

Guidance Notes for the
Austrian VTP Appendix Version 1.0 to the EFET General Agreement concerning the
Delivery and Acceptance of Natural Gas 2.0(a)

Please note that the Austrian VTP Appendix is designed to provide trading terms at the new Austrian Virtual Trading Point only and does not contain transitional arrangements to move trades from the ITAB or other pre-2013 CEGH trading points to the Austrian VTP. Traders will need to negotiate such transitional arrangements on a bilateral basis. EFET have published an optional letter agreement that traders may wish to use to document such transfers of existing trades.

Introduction

The Austrian Natural Gas Act 2011 introduced an entry/exit system and a virtual trading point into the Austrian Natural Gas market for the first time with effect from 1st January 2013.

Multiple entities are involved in the set up of the market and the obtaining of access to the Austrian VTP and traders are advised to seek their own advice as to the most suitable arrangements for them.

As at the date of publication of Version 1.0 of the Austrian VTP Appendix, EFET's understanding of the contractual relationships and mechanisms in relation to trading at the Austrian VTP is as follows:

- Entry/Exit capacity at cross border points into/out of Austria is booked with the relevant Transport System Operator (Gas Connect Austria GmbH, Trans Austria Gasleitung GmbH, Baumgarten-Oberkappel Gasleitung GmbH (TSOs)) and at the distribution level with the relevant TSO.
- There are three **Market Areas** in Austria: Market Area East, Market Area Tyrol and Market Area Vorarlberg.
- There will be one virtual trading point in the largest market area, Market Area East, which the Gas Connect Austria, TAG and WAG pipeline systems form part of. It is planned to connect

the other two market areas to the German NetConnect virtual point. Accordingly the Austrian VTP Appendix is designed only for trading at the Virtual Trading Point in the Market Area East (**Austrian VTP**).

- The initial **Market Area Manager** or **MAM** of the Market Area East is Gas Connect Austria GmbH. The MAM is responsible for balancing the Market Area East.
- To transport Natural Gas through the pipeline systems that form part of the Market Area East (Gas Connect Austria, TAG, WAG), a shipper must be part of a **Balance Group** which has appointed a **Balance Responsible Party** or **BRP** (BRPs are referred to in some English translations of market documentation as Balance Group Representatives). There can be more than one company in a Balance Group but each Balance Group can only have one BRP. Only the BRP can nominate to TSOs and to CEGH (see below). The Balance Group must balance its aggregate physical flows and its trades at the Austrian VTP in the Market Area East on a Daily and, in practice, hourly basis.
- BRPs must:
 - Have a licence issued by E-Control;
 - Be a non-clearing member of the Wiener Börse;
 - Sign up to European Commodity Clearing GmbH (**ECC**)'s rules as ECC is the Clearing House for the Wiener Börse;
 - Appoint a clearing bank to be its clearing member on the Wiener Börse; and
 - Arrange to make regular margin payments to its clearing bank for on payment to ECC.
- The Austrian VTP will not be run by the MAM but by Central European Gas Hub GmbH (**CEGH**). BRPs (and "pure" or "paper" traders – see below) will need to sign up to CEGH's terms and will nominate to CEGH in respect of trades at the Austrian VTP entered into on the OTC market. CEGH will notify the MAM of each Balance Group's net position (i.e short, long, flat) at the Austrian VTP on an hourly basis.
- Imbalance Penalty Regime for Balance Groups:
 - The MAM charges Balance Groups a penalty for hourly imbalances whether long or short and howsoever caused including if the hourly imbalance is caused to settle a Daily imbalance (the **Balancing Incentive Markup**). For the

start of operations in January 2013 the Balancing Incentive Markup has been set by E-Control at 4€ per MWh.

- For forecast end of Day imbalances the MAM, unlike all other balancing managers in Europe, does not buy Natural Gas from or sell Natural Gas to the Balance Group. If the BRP does not itself take action to balance its position within an hour of being given notice to do so by the MAM, the MAM goes to auctions run by the Wiener Börse and buys or sells Natural Gas in the name of, and for the account of, the BRP. This is why the BRP must sign up to the Wiener Börse.
- The MAM takes action to buy or sell Natural Gas for a BRP on a rolling basis by means of hourly auctions conducted by the Wiener Börse starting at 0245 hours on D-1 and carrying until 0200 hours on the Day, with the shortest typical cycle from the imbalance being forecast to delivery of Natural Gas being eight hours. The MAM does not therefore wait until the Day is finished to take balancing action on behalf of a Balance Group. Natural Gas so sourced or sold is added or subtracted from the Balance Group's account on an equal hourly basis over the remaining hours in the Day.
- Natural Gas bought and sold by the MAM in the same auction hour for all BRPs will be bought and sold at the same price. If the MAM cannot source or sell enough Natural Gas to satisfy all BRPs' needs in an auction, it will try again in the auction in the next hour and will repeat until it succeeds up to the auction that ends at 0200 hours on the Day with any unsettled imbalances will be carried forward to D+2. CEGH will retrospectively publish the prices, if any, the MAM achieves in each hourly auction (although CEGH is not confident that it will be able to do so at first after the start of the system on 1st January 2013).
- The balancing methodology used by the MAM is complex and unprecedented and the above represents EFET's understanding of it at the date of publication of these Guidance Notes. Traders should verify their understanding before commencing transporting or trading Natural Gas in Austria.

