1. Major developments in 2012

1.1. Electricity and gas markets in figures

Electricity industry: key indicators

Total domestic electricity consumption was 69,258 GWh in 2012, marking an increase by 717 GWh or 1.0%.

Run-of-river power stations generated a total of 27,241 GWh, which is 5,527 GWh or 25.5% up against 2011. Storage power stations generated 15,668 GWh, i.e. 3,653 GWh or 30.4% more than in 2011. At some 2 TWh the output generated by the larger wind plants increased by approximately one-fifth. While the value for "Other generation" also was markedly up year on year (plus 13.2%), the generation in thermal power stations dropped by 16.0% or 2,371 GWh to 19,816 GWh.

Table 1: Electricity market 2012

	GWh (2012)	**Change vs. 2011**
Gross electricity generation	**72,012**	**+10.1%**
Physical imports	**23,264**	**-6.8%**
Physical exports	**20,455**	**+21.9%**
Pumped-storage consumption	**5,563**	**+10%**
Domestic electricity consumption	**69,258**	**+1%**
Annual peak in the grid (MW)	**10,113**	**+4.1%**

Source: E-Control

Gas industry: key indicators

Total domestic natural gas supplies to consumers fell by 4.6% year on year, to 91,204 GWh or 8,151 million N cu m.

Physical gas imports decreased by 7.5% or 36,706 GWh to 451,493 GWh. This was accompanied by a drop in physical natural gas exports by 4.1% or 15,785 GWh to 368,683 GWh, reducing the net physical imports by 20,921 GWh to 82,810 GWh.

Strikingly, the seasonal view reveals that Austria for the first time became a net exporter in February 2011, a fact that can be attributed to the increase in exports from the storage and production facilities in Upper Austria to Germany.

Table 2: Gas market 2012

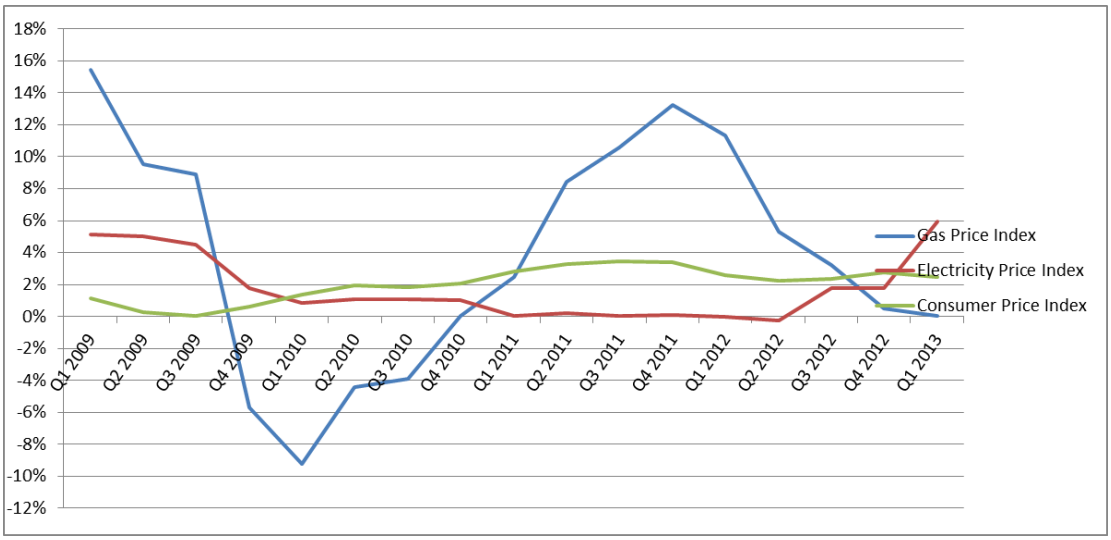
	GWh (2012)	Change vs. 2011
Imports	451,493	-7.5%
Production	20,216	+7.3%
Withdrawal	46,245	+44.3%
Exports	368,683	-4.1%
Injection	53,326	-1.5%
Own use, losses	4,742	-2.5%
Final consumption	91,204	-4.6%
Maximum hourly consumption	28.28	+14.6%
Minimum hourly consumption	3.945	+2.9%

Source: E-Control

Price trends in 2012

The first half of 2012 saw a significant upswing in natural gas prices, with prices going up especially in the first quarter, i.e. by 11% against the same period the year before. In the second half of the year the upward price trend for gas decelerated, whereas electricity prices started to rise.

