

Warsaw, 29 March 2019

COMMUNICATION
of the President of the Energy Regulatory Office
No 24/2019
concerning
multipliers, seasonal factors and discounts, referred to in Article 28(1)(a) to (c) of
the Tariff Code, to be taken into account in the calculation of tariffs for gaseous
fuels transmission services
for the period from 1 January 2020 to 31 December 2020.

1. Introduction

Pursuant to Article 23(2)(11a) of the Energy Law Act, the scope of activity of the President of Energy Regulatory Office includes, among others (...) the performance of duties of the regulatory authority arising from regulations adopted pursuant to Articles 8 and 23 of Regulation 715/2009¹, including Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (OJ L 72 of 17.03.2017 p. 29), hereinafter referred to as the "Tariff Code".

The Tariff Code entered into force on 6 April 2017 and has been applicable since that date, with the exception of the provisions of Chapters VI and VIII, which have been applicable since 1 October 2017, and Chapters II, III and IV, which will be applicable as of 31 May 2019.

Pursuant to the requirements set out in Article 28(1) of the Tariff Code (applicable since its entry into force), the President of ERO was obliged to conduct consultations with the regulatory authorities of all directly connected EU Member States and with relevant stakeholders, on the following issues:

- a) the level of the multipliers,
- b) where applicable, the level of seasonal factors and their calculation as laid down in Article 15 of the Tariff Code,
- c) the levels of discounts specified in Articles 9(2) and 16 of the Tariff Code, that is discounts at the entry points from the LNG terminal and the discounts used to calculate the basic prices of standard interruptible capacity products,

with respect to the transmission network owned by the Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., hereinafter referred to as "the Operator" and the network owned by the System Gazociągów Tranzytowych EuRoPol GAZ S.A., hereinafter referred to as "EuRoPol GAZ", on which the Operator acts as the gas transmission system operator, pursuant to the decision of 17 November 2010, ref. no: DPE-4720-4(8)/2010/6154/BT.

¹ Regulation (EC) no 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) 1775/2005 (OJ L 211 of 14.08.2009, p. 36)

After completion of the consultation, in accordance with Article 41(6)(a) of Directive 2009/73/EC, the national regulatory authority shall take a reasoned decision regarding the aspects referred to in points (a) to (c) above, taking into account the views of the regulatory authorities of the directly connected Member States.

Consultations² on multipliers, seasonal factors, levels of discounts at entry points from the LNG terminal and discounts used for the calculation of the underlying prices of standard interruptible capacity products were held from 31 August to 31 October 2018 and covered the transmission network of the Operator and the network owned by EuRoPol GAZ. During the consultations, 3 opinions were received from transmission system users. However, no comments were received from the regulatory authorities of the directly connected EU Member States.

The provisions of the Ordinance of the Minister of Energy of 15 March 2018 on detailed rules of shaping and calculating tariffs and settlements in trade in gaseous fuels (Journal of Laws of 2018, item 640) concerning correction factors used to determine transmission rates for short-term services and on interruptible basis (Articles 48 and 49) are in force until 30 May 2019. Therefore, the provisions of Chapter III of the Tariff Code will apply to the tariff for 2020.

In view of the above, in items 2 and 3 of this Communication I have set out the values of the multipliers, seasonal factors and discounts referred to in Article 28(1)(a) to (c) of the Tariff Code, to be taken into account in the calculation of the tariffs for gas transmission services for 2020.

Pursuant to the provisions of Article 28(2) of the Tariff Code, further consultations will be held in each tariff period starting from the date of this Communication. Bearing in mind that currently, both in the case of the tariff of the Operator and EuRoPol GAZ, the tariff period is the same as the calendar year, the consultations referred to in Article 28 of the Tariff Code will be held every year.

2. Multipliers, seasonal factors and discounts referred to in Article 28(1)(a) to (c) of the Tariff Code, for the Operator's tariff for gas transmission services

2.1. The multipliers referred to in Article 28(1)(a) of the Tariff Code.

The multiplier values for the Operator's tariff for standard capacity products for 2020 are presented in Table 1.

