



Incremental capacity between Malta and ITALY

Public consultation documentation

This document is published on the national transportation system operator's website in accordance with Chapter V of Regulation (EU) No 2017/459 of 16 March 2017.



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Introduction

Commission Regulation (EU) 2017/459 of 16 March 2017 (hereinafter referred as the “Regulation”) establishes a harmonised Union-wide process for the offer of incremental capacity across Union borders.

The Italian gas transmission system operator Snam Rete Gas S.p.a. (hereinafter referred as “SRG”) and the Maltese gas transmission operator Melita TransGas Co. Ltd (hereinafter referred as “MTG”) has received on 26 August 2019 non-binding demand indications for the realisation of incremental capacity aimed at interconnecting the Malta and Italian gas systems, as described in the following chapter A.

On 21 October 2019, according to the process set in article 26 of the Regulation, SRG and MTG have jointly published the Demand Assessment Report (“DAR”) of the received request with the conclusion to initiate an incremental capacity project for the potential creation of an interconnection between Malta and Italy.

This document has been jointly prepared by SRG and MTG in accordance to the provisions set in article 27 comma 3 of the Regulation to conduct a consultation on the identified draft project proposals to fulfil the received requests.

All interested subjects are invited to send their comments and proposals to this document in written form to the list of contacts provided on the last page of this document by next 13th March 2020.



A. Description of the incremental capacity project and relative cost estimate

A.1. Market demand for incremental capacity

The following non-binding demand indications have been received by SRG and MTG in the eight weeks following the starting date of the Incremental capacity process on the 1st July 2019 and consequently considered in the design phase of the incremental capacity project. No further requests have been received until this Consultation Document publication date.

From [entry-exit system name] “EXIT CAPACITY”	To [entry-exit system name] “ENTRY CAPACITY”	Gas year [yyyy/yy]	Amount [Please indicate unit: (kWh/y) or (kWh/d)]	Request is submitted to both TSOs [yes] or [no] (detailed information shall be provided below)	Period when Demand Indication was received ¹ [please include the period according to the numbers 1) - 3]]	Additional Information
SNAM Rete Gas	Melita TransGas	2025/39	56,000,000 kWh/d	Yes	2	Capacity based on a GCV of a 38.4 MJ/Sm ³ for a flow of 218.752 Sm ³ /hr

¹ The following standardised period shall be used for indicating the receiving date of the demand indication:

- 1) later than eight weeks after the annual yearly capacity auction in the previous incremental capacity cycle, that have not been considered previously;
- 2) within eight weeks after this year’s yearly capacity auction (0 – 8 weeks after yearly auction in year);
- 3) later than eight weeks after this year’s yearly capacity auction, but that will be considered in this incremental capacity cycle (9 – 16 weeks after yearly auction in year).



A.2. Description of the Incremental Capacity Project

On the basis of the capacity requests received in the non-binding demand indication phase, SRG and MTG have developed in coordination a preliminary technical study identifying a project for a new infrastructure to transport gas from Italy to Malta.

The TSOs will design the potential new infrastructures on the basis of the technical best practices and taking into account city planning and the environmental constraints. In particular, the studies for the pipelines layout will be developed with the aim of reducing at the possible minimum level the environmental impacts excluding the most significant areas for environmental aspects. The pipelines design will evaluate different alternatives and develop the best one in terms of environmental sustainability. The project that will be proposed at the end of the design phase will represent the synthesis of the analysis carried out to minimize the environmental impacts and will represent the best design solution to optimize costs and duration for realizing the new infrastructure.

In general terms, the project consists of an onshore interconnection with the existing Italian network in the area of Gela in Sicily and an offshore pipeline from Gela to Malta. The configuration of infrastructural development is described below:

- onshore infrastructure in Italy:
 - SRG Terminal Station in the area of Gela connected to the existing Italian network
 - MTG Terminal Station in the area of Gela (adjacent with SRG Terminal Station)
 - MTG onshore pipeline from the Terminal Station to the Italian coast, 7km,
- offshore infrastructure: MTG offshore pipeline from the Italian coast to Maltese coast, 151 km,
- onshore infrastructure in Malta:
 - MTG onshore pipeline from Maltese coast to the Terminal Station, , 600m
 - MTG Terminal Station in the area of Delimara (adjacent with the power plant)

Based on the above assumptions, a preliminary estimation of the overall project cost is:

- around 8 million € for the SRG infrastructure



- around 410 million €² for the MTG infrastructure.

