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Draft

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Shell Energy Europe Limited (SEEL) response to the recognition of costs for market- and network-based instruments as well as for capacity buy back in the nationwide market area as volatile costs; (Az.: BK9-19-606)

Dear Ms Schimmel, dear Mr. Förster

Thank you for the opportunity to provide comments on the recognition of costs for market and network-based instruments as well as for capacity buy-back in the nationwide market area as volatile costs.

We remain concerned that the merger of the NCG and Gaspool market areas will lead to a significant reduction in the level of firm freely allocable entry capacity (FZK) in the H-Gas system. A reduction of almost three-quarters of the previous firm freely allocable entry capacities risks undermining the aim of the market area merger, which is to increase liquidity and strengthen the German Gas market.

According to the consulting company WECOM (short study for the analysis of FZK-Entry demand in Germany), based on the assumption that the historic FZK entry capacity would be fully transferred into the new market area, peak demand cannot be met. It is essential, therefore, that capacity availability is maintained in the new 'THE' market area via an overbooking and buy back system to determine the 'sufficient level' of FZK capacity, which can be offered to network users. Market Based Instruments (MBIs), (exchange based spread product, VIP wheeling and third-party network use) and as a last resort, capacity buy back, can be used to resolve capacity congestion and ensure security of gas supply to German consumers.

In light of the above, we understand the necessity of managing the costs of these measures to ensure network users are not unduly exposed to the risk of inefficient costs. Separate accounting and transparency of the associated costs (and the MOL) should enable the regulator to monitor these costs and undertake a comparison of the different instruments on ongoing basis during the test phase (2021-2024). In the event that costs escalate to an unacceptable level, mitigating actions can be consulted on with the market, one of which could be network investment. The test phase will enable the Bundesnetzgentur to gather empirical values of MBI costs in real use to determine the efficiency of

MBIs, compared to network expansion and to determine a solution to the treatment of costs based on the evidence provided.

Should the costs be treated as 'volatile costs' during the test phase, we are concerned that it would lead to TSOs limiting the offer of firm capacity to minimise their exposure to these costs, with a detrimental impact on market access and liquidity. Of course, escalating tariffs would also have negative consequences for the market but for the purposes of the test phase, we consider it paramount that the TSOs are not subject to perverse incentives, which could lead to unintended consequences with respect to capacity availability.

We look forward to further information transparency as we move closer to implementation of the merged markets and also during the test phase.

Please do not hesitate to contact me, should you wish to discuss any aspect of this response.

Yours faithfully

[redacted]
Commercial Gas Regulatory Affairs Manager
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