

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

| Subject     | I. General remarks  |
|-------------|---|
| <b>AGGM</b> | As the distribution area manager of the Eastern market area (Austria), AGGM Austrian Gas Grid Management AG (AGGM) welcomes the idea of a closer connection and link between the two market areas by means of TRU. AGGM would expect an increase of liquidity in both market areas, and by that an improvement of competition, supply security and efficient system utilization.  |
| <b>CEGH</b> | CEGH welcomes the possibility to provide feedback on the consultation on the integration of the gas markets of Czech Republic and Austria and has the following general remarks:  |
|             | Against the background of the updated Gas Target Model (GTM 2), measures to improve the framework conditions for traded gas markets in the CEE region are welcomed. In particular the preliminary evaluations done in the course of the development of the GTM 2 have shown that it is important to increase the level of gas market integration in the region.   |
|             | For the further development, Austrian and CEE gas markets require appropriate connectivity to neighboring markets to enhance cross border gas trading and also security of supply.  |
|             | CEGH is supporting the concept of a trading region comprising of Austria and its neighboring countries (CEE region), whereby the instruments / tools for implementation of a trading region have to be carefully selected to be suitable to foster the stability and liquidity of traded gas markets and hubs.  |
|             | The Austrian Virtual Trading Point (VTP) that is operated by CEGH, with its recognized liquidity, is a trading location that can facilitate the further development of the envisaged trading region, provided that framework conditions, (inter)connections and capacity products are meeting the requirements of gas market participants.  |
| <b>ČEZ</b>  | In response to the invitation of the Energy Regulatory Office of 30 March 2016 to participate in public consultation on the integration of gas markets of Czech Republic and Austria we hereby submit the following ČEZ Group opinion on the given matter.  |
|             | ČEZ Group certainly supports all meaningful efforts leading to integration of gas market in the EU that would result in the merger of markets or introduction of functioning trading region. Nevertheless, it is quite difficult to assess the TRU option product based on the presented consultation document. Unfortunately, the data contained in the consultation document are only basic ones and in principle specific comments can be hardly applied against such data. The regulators and TSO should specify in the document their objectives and expectations, anticipated capacities that would be utilised in such manner, what would be the expected basic pricing of such product, how the TRU product corresponds with the rules stipulated by the current legislation of the Czech Republic (Energy Act) and the EU (directly applicable REMIT regulations, etc.) and so on. |

|                |   |
|----------------|---|
| <b>ČPS</b>     | <p>We support further cross-border market integration within the CEE region, where the proposed option could eventually enhance competition in this region and increase the market liquidity and could also be seen as the first step on the way to the creating a trading region in the future and to the phased implementation of the on-going cross-border market integration project (i.e. the CEETR project covering Austria, the Slovak and Czech Republic).</p> <p>So far the CEETR project comprises also the Slovak Republic, we encourage NRAs/TSOs to involve the Slovak Republic or Slovak NRA/TSO respectively, into the on-going consultation process in order to ensure consistency with the proposed cross-border market integration project (CEETR project). Furthermore when taking into account cross-border interconnection capacities between the Czech Republic and Austria, where there are no direct connections (with significant physical gas flows) these two countries are only connected through the Slovak Republic. We consider the involvement of the Slovak Republic in this consultation process as a prerequisite for the well-functioning implementation of the proposed option. Another option is to focus on the cooperation also with Germany as implied in the proposal for a regulation repealing Regulation (EU) No 994/2010 concerning measures to safeguard security of gas supply (region Central-East: Czech Republic, Germany, Poland and Slovakia).</p> <p>To fully exploit the potential of the TRU service, it would be beneficial to have a TRU option offered directly at a virtual trading point. The concept proposed allows the TRU option to be added only to a booking of an entry capacity and thus limiting potential benefits of this additional service for specific situations only. A product offered directly at virtual trading point would allow traders who purchased gas at a Czech or Austrian virtual trading point to also take advantage of the service proposed. Connecting the virtual trading points through TRU is the key to move towards desired convergence of both markets.</p> <p>From the consultation paper it is not clear how exactly the TRU follows the existing (Czech) gas market model (e.g. the physical implementation of the project, the evaluation of imbalances and related processes, detailed assessment of the impacts on the market, traded volumes, initial setting prices etc.). In this context, it would be appreciated to provide an example of the usage the TRU from which it would be understandable how exactly the whole process of TRU properly use.</p> |
| <b>ECONGAS</b> | <p>EconGas welcomes the opportunity to participate in the consultation process regarding the envisaged market integration of the Czech and Austrian markets. Please find enclosed our structured input regarding the TRU concept.</p> <p>In our view the consultation document is not clear enough to assess the TRU concept and its functional enhancement to the gas markets involved and the trading region. In particular, the following components are missing to assess the potential of TRU:</p> <ul style="list-style-type: none"> <li>No indication about the volumes/capacity that can potentially access the one or the other market via TRU.</li> <li>Also related to the physical feasibility, it is not explained how firm flows can be guaranteed between the AT and CZ markets</li> <li>The pricing or price methodology of TRU should at least have been indicated in the course of this consultation. Without indicative prices for TRU, it is not possible to accurately assess the potential market interest in this option.</li> </ul>   |
| <b>EFET</b>    | <p>EFET 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.</p> <p>We would like to stress the following three main points concerning implementation of the TRU Option product:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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);</li> <li>Cross-border capacity availability and utilization at Austrian and Czech borders should not be adversely impacted.</li> </ul>   |

