FAQ for Methodology of Gas-TSO's in Austria 2013 - 2016

III.1 Capex:

Q: The appreciation factor of the equity-financed regulatory asset base currently ranges from 4.17% to 4.54%. Will there be any change in this factor in the next methodology?
A: As inflation decreases there is a high probability that this factor will be updated for the next regulatory period.

Q: How are current book values and the regulatory asset base connected?
A: The only really connection between these two is the starting value of the assets; the starting value of the RAB and in accounting are the same. However, due to different regulatory and accounting depreciation periods and the system of adjusted replacement values for the equity-financed share of the assets it is not really possible to compare the RAB with the book values in accounting.

Q: Are capex inflated during the regulatory period?
A: As the costs and tariffs are set for the whole regulatory period there is no inflation of capex during the regulatory period.

III.2. **Capital structure:**

Q: How do you treat any deviations from the notional 60/40 capital structure? Is actual capital structure relevant?

A: Section 80(3) of the Natural Gas Act 2011 says: "The normal capital structure shall reflect overall industry aspects as well as significant factors for individual companies which undercut the equity capital share by more than 10%."

So if the equity share is less than 36% the WACC will be adjusted and the remuneration for the equity part will be used only for the actual equity share.

Q: How is remuneration calculated if capital structure defers from the notional 60/40?

A: If the equity share is higher than the target capital structure, there is no any change in the calculation of the WACC. Only if the equity share is lower than 36% the unchanged equity interest rate (the one that was derived from the target capital structure) will be used for the remuneration of the actual equity share and the debt interest rate will be used for the rest. So there is no higher equity interest rate if the equity share is lower than the target capital structure. This also affects the adjusted residual replacement value system, as this is used only for the equity part.

Q: Is it correct to assume that the revenue-setting methodology only considers the operating company capital structure?

A: The capital structure is calculated for the TSO part of the company and is based on financing the RAB (no working capital is considered).

Q: Would you allow for additional debt outside of the OpCO / ring-fenced structure?

A: The financial situation and capital structure of the owners of the TSO is not considered in regulatory decisions. It is important that the TSO has a solid financial structure. The owner of the TSO may use debt to finance the equity share in the TSO, but there might be the "risk" that there will be a new owner of the TSO, if the obligations cannot be met. Then banks might be the new owners of the TSO.

III.3 WACC:

Q: How was the WACC determined?

A: The TSO WACC was calculated in the same way as that for DSOs and based on an expert opinion. There is a high probability for an update for the next regulatory period.

Q: The cost of debt in the current methodology is set at 4.72% and the cost of equity is set at 9.332%. Will there be any change to these values?

A: The interest rates have to be updated in any case. Regarding the volume risk premium a final decision cannot be taken at the moment, but as long as the risk of reduced future volumes is borne by TSOs the methodology has to consider some compensation for these risks.

III.4 **Operating Costs:**

Q: What's the background for the 2.25% cost indexation as well as for the efficiency factor of 2.5%?

A: The 2.251% were derived from a 5-year average of the Austrian CPI. The average productivity offset (2.5%) was derived from different studies and was used in many decisions for non-benchmarked companies. There might be changes in the future depending on decisions of the Austrian Supreme Court.

Q: The current methodology contains an x factor of 2.5%. Will this change when the methodology is revised?

A: The Austrian Supreme Court decided on 18 November 2014 (Zl. 2012/05/0092, 2012/05/0093, 2012/05/0094, 2012/05/0095, 2012/05/0096) that the correct x factor for Austrian DSOs would be 3.5%. So there is a high probability that the x factor for TSOs will be adjusted to the same level as the DSO x factor.

III.5 **Individual risk premium:**

Q: Does the transmission company retain the 3.5% equity premium even in the event volumes transmitted are higher than forecast?

A: Yes.

The volume situation of TSO is calculated based on actual long-term contracts – and this volume situation will not be reduced when the contracts expire. This premium is paid for the risk that the TSO will not be able to market these quantities after expiration of long-term-contracts to avoid extremely rising tariffs in the case that lower quantities will be contracted in future.

Q: Has there ever been a volume surplus in a single year?

A: This question cannot be answered due to confidentiality restrictions.

Q: What was the equivalent of the 3.5% premium in terms of volumes in 2013 and 2014 (if available)?

A: This question cannot be answered due to confidentiality restrictions.

IV. Volume Situation:

Q: Do you have information on the capacity booking contracts?

A: The booking situation on a yearly basis for some IPs of TSOs can be found, in a graphical form, in the *KNEP* (coordinated network development plan) 2015-2024.

https://www.e-control.at/documents/20903/388512/Beilage+KNEP+2015.pdf/e54a6f70-ab7a-4ace-b79d-5ffcfcb56aa9 (in German) or at the transparency platform of GCA Market Area Manager:

https://mgm.gasconnect.at/gca_mgm/mgm/visualisation.do?type=entry_exit&reset=true&lang=en

For firm and interruptible short term products (< 1 year) and yearly products, the PRISMA Platform can be also consulted.

https://platform.prisma-capacity.eu/fcfs/orderOverview.xhtml?conversationContext=1

Q: If so, is capacity booked on a ship or pay basis? Does this apply to 100% of the volumes booked?

A: Yes on both points.

