

# 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 Austria and the Czech Republic

3 May 2022

## I. Introduction

NET4GAS, s.r.o., ('N4G') and Gas Connect Austria GmbH ('GCA') present, pursuant to Article 25 (2) and Article 28 (3) of Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 ('the NC CAM'), information regarding the incremental capacity project. This project covers the border between Austria (Market Area East) and the Czech Republic. It has been initiated by the market within the incremental capacity procedure described in the NC CAM. It is prepared by both of the above-mentioned transmission system operators ('TSOs'). The updated proposal for the incremental capacity project was submitted for the approval of the national regulatory authorities of Austria and the Czech Republic in May 2021.

The Austrian project proposal was approved by Decision No. V NKO G 01/21/1 issued <sup>1</sup> on 4 November 2021 by the Austrian national energy regulatory authority, E-Control.

The Czech project proposal was approved by Decision No. 10036-42/2020-ERU issued <sup>2</sup> on 30 September 2021 by the Czech national energy regulatory authority, the Energy Regulatory Office (ERO).

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<sup>1</sup> E-Control Decision: [https://www.e-control.at/documents/1785851/0/V+NKO+G+01\\_21+Bescheid+GCA+%281%29.pdf/e4f913bb-3343-c6b6-1e76-0c9b1ebe2ce2?t=1639389450694](https://www.e-control.at/documents/1785851/0/V+NKO+G+01_21+Bescheid+GCA+%281%29.pdf/e4f913bb-3343-c6b6-1e76-0c9b1ebe2ce2?t=1639389450694)

<sup>2</sup> ERO Decision: <https://www.net4gas.cz/files/en/customers/products-services/new-transmission-capacity/czech-austrian-connection/decision-the-project-proposal-an-incremental-capacity-project-cz-at.pdf>

## II. Offer Levels for bundled capacity products acc. to Art. 28 (1) lit. a NC CAM

In the annual capacity auction scheduled for 4 July 2022, the participating TSOs will offer two common Offer Levels for bundled capacity products at Interconnection Point Reintal ('IP Reintal'). Both Offer Levels take 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 Reintal in any direction between Austria and the Czech Republic, both GCA and N4G are setting aside an amount of 10% of the incremental technical capacity. This is pursuant to Article 8 (8) of the NC CAM. They are applying a gross calorific value of 11.19 kWh/Nm<sup>3</sup> (0°C). Thus, the Offer Levels for bundled capacity products at the interconnection point are as follows:

### Offer Level 1:

| Year   | From 2028/2029<br>To 2042/2043 |
|--|--------------------------------|
| <b>Offer Level 1 [kWh/h]/y</b>               | <b>2,114,910</b>               |
| Incremental capacity to be offered [kWh/h]/y | 2,114,910                      |
| Existing capacity [kWh/h]/y                  | 0                              |

### Offer Level 2:

| Year   | From 2028/2029<br>To 2042/2043 |
|--|--------------------------------|
| <b>Offer Level 2 [kWh/h]/y</b>               | <b>7,553,250</b>               |
| Incremental capacity to be offered [kWh/h]/y | 7,553,250                      |
| Existing capacity [kWh/h]/y                  | 0                              |

The capacity for each Offer-Level is the same in the direction from Austria to the Czech Republic as well as in the opposite direction from the Czech Republic to Austria.

### **III. Terms and conditions for the incremental capacity auction to be accepted by the network user acc. to Art. 28 (1) lit. b NC CAM**

For the marketing of incremental capacity (i.e. the Offer Levels) in the 2022 annual capacity auction, GCA and N4G have developed individual terms and conditions for the incremental capacity auction that need to be accepted by the network users before the auction starts.

For GCA, in order to be able to participate in the annual auction, a network user must have accepted the [General Terms and Conditions for Transmission Network Access of GAS CONNECT AUSTRIA GmbH](#), signed a “Frame Capacity Contract”, and signed at least one “Authorised User Form”.

By participating in the auction, the network user irrevocably accepts that the “Czech – Austrian IP Reintal Addendum to the Frame Capacity Contract” (Annex 1) is an integral part of all capacity contracts with GCA regarding capacities at the Czech – Austrian IP Reintal.

For N4G, 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 process are set out in Annex 2 to this document (“Contract for Provision of Gas Transmission Service”) and in the [Network Code](#) of N4G.

Regardless of the fact that N4G publishes terms and conditions for the incremental capacity auction both in English and in Czech, only the Czech version, shall be considered legally binding.

As regards GCA, the English version shall be considered legally binding.

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

The following tables present the milestones and represent a rough schedule of the technical measures for both Offer-Levels of the project. This planning already includes time buffers to avoid delays in the provision of incremental capacity.

