



**EUstream a.s.**

Mr. Michal L'alík

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Paris, 28<sup>th</sup> December 2018

Subject : ENGIE's answer to the Consultation according to the Article 26(1) of the TAR NC

Dear Mr L'alík,

We thank you for the opportunity to give our opinion on the tariff methodology of Eustream. We read the document very carefully and we have several remarks to its content.

First, Eustream indicates operating 2 km of pipelines and its target revenues in the following years of roughly 900 M EUR. We understand that the costs of operation of a gas network is determined by a certain number of factors, such as geographical conditions of a given country, the age of the infrastructure or its dimension. Nevertheless, having compared the target revenues of Net4Gas, which is a similar network (3 820 km), used mainly for transit and in a little part only for domestic consumption, with quite variable flow direction. Their expected regulated revenues represent roughly 1,6 billion CZK per year, roughly 253 M EUR. For comparison, Gas Connect Austria's authorized revenues are about 142 M EUR (for 900 km of pipelines) and Trans Austria Gasleitung's 282 M EUR (for 1140 km of pipelines), GRTgaz's about 1900 M EUR (for 32 414 km of pipelines). Taking into consideration all conditions that could increase Eustream's costs but also the fact that the network is probably largely amortized, it remains obvious that unitary costs are incomparable to some other European TSOs. Related to this, we invite you to provide a more detailed explanation of your cost allocation.

Also, the benchmarking provided by Eustream is only based on minimum and maximum unitary tariff without any correction factor:

- It is not corrected by distance;
- It does not take into account the topology of the network: Eustream's network that is relatively simple from a topological standpoint, structured along a major single East-West pipeline. Some form of correction is needed to compare it to other networks that needs much more smaller pipelines scattered over wider area to transport the same amount of gas, and that needs a much more meshed network to supply all the clients.

Second, the Article 13 of the TAR NC fixes the multipliers for short-term capacity tariffs between 1 and 1,5 for monthly and quarterly products and between 1 and 3 for daily and within-day products. Current multiplier for quarterly products is more of 1,53 for quarterly capacities, 2,26 for monthly and 2,85 for daily. Quarterly but especially monthly tariffs (which is a product very frequently booked by the shippers under current market conditions) does clearly not respect established limits. Should the multiplier of 1,5 for daily and for within-day standard capacity products recommended by the NC TAR by 2023 be achieved, the daily tariff will practically have to be divided by 2. We consider significant efforts should be done by Eustream to lower its tariffs to a more justifiable level.

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Third, the consultation does not mention the Slovak VTP title transfer service service, provided by Eustream which also perceives revenues for it.

Another point to question is the price of this service itself. Eustream, as virtual trading point manager, invoices 0.01 EUR/MWh of transferred gas. For comparison, German hubs NCG and Gaspool invoice 0.0015 EUR/MWh, CEGH 0.005 EUR/MWh. The price is far from other European benchmarks and we would therefore expect Eustream to publish a methodology of its determination to understand the reasons of this situation.

Fourth, we consider the proofs in favor of the postage stamp methodology used by Eustream to determine its tariffs (exposed in the point 3.6.) vaguely convincing. Provided explanation of presented figures is really basic and does not allow one to get the expected information to understand Eustream's calculations as we expected it of this consultation according to the NC TAR.

We remain at your disposal to discuss all presented elements with you.

Yours sincerely,

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