

[Kommentarer]

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7. december 2021

## **Dansk Energis hørings svar om Energinets nye gastransmissionstarifmetode**

Dansk Energi takker for muligheden for at afgive bemærkninger til Energinets nye metode for gastransmissionstariffer. Nedenfor er vores nærmere bemærkninger til de forskellige forslåede tarifprincipper og -ændringer i Energinets tarifmetodejustering.

### **Splittet mellem capacity- og commodity-tarif ændres fra 70/30 til 100/0**

Der lægges op til, at commodity-tariffen (volumentariffen) reduceres til nul, så der fremover kun betales kapacitetstarif. Energinet henviser til, at dette ændres for at leve op til netreglen for gasbalance, som kræver at commodity-tariffen dækker omkostninger "mainly driven by the quantity of the gas flow". Disse omkostninger vil ifølge Energinet kun bestå af 6 mio. kr./år for Egtved-kompressoren, hvilket vil føre til en meget lav volumentarif.

*Dansk Energi bakker op om denne analyse, og er fortsat enige i denne ændring.*

### **100% rabat på transmissionstariffer til og fra virtuelt lagerpunkt**

Dansk Energi er enige i at videreføre det historiske princip om 100 % rabat til og fra det virtuelle lagerpunkt, så det sikres, at der ikke betales tariffer af den samme gasvolumen flere gange.

*Dansk Energi finder fortsat, at det giver mening fortsat at benytte dette princip.*

### **Introduktion af multipliers, som giver rabat til long term-reservationer på 5 år eller derover**

Energinet foreslår at fastholde aktuelle multipliers for kapacitetskontrakter op til og med et år. Energinet lægger desuden op til at introducere long term-multipliers, som giver rabat på lange kapacitetsreservationer på 5 år eller derover.

I og med Baltic Pipe introduceres til det danske gasmarked til næste år, så kan Dansk Energi ikke se behovet for rabatter på lange kontrakter. Med denne nye gastransmissionsforbindelse vil transportkapaciteten i gasnettet ikke længere være en udfordring for Energinet.

Gassystemet bør drives på den mest effektive måde ved hjælp af prissignaler fra de forskellige hubs i systemet, således at gasflowet driver i den retning hvor efterspørgslen findes. Her er fleksibilitet og agilitet afgørende for at gasflowet reagere hensigtsmæssigt på disse prissignaler. For at sikre denne fleksibilitet i markedet, vil der være et øget behov for korte kontrakter i fremtiden.

Long term-multipliers for kapacitet matcher ikke tendensen for handlen med gas, da gas i stigende grad handles som kortere produkter og hvor fleksibilitet i markedet er vigtigt. Balancering i det danske gassystem bevæger sig også i retning af handel med kortere produkter med udsigten til indførelse af en 'within-day obligation' i balancemetoden. Energisystemerne vil fremover kobles tættere sammen, hvilket både giver og kræver fleksibilitet. Denne fleksibilitet bliver unødvendig dyr, hvis der indføres long term-multipliers i den danske tarifmetode, som tilgodeser transportkunder med et langsigtet fokus på bekostning af kunderne med et fleksibelt og kortsigtet fokus.

Hertil er det kun få transportkunder på det danske marked, der har den nødvendige størrelse til at indgå i markedet for kapacitetskontrakter på fem år eller mere. Således vil rabatten blive på bekostning af de mindre aktører i markedet og ramme konkurrencemæssigt skævt.

*Dansk Energi mener fortsat, at det ikke er hensigtsmæssigt eller rimeligt at indføre en rabat på lange kapacitetsreservationer, herunder også allerede indgåede kapacitetsaftaler. Der bør således ikke introduceres long-term-multipliers for kapacitet på fem år eller mere.*

#### **Referenceprismetode fastholdes som uniform tarifmetode**

*Dansk Energi tilslutter sig forslaget og argumentationen for at videreføre en uniform tarifmetode.*

#### **Opkrævningsperioden ændres fra gasår til kalenderår**

Energinet lægger op til at ændre opkrævningsperioden fra gasår til kalenderår for at øge gennemsigtigheden og ensrette i forhold til nabo-TSO'erne.

*Dansk Energi finder, at denne ændring giver mening af hensyn til europæisk ensartning. Overgang fra gasår til kalenderår bør tilrettelægges hensigtsmæssigt og til mindst mulig gene for transportkunderne.*

Dansk Energi står selvfølgelig til rådighed, hvis der er behov for uddybning af ovenstående eller der i øvrigt er spørgsmål.

Med venlig hilsen  
Dansk Energi

Frederik Ingvordsen

[gastariffs@energinet.dk](mailto:gastariffs@energinet.dk)

## Final consultation on DK tariff methodology

8 December 2021

Ørsted is pleased to get the opportunity to give our input to the above consultation published 14 October 2021. The tariff methodology is a very important element in securing a robust and efficient gas market in Denmark with fair and equal access, and at the same time cater for the inclusion of Baltic Pipe project. The consultation evolves around 6 key elements, and Ørsted would like to offer the following input.

