

# **PGNiG Group input into the consultation process of the „Methodology for Integrating Baltic Pipe in the Danish Market Model”**

## **0. Introduction**

PGNiG Group (“**PGNiG**”) would like to thank Energinet.dk (“**ENDK**”) for launching a new round of the consultation process around the gas market design, which started on 21 December 2020. PGNiG is the largest shipper in Baltic Pipe project (“**BP**”) and as a BP stakeholder is committed to cooperating with other participants of the Danish gas market. We are of the view that the a properly structured market design, coupled with predictability of regulatory framework, involvement of market players, along with competitive, predictable and non-discriminatory gas transmission tariffs are all key success factors for the Danish gas market.

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 market design. The purpose of this document is to express PGNiG’s understanding of ENDK’s proposals submitted in the “Methodology for Integrating Baltic Pipe in the Danish Market Model” (“**Consultation Document**”) and to provide our views and suggestions on what we see as key issues. In this document we further touch upon certain ideas that were expressed during the “User Group” meetings held on 14 January 2021, which apart from the topic under consultation also revolved around supplementary tariff design issues.

**We acknowledge with satisfaction 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.**

We believe that the Consultation Document published by ENGK is a strong foundation for further discussion. Thus, in this document we present our comments on 3 issues, which we believe to be crucial from the point of view of integrating BP in the Danish gas market, as well as from the point of view of the general market design:

- 1. Joint Market Model (“JMM”)**
- 2. Tariff methodology – capacity / commodity split**
- 3. Tariff methodology – deescalators for long-term bookings**

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

## 1. Joint Market Model

The JMM concept revolves around integrating the upstream part of the BP Project (the tie-in to the Gassled network) with the downstream part of the Danish transmission system. It is important to note that the existing Danish upstream pipelines are not part of this concept and would remain an element separate from the JMM.

The aim of this concept is to enable shippers to have **seamless, transparent and non-discriminatory access** to the upstream part of the BP offshore part along with the downstream transmission system. A common entry point for the Norwegian-Danish tie in in the North Sea and the Danish transmission system will be created. It will allow for creating a number of benefits to shippers, including the minimization of overall transmission costs, avoidance of the “tariff pancaking” problem, efficient use of the upstream and downstream system through realization of synergies and a harmonization of capacity products and balancing terms across Danish off- and onshore gas system.

### ENDK’s position on the issue

According to the Consultation Document, **ENDK intends to extend the uniform cost allocation to new offshore infrastructure** required to bring gas from the Norwegian export system to the Danish onshore system.

In order to further functionally integrate the upstream part of BP with the onshore Danish network, the following items will be extended from the downstream network to the newly constructed BP upstream component:

- Balancing model
- Tariff model
- Available transmission products
- IT-interface
- Booking platform (PRISMA)
- Gas quality
- System operation
- Terms and rules for gas transport
- Operational responsibility

Due to legal requirements, the Norwegian tie-in part will be regulated by dedicated upstream regulation (rather than by transmission regulation applicable to the onshore part) and will have separate accounting treatment (a separate segment account).

To facilitate use of the BP transportation corridor, ENDK plans to set up a new “North Sea” entry point (at exit from Gassled area D) and a new Faxe entry / exit point bordering with the Polish gas transmission system. ENDK further plans to enter into an “Administrative Basis” contract to assure simplified booking of EP II capacity and plans to introduce capacity products / capacity auctioning mechanisms on the North Sea point which are analogous to other points in the DK system.

Utilization of this model implies that the Baltic Pipe corridor will be treated as an integral part of Danish transmission network. Again, ENDK does not include the existing Danish North Sea upstream pipelines in the proposed market model. The existing North Sea assets remain a separate item regulated outside of the consulted market design model.