|                 |   |
|-----------------|---|
| <b>Energie</b>  | As there is no physical connection between the gas market areas of Austria und Czech Republic we cannot identify the benefits of the TRU Model. Upgrading Integration with the German market would make more sense. Austria has already one market area which is connected with Germany. Market Integration with Czech Republic cannot meet the target of enhancing the liquidity of the CEGH gas hub. In general market Integration should be in line with the guidelines of security of supply and not be considered completely separate.   |
| <b>Engie</b>    | ENGIE is supporting market integration and the fostering of liquidity in European markets, and as such ENGIE is appreciating any proposal to connect European markets with innovative products. However, given the lack of precise information about the Trading Region Upgrade (TRU) (the actions taken by the TSOs to provide it, its cost and the impacts it might have on the market), ENGIE cannot have a definitive opinion on this project and proposes a second consultation to be organized later, with more detailed information.   |
| <b>eustream</b> | 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.   |
| <b>OMW</b>      | At the moment there are many open and/or unclear issues in respect of the new model thus a final evaluation is not possible at this stage. However it seems to be clear that, especially referring to the storage market, there Registriert beim is a high potential of creating market distortions and negative impacts to a market that is already under pressure.  |
| <b>OTE</b>      | <p>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.</p> <p>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.</p>   |
| <b>PPAS</b>     | <p>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).</p> <p>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:</p> <ul style="list-style-type: none"> <li>By increasing the volume of coordinated transmission capacity through cooperation of involved transmission system operators pursuant to Article 6 of CAM NC, and</li> <li>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).</li> </ul> |

|                |  |
|----------------|--|
| <b>SVSE</b>    | <p>The Union of Large Energy Consumers supports further integration of the European gas market aimed at creating single market in accordance with the EU strategy (Gas Target Model). The meaningful market integration from a customer perspective is principally the one where 1 market really exists, with 1 market area. We are concerned that in view of the current infrastructure status (non-existent direct interconnection with Austria) this goal cannot be achieved through the presented model. The fact that Austrian market in general is a market with higher prices than the Czech market is seen as a risk. From a customer perspective the benefits from integration with a market with lower liquidity and higher prices are thus questionable.</p> <p>At the moment the gas for customers in the Czech Republic is generally traded through products pegged to the gas prices in Germany in the NCG zone, or in the GASPOOL zone. Therefore we consider integration of the Czech gas market with the German market more beneficial and this view is supported by the arguments below:</p> <ul style="list-style-type: none"> <li>• Sufficient interconnection capacity already exists,</li> <li>• There are no fundamental price differences between the markets,</li> <li>• Integration will also allow for integration of the German NCG and GASPOOL market.</li> </ul> <p>In our view the submitted model is not moving in the right direction. We recommend suspending, or even abandoning the proposed model and focusing on the above-stated aspects. And the integration with Austria shall be considered only afterwards.</p> |
| <b>UNIPER</b>  | <p>Any efforts to further integrate markets are welcomed. We also understand that the model intends to “increase the attractiveness of the storages in Austria and the Czech Republic” (page 10). Therefor we want to fully understand the model in context of using storage capacities in the respective other market. Based on our experiences with a storage infrastructure that integrates two markets, transportation costs play an important role. With the BEATE rules introduced recently on the German side the use of storage capacity to integrate markets was made less attractive and therefor contradicts the intention of market integration. Therefore the practical booking procedures and costs of this TRU service are essential to evaluate the possible benefits of this model. For storage connections points we see several questions to be further analyzed in this model.</p>   |
| <b>Anonym.</b> |  |

