

**Comments of the Heating Association of the Czech Republic on the
consultation document pursuant to Article 26 of Commission Regulation (EU)
2017/460 establishing a network code on harmonised transmission tariff
structures for natural gas**

18 February 2025

In the public consultation on the methodology for the creation of tariff items for the use of the transmission system in the Czech Republic as required by Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for natural gas, the Czech Heating Association makes the following comments on the consultation document within the set deadline:

1. Comments on Chapter 5.3. Change in the role of gas storage facilities and applied discount for the transport of gas to and from gas storage facilities

We disagree with the following statement in the consultation document on page 9: 'Low consumption, the successful removal of supply bottlenecks in the region from new directions and the experience of sufficient capacity to fill gas storage facilities quickly with market mechanisms offer scope for passing on part of the relevant costs of transporting gas from and to gas storage facilities to their users and for reducing the applied 100% discount for the period consulted.'

Justification for the comment:

We believe that the claim is overly optimistic. First of all, it should be noted that the winter season 2023/2024 was extremely warm, and this was also reflected by the high filling of the reservoirs at the end of the heating season. Satisfaction over their rapid fulfilment in 2024 is therefore not appropriate. The current heating season shows a significantly different picture, with storage filling at the end of the season expected to be around 20% and will be significantly more difficult to replenish in 2025. This is also reflected in the evolution of gas commodity prices, which show an inverse position where gas is cheaper for 2026 than in the storage filling period in 2025, which will further complicate storage filling significantly in 2025. Similar situations have recently occurred quite often and it would be worth a deeper analysis of the extent to which they threaten during the period in question. The bottlenecks for gas transmission through Germany have not yet been removed and the firm capacity provided by Germany at the Brandov transport point is very limited – see in this regard Chapter 6.3. of the consultation document, according to which the construction of a Wittenburg filling station is crucial for strengthening capacities to the east, although this is not foreseen before 2028. Until the bottlenecks in Germany are removed and fixed transport capacity to the Czech Republic is significantly increased and the situation on the gas market, which is still not fully stabilised, calms down overall, we do not see any scope for reducing the 100% discount for storage operators. We believe that at least until 2028, the ERO should continue with a 100% discount for storage operators and should keep this option open for years to come, depending on the evolution of the above factors.

2. Comment on Chapter 7 Description of the proposed reference price methodology – General

The proposal increases tariffs by an average of 109 % per entry, in particular at points serving domestic customers (VIP Brandov 100 % and Lanžhot 132 %), introduces a storage charge by reducing the discount on tariffs for booking transport capacity to and from gas storage facilities from the current 100 % to 80 %. This increases costs for domestic consumers and does not take into account the split of the RAB, which has historically been designed for international and domestic transport. The price rises again, also as a result of the increase in the WACC under the incentive scheme, so we cannot agree with the proposed methodology, which transfers the business risk of the transmission system operator to customers in the Czech Republic.

As set out in the consultation, most of the revenue is collected at the domestic point (4.7 billion euros). CZK) plus entry points, which are used for supplying domestic consumption, plus the fee for entry and exit to storage tanks, which are exclusively used for supplying the Czech Republic, and therefore there is again an increase in tariffs for domestic customers. Therefore, we think that if the assumption is not sufficient flows for transportation, NET4GAS, s.r.o. should optimize RAB only for the necessary volume of assets that are necessary to ensure transportation to the home point, which is not taken into account in the proposal. Revenue from the home point thus cross-subsidizes the entire transport system. The proposal envisages the need to operate the system and thus the assets and costs that have been built for much larger transit flows than currently assumed, which should be financed mainly by final customers in the Czech Republic. These customers cannot be fairly required to cover the costs of a system whose transport options far exceed their needs. We understand that the transport of natural gas on the territory of the Czech Republic, especially in its transit part, has undergone fundamental changes and the transmission system operator has found itself in a difficult economic situation due to this, but we consider it unacceptable that these problems are completely transferred to prices for end customers in the Czech Republic.

Justification for the comment:

The proposed changes to the proposed substantial tariff increase cannot be accepted, in particular because they pose a risk of significant financial burden for domestic customers. The price increase will have negative social impacts and worsen the economic situation not only of households but also of other consumers. This proposal may cause serious problems in practice, as the domestic market would be burdened by the introduction of this increase in regulated prices precisely at a time when the economic situation is extremely sensitive and the need for stable, fair energy prices is crucial. The burden on the market in this way casts doubt on the fairness of the proposed price regulation system for gas transmission and underlines the need to reassess and subsequently adjust the proposed prices in order to avoid undue cross-financing.

