

The Final Consultation Document

on information referred to in Article 26(1) of the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter referred also to as “Consultation”)

Instructions

The subject of the Consultation

Article 26(1) of the TAR NC

Consultation period

November 6, 2018 – January 6, 2019

How to submit your contribution

The company eustream, a.s. (hereinafter referred to as “Eustream”) seeks your views on the Consultation proposal. Responses should be sent to the e-mail address mentioned below. Unless you mark some of your response confidential, Eustream will publish it as a whole on its website www.eustream.sk. All stakeholders are entitled to ask Eustream for keeping some of their responses confidential. In that case, it should be clearly marked to that effect and include reasons. Based on the previous sentences and based on the Article 26(2)¹ all stakeholders, who intend to take part at the Consultation process, are asked to submit their responses, which will include also a non-confidential version suitable for publication.

Eustream prefers to receive responses in an English or Slovak language and in an electronic form so all responses can be processed efficiently.

In order to avoid any doubts, Eustream follows the GDPR requirements. For more information please visit the website www.eustream.sk.

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¹ Any reference to the Article(s) mentioned in this Consultation document is considered to be the Article(s) of the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, if not explicitly written otherwise.

Note:

Tariffs for entry and exit points to/from the Slovak transmission system are calculated and set in line with the price proposal, which was submitted to ÚRSO² (the Slovak national regulatory authority) for an approval. ÚRSO, based on submitted price proposal and methodology for tariff settlement, issued the price decision No. 0021/2017/P dated on October 31, 2016 in the wording of the decision No. 0100/2017/P dated on August 17, 2017 (hereinafter referred to as "Price decision") by means of which tariffs and conditions of their application have been approved by ÚRSO for the whole tariff period³. According to the Article 27(5) of the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (in the whole document referred also to as "TAR NC"), tariffs applicable for the prevailing tariff period at May 31, 2019 will be applicable until the end thereof. It means that the actual tariffs and conditions of their application based on the Price decision will be valid and applicable till December 31, 2021. On January 1, 2022 both new tariff and regulatory periods will start.

² The terms "ÚRSO", "Úrad pre reguláciu sieťových odvetví" and "the Regulatory Office for Network Industries" are used interchangeably in this Consultation document. The Regulatory Office for Network Industries as the national regulatory authority (NRA) is the state authority for regulation of network industries in the territory of the Slovak Republic.

³ The tariff period is equal to the regulatory period in the Slovak Republic. The regulatory/tariff period is determined by the Regulatory policy of ÚRSO. The current regulatory/tariff period started on January 01, 2017 and will last until December 31, 2021.

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1. Introduction

Context

The TAR NC was adopted in line with Regulation (EC) No 715/2009 of the European Parliament and of the Council of July 13, 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 with the objective to contribute to market integration, to enhance security of supply and to promote interconnections between gas transmission networks. The TAR NC was published in the Official Journal of the European Union on March 17, 2017 and it entered into force 20 days later on April 06, 2017. It has been applied since that date with the exception of the provisions of Chapters VI and VIII, which have been applied since October 1, 2017 and Chapters II, III and IV, which shall apply as from May 31, 2019.⁴ The TAR NC is the fourth network code in the gas sector, following the network code on capacity allocation mechanisms in gas transmission systems (hereinafter referred to as “the Prior CAM NC”)⁵, the network code on gas balancing of transmission networks⁶ and the network code on the interoperability and data exchange rules.⁷ The Prior CAM NC was a subject to amendment in parallel to the development of the TAR NC. The Official Journal of the EU published the revised version of the network code on capacity allocation mechanisms (hereinafter referred to as “CAM NC”) on March 17, 2017, and it entered into force 20 days later on April 06, 2017.⁸ Since network codes are the Commission Regulations (EU), they apply directly to all EU Member States.

The TAR NC establishes a network code setting out the rules on harmonised transmission tariff structures for gas, including rules on the application of a reference price methodology, the associated consultation and publication requirements as well as the calculation of reserve prices for standard capacity products. The TAR NC shall be binding in its entirety and directly applicable in all Member States of the EU.

General

Article 26(1) of the TAR NC stipulates one or more intermediate consultations and a final consultation.

Article 26 and Article 27 of the TAR NC address a periodic consultation that shall be repeated at least every five years starting from May 31, 2019. The date May 31, 2019 is also the final deadline till which the procedure consisting of the final consultation on the reference price methodology (hereinafter referred also to as “RPM”) in accordance with the Article 26(1), the motivated decision by the NRA on all items set out in the Article 26(1) (hereinafter referred also to as “Decision”), the calculation of tariffs on the basis of this Decision, and the publication of the tariffs in accordance with Chapter VIII of the TAR NC shall be concluded.

⁴ OJ L 72, 17.03.2017, p. 29

⁵ Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (OJ L 273, 15.10.2013, p. 5)

⁶ Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks (OJ L 91, 27.03.2014, p. 15)

⁷ Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules (OJ L 113, 01.05.2015, p. 13)

⁸ 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 (OJ L 72, 17.03.2017, p. 1)

Article 27(5) of the TAR NC, inter alia, determines that tariffs applicable for the prevailing tariff period at May 31, 2019 will be applicable until the end thereof.

The responsibility for the Consultation

The sole responsibility for the Consultation per Article 26 is imposed on Eustream based on the Decision of the Regulatory Office for Network Industries No 0001/2017/P-TS dated on November 20, 2017 and the issuance of the motivated decision is strictly limited and given to the Regulatory Office of Network Industries as the sole national regulatory authority in the Slovak Republic.

Indicative timetable

Milestones	Deadline
Start of the Consultation	November 6, 2018
End of the Consultation	January 6, 2019
Indicative date of publication of the Consultation responses received and their summary	till February 6, 2019

Note: The indicative timetable does not include all milestones which are obliged to be conducted in accordance with the TAR NC, but only milestones under the management and control of Eustream. In order to avoid any doubts, Eustream will act upon and in line with the TAR NC.

Disclaimer

The reference price methodology and parameters presented in this Consultation document are subject to the approval of ÚRSO. Until the approval and relevant decision issued by ÚRSO, tariffs presented in this document are indicative and non-binding.

Indicative tariffs are based on future costs and expected use of the transmission system that may be revised prior to new tariff/regulatory periods coming in force on January 1, 2022.

This document is published in both Slovak and English versions. In case of a different interpretation, the Slovak version shall prevail.

2. Basic information about Slovak natural gas transmission system

Natural gas transmission via territory of the Slovak Republic is provided and secured by the sole transmission system operator, company Eustream. Eustream owns and operates a high-pressure gas transmission system that is interconnected with major European pipeline systems in Ukraine, the Czech Republic, Hungary and Austria, while interconnection with Poland is currently under construction.

The transmission system, on total length of 2,332.056 km, consists of four or five parallel pipelines mostly 1200/1400 mm in diameter with an operating pressure of 7.35 MPa. The pressure differential needed for a continuous gas flow is ensured by four large compressor stations with an aggregated power of almost 500 MW. The most important station is located at Veľké Kapušany at the Slovak-Ukrainian border. With a total power of nearly 300 MW it is the biggest compressor station in the EU, allowing an entry flow of 2,028 GWh, or 212 million cubic metres per day. An aggregated transmission capacity of all entry points to the transmission system is ca. 3,370 GWh, or 324 million cubic metres per day.

Eustream continually strives to modernise and upgrade the gas infrastructure. For that reason, Eustream has implemented several projects aimed at enhancing system operation and communication with the customers.

