

**Joint Decision of the Energy Regulators for the approval of  
the Incremental capacity Project Proposal for the  
interconnection point connecting the gas transmission system  
of Bulgartransgaz EAD and the gas transmission system of  
ICGB AD – Stara Zagora**

April 2024

## **I. Taking into consideration:**

1. In connection with the application of 17.07.2017 by ICGB AD under Art. 36 of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (Directive 2009/73/EC), the Energy and Water Regulatory Commission of the Republic of Bulgaria (EWRC) and the Regulatory Authority for Energy, Waste and Water of the Republic of Greece (RAEWW) with Decision № P-BO-1 of 29 May 2018 and Decision № 483 of 29 May 2018, respectively, adopted the "Joint Opinion of the Energy Regulators on the Exemption Application of ICGB AD - Energy and Water Regulatory Commission (Bulgaria) and Regulatory Authority for Energy (Greece)", through which they preliminarily provided to ICGB AD in reference to the Interconnector Greece-Bulgaria (IGB gas pipeline) exemption from the requirements for third-party access, regulated tariffs and ownership unbundling for a period of 25 years, starting from the commercial operation date (COD). The decisions of the regulatory authorities were notified to the European Commission.

2. The European Commission adopted Decision C(2018) 5058 final of 25 July 2018 regarding the exemption of the Greece-Bulgaria interconnector (IGB gas pipeline) from the requirements for third-party access, regulated prices and ownership unbundling.

3. EWRC and RAEWW by Decision № P-BO-2 of 8 August, 2018, and Decision № 768 of 8 August 2018, respectively, adopted the "Final Joint Decision of the Energy Regulators on the Exemption Application of ICGB AD" (hereinafter, the "Final Joint Decision") in compliance with the Commission's Decision.

4. EWRC and RAEWW by Decision № P-BO-1 of 20 March 2020, Decision № P-BO-1 of 20 May 2021 and Decision № P-BO-3 of 30 Sep 2022, respectively by Decision № 568 of 12 March 2020, Decision № 424 of 13 May 2021 and Decision № 742 of 29 Sep 2022, have amended the Final Joint Decision in terms of COD, determining that IGB will be operational no later than 1 October 2022.

5. IGB gas pipeline started commercial operation on 1 October 2022.

6. EWRC and RAEWW by Decision № P-BO-4 of 21 March 2024, respectively by Decision № E-66 of 21 March 2024, have amended the Final Joint Decision in terms of art. 4.2 (3), first paragraph, setting conditions to conduct the market test for upgrading the IGB capacity, as well as in terms of art.4.3, (9), setting that multipliers could be applied for the calculation of the tariff of short-term capacity products.

7. EWRC and RAEWW by Decision № K-1 of 8 October 2019, respectively by Decision № 918 of 9 Oct 2019, have approved IGB Network Code, containing as an appendix the IGB Tariff Code, which shall be applied by ICGB AD.

8. EWRC and RAEWW by Decision № K-1 of 30 Sep 2022, respectively by Decision № 743 of 29 Sep 2022, have approved an amendment of the IGB Network Code, containing as an appendix the IGB Tariff Code.

9. By letter reg. № IV-02 of 2 April 2024, filed at EWRC reg. № E-15-59-10 of 2 April 2024 and at RAEWW reg. № I-370768 of 2 April 2024, ICGB AD has submitted for approval to the two regulatory authorities an Incremental capacity Project Proposal for the interconnection point connecting the gas transmission system of Bulgartransgaz EAD and the gas transmission system of ICGB AD – Stara Zagora (Incremental Capacity Project). The Incremental Capacity Project was

also submitted for approval to EWRC by Bulgartransgaz EAD by letter reg. № E-15-45-9 of 1 April 2024.

10. By letter reg. № E-15-59-10 of 16 April 2024 EWRC on behalf of the two regulatory authorities has requested from ICGB AD to present a justification for the f-factor formation used in the Incremental Capacity Project, as well as a justification for the formation of the present value of the estimated increase in the allowed or target revenues of the transmission system operator ICGB AD. The requested information has been submitted to EWRC by letter reg. № IV-18 of 19 April 2024, filed at EWRC reg. № E-15-59-10 of 19 April 2024 and to RAEWW reg. № I-372323 of 24 April 2024.

11. The proceeding for the approval of the Incremental Capacity Project is regulated under Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) № 984/2013 (Regulation (EU) 2017/459).

