

Publication pursuant to Article 25 (2), Article 28 (3) of Regulation (EU) 2017/459 (NC CAM) concerning the procedure initiated in 2019 for incremental capacity for the Border between Poland and the Czech Republic

5 May 2021

I. Introduction

After the completion of phase 1 of the procedure initiated in 2019 in accordance with Regulation (EU) 2017/459 (Network Code on Capacity Allocation Mechanisms for Transmission Networks; hereinafter "NC CAM") for the identification of market interest and creation of incremental capacities at the market area border between Poland and the Czech Republic, the participating transmission system operators (hereinafter "TSOs") carried out the planning phase for the corresponding projects (phase 2) and concluded it with the consultation in January 2020. The technical studies have presented how the network expansion can be carried out efficiently, taking into account the corresponding network topology as well as economic aspects. Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. (hereinafter "GAZ-SYSTEM") and NET4GAS, s.r.o. (hereinafter "NET4GAS") have therefore submitted the project applications to the national regulatory authorities in Poland and Czech Republic respectively and published them.

The Polish project application was approved and the decision no. DRR.WRG.748.9.2020.ABu1 was issued ¹ on the 29.04.2021 by the Energy Regulatory Office.

The Czech project application was approved and the decision no. 09654-15/2020-ERU issued ² on 05.05.2021 by the Czech Energy Regulatory Office (ERÚ) .

Publication acc. Art. 28 (3) NC CAM

II. Permit contents acc. Art. 28 (1) NC CAM

a. Offer-level acc. Art. 28 (1) lit. a NC CAM

¹ URE Decision: <https://www.ure.gov.pl/pl/paliwa-gazowe/europejski-rynek-gazu-1/decyzje/9430,Decyzja-Prezesa-Urzędu-Regulacji-Energetyki-z-dnia-29-kwietnia-2021-r.html>

² ERÚ Decision: <https://www.net4gas.cz/en/customers/products-services/new-transmission-capacity/incremental-capacity-process-2019/>

In the annual auction 2021 on 5 July, the participating TSOs will offer the common Offer Level for bundled capacity products at IP Cieszyn/Český Těšín. The Offer Level takes into account the obligations to set aside capacity based on the calculation methodology described in Article 11 (6) of NC CAM. As there is no existing capacity available at IP Cieszyn/Český Těšín in the direction from Poland to the Czech Republic, both GAZ-SYSTEM and NET4GAS shall apply a 10% reservation quota for incremental capacity under the bundled Offer Level.

The Offer Level will be marketed earliest as of gas year 2028/2029 because of the project's specifics on both sides of the Czech-Polish border.

| Year | From 2028/2029 To 2042/2043 |
|---|--------------------------------|
| Offer Level [kWh/h]/y | 1,143,000 |
| Incremental capacity [kWh/h]/y – to be offered | 1,143,000 |
| Incremental capacity [kWh/h]/y – total | 1,270,000 |
| Existing capacity [kWh/h]/y | 0 |

The incremental capacity auction shall take place on the GSA Platform³. Registration in both network operator's systems is required to participate in general in auctions on the GSA Platform.

**b. Term and Conditions for the incremental auction to be accepted by the network user
acc. Art. 28 (1) lit. b NC CAM**

For the marketing of incremental capacity (i.e. the Offer Level) in the yearly capacity auction 2021, GAZ-SYSTEM and NET4GAS have developed individual terms and conditions for the incremental capacity auction to be accepted by the network user before the incremental capacity auction.

The terms and conditions of GAZ-SYSTEM for the auction of incremental capacity are annexed to this document.

For NET4GAS, the general rules and conditions that a network user must accept to participate and to access capacity in the binding capacity allocation phase of the incremental capacity

³ <https://www.gsaplatform.eu/>

process are set out in Annex to this document (“Contract for Provision of Gas Transmission Service”) and in the [Network Code](#) of NET4GAS.

Regardless of the fact that both GAZ-SYSTEM and NET4GAS publish terms and conditions for the incremental capacity auction in English and in their respective national languages, only the Polish and Czech versions respectively, shall be considered as binding.

c. Timetables for the incremental project as well as the measures to avoid delays and reduce the impact of delays pursuant to Art. 28 (1) lit. c NC CAM

The following tables show the further steps and represents a rough schedule of the technical measures for both projects. This planning already includes time buffers to avoid delays in the provision of capacity.

The construction phase will only start if there is a commitment by the market to acquire the respective incremental capacities in the yearly auction 2021 and if there is also a positive result of the following economic test for each of the TSOs concerned.

For GAZ-SYSTEM

| Time period | Milestone |
|-------------|--|
| 05/07/2021 | Yearly capacity auction in July followed by an economic test |
| 01/10/2028 | Expected start of commercial operation of the new infrastructure |

For NET4GAS

| Time period | Milestone |
|-------------|--|
| 30/06/2021 | Auction participants to sign “Contract for Provision of Gas Transmission Service” |
| 05/07/2021 | Yearly capacity auction in July followed by an economic test |
| 01/06/2026 | Withdrawal right date if permits and/or land rights are not secured (per sections 5.1. of N4G “Contract for Provision of Gas Transmission Service” |
| 01/10/2028 | Expected start of commercial operation of the new infrastructure |

d. Parameter acc. Art. 28 (1) lit. d NC CAM

For GAZ-SYSTEM S.A.

i. Parameter acc. Art. 22 (1) lit. a NC CAM

Auction Premium:

The algorithm for multi-level ascending price auctions pursuant to Art. 17 NC CAM applies to the auction of incremental capacities pursuant to Art. 29 (1) NC CAM. This may result in an auction premium, which will only be determined at the end of the 2021 annual auction. For this reason, it was not taken into account in the calculation of the f-factor, but must be included in the economic test.

