

To:
Ms. Petra Grigelová
Head of the Gas Industry Department
Energy Regulatory Office
Detached office
Partyzánská 1/7
170 00 Prague 7

Your ref. no. /date	Our ref. no.	Responsible/Ext.	Place/Date
	2016/O/457	Mr. Nečesaný/177	Prague, 18 April 2016

Dear Ms. Grigelová,

Please, find enclosed our comments and proposals in terms of the consultation process on the integration of gas markets of Czech Republic and Austria published at the ERO website on 30.3.2016, at <http://www.ero.cz/cs/-/cz-at-integrace-trhu-s-plynem>

We welcome the opportunity to participate in this discussion, especially in view of the expected objectives of the gas market integration that involve specific potential benefits for the end customers and general enhancement of liquidity in gas hubs. We believe that as a result of our company's active involvement in integration projects on the electricity market we have sufficient experience and possibilities to help this project at significant scale.

We view the presented document as the starting point for discussion on possible approaches to the gas market integration, whereas the submitted variant is one of the alternatives complying with the Gas Target Model. Given the importance of this topic and its potential impact on the gas markets not only in the Czech Republic but also Central Europe we believe that the consultation document provides suitable basis that needs to be complemented with described potential impacts of the presented solution and which shall evaluate benefits and drawbacks for the gas market in the Czech Republic. Therefore, in accordance with the consultation document, Chapter G, Part I, we hereby submit the following "General Remarks" on the presented intention:

- The consultation document lacks institutional positioning of the TRU in the existing model of gas market in the Czech Republic, in particular responsibilities of every specific market participant (traders, TSO, market operator). Please note that pursuant to the Energy Act, it is the market operator who carries out the trading evaluation and settlement of imbalances in the CZ territory. Do the conditions for the TRU user require registration only with the GCA/N4G, or will the TRU user have to register also with OTE for the purpose of imbalance evaluation? We also lack the analysis of impact on the subsequent processes in the CZ gas market (mechanism for financial securing of gas traders on the market, for sending nominations and allocation for evaluation of imbalances, system support on the OTE - NET4GAS communication side, financial impacts, access to the Virtual Trading Point in CZ, etc.).
- Presented document does not clearly imply how this project will facilitate decrease in the overall level of wholesale gas prices, especially in view of the gas prices correlation in the Czech Republic to the prices in Germany, unlike the prices in Austria.
- Does this project really involve integration, i.e. the market interconnection, or is this a way to make the allocation of transmission capacity more efficient? In this context we lack the analysis of impact on the available transmission capacities for CZ, especially whether this project would not decrease them.
- We lack more detailed technical solution for interconnection of the Czech-Austrian gas

market, mainly due to the absent physical pipeline that would interconnect the integrated areas.

Therefore we believe the document should be elaborated further and in addition it should assess the options for cooperation that would include the Slovak trading area, not only for the purpose of physical interconnection of the CZ-AT gas market but also to strengthen the effects of this integration that are anticipated for the market participants and the end customers; potentially the document shall also contain the variant that would include the countries of functioning Central Eastern Europe region, pursuant to the amendment of Regulation No. 994/2010 (SoS). In our view, this is the only way to meet the objective of introducing functioning trading region (which represents the most extensive form of integration), as defined by the Gas Target Model and the way for more effective allocation of invested costs on integration projects.

We wish to emphasize that we welcome discussion on the integration projects. Market operator offers its support and experience with integration projects in the electricity industry gathered over many years that can be utilised for potential further discussion, not only about this presented solution but also in general to discuss any other concept of gas market integration. This experience, *inter alia*, indicates that in case of integration efforts the project must involve – in addition to the state administration bodies and transmission grids operators – the market operators/market area organisers in individual countries. This is, in our view, the only way to achieve the full market integration. In particular we offer cooperation for finalisation of the document, i.e. detailed descriptions of roles for individual entities, communication flows, etc. To achieve full market integration of the gas market the document shall in addition encompass the intra-day gas market which is organised by the Market Operator. Within its involvement the Market Operator can also analyse the potential utilisation rate for the existing and newly built IT systems and trading platforms which are used for organising the day-ahead and intra-day markets with electricity. Only afterwards it will be possible to carry out qualified evaluation and prepare specific inputs for individual parts of the consultation document, as presented in Chapter G, Part II of the Consultation Document.

Yours sincerely,

Aleš Tomec
Chairman of the Board

Igor Chemisinec
Member of the Board

Cc:
Ms. Lenka Kovačovská, Deputy Minister of Industry and Trade