“Regional Gas Market Integration Italy-Austria“

Belgrade

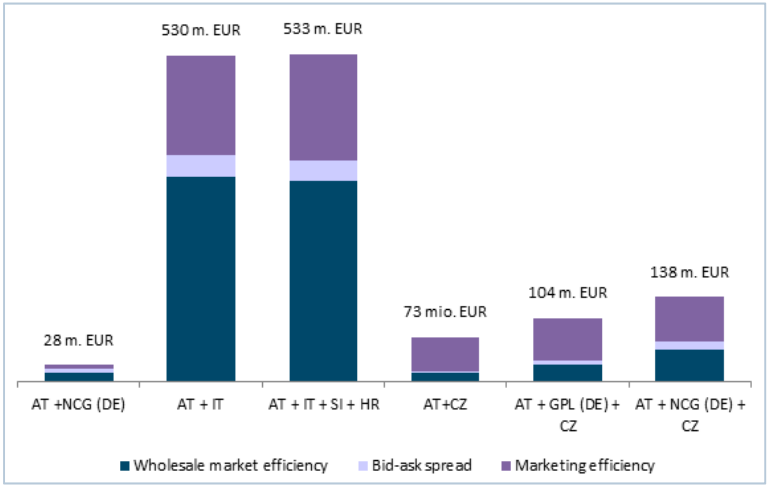
GRI SSE

07.05.2019

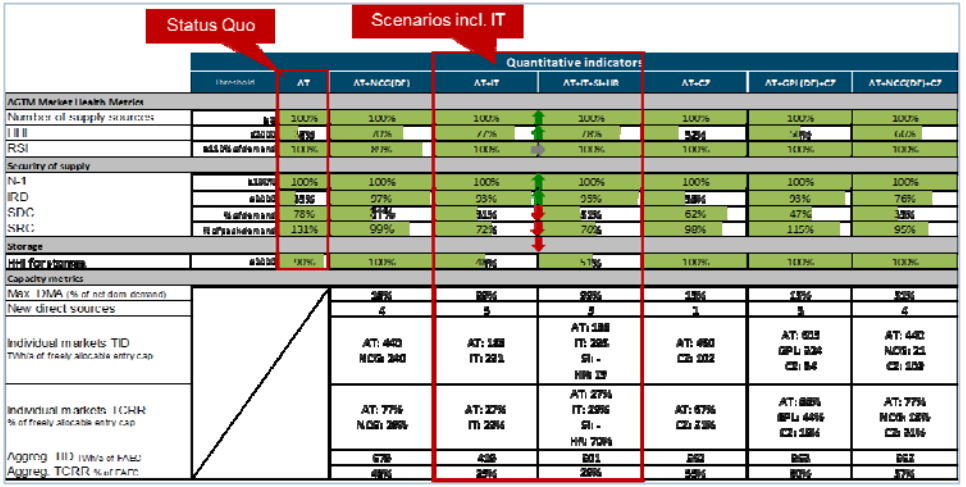
E-Control

Starting point: Key results of a „market integration study" commissioned by E-Control

Simplified monetary assessment*



Metrics-based assessment*



- Integrated market area IT+AT (+ potentially SI and HR) appears attractive due to:
  - Potential to create **welfare for end-users** in the integrated area
  - **Improvement of market functioning** (add to compensation of identified issues)
  - Represent a starting point for further bottom-up developments leading to a **competitive regional market**

Detailed cost benefits analysis as prerequisite for market integration

- Any actual implementation must be based on **detailed analyses of the costs and benefits** for each of the involved markets
- Integration concepts that uphold most benefit potentials while **reducing implementation complexity** and cost should be in focus
- Market integration may only **"go live" based on a positive cost-benefit evaluation** (CBA as AGTM requirement)
- Increase of **social welfare**

In order to be a reliable basis for decision making, such a CBA must rely on a concrete, sufficiently detailed implementation concept:

- developed together with stakeholders
- recognizing and reflecting the characteristics of the participating markets and regulatory systems

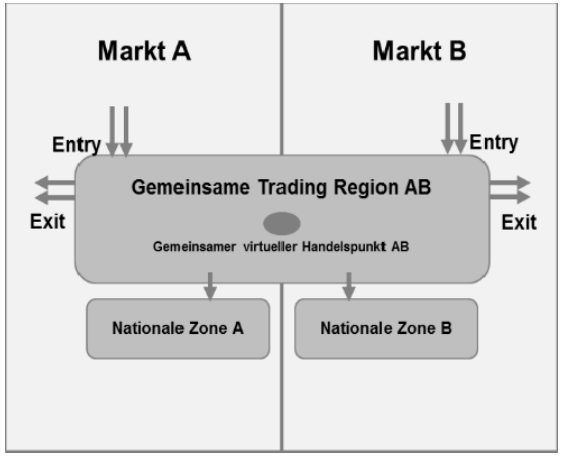
Rationale for selection of integration/balancing model