### PGNiG’s position on the issue

The JMM is well-known to any interested party (shippers, traders and regulators) as it has been the subject of presentations, discussions, consultations and regulatory decisions since at least 2016. The relevant consultation milestones included:

- “Tariff principles and market design in a Baltic Pipe Open Season” document published by ENDK on 2<sup>nd</sup> November 2016

- “Opinion on principles for market zone and the methodology for determining tariffs in connection with the Baltic Pipe project” published by DERA on 31<sup>st</sup> January 2017
- BP Open Season 2017 (“OS 2017”) documents
- Multiple instances of presenting this market design concept to market participants during Shippers’ Fora, User Groups and Tariff Taskforce meetings
- “Tariff methodology for the Danish transmissions system” issued by DUR on 31<sup>st</sup> May 2019

**Consequently, the currently proposed JMM concept is a consensus stemming from 5 years of discussion and various regulatory decisions.**

In this regard, we note that during the 14 January 2021 User Group there have been a number of surprising comments from parties looking for alternative solutions of market design at this stage of the process. What surprised us even more is that in the follow-up presentation, answering one of the questions, ENDK states (slide 18) that the current Danish upstream infrastructure may be considered for future inclusion in the Danish market model.

**From the PGNiG perspective this is a surprising turn of events, since one of the key principles presented to us prior to making the Open Season booking was non-inclusion of existing Danish upstream infrastructure in the JMM.** The Open Season documentation (i.e. Information Packages and tariff simulations contained therein) were based on the premise of a JMM not including the existing Danish upstream pipelines.

**Should ENDK’s opens to deviate from these principles be disclosed to the OS participants in 2017 we may have taken a different approach to capacity booking.**

Adoption of these changes may result in a significant departure from the tariff principles based on which the OS 2017 capacity bids were made. Apart from that, inclusion of the existing Danish infrastructure in the JMM would not only raise questions about transparency of the 5-year consultations / discussions on the topic, but could also bring about serious consequences to all participants of the Danish gas market:

- given a declining profile of the Danish North Sea production, inclusion of the existing North Sea pipelines in the JMM would most likely mean a significant increase in tariffs, which would be felt for both the existing DK system users and for the BP transit corridor users
- from an “undue cross-subsidization”<sup>1</sup> point of view, PGNiG already perceives the uniform tariff regime in the currently proposed JMM shape as a compromise. It is already a deviation from an ideal state outlined in the NC CAM where each user group covers the costs of the infrastructure that they use (i.e. transit shippers should pay in tariffs for the transit infrastructure, whereas existing users should pay in tariffs for the non-transit infrastructure). **Under the currently proposed JMM model combined with a uniform tariff solution, the BP shippers will already cover ca. 50% costs of the existing non-transit (‘domestic’) infrastructure which they are unlikely to be using. Adding the existing Danish upstream pipelines to the JMM under the uniform tariff regime may only increase this problem** (given the high ratio of ‘added costs’-to-‘added bookings’ contributed by these assets) and as such would be **prone to heavy critic (both on a national and EU-wide level) on grounds of undue cross-subsidization and discrimination.**
- the risk of a sharp increase in the cost of gas transportation is relevant also from the viewpoint of contractual obligations of ENDK. Following a successful bid in Phase 2 of the OS 2017, PGNiG signed with ENDK a Danish OS 2017 Capacity Agreement stipulating rules of cooperation between sides in the so called “capacity period” (2022-2037). One of its chapters is devoted solely to the subject of indemnification. Sides agreed that ENDK will indemnify and hold harmless PGNiG from any loss exceeding 3 million EUR and arising out of i.a. “changes to Energinet’s costs due to mergers and acquisitions taking effect as of 1 November 2017 or later”. It is obviously too early to discuss any potential use of the indemnity clause by PGNiG and it is not our intention to start this discussion now. **Nevertheless, change of the JMM concept in**

<sup>1</sup> Outlined in more detail in art. 5 of the NC CAM code

**the discussed way would most likely interpreted as a trigger for indemnification stipulated in the Capacity Agreement.**

- whereas we have booked 80% of the BP capacity in good faith with the intention to use it to the highest possible extent, PGNiG is required by its shareholders to continuously reassess BP profitability against other import options offering necessary diversification and stability of supplies. Since PGNiG has an increasing choice of alternatives directions of gas supplies, we are concerned that potential increase in Danish tariffs would affect profitability of Baltic Pipe and would impact existing users of the network in Denmark.

