

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

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I. General remarks

Although in our view the concept of market integration of the gas markets in the Czech Republic (CZ) and Austria (AT) is a positive and interesting idea, based on the submitted document we believe that the subject of the consultation involves only implementation of integration, whereas the analysis of the integration benefits for CZ and AT as such (as the project supported by the government) was not publicly presented. To ensure comprehensive evaluation of the described project viability, the authors of the concept shall make the detailed analysis of costs, revenues and benefits for all stakeholders, as well as target parameters of the integration available.

On one hand the submitted document indicates that the market integration model does not envisage any significant investment, i.e. nor the implementation of the BACI project, on the other hand the document does not explicitly renounce the project, nor the document contains specific way for implementation of the integration model.

II. Specific inputs

No.	Reference to the relevant section of the consultation document	Comment, question, etc.	Justification
1.	Market Integration – Targets and the Gas Target Model (ACER)	<p>This section of the document states: “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”;</p> <p>And as regards the BACI project the document states: “Because of its market integration functionality it is approved as a Project of Common Interest on the 1st PCI list as well as on the updated 2nd PCI list.”</p> <p>However, the stated sections are not accompanied by specific analysis and they also do not mention the fact that the model for ČS and AT market integration can be fully facilitated through the capacity offered by eustream, a. s..</p>	<p>We assume that the project involves projections of gas prices decrease. Individual models are discussed; nevertheless there is no analysis at all. Neither the document specifies whether the possibility of market integration with German market, i.e. the primary market from the pricing point of view, was considered and analysed and how it was done.</p> <p>Project BACI in its market interconnection function can be clearly replaced with existing offers from eustream, a.s.. However, it is necessary to ensure that the BACI project function is not misused; and if the project should fulfil any other transit functions, in our view it should not be considered a PCI project.</p>
2.	Possible models for integration of the	This section states that the working group decided to opt for the model of	eustream, a.s., supports integration of the gas markets in CZ and AT by means

