



Consultation document

Establishing a virtual interconnection point at Baumgarten



**GAS CONNECT
AUSTRIA**



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1 Background

The network code on capacity allocation mechanisms in gas transmission systems (Regulation (EU) 2017/459, CAM NC) requires European gas transmission system operators to establish virtual interconnection points (VIPs).

The present document outlines how the two Austrian transmission system operators (Gas Connect Austria GmbH (GCA) and Trans Austria Gasleitung GmbH (TAGG)) are planning to establish such a virtual interconnection point at Baumgarten and to couple the eastern market area in Austria with the adjacent entry-exit system in Slovakia. This proposal is submitted to consultation.¹

2 Legal basis

2.1 CAM NC requirements

Article 19(9) CAM NC specifies under which circumstances a virtual interconnection point must be established. It states that TSOs must

1. set up a VIP where two or more interconnection points connect the same two adjacent entry-exit systems;
2. establish VIPs so that they include, to the extent possible, all involved TSOs;
3. set up VIPs only if
 - 3.1. the total technical capacity does not decrease because of the VIP; and
 - 3.2. economic and efficient use of the system is facilitated.

2.2 Scope of VIP rules

CAM NC applies to interconnection points between transmission systems that connect adjacent entry/exit systems.² Entry/exit points from/to distribution systems (in particular, isolated network areas) or cross-border storage connections are not subject to the VIP rules in CAM NC.

Further, the VIP rules refer to available capacity, i.e. they aim to allocate capacity that has not yet been allocated.³ Neither the VIP rules in particular nor CAM NC in general

¹ The proposed approach requires that the Gas Market Model Ordinance be adjusted. The draft amendment which includes the necessary adjustments is consulted in parallel to this document.

² Articles 2(1) and 3(2) CAM NC

³ Articles 19(9) CAM NC and 2(20) Regulation 715/2009

extend to capacity that has already been contracted.⁴ This means that existing capacity contracts whose term extends beyond the establishment of the VIP do not have to be transferred to the VIP. However, CAM NC does not prohibit such a transfer either.

3 Goals of the consultation

This consultation aims to

- outline how GCA and TAGG would go about establishing a virtual interconnection point between the two Austrian entry/exit systems and the Slovak entry/exit system;
- collect the reactions of affected market participants.

We are trying to assess whether market participants consider that the presented VIP proposal efficiently contributes to simplifying system access.

GCA and TAGG have already taken many steps to make system access as efficient as possible for their customers. For instance, they maximise bookable capacity, offer the same products, apply the same rates, and coordinate and optimise gas flow control as far as possible. Several advantages of VIPs are thus already available to customers. This is why we are particularly interested in finding out whether market participants consider that a VIP would further simplify current system access rules.

4 Baumgarten VIP

4.1 Current situation

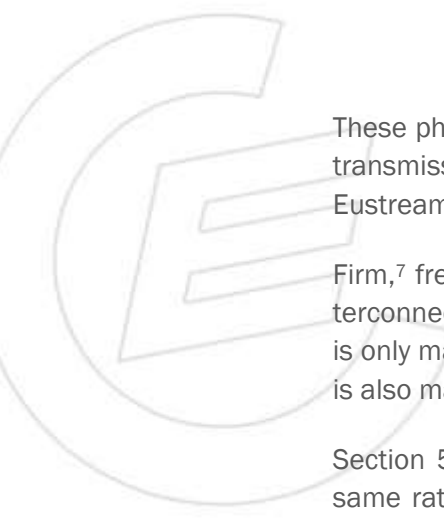
The two transmission system operators GCA and TAGG, both certified as ITOs,⁵ market capacity at the border between Austria and Slovakia at the following physical interconnection points (PIPs):

- Baumgarten GCA (GCA)
- Baumgarten WAG (GCA)
- Baumgarten TAG (TAGG)
- Petržalka⁶ (GCA)

⁴ Article 2(19) Regulation 715/2009

⁵ “Independent transmission operators” as defined in Directive 2009/73/EC concerning common rules for the internal market in natural gas, and sections 112 through 116 Natural Gas Act 2011

⁶ The interconnection point Petržalka is an interconnection point between transmission system operators, it connects adjacent entry/exit systems and there are relevant booking procedures



These physical interconnection points link the eastern market area in Austria with the transmission system in Slovakia. On the Slovak side, the system is operated by TSO Eustream.