Figure 1: Changes in the Austrian consumer price index and the electricity and gas price indices



Source: Statistics Austria

1.2. Major market developments

Electricity market

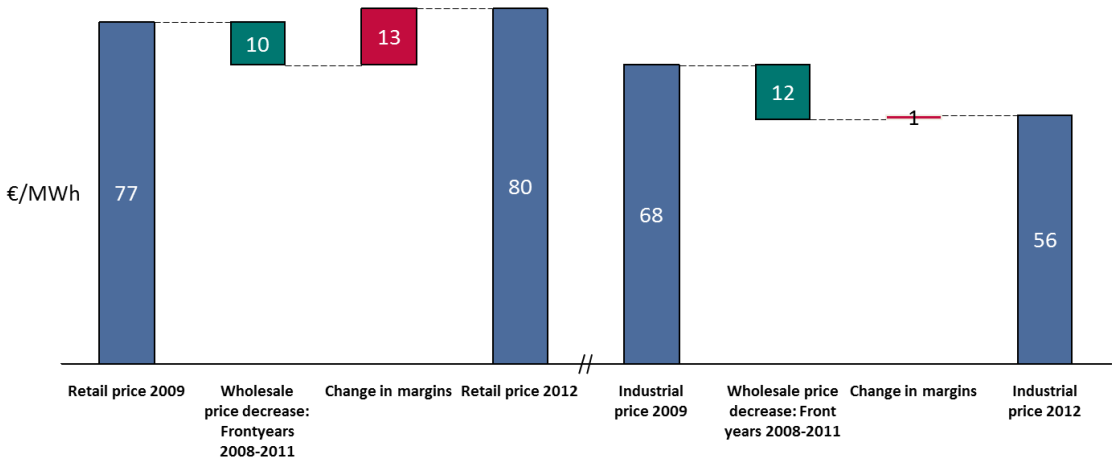
With economic forecasts remaining gloomy for the next few years, the year 2012 has caused electricity prices for 2013 to go down by approximately 10%. Apart from sales prospects being bleak, this was primarily due to rising investments in renewable power-station technologies, low coal prices and a continued trend towards squeezing high-priced gas-fired power station capacities out of the market. While gas-fired power plants registered only 2,265 full load hours in 2011, this number dropped even further in 2012 to 1,859 hours. In comparison, the output had been 2,682 hours in 2009. The marked spread between baseload and peakload contracts - which is crucial for pumped-storage power stations and had recorded an all-time high of 29 €/MWh in 2008 – continued to fall (-10.5%) and reached an average of 11.6 €/MWh.

In the balancing energy market in 2012 costs increased by 122% year on year. On the one hand, this massive hike may be attributed to the extraordinary weather conditions in the first quarter of 2012; on the other hand, the costs have been stabilising on a high level since then. This is caused both by specifically higher prices and higher balancing energy quantities due to growing feed-in primarily from wind and photovoltaic plants in Austria and the neighbouring countries.

However, what is more important for household consumers is that consumer prices remained largely unchanged. As wholesale prices have been going down over the past few years, the average margins earned by suppliers have gone up considerably (by some 16% with respect to the current retail price). We can assume that this generated additional revenues of € 170m for suppliers[1]. The downward trend in wholesale prices was generally reflected in industrial prices, levelling out at wholesale price levels.

[1] Electricity consumption of households is about 13 TWh/a.