Our ref. petbl

**1) Change the capacity-commodity to 100/0%.**

Based on NC TAR and the implementation guidelines, Ørsted agrees with the analysis presented in paper, ie. that by far most of the costs would be considered CAPEX. Hence, for practical reasons, a 100/0 split seems appropriate.

**2) 100% rebate on transport to/from storage**

The Danish storages have historically contributed significantly in lowering the required size of the gas transmission system - and Ørsted agrees with the proposal to continue with a 100% rebate for transport to/from the storages.

**3) Multipliers**

With BalticPipe, the Danish gas transport system will be in a position where gas transport capacity is not a limiting factor. Indeed, the success of the internal gas market is based on a system, where gas flows react to price signals at different hubs increasing the demand for shorter term capacity products. Short term capacity bookings thus underpin a flexible market with transparent price discovery and analysis of the positive impact of lowering the multipliers could be warranted.

Contrary to the above and the overall aim of achieving a flexible and efficient market, Energinet proposes to introduce a rebate for long term bookings. This will make short term bookings more expensive – both in relative and absolute terms. This is done without any in-depths analysis on the pro's and con's for the functioning of the gas market, international comparisons, lessons learned etc. Rather, Energinet argues, that the rebate can incentivise long term bookings which again will provide more stable tariffs and certainty for the Danish gas system. However, given the magnitude of capacity bookings in the Baltic Pipe project, Energinet is already in an extremely comfortable and stable position when compared to other European TSO's. The system is thus already characterized with a uniquely high predictability and financial stability, and PGNIG (cf their response dated 28/9-21 to the pre-consultation) project that

almost 75% of Energinet's income is secured under 15-year contracts. The value in further promoting long term contracts seems unsubstantiated.

Our ref. petbi

Surprisingly, Energinet further suggest that the rebate should be provided retroactively even though bookings have been made under a framework where long term bookings were not granted a rebate. This would create a substantial profit for certain shippers, at the cost of the other shippers, ie. effectively a cross-subsidization between shippers.

Based on the above, Ørsted can't support the proposed long-term discount, where the legality of introducing it retroactively seems questionable.

**4) Maintaining the uniform tariff methodology**

Ørsted agrees with the proposal and argumentation for maintaining the uniform tariff principle.

**5) A common entry point for the Norwegian-Danish tie-in in the North Sea and the Danish transmission system**

Ørsted recognises, that Energinet now has included tariff estimates of the resulting tariff in the regulatory base case, ie where the offshore system is paid separately (cf table 9). It is also Ørsted's understanding, that the inclusion of the offshore pipeline in the tariff system was an important step in securing the Baltic Pipe shipper commitment which again allegedly lowers the gas transport tariff for all shippers in Denmark.

We do however still find the methodology paper lacking with regard to the potential "spill-over" effect and wider impact on Danish North Sea producers and shippers (cf Ørsted's consultation response on "Methodology for integrating Baltic Pipe in the Danish Market Model, dated 21 January 2021).

**6) Change of collection period from gas year to calendar year**

This is an administrative change that will bring Denmark in line with other systems in Northwest Europe, and Ørsted supports it.

We are of course available for questions you may have in relation to our consultation response, and we look forward to the continued discussion.

Yours sincerely

Ørsted



**Peter Biltoft-Jensen**

petbi@orsted.dk

Tel 99557923

**PGNiG UPSTREAM NORWAY AS**

**Energinet.dk**

Tonne Kjærsvvej 65  
DK - 7000 Fredericia  
Denmark

Attn:

Sent also by e-mail to: [gastariffs@energinet.dk](mailto:gastariffs@energinet.dk)

*Tuesday, 14.12.2021*

Ref.: Comments and remarks (input) from PGNiG to the final consultation on gas transmission tariff methodology proposed adjustments

Dear Sirs,

attached please find PGNiG input i.e. remarks and comments regarding the consultation on the proposed adjustments to the Energinet gas tariff methodology, published on 14 October 2021.

Firstly, PGNiG would like to thank Energinet for deepening the analyzes, preparing additional materials and extending the document with more detailed descriptions of different tariff model solutions. Having in mind the historical development of the infrastructural projects in Denmark, PGNiG has the reasons to believe to be the largest shipper in Baltic Pipe project ("BP") and as a BP stakeholder is committed to actively cooperate with other participants of the Danish gas market in order to introduce transparent and fair market rules. We acknowledge that ENDK continues to lead the consultation process in a transparent manner and keeps over the years on creating a space for interested gas market participants to express their opinion on key market issues. PGNiG give credit that major assumptions presented previously by Energinet in the 2017 Open Season procedure, based on which investment decisions related to Baltic Pipe were made and binding 15-year capacity agreement with Energinet was signed by PGNiG, are kept. We would like to stress out that any material changes to the methodology could undermine the commercial viability of Baltic Pipe and we do hope that they will not be introduced. Hence, we would like to stress that unfortunately our request expressed during pre-consultation phase for additional analysis regarding the proposal of the new

100/0 capacity/commodity split and the impact of such a change in the structure of ordered products on transmission rates in the following years has not been reflected in this final consultation. Thus we present extensive argumentation against changing the existing 70/30 capacity/volume split.

