

**ACER****Agency for the Cooperation of European Energy Regulators**

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CC:

**European Commission****Directorate General for Energy**

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Vienna, 17 January 2019

**Response to the ACER Notice to Third Parties regarding observations on the subject of the HU-AT incremental capacity project proposal**

Dear Ladies and Gentleman!

We would like to thank you for the opportunity, provided by the ACER Notice to Third Parties, to share our observations regarding the HU-AT incremental capacity project proposal for the Mosonmagyaróvár interconnection point.

Central European Gas Hub AG (*CEGH*) is the operator of the Austrian Virtual Trading Point (*CEGH-VTP*) and cooperation partner of the pan-European gas exchange PEGAS. In the recent years, the liquidity and trading activity at the CEGH-VTP increased continuously. In the year 2018, 218 registered CEGH Members achieved a total trading volume of 659 TWh of gas (plus 6% compared to 2017). The CEGHIX, the gas exchange reference price for the CEGH-VTP, is acknowledged by gas traders and shippers as a regional gas price benchmark.

In its role as VTP Operator CEGH is taking great interest in the development of the gas market in Austria and the CEE region. In this respect, we are following the HU-AT project for incremental capacity for the Mosonmagyaróvár interconnection point.

We would like to share a comparison of the Austrian and Hungarian gas price development in 2018, which could be of relevance for the evaluation of the HU-AT project:

- Comparing the gas prices on a daily basis over this period, the price spreads of the daily average prices of Austria (CEGHIX – CEGH Day Ahead Reference Price) and of Hungary (CEEGEX Day Ahead Reference Price) between the Austrian VTP and the Hungarian CEEGEX show the following:
  - The maximum positive spread (CEGH > CEEGEX) between Austrian VTP and CEEGEX in 2018 was **EUR/MWh 33.23** (on 2<sup>nd</sup> of March 2018).
  - The **average positive spread** during the cold spell period (between 1<sup>st</sup> – 5<sup>th</sup> of March 2018) was **EUR/MWh 15.5**.
  - The **average positive spread** (on a daily basis) in the year 2018 was **EUR/MWh 0.91**; without the cold spell effect, the average positive spread was **EUR/MWh 0.32**.
  - The **highest negative spread in this period of EUR/MWh - 1.67** (on 25<sup>th</sup> of November 2018).
  - The **average negative spread** in this period of (on a daily basis) was **EUR/MWh - 0.49**.

Chart of daily spreads of CEGHIX and CEEGEX day ahead prices in 2018:



The analysis shows a significant difference in terms of price spreads between **positive** and **negative** spreads between the two markets:

- A positive spread indicates that **prices** in Austria **are higher** than in Hungary and it could be favorable for a gas trading entity to buy in Hungary and to sell into the Austrian market.

- A negative spread indicates that the **prices** in Austria **are lower** than in Hungary and could be is favorable for a gas trading entity to buy in Austria and to sell into the Hungarian market.

We would like to highlight that according to our observation, on average the positive spread is almost **double the negative spread** between these two markets. This indicates that there is a **significant price difference between the two gas markets caused by the different flow possibilities between Hungary and Austria**. The possibility for gas flows from Austria to Hungary leads to almost **half the spread** between these two markets **than in the other direction**. In other words, the **non-existence of direct flows from Hungary to Austria** leads to almost **the double price spread between Austria and Hungary**. This is from a general economy point of view not an optimal situation.

Additionally, the correlation of the daily price reference prices of the Austrian and the Hungarian markets comes to a result of **0.80**. The correlation between Austria and Hungary is therefore **significantly lower** than between most of the other European markets with the Austrian reference price. This is clearly the result of the non-existence of the flow possibility between Hungary and Austria, which leads to a **distortion of price convergence** of the Austrian and the Hungarian market.

We would also like to draw your attention to the **cold spell** period in end of February and beginning of March 2018. During this period, the price in Hungary remained at a level of **23 to 24 EUR/MWh** compared to the price at the Austrian VTP at **40 to 50 EUR/MWh** for a period of several days.

The following table illustrates the price spreads between the Austrian and the Hungarian markets during the cold spell between the 1<sup>st</sup> and the 5<sup>th</sup> of March 2018. The spreads were significantly higher compared to the ones to other European markets and **prices in Hungary behaved differently** in this period than in other European markets. We also add the price difference of the Austrian CEGHIX to the German NCG daily reference price on the PEGAS platform to illustrate how different prices in the Hungarian market developed in this period (compared to the Western European markets).

Prices in [EUR/MWh]	CEEGEX Spot (Hungary)	CEGH Spot (Austria)	Spread Austria - Hungary	Spread Austria - NCG (Germany)
01.03.2018	24.13	39.286	15.156	-5.064
02.03.2018	23.45	56.684	33.234	-3.816
05.03.2018	19.25	32.616	13.366	1.966

Due to the **lack of interconnection capacity** from Hungary into Austria, it appears that this price differential **could not be arbitrated** by the traded markets and hence not allowing for an **efficient allocation** of resources.

The **missing reverse flow capacity** from Hungary to Austria was in our view the reason for this price differential in this exceptional situation of cold weather, which triggered a comparably high gas demand. This price differential between the two neighboring market zones may also have caused an overall welfare loss, due to the fact, that an efficient price

formation was not possible and otherwise gas prices could have **been leveled out earlier** and would not have shown the given **unilateral price spike**.

The before described situation indicates that there may be insufficient physical capacity for transportation of gas from Hungary to Austria. It is therefore our view that the traded gas markets in CEE **require adequate transportation capacity** that allows for efficient gas trading **arbitrating spreads** as well as a sustainable diversification of gas supply sources and routes.

We are therefore supportive to the HU-AT project, enabling a reverse flow of gas at the Mosonmagyaróvár interconnection point and thus to better connect the Austrian and the Hungarian gas market and to enable a higher degree of price convergence based on gas trading.

Please feel free to contact us in case of any need for further information or clarification.

Kind regards

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