Figure 2: Household and industrial energy prices – electricity: 2009-2012 (rounded)[2]



Source: EXAA, EEX, E-Control, E-Control calculations

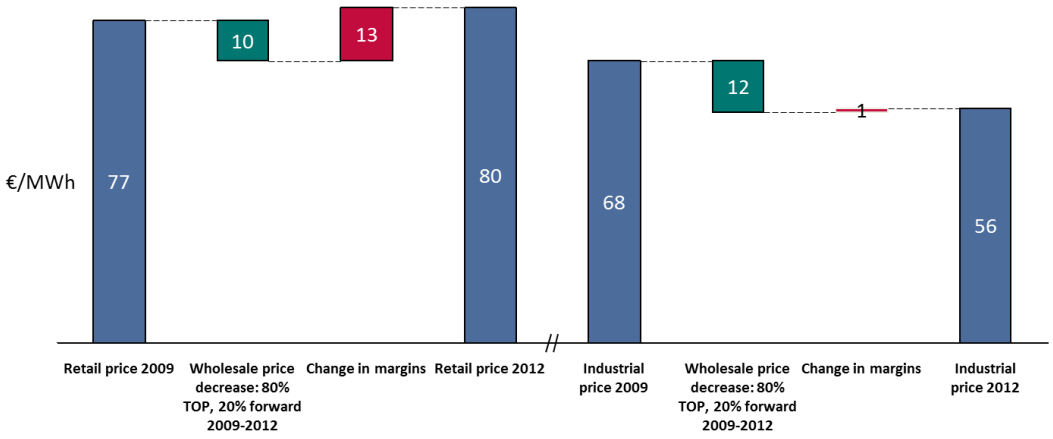
Gas market

As in previous years, gas spot prices in the Austrian CEGH market were higher than in the NCG market area in the summer months of 2012. In Q4 2012, however, this trend was reversed, with spot prices in Austria falling below those in Germany. In March 2013 this reversed spread reached a record level of approximately 3 €/MWh. In general, spot prices increased by 7.6% in 2012. Import prices even exceeded the threshold of 30 €/MWh in 2012.

The main challenge for market participants was the large price difference between long-term import contracts and the short-term market. In a traditional portfolio, the margin would have been considerably lower both for household and industrial consumers. However, spot prices were down by more than 7 €/MWh in 2012 compared to long-term ToP contracts; therefore a higher spot price proportion could substantially enhance the margin.

[2] For 2009 a two-year procurement portfolio was assumed because up to that time procurements tended to be made for a longer term. For a one-year portfolio the reduction in wholesale prices from 2008 to 2011 would be some 18 €/MWh.

Figure 3: Household and industrial energy prices – gas: 2009-2012 (rounded)



Competition trends

The wholesale gas market in particular was affected by dramatic price changes, which brought about major developments. On the one hand, new suppliers, including some from abroad, made use of the opportunity to enter the relatively high-priced retail gas market (including household consumers), which led to a larger spectrum of rates available on the mass market.

On the other hand, suppliers tried to adapt their contracts with importers to actual market conditions, i.e. adjust their prices to the short-term spot market.

The regulatory authority filed three complaints against the violation of antitrust laws by a gas importer. The complaints seek to combat the high ToP quantities and the oil linkage of these contracts, especially in view of the fact that the company dominates the import market.

As far as competition is concerned, there were no major positive trends in the electricity market in 2012. The change in control energy procurement from long-term contracts to short-term products sold in continuous auctions did not result in the desired effects in competition, but in a notable increase of control energy prices. Consequently, following a market survey in 2012, E-Control took action aimed at stimulating competition and/or enlarging the market in the course of 2013.

As a follow-up measure of the market survey carried out in 2011, for which all of the suppliers had refused to submit their data, the Austrian suppliers were required by means of official decisions to provide the relevant data on household consumption. The companies involved lodged objections against these official decisions with the supreme courts. The respective court proceedings are pending.

1.3. Major regulatory developments

In 2012 the main focus of regulatory activities was on the transposition of the third energy package into national law, primarily by issuing the relevant ordinances.

The most significant changes were seen in the gas sector, where on 1 January 2013 new market players were established in the form of the market area manager, the distribution area manager and the operator of the virtual trading point (VTP). The regulatory framework for the new gas market model was stipulated in an ordinance.

For electricity and gas consumers the ordinances governing the procedure for supplier switching and the ordinances on quality standards of system services as well as the ordinances on smart metering are directly relevant.