Secondly, as we underlined previously one of our main area of concern relates to the value of the long-term multiplier. We would like to emphasise that considering expected transportation costs via alternative routes, multiplier 0.95 may provide insufficient incentives for the capacity utilization of Baltic Pipe project. Therefore, it is essential that at least 0.90 is chosen.

In the attached document please find our detailed comments. If there is any need for clarifications on issues discussed in our reply, we will be happy to answer.

Sincerely,

for PGNiG

A handwritten signature in blue ink, appearing to read 'Marek Woszczyk', is written over the typed name and title. The signature is stylized and overlaps with the text 'Chief Executive Officer'.

Marek Woszczyk  
Chief Executive Officer  
PGNiG Upstream Norway AS

Attachment 1:

**PGNiG Group input to the „FINAL CONSULTATION: TARIFF METHODOLOGY ADJUSTMENTS” published by Energinet on 14.10.2021**

## **PGNiG Group input to the „FINAL CONSULTATION: TARIFF METHODOLOGY ADJUSTMENTS” published by Energinet on 14.10.2021**

### **0. Introduction**

PGNiG Group (“PGNiG”) would like to confirm strong interest in active participation in the Energinet.dk (“ENDK”) initiated process related to the consultation of the adjustments in relation to the current, approved tariff methodology, which started on 14 October 2021 throughout publishing the FINAL CONSULTATION: TARIFF METHODOLOGY ADJUSTMENTS (“**Consultation Document**”).

In this document, PGNiG provides references both to the presented Consultation Document as well as the opinions of other market members, presenting our view on the discussed topics. Our opinion has been adjusted and restructured in order to better match the presented material, while still being consistent with the position presented during the pre-consultation process earlier this year.

PGNiG would like to thank ENDK for deepening the analyzes, preparing additional materials and extending the document with more detailed descriptions of different tariff model solutions. **Unfortunately, our request for additional analysis regarding the decision on the capacity/commodity split has not been reflected in the Consultation document.**

Having in mind the historical development of the infrastructural projects in Denmark, PGNiG has the reasons to believe to be the largest shipper in Baltic Pipe project (“BP”) and as a BP stakeholder is committed to actively cooperate with other participants of the Danish gas market in order to introduce transparent and fair market rules. It needs to be emphasized that PGNiG is market-oriented energy trading company, acting in challenging and competitive European environment and thus being under pressure to achieve the best possible business results on the international field. The proposed solutions are therefore being analyzed in the wider context related to the possible transportation routes through Germany as well as sourcing natural gas in other balancing areas. Fair transportation cost is a key success factor for our long-term vision of natural gas exploration on the Norwegian shelf and transportation through the Danish natural gas transmission system.

PGNiG’s understanding of the tariff structure in Denmark as well as updated comparative calculations provided by ENDK lead to the conclusion, that **completion of the Baltic Pipe project shall result the unprecedented increase of the volume of gas transmitted through Danish transmission system (more than 270%) and increase of the entry and exit capacities (more than 320%)**. This volume and capacity increase is expected to be disproportionately greater than the increase of costs of operating the transmission system (only by 140%), which in consequence shall significantly **reduce the overall tariff for all users of gas in Denmark** (expected reduction of 30%).

Having been actively involved in all forms of market discussion and consultations held since the inception of the BP project, we are committed to remain an active participant in the process of finalizing the key principles of the Danish gas tariff design. The purpose of this document is to express PGNiG’s understanding of ENDK’s proposals included in the Consultation Document and to provide our views and suggestions on what we see as key issues.

We acknowledge that ENDK continues to lead the consultation process in a transparent manner and once again creates a space for interested gas market participants to express their opinion on key market issues. We would hereby like to thank ENDK for inviting PGNiG to the consultation process and enabling us to share our ideas with you.

PGNiG’s comments have been presented on further pages of this document.

## 1. Method element 3.1: Discontinuation of the volume tariff

On 31st May 2019 DUR approved a new tariff methodology for DK which introduced a **70 / 30 fixed / variable tariff split** (in the place of a 50 / 50 split, which corresponded to ENDK's actual CAPEX / OPEX structure). That adjustment increases the total amount that a shipper is obliged to pay through the tariffs regardless of whether the capacity is used or not.

