Methodology for setting the booking prices – Project "Development and expansion of Bulgartransgaz EAD gas transmission system"

Art.1. The present Methodology determines the conditions, order, major requirements and model of formation of the booking prices valid upon carrying out of the Third binding phase of the Open Season procedure (the procedure) for the Project "Development and expansion of Bulgartransgaz EAD gas transmission system". The Methodology defines also the conditions for successful economic test. The Methodology prescribes the conditions for updating of applicable booking prices during the years of the booking period.

Art.2. The applicable capacity booking prices are determined on the basis of the required revenues for carrying out of the access services related to the provision of incremental capacity within the procedure.

Art.3. (1) The booking prices shall be determined for project entry and exit point and they relate to the provision by the TSO of firm capacity product for one year and are expressed in BGN/MWh/day/year.

(2) Booking prices are determined for the right of the successful candidate under the procedure to use the allocated capacity at the relevant entry and exit point under conditions, stipulated by contract concluded with the operator.

(3) The determined booking prices shall be without Value Added Tax, which shall be accrued after the order of the applicable legislation.

Art.4.(1) By 1 March 2019 Bulgartransgaz EAD shall have the right to adjust the initially set booking prices on the basis of the received new investment costs data that are directly linked with the Project and/or the expected price and amount of the borrowed funds against the initial assessment on the basis of which the prices have been evaluated.

(2) The booking prices for each year from the booking period after the first year shall be determined by indexing the relevant price for the preceding year with an inflation index reflecting the change of expenditures of the transmission operator according to the capacity booking contracts, concluded within the frames of Binding Phase 3. For the first year of the period the determined final booking prices shall be applicable.

Art.5. The required revenues, to be covered from the realization of capacity offered under the procedure shall be determined as a share from the required revenues of Bulgartransgaz EAD related to the occurring incremental capacity, obtained upon the application of the F-factor approved by the National Regulatory Authority.

Art.6. The required revenues, paid through prices for capacity, shall be divided in the proportion of 50% payable by the entry point and 50% payable by the exit point of the Project.

Art.7. The computing required annual revenues, allocated to the incremental capacity, shall be an estimated amount for an year from the inherent conditional fixed operational expenses, depreciations and return, necessary for carrying out the activity of natural gas transmission, related to the occurring incremental capacity. They shall be determined for each year from the offering period in accordance with the formula:

$$ИНП_t^k = УПР_t + A_t + БВ_t * НВ$$

where:

УПРt - conditional fixed annual operational expenses for the “t” year; (according to Art. 8);

At – estimated annual depreciation of the assets related to the occurring incremental capacity for the relevant year (according to Art. 9);

БВt – base of return for the relevant year (according to Art. 10);

НВ – rate of return of the operator’s capital (according to Art. 11),.

Art. 8(1) The operational expenses shall be divided into two major groups: conditional fixed operational expenses, and variable technological expenses. The expenses in each of the mentioned groups shall be also broken down by economic elements.

(2) The operational expenses shall be determined per estimated prices as at the first year of the period for which capacity is allocated under the procedure.

(3) The operational expenses do not include expenses which are not related to the activity on natural gas transmission, financial expenses, expenses of occasional and/or extraordinary nature, as well as:

1. corporate income tax expense;
2. expenses for future periods;
3. expenses for losses from devaluations;
4. current expenses for accrued provisions within the meaning of Art. 38 of the Corporate Income Tax Act;
5. current expenses or liabilities to decrease the carrying amount of inventories;
6. expenses for sanction and/or penalties imposed by governmental or municipal authorities;
7. expenses for interests for delay, penalties and other payments related to non-fulfillment of concluded contracts;
8. expenses for donations and paid non-used annual leaves;
9. the expenses under Art. 204 of the Corporate Income Tax Act, as well as the expenses for accrued tax on them under Art. 216 of the Corporate Income Tax Act;
10. court expenses, other than the state fees, related to opening of cases for collection of receivables.

Art. 9. (1) The depreciation expenses for each year from the booking period shall include the estimated amount of the annual depreciation of the existing and the new assets, acquired during the relevant year, related to the occurring incremental capacity.

