

FAQs

Questions and answers on:

- Balancing-related topics
- Market-based instruments (MBIs)
- Capacity buy-backs

Applicable to products with effect from, and to contract periods commencing on or after,

1 October 2021

Last revised: 16 August 2021

Table of contents

Document history	3
Links to relevant publications	3
General remarks.....	4
1 Exchange-traded products (MOL 1 and MOL 2 balancing products / MBIs)	6
1.1 Product overview	6
1.2 Trading by the MAM.....	6
1.3 General questions on exchange-traded products	7
1.4 Quality-specific daily products	9
1.5 Locational daily products	10
1.5.1 General questions on locational daily products.....	10
1.5.2 H-gas: VIP products	11
1.5.3 H-gas: Cluster products.....	11
1.5.4 H-gas: Area products.....	11
1.5.5 L-gas: Area products	11
1.6 Locational hourly products.....	12
2 Bilateral products (MOL 4 balancing products).....	16
2.1 General questions on bilateral products.....	16
2.2 LTO.....	16
2.2.1 General questions on the LTO product.....	16
2.2.2 LTO RoD	17
2.2.3 LTO Hourly.....	21
2.3 SCB	22
2.4 FLEX.....	24
2.5 STB.....	24
3 Market-based instruments (MBIs).....	25
3.1 General questions on MBIs.....	25
3.2 Spread product	25
3.3 Third-party network use.....	26
3.4 VIP wheeling.....	26
4 Capacity buy-back.....	28

Document history

No.	FAQ version	Changes made
1	16 August 2021	First version of FAQ document

Links to relevant publications

FAQ document:

<https://www.tradinghub.eu/en-gb/Download/Download-center-THE#129896-balancing-gas-related-downloads>

Balancing group contract:

<https://www.tradinghub.eu/en-gb/Download/Download-center-THE#129891-contractual-terms-conditions-for-balancing-group-managers>

Capacity buy-back terms and conditions

<https://www.tradinghub.eu/en-gb/Download/Download-center-THE#1298151-capacity-buy-back>

List of entry and exit points:

<https://www.tradinghub.eu/en-gb/Download/Download-center-THE#129896-balancing-gas-related-downloads>

Tenders for balancing services

<https://www.tradinghub.eu/en-gb/Services/Balancing-gas-supplier/Tenders>

Transportation markups or markdowns

<https://www.tradinghub.eu/en-gb/Publications/Prices/Transportation-markup-markdown>

Long Term Options product description:

<https://www.tradinghub.eu/en-gb/Download/Download-center-THE#129889-contractual-terms-conditions-for-balancing-gas-providers>

Short Call Balancing Services product description:

<https://www.tradinghub.eu/en-gb/Download/Download-center-THE#129889-contractual-terms-conditions-for-balancing-gas-providers>

General remarks

This FAQ document provides answers to general questions from market participants relating to:

- Balancing-related topics
- Market-based instruments (MBIs)
- Capacity buy-backs

Trading Hub Europe GmbH (THE) as the market area manager (MAM) is making this document available to all market participants. Please note that all questions, which were received in both German and English, have been anonymised.

Parts of these FAQs relate to the following documents valid from 1 October 2021:

- Provisions for Restricted Physical Exchange Trades (section 25 of the Balancing Group Contract)
- "Long-Term Options" Product Description ("LTO PD")
- "Short Call Balancing Services" Product Description ("SCB PD")
- Capacity Buy-back Terms & Conditions

As regards the FAQs on section 25 of the Balancing Group Contract, it should be noted that market participants can find further explanations and related case studies in the corresponding "Implementation Guide". (NB: The updated Implementation Guide for the THE market area will be published at a later date.)

Readers should also note the following:

- Questions on matters relating to more than one section in this document are only included once in the section deemed most appropriate.
- This document is not exhaustive. Further questions can be submitted at any time by e-mail to market-development@tradinghub.eu.
- Not all questions submitted by market participants are automatically included. THE reserves the right to check whether a question is of general relevance in understanding the topic addressed.
- For reasons of transparency, individual enquiries about the issues presented here are generally answered centrally via this document rather than individually.
- This document is updated as and when required and then published under a new version number.

- These FAQs are intended as an aid to understanding the topics addressed. Nothing herein shall serve to restrict the validity and applicability of the contractual terms and conditions and/or product descriptions to which the FAQs relate.
- If there should be any discrepancy or inconsistency between the English and German language versions of this FAQ document, please note that only the German version will be deemed the authoritative version.

1 Exchange-traded products (MOL 1 and MOL 2 balancing products / MBIs)

1.1 Product overview

The following is an overview of all physical trading products pursuant to section 25 tradable on the exchange operated by European Energy Exchange AG:

Product ¹⁾	Product type by location	Product type by delivery period
THE H	Quality-specific product	Daily product
THE North H	Locational H-gas product ("area product")	Daily product
THE North H Cluster	Cluster product ²⁾	Daily product
THE South H	Locational H-gas product ("area product")	Daily product
THE South H Cluster	Cluster product ²⁾	Daily product
THE L	Quality-specific product	Daily product ³⁾
THE North L	Locational product (balancing area)	Daily product
THE South L	Locational product (balancing area)	Daily product
THE L East (Hour)	Locational product (balancing zone)	Hourly product
THE L West (Hour)	Locational product (balancing zone)	Hourly product

- 1) The products THE North H VIP BE, THE North H VIP NL, THE South H VIP BE, THE South H VIP NL and THE L North (Hour) will not be tradable as yet on the EEX exchange from 1 October 2021 and are therefore not listed.
- 2) For the purposes of this FAQ document, a locational product shall be deemed to be any product that includes more specific restrictions regarding the place of delivery other than the gas quality. For this reason, the cluster products are also considered a locational product in this document.
- 3) THE L can also be traded as an hourly product on the exchange in the corresponding order books.