In line with the information provided on the ENDK Gas Market Data webpage, the total bookings at the Ellund entry point<sup>1</sup> in the last three years materialized in the range of 35 – 40 TWh / year. These bookings were predominantly annual bookings (> 90% of total Ellund entry capacity booked).

Whereas it is speculative what the booking profile of the existing DK system users will look like once BP is commissioned<sup>2</sup>, but assuming that the current structure remains unchanged, the total annual profile of bookings in the DK system will be the following:

- **BP users** - 96 TWh / y of 15 years capacity bookings (**ca. 72% of total bookings**)
- **Existing users** - ca. 32 TWh / y of 1 year capacity bookings (**ca. 26% of total bookings**)
- **Existing users** - ca. 3 TWh / y of below 1 year capacity bookings (**ca. 2% of total bookings**)

The booking profile in the DK network will be very heavily weighted towards 15 years bookings with only 28% total bookings being applicable to bookings of a duration of a 1 year and shorter. This will be true in the first several years after BP commissioning, as with the expected decline in DK domestic demand the profile will become even more asymmetric and the share of 15-year bookings in the total profile will increase even more.

New entrants who have not yet participated in the Open Season nor have other capacities reserved, but would be interested in booking them, may resign of reservation using the 100/0 split due to higher possible sunk costs. Market participants from Denmark's neighboring countries have the option of obtaining gaseous fuel both from countries with a 100/0 fixed/variable fee split and from countries with rates more dependent on the variable part. The current market uncertainty in terms of prices and the available volume, makes market participants look for the most effective and flexible methods of acquiring gas. While deciding to allocate financial resources to the transmission charges having in mind the current market and price uncertainty, they will consider the cost of potential non-use of paid and reserved capacity. OS 2017 users made their decisions based on the assumption of flexibility resulting from fixed/variable tariff. When the fees are shifted towards the 100/0 split, there is a very significant risk that market participants shall not decide to transport gas from the territory of Denmark, which will reduce the number of participants in the Danish market, reduce the amount of booked capacity, and thus increase their unit cost in subsequent approved tariffs.

In our view, it is necessary to consider whether the proposed methodology (i.e. proposed 100/0 split between fixed and variable rate) breaches the number of requirements defined in European law – i.e. EU Regulation 715/2009 and Network Code TAR (NC TAR). The described relation between fixed rate (important for domestic users in Denmark) and variable rate (important for PGNiG which booked long-term capacity at BP) leads to the conclusion that there are number of legally binding provisions which require careful analysis due to potential incompliance of the proposed mechanism, including:

- Article 13 (1) of Regulation 715/2009 – tariffs should reflect actual costs incurred and should be applied in non-discriminatory manner and avoid cross-subsidies between network users
- Article 13 (2) of Regulation 715/2009 – tariffs shall not distort trade across borders of different transmission systems
- Article 7 (b) of NC TAR – the reference price methodology should take into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network
- Article 7 (c) of NC TAR - the reference price methodology has to ensure non-discrimination and prevent undue cross-subsidisation
- Article 7 (e) of NC TAR - the resulting reference prices must not distort cross-border trade.

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<sup>1</sup> Given the Tyra shutdown Ellund currently remains the only possible import point for the Danish and Swedish gas markets



**Considering the above scenario, PGNiG expressly believes that the current 70/30 split should remain unchanged.**

Moreover, at present capacity bookings with a 1-year duration are required to keep tariffs low and predictable in the DK system, this may, however, change after BP is commissioned. **The significant amount of stable 'baseload capacity' booked in the system by the OS 2017 shipper after 2022 is likely to provide strong incentives to the existing system users to shorten the duration of their bookings, thus reducing the volume of "stranded" (paid for but not used) capacity.** Thus they will continue to benefit from stable and low tariffs (thanks to the OS 2017 baseload and despite multipliers on shorter-term capacity). Even under a 100/0 split conditions, flexibility of the existing system users will in fact increase, because they will only book capacity when they require to do so (and will use exactly the amounts that they booked). **Effectively, by shortening the duration of their bookings, users of the existing system will in fact move towards a 0/100 capacity/commodity split.** We would like to point to the fact that this significant difference in market flexibility does not apply only to players booking for the long term (year and more) vs players booking for the short term (less than a year). Even in the category of market players booking for the long term there is a significant difference in market flexibility between the OS 2017 shipper booking for 15 years and a shipper booking for 1 year, who can adjust their booking levels every year.

On the other end of the spectrum lies the OS 2017 shipper which, as a result of providing the significant 'baseload capacity booking' will act as a flexibility facilitator for other users of the system. **Under a 100/0 split the whole cost of providing the flexibility to the market may fall on the OS 2017 shipper, who individually will not experience any flexibility at all.**

We point to the fact that the above is not only the case in a potential situation where existing shippers shorten the duration of their bookings, but also applies to the current structure of bookings. A shift from the existing 70/30 to a 100/0 split even under the current structure completely takes away any flexibility of the OS 2017 shipper and transfers value from the OS 2017 shipper to shippers booking for the shorter term. As a result, we believe that the proposal to change the current 70/30 to a 100/0 capacity / commodity split should be more thoroughly investigated on premises of discrimination and undue cross-subsidization.