Firm,⁷ freely allocable entry capacity to Austria is marketed at all of these physical interconnection points except Petržalka. Firm, freely allocable exit capacity from Austria is only marketed at Baumgarten WAG point. In line with CAM NC, interruptible capacity is also marketed at all PIPs, in both directions.

Section 5(2-3) Gas System Charges (Amendment) Ordinance 2017 provides for the same rates to be applied at all the above PIP, i.e. the rates for a particular product (freely allocable or interruptible capacity) and a particular direction (entry or exit) are the same at all of them.

After the current entry/exit system was introduced in 2013, the grid was also physically enhanced. These enhancements enable the Austrian TSOs to maximise the amount of freely allocable capacity they can offer at the PIPs by coordinating and optimising gas flow control.

4.2 Building blocks

- Establishing a VIP that connects Austria and Slovakia and that includes all involved TSOs so that all entry and exit capacity can be marketed through a single VIP
- Maintaining but slowly fading out PIPs as existing capacity contracts expire or are transferred to the VIP
- Keeping nominations for each PIP, with the relevant TSO
- Continuing to optimise overall VIP control
- Implementing congestion management procedures pursuant to Regulation 715/2009 across the entire VIP
- Handling capacity conversion across different operators' systems
- Largely keeping operative processes as they are
- Implementing a feasible approach that satisfies the publication obligations under Regulation 715/2009

for system users in place. CAM NC thus clearly mandates that it be integrated in Baumgarten VIP.

⁷ As defined in Regulation 715/2009

4.3 Three TSOs, one VIP

A new virtual interconnection point Baumgarten will be created at the border between the systems of Austrian TSOs GCA and TAGG and the system of Slovak TSO Eustream. The existing physical interconnection points will continue to exist. Baumgarten VIP will be a relevant point pursuant to Regulation 715/2009 and as such, is subject to regulatory approval. The present consultation is therefore also held as a consultation in the sense of Article 18(4) Regulation 715/2009. Baumgarten VIP will receive a new energy identification (EIC) code so that it cannot be confused with the existing physical interconnection points (s. chapter 4.6).

4.4 Marketing all capacity through the VIP

GCA and TAGG will join the capacity available the physical interconnection points into Baumgarten VIP and will market it in joint auctions that will be announced on the auction calendar.⁸ This will include both firm and interruptible capacity, and both bundled and any unbundled capacity.

Firm capacity will be offered as a uniform product for firm, freely allocable capacity with the same features as today. This will include (a) any capacity that has not yet been allocated, (b) any capacity freed through “use it or lose it” for firm day-ahead capacity (FDA UIOLI) and any capacity freed through applying this procedure to long-term capacity (LT UIOLI) pursuant to point 2.2 in annex I to Regulation 715/2009, and (c) any capacity surrendered at the VIP (s. chapter 4.7.1).

To be able to participate in an auction for capacity at Baumgarten VIP, market participants must be registered and cleared for PRISMA access with one of the Austrian TSOs. They must then choose which of the two TSOs they would like to contract with if their bid in the auction is successful; their capacity contract then also follows the general terms and conditions of the chosen TSO. This possibility to choose between TSOs is new and will have to be coded into PRISMA.

4.5 Operative processes at Baumgarten VIP

Most operative processes at Baumgarten VIP will follow the existing market rules. For instance, system users will continue to nominate transports (either at a PIP or at the VIP) with the TSO that is their contract partner.

⁸ Auction Calendar 2018/2019 for Capacity Allocation Mechanism Network Code (CAP0775-17) (www.entosg.eu)

New rules or changes will mainly be relevant for marketing (cf. chapter 4.4) and for congestion management pursuant to point 2.2 of annex I to Regulation 715/2009 (cf. chapter 4.7).

4.6 Physical interconnection points

4.6.1 Existing contracts

The PIPs that will be part of the VIP will continue to exist, as will all capacity contracts concluded at these points before the VIP is established, for their entire duration. (System users may choose to transfer the capacity to the VIP, s. chapter 4.6.2, but do not have to.)

This also holds if capacity is re-sold on the secondary market.

