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keep in balance

Implementation of the "National Gas Reserve" Customer event for balancing gas supplier, 4 May 2022

Via MS-TEAMS

Agenda

- Act amending the Energy Industry Act to introduce minimum gas storage levels
- SSBO design

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Section 35a – General

- The provisions of this part of the Act only apply to gas storage facilities which are located in Germany
and have at least one connection point to the German gas pipeline transmission system.

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Section 35b – Minimum storage levels…

- The following gas storage levels must be reached:
  - on 1 October: 80 per cent
  - on 1 November: 90 per cent
  - on 1 February: 40 per cent
- The Federal Ministry for Economic Affairs and Climate Action (BMWK) may define different cut-off dates and storage levels
- The storage operator (BGsa) must provide proof of compliance with the specified storage levels
- Additional information transmission obligations of the storage operator vis-à-vis authorities and MAMs
- If it becomes apparent that the storage level requirements cannot (or can no longer) be met technically, the storage operator is obliged to make the unused storage capacities of the storage user (NGsa) available to the MAM in good time until the end of the storage year
- The storage user remains obliged to pay the fees for storage use

Section 35c – Tenders for SSBOs & supplementary measures

- To ensure security of supply, the MAM has to procure SSBOs with approval from the BMWK and in agreement with the Federal Network Agency (BNetzA).
- If the general storage added with SSBOs are not sufficient to meet the defined minimum storage levels, the MAM may, with approval from the BMWK and in agreement with the BNetzA, take additional measures to the extent required to achieve the minimum storage levels.
- These include additional, also short-term, tenders for SSBOs for the capacities made available to the MAM as well as the purchase and storage of physical gas quantities.
- If the capacities made available to the MAM are not sufficient for this purpose, the MAM can book the required storage capacities.

Section 35d – Approval decision

- The BMWK may, in agreement with the BNetzA and after hearing the MAM, order that the MAM be allowed to exercise the SSBO(s) and that it be allowed to withdraw the purchased gas quantities from storage
- This is done in particular
  - to prevent imminent disruptions to the energy supply or to remedy disruptions that have occurred,
  - to compensate for a significant and unexpected decline in gas supplies, or
  - to remedy regional congestion situations
- The MAM has to sell the physically acquired gas quantities evenly from 1 January of a given year until the end of the storage year at the latest.
- The foregoing shall not apply if it is to be expected that the minimum storage levels cannot be guaranteed without measures pursuant to Section 35c(2) or if the BMWK, in agreement with the BNetzA, has objected to the disposal and withdrawal of gas.

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Section 35e – Allocation of the MAM's costs & financing

- The costs incurred by MAM in connection with its tasks to ensure security of supply have to be apportioned to the BGMs in the market area.
- The MAM is entitled to demand advance payments from the BGMs to cover the anticipated costs.
- The details have to be approved by the BNetzA in agreement with the BMWK and the Federal Ministry of Finance (BMF).

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Section 35f – Evaluation

- The BMWK will, by 15 December 2022, assess the implementation of the regulations under this part of the Act and, by 1 April 2023, evaluate the regulations under this part of the Act and their impact.
- In its report, the BMWK will also determine whether there is a need to keep the regulations in place.

Section 35g – Entry into force & expiry

- The statutory regulations on the introduction of minimum gas storage levels will come into force on the day after promulgation.
  - The publication in the Federal Law Paper took place on 29.04.2022, the law thus entered into force on 30.04.2022.
- The statutory regulations on the introduction of minimum gas storage levels will cease to apply on 1 April 2025.

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"Security of supply toolbox" as per amendment to the EnWG

Phase 1: Market injects gas into storage facilities according to its own needs/market signals while THE stimulates gas injection into storage through tenders

- Basis for THE = Section 35c(1) of the EnWG amendment
- Instrument: "Regular SSBO" → Objective = Ensure a certain "basic storage level"

Phase 2: THE has to close gap to the predefined storage levels (basis = storage capacity as per UIOLI (use it or lose it) arrangement or own booking by THE)

- Basis for THE = Section 35c(2)
- Instrument 1: Contracting of "special SSBOs" by THE
- Instrument 2: Own gas procurement and injection into storage by THE

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Agenda

- Storage Act
- **SSBO details**

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Stage 1 SSBO – General product description

Current state of discussion, design not yet final!