B. Offer Level

Considering, the non-binding requests received and according to the project configuration described above it will be possible to propose two offer levels as bundled firm capacity at the interconnection point between Italy and Malta. SRG and MTG agreed to offer an additional offer level compared to the level published in the Demand Assessment Report, in order to give to the shippers a higher degree of flexibility.

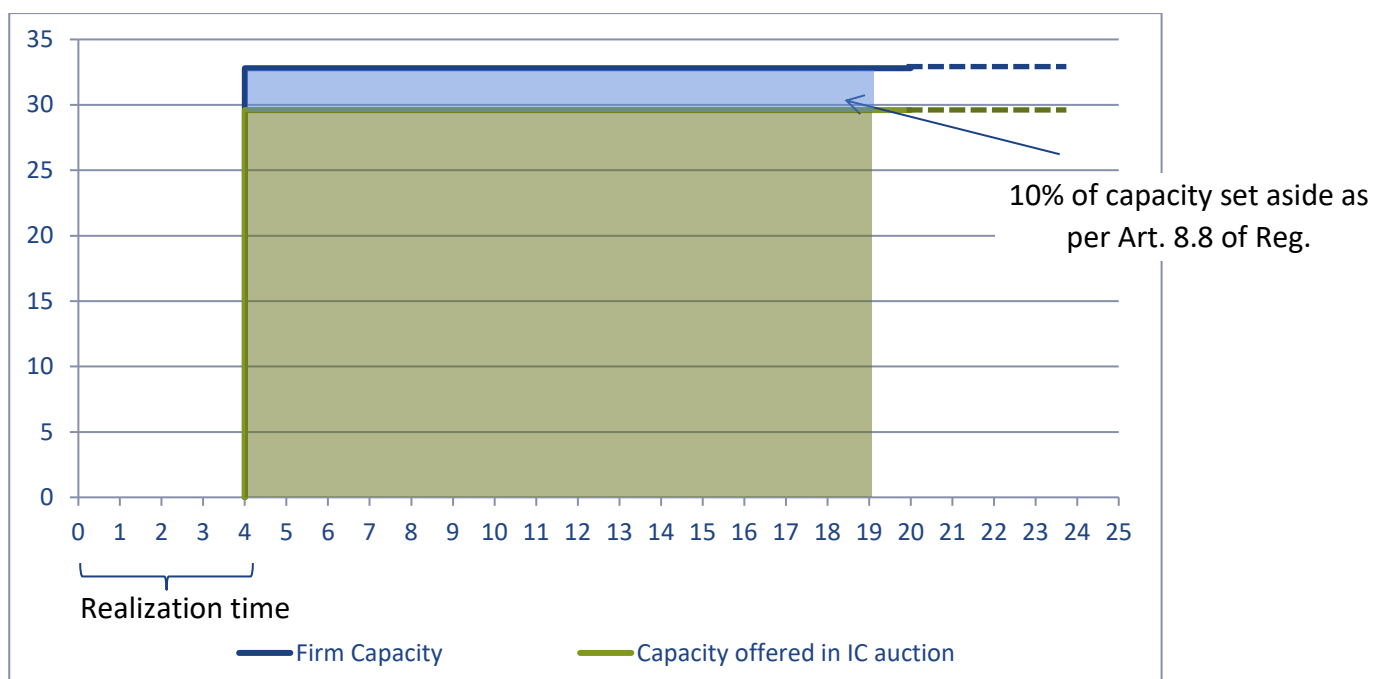
SRG and MTG propose to set aside 10% of the incremental capacity as per article 8.8 of the Regulation.

B.1 Offer level I

The realization of the infrastructure as described in paragraph A.2 will enable the creation of a transmission capacity at the interconnection point of about 32,8 GWh/d of firm capacity from Italy to Malta. Considering a 10% of incremental capacity to be set aside as per article 8.8 of the Regulation, the first offered capacity level for a duration of up to 15 years will be approximately 29,6 GWh/d as shown in the following picture.

