



8 December 2016

## Capacity Conversion Service

Pursuant to Article 19 point 1 of the Commission Regulation 984/2013, establishing a Network Code on Capacity Allocation Mechanism in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (the “**NC CAM**”), transmission system operators are obliged to offer all firm capacity at interconnection points as bundled capacity, in so far as there is available firm capacity on both sides of the interconnection point. Unbundled firm capacity may be offered by a transmission system operator where the respective transmission system operator has more available firm capacity on its side of the interconnection point than the adjacent transmission system operator on the other side in accordance with Article 19 point 5 of NC CAM.

Based on these requirements set out in NC CAM, the offer of unbundled capacity is limited only to specific cases. In some cases, however, network users hold existing long-term contracts for unbundled transmission capacity at that side of an interconnection point at which the level of technical capacity exceeds the level on the other side of the interconnection point. In such a situation, the network user will not be able to contract unbundled capacity from the transmission system operator to match it with its existing unbundled long-term transmission capacity on the adjacent side. In order to be able to use the already booked transmission capacity under existing long-term contracts for unbundled capacity, the network user would be in practice required to obtain bundled capacity, thus partly requiring the contracting of a capacity product that the network user already has.

Such course of action would not be in compliance with general principles and concepts neither of Regulation (EC) No 715/2009, on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 nor Act No. 458/2000 Coll., on business conditions and public administration in the energy sectors and on amendment to other laws, as amended.

Based on the foregoing, NET4GAS, s.r.o., provides to network users a capacity conversion service with the aim to increase available transmission capacity at all interconnection points of the Czech gas transmission system, avoid discrimination of network users and ensure level of playing field in the internal gas market.

The capacity conversion service means that a network user holding an existing unbundled transmission capacity takes part in a bundled auction as any other network user as a first step and in case of being successful in the auction of bundled capacity, its already contracted unbundled transmission capacity will be converted into the acquired bundled transmission capacity.

The aim of the service is to provide a network user an opportunity to match his unbundled capacity without duplication of costs, while all other network users may acquire the maximum amount of bundled capacity. If unbundled capacity is converted into bundled transmission capacity, the respective part of the capacity offered originally as bundled is to be reoffered by NET4GAS, s.r.o., in the subsequent auction. This reduces the contractual mismatch and increases the amount of contracted bundled capacity as one of the goals of the NC CAM.



NET4GAS, s.r.o., offers the capacity conversion service of already booked unbundled capacity into bundled capacity needs on a non-discriminatory basis, i.e. for all network users holding unbundled capacity and at its all interconnection points of its gas transmission system.

The capacity conversion service enhances the internal gas market without a need of further administrative burden on adjacent transmission system operators, as no change in auction process/algorithm is required.

NET4GAS, s.r.o., provides the capacity conversion service for **annual, quarterly and monthly capacity auctions** under the following terms and conditions:

1. Where a network user has concluded a contract for an unbundled capacity at entry or exit from/to gas transmission system of the Czech Republic (hereinafter – the Unbundled Transmission Capacities) before NC CAM entered into force (4 November 2015) and such Unbundled Transmission Capacities have not been converted into bundled capacities for any reason.
2. Subject to additional confirmation as described in point 3 below, the network user has the right to deliver to NET4GAS, s.r.o., a letter of intent in a free form with intention to convert its Unbundled Transmission Capacities into a bundled transmission capacity not later than 3 calendar days before respective capacity auction is planned to be held.
3. Subject to successful allocation of bundled capacities in result of an auction, the network user shall have the right to request NET4GAS, s.r.o., to convert all or part of amount of Unbundled Transmission Capacities specified in the letter of intent in accordance with point 2 above into newly bundled capacities. Such request shall be provided to NET4GAS, s.r.o., by the network user in a form of irrevocable and unconditional letter (in a free form) within 24 hours from auction completion (hereinafter – the Network User's Request). Subject to receipt of the Network User's Request, NET4GAS, s.r.o., in 24 hours from receipt of such request shall be obliged to convert requested amount of Unbundled Transmission Capacities into newly bundled transmission capacities. The capacities converted into newly bundled capacities are considered to be available capacities (hereinafter – the Available Capacity). For the avoidance of doubts the network user shall pay for the Available Capacity neither transmission fee, nor any other applicable fees nor payments except of an auction premium, if applicable. The Available Capacity is to be reoffered by NET4GAS, s.r.o., in the subsequent auction.