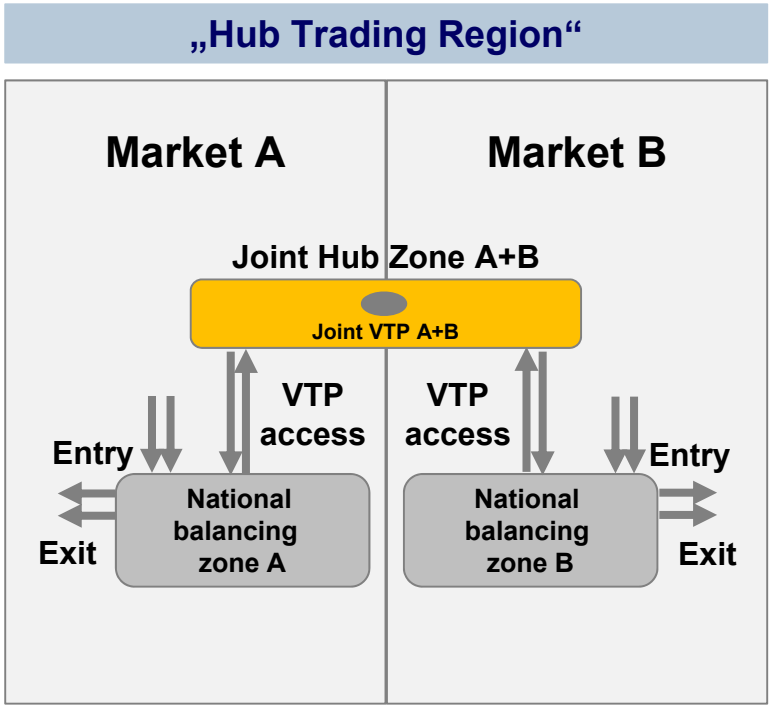
- Learning from past initiatives: even implementation of a **trading region** as sketched in the AGTM can be a **substantially complex task**
- General approach for integration/balancing model:
  - Based on AGTM trading region
  - However:
    - focused on crucial aspects to exploit potential benefits
    - leaving aspects beyond that as much as possible on the national agenda and thus reducing implementation complexity, harmonization needs, etc.

„Hub Trading Region“ as possible model

Introduction of „Hub Trading Region“ concept

*Ideal-type **AGTM trading region model***





Fundamental characteristics:

- Integrated capacity model, but **balancing widely only in remaining national zones**
- Integrated **VTP with congestion-free access** as central place of delivery for all transactions
- Reduction of **harmonization needs to a minimum**
- Comparable effect on AGTM metrics as ideal-type trading region model

