

Q&A – Open Season 2017 Consultation

Version: 5 Jan 2017

Question 1:

Q: *Will it be possible to export gas from Germany to Denmark via Ellund and then to Poland via Baltic Pipe?*

A: Yes, it will be possible.

Question 2:

Q: *If there is a reverse flow from Poland to Denmark, will it be a physical reverse flow?*

A: Yes, it will be a physical reverse flow.

Question 3:

Q: *What is a sufficient level of capacity sold to move to Fast Track Process? And is there a specific number of bidders required for the Fast Track Project?*

A: For the Danish Part of the Baltic Pipe Project, 75 per cent of the total capacity at both the North Sea Point and the Interconnector Point Baltic Pipe are required in the submitted Orders to Proceed for a period of 15 years. Please see Appendix 3, Rules applicable to participation in the Danish part of the OS 2017, clause 9.3.

No specific number of participants is required for the Fast Track Project. It is the requested OS 2017 Capacity level that will determine if the Fast Track Project will be initiated.

For the Polish part, the level of sufficiency of the Orders to Proceed has not been established yet. If any It will be published in the final version of the Open Season 2017 documentation. The sufficient level of the OTP on the Polish side shall be a subject of a discussion with Polish NRA.

Question 4:

Q: *If three are bidding, how will you allocate capacity?*

A: First we will investigate if the bids exceed the offered capacity at the point. If this is the case, then we will first allocate capacity towards bids for the maximum possible contract duration, which is 15 years. If bids for the maximum duration exceed the total offered capacity, the pro-rata and allocation of capacity will only be performed for these bids, and all other bids for

shorter durations are disregarded. If bids for the maximum duration do not exceed the total offered capacity, the bids for contract duration of 14 years will be allocated capacity and so on. Please see the Open Season 2017 Rules, clause 8.

Question 5:

Q: *Is the Capacity Agreement subject to negotiation?*

A: The Capacity Agreements will not be subject to negotiation. However, the Capacity Agreement is subject to consultation now. We look forward to Shippers comments to the current version of the Capacity Agreement.

We also invite participants to submit questions, which we will answer. In addition, bilateral meetings can take place. Information contained in such questions, answers and meetings will be published on a no name basis to all having signed up to receive information on Open Season 2017.

Question 6:

Q: *Will priority be given to shippers bidding in one point or the other?*

A: No. Capacity is allocated separately at each point, where contract duration is the only factor giving priority. However a participant who is bidding for the same capacity at both points but is allocated different capacities can choose to reduce the capacity at the point with the highest allocation to the capacity at the point with the lowest allocation. Please notice that this must be indicated in the Phase 2 bidding form. Please see the Open Season 2017 Rules, clause 8.

Question 7:

Q: *What will happen if Orders to Proceed have been submitted for a sufficient amount of OS 2017 Capacity, and the Fast Track Project is initiated, but the TSOs are not able to deliver gas transportation as of 1 October 2022?*

A: If Energinet.dk is late in delivery with regard to the Danish parts of the Baltic Pipe Project, the participants that have submitted a Phase 1 bid will be paid a compensation with a maximum of DKK 30 million. Please see, Appendix 3.C., Draft Capacity Agreement, clause 10.1.

If GAZ-SYSTEM S.A. is late in delivery with regard to the Polish parts of the Baltic Pipe Project, it will be liable for the damages of the shipper caused by the delay. The proposed definition of delay in commencement of gas

transportation, as well as the limits of GAZ-SYSTEM S.A. liability are provided for in the draft of the capacity agreement. Please see, Appendix 4.E, draft of the OS 2017 Capacity Agreement, clause 4 and 5.

Question 8:

Q: *What is the link between the information in the information package and the economic test?*

A: For the Danish part, these are expected to be closely interlinked. However, the economic test has to be discussed with the NRA. How the economic test will be conducted is therefore not certain yet. Energinet.dk will, for the Danish part of the project, perform a socio-economic business case according to its own methodology which will be subject to approval of the supervisory board. The business case will be linked to the information in the information package in the sense that cost of transportation will be one of the assumptions for the business case.

For the Polish part, the economic test will be conducted after evaluation of Phase 2 Bids of the Open Season 2017, to assess if the Baltic Pipe Project is still feasible. The economic test has to be discussed and agreed with the Polish NRA. The details of conducting the economic test is still under preparation. The requirements for the economic test will be described in the Appendices to the Open Season Rules, to be published during the Open Season 2017 (in the information package before the Open Season).

Question 9:

Q: *If the parent company is the State, would it be a "parent company" under the rules (reference to Appendix 3, Rules applicable to participation in the Danish part of the OS 2017, clause 5.2)?*

A: Yes. If the State controls a participant as described in clause 5.2., the State and the participant will be associated. If the State controls two participants as described in clause 5.2., the two participants will be considered as associated.

Question 10:

Q: *Will the amount of the guarantee go down, if a guarantee has been provided?*

A: For the Danish Part, yes. 50 per cent of the guarantee will be released when the Shipper has received OS 2017 Capacity for a period of 1 year. The remaining guarantee will be released by 10 per cent in each of the 5 years following. Please see, Appendix 3.C., Draft Capacity Agreement, clause 7.

