

# EFET

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### **Guidance Notes for the**

### **ITAB Appendix to the EFET General Agreement concerning the Delivery and Acceptance of Natural Gas 2.0 (a)**

#### **ITAB (Integrated Trading Area Baumgarten)**

In December 2009 Central European Gas Hub GmbH ("CEGH") launched the ITAB trading point (sometimes known as "MS0") at Baumgarten in Austria.

The ITAB "combines" the existing MS1 (eustream/OMV flange), MS2 (eustream/TAG flange), MS3 (eustream/WAG flange) and MS4 (eustream/OMV/OMV Storage flange) CEGH trading points at Baumgarten. ITAB does not involve a physical merger or connection of MS1 to MS4 but is a "notional" point "between" MS1, MS2, MS3 and MS4 run by CEGH for traders. Traders will therefore no longer need to arrange and pay for wheeling between the MS1, MS2, MS3 and MS4 trading points.

CEGH is providing back up/down services at ITAB to cover day to day under or over deliveries or acceptances, scheduling and allocation differences. Traders should note that these services are mandatory for all traders at ITAB for the first five hours of an event and optional after that but always depend on CEGH's ability to source back up/down gas/services at any given time. It is not anticipated that the back up/down services will make the ITAB firm in the event of major curtailment in supplies in the area such as happened in January 2009.

ITAB is something of a "black box" where Sellers selling at ITAB and Buyers who are not moving gas physically away from ITAB will not know which of the OMV, TAG or WAG systems the natural gas they trade will physically flow into.

ITAB is an additional trading point and the MS1, MS2, MS3 and MS4 trading points will remain although they will not benefit from the back up/down services.

### **Vienna Gas Exchange**

**In December 2009, the Vienna Borse has launched exchange traded products at ITAB. The terms on which such products are traded are set out in the rules of the Vienna Borse and ECC (its clearing house) and traders should note that the ITAB Appendix will not apply to such trades. Traders should satisfy themselves as to any differences between the Vienna Borse/ECC trading terms and the provisions of the ITAB Appendix and make their risk assessment accordingly, notably in cases of Force Majeure.**

### Issues arising

**The EFET General Agreement in its published form will not work for ITAB.**

This is because the EFET assumes that a Delivery Point is either:

- (i) a virtual point in an entry/exit transportation system e.g. TTF; or
- (ii) a flange where two systems connect e.g. Oude; or
- (iii) a single point physical trading hub e.g. Zeebrugge Hub within a transportation system.

EFET have therefore published an ITAB Appendix amending the Gas EFET in respect of ITAB trades so that it works for ITAB trading. This should be read in conjunction with Appendix F to the CEGH Agreement which sets out the terms on which CEGH offers trading and back up/down services at ITAB.

### Key Terms of the ITAB Appendix

- Force Majeure

Considerable thought was given by EFET's Gas Hub Development Group to appropriate Force Majeure terms given the multiple pipeline systems at ITAB and the "blindness" of traders as to where gas will be physically coming from and going to.

The following key principles were agreed:

- Due to the multiple pipeline systems at ITAB, CEGH's allocation processes and the fact that traders at ITAB will not necessarily know where the gas is physically coming from or going to, a problem on any one or more of the four systems (eustream, TAG, WAG and OMV) may,

provided the event passes the Force Majeure test, be an event of Force Majeure.

- Given the number of pipeline systems involved, Force Majeure could potentially be called quite frequently and it was therefore decided to exclude planned maintenance from the list of possible Force Majeure events. It was felt that this balanced the risks that Sellers at ITAB take (i.e. failure in any one downstream system could lead to curtailment of trades but risk mitigated by removing planned maintenance from the events of Force Majeure) against the risks Buyers take at ITAB (curtailment of supplies of Russian gas).
- To overcome the problems experienced in January 2009 when neither CEGH nor any operator of any pipeline system declared Force Majeure, the requirement for the relevant Network Operator to effectively call Force Majeure before an EFET party can also claim Force Majeure (set out in sub paragraph (b) of the definition of Transportation Failure) has been deleted.

- Remedies

CEGH will provide mandatory back up/down services at ITAB for the first five hours of any shortages or problem subject to CEGH being able to source back up/down gas/services. After the first five hours the back up/down services will be optional but will still depend on CEGH's ability to source back up/down gas. There is a cap on the maximum price CEGH can charge traders for selling them back up gas of 150% of the Baumgarten Day Ahead Reference Price and a floor for the amounts which CEGH can pay traders for accepting back down gas of 50% of the Baumgarten Day Ahead Reference Price. The Baumgarten Day Ahead Reference Price (or "BDARP") is defined in Appendix F to the CEGH Agreement and is designed to represent as far as possible market prices at ITAB. BDARP will be initially calculated from a basket of broker prices for trades at all Baumgarten locations but it is intended that this will be changed over time by CEGH in consultation with EFET to reflect ITAB market prices as they develop.

The EFET Gas Hub Development Group therefore decided that the Remedies regime should, as is the case at Zeebrugge which has a similar cap/floor system with the Dow Jones ZIG price, reflect these cap and floor prices otherwise there would be a risk of gaming at ITAB.

The ITAB Appendix has been drafted to be flexible enough to accommodate changes in any cap or floor reference prices used by CEGH from time to time.

- Off Spec Gas

CEGH have confirmed that, due to the multiple pipeline systems at ITAB, it is possible that Off Spec Gas events could arise at ITAB. Therefore, unlike other EFET Gas Appendices, the Off Spec Gas Provisions in the EFET (§8a) are not excluded.

However, because of the multiple pipeline system at ITAB (and the fact that a number of those pipelines can potentially reverse flow), for the purposes of Off Spec Gas the parties need to accept that gas may arrive at ITAB from a number of sources and that gas traded at ITAB is part of a "commingled stream". Accordingly their liability depends on the specification of that comingled stream - if the comingled system is Off Spec then their gas will be deemed to be Off Spec and vice versa.

- Tolerance

CEGH have confirmed that under normal day to day conditions (e.g. in the absence of serious supply constraints) natural gas traded out ITAB will be allocated as nominated. Accordingly a zero tolerance is appropriate for trades at ITAB.

Trades at other CEGH trading points and other flanges at Baumgarten

Traders should note that the ITAB Appendix is designed solely for ITAB trades. It will not work for trades at other CEGH trading points (whether at Baumgarten or elsewhere) nor for trading flanges outside CEGH at Baumgarten which should all continue to be traded under the EFET without amendment by the ITAB Appendix.