**We further note that a shift to a 100/0 split is a very significant deviation from tariff principles that were presented to us prior to making the binding Open Season bid. All tariff simulations outlined in the Information Packages were prepared under a 50/50 split.** Whereas we made the booking in good faith with the intention to use the booked capacity to the highest possible extent, the 50/50 split was an important factor on which we made the decision to place the bid. Under a 100/0 split we will be unable to defend ourselves from adverse, unanticipated changes in the tariff methodology by rerouting our gas supply to other routes.

Even though PGNiG considers Baltic Pipe and Danish gas system as one of the main procurement sources and as a result expects a high level of load factor and in some circumstances the transition from the current 70/30 to 100/0 division could be beneficiary for PGNiG, we would like to point out that the actual result may be completely different. Greater interest in short-term products by other market participants may result in an increase of the standard products rates, including long-term ones.

The argumentation quoted earlier by ENDK (in the pre-consultations), that OPEX will constitute a negligible minority of costs, is appropriate only for BP, and it should be noted that the tariff rates will cover the entire transmission system cost, so real capacity/volume split shall be different, shifted more towards 70/30. Even **ENDK states in point 3.1 of the Consultation Document, that "flow-related costs will constitute approx. 8% of the total cost base.", which implies 90/10 split.**

Also, statement that "All the parties understand Energinet's view that the TAR NC formulation must lead to discontinuation of the volume tariff" is not entitled in PGNiG's view.

Moreover, referring to Ørsted's answer to pre-consultation document (point 3), PGNiG cannot agree with the argument that short-term capacity reservations are the basis of the market. Accepting this way of reasoning would have never allowed an investment like BP to happen, because investors and system

operators need a long-term guarantee of a return on their capital invested, and therefore the driving force behind the emergence of a market as such would not be fulfilled.

It is also impossible to agree with the argumentation of Dansk Energi - the quoted value of variable costs applies only to BP, as described above.

PGNiG, acting in confidence to the arrangements made with ENDK during the Open Season process, has made an investment decision in accordance with the following principles presented to it:

- In document "For Public Consultation: Tariff principles and market design in a Baltic Pipe1 Open Season" issued by ENDK on 2<sup>nd</sup> of November 2016, point 2.2: "**Other tariff structure elements remain.** The principal foundations in the current Danish tariff structure remain, ie **allocation of yearly CAPEX/OPEX to capacity/volume tariffs** respectively and exit points and separate security of supply tariff setting."
- In document "INFORMATION PACKAGE 2" issued by ENDK on 5<sup>th</sup> on September 2017, in entire point "5. Costs of Transportation and tariff simulation" ENDK presents strong argumentation supporting 50/50 capacity/commodity split.
- In document "PRE-CONSULTATION DOCUMENT" issued by ENDK on 2<sup>nd</sup> of July 2018, "Energinet proposes to maintain the current capacity-/commodity-split, according to which the capacity tariffs are calculated to recover capital expenditures (CAPEX), and the commodity tariffs recovers operational expenditures (OPEX). According to this principle the current 2017/18 cost base results in a **capacity-/commodity-split of 52%/48%**. The principle also implies that the split will be dynamic over time as the ratio between CAPEX and OPEX changes. In case that Baltic Pipe is constructed the marginal added CAPEX are increased more than OPEX, leading to a higher capacity share in recovering total expenditures (TOTEX). (...) The Danish transmission system is designed to, and capable of, transporting larger volumes than is utilised today. Without congestion, **the emphasis on capacity tariffs to signal scarcity and/or cost of incremental capacity) is hardly justified.**"
- In document "OPINION ON PRINCIPLES FOR MARKET ZONE AND THE METHODOLOGY FOR DETERMINING TARIFFS IN CONNECTION WITH THE BALTIC PIPE PROJECT" issued by DANISH COMPETITION AND CONSUMER AUTHORITY on 31<sup>st</sup> of January 2017 ENDK it is stated: "87. Energinet.dk also proposes that **the other elements of the current tariff methodology be maintained, ie the weighting of capacity and volume payments** in the tariff structure such that they continue to follow the actual costs of CAPEX and OPEX, the multipliers and seasonal profile as well as the determination of the emergency supply tariff."

