

Eustream, a.s. comments on “Koordinierter Netzentwicklungsplan 2017 für die Erdgas Fernleitungsinfrastruktur in Österreich für den Zeitraum 2018-2027”¹ (hereinafter KNEP 2018-2027)

Purpose of this document is to provide reaction of the company Eustream to the KNEP 2018-2027.

Eustream, a.s. welcomes the possibility to share its position and to comment on the draft of the KNEP 2018-2027.

In the KNEP 2018 – 2027 there are several statements (hereunder quoted in bold) with no relevant or supporting evidence. We base our opinion on the following arguments detailed below.

Project BACI:

- ***“makes a major contribution to implementing the north-south corridor”.***

Due to the existence of parallel infrastructure in the direction from the Czech Republic to Austria (and vice-versa) via territory of Slovakia, with sufficient available capacity, it is self-evident that the project is not necessary for the NSI corridor.

- ***“enhances market integration and security of supply for neighbouring countries”.***

Concerned neighbouring countries already enjoy greatly integrated gas markets with some of the highest SoS in Europe. Transmission systems of Austria and Czech Republic, which would be connected by the BACI project, are designed for large transit volumes in multiple directions. Therefore, they are oversized compared to national needs as defined by N-1 rule for SoS. N-1 parameters of the two countries are among the highest in Europe being 379% for the Czech Republic (CZ TYNDP 2018², page 31, Table 5.7) and 233% for Austria (KNEP 2018-2027, page 7, Table 1). For comparison, countries that truly need an improvement of their market integration and SoS are for instance Serbia with N-1 parameter of 12% and Bulgaria with 43% (ENTSOG TYNDP 2017, Annex E – Modelling Results)³.

- ***“contributes to the diversification of gas supply”***

On CEGH as well as at the Czech VTP gas delivered across either Germany or Slovakia is traded. Austria and the Czech Republic already have direct and sufficient interconnections with both of these countries exceeding the combined annual consumption of Austria and the Czech Republic more than 4 times. Again, the BACI project would not change anything in this regard. It would not add any new supply source to none of the concerned countries.

¹ http://www.aggm.at/files/get/12238f518c7a89060a470cbc6d5adddd/KNEP17_Bericht_A1_DE.pdf

² http://www.net4gas.cz/files/rozvojove-plany/ntyndp18-27_cz_2017_170717_consultation.pdf

³ <https://www.entsog.eu/public/uploads/files/publications/TYNDP/2017/Annex%20E.zip>

- ***“improves transport opportunities to and from the above-mentioned countries and facilitates access to new and existing trading markets”.***

The only impact of the project BACI would be an increase of costs, which would be socialized either in Austria or in the Czech Republic, or in both countries. Current and future forecast of Austrian demand has been well served by the existing infrastructure. Moreover, as stated in KNEP 2018-2027 (page 14), “the network operators assume that the maximum possible hourly flow rate will stagnate over the next ten years” (KNEP 2018-2027, page 14, Diagram 1) making the BACI project unnecessary also in this regard.

- ***“would support market integration, competition and price convergence within Central and Eastern Europe.”***

Market integration, competition and price convergence within Central and Eastern Europe has already been occurring without any need of the BACI project. During the first 4 months of 2017 liquidity of the Austrian VTP increased significantly compared to the same period last year. Physically traded volumes increased by 25% with immediate impact on prices on the Austrian VTP. Price spread between the Austrian VTP and the Czech VTP decreased to 0.35 EUR/MWh, which is significantly lower than 2016 value of 0.61 EUR/MWh.

The KNEP 2018-2027 provides no relevant arguments to back the statement that the BACI project would support CZ-AT market integration. However, in December 2016 a research study “Studie Marktintegration – Analyse von Marktintegrationsvarianten Inklusive einer vereinfachten Kosten-nutzen-Abschätzung” was carried out for the Austrian NRA E-Control⁴. Its results contradict the above-mentioned statement. The CZ-AT integration was assessed as the second worst with negligible contribution in comparison to integration of other markets. In the study the parameters used to measure its benefits show almost no improvement at all. Truly, the parameter Herfindahl-Hirschman Index, which evaluates market health, actually deteriorates. The same is true for the SPB and SPL parameters, which measure Security of Supply. Accordingly, the argument that the BACI project would actually support market integration is obviously not valid.

