

**Application for the Approval of an Incremental
Capacity Project according to Article 28 (1) NC
CAM for the Market Border of Poland
(E-Gas Transmission System) and
Germany (Trading Hub Europe)**

18 December 2020

The application for an incremental capacity project for the market border of Poland (E-Gas Transmission System) and Germany (Trading Hub Europe)¹ has to be approved by the respective national regulatory authority. This document presents a common project proposal for the interconnection point GCP GAZ-SYSTEM/ONTRAS, as agreed by:

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GAZ - SYSTEM S.A.

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¹ Hereinafter named as „THE”. THE is the common German market area to be established as of 1 October 2021.

According to Article 28 (1) NC CAM, GAZ-SYSTEM submits this project proposal for the approval through the President of the Energy Regulatory Office (URE) and ONTRAS submits this proposal for the approval through the Bundesnetzagentur (BNetzA) for an incremental capacity project for the market border of Poland (E-Gas Transmission System)² and the German THE. The interconnection point (IP) GCP GAZ-SYSTEM/ONTRAS connects abovementioned adjacent gas transmission systems.

In this document the following abbreviations are used:

- NC CAM = Commission Regulation (EU) 2017/459
- NC TAR = Commission Regulation (EU) 2017/460

² In the following the denotation of the Polish system is used without the addition "E-Gas Transmission System".

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1. Introduction to the application of the project proposal for incremental capacity

Transmission System Operators, i.e. GAZ-SYSTEM and ONTRAS have received non-binding demand indications for firm capacity in future on the IP GCP GAZ-SYSTEM/ONTRAS as presented below.

The following aggregated non-binding demand indication **finally received by ONTRAS** for firm capacity has been used as a basis for the demand assessment:

<i>From EXIT- Capacity</i>	<i>To ENTRY- Capacity</i>	<i>Gas year</i>	<i>Amount (kWh/h)/y</i>	<i>Request was submitted to other TSOs</i>	<i>Additional Information (e.g. type of capacity)</i>
<i>Poland</i>	<i>THE</i>	<i>2021/22 – 2035/36</i>	<i>2,025,676</i>	<i>Yes, to OGP GAZ- SYSTEM S.A.</i>	<i>Freely allocable firm capacity</i>

The following aggregated non-binding demand indication **received by GAZ-SYSTEM** for firm capacity has been used as a basis for the demand assessment:

<i>From EXIT- CAPACITY</i>	<i>To ENTRY- CAPACITY</i>	<i>Gas year</i>	<i>Amount (kWh/h)/y</i>	<i>Request was submitted to other TSOs</i>	<i>Additional Information (e.g. type of capacity)</i>
<i>Poland</i>	<i>THE</i>	<i>2021/22 – 2035/36</i>	<i>1,468,176</i>	<i>YES, to ONTRAS Gastransport GmbH</i>	<i>Freely allocable firm capacity</i>

Initially an incremental capacity demand of 1,468,176 kWh/h was submitted to both TSOs and as such presented in the joint Market Demand Assessment Report. However, this demand would have led to a divergent transmission capacity at the IP and this would not have been in line with the intention of the capacity request to align the capacity of the IP. Based on a received correction for the demand of incremental capacity, the final

incremental capacity demand has been adjusted so that the total capacity at both sides (including existing technical capacity) of the IP is matched to the level of 2,029,300 kWh/h/y and as such has been assumed under the project scope presented within **the first** public consultation.

Information on the conditions for the demand indications received by the operators

The capacity for physical flow towards Germany on the IP GCP GAZ-SYSTEM/ONTRAS shall equal the capacity towards Poland during the whole year.

The difference in the received indications is caused by the fact that at the moment, the capacities offered on the Polish and German side on the IP GCP GAZ-SYSTEM/ONTRAS differ. The capacity offered on the Polish side does not correspond to the capacity offered on the German side (the difference results from the Lasów station capacities on both sides of the border). Due to the lack of the respective capacity on German side – the offered capacity is neither booked nor used by market participants. Therefore, for the sake of clarity, in the following document, only the existing firm capacity on both sides of the border (firm capacity of the physical station Kamminke) in an amount of 3,624 kWh/h is considered as existing technical capacity.

The Market Demand Assessment Report (MDAR) assessed the non-binding demand indications received in the demand assessment phase from 1 July until 26 August 2019. Based on the conclusions of the MDAR for the incremental capacity process starting in 2019 between Poland and THE and published on both TSOs websites on 21 October 2019, concerned TSOs developed technical studies based on Article 27 NC CAM related to the technical development of the Lasów gas station together with a technical analysis of the required extension of the national natural gas infrastructure.