	GWh/d	M ³ /d	MNm ³ /d
Firm Capacity	32,8	3,38	3,21
Offered Capacity	29,6	3,05	2,89

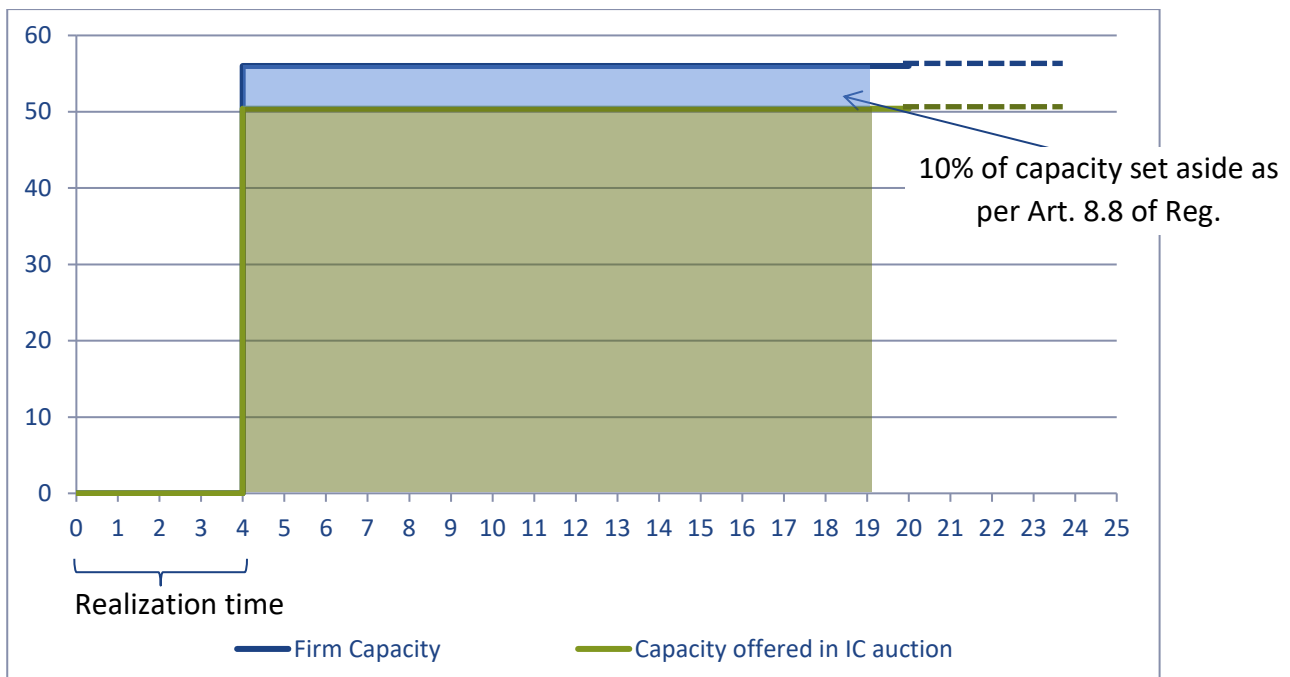
² The satisfaction of Offer level 2 requires further studies to better identify the infrastructural interventions. Consequently, the estimated costs may increase accordingly.



B.2 Offer level II

The realization of the infrastructure as described in paragraph A.2 will enable the creation of a transmission capacity at the interconnection point of about 56 GWh/d of firm capacity from Italy to Malta. Considering a 10% of incremental capacity to be set aside as per article 8.8 of the Regulation, the first offered capacity level for a duration of up to 15 years will be approximately 50,4 GWh/d as shown in the following picture.

	GWh/d	M ³ /d	MNm ³ /d
Firm Capacity	56,0	5,77	5,48
Offered Capacity	50,4	5,19	4,93



C. Alternative allocation mechanism

According to the received demand indications and the assessment performed by SRG and MTG, the conditions required for the application of an alternative allocation mechanism as defined in article 30 of Regulation are not fulfilled.

D. Provisional Timeline of the incremental capacity project

This chapter describes the proposed timeline for the conclusion of the incremental capacity project and an estimate of the possible duration of realization of the new incremental capacity.

D.1. Incremental capacity cycle timeline

The public consultation on the incremental capacity project will be open until the 13th March 2020.

The Design phase will be finalized in November 2020 at the latest and it will be concluded with the submission of all the relevant documentation to the Italian and Maltese NRAs for their evaluations and approval. In case of coordinated approvals of the proposed project by the NRAs, an allocation notice is expected to be published in May 2021 and the incremental capacity to be offered in the July 2021 annual yearly auctions.



