



# Q&A LIST

## Combined Natural Gas & Storage Capacity Auction 7 March 2023 Gas Storage Denmark A/S

### **1. INTRODUCTION**

This Q&A list comprises the typically asked questions concerning the planned Auction on the 7 March 2023.

Prior to the announcement of the auction, GSD has also announced a new tariff for Variable Injection, which will change from 0.002731 DKK/kWh (approx. 0.36 €/MWh) to 0.004393 (approx. 0.59 €/MWh) per 1 April 2023.

Interested Storage Customers may request GSD to replace the tariff for Variable Injection with an agreement for Flat rate, which is an upfront fixed payment with free cycling facilitating storage utilization for trading purposes. The Flat rate tariff is equal to the Variable Injection Tariff multiplied by a factor, which is set to 1 (one) multiplied by the booked Firm Volume Capacity.

The choice between Variable Injection or Flat rate for winners on the auction on 7 March 2023 depends on the Storage Customer's product and utilization strategy. A seasonal storage product and supply strategy presupposes maximum one churn of the booked storage capacity, which points out to the fact that the Storage Customer will be better off with choosing to pay for Variable Injection rather than Flat rate. A high flex storage product and physical back up of trading activities will justify replacement of the Variable Injection with Flat rate payment as the Storage Customer will most probably churn the storage more than once.

The Flat rate also implies that the Storage Customer starts the injection with zero gas in storage position.

Based on the considerations above, the product offered on the auction on 7 March 2023 involves at least two relevant considerations for potential participants. The below-listed Q&A list is an attempt to clarify these, and other typically asked questions.

In addition, GSD would like to remind that since 1 October 2022, GSD is able to handle payments for Variable Injection and Flat rate concurrently, however, assigned under different Storage Agreements concluded between the Storage Customer and GSD. The solution offered by GSD is based on sub-accounting subject to two different shipper codes and separate nominations per sub-account. GSD considers sub-accounting to be a suitable solution for potential winners on the auction on 7 March under the considerations described in the following Q&A list.

## 2. LIST Q&A

**Q1: Will the tariff for Variable Injection change in already existing Storage Agreements concluded for the period from 1-APR-2023 06.00 a.m. to 1-APR-2024 06.00 a.m. (SY23)?**

**A1:** Storage Customers who have chosen the variable method for payment for the injected amount of Natural Gas, will pay for the injected amount multiplied by the tariff valid at any time. Thus, these Storage Customers will experience that the payment for Variable Injection in April (invoiced in May) will be based on the new tariff for Variable Injection.

**Q2: Will the tariff for Flat-rate change in already existing Storage Agreements concluded for the period from 1-APR-2023 06.00 a.m. to 1-APR-2024 06.00 a.m. (SY23)?**

**A2:** The payments stipulated in already concluded Storage Agreements with GSD, where the Storage Customer has chosen Flat rate, will not change. However, new Storage Agreements concluded after the announcement of the new tariffs on 22 February 2022<sup>1</sup>, will be invoiced with the new tariff for Flat rate.

GSD will use reasonable efforts to show the relevant tariff reference per Storage Agreement on the invoice issued to the Storage Customer.

**Q3: Can the winners on the auction, who have already signed a flat rate agreement on storage volume concluded before the auction, optimize their new acquired Storage Capacity and Natural Gas in the context of their combined portfolio in storage?**

**A3:** Storage Customers, who decide to request Flat rate payment for the Storage Capacity and Natural Gas won on the auction on 7 March 2023 will need to pay for one full churn of the acquired Storage Capacity no matter that the new acquired Firm Volume Capacity is already utilized as the combined product includes Natural Gas.

Therefore, the Storage Customer will need to clarify internally whether it is a better idea to request GSD for variable payment method on a separate sub-account for the product won on the auction on 7 March, or to keep a joint storage account with Flat rate by adding Flat rate payment to the newly acquired storage product.

GSD can support the Storage Customer's decision in both cases.

For the avoidance of doubt, it is free of charge to request multiple accounting in storage and GSD will continue to report REMIT on behalf of the Storage Customer for the total storage position comprising Stored Natural Gas under all sub-accounts assigned to the Storage Customer.

<sup>1</sup> <https://gasstorage.dk/news/2023/02/22/change-in-the-variable-injection-tariff/>

**Q4: Can the winners on the auction, who have not chosen the flat rate before the auction, optimize their new acquired Storage Capacity and Natural Gas in the context of their combined portfolio in storage?**

**A4:** Storage Customers, who have acquired Storage Capacity and Natural Gas on the auction on 7 March 2023 and who do not want Flat rate on the new volume, will be charged for any injected Natural Gas multiplied with the tariff for Variable Injection. I.e. Natural Gas already in storage, such as the Natural Gas won in the auction, entails no further tariff payment for Injection. In this case the newly acquired Natural Gas and Storage capacity will be added to the Storage Customer's existing storage account.

The Storage Customer may also request a Flat rate payment for only the amount won on the auction. In such case, GSD will issue a sub-account to the Storage Customer with the consequences described under Q3 above.

