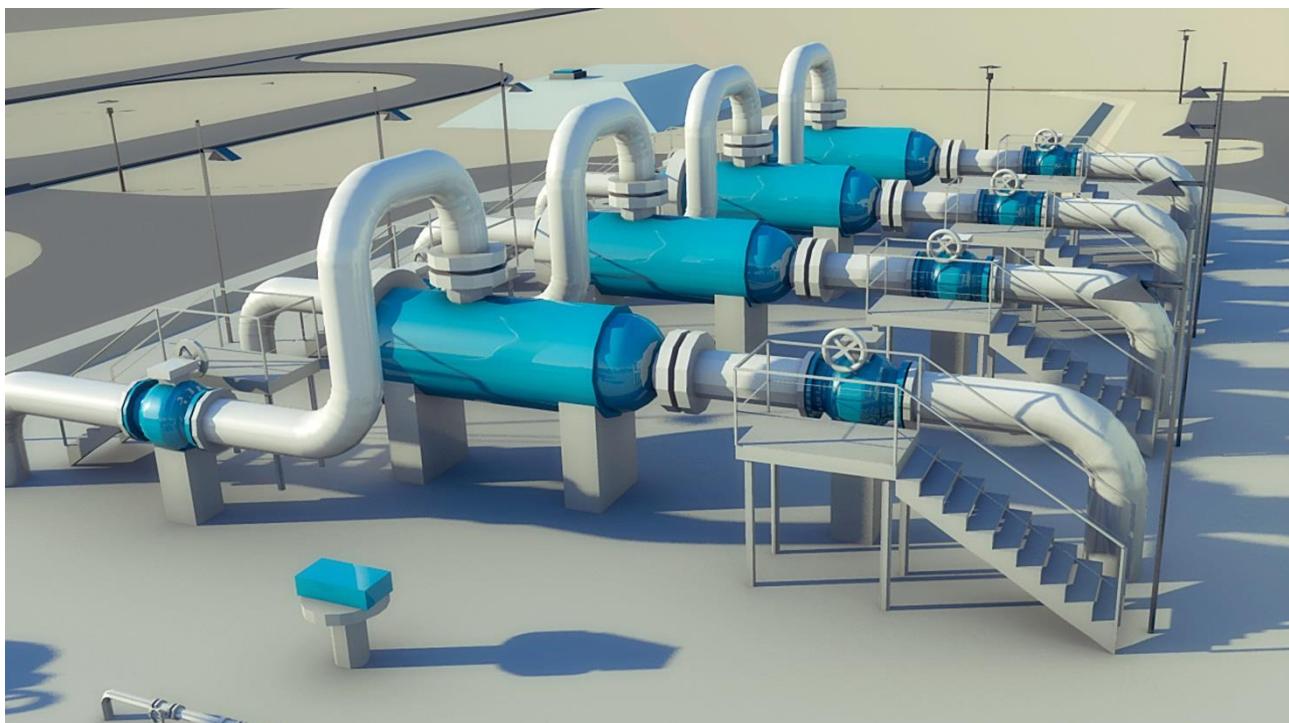




PUBLIC CONSULTATION ON SETTING ASIDE TRANSMISSION CAPACITY IN ACCORDANCE WITH ARTICLE 8 OF THE NC CAM

26 October 2016





Aiming to map standpoints of gas market participants, NET4GAS, s.r.o., the operator of the transmission system in the Czech Republic, opens a public consultation with regard to setting aside transmission capacity in accordance with Article 8 of Commission Regulation (EU) No. 984/2013¹ ("NC CAM") to determine exact amount of technical capacity that is to be set aside for a shorter duration at border points (interconnection points) of the Czech transmission system.

Setting Aside of Capacities

The Transmission System Operator has applied to the Energy Regulatory Office ("ERO" or "Office") for an approval of the amount of capacity to be set aside in accordance with Article 8 of the NC CAM. As part of the administrative proceedings, the Office has requested the Transmission System Operator to carry out a public consultation. Until the ERO issues a decision, the Transmission System Operator will set aside a capacity in an amount equal to the minimum requirements specified in Article 8 of the NC CAM, i.e. at each interconnection point,² an amount will be set aside corresponding to 20 % of technical capacity or, where applicable, 10 % of technical capacity in the case of new capacity as follows:

- an amount corresponding to 10 % of technical capacity at each interconnection point will first be offered during an annual auction of yearly capacity referred to in Article 11 of the NC CAM, which is held in accordance with the auction timetable during the fifth gas year preceding the start of the relevant gas year ("5Y auction"),
- an amount corresponding to 10 % of technical capacity at each interconnection point will first be offered during an annual auction of quarterly capacity referred to in Article 12 of the NC CAM, which is held in accordance with the auction timetable during the gas year preceding the start of the relevant gas year ("Q auction"),
- for new transmission capacity, an amount corresponding to 10 % of new technical capacity at each interconnection point will first be offered during an annual auction of quarterly capacity referred to in Article 12 of the NC CAM, which is held in accordance with the auction timetable during the gas year preceding the start of the relevant gas year.

The above values provide sufficient short-term transmission capacities to avoid the foreclosure of downstream supply markets and to ensure the security of supply and the functioning of the internal gas market; they have been approved by and harmonized with all adjacent transmission system operators, and they contribute to maximizing the offer of coordinated capacity during all periods of time for transmission capacity allocation as required by Article 6 of the NC CAM.

Tables 1 and 2 specify the values of capacities set aside at entry and exit border points of the Czech transmission system. Table 3 shows capacities at entry points of gas storage systems at 75 % use. Table 4 specifies the total available entry capacity of the transmission system, including the entry capacity from storage systems, under normal conditions and in the event of a disruption of the single largest infrastructure (N-1 rule, failure of the Lanžhot entry point), which is compared with the maximum consumption in the Czech Republic. The values stated in the tables indicate that at present, as much as 549 GWh/d of entry capacity set aside at

¹ Commission Regulation (EU) No. 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No. 715/2009

² Excepting capacities excluded from third-party access



border points is available and, if gas storage systems are included, as much as 1,057 GWh/d of entry capacity of the Czech transmission system is available.

For information purposes, the mechanism for setting aside capacities is described in detail in Enclosure 1.

Table 1 – Capacities at Entry Border Points to be Set aside

Entry points (Values on 11 October 2016)	Technical capacity	10 % set aside for Q auctions and 10 % for 5Y auctions	
		GWh/d	GWh/d
Lanžhot	1,640.413428	328.082686	164.041343
Waidhaus	450.000000	90.000000	45.000000
Český Těšín	0	0	0
BRANDOV – OPAL ³	291.724454	58.344891	29.172445
Hora Sv. Kateřiny and Hora Sv. Kateřiny – Olbernhau (competing capacity, winter maximum) ⁴	454.900000	73.400000	36.700000
Hora Sv. Kateřiny ⁴	150.900000	30.180000	15.090000
Hora Sv. Kateřiny – Olbernhau ⁴	367.000000	73.400000	36.700000
Total	2,837.037882	549.827577	274.913788

Table 2 Capacities Set aside at Exit Border Points

Exit points (Values on 11 October 2016)	Technical capacity	10 % set aside for Q auctions and 10 % for 5Y auctions	
		GWh/d	GWh/d
Lanžhot	913.680000	182.736000	91.368000
Waidhaus ³	208.358237	41.671650	20.835824
Český Těšín	28.351560	5.6703120	2.835156
BRANDOV – OPAL	0	0	0
BRANDOV – STEGAL	290.136000	58.027200	29.013600
Hora Sv. Kateřiny	197.529733	39.505950	19.752973
Total	1,638.05553	327.611112	163.805553

³ Excepting capacities excluded from third-party access

⁴ Capacity set aside for the limiting condition relating to competing capacities is the higher of the values of capacity set aside at individual competing border points

Table 3 Capacities at Entry Points of Gas Storage Systems

Entry points (Values on 11 October 2016)	Technical capacity	Use of UGS output	Entry capacity
	GWh/d		GWh/d
RWE GS UGS	443.000000	0.75	332.250000
MND GS UGS	153.990000	0.75	115.492500
Moravia GS UGS	79.650000	0.75	59.737500
UGS total	676.640000		507.480000

Table 4 Entry Capacities to the Czech Republic

	Entry capacity at 10 % set aside for Q auctions and 10 % for 5Y auctions, including UGS	Entry capacity at 10 % set aside for Q auctions, including UGS
	GWh/d	GWh/d
Total entry capacity to the Czech Republic	1,057.307576	782.393788
Total entry capacity to the Czech Republic (N-1)	729.224891	618.352445
Maximum consumption in the Czech Republic	731.304882*	

