unterbrechbare Kapazität)
- TRU: Trading Region Upgrade
- TR: Trading Region

## TRU flexibility

**TRU** at any entry point, i.e. TRU can be allocated to any cross-border Entry points, physical and virtual storage Entry point as well as production Entry point, insofar the Entry point is directly connected to the transmission system of GCA or N4G.

**TRU** with any booked capacity quality, i.e. the upgrade will not change the original “quality” of the Entry Capacity being it firm or interruptible capacity but it extends the possibilities of market connection in the following way:

- Booked firm FZK Entry Capacity + **TRU** = firm access to Czech VTP and/or Austrian VTP
- Booked firm DZK Entry Capacity + **TRU** = firm/interruptible access to Czech VTP and/or Austrian VTP
- Booked interruptible Entry Capacity + **TRU** = interruptible access to Czech VTP and/or Austrian VTP

**TRU** is fully flexible in usage within the market where it was bought. It can be shifted in a fully flexible way to any entry point of the same transmission grid on day ahead basis

**TRU allocation**

TRU allocation will be performed via auction mechanisms as described in Regulation (EC) No 984/2013 (Network Code on Capacity Allocation Mechanisms / CAM NC). TRU will be allocated via the PRISMA platform.

TRU pilot phase: Auction will be conducted for one gas year. Remaining TRU will be auctioned in the following day ahead, rolling monthly and annual quarterly auctions for this gas year.

**TRU booking**

Anyone can book the TRU service. Precondition for the user is successful registration with GCA/N4G for buying TRU.

**TRU usage**

TRU has to be allocated to a specific entry point at the transmission level. TRU is an option and cannot be used standalone. TRU works with standard capacity nomination procedure but requires the indication of the target VTP. GCA and N4G ensure access to the adjacent market area directly.

**TRU summary**

GCA and N4G are presenting the tool for possible implementation of the trading region between Austria and Czech Republic.

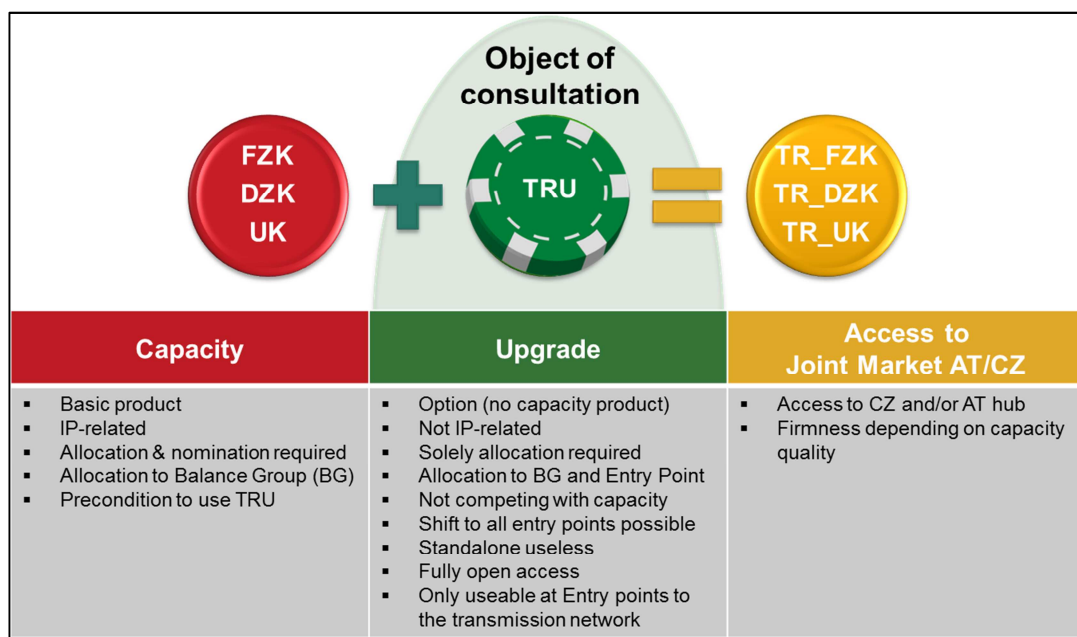


Figure 3: The characteristics of TRU



## E. Proposed timetable

ERU together with E-Control are of the opinion that transparent and clearly defined legislative framework is an essential cornerstone of any integration process. The presently applicable legislative framework in both states was therefore analysed. The outcome of the analysis is a set of necessary legislative amendments for the smooth integration process and consequently correctly running of already integrated market.

### Czech Republic

*From the perspective of the Czech Republic the following legislative changes will therefore have to be undertaken:*

#### Gas Market Rules

Energy Regulatory Office is responsible for treating a public notice on gas market rules; this task is given by an enabling clause set in the Energy Act. For this reason the final revised model which will contain acceptable amendments from proper consultation process will be transformed and integrated into this public notice, as the secondary legislation directly related to processes and terms of the gas market in the Czech Republic. Following the outcome of the consultation process provisions necessary for the proper functioning of the service will be integrated into the Gas Market Rules throughout the year. Procedural requirements relating to the adjustment of the Gas Market Rules remain in force.

