

CONSULTATION DOCUMENT
**UNDER ARTICLE 26 OF COMMISSION
REGULATION (EU) 2017/460 OF 16 MARCH
2017 ESTABLISHING A NETWORK CODE ON
HARMONISED TRANSMISSION TARIFF
STRUCTURES FOR GAS**

Contents

| | | |
|-----|---|----|
| 1 | TERMS AND ABBREVIATIONS..... | 2 |
| 2 | INTRODUCTION..... | 4 |
| 3 | THE LEGAL ENVIRONMENT | 4 |
| 4 | DISCLAIMER..... | 5 |
| 5 | NEW GAS MARKET ARRANGEMENTS | 6 |
| 5.1 | Changes in gas sources and flows for supplying Europe | 6 |
| 5.2 | Changes in the structure of booked transmission capacities | 9 |
| 5.3 | The changed role of storage facilities and discount applied to gas transmission to and from storage facilities..... | 10 |
| 6 | DESCRIPTION AND DEVELOPMENT OF THE CZECH TRANSMISSION INFRASTRUCTURE..... | 11 |
| 6.1 | Description of the transmission network | 11 |
| 6.2 | The GAZELLE pipeline..... | 11 |
| 6.3 | Planned development of the network between 2026 and 2030 | 11 |
| 6.4 | The transmission network's readiness for hydrogen..... | 12 |
| 7 | DESCRIPTION OF THE PROPOSED REFERENCE PRICE METHODOLOGY | 14 |
| 7.1 | General pricing assumptions | 14 |
| 7.2 | Regulatory regime and setting revenue for the transmission system operator for 2026-2030..... | 15 |
| 7.3 | Determining the reference prices using the capacity weighted distance methodology (CWD), with entry-exit split 50/50 and a discount of 50% applied to tariffs for storage facilities (Article 8 NC TAR) | 15 |
| 7.4 | The target model | 17 |
| 7.5 | Regulatory account and its reconciliation | 18 |
| 7.6 | Justification of the compliance of the proposed method of implementation with the requirements of Article 7 NC TAR | 18 |
| 7.7 | Reasons for dismissing other methodologies | 18 |
| 7.8 | Comparison of the proposed methodology (target model) with that described in Article 8 NC TAR..... | 18 |
| 8 | INDICATIVE INFORMATION ABOUT ITEMS REFERRED TO IN ARTICLE 30(1)(A) NC TAR..... | 19 |
| 8.1 | Localities of entry and exit points..... | 19 |
| 8.2 | Distances between entry and exit points | 22 |
| 8.3 | Forecasted contracted capacity at entry and exit points | 23 |
| 8.4 | Quantity and direction of gas flows for entry and exit points..... | 25 |
| 8.5 | The structural representation of the transmission network with an appropriate level of detail | 26 |
| 9 | INFORMATION PUBLISHED UNDER ARTICLE 26(1)(A)(V) NC TAR | 26 |
| 10 | The COMMODITY-BASED TRANSMISSION TARIFFS (VARIABLE COMPONENT OF THE PRICE)..... | 27 |

| | | |
|------|---|-----------|
| 10.1 | The manner of determining the variable component of the price..... | 27 |
| 10.2 | The share of the allowed revenue forecasted to be recovered from such tariffs | 27 |
| 10.3 | The indicative commodity-based transmission tariffs | 27 |
| 10.4 | Correction of the actual costs and revenue in the case of the variable component of the price..... | 28 |
| 10.5 | Cost allocation comparison index for commodity-based transmission tariffs..... | 28 |
| 11 | THE DIFFERENCE IN THE LEVEL OF TRANSMISSION TARIFFS FOR THE PREVAILING TARIFF PERIOD AND THE PERIOD THAT THE CONSULTED PROPOSAL CONCERNS | 28 |
| 11.1 | The simplified tariff model..... | 28 |
| 12 | FIXED PAYABLE PRICE | 28 |
| 13 | CONSULTATION UNDER ARTICLE 28 NC TAR | 29 |
| 13.1 | Setting the level of multipliers | 29 |
| 13.2 | Setting the levels of seasonal factors and the calculations referred to in Article 15 NC TAR..... | 30 |
| 13.3 | Discounts referred to in Article 9(2) and Article 16 NC TAR..... | 31 |

DRAFT

1 TERMS AND ABBREVIATIONS

The CWD model, CWD methodology

The capacity weighted distance reference price methodology

DZK

Dynamisch zuordenbare Kapazität – Dynamically allocated capacity

<https://www.gascade.de/fuer-unsere-kunden/transportkunden>

FZK

Feste, frei zuordenbare Kapazität – Freely allocated capacity (firm)

<https://www.gascade.de/fuer-unsere-kunden/transportkunden>

FNB Gas

An association of supra-regional gas transmission companies, FNB Gas coordinates the technical exchange between its members, represents the positions of transmission system operators and is the contact for politicians and the public, see <https://fnb-gas.de/en/about-fnb-gas/>

The Energy Act

Act No 458/2000 on conditions for business and state administration in energy industries and amending certain laws (the Energy Act), as amended

ERO

The Energy Regulatory Office

Gazprom, GPE

Gazprom Export, LLC

HB

Cross-border point

Draft Methodology for the Sixth Regulatory Period

Draft Methodology for Price Regulation in the Regulatory Period 2026-2030 in the Electricity and Gas Industries, for the Market Operator's Activities in the Electricity and Gas Industries, for the Electricity Data Centre, for Mandatory Buyers, and for Suppliers of Last Resort, published by the Energy Regulatory Office on 31 August 2024

NC CAM

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

NC TAR

COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

NET4GAS, the transmission system operator (TSO)

NET4GAS, s.r.o., the holder of an exclusive licence for gas transmission in the Czech Republic

DSO (PDS in Czech)

Distribution system operator

DCC (PPZ in Czech)

Customer directly connected to the transmission network

UGS, UGS facility (PZP in Czech)

Underground gas storage facility

RAB

Regulatory Asset Base

The Decision

The motivated decision under Article 27(4) NC TAR

Variable component of the price

A flow-based charge for recouping the costs incurred in the operation of compressor and delivery stations, which is not included in the fixed component of the price for booked capacity

VIP

Virtual cross-border (interconnection) point¹

WACC

Reference value of the regulated rate of return

DRAFT

¹ Article 19 (9) NC CAM

2 INTRODUCTION

This document serves for the carrying out of the final consultation prior to the decision referred to in Article 26 to Article 28 NC TAR. The consultation document sets forth the proposed methodology for determining reference prices for the gas transmission service. The reference prices calculated using the consulted methodology constitute in the Czech Republic a plan for a period of five years from 1 January 2026 to 31 December 2030.

The tariff period under Article 3(23) NC TAR is one year.

Based on the suggestions and comments on this document, raised as part of the public consultation, ERO will issue a motivated decision under Article 27(4) NC TAR, which will be published by 31 May 2025. Because of the uncertainty, primarily regarding the planned capacities for cross-system gas transmission, which specifically in 2025 is associated with the possible discontinuation of gas transmission across Ukraine, the Decision under NC TAR for 2026 to 2030 on the planned reference prices can reflect the gas flow situation that will only emerge during or even following the end of this consultation should it differ rather significantly from the assumptions used in this consultation. The charge for gas storage, which is included in transmission tariffs and set by Trading Hub Europe GmbH (THE) in compliance with Section 35e of the law on the energy industry (EnWG), also plays an important role in the use of the capacities at cross-border points from Germany. The applicability of the charge was extended to 2027. From 1 January 2025, it should amount to EUR 2.99/MWh; according to the German government's earlier promise, there is an option that it might be lifted at cross-border points, which, however, requires an amendment to the law; this amendment was passed when the Czech version of this document was already posted on the website and this English version was being written; ERO will therefore treat the issue accordingly.

The content of this consultation document is in compliance with the binding provisions of the NC TAR while taking into account the changes triggered by the war in Ukraine and their impacts on the gas market and on gas transmission. The proposed methodology minimises the adverse effects on the various groups of gas market participants in the Czech Republic and ensures the operation of the critical infrastructure.

3 THE LEGAL ENVIRONMENT

NC TAR requires the national regulatory authority or the transmission system operator to perform the steps referred to in Article 5(1), Article 26(1), Article 27(1), Article 29, and Article 30 NC TAR in line with the relevant national regulatory authority's decision.

ERO has assessed this allocation of competences in the context of the applicable Czech legislative framework and concluded that, for the reasons set out in the following, ERO will be the entity responsible for the required steps.

Being a Commission Regulation, the NC TAR is a directly applicable part of the Czech legal system. Furthermore, in relation to ERO, the issue covered by the NC TAR is provided for in Act No 526/1990 on Prices, as amended, and in the Energy Act. Within the Czech legal system, the basis for meeting the requirements of the Regulation must mainly include Section 18e(1) of Act No 526/1990. The competence to regulate prices in the energy sector has been vested in ERO by the law, and ERO vesting this competence in itself through its decision in administrative proceedings is not only redundant but even impermissible from the perspective of Czech constitutional principles.

And so, if the required outcome of the above decision is that the activities under the NC TAR, which are to be the subject matter of the decision, are carried out by ERO (as Act No 526/1990 taken together with the Energy Act requires already now) to the full extent and exclusively, then the following is true: the non-issuance of the decision imposing an obligation on the transmission system operator to perform certain activities means that ERO shall perform these activities (by the operation of law). In the present case, the rules contained in all of the above three pieces of legislation are basically identical with a view to fulfilling the meaning and purpose of the NC TAR.

4 DISCLAIMER

ERO is presenting a consultation document that has been prepared in compliance with the applicable legislation and based on its own information sources and on information provided by the transmission system operator.

All calculation models presented for public consultation are based on data, information and assumptions available as at the day of launching the consultation under Article 26 NC TAR.

The consultation document is intended exclusively for the purposes set out in the NC TAR.

DRAFT

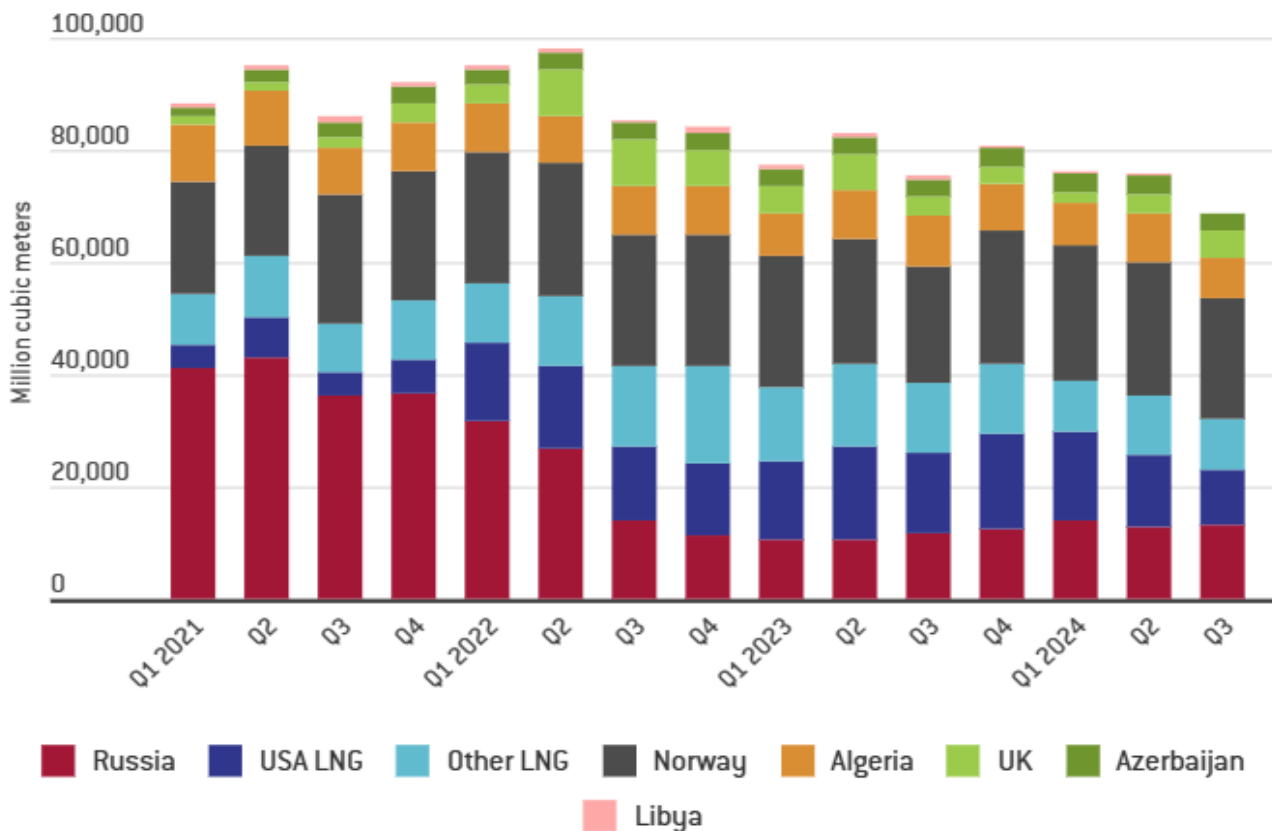
5 NEW GAS MARKET ARRANGEMENTS

The gas market transformation, visible since 2022 due to the impacts of the war in Ukraine, and the adoption of a new EU energy policy as part of REPowerEU, with a view to providing safe, reliable and affordable energy to European customers, are becoming a new standard for energy markets in the EU. The continued enhancement of energy security and diversification of gas sources as well as the transition to zero carbon technology is being achieved through market, political and regulatory measures with a view to meeting the set milestones.

