**Terms and conditions for electronic auction of the of gas storage operator, company MND Gas Storage a.s. (hereinafter the “Storage Operator”), for the reservation of the annual storage capacity with fixed output to be held on 30th November, 2016 (hereinafter the “Auction Terms and Conditions”)**

**Legal disclaimer**

This is an unofficial translation. Official documentation for the auction sale is drafted in Czech language. If any discrepancies arise between English and Czech wording, the Czech wording shall prevail.

**Opening clauses**

These auction terms and conditions have been developed in line with valid and effective, generally binding Regulation No. 365/2009 Coll. on the Rules of the Gas Market (hereinafter “Market Rules”), and Code of gas storage operator, company MND Gas Storage a.s. (hereinafter the “Code”), in particular.

Fundamental prerequisite of participation in the auction to be held on 30th November, 2016, under the Auction Terms and Conditions (hereinafter “Auction”), are set in the Code (Part II.). Other matters concerning the Auction which are not specifically governed by these Auction Terms and Condition or the Code, shall be governed by the Market Rules.

**Basic parameters of Auction Terms and Conditions**

*Type of storage capacity reserved*: Annual storage capacity with fixed output under Section 51- 53 of Market Rules

*Date Auction is held*: 30th November, 2016

*Storage period*: 1st April, 2017, 6 a.m. – 1st April, 2022, 6 a.m.

*Storage capacity offered*: 1 010 000 MWh

**1. Method of calculation of the minimum price for the first and following storage years**

Minimal (posted) price for the first storage year is to be determined according to the following equation:

**Ps = ΔS/W + K**

Where:

Ps represents a unit price per a year of provision of the storage services, determined in CZK per 1 MWh of the reserved storage capacity per one storage year;

ΔS/W represents a total average of the winter bid (WB) minus summer offer (SO) indexes considering the decisive time period, and drawn from the Heren European Spot Gas Markets / Germany / NCG Price Assessment (ICIS) Report for respective day of the decisive time period, determined in CZK per 1 MWh, wherein:

* the decisive time period shall mean the first five business days (days for which the abovementioned Heren report provides respective indexes) of each of four calendar month preceding the first day of the storage year (for the first storage year auction the decisive period is December 2016, January – March 2017)
* for the conversion of EUR to CZK, an exchange rate announced by the Czech National Bank for each respective day which WB and SO indexes are drawn from, shall be decisive, this conversion shall be done without rounding,
* the total average of the indexes for the decisive period shall rounded up, so that the final number shall be a whole number;

*An example for ΔS/W calculation for the decisive period of December 2016 – March 2017:*

$∆\_{\frac{S}{W}}=\frac{\left(W\_{B 1.12.}-S\_{O 1.12.}\right) + \left(W\_{B 2.12.}-S\_{O 2.12.}\right)+ \left(W\_{B 5.12.}-S\_{O 5.12.}\right)+ \left(W\_{B 6.12.}-S\_{O 6.12.}\right)+ \left(W\_{B 7.12.}-S\_{O 7.12.}\right)}{20}+\frac{\left(W\_{B 2.1.}-S\_{O 2.1.}\right) + \left(W\_{B 3.1.}-S\_{O 3.1.}\right)+ \left(W\_{B 4.1.}-S\_{O 4.1.}\right)+ \left(W\_{B 5.1.}-S\_{O 5.1.}\right)+ \left(W\_{B 9.1.}-S\_{O 9.1.}\right)}{20}+$

$\frac{\left(W\_{B 1.2.}-S\_{O 1.2.}\right) + \left(W\_{B 2.2.}-S\_{O 2.2.}\right)+ \left(W\_{B 3.2.}-S\_{O 3.2.}\right)+ \left(W\_{B 6.2.}-S\_{O 6.2.}\right)+ \left(W\_{B 7.2.}-S\_{O 7.2.}\right)}{20}+$ $\frac{\left(W\_{B 1.3.}-S\_{O 1.3.}\right) + \left(W\_{B 2.3.}-S\_{O 2.3.}\right)+ \left(W\_{B 3.3.}-S\_{O 3.3.}\right)+ \left(W\_{B 6.3.}-S\_{O 6.3.}\right)+ \left(W\_{B 7.3.}-S\_{O 7.3.}\right)}{20}$

K  represents a progression coefficient – a basis for storage unit price increase within this Auction; for the first round of the Auction the value is set at “- 6 CZK per 1 MWh” (minus six Czech crowns for one megawatthour).