12. Pursuant to Article 28, paragraph 2, sentence 3 of Regulation (EU) 2017/459, EWRC by letter reg. №. E-15-59-10 of 16 April 2024 and RAEWW reg. № O-109682 of 19 April 2024, informed each other that on 2 April 2024 they received the Incremental Capacity Project, jointly developed by ICGB AD and Bulgartransgaz EAD, and also that EWRC received the project by Bulgartransgaz EAD on 1 April 2024.

**II. The regulatory authorities, after a careful assessment of the Incremental Capacity Project under Chapter V Incremental Capacity Process of Regulation (EU) 2017/459, found the following:**

1. The Incremental Capacity Project aims to increase the technical capacity of the interconnection point Stara Zagora (IP Stara Zagora), where Bulgartransgaz EAD and ICGB AD intend to offer bundled capacity, in the direction from IGB pipeline towards the gas transmission system of Bulgartransgaz EAD.

2. In compliance with art.26 of Regulation (EU) 2017/459, ICGB AD and Bulgartransgaz EAD in the period 3 July 2023 – 23 October 2023, carried out a non-binding assessment of the market demand for incremental capacity at the IP Stara Zagora, which connects the gas transmission system of Bulgartransgaz EAD and the gas transmission system of ICGB AD. Based on the demand requests obtained during the non-binding assessment of the market demand, the two operators have concluded that the level of incremental capacity that will be provided by ICGB AD in the direction towards Bulgartransgaz EAD is equal to 53.2 GWh/d, and to reach an equal amount of the total firm technical capacity in the amount of 159.7 GWh/d on both sides of IP Stara Zagora, the level of the incremental capacity needed by Bulgartransgaz EAD at the same point, is 37.4 GWh/d. This is due to the fact that presently the Bulgartransgaz EAD technical firm capacity at IP Stara Zagora in the direction from the system of ICGB AD towards Bulgartransgaz EAD system is 122.313.400 kWh/d, and the technical firm capacity of ICGB AD in the same direction is 106.483.877 kWh/day. Demand Assessment Report (“DAR”) was published on the 23<sup>rd</sup> of October 2023 on the websites of the two operators.

In compliance with art.27, para 1 and 2 of Regulation (EU) 2017/459, the two operators of gas transmission systems have carried out technical studies to establish the steps and investments necessary to ensure the incremental capacity at IP Stara Zagora in the direction from the gas pipeline IGB towards the gas transmission system of Bulgartransgaz EAD. The Incremental Capacity Project envisages that ICGB AD will build process equipment as follows: a new filtering section to ensure the efficient and safe passage of natural gas; new regulating line to control and manage gas flow effectively; a new metering line for the accurate measurement of gas volumes;

new gas pre-heater with associated bypass. The company will carry out an expansion and upgrade of SCADA systems for enhanced monitoring and control. The estimated cost related to the Incremental Capacity Project is assessed by the company in the range from 3.5 to 4.0 million euros.

Based on performed technical studies it was identified that Bulgartransgaz EAD should do a limited investment in its gas transmission system in order to provide the required incremental capacity of 37.4 GWh/d, in order to match the total technical firm capacity of 159.7 GWh/d on IGB side of IP Stara Zagora. For this reason, Bulgartransgaz EAD intends to carry out the investment without an economic test.

3. In accordance with art.27 (3) of Regulation (EU) 2017/459, ICGB and Bulgartransgaz EAD conducted a joint public consultation on the Incremental Capacity Project in the period from 2 February 2024 to 4 March 2024. The TSOs have not received any comments from network users during the public consultation.

4. Following the consultation and finalization of the design phase ICGB AD and Bulgartransgaz EAD have published the Incremental Capacity Project on the operators' websites – art.28, (1) of Regulation (EU) 2017/459. According to the said provision, the Incremental Capacity Project shall include at least the following information: all offer levels, reflecting the range of expected demand for incremental capacity at the relevant interconnection points as a result of the public consultation and the market demand assessment; general rules and conditions that a network user must accept to participate and access capacity in the binding capacity allocation phase of the incremental capacity process, including any collaterals to be provided by network users and how possible delays in the provision of capacity or the event of a disruption to the project are dealt with contractually; timelines of the incremental capacity project, including any changes since the consultation and measures to prevent delays and minimise the impact of delays; the parameters of the economic test; whether an exceptionally extended time horizon for contracting capacity for an additional period of up to 5 years beyond the allocation of up to 15 years after the start of the operational use may be required; where applicable, the proposed alternative allocation mechanism including its justification, as well as the conditions approved by the transmission system operator for the binding phase; where a fixed price approach is followed for the incremental capacity project, the elements described in Article 24(b) of Regulation (EU) 2017/460.

