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## **Balancing incentive markup of the market area manager: Report on the within-day balancing measures taken to uphold system integrity**

### **1 Preamble**

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The market area manager is entitled to collect balancing incentive markups in the context of procurement of balancing energy, if the respective requirements are existent. The markup and the avoidance of the markup respectively is an incentive for balance responsible parties to nominate their entries and exits in a balanced manner at any time. In parallel, the market area manager can use these balancing incentive markups to cover the costs of balancing energy and the thereby resulting costs for the necessary within-day balancing by the market area manager.

In order to have a high level of transparency in connection with the balancing incentive markups or any balancing measures, the following report was compiled.

### **2 Legal basis**

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Concerning balancing incentive markups the following legal regulations apply:

#### **2.1 Section 26 (6) GMMO-VO**

*The market area manager shall collect a balancing incentive markup from the balance responsible parties to cover for within-day balancing of the hourly imbalances in each balance group. The market area manager's, clearing and settlement agent's and transmission system operators' special balance groups shall be exempt from payment of the balancing incentive markup. The amount of this markup shall reflect the cost involved in within-day balancing pursuant to para. 7. The market area manager shall recalculate this markup at least annually, based on the gas needed for offsetting hourly imbalances during the previous twelve months and the costs connected to its purchase. Such calculation shall be based on the General Terms and Conditions of the Market Area Manager. The resulting balancing incentive markup shall be notified to the regulatory authority and published on the online platform. For the period from 1 January 2013, the markup shall be capped at 0.4 cent/kWh. The market area manager shall send the regulatory authority an annual report on the within-day balancing measures that were taken to uphold system integrity. The balancing incentive markup shall be charged monthly, within five working days after the end of the month in question.*

#### **2.2 GTC MAM-BGR as amended, section 9**

*9.1. If the cumulative hourly deviations of a given balance group are not exceeding 400,000 kWh on a gas day, a balancing incentive mark-up to the amount of 0.1 Cent/kWh will be charged to the balance group. If the cumulative hourly deviations of a given balance group exceed 400,000 kWh but not 700,000 kWh, a balancing incentive*

mark-up to the amount of 0.1 Cent/kWh for the 400,000 kWh and 0.2 Cent/kWh for the quantity of 400,001 kWh to 700,000 kWh will be charged to the balance group. If the cumulative hourly deviations of a given balance group are exceeding 700,000 kWh, a balancing incentive mark-up to the amount of 0.4 Cent/kWh for the quantity exceeding 700.000 kWh will be charged to the balance group.

*The relevant balancing incentive mark-up (regarding to quantity and amount) will be invoiced for the individual balance group on the current gas day.*

*This rule shall become effective as of 1<sup>st</sup> June 2013.*

*Any annually recalculation of the balancing incentive mark-up shall be notified by the market area manager to the regulatory authority and published.*

**9.2.** *The quantitative balancing incentive mark-up shall be calculated on the basis of hourly deviations, in accordance with subsection 6.7 above. Concerning the amount of the balancing incentive mark-up, subsection 9.1 shall apply.*

**9.3.** *If the balance group representative's carry forward account cannot be balanced in time owing to the suspension of services and/or locking, the market area manager shall be entitled to invoice the balance group representative for any resultant expenses. If the costs are uncollectible, the market area manager shall be entitled to cover them by way of the balancing incentive mark-up.*

### 3 Balancing incentive markup since 1 January 2013 and status quo

#### 3.1 1 January 2013 until 31 May 2013

With the start of the new market model on 1 January 2013, the amount of the balancing incentive markup was set to **0.4 Cent/kWh** (independent of the imbalance between entry- and exit-nominations) by the gas market model ordinance. From 1 January – 31 May 2013 the market area manager charged balancing responsible parties the following amounts in total per month:

Month	Balancing incentive markup (in euro, excl. VAT)
January	25,894.14
February	27,098.52
March	103,247.16
April	36,387.61
May	5,072.23
<b>Sum</b>	<b>197,699.66</b>

### 3.2 From 1 June 2013 to date

An initiative by the regulatory authority for adaptations within the new market model was taken early. The amount of the balancing incentive markup was changed as follows:

Cumulative hourly deviations on a given gas day in kWh	Amount of balancing incentive markup in eurocent
For the volume of 0 - 400,000 kWh	0.1 cent/kWh
For the volume of 400,001 - 700,000 kWh	0.2 cent/kWh
For the volume of >700,000	0.4 cent/kWh

For this period, the market area manager charged balancing responsible parties the following amounts in total per month:

Month	Balancing incentive markup (in euro, excl. VAT)
June	36,653.68
July	71,143.11
August	5,479.46
September	3,523.60
October	12,510.70
November	18,960.08
December	9,354.46
<b>Sum</b>	<b>157,625.09</b>

### 3.3 Conclusion

The following conclusions can be drawn:

- The balancing incentive markup represents a strong incentive for balance responsible parties to nominate exits and entries in a balanced manner. This system works well in practice, since balance responsible parties try to avoid balancing incentive markups and within-day unbalances as good as possible.
- If balancing incentive markups incur, they are usually caused by individual incidences on individual days. The kind of incidence cannot be analyzed on the basis of the invoicing amounts. However, the cases are not systematic approaches or „exploitation of system resources“ by balance responsible parties.
- Since the change of the balancing incentive markup on 1 June 2013, it can be observed that the amount of 0.1 cent/kWh for imbalance volumes between 0-400,000 kWh does not constitute an incentive to nominate in a balanced manner, because some market participants accept unbalanced nominations on a regular basis.

Thereby, it can be assumed that further reductions of the balancing incentive markup would not change this behavior.

- Inquiries concerning invoices of balancing incentive markups can be answered in detail at any time, since calculations are documented for every hour and therefore are reproducible and verifiable at any time (also externally).

#### 4 Within-day balancing measures

Per end of December, the market area manager didn't need considerable volumes for within-day balancing at the gas exchange and therefore used only small amounts from the „balancing incentive markup pot“. Only in January 2013, the following amounts were used for test purposes:

Transactions on the gas exchange	Amount	Total costs (in euro)
Purchase January	15 MWh	500.73
Sale January	15 MWh	365.78

#### 5 “Balancing incentive markup pot“ of the MAM

The total levied balancing incentive markups per end of December are the following:

Sum balancing incentive markup (Jan. - Dec.)	355,324.75 €
Purchase for test purposes Jan.	-500.73 €
Sale for test purposes Jan.	365.78 €
<b>Balancing incentive markup pot</b>	<b>355,189.80 €</b>

These markups are gathered and administered separately by the market area manager.

#### 6 Conclusion

The total amount of balancing incentive markups shows, that the incentive for balance responsible parties to nominate entries and exits in a balanced manner is high enough and that therefore the incentive system in this form shall be maintained in order to sustain those incentives. Additional measures by the market area manager are not necessary at the moment, because the low use of within-day balancing measures show that the current amounts for within-day unbalanced nominations works well.

That implies a high level of efficiency of the market model as well as a fair cost allocation, since the costs have to be borne by those balance responsible parties having unbalanced entry/exit nominations and hence should bear the costs for balancing.

## **7 Next Steps**

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The balancing incentive markup shall be recalculated „*annually*“. The last change was done with effect of June 2013. An adaptation of the balancing incentive markup should be carried out after a further evaluation of the incurred markups and balancing measures, but **at the earliest as of June 2014**.