

Impact assessment

concerning the introduction of the within-day obligation as per section 26 of Regulation (EU) No 312/2014

1. The reason for introducing the within-day obligation

The introduction of the within-day obligation is proposed by the transmission system operator for the two reasons detailed below:

- i.) Settling the uncovered purchase positions from the linepack jeopardises maintaining the hydraulic balance of the natural gas transmission system. The replenishment of the stock shortage caused by the network user in supply shortage with short-term standard products – especially during the week end – is only possible at an unreasonably great financial burden, if at all.
- ii.) If, following the balancing settlement, the network user in supply shortage fails to settlement the surplus requirement in the framework of the system of securities of the central contracting party (KSZF), the current system of securities will not provide coverage in every case, and the clearing house will be obliged to initiate drawing the collective fund provided by all the network user clearing members. As a consequence, the unpaid balancing natural gas exerts an unreasonable financial burden on network users acting by the rules, the system operator as well as the KSZF. (point 5.a. of section 26 of Regulation (EU) No 312/2014)

In the following, a numerical example presents the allocated unbalanced settlements of excessive quantity over the past ten-year period:

Gas day	Network user	Gas day feed-in (kWh)	Gas day off-take (kWh)	Imbalance (kWh)
01.01.2011	Network user 1	9,416,899	49,859,323	-40,442,425
02.01.2011	Network user 1	18,861,343	48,847,966	-29,986,623
03.01.2011	Network user 1	9,416,899	49,627,012	-40,210,114
04.01.2011	Network user 1	0	51,384,504	-51,384,504
05.01.2011	Network user 1	0	52,399,451	-52,399,451
06.01.2011	Network user 1	0	49,714,544	-49,714,544
07.01.2011	Network user 1	0	42,489,841	-42,489,841
08.01.2011	Network user 1	0	38,929,375	-38,929,375
09.01.2011	Network user 1	0	37,297,888	-37,297,888
10.01.2011	Network user 1	0	38,020,959	-38,020,959
11.01.2011	Network user 1	0	37,061,738	-37,061,738
12.01.2011	Network user 1	0	36,841,883	-36,841,883
12.09.2020	Network user 2	4,800,000	36,000,000	-31,200,000
13.09.2020	Network user 2	19,200,000	36,000,000	-16,800,000
14.09.2020	Network user 2	19,200,000	24,550,000	-5,350,000
01.05.2021	Network user 3	18,000,000	56,400,000	-38,400,000

02.05.2021	Network user 3	18,000,000	56,400,000	-38,400,000
17.05.2021	Network user 3	18,000,000	56,400,000	-38,400,000
20.05.2021	Network user 3	18,000,000	55,800,000	-37,800,000
25.05.2021	Network user 3	0	37,920,000	-37,920,000

The financially unsettled debt of network user 2 was EUR 725,410, from which part of the collective guarantee fund had also been temporarily drawn due to non-performance. The unsettled debt of network user 3 was 4,452,513 EUR, which has been settled.

2. The general rules of the within-day obligation

The transmission system operator proposed the amendment of the Operation and Business Code (OBC), in order to have the procedure and the corresponding detailed rules related to the introduction of the within-day obligation approved in the OBC effective as of the gas year starting on 1 October 2021.

In the course of the proposed procedure, the transmission system operator examines the effect of the imbalance of the network users' portfolios concerning the natural gas transmission system. If the expected imbalance of a network user's portfolio, based on the nominations confirmed on the gas day in question should reach or exceed the imbalance limit, the transmission system operator is entitled to amend the nomination of the unbalanced network users in order to improve the balance.

The extent of the imbalance limit on a particular gas day is 10% of the total off-take calculated from the confirmed nominations of a given balancing portfolio, if it exceeds 15 million kWh. For those portfolios where the sum of draws does not reach 15 million kWh, the imbalance limit is 50% of the total draw calculated from the confirmed nominations.

The detailed rules of the procedure to follow in case the imbalance limit is exceeded are described in point 2.3.2.3 of the OBC.