**As described above, there is a clear record of ENDK's written opinions and assurances of maintaining current capacity/volume split.**

Moreover, in the document named "Tariff Methodology for the Danish Transmissions System – NC TAR Approval" issued by Forsyningstilsynet on 8<sup>th</sup> of April 2019, Energinet submitted following argumentation and data, which is inconsistent with current Consultation document:

*"(...)Energinet has submitted a proposal for a transmission tariff that consist of a capacity share and a volume share where the split between the respective shares reflects Energinet's capital costs (capex) and operational costs (opex) – with a cap of 40% on the volume share. Energinet's volume tariff is based on expected future gas quantities in the system, and it is paid at exit points. **Energinet finds that a relatively high share of volume-based tariffs supports a flexible use of the system** and the development of bio-methane and the green transition in general. Energinet points out that there is no capacity bottlenecks in the Danish transmission system, which could be an argument for setting a higher capacity tariff. The direct variable OPEX of the system is today approx. 8%, but the present data quality makes it difficult to calculate the variable costs of Energinet in a precise manner. The variable OPEX is likely to be higher than 8%. In addition, calculations show that shippers with different load factors are affected differently by the capacity and volume spit, and a different split will have redistributive effects between various shipper groups. **In Energinet's view, the chosen tariff structure should support a broad and diversified use of the system and support various types of users and consumers.** Overall, Energinet recommends that the present split be maintained at least during the Tyra rebuild period, which would also allow Energinet to have a dialogue with the market participants on what would*



be the effect of a higher capacity tariff on the functioning of the market." Also, in the document mentioned above, **DUR finds a change in the capacity/volume split as very risky:**

*DUR finds that it would pose an **inacceptable risk to the functioning of the Danish gas market if the split was changed dramatically (90/10 or 85/15)** at the same time as a very exceptional and uncertain period for the Danish market is about to start. However, DUR finds that the capacity/volume split needs be reduced to better align the Danish tariff structure to the requirements of NC TAR as the gap between the proposed 40% cap on the volume share and the documented costs for transporting the gas is too high. DUR finds that the necessary changes to the capacity/volume split need to take place gradually because of the exceptional circumstances of the Danish gas system for the next regulatory period (Tyra shutdown).*

**In summary, there are the following arguments against changing the capacity/volume split:**

- 1) highly probable increase of future tariff rates due to smaller number of market participants and thus smaller total reservation of capacities,**
- 2) increase of subsidizing between network participants,**
- 3) providing market flexibility to smaller market participants at cost of OS 2017 users,**
- 4) a non- fact based division between the variable and the fixed part of system operation costs,**
- 5) possible deviation of prior arrangements with OS 2017 users.**

## **2. Method element 3.2: Discount on the transmission tariff to and from the virtual storage point**

Please note that size of the PGNiG's OS 2017 capacity booking (and its future utilization) will result in financing the majority of the 100% discount on tariffs to/ from to the virtual Danish storage point, **which is a form of cross-subsidization.**

PGNiG is however willing to accept the 100% discount of the storage tariff rate as it is part of the wider agreement, but only if other areas are consistent with previous arrangements, in particular in relation to uniform tariff and discount for the bookings exceeding 5 years.

## **3. Method element 3.3: Multipliers and season factors**

### **3.3.1 Multipliers for short-term capacity products less than 1 year**

PGNiG recognizes the multipliers for seasonal short-term capacities as a natural element of the market, prompting the balancing of the use of network resources outside the heating season. Comparing to other neighbor markets, Danish multipliers could be even higher – for example Polish TSO provides 1.45 multiplier for 1st quarter and 1.36 for 4th quarter of the calendar year as well as multiplier up to 1.73 for winter months.

### **3.3.2 Multipliers on capacity products of 5 years or more**

The concept for introducing of deescalators for capacity bookings longer than 5 years is an extension of the multiplier principle currently applied in Denmark for capacity bookings with a duration shorter than 1 year (i.e. the shorter the booking, the higher its cost). In line with the proposed concept, the deescalation would increase proportionally to the duration of the capacity booking.

The deescalator concept has been well-consulted with the market and a general consensus has been reached (i.e. during Shipper Taskforce meetings organized by ENDK as a primary platform for dialogue between gas market players and the Danish TSO on key issues related to the new tariff methodology) that introduction of the deescalators is in the best interest of the market. Eventually, ENDK included the deescalator concept in its tariff proposal submitted to DUR in December 2018. **In line with ENDK's proposal the discount should be 5 - 10% on capacity contracts with a duration of 5 years or more and should increase with the length of the contract.**

In its tariff decision, DUR recognized the benefits and general regulatory possibility to introduce the proposed deescalator solution, however, did not approve the deescalators for 2019-2022 highlighting (among other things) three key obstacles:

- discrimination between OS and non-OS shippers (capacity booking products for more than 1 year were not historically available)
- competitive advances for OS 2009 in Ellund under a critical situation with the Tyra redevelopment
- need for an impact assessment which shows the likely market - and economic impact (redistributive effects) between different groups of shippers