Table 1. *Multipliers - the Operator's tariff.*

Gas transmission service	Within-day	Daily	Monthly	Quarterly
Multiplier	2,20	2,20	1,45	1,27

2.2. Seasonal factors referred to in Article 28(1)(b) and Article 15 of the Tariff Code.

The levels of seasonal factors for the Operator's tariff for 2020 for particular types of capacity products are presented in Table 2.

² <http://www.ure.gov.pl/pl/biznes/konsultacje-spoleczne/konsultacje-prezesa-ure/7688,Konsultacje-w-zakresie-rabatow-mnozownikow-i-wspolczynnikow-sezonowych-do-taryf-na.html?search=90403391>.

Table 2. Seasonal factors - Operator's tariff

Month Product type	Within-day	Daily	Monthly	Quarterly
October	1.02	1.02	1.02	1.09
November	1.10	1.10	1.10	
December	1.16	1.16	1.16	
January	1.21	1.21	1.21	1.12
February	1.10	1.10	1.10	
March	1.05	1.05	1.05	
April	0.99	0.99	0.99	0.90
May	0.89	0.89	0.89	
June	0.82	0.82	0.82	
July	0.86	0.86	0.86	0.85
August	0.83	0.83	0.83	
September	0.87	0.87	0.87	

2.3. Application of multipliers and seasonal factors

The calculated multipliers and seasonal factors will be applied at all entry and exit points to/from the gas transmission system (high-methane and low-methane gas) owned by the Operator, including entry/exit points to underground gas storage facilities, to settle services provided on a short-term basis.

The charge for short-term gas transmission services will be calculated according to the following formula:

$$Op = Mn * Ws * Ss * Mu * T$$

where:

- Op – charge for short-term gas transmission service (quarterly, monthly, daily or within-day),
- Mn – multiplier,
- Ws – seasonal factor,
- Ss – rate for entry/exit, respectively [PLN/MWh/h per h],
- Mu – contracted capacity [MWh/h],
- T – number of hours of short-term service provision [h].

The Operator may include in the tariff correction coefficients being the product of the multiplier and the seasonal factor.

2.4. Level of discounts at the entry point to the transmission system from the LNG facility - Article 28 (1) (c) and Article 9 (2) of the Tariff Code.

The level of discount for tariffs based on capacity at the entry points to the Operator's transmission system from LNG facilities in the 2020 tariff shall be 100%.

In accordance with Article 9(2) of the Tariff Code, a discount may be applied at the entry points from the LNG facility (...) to capacity-based transmission tariffs to enhance security of supply. The Polish natural gas market belongs to a group of medium sized markets with a high degree of dependence on supplies from one direction. Domestic production of natural gas accounts for approximately 27% of the national natural gas supply balance. Until 2017, the main source of

imported gas, despite the development of interconnections on the western and southern borders, was the eastern direction. The high level of dependence of the Polish market on gas supplies from one direction had a significant impact on the level of gas prices. Therefore, as an alternative source of supply, the LNG Terminal is intended to support the development of competition on the gas market. The launch of the LNG Terminal in Świnoujście created the conditions for entities operating on the global LNG market to enter the Polish gas market. Increased competition from gas suppliers serves to improve the negotiating position of gas trading companies in Poland.

Due to the above, a 100% discount is applied to the entry point to the transmission system from the LNG Terminal in Świnoujście since the commencement of regasification, that is as of June 2016. This solution has been introduced mainly due to the key importance of the LNG terminal for:

- increasing the security of gas supply to Poland through diversification of supply directions and ensuring access to the global gas market - fully independent from perturbations on the local and regional market,
- development of competition on the domestic gas market by creating opportunities for domestic suppliers to obtain gas from a new source.

2.5. Level of discounts used for the calculation of the basic prices of standard interruptible capacity products - Articles 28(1)(c) and 16 of the Tariff Code

For interruptible services provided in the transmission system owned by the Operator an ex-post discount shall be adopted.

In accordance with Article 16(4) of the Tariff Code, the ex-post discount may be applied only at the interconnection points, where there was no interruption of capacity due to physical congestion in the preceding gas year.