- The Austrian Natural Gas Act states that trading must move from existing trading points within Austria (MS2, MS3, ITAB etc.) to the Austrian VTP with effect from 0600 hours on 1st January 2013. From this time CEGH will cease to offer hub services at the existing trading points, including the ITAB. Traders with EFET trades with a term that extends beyond 1st January 2013 at such trading points will therefore need to make arrangements with their counterparties to move these trades to the Austrian VTP. Please note that trades at the Austrian border flanges not previously matched by CEGH but matched by the TSOs (for example, eustream to TAG) are not required to be moved to the Austrian VTP.

Explanation of Specific Provisions in the Austrian VTP Appendix

4. Special Provisions for Austrian VTP Transactions

- 4.1 Although the new Austrian system is described as a Daily balancing system: (a) the need for traders to nominate to CEGH in hourly quantities; and (b) the imposition of hourly penalties in the form of the Balancing Incentive Markup means the Remedies clause needs to apply on an hourly basis even if trades are entered into on a Daily basis.
- 4.2 Because of the very short time frame which the MAM gives BRPs to balance anticipated imbalances, if traders do not Schedule at the same time to CEGH when within Day trading (i.e after 0100 hours on D-1) they may create imbalances in each other's Balance Groups. In such circumstances traders will therefore need to coordinate the timing of their Scheduling to CEGH.

5. Warranty as to Balance Group Status

EFET understands that CEGH is to offer "pure" or "paper" traders (i.e. entities that do not transport Natural Gas in or through Austria) a reduced service at the Austrian VTP that does not require them to join a Balance Group.

Because such pure traders cannot be balanced physically, CEGH will apply a "lesser" rule if they incur imbalances at the Austrian VTP to cut back their trades and will transfer such imbalances to all the pure trader's counterparties at the Austrian VTP in the relevant hour on a pro rata basis. Such portions of the imbalance will be balanced in the Balance Group of the first trader that is a member of a Balance Group that they reach.

EFET therefore considers that traders will want to know if they are trading with a pure or paper trader because of the increased risk of under deliveries and under acceptances.

6. Force Majeure

CEGH will not guarantee that the Austrian VTP will be completely "firm" as neither it (CEGH offers a balancing service in respect of Wiener Börse trades only) nor the MAM are sure that they will be able to source sufficient balancing Natural Gas if, for example, supplies into Austria from the East were to be cut or reduced. Traders therefore need to recognise the possibility of physical constraints and curtailments at the Austrian VTP.

7. Remedies

- 7.1 As is usual in Appendices to the General Agreement, EFET members wished to provide for standard, objective remedies to be payable between traders in the event of an under/over delivery or acceptance of Natural Gas so as to provide appropriate incentives for traders to perform their trades.

The new Austrian system does not guarantee the publication of a standard, applicable to all traders imbalance sell price and a standard, applicable to all traders imbalance buy price in each hour as such prices will only be generated and published if the MAM successfully participates in an auction on the Wiener Börse on behalf of one or more Balance Responsible Parties in the relevant hour.

EFET members have therefore agreed that suitable remedies for an hourly short imbalance would be:

- 1) if one or more buy prices are set in auctions on the Wiener Börse due to the MAM taking balancing action at any time during the relevant Auction Day, the highest such buy price;
- 2) if only one buy price is set in such auctions during the Auction Day due to the MAM taking balancing action, such buy price; and
- 3) if no buy price is set in the Auction Day in auctions on the Wiener Börse, the imbalance buy price should be 120% of the Reference Price for the Day;

plus an amount in respect of the hourly Balancing Incentive Markup.

For these purposes an **Auction Day** will be from 0245 hours on D-1 to 0159 hours on the Day. This is because the first auction for a Day in which the MAM will try to buy or sell Natural Gas takes place between 0245 hours and 0300 hours on D-1 and the last auction in which Natural Gas can be bought or sold for the Day takes place between 0145 hours and 0159 hours on the Day. There is no guarantee that the MAM will have settled all the Day's imbalance by 0200 hours on the Day but EFET members wished to have a cut off time for prices.

Please note that although the MAM GT&Cs in force at the date of publication of Version 1.0 of the Austrian VTP Appendix say that the Reference Price will be a within Day price, EFET understands from the MAM and CEGH that initially such a price will not be available and the CEGH "VWAP CEGHIX" price (which is a volume weighted Day- ahead price) will be used instead.

It is EFET's understanding that in the event of a default, the non-defaulting party will, in principle, incur a Balancing Incentive Markup charge to the MAM both in the hour in which it's Balance Group is put out of balance and in the hour(s) it goes out of balance in the opposite direction to correct the imbalance by either its Balance Responsible Party or the

MAM buying or selling Natural Gas. This is why the non-defaulting party can claim 2 times the Balancing Incentive Markup per MWh of the Default Quantity.

At the time of publication of Version 1.0 of the Austrian VTP Appendix there was a lack of clarity around the application of the Balancing Incentive Markup regime and it was therefore thought prudent to include at §4A a right for the non-defaulting party to claim any greater amounts of Balancing Incentive Markup it incurs if it is willing and able to do so.

The same principles apply for an hourly long imbalance except that the sell price will be the lowest (or only) sell price achieved by the MAM in the Auction Day and the fallback price is 80% of the Reference Price.

7.2 Additional Terms

The MAM transfers certain de minimus imbalances and imbalances arising or remaining unsettled too late in the Day for the eight hour balancing cycle to be completed to a Balance Group's **Carry Forward Account** and such imbalances appear in the Balance Group's balance as at 0600 hours on D+2. EFET members therefore considered that the imbalance prices for D+2 should apply to such imbalances.