

**Incremental capacity
GASTRANS d.o.o. Novi Sad**

**Public consultation of the draft project proposal
IP Kireevo/Zaychar**

Novi Sad, January 2024

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1. Introduction

Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems ("Regulation", also referred to as "CAM NC" and "NC CAM") establishes a harmonized European Union wide process for the offer of incremental capacity between EU Member States. EU NC CAM is transposed in legal system of Republic of Serbia as of 20th October 2022 when the "Decree on network codes which refer to the calculation and allocation of capacities for natural gas transmission"- hereinafter referred to as Decree on NC (Serbian: "Uredba o mrežnim pravilima koja se odnose na proračun i raspodelu kapaciteta za transport prirodnog gasa") was adopted by the Government of Republic of Serbia (Official Gazette of Republic of Serbia No. 112/2022).

The rules for the allocation of capacity for this Incremental Capacity Project, as set out in this document, also consider the specific regulatory framework of GASTRANS d.o.o. Novi Sad (hereinafter referred to as GASTRANS) according to the Final Exemption Act (hereinafter referred to as FEA). Namely, GASTRANS is exempted from "third-party access" for 90% of its capacities, which are contracted on a long-term basis (Exemption Act No. 40/2018-0-03/62a, Energy Agency of the Republic of Serbia).

In accordance with point 9.2.4. of GASTRANS Natural Gas Transmission System Network Code (hereinafter referred to as NC) and paragraph 1 article 25 of the Decree on NC GASTRANS is obliged to conduct Market Test at least every odd year in order to assess the interest of the natural gas market for expansion of capacities on Entry Point and Exit Points of the Pipeline.

In accordance with Article 26 of Decree on NC, and Article 9 of the NC, GASTRANS launched the Incremental Capacity Process on the 3rd of July 2023 (<https://gastrans.rs/market-test-2023/>).

GASTRANS informed adjacent Transmission System Operator (TSO) for IP Kireevo/Zaychar - Bulgartransgaz EAD about the launching Incremental Capacity Process

GASTRANS has received non-binding demand indications and procured a joint Demand Assessment Report (DAR) with Bulgartransgaz EAD, which was published on the 23rd of October 2023 with the conclusion that there was sufficient indicative demand to initiate an incremental Capacity Project for the IP Kireevo/Zaychar.

This document has been prepared by GASTRANS in accordance with the provisions set out in article 26 of the Decree on NC and point 9.3.3. of NC to conduct a public consultation on the identified draft of incremental capacities project. Public consultation shall commence on the date of publishing this document on the GASTRANS website and shall end on 16th March 2024.

This Incremental Capacity Project is driven by potential increase of the technical capacity at IP Kireevo/Zaychar. If infrastructure upgrades and the Incremental Capacity Project is realized, as described in this document, then additional natural gas flows from Bulgaria to Republic of Serbia will contribute to meeting the increasing demand of the Serbian gas market and increase security of supply.

All interested parties are invited to send their comments and proposals to this document, in writing, to the list of contacts on the last page, by the 16th March 2024.

2. Description of the Incremental Capacity Project and cost estimates

2.1. Market demand for Incremental Capacity

The non-binding demand indications for firm long-term capacity have been received for IP Kireevo/Zaychar and consequently considered in the design phase of the Incremental Capacity Project.

The DAR concluded that the demand indications received were sufficient to initiate the design phase of an Incremental Capacity Project in accordance with paragraph 2 of Article 25 of Decree on NC.

In the following table is presented demand assessment for incremental capacity from GASTRANS side.

IP Kireevo/Zajecar

Table 1

GASTRANS demand assessment for incremental capacity	
Interconnection Point	Kireevo/Zaychar
EIC Code	58Z-000000007-KZ
Flow Direction	Bulgartransgaz → GASTRANS
Request is submitted to other TSOs? [yes, TSO name] or [no]	Yes. Bulgartransgaz
Additional information (if any)	
Current technical capacity, Entry to GASTRANS kWh/d	366.731.712
Assessment of demand for incremental capacity [(kWh/d)/y]	
2024/2025	16.865.747
2025/2026	16.865.747
2026/2027	44.630.747
2027/2028	44.630.747
2028/2029	44.630.747
2029/2030	44.630.747
2030/2031	44.630.747
2031/2032	44.630.747
2032/2033	44.630.747
2033/2034	44.630.747
2034/2035	44.630.747
2035/2036	44.630.747
2036/2037	44.630.747
2037/2038	44.630.747
2038/2039	44.630.747

The conclusions of the joint DAR between GASTRANS and Bulgartransgaz EAD for IP Kireevo/Zaychar are the following:

