



PUBLIC CONSULTATION

PROPOSAL

FOR THE IMPLEMENTATION

OF THE VIRTUAL INTERCONNECTION

POINT (VIP) MODEL



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DISCLAIMER

NET4GAS is one of the most active TSOs in the EU as regards preparations for the implementation of the virtualization of border interconnection points. However, virtual border interconnection points (VIP) cannot be implemented without cooperation on the part of TSOs in neighboring countries, where such TSOs face numerous challenges the solution to which can affect the anticipated form of the VIP model presented in this public consultation. Likewise, the parameters of the VIP model might be changed if the European Commission decides to amend the applicable documents that provide the basis for implementing VIPs.

Due to having no control over the abovementioned factors, NET4GAS reserves the right to organize a new public consultation that will take into account new VIP parameters in the event that fundamental changes are made in the parameters of the presented VIP model.



1. PURPOSE OF THE CONSULTATION

The purpose of the consultation is:

- a) to present the approach of NET4GAS to the establishment of VIPs between adjacent entry-exit systems, and
- b) to obtain feedback from stakeholders whose legitimate interests might be affected by this proposal.

As part of its long-term strategy, NET4GAS maintains a proactive approach to demands made by transmission system users. Consequently, feedback concerning the proposed VIP concept is a unique instrument allowing NET4GAS, in the capacity of the transmission system operator, and secondarily the Energy Regulatory Office (ERO), to compare the benefits of the VIP concept, particularly the degree of simplification, compared to the current model that has evolved into a state marked by a high level of effective user simplification.

2. LEGAL BASIS (NC CAM 2017/459):

Article 19 of Commission Regulation (EU) No. 2017/459 of 16 October 2017 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and repealing Regulation (EU) No. 984/2013 (NC CAM) stipulates:

"Where two or more interconnection points connect the same two adjacent entry-exit systems, the adjacent transmission system operators concerned shall offer the available capacities at the interconnection points at one virtual interconnection point (VIP). In case more than two transmission system operators are involved because capacity in one or both entry-exit systems is marketed by more than one transmission system operator, the virtual interconnection point shall include all of these transmission system operators to the maximum extent possible. In all cases, a virtual interconnection point shall be established only if the following conditions are met:

a) the total technical capacity at the virtual interconnection points shall be equal to or higher than the sum of the technical capacities at each of the interconnection points contributing to the virtual interconnection points;

b) such points facilitate the economic and efficient use of the system, including, but not limited to, the rules set out in Article 16 of Regulation (EC) No 715/2009.

Adjacent transmission system operators shall start the necessary analysis and shall establish functional virtual interconnection points no later than 1 November 2018."

3. STATUS QUO AND OBJECTIVES:

At present, firm and interruptible capacity products are allocated to individual physical interconnection entry-exit points by means of auctions and have the form of standard capacity products involving coordinated or non-coordinated capacity. It means that a transmission system user who wants to reserve a standard capacity product must take part in an auction for the applicable capacity at the applicable entry-exit physical interconnection point. Gas nominations and allocations are made for individual physical interconnection entry-



exit points based on gas transmission agreements/gas transmission service agreements entered into between the transmission system operator and transmission system users.

The purpose of the abovementioned Article 19 NC CAM is to bring together two and more physical interconnection points between two adjacent commercial zones into a single VIP, and to simplify rules for transmission system users to allow them to book entry-exit capacity between two adjacent commercial zones at a single VIP. In addition, the regulation aims to facilitate the transport and trading of gas between individual commercial zones in the framework of the EU and to increase liquidity, and consequently competition, on adjacent gas markets.

This document presents the concept for managing the VIP concept in the framework of the Czech gas market model. The rules and processes stemming from the implementation of the VIP in the Czech Republic will be transposed into relevant documents based on instructions given by the ERO.

4. EFFECT OF THE VIP MODEL ON EXISTING CONTRACTS:

Existing physical interconnection points will remain in effect with regard to existing contracts, entered into prior to the implementation of the VIP concept, where transmission system users will continue to nominate gas transmission within the limits of their contracted capacity until the expiration of the contract term.

Transmission system users who wish to transfer their existing contracts, originally entered into for specific physical interconnection points, to the VIP model will be able to make the switch to the VIP. The transfer will involve the entire contract, where all terms and conditions will be preserved, including the price, volumes, and duration of the contract term. In contrast, transferring capacity from a VIP to a physical interconnection point will not be possible. Likewise, it will not be possible to switch contracts entered into for a VIP to the original physical interconnection point.

The general rules for transferring capacity from physical interconnection points to a VIP will be defined in detail in the relevant documents based on instructions given by the ERO.