1.2 Trading by the MAM

1.2.1 What do I have to do to trade balancing products on the exchange?

Market participants wishing to trade balancing products on the exchange must have a valid Balancing Group Contract in the THE market area and must have been admitted to trading the relevant products on the exchange. For questions regarding admission to the exchange, please contact the exchange. When trading balancing products on the exchange, the MAM acts like any other market participant, i.e. there is no need to register separately with the MAM for exchange trading.

1.2.2 To what extent does the MAM use the TTF when trading H-gas?

THE will continue to have the option of meeting its balancing requirements via the adjacent market area, which also applies to H-gas balancing actions. TTF will be taken into account for MOL 2 balancing actions. Within MOL 2, balancing transactions will generally be price-optimised. For the purpose of price optimisation THE considers in each case all daily products at MOL rank 2 for which offers are available and which are suited to meeting the quality-specific or locational balancing requirement in question. Transportation markups or markdowns are taken into account as before and published on the THE website (see links in relevant section). The TTF will not be used for trading to meet MBI requirements.

1.2.3 Does the MAM act as both aggressor and initiator when trading on the exchange?

In principle, the MAM can act as both aggressor and initiator. This applies both when it comes to meeting requirements for system balancing and for MBIs.

1.2.4 The slides shown at the customer event in April 2021 said that in the locational order books the MAM is always the counterparty for daily products. How is this meant?

In the locational order books, the exchange ensures during matching that trades are always concluded with the MAM only. The counterparty for trading in locational products in both H-gas and L-gas) is therefore always the MAM. Trading among third parties is not possible here, regardless of the type of the MAM's requirements.

1.3 General questions on exchange-traded products

1.3.1 Which rules do I need to be aware of for exchange-traded products in the THE market area?

For the global exchange product "THE", the relevant exchange regulations apply. All other exchange-traded product contracts to be fulfilled in the THE market area are not only governed by the rules and regulations of the exchange but are also subject to the provisions on exchange-traded products with physical delivery restrictions as provided in section 25 of the Balancing Group Contract. For more information, please refer to the Implementation Guide for section 25 as well as these FAQs (see links in relevant section).

1.3.2 How can I find out which points of the network have been approved for a product?

A list of entry and exit points is available on the THE website (see links in relevant section).

It provides an overview of all entry and exit points (Entryso and Exitso) relevant for exchange-based products subject to physical delivery restrictions as well as their allocation to the designated balancing areas and zones and to the individual physical trading products.

1.3.3 The physical nominations made by a market participant and confirmed by the network operator represent the reference value for assessing the physical effect when trading an exchange-based daily product. What happens if a market participant has already made its physical nominations before participating in the trading of an exchange-traded daily product without the nominations having been confirmed by the network operator?

The required change of the trading participant's physical inputs and/or offtakes is generally determined based on the most recent nomination status for the delivery period – as confirmed by the responsible network operator – at the time the trading transaction is executed (reference value; see section 25 (2) (b)). Only the nominations confirmed by the network operator are seen as a reliable planning basis for the MAM, which is why nominations that have not been confirmed are disregarded when it comes to determining the physical effect.

1.3.4 Do I have to have transportation capacities (entry/exit) in the THE market area to be able to trade products subject to physical delivery restrictions in the THE market area or could the gas also be provided on the foreign side of a cross-border IP/VIP?

All products subject to physical delivery restrictions require the relevant provider to have the necessary transportation capacities in THE market area if the provider wishes to use a cross-border IP/VIP to provide the physical effect. There are no separate rules for delivery to the MAM.

1.3.5 If a provider has an obligation to provide a physical effect under a purchase/sale of a particular product and then sells/buys another product with “stricter” physical delivery restrictions, does this release the provider from its physical delivery obligation under the earlier transaction?

Example: A market participant buys L-gas under a quality-specific trade and implements the trade at a network point that is part of the balancing area North L. Afterwards, the market participant sells the area-specific product for the balancing area North L for a delivery period that corresponds at least partly with the delivery period of the quality-specific trade, which neutralises the earlier physical effect.

The provider is not in fact released from its obligation to provide the physical effect, this is only the case when the same product variant is traded (see section 25 (12), sentence 1 for the trading of the same product variant and sentence 2 for the trading of different product variants). However, it will not be deemed a breach of the “general” product if the quantity movements resulting from the “specific” product are in the opposite direction of the direction of delivery promised under the “general” product, due to the fact that a later balancing action involving the specific product takes precedence from the network point of view. For locational daily products this is provided in section 25 (4) (e) (bb). For quality-specific products this rule will be applied accordingly. If it should turn out that the validity of such combinations works mainly to the detriment of the networks, however, THE reserves the right to restrict the validity of these combinations in future.

1.4 Quality-specific daily products

1.4.1 Does the physical effect have to be caused at a constant hourly delivery rate?

The full physical effect has to be achieved over the agreed delivery period. It is not absolutely necessary for the physical delivery to be effected at a constant hourly delivery rate (see section 25 (3) (b) sentence 2).