(2) Depreciation expenses shall be determined by linear method of depreciation on the basis of justified economic and technical useful life of assets in accordance with Annex 1 to the Methodology on setting the prices of access and transmission of natural gas through the gas transmission networks owned by Bulgartransgaz EAD.

(3) Depreciation expenses shall be accrued after the date of putting in operation of the relevant asset.

Art. 10. (1) The base of return shall be the base on which the operator obtains return on the invested capital.

(2) The base of return for formation of the required revenues for the booking period shall include the assets related to the incremental capacity, acquired on paid basis by the operator. The base of return shall be determined for each year under the following formula:

$$БВ_t = А_{t-1} + Инв_t - Ам_t - Ф_t + ОК_t$$

where:

$БВ_t$ - base of return for formation of the required revenues for the “t” year from the offering period;

$А_{t-1}$ – estimated balance value of assets, which are used and have useful life, as at the end of the preceding year;

$Инв_t$ – investment component for formation of the required revenues for the relevant year from the offering period, determined as the sum of the estimated investments related to the incremental capacity for the relevant year from the offering period;

$Ам_t$ – depreciation component for formation of the required revenue for the relevant year from the offering period, determined as the sum of the estimated annual depreciation of the existing assets and of the new investments, planned for the relevant year, related to the incremental capacity;

$Ф_t$ – balance value of grants for assets as at the end of the relevant year from the offering period, under grant schemes, donations, aids, etc., related to the provision of incremental capacity;

$ОК_t$ – required working capital for formation of the required revenues for the relevant year from the offering period, constituting the required capital amount used in the process of financing of the annual activity of the operator, related with the Project; the required working capital shall be 1/8 of the amount of the annual operational monetary expenses for the relevant year from the offering period, not including depreciation expenses and expenses for devaluation of uncollectible debts.

(3) The value of the long-term assets/estimated investments, related to the provision of incremental capacity, does not include:

1. assets which are not related to the provision of incremental capacity;
2. assets in the form of contract works in progress.

Art. 11.(1) The rate of return shall be determined as a nominal rate before taxation, equal to the weighted average cost of capital (WACC), calculated through the price of each individual component of the structure of the operator's capital, weighted through its share. The rate of return shall be calculated under the following formula:

$$НВ = Д_{СК}.\frac{НВ_{СК}}{1-\frac{ДС}{100}} + Д_{ПК}.НВ_{ПК}$$

where

НВ – rate of return of the capital before taxation;
Дск – share of equity capital in the operator's total capital;
НВск – rate of return of equity after taxation;
ДС – corporate tax according to the Corporate Income Tax Act, %;
Дпк – share of the borrowed capital in the operator's total capital;
НВпк – rate of return of the borrowed capital.

(2) The rate of return on equity shall be determined on the basis of the Model of evaluation of capital assets, through evaluation of the following parameters for the offering period:

- risk-free investments;
- risk, related to the economic conditions in the country;
- systemic risk, related to the specificity of the activity in the sector.

(3) The rate of return of capital shall be calculated for the whole capital of the company.

(4) The borrowed capital shall include loans and liabilities under financial lease agreements. Upon calculation of the average cost of the borrowed capital, the annual interests under the existing and planned loan agreements and the relative weight of the respective loan in the total amount of the borrowed capital, shall be taken in consideration.

Art. 12 The required annual revenues, allocated to the incremental capacity shall be determined under the following equations:

$$\sum_{t=1}^{n} \frac{НГП^{к}}{(1+НВ)^{t}} = \sum_{t=1}^{n} \frac{ИНП_{t}^{к}}{(1+НВ)^{t}}$$

where:

$НГП^{к}$ – required annual revenues allocated to the incremental capacity;

$ИНП_{t}^{к}$– computing annual required revenues allocated to the incremental capacity for the "t" year;

НВ – rate of return of the capital.

