METHODOLOGY PURSUANT TO SECTION 82 GASWIRTSCHAFTSGESETZ (*GAS ACT, GWG*) 2011 FOR THE FOURTH PERIOD FOR TRANSMISSION SYSTEMS OF AUSTRIAN GAS TRANSMISSION SYSTEM OPERATORS (TSOS)

The methodology will be published on the company website upon approval.

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I. Scope

The present document outlines the methodology applicable for establishing the costs and specifying the framework for setting charges by XXX GmbH for the fourth period, i.e. from 1 January 2021 until 31 December 2024. This includes all entry and exit points on the transmission line(s) of the transmission system operator (TSO). Specifically, the present methodology covers the reasonable costs of the following transmission systems according to Annex 2 *Gaswirtschaftsgesetz* (Gas Act) 2011:

- XXX GmbH (XXX)

If Annex 2 of the Gas Act 2011 is amended during the period, the costs may be recalculated ahead of schedule.

II. Reasonable grid costs

The methodology provides for a reasonable return on the capital tied up in the company (i.e. the regulated asset base) and covers reasonable depreciation, (influenceable and non-influenceable) operating costs and the prorated costs of the market area manager and of regulation. These costs must be transparent and correspond to those of an efficient system operator with a comparable structure.

In accordance with section 82 para. *Gaswirtschaftsgesetz* 2011, the TSO applies the methodology, calculates the costs, and provides all data used in the calculation to the regulatory authority to prove how the calculation was done.

The costs calculated with this methodology take into account any surplus or deficit from the previous periods.

II.1. Regulated asset base (RAB) and depreciation

The regulated asset base (RAB) includes existing long-term assets, as recorded in the annual financial statements (excluding, for example, financial participations), future investments, planned for the purpose of expanding capacity, reinvestments, planned for maintaining the

existing system, as well as investments to increase operators' efficiency and to achieve decarbonisation pursuant to chapter VI, as far as legally possible.

The base values for RAB and depreciation of existing assets have been specified and are summarised in procedures V MET G 01/12 and V MET G 03/12 ("old investments") for 2011. These assets continue to be included in accordance with the then-applicable rules and are written off uniformly over their useful life as determined during the third period, or their remaining useful life.

In the case of "old investments" until the end of the 2020 business year, the distinction between equity-financed and debt-financed grid assets continues to apply. Nominal values are used for the latter, adjusted replacement values for the former. In the new methodology, this distinction only applies for existing assets ("old investments") and investments until 2020. As of the beginning of 2021, financial accounting principles are used instead.

For any and all investments from the 2021 business year on, the depreciation of assets is determined pursuant to commercial law or a standardisation[1] thereof, based on nominal acquisition and production costs.

A uniform total RAB is determined for the fourth period on the basis of pre-existing assets and investments planned for the fourth regulatory period. Setting an average RAB value for the entire period during which the methodology applies should keep the adjustments that need to be made for investments to a minimum.

[1]The standardised approach may be taken for assets with an initial value of over EUR 2m.

Debt-financed grid assets

The depreciation of the debt-financed portion of the RAB is calculated by means of a three-part process:

- The residual book value that was calculated in 2012 continues to be written off according to the (standardised) remaining useful life that was determined at that time;
- depreciation of asset additions over the 2012-2020 period is calculated separately for pipelines and other assets with regulatory useful life periods of 30 and 12 years;
- depreciations planned for asset additions from the 2021-2024 period are generally determined based on the useful life pursuant to commercial law or a simplification thereof. (This also applies for the equity-financed portion of assets).

The calculation of the book values is done according to same method.

The depreciation periods for investments pursuant to chapter VI. will be included in a possible cost decision.

Equity-financed grid assets

In the second period, adjusted replacement values were determined for the equity-financed share of assets. Changes in book values and depreciation of assets were accounted for through an appreciation factor of between 4.17% and 4.54%. This factor enables projecting the values forward to the end of the 2016 business year.