Entry/exit points from/to the transmission network on the territories of other EU Member States ("limited scope" and "broader scope" rules of TAR NC applicable):

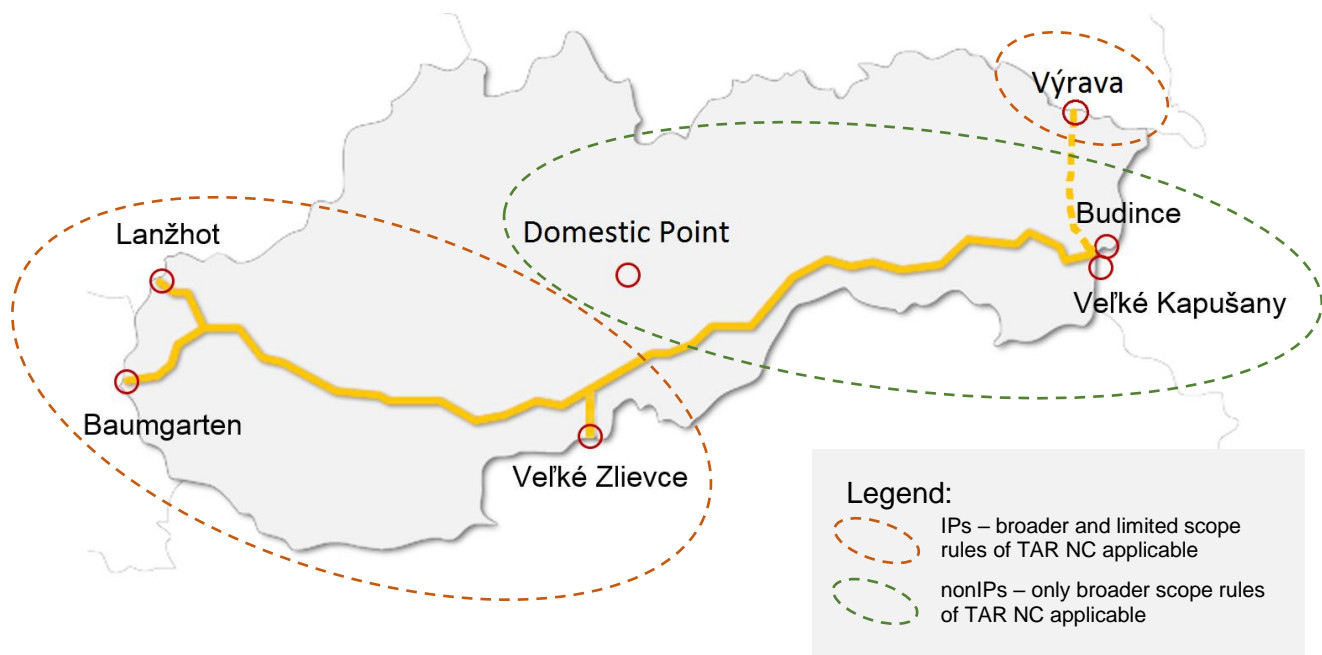
- Lanžhot (entry/exit point from/to the transmission network of the Czech Republic),
- Baumgarten (entry/exit point from/to the transmission network of Austria),
- Veľké Zlievce (entry/exit point from/to the transmission network of Hungary),
- Výrava (entry/exit point from/to the transmission network of Poland, currently under construction).

Entry/exit points from/to the transmission network on the territories of third countries (only "broader scope" rules of TAR NC applicable):

- Veľké Kapušany (entry/exit point from/to the transmission network of Ukraine),
- Budince (entry/exit point from/to the transmission network of Ukraine).

Entry/exit points from/to distribution networks and storages (only "broader scope" rules of TAR NC applicable):

- Domestic point (entry/exit point from/to distribution networks and storages on the territory of the Slovak Republic).



Picture 1: Scheme of the Slovak natural gas transmission system

As a part of the Domestic point, Eustream also provides connection to the storage services of the Slovak natural gas storage operators. All storages in the Slovak Republic are connected to the Eustream transmission system, and also directly connected to network grids of other operators.

Gas year for gas transmission in Slovakia is from 1st October till 30th September. Regulatory period that is equal to the tariff period lasts for 5 years. Current regulatory and tariff periods started on January 01, 2017 and will end on December 31, 2021. Within the current tariff period the tariff level is only subject to regular escalation using EU inflation rate.

Transmission system regulation of Eustream is based on the price-cap principle.

3. Description of the proposed Reference Price Methodology (RPM)

Art. 26(1)(a)

The suggested RPM is the postage stamp methodology, followed by the secondary adjustment based on benchmarking.

Reasoning

In the postage stamp methodology, the total amount of capacity related allowed revenue, split in entry and exit parts, is divided by the respective forecasted contracted capacity to derive reference prices.

Postage stamp is the methodology that is easy to understand and its main advantage lies in its simplicity. Reference prices calculated based on this methodology can be easily reproduced by the stakeholders. Usage of the postage stamp methodology in the simple transmission networks is cost-reflective, non-discriminatory and with limited possibilities for cross-subsidisation. Further advantages of the postage stamp methodology are: (i) stability of the RPM for stakeholders, (ii) flexibility, where entry-exit split may be an input or an output of the RPM, (iii) transparency and (iv) equalisation principle.

As visible in the Picture 1, network of Eustream is extremely robust transmission system, focused on a number of high capacity entry/exit points, that consists of overall 7 entry/exit points, out of which only 4 are Interconnection Points (1 under construction) according to the CAM NC definition. Except for the domestic transmission, which covers less than 10% of the overall natural gas transmission in Slovakia, the transmission network of Eustream is mainly used for two types of transmission – East to West (from Veľké Kapušany to Baumgarten and/or Lanžhot) and West to East (mainly from Lanžhot to Budince). Due to the fact of very close geographical locations of both Eastern, as well as Western entry/exit points, distance does not serve as a key cost driver of Eustream.

Cost-based form of regulation of the prices for access to the transmission network and natural gas transmission has, in case of the Slovak Republic, important specifics, if compared to the other Member States of the European Union. The most important are as follows:

- (i) High proportion of the international transmission (transit) on the overall natural gas transmission, exceeding 90%; and
- (ii) Massive competition in form of international transit pipelines and transmission systems of other European TSOs.

Described specific position of the Slovak transmission system may lead into high volatility of the capacity bookings and transmission flows, due to the fact of highly competitive environment. In regards to these facts, benchmarking constitutes an important tool for securing long-term stability and competitiveness of the tariff system.

Within the meaning of the Art. 6(4)(a) of the TAR NC:

“4. Adjustments to the application of the reference price methodology to all entry and exit points may only be made in accordance with Article 9 or as a result of one or more of the following:

- (a) *benchmarking by the national regulatory authority, whereby reference prices at a given entry or exit point are adjusted so that the resulting values meet the competitive level of reference prices”,*

benchmarking serves as the relevant methodology for securing above-mentioned target – long-term stability and competitiveness of the tariff system.

Benchmarking can be also perceived as a tool for increasing stability of the tariff system, also in cases of high volatility of contracted capacity.

Comprehensive description of the proposed RPM could be found in the document “Methodology for setting the tariffs for the access to the gas transmission network and gas transmission”.

3.1. Information, justification and values of the parameters used in the applied RPM related to the technical characteristics of the transmission system *Art. 26(1)(a)(i)*

This part of the Consultation document describes all input parameters, related to the technical characteristics of the transmission system, that are used in the applied reference price methodology, as well as counterfactual methodology and methodology for derivation of the commodity-based transmission tariffs.

Proposed RPM uses the following input parameters:

- Target revenues
- Entry/Exit split
- Forecasted contracted capacity
- Tariff levels of at least 15 other TSOs from EU for the purpose of benchmarking
- Expected inflation rate until start of the relevant tariff period

Capacity weighted distance methodology, as per Article 8 of the TAR NC, used as counterfactual methodology, uses in addition the following parameters:

- Matrix of distances

Methodology for setting the commodity-based transmission tariffs uses the following input parameters:

- Flow of natural gas
- Technical characteristics of the compressor fleet
- Information on natural gas losses
- Information on production of CO₂ emissions

From all mentioned input parameters, these ones relate to the technical characteristics of the transmission system:

- Forecasted contracted capacity and related flows of natural gas
- Matrix of distances

Note: Detailed description on calculation methods of RPM and counterfactual methodology could be found in the document “Methodology for setting the tariffs for the access to the gas transmission network and gas transmission”.