- Regardless of the demand assessment for incremental capacity presented in the Table 1 GASTRANS will offer incremental capacity in physical flow on GASTRANS entry in the amount of **39.792.630 kWh/d** which is the capacity needed to meet current technical capacity from Bulgartransgaz EAD side in the amount of 406.524.342 kWh/d. This incremental capacity should be offered as bundled capacity product.
- The total demand indications received by Bulgartransgaz EAD are lower than the existing available firm technical capacity in the Bulgartransgaz EAD → GASTRANS direction on the

Bulgarian side of the IP. Thus, it is sufficient to fully meet the expected demand level indicated by market participants to Bulgartransgaz EAD for the entire period. Bulgartransgaz EAD has decided not to proceed to the next phase of the Incremental Capacity Process for IP Kireevo/Zaychar. As a result, no incremental capacity project will be initiated on the Bulgarian side of the IP and no technical studies will be conducted.

2.2. Description of the Incremental Capacity Project

Technical studies were carried out on the basis of the non-binding demand indications described in the market demand assessment report as described in chapter 2.1. of this document. Technical studies cover necessary technical changes at the existing system and construction of new objects in order to fulfill the demand.

The investment costs are initial estimates. In addition to the investment costs, there will be also operating costs. The annual costs are given below. These costs include the price of all costs needed for the safe operation of the Pipeline.

At the IP Kirevo/Zaychar, 14.524 GWh/year of new capacity were indicated.

The construction of the new metering line within existing gas metering station GMS 1 near city of Zajecar is only necessary change to existing system. The new metering line should be the same as existing ones, with nominal diameter DN450, two metering devices (“pay” and “check”), flow computers, etc. All other equipment can be used from the existing metering station.

The estimated investments amount is approximately EUR 1 million. The annual OPEX is approximately EUR 0,1 million.

3. The Offer Levels for Bundled Capacity Products at the IPs

GASTRANS shall offer Incremental Capacity on a firm basis as bundled yearly products for period of 5 to 15 years for the IP to which this document refers. Only firm yearly capacity products in the expected direction of the physical flow will be offered at the Entry Point Kireevo/Zaychar. At the same time, GASTRANS plans to offer for contracting, on yearly basis, the capacity at the Exit Points (IP Serbia and Non-existing IP at border Republic of Serbia – Bosnia and Hercegovina Republic of Srpska). The offers will be possible to submit for booking capacity in respect of Entry Point Kireevo/Zaychar, Exit Point IP Serbia and Non-existing IP at border Republic of Serbia – Bosnia and Hercegovina Republic of Srpska.

In line with the provisions of paragraph 13 Article 8 and paragraph 6 of article 29 of the Decree on NC, as well as in accordance with Item 14 Paragraph 2 of FEA GASTRANS, proposes to set aside an amount of 10% of the capacity of the actually built incremental capacity to be offered as short-term capacity in line with capacity allocation mechanism prescribed in the Item 12 paragraph 3 of FEA.

4. Proposed alternative allocation mechanism including its justification

GASTRANS doesn't intend to apply an Alternative Allocation Mechanism (hereinafter AAM) for the Incremental Capacity Project.

GASTRANS will offer Incremental Capacity to which this document refers in the annual yearly capacity auction as standard bundled product in ascending clock auctions according to Article 17 of the Decree on NC and in accordance with Article 8 paragraphs 13 to 14.

5. Provisional Timeline of the Incremental Capacity Project

This chapter describes the proposed timeline for the conclusion of the Incremental Capacity Project and provides estimates of the possible time needed for the realization of the new incremental capacity.

The public consultation on the Incremental Capacity Project will be open until the 16th March 2024. In the middle of May 2024 GASTRANS intends to finalize and submit the Project Proposal, to the Energy Agency of the Republic of Serbia.

If the justification for the realization of incremental capacities is determined, GASTRANS shall publish on its website incremental capacities project as well as the model of the agreement on access to the system and transportation of natural gas for incremental capacities approved by Energy Agency of the Republic of Serbia, no later than two (2) months before the publication of auction for yearly Capacity Product on which the incremental capacities shall be offered for contracting. According to the envisaged activities and deadlines of national regulators, it is expected that the incremental capacity will be offered for auctioning in July 2025.

6. General rules and conditions for the Binding Phase

This chapter describes the general rules and conditions which GASTRANS intends to apply for the participation of interested parties in the Binding Phase.

The Binding Phase will be open to all interested parties, including those that have not submitted a non-binding demand indication.

Access to the transportation service of GASTRANS transmission system is permitted impartially and on an equal basis to all interested parties that fulfill requirements prescribed in Article 3 of GASTRANS NC and meet the specific requirements as shown below in this document.