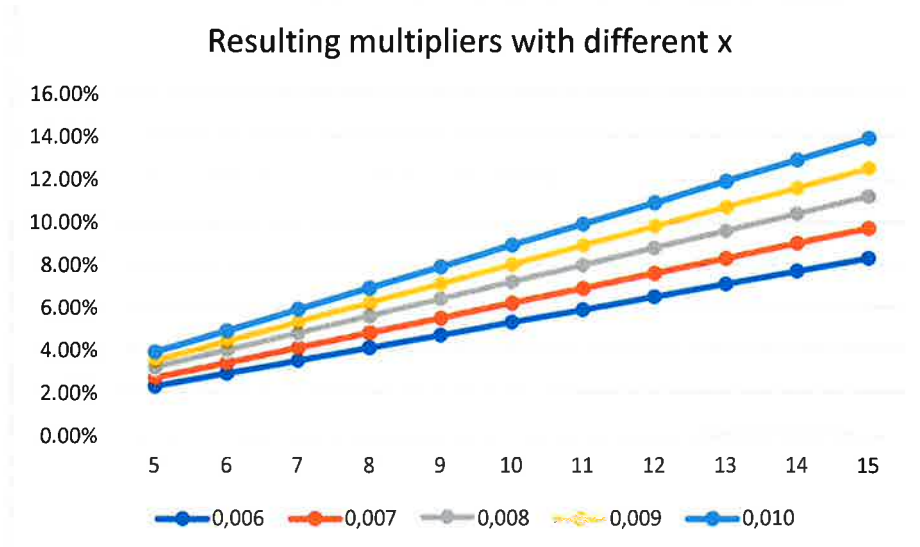
In the same time DUR stated that it would be potentially possible to introduce a deescalator scheme in the future. DUR encouraged ENDK to submit a proposal for a deescalator scheme in the tariff proposal for the next regulatory period.

**We support the direction outlined to the market by ENDK and we generally see that is consistent with what was communicated to us prior to making binding Open Season bookings.** This especially relates to the following aspects:

- longer-term commitments should benefit from a higher tariff discount
- we find the formula presented by ENDK as illustrative to be very understandable, intuitive and reflect the principle outlined above very well, however multiplier level has to be adjusted.

Regarding the proposed solutions described in the Consultation Document, PGNiG has analyzed influence of different values of multipliers on the final result of the discount. In order to achieve the desired level of discount of at least 10% with 15-year contracts, multipliers of 0,007 and 0,008 need to be considered as the most relevant. The chart below shows the relationship between the analyzed levels of multipliers and the obtained discount of the transmission tariff. Discount of 10% is approximately 1/3 of savings of system users resulting from BP commissioning.

Figure 1: The relationship between the analyzed levels of multipliers and the obtained discount of the transmission tariff.



PGNiG's own analysis, based on data provided by ENDK, shows that the subsidizing of other users by long-term BP users will be eliminated if the rates for long-term users are reduced by 20%.

Based on the data presented in Appendix 1 of the Consultation Document, the actual rates (called marginal tariff) assigned to the BP project and the rest of the system should be as follows:

DKK/kWh/h/y	2023	2024	2025	2026	2027
Existing excl. Baltic Pipe	47,60	47,52	49,75	53,90	57,93
Baltic Pipe project	28,59	28,17	27,70	27,22	26,85
Total cost base	34,27	34,06	34,32	34,94	35,54

Therefore, BP users subsidize other users as follows:

	2023	2024	2025	2026	2027	AVG per year
Level of cross-subsidization paid by BP users [DKK/kWh/h/y]	5,68	5,89	6,63	7,72	8,70	6,92
[%]	17%	17%	19%	22%	24%	20%
Level of cross-subsidization shown as discount for non-BP users [DKK/kWh/h/y]	13,33	13,46	15,43	18,96	22,38	16,71
[%]	28%	28%	31%	35%	39%	32%

The level of subsidization is not only high but also shows a steady increasing trend (from 17% in 2023 to 24% in 2027). **In order to eliminate subsidization, the multiplier for users ordering capacity over 15 years should therefore be at least 0.8.**

We would like to express our appreciation to ENDK for continued efforts to ensure that the deescalators are approved for the next regulatory period. We consider it extremely important that negative multipliers for long-term bookings are implemented into the new tariff perspective and are applicable to bookings made during OS 2017. At the same time, we emphasize that considering the expected transportation costs via alternative routes and unfavorable changes in the tariff methodology affecting predominantly the long-term shipper (outlined earlier) **it is crucial to implement at least a 10% discount to bookings made for the longest possible term (15 year).**

### 3.3.3 Seasonal factors

As the aim of seasonal factors is to boost security of supply during the Tyra shutdown, where almost all of the Danish-Swedish gas consumption has to be covered by gas from Germany. As this mechanism shall be discontinued when Baltic Pipe begins operation, PGNiG does not have any further comments on that topic. We build this conviction on ENDK's the declaration of ending the mechanism on 1<sup>st</sup> of October 2022.

### 3.4 Uniform tariff methodology

PGNiG supports ENDK view on uniform tariff methodology.