**The construction phase will only start if there is a commitment by the market to acquire the respective incremental capacities in the 2022 annual auction and if there is also a positive result of the subsequent economic test for each of the TSOs concerned for at least one Offer-Level.**

## Gas Connect Austria

| Milestone   | Plan Date GCA                |
|---|------------------------------|
| Auction participants to sign “Frame Capacity Contract”, and “Authorised User Form”  | 27 June 2022                 |
| Yearly capacity auction in July followed by economic test   | 4 July 2022                  |
| Withdrawal right date GCA, if with regard to said IP the adjacent transmission system operator, currently NET4GAS, s.r.o., has exercised its withdrawal right under its contracts with shippers (see below) | 30 May 2026                  |
| Expected start of commercial operation of new infrastructure  | 4 <sup>th</sup> Quarter 2028 |

## NET4GAS

| Milestone   | Plan Date N4G                |
|---|------------------------------|
| Auction participants to sign “Contract for provision of gas transmission service”   | 27 June 2022                 |
| Yearly capacity auction in July followed by economic test   | 4 July 2022                  |
| Withdrawal right date if permits and/or land rights are not secured (as per Section 5.1. of N4G “Contract for provision of gas transmission service”) | 30 April 2026                |
| Expected start of commercial operation of new infrastructure  | 4 <sup>th</sup> Quarter 2028 |

## V. Parameters acc. to Art. 28 (1) lit. d NC CAM

### Gas Connect Austria

#### i.) Parameters acc. to 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 2022 annual auction. For this reason,

the calculation of the f-factor was not taken into account, but it must be included in the economic test.

Mandatory minimum premiums:

The mandatory minimum premiums according to the Gas System Charges Ordinance 2013, as amended, are:

Offer level 1 in the direction of flow from the Czech Republic to Austria:

EUR 5.01/kWh/h/a

Offer level 2 in the direction of flow from the Czech Republic to Austria:

EUR 4.48/kWh/h/year

Offer level 1 in the direction of flow from Austria to the Czech Republic:

0 EUR/kWh/h/a

Offer level 2 in the direction of flow from Austria to the Czech Republic:

0 EUR/kWh/h/a

Net present value of the binding commitments of network users:

The estimated increase in the permissible target revenue proceeds over a period of 15 years from commissioning (EUR). This is the sum of the costs over a period of 15 years from commissioning. These calculations are in accordance with the decision on the procedure for determining project-specific planned costs and planned quantity structures / planned costs, as per Zl. V MET G 01/21/2, on 26 April 2021.

Offer level 1: EUR 131,392,512

Offer Level 2: EUR 265,654,545

Discount rate: 4.982%

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

Input variables for calculating the present values according to Article 22(1)(b) NC CAM ("Costs") before discounting are:

For offer level 1: EUR 131,392,512

For offer level 2: EUR 265,654,545

The calculated present values of the assumed costs according to Article 22(1)(b) NC CAM at a discount rate of 4.982% are:

For offer level 1: EUR 93,271,375

For offer level 2: EUR 188,579,733

The calculated present values of the assumed proceeds according to Article 22(1)(a) NC CAM, based on an f-factor of 0.8 in each case, are:

For offer level 1: EUR 74,560,176

For offer level 2: EUR 150,894,273

### **iii.) F-factor acc. to Art. 22 (1) lit. c NC CAM**

According to Decision No. V NKO G 01/21/1 issued on 4 November 2021 by the Austrian national energy regulatory authority, E-Control, the f-factor of 0.8 was determined and approved for both Offer Levels 1 and 2.

## **NET4GAS**

### **i.) Parameters acc. to 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 2022 annual auction. For this reason, it was not taken into account in the calculation of the f-factor, but it must be included in the economic test.

#### Mandatory minimum premium:

No mandatory minimum premium is applied by N4G.

#### Net present value of the binding commitments of network users:

The nominal pre-tax discount rate of 8.32% shall be applied by NET4GAS. (This is equivalent to the pre-tax nominal Weighted Average Cost of Capital (WACC) valid for the transit price cap regime in the Czech Republic under the rules of the Fifth Regulatory Period.) This discount rate is used to determine the present value of the binding commitments of network users in the economic test following the auction in 2022.

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

In accordance with Decision No. 10036-42/2020-ERU issued on 30 September 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 of 8.32%) was determined and approved as:

- CZK 636.8 M for Offer-Level 1; and
- CZK 1416.9 M for Offer-Level 2.

These values are derived based on the expected costs and regulatory lifetimes of the infrastructure to be put into place.

### **iii.) F-factor acc. to Art. 22 (1) lit. c NC CAM**

According to Decision No. 10036-42/2020-ERU issued on 30 September 2021 by the Czech Energy Regulatory Office, the f-factor of 1 was determined and approved for both Offer-Levels 1 and 2.

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

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

### **VII. Alternative allocation mechanism acc. to Art. 28 (1) lit. f NC CAM**

An alternative allocation mechanism is not applied for either of the TSOs.

### **VIII. Fixed price approach acc. to Art. 28 (1) lit. g NC CAM**

Fixed price approach not applicable for GCA.