For the Polish part, GAZ-SYSTEM S.A. is planning to apply the same method as Energinet.dk. Please see, Appendix 4.E, draft of the OS 2017 Capacity Agreement, clause 7.

Question 11:

Q: *Specific for Denmark, will the tariff be the same as for the existing system?*

A: Energinet.dk has engaged in an active dialogue with the Danish Energy Regulatory Authority to clarify the impact of investments in relation to the Baltic Pipe Project on the future tariffs and market design. The result of this discussion and the already planned process of harmonising existing tariff methodology with the coming regulation on Harmonised Transmission Tariff Structure for Gas may end with uniform tariff and thereby the tariff will be the same for all points in the Danish Gas market Model.

Please refer to Appendix 3, Rules applicable to participation in the Danish part of the OS 2017, clause 8.

Q: *Specific for Denmark, you have before said that there will be two zones in the Danish Gas Market Model?*

A: Energinet.dk has proposed new principle for new market design in a case where the Baltic Pipe Project is realised. Those principles state that there will be one common market zone integrating the offshore system (only for new infrastructure) together with the transmission system. Due to differences in regulation it will be needed to separate cost in the two systems to avoid cross-subsidising.

Q: *Who is going to finance, own and operate the compressor?*

A: The decision is still not made but there will be a clarification before the binding phase in the Open Season process (expected to start in the middle of May).

Q: *In respect of risk assessment of the existing shippers in the Danish gas-system, if cost overrun is less than 25 per cent, will those cost be distributed on all points or only on new points?*

A: The cost overrun is calculated as the difference of the calculated transportation costs between the Phase 2 in May 2017 and the Business Case calculation in Q4 2017. The Business Case calculation will only be approved, if the result is that the project has a positive impact on the Danish market. Thus, the project is only approved if the cost impact of the total system is positive.

Q: *Are conditions precedent stated in Appendix 3.C, Draft OS 2017 Capacity Agreement, clause 8.2, the only way a shipper can withdraw from the contract?*

A: Yes.

Question 12:

Q: *Will the level of possible EU support be known during the Open Season process?*

A: Before the Open Season binding phase Energinet.dk and GAZ-SYSTEM S.A. expect to have a plan for when the possible EU support will be known. However Energinet.dk does not expect EU support for the Danish part of the project. GAZ-SYSTEM considers use of EU support for the Polish part of the project, but the possible level of the support will not be known during Open Season process.

Question 13:

Q: *Please describe what kind of activities will be executed by the Operator following receipt of the Order to Proceed (at the level requested in the Open Season Rules). In specific, please describe:*

1. *List of actions to be executed by the Operator*
2. *List of deliverables*
3. *What kind of guaranteed related to execution of certain actions will be proved to shipper who submits Order to Proceed*
4. *What kind of benefits will be delivered to the shipper submitting Order to Proceed*

A: *Regarding 1 and 2):* The actions to be executed by Energinet.dk following receipt of the sufficient Order to Proceed (Phase 1 bids) are described under the Fast Track Project in clause 9.2 in Appendix 3. One of the actions is to execute Concept Studies of

- Norwegian tie-in
- Danish onshore enhancements and
- Zealand compressor station (co-operation with GAZ-SYSTEM S.A.).

Concept Studies' deliverables include e.g. process flow diagrams, utility flow diagrams, preliminary piping and instrument diagrams, plot plan, developed layout drawings and engineered process, utility equipment list and updated cost estimates with improved accuracy. Preliminary information will be made available before the start of Phase 2 of Open Season.

Please be informed that GAZ-SYSTEM S.A. aims at starting actions related to engineering part of the Baltic Pipe Project in line with the project time

schedule, e.g: Concept Study for onshore Polish part of the Baltic Pipe. OtP will provide guidance on the potential size of the project and future tariff. Relevant information will be made available in the Information Package before the start of Phase 2 of Open Season.

Regarding 3): If the requested OS 2017 Capacity is sufficient in order to continue the Fast Track Project based on the submitted Phase 1 Bids, Energinet.dk is committed to continue the Fast Track Project, please see clause 9.2 and 9.3 in Appendix 3. Energinet.dk will not be able to give any guarantee related to execution of certain actions defined under the Fast Track Project.

Regarding 4): The main benefit for the shippers submitting an Order to Proceed is that Energinet.dk will initiate the Fast Track Project that allows for gas transportation as of 1 October 2022 if the Order to Proceed is given for a sufficient amount of OS 2017 Capacity. When a shipper submits an Order to Proceed, the shipper also gives a signal to Energinet.dk that the capacity is demanded from 1 October 2022. This signal is essential in order for Energinet.dk to initiate the Fast Track Project. If the requested OS 2017 Capacity is sufficient to continue the Fast Track Project based on the submitted Phase 1 Bids, then Energinet.dk is obliged to initiate the Fast Track Project if GAZ-SYSTEM S.A. also assess that the Fast Track Project can be initiated, please see the OS 2017 Rules, clause 7.