	Austrian and Czech gas markets	<p>the so-called small integration of the CZ and AT markets on the grounds that due to substantial transit functions of both the networks the integration through merging of markets or introduction of functioning trading region would require implementation of vast capacities that would necessitate considerable investment costs. Nevertheless, we are convinced that the direct interconnection of the CZ and AT, of any small scale, requires substantial investments and hence the integration model most probably anticipates utilisation of existing infrastructure in the neighbouring states. However, the listed facts are not included in the submitted document at all and thus the model description should be complemented with the facts mentioned-above.</p> <p>Wording of the document does not clearly imply how the model of small integration will be applied in practice. There is a question whether the existing infrastructure capacities of adjacent transmission networks operators will be utilised in the future. And if so, what is the impulse to build the direct Czech-Austrian interconnection through the BACI project in the event when the existing transmission interconnections would not be fully utilised, or if their capacity would be subsequently limited, and if due to the incorporation of costs into the tariffs the investment execution would have considerable negative impact on the end consumers of gas in CZ and AT?</p> <p>In May 2015, GAS CONNECT AUSTRIA GmbH and Net4Gas, s.r.o. carried out the market survey in order to obtain the opinion of market participants whether the incremental capacity should be offered in the new interconnector profile or through the new concept that takes into account the principles of market integration. Market participants preferred the integration. In this context we do not understand why the working group deliberates implementation of the BACI project, and not just several</p>	<p>of the existing eustream, a.s. infrastructure, i.e. via the concept of virtual interconnection of CZ and AT. Our company is able to cater for the declared/requested capacity requirements in both directions. The BACI project thus seems to be redundant - as it would not eliminate the need for investment costs related to the interconnection of markets if the markets are merged or if a functioning trading region is introduced.</p> <p>In our opinion the BACI project represents an inefficient investment which, in addition to all above-mentioned facts, does not comply with the valid legislation applicable to the EU gas market, especially as regards the duty of the transmission network operator to develop new infrastructure in the optimum manner, as implied by the Article 13 of the Directive 2009/73/EC. For this reason the construction of an infrastructure that would run in parallel to the infrastructure of eustream, a.s. that is capable of transmitting gas from CZ to AT and vice versa, is inefficient.</p> <p>In addition, execution of the BACI project would necessitate decrease of the transmission capacity from CZ to SR in Lanžhot point which, inter alia, serves as an important hub for supplying gas to Ukraine, SR and other countries. Capacity restriction or decrease in the CZ-SR direction will influence possibility to supply the commodity to Eastern Europe and it will significantly reduce the energy security in the region east of CZ. Simultaneously, it will prevent the access to gas sources from Western Europe to cover the Ukraine needs.</p>
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		<p>models of market integration, especially in situation when the market prefers other integration measures, not a new interconnector profile.</p> <p>Why the CZ and AT market integration does not also include the TAG system which is operated by Trans Austria Gasleitung GmbH?</p>	
3.	D. The TRU idea	<p>The first sentence states that the TRU idea supports integration between the CZ and AT markets by offering more possibilities in terms of connectivity and without the need for a dedicated investment. However, if the idea of integration between the CZ and AT markets is to be realised through introduction of TRU without the necessity of dedicated investment (BACI), why the working group considers implementation of the BACI project?</p>	<p>There are different more economically advantageous models to fulfil conditions of market integration, other than investment into additional gas line connection – the BACI pipeline.</p> <p>Project BACI does not bring the benefits that would justify its implementation. The project:</p> <ul style="list-style-type: none"> (i) does not provide added value for market integration – this integration can be realised even without the BACI implementation; (ii) will not influence at all the enhancement in security of the gas supply to CZ and AT; (iii) will not bring any change in terms of diversification of the natural gas sources in CZ and AT; (iv) will not influence the commodity price in CZ and AT, as both the countries currently have the interconnectors with capacity that is sufficient for the liquid markets in Germany; and (v) will not contribute to increase in volumes of gas flows either in CZ or in AT; it will contribute only to their re-routing from the existing infrastructure to a new parallel pipeline.
4.	F. TRU impacts, costs and benefits	<p>TRU option in the test phase shall not influence either the current structure or the level of transmission tariffs in CZ and AT. At the same time the integration of both markets shall support stronger convergence and the decrease of the overall level of gas wholesale prices in both countries.</p> <p>According to the submitted document the integration of the Austrian and the</p>	<p>The document lacks detailed quantification/analysis of impacts, costs and benefits based on which the TRU service could be evaluated. Similarly, the structure of TRU tariff is missing</p> <p>The submitted document does not clearly imply how Czech and Austrian consumers shall benefit from additional transit opportunities. We</p>

		<p>Czech gas markets enhances the position of these areas as a key gas intersection in Central Europe. The offer of TRU possibilities enables transporting gas between the Austrian and the Czech market areas including additional transportation opportunities to and from the respective neighbouring countries. Again, the document lacks more detailed cost-benefits analysis of the integration as well as the impact of integration on the end consumers in CZ and AT.</p>	<p>believe that the additional transit functions should not be subject the consultation on the integration of CZ and AT markets, and so far the supported concept has not presented in this manner. At the same time our company would like to know which method ensures that the gas consumers in CZ and AT would not bear any costs resulting from the additional transit function.</p>
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III. Summarising questions

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

Information provided for overall evaluation lacks detailed quantification/analysis of costs, revenues and benefits of the service that could be used as a basis for evaluating economic impacts of the market integration. If such analysis exists, it should be published. At the same time the implementation method of market integration needs to be specified in more details.

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

The product shall serve as a means for market integration and it should not be misused for cannibalisation of the established system of tariff fees for transmission. TRU price should take into account the revenue losses in the existing entry/points (Lanžhot/Baumgarten) so that potential integration benefits would not be exported to other countries to which the gas is transmitted across the CZ and SR territory. Otherwise the integration benefits would be routed to the gas producers or suppliers, instead of the end customers.

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?

As the document lacks relevant quantification/analysis of costs, revenues and benefits we cannot comment on this question. The document shall be complemented with the relevant cost-benefit analysis.

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

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

☒ Yes

☐ No