For the third period, the factor was updated to take current trends into account. In this, the published appreciation factors applied by the German gas grid charges ordinance (*GasNEV*) served as a point of reference from the third period onwards[2]. Therefore, the appreciation factors of 0.13% to 0.46% were used from 2017 until 2020.

For the fourth period, the inflation rate of the WACC is set at 0.82%.

[2]https://www.bundesnetzagentur.de/DE/Service-Funktionen/Beschlusskammern/BK09/BK9_71_HinwLeitf/Preisindizes/BK9_Hinweise_und_Leitfaeden_Preisindizes_node.html

Aside from this consideration, equity-financed assets are treated in the same way as debt-financed assets.

II.2. Capital structure

According to section 82(1) in conjunction with section 80(3) *Gaswirtschaftsgesetz* (Gas Act) 2011, the cost of capital is derived from the weighted average cost of capital (WACC) for a normal capital structure and the applicable income tax rate. A ratio of 40 to 60 between equity and debt is considered a normal capital structure.

The normal capital structure must respect general factors that manifest across sectors. If a company falls short of the equity ratio corresponding to the normal capital structure by more than 10% (relative to equity and not total capital), the compensation of equity-financed and debt-financed assets is corrected.

In case of extraordinary developments which impact the capital structure without long-term and long-lasting negative effects on the equity ratio, an average over the period to be reviewed may be used when verifying whether the company is in line with the normal capital structure.

The company must demonstrably use the book values to calculate its capital structure. The regulatory authority verifies the annual historical values in the context of calculating the CAPEX for the next period.

Verification of the capital structure is conducted as follows (based on the book values shown in the annual financial statements):

+ intangible assets
+ tangible assets
- consumer contributions to construction costs
+/– any necessary adjustments

Regulatory asset base

- interest-bearing debt (reserves for pensions, loans, bonds)

Equity-financed assets

Equity ratio = Equity-financed assets / RAB

II.3. Weighted average cost of capital (WACC)

The rules previously used for calculating the weighted average cost of capital (WACC) continue to apply, but the individual values are adjusted to reflect interest rate developments on the capital markets.

First, the cost of debt is calculated:
The cost of debt according to all expert reports is 1.61% before tax.

For the cost of equity, a real interest rate is used to reflect the decision to use replacement values for equity-financed assets.
The Fisher equation applies:

$$(1+i_{nominell}) = (1+i_{real}) * (1+Inflationsrate)$$

The following correlation can be derived:

$$i_{real} = \frac{(1+i_{nominell})}{(1+Inflationsrate)} - 1$$

A risk premium of 3.5% on the cost of equity continues to apply as partial compensation for the marketing risk that results because the capacity amounts that were fixed in the method for the second period are used to project the minimum volume for future regulatory periods. For details on how the marketing risk is calculated, please refer to chapter III.2.

After adjusting for the evolution of interest rates on the capital markets, the following interest rate for equity-financed assets results:

Cost of equity	
Nominal risk-free rate	1.080%
Market risk premium	4.50%
Ungeared beta	0.400
Tax rate	25%
Equity ratio of the total capital	40%
Debt ratio of the total capital	60%
Geared beta with a 40% equity ratio	0.850
Nominal cost of equity (post-tax)	4.905%
Nominal cost of equity (pre-tax)	**6.540%**
Inflation	0.82%
Real interest rate (pre-tax)	0.258%
Capacity risk premium	3.50%
Total real cost of equity (pre-tax, incl. risk premium)	**8.944%**

Investments from the 2021 business year on are subject to depreciation pursuant to commercial law and financial accounting principles that are based on acquisition and production costs; therefore, the distinction between equity-financed and debt-financed assets is omitted for these forecast investments and forecast book values. The nominal WACC before taxes is used as the appropriate cost of capital.