After an existing contract for capacity at a physical interconnection point has expired, the liberated capacity will be offered at Baumgarten VIP (s. Figure 1). Once all capacity contracts at a physical interconnection point have expired or have been transferred (s. chapter 4.6.2), the point ceases to exist and all operative processes are integrated into the VIP (fade-out of PIPs).

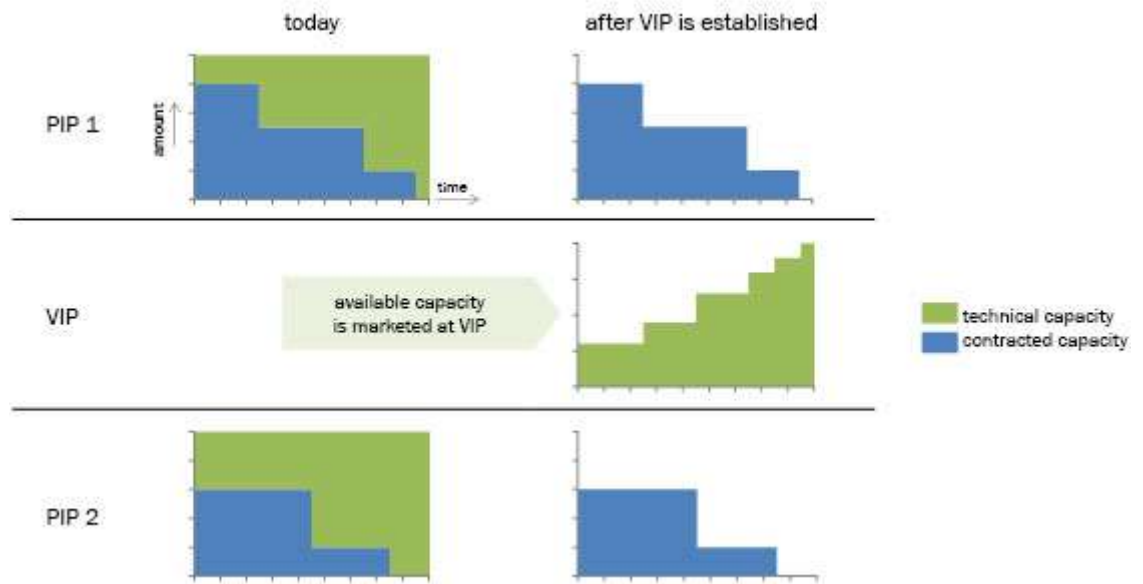


Figure 1: Fade-out of PIPs

4.6.2 Transferring existing contracts

System users can choose to transfer their existing PIP capacity contracts to the VIP. The following conditions must be fulfilled:

- The capacity product from the existing contract is also offered at Baumgarten VIP.
- The system user wishes to transfer all capacity from the existing contract, for the full remaining term.
- The existing contract and all its terms and conditions remain in place. The only change is the location, which changes from the PIP to the VIP.

Capacity contracted at Baumgarten VIP cannot be transferred to a PIP. By the same token, capacity transferred to Baumgarten VIP cannot be shifted back to the originating PIP (or any other PIP).

The Gas Market Model Ordinance will be amended to include rules for transferring capacity contracts to the VIP.

4.6.3 Operative processes at physical interconnection points

The operative processes and procedures that are currently in place at the physical interconnection points, e.g. for nominating capacity, will not change.

New rules or changes will mainly be relevant for congestion management pursuant to point 2.2 of annex I to Regulation 715/2009 (cf. chapter 4.7).

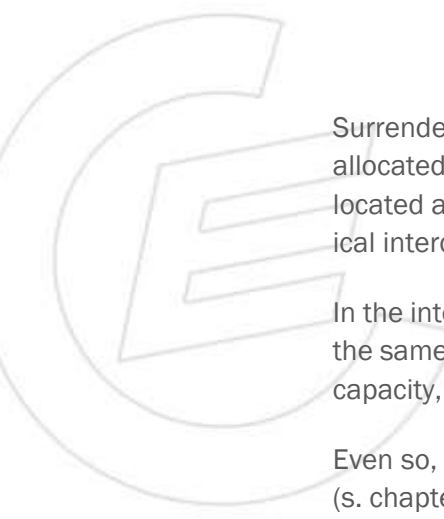
4.7 Congestion management

Establishing Baumgarten VIP will impact on how the congestion management procedures from point 2.2 of annex I of Regulation 715/2009 are applied.

