

Publication pursuant to Article 25 (2), Article 28 (3) of Regulation (EU) 2017/459 (NC CAM) concerning the procedure initiated in 2023 for incremental capacity for the border bidding zone between Poland and Ukraine

30 April 2024

I. Introduction

In accordance with 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; hereinafter "NC CAM") Transmission system operators Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. (hereinafter "GAZ-SYSTEM") and "Gas Transmission System Operator of Ukraine" LLC (hereinafter "GTSOU") assessed the market demand for incremental capacity from 3 July 2023 to 28 August 2023.

GAZ-SYSTEM and GTSOU have received non-binding demand indications for the firm capacity in the direction from Poland to Ukraine. Currently, there is no existing firm capacity between the entry-exit system of Poland and Ukraine in the requested direction.

Based on the outcome of the Market Demand Assessment Report (MDAR) for the incremental capacity process starting in 2023 between the Polish gas transmission system and the Ukrainian gas transmission system, published on both TSOs' websites on 23 October 2023, the TSOs concerned have begun the design phase based on Article 27 of NC CAM.

On 26 April 2024, the President of the Energy Regulatory Office issued decision Ref. No. DRR.WRG.745.1.2024.MJS¹ concluding the administrative proceedings related to GAZ-SYSTEM's application for the approval of the incremental capacity project for the border bidding zone between Poland and Ukraine submitted by GAZ-SYSTEM on 8 January 2024.

The Ukrainian project application was approved and published under the Resolution No 829² of 30 April 2024 by National Energy and Utilities Regulatory Commission (NEURC).

¹ URE Decision: <https://www.ure.gov.pl/pl/urząd/informacje-ogolne/aktualnosci/11919,Rynek-gazu-Prezes-URE-zatwierdzil-projekt-przepustowosci-przyrostowej-dla-polacz.html>

² NEURC Resolution: <https://www.nerc.gov.ua/acts/pro-pogodzhennya-proyektu-propozicij-zi-zbilshennya-potuzhnosti-gazotransportnoyi-sistemi-u-tochci-vhodu-na-mizhderzhavnomu-zyednanni-z-polshcheyu-2>

Publication according to Article 28 (3) NC CAM

- II. Permit contents acc. Article 28 (1) NC CAM**
- a. Offer-level acc. Article 28 (1) (a) NC CAM**

In the annual auction to be held on 1st July 2024, the participating TSOs will offer the common Offer Level for bundled capacity products at GCP GAZ-SYSTEM/UA TSO. The Offer Level takes into account the obligations to set aside capacity based on the calculation methodology described in Article 11 (6) of NC CAM.

The Offer Level can be marketed to network users no earlier than in gas year 2030/2031 because of the commissioning of the project on the Polish side of the Polish-Ukrainian border.

Year	From 2030/2031 To 2044/2045
Offer Level	3 095 890 kWh/h
Incremental capacity – to be offered	3 095 890 kWh/h
Incremental capacity – total	3 869 863kWh/h
Existing Capacity	0

The incremental capacity auction shall take place on the GSA Platform³. Registration in both network operator’s systems is required to participate in auctions on the GSA Platform.

- b. Terms and Conditions for the incremental auction to be accepted by the network user acc. Article 28 (1) (b) NC CAM**

For the marketing of incremental capacity (i.e. the Offer Level) in the yearly capacity auction 2024, GAZ-SYSTEM and GTSOU have developed individual terms and conditions for the incremental capacity auction to be accepted by the network user before the incremental capacity auction.

The terms and conditions of GAZ-SYSTEM’s as well as GTSOU’s incremental capacity auction are annexed to this document.

³ <https://www.gsaplatform.eu/>

Regardless of the fact that both GAZ-SYSTEM and GTSOU publish their terms and conditions for the incremental capacity auction in English and in their respective national languages, only the Polish and Ukrainian versions respectively, shall be considered as binding.

c. Incremental Project Schedules as well as the measures to avoid delays and reduce the impact of delays pursuant to Art. 28 (1) (c) NC CAM

The following tables show the further steps and represent a rough schedule for both projects. Those plans already include time buffers to avoid delays in the provision of capacity.

The construction phase will only start provided that there is a commitment by network users to acquire the respective incremental capacities in the yearly auction 2024, and if the results of the following economic tests are also positive for GAZ-SYSTEM and GTSOU and also GAZ-SYSTEM together with GTSOU conclude the agreement on Incremental Project implementation.

For GAZ-SYSTEM

Time period	Milestone
01/07/2024	Yearly capacity auction in July followed by an economic test
3Q/2024	Concluding the agreement between GAZ-SYSTEM and GTSOU for Project implementation
2Q/2025	Building permits obtained
1Q/2027	Construction contracts signed
1Q/2030	Permit to use obtained
4Q/2030	Commissioning of the project

Time periods for signing contracts and obtaining building permits are indicated as the latest finished milestones, taking into account the three separate investment tasks in the common scope of the incremental project.