| II. Specific inputs |  |  |  |
|---------------------|--|--|--|
| Subject             | Reference to consultation document   | Comment, question, etc.  | Justification  |
| AGGM                | Page 5, last sentence of first paragraph:<br>Start of TRU service: annual yearly capacity auction in July 2017 for use from 1 October 2017 | The auction of yearly capacity this year took place March, 7th 2016. We would therefore expect, that the yearly auction next year most probably takes place in March 2017. | See auction calender published on PRISMA platform and ENTSOG Homepage.   |
| CEGH                | Please refer to item I and III.  |  |  |
| ČEZ                 | In view of the lack of details and overly general nature of the document we do not specifically comment on individual points of the text.  |  |  |
| ČPS                 | p.7-8; TRU flexibility/allocation  | So far TRU might be allocated at any entry point, we miss further information on TRU allocation in case of other than interconnection points (IPs).                        | TRU will be allocated via the PRISMA platform. Currently PRISMA allocates gas capacity at IPs.   |
|                     | p. 9-10; E. Proposed F. TRU impacts, costs and benefits  | We encourage NRAs/TSOs to publish at least a rough estimation of price for TRU option/service.   | Shippers need more detailed information on price of this service against which they could roughly evaluate their expectations on costs related to the proposed TRU option (service). |

|                |  |
|----------------|--|
| <b>ECONGAS</b> | <p>The document does not at all specify whether TRU is a bi-directional (AT&lt;-&gt;CZ) option, or whether two uni-directional options (AT-&gt;CZ + CZ-&gt;AT) can be purchased. In other words: Is it intended to sell two products, one to access the Austrian VTP via Czech Republic ("TRU AT") and one to access the Czech VTP ("TRU CZ") via Austria (consequently two TRU coins are offered), or is it intended to sell only one TRU coin to access the respective other country?</p>  |
|                | <p>The marketing and product characteristics of TRU need to be specified in detail.</p> <ul style="list-style-type: none"> <li>It is unclear who exactly will offer TRU. We assume it will be individual TSOs, but is not mentioned in the document.</li> <li>Can TRU also be used in combination with TAG capacity (since TAG is not mentioned in the document)?</li> <li>Product runtimes of TRU are missing (Is it only a day-ahead option or even for longer periods?)</li> <li>The timing of the TRU auctions should be clarified. We assume TRU is sold in the second bidding window.</li> <li>As well, it is not defined whether TRU can also be bought without holding the required entry capacity in the first place.</li> <li>The document lacks a clarification as to which capacity rights enable to purchase and use TRU. Is a primary transportation contract needed, or is it sufficient to have capacity allocated at an entry point? (for instance usage rights purchased on the secondary market).</li> <li>Does TRU fall under the regulations defined in the "CMP Annex"? (can it be surrendered, will mechanisms such as DA UIOLI, LT UIOLI etc. apply?)</li> <li>Can TRU be traded on the secondary market?</li> </ul> |
|                | <p>Technical feasibility to maintain firm TRU quality.</p> <ul style="list-style-type: none"> <li>As also stated in the document, no firm capacity is existing to connect Austria and Czech Republic. The consultation material does in no way explain how the Czech and Austrian TSO(s) can guarantee firm shipments between the two trading hubs.</li> <li>Notwithstanding the previous bullet point, it would have been necessary to indicate to which extent (in kWh/h) TRU is considered to be offered.</li> </ul>  |