**We therefore believe that in the current stage there should be no possibility of considering alternatives to the JMM concept presented in the Consultation Document.** This is also what we inferred from the ENDK's proposals outlined in the Consultation Document – we understood them as detailed proposals on implementation of the base JMM model rather than further consultations on the general shape of the concept.

Bearing in mind that PGNiG has been a long-term supporter of the market model in the shape proposed in the Consultation Document, we are in favor of any ideas that help to bring the concept to life on a more operational level.

**We believe that ENDK's approach to implementation of the JMM presented in the Consultation Document is well-rounded, comprehensive and contains a significant deal of practical solutions allowing to integrate the BP project with the Danish network.** We consider the implementation of solutions **proposed by ENDK are essential for facilitating cross-border trade, and ensuring BP feasibility.** PGNiG is especially **in favor of any initiatives aiming to reduce the overall transmission costs** for BP users. This involves i.a. the creation of a **joint Danish tariff zone**, stretching from Gassled exit on one side to the entry point to offshore pipeline linking Denmark and Poland on the other side (merging and socializing Danish offshore and onshore tariff regimes), effectively preventing the “tariff pancaking” issue

PGNiG fully supports the proposals outlined by ENDK in the Consultation Document and sees them as fully compatible with the ACER Gas Target Model.

## 2. Tariff methodology – capacity / commodity split charges

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 in tariffs regardless of whether the capacity is used.

Whereas DUR outlined that it may be justified to increase the capacity share even more (e.g. 90/10 or 85/15), DUR further argued that it is not clear how the market would react to such a dramatic change in tariff-setting rules. DUR stated that there could be valid reasons for having a level of flow-based tariffs that include a certain margin to promote the green transition and the coupling of the electricity and gas sectors<sup>2</sup>.

### ENDK's position on the issue

ENDK stated in the User Group that the capacity / commodity split of 70 / 30 which is currently in place may be further amended.

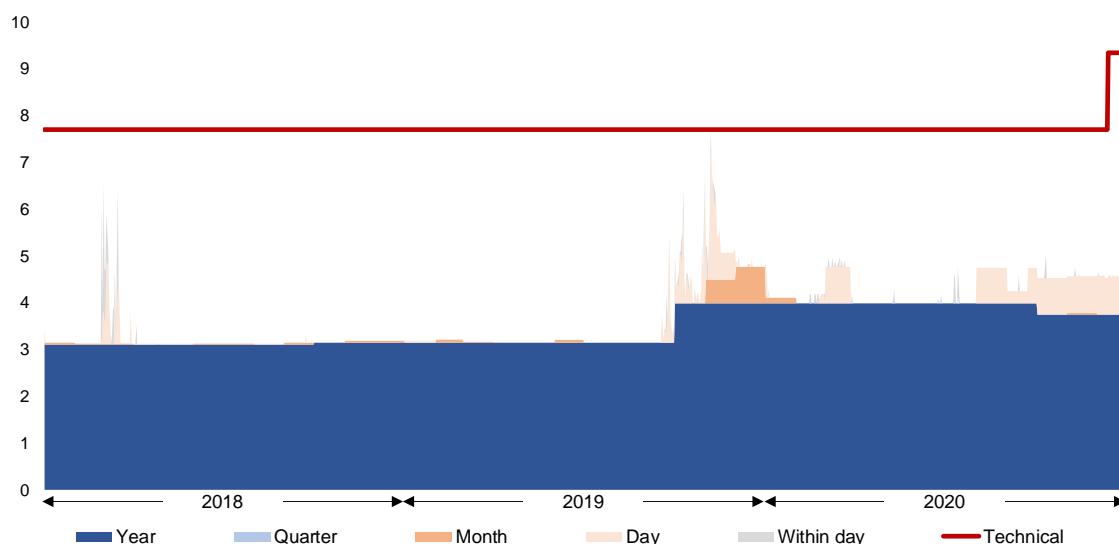
During the User Group two potential solutions were considered, a 90/10 and a 100/0 split. In line with ENDK's data, the actual flow-driven cost present in the DK network is ca. 1% of the total cost base. Consequently, ENDK leans more towards the 100/0 split.