* 68.8611 million m³/d at 20°C

Starting Points for Setting Aside Capacities

1. Different amounts of technical capacities at the individual sides of a border point have no effect on the mechanism for setting aside capacities and their subsequent coordination. The amount of capacity for coordination is always equal to the lower of values submitted by adjacent transmission system operators at a given border point, and it depends on the quantity of technical and already booked capacity on each side of the border point. The individual amounts of capacities that are set aside must therefore be harmonized with adjacent transmission system operators, particularly due to the following reasons:
 - The Transmission System Operator is unable to influence the amount of capacity for coordination, which is offered for a given auction by adjacent transmission system operators.
 - Increasing the amount of capacity that is set aside will not increase the amount of coordinated capacity. On the contrary, the amount of coordinated capacity will be reduced if capacity that is set aside is not the same on both sides of the border point for given periods of time.
 - Non-coordinated capacity, which is created if the amounts of capacities offered for coordination do not match, can be offered only for one year ahead. This way, there is no risk of foreclosure of downstream supply markets in the Czech Republic, and, moreover, market participants who have booked non-coordinated capacity on the other side of the border point can purchase lacking non-coordinated capacity at more advantageous prices and thus create at the border "their own" coordinated capacity, which will be subsequently always offered by



adjacent transmission system operators as coordinated capacity after the relevant contracts expire.

- Article 6 of the NC CAM requires adjacent transmission system operators to maximize the offer of coordinated capacity, which leads to the harmonization of technical capacities if contracted capacities are similar. For this reason, it is not desirable that there be differences in the amount of capacities set aside by adjacent transmission system operators.
- 2. The amount of capacity set aside has a substantial effect on the Transmission System Operator's ability to offer the entirety of technical capacity on a long-term basis and, consequently, the ability to secure predictable revenues for offsetting investment and operating costs and for generating profit. The higher the amount of capacity set aside, the higher the limitations preventing the Transmission System Operator from offering technical capacity freely according to actual needs of gas market participants, a fact that considerably increases the risk that the Transmission System Operator will not receive the full amount of planned revenues/revenue caps. This applies particularly to the price cap regime, where the entire risk relating to the volatility of the amount of booked capacities is assumed by the Transmission System Operator, and where there is no mechanism for awarding subsequent compensation. In this regard, the increased risk must be directly reflected in gas transmission fees. However, gas transmission fees can increase in the revenue cap regime, and thereto related revenue caps, where the risk relating to the volatility of booked capacities is assumed by end consumers. In this case, reduced income under revenue caps is compensated to the Transmission System Operator through the subsequent adjustment of gas transmission fees, i.e. once again through an increase in gas transmission fees. For this reason, there exists direct proportion between the amount of capacity that is set aside and the amount of transmission fees.
The Transmission System Operator believes that the current level of transmission fees set in the Energy Regulatory Office's Price Decision No. 6/2015 of 25 November 2015, laying down regulated prices relating to the supply of gas, is entirely adequate for the amount of capacity that is currently set aside. Any other, higher, value of capacity that is set aside would ultimately result in an increase in gas transmission fees.
- 3. In addition, the amount of capacity to be set aside proposed by the Transmission System Operator has been determined in consideration of other existing measures, which promote transparent and non-discriminatory access to gas infrastructure and prevent the foreclosure of the downstream supply market. The foregoing mainly concerns harmonized capacity allocation methods as per the NC CAM as well as the so-called Congestion Management Procedures⁵ defined in Annex I to Regulation (EC) No. 715/2009 of the European Parliament and the Council.

Purpose of the Consultation

The purpose of this consultation is to determine the standpoints of gas market participants regarding the proposed amount of capacity that is to be set aside.

The Transmission System Operator proposes to retain the current method for setting aside capacity and the amount of transmission capacity that is set aside at border points as follows:

⁵ Commission Decision of 24 August 2012 on amending Annex I to Regulation (EC) No. 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks (2012/490/EU)



- an amount corresponding to 10 % of technical capacity at each interconnection point will first be offered during an annual auction of yearly capacity referred to in Article 11 of the NC CAM, which is held in accordance with the auction timetable during the fifth gas year preceding the start of the relevant gas year,
- an amount corresponding to 10 % of technical capacity at each interconnection point will first be offered during an annual auction of quarterly capacity referred to in Article 12 of the NC CAM, which is held in accordance with the auction timetable during the gas year preceding the start of the relevant gas year. The Transmission System Operator is prepared to set aside this capacity so that it is first offered for auctions for even shorter periods, i.e. to guarantee available capacity for, for example, monthly and daily auctions, and
- for new transmission capacity, an amount corresponding to 10 % of new technical capacity at each interconnection point will first be offered during an annual auction of quarterly capacity referred to in Article 12 of the NC CAM, which is held in accordance with the auction timetable during the gas year preceding the start of the relevant gas year.