5.1 Changes in gas sources and flows for supplying Europe

Given the persisting conflict in Ukraine, reducing the EU’s dependence on fossil fuel supply from Russia is an ongoing policy and its impacts can still be expected in the consulted period 2026-2030. Based on information available to ERO, which is valid on the publication date of this consultation document, the termination of the contract for Russian gas transit across Ukraine can be expected at the end of 2024 and it will be possible to first see the impacts on the European gas market already during the process of adopting the Decision under the NC TAR for 2026 to 2030. The gradual completion of infrastructure projects across EU countries, such as the completion of LNG receiving terminals, infrastructure debottlenecking for increasing transit capacities from the west to the east and the construction of brand-new interconnections for supplying Central and Eastern Europe, will produce its impacts during the consulted period until 2030. The change in the structure of the sources for supplying the EU with gas since 2021 is apparent from the following Chart.

Chart 1 Gas sources for supplying the EU



Source: Bruegel AISBL²

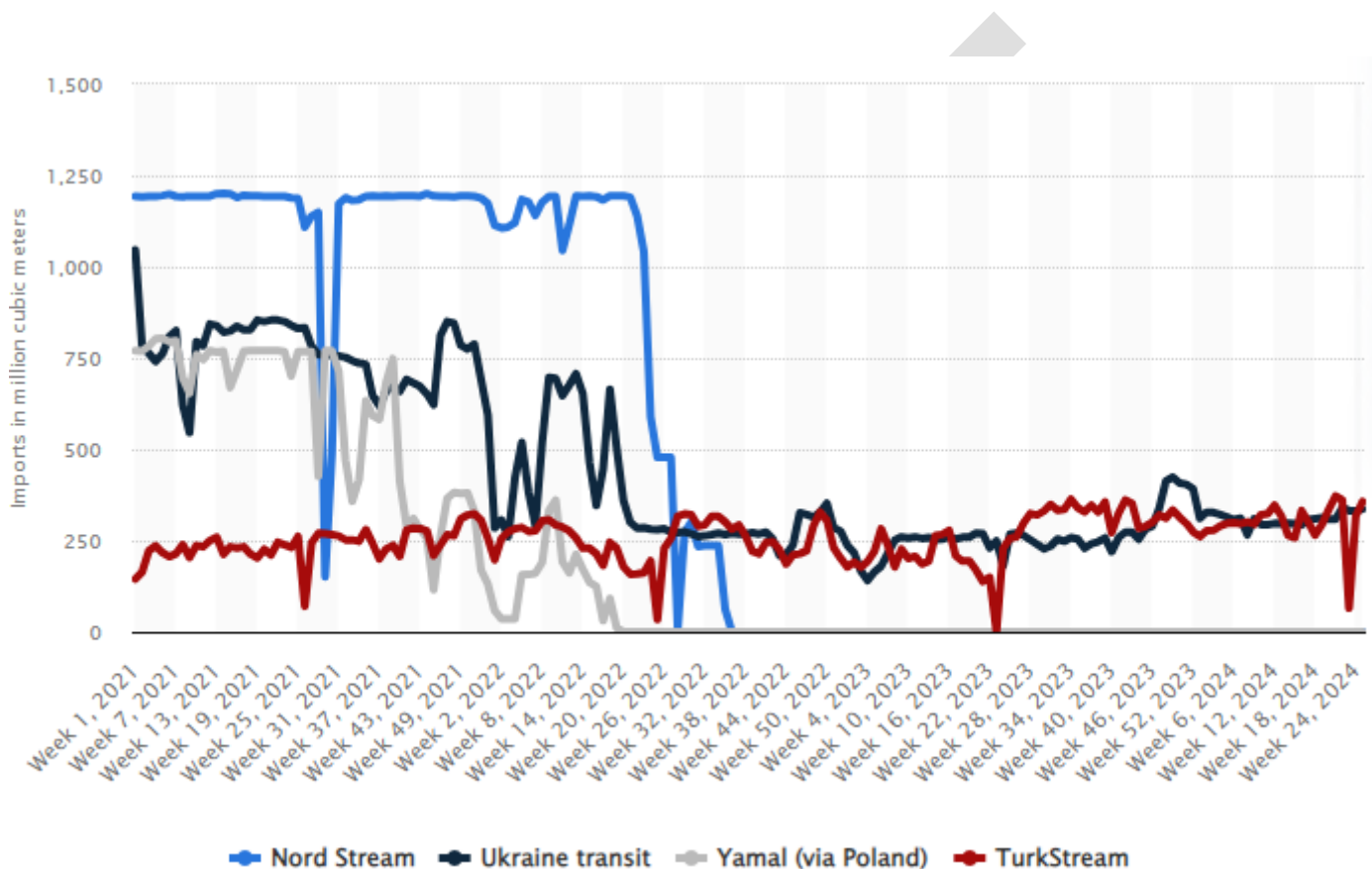
While we can expect Central and Eastern Europe to be supplied from new directions, over the medium term it is unlikely that supplying western and central Europe with pipeline gas from Russia through the damaged Nord Stream pipes will be resumed or the contract for transit through the Yamal Europe pipeline renewed. For the Czech transmission network, this situation has adverse impacts in the form of lower cross-system gas transmission, with a potential that this situation will change if the contract for transit

² <https://www.bruegel.org/dataset/european-natural-gas-imports>

across Ukraine is terminated, as a result of which supplying Central and Eastern European countries could take place, to a large extent, precisely across the Czech transmission network.

Changes in gas flows to Europe and via the entry and exit points of the Czech transmission network since 2021 (or 2023, as applicable) are apparent from the following Charts.

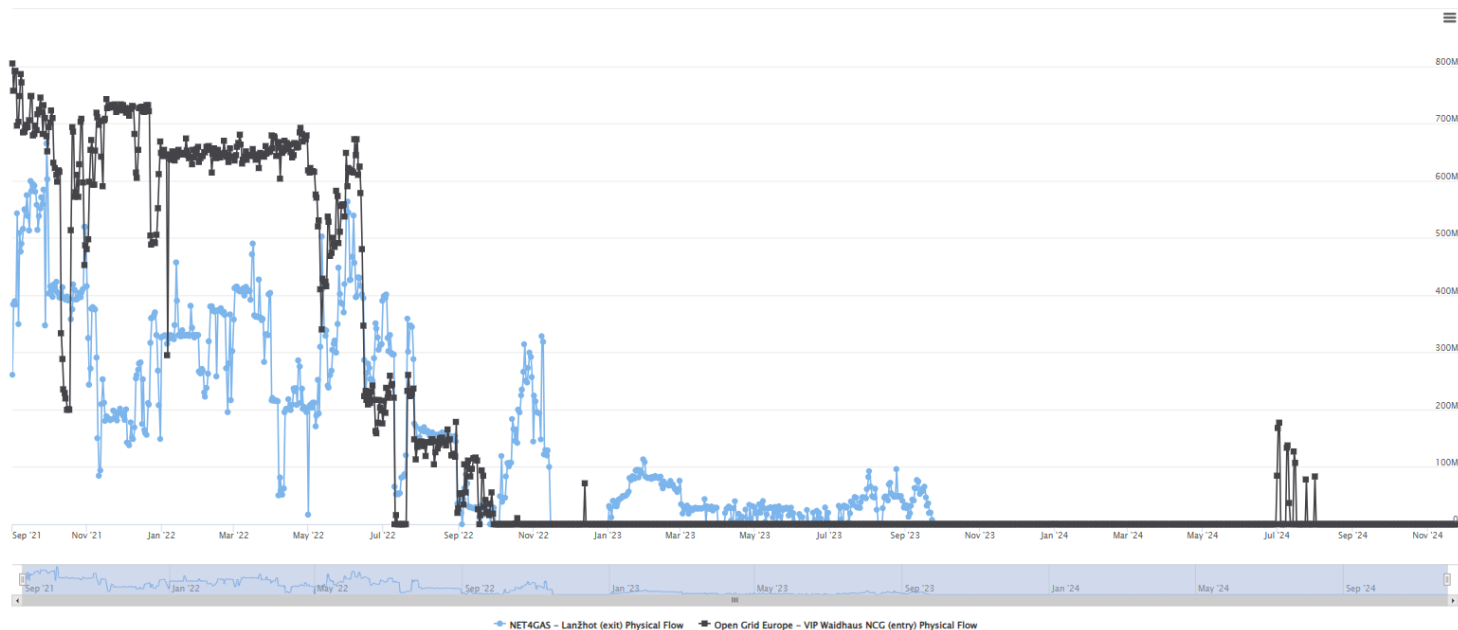
Chart 2 Natural gas imports from Russia to the EU and the United Kingdom weekly from 2021 to 2024, by exporting route (in million cubic metres)



Source: statista.com³

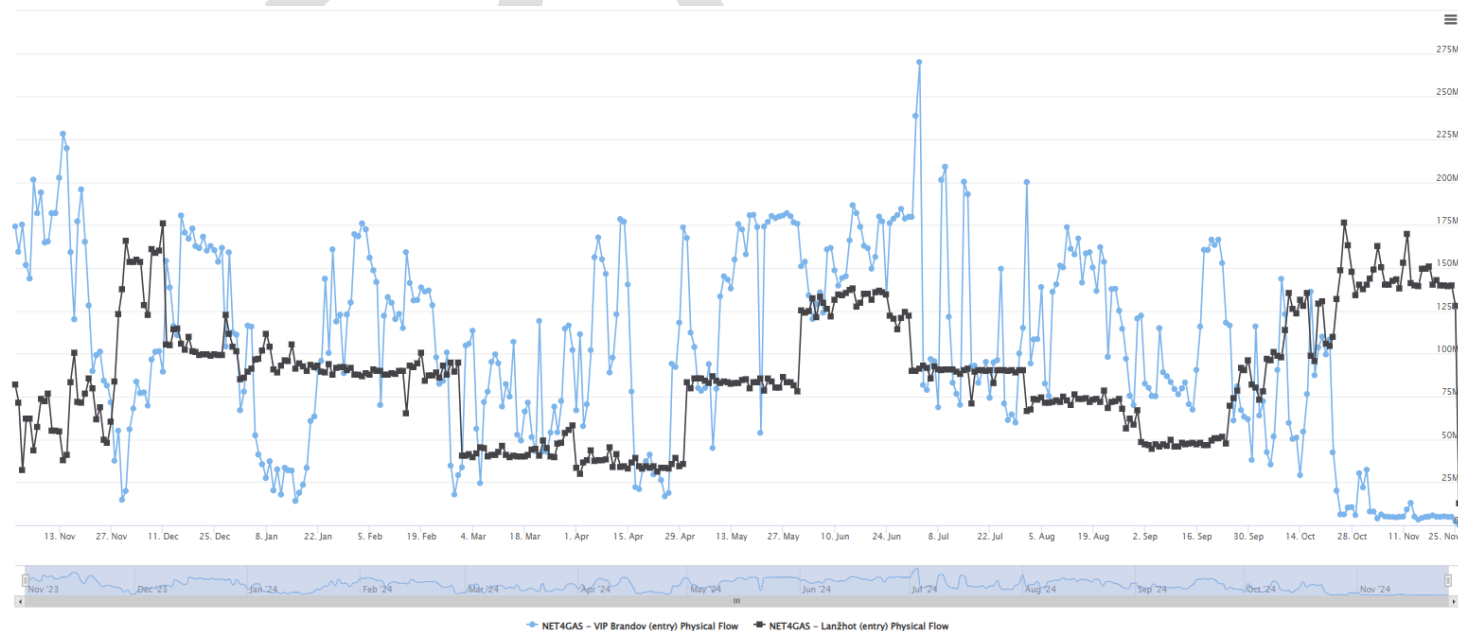
³ Statista; Statista Research Department (September 2024); Online; Available at <https://www.statista.com/statistics/1331770/eu-gas-imports-from-russia-by-route/>

Chart 3 Lanžhot and Waidhaus (exit points): Daily physical flows in kWh/d from 1 October 2021 to 6 December 2024



Source: ENTSOG⁴

Chart 4 Brandov and Lanžhot (entry points): Daily physical flows in kWh/d from 1 October 2023 to 30 November 2024



Source: ENTSOG⁵

⁴ Entso-g transparency platform; transparency.entso-g.eu; Online; Available at <https://transparency.entso-g.eu/#/points/data?from=2021-10-01&points=cz-tso-0001itp-00051exit%2Cde-tso-0009itp-00538entry>

⁵ <https://transparency.entso-g.eu/#/points/data?from=2022-08-31&points=cz-tso-0001itp-00051entry%2Ccz-tso-0001itp-00535entry>