Draft reflection of the comment:

The proposed pricing principles will lead to a significant increase in prices and a significantly higher financial burden on the domestic market compared to the current situation. For this reason, this proposal cannot be accepted and we recommend a thorough reassessment and subsequent adjustment of the price level without overburdening the domestic market. It is also necessary to assess the extent of the transmission system needed under the new conditions and to conserve redundant parts of the system, thereby reducing the costs of the system. If the transmission system operator wishes to continue to operate on the current scale, it should do so on its own account and not on behalf of domestic customers.

We also propose to maintain the dual regime of regulation through a revenue cap for customers within the system and a price cap for customers between systems. At the same time, we also require that this department be real and that any failure to achieve revenue from international transport is not subsequently passed on to customers in the Czech Republic. We propose that only the range of assets that are really needed for customers in the Czech Republic should be included in the determination of the yield ceiling.

3. Comment on Chapter 7.2 Regulatory regime and determination of revenues of the transmission system operator for the years 2026 to 2030

We fundamentally disagree with the recognition of all assets and depreciation of the transmission system into regulated prices. We call for the share of assets and depreciation of the transmission system operator included in transport prices to be maintained at 2025 levels. We also call for the repurposing of part of the hydrogen transmission system to be taken into account.

Justification for the comment:

The capacity of the transmission system is more than ten times oversized, taking into account the needs of domestic customers, and Net4Gas repeatedly refuses to proceed with any reduction of these excess capacities. At the same time, the Energy Regulatory Office calculates only a negligible volume of transit gas transport of 3.5 TWh until 2030. We see no reason why domestic customers should pay in tariffs for infrastructure built, for example, as part of the Capacity4Gas project, the sole aim of which was to strengthen gas transit through the Czech Republic. That this infrastructure is not used today is a business risk of Net4Gas, which cannot be transferred to customers in the Czech Republic by the responsible regulator. Fitch Ratings upgraded Net4Gas' rating by 2 notches to BBB in December 2024. Net4Gas will thus be in a very good financial condition with regulated revenues for 2025 and there is no reason to increase its regulated revenues further from the point of view of ensuring safe and reliable operation. The regulatory regime should also take into account the planned repurposing of part of the hydrogen transmission system. Hydrogen transport assets should be removed from the RAB of the transmission system.

4. Comment on Chapter 7.2 Regulatory regime and determination of revenues of the transmission system operator for the years 2026 to 2030

We do not agree with the increase of the WACC by 1% depending on the fulfilment of the incentive scheme.

Justification for the comment:

The basic level of the regulated rate of return of 6,90 % already ensures in itself an adequate return on capital employed – thus it was derived. We have doubts as to whether the additional increase in the WACC rate of return, which is to correspond to a reasonable profit achieved in the long term in comparable economic activities, is based on the legislation in force. The Energy Regulatory Office has not explained why the WACC increase should be just 1%, nor is it clear how the incentive scheme will benefit customers whose interests the Energy Regulatory Office is supposed to defend. In general, it makes no sense to motivate a 100% state-owned company using an incentive scheme. The State may impose any objectives and requirements for the operation of the transmission system operator directly within the framework of managerial control.

5. Comment on Chapter 7.4 Target model

We propose to maintain the current 100% discount for storage operators until at least 2028. It should be reduced to the proposed 80% only after the removal of bottlenecks in neighbouring Germany and a significant increase in fixed transport capacity at the exit to the Czech Republic.

Justification for the comment:

the winter season 2023/2024 was extremely warm and this was also reflected in the high filling capacity of the storage tanks at the end of the heating season. Satisfaction over their rapid fulfilment in 2024 is therefore not appropriate. The current heating season, which is approximately average in temperature, shows a significantly different picture, with storage filling at the end of the season expected to be around 20% and significantly more difficult to replenish in 2025. This is also reflected in the evolution of gas commodity prices, which show an inverse position where gas is cheaper for 2026 than in the storage filling period in 2025, which will further complicate storage filling significantly in 2025. Similar situations have recently occurred quite often and it would be worth a deeper analysis of the extent to which they threaten during the period in question. The bottlenecks for gas transmission through Germany have not yet been removed and the fixed capacity provided by Germany at the Brandov transport point is very limited – see Chapter 6.3. of the document consulted, according to which the construction of a Wittenburg filling station is key to strengthening capacities to the east, but this is not foreseen before 2028. Until the bottlenecks in Germany are removed and fixed transport capacity to the Czech Republic is significantly increased and the situation on the gas market, which is still not fully stabilised, calms down overall, we do not see any scope for reducing the 100% discount for storage operators. We believe that at least until 2028, the ERO should continue with a 100 % discount for storage operators and only after removing bottlenecks in Germany should it eventually proceed to reduce it to the proposed 80 %.