For GTSOU

Time period	Milestone
01/07/2024	Yearly capacity auction in July followed by an economic test
3Q/2024	Concluding the agreement between GTSOU and GAZ-SYSTEM for implementation of the project
2025-2026	Approval of project decisions, expertise
2026-2028	Execution of works
4Q/2028	Commissioning of the project

The timeframes of work completion may change due to existing uncertainty related Russia’s full-scale war with Ukraine.

d. Parameter acc. Art. 28 (1) (d) NC CAM

For GAZ-SYSTEM

i. Parameter acc. Art. 22 (1) (a) NC CAM

Auction Premium:

The algorithm for multi-level ascending price auctions pursuant to Article 17 NC CAM applies to the auction of incremental capacities pursuant to Article 29 (1) NC CAM. This may result in an auction premium which will only be determined at the end of the 2024 annual auction. Auction premium shall be included in the economic test.

Mandatory minimum premium:

In accordance with decision DRR.WRG.745.1.2024.MJS mandatory minimum premium of 0 PLN/(MWh/h)/h 0 EUR/(MWh/h)/h was approved.

Net present value of binding commitments of network users:

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

GAZ-SYSTEM adopted a discount rate of 7,60% for the calculation of the discounted value of the allowed revenue related to the implementation of the project for the Poland's and Ukraine's border bidding zone in the years 2030-2045. The discounted value of network users' liabilities at the GCP GAZ-SYSTEM/UA TSO, with a discount rate of 7,60% for the 15 year test period, amounts to PLN 502 680 000.

The discount rate used in the calculation (7,60%) was determined at the weighted average cost of capital (WACC) adopted for the Tariff No. 17 - Rev. No. 1 for gaseous fuels transmission in 2024. This formula developed by GAZ-SYSTEM used for the calculation of the allowed revenues from project implementation is based on the parameters and assumptions adopted for calculation of fixed fee rates for transmission service in 2024 the approved by the President of the ERO.

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

In accordance with decision Ref. DRR.WRG.745.1.2024.MJS, the discounted allowed revenues was determined and approved at: PLN 1 063 235 000.

iii. f-Factor acc. Art. 22 (1) (c) NC CAM

According to decision Ref. DRR.WRG.745.1.2024.MJS, the following f-factor was determined and approved: 0,47

For GTSOU

i. Parameter acc. Art. 22 (1) (a) NC CAM

Auction Premium:

The algorithm for multi-level ascending price auctions pursuant to Article 17 NC CAM applies to the auction of incremental capacities pursuant to Article 29 (1) NC CAM. This may result in an auction premium which will only be determined at the end of the 2024 annual auction. Auction premium shall be included in the economic test.

Mandatory minimum premium:

In accordance with resolution № 829 issued on 30 April 2024 by the National Energy and Utilities Regulatory Commission (NEURC), the mandatory minimum premium of USD 0.00 per 1000 m³/day was approved.

Net present value of binding commitments of network users:

The value of the expected increase in the allowed revenues corresponds to the value of investment costs for the project and is calculated for the period covering the contractual incremental capacity that is offered during the capacity allocation auction for GCP GAZ-SYSTEM/UA TSO.

GTSOU adopted the discount rate of 5,80% for calculating the discounted value of the allowed revenues related to the implementation of the project and transmission on the in the border bidding zone between Poland and Ukraine in 2030-2045.

The discount rate (5,80%) is determined as of October 2023 based on the interest rate on new loans in US dollars for corporate entities for a period of more than 5 years (Financial markets statistics "Interest rates on loans and deposits. Securities issued by residents. PFTS index" <https://bank.gov.ua/ua/statistic/sector-financial#2fs>).

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

In accordance with resolution № 829 issued on 30 April 2024 by NEURC, the allowed revenues correspond to the value of investment costs for the project.

iii. f-Factor acc. Art. 22 (1) (c) NC CAM

According to resolution № 829 issued on 30 April 20234 by NEURC, the following f-factor was determined and approved: 0.

e. Extension of the marketing period acc. Art. 28 (1) (e) NC CAM

An extension of the marketing period for incremental capacity project does not apply to any of the TSOs concerned.

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

An alternative allocation mechanism is not applied for both TSOs

Publication acc. Art. 25 (2) NC CAM

Reference price acc. Art. 25 (1) NC CAM

For GAZ-SYSTEM S. A.

In accordance with decision Ref. DRR.WRG.745.6.2022.MJS, the reference price used for the economic viability test for the incremental capacities to be offered from 1 October 2030 until 1 October 2045 is 3,214 PLN/(MWh/h)/h (0,697 EUR/(MWh/h)/h).

For GTSOU

In accordance with resolution № 829 issued on 30 April 2024 by NEURC, the reference price used for the economic viability test for the incremental capacities to be offered from 1 October 2030 until 1 October 2045 is USD 4.45 for 1000 m³/day excl. VAT (USD 0.479/(MWh/h)/h incl. VAT; EUR 0.444/(MWh/h)/h incl.VAT).

III. Annexes

1. "General Terms and Conditions of participation in and access to capacity in the binding phase of incremental capacity auction on the border bidding zone between Poland and Ukraine" (GAZ-SYSTEM);
2. "General Terms and Conditions which network users shall accept in order to obtain access to capacity in the binding phase of capacity allocation of incremental capacity procedure on the border bidding zone between Ukraine and Poland" (GTSOU).



IV. Contact information



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