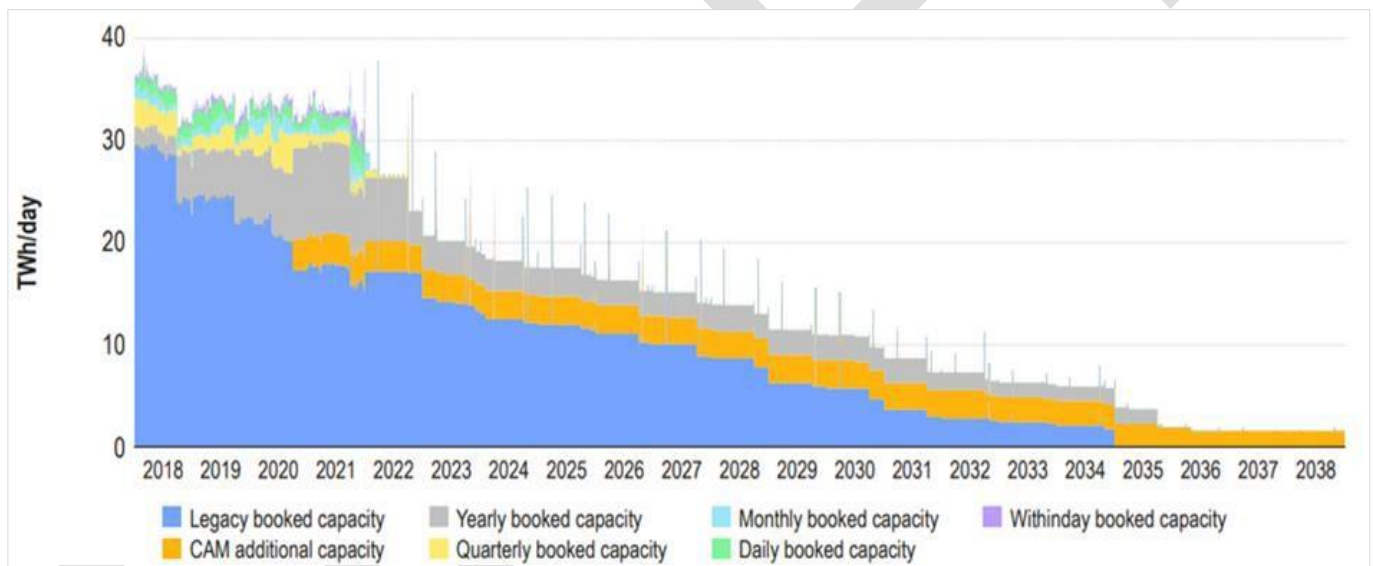
5.2 Changes in the structure of booked transmission capacities

The changes in gas flows in European transmission networks have also impacted on the transmission capacity market.

“The capacity market has also faced structural changes since 2022: the use of short-term booking capacity products has increased as a reaction to ongoing rerouting flows from North-West Europe eastwards. This raises a need to adjust gas transportation mechanisms when higher spreads emerge between European gas hubs, and bottlenecks occur, as well as mitigate remaining contractual congestions across the EU.”⁶

European climate commitments have given gas a transitory role in energy transition towards climate neutrality and hydrogen economy. The legal and regulatory requirements, such as the EU taxonomy package, caused the evolution of booked capacity and the expiration of legacy capacity contracts to result in a lower predictability of future transit flow still before the Russian aggression in Ukraine. This trend continues, which is also visible from the results of auctions of NET4GAS’s yearly capacity products for 2025 and beyond, when no market demand for yearly product was registered. Chart 5 shows the evolution of legacy and short-term capacity contracts in the EU.

Chart 5 Evolution of booked capacity in the EU and expiration of legacy capacity contracts at CAM relevant points



Source: ACER⁷

An ACER analysis notes the following: “The significance and structure of long-term gas supply contracts going forward is an important issue being reconsidered. Despite the fact that long-term contracts have declined in recent years and will likely continue to do so, such historical contracts still account for 80% of EU gas demand (around 40% of long-term contracts are signed with Gazprom⁷).

The large proportion of Gazprom’s long-term capacity contracts has opened new uncertainties and system risks for capacity providers. The reduced volume of commodity supply and Gazprom’s breaches of forward contracts for gas supply to Europe has disrupted the capacity markets’ working and cast doubt on the current design of national regulatory frameworks, primarily in countries affected by the disruption in the corridor for gas transport from the west. The above Chart also shows the evolution of capacity bookings since 2018, including GPE’s long-term contracts, with many of them already terminated (in particular capacities for transit through the German transmission network, including those for gas transmission to the Czech Republic through OPAL and EUGAL).

⁶ European Parliament, Study requested by the ITRE Committee, The Revision of the Third Energy Package for Gas, November, 2022 [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734009/IPOL_STU\(2022\)734009_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734009/IPOL_STU(2022)734009_EN.pdf), p 60

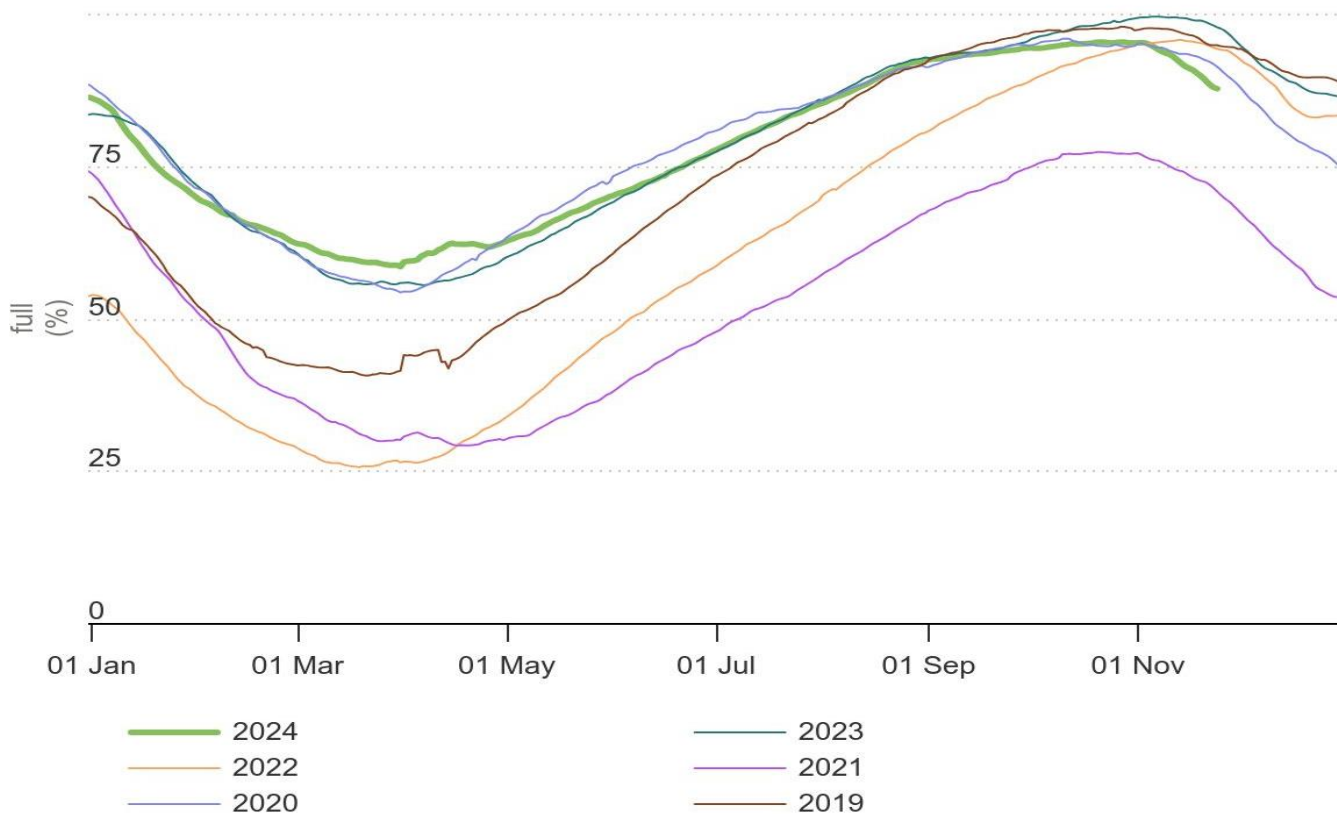
⁷ ACER and CEER, 2022, Annual report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2021. Gas Wholesale Markets Volume, July 2022

5.3 The changed role of storage facilities and discount applied to gas transmission to and from storage facilities

REPowerEU placed emphasis on the security of European energy supply before the 2022 winter season and promoted the importance of gas storage facilities. It can be noted that the benefits of storage facilities have been highlighted again in connection with gas supply security in periods when gas flows via entry points do not meet the demand in the relevant location. The implementation of legislative measures, such as the discounts on tariffs related to transmission to and from storage facilities, have primarily motivated market participants to achieve the targets of expeditious storage filling; however, secondarily, it shifted the allocation of the relevant costs in the transmission network to other points in the network. ERO was monitoring the European levels of discounts on tariffs for transmission to and from storage facilities and on 10 May 2022 published its Price Decision 2/2022 whereby it introduced a 100% discount at those points. This was carried out using the option under Regulation (EU) 2022/1032 amending Regulation (ES) 715/2009 and in accordance with Article 9(1) NC TAR envisaging a discount of at least 50% applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities. Before introducing this 100% discount, a discount of 70% was applied in the Czech Republic.

The storage filling levels in 2024 are some of the highest ever and also some of the earliest achieved, as shown by the Chart below. A combination of lower gas consumption across EU countries and favourable weather with its above-average warm winter season 2023/2024 helped to meet the milestones accomplishing the objectives of Regulation (EU) 2022/1032. The low consumption, the successful debottlenecking for supplying the region from new directions, and the experience of the market mechanisms' sufficient capability to fill storage facilities quickly offer some room for passing through a part of the relevant costs of gas transmission from and to storage facilities to their users and for reducing the currently applicable 100% discount for the consulted period.

Chart 6 Storage filling levels in the EU



Source: GIE, Gas Infrastructure Europe⁸

⁸ <https://agsi.gie.eu/data-visualisation/filling-levels/EU>

6 DESCRIPTION AND DEVELOPMENT OF THE CZECH TRANSMISSION INFRASTRUCTURE

6.1 Description of the transmission network

The transmission network comprises gas pipelines for gas transmission with a total length of 4,059 km, nominal diameters ranging from DN 80 to DN 1400, and nominal pressures ranging from 4 to 8.5 MPa.

The transmission network can be divided into four main branches. The northern branch runs from Lanžhot to Brandov/Hora Svaté Kateřiny, the southern branch runs from Lanžhot to Rozvadov, and the western branch interconnects the northern and southern branches in western Bohemia. In the eastern part of the country, the 'Moravian branch' helps to supply gas to Moravian regions and joins the Polish transmission network. The northern, southern and western branches are interconnected at the key junction points in Malešovice, Hospozín and Přimda.

Upon entering and exiting the Czech Republic, gas is 'delivered and accepted', that is, gas quantity and quality are metered at the cross-border transfer stations between the Czech Republic and Slovakia at Lanžhot, between the Czech Republic and Germany at Hora Svaté Kateřiny, Olbernhau, Brandov (Saxony), and Waidhaus (Bavaria), and between the Czech Republic and Poland gas is metered in Cieszyn on the Polish side of the national border.

Upon entering the Czech Republic, gas intended for consumption in the Czech Republic is transported through gas pipelines via national delivery stations into each of the distribution systems in each of the regions, to customers directly connected to the transmission network, and to storage facilities.

The pressure required in the gas pipelines is maintained by five compressor stations located in the northern branch at Kralice nad Oslavou, Kouřim, and Otvice and in the southern branch at Veselí nad Lužnicí and at Břeclav. All compressor stations, with the exception of the Otvice station, are capable of bidirectional operation. The installed power of the compressors totals 281 MW.

Table 1 Compressor stations in the transmission network and their capacities

| Compressor stations | Otvice | Kralice nad Oslavou | Kouřim | Břeclav | Veselí nad Lužnicí |
|--|----------|---------------------|-----------|-----------|--------------------|
| Number of turbine sets and their power | 3 x 8 MW | 5 x 6 MW | 5 x 6 MW | 9 x 6 MW | 6 x 6 MW |
| | | 2 x 13 MW | 2 x 13 MW | 1 x 16 MW | |
| | | 1 x 12 MW | 1 x 12 MW | 1 x 15 MW | |
| Installed power | 24 MW | 68 MW | 68 MW | 85 MW | 36 MW |
| Total installed capacity for transmission | | | | | 281 MW |

Source: NET4GAS

6.2 The GAZELLE pipeline

In 2011, the GAZELLE pipeline, connected with OPAL near Brandov and, via the Rozvadov-Waidhaus cross-border transfer station, with the MEGAL transmission network, was, in ERO's decision, exempted from the obligation to allow third party access (TPA) under the conditions of the Energy Act and from the obligation of the ownership unbundling of the transmission system operator within the meaning of Section 67 of the Energy Act for the period until 1 January 2035. The European Commission confirmed this in 2011 by its decision to grant an exemption from TPA under Article 36 of Directive 2009/73/EC.

