

Statement of the Basis of the Balancing Neutrality Charges and the Liquidity Buffer

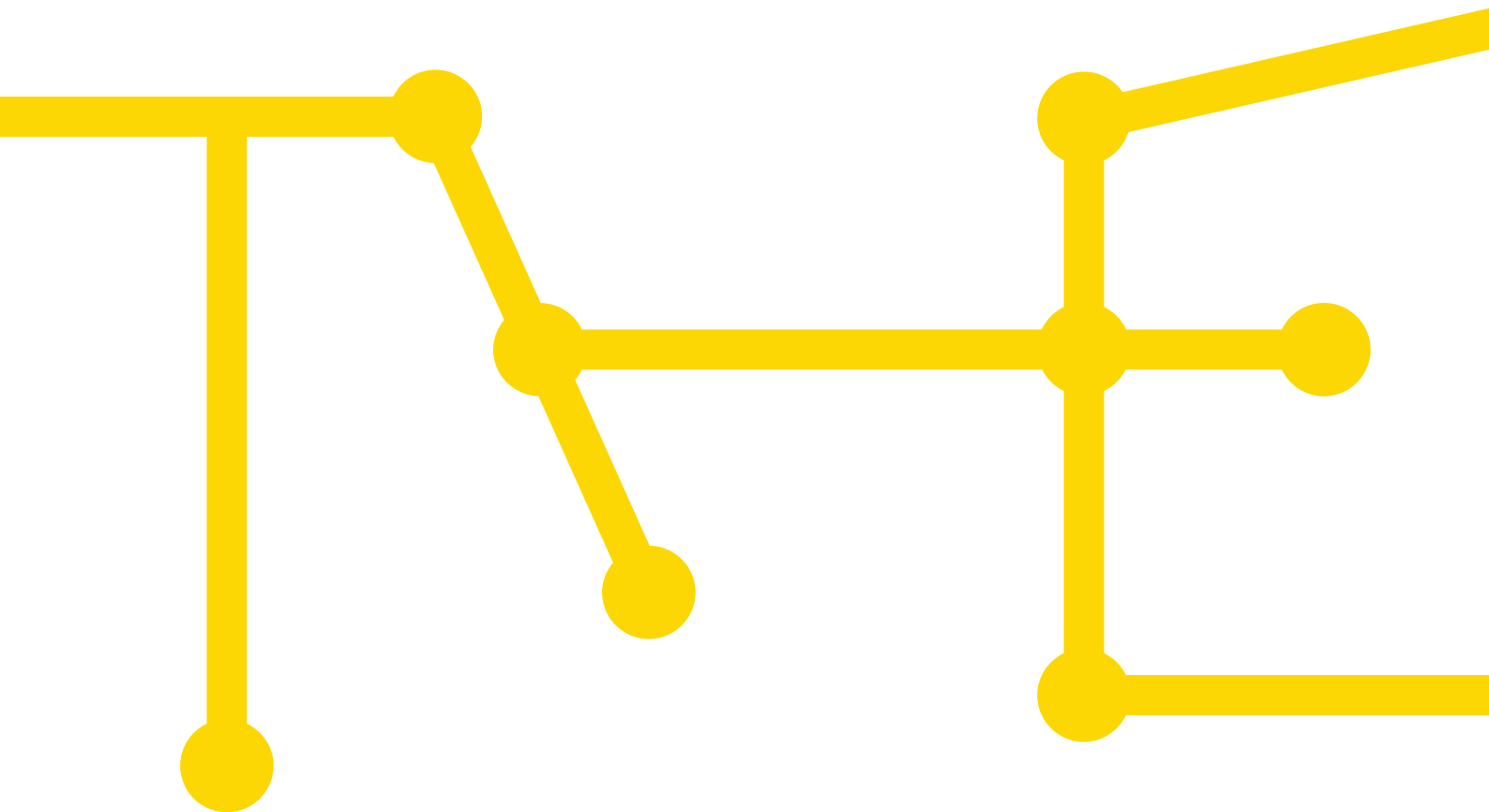


Table of contents

- 1 Calculation steps to determine balancing neutrality charges and the liquidity buffer 3
- 2 Determination of the initial balance as at 1 October 2023 according to GaBi Gas 2.0 3
- 3 System for calculating the development of the balancing neutrality charge accounts pursuant to operative part 7(d) of GaBi Gas 2.0..... 4
- 4 Determination of the liquidity buffer pursuant to operative part 7(d) (aa) of GaBi Gas 2.0 ... 4
- 5 Determination of the balancing neutrality charges according to operative part 7(d) (bb) of GaBi Gas 2.0..... 7
- 6 Pay-out from the respective balancing neutrality charge accounts 7

List of acronyms

EUR	Euro
GaBi Gas	Network Code on Gas Balancing
GY	Gas year
MAM	Market area manager
MWh	Megawatt hour
RLM	Intraday-metered customers
THE	Trading Hub Europe GmbH
TWh	Terawatt hour
SLP	Customers whose consumption is determined on the basis of a standard load profile

1 Calculation steps to determine balancing neutrality charges and the liquidity buffer

According to operative part 10(d) of the ruling on gas balancing (implementation of the Network Code on Gas Balancing "GaBi Gas 2.0" – ruling BK7-14-020), the balancing neutrality charges as well as the decision regarding any disbursement have to be published before the beginning of the respective period of validity. Trading Hub Europe GmbH (THE) already complied with this obligation on 17 August 2023. This document describes the calculation basis and system used to forecast balancing neutrality charges and the payouts to be made.

The steps involved in forecasting the balancing neutrality charges and the liquidity buffer have been specified by the Federal Network Agency (BNetzA) with the aim of allocating costs and revenues in a fair and appropriate way. Accordingly, the following factors must be taken into account when forecasting the balancing neutrality charges and the liquidity buffer:

- Forecast of the expected balancing gas quantities
- Forecast of the expected daily imbalance quantities
- Forecast of the expected reconciliation quantities
- Forecast of the development of prices for balancing actions
- Prices for balancing gas and reconciliation quantities according to GaBi Gas 2.0
- Current market developments
- Risks in connection with the GaBi Gas regime
- Determination of the liquidity buffer

For the balancing neutrality charge period from 1 October 2023 to 30 September 2024, THE will levy an SLP balancing neutrality charge of 0.00 EUR/MWh and an RLM balancing neutrality charge of 0.00 EUR/MWh.

