

Reasons for the proposed values of parameters under article 25 of Daily Imbalance and Neutrality Charge Calculation Methodology

1. Amount of small adjustment

The small adjustment is an amendment in the price of the natural gas for balancing, expressed in percentage thereof, applied with positive or negative sign depending on the sign of imbalance with a view to determining the daily imbalance charges. The small adjustment shall be expressed as a percentage of the price of natural gas for balancing (the average market price) and shall be in the range of 3% to 10%. In line with article 25 of the Daily Imbalance and Neutrality Charge Calculation Methodology, adopted with Decision of EWRC under Protocol No.122 of 11.07.2019, item 5 in force as of 19.07.2019 (the Methodology) the amount of the small adjustment shall be set by the Transmission system operator (TSO) for each gas year.

The European practice shows that where there is liquid natural gas market with free purchase and sale of sufficiently large natural gas volumes at market-driven prices, network users strive to minimise their daily imbalances even in case of small deviations from the market daily average price of the prices as announced by the operator according to which the daily imbalance are calculated.

Similar mechanism is laid down in the Daily Imbalance and Neutrality Charge Calculation Methodology, applied where daily trade in natural gas in certain volumes takes place. In line with the Methodology in the absence of the above conditions, as a surrogate for the average market price the price is determined at which the public supplier sells natural gas to end suppliers and the persons to whom a license for production and transmission of heat energy has been issued.

Despite the efforts of Bulgartransgaz EAD to increase the liquidity of the domestic natural gas market and the existence of an active Natural Gas Trading Platforms, in the gas year 2022/2023, the market is expected to remain relatively low liquidity.

The administrative determination of the natural gas market price in line with article 12(3) of the Methodology and the possibility factors to affect it that deviate it from the market price, such as inclusion in its determination of an adjustment for overrecover/underrecover revenue, specific conditions to the contracts according to which the public supplier buys the natural gas for supply and the market determination of prices of natural gas for balancing in the absence of a stable liquid market leads to the risk of deliberate imbalance of unscrupulous users of the gas transmission networks owned by the company.

In connection with the above and the analyses made, we propose not to reduce the amount of the applicable small adjustment of 8% over the gas year 01.10.2022 - 30.09.2023. The analysis shows that the current level of the small adjustment does not sufficiently deter abuses in the balancing market, but a level of 10% will not be enough to eliminate these distortions.

Additions and amendments to the Methodology are needed in order to introduce measures to limit these abuses.

2. Duration of neutrality account for balancing clearing periods

The period of clearing the neutrality account for balancing is a period during which accumulated amounts of overrecover/underrecover revenue in the balancing neutrality account are cleared by accrued on the basis of the allocated quantities of natural gas at the entry and exit points of the transmission system, owned by Bulgartransgaz EAD using a neutrality charge for balancing (with a positive or negative sign) in order to achieve neutrality of activity.

According to Article 25 of the Methodology for each gas year Bulgartransgaz EAD determines the duration of periods of clearing the neutrality account for balancing which in line with §1 item 8 of the Methodology is in the range from 3 to 12 months.

When choosing the duration of the periods Bulgartransgaz EAD considered the following factors:

- Optimization of the amount of the applicable neutrality charge for balancing;
- Approximation of the periods of accumulation of amounts in the neutrality account for balancing and the periods of clearing the neutrality account for balancing.

For the gas year 2022/2023 we propose that the duration of the periods of clearing the neutrality account for balancing remain at 6 months.

Proposing such duration Bulgartransgaz EAD seeks balance between the amount of the applicable neutrality charge and the opportunity to bring closer the period of accumulation and the period of clearing the neutrality account for balancing.

The choice of 6-month period will allow the application of lower values of the neutrality charge for balancing than when applied other smaller periods of 4 or 3 months in the presence of significant accumulations in the neutrality account for balancing.

3. Criteria for applying the achieved natural gas purchase and sale prices to operational natural gas trading platforms for the calculation of the natural gas price for balancing valid for Gas Year 2022/2023

According to Article 12 of the Methodology, the prices for purchase/sale of natural gas for balancing are determined on a daily basis in the presence of certain criteria from the achieved prices from the short-term stock exchange trading in natural gas. In case of non-fulfilled criteria, the price regulated by EWRC is considered as average market price, at which public supplier sells natural gas to end suppliers and the persons to whom a license for production and transmission of heat energy has been issued in the country. According to Art. 12(5) of the Methodology, the relevant criteria, expressing the number and volume of the daily natural gas transactions executed on the operational natural gas trading platforms, approved by TSO, are determined by the transmission system operator within a one-month period prior to the beginning of each gas year.

These criteria for Gas Year 2021-2022 are determined by a Decision of the Management Board of the company of: more than 2 (two) trades for natural gas purchase/sell to be carried out and a total volume of such trades not less than 1 500 MWh for the reporting day.

The analysis of the short-term transactions performed on the currently trading platform, approved by TSO "Balkan Gas Hub", for the period 01.10.2021 - 25.07.2022, shows that 97.99% of the days of the period (292 days) the criteria are met, as the purchase / sale prices on the natural gas are determined on the basis of the achieved prices of the short-term segment of the trading platform.

At the same time, for the period of the trading platform "Balkan Gas Hub" no transactions have been established for the purpose of manipulative change of natural gas prices for balancing.

From this point of view, we propose for the Gas year 2022/2023 to be preserved the currently applied criteria under Art. 12 para. 5 of the Methodology.