6.3 Planned development of the network between 2026 and 2030

Czech-Polish interconnection between transmission networks

The consulted period will see the implementation of a project supporting bidirectional flow at the Český Těšín IP site. The first stage of the Reverse Flow Via Český Těšín IP project is the construction of a DN 500 interconnector between the STORK I pipeline and the Třanovice delivery station and the second stage involves the construction of a compressor station. The first stage will create the option to take gas from Poland for supplying Czech customers in cases of extraordinary emergencies while the second stage will yield cross-border firm technical capacity. The first stage is expected to be commissioned in 2025/2026 (the final investment decision has been made) and the second stage is expected to be commissioned in 2028 (there is no final investment decision now).

Once completed, the project will help to meet the obligation to provide bidirectional capacity at the Český Těšín cross-border point (albeit only for the direction from Poland in cases of extraordinary emergencies at the first stage) in compliance with Regulation (EU) 2017/1938 of 25 October 2017 concerning measures to safeguard the security of gas supply. The first stage will primarily help to improve the security of gas supply for Northern Moravia's needs and the second stage will boost gas supply security in broader terms, i.e. for the whole Czech Republic. In technical terms, the project is coordinated by the Czech (NET4GAS) and Polish (GAZ-SYSTEM S.A.) transmission system operators.

Development activities in respect of the country's consumption

Judging by the applications for connection, the transmission system operator expects the completion of development projects with a total capacity of 170 GWh/day. An increase in the expected consumption of gas for electricity and heat production and, mainly in the winter season, daily peak consumption higher than in the past are also expected in connection with these development projects. The ratio of the daily peak consumption and the maximum daily exit capacity from the transmission network for the country's consumption is shown in the Ten-year National Development Plan for the gas transmission system in the Czech Republic 2025-2034 in point 8.2.1.⁹

Capacity situation at the cross-border interconnection point with Germany

Because of the currently limited options for gas import into Germany (primarily due to the interruption of gas supply through Nord Stream) and the temporary infrastructure constraints in the German transmission network in the direction to the Czech Republic, long-term plans for the security of gas supply to central Europe must primarily derive from capacities offered from the German side.

Judging by the capacities posted on GASCADE's website, the German FZK exit capacity at the Brandov VIP has been set at 268.8 GWh/d as of 1 October 2024. For the 2024/2025 gas year, the total technical capacity (including DZK) has been set at around 350 GWh/d; compared with the preceding gas year, it was lowered from 1,657.8 GWh/d due to the termination of DZK capacity offers. GASCADE will sell additional capacities primarily in the form of interruptible capacity products.

FNB Gas lists in the Gas Network Development Plan 2022-2032 a number of projects to reinforce German transmission capacities from the west to the east of Germany. From the perspective of the Czech Republic and the whole CEE region, the most important projects include the reinforcement of the Rehden compressor station and the construction of a new compressor station at Wittenburg. The completion of these two compressor stations will make it possible, from the German side, to allocate more of firm FZK capacity to the Brandov VIP. However, the completion of the Wittenburg compressor station, which is crucial for reinforcing capacities towards the east, is not expected before 2028 according to the Plan.

6.4 The transmission network's readiness for hydrogen

In relation to the targets of the EU Hydrogen Strategy and the Green Deal for Europe, and the targets and tasks of The Hydrogen Strategy of the Czech Republic, the transmission system operator's key role should be envisaged. This role should reflect the changes related to the promotion of the decarbonisation targets and the objectives of the country's economy. Going forward, The Hydrogen Strategy of the Czech Republic expects that the Czech Republic will have to import hydrogen from countries with more favourable conditions for renewable hydrogen production.

Over the medium term, the use of the transmission network for transporting hydrogen/natural gas mixtures is expected because of the obligations arising from the EU legislation and of the fact that some adjacent foreign transmission system operators expect gas mixtures containing up to 2% of hydrogen (volumetric) to appear in their networks from 2026.

Over the long term, the objective is to develop a dedicated infrastructure for pure hydrogen transport. The transmission system operator is participating in activities related to hydrogen transport; in particular, it is examining the options for repurposing a part of the existing transmission network for these purposes.

Legislative framework

Preparing the transmission network (its repurposing) and in fact the entire Czech gas system for the option of transporting very clean hydrogen (or green hydrogen) will, however, also require extensive legislative

⁹ <https://eru.gov.cz/desetiletý-plan-rozvoje-prepravni-soustavy-v-ceske-republice-2025-2034-zaslany-spolecnosti-net4gas>, document for public consultation

changes, the development of a new regulatory framework and, not least, further research into the technical capabilities of the existing gas system and its various components.

The required changes in the applicable legislation started to appear in early 2024 when the definition of hydrogen as a gaseous fuel in the energy sector was implemented in the Energy Act. Further legislative changes are based on, *inter alia*, the applicable gas decarbonisation package¹⁰, which will specify the limits for hydrogen system operation, and are expected in 2025. They are expected to make it possible to open the certification procedure for the hydrogen transmission system operator, thereby *de facto* enabling the emergence of an entity the primary objective of which is hydrogen transmission through and within the Czech Republic.

The hydrogen backbone infrastructure considered

Thanks to its geographical position and existing transmission infrastructure, the Czech Republic is endowed with a great potential to become a major transit country for hydrogen without jeopardising natural gas transmission for customers in and outside the Czech Republic. The transmission system operator is therefore currently planning three projects for repurposing a part of the transmission network; inside the Czech Republic, they will interconnect the largest cross-border interconnection points with neighbouring countries. These are specifically the Brandov VIP, Waidhaus VIP (interconnection with Germany) and Lanžhot IP (interconnection with Slovakia). The projects are:

- Czech Hydrogen Backbone Infrastructure ZÁPAD (=WEST) (HYD-N-1034)
- Czech Hydrogen Backbone Infrastructure JIH (=SOUTH) (HYD-N-990)
- Czech Hydrogen Backbone Infrastructure SEVER (=NORTH) (HYD-N-1251)

Figure 1 Hydrogen backbone infrastructure



Source: NET4GAS

The planned German and Slovak hydrogen infrastructures connect to the Czech hydrogen backbone infrastructure under consideration. This is one of the reasons why in 2023, Czech Hydrogen Backbone Infrastructure WEST (HYD-N-1034) and SOUTH (HYD-N-990) were included in the EU's list of projects of common interests and projects of mutual interest (EU's PCI/PMI list), which contains the key cross-border infrastructure projects for Europe.

In September 2024, the European Commission launched the process for a new PCI/PMI list. The deadline for submitting applications for candidate projects aiming to obtain the project of common interest (PCI) or the project of mutual interest (PMI) status was 18 November 2024. Czech Hydrogen Backbone Infrastructure NORTH (HYD-N-1251) and Czech Hydrogen Backbone Infrastructure WEST (HYD-N-1034) are vying for inclusion in the next PCI/PMI list, the completion of which is expected by 30 November 2025.

¹⁰ <https://eur-lex.europa.eu/eli/reg/2024/1789/oj> and <https://eur-lex.europa.eu/eli/dir/2024/1788/oj>

7 DESCRIPTION OF THE PROPOSED REFERENCE PRICE METHODOLOGY

7.1 General pricing assumptions

The persistent changes in the Union's gas market, which have been caused by geopolitical developments and which significantly influence the use of the transmission system in the Czech Republic, are causing the following:

- The ratios for allocating network costs (cost allocation ratios) applied until 2024 no longer reflect the current situation in the use of the various assets in the transmission network for intra-system transmission and for cross-system transmission, and the absence yearly firm cross-border capacity bookings for the 2024/2025 gas year through the latest auction only vindicates this statement;
- Not only the situation with yearly bookings but also the volumes of short-term cross-border capacity bookings and their very low predictability over the entire five-year period justify the transition to the regime of a single revenue cap as an appropriate regulatory framework for a transmission network in which the importance of intra-system transmission predominates.

In the case of the provision of the gas transmission service it is not feasible to correctly quantify the risk associated with the historical capacity bookings by the key Russian customer (GPE); the risk has already been felt and with a probability converging to certainty it will continue to be felt in the form of wilful defaults on transmission contracts and a complete loss of payments, resulting in unmet costs of the transmission network and shortages of funds. This risk can be suitably diversified only through the participation of other network users.

On the other hand, it is also natural that any future revenue generated by GPE actually honouring its obligations as a result of legal steps for recovering the relevant debts is returned to regulated prices.

The CWD reference price methodology based on realistic (and paid for) contracted/planned capacities is the best way of responding to the current situation and diversifying risks appropriately. However, it is to be noted that the overall design of the regulatory framework must also reflect the possible future evolution of gas flows, which continue to be very difficult to predict given the current circumstances.

The Decision under Article 27(4) NC TAR (*Energy Regulatory Gazette 3/2019 of 27 May 2019*), effective from 2020 to 2024, laid the foundations for applying the CWD methodology as part of the dual transmission system (intra-system/cross-system gas transmission) and as part of the dual regulatory regime (revenue cap/price cap) matching two independent cost bases. This cost separation and the divergence from the standard system, predominating in the EU, of a single revenue cap was motivated by the historical development and the Czech transmission network's dominant transit role. Price Control Principles for the 2021-2025 Regulatory Period in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries, and for Mandatory Buyers then followed the Decision under NC TAR for 2020 to 2024, but for some parametric changes.

The Decision under NC TAR for 2025 works only with a one-year period, in particular because of the existing uncertainty concerning the future transit flows across the Czech Republic. For 2025, ERO keeps in place the dual regime of regulation through revenue cap for intra-system gas transmission to customers and price cap for cross-system gas transmission to customers. However, compared with the preceding period, the importance of the revenue cap regime vis-à-vis the price cap regime (measured by the ratio of the forecasted capacities and regulated revenue) has been boosted because of the changed situation, and the two regimes have been interlinked by a system of minimum revenue guarantees safeguarding the safe and reliable operation of the system for the provision of the gas transmission service for both intra-system and cross-system customers.

ERO has taken into consideration the situation emerging in the wake of the release of the above Decision under the NC TAR for 2025, in particular as regards the evolution of the actual capacity bookings and the possibility of the occurrence of a significant difference between the probable booked capacity for 2025 and its planned amount; in line with its intention, disclosed earlier, it has decided to set the value of the relevant minimum revenue guarantee and include it in the regulated prices for 2025. It additionally decided that all revenue from transmission in excess of the guaranteed level, including that achieved in the price cap regime, would be credited for the benefit of customers through the regulatory account in 2027. The application of this regime results in ensuring sufficient funds for transmission network operation and maintenance and in shielding the country's customers from having to pay all the costs of the entire transmission network.

The current consultation under the NC TAR has been proposed for the period 2026-2030, i.e. for the same period for which the forthcoming new national regulatory period has been designed, with a view to having the same assumptions and inputs as the basis.

7.2 Regulatory regime and setting revenue for the transmission system operator for 2026-2030

The revenue cap regime, i.e. with the existence of a regulatory account, has been selected as the regulatory regime for gas transmission; it will guarantee that the costs of the required critical infrastructure are recouped in adverse situations of low flows.

However, the transition to a fully-fledged regime of a single revenue cap with the reflection of all transmission network assets and depreciation in regulated prices will only take place in 2030. Between 2026 and 2029, this regime will not include the total net book value of assets or total depreciation; the 'revenue reduction coefficient' will be applied to them in each of the years instead. This revenue reduction will be reflected in the relevant CWD model. Given the planned assumptions of future depreciation higher than capex, the application of the revenue reduction coefficient combined with the decreasing net book value of assets will be favourable for the stability of the regulated prices throughout the period. The proposed scheme will make sure that in the case of low cross-system gas flows the transmission system operator will enjoy certainty of recovering revenue adequate to pay the infrastructure costs and of its financial stability, to which the meeting of its obligations to ensure the safe, reliable and economical operation, maintenance, renewal and development of the transmission network is closely related. On the other hand, all revenue from cross-system gas transmission will be included in the regulatory account, including proceeds from the adversarial proceedings conducted with GPE.