In our opinion, the capacity cost allocation comparison index presented in point 6.3 of the consultation document that is greater than the 10% limit, may be incorrect. This index is calculated on the basis of intra driver and cross driver corresponding to the CWD model, whereas based on NC TAR article 5 (2) these drivers shall be based on the proposed reference price methodology, i.e. they should be based on forecasted contracted capacity.

PGNiG will be happy to and share with Energinet calculations that prove that the Uniform tariff methodology, with proposed by PGNiG level of multipliers on capacity products of 5 years or more, has

the capacity cost allocation comparison index smaller than 10% and thus the Danish national regulatory authority shall not provide any justification for such results.

### 3.5 Uniform tariff for the joint market zone

PGNiG supports the direction of proposed changes, especially if they result in higher cost efficiency and other synergies. However, more detailed position may be presented when the availability agreement and its terms will be provided, which is planned on the 15<sup>th</sup> of December 2021.

### 3.6 Change to tariff period

PGNiG, as previously stated, does not see any contraindications for changing the billing period now (especially when it synchronizes the process with the other transit countries), however, we are concerned about the process of the change itself.

It would be beneficial to market participants to get more explanations of how the process of changing the settlement period is planned and how it will affect the termination of the capacity reservation periods, in particular - whether it will extend them by three months.

## 4. PGNiG's comments to the other market participants' opinions

### 4.1 Ørsted

Regarding point 1 – PGNiG has different view due to the reasons widely described in point 1 of this document.

Regarding point 2 - PGNiG supports Ørsted's view.

Regarding point 3 - PGNiG has different view due to the lack of business justification for this and similar future investments in case of withdrawal from discounts on long-term capacity bookings as well as due to possible contravention of Energinet's prior arrangements with OS 2017 users.

Regarding point 4 - PGNiG supports Ørsted's view.

### 4.2 Dansk Energi

Unfortunately, there was no formal translation of Dansk Energi's opinion to English language, however PGNiG relates to the own translation of Dansk Energi's position, which might be incorrect. Nonetheless, PGNiG has analysed Dansk Energi's opinion and cannot agree that a discount for long-term capacity reservations in BP has been reintroduced. It was a part of the mutual agreement from the very beginning of the negotiations and PGNiG treats it as agreed initial condition for capacity reservation in the OS2017 procedure.

Regarding capacity/volume split – PGNiG has different view due to the reasons widely described in point 1 of this document, especially PGNiG disagrees with opinion that OPEX will constitute a negligible minority of costs - it is appropriate only for BP, and it should be noted that the tariff rates cover the entire transmission system cost, so real capacity/volume split shall be different, shifted more towards 70/30. Even **ENDK states in point 3.1 of the Consultation Document, that "flow-related costs will constitute approx. 8% of the total cost base", which implies 90/10 split.**

Regarding capacity/volume split – PGNiG has different view due to the reasons described in point 3 of this document. Especially, these are OS 2017 users who substantially provide for operational and financial stability to the Danish gas transportation system and in our view shall be rewarded for such a fundamental contribution.

## 5. Summary

The PGNiG Group is a company that aims to achieve a positive economic result and must choose such delivery paths and directions that are competitively priced.

We consider three proposed adjustments as beneficial for the market participants. These are:

- 1) Discount for long-term bookings (higher rates shall be considered),
- 2) Uniform tariff methodology,
- 3) Tariff collection period of calendar year

Our main concerns are:

1. Values of discounts for long-term bookings. PGNiG proposes 10% of the discount for 15-years bookings. This proposal is supported by the fact that launch of BP introduces on average 30% of a discount to other natural gas transmission system users in Denmark.
2. 100/0 capacity/commodity split. PGNiG does not support this change as not relevant to the market conditions. PGNiG supports staying in the current capacity/volume split, but can also accept insignificant shift towards capacity factor increase.
3. Lowering gas volumes consumed in Denmark in the coming years shall not increase cross-subsidization and increasing rates for long-term, transit shippers.
4. To ensure competitiveness of the Danish transmission system, other possible transmission routes should be analyzed, and the Danish rates proposed to DUR shall be at the comparative level to alternative routes offered by the neighboring countries.
5. We are willing to accept the "zeroed" storage tariff rate, which is a form of cross-subsidization, as it is part of the larger package, but only if other areas are consistent with previous agreements, in particular in relation to uniform tariff and discount for the bookings exceeding 5 years.

We hope that you find our viewpoint a meaningful contribution to the debate on the construction of a cost effective and fair tariff in Denmark post BP implementation. Thank you once again for including PGNiG in this public consultation procedure and allowing us to voice our concerns.

If there is any need for clarifications on the mentioned matters, we will be happy to assist you. We are also opened to participating in a meeting where we can elaborate on the points made in this document.

COF PGNiG  
Chief Executive Officer  
Marek Woszczyk  
14. DEC. 2021