Nominal weighted average cost of capital (WACC)	
Risk-free rate of debt capital	0.560%
Premium for debt capital	1.050%
Cost of debt (pre-tax)	**1.610%**
Risk-free rate of equity capital	1.080%
Market risk premium	4.500%
Ungeared beta	0.400
Geared beta	0.850
Cost of equity (post-tax)	4.905%
Cost of equity (pre-tax)	**6.540%**
Capacity risk premium	3.50%
Cost of equity (pre-tax, incl. risk premium)	10.040%
Debt ratio of the total capital	60%
Equity ratio of the total capital	40%
Tax rate	25%
WACC (pre-tax, incl. risk premium)	**4.982%**
WACC (pre-tax, excl. risk premium)	**3.582%**

These calculations are based on the current tax system.

II.4. Mark-up for future investments

It does not apply for the present period.

II.5. Operating costs

Influenceable operating costs (excluding costs for energy, CO2 emissions, the market area manager and regulation as well as other non-influenceable costs still to be determined) are not individually calculated for each transmission line but for the entire transmission system (as specified in Annex 2 *Gaswirtschaftsgesetz* (Gas Act) 2011) of the TSO. The influenceable

operating costs are verified on the basis of the most recent annual financial statements that are available, taking into account data from previous years, which might result in adjustments.

The costs are then projected forward to the first year in which the methodology applies and subjected to a cost path.

For the fourth period, i.e. from 1 January 2021 until 31 December 2024, the annual target of 1.5% applies. The general productivity growth rate of 0.83% is already included in this target. Individual targets are based on individual savings of influenceable overhead costs, which must be additionally achieved.

At the same time, a factor to compensate for inflation (network operator price index or NPI) applies for the duration of the methodology. This factor is determined by weighting the consumer price index (CPI) and the index of collectively agreed wages and salaries (WSI) at 50% each. These two factors are used to determine the annual operating costs for each year in which the methodology applies and the average is used in the cost review. Based on 2016-2018 data, the NPI for the fourth period is 1.8%.

Given the incentive regulation approach, there is no ex-post adjustment for the influenceable operating costs.

The TSO's non-influenceable operating costs are not subject to a productivity factor. Before the fifth period starts, the regulatory authority checks for deviations between planned non-influenceable costs and those that actually accrued. Any such deviations in terms of non-influenceable costs are taken into consideration according to chapter II.15, if necessary.

II.6. Individual risk premium

The calculated overall risk is compensated by the general risk premium of 3.5 percentage points on the one hand and by an individual risk premium on the other. Please refer to chapter III.2 for more information. The individual risk premium set for the second period continues to apply for existing capacities until the end of the average useful life of the asset base that was determined in the methodology for the second period.

For new investments which lead to a capacity increase, a new risk calculation is done and if a risk is identified, it is compensated for.

II.7. Energy and CO2 certificates costs

Energy and CO2 certificate costs are handled separately from other operating costs: after four years, if efficient financial performance is displayed, an adjustment for the actually incurred costs takes place, without applying the productivity offset. Energy costs comprise fuel gas, electricity, electricity grid utilisation charges, fees and costs set by regulations in force, grid losses and metering discrepancies (unaccounted-for gas).

If the actual energy and CO2 certificates costs considerably exceed the forecast figures, the system operator can ask that a corresponding increase of the applicable rates be considered. Procurement of the energy (gas and/or electricity) needed for compression must be non-discriminatory and transparent and is subject to an adequacy check by the regulatory authority. The energy costs for electrical compressors must be itemised into energy costs and grid utilisation charges for each grid level.

II.8. Costs of the market area manager and of regulation

The costs of the market area manager are taken into account without applying the productivity offset. The cost of regulation is included in the prorated market area manager costs assigned to each TSO according to section 32(1) *Energie-Control-Gesetz* (E-Control Act). Both these elements are included based on a forecast value calculated for each of them and they are then revised once actual values are known.

II.9. Other revenues and income

Regulated companies must report any revenues they bring in from additional transport-related services for system users which are based on rates or charges set by ordinance; the allowed costs are then reduced accordingly. For revenues outside the regulated area (e.g.: cross-billing between transmission system operators for services rendered, management of balance groups) that are not deducted from the allowed costs in accordance with this provision,

companies must provide proof that the corresponding costs are not allocated to the regulated area either. If such proof is not provided, the allowed costs will be reduced accordingly.