Public consultation of the technical studies

In the market consultation of the draft project proposal held from 10 August until 10 September 2020, it was stated that there are interlinkages between the incremental capacity project on the German side of the border and further incremental capacity projects stemming from demand requests on other German market borders. Various possible combinations of these requests have led to a multitude of modelling variants between the different capacity demands. These different variants were modelled and

formed the basis for the different technical studies published in the market consultation by the German TSOs. Consequently, in the consultation document it was stated, that the incremental capacity project for the GCP GAZ-SYSTEM/ONTRAS on the German side of the border cannot be considered solely and has different cost aspects.

Nevertheless, in the consultation document it was also stated that the German TSOs are still analysing alternatives to offer incremental capacity at GCP GAZ-SYSTEM/ONTRAS without influencing the physical congestion between existing GASPOOL and NetConnect Germany entry-exit systems and within future THE entry-exit system. It was mentioned that a possible solution could be the reallocation of not used existing technical capacity within the ONTRAS-grid to the entry point GCP GAZ-SYSTEM/ONTRAS. This would be possible, if the estimated costs for market-based instruments to provide freely allocable capacity were not increased within THE by this capacity reallocation. As a result, only the construction of the pressure security system would be necessary.

This solution has been finally investigated by the German TSOs with the conclusion, that this capacity reallocation would not have an impact on the costs for market-based instruments and could be exercised. In the case of bookings in the yearly capacity auction in 2021 and a positive result in the economic test, ONTRAS will reallocate the needed capacity to the IP GCP GAZ-SYSTEM/ONTRAS accordingly.

Based on the aforementioned information, the focus and content of the project application for the German side of the border has been revised accordingly.

Market responses to the public consultation

In addition, comments from one market participant were received by ONTRAS and GAZ-SYSTEM in the abovementioned public consultation of the draft project proposal. Comments received referred to German aspects of the project proposal thus, GAZ-SYSTEM did not react to the provided comments.

Notwithstanding the fact that the market response based on the published consultation document with a different focus of the technical study, ONTRAS considers an answer to a part of the market comments as appropriate³.

1. More clarity was requested in the application of a possible mandatory minimum premium (MMP) during an incremental capacity auction. The market participant stated that the bidding shipper should know exactly the maximum costs (including a MMP) prior taking the decision in participating the auction. Article 33 (3) NC TAR states, that a potential MMP may be applied in the first auction round. Consequently, a TSO is obliged to indicate this MMP during the bidding process of the shipper. In the case of an application of a MMP, ONTRAS would follow this obligation and would display the MMP (or a possible range) during the auction. Hence, the shipper could consider this information prior the submission of his commitment for the incremental offer. By submitting the bid, the shipper would then agree that in addition to the final price of the auction a MMP would be applied.

2. An explanation was requested in the process of the cancellation of capacities based on the provision laid down in Article 5.3. in the published and consulted supplementary business terms and condition of ONTRAS for new capacities to be created. An information of the date respectively of the place of publication of the maximum permitted tariff for exercising the special right of contract termination was also demanded. To exercise the special right of contract termination the shipper has to follow the published rules laid down in Article 5.3. of the supplementary business terms and condition of ONTRAS for new capacities to be created. The publication of the maximum permitted tariff will be conducted in the course of the publication of this project application for approval. The specific tariff information can be found in Annex 1 to the supplementary business terms and condition of ONTRAS for new capacities to be created.

Final scope of the project submitted for NRAs' approval

Following the consultation of the draft project proposal and before submitting the final project proposal for approval by the President of the ERO and the BNetzA, on the Polish side the project was also subject to additional analysis in terms of technical and

³ The information presented under point 1 are of general nature and do not constitute final or binding information. Information provided under point 2 can be understand as the specific answer from ONTRAS to the raised question.

economic possibilities of providing the indicated capacity at the level of 2,029,300 kWh/h and the necessary investment scope as well as economic feasibility of the project. Based on the analysis performed, due to the observed significant increase in gas demand in the Lower Silesia region the incremental capacity project must have been revised and the level of offered incremental bundled capacity has been reduced to 613,250 kWh/h.

Although ONTRAS is still willing to offer the requested capacity of 2,029,300 kWh/h, the lesser-off rule has to be applied and a bundled incremental capacity of only 613,250 kWh/h can be offered.