Q: The current coordinated national development plan contains several new projects which GCA might have to build in the future. How do you treat these new investments and capacities?

A: If there are projects with new capacities in the coordinated NEP, the E-Control's Executive Board releases a new decision for the cost and the capacities for new project(s). With this data the E-Control Commission fixes a new tariff or a premium to an existing tariff. The TSO must use this tariff to run a market test and if this test is positive, the TSO has to realise the project. The additional cost and revenues are not part of the current methodology but are calculated separately. Once realized, they become part of the general cost and volume base.

General questions concerning Tariff setting:

Q: Are the tariffs set on an annual basis or once at the beginning of the regulatory period and not reviewed again until the review for the next period?

A: Tariffs are set for the complete regulatory period – with the possibility for the TSOs to apply for an adaptation if there are extraordinary changes in their cost basis (e.g. sharply rising energy prices for compressors).

Q: Is there a smoothening factor applied on the tariffs in order to avoid volatility throughout the regulatory period, particularly when costs/capex differs significantly from one year to the next?

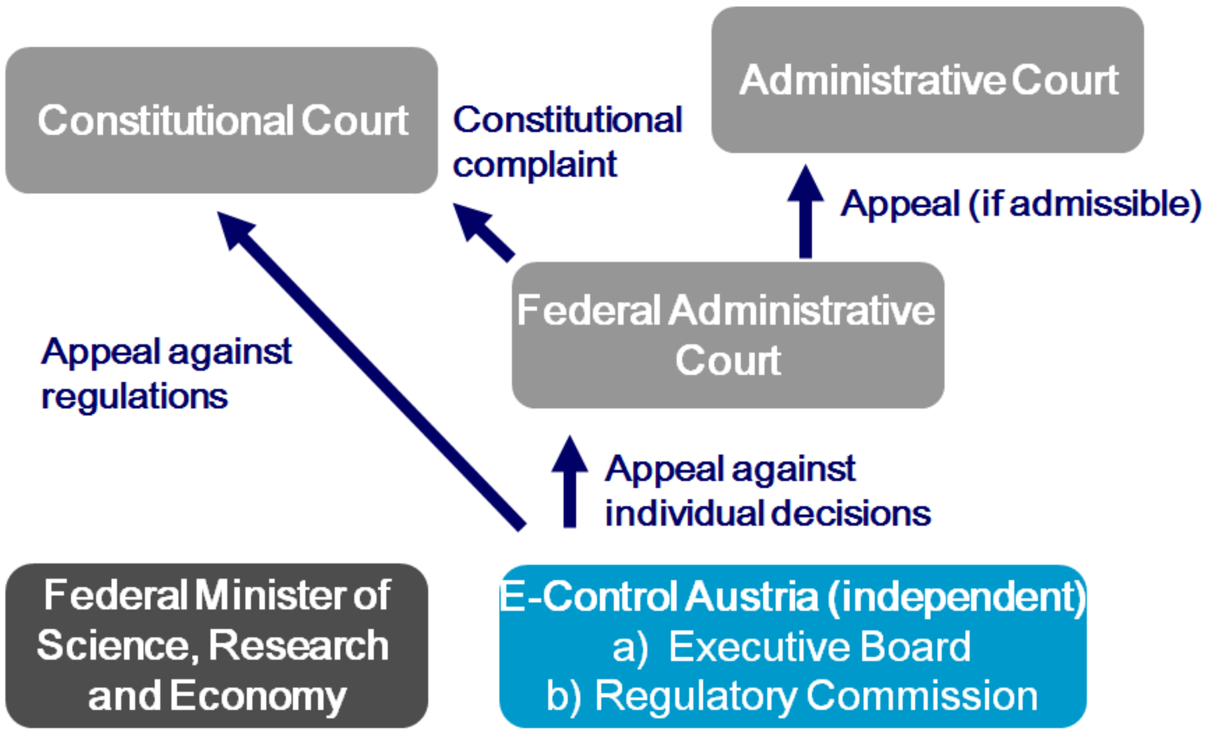
A: Tariffs are calculated on average cost of the TSO during the regulatory period. According to the tariff methodology some additional returns can be used for capacity expansion measures. This would result in smoothing tariffs.

Q: Would you allow for the company to charge lower tariffs i.e. in case of competitive tension from other pipelines?

A: The tariffs have to be set according to the principles set out in section 72 of the Austrian Natural Gas Act 2011: equal treatment of all system users, facilitation of efficient gas trade and competition, cost reflectiveness and, to the greatest possible extent, cost causality and they must ensure that natural gas is efficiently used and that the amount of energy distributed or transported is not unnecessarily increased.

General question concerning E-Control structure:

*T*he decision making process and the possibilities for companies regarding appeals against the decisions are described in the following diagram:



Q: Can the Government impose changes in tariffs and/ or the regulatory framework?

A: No, but changes in the applicable legislation, in particular on the basis of legal acts of the European Union which apply directly (EU regulations) or have to be transposed into national law (EU directives) are possible.

Q: Does E-Control have any preference regarding the owners of TSOs?

A: E-Control does not have any preferences for the new shareholder of GCA. In any case, if the TSO's shareholders change, the correct form of unbundling for a TSO will have to be re-evaluated according to European unbundling rules.