3. The effects concerning the introducing the within-day obligation

Commission Regulation (EU) No 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks (hereinafter: Regulation (EU) No 312/2014) specifies the conditions for introducing the within-day obligation. The transmission system operator has elaborated its proposal in consideration of these specifications:

The obligation of portfolio settlement linked to the imbalance limit proposed to be introduced within the gas day does not hinder cross-border trading unreasonably, because it will only provide intervention possibilities to the system operator, if the network user's sales, confirmed to be uncovered, may cause disturbances at either imbalance portfolio or imbalance zone level. In case the cover for the supply of the sales is ensured, the restrictive measures shall be suspended without delay. The measure shall not restrict the entry of new users to the market, as this is a within-gas day restriction option, and the connection process is a procedure independent of this. (point 2. a. of section 26 of Regulation (EU) No 312/2014)

Concerning the introduction of the procedure, the transmission system operator shall make no proposals of separate fees concerning the within-day obligations. (points 2. b. and d. of section 26 of Regulation (EU) No 312/2014)

The balancing settlement of the network user continues to take place based on the balance position recorded at the end of the gas day. The within-day obligation has influence neither on the financial settlement nor on the “break even” financial result. (points 2. c. and e. of section 26 of Regulation (EU) No 312/2014)

The application of the obligation on the organised natural gas market and the trading platform is not likely to decrease liquidity. As a result of the measure proposed for introduction, the network user in question may, in order to reduce the supply shortage below the limit value, not only exercise renomination but also market means (OTC and/or TP), and may continue to submit offers improving the balance of its portfolio at the platforms. (points 2. f. and 5. f. of section 26 of Regulation (EU) No 312/2014)

The measure may improve the dynamic course of the hydraulic system balance of the gas day, the number of interventions of excessive magnitude by the transmission system operator with market means (natural gas purchase/sale on the organised natural gas market), and the transmission capacity of the transmission system may be sustained with a greater probability as a result.

All information that allow timely management of their within-day positions are available to the network users on the Information Platform. They are indiscriminately notified of the fact of the violation of the limit value, and the process control will provide ample time for intervention, taking into account the opening hours of the trading platforms and the renomination rules. The occasional intervention will not harm the balancing practice of the neighbouring balance maintaining zones, the procedure applied will have no effect on the interconnection agreements concluded with the transmission system operators, which therefore need no amendment. (points 5. b. d. and e. of section 26 of Regulation (EU) No 312/2014)

If the mechanism to be introduced does not allow the imbalance of the network user exceed a certain limit, it may also influence the extent of the imbalance position at the end of the gas day. The imbalance positions of the particular portfolios at the end of the gas day are expected to decrease as a result of the measure, which the KELER KSZF Zrt. – as the central contracting party ensuring balancing settlement – can take into consideration upon calculation of the guarantee elements of the clearing member network users as well. The network user may at most generate a supply shortage of permissible extent as per the OBC draft, within the imbalance limit, also keeping the financial exposure of the other clearing members within limits. Therefore, the basis of the collective guarantee debited to the other clearing members and the extent of the financial loss debited to the owners of the collective guarantee fund in case of non-performance may be augmented at most by the non-performance of the value of the natural gas quantity according to the limit value, and this also renders operation of the guarantee scheme more predictable for the KSZF. (point 5. c. of section 26 of Regulation (EU) No 312/2014)

The detailed presentation of the compliance with Regulation (EU) No 312/2014 is shown in Annex 1 of the impact assessment.

4. Other information

Based on paragraph 4 of section 26 of Regulation (EU) No 312/2014, the letter of notification initiating consultation has been sent to the system operators of the neighbouring countries and the domestic commercial storage licensee operators. During the consultation, none of the neighbouring network operators raised objections against the planned measures.

Detailed presentation of the compliance with section 26 of Regulation (EU) No 312/2014

Requirements concerning the within-day obligations

(2) Every within-day obligation must meet the following criteria:

a) the within-day obligation and the corresponding within-day fee may in no way hinder cross-border trading and the entry of new network users to a particular market unreasonably;

- Concerning the introduction of the obligation, the transmission system operator shall make no proposals of separate fees concerning the within-day obligations, meaning this cannot be a factor of hindrance at all.
- The obligation of portfolio settlement linked to the imbalance limit proposed to be introduced within the gas day does not hinder cross-border trading unreasonably, because it will only provide intervention possibilities to the system operator, if the network user's sales, confirmed to be uncovered, may cause disturbances at either imbalance portfolio or imbalance zone level. In case the cover for the sales is ensured, the restrictive measures shall be suspended without delay. The measure shall not restrict the entry of new users to the market, as this is a within-gas day restriction option.
- The obligation for a subsequent process (a specific system usage) is not a condition of entry to the market for the network user.