To receive an approvable common project application for the regulators and to be as transparent as possible regarding the envisaged changes in the project, **a second market consultation** were conducted from 17 November 2020 until 17 December 2020. During this market consultation, one response has been submitted to the TSOs. It referred to the investment scope on Polish side of the project required to offer the considered reduced level of incremental bundled capacity. As presented in this application enabling transport of gas in direction from Poland to Germany with maximum capacity level of 616,874 kWh/h requires investments on both sides of the border. As indicated above the capacity offered on the Polish and German side of the GCP GAZ-SYSTEM/ONTRAS interconnection point do not correspond at the moment. Implementation of the project will allow for a permanent and long-term equalisation of the offered firm bundled capacities being subject of the incremental procedure and which are currently offered on the basis of TSOs' annual analyses and forecasts of the use of the system.

Following the structure of Article 28 (1) NC CAM this application is structured as followed:

- Offer-level 1 of the incremental capacity (Art. 28 (1) lit. a) NC CAM),
- Terms and conditions for the incremental capacity auction to be accepted by the network user for the acquisition of incremental capacity (Art. 28 (1) li. b) NC CAM),
- Timetable for the project of incremental capacity (Art. 28 (1) lit. c) NC CAM),
- Parameters of the economic test (Art. 28 (1) lit. d) NC CAM),
- Information on a possible extended time horizon for contracting incremental capacity (Art. 28 (1) lit. e) NC CAM),
- Information on an alternative allocation mechanism (Art. 28 (1) lit. f) NC CAM),
- Information on a possible fixed price approach (Art. 28 (1) lit. g) NC CAM).

2. Offer-level for incremental capacity (Art. 28 (1) lit. a) NC CAM)

According to Article 28 (1) lit. a) NC CAM, GAZ-SYSTEM and ONTRAS request to approve the Offer-level 1 shown in Table 5. For clarification, the calculation of the offered existing capacity and the offered Offer-level 1 is shown successively beginning with the tables for GAZ-SYSTEM.

The following supplementary information are used within the tables (letters A – F refer to Art. 11 (6) NC CAM):

- A is the transmission system operator's technical capacity for each of the standard capacity products;
- B for annual yearly auctions offering capacity for the next 5 years, is the amount of technical capacity (A) set aside in accordance with Article 8 (7) of NC CAM; for annual yearly auctions for capacity beyond the first 5 years, is the amount of technical capacity (A) set aside in accordance with Article 8 (7) of NC CAM;
- C is the previously sold technical capacity, adjusted by the capacity which is re-offered in accordance with applicable congestion management procedures;
- D is additional capacity, for such year, if any;
- E is the incremental capacity for such year included in a respective offer level, if any;
- F is the amount of incremental capacity (E), if any, set aside in accordance with Article 8 (8) and (9) NC CAM.

Table 1: Depiction of the offered existing capacity (kWh/h/y) for **GAZ-SYSTEM** on the IP GCP GAZ-SYSTEM/ONTRAS (exit):

Table 1) Existing capacity	Sum of offered existing capacity (firm)	Available technical capacity [Art. 11 (6) NC CAM A]	Capacity set aside [Art. 11 (6) NC CAM B]	Previously sold technical capacity [Art. 11 (6) NC CAM C]	Additional capacity [Art. 11 (6) NC CAM D]	Incremental capacity [Art. 11 (6) NC CAM E]	Incremental capacity set aside [Art. 11 (6) NC CAM F]
GY 21/22	3,262	3,624	362	0	0		
GY 22/23	3,262	3,624	362	0	0		
GY 23/24	3,262	3,624	362	0	0		
GY 24/25	3,262	3,624	362	0	0		
GY 25/26	3,262	3,624 ⁴	362	0	0		

⁴ For reasons for presentation, the depiction of available technical capacity has been reduced to the offer of firm capacity in the annual capacity auction 2021.

