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# PEGAS response to the German TSO's presentation for the gas market merger in Germany

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## Introduction

PEGAS welcomes the German Gas Transmission System Operator's (TSO's) initiative to initiate a market dialogue with the aim to discuss the implementation and procedure of the foreseen merger of both German Market Areas NetConnect Germany (NCG) and GASPOOL into one common German gas market zone.<sup>1</sup>

For a timely and successful realisation of this project, which provides the possible best solution for all stakeholders involved, we think that a constructive and transparent dialogue in between all relevant parties and stakeholders is absolutely crucial. Especially the complexity of the project and its limited timeline should be carefully taken into consideration.

PEGAS appreciates the TSO's presentation of its first ideas and concepts for the common German gas market area in the frame of its workshop which took place on February 6 2019 in Essen, Germany. PEGAS will comment on those ideas in this Position Paper.

PEGAS generally advises for the use of market-price based instruments, here presented as "spread products", for an efficient and market-based elimination of potential arising congestions in the gas grid which could follow the integration of both market areas. The use of such instruments can help avoiding a costly physical grid extension which might not be necessary to a certain extend. The detailed roll-out and design of such products should be closely consulted with the market.

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<sup>1</sup> According to § 21 (1) of the German Gas Grid Access Regulation (GasNZV), both German Market Areas have to be merged into a common market area until April 1, 2022 the latest.

## 1. Comments and proposal for the structure of the further market dialogue

PEGAS is convinced that, for a successful realisation of the market merger project, it would be beneficially to include as many voices and areas of competences as possible in order to facilitate the TSO's task to find the most suitable and most efficient solution in time. Therefore, we advise for a large and continuous involvement of all relevant stakeholders and for a mutual exchange of ideas and information in form of a market dialogue.

In this way, the solutions as well as compromises and decisions, which will have been developed in a joint approach, will be carried and supported by the whole market and not put into questions afterwards. In our point of view, the legitimacy of the solutions found will be an important fundament for the success of the market area integration.

For the structure of such a market dialogue we suggest the following further elements:

- The circle of interest of the events and discussions could be opened to a larger spectrum of stakeholders. The suggested spectrum (slide 7 of the workshop's presentation) of interest groups (TSO's, neighbouring TSO's, Market Area Managers, exchanges, Regulators, market participants, shippers) already provides a suitable set-up.
- Events should be taking place at least twice a year, according to the stakeholder's needs. Those events should be made available for interested market parties over web conference.
- Additionally, there could be smaller task forces for more specific subjects which meet regularly (e.g. four times a year) in which only nominated participants representing the respective interest groups will be taking part.
- The market dialogue should be carried out in both German and English language, as the developments in the German gas market are equally of high importance to international market players.
- Position Papers on this topic which have been handed in to the German Transmission System Operators should be published unmodified and accessible for the public on the established website [www.marktgebietszusammenlegung.de](http://www.marktgebietszusammenlegung.de).

## **2. Information and results of the market dialogue that should be provided as soon as possible**

### **1. Name and brand building of the new German gas market area:**

In order to be able to offer already today, or very soon, futures trading for the common gas market area on various platforms, it is necessary to name new order books. Ideally, the naming should be coherent on all available platforms. At this point of time futures products for delivery dates after October 1<sup>st</sup> 2021 are still being offered in the separate order books of NCG and GASPOOL, amongst others, due to the missing name of the new common market area.

### **2. Binding starting date of the market area merger:**

At this point of time there are a lot of uncertainties within the market questioning the liability of the starting date (October 1<sup>st</sup> 2021) of the German common market area, indicated by the German TSO's. This leads to the fact that market participants, in order to avoid risks in the German market, prefer to conduct their futures activities for the delivery period after October 1<sup>st</sup> 2021 in neighbouring markets, which provide more certainties regarding the planning. This clearly constitutes a risk to the actual aim of the market area integration which is to increase liquidity and foster the German gas market, already before the project has even started.

### **3. Detailed information on expected congestions in the gas grid**

In order to define the potential use of market-based instruments to address occurring congestions in the grid, to consult them with market participants and to be able to test them at an early stage, the following details would be required:

- The quantity, location and origins of expected congestions in the physical grid after the market area integration
- The direction and quantity of the required gas flows (in MW)
- All possible grid points (entry/exit) on both sides of the congestion, which should be used for the elimination of the occurring bottleneck with the help of an exchange-based locational spread product.

### 3. Comments on the presented capacity model

PEGAS would like to comment of the technical available capacities in between both German market areas GASPOOL and NCG which have been presented on slide 17 of the TSO's workshop's presentation. The detailed definition of capacity model is indeed a very complex task for which various parameters need to be considered. However, the detailed development of the fine-tuned model should in our point of view not pre-occupy the debate in a way that it could hinder the discussion to move forward towards the timely implementation of the market merger and the development of suitable solutions.

To be able to estimate the amount of transport capacities needed and the potential congestions in the grid that might arise following the market area integration, PEGAS suggests to equally reflect the used capacities in between NCG and GASPOOL in the past (2014-2018). Thereby it is especially out of interest on how many days and hours in the respective year (and in which direction) the exchanged capacities have been booked for 100%. Ideally, this utilization and its chronological sequence (hours or days) could be visualized over a year.

PEGAS advises against any restrictive measures which would reduce the capacities available today considerably since this could have a negative impact on liquidity and flexibility in the market.

### 4. General comments on the suggested market-based instruments

PEGAS welcomes the deliberations of the German TSO's to integrate market-price based instruments as a part of the solution for the foreseen market area integration. Within former positions on related topics, such as in our Position Paper on the German Grid Development Plan 2018-2028, we have already highlighted the advantages of the use of such instruments and its detailed functioning.<sup>2</sup> As pointed out by the TSO's, the use of these instruments would be an efficient manner to solve congestions in the grid in a transparent and market-based approach which could help to avoid a costly extension of the physical grid. First experiences in France have also shown that those instruments not only provide congestions with price

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<sup>2</sup>[https://www.powernext.com/sites/default/files/download\\_center\\_files/20180525%20PEGAS%20Response%20to%20German%20Grid%20Development%20Plan%20Gas%202018-2028\\_en.pdf](https://www.powernext.com/sites/default/files/download_center_files/20180525%20PEGAS%20Response%20to%20German%20Grid%20Development%20Plan%20Gas%202018-2028_en.pdf)

signals, they can equally serve as an indicator to what extend congestions are really occurring. The well-functioning of those products is already visible in the German balancing market today where they are successful in place for many years now.

PEGAS advocates the use of the presented exchange-based congestion management products (here named “spread products”) over the Transmission System Operator’s internally used instruments such as “Wheeling” and “Third Party Use”. In our understanding, such instruments can only be called “market based” if they provide a transparent order book that informs market participants in real time, and in a non-discriminatory way, on the presence of occurring congestions in the grid, its exact location and quantity as well as on the costs of eliminating these congestions. Based on this information, these instruments enable the elimination of bottlenecks over trading in a competitive order book.

PEGAS is looking forward to being further part of the ongoing discussions on the way towards a successful market integration and would like to be particularly involved regarding the use of market-based instruments. We would be pleased to support the German Gas Transmission System Operators, regulators and market participants in the presentation and consultation of the design and application of possible congestion management products to enable the realisation of a cost-effective market-based merger of the German gas market areas.

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