b) within-day obligations may only be applied in case the network users are duly notified before the application of any occasional within-day charges concerning their feed-in and/or off-take activities, and they are able to modify their exposures using reasonable means;

- Concerning the introduction of the obligation, the transmission system operator shall make no proposals of separate fees concerning the within-day obligations.

c) the costs incurred for the network users concerning the balancing obligations must be based on their positions at the end of the gas day;

- The balancing settlement of the network user continues to take place based on the balance position recorded at the end of the gas day.

d) to the extent possible, the within-day fees must reflect the costs of the transmission system operator incurred as a result of appropriate balancing measures;

- According to point b) no separate fee for the within-day maintaining balance will be introduced.

e) the within-day obligation does not result in the network users' financial break even position;

- The within-day obligation has influence neither on the financial settlement nor on the "break even" financial result.

f) the advantages of the introduction of the within-day obligation concerning the economical and efficient operation of the transmission grid surpass any negative effects, including the effect of the transactions effected on the virtual trading points on liquidity.

- The application of the obligation on the organised natural gas market and the trading platform is not likely to decrease liquidity. As a result of the measure proposed for introduction, the network user in question may, in order to reduce the supply shortage below the limit value,

not only exercise renomination but also market means (OTC and/or TP), and may continue to submit offers improving the balance of its portfolio at the platforms.

(4) The transmission system operator shall consult with the interested parties – including the competent national regulatory authorities, the distribution system operators concerned and the transmission system operators of the neighbouring balance maintaining zones – about all within-day obligations it foresees to introduce, including the methodology and all presumptions, based on which the conclusion of meeting the conditions of paragraph (2) has been drawn.

- Based on the present paragraph, the letter of notification initiating consultation has been sent to the system operators of the neighbouring countries and the domestic commercial storage licensee operators. Following expiry of the con period, the final proposal document for the Hungarian Energy and Public Utility Regulatory Authority shall be prepared.

(5) Following the consultation process, the transmission system operator shall prepare a proposal document, which includes the finalised proposal and the analysis of the following:

a) the necessity of the within-day obligation, taking into account the characteristics of the transmission grid and the flexibility of the transmission system operator, through the purchase and sale of short-term standard products and the use of the balancing services according to chapter III;

It is necessary, as the settlement of the uncovered short positions from linepack

- jeopardises maintaining the hydraulic balance of the natural gas transmission system,
- the cover of the shortage with short-term standard products – especially during the week end – is only possible at an unreasonably great financial burden, if at all,
- the shorting network user typically fails to pay for the balancing gas, and the existing system of securities does not provide cover for this in every case,
- and the unpaid balancing gas exerts an unreasonable financial burden on network users acting by the rules, the system operator as well as the KSZF.

b) all available information that allow the network users to manage their within-day positions in a timely manner;

- The information will be available according to the process, the network user will be informed of the violation of the limit value and enough time shall be provided for intervention, considering opening hours of the platforms and the renomination rules.

c) the expected financial effect on the network users;

- No separate fee shall be introduced, therefore the network users shall be exposed to no “unexpected” and unpredictable financial risks.

d) the effects on the new network users entering the market in question, including unreasonable negative effects;

- The network use condition to be introduced will not cause any unreasonably negative effects to the new network users either.

e) the effects on cross-border trading, including the potential effects on the balancing in the neighbouring balance maintaining zones;

- The necessary and justifiable intervention will not harm the occasional effects on the balancing of the neighbouring balance maintaining zones, the procedure applied will have no effect on the interconnection agreements concluded with the transmission system operators, which therefore need no amendment.

f) the effects on the short-term gas wholesale market, including its liquidity;

- As a result of the measure proposed for introduction, the network user in question may, in order to reduce the supply shortage below the limit value, not only exercise renomination but also market means (OTC and/or TP), and may continue to submit offers improving the balance of its portfolio at the platforms. Therefore the application of the obligation on the organised natural gas market and the trading platform will not be likely to decrease liquidity.

g) the indiscriminate nature of the within-day obligation.

- The rules are applicable to every network user without any discrimination and exception.