Incremental capacity will be offered to Participants for a minimum duration of 5 consecutive gas years, with the earliest possible start date being the planned Expansion Commercial Operation Date (hereinafter E-COD) and the latest possible end date being the earliest to occur of (i) the end of the 15th gas year after the planned E-COD and (ii) the expiry of GASTRANS exemption (1.1.20241).

6.1. Participation criteria and Registration

Applicants will have to meet requirements prescribed in Article 3 of GASTRANS NC (ACCESS TO THE SYSTEM) in order to be provided access to the system. The applicants that are already registered will not need to conduct the procedure of registration.

Further requirements can be envisaged by the Binding Phase documents.

All applicants will be required to deliver to GASTRANS security for seriousness of bid (in Serbian “*garancija za ozbiljnost ponude*”) no later than three (3) business days before the date of the auction at which the incremental capacity will be offered, in the form of:

(i) an irrevocable, unconditional, payable on first demand and without protest bank guarantee issued in accordance with the Uniform Rules for Demand Guarantees URDG 758 by a bank or financial institution that is licensed by the National Bank of Serbia and acceptable to GASTRANS or foreign bank or international financial institution which has the rating as of minimum „BBB-“ issued by Fitch or Standard & Poor’s, i.e. „Baa3“ issued by Moody’s;

or

(ii) funds in EUR or Serbian Dinar equivalent (according to the National Bank of Serbia middle exchange rate on the date the funds are deposited), free and clear of any bank charges and similar deductions, deposited into a separate escrow account with an escrow agent, being a bank which is an acceptable to GASTRANS, together with orders that such escrow funds are to be released by the escrow agent only upon written confirmation of GASTRANS.

The amount of the security for seriousness of bid should be minimum 100.000,00 EUR.

For the avoidance of any doubt, the applicants are not required to provide security for seriousness of bid if:

- they satisfy Rating Exemption Criteria prescribed in Gatrans NC
or
- in the moment of submitting the bids they have effective long term Gas Transportation Agreement with GASTRANS.

By submitting a bid at the auction, the applicant accepts that:

- Submission of a bid at the auction will constitute an irrevocable commitment to enter into a Gas Transportation Agreement (hereinafter GTA) with GASTRANS, subject only to the successful outcome of the Economic Test – ET;
- in case of a negative outcome of the ET, GASTRANS will give back the security for seriousness of bid (bank guarantee/release deposited amount from the escrow account) and no transport capacity will be contractually allocated.
- in case of a zero or positive outcome of the ET the applicant to which capacity is successfully allocated based on the results of the auction shall enter into a GTA (thus becoming a Shipper) and provide GASTRANS with security for meeting of its pecuniary obligations from the GTA.
- If the Participant does not sign the GTA, GASTRANS will request the forfeiture of the security for seriousness of bid, without any obligation to determine or justify the reasons of such request.

6.2. Bid content and Bid evaluation

The auctions for incremental capacity, bid submission, bid evaluation and capacity allocation will be conducted in accordance with Article 28 of Decree on NC.

6.3. Economic Test

The Economic Test(s) will be performed in accordance with Article 21 of the Decree on NC.

6.4. Gas Transportation Agreement (“GTA”)

It is intended that the final positive outcome of the ET leading to the realization of the Incremental Capacity Project is subject to the subscription to the relevant GTA(s) by all applicant(s) with successful capacity allocation from the results of the auctions.

6.5. Progress of the project, lack of permits, delays in making available transportation capacity

GASTRANS will share with the relevant applicants the progress of the Incremental Capacity Project.

By signing the GTA, the applicant shall be deemed to have accepted that, if the authorizations, permissions, easements and any other relevant land rights necessary for the construction phase of the project are not obtained or delayed, then the execution times for the implementation of the Incremental Capacity Project will be considered correspondingly extended, and GASTRANS shall have no liability to any Participant in connection with such delays.

6.6. Force Majeure

Force Majeure provisions will be set out in the GTA.

7. Element IND and RP for fixed price approach

This section is not applicable to subject Incremental Capacity project.

8. Level of user commitments (“f” factor)

The level of f-factor shall be set by the Energy Agency of the Republic of Serbia in accordance with the provisions of Article 22 of Decree on NC.

9. Additional demand Indication

By the publication date of this document no further demand indications have been received after the deadline of the non-binding phase for incremental capacity.

10. Decrease in the utilization of other non- depreciated gas infrastructure

If the Incremental Capacity Project is realized, the technical capacity of GASTRANS will be increased, resulting in further utilization of the Pipeline. This section is therefore not relevant to GASTRANS.

11. Contact information

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