

REPORT

ON THE APPLICATION OF INTERIM MEASURES UNDER REGULATION NO 312/2014 OF 26 MARCH 2014 ESTABLISHING A NETWORK CODE ON GAS BALANCING OF TRANSMISSION NETWORKS

**approved by decision under Protocol MB No 80/09.04.2015 of
Bulgartransgaz EAD Management Board meeting**

Revision 1

1. Introduction

This Report requesting approval by the Commission for Energy and Water Regulation (KEVR, the Regulator) on the application of interim measures was developed by Bulgartransgaz EAD (Transmission system operator, TSO, the Operator) pursuant to the requirements of Art. 46 of Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks.

The deadline for submission of the Report and its scope are laid down in the provisions of Art. 46, §3 and Art. 46, § 1 of the Regulation.

2. Network Code on Gas Balancing of Transmission Networks

Regulation (EC) No 715/2009 of 13 July 2009 on the conditions for access to the natural gas transmission networks sets out the requirement for development of network codes for each area set by the respective regulation, which aims at contributing to non-discrimination, effective competition and efficient functioning of the gas market.

In this regard Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks was adopted, effective since 16 April 2014.

The main objectives of the Network Code on Gas Balancing of Transmission Networks are the following:

- Improve the competitiveness of the natural gas market, particularly in promoting competition in emerging markets;
- Increase of liquidity in the wholesale gas markets;
- Remove barriers to cross-border trade in gas;
- Transparent and non-discriminatory rules for gas balancing;
- Introduction of transparent imbalance charges reflecting the costs of the balancing measures of the Transmission system operator.

The Network Code and the Rules for balancing of the network it establishes are based on the following principles:

- Network users are responsible for balancing their balancing portfolios in order to minimize the need for the TSO to implement balancing measures;
- - The balancing rules shall reflect the genuine system needs, taking into account the resources available to the TSO and motivate network users to balance their balancing portfolios;
- - Introduce the financial settlement of the daily network imbalances;
- The residual balancing shall be implemented by TSO balancing actions;
- Short-term trading of standardized products on a platform is required. The use of balancing services shall be allowed;
- In the absence of sufficient market liquidity, the TSO trades with short-term standardized products on the balancing platform, whose introduction is one of the Interim measures under Chapter X of the Regulation;
- The additional interim measures include, for example, temporary imbalance charge and tolerance;
- The TSO has to fulfill its obligation to provide the information necessary to the network users in order to contribute to the effective risk management associated with the balancing regime.

Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks should be implemented by the Member States as of 01.10.2015 or upon approval by the national regulatory authority, postponed implementation as of 1 October 2016, unless the TSO has requested approval by the national regulatory authority on introducing Interim measures by 2019. If the TSO intends to apply Interim measures, they shall prepare a reasoned report, conduct consultations with the interested parties and submit their report to the Regulator for approval of the Interim measures.

Bulgartransgaz EAD is bound to apply the Network Code on Gas Balancing of Transmission Networks as of 1 October, 2015 and we believe that according to the conditions in the country, it shall be appropriate to propose applying the Interim measures by 2019.

3. Applying Interim measures

The TSO is required to take interim measures in the absence of sufficient liquidity in the short-term wholesale gas market. The balancing measures taken by the TSOs in case of interim measures have to support the short-term liquidity in the wholesale gas market to the greatest extent possible.

The Regulation allows application of the following interim measures:

- Balancing platform;
- An alternative to the balancing platform;
- Interim imbalance charge;
- Tolerance.

Art. 46, §1 of the Regulation stipulates that the assessment report shall include a description of the state of development of the short-term liquidity of the gas market, interim measures to be taken, reasons for applying the interim measures and identification of the steps that

will be taken to remove the interim measures. The following chapters of this Report include the information required to be provided by Bulgartransgaz EAD, as well as a brief description of the current status of the balancing system and major changes related to implementation of the Regulation.