Table 2: Depiction of the offered Offer-level 1 (kWh/h/y) for **GAZ-SYSTEM** on the IP GCP GAZ-SYSTEM/ONTRAS (exit):

Table 2) Offer-level 1 (firm)	Sum of offered offer-level 1	Available technical capacity [Art. 11 (6) NC CAM A]	Capacity set aside [Art. 11 (6) NC CAM B]	Previously sold technical capacity [Art. 11 (6) NC CAM C]	Additional capacity [Art. 11 (6) NC CAM D]	Incremental capacity [Art. 11 (6) NC CAM E]	Incremental capacity set aside [Art. 11 (6) NC CAM F]
GY 21/22							
GY 22/23							
GY 23/24							
GY 24/25							
GY 25/26							
GY 26/27	493,499	3,624	725	0	0	613,250	122, 650
GY 27/28	493,499	3,624	725	0	0	613,250	122, 650
GY 28/29	493,499	3,624	725	0	0	613,250	122, 650
GY 29/30	493,499	3,624	725	0	0	613,250	122, 650
GY 30/31	493,499	3,624	725	0	0	613,250	122, 650
GY 31/32	493,499	3,624	725	0	0	613,250	122, 650
GY 32/33	493,499	3,624	725	0	0	613,250	122, 650
GY 33/34	493,499	3,624	725	0	0	613,250	122, 650
GY 34/35	493,499	3,624	725	0	0	613,250	122, 650
GY 35/36	493,499	3,624	725	0	0	613,250	122, 650
GY 36/37	493,499	3,624	725	0	0	613,250	122, 650
GY 37/38	493,499	3,624	725	0	0	613,250	122, 650
GY 38/39	493,499	3,624	725	0	0	613,250	122, 650
GY 39/40	493,499	3,624	725	0	0	613,250	122, 650
GY 40/41	493,499	3,624	725	0	0	613,250	122, 650

Table 3: Depiction of the offered existing capacity (kWh/h/y) for **ONTRAS** on the IP GCP GAZ-SYSTEM/ONTRAS (entry):

Table 3) Existing capacity	Sum of offered existing capacity (FZK)	Available technical capacity [Art. 11 (6) NC CAM A]	Capacity set aside [Art. 11 (6) NC CAM B]	Previously sold technical capacity [Art. 11 (6) NC CAM C]	Additional capacity [Art. 11 (6) NC CAM D]	Incremental capacity [Art. 11 (6) NC CAM E]	Incremental capacity set aside [Art. 11 (6) NC CAM F]
GY 21/22	3,262	3,624	362	0	0		
GY 22/23	3,262	3,624	362	0	0		
GY 23/24	3,262	3,624	362	0	0		
GY 24/25	3,262	3,624	362	0	0		
GY 25/26	3,262	3,624 ⁵	362	0	0		

⁵ For reasons for presentation, the depiction of available technical capacity has been reduced to the offer of firm capacity in the annual capacity auction 2021.

Table 4: Depiction of the offered Offer level 1 (kWh/h/y) **for ONTRAS** on the IP GCP GAZ-SYSTEM/ONTRAS (entry):

Table 4) Offer-level 1 (FZK)	Sum of offered offer-level 1 (FZK)	Available technical capacity [Art. 11 (6) NC CAM A]	Capacity set aside [Art. 11 (6) NC CAM B]	Previously sold technical capacity [Art. 11 (6) NC CAM C]	Additional capacity [Art. 11 (6) NC CAM D]	Incremental capacity [Art. 11 (6) NC CAM E]	Incremental capacity set aside [Art. 11 (6) NC CAM F]
GY 21/22							
GY 22/23							
GY 23/24							
GY 24/25							
GY 25/26							
GY 26/27	493,499	3,624	725	0	0	613,250	122, 650
GY 27/28	493,499	3,624	725	0	0	613,250	122, 650
GY 28/29	493,499	3,624	725	0	0	613,250	122, 650
GY 29/30	493,499	3,624	725	0	0	613,250	122, 650
GY 30/31	493,499	3,624	725	0	0	613,250	122, 650
GY 31/32	493,499	3,624	725	0	0	613,250	122, 650
GY 32/33	493,499	3,624	725	0	0	613,250	122, 650
GY 33/34	493,499	3,624	725	0	0	613,250	122, 650
GY 34/35	493,499	3,624	725	0	0	613,250	122, 650
GY 35/36	493,499	3,624	725	0	0	613,250	122, 650
GY 36/37	493,499	3,624	725	0	0	613,250	122, 650
GY 37/38	493,499	3,624	725	0	0	613,250	122, 650
GY 38/39	493,499	3,624	725	0	0	613,250	122, 650
GY 39/40	493,499	3,624	725	0	0	613,250	122, 650
GY 40/41	493,499	3,624	725	0	0	613,250	122, 650

Table 5: Depiction of the common offered existing capacity and of the common offered Offer-level 1 (kWh/h/y) for the marketing of bundled capacity **for GAZ-SYSTEM and ONTRAS** on the IP GCP GAZ-SYSTEM in direction Trading Hub Europe:

Table 5) Common offered capacity	Existing capacity (FZK/firm)	Offer level 1 (FZK/firm)
GY 21/22	3,262	
GY 22/23	3,262	
GY 23/24	3,262	
GY 24/25	3,262	
GY 25/26	3,262	

GY 26/27		493,499
GY 27/28		493,499
GY 28/29		493,499
GY 29/30		493,499
GY 30/31		493,499
GY 31/32		493,499
GY 32/33		493,499
GY 33/34		493,499
GY 34/35		493,499
GY 35/36		493,499
GY 36/37		493,499
GY 37/38		493,499
GY 38/39		493,499
GY 39/40		493,499
GY 40/41		493,499

Table 5 shows the common bundled Offer level for the capacity marketing in the yearly capacity auction in 2021 for GAZ-SYSTEM and ONTRAS taking into account the obligations of set aside capacity of NC CAM. The Offer level can be marketed earliest as of gas year 2026. For the application of set aside capacity, ONTRAS has to follow the valid decision of the BNetzA (BK7-15-001 (KARLA Gas)) and considers a 20% reservation quota for existing and incremental capacity as of gas year 2026. For the gas years before, a 10% reservation quota has to be applied for existing and incremental capacity but it will not be applied for the Offer level, as it can be offered earliest as of gas year 2026 because of the specific commissioning dates of the projects on two sides of the border.

To be able to offer incremental capacity, freely allocable entry capacity will be re-allocated within the ONTRAS grid.

For application of set aside capacity, GAZ-SYSTEM agrees to follow the same approach in order to offer jointly the amount of bundled capacity. The amount of the set aside capacity shall be a subject of approval of the Polish NRA.

Incremental capacity will be offered along with existing capacity in the yearly capacity auction in 2021. In parallel existing capacity on the IP GCP GAZ-SYSTEM/ONTRAS will be offered outside of the Offer level 1 from the gas year 2021/2022 to the gas year 2025/2026 on the terms set forth in Art. 11 (3) NC CAM.

The displayed figures in Table 5 represent the specific yearly offered capacity products to be marketed in 2021. GAZ-SYSTEM and ONTRAS will market the Offer level in the annual yearly capacity auction on the Regional Booking Platform (RBP).

Only in case of obtaining positive economic test results by GAZ-SYSTEM and ONTRAS the capacity allocation resulting from incremental capacity auction for the period covered under the Offer level 1 will be binding. If the economic test of Offer level 1 will be negative, only the result of existing capacity auction will be valid.

Based on a positive economic test for ONTRAS for the incremental capacities of Offer-level 1, these capacities will be included in the process of creating the German Network Development Plan for Gas 2022-2032.

Based on a positive economic test for GAZ-SYSTEM for the incremental capacities of Offer-level 1, these capacities will be included in the process of creating National Network Development Plan 2020-2029.

3. Terms and Conditions to be accepted by the network user for the acquisition of incremental capacity (Art. 28 (1) lit. b) NC CAM)

For the marketing of incremental capacity (Offer level 1) in the yearly capacity auction 2021, GAZ-SYSTEM and ONTRAS developed individual terms and conditions for the incremental capacity auction to be accepted by the network user in the incremental capacity auction.

According to Article 28 (1) lit. b) NC CAM,

- **GAZ-SYSTEM** requests from URE to approve its "General Terms and Conditions of participation in and access to capacity in the binding phase of incremental capacity auction on the border between Poland (E-Gas Transmission System) and Germany (Trading Hub Europe)" (hereinafter: INC GT&C) which have been sent along with this application. To be eligible to participate in the auction, network users will have to accept the INC GT&C as well as other GAZ-SYSTEM rules that are required to participate in the auction on a regular basis, such as e.g. General Terms and Conditions of the Transmission Contract, Transmission Network Code and Tariff.
- **ONTRAS** requests from BNetzA to approve its supplementary terms and conditions for new capacities to be created which have been sent along with this application.

Regardless the fact that both GAZ-SYSTEM and ONTRAS publish terms and conditions for the incremental capacity auction in English and in respective national language, only Polish and German versions respectively, shall be considered as binding.