The determination of regulated allowed revenue relies on the Draft Methodology for the Sixth Regulatory Period. For the purpose of calculating the transmission tariffs set out in this document the following are the initial assumptions for generating regulated allowed revenue from gas transmission between 2026 and 2030:

- The allowed revenue is based on the planned net book value of assets, planned depreciation, and planned expenditures based on a three-year rolling average of historical operating costs, applying the efficiency factor and the *long-term costs balancing coefficient*, and on WACC applied to the RAB; *[The actually achieved values of economically justified costs, adjusted by the 'long-term cost balancing component' (formerly called 'profit-loss sharing') determine the value of the eligible costs for the sixth regulatory period. The long-term cost balancing component is calculated as the three-year average of the acknowledged portions of the differences between eligible costs and actual economically justified costs in the preceding years, adjusted by the escalation factor, the productivity factor and the long-term cost balancing coefficient whose value has been set at 0.25 for the sixth regulatory period ... or 0.5 at the regulated entity's discretion before the beginning of the regulatory period. ... The long-term cost balancing coefficient then determines the speed at which the one-year gap between actual and eligible costs is filled.]*
- Using the base level of the regulated rate of return (WACC) at 6.90% and its raising by no more than 1.00%, depending on the performance under the incentive scheme set out in the Draft Methodology for the Sixth Regulatory Period. Thus, in the case of non-performance under the incentive schemes, the value 1.00% does not actually have to be achieved;
- Putting in place a trajectory for the transmission system operator's total maximum yearly allowed revenue, applying the revenue reduction coefficient, which will, together with the planned lowering of the net book value of assets, result in the stability of regulated prices throughout the period;
- The difference between the total (operating and capital) costs of the network and the set maximum amount of allowed yearly revenue is charged to the transmission system operator.

7.3 Determining the reference prices using the capacity weighted distance methodology (CWD), with entry-exit split 50/50 and a discount of 50% applied to tariffs for storage facilities (Article 8 NC TAR)

In compliance with the NC TAR requirements, the consultation document contains the calculation of the reference prices under Article 8 NC TAR to allow a comparison with the selected (target) model. The reference price calculation under Article 8 NC TAR is based on the following assumptions:

- The building blocks of total revenue from intra-system and cross-system transmission include operational expenditure, depreciation and profit determined on the basis of the Draft Methodology for the Sixth Regulatory Period;
- Using the capacity weighted distance reference price methodology (CWD) with entry-exit split 50/50; and

- Applying a 50% discount on tariffs for gas transmission to and from storage facilities.

Under the above conditions, the inputs into pricing for the period in question are as follows:

Table 2 Inputs into pricing

| Revenue [CZK million] | 2026 | 2027 | 2028 | 2029 | 2030 |
|---------------------------------|-------|-------|-------|-------|-------|
| Total regulated allowed revenue | 5,586 | 5,901 | 6,210 | 6,373 | 6,319 |

| Forecasted average contracted capacities [MWh/day/year] | |
|---|----------------|
| ENTRY | 2026-2030 |
| VIP Brandov | 166,247 |
| VIP Lanžhot | 109,120 |
| VIP Waidhaus | 0 |
| Český Těšín | 0 |
| Storage facilities (CZ) | 153,033 |
| TOTAL | 428,400 |
| Entry cross-border intra-system points | 264,567 |
| Entry cross-border cross-system points | 10,800 |

| Forecasted average contracted capacities [MWh/day/year] | |
|---|----------------|
| EXIT | 2026-2030 |
| VIP Brandov | 0 |
| VIP Lanžhot | 6,000 |
| VIP Waidhaus | 0 |
| Český Těšín | 4,800 |
| DSO + DCC | 815,603 |
| Storage facilities (CZ) | 130,771 |
| TOTAL | 957,174 |

Source: ERO

The following Table 3 lists the indicative reference prices and the related revenue following tariff equalisation within the exit points of distribution system operators, including customers directly connected to the transmission network (equalisation under Article 6(4)(b) NC TAR):

Table 3 Reference prices and related revenue

| Reference prices | | | | | |
|--------------------------|----------|----------|-----------|-----------|-----------|
| ENTRY [CZK/MWh/day/year] | 2026 | 2027 | 2028 | 2029 | 2030 |
| VIP Brandov | 7,617.51 | 8,046.90 | 8,468.49 | 8,690.66 | 8,617.10 |
| VIP Lanžhot | 5,662.29 | 5,981.46 | 6,294.84 | 6,459.98 | 6,405.31 |
| VIP Waidhaus | 9,177.51 | 9,694.84 | 10,202.76 | 10,470.43 | 10,381.81 |
| Český Těšín | 1,638.49 | 1,730.85 | 1,821.53 | 1,869.32 | 1,853.50 |
| Storage facilities (CZ) | 2,969.66 | 3,137.06 | 3,301.41 | 3,388.02 | 3,359.35 |

| Reference prices | | | | | |
|-------------------------|----------|----------|----------|----------|----------|
| EXIT [CZK/MWh/day/year] | 2026 | 2027 | 2028 | 2029 | 2030 |
| VIP Brandov | 5,930.78 | 6,265.09 | 6,593.32 | 6,766.30 | 6,709.03 |
| VIP Lanžhot | 3,584.87 | 3,786.94 | 3,985.35 | 4,089.90 | 4,055.29 |
| VIP Waidhaus | 4,661.57 | 4,924.33 | 5,182.33 | 5,318.28 | 5,273.27 |
| Český Těšín | 5,976.14 | 6,313.01 | 6,643.76 | 6,818.05 | 6,760.35 |
| DSO + DCC | 3,584.37 | 3,786.42 | 3,984.79 | 4,089.33 | 4,054.72 |
| Storage facilities (CZ) | 2,095.38 | 2,213.49 | 2,329.46 | 2,390.57 | 2,370.34 |

| Revenue [CZK million] | | | | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2026 | 2027 | 2028 | 2029 | 2030 |
| Revenue at entry points | 2,339 | 2,471 | 2,600 | 2,668 | 2,646 |
| Revenue at exit points | 3,248 | 3,431 | 3,610 | 3,705 | 3,674 |
| Total revenue | 5,586 | 5,901 | 6,210 | 6,373 | 6,319 |
| Revenue for intra-system use | 5,462 | 5,770 | 6,072 | 6,232 | 6,179 |
| Revenue for cross-system use | 124 | 131 | 138 | 142 | 140 |

| CAA test (Article 5 NC TAR) | 2026 | 2027 | 2028 | 2029 | 2030 |
|----------------------------------|------|-------|-------|-------|-------|
| Cost allocation comparison index | 7.7% | 10.0% | 12.1% | 13.2% | 12.8% |

Source: ERO

The capacity cost allocation comparison index under Article (5)(1)(a)(iv) NC TAR is 7.7% to 13.2% in this variant, and so in some of the years it exceeds the maximum value (10%) required by the NC TAR, which is due to the application of a 50% discount on prices for gas transmission to and from storage facilities.

7.4 The target model

The target model relies on the assumptions in subchapter 7.3 outlining the model with the 50/50 entry-exit split and applying a 50% discount on tariffs for gas transmission to and from storage facilities. Only changes compared with this model are listed in the following.

The purpose of further steps is to determine such a revenue split and such adjustments to the model, which would also help to meet additional objectives reflecting the national specificities.

Another objective for determining the reference price methodology is finding an entry-exit revenue split continuing the revenue split used in the preceding periods, thereby preserving pricing continuity with the current prices (i.e. between 2026 and 2025), but at the same time converging some more to the splits used in other European countries¹¹. The entry-exit revenue split has therefore been proposed at 15% to 85%.

ERO proposes an 80% discount on tariffs for booking transmission capacity to and from storage facilities throughout the consulted period. This value has been proposed with a view to preserving the favourable effects of the extraordinary legislative measures adopted in the wake of the energy crisis triggered by the impacts of the war in Ukraine and the set obligatory seasonal targets for gas injection, and it also reflects the development of the infrastructures that enhance the diversification of gas supply to the CEE region and the infrastructure debottlenecking projects planned to ensure stable and secure supply to this region, which will be carried out in the consulted period. ERO is also motivated to depart from the currently applicable 100% discount by the evolution in UGS filling since 2022, depicted in Chart 6 in subchapter 5.3, and effort to prevent cross-subsidisation between network users in compliance with Article 7(c) NC TAR. In compliance with Article 9(1), the discount will not apply to cross-border utilisation of the storage facility.

The revenue related to the provision of the above discount is allocated to the intra-system and cross-system users' network exit points. On the whole, the granting of the discount causes the reallocation of revenue totalling CZK 811 million at exit cross-border and exit domestic points of the network, which in the target model is, depending on the forecasted capacities, allocated to intra-system prices at CZK 797 million and to cross-system prices at CZK 14 million.

Table 4 lists the results and indicative reference prices by the target model following the setting of the selected entry-exit split, the tariff equalisation within the exit points of distribution system operators, including customers directly connected to the transmission network (equalisation under Article 6(4)(b) NC TAR), following the application of the discount on tariffs for booking transmission capacity to and from storage facilities. The target model does not consider any adjustment of prices based on benchmarking under Article 6(4)(a) NC TAR in the light of the uncertainty associated with the gas market conditions from 1 January 2025 (termination of gas transmission across Ukraine). The use of the procedure in Article 6(4)(a) will be reviewed again before issuing the Decision under the NC TAR for 2026-2030.

Table 4 Results and indicative reference prices of the target model

| Reference prices [CZK/MWh/day/year] | | | | | |
|-------------------------------------|----------|----------|----------|----------|----------|
| ENTRY | 2026 | 2027 | 2028 | 2029 | 2030 |
| VIP Brandov | 2,317.88 | 2,448.54 | 2,576.82 | 2,644.42 | 2,622.04 |
| VIP Lanžhot | 1,722.94 | 1,820.06 | 1,915.41 | 1,965.66 | 1,949.03 |
| VIP Waidhaus | 2,792.56 | 2,949.97 | 3,104.53 | 3,185.97 | 3,159.01 |
| Český Těšín | 498.57 | 526.67 | 554.26 | 568.80 | 563.99 |
| Storage facilities (CZ) | 361.45 | 381.82 | 401.83 | 412.37 | 408.88 |

| Reference prices [CZK/MWh/day/year] | | | | | |
|-------------------------------------|------|------|------|------|------|
| EXIT | 2026 | 2027 | 2028 | 2029 | 2030 |

¹¹ ACER 2024, Key developments in European gas wholesale markets, available online at: https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER_2024_MMR_Gas_Key_Developments_Q3.pdf, p 27

| | | | | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| VIP Brandov | 9,536.43 | 10,073.99 | 10,601.78 | 10,879.91 | 10,787.83 |
| VIP Lanžhot | 5,764.32 | 6,089.24 | 6,408.27 | 6,576.39 | 6,520.73 |
| VIP Waidhaus | 7,495.60 | 7,918.11 | 8,332.95 | 8,551.57 | 8,479.19 |
| Český Těšín | 9,609.38 | 10,151.05 | 10,682.87 | 10,963.14 | 10,870.35 |
| DSO + DCC | 5,763.51 | 6,088.39 | 6,407.37 | 6,575.47 | 6,519.81 |
| Storage facilities (CZ) | 1,347.71 | 1,423.68 | 1,498.27 | 1,537.57 | 1,524.56 |
| Revenue [CZK million] | 2026 | 2027 | 2028 | 2029 | 2030 |
| Revenue at entry points | 629 | 664 | 699 | 717 | 711 |
| Revenue at exit points | 4,958 | 5,237 | 5,512 | 5,656 | 5,608 |
| Total revenue | 5,586 | 5,901 | 6,210 | 6,373 | 6,319 |
| Revenue for intra-system use | 5,483 | 5,792 | 6,096 | 6,256 | 6,203 |
| Revenue for cross-system use | 103 | 109 | 115 | 118 | 117 |

| | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| CAA test (Article 5 NC TAR) | 2026 | 2027 | 2028 | 2029 | 2030 |
| Cost allocation comparison index | 11.0% | 10.4% | 9.8% | 9.5% | 9.6% |

Source: ERO

In this variant, the capacity cost allocation comparison index under Article 5(1)(a)(iv) NC TAR ranges from 9.5% to 11.0% in each of the years, and in some years it therefore exceeds its maximum value (10%). The reason is the use of the selected entry/exit revenue split at 15%/85% and a discount of 80% on prices for gas transmission to and from storage facilities, the justification for which is set out in this chapter above.

7.5 Regulatory account and its reconciliation

The transmission system operator's entire revenue from the gas transmission service, including the option of including revenue from the variable component of the price, is addressed within the regulatory account and its reconciliation, unless addressed as part of the correction to the variable component of the price. The reconciliation of the differences related to the variable component of the price is outlined in subchapter 10.4.

7.6 Justification of the compliance of the proposed method of implementation with the requirements of Article 7 NC TAR

The principles of pricing chosen for the consulted period 2026-2030, described in the preceding parts of this document, offer the following advantages:

- The tariffs are cost-reflective;
- The tariffs are based on the available information in the current situation, taking into account the level of uncertainty concerning the future gas flows in Europe with an impact on flows across the Czech Republic;
- There is no cross-subsidisation between intra-system and cross-system network users;
- A reasonable price continuity with 2025 is preserved; in the case of tariffs for transmission to and from storage facilities, under Article 9(1) NC TAR an 80% discount is being proposed, which converges to the situation before the introduction of the extraordinary measure in the form of a 100% discount;
- The prices do not form any barrier to cross-border trade.

7.7 Reasons for dismissing other methodologies

ERO seeks continued application of the CWD methodology to the determination of reference prices and therefore does not opt for any alternative methodologies, including e.g. the postage stamp, or for any oversimplifications of the very principles of the CWD methodology.

7.8 Comparison of the proposed methodology (target model) with that described in Article 8 NC TAR

Subchapter 7.4 on the target model outlines its differences from the CWD reference price methodology described in Article 8 NC TAR.