For the second and the following storage years, the abovementioned equation shall be used, with the following conditions:

* ΔS/W shall be recalculated based on the actual data of the new decisive period, ie. for the storage year:
	+ 2018-2019, the decisive period shall be December 2017 – January / March 2018,
	+ 2019-2020, the decisive period shall be December 2018 – January / March 2019,
	+ 2020-2021, the decisive period shall be December 2019 – January / March 2020,
	+ 2021-2022, the decisive period shall be December 2020 – January / March 2021,
* Progression coefficient K shall remain the same for all storage years, ie. based on the outcome of the electronic auction.

All prices are set without VAT, which shall be added as per valid legislation. The price for the services providing alongside the storage shall be set in accordance with the provision of the storage contract (see Point 5. of these Auction terms and conditions).

**2. Auction date**

Auction date has been set for 30th November, 2016, at 10:00 a.m. along with the fact that the applicant must register in the information system of the Storage Operator no later than by 23rd November, 2016, 4:00 p.m., to participate in the Auction.

Auction termination date has been fixed at 3:00 p.m. of the respective day. In the event the Auction at any day does not end (demand overhang) by the Auction termination time (3:00 p.m.), the Auction shall be interrupted. It will then continue in the immediate business days that will follow, and this always at the same time for Auction to start and end until the time the Auction is closed (capacity will be reserved).

**3. The way of provided electronic communications and alternative communications**

Auction will be organized via the secured Internet interface accessible from Storage Operator’s website: [www.gasstorage.cz](http://www.gasstorage.cz) (as per picture instructions).

Should Storage Operator’s auction system (Portal) fail, then the Storage Operator shall notify active applicants in a proper way about such situation, without any undue delay from the time he/she learns about such fact. During such failure the Auction will remain interrupted, and the Storage Operator will give notice of the resumption of Auction to active applicants in the appropriate manner, 30 minutes before its continuation, at the latest. Auction may continue from the last round that went ahead duly, and they managed to record (store) it in auction system, or start again with first round (if information from Auction rounds carried out are not available or applicable).

Should it be that Storage Operator does not manage to put the auction system into operation within 5 working days from its failure, or by 50th working day before first day of the Storage Period for which the Auction has been called, then the Storage Operator has the right to stop the Auction for the period of max 30 calendar days in order to eliminate the error. Storage Operator will disclose the Auction resumption date no later than 5 working days before its continuation.

In case the electronic communications fail over the course of the Auction on the side of applicant, then the alternative way of communication can be used via a fax using +420 518 315 327 along with the fact that the Auction request sent in this communication way must include the following:

* Applicant’s exact identification;
* Auction marking incl. Auction round number for which the request is submitted;
* Level of storage capacity requirement in the manner that corresponds to the Auction Terms and Conditions (in the form of a number rounded off two decimal locations which expresses percentage share in the size of free storage capacity);
* Signature of person authorize to act on the behalf of the applicant.

In the event the applicant is forced to approach this alternative communication, then he/she shall be liable to announce this fact to the Storage Operator, and this via phone No. +420 518 315 186, and such notification shall be made by the end of relevant Auction round (during which failure has occurred) at the latest. Unless applicant makes so, the level of demand in relevant Auction round (where he/she was about to use alternative communication) will be deemed zero. Storage Operator has the right, in case of using alternative communication, to stop the Auction for the period necessarily required for the proper commissioning of alternative communications.

