

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



EFET comments – 19 April 2016

EFET¹ welcomes the opportunity to respond to the above consultation.

In general, EFET believes that market mergers should be driven by market demand for example where there is a high degree of existing interconnection, and not by regulatory determination, unless there is a strong economic case. The documentation provided however does not give sufficient information for EFET to understand the proposed model, its possible impacts on the market, and further the operational processes necessary to facilitate the TRU Option product. Nor do we believe that the economic case has been clearly made. Until such time as this information is made available we reserve judgement on whether we support the product and on any impact it may have for liquidity and market integration.

We would like to stress the following three main points concerning implementation of the TRU Option product:

- It should not increase the costs for market participants in general in Austria or the Czech Republic, either directly or indirectly; as far as we interpret the planned product. It is a product that would involve a swap of gas between both markets and as such could be offered in principle by every market participant at competitive costs. We therefore think that it should not be part of the regulated business of either of the concerned TSOs but should – if at all – be set up as a private undertaking.
- Market participants should remain primarily responsible for balancing the Austrian and Czech market areas and the TRU Option product should not force TSOs to deviate away from the balancing merit order set out in Regulation 312/2014 (i.e. through greater use of locational products and balancing services);

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at www.efet.org.

- Cross-border capacity availability and utilization at Austrian and Czech borders should not be adversely impacted.

We would add the following comments, which we believe would also deserve further discussion:

- We assume the TRU Option product will exist as a standalone product which can be added to standard capacity products allocated via PRISMA, not as a capacity product in its own right which would be allocated via PRISMA in competition with standard capacity products. However, if our assumption is not correct the creation of a virtual capacity product and its marketing on PRISMA raises questions about whether traders who create virtual capacity products (e.g. through basis swaps) may also market these products on the capacity platforms in competition with physical products, or on what grounds they would be excluded.
- As indicated above, we would welcome further information on how a CZ-AT capacity product is to be operated in the absence of physical interconnection. For a product to be physically firm, it may be necessary to hold interconnecting capacity in German or Slovakian systems, but it is not clear who will hold this capacity, whether a TSO would need to be enabled to be a shipper in another system or a special third party would need to be created.
- EFET has previously expressed concern over the implementation of Day-ahead Use-it-or-lose-it above its preferred capacity product using Overselling and Buy Back. While we strongly support the stated intent to implement and apply EU network codes in the same manner (and we hope that this will happen increasingly across different transportation systems in any case), we would not want to see further export of DAUIOLI, Conditional Firm or differentiated (discounted) transit products.
- The higher degree of existing interconnection and price correlation between Czech Republic and Germany suggests that the Czech virtual trading point may more readily be a satellite of a North West European pricing zone, and any cost benefit analysis of combining with the Austrian market should be compared to this as a counterfactual.

In conclusion we would like to stress the importance for any initiative in this regard to come with a degree of transparency that would allow market participants to understand the technical, operational and commercial provisions behind it, bearing in mind the Austrian and Czech market areas are not physically connected. Explaining how TSOs will manage the TRU Option product is equally important as describing how shippers could use it, in order to understand all possible consequences following its introduction.

For any question or clarification we would be very happy to engage in future conversation with you on this topic.