1.4.2 Section 25 (17) of the Balancing Group Contract refers to quality-specific daily products, which are defined in section 25 (3). Does this section therefore not apply to locational products?

Correct, section 25 (17) only applies to trading in quality-specific products.

1.4.3 Scenario: The MAM takes commercial conversion measures converting from H-gas to L-gas on a given day. The market participant uses virtual conversion on the same day in the same direction while at the same time selling quality-specific L-gas. Is this an abuse?

It is an abuse if the market participant has deliberately caused virtual conversion in the same direction in which the MAM has taken commercial conversion measures in order to profit from the provision of balancing gas for this commercial conversion. Deliberate action requires a subjective element on the part of the acting party. Therefore, it is not possible to provide a general answer here.

1.4.4 Does commercial conversion that is caused by RLM exit points not count as "deliberately caused" as provided in section 25 (17) (a) and (cc)?

In principle, any such deliberate act requires the balancing group manager (BGM) to be involved, as the BGM is responsible for balancing the balancing group, i.e. a deliberate act requires a subjective element on the part of the BGM. Therefore, it is not possible to provide a general answer here.

1.4.5 How can market participants avoid abusive behaviour pursuant to section 25 (17) if the MAM's conversion measures only become known afterward?

Please refer to 1.4.3 and 1.4.4.

1.5 Locational daily products

1.5.1 General questions on locational daily products

1.5.1.1 Does the renomination restriction always apply to the entire balancing area or only to the points allocated to the product traded?

The renomination restriction applies on balance (net flow) to all entry and exit points allocated to the relevant balancing area and not only to points allocated to the actual product (see section 25 (4) (e) in conjunction with (c)). This is particularly important for H-gas where there are different products per balancing area. Even if, for example, only the "North H Cluster" product is traded, the renomination restriction will nevertheless apply to the entire North H balancing area and will therefore also cover points that are allocated to the "North H" area order book.

1.5.1.2 Does the renomination restriction apply both to renominations that have an adverse impact on the network and to renominations that have a positive impact on the network?

The renomination restriction only applies to renominations that have an adverse impact on the network, i.e. the renomination restriction only applies to flow changes (on balance; net flow) against the relevant direction of delivery (see section 25 (4) (e)).

1.5.1.3 Does the physical effect have to be achieved at a constant hourly delivery rate?

For locational daily products, physical delivery always has to occur at a constant hourly rate from the very first delivery hour of the agreed delivery period (see section 25 (4) (b)).

1.5.2 H-gas: VIP products

Following the postponement of the introduction of the THE VIPs in H-gas on the Dutch border (TTF-THE-H) and the Belgian border (THE-ZTP), there is no need for new VIP order books for the use of market-based instruments (MBI) or external balancing actions for the time being. The trading of VIP products by the MAM will therefore not yet commence on 1 October 2021 as originally planned.

Questions and answers on VIP products will be included here in good time before the use of these trading products begins.

1.5.3 H-gas: Cluster products

There have been no questions on this particular topic as yet. Questions and answers will be included as and when required.

1.5.4 H-gas: Area products

There have been no questions on this particular topic as yet. Questions and answers will be included as and when required.

1.5.5 L-gas: Area products

There have been no questions on this particular topic as yet. Questions and answers will be included as and when required.

1.6 Locational hourly products

1.6.1 Is it permissible for the hourly product to be delivered one hour after the traded delivery hour?

No, this is not permissible and constitutes a breach. The physical effect must be caused exactly in the traded delivery hour (see section 25 (2) (c), 1st bullet point).

1.6.2 Section 25 (2) (c), 2. Bullet states that “the change in the physical inputs and/or offtakes of the trading party must occur in relation to the hour immediately preceding the traded delivery hour (hour “H”) (hour “H-1”). What does that mean in case of a trade relating to the first hour of the gas day (hour 6-7)?

The same rule applies as in all other hours of the gas day, namely the provider’s net flow (balance of the provider’s physical inputs and offtakes; see section 25 (4) (c)) in the previous hour is taken as reference. In this case the reference is the net flow in the last hour of the previous gas day (hour 5-6).

1.6.3 Illustration of the “H-1” approach when trading several consecutive delivery hours: Example 1

Example:

- [A] has nominated a constant flow of 500 MW for the gas day in question
- [A] sells the hourly product THE L West (Hour) for the balancing zone LW (L-gas zone West) on the exchange: 100 MW for hour 10, 100 MW for hour 11 and 100 MW for hour 12
- Question: Is it correct that [A] is required to deliver 600 MW in hour 10, 700 MW in hour 11, 800 MW in hour 12?

Under the rules for the hourly product, you have to effect a net flow increase compared with the previous hour in the case of a System Buy situation, i.e. if the physical balance resulting from your Entryso and Exitso quantities in the balancing zone LW was +500 before the trade, it would have to change to +600 in the following hour. Accordingly, if your net flow was -300 before, it would have to change to -200 etc.

The physical effect resulting from the same hourly product traded for the immediately preceding hour is taken into account, however (section 25 (2) (c), 3rd bullet).

In the above example THE would therefore expect a flow of 600 MW in hours 10, 11 and 12, respectively.

