



Remarks and answers to questions within consultation on integration of Czech Republic and Austria gas markets dated 30.3.2016

A) Introduction

In general Pražská plynárenská, a.s. fully supports further integration of the Czech Republic gas market with other markets and thus implementation of the target market model of ACER (Gas Target Model). We view the integration through market amalgamation or introduction of functional trading region (page 4 of the consultation document) as being the only functioning model, because only the non-existent contracting of the transmission capacity will bring the single price in the given area. In our view the insufficient transmission capacities represent the main obstacle to implementation of such model; the implementation requires especially the agreement on cost allocation among the involved operators of transmission systems (ideally, through distribution tariffs from the customers).

In our opinion the requirements stipulated by the Regulation (EC) No. 984/23 implementing the Network Code on Capacity Allocation Mechanisms in gas transmission systems (hereafter the CAM NC) represent very important step on which we need to focus, especially:

- By increasing the volume of coordinated transmission capacity through cooperation of involved transmission system operators pursuant to Article 6 of CAM NC, and
- Principally creation of virtual interconnectors for two entry-exit systems pursuant to Article 19, Section 9 of the CAM NC (in the Czech Republic it mainly concerns the HSK-Brandov hub and Waidhaus hub on the German side).

B) Submitted consultation document

Pražská plynárenská, a.s. considers the submitted consultation document insufficient and incomprehensible for the purpose of assessing potential impacts on the Czech Republic and Austria markets. Likewise, we do not view the TRU option as the adequate method for interconnection of markets. Our opinion is based on the following reasons which will be examined further:

- Logic and procedure for market integration from the CZ perspective,
- Compliance with legislation – Energy Act, CAM NC, TAR NC (draft)
- Insufficient explanation of the TRU option principle, TRU physical securing (necessary capacities), prices, market impact analysis
- Sufficiency of capacity

1) Logic and procedure for market integration from the CZ perspective

In view of Pražská plynárenská, a.s. the procedure where the Czech Republic is firstly integrated with the Austrian market is not suitable. Although there are two neighbouring states involved, however without any direct physical interconnection and with relatively big differences between market prices.



Physical interconnection is thus possible only through Slovakia, or Germany (considering the status of capacities, this method is rather unrealistic). It is not clear to us why neither of these countries is subject to the consultation (see below).

As said before, for technical reasons the integration cannot be executed through market merger which we consider the only function and meaningful option. Mere additional product does not address the existence of price differences between the markets or insufficient capacities.

In our view, the effort should rather be focused on the integration of the Czech and German market. Existing capacity between the markets is sufficient, the price difference between the markets is not too high and there is also the potential for integrating two German market areas into one. In addition such market would primarily fulfil the virtualisation requirement pursuant to Article 19, Section 9 of the CAM NC.

Subsequently, it will be much easier to think about integration of such single market with the Austrian one, via Germany.

In our view the next step should rather involve either the full integration of Slovak and Austrian markets, or the integration of Slovak and Czech markets, nevertheless the latter case would bring more pitfalls due to higher price differences.

Only then it will be possible to consider the integration of the Austrian and Czech markets through the Slovak market.

Equally, in case of the BACI project construction it is necessary to consider whether the allocation of capacities to the gas traders would not ultimately prevent the full integration of both the markets and whether a different allocation of costs for such project should be pondered, if such project is deemed meaningful.

2) Compliance with legislation – Energy Act, CAM NC, TAR NC (draft)

Due to the unclear description of the TRU option its compliance with the legislation cannot be fully assessed. Nevertheless, we think that:

- This is not a contract for gas transmission but an additional upgrade for the gas transmission contract in the given entry point, with possibility for transfer to any other point. In reality such service acts as a transmission and to ensure the service, gas definitely needs to be transported. Hence the TRU option shall involve the gas transmission service while meeting the conditions pursuant to Section 72 of the Energy Act.
- Offered service does not comply with the Energy Act – particularly with Sections 58 and 72
- It is not fully clear whether it complies with regulation CAM NC that requires allocation through auction which is coordinated with the neighbouring operator for all capacities in each entry/exit border point. It does not fully imply what capacity will be committed for the TRU option, how it will be priced, how the possibility of transferring option between all entry points will be handled.
- It is not fully clear whether it complies with the draft regulation TAR NC, which requires calculation of tariffs based on the capacity and distance and such calculation will not be possible because the TRU option could be switched between individual entry points.



3) Insufficient explanation of the TRU option principle, physical provision of TRU (necessary capacities), prices, market impact analysis

The document does not clearly imply how the TRU option will be physically secured and what will be the scope of the option – i.e. what would be the impact on the capacities in the Czech Republic, Austria and Slovakia. Will these capacities be set aside from the standard auctions? What will happen if they are not sold?

Pricing of the TRU is also unknown (initial price for the auction).

We also lack the analysis of impact on the Czech, Austrian and Slovak markets (potentially on the German market).

Bearing in mind the above-mentioned reasons it is practically impossible to evaluate the benefits/drawbacks related to introduction of the TRU option principle. In our view the consultation process cannot be finalised without comprehensive explanation and precise data.

Undoubtedly, there will be concerns that earmarking part of capacity for the TRU option may cause the capacity shortage in points through which the TRU option will be physically provided.

In our view, Chapters D and F are completely inadequate and we request their modification in accordance with our requirements stated above and in particular they shall be backed by tangible figures.

4) Sufficiency of capacities

The consultation document does not substantiate sufficiency of free transmission capacity to secure the TRU option. Especially the capacity within the EUSTREAM network is already largely booked through contracts, in particular the route from the CZ to Austria and thus it might not be available for the TRU option.