### PGNiG's position on the issue

We appreciate the fact that the discussion on this topic has been opened up by ENDK and we would like to take this opportunity to express our views on the capacity / commodity split issue.

In line with information provided on the ENDK Gas Market Data webpage, the total bookings placed on the Ellund entry point<sup>3</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).

**Picture 1: 2018 – 2020 capacity bookings at the Ellund entry point**



Source: ENDK Gas Market Data webpage

<sup>2</sup> DUR further outlined that sustainable energy forms like bio-methane and wind power typically have an uneven production profile where a very high capacity tariff could slow down the necessary green transition and an effective sector coupling between electricity and gas.

<sup>3</sup> Given the Tyra shutdown Ellund currently remains the only possible import point for the Danish and Swedish gas markets

Whereas it is speculative what the booking profile of the existing DK system users will look like when BP is commissioned<sup>4</sup>, but assuming the current structure remains unchanged, the total annual profile of bookings in the DK system will be the following:

- **BP users** - 88 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 a 28% total bookings being applicable to bookings of a duration of a 1 year and shorter. This will be true in the first 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.

Whereas increasing the capacity / commodity split from the current 70/30 to 90/10 or even 100/0 may be justified by regulatory reasons, moving away from the current split may result in a significant discrimination of the OS 2017 shipper / unjustified cross-subsidization of the existing shippers by the OS 2017 shipper.

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' provided to the system by the OS 2017 shipper after 2022 is likely to provide strong incentives to users of the existing system to shorten the duration of their bookings, thus reducing the volume of "wasted" (paid for but not used) capacity**, but nonetheless enjoying stable and low tariffs (thanks to the OS 2017 baseload and despite multipliers on shorter-term capacity). Even under a 100/0 split, 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 point to the fact that this significant difference in market flexibility does not only apply 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 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 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 fullest 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.

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<sup>4</sup> with Tyra coming back onstream and a number of new capacity products expected to be launched by ENDK

**We sadly note that the risk of unexpected unfavorable changes to the tariff methodology is not theoretical, as all the changes that have occurred in the tariff area after we made a binding OS bid were against PGNiG's interest.** Below we summarize the said changes:

- Q4 2018 ENDK published a new Tariff Forecasting Model 2018-2025 which included updated assumptions on BP TOTEX and decreases in existing system bookings and flows;
- 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 corresponds to ENDK's actual CAPEX / OPEX structure), increasing the total amount that a shipper will have to pay regardless of whether the capacity is used;
- In the new tariff methodology DUR did not approve the introduction of tariff de-escalators for long-term bookings which were one of the central parts of the tariff methodology proposal worked out with a broad group of market participants. Even though this relates to a regulatory period preceding BP commissioning, this has the effect of increasing the uncertainty related to the final set of tariff principles to be adopted post 2022.
- In 2019 / 2020 the Danish government proposed a bill named the New Economic Regulation on Energinet ("NER") which proposes to include a ROI element on tariffs (which hitherto were built on a 'no loss no gain' principle) as well as other proposals such a differentiating tariff

**These tariff methodology changes were not foreseeable from the OS 2017 Information Packages or during the OS 2017 process, decreasing the transparency and predictability of the tariff setting process.** The changes create unfavorable market conditions for PGNiG, who committed in good faith to book considerable amounts of capacity in the DK system.

We consider a potential shift from the current 70/30 to 100/0 split a step which will likely to further deteriorate the profitability of the BP route and will significantly limit PGNiG's market flexibility to the benefit of other shippers, in a potentially discriminatory way.

We would therefore propose to not change the current capacity / commodity split of 70/30. As stated in DUR's tariff decision, there may be reasons other than actual levels of variable costs in the system that can be taken to determine a fixed / variable tariff split. DUR outlined reasons related to potential long-term strategic goals related to a market's development (in the context of green transition), we believe that ensuring fairness, non-discrimination and a fair balance of flexibility between various market participants also justifies to stay with the current split. Alternatively, ENDK may consider to differentiate the capacity / commodity split for various durations of bookings. This would involve further analyses, but a potential direction would be to leave the current 70/30 split for players booking for longer than 5 years and increasing the capacity part for players booking for shorter periods.