II.10. System admission charge and system provision charge

The system admission charge compensates the transmission system operator for all reasonable cost, considering normal market prices, directly arising from connecting a facility to a transmission system for the first time or altering a connection to account for a system user's increased connection capacity. The system admission charge is a one-off payment; system users must be informed of how it is made up in a transparent and understandable manner. In cases where connection costs are borne by system users themselves, the system admission charge is reduced accordingly. The system admission charge must be cost-reflective.

The system provision charge, payable by system users at the time of first connection or increase of contracted maximum capacity as a one-off payment reflective of capacity, covers the past and future network development measures necessary to enable such connection. It reflects the agreed extent of system utilisation. It is a one-off payment billed for at the time of signature of a system access contract or increase of the contracted maximum capacity.

If the contracted maximum capacity is contractually reduced for a continuous period of at least three years or if the system user has been disconnected for three years, s/he has a period of 15 years from payment to request that the system provision charge paid be reimbursed in proportion to the utilisation reduction.

The book value of the contributions for construction costs earned by the transmission system operator reduces the RAB.

II.11. Revenues, excess revenues, revenues from multipliers, excess proceeds from auction surcharges, net revenues from capacity surrenders, revenues from interruptible capacity, and revenues from day-ahead and long-term UIOLI

The total actual revenues (actual tariffs x actual volume) must be compared with the forecast revenues (actual tariffs x forecast volume). Significant effects from the tarification (and thus, from established compensation payments) must also be taken into account during the review. After the compensation has been calculated, the following steps shall be taken:

The cost review concerns excess revenues (i.e. the actual volume exceeds the established volume) or revenue shortfalls (i.e. the actual volume exceeds the volume risk but falls below the established volume), revenues from multipliers, surplus proceeds from auction surcharges (above the rate set by ordinance or above the reserve price), net revenues[3] from surrender of contracted capacity, revenues from interruptible capacity, and revenues from application of the day-ahead UIOLI (Use It Or Lose It) and long-term UIOLI mechanisms from the period prior to the establishment of the allowed costs. Revenues from multipliers are only adjusted, if they exceed, together with the normal capacity revenues, the revenues of the volume risk.

These excess proceeds can instead be used for investments in capacity expansion or for reinvestments (maintaining the existing system) that are carried out while this method applies. Their actual use (i.e. implementation of planned investments) is subject to the next review. If they were indeed used, the costs allowed for the following period are not reduced. If they were not used for the above purposes, they either reduce the allowed costs over several periods or are earmarked for investment in later periods. In the latter case, the excess proceeds are deducted when calculating the RAB for the following period, which reduces the interest rate on which it is based.

[3] The net revenue is the difference between the refund for the surrendered capacity under the existing capacity contract and any higher proceeds the transmission system operator receives from remarketing the surrendered capacity, including any auction surcharges.

II.12. Incentives for oversubscription and buy back

An oversubscription and buy-back scheme rests on an incentive regime reflective of the risks that offering additional capacity entails for the transmission system operator. In this context, additional capacity is defined as the firm capacity offered in addition to an interconnection point's technical capacity.

The structure of the oversubscription and buy-back scheme and the associated incentive regime are subject to approval by the regulatory authority in accordance with point 2.2.2. of Annex I to Regulation (EC) No 715/2009. In return for creating the scheme and assuming the related risks, up to 90% of the resulting revenues remain with the TSO.

II.13. Additional incentives for TSOs: quality and performance criteria (bonus-malus system)

If transmission system operators can prove in the course of the review process for the present methodology that a set of positive effects on system service quality is present and reliable, a variable incentive for achieving these effects is granted already for the period in which these effects were agreed upon. The maximum incentive achievable is 5% of the TSO's operating costs (reduced for the non-influenceable costs). If the target is not achieved or only partially achieved, the differences are adjusted for. This incentive component is not included in the operating costs but is considered separately without any mark-up or mark-down. It is granted for the quality criteria outlined below; additionally, individual quality criteria are established collectively (in terms of content and the assessment whether the targets were achieved) before the period starts.