Table 5 Comparison of reference prices in the target model and the methodology described in Article 8 NC TAR

| |
|---|
| Differences in prices between the model under Article 8 NC TAR and the target model [CZK/MWh/day/year] |
|---|

| ENTRY [CZK/MWh/day/year] | 2026 | 2027 | 2028 | 2029 | 2030 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| VIP Brandov | 5,299.63 | 5,598.37 | 5,891.67 | 6,046.24 | 5,995.07 |
| VIP Lanžhot | 3,939.35 | 4,161.40 | 4,379.43 | 4,494.32 | 4,456.28 |
| VIP Waidhaus | 6,384.95 | 6,744.86 | 7,098.23 | 7,284.45 | 7,222.80 |
| Český Těšín | 1,139.93 | 1,204.18 | 1,267.27 | 1,300.52 | 1,289.51 |
| Storage facilities (CZ) | 2,608.21 | 2,755.23 | 2,899.58 | 2,975.66 | 2,950.47 |
| EXIT [CZK/MWh/day/year] | 2026 | 2027 | 2028 | 2029 | 2030 |
| VIP Brandov | -3,605.65 | -3,808.90 | -4,008.45 | -4,113.62 | -4,078.80 |
| VIP Lanžhot | -2,179.45 | -2,302.30 | -2,422.92 | -2,486.48 | -2,465.44 |
| VIP Waidhaus | -2,834.03 | -2,993.78 | -3,150.63 | -3,233.29 | -3,205.92 |
| Český Těšín | -3,633.24 | -3,838.04 | -4,039.12 | -4,145.08 | -4,110.00 |
| DSO + DCC | -2,179.14 | -2,301.98 | -2,422.58 | -2,486.14 | -2,465.09 |
| Storage facility (CZ) | 747.67 | 789.81 | 831.19 | 853.00 | 845.78 |

Source: ERO

8 INDICATIVE INFORMATION ABOUT ITEMS REFERRED TO IN ARTICLE 30(1)(A) NC TAR

For reference price calculation using the CWD methodology, ERO has determined:

- / The localities of the entry and exit points in the transmission network (see 8.1);
- / The distances between the entry and exit points in the transmission network (see 8.2);
- / The forecasted contracted capacities at the entry and exit points (see 8.3);
- / The forecasted flows via the entry and exit points (see 8.4).

The basic parameters and equations for calculating reference prices using the CWD methodology are described in Article 8 NC TAR.

8.1 Localities of entry and exit points

The exact identification of the physical locality of each entry and exit point in the transmission network is prerequisite for calculating distances between these points. Procedure for identifying the physical locality for each of the four types of entry and exit points:

- / for virtual interconnection points,
- / for interconnection points,
- / for delivery points between the transmission network and distribution systems and directly connected customers, and
- / for points of storage facilities.

Virtual interconnection points

Under Article 19 NC CAM, virtual interconnection points (VIP) were established on the national border with Germany in 2018 and 2019. Capacities will be offered, and corresponding tariffs will be set directly at these VIPs.

The Brandov virtual cross-border entry point is composed of the following physical cross-border entry points:

- / Hora Svaté Kateřiny
- / BRANDOV – OPAL
- / BRANDOV – EUGAL

The Brandov virtual cross-border exit point is composed of the following physical cross-border exit points:

- / Hora Svaté Kateřiny
- / BRANDOV – STEGAL
- / BRANDOV – OPAL
- / BRANDOV – EUGAL

Due to the changes in gas flows from the German transmission network to the Czech Republic, GASCADE, the operator of a German transmission network, discontinued the commercial operation of the Hora Svaté Kateřiny – Olbernhau II cross-border transfer station on 1 October 2024; its capacity had been part of the Brandov VIP for gas supply to the Czech Republic.

Nevertheless, the closedown of this station has no impact on the value of the FZK capacity on the German

side for the Brandov VIP, since according to information from GASCADE, the bottlenecks that determine the size of exit capacity from Germany are located in other parts of the German transmission network. This cross-border station will be maintained and gas transmission through it will continue to be feasible, primarily in cases of operating constraints at neighbouring points.

For the purposes of calculating distances, the physical locality of the Brandov VIP has been determined at the physical point Brandov EUGAL, which is identical with the Brandov OPAL point, the Brandov STEGAL point, and the Hora Svaté Kateřiny point, because most of the forecasted contracted capacity is being planned at these points. The Waidhaus virtual cross-border point is composed of the Waidhaus entry and exit cross-border point. For the purposes of calculating distances, the physical locality of the Waidhaus VIP has been determined at the Waidhaus point because it is the same point.

For the purposes of calculating distances, the Lanžhot cross-border point is the same as the actual physical locality of this point.

Table 6 Locality of virtual interconnection points

| Physical locality of VIPs | | Latitude N | Longitude E |
|---------------------------|---|-------------|-------------|
| VIP Brandov | Physical locality of IP Brandov–OPAL, IP Brandov–STEGAL, and IP EUGAL | 50.6435828° | 13.3735456° |
| VIP Waidhaus | Physical locality of IP Waidhaus | 49.6542775° | 12.5260328° |
| VIP Lanžhot | Physical locality of IP Lanžhot | 48.7171206° | 17.0114119° |

Source: NET4GAS

Interconnection points

For the purposes of calculating distances, the physical locality of the Český Těšín interconnection point is the same as the actual physical locality of this point.

Table 7 Locality of interconnection points

| Physical locality of interconnection points | Latitude N | Longitude E |
|---|------------------|------------------|
| Český Těšín | 49.774454790354° | 18.605118759951° |

Source: NET4GAS

Delivery points between the transmission network and distribution systems and directly connected customers

Because of the large number of delivery stations between the transmission system operator and distribution system operators, ERO has decided that these points will be simplified, and their number reduced from several dozen to eight points so that only one virtual point is located in each of the regional zones in which distribution companies have historically operated. As part of the simplification, the physical locality of customers directly connected to the transmission network in a given zone is deemed to coincide with the locality of the relevant virtual point determined by calculation, and the same simplification is also expected for the planned newly directly connected customers whose connections to the transmission network will be built in the consulted period.

The technical capacities of each of the delivery stations are based on the transmission system operator's documentation and applicable connection contracts concluded between the transmission system operator and the operator of the relevant distribution system. Any technical constraints, such as those for adding up technical capacities, have been taken into account. The increase in the technical capacities attributable to the accepted applications for connections to the transmission network, which will be built during the consulted period, has been reflected in the capacities for the relevant delivery stations (exit points) in the network.

Combining entry and exit points into clusters is allowed under Article 8(1)(c) NC TAR. The coordinates of the virtual point have been determined by aggregating the coordinates of the delivery stations in each zone separately, weighted by the technical capacity. The resulting coordinates do not change over time, and the level of the tariffs is predictable.

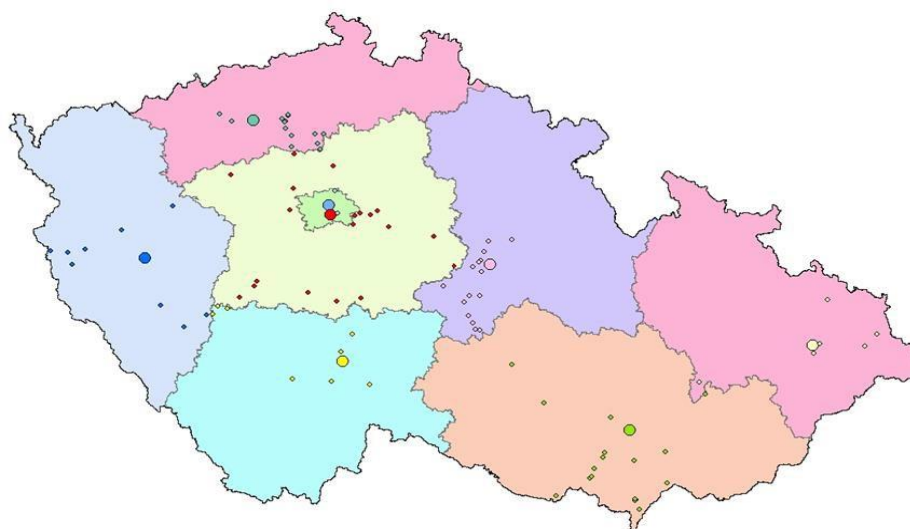
Based on its calculations ERO has set, for the purposes of determining distances, the resulting physical localities of virtualised delivery points between the transmission network and distribution systems and directly connected customers as follows:

Table 8 Localities of virtual points of DSOs and DCCs

| Zone | Locality of the virtual point | |
|--------------------------------------|-------------------------------|-------------|
| | Latitude N | Longitude E |
| Pražská plynárenská Distribuce (PPD) | 50.0870389° | 14.4848375° |
| EG.D | 49.3144286° | 14.7444608° |
| GasNet, NW Bohemia, central zone | 50.0072292° | 14.5626833° |
| GasNet, NW Bohemia, western zone | 49.6970836° | 13.2288914° |
| GasNet, NW Bohemia, northern zone | 50.4607422° | 13.8450022° |
| GasNet, Eastern Bohemia | 49.8854014° | 15.7057061° |
| GasNet, Southern Moravia | 49.1217308° | 16.8554186° |
| GasNet, Northern Moravia | 49.6531936° | 18.0720167° |

Source: NET4GAS

Figure 2 Localities of physical points between the transmission network, distribution systems and directly connected customers in distribution zones, and virtual points



Source: NET4GAS

Points of storage facilities

The localities of the physical points of national gas storage facilities have been aggregated into a single virtual point. ERO decided to create the coordinates of the aggregated virtual point in two steps:

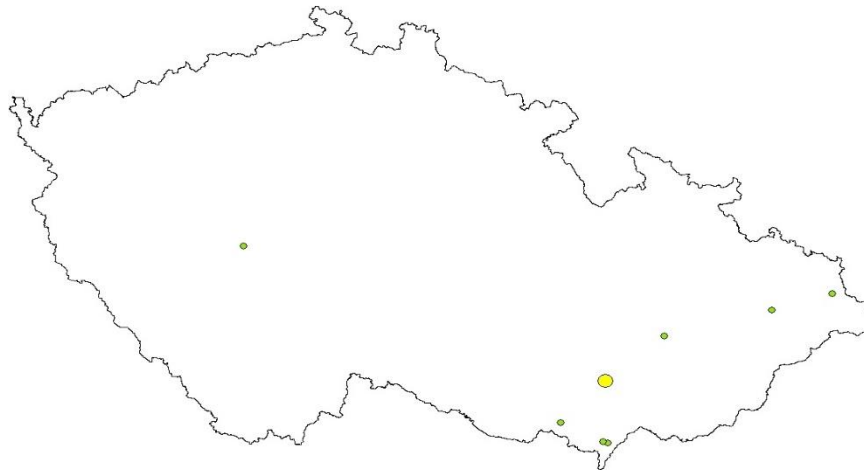
- ▮ In the first step, it created the coordinates of the entry point and the exit point based on aggregating the coordinates of the individual localities of the physical points of storage facilities weighted by their maximum daily withdrawal/injection capacity. Since the maximum daily capacities for withdrawal and injection differ, the result is different pairs of coordinates for the virtual entry point of storage facilities and for the virtual exit point of storage facilities.
- ▮ In the second step, it used a simple average of these two pairs of coordinates to find the coordinates of a single aggregated virtual point of storage facilities.

In the case of the Dolní Bojanovice cross-border storage facility, the relevant point was determined in a partly different way because of its nature. To the extent of the transmission service for using it for the Czech market's needs this storage facility will be aggregated with the virtual point of the storage facility using the above methodology. To the extent of the service of the cross-border use of the storage facility and direct connection to the transmission networks of two TSOs (NET4GAS and eustream, a.s.), where the facility will allow the delivery of gas between the Czech and Slovak gas systems, it will be part of the Lanžhot cross-border point and the price for the service of the cross-border use of the storage facility will match the tariff for gas transmission via this cross-border point using the appropriate multiplier.

Table 9 Locality of the aggregated virtual point of the storage facility

| Locality of the aggregated VIP point | Latitude N | Longitude E |
|---|-------------|-------------|
| Aggregated virtual points of the storage facilities | 49.1019828° | 16.9046147° |

Figure 3 Locality of the physical points of the storage facilities and of the virtual point



Source: NET4GAS

8.2 Distances between entry and exit points

The distances between the entry and exit points of the transmission network are one of the basic inputs when applying the CWD methodology. The calculation of distances is closely related to the determination of localities in subchapter 8.1.

Complying with Article 8(1)(c) NC TAR, the shortest distances of the pipeline routes between an entry point or a cluster of entry points and an exit point or a cluster of exit points were taken into consideration. For calculating the matrix of distances, first of all the possible directions of the gas flow in the network, which are feasible when the technical parameters of the network are taken into account and which are depicted in Figure 4, were determined.