**Term: 1Q-4Q/2016**

#### Network code of Transmission system operator

Energy Regulatory Office is approving the Network code of Transmission system operator (Codex) in accordance with relevant sections of the Energy Act., This Codex is prepared by the transmission system operator (TSO) in accordance with § 58 art. 8, point. t) of the Energy Act. Content requirements of this Codex are defined in the public notice on the requirements on the content of operational code. According to this Decree each product or service which is offered by TSO must be included in the Codex. Therefore at the end of Q4 2016 it will be necessary to make amendments of the Codex based on adjustments of the legislation that will have to be carried out. Procedural requirements relating to the adjustment of the Codex remain in force.

**Term: 4Q/2016**

#### Price decision

Based on the competence given by legislative framework, Energy Regulatory Office is issuing the decision on regulated prices related to gas supply. At the turn of 4Q 2016 and 1Q 2017 the proposed price parameters will be published in the final stage of legislative changes in the price decisions of ERU, which will build on the released Gas Market Rules. Procedural requirements relating to the publishing of the price decision remain in force.

### Austria

*From the perspective of the Austria it will be necessary to undertake the following changes:*

#### Gas Market Rules

Article VI of the General Terms and Conditions for Transmission Network Access (GTCs) allows TSOs to offer optional services uniformly and without discrimination. The Trading Region Upgrade (TRU) shall be considered as such an optional service. The mutual rights and obligations by and between transmission system operators and system users as well as the operational details regarding the TRU shall be set out in the Gas Market Rules.

**Term: 4Q/2016**

### Gas System Charges Ordinance

The efficient costs for providing the optional service (TRU) will be determined by E-Control. The fees for the TRU will then be set in the Gas System Charges Ordinance pursuant to section 70 Natural Gas Act 2011 and will be published by the transmission system operator on the Internet.

**Term: 4Q/2016**

### **Earliest possible Start of TRU service**

*Estimated date for the start of TRU: Offered with the scope of the expected annual yearly capacity auctions in July 2017 for use as from 1 October 2017.*

## **F. TRU impacts, costs and benefits**

### Expected benefits

The reason for the establishment/development of **TRU** is to connect tighter the Austrian and Czech gas market areas. With the additional **TRU** offer the following benefits are expected for the market participants:

GAS CONNECT AUSTRIA GmbH (GCA) and NET4GAS (N4G), s.r.o. play a key role in facilitating gas transits for the supply of gas customers in neighbouring countries like Germany, Hungary, Italy, France, Slovenia, Croatia, Poland and Slovakia as well as the gas transport for the gas customers of their local markets. The integration of the Austrian and the Czech gas market areas enhances the position of these areas as a key turntable in Central Europe. The additional offer of **TRU** possibilities enables to transport gas between the Austrian and the Czech market areas including additional transportation opportunities to and from the respective adjacent countries. Cross border transmission and access to the market areas in the whole region are supported by the **TRU** flexibility.

Additionally, the more integrated markets will foster market opportunities and therefore the increase of the convergence and also the decrease of the overall level of gas wholesale prices within Central Eastern Europe.

The attractiveness of the storages in Austria and the Czech Republic could be increased through deeper market integration.

### Additional costs

**TRU** is designed and planned to be implemented as purely market based option, i.e. offered and sold to the market as demanded. Additional costs in the context of **TRU** would appear just to the extend **TRU** is marketed. Additional costs of **TRU** are planned to be directly covered by the TRU option bookings.

### Impact of TRU on tariffs

The TRU option in the testing phase will therefore influence neither current structure nor level of transmission tariffs in Austria and the Czech Republic. Currently it is planned to continue with this market based approach also beyond the testing phase.

In a nutshell: the TRU option is considered as an extra incentive offered to the market by the involved TSOs. TRU is purely market based and will not affect existing tariffs. It is expected that **TRU** will create benefits and these will be evaluated after implementation on the basis of the bidding behavior.

## G. Table for feedback

### I. General remarks

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### II. Specific inputs

*Please write your inputs having regard to the rules of public consultation*

No.	Reference to consultation document	Comment, question, etc.	Justification
...	...	...	...

### III. Summarising questions

How would you evaluate the proposed model for Austrian-Czech gas market integration overall?

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How would you evaluate the proposed services/product for Austrian-Czech gas market integration overall?

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Do you share the evaluation of the costs and benefits of an Austrian-Czech gas market integration provided in this document in relation to the development of the gas markets of the Czech Republic/Austria?

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Do you have additional comments or suggestions for enhancement related to the Austrian-Czech gas market integration which you would like to share?

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Would you be interested in participating in a dedicated Stakeholder event on the Trading Region Upgrade?

Yes

No