3.1.1. Technical input parameters for the chosen RPM, counterfactual RPM and commodity-based transmission tariffs

3.1.1.1. Forecasted contracted capacity and flows of natural gas

Forecasted contracted capacity at entry and exit points is an important input parameter to the chosen RPM – postage stamp. Part of total target revenues, related to entry/exit points are divided by the respective forecasted entry or exit capacity, in order to calculate a reference prices.

Total forecasted contracted capacity at entry points is assumed on the following level:

[MWh/d]	2022	2023	2024	2025	2026	AVG
Total Entry	1,832,668	1,918,468	1,918,468	1,918,468	1,918,468	1,901,308
Lanžhot	245,041	245,041	245,041	245,041	245,041	245,041
Baumgarten	0	0	0	0	0	0
Domestic point	15,600	15,600	15,600	15,600	15,600	15,600
Veľké Zlievce	28,600	114,400	114,400	114,400	114,400	97,240
Veľké Kapušany	1,543,427	1,543,427	1,543,427	1,543,427	1,543,427	1,543,427
Budince	0	0	0	0	0	0
Výrava	0	0	0	0	0	0

Total forecasted contracted capacity at exit points is assumed on the following level:

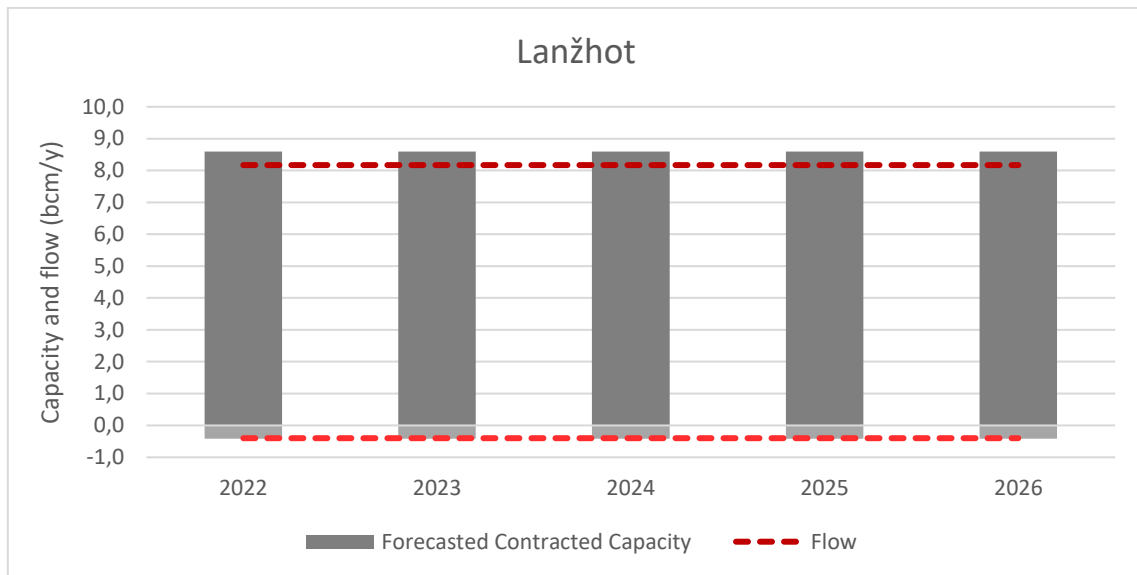
[MWh/d]	2022	2023	2024	2025	2026	AVG
Total Exit	1,910,626	1,996,425	1,996,425	1,996,425	1,996,425	1,979,266
Lanžhot	12,000	12,000	12,000	12,000	12,000	12,000
Baumgarten	1,509,009	1,594,809	1,594,809	1,594,809	1,594,809	1,577,649
Domestic point	139,616	139,616	139,616	139,616	139,616	139,616
Veľké Zlievce	0	0	0	0	0	0
Veľké Kapušany	0	0	0	0	0	0
Budince	250,000	250,000	250,000	250,000	250,000	250,000
Výrava	0	0	0	0	0	0

Based on the historical experience, commercial flows of natural gas are expected to reach the level of 95% of the forecasted contracted capacity.⁹

⁹ Since the forecasted contracted exit capacity is higher as forecasted contracted entry capacity, small adjustment of the flow have been performed at Baumgarten exit point, where the expected flow has been decreased to the level equalising values of entry and exit flows.

3.1.1.2. Forecasted contracted capacity and flows – associated assumptions

Lanžhot entry/exit point:



Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

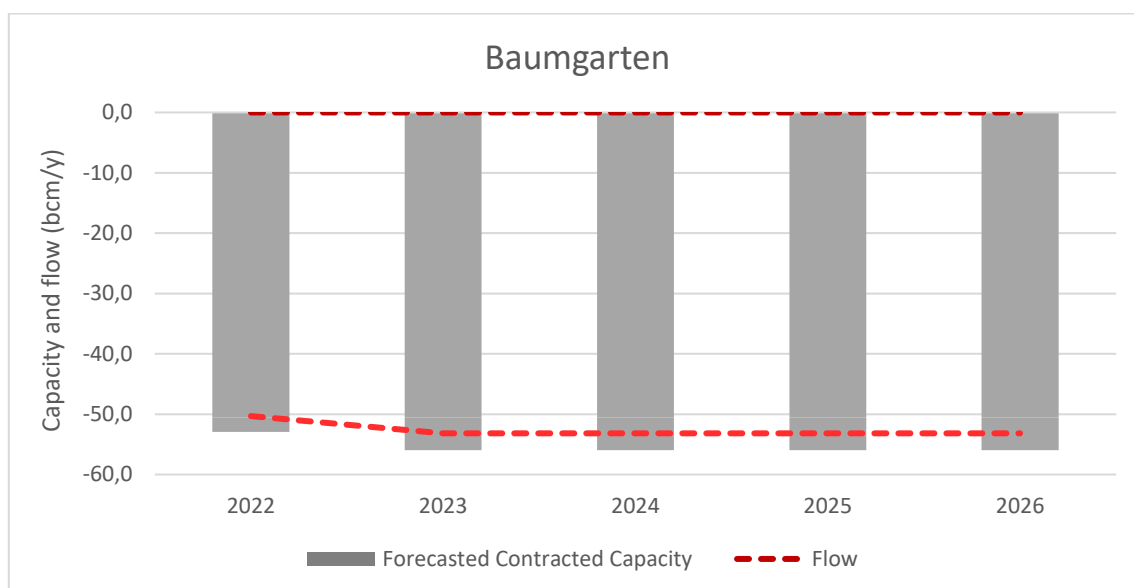
Entry point Lanžhot point currently serves for 4 main purposes:

- (i) as an entry point for gas transmitted towards Ukraine,
- (ii) as an entry point for domestic supply,
- (iii) as an entry point for gas transmitted towards Baumgarten hub,
- (iv) as an entry point for gas transmitted towards Baumgarten hub, in case of maintenance of upstream transmission system in Ukraine and/or Russia, or maintenance of Eustream's transmission system in East-West direction.

Based on historical experience Eustream assumes that contracted capacity at entry Lanžhot would achieve ca. 8.6 bcm/year with 95% utilization.

At exit Lanžhot point, Eustream assumes bookings on the level of ca. 0.4 bcm/year. Utilization is expected to reach 95%.