|             |   |
|-------------|---|
| <b>EFET</b> | <p>We would add the following comments, which we believe would also deserve further discussion:</p> <p>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.</p> <p>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.</p> <p>EFET has previously expressed concern over the implementation of Dayahead 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.</p> <p>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.</p> <p>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.</p> |
|-------------|---|

|                |                                    |  |
|----------------|------------------------------------|--|
| <b>Energie</b> |                                    |  |
| <b>Engie</b>   | On TRU idea (point D, page 6)      | <p>Our understanding of the added value of the TRU (compared to the current situation where each shipper wanting to go from one market to another buys the capacity themselves) is that GCA and Net4Gas will pool shipper's nominations in opposite directions (they will net the flows AT &gt; CZ and CZ &gt; AT), and buy the resultant needed capacity either in Germany or in Slovakia. Do you confirm this understanding ?</p> <p>If so : How much pooling is expected ? How will it be able to anticipate the expected pooling (in order to establish the TRU tariff in advance) ?</p> <p>o Will GCA and Net4Gas be active on the capacity market in Germany/Slovakia as regular shippers, or will they have a specific status ?</p> |
|                | On TRU cost (point F, page 10)     | <p>What is the expected cost of the service ?</p> <p>Will GCA and Net4Gas be allowed to earn a margin with this service ?</p> <p>If not, what will the revenue deriving from the sale of TRU become ?</p>  |
|                | On TRU impact on tariffs (page 10) | <p>On TRU impact on tariffs (page 10) : ENGIE strongly stresses that this service must be and stay a pure market based service, as proposed, without any cross-subsidy effect on other entry and exit points.</p>  |

|          |   |   |   |
|----------|---|---|---|
| eustream | 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”; 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.” However, the stated sections are not accompanied by specific analysis and they also do not mention the fact that the model for ĀS 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. 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>   |
|          | Possible models for integration of the Austrian and Czech gas markets | <p>This section states that the working group decided to opt for the model of 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>eustream, a.s., supports integration of the gas markets in CZ and AT by means 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> |

|                                    |   |  |
|------------------------------------|---|--|
|                                    | <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 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>  |  |
| 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. Project BACI does not bring the benefits that would justify its implementation. The project: (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.</p> |
| 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. According to the submitted document the integration of the Austrian and the 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>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. The submitted document does not clearly imply how Czech and Austrian consumers shall benefit from additional transit opportunities. We 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>  |

|            |   |
|------------|---|
| <b>OMW</b> | <p>There are different existing transmission systems related to Gas Storage in both countries which will cause serious problems. For instance there is uncertainty regarding legal responsibilities - who is able/responsible to buy the transport capacity, tariff and structure</p> <p>type of available transmission capacity for Storage Users;</p> <p>SOS — the obligation in CZ would not work in AUT due to the missing firm transport capacity</p>  |
|            | <p>Those significant differences bear the risk that after linking the markets with the TRU option there are either severe market distortions or that the Austrian system will have to be changed leading to negative impact and higher costs for the Austrian storage customers.</p>  |
|            | <p>The presented TRU model is designed to “work’ within the transmission system of both countries. In Austria the majority of gas storage facilities are located in the distribution area, only some in the transmission system, whereas in CZ the storage facilities are located within the Transmission System. This would lead to different processes and at least to an unequal treatment of the storage operators in Austria which contradicts the existing system according the Austrian Natural Gas Act.</p> |
|            | <p>Currently a new Security of Supply Regulation is in the process of being set up on European level. There is the danger that there are contradictions with the planned market linking which might increase complexity with negative market impacts.</p>   |
|            | <p>Due to the many open issues which potentially have severe market impacts an implementation with 2017 seems to be very ambitious and involves the danger of an unready system.</p>  |

|                   |  |   |
|-------------------|--|---|
| <p><b>OTE</b></p> | <p>Chapter G, Part I, we hereby submit the following “General Remarks” on the presented intention:</p> | <p>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.).</p>  |
|                   |  | <p>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.</p>   |
|                   |  | <p>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.</p>   |
|                   |  | <p>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.</p>  |
|                   |  | <p>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.</p> |

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

#### 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.

**SVSE**

Since we do not consider the proposed model very beneficial at the moment, in view of the above-stated facts, our comments are just brief:

- It is not clear how the so-called TRU option physically operates, what is the capacity providing for the connection, what is the TRU price,
- There is no specific analysis of the market impact (calculations),
- It is not clear whether any non-compliance with the European regulations or with the Energy Act may arise.

|                |   |  |   |
|----------------|---|--|---|
| <b>UNIPER</b>  | Specifics of the Austrian and Czech gas markets to be considered, page 4 in context of TRU definition on page 7 | Second bullet point on page 4 indicates a congestion free access to storage. This is currently not the case in Austria. Is it correct that TRU will not upgrade the quality of the available transportation capacity?  | For 7 Fields connected to the transmission system only interruptible capacity is available. Therefore access to the VTP can't be considered as congestion free.   |
|                | Booking regime on page 4 (last sentence) and TRU allocation on page 8   | In context of SCPs, who will be able to book the TRU option (SSO or storage customer)<br>Will there be a PRISMA auction also for storage connection points (SCPs) ?<br>Does TRU also cover SCPs in the distribution system and who should book the TRU option in regard to physical storage capacity at the Entry points in the distribution system?<br>What will be the contract duration (daily,..) of TRU at the SCPs | In Austria the SSO books the transportation capacity from SCP to VHP. In CZ the customer books SCPs)<br>This is currently not the case in AT and CZ for SCPs.<br>Most of storage sites in AT are connected to the distributions system. It seems that AGGM should be involved to prepare a model at the interface between the distribution and transmission system.<br>Transport Capacity in Austria at SCPs can only booked on yearly basis. |
|                | TRU flexibility" on page 7  | How are "virtual storage points" defined in context of the TRU model.<br>UST Balancing Group delivers physical storage capacities at the VTP (AT). Does this service has access to the CZ VTP with a TRU option?<br>What does a shift to any other entry point in the same transmission system mean ?  | All "storage pools" are located in the distribution system.<br>Storage capacity is delivered at the VTP from UGS Balancing Group to the Balancing Group of the customer.<br>Is this necessary in using an   |
|                | "TRU definition" on page 7  | We understand that TRU does not change the quality of the available transport product. If the storage sites in the distribution system get an access to TRU what will be the quality (firm/interr.) of the so called "Standard capacity" at the VTP in CZ?   |   |
|                | Missing evaluation of effects on Security of Supply   | In CZ only firm transport capacities are allowed in case the storage obligation is fulfilled outside CZ. Taking into account that only interruptible transport capacities are available at storage connection points in Austria it is highly questionable if storage bookings in Austria can serve as a firm storage booking in CZ.  | In AT and CZ different SOS regimes are in place. In contrast to AT, suppliers of protected customers in CZ have a storage booking obligations.  |
| <b>Anonym.</b> | Page 5  | The annual yearly capacity auctions are scheduled in March.  |   |

| III. Summarising questions |   |   |  |   |
|----------------------------|---|---|--|---|
| Subject                    | How would you evaluate the proposed model for Austrian-Czech gas market integration overall?  | How would you evaluate the proposed services/product for Austrian-Czech gas market integration overall?   | 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?   | Do you have additional comments or suggestions for enhancement related to the Austrian-Czech gas market integration which you would like to share?                |
| <b>AGGM</b>                | AGGM has no further comments or questions but is interested in the further development of the market integration process.   |   |  |   |
| <b>CEGH</b>                | The integration of the Austrian and Czech gas market via the proposed capacity booking mechanism could be an important and innovative first step to open up and connect the Austrian and the Czech gas market. The concept of TRU capacity booking could lead to a better understanding of the requirements of shippers and traders in this region, without having to invest upfront in physical infrastructure. Furthermore the TRU project could help to gather practical experience in establishing a closer market based cooperation. This will enhance the cooperation between TSOs on an operational level and also between the regulators regarding the applicable framework conditions. | The indicated product range and capability of the TRU upgrade for existing capacity products will enhance gas trading options and provide shippers and traders with access to a larger and more integrated gas market area.   | Possible market integration between Austria and Czech Republic was subject of the Trading Region project that was supported by CEGH. The TRU project features important aspects of the trading region project.   | The TRU project is a first step for a merging of the gas markets but a full integration will require an appropriate pipeline connection between the market areas. |
|                            |   | The implementation of the TRU project could also lead to a narrowing of the gas price differential between Austria and Czech Republic on a lasting basis, which could result in the development of a more leveled gas pricing in this region.<br><br>In order for the TRU upgrade to be a viable instrument that is used by shippers and an effective advantage, it will be necessary that the process of booking the TRU option is simple and takes into account the current processes at the PRISMA platform and other relevant market requirements (lead time for booking / day ahead gate closure time for shift of entry points etc.). | The TRU project will in our view contribute towards the positive development and further regional gas market integration. Possibly it could serve also as a role model for a new concept of capacity products that could lead towards a more integrated gas market on an even bigger geographical scale. |   |
|                            | In the event of realization of the TRU project, stakeholders and market participants would be in a position to quickly benefit from a market  | Further decisive aspect for the success of the TRU Project will be the cost of the offered products. Project stakeholders should aim for a transparent  |  |   |