In principle, the quality criteria, measurement variables and corresponding targets are applied on an annual basis and consist of the following elements:

- **1) availability of guaranteed freely allocable capacity (*FZK*) (avoiding planned/unplanned downtime), weighted at 22%**

    - Measurement variable: availability of guaranteed FZK at entry/exit points expressed as a percentage: target: 100%: the total of FZK at the entry/exit

points times 8760, minus the total of unplanned FZK restrictions at entry/exit points, times the number of hours during which the restriction occurred, divided by the total of guaranteed FZK at the entry/exit points, times 8760; capacity restrictions due to maintenance periods that were scheduled and published in due time are not considered in this calculation.

- Target achieved: Yes/No.
- Each (un-)planned restriction shall be analysed to determine whether the grounds for these restrictions are within the company's control. Only restrictions that are within the company's control are taken into account. TSOs shall set a period of interruption for scheduled maintenance, which shall be observed. The regulatory authority may verify whether these time periods are adequate.

- **2) environmental issues, weighted at 42% (7% for each measurement variable)**

    - Measurement variable: Number of incidents involving a fossil gas leak per year, recorded pursuant to the *ÖVGW* (Austrian Association for Gas and Water) regulations: target: 0.
    - Measurement variable: certificates received/confirmed.
      XXX: for environmental management systems (ISO 14001) and energy management (ISO 50001) per year.
      XXX GmbH: for environmental management systems (ISO 14001) and occupational safety (ISO 45001) per year.
    - Documented reduction of methane emissions during integration work
    - Increase of the number of alternative fuel vehicles, except for emergency vehicles at stations
    - Installation of systems for renewable energy generation at new operations buildings (if technically possible and legally permissible)
    - Use of LED lights for the exterior and interior lighting of new buildings and when existing facilities are renovated

  Requirements fulfilled: Yes/No. (Each requirement shall be assessed separately).

- **3) protection of facilities and IT systems against capacity restrictions, weighted at 22% (5.5% for each measurement variable)**

- Certification according to “ISO 27001 Information technology – Security techniques – Information security management systems – Requirements”
- No capacity restrictions due to the failure of IT systems
- Electronic key management system at all the active compressor and metering stations
- Comprehensive surveillance systems (cameras) at active compressor stations

Requirements fulfilled: Yes/No. (Each requirement shall be assessed separately).

- **4) Offer of interruptible capacity, weighted at 14%**

  - Measurement variable: Yearly, quarterly, or monthly interruptible capacity put up for auction, if the corresponding FZK product was sold at an auction premium, was sold out, or was not offered pursuant to Article 32(1) CAM NC.
  - Target: yes, if the capacity was put up for >=90% of the auctions, if the corresponding FZK product was sold at this point and in this direction at an auction premium, was sold out, or was not offered pursuant to Article 32(1) CAM NC; no if 90% were not reached.

  Target achieved: Yes/No.

If TSOs meet 100% of the target agreed upon, the maximum incentive achievable of 5% of the influenceable operating costs is granted, i.e. 2.5% in addition to the 2.5% already granted in advance. If the target is not achieved or only partially achieved, a maximum of up to 7.5%, which includes the 2.5% granted in advance, of the influenceable operating costs is deducted in the cost review.

II.14. Incentives cap

The cumulative amount of all incentives (chapter II.12 and 0) is capped at 25% of the return on equity determined. This refers to the interest on equity including the risk premium of 3.5 percentage points.

II.15. Adjustment for differences between forecast and actual figures

When recalculating costs (CAPEX, non-influenceable operating costs, energy costs, CO2 costs, costs of the market area manager and of regulation) and revenues before the fifth period starts, it is necessary to account for deviations of actual figures from forecast ones.