Baumgarten entry/exit point:

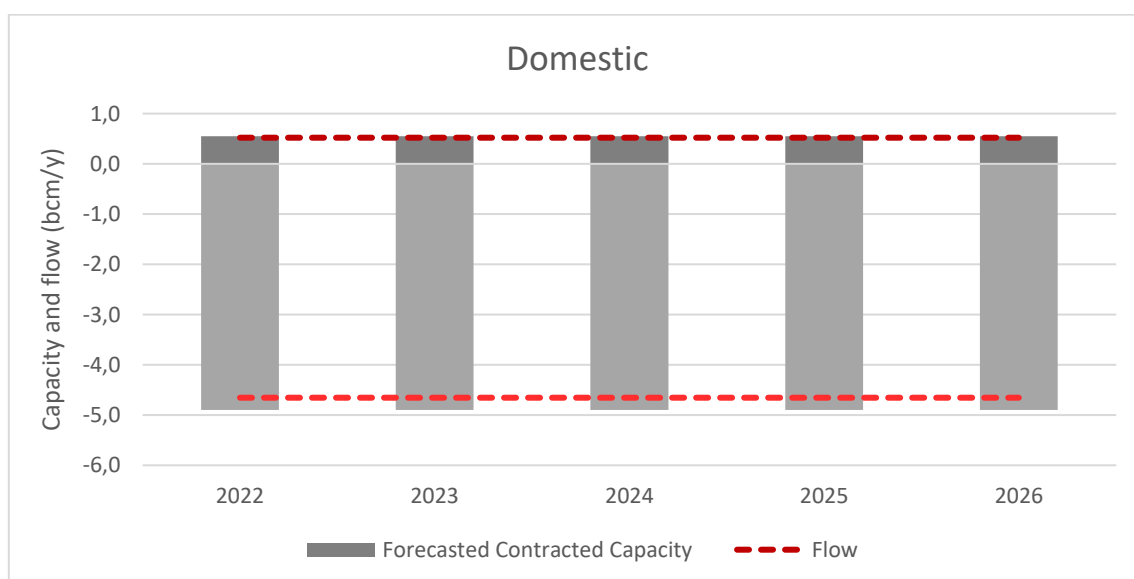


Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

Significant part of Exit Baumgarten capacity is already contracted on a long-term basis. On top of this, Eustream expects some additional bookings in exit direction which are observed also currently, plus new bookings after commissioning of the HUSKAT project in 10/2022 (altogether up to level of ca. 56 bcm/year).

Forecast of flow is also in case of Baumgarten entry/exit point based on 95% utilization of forecasted contracted capacity, however, on the exit side reaches only ca. 90%, due to discrepancy between overall forecasted contracted capacity on the entry and exit side (higher at exit). This assumption is based on the historical experience of shippers' behavior.

Domestic entry/exit point:

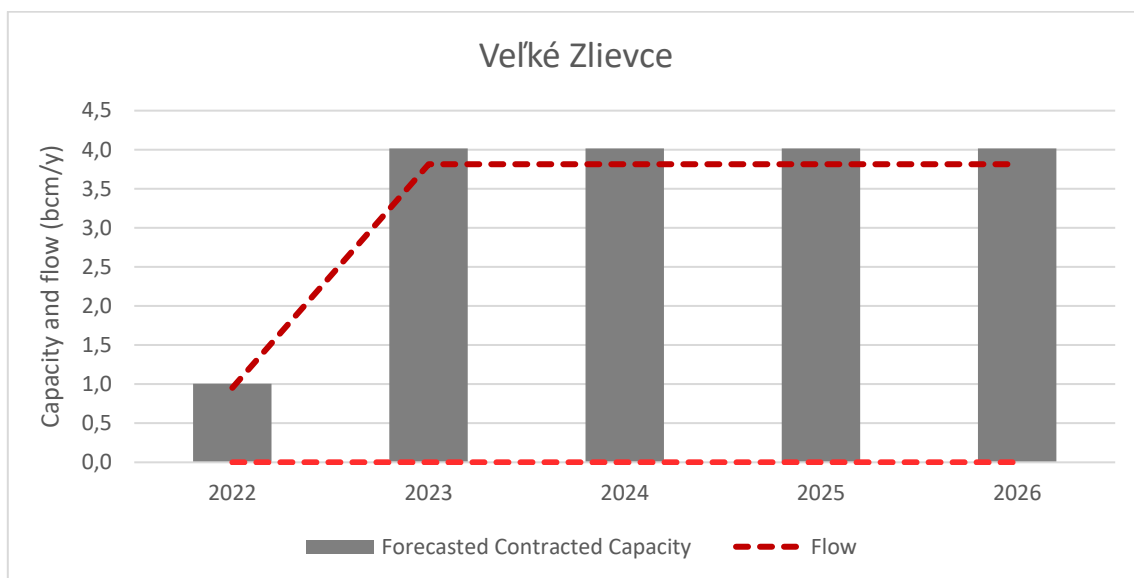


Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

For the entry/exit Domestic point, Eustream keeps current level of ca. 0.5 bcm/year for entry and ca. 4.9 bcm/year for exit.

Flow expectation is again expected to reach 95% of contracted capacity.

Veľké Zlievce entry/exit point:

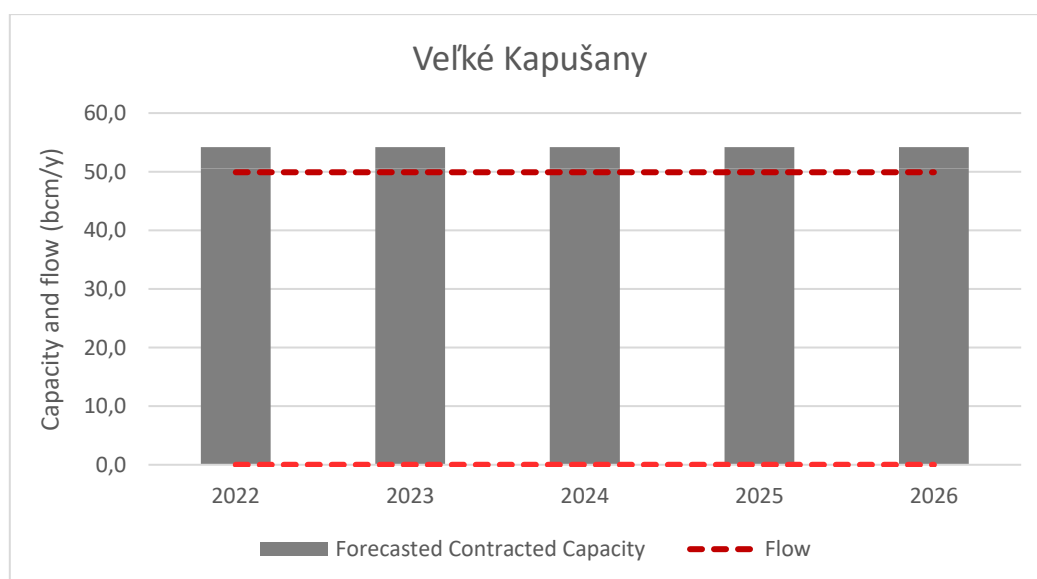


Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

Entry/exit point Veľké Zlievce is currently not utilized at all, however, Eustream expects utilization on the level of ca. 4.0 bcm/year after commissioning of the HUSKAT project in 10/2022.

Flow expectation – 95% of the contracted capacity.

Veľké Kapušany entry/exit point:

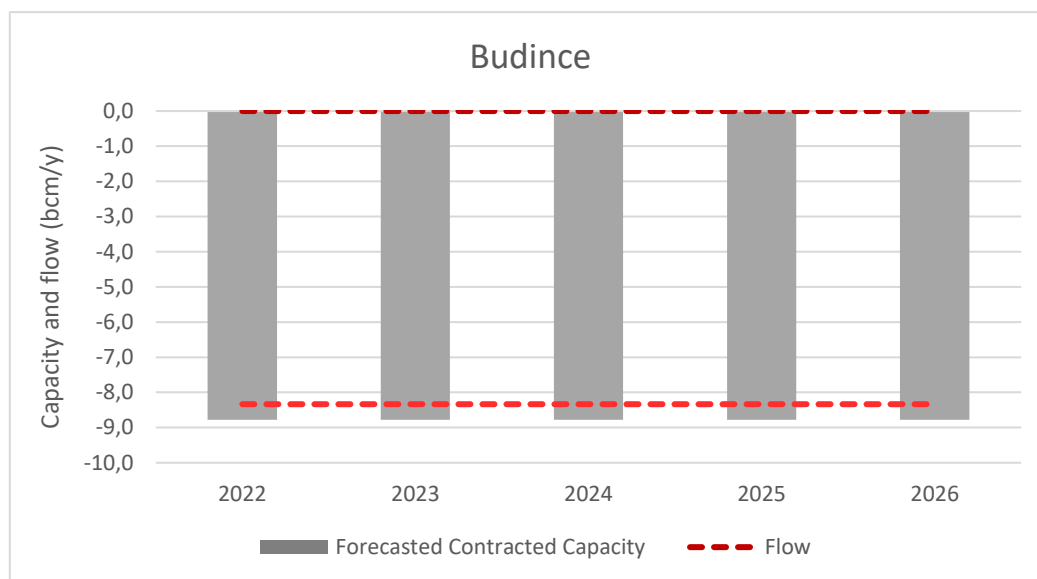


Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

Veľké Kapušany point is currently used as the main gateway for Russian gas deliveries to the EU. As this point is currently also the most important entry for (i) gas deliveries for the Slovak domestic market as well as (ii) entry point used for back-up deliveries into Western EU countries in case of maintenance on Nord-Stream and/or Yamal pipelines, we based forecast of the contracted capacity on the historical experience (ca. 54.2 bcm/year).