|   |  |   |   |  |
|---|--|---|---|--|
| <p>integration tool that could be swiftly implemented. Such implementation could be done at comparably low costs ahead of the construction of a pipeline that would require longer lead time and additional steps.</p>  | <p>pricing of individual products subject to the applicable regulatory and tariff framework conditions.</p>  |   |   |  |
| <p>Additionally, the information collected from this project will also help to better understand the requirements / market demands associated with the construction and operation of a physical connection via pipeline. The project will accordingly contribute to an improved understanding and also possible efficiency gains.</p> |  |   |   |  |
| <p><b>ČEZ</b></p>   | <p>The model is currently described at very general level and thus we would welcome more detailed information on applying the model at market merger or introduction of functioning trading region.</p> <p>In this context it should be noted that ČEZ Group does not consider integration of the Czech and Austrian gas market as a priority that should be developed at the expense of integration with Germany and Slovakia. Czech Republic and Austria do not have direct physical interconnection and the market prices are not interlinked so strongly as with the other above-mentioned neighbouring states. Interconnection between the Czech Republic and Austria is really possible only through Slovakia or Germany, hence we are afraid that the status of the Germany and Slovakia interconnection will deteriorate to the detriment of the effort for integration with Austria, and we do not consider this to be a benefit.</p> | <p>Again, we have to state that for the moment the delineation of the entire solution (services/products) is very general and it is obvious that TRU represents an option which is only a complement to the basic capacity products at entry points in the GCA and N4G systems.</p> | <p>Unfortunately, the consultation document does not quantify any specific costs and benefits for the proposed model, thus it is difficult to comment on this question. Of course, specific benefits and the utilisation rate depend on specific price conditions, the price of TRU for individual capacity products and how the sales procedure will precisely look like in the PRISMA platform.</p> | <p>The system should be described in a much better way, in particular regarding the anticipated pricing in relation to the prices of basic capacity products. The TRU product has a form of an option therefore the document does not indicate at all how it will result in the market merger or introduction of a functioning trading region.</p> |