4. Current status of balancing of Bulgartransgaz EAD network

As a gas transmission system operator, Bulgartransgaz EAD is responsible for the physical and commercial balancing of the system.

a) physical balancing, which represents a set of activities by which the TSO ensures the effective operation of the transmission system in real time so that at any time to arrange gas transportation from the entry points of the transmission network to its exit points, and make sure the transmission system is operated properly, safely and non-discriminatory for all network users and the costs of operation are fairly distributed to the individual network users;

b) commercial balancing, which represents keeping the balance between the amount of gas entering the transmission network for every network user and the quantity of gas taken from the transmission network by the respective network user, where failure to keep it shall be charged. The physical balancing of the network is a function of the commercial balancing.

Physical balancing includes activities related to the physical balancing of commercial imbalances (hereinafter referred to as "residual balancing of commercial imbalances") and activities related to ensuring the operational integrity of the network (hereinafter "the operational measures"). The activities related to the operational measures do not fall under the regime of the Network code for balancing the network.

After the end of the gas day, the TSO shall enter the daily imbalance in the network user's balancing account. Pursuant to the currently effective applicable provisions, the network user is bound to nominate the same natural gas quantity at entry and exit of the network. Under the Network Code on Balancing, the Operator cannot reject nominations with different entry and exit quantities.

The following table compares the current status of balancing and the changes that will be brought about by implementation of the Network Code on Balancing.

Table 1: Impact of applying the Network code on balancing of the network

Current state	Regulation	Impact on the transmission network
Network users nominate a	Network users can nominate different entry-exit (within	Significant differences that will require residual

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balanced entry-exit	acceptable range)	balancing of commercial imbalances by Bulgartransgaz EAD
Commercial imbalances of network users are settled in kind	<p>Commercial imbalances of network users will be settled financially based on the marginal sales and purchase prices (derived from the TSO's transactions executed at the trading platform or the weighted average of the prices of transactions executed on the trading platform)</p> <p>Plus/minus slight adjustment</p> <p>If there is no liquidity market, commercial imbalances will be settled by the value of the balancing services used, plus/minus slight adjustment</p>	<p>Requires establishment of Balancing rules;</p> <p>As there is no trading platform, it is necessary to introduce an alternative method of determining the value of the balancing services (interim measures)</p>
The residual balancing of commercial imbalances will be performed by Bulgartransgaz EAD by using the linepack in the transmission system	<p>The residual balancing of commercial imbalances will be performed by an alternative of the balancing platform</p> <ul style="list-style-type: none"> - By balancing services (storage facility, flexible supply contract, using the linepack in the transmission system) <p>The Regulation allows also the use of accumulation.</p>	As there is no trading platform, pursuant to the Regulation it is necessary to introduce the interim measures as an alternative to the balancing platform, as well as balancing services
Financial neutrality of balancing is ensured by a mechanism of compensation in kind	<p>Financial neutrality is ensured by transferring the overcharged/ uncollected revenues of the TSO related to balancing to the network users by the imbalance charges in the next period</p>	Development of a Methodology for calculation of imbalance charges is required
<p>Reporting obligations of the TSO:</p> <ul style="list-style-type: none"> - No information on the metered flow shall be 	<p>Reporting obligations of the TSO:</p> <ul style="list-style-type: none"> - Twice a day on the metered flows at 	Additional IT costs, time needed for implementation

submitted - No information on the interim imbalance shall be submitted - Only information on the final imbalance shall be submitted	Interconnection points, where standard allocation regime OBA is not used - Information on the daily imbalance and the accumulated imbalance on the balancing account - Information on the final imbalance pursuant to the national legislation	
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5. Description of the stage of development and liquidity of the short-term gas market

The table below contains the information required under Art. 46 (1) of the Regulation for description of the stage of development and the degree of liquidity of the short-term gas market at the time of preparation of the Report for applying the interim measures:

Table 2: The stage of development and short-term liquidity of the gas market

Number of transactions executed on the VTP	0
Total number of transactions	0
Margins between purchase and sale prices	None
Volume of purchases and sales	0 m ³ in 2014
Number of users having access to the short-term wholesale gas market for a certain period	In Bulgaria no short-term wholesale market using a virtual trading point has been established December 31, 2014 – 0 network users
Number of users active on the short-term wholesale gas market for a certain period	The number of network users actually using the service Title transfer on the VTP: As of 31 December 2014 – 0 network users

As documented by the information in the Table, the liquidity of the Bulgarian short-term gas market is very low.

This is evidenced by the fact that the share of the dominant supplier remains very high, which is an obstacle to the establishment of an effective liquid market. Other objective reasons are the market size, the structure of gas imports, as well as the lack of diversification of the routes and sources of supply.

Charts 1 and 2 below show the ratio of the transmission capacity used on the national transmission network, for three users for the past two years:

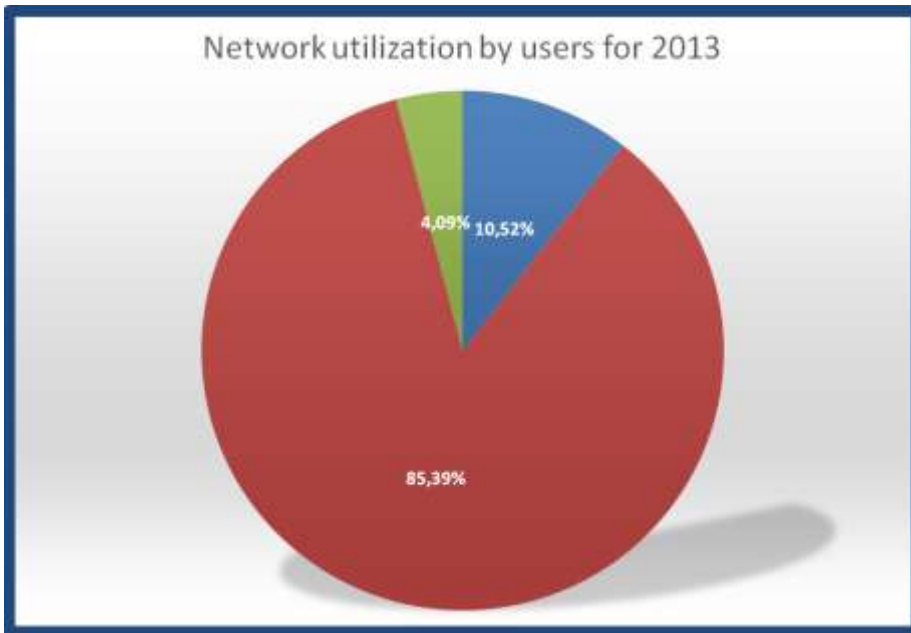


Chart 1

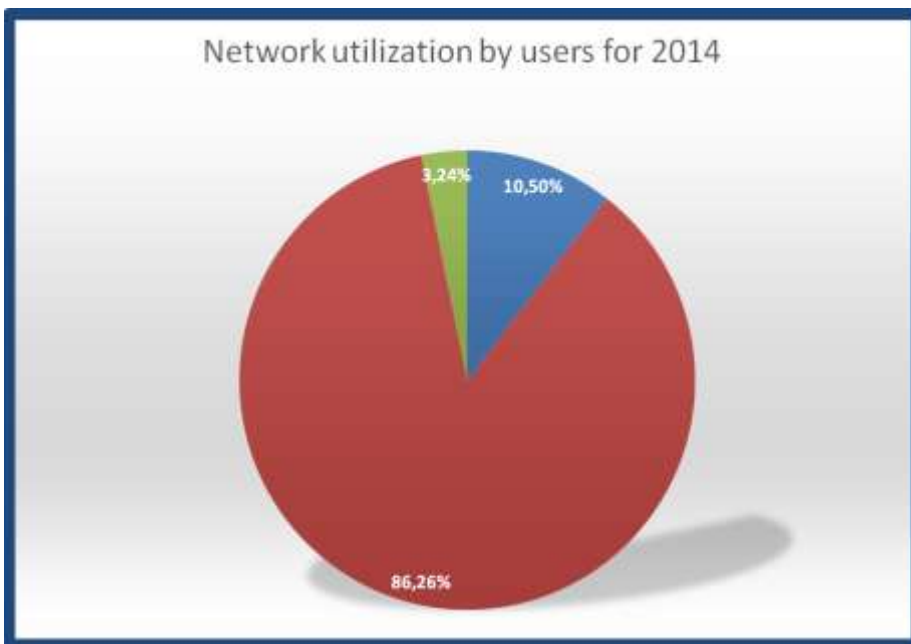


Chart 2

The natural gas supplied to the gas transmission system of the country for the needs of the Bulgarian market is currently supplied by imports from Russia and domestic production, and in 2014 the quantities by sources of supply were the following:

Table 3

No	Type of supply	Quantity, mcm	Percentage

1	Natural gas from import	2 546	93,5%
2	Domestic production	176	6,5%
TOTAL		2 722	100%

Pursuant to a long-term contract, OOO Gazprom export uses a significant part of the capacity of the transit gas pipeline network by using the services of access and natural gas transmission through the territory of Bulgaria from the entry point on the border with Romania to the exit points at the borders with Turkey, Greece and Macedonia.

6. Proposal and reasons for applying the Interim measures

Given the low liquidity of the Bulgarian market, as evidenced by item 5 of this Report and the lack of access to a trading platform in Bulgaria and the neighboring gas markets meeting the criteria of Art. 10 of the Regulation, it is necessary to introduce interim measures.

Bulgartransgaz EAD proposes for approval the implementation of the following interim measures:

- An alternative to the balancing platform:

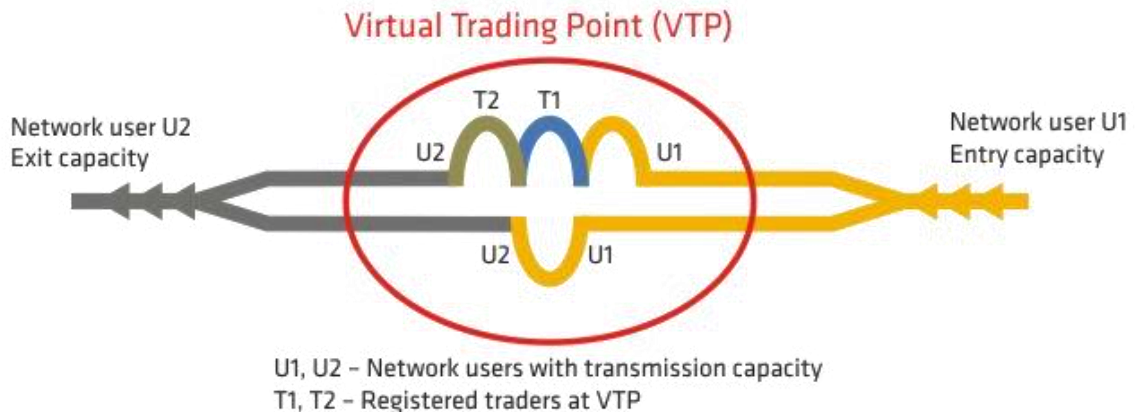
When a balancing platform does not result in increased liquidity of the short-term wholesale market and cannot enable the operator to carry out effective balancing actions, the Operator should use balancing services.

According to item 7 of the Regulation's definitions, a balancing service is a service provided to a transmission system operator under a contract for gas required to meet the short-term fluctuations of gas demand and supply and which is not a short-term standardized product.