For each entry point En and each exit point Ex , there is just one physical locality, which is exactly defined in 8.1. For localities of the points situated right on the route of a pipeline in the transmission network, the calculation of distances is determined as the distance of the pipeline route (the shortest path that is feasible when the technical constraints are taken into account). For localities of virtual points situated outside the pipeline route ERO has determined an algorithm for calculating this distance. The algorithm takes into account the following:

- ▮ The distance, as the crow flies, from the virtual entry point to the delivery station that is the closest to this point
- ▮ The distance along the pipeline to the exit point (or the delivery station that is the closest to the virtual exit point)
- ▮ The distance, as the crow flies, from the delivery station to virtual exit point

Table 10 Matrix of distances between entry and exit points of the transmission network

| Distances [km] | | En1 | En2 | En3 | En4 | En5 (S1) |
|----------------|---|-------------|-------------|--------------|-------------|----------|
| | | VIP Brandov | VIP Lanžhot | VIP Waidhaus | Český Těšín | UGS |
| Ex1 | VIP Brandov | 0 | 380.5 | 170 | 0 | 407 |
| Ex2 | VIP Lanžhot | 380.5 | 0 | 400.5 | 0 | 86 |
| Ex3 | VIP Waidhaus | 170 | 400.5 | 0 | 0 | 401 |
| Ex4 | Český Těšín | 595 | 228 | 596 | 0 | 308 |
| Ex5 | PPD aggregation | 162 | 270 | 287 | 0 | 271.5 |
| Ex6 | GasNet NW Bohemia, central zone, aggregation | 161 | 269 | 286 | 0 | 270.5 |
| Ex7 | EG.D aggregation | 240 | 236.5 | 190 | 0 | 228 |
| Ex8 | GasNet NW Bohemia, western zone, aggregation | 142.5 | 447.5 | 66.5 | 0 | 376 |
| Ex9 | GasNet NW Bohemia, northern zone, aggregation | 59 | 340 | 195.5 | 0 | 342.5 |
| Ex10 | GasNet E Bohemia aggregation | 245.5 | 200.5 | 473.5 | 0 | 202.5 |
| Ex11 | GasNet S Moravia aggregation | 387.5 | 83.5 | 388.5 | 0 | 2.5 |
| Ex12 | GasNet N Moravia aggregation | 535 | 168 | 536 | 0 | 248 |
| Ex13 (S1) | UGS | 407 | 86 | 401 | 0 | 0 |

Source: ERO

8.3 Forecasted contracted capacity at entry and exit points

Another cost driver entering the calculation of the resulting tariffs using the reference price methodology under Article 8 NC TAR is the forecasted contracted capacities at entry and exit points. The technical capacities at entry and exit points do not influence the resulting reference prices and therefore only the forecasted contracted capacity is used in compliance with Article 4(1)(a) NC TAR.

Forecasted contracted capacities for cross-system gas transmission have been derived based on a conservative scenario that does not assume any increased flows across the Czech Republic. The capacities for intra-system gas transmission have been predicted based on the Czech Republic's planned consumption, the current contracts for gas transmission service provision concluded with distribution system operators and directly connected customers, and the historical injection and withdrawal curves of storage facilities. For the consulted period, ERO also took into account the predicted growth in the capacities of customers newly connected to the transmission system.

For calculating the yearly values, ERO has developed an algorithm for each of these types of points:

- virtual interconnection points and interconnection points,
- delivery points between the transmission network and distribution systems and directly connected customers, and
- points of storage facilities in the Czech Republic.

Virtual interconnection points and interconnection points

Forecasted contracted capacity at entry cross-border points equals the sum of the Czech Republic's planned consumption and the planned capacities for cross-system gas transmission between 2026 and 2030. For gas supply to the Czech Republic, ERO has allocated the capacities to the Brandov VIP and Lanžhot VIP entry points to match the actual gas flow quantities for the last twelve consecutive months preceding the start of the consultation (1 November 2023 to 30 October 2024), with the resulting allocation of 57% at Brandov VIP and 43% at Lanžhot VIP.

For 2025, ERO considered the assumption that the existing gas flows across Ukraine would be discontinued and partly replaced with flows across the Czech Republic to supply gas to Slovakia, Hungary, and Austria; from today's perspective, this now appears to be a less realistic assumption, also because of the market's current demand for capacity bookings at the Brandov VIP entry point (and this despite the earlier notified reduction in available capacity on the German side).

This is also one of the reasons why a conservative plan of capacity bookings for cross-system gas transmission at an average level of 10.8 GWh/day/year has been selected for the period 2026-2030; if 90% of these capacities are used the transmission of 3.5 TWh of gas across the Czech Republic to adjacent countries will be possible. These expected contracted capacities at exit cross-border points reflect the size of the actually booked yearly capacities and the actual cross-system gas flows in 2023 and 2024.

Table 11 Forecasted capacity at cross-border points

| Forecasted contracted capacity at cross-border points [MWh/day/year] | Entry cross-border points | Exit cross-border points |
|---|----------------------------------|---------------------------------|
| VIP Brandov | 166,247 | 0 |
| VIP Lanžhot | 109,120 | 6,000 |
| VIP Waidhaus | 0 | 0 |
| IP Český Těšín | 0 | 4,800 |

Source: ERO

Delivery points between the transmission network and distribution systems and directly connected customers

The forecasted contracted capacity at delivery points between the transmission network and distribution systems has been determined as the sum of the forecasted contracted capacities in each of the zones for the

- ▮ forecasted contracted capacities between the transmission network and a distribution system,
- ▮ forecasted contracted capacities between the transmission network and directly connected customers, and
- ▮ forecasted contracted capacities between the transmission network and new directly connected customers.

Since directly connected customers are always situated in one of the eight distribution zones in which distribution companies have historically been operating, their forecasted contracted capacities are added to the forecasted contracted capacity of the particular zone. The forecasted contracted capacities of all eight zones are shown in Table 12. This value is based on distribution companies' contracted capacities under contracts for the provision of the gas transmission service, the forecasted contracted capacities of directly connected customers and the forecasted contracted capacities of new directly connected customers at the time of their expected connection. The forecasted contracted capacities will be used as constant values throughout the consulted period under the NC TAR (2026-2030).

Table 12 Forecasted contracted capacity between the transmission network and distribution systems and directly connected customers, broken down by distribution zone

| Forecasted contracted capacity between the transmission network and distribution systems and directly connected customers [MWh/day/year] | 2026-2030 |
|---|------------------|
| PPD | 105,145 |
| GasNet NW Bohemia, central zone, aggregation | 104,295 |
| E.OND aggregation | 32,185 |
| GasNet NW Bohemia, western zone, aggregation | 59,024 |
| GasNet NW Bohemia, northern zone, aggregation | 136,116 |
| GasNet, E Bohemia, aggregation | 75,799 |
| GasNet, S Moravia, aggregation | 173,836 |
| GasNet, N Moravia, aggregation | 129,203 |
| Total | 815,603 |

Source: ERO

Points of storage facilities

The forecasted contracted capacity of the points of storage facilities located in the Czech Republic has been aggregated for all storage facilities and determined based on the average of the actual yearly usage of storage capacities for 2021-2023, including short-term bookings.

The forecasted contracted capacity of the Dolní Bojanovice cross-border storage facility has been determined based on the average usage of the capacities of aggregated storage facilities in the Czech Republic for the last three years (2021-2023), including the predominating short-term bookings and with half the weight reflecting the cross-border operation of the storage facility. The capacity so determined is,

in accordance with subchapter 8.1, included in the capacity of storage facilities in the Czech Republic.

Table 13 Forecasted contracted capacity of the points of storage facilities

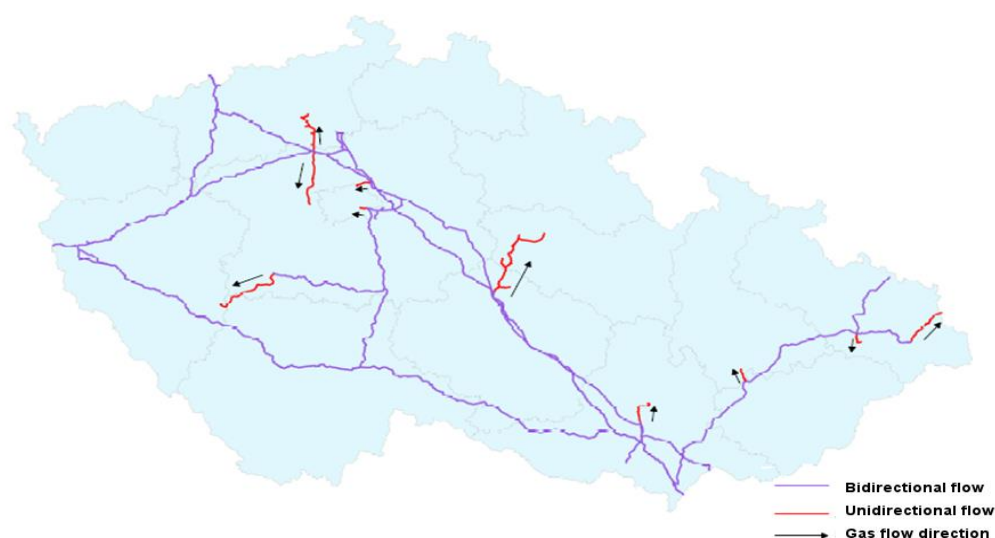
| Forecasted contracted capacity of storage facilities points [MWh/day/year] | Entry points | Exist points |
|--|--------------|--------------|
| Storage facilities (CZ) | 153,033 | 130,771 |

Source: ERO

8.4 Quantity and direction of gas flows for entry and exit points

The quantity and the direction of the gas flow for entry and exit points are the basis for determining commodity-based transmission tariffs. The technically feasible directions of gas flows are depicted in Figure 4. At all entry and exit cross-border points, bidirectional gas flows are feasible, with the exception of the Český Těšín cross-border point where only exit from the transmission network is possible for the time being; nevertheless, a bidirectional interconnection is being planned, see subchapter 6.3 Virtual delivery points between the transmission network and distribution networks and directly connected customers currently allow only exit from the transmission system. Should it be necessary for ensuring the reliable operation of the gas system as a whole because of network users' requirements and effects of their operation (such as growing biomethane production connected to a distribution network in the Czech Republic), installations supporting reverse flows between distribution networks and the transmission network will be built. In such a case, the impacts of these measures on the relevant parameters of regulation will be assessed. The aggregated virtual point of storage facilities allows entry and exit into/from the transmission network.

Figure 4 Feasible gas flow directions



Source: NET4GAS

Forecasted flows at entry and exit points

The forecasted flows are based on forecasted booked capacities at the various entry and exit points and the expected consumption in the Czech Republic.

The expected flows for the country's consumption and for storage facilities can be based on a stable use of storage facilities and the expected evolution of the demand for gas for the Czech Republic between 2026 and 2030. It is much more complicated to determine the forecasted flows via exit cross-border points because of their dependence on many external variables (gas-to-gas competition in the EU, geopolitical impacts of the war in Ukraine, weather, etc.).

The resulting forecasted average flows at entry points are listed in Table 14. For gas supply to the Czech Republic, ERO has allocated the capacities to the Brandov VIP and Lanžhot VIP entry points to match the actual gas flow quantities for the last twelve consecutive months preceding the start of the consultation (1 November 2023 to 30 October 2024), with the resulting allocation of 57% at Brandov VIP and 43% at Lanžhot VIP. The domestic point representing the country's gas consumption predominates among the

exit points from the transmission network. The cross-system gas transmission takes place between the Lanžhot cross-border point and Český Těšín, with the Lanžhot exit point slightly predominating.

Table 14 Forecasted flows at entry and exit points for 2026

| Forecasted flows at points [TWh] | Entry points | Exit points |
|-----------------------------------|--------------|-------------|
| Consumption in the Czech Republic | x | 79.3 |
| UGS | 33 | 33 |
| VIP Brandov | 47.3 | 0 |
| VIP Lanžhot | 35.6 | 2 |
| VIP Waidhaus | 0 | 0 |
| Český Těšín | 0 | 1.6 |

Source: ERO

8.5 The structural representation of the transmission network with an appropriate level of detail

Figure 5 Structure of the transmission network



Source: NET4GAS

9 INFORMATION PUBLISHED UNDER ARTICLE 26(1)(A)(V) NC TAR

Article 7 NC TAR and Article 13 of Regulation 715/2009/EC set out the elementary requirements for tariffs related to access to the transmission network.

ERO is convinced that the proposed model complies with legislative requirements and provides for a fair allocation of costs to different network users. The proposed reference price methodology takes into account all the key allocation factors as well as distances between the relevant points, and the capacities at those points. It is a comprehensive model that

- ▮ minimises the possibility of a significant change in tariffs at the affected interconnection points in the case of absence of long-term transmission capacity bookings,
- ▮ promotes the efficient utilisation of the transmission network,
- ▮ prevents cross-subsidisation between network users, and
- ▮ encourages cross-border trade.

10 The COMMODITY-BASED TRANSMISSION TARIFFS (VARIABLE COMPONENT OF THE PRICE)

10.1 The manner of determining the variable component of the price

For recouping the costs incurred in the operation of compressor and delivery stations, cost allocation to the variable component of the price at the exit points of the transmission network has been used in the Czech Republic for a long time. The proposal for 2026-2030 preserves this cost recouping in the variable component of the price at the exit points of the transmission network.