Integrated entry/exit system

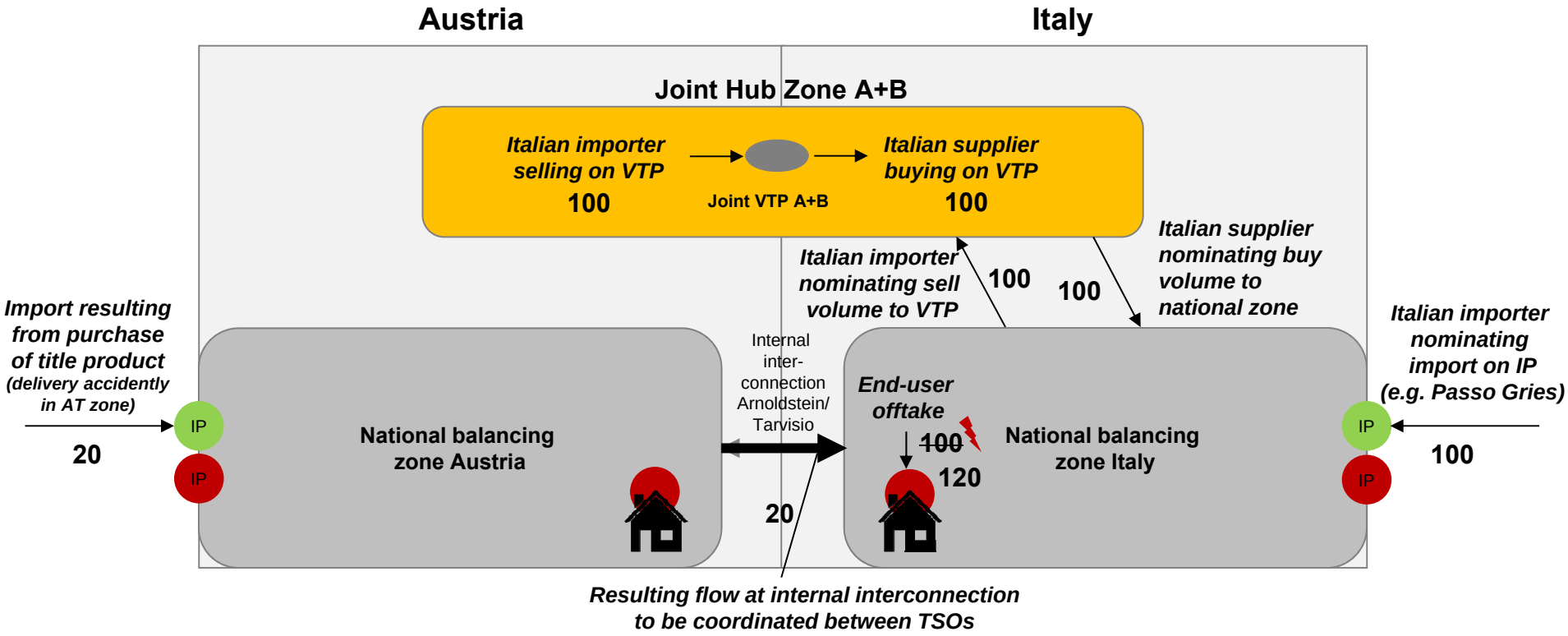
Integrated entry/exit system

- **Bookable points** between currently national market zones to **disappear** for network users
  - IP Tarvisio/ Arnoldstein
  - **Inter TSO compensation**
- Remaining network points form the integrated entry/exit system

Integrated VTP

- An integrated **VTP in the *Joint Hub Zone*** serves as **central place of delivery for all transactions** within the integrated entry/exit system
- **No VTP in National Balancing Zones** anymore
- Integrated VTP to be **operated in cooperation of VTP operators** in currently national zones
- Exchanges use this VTP for the **physical settlement of exchange trades**; the same applies for broker trading, etc. (concentration of liquidity)
- Default rule: **Congestion-free VTP access to/from any network point** in the integrated entry/exit system

Case study: Italian Supplier is buying gas on integrated VTP (from Italian Importer)



Add-On: End-user offtake not 100 as expected but actually 120

→ **difference to be settled in commercial balancing of IT supplier**

→ **Italian system short→need to buy phsical balancing gas**

→ **If bought via title products and delivery in AT, this triggers a flow AT>IT at the internal interconnection**

IT Balancing Portfolio Italian importer

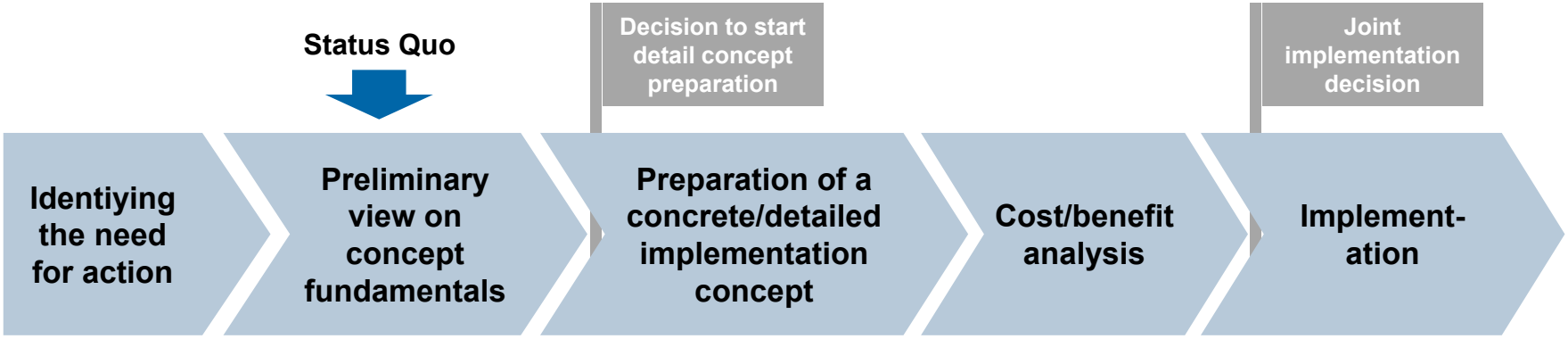
Entry	Exit
100	100

IT Balancing Portfolio Italian supplier

Entry	Exit
100	120
Imbalance>	20

Entry point for network user Exit point for network user

Way forward



Current stage – with the objective to:

- *develop early on the basic principles of the concept*
- *allow at an early stage the decision whether the preparation of a detailed concept (with subsequent CBA) should start*
- *However, without prejudice to any implementation decision*