

# Amendments of the balancing incentive mark-up as of 1 November 2015

## Background and analysis

### 1 Background for the amendment

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Pursuant to section 26 (6) Gas Market Model Ordinance 2011 the market area manager (MAM) shall recalculate the mark-up annually, based on the gas needed for offsetting hourly imbalances during the previous twelve months and the costs connected to it.

Experiences since September 2014 have given way to the impression that certain balance group representatives (BGR) made intentional use of the MAM's balancing mechanism, in order to compensate a reduced supply from their suppliers (cf. report on balancing incentive mark-ups 2014, available online on the MAM website under "Downloads"). Since September 2014 it can be occasionally noticeable, that the incentive to nominate in a balanced manner was not sufficient enough and within-day imbalances were accepted.

Especially in the winter season 2014/15, that was characterised by restrictions of natural gas supplies by the Russian Federation, the MAM was challenged to guarantee the market area East's network stability by using appropriate measures. At the same time, all balancing transactions on behalf and for account of BGRs had to be carried out. Balance group's (BG) short positions had a more disadvantageous effect on the system than long positions.

To minimise the risks due to high BG short positions in case of an undersupply of the market area East as good as possible, thoughts had been given concerning a new calculation method of the balancing incentive mark-ups. Situations that cause damage to the system and are reinforced by incorrect behaviors of network users should be basically diminished, in particular to avoid high BG short positions. The financial impacts on BGRs having small imbalances or long positions and thus not threatening substantially the network stability should be as small as possible.

### 2 Amendments in detail

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The amendments are the following compared to the valid calculation method until 31 October 2015:

- Consideration of the market area balance: The new calculation method applies only if the market area is undersupplied in total. If the market area is oversupplied it does not constitute a threatening situation for the market area East and is thus irrelevant for applying the structuring mechanism. The current hourly market area balance is published on the MAM online-platform under "market area data". The balancing incentive mark-up was charged irrespective of the market area balance for the period 1 January 2013 until the implementation of the new calculation method.
- Application only for short positions: Long positions are exempted from the balancing incentive mark-up since the induced long positions are not as harmful to the network as induced short positions. Additionally, only the compensation of induced short positions will be charged – but not the compensation of a thereby resulting long position (as it was the case in the old

calculation methods). Furthermore, compensations of short positions due to compensations of long positions are exempted. In the calculation method with effect of 1 July 2014, high imbalances were charged with 0.4 cent/kWh. However, the compensation of a thereby induced opposite position was also charged with 0.4 cent/kWh. In order to strengthen the incentive to avoid high hourly imbalances, instead of 0.8 cent/kWh, 1.0 cent/kWh will be applied for the compensation of induced hourly short positions (>300,000 kWh). As mentioned above the balancing incentive mark-up for the compensation of the opposite position will be omitted.

- Calculation dependent on levels: The calculation will be applied dependent on quantitative levels, i.e. dependent on the amount of the imbalance in kWh, in future as well. The new calculation will be based on hourly imbalances and not based on cumulative hourly imbalances on a given gas day. After evaluation of historical data as of 1 January 2013, an hourly threshold of 300,000 kWh is the proper value (see point 3 Analysis of historical data).
- Monthly allowance: The new calculation method should have an impact on BGRs threatening the network stability of the market area East. If a BGR has minor deviations in its BG during a month being in sum not more than 50 euro (per month), the amount will not be charged.

### **3 Analysis of historical data**

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The analysis of the hourly values during the period from September 2014 until March 2015 showed that by applying the new calculation method with the above mentioned specifics, for instance, in December 2014 (mainly affected by restrictions of gas supplies) the number of BG(R)s receiving invoices would have been reduced from 47 to 29. Looking at the figures in April 2015 having a normalised market situation the number would have been reduced from 19 to 7 BG(R)s. The balancing incentive mark-up should also constitute an incentive to nominate in a balanced manner in the future. With the new calculation method, BGRs having only minor imbalances within a gas day will be relieved and BGRs contributing mainly to an undersupplied market area East will have to pay higher amounts. The evaluation of the historical data showed that the total payable balancing incentive mark-ups would have been about the same.

### **4 Communication with market participants**

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The new calculation method has been compiled in coordination with E-Control Austria and based on an analysis of historical data. The MAM showed examples of the new calculation within the MGM Information Session on 30 June 2015 in order to help BGRs adapting to the new method. Additionally, BGRs had the opportunity to send comments to the changed general terms and conditions of the MAM (among others article 9 concerning the amendment of the balancing incentive mark-up) from 15 July 2015 until 14 August 2015.

### **5 Transparency**

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Presumably as of 1 November 2015, the charged daily balancing incentive mark-ups in kWh and the total balancing incentive mark-ups in euro will be published on the MAM online-platform in order to enhance the transparency relating to balancing incentive mark-ups. In addition, the report on balancing incentive mark-ups for 2015 will be published at the beginning of 2016 (as it was the case in the previous two years).

The individual balancing incentive mark-ups of BGRs and its BGs can be viewed in the restricted area of the MAM online-platform under "allocation data" also in the future, so that the mark-ups are transparent at all times.