The Transmission System Operator invites gas market participants to consent to the proposed values of capacity to be set aside or to submit their comments regarding these values in accordance with the rules of the consultation process detailed below. Moreover, the Transmission System Operator requests participants to duly substantiate their comments and, if a demand for values of capacity to be set aside that are higher than the proposed values is made, to demonstrate their understanding of their correlation with the amount of transmission fees, as described above.

Following the evaluation of received comments, a proposal for setting aside capacities will be sent to the Office for an approval in accordance with Article 8 of the NC CAM.

Rules of the Consultation Process

1. The only permissible method for submitting comments regarding transmission capacities to be set aside is sending an e-mail message to konzultace@net4gas.cz.
2. The subject field of the message must state: **Consultation 10/2016**
3. Submitted comments must have the following form:
 - a. the gas market participant's position on the proposed values of capacity to be set aside and a substantiation of such a position (approval or rejection of the proposal); or
 - b. a proposal for different values, including their substantiation and the acceptance of their potential impact on the amount of transmission fees.
4. Submitted comments must be written in Czech or English.
5. The deadline for submitting comments is **26 November 2016**.
6. The Transmission System Operator will assess submitted comments and take relevant comments into account in future actions.
7. The Transmission System Operator is under no obligation to consider comments that do not conform to the prescribed rules.



Enclosure 1 – Mechanism for Setting Aside Capacity

Following the consultation and harmonization of the amount of capacities to be set aside, the Transmission System Operator and adjacent transmission system operators will set aside existing capacities at each border point to ensure that:

- a) an amount corresponding to 10 % of existing technical capacity¹ at each border point will be first offered during an annual auction of yearly capacity, which is held in accordance with the auction timetable during the fifth gas year preceding the start of the relevant gas year, and that
- b) another tranche of an amount corresponding to 10 % of existing technical capacity at each border point will be first offered during an annual auction of quarterly capacity, which is held in accordance with the auction timetable during the gas year preceding the start of the relevant gas year.

The mechanism for setting aside capacities at individual points in the network used by the Transmission System Operator is fully compliant with Article 8 of the NC CAM. Capacity set aside for a given gas year will be determined as follows:

Capacity set aside as per paragraph a) above:

$$\text{Capacity set aside } 5Y = \text{Min}(10 \% * \text{TC}; \text{Max}(0; \text{TC} - \text{Capacity set aside } Q - \text{BC}))$$

TC = Technical capacity; BC = booked capacity

Booked capacity will be equal to the maximum value of capacity bookings in a given gas year.

Capacity set aside as per paragraph b) above:

$$\text{Capacity set aside } Q = \text{Min}(10 \% * \text{TC}; \text{TC} - \text{BC})$$

TC = Technical capacity; BC = booked capacity

Booked capacity will be equal to the maximum value of capacity bookings in a given gas year.

Capacity offered in annual auctions for one to five years will be reduced by capacity values set aside for quarterly auctions. Capacity offered in annual auctions for six to fifteen years will be reduced by capacity values set aside for quarterly auctions and by capacity values set aside for auctions for one to five years. In the event that capacity booked at a given interconnection point is higher than 80 % (90 %) of technical capacity, the set aside capacity will be reduced proportionately.

The above conditions will also apply to competing capacities, where the sum of booked and available capacity at border points must not be higher than the limiting condition. The amount of available capacity at individual points must therefore be regarded as the potential amount of such capacity. However, capacities set aside with respect to the limiting condition will stem from capacities set aside at individual border points as follows:

- Capacity set aside for the limiting condition will be equal to the higher of the values of capacity set aside at individual border points. Capacities set aside for quarterly auctions and for auctions for one to five years at border point will therefore be competing capacities.
- This way the concept of competing capacities will be preserved for all allocation time periods, and there will be no discrimination with regard to individual capacity products.

The process for setting aside new capacity will be analogous.

¹ Excepting capacities excluded from third-party access