Flow is expected to reach 95% of the contracted capacity.

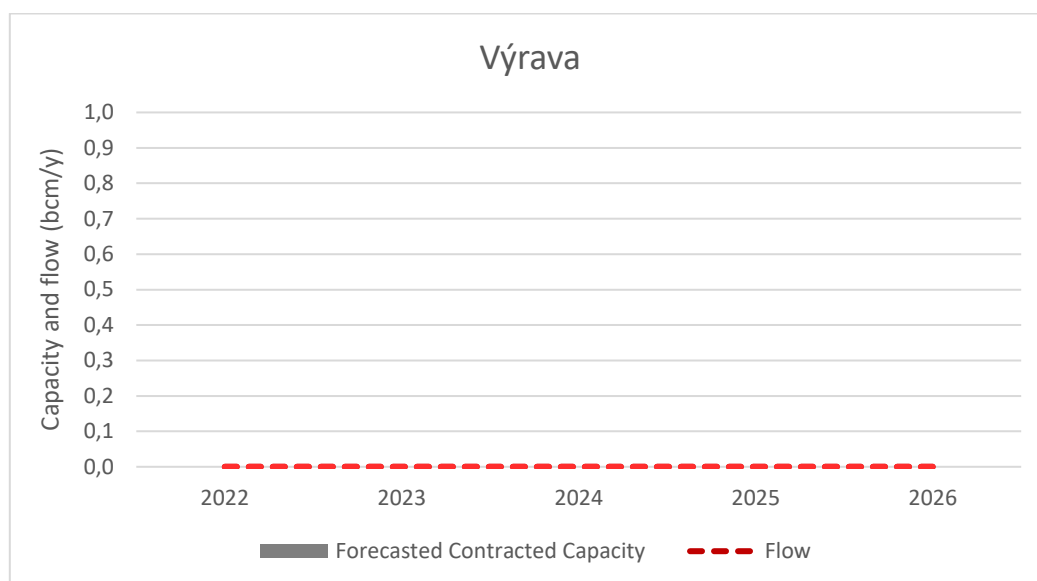
Budince entry/exit point:



Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

After commissioning of the entry/exit point Budince, transmission capacity in direction towards Ukraine was fully booked on the mid-term basis. Until end of 2019, this point with overall technical capacity of 14.6 bcm is almost fully booked, however, with no full utilization. In the future, Eustream expects bookings up to level of ca. 8.8 bcm, cca. on the level of current utilization.

Výrava entry/exit point:

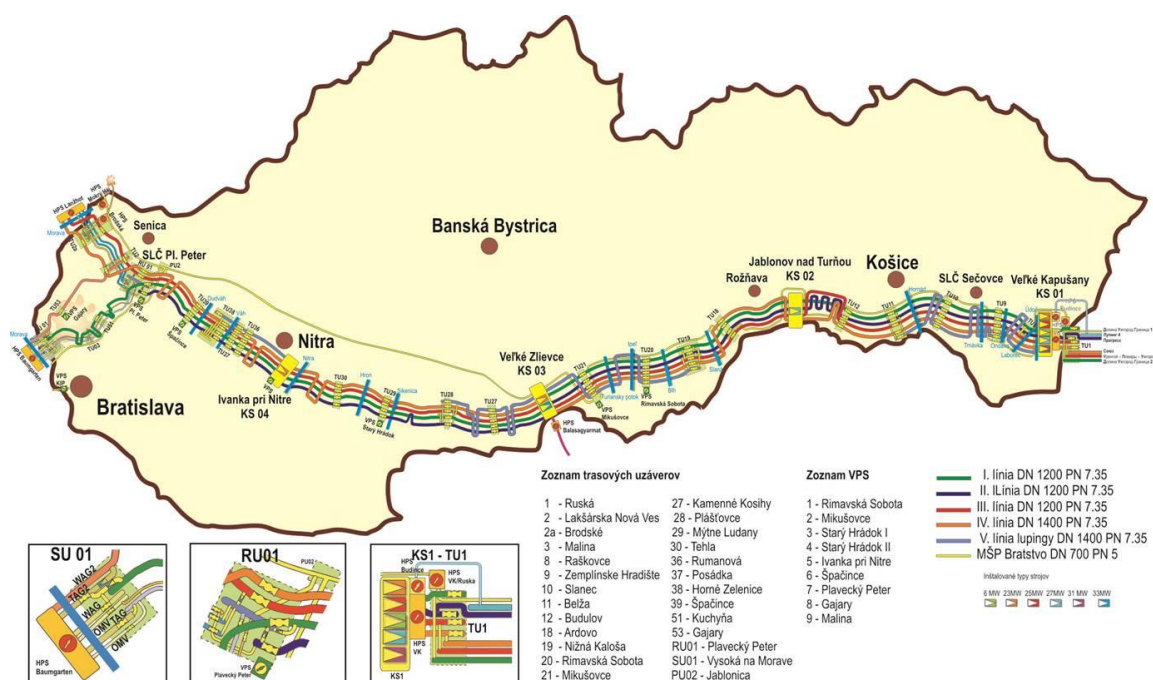


Note: Values above the x-line represents entry capacity/flows and below the x-line exit capacity/flows

Výrava entry/exit point is expected to be put into operation in 12/2021. Since this capacity is currently not offered, there is no experience on future level of booked capacity. Thus, for the purpose of tariff calculation, Eustream assumes no capacity bookings at this point.

3.1.1.3. The structural representation of the transmission network and distance matrix

Distance matrix, as one of the key input parameters to counterfactual RPM, has been calculated based on the real length of the pipelines. Simplified structural representation of the network of company Eustream is shown on the Picture 2:



Picture 2: Structural representation of Slovak natural gas transmission system with an appropriate level of detail

Distance matrix is as follows:

[km]	Lanžhot	Baumgarten	Domestic point	Veľké Zlievce	Veľké Kapušany	Budince	Výrava
Lanžhot	0	90	250	228	456	456	554
Baumgarten	90	0	257	234	463	463	561
Domestic point	250	257	0	22	206	206	304
Veľké Zlievce	228	234	22	0	229	229	327
Veľké Kapušany	456	463	206	229	0	19	98
Budince	456	463	206	229	19	0	98
Výrava	554	561	304	327	98	98	0