As the last business year or the last two business years of a period is or are still ongoing when the review is carried out, the adjustment relating to that year or these years can only be taken into account in the course of the review of the following period.

The CAPEX deviation and deviations of projects pursuant to chapter VI are compounded every year to the first year of the following regulatory period using the reasonable cost of debt. This is to prevent that incentives for over- or underestimating the actual costs are created.

The adjustments are made with a view to a stable and continuous development of tariffs. If adjustments are made for more than one period, the rate used for compounding is the cost of debt applicable in the relevant period.

III. Volume

III.1. Establishing the relevant volume

Regarding the relevant volume, the method for the second period provides as follows:

"According to section 82 para. 2 Gaswirtschaftsgesetz (Gas Act) 2011, the volume situation is established by comparing the contracted capacity as of 1 June 2012 with the maximum technical capacity.

When establishing the volume situation for the period 2013-2016, the imputed amount of existing contracted capacity from 2017 onwards is permanently fixed, leaving aside capacities which are not transferred to suppliers according to section 170 para.7 Gas Act 2011. If in the meantime, additional capacities (beyond the committed capacities determined here) are allocated at the individual entry/exit points, they are additionally taken into consideration. Any decline of committed capacities detected in the volume situation for the period 2013-2016 does

not impact on the calculation of the volume situation for price control periods from 2017. This prevents the remaining consumers from having to absorb the decline in capacity demand in the transmission system. If this results in a shortfall of cost coverage for the transmission company or the parent company, such shortfall is not subject to an adjustment according to clause III.11. Instead, the TSO carries the marketing risk, for which it is compensated by the risk premium included in the cost of equity and an individual risk premium."

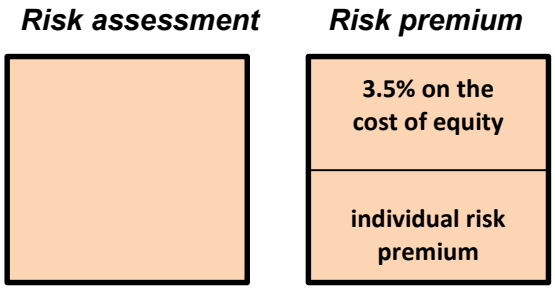
It can therefore be concluded that the relevant volume for the next period will be at least the same as that established according to the old methodology. The decisions in procedures V MET G 01/13 and V MET G 02/13 also hold for the present methodology and remain unchanged. In addition, the following provisions apply:

Previously, capacities sold on a short-term basis were not included in the relevant volume. To make sure that customers now immediately benefit from these, the re-calculation of the relevant volume takes into account additional stable (short term) bookings at individual points. However, these volumes are not included in the risk-bearing volume when the review is carried out. The additional short-term bookings taken into account correspond to the average over the previous regulatory period (2017-2018), and any deviations of the actual bookings from these averages are adjusted for in accordance with section II.15. The loss of contracted capacity prior to the end of the corresponding contract was not included in the calculation of the volume risk.

The volume risk is compared with the influenceable costs (CAPEX, influenceable operating costs, etc.) and in accordance with the reference price methodology, it is included in the tariffs as a share of the influenceable costs. Shares of non-influenceable costs consist of non-influenceable costs and their corresponding adjustments (i.e. non-influenceable operating costs, costs for energy, CO2 emissions, the market area manager and regulation, and TSO compensation payments) and they are compared with the planned marketed capacities (projected volume) of this reference price methodology and included in the tariffs as shares of non-influenceable costs pursuant to this methodology.

III.2. Volume risk

The original risk calculation took into consideration potential revenue shortfalls resulting from expiry of existing contracts until the end of the remaining useful life of the existing assets. This risk was determined for each of the company's relevant pipelines separately and then added up to determine a total risk. This was compensated for by way of the risk premium described above (+3.5 percentage points on the cost of equity and an individual risk premium).