1.6.4 Illustration of the “H-1” approach when trading several consecutive delivery hours: Example 2

Example:

- Final nomination (= allocation D+1) of [A] for hour 9 in balancing zone LW = 0 MW
- [A] sells (System Buy) the hourly product THE L West (Hour) on the exchange for hour 10: 800 MW
- [A] increases entry flow in hour 10 to 800 MW
- [A] sells (System Buy) for hour 11: 200 MW THE L West (Hour)
- Question: Is it correct that [A] has to increase the entry flow to 1,000 in hour 11?

In this case the entry flow in hour 11 must be at least 200 in order to fulfil the trade. Balancing transactions for the same hourly product do not have an additive effect when they relate to successive hours (see section 25 (2) (c), 3rd bullet).

1.6.5 Illustration of the “H-1” approach when trading several consecutive delivery hours: Example 3

Example (follow-up to example 2):

- Final nomination (= allocation D+1) of [A] for hour 9 in balancing zone LW = 1,000 MW
- [A] sells (System Buy) the hourly product THE L West (Hour) on the exchange for hour 10: 800 MW
- [A] increases entry flow in hour 10 to 1,800 MW
- [A] sells (System Buy) for hour 11: 200 MW THE L West (Hour)
- Question: What minimum quantity is [A] expected to deliver in hour 11?

With the quantity traded for hour 11 being lower than that for the previous hour, [A] is allowed to take its entry down on the previous hour but [A] still has to ensure a minimum entry level of 1,200 (simplified logic: Target quantity for hour H = reference quantity in hour H-1 less physical effect from H-1 plus quantity traded for hour H $\rightarrow 1,800 - 800 + 200 = 1,200$).

[A] does not have an obligation to reduce its entry flow, however: In the same direction as the agreed direction of delivery (in the current case: System Buy, i.e. increase of inputs and/or reduction of offtakes), providers are generally allowed to provide a physical effect that is greater than the magnitude owed under the trade in question.

1.6.6 Illustration of the “H-1” approach when trading several consecutive delivery hours: Example 4

Example:

- Final nomination (= allocation D+1) of [A] for hour 14 in balancing zone LW = 0 MW
- [A] sells (System Buy) the hourly product THE L West (Hour) on the exchange for hour 15: 600 MW
- [A] nominates an entry flow of 600 MW in hour 15 (final nomination)
- [A] buys (System Sell) for hour 16: 200 MW THE L West (Hour)
- Question: The difference between the trade quantities for hours 15 and 16 amounts to -800 MW. Does this mean that [A] has to nominate an exit flow of at least 200 MW in hour 16?

Yes, that is correct. In accordance with section 25 (2) (c), 3rd bullet, the entry flow that was added to deliver on the System-Buy trade in hour 15 is not taken into account for hour 16, i.e. the reference quantity for hour 16 equals the entry flow from hour 15 less the physical effect from hour 15 (= H-1), which in this case gives a reference quantity of zero.

1.6.7 Illustration of the “H-1” approach when trading several consecutive delivery hours: Example 5

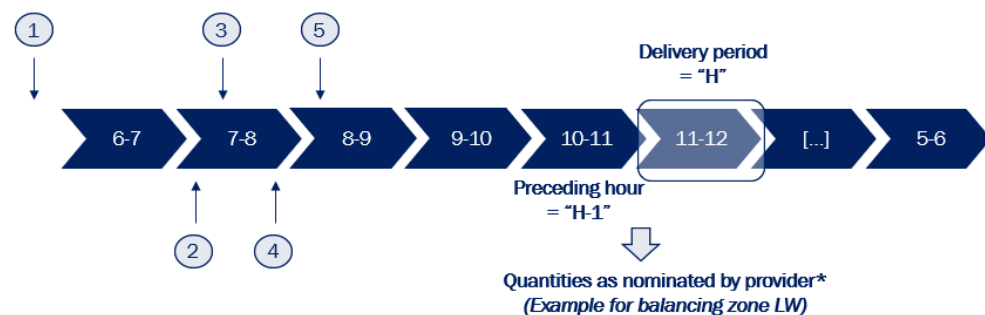
Example (follow-up to example 4):

- Final nomination (= allocation D+1) of [A] for hour 14 in balancing zone LW = entry flow of 400 MW
- [A] sells (System Buy) the hourly product THE L West (Hour) on the exchange for hour 15: 600 MW
- [A] nominates an entry flow of 1,000 MW (400 + 600) in hour 15 (final nomination)
- [A] buys (System Sell) for hour 16: 200 MW THE L West (Hour)
- Question: What quantity does [A] have to deliver in hour 16?

In hour 16 THE would expect an entry flow no greater than 200 MW (alternatively an entry flow of 400 MW plus an exit flow of 200 MW → net flow is relevant). In accordance with section 25 (2) (c), 3rd bullet, the entry flow that was added to deliver on the System-Buy trade in hour 15 is not taken into account for hour 16, i.e. the reference quantity for hour 16 equals the entry flow from hour 15 less the physical effect from hour 15 (= H-1), which in this case gives a reference quantity of 400 MW (entry).

1.6.8 If the provider has sent a within-day renomination and executes a trade after the renomination was sent but before the corresponding allocation has been received, based on what quantity does the provider have to deliver the physical effect?

The relevant reference under the “H-1” approach is always the actual flow in the hour preceding the delivery hour, as it is later allocated (= last confirmed nomination). Whether or not the network operator has already confirmed this quantity at the time when the trade is entered is not of concern in this regard.