3.1.2. Other input parameters for the RPM (not related to the technical characteristics of the system)

3.1.2.1. Entry/exit split

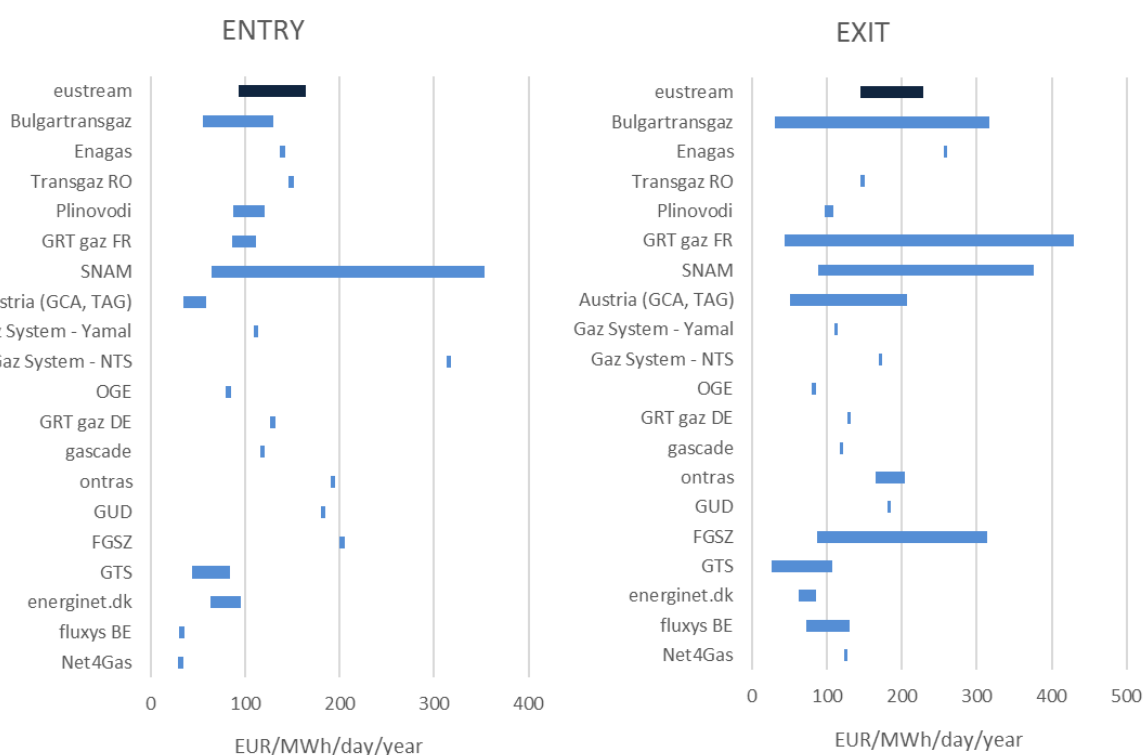
For the purpose of calculation of the reference prices, the proposed entry/exit split is 50/50 in line with the Article 8(1)(e) of the TAR NC.

3.1.2.2. Tariff levels (benchmarks) of at least 15 other TSOs from EU

For the purpose of secondary adjustment of the RPM results, based on benchmarking (see document "Methodology for setting the tariffs for the access to the gas transmission network

and gas transmission”), Eustream used the tariffs of the transmission system operators from 14 EU Member States¹⁰. Results are as follows:

Country	TSO	currency	original unit	Original tariffs				EUR/MWh/d/y (inflated to 2022)			
				ENTRY min	ENTRY max	EXIT min	EXIT max	ENTRY min	ENTRY max	EXIT min	EXIT max
Czech republic	Net4Gas	CZK	MWh/d/y	765.01	765.01	2991.43	2991.43	31.90	31.90	124.75	124.75
Belgium	fluxys BE	EUR	kWh/h/y	0.732	0.732	1.606	2.906	32.72	32.72	71.80	129.91
Denmark	Energinet	DKK	kWh/h/y	10.45	15.82	10.45	14.23	62.67	94.87	62.67	85.34
Netherlands	GTS	EUR	kWh/h/y	0.978	1.884	0.567	2.391	43.72	84.22	25.35	106.89
Hungary	FGSZ	HUF	kWh/h/y	1483.63	1483.63	631.25	2294.84	202.51	202.51	86.16	313.24
Germany	GUD	EURct	kWh/h/d	1.11979	1.11979	1.11979	1.11979	182.72	182.72	182.72	182.72
	Ontras	EURct	kWh/h/d	1.18	1.18	1.01	1.25	192.54	192.54	164.80	203.97
	Gascade	EUR	kWh/h/y	2.64	2.64	2.66	2.66	118.02	118.02	118.91	118.91
	GRT gaz	EUR	kWh/h/y	2.885967	2.885967	2.885967	2.885967	129.02	129.02	129.02	129.02
	OGE	EUR	kWh/h/d	0.005034	0.005034	0.005034	0.005034	82.14	82.14	82.14	82.14
Poland	Gaz System - NTS	PLNgr	kWh/h/y	0.3039	0.3039	0.1649	0.1649	315.61	315.61	171.25	171.25
	Gaz System - Yamal	PLN	MWh/d/d	1.227	1.227	1.227	1.227	111.63	111.63	111.63	111.63
Austria	GCA, TAG	EUR	kWh/h/y	0.77	1.3	1.12	4.63	34.42	58.12	50.07	206.98
Italy	SNAM	EUR	Smc/d/y	0.62796	3.455494	0.864992	3.680986	64.17	353.09	88.39	376.13
France	GRT gaz	EUR	MWh/d/y	80.37	103.32	40.72	400.61	86.23	110.85	43.69	429.82
Slovenia	Plinovodi	EUR	kWh/d/y	0.0819	0.11261	0.09037	0.10134	87.87	120.82	96.96	108.73
Romania	Transgaz	RON	MWh/h	1.76	1.76	1.74	1.74	148.79	148.79	147.10	147.10
Spain	Enagas	EURct	kWh/d/m	1.0848	1.0848	2.006	2.006	139.67	139.67	258.27	258.27
Bulgaria	Bulgartransgaz	BGN	MWh/d/y	100.3355	236.2725	55.4049	578.2203	55.04	129.61	30.39	317.20
Slovakia	eustream	EUR	MWh/d/y	93.3401	164.58	145.01162	228.65	100.15	176.58	155.58	245.32



3.1.2.3. Expected inflation rate

The following forecast of the EU inflation rate has been used¹¹:

[%]	2017	2018	2019	2020	2021	2022	2023	2024
EU inflation rate	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

¹⁰ Tariff data as of 30.4.2018, exchange rates – ECB, as of 4.9.2018

¹¹ Source of forecasted data (2018-2020) – Bloomberg, as of 12.9.2018, for years 2021 onwards, the data of 2020 has been used

3.2. Proposed adjustments for capacity-based transmission tariffs

Art. 26(1)(a)(ii)

Adjustments of tariffs at entry points from and exit points to storage facilities

According to Art. 9(1) of the TAR NC:

“A discount of at least 50 % shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities, unless and to the extent a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point.”,

the reference prices for entry and exit points from/to storages are subject to further adjustment – discount on the level of at least 50%.

Since all storage facilities on the territory of the Slovak Republic are directly connected also to the (i) distribution network and (ii) Austrian transmission network, these connections are fully used to “compete with an interconnection point” and thus, discount not mandatory. Since entry/exit point from/to storage facilities is currently part of domestic point and not separate entry/exit point, discount is not proposed to be offered.

Adjustments of tariffs at entry points from LNG facilities

Not applicable – there is no entry point from LNG facility in the Slovak transmission network.

3.3. The indicative reference prices subject to the Consultation

Art. 26(1)(a)(iii)

The indicative reference prices are as follows:

[€/ (MWh/d)/y]	RAW Reference prices (prior secondary adjustment)	Final Reference prices (after secondary adjustment)
Entry		
Lanžhot	175.3	124.1
Baumgarten	175.3	124.1
Domestic point	175.3	124.1
Veľké Zlievce	175.3	124.1
Veľké Kapušany	175.3	124.1
Budince	175.3	124.1
Výrava	175.3	124.1
Exit		
Lanžhot	168.4	164.3
Baumgarten	168.4	164.3
Domestic point	168.4	164.3
Veľké Zlievce	168.4	164.3
Veľké Kapušany	168.4	164.3
Budince	168.4	164.3
Výrava	168.4	164.3

Shown reference prices are indicative reference prices, valid for the tariff year 2022, based on the assumed level of inflation rate. Please note that:

- (i) Final reference prices for other years of the tariff period will be subject to regular escalation by the chosen escalation index,
- (ii) Final reference prices for the non-IPs (entry/exit Domestic point, entry/exit Velké Kapušany and entry/exit Budince) would not serve as the reserve prices for the standard yearly capacity products. Derivation of the reserve prices for the non-IPs is not subject of the TAR NC and thus will be set according to methodology based on the national legislation, which would be valid in respect to these points.