Mandatory minimum premium:

In accordance with decision DRR.WRG.748.9.2020.ABu1 mandatory minimum premium of 1.337 PLN/((MWh/h)/h) was approved.

Net present value of binding commitments of network users:

The target value of the estimated increase in allowed revenues corresponds to the value of the investment funds cost concerning the project implemented by the transmission system operator and settled in the period covering the contracted incremental capacity made available as part of offers submitted in the auction procedure for IP Cieszyn.

GAZ-SYSTEM adopted a discount rate of 6% for the calculation of the discounted value of the allowed revenue related to the realization of the project for the market border of Poland and the Czech Republic in the years 2028-2043. The discounted value of network users' liabilities at the Poland - Czech Republic point, with a discount rate of 6% for the 15-year test period, amounts to 198,985,585.00 PLN. This value is equal to the risk-free rate adopted for the purposes of the calculation of the reference rates binding in 2021, and it has been approved by the President of the URE.

ii. Parameter acc. Art. 22 (1) lit. b NC CAM

In accordance with decision DRR.WRG.748.9.2020.ABu1 the allowed revenues was determined and approved: 198,985,299.00 PLN

iii. f-Factor acc. Art. 22 (1) lit. c NC CAM

According to decision DRR.WRG.748.9.2020.ABu1 the following f-factor was determined and approved: 1

For NET4GAS

i. Parameter acc. Art. 22 (1) lit. a NC CAM

Auction Premium:

The algorithm for multi-level ascending price auctions pursuant to Art. 17 NC CAM applies to the auction of incremental capacities pursuant to Art. 29 (1) NC CAM. This may result in an auction premium, which will only be determined at the end of the 2021 annual auction. For this reason, it was not taken into account in the calculation of the f-factor, but must be included in the economic test.

Mandatory minimum premium:

In accordance with decision no. 09654-15/2020-ERU on 05.05.2021 by the Czech Energy Regulatory Office mandatory minimum premium of 14,303.81 CZK/MWh/d/y was approved.

Net present value of binding commitments of network users:

The discount rate of 8.32% shall apply for NET4GAS - equivalent to the pre-tax nominal Weighted Average Cost of Capital applicable to transit projects in the Czech Republic under the rules of the 5th Regulatory Period, is used to determine the present value of the binding commitments of the network users in the economic test following the auction in 2021.

ii. Parameter acc. Art. 22 (1) lit. b NC CAM

In accordance with decision no. 09654-15/2020-ERU issued on 05.05.2021 by the Czech Energy Regulatory Office the present value of the estimated increase in NET4GAS target revenue associated with this project (using a discount rate 8.32%) was determined and approved: CZK 2,458.9 mil.

iii. f-Factor acc. Art. 22 (1) lit. c NC CAM

According to decision no. 09654-15/2020-ERU issued on 05.05.2021 by the Czech Energy Regulatory Office the following f-factor was determined and approved: 1

e. Extension of the marketing period acc. Art. 28 (1) lit. e NC CAM

An extension of the marketing period is not applied for both TSOs.

f. Alternative allocation mechanism acc. Art. 28 (1) lit. f NC CAM

An alternative allocation mechanism is not applied for both TSOs

g. Fixed price approach acc. Art. 28 (1) lit. g NC CAM

A fixed price approach is not applied for GAZ-SYSTEM.

On NET4GAS side the project will follow the fixed-price approach with price escalation (i.e. the determination of the IND parameter) that is described in the Principles of Price Regulation for the Period 2021-2025, Chapter 10.6. published by the Energy Regulatory Office in June 2020⁴, and further applied via their Price Decision for specific auctions. In accordance with decision no. 09654-15/2020-ERU issued on 05.05.2021 by the Czech Energy Regulatory Office the value of the RP parameter as defined in Article 24 (b) NC TAR is set at 0.

Publication acc. Art. 25 (2) NC CAM

Estimated reference price acc. Art. 25 (1) NC CAM

For GAZ-SYSTEM S. A.

In accordance with decision DRR.WRG.748.9.2020.ABu1 the estimated reference price used for the economic viability test for the incremental capacities to be offered from 1 October 2028 until 1 October 2043 is 1.854 PLN/(MWh/h)/h.

For NET4GAS

In accordance with decision no. 09654-15/2020-ERU issued on 05.05.2021 by the Czech Energy Regulatory Office the reference price shall be equal to CZK 219.46 /MWh/d/y at the Cieszyn interconnection point. Noting that even the allocation of all incremental capacity available for booking in the 2021 auction at this reference price will clearly not generate sufficient revenues for a positive economic test outcome.

The total price – consisting of the sum of the reference price plus the mandatory minimum premium (cf. page 5) - is quoted in nominal terms and is subject to adjustment for inflation as set forth in the pricing methodology given in the Principles of Price Regulation for the Period 2021-2025, and further applied via Price Decision of the Czech NRA (ERÚ) for specific auctions. The total price will be used in the economic test to be performed by NET4GAS. For the purpose of this economic test, NET4GAS uses inflation adjustments amounting to 2% per annum.

In addition to the abovementioned tariffs, flow-based charges – described in the Czech NRA's Principles of Price Regulation and set in the ERÚ's price decisions, will be payable by the shippers. From the point of view of NET4GAS, these charges are cost-neutral (i.e. not generating any profit or loss over time) and shall therefore not be considered in the economic test.

⁴ [ERÚ - Zásady cenové regulace pro regulační období 2021-2025](#)



III. Contact information



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IV. Annexes

1. "General Terms and Conditions of participation in and access to capacity in the binding phase of incremental capacity auction on the border between Poland and the Czech Republic" (GAZ-SYSTEM)
2. "Contract for Provision of Gas Transmission Service" (NET4GAS)