The below rules are designed so that holders of existing capacity contracts and holders of contracts at Baumgarten VIP are treated equally.

4.7.1 Surrender of contracted capacity

We can assume that system users who surrender capacity do not intend to use this capacity in future. However, their obligation to pay for the surrendered capacity remains in place until another system user has purchased it. It would therefore be best for them if the surrendered capacity were reallocated as quickly as possible. This needs to be borne in mind when deciding where surrendered capacity is reallocated.



Surrendered capacity is reallocated only after all “normal” available capacity has been allocated.⁹ If capacity surrendered at a physical interconnection point were to be reallocated at the VIP, it could only be reallocated after all available capacity from all physical interconnection points has been allocated. Its reallocation chances would drop.

In the interest of equal treatment, surrendered capacity will therefore be reallocated at the same PIP where it is surrendered. This is the default that applies to all surrendered capacity, regardless of whether it is surrendered at a PIP or at the VIP.

Even so, system users can always decide to transfer their existing contracts to the VIP (s. chapter 4.6.2), so that their surrendered PIP capacity is reallocated through the VIP.

4.7.2 Long-term UIOLI

When users lose their capacity through long-term UIOLI, we can assume that they do intend to continue using the capacity. This needs to be borne in mind when deciding

- how “congestion” will be defined;
- what will constitute “insufficient use”; and
- where the capacity will be reallocated.

Congestion: when checking whether there is contractual congestion at the border between Austria and Slovakia,¹⁰ the capacity at all physical interconnection points included in Baumgarten VIP will be added up. It would not make sense to withdraw capacity from a physical cross-border interconnection point if it is available at the virtual interconnection point at the same time.

Insufficient use: for contractual reasons, verifying whether capacity is systematically unused (and should therefore be withdrawn) will continue to refer to each PIP and each TSO separately. For existing contracts that have been transferred to the VIP, all capacity held by the system user at the VIP with the same TSO will count.

Reallocation point: until such time as withdrawn capacity is reallocated, the system user can continue to use it. Withdrawn capacity will only be reallocated after all available capacity has been allocated. If all withdrawn capacity is reallocated at the VIP, holders of withdrawn PIP capacity will not be worse off than (a) holders of withdrawn VIP capacity (same reallocation probability) or (b) holders of withdrawn capacity under the current

⁹ Point 2.2.4 of annex I of Regulation 715/2009

¹⁰ Long-term capacity can only be withdrawn if there is physical congestion.

system (same or higher reallocation probability). All withdrawn capacity will therefore be reallocated through the VIP.

4.7.3 FDA UIOLI

When users lose their capacity through FDA UIOLI, we can assume that they do intend to continue using the capacity. This needs to be borne in mind when deciding

- when the renomination limit¹¹ will apply;
- how renomination limits will be calculated; and
- where the capacity will be reallocated.

Applicability of a renomination limit: to determine whether the renomination limit applies to a balance group, a system user's capacity at an interconnection point is compared with the technical annual capacity at that point.¹² When doing these determinations for the border between Austria and Slovakia, the capacity from all PIPs and the VIP will be added up. If physical interconnection points were calculated separately, the renomination limit would progressively tighten for holders of existing PIP contracts as the PIPs are faded out¹³ and the technical annual capacity at these PIPs decreases. They would be in a worse situation than they are today. Therefore, all capacity at the border (PIPs and VIP) will be added up.

Calculation of the renomination limits: in line with the basic principle described in chapters 4.5 and 4.6.3, the renomination limits will continue to be calculated like today: the capacity allocated to a balance group will be compared with the original nomination at that same interconnection point with that same TSO. For existing contracts that have been transferred to the VIP, all capacity held by the balance group at the VIP with the same TSO will count.

Reallocation point: the arguments laid out for LT UIOLI (s. above) also apply for FDA UIOLI, which is why capacity withdrawn due to FDA UIOLI will likewise be reallocated at the VIP, after all available capacity has been allocated.

¹¹ This is the term used for FDA UIOLI in the Gas Market Model Ordinance.

¹² Section 11(6) Gas Market Model Ordinance

¹³ S. chapter 4.6.1 and article 2(20) Regulation 715/2009

4.8 Capacity conversion under section 5 Gas Market Model Ordinance

The capacity conversion service in line with Article 21(3) Regulation 2017/459 will be offered for all capacity at Baumgarten as one, i.e. across all physical interconnection points and across TSOs.