3.4. Cost allocation assessments

Art. 26(1)(a)(iv)

The cost allocation assessment aims to evaluate whether any cross subsidisation occurs between transit and domestic transmission for both – capacity as well as commodity-based transmission tariffs.

It compares revenues to be obtained per unit of a defined costs driver for intra and cross-system use. Since Eustream uses reference price methodology based on postage stamp principles, key cost drivers are forecasted contracted capacity and forecasted flow of natural gas.

Input data for cost allocation assessment relating to the transmission services revenue to be recovered by capacity-based transmission tariffs:

- Forecasted contracted capacity for intra-system and cross-system use:

Forecasted contracted capacity for intra-system use [MWh/y]	2022	2023	2024	2025	2026	AVG
ENTRY	155,216	155,216	155,216	155,216	155,216	155,216
EXIT	155,216	155,216	155,216	155,216	155,216	155,216

Forecasted contracted capacity for cross-system use [MWh/y]	2022	2023	2024	2025	2026	AVG
ENTRY	1,677,452	1,763,252	1,763,252	1,763,252	1,763,252	1,746,092
EXIT	1,755,409	1,841,209	1,841,209	1,841,209	1,841,209	1,824,049

- Capacity-based revenues to be obtained from intra-system and cross-system use, calculated based on the reserve prices and forecasted contracted capacity.

Note: Since final reserve prices for non-IPs are not subject to methodology based on TAR NC and their value for the respective tariff period is not clear at the time of elaboration of this

document, amount of revenues has been calculated based on the indicative final reference prices.

Input data for cost allocation assessment relating to the transmission services revenue to be recovered by commodity-based transmission tariffs:

- Forecast of natural gas price¹²:

[EUR/MWh]	2022	2023	2024	2025	2026
Forecast of natural gas price	20.177	20.177	20.177	20.177	20.177

- Forecasted flow of natural gas used for intra-system and cross-system use:

Forecasted flow for intra-system use [MWh/y]	2022	2023	2024	2025	2026	AVG
ENTRY	147,456	147,456	147,456	147,456	147,456	147,456
EXIT	147,456	147,456	147,456	147,456	147,456	147,456

Forecasted flow for cross-system use [MWh/y]	2022	2023	2024	2025	2026	AVG
ENTRY	1,593,579	1,675,089	1,675,089	1,675,089	1,675,089	1,658,787
EXIT	1,593,579	1,675,089	1,675,089	1,675,089	1,675,089	1,658,787

- Commodity-based revenues to be obtained from intra-system and cross-system use, calculated based on the indicative commodity-based transmission tariffs and forecasted flow of natural gas.

Results:

Assessment	2022	2023	2024	2025	2026
Capacity-based revenues	0.32%	0.30%	0.30%	0.30%	0.30%
Commodity-based revenues	0.00%	0.00%	0.00%	0.00%	0.00%

Reasoning:

Results of the cost allocation assessments are well below the required threshold of 10%.

¹² CEGH VTP Gas futures, EEX, 11.10.2018. Note – only data for 2022 available, prices for other years are set based on the 2022 futures

3.5. Assessment of the proposed RPM in accordance with Article 7

Art. 26(1)(a)(v)

The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements of the Article 7 of the TAR NC:

- a. enabling network users to reproduce the calculation of reference prices and their accurate forecast;
- b. taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;
- c. ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;
- d. ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
- e. ensuring that the resulting reference prices do not distort cross-border trade.

Eustream is convinced that all above-mentioned criteria are fulfilled, besides of other facts mentioned in the Consultation document, based also on the following:

- a. *chosen RPM enables network users to reproduce the calculation of reference prices and their accurate forecast:*
 - ✓ chosen RPM - the postage stamp methodology, is easy to understand, simple and replicable, which means that reference prices calculated based on this methodology can be easily reproduced by all stakeholders;
 - ✓ all data necessary for calculation of reference prices are complete, real, consistent and publicly available;
 - ✓ the simplified tariff model is being used, including the explanation of its usage, which gives network users, resp. all stakeholders the possibility to calculate the transmission tariffs for the prevailing tariff period and to estimate their possible evolution beyond such tariff period, as required by Article 30(2)(b) of the NC TAR.
- b. *chosen RPM takes into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network:*
 - ✓ chosen RPM reflects specific position of the Slovak transmission network, which represents simple, but extremely robust transmission system with high proportion of the international transmission (transit) on the overall natural gas transmission and massive competition in form of international transit pipelines and transmission systems of other European TSOs;
 - ✓ proposed RPM is postage stamp methodology, followed by secondary adjustment based on price comparison, as an important tool for providing long-term stability and competitiveness of the tariff system, reflecting the specific position of the Slovak transmission network (high volatility of contracted capacity);
 - ✓ chosen RPM reflects appropriate costs for the operation of the transmission network, including, but not limited to, costs of maintenance of the transmission infrastructure and its further development and also administrative, financial and marketing costs;

- ✓ all costs included into the calculation according to this chosen RPM are transparent, provable, reflect costs of efficient and structurally comparable transmission system operator and contain appropriate rate of return of the invested capital;
- ✓ all cost are considered as transmission costs and they are allocated via the same RPM;
- ✓ chosen RPM is applied to all entry and exit points.

c. *chosen RPM ensures non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5:*

- ✓ the proposed RPM, based on a postage stamp methodology, ensures non-discrimination and prevents undue cross-subsidisation by taking into account the cost allocation assessments set out in the Article 5 of the TAR NC. Since Eustream uses reference price methodology based on postage stamp principles, key cost drivers are forecasted contracted capacity and forecasted flow of natural gas. These parameters are objective and the chosen RPM results in the same reference prices for all transmission customers for the same transmissions services, and hence the chosen RPM can be considered as non-discriminatory;
- ✓ allocation of all transmission costs via a single RPM to all entry-exit points, which prevents any form of discrimination not allowed by the NC TAR;
- ✓ costs calculated by the transmission system operator, the company Eustream, that serves as an input into the methodology for the calculation of reference prices according to given RPM, shall be submitted to ÚRSO and approved by ÚRSO, by which discrimination by transmission system operator is prevented;
- ✓ based on the results of cost allocation assessments set out in Article 5 of the TAR NC, containing the evaluation whether the cross-subsidisation between transit and domestic transmission - for capacity as well as commodity transmission tariffs does not occur, it can be stated that the results of this assessment are significantly below the threshold 10%, by which the limit of the threshold as defined in Art. 5(6) of the TAR NC is fulfilled.

d. *chosen RPM ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system:*

- ✓ final reference prices for entry/exit Domestic point will not serve as the reserve prices for the standard yearly capacity products. The reserve prices for entry/exit Domestic point will be set according to methodology based on the national legislation, which will be valid and applicable in respect to this point. As the reserve prices for entry/exit Domestic point will be under the approval of ÚRSO in accordance with the valid and applicable national legislation, it can be stated that by applying the mechanism containing process of control and approval of ÚRSO as the national regulatory authority, the protection of the final customers will be sufficiently ensured in a way that the significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.

e. *chosen RPM ensures that the resulting reference prices do not distort cross-border trade:*

- ✓ chosen RPM, as postage stamp methodology, provides high level of transparency. Since it is easily understandable, all parameters used for the calculation of reference prices are publicly available, enables calculation of transmission tariffs for the prevailing tariff period, resp. estimation of their possible evolution beyond such tariff period, the chosen RPM automatically reduces barriers distorting cross-border trade to minimum;
- ✓ fixed price approach, under price cap regime, is being proposed for all entry/exit points for all tariff periods. As Eustream has used the fixed price approach, under the price cap regime, also up to date, this proposal is only continuing of the current status, which does not distort the cross-border trade.