4. Timetable for the incremental capacity project (Art. 28 (1) lit. c) NC CAM)

According to Article 28 (1) lit. c) NC CAM, **GAZ-SYSTEM** requests to approve the following timetable for its incremental capacity project:

Time period	Milestone
Q3/2021	Yearly capacity auction in the month of July and economic test
Q3/2021	Start of project implementation
Till Q3/2023	Defining technical terms & conditions and tendering documentation, selecting the contractor for the project documentation
Q4/2024	Project documentation finalization and obtaining of building permit
Q1/2025	Defining tendering documentation for the selection of contractor for the construction works
Q2/2025	Tenders for the construction works and signing of contracts with the selected contractors; start of the construction works
Q3/2026	Commissioning date of the investment tasks to be completed Commissioning of the project with the foreseen provision of full availability with the start of GY 2026/2027

Listed above time periods for milestones on Polish side are expected as a **latest completion dates for following activities** taking into account general time schedule for incremental capacity project and requirement of provision the capacity with the start of GY 2026/2027.

According to Article 28 (1) lit. c) NC CAM, **ONTRAS** requests to approve the following timetable for its incremental capacity project. The following timetable shows a rough date planning on the basis of past projects with current planning status.

Time period	Milestone
Q3 / 2021	Yearly capacity auction in July

Q4 / 2021	Tender process for the planning of the construction of the pressure security system (DÜG) in Zodel
Q2 / 2022	Assignment of the planning for the construction of DÜG as well as submission of the application according to § 23 ARegV
Till Q4 / 2022	Preparation of the technical task (feasibility study)
Q3 / 2023	Tender process and the assignment for the construction phase of the DÜG
Till Q2 / 2024	Detailed planning of DÜG Zodel
Till Q1 / 2025	Acquisition of needed material and approval of the construction phase of the DÜG
Q3 / 2025	Start of construction of DÜG
Q3 / 2026	Commissioning date with the foreseen provision of full availability with the start of GY 2026/2027

The experience of past projects of ONTRAS shows that the established rough scheduling contains little time reserve to avoid delays in the provision of capacity. Further detailing is only possible after completion of the feasibility study, which can only be completed after a successful economic test to avoid unnecessary costs.

For the projects on the respective side of the market border, the following applies: the construction phase will only start if there is a commitment of the market to acquire the respective incremental capacities in the yearly capacity auction 2021 and if there is a positive result in the economic test afterwards for each of the concerned TSOs.

Description of the project on Polish side (GAZ-SYSTEM) - expansion required within the GAZ-SYSTEM grid

In order to ensure the possibility of transporting gas in direction from Poland to Germany with maximum capacity level of 616,874 kWh/h, the following investments are required on the Polish side:

- Extension of Lasów metering station by installation of additional electric actuators and modernization of metering system;
- Construction of a reverse flow system at Jeleniów compressor station.

Schedule:

The investment tasks under the project will be commissioned in 2026 if there is a FID in 2021.

Cost estimation:

Approximately EUR 2.8 million (rough cost estimate +/- 30 per cent) is required for extension of Lasów metering station and Jeleniów compressor station.

Description of the project on the German side (ONTRAS) - expansion required within the ONTRAS grid

Corresponding to arrangements with the Polish grid operator GAZ-SYSTEM pressure greater than 55 bar and as circumstances require even up to 84 bar shall be provided in the event of gas flow from Poland to Germany with a quantity of up to 616,874 kWh/h/y from the Polish gas system. On German side the pipeline FGL 218.01 with a design pressure of 84 bar was constructed in the year 1992; however, since commissioning, this and the further pipeline network has only been operated with a maximum operating pressure (MOP) of 55 bar. The operating pressure in recent years was 40 bar on the average. Due to the higher foreseen pressure, construction of a pressure security system [DÜG] in Zodel is required in order to provide pressure safety for FGL 218.01 of ONTRAS with MOP 55 bar.

Schedule:

The pressure security system will be commissioned in 2026 if there is a FID in 2021.

Cost estimation:

For the construction of the pressure security system in Zodel, investments of approx. EUR 2.5 million (rough cost estimate +/- 20 per cent) are estimated.

5. Parameters of the economic test (Art. 28 (1) lit. d) in conjunction with Art. 22 (1) NC CAM)

According to Article 28 (1) lit. d) NC CAM, GAZ-SYSTEM and ONTRAS request to approve the parameters of the economic test.