In consideration thereof, I hereby establish a single methodology based on the application of an ex-post discount for all interconnection and intra-system points. Taking into account the data for previous years which show that the probability of interruption of interruptible service is low, discounting of base prices of standard interruptible capacity products after a possible interruption of the transmission service is justified.

In accordance with Article 16(4) of the Tariff Code, this compensation shall be equal to three times the reserve price (rate) for daily standard capacity products for firm capacity and shall be paid for each day on which an interruption occurred.

3. Multipliers, seasonal factors and discounts referred to in Article 28(1)(a) to (c) of the Tariff Code for the tariff for gas transmission services of EuRoPol GAZ.

3.1. Multipliers referred to in Article 28(1)(a) of the Tariff Code

The multiplier level for short-term products is shown in Table 5.

Table 5. *Multiplier values for short-term products adjusting the rates (reference prices) for entering or leaving the EuRoPol GAZ network, proposed for 2020.*

Gas transmission service	Within-day	Daily	Monthly	Quarterly
Multiplier	1.95	1.95	1.30	1.10

Considering the provisions of Article 13(2) of the Tariff Code, no seasonal factors referred to in Article 15 of the Tariff Code are established for EuRoPol GAZ tariff.

3.2. Application of multipliers.

These multipliers will be applied at all entry and exit points to/from the gas transmission system owned by EuRoPol GAZ, to settlement of services provided on short-term basis.

The charge for short-term gas transmission services will be calculated according to the following formula:

$$Op = Mn * Ss * Mu * T$$

where:

- Op – charge for short-term gas transmission service (quarterly, monthly, daily or within-day),
- Mn – multiplier,
- Ss – rate for entry/exit, respectively [PLN/MWh/h/h or PLN/MWh/day/day],
- Mu – contracted capacity [MWh/h or MWh/day],
- T – number of hours of short-term service provision [h or day].

3.3. Level of discounts to be used for calculating the basic prices of standard interruptible capacity products - Articles 28(1)(c) and 16 of the Tariff Code.

For interruptible services provided in the transmission system owned by EuRoPol GAZ, I hereby set an ex-post discount.

Taking into account data for previous years which show that the probability of interruption of interruptible services is low, discounting of reserve prices of standard interruptible capacity products after a possible interruption of the transmission service is justified.

In accordance with Article 16(4) of the Tariff Code, this compensation shall be equal to three times the reserve price (rate) for daily standard capacity products for firm capacity and shall be paid for each day on which an interruption occurred.

4. Comments from transmission system users received during the consultation process.

During the consultation process, three (3) contributions were received. The comments focused on:

- too high level of multipliers compared to other European countries, which may result in restrictions on short-term imports of natural gas from Germany and Denmark;
- lack of justification for the application of seasonal factors for the transmission pipeline of EuRoPol GAZ, due to the high load on the pipeline throughout the year;
- due to limited availability of long-term products, the possible use of interruptible services to import gas may significantly reduce the activity of entities that do not have access to long-term services;
- discrimination against market participants due to the application of a 100% discount at the entry point from the LNG terminal;
- introduction of preferential transmission rates at the Polish-Ukrainian border in order to increase the attractiveness and use of the gas system interconnection in connection with the increase in capacity at Hermanowice and the planned expansion of the interconnector at the PL-UA border.

With regard to the comments that have been made, I hereby state the following:

The multipliers and seasonal factors presented for consultation have been calculated/established in accordance with the requirements specified in the Tariff Code, taking into account market conditions (level of transmission services offered, availability of these services, structure of demand for long-term and short-term services and the related revenue structure from long-term and short-term services, investments in transmission system development and expected changes in demand for transmission services as a result of expiry of historical contracts), while respecting the principle of balancing the interests of energy companies and natural gas consumers. The values applied are intended, on the one hand, to ensure economic and efficient use of the transmission infrastructure and to provide its owners with stable financing enabling the completion of investments, and on the other hand, to support competitive processes in the natural gas market. At the same time, it is worth noting that in the case of virtual reverse transmission services, rates for these services are applied at a discount of 80% (pursuant to Article 14 of the Tariff Ordinance).