Establishing market rules in the Gas Market Model Ordinance 2012

For establishing the new market rules, section 41 of the *Gaswirtschaftsgesetz* (Natural Gas Act) 2011 provides the regulatory authority with the power to enact certain ordinances, which was done by issuing the *Gas-Marktmodell-Verordnung* (Gas Market Model Ordinance) 2012. It includes rules for network access to transmission and distribution systems as well as balancing rules for the market areas on Austrian territory. The rules for Tyrol and Vorarlberg were designed to make linking to the German NCG market area as simple as possible.

New rules governing transmission network access

The Natural Gas Act 2011 provides for major changes in transmission-level network access. The previous system of capacity booking on the basis of contractually agreed transport paths was replaced by an entry/exit system in which capacity at entry and exit points can be booked and traded independently of each other.

Network access

In accordance with section 6 of the Gas Market Model Ordinance 2012, entry and exit capacities have been allocated by means of auctioning since 1 April 2013. The explanatory notes on section 6 of the Gas Market Model Ordinance 2012 lay down that transmission system operators should use the capacity products with the predefined lead times as set out in the ENTSOG Network Code on Capacity Allocation Mechanisms (CAM Network Code) in the auctions.

The Austrian transmission system operators Gas Connect Austria, TAG and BOG have joined the newly established European capacity platform "PRISMA", which started operating in April 2013.

New balancing regime

The market area manager is responsible for balancing the market area on the basis of schedules and nominations. Pursuant to section 26 para. 1 and para. 2 of the Gas Market Model Ordinance 2012 this means that the market area manager takes into account any gas quantities concerning the eastern market area when balancing – i. e. the balance of trading activities at the VTP, any injections and withdrawals at transmission and distribution level, including

storage and production, as well as scheduled exits for consumer supply. In order to be able to fulfil this task, the market area manager uses the virtual trading point.

Ordinances concerning the quality of network services - gas

In transposition of Directive 2009/73/EC the Austrian Natural Gas Act, which entered into force in October 2011, empowers the Executive Board of the regulatory authority to enact an ordinance on the quality of the network services rendered to system users. This ordinance was published on 29 May 2012 and entered into effect on 1 January 2013. It establishes uniform standards governing the commercial and technical quality of network services, and responses to supply interruptions. These standards stipulate that the time taken for system connections and repairs must be monitored.

The lead time for admitting users to the system was not directly monitored in 2011. As the circumstances and needs of parties entitled to system access vary greatly, the new *Gasnetzdienstleistungsqualitätsverordnung* (Ordinance on Gas System Service Quality) published on 29 May 2012 does not introduce monitoring of connection lead times. However, it does impose a maximum period of 14 days for responding to applications for system admission, and requires agreement of a binding deadline for system admission. The time taken to perform repairs and maintenance is to be monitored under an ordinance that is o entered into effect on 1 March 2013 (section 131 Natural Gas Act 2011).

Data Format and Presentation of Consumption Information Ordinance 2012

Pursuant to Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, OJ L 211, 14.8.2009, p. 55, member states have to ensure the implementation of intelligent metering systems that assist the active participation of consumers in the electricity supply market.

By means of the *Datenformat- und Verbrauchsinformationsdarstellungs-Verordnung* (Data Format and Presentation of Consumption Information Ordinance) 2012 the format to be used by the system operators when transmitting data to suppliers and when providing customers with consumption information was determined.

Regulation of wholesale energy markets

In order to be able to meet the requirements imposed by Regulation (EU) No 1227/2011 on Energy Market Integrity and Transparency (REMIT), E-Control embarked on purchasing a software tool for monitoring trading markets in September 2012. The aim is to monitor gas and electricity markets on a national and regional level and to ensure a coordinated cross-border approach to combat potential abuse and insider trading on wholesale energy markets by signing appropriate cooperation agreements with other national regulatory authorities. The transposition of REMIT into national law has provided E-Control with additional investigative powers and the competence to impose appropriate penalties in case of non-compliance with REMIT. In an ordinance on the record-

keeping requirements of transaction data the regulatory authority determined in detail the data that have to be kept by traders.