Furthermore, market prices in Austria and the Czech Republic are already perfectly correlated with the German and Dutch markets, which are considered the most liquid markets in Continental Europe. There exists no congestion on the IP point Oberkappel on the DE-AT border so both Austria and the Czech Republic have access to the market, which is considered price-setting for the region.

⁴ <https://www.e-control.at/documents/20903/388512/ECA+Studie+Marktintegration+-+Studiendokument+161215+WECOM.PDF/8fea78cf-88bf-2a8e-4db9-5bfc84db945f>

- Moreover, in the BACI project list (KNEP 2018-2027, page 56) in the Project rationale section, one of the reasons for building BACI should be to **“reduce market isolation”**. The KNEP 2018-2027 provides no evidence whatsoever about Austria being an isolated market. Directive 2009/73/EC, Article 49 mentions “Emergent and isolated markets” and states that “Member States not directly connected to the interconnected system of any other Member State and having only one main external supplier may derogate from Article ...”. In the above context countries such as Cyprus or Malta are mentioned and discussed. Hence, to consider Austria, a country with gas transit infrastructure and with one of the highest N-1 parameters in Europe, “an isolated market” and developing an argument based on it for building a new infrastructure seems highly questionable.

Positive contribution of the BACI project was also not recognized within the assessment process of the candidates for the 3rd PCI list. The project did not score high enough to be proposed for the 3rd PCI list. It has qualified only for a non-transparent list of an odd category of projects for further assessment.

In our opinion a much more reasonable and superior project possibly connecting and integrating CZ and AT market areas called the Trading Region Upgrade (TRU) was introduced by GCA and N4G in 2016 utilising in maximum extent the existing infrastructure in Austria, the Czech Republic and Slovakia. This solution would not impose additional and potentially stranded costs on European citizens, hence making this project more economically meaningful under the precondition of any market demand. In this context it is important to note that commissioning of the BACI project was postponed by 1 year once again (KNEP 2017, KNEP 2018) because, as stated in the CZ TYNDP 2018 (page 46), the commencement of the TRU project (utilizing the existing infrastructure) has priority.

Redundancy of the BACI project is reflected also in marginal market demand for this interconnection. The BACI project itself and likewise its planned capacity of cca 8400 MWh/h seem irrational considering the actual non-binding demand, which was only 200 MWh/h/y, i.e. only 2.38% of planned capacity according to the document “Demand assessment report for incremental capacity between Austria (Market Area East) and the Czech Republic”⁵ (produced jointly by GCA and N4G).

Conclusion:

The existing infrastructure between the Czech Republic and Austria does not suffer from any congestion and is capable to serve needs in both directions (CZ->AT and AT->CZ). Since the gas demand of the markets, currently served by the existing interconnection, would not be changed (increased) by the mere construction of such project, the result may only be a ‘redirection’ of existing gas flows.

This would lead to one of the two following consequences:

1) Utilization of the BACI project would be at the expense of utilization of infrastructure already existing in Austria, the Czech Republic and Slovakia.

⁵ <http://www.gasconnect.at/de/Fuer-Kunden/Sales-Transmission%20neu/~media/2224CBAEC68742C684A7C975D6366D45.pdf>

2) Project BACI would not be utilized at all.

Naturally, in both scenarios the construction of the pipeline leads to one of the abovementioned infrastructures becoming stranded – be it the project itself or the existing infrastructure in Slovakia. The costs of such stranded infrastructure would be naturally borne by European consumers.

Such consequences are in contradiction with any economic rationale and efficient management of public/regulated assets as also recognized by the Regulation (EU) 2017/459 of 16 March 2017, point (2): “Duplication of gas transmission systems is in most cases neither economic nor efficient.”

Ultimately, positive impacts of the project would be negligible compared to negative consequences for consumers in Austria, the Czech Republic and the Slovak Republic.

We suggest cancellation of the BACI project (GCA2015/01a) and the project TAG BACI (TAG 2016/05) and to discard them from the KNEP 2018-2027.