		10-11	11-12
①	Nominations as at D-1	+200	+200
②	Provider renominates to reflect current planning (= last renomination for hour 10-11)	+300	+300
③	Provider sells hourly product (System Buy 100)	+300	+300
④	Network operator confirms renomination	+300	+300
⑤	Provider renominates to provide physical effect	+300	+400

Required change:
+100 compared to H-1

* The table shows the balance (net position) of all quantities of the type Entryso and Exitso nominated by the provider in the relevant zone

2 Bilateral products (MOL 4 balancing products)

2.1 General questions on bilateral products

There have been no questions on this particular topic as yet. Questions and answers will be included as and when required.

2.2 LTO

2.2.1 General questions on the LTO product

2.2.1.1 Are providers allowed to use short-term (within-day/day-ahead) and/or interruptible capacity for LTO purposes?

Yes. Each provider is responsible for ensuring that it can meet LTO call orders from THE at any time within the agreed lead time. No additional requirements are currently stipulated.

2.2.1.2 Are providers allowed to use overnomination to deliver on an LTO call order?

Yes. Each provider is responsible for ensuring that it can meet LTO call orders from THE at any time within the agreed lead time. No additional requirements are currently stipulated.

2.2.1.3 Do providers have to be able to provide proof of particular capacity bookings to fulfil their obligations to prove contractual compliance (section 9 of the PD LTO)?

LTO providers do not have to submit proof of particular capacity bookings. Each provider is responsible for ensuring that it can meet LTO call orders from THE at any time within the agreed lead time. No additional requirements are currently stipulated.

2.2.1.4 Regarding the data series types used to calculate the physical balance (net flow): The LTO document only refers to “Entryso” and “Exitso”. Is it correct, then, that VTP quantities (“Entry VHP”, “Exit VHP”) are not included? What about conversion? Can the provider use the conversion mechanism to balance its balancing group?

As described in the PD LTO (section 1(5)(a), sentence 4 for LTO RoD and section 1(5)(b), sentence 3 for LTO Hourly), only the provider’s “Entryso” and “Exitso” quantities in the

relevant balancing zone count towards the physical balance as determined under the PD LTO, i.e. any and all other types of quantities recorded in the provider's balancing group are not taken into account when determining the provider's physical balance. Use of the conversion mechanism for the purpose of providing gas for balancing is not permitted as set out in section 1(9) PD LTO.

2.2.2 LTO RoD

2.2.2.1 Is it compliant with the obligations under the product description if the requested physical balance was in place even before the activation of the LTO RoD?

Yes, this is generally sufficient, as the provider owes a guaranteed net flow into (System Buy) or out of (System Sell) the system to uphold security of supply. However, each LTO call order must be balanced physically. THE normally expects providers to deliver on an LTO call order in the contracted balancing zone or sector (as the case may be). If the required physical balance (= net flow) is already in place when the call order is issued (i.e. the provider has already nominated corresponding flows for all hours of the call period at the time the call order is received), the provider is allowed to balance the call order physically in a different balancing zone or sector. The gas quality of the balancing zone or sector chosen for this must always correspond to the gas quality of the LTO call order, though (see section 1 (5) (a), sentence 6 of the LTO PD).

2.2.2.2 What flow change would THE normally expect from [A]?

Example:

- [A] has nominated an entry flow of 500 MW into and an exit flow of 100 MW out of the balancing zone contracted by [A], with all of these flows nominated at points that are allowed for LTO purposes (physical balance = $500 - 100 = +400$)
- THE issues the following call order: 500 MW LTO RoD (System Buy)

The provider has the following options:

- 1) Increasing the existing entry flow in the contracted balancing zone by 500 MW (physical balance = $1,000 - 100 = +900 \rightarrow 500$ more than before)
- 2) Increasing the existing entry flow in the contracted balancing zone by 400 MW and reducing the existing exit flow to zero (physical balance = $900 - 0 = +900 \rightarrow 500$ more than before)
- 3) Changing flows to ensure that the physical balance in the contracted balancing zone corresponds to that required under the LTO call order (+500) by either increasing the entry in that zone by 100 MW or reducing the exit to zero (physical balance = $600 - 100 = +500$ or $500 - 0 = +500$, respectively, $\rightarrow$ in both cases this means 100 more than before) plus physically balancing the remaining LTO call order quantity in a different balancing zone having the same gas quality (by increasing an entry flow or reducing an exit flow by the remaining 400 MW)

2.2.2.3 Do the rules for the product variant RoD (net flow into the relevant zone in the case of a System Buy, net flow out of the relevant zone in the case of a System Sell) mean that providers can no longer use a reduction of their flows (i.e. reduce their exit flow for a System Buy or reduce their entry flow for a System Sell) to deliver on an LTO call order?

Providers can still use flow reductions to deliver on LTO call orders. However, the net flow approach means that ultimately for a System Buy at least an entry flow equal to the call quantity needs to be present (exit flow in the case of a System Sell), i.e. providers always need to have (at least) entry capacity in the case of a System Buy and exit capacity in the case of a System Sell (see also question 2.2.2.2).

2.2.2.4 Follow-up to question 2.2.2.2:

**At the entry and exit points allowed for LTO purposes in the contracted balancing zone, [A] has nominated only an exit flow of 500 MW (physical balance = -500); THE issues a call order for 500 MW LTO RoD (System Buy).
Is the LTO call order fulfilled if the provider reduces its exit flow to zero?**

No, the provider must ensure a net flow onto the system, i.e. a positive physical balance. The provider has to nominate either an entry flow of 1,000 MW or reduce its exit to zero and in addition nominate an entry flow of 500 MW.