Based on these premises and taking into account the steps specified by BNetzA, the forecast of the expected balancing neutrality charges and liquidity buffers looks as follows:

2 Determination of the initial balance as at 1 October 2023 according to GaBi Gas 2.0

The costs and revenues to be expected by 30 September 2023 are forecast on the basis of the most recently published balances of the balancing neutrality charge accounts at the time of calculation. The resulting balance of the relevant balancing neutrality charge account is the starting point for calculating the next balancing period from 1 October 2023 to 30 September 2024. The costs and revenues incurred during the balancing period are offset against the initial balance, and

the necessary liquidity buffer is then subtracted. If this results in a deficit, a balancing neutrality charge is levied to cover the deficit while any surpluses are paid out to the market:

	RLM balancing neutrality charge account	SLP balancing neutrality charge account
Balance of the balancing neutrality charge account as at 31 March 2022 ¹	1,442.7	2,966.9
Forecast balance of the balancing neutrality charge account as at 30 September 2023	2,285.5	2,889.6
Balance of forecast revenues and costs of the balancing neutrality charge period ²	-174.1	-316.9
Evaluation of projected risks ³	-2,111.4	-2,572.7
Balancing neutrality charge to be collected	0.0	0.0

in EUR million

3 System for calculating the development of the balancing neutrality charge accounts pursuant to operative part 7(d) of GaBi Gas 2.0

The first step in forecasting the individual costs and revenues for the balancing neutrality charge period from 1 October 2023 to 30 September 2024 is to determine the quantities for the individual product groups. Various scenarios are forecast using mathematical models along with probabilities of occurrence and current market developments while also taking into account historical developments. Pricing is based on the price developments as published by the relevant trading hubs as well as the price forecasts published by market research companies. For the forecast of the cost and revenue positions, the quantities and prices for the relevant balancing neutrality charge period are multiplied. Budgeting of the SLP balancing neutrality charge account therefore leads to revenues of around EUR 1,140.3 million and costs of around EUR 1,457.2 million. For the RLM balancing neutrality charge account, the resulting revenues amount to around EUR 888.3 million and the costs amount to around EUR 1,062.4 million.

