

# **Balancing incentive markups collected by the market area manager:**

## **Report on the within-day balancing measures taken to uphold system integrity**

### **1 Preamble**

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As part of managing balancing energy, the market area manager is entitled to collect balancing incentive markups if the respective requirements are met. Such markups – or avoiding them – are an incentive for balance responsible parties to make balanced entry and exit nominations consistently for each balance group. The market area manager can also use those balancing incentive markups to cover the procurement of balancing energy and the related costs incurred by any within-day balancing required.

The following report has been prepared in line with the objective of achieving the utmost transparency in matters relating to balancing incentive markups and any balancing measures.

### **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 700,000 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 are exceeding 700,000 kWh, a balancing incentive mark-up to the amount of 0.1 Cent/kWh for the quantity up to 700,000 kWh and 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 1st July 2014.*

*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 markups in 2014**

#### **3.1 1 January to 30 June 2014**

The rate schedule shown below was applied in the first half of the year for charging balancing incentive markups to balance responsible parties:

<b>Cumulative hourly deviations in kWh on a given gas day</b>	<b>Amount of balancing incentive markup in eurocents</b>
Volumes between 0 and 400,000 kWh	0.1 cent/kWh
Volumes between 400,001 and 700,000 kWh	0.2 cent/kWh
Volumes > 700,000 kWh	0.4 cent/kWh



During the period of 1 January to 30 June 2014 the market area manager charged balance responsible parties the volumes and amounts (in euros and excl. VAT) listed below by month and rate level:

Month	Balancing incentive markup at a rate of 0.1 cent/kWh		Balancing incentive markup at a rate of 0.2 cent/kWh		Balancing incentive markup at a rate of 0.4 cent/kWh		Balancing incentive markup total	
	kWh	€	kWh	€	kWh	€	kWh	€
<b>January</b>	2,154,216	2,154.24	837,196	1,674.39	723,268	2,893.07	3,714,680	6,721.70
<b>February</b>	2,832,270	2,832.27	1,086,222	2,172.44	3,149,434	12,597.74	7,067,926	17,602.45
<b>March</b>	1,915,880	1,915.86	795,698	1,591.40	3,336,586	13,346.34	6,048,164	16,853.60
<b>April</b>	3,776,173	3,776.04	1,637,072	3,274.14	3,312,630	13,250.52	8,725,875	20,300.70
<b>May</b>	3,165,179	3,165.15	1,318,652	2,637.30	5,774,191	23,096.77	10,258,022	28,899.22
<b>June</b>	5,254,004	5,254.01	704,541	1,409.08	94,180	376.72	6,052,725	7,039.81
<b>Total</b>	19,097,722	19,097.57	6,379,381	12,758.75	16,390,289	65,561.16	<b>41,867,392</b>	<b>97,417.48</b>

### 3.2 Since 1 July 2014

Based on the results of the 2013 report on balancing incentive markups, which showed a total of € 355,189.80 in the 'balancing incentive markup pot', the schedule of rates charged was modified effective as of 1 July 2014 as given in the following:

Cumulative hourly deviations in kWh on a given gas day	Amount of balancing incentive markup in eurocents
Volumes between 0 and 700,000 kWh	0.1 cent/kWh
Volumes > 700,000 kWh	0.4 cent/kWh

During the specified period the market area manager charged balance responsible parties the volumes and amounts (in euros and excl. VAT) listed below by month and rate level:

Month	Balancing incentive markup at a rate of 0.1 cent/kWh		Balancing incentive markup at a rate of 0.4 cent/kWh		Balancing incentive markup total	
	kWh	€	kWh	€	kWh	€
<b>July</b>	9,574,000	9,573.93	10,698,617	42,794.46	20,272,617	52,368.39
<b>August</b>	5,435,961	5,435.94	15,044,126	60,176.51	20,480,087	65,612.45
<b>September</b>	36,431,872	36,431.92	43,797,088	175,188.34	80,228,960	211,620.26
<b>October</b>	45,039,148	45,039.14	96,215,270	384,861.09	141,254,418	429,900.23
<b>November</b>	23,217,511	23,217.54	12,551,622	50,206.49	35,769,133	73,424.03
<b>December</b>	36,540,432	36,540.39	50,942,370	203,769.48	87,482,802	240,309.87
<b>Total</b>	156,238,924	156,238.86	229,249,093	916,996.37	<b>385,488,017</b>	<b>1,073,235.23</b>

### 3.3 Conclusions

The following conclusions can be drawn:

- There were no especially large imbalances between January and August 2014, indicating that the incentive generated by the markup was effective.
- As of September, political tension between the EU and the Russian Federation led to sanctions being mutually imposed. As a result, amongst others, restrictions of natural gas supplies by the Russian Federation to the EU were seen. Regardless of the sanctions, restrictions of supplies became apparent at the Baumgarten interconnection point, where less gas was drawn from the East and more gas flowed from the West to compensate. Since then imbalances of balance groups have consequentially been observed, resulting in the quite significant amounts of balancing incentive markups listed above.
- Discussions and enquiries have given way to the impression that certain BG(R)s make intentional use of the balancing mechanism to offset their imbalances, in order to compensate a reduced supply from their suppliers without having to be an active exchange member. The observation is underscored by reports that gas traders in certain neighbouring countries are threatened with the loss of their trade balance unless they take every measure to ensure supply to customers.
- As of July 2014 balance responsible parties can view all allocated nominations, imbalances, carry-forward accounts and balancing incentive markups on the MAM online-platform, so that balancing incentive markups are transparent at all times. Frequent use is made of this service in practice.

## 4 Within-day balancing measures

In 2014 the market area manager purchased no volumes for the purpose of within-day balancing at the exchange and thus no funds were drawn from the 'balancing incentive markup pot'.

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

As per the end of December 2014 balancing incentive markups in the following total amounts were collected:

Total 'balancing incentive markup pot' as per 31 December 2013	€ 355,189.80
Total balancing incentive markups (January 2014 to December 2014)	€ 1,170,652.71
<b>Balancing incentive markup pot</b>	<b>€ 1,525,842.51</b>

The funds from incentive markups are recorded and managed separately with the MAM.

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## 6 Recommendation

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In view of the substantial total in balancing incentive markups collected since September 2014 and of individual amounts in the one and two-digit euro range, we recommend that thought be given to modifying the rules governing the balancing incentive markup (i.e. conditions under which charged or less stringent balancing periods). In any event, balance responsible parties should be prevented from taking advantage of the system.

## 7 Next steps

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The balancing incentive markup is to be recalculated “*annually*”. The last change was introduced effective as of July 2014. Any adjustment of the balancing incentive markup should be made following an additional detailed evaluation of the balancing incentive markups incurred and of the balancing measures, and introduced **no sooner than June 2015**.