The economic test is based on the following parameters according to Article 22 (1) NC CAM:

- a) The present value of binding commitments of network users for contracting capacity
- b) The present value of the estimated increase in the allowed or target revenue of the TSO associated with the incremental capacity included in the respective Offer-level
- c) The f-factor

Reference price for determining the present value of the binding commitments of network users – GAZ-SYSTEM

According to art. 22 (1) lit. a) in conjunction from art. 25 (1) lit. a) of the NC CAM, the President of URE approves reference prices estimated for the time horizon of the incremental capacity offered by GAZ-SYSTEM as part of the project for the market border of Poland and THE. The reference prices amounting to PLN 1,854 /(MWh/h)/h (EUR 0,43 /(MWh/h)/h) will be used in the economic test carried out by GAZ-SYSTEM to calculate the current value of liabilities of network users in the scope of contracting incremental capacity made available under offers placed in the auction procedure at the interconnection point GCP GAZ-SYSTEM/ONTRAS.

The reference prices should be set for the time horizon of the incremental capacity offered under project for the market border of Poland and THE, i.e. for the time horizon of 15 gas years, i.e. from 1 October 2026 until 1 October 2041.

It should be emphasized that GAZ-SYSTEM is currently undergoing the implementation of capital-intensive investment projects aimed at ensuring the diversification of gas supplies to Poland. The dynamics of the implementation of these projects is difficult to predict due to the fact that the projects implemented with the cooperation of other European operators and their implementation is only partly dependent on the schedule of operation undertaken by GAZ-SYSTEM.

Reference rates estimation for a 15-year time horizon, with such a high dynamic implementation of strategic investment projects may bring unrealistic and unreliable results in the form of an increase in transmission charges, which will reduce the level of capacity required to achieve a positive result of the economic test.

Given above arguments, GAZ-SYSTEM proposes to adopt, for the purposes of the economic test for all years covered by the analysis, a reference price at the level of the fixed fee for the provision of gas transmission services in the exit point binding from

January 1, 2021 to December 31, 2021, as per “The Tariff for Gas Transmission Services No. 14” approved by the decision of the President of URE no DRG-2.4212.7.2020.JDo1 on June 5, 2020.

Present value of the estimated increase in the allowed revenues due to capacity increase – GAZ-SYSTEM

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, settled in the period covering the contracted incremental capacity made available as part of offers submitted in the auction procedure for the GCP GAZ-SYSTEM/ONTRAS.

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 in 2026-2041.

This value is equal to the risk-free rate adopted for the purposes of calculation of the reference rates binding in 2021 and approved by the President of URE.

This value was determined using the calculation tool provided by GAZ-SYSTEM. The calculation tool reflects the current practice, including the calculation parameters for determining the allowed revenues approved by the President of URE for the tariff for 2021.

f-factor for GAZ-SYSTEM

The f-factor must take the following into account:

- a) the amount of technical capacity set aside according to Article 8 (8) and (9) NC CAM;
- b) positive externalities of the incremental capacity project on the market or the transmission network, or both;
- c) the duration of binding commitments of network users for contracting capacity compared to the economic life of the asset;
- d) the extent to which the demand for the capacity established in the incremental capacity project can be expected to continue after the end of the time horizon used in the economic test.

The project assumptions are based on the non-binding demand indication received in the demand assessment phase. This f-factor was estimated based on the assumption that

the given incremental capacity project is purely a market driven project and that the full cost of the project shall be covered by the capacity bookings in the relevant binding capacity auction. Thus, on GAZ-SYSTEM side, there are no conditions allowing GAZ-SYSTEM to request an approval of f-factor lower than 1.

Therefore, GAZ-SYSTEM requests approval of f-factor which amounts to 1 for the application of the economic test.

Reference price for determining the present value of the binding commitments of network users – ONTRAS

In order to determine the present value of the binding commitments made by network users, ONTRAS proposes to set the reference price of the entry-exit system THE for the year 2023 published in Annex 5 of the BNetzA decision REGENT 2021 in the amount of 3.73 EUR/(kWh/h)/year.

The binding commitments of network users required to calculate the present value will result from the annual auction in 2021. Therefore, ONTRAS cannot make any further comments at this point.

Present value of the estimated increase in the allowed revenues due to capacity increase – ONTRAS

ONTRAS proposes to set the present value of the estimated increase in the allowed revenues on the side of entry-exit system THE due to capacity increase of Offer-level 1 to EUR 2,587,049.52, which are only caused by the necessary investment and some operational costs connected to this.

There are no costs to be expected for compression. If the incremental capacity to be created on the GCP GAZ-SYSTEM/ONTRAS of 613,250 kWh/h is used, no additional compressor use would be caused on the German side. The pressure supply for the gas to be transported over the interconnection point is provided on the Polish side, so that the gas flow towards the exit points in the ONTRAS grid is secured. The gas quantity to be transported is consumed by the exit points in the ONTRAS grid nearby Lasów, so that a post-compression for the further transport of the gas entering in Lasów is not necessary.