2.2.2.5 Section 1 (5) sentence 2 and (5) (a) sentences 1 and 2 of the LTO PD, respectively, provide that certain entry and exit points must not be used to provide a physical effect in case of a call order. How is this taken into account in determining the provider's physical balance?

As stated in sentence 4 of section 1 (5) (a) of the LTO PD, the relevant inputs and offtakes for calculating the provider's physical balance are those "in the agreed balancing zone or sector". In determining the physical balance, however, inputs and offtakes at entry and exit point that are not allowed for use under the LTO PD will not be taken into account (see section 1 (5) (a) sentence 5 of the LTO PD).

2.2.2.6 Does the exclusion of certain points under the LTO PD also apply in the case that the provider's physical balance in the contracted balancing zone already meets the requirement under the LTO call?

Example: The provider has an LTO contract for the balancing zone HS (H-gas zone South) and its flows in that zone already correspond to the required minimum net flow. Is the provider allowed to balance the LTO call order by using the VIP TTF-NCG H?

Under the product variant RoD the provider has to ensure a net flow into (System Buy) or out of (System Sell) the relevant balancing zone at the entry and exit points allowed for LTO purposes. If this is already the case, the provider is allowed to physically balance the LTO call order by moving to a different balancing zone or sector of the same gas quality (see question 2.2.2.1). This rule is applied accordingly when it comes to points not allowed for LTO purposes under the LTO PD, i.e. the exclusion of these points does not apply in this case. In the above example this means that the VIP TTF-NCG H may be used. This only applies, however, if the net flow contractually required in the balancing zone HS is already present and is kept up for the duration of the call.

2.2.2.7 Scenario: Assuming a call order is issued for a delivery period of 24 hours and the provider fails to deliver a physical effect in one hour, is it correct that a penalty of EUR 0 applies because the breach is less than 5% ($1/24 = 4.17\%$)?

No. Please see the example below for a more detailed explanation of how the penalty provisions work.

Call order in question = LTO System Buy 200 MWh/h for the delivery period from 6am to 6am (24 hours)

- Call quantity = 24 h x 200 MWh/h = 4,800 MWh
- Commodity charge agreed with the provider = 16 EUR/MWh
- Call fee = 4,800 MWh x 16 EUR/MWh = EUR 76,800
- Capacity charge agreed with the provider for a delivery rate of 200 MWh/h for the quarter in question = EUR 180,000

The penalty applicable under section 10(2) is calculated as follows:

Penalty = (shortfall rate + penalty surcharge) x call fee

Shortfall rate = shortfall quantity / call quantity = 200 MWh / 4,800 MWh = 4.17%

Penalty surcharge = according to table → for 4.17% = + 0%

Section 10(2) penalty = (0.0417 + 0) x EUR 76,800 = EUR 3,202.56

In addition, the penalty under section 10(3) applies.

Assuming that the above call order was the only LTO call order issued to the provider in the relevant call month, the shortfall rate determined under section 10(2) also applies under section 10(3). This gives the following penalty:

Penalty = (shortfall rate + penalty surcharge) x capacity charge

Capacity charge = proportionately per month → EUR 180,000 / 3* = EUR 60,000

Section 10(3) penalty = (0.0417 + 0) x EUR 60,000 = EUR 2,502

The total penalty payable for the breach amounts to EUR 5,704.56 (EUR 3,202.56 according to section 10(2) plus EUR 2,502 according to section 10(3)).

** This is a simplified calculation not taking into account the varying number of days in the respective months.*

2.2.2.8 In the example provided in question 2.2.2.2 the provider is allowed to reduce its exit flow to meet a System Buy LTO call order. In question 2.2.2.3 you state that exit flow reductions are allowed for System Buy whilst also mentioning that an entry flow must be present also. Then in question 2.2.2.4 an exit flow reduction is not permitted. This appears to be a contradiction.

There is no contradiction. Under the product variant LTO RoD providers have two obligations: First, throughout the call period the provider has to ensure within the contracted balancing zone or sector (as the case may be) that at the entry and exit points allowed for the product in question under the LTO PD the provider has a net flow (physical balance) that is at least equal to the delivery rate instructed under the LTO call order (a positive physical balance, namely a net entry position, in the case of System Buy and a negative physical balance, namely a net exit position, in the case of System Sell). It is allowed to produce this physical balance by reducing an existing flow (see question 2.2.2.2). Second, the provider must always physically balance the LTO call order, it is not allowed not to do anything. If the required net flow is already in place in the contracted balancing zone or sector (as the case may be) at the entry and exit points allowed under the LTO PD, then the provider is allowed to physically balance the LTO call order in a different balancing zone or sector (see question 2.2.2.1) or at other points within the balancing zone or sector that would normally be excluded (see question 2.2.2.7). The required minimum net flow must always be ensured (with only

those entry and exit points within a balancing zone or sector counting towards this physical balance for which no exclusion applies under the LTO PD). In question 2.2.2.4, this is not the case, so a flow reduction is not sufficient in this case to duly deliver on the LTO call order.

2.2.3 LTO Hourly

2.2.3.1 Does the MAM plan to issue tenders for the LTO Hourly product variant in the North L area?

There are currently no plans to issue tenders for the LTO Hourly product in the North L balancing area. However, please also note the respective current information on invitations to tender for long-term balancing services (see links in relevant section).