Standardised contract with two sub-components

- The Stage 1 SSBO product comprises two contract components:
  - Contract component 1: Single-storage commitment with proof of storage level achieved on a specific reporting date.
  - Contract component 2: Steps to maintain a guaranteed partial quantity for call-off by the MAM at any time (call-off option)
- This is a standard contract for the contracted total quantity ("storage quantity"), of which a partial quantity ("call-off quantity") is subject to separate restrictions for possible access by the MAM ("purchase option“)

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Stage 1 SSBO – Design of call option

Current state of discussion, design not yet final!

Partial quantity reserved for the MAM's call option

- 20% of the contracted storage quantity is "reserved" for the call option
- The provider must keep this call-off quantity available until the end of the contract period so that it can be called off by the MAM at any time
- The provider has to provide the storage and transmission capacities (withdrawal capacity, network entry capacity) required for withdrawal
- If the MAM does not call off the quantity, the contracted call-off quantity has to be kept in the storage in full until the end of the contract period
- Fixed "lots" are defined for the submission of bids; ideas proposed so far:
  - 32,500 MWh = storage quantity per lot
  - of which 6,500 MWh = call-off quantity per lot
  - Withdrawal capacity of 10 MW per lot to be held available for withdrawal

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Stage 1 SSBO – Gas injection commitment details

Current state of discussion, design not yet final!

Commitment to reach certain storage levels on defined dates

- The provider has to inject the contracted storage quantity (= total contracted quantity including the defined call-off quantity) in accordance with a percentage paths defined (based on gas day):
  - 90 % of the contracted storage quantity must be reached by 1 October
  - 100 % of the contracted storage quantity must be reached by 1 November
  - 45 % of the contracted storage volume must still be available by 1 February
- Proof of storage of the requisite quantities must generally only be provided on the cut-off dates → flexibility for the provider
  - However, at least the contracted call-off quantity must always be held available in accordance with the rules for the call-off option
  - Quantities called off via the call-off option will reduce the level to be met through the injection commitment accordingly
- It is irrelevant whether the gas was already in storage when the contract was concluded
- The provider must provide the storage and transmission capacities (working gas volume, injection capacity, exit capacity from network) required for injection into storage/keeping the gas available.
- The contract period is the full 4-month period from 01.10., i.e. October up to and including January.

Stage 1 SSBO
– Illustrative numerical example*

Current state of discussion, design not yet final!

- Quantity put out to tender = 325,000 MWh
- Contracts are signed for 10 lots (32,500 MWh each)
- Storage levels to be demonstrated for each lot:
  - 90 % as of 1 October: 29,250 MWh [total for all lots: 292,500 MWh]
    - of which the following quantity has to be kept available (i.e. continuously, not only on the reference date): 6,500 MWh [total for all lots: 65,000 MWh]
  - 100 % as of 1 November: 32,500 MWh [total for all lots: 325,000 MWh]
    - of which the following quantity has to be kept available (i.e. continuously, not only on the reference date): 6,500 MWh [total for all lots: 65,000 MWh]
  - 45 % as of 1 February: 14,625 MWh [total for all lots: 146,250 MWh]
    - of which the following quantity has to be kept available (i.e. continuously, not only on the reference date): 6,500 MWh [total for all lots: 65,000 MWh]

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* Numerical example serves solely to explain how the product works and is not an indication of the level of demand for future tenders

Stage 1 SSBO – Tender logic

Current state of discussion, design not yet final!

Storage-specific contracting where tenders are issued for zones

- Contract is concluded for the specific storage facility offered by the provider
  - All obligations/restrictions of the provider refer only to this contracted storage facility; activities at other storage facilities (or other points such as cross-border IPs/VIPs) are irrelevant for assessing proper contract performance
- Nevertheless, in stage 1, demand is assessed and acceptance of bids are issued at zone level, in contrast to storage-specific product design
  - Advantage compared to Germany-wide tender: regional distribution (ex-ante) of contracted quantities
  - Advantage compared to storage-specific tendering: fewer monopoly situations on the supply side
- The relevant "THE storage zones" are defined and published in advance

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Stage 1 SSBO – Offer, pricing model and contract award

Current state of discussion, design not yet final!