### 3. Tariff methodology – deescalators for long-term bookings

The concept for introducing deescalators for capacity bookings longer than 1 year 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.a. 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 an available product)
- 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.

#### ENDK's position on the issue

As we understand, ENDK plans to implement the deescalators for long-term bookings in the next tariff application. In order to overcome the key market and regulatory challenges identified by DUR, ENDK plans to implement the following solutions:

- 5 year capacity products will be offered from the next gas year
- based on an incremental process ENDK has agreed to offer up to 15 year capacity products south bound
- also on the future point, Faxe, ENDK will offer a 15 year capacity product

The above will extend the offer of available capacity products to all users of the market so that the offer is on par with what was offered to OS 2017 shippers. As a result, all DK market participants will have the same opportunity to benefit from long-term deescalators and thus the solution will no longer be available to only a selected group of shippers.

Whereas the key principle related to the deescalators remains unchanged (the longer the bookings' duration, the higher the tariff rebate), ENDK has not yet proposed a binding methodology and parameters for the calculation of the multiplier. In the User Group presentation, ENDK provided the following formula as an illustrative example:

$$\text{Multiplier} = (1 + x) - (x * \text{number of years})$$

ENDK further provided a numerical example, where by substituting 0.004 for x, the multiplier for a 15 year long booking was equal to 0.94. ENDK stressed that the above should be treated as an example and that further analysis is needed on the topic.



## PGNiG's position on the issue

PGNiG would like to thank ENDK for continuing to work on introducing the deescalators for long-term bookings in the tariff application for the next regulatory period. We appreciate the efforts that are being made by ENDK to overcome the obstacles identified by DUR, preventing the Danish NRA from approving this solution.

**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 rebate (as we understand - applied only to the capacity part of the tariff)
- we find the formula presented by ENDK as illustrative to actually be very understandable, intuitive and reflect the principle outlined above very well. We believe it is a good starting point for further works on the deescalators

We would, however, like take this opportunity to share our questions and concerns related to the tariff deescalators issue:

- whereas ENDK has taken action to overcome some of the obstacles preventing DUR from approving the deescalators for the next regulatory period, in its tariff decision from 31<sup>st</sup> May 2019 DUR has outlined the need to conduct additional analyses related to assessment of potential redistributive effects stemming from deescalators' adoptions. As we are not aware of who would be responsible for conducting such analyses (DUR, ENDK or some other party), we would like to declare our will to cooperate on performing such analysis with whoever is tasked with performing it. We are fully available to assist either through consultations, workshops or through drafting our own proposal of such an analysis.
- In its tariff decision DUR states that methodology approvals from the NRA always have an effect for the future. We believe that this statement is somewhat ambiguous and our major concern is that even if the deescalators are approved for a future regulatory period, the OS 2017 bookings will be treated as "historical" bookings, to which deescalators approved in a "future" regulatory period do not apply. This, however, would be highly questionable from a non-discrimination point of view and could be challenged on a regulatory basis on a national and EU-level. **Therefore, we would like to ask ENDK to explicitly state in a future tariff application that if the deescalators are approved they should also apply to all capacity bookings, even if they were made prior to the newly approved tariff principles entering into force.**
- the formula provided in the User Group presentation does not account for the premise that deescalators only apply to capacity products over 5 years. Application of the formula results in all bookings with a duration above 1 year benefitting from the rebate. This is a deviation from what was discussed during the Shipper Taskforce meetings and consequently transferred into the December 2018 tariff application. Changing the approach to application of deescalators this way would occur at the expense of shippers booking the capacity for longer durations.
- The Consultation Document does not specify the multiplier value (with the User Group presentation showing only the possible formula for calculation and exemplary parameters). PGNiG strongly supports implementation of the deescalator for a 15 year booking at the level of 0.90 or lower:
  - from the PGNiG point of view, a multiplier at the level of 0.90 or lower will increase competitiveness of the BP route versus alternative transportation routes to Poland and CEE / CSE and will help to secure a high degree of Danish gas infrastructure utilization in the future.
  - we see the deescalator as a tool to mitigate (at least to some extent) the negative tariff changes impacting the long-term shipper outlined earlier (e.g. CAPEX / OPEX increases, unfavorable shifts in capacity / commodity split, addition of the ROI element into tariff principles).

