

Tariff calculation method

The tariff for transmission services No. 11 of the Gas Transmission Operator GAZ-SYSTEM S.A.

Applicable as of 1 January 2018 to 31 December 2018.

The Tariff has been drawn up in compliance with the provisions of Regulation (EC) No. 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks, the Energy Law of 10 April 1997 and the Ordinance of the Minister of Economy of 28 June 2013 concerning detailed principles of setting and calculating tariffs and the principles of settlement in trade in gas.

The tariff for transmission services No. 11 of the Gas Transmission Operator GAZ-SYSTEM S.A. has been compiled according to entry-exit tariff system assumptions and has been customized the method of settlements of gas transmission services to UE requirements.

The tariff for transmission services No. 11 of the Gas Transmission Operator GAZ-SYSTEM S.A. has been designed in a manner that ensures:

- covering justified costs within the scope set out in Article 45 of the Energy Law;
- protecting the customer's interest against unreasonable price levels;
- elimination of cross-subsidizing.

The rates of transmission fees were calculated based on:

- justified costs, broken down into fixed and variable costs;
- contracted capacity for the tariff duration and planned gas transmission volumes.

The justified costs include the costs of transmission activity, including in particular:

- costs by category (within the meaning of the Accounting Act), i.e.:
 1. materials and energy (including gas purchased to meet the Operator's own consumption and imbalance deviations);
 2. external services (including: repairs and maintenance, lease of storage capacities for the Operator's needs);
 3. taxes and charges;
 4. payroll;
 5. employee benefits;
 6. depreciation;
 7. other;
- justified return on capital employed in the transmission activity.

The justified costs for calculation of prices and rates are planned by the Gas Transmission Operator GAZ-SYSTEM S.A., and then validated by the Chairman of the Energy Regulatory Office at the tariff application approval stage.

Fixed and variable costs are determined by the Operator for individual entry and exit points of the transmission system according to the cost allocation rules adopted by the Company (and approved by the Chairman of the Energy Regulatory Office), remaining unchanged for a given tariff period.

Justified return on capital employed in the transmission activity

The Tariff for Gas Transmission Services No. 11 Gas Transmission Operator GAZ-SYSTEM S.A. was established with the assumption of return on capital employed in transmission activity. The return has been calculated on the basis of WACC (weighted average cost of capital). The basic specifications harnessed in calculating the WACC that were adopted by the Decision of the President of the Energy Regulation Office are:

- Risk free rate of return R_f – 3.256%,
- Premium for shareholders equity $(r_m - r_f)$ – 4.50%,
- Beta coefficient $\beta = 0.5$ corresponding to asset beta on a level of 0.4
- Loan capital cost - 4.26%.

The Regulatory Asset Base in the meaning of the net value of fixed assets involved in transmission activity and the net working capital of the Gas Transmission Operator GAZ-SYSTEM S.A. was subject to compensation

The tariff structure

In accordance with the tariff for transmission services No. 11, the Gas Transmission Operator GAZ-SYSTEM S.A. imposes the following charges at the transmission system entry and exit points:

- Fixed fee shall be charged depending on the contracted capacity:
 1. in entry points to the transmission system (including Underground Gas Storage Facilities),
 2. in exit points of the transmission system (including Underground Gas Storage Facilities).
- Variable fee is charged solely in all exit points (it is not charge in entry points or UGS connection points).

Rates for specified entry and exit points was computed on the basis of revenues regulated in specified points. The ratio of transmission fees collected in entry and exit points of the transmission system stand at 50/50.

The structure of justified costs recovered through the fixed and the variable charge, has been determined by decision of the Chairman of the Energy Regulatory Office on the level of 90/10 and do not reflect the real ratio of fixed to variable costs incurred by the Company, which is 97/3.

[The Tariff for Gas Transmission Services No. 10 Gas Transmission Operator GAZ-SYSTEM S.A.](#)