D.2. Duration of project realization

The duration of the activities to build the new capacity will take approximately 4 years after the positive outcome of the economic test(s) both on Italian and Maltese sides, the conclusion of the incremental capacity procedure with approval by the respective NRAs and the subscription of the Transportation Contract with the respective TSOs. Should any delay in the project realization occur, they will be treated in accordance with the contractual clauses described in paragraph E.

E. General rules and condition for binding phase

This paragraph describes the general rules and conditions which the involved TSOs intend to apply to participate and access capacity in the binding capacity allocation phase. The rules and conditions are described below for SRG and MTG and have been coordinated to extent possible, also taking into account their respective regulatory frameworks.

Access to the transportation service on the respective TSOs systems is permitted impartially and on equal conditions to all parties that possess specific requirements as shown below, be they physical or legal entities.

Where not differently expressed, for the purpose of the present document, the definitions of the Network Code or General Terms and Conditions³ of the respective TSOs shall apply.

Transportation capacity will have to be booked on a common capacity platform, according to Regulation 2017/459 (Art. 37), jointly identified by the concerned TSOs.

E.1. Yearly Auction Participation

The procedure which will be used by SRG to auction the incremental capacity is described in paragraph 2 of the Attachment 5/U of the SRG Network Code.

MTG will implement a similar procedure, that will be described in the MTG Network Code, with the aim to make possible a bundled capacity auction with uniform rules.

Any statement of possession of requirements (requests, commitments, declarations or acceptances), as well as any request/communication or expression of will, made by the Shipper, including via the relevant functionality of the Transporter's website or the jointly identified capacity platform, constitutes a formal obligation and commitment on the part of the Shipper, which accepts – even in respect of third parties – any and all liability arising from any breaches/errors or omissions.

Parties intending to participate in the transportation capacity booking process must:

- a) be enabled to operate on the jointly identified capacity Platform;

³ The relevant Network Codes or General Terms and Conditions of the Maltese TSO are currently in their drafting stage and will be made available to the interested shippers with the Allocation Notice.



b) transmit a bank guarantee, such described below.

The shipper must present to concerned TSOs a bank guarantee before the yearly auction starting date process, cashable at first request:

- 1) to SRG, equal in value to 20% of the maximum annual capacity charge and issued by an Italian financial institute or Italian branch of a foreign bank.
- 2) to MTG, equal in value to 2% of the maximum annual capacity charge and issued by a Maltese financial institute or Maltese branch of a foreign bank.

SRG and MTG will publish on their own website the value of the capacity charge referred to the incremental capacity project (in case of a new interconnection the value will be an estimation).

Shipper accepts that:

- booking capacity referred to incremental capacity process is subject to the economic test(s) described into Chapter 5 of the Regulation (UE) 2017/459;
- in case of a negative outcome of the economic test(s), SRG and MTG will give back the bank guarantees referred to point b) and no transport capacity will be contractually defined;
- in case of a positive outcome of the economic test(s) the Shipper shall subscribe in a Transportation Contract and transmit to SRG and MTG a bank guarantee as described below;
- if the Shipper does not sign the Transportation Contract, it shall pay a penalty to SRG and MTG equal to the value of the bank guarantees referred to point b).

Bids by the Shipper will be accepted only within the limits of the guarantees which have been presented by the TSOs according to point b). The positive outcome of the auction will be subject to the fulfilment of the required contractual obligations of both TSOs involved in the incremental capacity project.

The binding commitments of network users for contracting capacity, including whether the conditions for a repeated auction pursuant to Article 29(3) of the Regulation are met, will be made available no later than the next business day after the closing of the bidding round to all Shippers participating in the respective auction. The results of the economic test(s) will be made available no later than 2 business days after the closing of the bidding round to all Shippers participating in the respective auction.

In case no Offer Level results in a positive outcome, the incremental capacity process is terminated.

E.2. Transportation Contract

In case of a positive outcome of the economic test(s) described in Chapter V of the Regulation, the Shipper is bound to the commitments expressed in relation to the successful Offer Level and SRG and MTG will send to the Shipper the respective Transportation Contract to be subscribed within 30 days.



It is intended that the final positive outcome of the economic test(s) leading to the realization of the incremental capacity project is subject to the subscription of the Transportation Contract(s) by all the Shipper(s) with successful binding commitments.