5. Also, in compliance with art.25(1) of Regulation (EU) 2017/460 for a given incremental capacity project, the transmission system operators shall submit to the relevant national regulatory authorities for approval the following information for each offer level: the reference prices estimated for the time horizon of the initial offer of incremental capacity that are used for the calculation of the parameter set out in Article 22(1)(a) and 24(2)(a) of the cited regulation, respectively in case of a separate or a single economic test; the parameters set out in Article 22(1)(b) to (c) and 24(2)(b) to (c) of this regulation, respectively in case of a separate or a single economic test; if applicable, the range of the level for the mandatory minimum premium referred to in Article 33(4) of Regulation (EU) 2017/460 for each offer level and interconnection point applied in the first auction and possibly in subsequent auctions in which the incremental capacity is offered as defined in Article 33(3) of Regulation (EU) 2017/460.

6. The Incremental Capacity Project proposed by the gas transmission system operators - ICGB AD and Bulgartransgaz EAD, includes all formal elements required for its approval, defined under art. 25(1) and art. 28(1) of Regulation (EU) 2017/459. In this regard, the following should be noted:

**6.1. Offer level (art. 28(1), (a) of Regulation (EU) 2017/459):**

In the meaning of art. 3(5) of Regulation (EU) 2017/459 “offer level” means the sum of the available capacity and the respective level of incremental capacity offered for each of the yearly standard capacity products at an interconnection point.

The incremental capacity under the project will be offered as a bundled product from the date of commercial operation - fourth quarter of 2025. ICGB AD and Bulgartransgaz EAD point out that they will set aside an amount of 10% of the incremental capacity to be offered as a short-term capacity in line with art.30(5) of Regulation (EU) 2017/459. The offer level of the long-term incremental capacity that the operators shall offer in the binding bidding phase of this Incremental Capacity Project, is as follows: in the direction from IGB pipeline to the Bulgartransgaz EAD gas system firm incremental capacity 53 242 50 kWh/d/y and offered firm incremental capacity 47 917 935 kWh/d/y or 47,917935 GWh/d/y. To match the ICGB AD offer level, Bulgartransgaz EAD shall combine the incremental capacity of 37,4 GWh/d with the difference of 15,8 GWh/d existing firm technical capacity, which is currently offered by the operator as a non-bundled product and will be offered as a bundled product during the binding bidding phase. This will ensure that only coordinated offer levels of capacity will be offered as provided for in chapter IV Bundling of Capacity at Interconnection Points of Regulation (EU) 2017/459. The incremental capacity will be offered as firm-bundled capacity on both sides of the IP.

In view of the above, EWRC and RAEWW accept that the offer level presented by ICGB AD and Bulgartransgaz EAD reflects the scope of the expected demand for incremental capacity at IP Stara Zagora.

#### **6.2. General rules and conditions (art. 28(1), (b) of Regulation (EU) 2017/459):**

ICGB AD and Bulgartransgaz EAD shall offer the incremental capacity under the Incremental Capacity Project applying general rules and conditions, according to which all network users shall participate and receive access to capacity in the binding capacity allocation phase, including: collaterals to be provided by network users, procedure for conducting the binding phase and ranking the offers, signing the gas transmission agreement and capacity booking contract, as well as rules in case of possible delays in the provision of capacity or in cases of disruption of the project implementation.

Given the above, EWRC and RAEWW accept that the general rules and conditions presented by ICGB AD and Bulgartransgaz EAD ensure a balance between the interests of gas transmission system operators and network users.

#### **6.3. Timelines of the Incremental Capacity Project (art. 28(1), (c) of Regulation (EU) 2017/459):**

The implementation of the investments required to provide incremental capacity at IP Stara Zagora shall start when market participants commit purchasing adequate amounts of incremental capacity in the annual capacity auction in July 2024 and in case that gas transmission system operators receive a positive result from the economic test. The two transmission system operators have indicated the deadlines for the implementation of the binding phase of the Incremental Capacity Project. Implementation of the investment tasks and infrastructure operation for incremental capacity is scheduled to be completed in the last quarter of 2025.

Given the above, EWRC and RAEWW accept that the presented by ICGB AD and Bulgartransgaz EAD timeline for implementing the project is justified.