Recalculating the risk is possible for points where volumes are increased permanently. This is the case where:

- new capacity is created at a new point; or
- an existing point's capacity is significantly increased.

The calculation method described above continues to apply.

If the capacity bookings permanently shift bookings from one point to another, this effect must be taken into consideration when calculating the risk for both affected points. In case of an adjustment, the past situation (i.e. shift in bookings) is reviewed starting from the beginning of the permanent shift and the volume risk is adjusted for the future. A reduction of the volume risk can only occur in case of a shift in bookings. In case of a total decrease of bookings in the market area, the volume risk cannot be reduced. If the volume losses (i.e. decrease of bookings) endanger TSOs financial stability and operation, TSOs may request a recalculation of the transport costs.

The following principles apply for calculating deviations from the projected revenues:

- The manifested risk relates to the whole company and is calculated individually for each entry/exit point. Therefore, the TSO's risk manifests if the total revenues from bookings of all entry/exit points do not at least correspond to the revenues that would result from the projected volume.
- Annual capacities from expired contracts and unsold annual capacities that were projected to be sold can be replaced with short-term products, including applying the multipliers.
- Changes in the pipeline systems may cause capacities to be transferred to other or new points in the system and therefore potentially to other TSOs. Where this is the case, the receiving point/TSO must compensate the original point/TSO for the corresponding foregone revenue.

TSOs must ring-fence 100% of their risk premiums (3.5% risk premium on the return on equity and individual risk premium) and reserve them for actual future capacity risk. These reserves may not be distributed to shareholders and thereby reduced. Otherwise, materialising capacity risks could put the company's financial stability in jeopardy. In calculating the capital structure (s. chapter II.2), the ring-fenced premiums count towards equity, i.e. they raise the company's equity ratio. As long as the target capital structure is met, other parts of the company's equity may be distributed to shareholders on a continuous basis without triggering any negative effects on the allowed cost of capital. A suitable alternative to forming reserves are letters of comfort issued by the parent company; however, they should not raise the company's equity ratio.

The reserves should be used if the risk materialises:

If a volume risk materialises (i.e. the generated revenues to be taken into account in the corresponding year are lower than the revenues to be generated with the volume risk), the reserves to be formed may be reduced by this shortfall. If the reserve to be formed cannot cover the materialised risk sufficiently, an already existing reserve with the corresponding value may be used instead. In the case of letters of comfort, reserves shall not be formed.

IV. Treatment of new or incremental capacity from planned investment projects

The costs planned for new or incremental capacity and the projected volumes must be itemised for each project and each direction of gas flow separately. Incremental capacity is defined as an increase in existing technical capacity. New capacity is defined as the establishment of a new direction of flow (physical reverse flow) at an existing cross-border interconnection point or the creation of a new cross-border interconnection point.

Unless otherwise decided by the regulatory authority, the revenues expected from the projected new or incremental volume must be such that they cover the respective project's costs. The costs are determined by official decision.

The costs of planned investment projects are determined in accordance with chapter II.2 of this methodology. If additional capacity resulting from the realisation of planned investment projects competes with existing capacity, the existing capacity's potential losses in profit margin count as costs, to be taken into account in addition to the costs calculated according to chapter II.2. Planned OPEX are compared with actual OPEX at the end of the period during which they first arise, and any necessary adjustments are made. From then on, the actual OPEX become part of the total OPEX in accordance with the methodology then in force. The projected volume is included in the calculation on the basis of planned values. If the project is realised, volumes are determined in future as described in chapter III.

The logic described in chapter III.3 applies when calculating the investment projects' volume risk.

V. Compensation payments – section 70 para. 2 *Gaswirtschaftsgesetz* (Gas Act) 2011

If the rates and charges set are such that one TSO receives charges that should go to another, corresponding monthly payments between the TSOs are made to correct the situation.

VI. Treatment of future projects aimed at increasing efficiency

According to section 82(1) Gas Act 2011, when calculating the rates for TSOs, the regulatory authority shall ensure that transmission system operators are incentivised to increase efficiency and execute the necessary investments in an appropriate manner.