3.6. Comparison of the indicative reference prices to the capacity weighted distance (CWD) results

Art. 26(1)(a)(vi)

Reference prices resulting from the counterfactual - CWD methodology and their comparison to the proposed indicative reference prices are shown in the following table:

[€/ (MWh/d)/y]	Final Reference prices (after secondary adjustment)	CWD results	difference
Entry			
Lanžhot	124.1	74.1	50.0
Baumgarten	124.1	N/A	N/A
Veľké Zlievce	124.1	110.2	13.9
Výrava	124.1	N/A	N/A
Exit			
Lanžhot	164.3	186.0	-21.7
Baumgarten	164.3	194.6	-30.3
Veľké Zlievce	164.3	N/A	N/A
Výrava	164.3	N/A	N/A

Note: Since setting of the reserve prices for non-IPs is not subject of the TAR NC, comparison includes only figures for Interconnection Points.

Comparison pointed on main disadvantages of the CWD methodology for the transmission system operators as Eustream:

- (i) inability to set the tariffs for the entry/exit points where no capacity booking is expected, and
- (ii) inability to recognise real flow pattern of gas.

Results of CWD methodology are comparable in all relevant cases, except of entry Lanžhot point, where the CWD methodology results into lower tariff due to (i) relatively high amount of booked capacity at this point and (ii) short distance to Baumgarten exit point, with the highest amount of booked exit capacity. However, such result is inconsistent with pattern of bookings that are, based on the historical experience, used as the input parameter to the RPM.

In addition, application of the CWD methodology leads, irrespectively of entry/exit split set to the default level of 50/50, into high discrepancy between level of tariffs at entry points and exit point.

Due to these reasons, Eustream considers the chosen RPM as an appropriate and non-discriminatory, which may be used as the tariff setting methodology for company Eustream.

4. Indicative information set out in Article 30(1)(b)(i), (iv), (v)

Art. 26(1)(b)

4.1. Target revenue of Eustream

Art. 30(1)(b)(i)

Total amount of target revenues is calculated on the following level:

[mEUR]	2022	2023	2024	2025	2026	AVG
Target revenue	885.8	897.5	899.0	900.6	902.2	897.0

This total amount of target revenues contains (i) revenue from capacity-based transmission tariffs and (ii) revenue from commodity-based transmission tariffs from both, flow-based charge as well as complementary revenue recovery charge.

4.2. Transmission service revenue

Art. 30(1)(b)(iv)

Eustream does not offer any non-transmission services. Thus amount of target revenue is equal to the transmission service revenue.

4.3. Ratios of the transmission service revenue

Art. 30(1)(b)(v)

4.3.1. Capacity-commodity split

Capacity-commodity split is as follows:

[mEUR]	AVG(%)
Capacity-based	74.3%
Commodity-based (flow-based)	25.2%
Commodity-based (CRRC)	0.5%

4.3.2. Entry-exit split

As an input parameter to the RPM a default entry/exit split of 50/50 has been applied. Reference prices calculated according to proposed RPM respect this split.

4.3.3. Intra-system/Cross-system split

Cross-border-domestic split is as follows:

[mEUR]	AVG(%)
Intra-system	91.5%
Cross-system	8.5%

5. Information of transmission and non-transmission tariffs

Art. 26(1)(c)

5.1. Commodity-based transmission tariffs

Art. 26(1)(c)(i)

5.1.1. Manner of setting commodity-based transmission tariffs

Art. 26(1)(c)(i)(1)

Flow-based charge

The main purpose of flow-based charge is to cover all variable costs connected to transmission of natural gas, consisting, inter-alia, of consumption of natural gas, used as a power for compressor stations, gas losses, costs of production of emissions and other cost elements.

Using the historical data of variable costs, as well as the ranges of specific consumption of all possible settings of compressor units, the flow-based charge is proposed to be set to the level of 1.7% of transmitted volume (expressed in kind).

Complementary revenue recovery charge

Complementary revenue recovery charge has been set, based on the decision of ÚRSO No. 0001/2016/P-ST from 7th November 2016, on a provision of regulatory incentives for the project of the Polish-Slovak Interconnection.

5.1.2. Share of target revenue to be recovered from the commodity-based transmission tariffs

Art. 26(1)(c)(i)(2)

Please see Article 4.3.1 of this Consultation document.

5.1.3. Indicative commodity-based transmission tariffs

Art. 26(1)(c)(i)(3)

Flow-based charge

According to Article 5.1.1 of this Consultation document, the flow-based charge is proposed to be set on the level of 1.7% of transmitted volume (expressed in kind). Using the default 50/50 entry/exit split, the indicative flow-based charge is as follows:

Entries – 0.85%

Exits – 0.85%.

According to TAR NC (Article 4 (3) (a) (ii)), flow-based charge must be: *“set in such a way that it is the same at all entry points and the same at all exit points”*. In this respect, flow-based charge is proposed to be set also for entry/exit domestic point. However, well before the start of the next tariff period, Eustream will propose a discount mechanism that would decrease flow-based charge for transmission to domestic market.

Complementary revenue recovery charge

According to the approved methodology and based on the price decision of ÚRSO, valid for the current tariff period, the complementary revenue recovery charge is applied at the entry/exit point as the fee for increasing the level of security of supply, on the level of 0.08 EUR/MWh. The fee is set in the price of the year 2016 and is escalated, using the HICP inflation index of EU countries, published by Eurostat.

Indicative complementary revenue recovery charge for the next tariff period is proposed on the same level, however, according to the approved methodology, it can be adjusted, based on the level of contracted capacity at the IP Výrava.

5.2. Non-transmission tariffs

Art. 26(1)(c)(ii)

Not applicable – no non-transmission tariffs are proposed.

6. Information set out in Article 30(2)

Art. 26(1)(d)

6.1. Difference between transmission tariffs for the prevailing tariff period and the tariff period for which the information is published

Art. 30(2)(a)(i)

Reserved prices valid for the prevailing tariff period and their comparison to the proposed indicative reference prices are shown in the following table:

[€/ (MWh/d)/y]	Current tariff level (escalated to 2022)	Final Reference prices (after secondary adjustment)	difference
Entry			
Lanžhot	109.1	124.1	15.0
Baumgarten	109.1	124.1	15.0
Veľké Zlievce	112.4	124.1	11.7
Výrava	N/A	124.1	N/A
Exit			
Lanžhot	169.6	164.3	-5.3
Baumgarten	192.8	164.3	-28.5
Veľké Zlievce	192.8	164.3	-28.5
Výrava	N/A	164.3	N/A

Note: Since setting of the reserve prices for non-IPs is not subject of the TAR NC, comparison includes only figures for Interconnection Points.

6.2. Difference between transmission tariffs for each tariff period within the remainder of the prevailing regulatory period and the tariff period for which the information is published

Art. 30(2)(a)(ii)

Duration of the tariff period equals to duration of the regulatory period. Thus, the information is the same as in the Article 6.1 of this Consultation document.

7. Additional information on fixed payable price approach under price cap regime

Art. 26(1)(e)

7.1. The proposed index

Art. 26(1)(e)(i)

As already mentioned in the document “Methodology for setting the tariffs for the access to the gas transmission network and gas transmission”, the tariffs are proposed to be escalated by the inflation rate of the EU Member States. For more details, please consult the above-mentioned Methodology document.

7.2. Calculation and usage of the revenue from risk premium

Art. 26(1)(e)(ii)

The level of risk premium, as part of the fixed payable price, according to Article 24(b), is proposed to be 0.

7.3. Definition of IP(s) and tariff period(s) for which the fixed price approach is proposed

Art. 26(1)(e)(iii)

Fixed price approach, under price cap regime, is proposed for all entry/exit points for all tariff periods.

Since Eustream uses fixed price approach, under price cap regime even now, this proposal is only continuation of the current status.

7.4. Process of offering both, fixed and floating payable price

Art. 26(1)(e)(iv)

Not applicable. Only the fixed payable price approach is proposed.