- from the point of view of ENDK and other gas market participants, a multiplier at the level of 0.90 or lower as this would provide incentives for shippers to engage in longer-term capacity bookings, increasing the stability of TSO's business operations, keeping tariffs low, predictable and liquidity at the local hub high.

From our point of view a deescalator for a 15 years' bookings at the level of at the lower end of the earlier discussed 5-10% spectrum (the User Group presentation involves a 5.5% example for a 15 years booking) may be insufficient to meet the goals mentioned above.

We would again 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 a 0.90 (or lower) deescalation to bookings made for the longest possible term (15 year).**

## 4. Summary

We would like to again express our gratitude to ENDK for launching the consultation process on the JMM and inviting us to express our views on the issue. The proposals outlined in the „Methodology for Integrating Baltic Pipe in the Danish Market Model” Consultation Document generally confirm the major assumptions presented previously by ENDK in the OS 2017 procedure. **PGNiG supports the detailed solutions that ENDK plans to introduce in order to operationalize the presented JMM concept.** We believe that solutions proposed by ENDK in the consultation document are comprehensive, fit-for-purpose and practical.

We believe that the market design issues and tariffs are very strictly intertwined and as a market-oriented entity PGNiG always tries to look at things in a comprehensive manner. Therefore we would like to again reiterate our key proposals and key concerns related both to JMM-related and tariff-related issues which may potentially impact the functioning of the DK gas market in the post 2022 period.

- **JMM general design concept** - we believe that at this moment any alternatives related to the structure of the JMM, especially related to inclusion of the historical North Sea upstream assets in the JMM or changes to the uniform tariff regime, should not be discussed. The JMM concept in the current shape has been thoroughly discussed and confirmed with both the market and the regulator and presented to Open Season 2017 (“OS 2017”) shippers prior to making a booking. We believe that any changes to the currently presented agreed design principles will result in loss of market trust, significant tariff increases and potentially in triggering the Indemnity Clause stipulated in the OS 2017 Capacity Contract.
- **Capacity / commodity split** - we represent the standpoint that increasing the fixed part tariff from 70/30 to 100/0 will most likely result in undue-cross subsidization of players booking durations of 1 year and less, by the OS 2017 shipper. Under a 100/0 split the OS 2017 shipper will have absolutely no flexibility to react to market changes, whereas the significant 15 year ‘baseload’ booking (starting at 72% of total volume of DK market bookings and growing) will incentivize the remaining market players to shorten the durations of their bookings and effectively move towards a 0/100 split (i.e. book when they need in order to cut down on paid-for-but-not-used capacity) while still enjoying low tariffs (despite multipliers on shorter-term bookings). We therefore propose to leave the current 70/30 split or differentiate the split based on booking duration (i.e. lower fixed / variable split for longer-term bookings and higher split for shorter-term bookings).
- **Tariff deescalators for long-term bookings** - we support ENDK’s efforts aimed at ensuring that deescalators for long-term bookings are approved by DUR for the next regulatory period. We declare our assistance in the process. Whereas we understand that analytical works on the exact way of facturing the deescalators into the DK tariff system are in progress, PGNiG represents the view that a 0.90 deescalation (or lower) should be applicable 15 year bookings. This is the level that could (at least to some extent) mitigate the risks applicable to a booking of such a length and magnitude and hitherto unfavorable developments which occurred in the tariff area after PGNiG made its binding OS 2017 booking.

From the perspective of the largest future shipper on the DK gas market, we consider **the above solutions to be essential for facilitating cross-border trade, ensuring BP transportation route competitiveness and effective functioning of the Danish gas market.**

We would like to again reiterate that PGNiG made the OS 2017 booking in good faith and if we are certain that the OS 2017 or similar levels of tariffs are offered to us over the 2023 - 2037 period, our strategy would be to maximize our usage of the Baltic Pipe infrastructure. We are looking forward to starting our operations of the Danish gas market after 2022 and to further cooperating with ENDK on developing the Danish gas market even further.

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

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