**4. Financial security deposit**

The amount of financial security deposit will be determined depending on applicant’s level of maximal demand for reservation of storage capacity in the Auction, and this in the way as per the formula:

**10 000 CZK per each requested 10 100 MWh of the storage capacity**

(e.g. if applicant aims to request the whole storage capacity offered, the amount of financial security deposit equals to 1 000 000 CZK)

The applicant may fulfil the duty to provide financial security deposit:

1. either by providing original of an unconditional and irrevocable letter of credit to the sum equal to the financial security deposit required, which should be valid at least by 31st December, 2016; or
2. by a wire transfer to the benefit of the account No. 17402743/0300**,** for international wire transfers IBAN: CZ9803000000000017402743, SWIFT: CEKOCZPP; provided with a variable number that equals the National ID No. of the company or day, month and year of the birth for physical persons.

Under Section 52 para. 1 of the Marker Rules, the financial security must be received at least 3 business days before the day of the Auction. Therefore, the financial security deposit must be received by the Storage Operator by 25th November, 2016, 0:00 a.m. (ie. before the start of day). In case of the letter of credit, the day of receipt is the day at which the original of the letter of credit is received by the Storage Operator. In case of wire transfer, the day of receipt is the day at which the amount is credited to the bank account of the Storage Operator.

**5. Gas storage contract sample**

Sample contract for gas storage is included in Annex No. 1 of these Auction Terms and Conditions, and it will be signed with applicants pursuant to the procedure specified in the Code. The Contract will be concluded with those applicants to the Auction who can document the meeting of their financial ability compliant to the Code (for details see Annex No. 1 of the Code), and the storage capacity was reserved for them.

**6. Duration of the gas storage contract**

Gas storage contract to reserve annual storage capacity with fixed output will be signed for the effective term from 1st April, 2017, 6 a.m. – 1st April, 2022, 6 a.m.

**7. Size of free (offered) storage capacity**

Total storage capacity offered in the first and all following years of gas storage (effectiveness of gas storage contract):

* Total storage capacity of 1 010 000 MWh of gas.
* Total max injection output of 12 000 MWh per day.
* Total max withdrawal output of 20 000 MWh per day.

The course of withdrawal output and injection output depends on operating capacity (injection curve and recovery curve) and is given in Annex No. 1 of gas storage contract (refer to point No. 5 of Auction Terms and Conditions). Ratio (size) between max withdrawal and injection output and reserved storage capacity (with regard to Auction result) will be set for the applicant in the same ratio like the total storage capacity against total max withdrawal and injection output.

**8. The level of price increase in between Auction rounds**

The level of increase of price per 1 MWh of operating capacity in between Auction rounds during entire Auction will be + 1 CZK.

Considering the K coefficient (see point No. 1 of the Auction terms and conditions) being a negative initial number, and considering the Market Rules require a growing auction mechanism, the coefficient shall be increased throughout the Auction by the abovementioned amount, which shall in turn lead to a gradual increase of the storage unit price.

**9. Position regarding vertically integrated gas undertakings**

Considering the existing storage contracts, the Storage Operator declares that as of the day these Auction terms and conditions are announced, the Storage Operator does not have a knowledge of any applicant who belongs to the same group of companies as the Storage Operator and will have reserved at least 80 per cent of the overall storage capacity of the Storage Operator whether by itself or in combination with other subjects belonging to the same group of companies as the Storage Operator as of the first day of the storage period for which this Auction is announced (ie. 1st April, 2017).

**10. Total duration of gas storage capacity reservation**

Maximum as well as minimum duration of the offered storage capacity is set by the Storage Operator to 5 years.

**11. Time Schedule**

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| *by 23rd November, 2016, 4:00 p.m.* | Applicants to register for participation in the Auction |
| *by 25th November, 2016, 0:00 a.m.* | Financial security deposit to be received |
| *30th November, 2016, from 10:00 a.m.* | Auction course |
| *Within 8 business days from receiving the confirmation on reservation* | Conclusion of the respective gas storage contract |
| *Within 10 days after Auction is ended* *(if no capacity was reserved for applicant)* | Return of the financial security deposit |
| *Within 10 days from signing of gas storage contract (if capacity was reserved for applicant)* | Return of the financial security deposit |