|                |  |  |   |   |
|----------------|--|--|---|---|
| <b>ČPS</b>     | <p>We welcome the proposed TRU option as the first step towards future cross-border market integration in the CEE region. However the consultation document fails to envisage more details on the technical feasibility of the proposed option. We consider following points as main bottlenecks of the proposed option:</p> <p>Lack of details on potential physical restrictions on the provision of TRU option/service, i.e. insufficient cross-border physical capacities between the Czech Republic and Austria, only connection (with considerable physical gas flows) through the Slovak transmission system, but the Slovak Republic is not involved in the consultation process/proposed integration option.</p> <p>A lack of details at the extent/volume of TRU option/service and its dependence on quantities of commercial gas flows.</p> <p>Therefore we are keen to see more details on the technical feasibility of the proposed option as well as the extension of proposed integration option to the Slovak market followed by the involvement of Slovak TSO/NRA in the consultation process.</p> | <p>Should the proposed option encompass the Slovak market as well, we consider this market integration measure as an intermediate step for the future cross-border market integration in CEE region.</p> | <p>We would appreciate more information on the estimated price of the TRU option proposed and evaluation the impact of the implementation this service (i.e. TRU option) on gas pricing in both markets concerned, in order to enable the shippers to further evaluate the economic benefits of this service. Information as published in the consultation document is insufficient to allow the shippers doing that.</p> | <p>Besides our comments as mentioned above we would appreciate the further involvement of stakeholders in conjunction with discussions on the expected integration process and developments in CEE region. We agree with ERÚ and E-Control that a transparent and clearly defined legislative framework is necessary for introduction the TRU option. However, with respect to the uncertainties as stated above, we take eventual current implementation of TRU premature at this moment. We believe the legislation proposed change is inadequate. Moreover there would also be necessary to adjust the Energy Act and also the compatibility with NC CAM is questionable (for instance, TSO primarily offers a capacity, not an option).</p> |
| <b>ECONGAS</b> | <p>With the input provided, it is not possible to evaluate the model accurately, in particular due to lacking information on potential volumes that can be swapped by the TSOs between the two markets and the missing price indication of such service</p>  | <p>The product definition in the consultation document is unclear, as indicated in Pt.2</p>  | <p>The consultation document does not include any figures indicating the costs or benefits of the proposed model.</p>   | <p>We understand the need for a market consultation to assess the overall interest in TRU. Before any additional steps are taken, we opt for a clarification of ALL details and further on a second consultation.</p>   |
| <b>EFET</b>    |  |  |   |   |
| <b>Energie</b> | <p>No benefits, as there is no physical connection between the market areas.</p>   | <p>The products cannot help to increase the liquidity at the concerned gas hubs.</p>   | <p>There is no indication of costs at the moment available.</p>   |   |

|                 |   |   |  |  |
|-----------------|---|---|--|--|
| <b>Engie</b>    | Our opinion is that this model needs further clarification. At this stage it is unclear if it will really provide the exposed benefits. Without any physical capacities between Czech Republic and Austria, or support from German or Slovak gas transporters, we wonder if a solution meeting the standards for EU gas market integration is possible.                             | In our understanding, this service provides no added value (except for a hypothetical and unpredictable pooling), as the cost for TRU would be very close to the capacity costs between Czech Republic and Austria. Market based solutions are only possible when compatible with the physical constraints of the networks.   |  |  |
| <b>eustream</b> | 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. | 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. | 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. |  |
| <b>OMW</b>      |   |   |  |  |
| <b>OTE</b>      |   |   |  |  |
| <b>PPAS</b>     |   |   |  |  |
| <b>SVSE</b>     |   |   |  |  |
| <b>UNIPER</b>   | See answer to general remark  | For a final assessment of the possible benefits of the model the above mentioned questions shall be further elaborated  | SOS effects are missing in the model description, See also question 5  | Will the Titel Transfer fee at the VTP be charged double if TRU is used ?  |
| <b>Anonym.</b>  | Subject to the calculation of the TRU tariff, Subject evaluates the propose model as the right towards a fully market integration.  | Positive  | The evaluation of the costs and benefits is heavily dependent on the tarif for the TRU option.   | What is the basis for the described TRU option offered and sold to the market as demanded ? How will be both TSO secure the physical transport ? |

| III. Summarising questions |   |
|----------------------------|---|
| Subject                    | Would you be interested in participating in a dedicated Stakeholder event on the Trading Region Upgrade?  |
| AGGM                       |   |
| CEGH                       | CEGH would be interested in participating in a dedicated stakeholder event regarding the TRU project. In particular the impact on gas trading and Virtual Trading Points (VTPs) should also be in scope of the project and be subject to an assessment. |
| ČEZ                        | Yes   |
| ČPS                        | Yes   |
| ECONGAS                    | Yes   |
| EFET                       | For any question or clarification we would be very happy to engage in future conversation with you on this topic.   |
| Energie                    |   |
| Engie                      | If given more information to better assess the proposed service, ENGIE would like to participate in a dedicated Stakeholder event on the Trading Region Upgrade.  |
| eustream                   | Yes   |
| OMW                        |   |
| OTE                        |   |
| PPAS                       |   |
| SVSE                       |   |
| UNIPER                     | Yes   |
| Anonym.                    | Yes   |