In this regard, Bulgartransgaz EAD envisages to announce non-discriminatory and transparent procedures for purchase of gas for balancing, in accordance with Art. 8 8 of the Regulation.

In addition, at this stage of market development, the linepack (within the allowed tolerance) for compensation is envisaged to be used, as well as use of the TSO gas in UGS Chiren.

Bulgartransgaz EAD is in the process of establishing a virtual trading point (VTP). All traders who sign a contract for participation at the VTP shall be published on the web site of the Operator, will be allowed to trade among themselves or with network users who have transmission capacity. The transactions between the users will be concluded bilaterally, without the participation of the TSO. The Operator will receive notifications (xml format) and record transfers in the daily imbalances of the two participants.



- **Interim Imbalance charge:**

As there is no liquidity trading platform meeting the criteria of Art. 10 of the Regulation, it is impossible to determine the weighted average gas price traded on the platform for each gas day. As a result, there is no way to determine the marginal sale and purchase prices of the gas for balancing. In this regard, Bulgartransgaz EAD proposes to introduce the measure "Interim imbalance charge." Interim imbalance charge for the respective day is envisaged as an equivalent to the market price related to provision of balancing services plus or minus a slight adjustment.

The equivalent to the market price should be determined in accordance with the terms and conditions of Art. 22, §6 of the Regulation. The conditions for establishment of a slight adjustment are the following:

- network users are encouraged to balance their gas input and off-take;
- it shall be determined and applied in a non-discriminatory way, that does not prevent entry in the market or the development of competitive markets;
- has no negative impact on cross-border trading;
- does not result in excessive exposure to risk of daily imbalance charges for the network users.

The Methodology for calculating the interim imbalance charges should be approved by KEVR at TSO proposal.

- **Tolerance:**

Bulgartransgaz EAD proposes to set tolerances on a daily basis as +/- 5% of the maximum daily capacity on the portfolio of the network user.

The balance sheet position of the user within the tolerance shall be transferred to the next day. Imbalances within the tolerance shall be paid by network users under the specified imbalance charge without applying slight adjustments.

Daily imbalances outside the tolerance shall be paid under the specified imbalance charge with slight adjustments. Settlement of imbalances shall be performed on a monthly basis.

In this regard, given the use of tolerance, we propose the re-nominations to be for a day ahead or once a day within the day.

7. Actions that contribute to increase the short-term market liquidity

- Establishment of a virtual trading point - necessary in order to enable the network users and traders to transfer gas ownership among each other and minimize their daily imbalances;
- - Integration of the Bulgarian gas market to the regional market, which would contribute to increase liquidity, achieve diversification of the sources and routes and provide opportunities for transmission of additional natural gas quantities to and through Bulgaria. The new gas Interconnections with Turkey, Greece, Serbia and Romania and the Southern Gas Corridor projects are key to market integration in the region.
- - Construction of interconnections between the national gas transmission network and the gas transmission network for transit transmission.

8. Time frames and steps to remove interim measures

Bulgartransgaz EAD suggests to apply the proposed interim measures for a period of five years. In accordance with Art. 45, §4 of the Regulation, the TSO should remove the interim measures no later than five years after entry into force of the Regulation, i. e. no later than April 15, 2019.

Given that there is no liquidity market, Bulgartransgaz EAD will most likely apply the necessary interim measures during all the five years.

For the purposes of assessing the conformity of the measures for implementation of the Regulation and the application of interim measures, and to determine the next steps to remove the interim measures, the TSO will regularly, by 1 October each year submit to KEVR Evaluation Report on implementation of the Regulation, in which the TSO should:

- Present the results from the monitoring on the effectiveness of the measures taken in accordance with the Regulation;
- Evaluate the degree of liquidity of the short-term gas market, in particular on the basis of the balancing services;
- Propose the required measures;
- Evaluate the need of implementation of interim measures in the subsequent period according to the Regulation.