

SUMMARY OF RESPONSES RECEIVED TO THE CONSULTATION DOCUMENT PUBLISHED PURSUANT TO ARTICLE 26 OF COMMISSION REGULATION (EU) 2017/460 OF 16 MARCH 2017 ESTABLISHING A NETWORK CODE ON HARMONISED TRANSMISSION TARIFF STRUCTURES FOR NATURAL GAS

On 18 December 2023, the Energy Regulatory Office (hereinafter "ERO") published a consultation document as required by Article 26 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for natural gas (hereinafter "NC TAR"). In accordance with the rules of the consultation process, ERO set the deadline for sending comments until 19 February 2024.

The Energy Regulatory Office received comments from the following entities within the deadline:

- NET4GAS, s.r.o.,
- Association for District Heating of the Czech Republic,
- SPP Storage, s.r.o.

ERO did not receive any comments after the deadline, nor did it receive any comments that were contrary to the established rules of the consultation process.

This document summaries the main responses from stakeholders and the main arguments for or against the proposals published in the consultation document. All comments received are published in full on the Energy Regulator's website¹. This summary, together with the individual comments resulting from the consultation process, is published in Czech and English. In the event of a discrepancy between the English translation and the original text of the comment, the original text will prevail.

The comments mainly concerned the proposed regulatory regime and the related impacts on customers and transmission system operator.

In its comments, the transmission system operator proposes a transition to a single revenue cap regime from 2025, which it defends by citing the disappearance of the reason for the dual system (combination of revenue and price cap), which was the high transit flows through the Czech Republic. At the same time, the transmission system operator cites the need to maintain the current scope of the transmission system due to the permanent strategic value of the assets for security of supply, for use in the interconnection of the gas and electricity systems (sector coupling) or for the future transition to low-carbon gases and hydrogen.

This change would guarantee the transmission system operator revenues to cover all operating and investment costs of the entire system. According to the transmission system operator, the single revenue cap regime would remove the risks identified by the transmission system operator (and detailed in its comments) for the consulted methodology. In the TSO's view, these are:

- the risk of an overly optimistic plan for reserved capacity between systems,
- the risk of unrealised revenues allocated to exit border points due to the application of a 100% discount for gas transport to and from gas storage facilities,
- the risk of unrealised revenues due to the application of benchmarking under Article 6(4) of the NC TAR,

¹ <https://eru.gov.cz/narizeni-tar>

- the risk of underestimating the reserved capacity plan at exit points within the system.

On the other hand, during the consultation, a comment (Association for District Heating of the Czech Republic) insisted on maintaining the dual regime, i.e. maintaining the revenue cap regime for intra-system transport and the price cap for inter-system gas transport, together with a request to preserve part of the transmission assets and to remove them from the RAB due to their non-use. Such an approach would result in reduced revenues for the TSO and lower prices for customers. This request is supported by claims that:

- the current transport system is built for about 13 times the volumes that are currently forecast,
- the problematic economic situation of the TSO cannot be solved by increasing prices for domestic customers, also due to the not very responsible behaviour of the TSO in the past (debt as a share of total assets, significant investments in connection with Gazprom reservations),
- the historical profits of the TSO from international transport were not been shared with domestic customers, so there is no reason to pass on to them the economic problems of the TSO caused by the decline in international transport,
- the general basis for the methodology for setting reference prices should be primarily to protect the interests of customers in the Czech Republic,
- NET4GAS' rating has been upgraded, according to a Fitch Ratings press release dated 5 January 2024,
- the 100% owner of NET4GAS, CEPS, is a state-owned company, so lack of funding is not possible.

Another area of comment is the existence of coherence between the two proposed regulatory regimes. The commenters fault the overly general description of this without more specific quantification and description of how the necessary extent of critical infrastructure will be determined. At the same time, this mechanism raises concerns that this interconnection will effectively result in only a revenue cap being applied to all TSO costs.

In addition, the comments received concern the following areas:

- the proposal of the time period over which the methodology will be applied (one year) does not provide sufficient certainty for customers, but more importantly, is not appropriate in terms of increasing uncertainty about the longer-term setting of a stable regulatory and pricing framework,
- access to the Gazela pipeline, which has been granted an exemption from third-party access, in connection with the abolition of similar exemptions for the OPAL pipeline on the German side - the TSO requests that the costs of the Gazela pipeline be included in the regulatory regime guaranteeing the recovery of its costs, as the original assumption of normal operating conditions mentioned in the consultation document, in which the pipeline was used exclusively for the transit transport of gas, no longer applies,
- determination of total revenues, how total revenues are split between intra-system and inter-system transport revenues, amount of risk premium - the commenter argues in its comment that it is not clear how the total revenues of the TSO were determined, how they were split between inter-system and intra-system transport, and that the amount of the risk premium and how it was applied is not stated,
- tariffs for the transport of gas to and from gas storage in the case of storage use between two input-output systems - the commenter requests the document to specify in more detail the pricing method for the case where the discount for the transport of gas to and from the gas storage is not applied.