These values were determined using the calculation tool provided by the BNetzA. The calculation tool reflects the current approval practice, including the calculation parameters of the BNetzA for determining the allowed revenues.

f-factor for ONTRAS

The f-factor must take the following into account:

- a) the amount of technical capacity set aside according to Article 8 (8) and (9) NC CAM;
- b) positive externalities of the incremental capacity project on the market or the transmission network, or both;
- c) the duration of binding commitments of network users for contracting capacity compared to the economic life of the asset;
- d) the extent to which the demand for the capacity established in the incremental capacity project can be expected to continue after the end of the time horizon used in the economic test.

ONTRAS requests to approve f-factor of 0.64 for the application of the economic test.

To lit. a):

ONTRAS received a request for incremental capacity of 2,025,676 (kWh/h)/a until gas year 2035/2036. Especially as this formerly indicated demand cannot be offered fully, ONTRAS expects that the indicated demand for capacity during the requested time period will be confirmed as much as possible during the capacity auction. At the same time, according to Article 8 (8) NC CAM in conjunction with the BNetzA-decision BK7-15-001 (KARLA 1.1), 20% of the technical capacity from gas year 2026/2027 shall be set aside. Thus, it is not possible to acquire all non-binding requested capacity in the 2021 annual capacity auction, which is the basis of the economic test.

Because the capacity demand of the shipper cannot be fulfilled fully, ONTRAS expects that the capacity set aside will be booked in subsequent auctions. Therefore, the f-factor must be reduced accordingly in order to provide the investment burden to later beneficiaries of the incremental capacity.

To lit. b):

The security of supply of Germany is already on a high level due to the existing entry capacity and cannot be increased by the incremental capacity at the entry point GCP GAZ-SYSTEM/ONTRAS.

Likewise, it is not expected that any additional flows at the entry point GCP GAZ-SYSTEM/ONTRAS will affect the market price of THE entry-exit zone. The volumes traded are many times higher than the possible additional quantities that could flow over this interconnection point. In summary, ONTRAS sees no positive external effects of the project, neither in Poland nor in Germany.

To lit. c) and d):

For the projects necessary to provide indicated incremental capacity, an economic lifetime of 55 years is assumed. Therefore, the offered capacity can be used much longer than the time horizon for contracting capacity in the annual auction 2021. ONTRAS expects that the entry point will continue to be demanded even after requested time period respectively after the offered 15 years after the start of the operational use, albeit to a great extent lower level. In particular, the entry capacity could be used to offset the possible price differences in the adjacent market areas on short-term basis. It would also be possible for traders to transport quantities over the entry point from the Polish to the THE entry-exit zone on long-term basis (e.g. hydrogen transport in the future). However, previous experience also shows that no major transit volumes are to be expected at this point. Therefore, future bookings carefully estimated at an average of 100,000 (kWh/h)/y.

Based on the above considerations, the calculation tool provided by BNetzA (as "Calculationtool_Economic_Test_Inc_Cap_BNetzA" attachment of this application) has been filled accordingly. The calculation tool already takes into account many of the aforementioned considerations such as capacity set aside and bookings in later years.

Since ONTRAS does not see any positive external effects from the project, ONTRAS accepts the pre-calculated f-factor within the calculation tool and requests to approve it.

It should be noted that the payable floating price under Article 24 (a) NC TAR for the contracts concluded in the 2021 annual auction is calculated on the basis of the reference price applicable at the time of the use of capacity and can differ from the reference price that was used to calculate the f-factor.

6. Possible extended time horizon for contracting incremental capacity (Art. 28 (1) lit. e) NC CAM)

Based on a common decision GAZ-SYSTEM and ONTRAS agree, that for this incremental capacity project no extended time horizon for contracting incremental capacity is needed.

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

GAZ-SYSTEM and ONTRAS abstain from an application of an alternative allocation mechanism for the acquisition of incremental capacity according to Article 28 (1) lit. f) NC CAM. Based on a common decision, both network operators will apply the standard auction procedure for the acquisition of incremental capacity in 2021.

8. Application of a fixed price approach (Art. 28 (1) lit. g) NC CAM)

GAZ-SYSTEM and ONTRAS abstain from the application of a fixed price approach for the acquisition of incremental capacity in 2021 according to Article 28 (1) lit. g) NC CAM.

9. Contact information

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