Holders of unbundled entry or exit capacity at physical interconnection points or Baumgarten VIP will have the possibility to return the overlapping part of any bundled entry or exit capacity they purchase (cf. section 5 Gas Market Model Ordinance).

The TSO from whom they have bought the bundled capacity will be the one to take it back. System users will need to provide proof that they have indeed contracted mismatched capacity (possibly with another TSO).

The Gas Market Model Ordinance will be amended to include rules for capacity conversion at the VIP.

4.9 Publication obligations

There are several publication obligations in point 3.3 of annex I of Regulation 715/2009 that depend on whether a point is classified as a “relevant” point or not.

The definition¹⁴ of relevant points suggests that Baumgarten VIP will be such a relevant point and that also all the physical interconnection points will remain relevant points until they are faded out. These points will have to comply with all publication obligations. Baumgarten VIP will publish information as laid out in the table below.

¹⁴ S. point 3.2.1 of annex I to Regulation 715/2009

#	Legal requirement ¹⁵	Published data
1	3.3. 1(a) technical capacity for flows in both directions	<ul style="list-style-type: none"> • <u>VIP</u>: sum of allocated and available capacity at the VIP (the latter is the sum of the capacity available at all PIPs) • <u>Physical interconnection points</u>: capacity booked through contracts that existed before the VIP was established plus any surrendered capacity¹⁶ <p>(s. also Figure 1)</p>
2	3.3. 1(d) available firm and interruptible capacity in both directions	<ul style="list-style-type: none"> • <u>VIP</u>: <ul style="list-style-type: none"> ○ firm capacity: as is currently done at PIPs (total across all PIPs) ○ interruptible capacity: as is currently done at PIPs • <u>PIPs</u>: <ul style="list-style-type: none"> ○ firm capacity: normally zero, except for surrendered capacity ○ interruptible capacity: zero
3	3.3. 1(e) actual physical flows	<ul style="list-style-type: none"> • <u>VIP</u>: total of gas flows in the same direction at all PIPs • <u>PIPs</u>: as is currently done
4	3.3. 1(f) planned and actual interruption of interruptible capacity	<ul style="list-style-type: none"> • <u>VIP</u>: as is currently done at PIPs • <u>PIPs</u>: no need to publish¹⁷ given that interruptible capacity will only be marketed at the VIP

¹⁵ In annex I of Regulation 715/2009

¹⁶ S. chapter 4.7.1

¹⁷ Or rather, only for existing contracts for interruptible capacity until they expire

#	Legal requirement ¹⁵	Published data
5	3.3. 1(j) indication where and when no firm capacity product with a duration of one month or longer has been offered in the regular allocation process	<ul style="list-style-type: none"> • <u>VIP</u>: as is currently done at PIPs • <u>PIPs</u>: no need to publish given that firm capacity will only be marketed at the VIP

4.10 Rates


The entry and exit rates at Baumgarten VIP will correspond to those in place at the physical interconnection points at Baumgarten and Petržalka. The same rates already apply across all these points today (but please note that section 5(2-3) Gas System Charges Ordinance addresses all physical interconnection points at Baumgarten under a single “Baumgarten” heading). The VIP will not as such impact transmission rates, neither at Baumgarten nor at other physical interconnection points.

5 Questions for consultation

- What is your general opinion of the Baumgarten VIP approach presented in this document?
- Will the presented approach make system access, operative handling and congestion management easier for you?
 - If so, how?
- If the above approach is put into practice, will you be worse off than today or worse off than other system users in terms of system access, operative handling or congestion management?
 - If so, how?

We would also like to hear your general reactions and your views on the individual building blocks presented above. If you would like to comment on them or have questions, please include a reference to the chapters in this document and explain how you have arrived at your views.

6 List of abbreviations



CAM NC	network code on capacity allocation mechanisms in gas transmission systems (Regulation (EU) 2017/459)
FDA UIOLI	firm day-ahead use it or lose it
GCA	Gas Connect Austria GmbH
ITO	independent transmission system operator
LT UIOLI	long-term use it or lose it
PIP	physical interconnection point
TAGG	Trans Austria Gasleitung GmbH
TSO	transmission system operator
UIOLI	use it or lose it
VIP	virtual interconnection point