#### **6.4. Information and parameters of the economic test (art. 25 and art. 28(1)(d) of Regulation (EU) 2017/459):**

The objective of the economic test of the incremental capacity project is to ensure the economic viability of the project by ensuring that network users demanding capacity assume the corresponding risks associated with their demand to avoid captive customers from being exposed to the risk of such investments – recital 11 of Regulation (EU) 2017/459.

According to art. 22(1) of Regulation (EU) 2017/459 the economic test shall be carried out by the transmission system operator(s) or by the national regulatory authority, as decided by the national regulatory authority, for each offer level of an incremental capacity project after binding commitments of network users for contracting capacity have been obtained by the involved transmission system operators and shall consist of the following parameters: a) the present value of binding commitments of network users for contracting capacity; b) the present value of the estimated increase in the allowed or target revenue of the transmission system operator associated with the incremental capacity included in the respective offer level; c) the f-factor.

With regard to the economic test, EWRC and RAEWW agree that such economic test shall be carried out by ICGB AD at each offer level of the Incremental Capacity Project. Given the result of the technical studies indicated by Bulgartransgaz EAD, namely: that the company should make a limited investment in its gas transmission system, EWRC and RAEWW accept that there is no need for Bulgartransgaz EAD to conduct an economic test. To this end, the economic test parameters are not applicable to this company.

According to art. 22(3) of Regulation (EU) 2017/459 an incremental capacity project shall be initiated if the economic test has a positive outcome on both sides of an interconnection point for at least one offer level that includes incremental capacity. The results of the economic tests shall be made available no later than 2 business days after the closing of the bidding round, simultaneously to individual network users participating in the respective auction – art. 11(10), sentence 3 of Regulation (EU) 2017/459. The outcome of the economic test application shall be positive, where the value of the parameter “present value of binding commitments of network users for contracting capacity” is at least equal to the share of the parameter “present value of the estimated increase in the allowed or target revenue of the transmission system operator associated with the incremental capacity included in the respective offer level” as defined by the f-factor. As per art.25(1) and art.28(1), (d) of Regulation (EU) 2017/459, the parameters of present value of binding commitments of network users for contracting capacity and the estimated increase in the allowed or target revenue of the transmission system operator associated with the incremental capacity, the f-factor, the reference prices and the range of the level for the mandatory minimum premium shall be subject to approval by the relevant national regulatory authority.

#### **6.4.1. Present value of binding commitments of network users:**

The parameter “present value of binding commitments of network users for contracting capacity” shall be calculated as the discounted sum of: the sum of the respective estimated reference prices and a potential auction premium and a potential mandatory minimum premium multiplied by the amount of contracted incremental capacity and the sum of a potential auction premium and a potential mandatory minimum premium multiplied by the amount of available capacity that was contracted in combination with the incremental capacity – art. 22(1) (a) of Regulation (EU) 2017/459.

In connection to the calculation of the present value of binding commitments of network users for contracting capacity at IP Stara Zagora ICGB AD has indicated that in view of the Final Joint Decision, in the part of the specified conditions for conducting the market test for the increase of the IGB pipeline capacity, the reference price for the allocated incremental capacity shall be formed according to the rules of the IGB Tariff Code. In comparison, ICGB AD has indicated that at present the price for a standard product for IGB capacity is at the amount of 0.6055 euros/kWh/d/y, which is formed by the price of entry IP Komotini (Trans Adriatic Pipeline (TAP)/ National Natural Gas System Operator S.A. DESFA)) at the amount of 0.102935 euros/kWh/d/y plus the price of the exit IP Stara Zagora at the amount of 0.502565 euros/kWh/d/y. The company has indicated that the estimated capacity from the non-binding phase will lead to a new reference price that will be used for the Incremental Capacity Project and for the purposes of calculating the present value of the binding commitments of network users. The final reference price shall be set in accordance with the IGB Tariff Code and shall be published on the company's website.

ICGB AD and Bulgartransgaz EAD do not foresee to apply auction premium and mandatory minimum premium.

**6.4.2. Present value of the estimated increase in the allowed or target revenue of the transmission system operator associated with the incremental capacity included in the respective offer level:**

Regarding this parameter of the economic test, the terms of “allowed revenue” and “target revenue” of the transmission system operator are defined in Regulation (EU) 2017/460. Within the meaning of that Regulation, “allowed revenue” means the sum of transmission services revenue and non-transmission services revenue for the provision of services by the transmission system operator for a specific time period within a given regulatory period which such transmission system operator is entitled to obtain under a non-price cap regime and “target revenue” means the sum of expected transmission services and expected non-transmission services revenue for the provision of services by the transmission system operator for a specific time period within a given regulatory period under a price cap regime.

