

**PGNiG comments regarding reference price methodologies for years 2023-2024
proposed by OGP Gaz-System S.A.**

I. The introduction

Polskie Górnictwo Naftowe i Gazownictwo S.A. (hereinafter: “**PGNiG**”) presents comments on draft reference price methodology for the National Transmission System for years 2023-2024 (hereinafter: “**NTS Methodology**”) and draft reference price methodology for the Transit Gas Pipeline System for years 2023-2024 (hereinafter: “**TGPS Methodology**”), which were published by OGP Gaz-System S.A. within consultation process pursuant to Article 26 of NC TAR¹.

II. PGNiG comments – TGPS Methodology

1. Discount for Mallnow reverse flow

On page 8 of English version of TGPS Methodology, transmission system operator declared that *“the TGPS has no entry points from and exit points to infrastructure developed with the purpose of ending the gas transmission systems isolation of the Member States”*.

We would like to point out that verification of that statement would be justified due to Mallnow reverse point characteristics which enables to organise gas supplies from Federal Republic of Germany to the Republic of Poland. Mallnow reverse interconnection (technical capacity: 5 bcm/year) point was constructed in order to connect Polish transmission system with gas markets in Germany and other Easter European countries. In our view, the Mallnow reverse interconnection point was constructed with the purpose of ending the isolation of Member State (i.e. the Republic of Poland) within the internal gas market.

Following the position described above, we would like to point out that discount application at Mallnow reverse interconnection point would be justified. It would decrease the cost of gas delivery to Poland.

¹ Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.

The operator charges full transmission fees in both directions at Mallnow interconnection point. It exaggerates cost of infrastructure utilisation, even though the physical transfer of gas is limited to route Kondratki – Punkt Wzajemnego Połączenia. The introduction of full transmission charges at Mallnow reverse (i.e. without 0,2 factor pre-defined for virtual reverse flow) significantly increased total amount of costs related to gas delivery to Poland. It affects all gas market participants active in Poland.

In view of the above, we request the introduction of discount for Mallnow reverse interconnection point in accordance with Article 9 (2) of NC TAR which defines discounts applicable for gas infrastructure developed with the purpose of ending the isolation of Member States.

III. PGNiG comments – NTS Methodology

1. Discount at entry points from storage facilities

Article 9 of NC TAR enables OGP Gaz-System S.A. to apply discount at interconnection point with storage facilities and entry points from LNG facilities.

According to the simplified tariff model for high-methane system, as well as the discount description included in chapter 2 of NTS Methodology, the 80% discount (which has already been applied) will remain applicable for reference price at interconnections between transmission system and storage facilities. On the other hand, 100% discount remains applicable at entry point from LNG facility into transmission system.

Article 28 of NC TAR obliges national regulatory authority to organise public consultation regarding discount applicable at entry point from LNG facility. The Energy Regulatory Office clarifies on pages 10-11 of the consultation document that discount dedicated to transmission tariff can be applied in order to increase security of supplies.

From the security of supplies perspective, LNG and storage facilities play similar role. It was confirmed by the Energy Regulatory Office's document which presented the structure of gas sources which supplied transmission system between 2017 and 2020:

Entry to system	H-Gas 2017		H-Gas 2018		H-Gas 2019		H-Gas 2020	
	[TWh]	[%]	[TWh]	[%]	[TWh]	[%]	[TWh]	[%]
Storages	23,7	4,3	25,0	4,5	18,0	3,2	30,4	5,7
LNG Terminal	18,4	3,3	29,5	5,3	35,9	6,4	40,0	7,5

The comparable significance of gas storage and LNG facilities justifies the application of the same discount level at interconnection points with storage and LNG – i.e. 100%.

2. Revenue split flexibility

The comment refers to flexibility of revenue split between entry and exit points proposed by OGP Gaz-System S.A. for tariffs at National Transmission System (in the range from 30/70 to 70/30). The operator declares that “the proposed flexible solution, in a situation of ongoing investments, can protect system users from significant year-on-year increases in reference prices during the lifetime of this methodology”.