In the case of the transmission gas pipeline of EuRoPol GAZ, no seasonal factors are introduced.

The transmission system operator publishes the availability of transmission services on cross-border connections - currently there is no lack of available services on a long-term basis at all points.

The role of the LNG terminal in ensuring independence from the dominant eastern direction of natural gas supplies is important. Pursuant to Article 9(2) of the Tariff Code, a 100% discount has been introduced with respect to the entry point from the LNG facility. The role of the terminal in increasing the security of gas supply to Poland through diversification of natural gas supply directions and in developing competition on the domestic gas market by creating opportunities to obtain gas from a number of different sources has also been taken into account.

The question of possible discounts at selected cross-border interconnections may be considered when approving the reference price methodology in accordance with Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas. However, in the case of discounts for selected cross-border points, the interest of market participants will be taken into account in order to eliminate the additional burden on specific user groups due to possible cost pass-through resulting from such discounts.

The values of multipliers and seasonal factors for the Operator's tariff set out in this Communication should result in lower transmission fees for users of short-term services³. This is the result of simulations of short-term service fees for the structure of short-term services (quantities and capacities) carried out in 2018 and of the correction coefficients having been applied this year and fixed for 2020. Under the assumed conditions, the total fees for these services decreased by 3.9%, which should have a positive impact on the development of the gas market and its liquidity.

5. Consideration of aspects referred to in Article 28 (3) of the Tariff Code

Pursuant to the provisions of Article 28(3) of the Tariff Code, the President of the Energy Regulatory Office, when taking a decision on the issues listed in item 1 of this provision, shall take into account the responses received during the consultations and the following aspects:

(a) with regard to the multipliers:

- balance between facilitating short-term gas trading and providing long-term signals for efficient investment in the transmission system,
- impact on revenues from transmission services and their recovery,
- the need to avoid cross-subsidisation between network users and to increase cost reflectivity of reserve prices,
- situations of physical and contractual congestion,
- the impact on cross-border flows,

(b) with regard to seasonal factors:

- impact on facilitating the economic and efficient use of infrastructure,
- the need to improve the cost-reflectivity of reserve prices.

The analysis of these issues has been presented in the consultation paper.

³ The comparison of multipliers and seasonal factors can be found in the consultation paper available on the Energy Regulatory Office website (cf. footnote 2).

In addition, it should be highlighted that Article 13(1) of the Tariff Code sets out limit multiplier values for the following capacity products:

- quarterly and monthly standard capacity products - not less than 1 and not more than 1.5;
- daily and within-day standard capacity products - not less than 1 and not more than 3 (in justified cases the multiplier value may be less than 1 but more than 0 and more than 3).

The established multiplier values in this Communication, both for the Operator's tariff and for EuRoPol GAZ, fall within the permissible limits set out in the Tariff Code and will be applied at both interconnection points and internal transmission system points. Also the arithmetic mean of the products of the seasonal factor (Table 2) and the relevant multiplier (Table 1) determined for the Operator's tariff, calculated in accordance with Article 13(2) of the Tariff Code, also falls within the permissible ranges specified in Article 13(1) of the Tariff Code.

The multiplier level allows the Operator to maintain an appropriate proportion between long-term products ensuring the stability of revenues for the Operator, and thus the possibility to pursue development investments, and short-term products that enable network users to balance their purchase portfolios.

Since the multipliers and seasonal factors applied to short-term products are established at the same level for all entry and exit points, each network user pays the same fees for short-term products regardless of their transmission routes. Given the above, multipliers or seasonal factors have no impact on the level of cross-subsidisation between network users or on cross-border flows.

In addition, seasonal factors shall be set at a level reflecting transmission system outflows depending on the market profile of demand for gaseous fuel and shall not have a negative impact on the efficient use of transmission infrastructure.

Due to the fact that capacity for short-term services is included in the calculation of the tariff, the established level of multipliers and seasonal factors will not affect recovery of revenue by the Operator and EuRoPol GAZ.