On the N4G (Czech) side, the project will follow a fixed payable price approach. In accordance with Decision No. 10036-42/2020-ERU issued on 30 September 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. The determination of the IND parameter defined in that same article will follow the same rules as set out in the current price decision of the Energy Regulatory Office (Decision No. 3/2021 dated 27 May 2021). For the purposes of determining the reserve prices for the auction to be held in 2022, the reference prices from the table in Chapter IX will be indexed by inflation to the price level of 2023, according to the rules set out in the Principles of Price Regulation. The final price will be set by the Price Decision to be published by the Czech Energy Regulatory Office at least 30 days before the annual capacity auction.

### **IX. Estimated reference price acc. to Art. 25 (1) NC CAM**

#### **Gas Connect Austria**

In accordance with Decision No. V NKO G 01/21/1 issued on 4 November 2021 by the Austrian national energy regulatory authority, E-Control, the reference prices for both Offer Levels of this incremental capacity project are summarized below.

#### **Reference prices according to the Gas System Charges Ordinance 2013, as amended:**

Offer level 1 in the direction of flow from the Czech Republic to Austria: EUR 0.85/kWh/h/a

Offer level 2 in the direction of flow from the Czech Republic to Austria: EUR 0.85/kWh/h/a

Offer level 1 in the direction of flow from Austria to the Czech Republic: EUR 1.23/kWh/h/a

Offer level 2 in the direction of flow from Austria to the Czech Republic: EUR 1.23/kWh/h/a

**Mandatory minimum premiums according to the Gas System Charges Ordinance 2013, as amended:**

Offer level 1 in the direction of flow from the Czech Republic to Austria: EUR 5.01/kWh/h/a

Offer level 2 in the direction of flow from the Czech Republic to Austria: EUR 4.48/kWh/h/year

Offer level 1 in the direction of flow from Austria to the Czech Republic: 0 EUR/kWh/h/a

Offer level 2 in the direction of flow from Austria to the Czech Republic: 0 EUR/kWh/h/a

Expected Inflation Adjustment:

Not applicable for GCA.

**NET4GAS**

In accordance with Decision No. 10036-42/2020-ERU issued on 30 September 2021 by the Czech Energy Regulatory Office, the reference prices for both Offer-Levels of this incremental capacity project are summarized in the table below. All prices are quoted in nominal terms and are subject to adjustments for inflation<sup>3</sup> in line with the Principle of the Price Regulation<sup>4</sup>, Chap. 10.3<sup>5</sup>.

|               | Offer Level Capacity |         | Reference Prices (CZK/MWh/d/y) |        |
|---------------|----------------------|---------|--------------------------------|--------|
|               | kWh/h                | MWh/d   | Exit                           | Entry  |
| Offer Level 1 | 2,115,000            | 50,758  | 3,387.8                        | 512.83 |
| Offer Level 2 | 7,553,250            | 181,278 | 3,387.8                        | 512.83 |

Once the incremental capacity is commissioned, the reference price shall be adjusted proportionally to the difference, irrespective of whether positive or negative, between the projected investment costs and the actual investment costs in line with Article 33 (2) of the NC TAR.

In addition to the abovementioned tariffs, flow-based charges described in the Principles of Price Regulation and set forth in the Czech ERO's price decisions will be payable by the shippers. From the point of view of N4G, these charges are cost neutral and shall therefore not be considered in the economic test.

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<sup>3</sup> The general terms "adjustment for inflation" and "indexed for inflation" used here and throughout the document mean the application of the compound index of general inflation and the Service Producer Price Index (in Czech: "index cen tržních služeb"), the structure of which is described in the Principles of the Price Regulation, Chap. 10.3.

<sup>4</sup> "Zásady cenové regulace pro regulační období 2021-2025 pro odvětví elektroenergetiky, plynárenství, pro činnosti operátora trhu v elektroenergetice a plynárenství a pro povinně vykupující", published by the Czech ERO on 9 June 2020.

<sup>5</sup> The stated prices are at the price level of year  $t = 2022$ , i.e. the second year of the regulatory period, resp.  $t = j + 1$ .



Expected Inflation Adjustment:

The reference prices in the table above are expressed at the price level of 2022 and will be subject to inflation adjustments throughout the duration of the gas transmission contract. This is in accordance with the Czech ERO price decision setting the reference price for the auction of the incremental capacities between the entry-exit systems of the Czech Republic and Austria (Market Area East). The level of inflation throughout the duration of the contract is therefore uncertain. For the calculation of the economic test, we propose an assumed rate of inflation adjustment of 2% per year in line with Czech National Bank targeting. A possible assumption of such a level is being implicitly expected in the nominal WACC reference for the Fifth Regulatory Period.

**X. Contact information**



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## **XI. Annexes**

1. Gas Connect Austria: “Czech – Austrian IP Reintal Addendum to the Frame Capacity Contract”
2. NET4GAS: “Contract for Provision of Gas Transmission Service”