5. DESCRIPTION OF THE PROPOSED VIP MODEL:

5.1. Basic Parameters of the VIP Model and Capacity Sale – New vs. Existing Contracts:

As regards the proposed VIP model, it is expected that there will be only one transmission system operator on each side of the border for each individual VIP; the transmission system operator will be responsible for all aspects of the business management of a given VIP in relation to transmission system users.

All firm and interruptible capacity will be offered at VIPs. Capacity will be allocated using standard capacity products in auctions held for this purpose. The auction algorithm at a VIP will be the same for specific standard capacity products as the auction algorithm for individual physical interconnection entry-exit points. No capacity in excess of existing contractual arrangements will be offered at physical interconnection points that will become a part of the VIP. Switching to the proposed VIP model will not have a detrimental effect on the overall technical capacity of the Czech entry-exit system.



Capacity that becomes available upon the expiration of a gas transmission contract at a physical interconnection point will be subsequently marketed at the applicable VIP. As soon as all contracts entered into for a physical interconnection point expire or are transferred to a VIP, the applicable physical interconnection point and all associated operating processes will be fully integrated into the relevant VIP.

5.2. Proposed VIPs:

Three VIPs are planned to be established in the Czech Republic. The VIPs will be between the CZ VOB and GASPOOL (DE) commercial zones, between the CZ VOB and NCG (DE) commercial zones, and between the CZ VOB and SK VOB commercial zones. No VIP will be established between the Czech Republic and Poland because only one physical interconnection point currently exists on both sides of the Czech-Polish border.

The size of technical capacity at individual VIPs will be equal to the sum of technical capacity available at physical interconnection points incorporated into a given VIP. The technical capacity of a given VIP will be equal to the sum of the technical capacities of the applicable physical interconnection points incorporated into the VIP, excluding capacity contracted under existing contracts that will remain to be linked to physical interconnection points. The current restrictions regarding competition capacities at the HSK and Olbernhau physical interconnection points will be incorporated into the size of capacity offered at the applicable VIP.

In addition to all available firm capacities, all interruptible capacities will be offered at new VIPs.

Brandov VIP	TSO GASPOOL VIP	TSO CZ VIP	Included CZ IPs
Entry CZ from GASPOOL	GASCADE	N4G	Brandov – OPAL* Brandov – EUGAL HSK – Olbernhau HSK
Exit CZ to GASPOOL	GASCADE	N4G	Brandov – OPAL (interruptible only) Brandov – STEGAL HSK

* On the German side, firm capacity at the Brandov – OPAL exit point will not be included in the VIP.

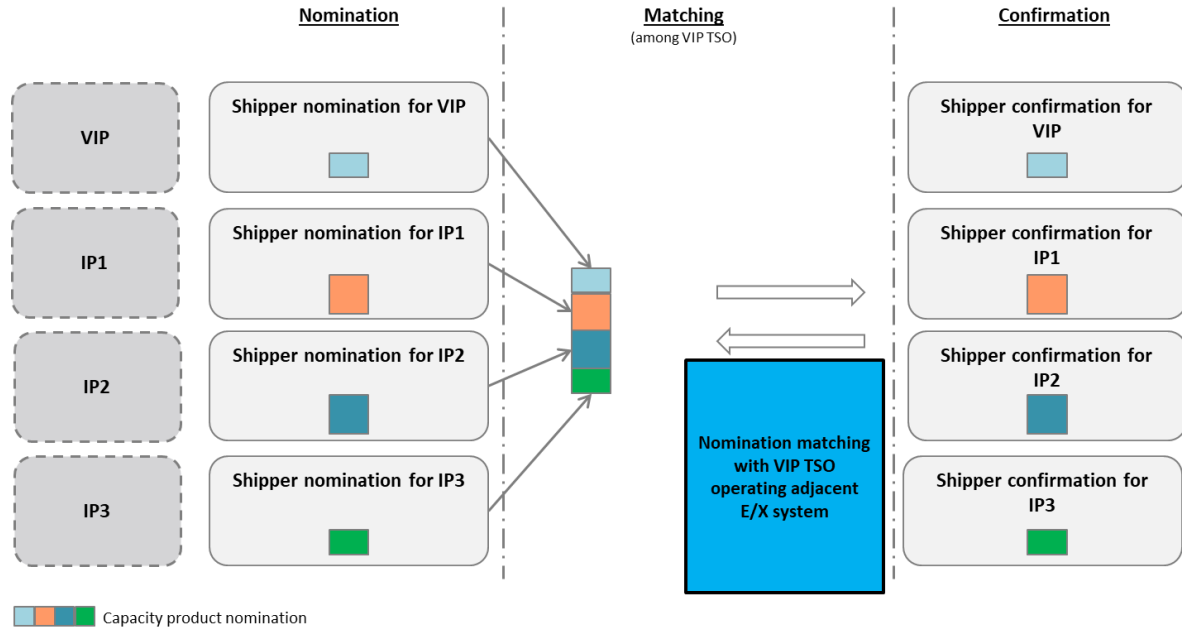


Waidhaus VIP	TSO NCG VIP	TSO CZ VIP	Included CZ IPs
Entry CZ from NCG	OGE	N4G	Waidhaus
Exit CZ to NCG	OGE	N4G	Waidhaus