Art. 13 The required annual revenues paid through the realization of incremental capacity allocated within the frames of the Open Season procedure shall be determined under the following formula:

$$\text{НГП}_{\text{ОС}}^{\text{к}} = f * \text{НГП}^{\text{к}}$$

where:

$\text{НГП}_{\text{ОС}}^{\text{к}}$ – required annual revenues paid through the realization of incremental capacity allocated within the frames of the Open Season procedure;

f- F-factor, approved for the procedure by the National Regulatory Authority;

$\text{НГП}^{\text{к}}$ – required annual revenues allocated to the added capacity;

Art. 14 The booking prices for the entry and exit point of the Project shall be determined under the formulas:

$$\text{Ц}_{\text{ОС}}^{\text{к вх.}} = \frac{\text{НГП}_{\text{ОС}}^{\text{к вх.}}}{\text{К}_{\text{пр}}^{\text{вх}}}$$

$$\text{Ц}_{\text{ОС}}^{\text{к изх.}} = \frac{\text{НГП}_{\text{ОС}}^{\text{к изх.}}}{\text{К}_{\text{пр}}^{\text{изх.}}}$$

Where:

$\text{Ц}_{\text{ОС}}^{\text{к вх.}}$ – booking price at entry point, BGN/MWh/day/year;

$\text{Ц}_{\text{ОС}}^{\text{к изх.}}$ – booking price at exit point, BGN/MWh/day/year;

$\text{К}_{\text{пр}}^{\text{вх}}$ – adjusted allocated capacity at entry point, MWh/day/year;

$\text{К}_{\text{пр}}^{\text{изх}}$ – adjusted allocated capacity at exit point, MWh/day/year;

$\text{НГП}_{\text{ОС}}^{\text{к вх.}}$ – required annual revenues paid through the realization of capacity within the frames of the Open Season procedure at entry point, determined as 50% of the required annual revenues paid through the realization of incremental capacity allocated within the frames of the procedure ($\text{НГП}_{\text{ОС}}^{\text{к}}$) (BGN);

$\text{НГП}_{\text{ОС}}^{\text{к изх.}}$ – required annual revenues paid through the realization of capacity within the frames of the Open Season procedure at exit point, determined as 50% of the required annual revenues paid through the realization of incremental capacity allocated within the frames of the procedure ($\text{НГП}_{\text{ОС}}^{\text{к}}$) (BGN);

Art.15 The adjusted allocated capacities shall be calculated as average weighted capacities for the offering period, upon consideration of their availability in time, under the following formulas:

$$К_{пр}^{вх} = \frac{\sum_{t}^{n} \frac{K_t^{вх.}}{((1+d)^t}}{\sum_{t}^{n} \frac{1}{((1+d)^t}}$$

$$К_{пр}^{изх} = \frac{\sum_{t}^{n} \frac{K_t^{изх.}}{((1+d)^t}}{\sum_{t}^{n} \frac{1}{((1+d)^t}}$$

Where:

t – successive year from the offering period;

$K_t^{вх.}$ – allocated capacity at entry point in the “t” year, MWh/day/year;

$K_t^{изх.}$ – allocated capacity at exit point in the “t” year, MWh/day/year;

d – discount factor, equal to the determined rate of return of capital before taxation.

Art. 16 The condition for successful conduct of the economic test (current value of the required revenues covered by the realization of incremental capacity in the Open Season procedure) shall be determined under the formula:

$$НСНП = \sum_{t}^{n} \frac{Ц_{ОС}^{к\ изх.} K_t^{изх.} + Ц_{ОС}^{к\ вх.} K_t^{вх.}}{(1+НВ)^t}$$

where:

$Ц_{ОС}^{к\ вх.}$ – booking price at the entry point BGN/MWh/day/year;

$Ц_{ОС}^{к\ изх.}$ - booking price at the exit point BGN/MWh/day/year;

$K_t^{вх.}$ – capacity subject to allocation at the entry point in the year t in MWh/day/year;

$K_t^{изх.}$ – capacity subject to allocation at the exit point in the year t in MWh/day/year;

t – successive year of offer;

n – number of years of offering the incremental capacity;

HB – rate of return of capital before taxation.

Art. 17 When carrying out the procedure the Operator shall study the cost of services related with the provision of incremental capacity under the procedure, as for each phase of the economic test the operator shall:

1. determine the required annual revenues paid upon realization of incremental capacity allocated within the frames of the procedure in compliance with the present Methodology;

2. depending on the capacities offered for realization during the relevant phase and the announced duration of the offering period, the operator shall determine the booking prices for the entry and exit point under the procedure;

3. determine the condition for successful conduct of the economic test.

Art. 18 This Methodology has been approved with a decision of the Energy and Water Regulatory Commission ....