2.2.3.2 How does the “H-1” approach work for LTO Hourly (section 1 (5) (b), sentence 2 of the LTO PD)?

Please see questions 1.6.2, 1.6.3, 1.6.4, 1.6.5, 1.6.6, 1.6.7 and 1.6.8 on the locational hourly products traded on the exchange. The answers provided there apply accordingly to the LTO Hourly product.

2.2.3.3 How does the “H-1” approach work for LTO Hourly when the LTO provider has traded the corresponding exchange product on the exchange in the previous delivery hour?

Example:

- [A]’s final nomination (= allocation D+1) in balancing zone LW in previous hours = 0 MW
- [A] sells (System Buy) 500 MW on the exchange via the hourly product THE L West (Hour) for hour 9
- [A]’s final nomination (= allocation D+1) in LW for hour 9 = entry flow of 500 MW
- THE issues the following call order for hour 10: 300 MW LTO Hourly LW (System Buy)
- Question: Does [A] have to nominate an entry flow of 300 MW or of 800 MW in hour 10?

An entry flow of 300 MW is sufficient because the LTO product in the product variant “Hourly” serves as back-up for the hourly exchange product, i.e. THE considers these two products to be identical when it comes to the required physical effect.

2.2.3.4 How is it taken into account under the “H-1” approach if the LTO provider has traded a daily exchange product in the opposite direction starting from the same delivery hour?

Example:

- [A] has nominated a constant flow of 500 MW for the gas day in question
- [A] buys on the exchange: 500 MW RoD starting from hour 10 → [A] reduces flow accordingly (to zero)
- THE issues a call order (LTO Hourly) to [A] for 100 MW (System Buy) for hour 10
- Question: Is it correct that [A] is required to deliver 600 MW in hour 10?

It is correct that THE expects a flow of 600 MW to be delivered in hour 10 (flow in previous hour = 500 MW + 100 MW for the LTO Hourly call order).

2.2.3.5 Regarding the way the product interrelates with the exchange products subject to specific physical delivery restrictions: For example, if we buy 100 MWh for delivery in LW (EEX) for hour 10-11 and then, a few minutes later, the MAM issues a System Buy call order also for LW for the same hour, what do we have to nominate?

The MAM will not in practice buy or sell the hourly exchange product and then issue a call order that is for the corresponding LTO product for the same hour and same balancing zone but in the opposite direction.

2.3 SCB

2.3.1 Is it correct that there are three different options of delivering the SCB product?

Yes, that is correct. Section 1(1) of the PD SCB sets out provisions for delivering the product at transmission-level storage points (in practice: Epe-L storage). Section 1(2) sets out the possible alternatives, namely via RLM exit points (subsection a) or distribution-level storage points (subsection b).

2.3.2 Can the provider choose which delivery option to use when receiving a call order?

In the case of section 1(1), its application is bindingly agreed during the tender process, with the provider specifying the relevant storage point and storage system operator (SSO) at the time of submitting its bid. Once the MAM awards a contract on the bid, the provider has an obligation to keep the SCB product available at the specified storage point, i.e. to

ensure that the SCB product can be called by the MAM at any time throughout the agreed contract period in accordance with the product description and at the delivery rate agreed. For the necessary contractual arrangements to be entered into with the relevant SSO see section 8 of the PD SCB; for the pertinent call arrangements see sections 6(1) to (4) and (6) of the PD SCB.

In the case of section 1(2), the provider only specifies the relevant balancing zone at the time of submitting its bid, i.e. at the time when the contract is awarded it is not determined whether the provider will deliver the SCB product via an RLM exit point or distribution-level storage point. If called on the product, the provider is free to decide which delivery option to use. However, the provider has an obligation to ensure that calls can be met at any time in accordance with the product description, which means that the provider has to enter into contractual arrangements with the relevant industrial user (RLM) or SSO (distribution-level storage) and – if applicable – also with the responsible distribution system operator (when using points connected to distribution networks, see section 1(3) of the PD SCB).

2.3.3 Is it possible to deliver on an SCB call by reducing an existing flow?

Yes, it is.

For delivery via RLM exit points see section 1(2)(a), for delivery via distribution-level storage points see section 1(2)(b).

In the case of section 1(1) (transmission-level storage points), call orders are implemented via direct access to the storage facility. Actual physical delivery is handled by the SSO acting on behalf and in the name of the provider. The provider is notified of the call order but does not have to actively implement it (see section 6(3) and (4) of the PD SCB).

2.3.4 When providing the SCB product at transmission-level storage points, does the provider have to book the transportation capacity needed to deliver the SCB product?

No, in the case of section 1(1) (transmission-level storage point) this is not necessary. The MAM receives direct access to the storage facility, the required transportation capacity is provided by the transmission system operator.

2.3.5 Is it allowed to use interruptible storage capacity to deliver the SCB product?

The provider has to ensure that the SCB product can be called at any time throughout the contract period in accordance with the product description. Additional details must be agreed with the relevant SSO (see section 8 of the PD SCB).

2.3.6 Section 1(2) states in the case of providing the SCB product at RLM exit points and distribution-level storage points that the required change in consumption and entry/exit flow, respectively, must be effected relative to the preceding hour “H-1”. Does this also apply with respect to the first delivery hour of the gas day?