Lanžhot VIP	TSO SK VIP	TSO CZ VIP	Included CZ IPs
Entry CZ from SK	Eustream	N4G	Lanžhot Lanžhot – Mokřý Háj
Exit CZ to SK	Eustream	N4G	Lanžhot Lanžhot – Mokřý Háj

5.3. Nomination and Allocation:

From the viewpoint of users, there will be essentially no change in the system for nominating and allocating specific gas volumes based on gas transmission agreements/gas transmission service agreements entered into between the transmission system operator and transmission system users. The current OBA regimen will be preserved, and gas volumes that are nominated and confirmed will be allocated according to shipper pairs. Nonetheless, considering that transmission system users can opt to transfer or not existing contracts from physical interconnection points to a VIP, there might be a dual system during a transitional period, where some existing contracts will remain to be linked to a physical interconnection point, while others will be linked to a VIP. For this reason, existing shipper codes might be modified to facilitate gas transmission and to match the approval of gas volume nominations and confirmations. The entire model will be significantly simplified when existing contracts for physical interconnection points will have expired or will have been transferred to a VIP.



5.4. Publication of Information:

As regards the publication of information, any and all information the transmission system operator publishes in accordance with laws in effect will be published in the same manner as at present once the VIP model is implemented.

6. CONGESTION MANAGEMENT PROCEDURES:

The congestion management procedures laid down in Regulation (EC) No. 715/2009, Annex I, Section 2.2, which have been implemented into the Czech gas market model under the Gas Market Rules, will be incorporated in the VIP model starting on the gas day on which a VIP is established. Congestion management procedures will be applied in cooperation with the ERO in the framework of the VIP model with the aim of fulfilling all duties arising under laws and regulations in effect, and, at the same time, ensuring that the transmission system is managed in an effective and safe manner.

7. PRICE DECISIONS:

Based on information provided by the ERO, the establishment of VIPs will have no effect on fees for gas transmission services rendered – VIPs will be subject to the same entry-exit rates as physical interconnection points.



8. CURRENT STATE OF THE DEBATE ON VIPs:

8.1. Negotiations with Adjacent TSOs:

NET4GAS, the operator of the Czech transmission system, actively consults the implementation of the proposed VIP model with other transmission system operators. At present, negotiations are under way mainly with the German transmission system operators Gascade, Opal Gastransport, and ONTRAS regarding VIPs between the GASPOOL and CZ VOB commercial zones, and with the OGE and GRT gaz D transmission system operators for VIPs between the NCG and CZ VOB commercial zones.

Likewise, NET4GAS is currently consulting the implementation of the VIP model with the Slovak transmission system operator – eustream.

8.2. Debate on the EU Level:

A debate regarding Article 19 NC CAM, which introduces the VIP model, is also in progress on the pan-European level. Some European transmission system operators (such as the Dutch TSO Gasunie Transport Services – GTS) have decided to suspend preparations for the implementation of the VIP model until a clear legal framework and clear implementation rules are defined, where GTS believes that the current rules are insufficient in that regard. The most debated issue is the future of existing contracts, i.e. whether or not it should be mandatory to transfer existing contracts to the new VIP model. A debate regarding this issue is also under way between the European agencies ENTSOG and ACER and the European Commission.

If the current debate on the pan-European level results in a change in some of the VIP parameters or an amendment to EU laws, the implementation of the proposed date on which the VIP model is to be implemented, currently planned for 1 November 2018, may be postponed.

9. CONSULTATION QUESTIONS:

The implementation of the VIP model is a duty to which NET4GAS is subject under NC CAM. NET4GAS has decided to use a pro-client oriented approach in implementing the VIP model. This approach may result in certain specifics. In view of that, we want to consult the following issues with gas market participants:

- a) In your opinion, does the current VIP proposal simplify access to the transmission system and services provided by the transmission system operator? Kindly provide proposals for improving and modifying the concept.
- b) Do you agree that any and all contracts entered into based on the outcome of the forthcoming annual (July), quarterly (August), and monthly (October) auctions for available capacity be automatically transferred to the VIP model starting on the first gas day on which VIPs are established?