

## Public consultation on adjustment of the gas market model in the Czech Republic

Dear Sir or Madam,

First of all we would like to thank you for the opportunity to take part in this public consultation. We appreciate the fact that all documents have been published in English and that we have the possibility to respond to this consultation in English.

First of all we would like to clarify that we refuse the proposal of merging the Virtual Trading Point with Virtual Gas Storage Points mainly due to the reason that the introduction of such model does abolish the principle of distributing transport costs on a cost causative basis to the respective network users. Hereinafter we will enter into the detail of the consultation document and justify our refusal as well as propose an adapted change of the market model.

### **Problem Identification - Closure of underground storage facilities and security of supply**

In the chapter "Problem Identification" it is stated under point 4 that the ongoing low demand for storing natural gas could cause the closure of underground storages in Czech Republic. In our view the gas storage market in comparison to the gas transmission market is a competitive non regulated market. Contrary to the indications in the consultation the working gas volume in European Union and Czech Republic in recent years increased instead of decreasing. Currently it seems like the market suffers from storage overcapacities. In our opinion in this environment it is a normal procedure that less competitive gas storage facilities have to close. This less competitive storage facilities should not be subsidized at the expense of end consumers.

In addition to that, we do not share the argument that the low demand for storing gas leads to a reduction in the security of supply. The security of supply is regulated in an own legislative requirement as stated under point 5. Under this point it is alleged that the closure of underground storage facilities could, in the future, impair the ability of natural gas traders to meet the legislative requirements of ensuring a minimum of 30% of the gas safety standard from underground storage facilities. Since it is binding that this storage capacity has to be provided, the prices for storage capacity will rise in case an underground gas storage has to close, as the same demand does compete for less offer. If in one day there should be an undersupply of storage capacities due to closures, the prices will increase fast and storage operators will, due to attractive margins, expand their storage business directly so that the security of supply standard is fulfilled. However we want to stress that closures in recent years show that the prices for storage capacities did not rise - again a sign for overcapacities in the market. Moreover, we would like to add that natural gas traders have the ability to ensure the minimum of 30% of the gas safety standard also from underground storage facilities outside of Czech Republic (if the network user has sufficient firm entry capacity). So it might be the case that underground storages in Czech Republic have to close but the legislative security of supply requirements in Czech Republic are still met.

**Proposal – Introduction of 50% discount on transport from and to storages as well as virtual storage product**

The most important reason for us to disagree with the proposal is that it is not cost causative. According to this new model a storage customer does not pay anymore for the infrastructure of the TSO he is using. Other market participants have to take over such costs. This means a small number of storage customers are subsidized by a big number of all other market participants. Thus free competition is disrupted and the free market gets distorted. We understand that a storage customer does not burden the gas transmission infrastructure in the same way as e.g. a network user at the interconnection points, due to the reason that he does not leave or enter a new market area. However still parts of the gas transmission infrastructure is being used. Therefore, we propose to introduce a fixed 50% discount (on the reference price or standard tariff at border points) as allowed according to Commission Regulation (EU) 2017/460 (NC TAR) without any additional charge for transported gas. This discount should meet the real infrastructure usage quite well.

Moreover, we encourage all storage operators to offer an additional virtual storage product at the VTP including the transport and its costs (storage operators book capacity on their own). This would help to improve the conditions for traders, who only want to be active at the VTP and do not want to have a contractual relationship to the TSO as stated in the chapter “The Impact of Advanced Virtualisation on Individual Participants of the Gas Market – Impact on traders (domestic)”. Those products have been successfully introduced by many other storage operators in other EU countries.

### **Covering of Income Loss of the TSO – adjustment of exit tariffs at domestic points**

The income loss for this 50% discount has to be recovered by the TSO. The consultation document in the chapter "Possible Methods for Covering the Income Loss of the TSO" suggests two different options. In our opinion only option 2, an adjustment of exit tariffs at domestic points, leads to the expected benefits stated in the chapter "Benefits for Users of Domestic Points"

In case of option 1, an adjustment of entry tariffs at border points, the Importer will increase its gas price at the VTP in the respective amount or even worse will decrease its import amounts, as selling gas might get more attractive at other market areas. This leads to less activity or even less market participants at the VTP and is not compensated by the positive effects from a cheaper storage access. The gas supplier buying gas at the VTP and selling it to end consumers will just pass-through the increased supply costs to the end consumers. ERU already identified this issue and introduced clearly cheaper entry tariffs in compare to the exit tariffs at border points. Therefore, we should carry forward this successful concept.

If the tariffs will be increased for domestic points, the prices for end consumers will rise on the first view as well. However, experiences show that this will be overcompensated by a higher trading activity, more market participants and higher competition at the VTP attracted by the lower prices and higher volumes at the VTP which arise through simplified storage access and cheaper entry tariffs.

### **Summary – Disagreement with proposed adjustment of the gas market model**

Summarising we disagree with the proposed change of the new market model and instead of this suggest to introduce a 50% discount according to NC TAR as well as encourage the storage operators to offer virtual storage products on their own costs. Thereby improvements as increased trading liquidity or lower commodity prices at the VTP can be achieved while respecting the cost causative approach of a competitive gas market.

Please do not hesitate to contact us if you have any further questions.

Faithfully yours