4 Determination of the liquidity buffer pursuant to operative part 7(d) (aa) of GaBi Gas 2.0

For the period from 1 October 2023 to 30 September 2024, there is a total liquidity buffer requirement for both SLP and RLM of EUR 4,684.1 million in the Trading Hub Europe market area. Divided into the individual balancing neutrality charge accounts, this means a liquidity buffer

¹ Based on the preliminary balances of the balancing neutrality accounts.

² Forecast for the balancing neutrality charge period from 1 October 2022 to 30 September 2023.

³ Forecast for the balancing neutrality charge period from 1 October 2023 to 30 September 2024.

requirement for the RLM balancing neutrality charge account of EUR 2,111.4 million and a liquidity buffer requirement for the SLP balancing neutrality charge account of EUR 2,572.7 million. The liquidity buffers are determined on the basis of risk quantiles resulting from the mathematical functions relating to the historical data volumes. They are determined in particular by the risks associated with uncertainties in the development of quantities and prices in connection with the procurement and sale of balancing gas as well as invoice/credit items relevant to the balancing neutrality charge account (essentially reconciliation quantity invoices and balancing group invoices).

Risks associated with the procurement of balancing gas: As regards the uncertainties surrounding the balancing gas quantity forecast, it should be noted that the gross quantities procured over the years for the two old market areas combined in SystemBuy vary by a factor of four (GY 2013/2014 to GY 2020/2021) and in SystemSell by a factor of four (GY 2011/2012 to GY 2022/2023) – and the resulting net quantities per gas year also vary strongly (+/- 20 TWh) in both amplitude and direction (purchase/sale). The price forecast risks considered for the liquidity buffer correspond to the uncertainties between the spot price forecasts valid at the time of planning and future prices in global, quality-specific and local system balancing transactions. The different price premiums or discounts in the respective order books can result in strong deviations between forecast and actual prices. In addition, the liquidity buffer must take account of any abrupt and significant price changes (due to weather-related fluctuations in demand, global economic developments, price increases due to unplanned maintenance work on the gas infrastructure, delayed commissioning of LNG infrastructure, low storage levels). In a risk situation, this factor can increase even more drastically (see price development in GY 2021/22 with an all-time high of 311.10 EUR/MWh on 26 August 2022). Since the reasons for balancing actions can be diverse, the share of balancing gas allocated to SLP and RLM varies significantly within a year, and also year-on-year. The liquidity buffer for 2023/24 assumes a normalisation of balancing actions (especially an end to production restrictions/interruptions in the industry).

There is also the risk associated with pre-financing requirements due to, inter alia, outstanding quantity reconciliation processes. Mismatches in the network accounts are balanced using balancing gas. The resulting costs are incurred directly by the MAM because of the D+1 invoicing of exchange-traded balancing gas products. Network operators whose networks are responsible for the mismatch are largely invoiced on the basis of the cut-off date balances. Depending on the reason for the mismatch in each network account, these mismatches are balanced out over the course of the year or are only settled as part of the quantity reconciliation process when the cut-off date reading is taken at the end of the respective billing period. This means that the MAM sometimes has to pre-finance balancing actions for up to 15 months until they are billed. This can lead to a considerable financial burden for the MAM, which must be taken into account in the liquidity buffer. Continued sales of balancing gas in GY 2022/23 lead to the invoicing of high positive reconciliation quantities in the coming balancing neutrality charge period. The reporting date for the additional quantities to be invoiced is determined by the network operator, so the MAM must take possible payments into account for the liquidity buffer.