In that context we would like to point out that transmission fees at exit points could be minimised – if operator allocate lower amount of costs into these points and (in parallel) increase cost allocation for entry points. However, higher transmission fees at entry points into National Transmission System will be reflected in gaseous fuels costs.

3. Non-transmission service fee calculation methodology

Chapter 10 of NTS Methodology includes a proposal to define separate gas pressure reduction service and gas compression service at the customer’s request. The costs of these services would be separated from costs which are reflected in transmission services. Non-transmission service fees will be defined in transmission system operator’s tariff and approved by the President of Energy Regulatory Office.

We would like to point out our concerns regarding the applicability of non-transmission service concept towards gas pressure reduction and gas compression. According to Article 3(13) of NC TAR, non-transmission services mean charges payable by network users for non-transmission services provided to them. Criteria applicable for transmission or non-transmission system qualification are defined in Article 4(1) of NC TAR. The distinction strongly bases on the relation between the specific service and cost drivers. Gas pressure reduction and gas compression are serviced within transmission system between entry/exit points in order to deliver gas under pressure defined in transmission agreement with end user. It means that qualification of the described activities as non-transmission services is doubtful.

The Ministry of Climate and Environment published draft amendment of Energy Law (draft dated 30 April 2021), where legislator proposed the extended list of services which could be offered by transmission system operator. The updated list would include gas pressure reduction and gas compression. The amendment is subject to public consultation and schedule for its implementation is not known. However, the approval of comments submitted by PGNiG can result in limiting the scope of the revision into exit points from domestic production facilities.

The discussed problem is significant due to § 16 of Polish Tariff Regulation which constituted closed catalogue of services which can be offered upon additional request of end user. The catalogue does not include non-transmission services proposed within the commented document.

To sum up, the consultation process dedicated to methodology which include non-transmission services may be premature. We would like to point out that according to § 30 of Polish Regulation concerning natural gas system, transmission system operator is obliged to guarantee the appropriate pressure at exit points from transmission system fully in line with parameters predefined in transmission contracts.

The potential separation of gas pressure reduction service and gas compression service planned for 2023 generates transmission system operator's obligation to implement cost evidence since 2021. Such cost evidence should allow operator to precisely allocate costs into compression and reduction facilities where specific services will be offered.

It is important to carefully analyse the cooperation between transmission system operator and distribution system operator. The adjustment of pressure parameters into system condition (taking into account cooperating distribution systems) should be organised without additional fees. Adjacent system operators are obliged to cooperate and coordinate their development activities in order to ensure proper functioning of the whole gas market – both from the perspective of transmission and distribution system. The implementation of additional monthly fee can lead to decrease of economic analysis results dedicated to distribution system investments (in case when such additional costs will not be qualified into distribution tariff) or distribution charges increase (in case when additional costs will be included in distribution tariff).

4. Additional comments

Due to the significant transmission service fees was proposed in the consulted document and complicated situation in the natural gas market, including high increase of fuels prices, we emphasise our concerns regarding future development of natural gas market and kindly request for reassessment of proposed transmission fees increase at entry points (32%) and exit points (15%).

Moreover, we would like to suggest the initiation of legislative procedures which will introduce discounts at entry point from distribution system into transmission system, in particular concerning gas transferred between transmission system through distribution system. The described points secure transmission system through the utilisation of distribution system. As a consequence, they allow supplying parts of distribution network as well as end users connected to transmission system. Imposing additional fees on distribution system operators at entry point into transmission system result in transfer of these costs into gas suppliers. The gas distributed into transmission entry points is also dedicated for industrial end users. It means that gas suppliers (and their customers – end users) in distribution network bear total cost of gas delivery into transmission network. Some part of gas is transported to end users connected to transmission grid who do not participate in the earlier stage – i.e. costs related to distribution of that gas.