On the other hand, if Order to Proceed for a sufficient amount of OS 2017 Capacity is not submitted in Phase 1, Energinet.dk will have to make further assessments of the Baltic Pipe Project's feasibility. After such further assessment and dialogue with GAZ-SYSTEM S.A., Energinet.dk will at its sole discretion determine whether the Fast Track Project can be initiated, whether the Baltic Pipe Project is continued (but not as fast track and thereby with a later start date), or whether to discontinue the Baltic Pipe Project entirely (please see clause 9.3 in Appendix 3). Therefore, if Order to Proceed for at sufficient amount of OS 2017 Capacity is not requested, it is questionable if the project will continue, or if the project is continued towards a later start date.

Question 14:

Q: *Please inform about which activities are planned between 6th January 2017 (deadline for market consultations) and February 2017 (expected start of Phase 1). In specific,*

- 1. Further involvement of shipper in consultation process*
- 2. Shipper's ability to influence final version of the Open Season Rules*
- 3. Shipper's ability to question final version of the Open Season Rules in the situation if shipper's comments will not be included*

4. *Details of regulatory and authority process leading to approval of the Open Season Rules*

A: *Regarding 1)*: Energinet.dk urges all shippers to comment on the OS 2017 Rules and appendices during the market consultation, i.e. until 6 January 2017. This is the best way for the shipper to influence the process. After the deadline for the market consultation on 6 January 2017 and until the start of phase 1 of the Open Season, Energinet.dk will evaluate the comments received during the market consultation. Further, Energinet.dk will – in dialogue with both Energy Regulatory Authorities and Gaz-System S.A. – adjust the OS 2017 Rules and its' appendices if necessary, taking into account i.a. comments received from shippers during the market consultation. Shippers will not be able to participate in this evaluation.

Regarding 2): If shippers wish to influence the OS 2017 Rules, the shippers may submit comments to Energinet.dk and/or Gaz-System S.A. during the market consultation.

Regarding 3): After the beginning of Phase 1 of the Open Season, the shippers may follow the procedure for dialogue meetings and Q&A in clause 9 in the Open Season Rules. As part of the Q&A procedure, shippers may pose questions to the final version of the OS 2017 Rules, up to two weeks prior the Phase 1 deadline. Energinet.dk may adjust the rules applicable to participation in the Danish part of the OS 2017 in accordance with Appendix 3, clause 14.

Regarding 4): After the consultation period ends, Energinet.dk and the Danish Energy Regulatory Authority will be in close dialogue about how the final version of the Open Season Rules will be. As long as the final rules are in accordance with applicable regulation, no formal approval is necessary in Denmark.

GAZ-SYSTEM S.A.:

We look forward to all market comments from the market participants until 6 Jan 2017 (16.00 CET). GAZ-SYSTEM shall immediately process the questions and will consider, with Energinet.dk if necessary, any necessary modifications of the OS documents in relation to the comments which were provided.

Please be informed that on Polish side, the rules of the OS procedure must be approved by the President of ERO (URE). Each and every comment from the market users obtained during the consultation period shall be discussed with the ERO representatives, before the final approval of the Open Season

procedure. Therefore, the Shippers ability to influence the final version of the Open Season Rules is only during the ongoing consultation process.

Energinet.dk and GAZ-SYSTEM S.A. will examine diligently all input received during the market consultations. Please bear in mind that Energinet.dk and GAZ-SYSTEM S.A. reserve their right in their free discretion to incorporate some of the input received and to disregard other input.

Details of regulatory and authority process leading to approval of the Open Season Rules in Poland:

The Transmission Network Code in point 7.1.13 determines the legal basis for the approval of Open Season Rules by the Polish ERO:

"7.1.13 The offering of newly built and expanded physical entry or exit points at the interconnections with the transmission systems of other transmission systems shall be executed by the TSO under a non-discriminatory and transparent Open Season procedure, to the extent agreed with the ISO (including the capacity made available on a bundled basis) and subject to the terms and conditions determined each time in relevant regulations agreed by the President of ERO."

The OS 2017 Rules were prepared with respect to the general provisions of the Directive No 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas, Regulation 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and Commission Regulation 984/2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (NC CAM). The OS 2017 Rules will also respect applicable provisions in the amended NC CAM that is expected to enter into force in the first half of 2017. In addition, the OS 2017 Rules are based on the principles of the ERGEG Guidelines for Good Practice for Open Season Procedures of 21 May 2007.

On the basis of the consultation outcome, GAZ-SYSTEM S.A. and Energinet.dk shall prepare the final version of the Open Season 2017 Rules, together with its' Appendices. On the basis of such final documentation, GAZ-SYSTEM S.A. shall prepare the allocation rules of the polish part of the Open Season 2017 to be approved by the President of ERO. After obtaining the approval from ERO, GAZ-SYSTEM S.A. and Energinet.dk shall publish the final Open Season 2017 Rules and launch the Open Season 2017.

Question 15:

Q: *Will Energinet.dk/GAZ-SYSTEM S.A. publish the Feasibility Study (or a substantial part) to the market participants?*

A: A summary of the Feasibility Study will be published by the end of January 2017, and in time before Phase 1 is expected to start (February 2017).