Shipper shall present to the concerned TSOs by the above deadline bank guarantees, cashable at first request:

- 1) to SRG, equal in value to the amount required in SRG Network Code (Chapter 5 Paragraph 1.3.4 and 1.3.5) and issued by an Italian financial institute or Italian branch of a foreign bank.
- 2) to MTG, the value will be defined the MTG Network Code, that will be made available to the interested shippers with the Allocation Notice. The value of the bank guarantee shall not exceed the maximum of the annual capacity charge and shall be issued by a Maltese financial institute or Maltese branch of a foreign bank licensed to operate in Malta and acceptable to the Maltese TSO. The bank guarantee will be subject to the provisions of Maltese law;

The guarantee shall remain valid for the entire duration of the Transportation Contract, with an expiry date at the end of the sixth month following the end of the transportation contract.

If Shipper doesn't subscribe the Transportation Contract it shall incur the penalty described in paragraph E.1.

With the Transportation Contracts subscription Shipper is required to pay to SRG and MTG all the applicable transmission charges with start date from the date the capacity is made available and for full duration of the Transportation Contract.

E.3. Progress of the project, lack of permits, delays in making available transportation capacity

SRG in coordination with MTG, will share with the relevant Shippers the progress of the incremental capacity project.

By signing the Transportation Contract, the Shipper agrees that, if the authorizations, permissions and servitudes necessary for the construction phase of the project are not obtained or are delayed the execution times will be considered correspondingly protracted, without any liability to the TSOs.

It is stated, as an example and not exhaustive and therefore non-binding for SRG and MTG, that for permits are intended all the authorizations, the servitudes and the legal obligations necessary for the construction phase.

E.4. Force Majeure

For SRG, with reference to "Force Majeure", particularly concerning the treatment of possible delays in the provision of capacity or the event of a disruption of the project, the conditions defined in SRG Network Code chapter 19.4 apply.



For MTG, “Force Majeure” will be defined in the MTG Network Code or General Terms and Conditions that will be made available to the interested shippers with the Allocation Notice. Until then, same definition in the SRG Network Code described above shall apply.

F. Element IND and RP for fixed price approach

Consistently with the respective tariff regulatory frameworks in place, SRG proposes to apply the respective floating applicable payable price derived from its respective reference price methodology also to the incremental capacity.

Likewise, MTG proposes to apply the floating applicable payable price derived from the reference price methodology, currently under preparation and which will be made available to the interested shippers with the Allocation Notice.

Both TSOs are therefore not considering the adoption of a fixed price approach and consequently elements IND and RP foreseen by Regulation 2017/460 are not relevant.

G. Level of user commitments (F factor)

This chapter describes the preliminary TSOs proposal for the level of the user commitments (f-factor) to be considered in the execution of the economic test(s) envisaged in articles 22 and 24 of the Regulation.

A final proposal by the TSOs on the level of f-factor(s) will be submitted to the Italian and Maltese NRAs at the end of the design phase in accordance with the provisions of article 28.1 of the Regulation.

The f-factors used to perform the economic test(s) will be finally set by the Italian and Maltese NRAs according to article 28 of the Regulation.

G.1. Economic test parameter for the Italian Project

The preliminary levels of user commitments (f-factor) proposed for the individual economic test on the Italian side is 1.

G.2. Economic test parameter for the Maltese Project

The preliminary levels of user commitments (f-factor) proposed for the individual economic test on the Maltese side is 0.8

G.3. Economic tests



Subject to approval of the Italian and Maltese NRAs, in order to facilitate the offer of bundled capacity products, SRG and MTG will implement the f-factor parameters in two separate economic tests in the following stages of the incremental capacity process according to provisions of article 24 of the Regulation.

In order to proceed with the subscription of the Transportation Contract(s) by all the Shipper(s) with successful binding commitments, the outcome of both economic tests has to be positive.

H. Additional demand Indication

By the publication date of this consultation document, no further demand indications have been received after the deadline of the non-binding phase for incremental transmission capacity between Malta and Italy.

I. Decrease in the utilisation of other non- depreciated gas infrastructure

I.1. Implication for the Italian system

The incremental capacity commissioning will not determine a decrease in the utilisation of other gas infrastructure in the Italian or in adjacent entry-exit systems.

I.2. Implication for the Maltese system

This is not applicable for the Maltese gas infrastructure system.

Contact information

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