Yes. As is the case with the LTO “Hourly” product variant, the SCB product is used for structuring purposes. In order to achieve this aim, the PD SCB requires the provider to change its flows compared with the hour (“H-1”) preceding the called delivery hour. There are no special arrangements regarding the first hour of the gas day, so if and when the SCB product is called for the delivery hour 6-7, consumption or the entry/exit flow at the relevant points must change compared to the flows in hour 5-6.

2.4 FLEX

There have been no questions on this particular topic as yet. Questions and answers will be included as and when required.

2.5 STB

There have been no questions on this particular topic as yet. Questions and answers will be included as and when required.

3 Market-based instruments (MBIs)

3.1 General questions on MBIs

3.1.1 What are the criteria to decide which MBI should be used?

An MBI MOL is used to ensure that the individual instruments are used in the most cost-efficient way, i.e. the MBI used is the one that is the most cost-effective at a given point in time.

3.1.2 What lead times do MBIs have?

For spread product trading, the usual lead time on the exchange applies, i.e. three (3) hours before the start of the delivery period.

For third-party network use and VIP wheeling, the lead times of the capacity auctions on the PRISMA booking platform apply, i.e. the MAM must submit its bids no later than three and a half (3.5) hours before the start of the delivery period. However, third-party network use and VIP wheeling measures will only be actually carried out if the MAM is awarded capacity during the auction.

3.2 Spread product

3.2.1 How does the spread product work?

The spread product is not a standalone exchange-traded product. It is rather a combination of different simultaneous trades using the exchange-traded products that are suitable for eliminating congestion when there is a requirement for MBI actions.

When using locational products in H-gas to meet an MBI requirement, the MAM simultaneously buys and sells gas in the balancing areas upstream and downstream of the congestion, i.e. it will sell gas in the oversupplied balancing area ("upstream of the congestion") while at the same time buying in the undersupplied balancing area ("downstream of the congestion").

The "spread" results from the difference between the prices at which gas is bought and sold by the MAM.

3.2.2 What do I have to do to trade spread products on the exchange?

The same requirements apply as for trading balancing products on the exchange (see question 1.2.1).

If there is a congestion, the MAM will inform the market participants about the situation and publish its MBI requirement with a lead time, along with information on the direction of the congestion and the order books to be used. The market participants can then enter their bids in the order books.

3.2.3 Can market participants trading a spread product promptly cancel trades already closed if bids were placed incorrectly – as with regular trades on the exchange?

The cancellation terms and conditions are defined by the exchange. Please contact EEX for further information.

3.3 Third-party network use

3.3.1 How does third-party network use work?

Third-party network use involves shipping gas quantities via a maximum of two adjacent, foreign transmission networks outside the market area in order to eliminate congestion within the market area. For this purpose, the MAM has to book capacities on the PRISMA booking platform. Third-party network use measures will therefore only be actually carried out if the MAM is awarded capacity during an auction.

3.3.2 Are the costs for transmission capacity bookings with the German TSOs taken into account when establishing the costs of third-party network use and VIP wheeling for the formation of the MBI MOL, or are only costs for transmission capacity bookings in adjacent market areas taken into account?

The MAM has to bear the regular fees for transmission capacity bookings both with the TSOs within the THE market area and also outside the market area. The costs incurred for this are therefore taken into account when establishing the costs for the formation of the MBI MOL.

3.4 VIP wheeling

3.4.1 How does VIP wheeling work?

Like third-party network use, VIP wheeling involves shipping gas in return for a fee via an adjacent, foreign transmission network outside the market area in order to eliminate congestion within the market area. In contrast to third-party network use, entry and exit capacities are booked at the same VIP that is connected to both balancing areas ("cross-

area VIP”). VIP wheeling measures will only be actually carried out if the MAM is awarded capacity during the auction.

3.4.2 Has the MAM already concluded contracts with the gas TSOs for VIP wheeling?

For VIP wheeling, the MAM has to book entry and exit capacities at the same cross-area VIP using the usual booking processes. This is done as and when required at the regular fee. Separate contracts with the TSOs governing the VIP wheeling product are therefore not necessary.

3.4.3 Will the MAM publish the available capacities for VIP wheeling during the course of the day?

This is not necessary, as the available capacities are shown on PRISMA, and only these capacities are available to the MAM.

4 Capacity buy-back

4.1 Is it permissible for a market participant to sell capacities in the oversupplied balancing area to the MAM under a capacity buy-back contract and subsequently sell a locational balancing product to the MAM in that same balancing area?

Yes, this is allowed. Under the capacity buy-back contract the provider does have a renomination restriction that restricts flow changes in the opposite direction of the delivery direction of the capacity buy-back contract (this restriction applies on balance – net flow – across all entry and exit points that belong to the balancing area to which the capacity buy-back contract relates). If the situation described in the question should arise in actual practice, the locational balancing product in question is the more “specific” product and thus takes precedence from a network point of view. It will therefore not be deemed a breach of the capacity buy-back contract if the quantity movements resulting from the specific product are in the opposite direction of the direction of delivery promised under the capacity buy-back (see also question 1.3.5 on this matter regarding the exchange-traded products). If it should turn out that the validity of such combinations works mainly to the detriment of the networks, however, THE reserves the right to restrict the validity of these combinations in future.

Trading Hub Europe GmbH

Kaiserswerther Str. 115
40880 Ratingen
Germany

Market Development & Analysis

T: +49 2102 59796-404

F: +49 2102 59796-418

E: market-development@tradinghub.eu

www.tradinghub.eu