**Q5: How will Storage Customers handle the Danish VAT on the (a) Storage Capacity; and (b) Natural Gas depending on their principal address and VAT registration being in 1) Denmark 2) EU or 3) outside EU?**

**A5:** GSD shall issue different invoices to the Storage Customers for the Storage Capacity and for the Natural Gas.

(a) The VAT on the invoices for Storage Capacity will be handled in the following way:

- 1) Danish-based Storage Customers would have to be charged Danish VAT (25%);
- 2) EU-based Storage Customers fall under reverse charge (no VAT added on the invoice); and
- 3) Non-EU-based Storage Customers would have to be charged Danish VAT (25%), cf. the attached assessment of GSD' external VAT-expert in Deloitte.

(b) Sale of Natural Gas to non-EU customers are taxed in a different way than storage capacity from a VAT point of view, as the place of taxation is where the customer is established, if the customer is a wholesaler. This means that a sale to:

- 1) Danish-based Storage Customers are taxable in Denmark (however under reverse charge due to protective measures);
- 2) EU-based Storage Customers will be invoiced under the reverse charge mechanism (no VAT added on the invoice); and
- 3) non-EU-based Storage Customers are to be invoiced without Danish VAT.

Based on the above there is a significant difference in the VAT treatment when performing sales to Danish or non-EU-based Storage Customers as VAT would in some cases have to be charged.

Subsequently, the non-EU-based Storage Customers may apply for a refund of the VAT from the Danish Tax Authority (SKAT). More relevant information about the refusion process is available in the link <https://skat.dk/data.aspx?oid=2244396>

**Q6: What should the Price offered on the auction cover and how the winning Bidding Price will be split between Storage Capacity and Natural Gas?**

**A6:** The participants in the auction must submit a completed Bidding Sheet with notified "Volume" and "Price" for every Bid. The offered "Price" must correspond to the SUM of the offered price for the Natural Gas plus 3.62 €/MWh for the Storage Capacity.

For example, if a Storage Customer wins a Bid with the Price of 48.00 €/MWh, the Storage Customer and GSD will enter into the following agreements:

- (a) A Standard Storage Agreement for the Storage Capacity (Appendix I), where the agreement price will be 3.62 €/MWh; and
- (b) A Natural Gas Agreement for the Natural Gas (Appendix II), where the agreement price for the commodity will be 44.38 €/MWh (48.00 – 3.62).

8th of November 2022

## Gas Storage Denmark

### VAT treatment of Gas storage services in Denmark.

#### **Background**

Gas Storage Denmark offers gas storage services to customers in Denmark, the EU, and outside the EU. The service allows the gas supplier to store gas in Denmark. Gas Storage Denmark issues invoices including Danish VAT for these services if the buyer of the service is established outside the EU, which customers have questioned on different occasions.

To clarify the VAT treatment and invoicing of storage services performed in Denmark to suppliers of gas established outside the EU, we were asked to assess the gas storage service from a VAT point of view.

This memo describes the VAT treatment of storage services, and the invoicing procedure for suppliers of gas established outside the EU by assessing the rules.

#### **VAT assessment**

To determine the place of supply of services provided to a taxable person, the basis is that the place of supply is where the customer is established, as stated in EC VAT directive (2006/112) article 44. However, this rule only applies unless a special law deems the place of supply (where VAT is paid) to be in another country. Thus, there are several derogations to the general rule in article 44.

To avoid double taxation, non-taxation, or distortion of competition, there is a possibility for member states to implement the use-and-enjoyment criteria stated in EC VAT directive (2006/112) article 59a, which means that the place of supply for certain types of services is moved, when specific criteria are fulfilled.

According to article 59a, paragraph 1 the criteria for use-and-enjoyment can be applied to services listed in EC VAT directive (2006/112) article 59, paragraph 1, a-h. Article 59, paragraph 1, h) covers services described as:

*“The provision of access to a natural gas system situated within the territory of the Community or to any network connected to such a system, to the electricity system or heating or cooling networks, or the transmission or distribution through these systems or networks, and the provision of other services directly linked to it.”*

Denmark has chosen to implement the article quoted above in the Danish VAT act § 21 d and must therefore be considered when invoicing.

The use-and-enjoyment criteria are, as shown above, applicable for services consisting of the provision of access to, and of transport or transmission through, natural gas and electricity distribution systems and the provision of other services directly linked to it.

Storage services of gas, in a storage facility connected to the gas distribution system, is considered as “other services directly linked to” providing access to and transport or transmission through the gas distribution system. As the storage is performed in Denmark, the use-and-enjoyment of the service is therefore deemed to be in Denmark, which means that the place of supply is moved to Denmark if Gas Storage Denmark provides this service to a non-EU company.

## **Invoicing**

Due to the use-and-enjoyment criteria applicable to storage services, and the fact that the storage is performed and takes place in Denmark, the services are subject to Danish VAT, which has also been the way Gas Storage Denmark has VAT treated services for several years. Moreover, we note, that we have had dialogue with the Danish Tax Agency on other types of services related to the gas distributions system, where they have widely demanded that services linked to the gas distribution system are invoiced with Danish VAT.

Gas Storage Denmark is therefore obliged to invoice customers established outside the EU with Danish VAT, which means that 25 % VAT is added to the invoice.

Non-EU customers can apply for a VAT refund from the Danish Tax Agency via this link: [Refund of Danish VAT to foreign businesses domiciled outside EU - Skat.dk](#)

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