Risks associated with the contracting of long-term options: To increase security of supply, the MAM contracts LTO products for the winter months. A forecast of the costs for LTO products contracted via the BMWi policy paper based on the past has been taken into account in the cost/revenue forecast for GY 2023/24. Any additional price risk for the contracting of LTO products has been reflected in the liquidity buffer.

The price and volume risks also include uncertainties surrounding the reduction of production volumes in the Groningen gas field and the associated supply of L-gas from the Netherlands: The production of L-gas from the Groningen field is to be terminated with effect from 1 October 2023. Given the ongoing energy crisis there has been much debate about the closure of the Groningen gas field, but the Dutch government is sticking to its decision. The production stop comes with a price risk, as the prices for the procurement of L-gas are far higher than the prices for H-gas, especially in winter. This effect could be significantly exacerbated by the loss of production and import quantities.

Risks in connection with the increase of the clearing houses' margin requirements: The margin requirements of the clearing houses increase as a function of the amount of daily system balancing. Especially for short-term, very high balancing costs, the required margins increase sharply for a period of several weeks. The cash required for this purpose must be kept available by the MAM and deposited with the relevant clearing house at short notice, which means it is no longer available to the MAM for system balancing transactions. The market prices of GY 2021/22 have also significantly increased the margining requirements. Especially during the buying phase in the coming winter, very high collaterals may have to be provided.

Other risk positions: Apart from the risks mentioned above, the MAM has other risk positions which must be taken into account when calculating the liquidity buffer. These other risks particularly include model risks relating to balancing gas. In addition, THE is exposed to risks in the event of bad debts (insolvencies, conduct incompatible with the system, etc.). With the approval of BNetzA, both the review process for admitting new market participants and the monitoring of existing customers have been significantly intensified. Nevertheless, the risk of bad debt losses still exists, also with regard to the conversion system, which the MAM must take into account accordingly when calculating the liquidity buffer. In addition, costs in connection with legal disputes relating to GaBi, costs relating to special clearing cases, imbalances from biogas balancing groups, etc. are summarised as 'other risk positions' in the liquidity buffer.

The following table shows the influence of the individual risks on the liquidity buffer:

Risk	Explanation	Influence on RLM buffer	Influence on SLP buffer
Volume risk	Uncertainties, especially due to weather and behaviour of market players	High	High
Price risk	Uncertainties, e.g. due to the gas shortage situation or the behaviour of market players	High	High

Positive reconciliation quantities	Disbursements due to high balancing gas sales from GY 2022/23	–	High
LTOs	Uncertainties, especially due to price and volume risks	Medium	Medium
Increased margining	More margining due to the increased balancing requirement	Medium	Medium
Other risks	Legal disputes, late payments, model risks	Low	Low

Note: Valuation of the individual risks is based on the relation to the liquidity buffer of the relevant balancing neutrality account

5 Determination of the balancing neutrality charges according to operative part 7(d) (bb) of GaBi Gas 2.0

For the levying of a balancing neutrality charge, the calculated deficits and the liquidity buffer requirement of the respective balancing neutrality charge account are allocated to the predicted quantities subject to balancing neutrality charges of the corresponding balancing neutrality charge account for the duration of the balancing neutrality charge period, which gives the balancing neutrality charge in EUR/MWh. The purpose of the balancing neutrality charge is to cover the costs that cannot be offset by credit balances or revenue items of the respective balancing neutrality charge account or any liquidity buffer taken into account. The quantities subject to balancing neutrality charges (RLM or SLP exit quantities) of the corresponding balancing neutrality charge account can be found in the following table:

	RLM	SLP
Quantities subject to balancing neutrality charges	488,864,962	353,883,074

in MWh

6 Pay-out from the respective balancing neutrality charge accounts

Any surpluses that remain after the deficits and the necessary liquidity buffers for the relevant balancing neutrality charge accounts have been taken into consideration are calculated after the final costs and revenues and the final annual pay-out key for the surplus period have been determined. According to the aforementioned explanations, the gas year 2022/2023 was not a surplus period. Consequently, there will be no pay-outs from the respective balancing neutrality charge accounts in the subsequent levy period 2023/2024.