With regards to the above, ICGB AD has indicated that having in mind the Final Joint Decision, the parameter “present value of the estimated increase in the allowed or target revenue of the transmission system operator associated with the incremental capacity included in the respective offer level” shall not be applied for the company.

**6.4.3. F-factor:**

As per the legal definition of that parameter stipulated in Regulation (EU) 2017/459, “f-factor” means the share of the present value of the estimated increase in the allowed or target revenue of the transmission system operator associated with the incremental capacity included in the respective offer level to be covered by the present value of binding commitments of network users for contracting capacity. According to art. 23(1) of Regulation (EU) 2017/459, the level of the f-factor for a given offer level is set taking into account the following: the amount of technical capacity set aside; positive externalities of the incremental capacity project on the market or the transmission network, or both; the duration of binding commitments of network users for contracting capacity compared to the economic life of the asset; the extent to which the demand for the capacity established in the incremental capacity project can be expected to continue after the end of the time horizon used in the economic test.

ICGB AD has applied f-factor equal to 1. The company has justified the proposed amount of this parameter by stating that for the incremental capacity the transmission system operator will apply the IGB Tariff Code. To this end, ICGB AD has indicated that with f-factor 1, the rate of return on the Incremental Capacity Project is calculated to be between 7.9 percent and 8.5 percent. The company also states that the implementation of the Incremental Capacity Project will not lead to a permanent and significant reduction in the use of the existing gas infrastructures at the two adjacent interconnection entry-exit points.

Given the above, EWRC and RAEWW accept that the presented by ICGB AD amount of the f-factor is justified.

**6.5. Exceptionally extended time horizon for contracting capacity for an additional period of up to 5 years (art. 28(1), (e) of Regulation (EU) 2017/459):**

ICGB AD and Bulgartransgaz EAD have foreseen a 5-year extension of the time horizon for contracting capacity beyond the maximum period of 15 years from the date of commercial operation defined in Article 11, paragraph 3, sentence 2 of Regulation (EU) 2017/459.

EWRC and RAEWW accept that a 5-year extension of the time horizon for contracting capacity is justified in view of the effective implementation of the project, which implies the provision of bundled firm capacity in IP Stara Zagora to the maximum extent.

**6.6. Alternative allocation mechanism of the incremental capacity (art. 28(1) (f) of Regulation (EU) 2017/459):**

ICGB AD and Bulgartransgaz EAD have foreseen to apply an alternative allocation mechanism of for the incremental capacity, as well as a possibility for the network users to submit binding conditional bids for contracting capacity.

According to art. 30(2) of Regulation (EU) 2017/459 an alternative capacity allocation mechanism can be used, subject to national regulatory authorities' approval, where it is reasonable to conclude from the market demand assessment or public consultation that the ascending clock auction is not suitable and that the incremental capacity project involves more than two entry-exit systems and during the allocation procedure bids with a duration of more than 1 year are requested. In an alternative allocation mechanism network users may submit binding conditional bids for contracting capacity subject to one or more of the following conditions: a) commitments linking or excluding commitments at other interconnection points; b) commitments across a number of different yearly standard capacity products at an interconnection point; c) commitments conditional on the allocation of a specific or minimum amount of capacity – art. 30(3) of Regulation (EU) 2017/459.

EWRC and RAEWW accept that applying alternative capacity allocation mechanism and binding offers in implementation of the Incremental Capacity Project is justified, due to the fact that the project includes three entry-exit systems: ICGB AD, Bulgartransgaz EAD and DESFA and also due to the fact that in the market demand assessment that was concluded for incremental capacity at IP Stara Zagora non-binding offers with a duration more than 1 year have been received.

**6.7. Fixed price approach (art. 28(1), (g) of Regulation (EU) 2017/459):**

ICGB AD and Bulgartransgaz EAD do not foresee to apply fixed price approach in implementing the Incremental Capacity Project.

**III. Based on the above arguments and on the basis of art. 22 (1), art. 23 (1), art. 25 (1), art. 28 and art. 30 of Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) № 984/2013, the regulatory authorities jointly decided:**

**Approve the document entitled «Project Proposal of Bulgartransgaz and ICGB for the Incremental Capacity Process 2023 for the IP Stara Zagora» as submitted to EWRC and RAEWW by the gas transmission system operators Bulgartransgaz EAD and ICGB AD, requesting ICGB AD to carry out the economic test for each offer level of the incremental capacity project based on the parameters specified in this decision.**