The variable component of the price has been determined on the basis of the following commodity costs:

- ▮ the cost of gas and electricity bought for running compressor and delivery stations,
- ▮ the purchase cost of gas to cover losses in the network, and
- ▮ taxes and the cost of emission allowances.

The quantity of gas and electricity for running compressor and delivery stations is derived from the energy quantity planned to be transmitted through the network based on hydraulic simulation. The amount of losses planned for the regulated year is set as a rolling arithmetic average of a five-year series of the reported actual losses in the transmission network.

This component of the price is independent of the other capital and operating costs of gas transmission, which are allocated to the price for booked capacity. In practice, this component is therefore independent of the costs, depreciation, and profit related to the equipment itself.

For the exit point to the virtual storage facility, customers directly connected to the transmission network, the exit point via the aggregate of delivery points between the transmission network and the distribution network, and for exit cross-border points, the variable component of the price will be determined for the respective year in CZK/MWh. Alternatively, a coefficient multiplied by the spot market index¹² for the relevant day of transmission can be used to determine the variable component of the price at exit cross-border points. In such a case, the resulting daily price in EUR/MWh is translated into CZK/MWh at the daily rate published by the Czech National Bank on the current gas day.

The variable component of the price has been set by applying Article 4(3)(a)(ii) NC TAR on the basis of forecasted flows.

The entry-exit commodity split has been set at 0/100, in line with the practice in the Czech Republic up to now, whereby the variable component of the price has been set at the exit points only and has been zero at the entry points.

10.2 The share of the allowed revenue forecasted to be recovered from such tariffs

In the Czech Republic, the transmission services revenue is composed of a capacity component and a commodity component. The capacity component of the transmission services revenue is based on the allowed revenue. The commodity component of the transmission services revenue is comprised of commodity-based transmission tariffs. Due to this separation the share of the allowed revenue to be recovered from the variable component of the price has not been determined.

10.3 The indicative commodity-based transmission tariffs

Table 15 shows the forecasted level of the variable component of the price. This is an assumption based on the currently prevailing gas and electricity prices, and it will be updated for 2026 during 2025 and subsequently before the beginning of each tariff period.

Table 15 Indicative variable component of the price at exit points

| Variable component of the price [CZK/MWh] | 2026-2030 |
|---|-----------|
| For an exit point for intra-system network use (DSO and DCC) | 0.86 |
| For an exit point pro intra-system network use (UGS) | 0.86 |
| For an exit point for cross-system network use (cross-border point) | 0.86 |

Source: ERO

¹² Section 88 of public notice 349/2015 on Gas Market Rules

10.4 Correction of the actual costs and revenue in the case of the variable component of the price

Given the potential volatility of the prices of gas, electricity and emission allowances, differences between the transmission system operator's actual revenue based on the planned input parameters included in the variable component of the price and the actual eligible purchase costs of electricity, gas and emission allowances, including the related taxes and levies, can be expected. A correction mechanism intended to ensure the transmission system operator's cost neutrality will therefore exist.

10.5 Cost allocation comparison index for commodity-based transmission tariffs

Under Article 5(1)(b)(i) NC TAR, for a cost allocation assessment relating to commodity-based transmission tariffs the values of the quantity planned to be transmitted were used. Since commodity-based tariffs have been set at the same level at all exit points and the only cost driver is the transported gas quantity, the cost allocation index is 0%.

11 THE DIFFERENCE IN THE LEVEL OF TRANSMISSION TARIFFS FOR THE PREVAILING TARIFF PERIOD AND THE PERIOD THAT THE CONSULTED PROPOSAL CONCERNS

The difference in the level of the transmission tariffs for the same type of transmission services applicable for the prevailing tariff period and for the tariff period for which the information is published is shown in Table 16.

Table 16 Differences in the level of transmission tariffs

| Indicative reference prices for booked capacity | | | |
|--|----------------|-------------|-------------------|
| ENTRY [CZK/MWh/day/year] | 2025 | 2026 | Difference |
| VIP Brandov | 1,158.94 | 2,317.88 | 100% |
| Lanžhot | 744.21 | 1,722.94 | 132% |
| VIP Waidhaus | 1,327.27 | 2,792.56 | 110% |
| Český Těšín | 225.53 | 498.57 | 121% |
| Storage facilities (CZ) | 0.00 | 361.45 | |
| EXIT [CZK/MWh/day/year] | 2025 | 2026 | Difference |
| VIP Brandov | 6,500.00 | 9,536.43 | 47% |
| Lanžhot | 6,500.00 | 5,764.32 | - 11% |
| VIP Waidhaus | 6,500.00 | 7,495.60 | 15% |
| Český Těšín | 6,500.00 | 9,609.38 | 48% |
| DSO + DCC | 8,159.92 | 5,763.51 | - 29% |
| Storage facilities (CZ) | 0.00 | 1,347.71 | |
| Variable component of the price | | | |
| EXIT [CZK/MWh] | 2025 | 2026 | Difference |
| Exit cross-border point | 0,0016 x COTE* | 0.86 | |
| Exit point to storage facilities | 1.74 | 0.86 | - 51% |
| Exit domestic point | 1.74 | 0.86 | - 51% |

* COTE is the spot gas market index

Source: ERO

11.1 The simplified tariff model

The simplified tariff model is published on ERO's website.

12 FIXED PAYABLE PRICE

The approach of the fixed payable price described in Article 24(b) NC TAR will not be used between 2026 and 2030.

13 CONSULTATION UNDER ARTICLE 28 NC TAR

13.1 Setting the level of multipliers

The general principles for setting the level of multipliers

The transmission network has been designed with a capability to transport large gas flows under peak demand conditions. However, it is utilised only partly under average conditions. Multipliers applied to tariffs for short-term products with a shorter period of validity make it possible to charge more to the network users who contribute to the peak demand than to the network users with a flat profile of transmission requests. When using these multipliers, it is crucial to strike a balance between the efficient utilisation of the network and revenue recovery. Low values of multipliers incentivise traders to shape the profile of their transmission capacity bookings to their own needs, while high values of multipliers should increase their interest in longer-term bookings (yearly or longer bookings).

Thus, the following aspects had to be taken into account when determining the level of multipliers, in compliance with the NC TAR¹³:

- The balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission network;
- The impact on the transmission services revenue and its recovery;
- The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices;
- The situations of physical and contractual congestion; and
- The impact on cross-border flows.

By their very nature, multipliers therefore determine the level of the price differentiation between capacity products with different durations (yearly, quarterly, monthly, daily, and within-day).

Table 17 Assessment criteria for setting multipliers

| Assessment criterion | Low value of the multiplier | High value of the multiplier |
|--|-----------------------------|------------------------------|
| The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices | - | + |
| Preventing situations of physical and contractual congestion | + | + |
| Facilitate short-term gas trade | + | - |
| Long-term signals for efficient investment in the transmission network | - | + |
| Impact on the transmission services revenue and its recovery | - | + |
| Impact on cross-border flows | 0 | 0 |

Source: ERO

Arguments in favour of setting a high level of multipliers:

- It promotes transmission capacity bookings on a yearly basis;
- Traders pay for their peak demand for capacity; it is a cost-reflective parameter.

However, the price for booking transmission capacity for less than a year reflects costs only when used for profile-shaping bookings. At the same time, the forecasts for network usage should be taken into account. If it is not possible to determine such forecasts with an acceptable level of probability, the value of the individual multipliers is a tool for achieving cost pass-through into the applied tariff.

From the perspective of long-term signals for efficient investment in the transmission network it is relevant to note that a low value of multipliers renders yearly capacity products relatively unattractive. Traders are not motivated to use these products in the following gas year. Where clear signals for efficient investment are not provided, there is a risk of insufficient investment in the network. Naturally, it is also true that there is a risk of too high investment having no support in demand for transmission capacity.

Low values of multipliers bring positive benefits for the sale of capacity products on a short-term basis. Transmission capacity bookings will directly correlate with the need to actually use such capacity, such

¹³ Article 28 (3) (a) NC TAR

use reflecting the current conditions determining demand for gas. The transmission network users therefore have at their disposal a very flexible tool for responding to dynamic changes in the market.

Positive benefits of the low and high levels of multipliers can be identified in the aspect of physical and contractual congestion. Low values of multipliers support capacity sales based on the market situation, triggering an effect in the form of lower sales of unused capacity, which makes this a measure directed towards the prevention of contractual congestion. On the other hand, a high level of multipliers provides a signal for efficient investment in the network, which therefore makes this a measure directed towards the prevention of physical congestion.

In the case of impacts on cross-border gas flows, it is not feasible to identify clear-cut arguments for a low or a high level of multipliers. The impact on the cross-border flow is primarily determined by the price differentials between markets and the expected development of this spread. As mentioned above, a low level of multipliers encourages the sale of transmission capacity in relation to the current market situation, which helps traders to respond dynamically to changes in price spreads, resulting in increased cross-border gas flows. On the other hand, a high level of multipliers promotes long-term capacity products. Once the transmission capacity has been bought, it constitutes sunk costs, and any price differential can be used for recouping these costs, which in turn leads to increased cross-border gas flows.

The above clearly suggests that not only a single correct solution to the problem of setting the level of multipliers exists. The multipliers should always carry information that the choice of a particular capacity product is a compromise between the costs of acquiring such product and its added value, where both of these factors must be related to the price of the yearly capacity product. The costs of transmission capacity are mainly caused by the size of the demand for this capacity. The transmission system operator maintains an extensive network with sufficient capacity to be able to meet requests for transmission in periods of peak demand. From the perspective of determining the size of the network, transmission capacities are therefore available not only in periods of peak consumption but also for the rest of the year. The costs of providing short-term transmission capacity in the periods of high demand therefore do not differ significantly from the costs of offering capacities during the year.

Since a multiplier = 1 cannot be regarded as adequate and matching the situation in the Czech gas market, it is unquestionably very evident that the multiplier must be higher. Its value must create the conditions for striking a balance between the various capacity products so that each of these products enjoys a justified slot in each trader's capacity portfolio (if the value of the multiplier for the quarterly capacity product is higher than for the monthly product, or if the value is the same, the quarterly product will not have any added value). The baseline assumption for setting multipliers is that a quarterly multiplier is lower than a monthly one, which is lower than a daily one, which is lower than a within-day one (the price for within-day transmission capacity booking is set as 1/24 of the daily price for each hour remaining until the end of the gas day).

Consulted levels of multipliers

Table 18 Levels of multipliers set for 2026

| Levels of multipliers | |
|-----------------------|------------|
| Capacity product | Multiplier |
| Quarterly | 1.1 |
| Monthly | 1.25 |
| Daily | 1.5 |
| Within-day | 1.7 |

Source: ERO

The proposed levels of multipliers meet the requirements of Article 13 NC TAR, namely ranging from 1 to 1.5 for quarterly and monthly capacity products and from 1 to 3 for daily and within-day products.

13.2 Setting the levels of seasonal factors and the calculations referred to in Article 15 NC TAR

Seasonal factors for calculating reserve prices for capacity products are not used in the Czech Republic and their introduction in the future is not envisaged. In relation to the earlier consultations on proposals for the rules of gas market functioning in the Czech Republic, no demand for introducing seasonal transmission tariffs was expressed by the users or the transmission system operator. The probable reason is the existence of short-term transmission tariffs, which makes it possible for transmission network users

to structure their capacity requirements to a sufficient extent while taking into account the need to recoup the costs caused by short-term transmission products. Because of the size of the Czech transmission network, no cases occur where, for example, a winter season sees shortages of available transmission capacity and such circumstance, and the related higher costs, have to be reflected in the structure of transmission tariffs.

13.3 Discounts referred to in Article 9(2) and Article 16 NC TAR

In the Czech Republic, no LNG facilities or infrastructure developed with the purpose of ending the isolation of EU member states are currently being operated. Article 9(2) NC TAR will therefore not be applied.

In the Czech Republic, the approach of the ex-post discount, whereby network users are compensated after the actual interruptions occurred, has so far been applied for calculating the reserve prices for capacity products for interruptible transmission capacity. ERO determines the size of such compensation in a transparent manner.

Because of the sufficient amount of transmission capacities at all entry and exit cross-border points, ERO does not have any data on the basis of which it could determine the probability of interruptions required for calculating ex-ante discounts at the various entry or exit cross-border points.

Under Article 16(4) NC TAR, the ex-post discounts will therefore be applied to capacity products for interruptible capacity (compensations for interruptions) for the interrupted portion of capacity; the amount is three times the charge for daily standard firm capacity. In the event of an interruption at a cross-border point, ERO will analyse the probability of interruption and an ex-ante discount under Article 16(2) NC TAR will be introduced for the following period.

DRAFT

Gas Price Control Unit

Issued on:

In the case of differences between the two language versions the Czech version shall prevail.



Energetický regulační úřad

Masarykovo náměstí 5, 586 01 Jihlava

+420 564 578 666

podatelna@eru.cz

ID datové schránky ERÚ eeuaau7

www.eru.cz