Efforts to move toward a low-carbon economy (energy transition) are linked to major challenges and require a paradigm shift in the energy industry. To enable rapid and efficient change and to contribute to the European and Austrian climate and energy strategy, natural gas grids should be seen as the backbone of decarbonised energy systems, as they significantly contribute to flexibility, sustainability, efficiency, in particular energy efficiency and CO2 reduction, reliability and security of supply. Transmission system operators shall therefore be incentivised pursuant to section 82(1) Gas Act 2011 for R&D (research and development) projects, carrying out feasibility studies and pilot projects in the following areas:

- new equipment, new operational and/or commercial agreements and new operational measures (digitisation) directly related to the TSO's resources and network to ensure efficient use of existing capacity or creation of new services in terms of market development, market innovation and sector coupling;
- effects of new, general conditions, especially those of the energy transition, on the operation of the gas transmission system:
    a. feeding of low-carbon, biogenic or synthetic gases into the TSO's grid ("blending") and their compatibility with existing plants, plant components and metering systems;
    b. impact of sector coupling.

For such projects (involving CAPEX and OPEX), an annual lump sum is made available in advance in the cost decision. In case of higher or lower expenses, this projected amount must be adjusted accordingly during the review in the next period, using the cost of debt.

The projects/investments are subject to the following criteria:

- the project has a direct impact on the transmission system, the resources or the operation;
- the project reduces CO2 emissions;

- the project is innovative in terms of the technologies usually used by the TSO;
- the project demonstrates commitment to sustainability;
- the project has the potential to generate net benefits for grid users, other stakeholders, or the environment; the latter of which is assessed based on contributions to national, regional and European environmental welfare or to the general objective of reducing CO2 emissions or of using energy from renewable sources in a broader sense;
- the project increases efficiency.

During its implementation or following the evaluation of its results, a R&D project could prove to be unsuccessful, despite being suitable. This project is then not retroactively re-defined as being unsuitable, because it at least generated new insights and led to new experiences (cf. similar provisions of tax law).

The granted lump sum (CAPEX and OPEX) covers additional expenses incurred when applying for EU or national funding for the purpose of implementing projects to increase efficiency. These OPEX are not included in the TSO's operating costs and are taken into account in the cost review without applying the productivity factor. Adjustments are made pursuant to chapter II.15. In this chapter, the marketing risk for CAPEX and OPEX is not applied; therefore, it shall be treated in the same way as the non-influenceable costs pursuant to chapter III.1.

In principle, expenses that arise out of external services by non-affiliated companies are approved as OPEX, if they are reasonable. Services rendered by affiliated companies and TSOs shall be submitted separately to the regulatory authority for approval. In order for additional OPEX to be taken into account (at least in the course of the cost review), TSOs shall prove beyond doubt that they are indeed additional costs. Otherwise, there would be a risk of double compensation. If approved, the identified additional costs are accepted without applying any offsets.

In the case of assets from innovative projects, separate, possibly shorter depreciation periods shall be taken into account. These assets are subject to the normal capital structure and to interest rates. A special treatment of R&E projects for tax purposes shall also be taken into account. If projects receive funding, 50% of this amount are deducted from the lump sum granted in advance.

If an individual project, for which OPEX and CAPEX already incurred, is categorised as being unsuccessful, the total costs shall be treated as OPEX pursuant to this chapter.

In Principle, the WACC is applied pursuant to chapter II.3; however, the capacity risk is not compensated for. Instead, a premium of 1.5% on the cost of equity is applied as an investment incentive for taking measures to increase efficiency.

Before initiating activities pursuant to this chapter, TSOs shall submit the project (R&D or pilot project) to the regulatory authority for approval and make it available for information to the other parties involved in the process of establishing costs.

It is understood that the measures to fulfil the quality and performance criteria under chapter II.13 cannot be taken and be compensated pursuant to this chapter at the same time.