- Demand is determined as a quantity and put out to tender
- Bids are submitted in individual lots
  - When submitting an offer, the provider indicates the number of lots offered by him
- The pricing model comprises three price components:
  - For the single-storage commitment, a fixed "service fee" in EUR for the entire contract period
  - For call option
    - Fixed service charge in EUR for entire contract period
    - Commodity charge in EUR/MWh for a possible call-off: EEX European Gas Spot Index (EGSI) THE EUR/MWh plus/minus specified absolute premium/discount
- Contract is generally awarded on the basis of the optimum cost across the tendered zone, i.e. according to price
  - The MAM reserves the right not to award a contract in the event of excessive pricing
- Basis for contract award = total costs
  - Total costs = service charge + capacity charge + commodity charge component
  - Weighting of commodity charge in cost comparison: "occurrence factor" to be taken into consideration

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Stage 1 SSBO
– Call-off as part of the call-off option (1)

Current state of discussion, design not yet final!

Provision of quantities to the MAM in the case of a call-off

- Call-off = "exercise of option", Section 35d (1) of the Gas Storage Act
- Call-off only by order of BMWK/BNetzA
- Contracted call-off quantity corresponds to "quantity budget", which is reduced by each call-off
  - Number of call days is not defined separately
- Call order:
  - If relevant for call-off (regional bottleneck, current security of supply situation, etc.), first according to location (contracted storage facility)
  - Otherwise by lowest commodity charge → lowest commodity charge first, then in ascending order
- Provider has an obligation to physically provide the quantities called off
  - Provider must prove physical entry (i.e. EntrySO allocation) at the contracted storage facility at least in the amount of the call made (exit reduction not permitted)
  - Existing withdrawals may be "repurposed" upon call-off → gives provider flexibility for use of contractual withdrawal capacity outside the call-off phase

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Stage 1 SSBO
– Call-off as part of the call-off option (2)

Current state of discussion, design not yet final!

Call-off process as such is the same as for LTO

- Call-off with 3 hours lead time before start of delivery
- Call-off via REQEST/REQRES
- For the quantity transfer, a VTP nomination (single-sided) is made by THE → VTP entry in THE’s "SSBO balancing group", VTP exit in provider’s balancing group
- Call-off is always made for Rest-of-Day (RoD)
  - Call-offs cannot be made for individual hours (e.g. 14-15.00 hrs.) or partial periods ending before the end of the gas day (e.g. 8-17.00 hrs.)
  - If approval by BMWK/BNetzA takes longer, i.e. no revocation (Section 35d(2)), a new call-off is made for each day

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Current state of discussion, design not yet final!

Stage 1 SSBO – Obligations to provide evidence / Sanctions

- Provider must provide evidence of proper contract performance upon request by MAM
- Contract component 1: Storage commitment → storage level according to path specified for the respective cut-off date
- Contract component 2: Call option → obligation to keep quantities available; in the event of a call, proof of physical provision of the quantities may be required
  - Proof of provision includes both the actual call-off quantity and the provision of the contractual withdrawal capacity

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- In addition, THE has the right to request proof directly from the SSO and/or TSO.
- If necessary, proof can also be requested before the start of the contract period, so that contractual injection of gas into storage can be ensured by 01.10.
- In the event of a breach of contractual obligations, there is a penalty
  - Three different penalty components depending on the type of infringement (infringement gg. Storage commitment on the cut-off date, violation gg. Retention obligations within the scope of retrieval option, violation gg. physical provisioning in case of retrieval)

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Thank you for your attention!

Markus Sammut

Head of Marketdevelopment & -analysis

markus.sammut@tradinghub.eu

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Trading Hub Europe GmbH

Hauptsitz:
Kaiserswerther Straße 115
40880 Ratingen

Standort Berlin:
Anna-Louisa-Karsch-Straße 2
10178 Berlin

www.tradinghub.eu

Geschäftsführer

Dr. Thomas Becker, Jörg Ehmke,
Torsten Frank, Dr. Sebastian Kemper

Amtsgericht Düsseldorf, HRB 93885