

24th June 2022

Dear Sir,

Melita TransGas Pipeline – Formal feedback on Criteri Di Regolazione Tariffaria Per Il Servizio Di Trasporto E Misura Del Gas Naturale Per Il Sesto Periodo Di Regolazione.

With reference to the official publication of the first consultation document by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA) on the new gas transmission tariff (<https://www.arera.it/it/docs/22/213-22.htm>) for the period 2024-2027 dated 17th May 2022, InterConnect Malta Ltd (ICM) is submitting the following feedback:

ICM positively notes that following its formal request dated 29th March 2021 (ANNEX I), ARERA is proposing a 50% discount to the future Gela exit point towards the Melita TranGas pipeline (MTGP) on the basis of Article 9(2) of the EU Regulation 2017/460 establishing a network code on harmonised transmission tariff structures for gas (TAR NC Regulation) under Clause 21.17, namely:

21.17 Nello specifico, considerando una capacità prevista in conferimento al punto di uscita presso Gela pari a 5,05 MSm³/g (pari al 90% della capacità tecnica complessiva del progetto), è stimabile, con gli attuali criteri, un corrispettivo di uscita presso Gela compreso tra 4 e 6 €/a/Sm³/g, e un effetto sugli altri corrispettivi di uscita pari a circa -0,4%.

21.18 L'Autorità intende valutare la possibilità di applicare uno sconto pari al 50%, che renderebbe il corrispettivo di uscita presso Gela compreso tra 2 e 3 €/a/Sm³/g, e determinerebbe un effetto sugli altri corrispettivi di uscita pari a circa -0,2%.

However, ICM notices that the resultant discounted tariff of 2 to 3 €/annum/Sm³/day is based on 90% of the maximum design capacity of MTGP (i.e. 90% of 2Bcm/year => 5 MSm³/day).

We would like to point out that the maximum guaranteed operational capacity that can be booked by the shipper/s is much lower than the maximum design capacity given that the minimum guaranteed exit pressure at Gela is of 50 Barg as stipulated in the Network Code of Snam Rete Gas S.p.A. (SRG). At this exit pressure, the maximum guaranteed operational capacity of the MTGP is 126,960 Sm³/h as determined in the Front End Engineering Design (FEED) study on the MTGP for Natural Gas completed in 2020, and confirmed in the revised Demand Indications submitted by the shipper (ANNEX II) as part of the Incremental Capacity procedure in 2020. This is also reflected in the entry/exit capacity data submission of Project of Common Interest (PCI 5.19) to the Ten Year Network Development Plan (TYNDP 2022) of the European Network of Transmission System Operators for Gas (ENTSOG).

We therefore kindly ask you to amend Article 21.17 of the consultation document such that the undiscounted tariff of 4 to 6 €/annum/Sm³/day corresponds to the maximum operational capacity of 2.74 MSm³/day (i.e. 90% of 126,960 Sm³/hr or 1.1 BCM/year) instead of the stated 5 MSm³/day. We have no comments to Article 21.18 and this article can be retained as proposed with a resultant discounted tariff of 2 to 3 €/annum/Sm³/day (i.e. 50% discount) but based on the new the maximum operational capacity of 2.74 MSm³/day.

Whilst thanking you for your efforts in considering the exit tariff discounting, we trust you will look into the matter above favourably and remain available for any further clarifications on this matter as required.

Yours faithfully,

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ANNEX I – Letter from ICM dated 29th March 2021

ANNEX II – Demand Indications from Shipper

29 March 2021

Dear Sir,

Melita TransGas Pipeline – Request for discounting of the exit tariff at the prospected exit point in Gela, Sicily

We write in relation to the tariff proposed by Snam Rete Gas S.p.A. (“**SRG**”) for the use of the prospected exit point of the Italian natural gas network situated at Gela, Sicily, for the transportation of natural gas between Italy and Malta through the proposed Melita TransGas Pipeline project (“**MTGP**”).

As you may know, in April 2019, Melita TransGas Company (“**MTGC**”), in agreement with SRG, prepared and submitted the Investment Request documentation to the Italian Regulatory Authority for Energy, Networks and Environment (“**ARERA**”) and to the Maltese Regulator for Energy and Water Services (“**REWS**”). Following their respective assessment of the relevant documentation, ARERA and REWS issued the Cross-Border Cost Allocation decision (“**CBCA**”) in June 2019. In that context, MTGC had put forward and had discussed with SRG, ARERA and REWS, an exit tariff of EUR1.69/year/smc/day based upon the consumer exit tariff applied in Southern Italy (i.e. in the exit point *Meridionale*). This assumed tariff was applied for the calculation of the Saved Cost of Supply Benefit for Italy in the cost-benefit analysis as part of the Investment Request and subsequent CBCA decision.

Given this background, and in the context of the Incremental capacity procedure launched in July 2019, we were recently informed by SRG that the tariff for the Gela exit point would need to be revised upwards to EUR5.2/year/smc/day (i.e. by a margin in excess of 200 per cent.), pursuant to ARERA's Resolution 114/2019/R/GAS, which was issued on 28th March 2019 upon the basis of EU Regulation 2017/460 establishing a network code on harmonised transmission tariff structures for gas ("**TAR NC Regulation**").

The application of an exit point tariff level of EUR5.2/year/smc/day would result in an increase of the annual gas transportation costs by around EUR10,705,500 for a prospective shipper. This tariff is not only the highest capacity tariff in the Italian network (considering both entry and exit points), but most likely takes a place within the top three highest tariffs in the EU. As such, it is very likely that it will distort cross-border trade.

From the shipper's perspective the total capacity tariffs to be incurred for the MTGP transmission tariff and SRG exit tariff does not appear to be financially viable compared to the current situation even when considering any future grants or subsidies. This may result in project cancellation and in turn result in Malta remaining isolated from the EU gas market.

The need to end Malta's natural gas isolation is provided for in Article 170(2) of the Treaty on the Functioning of the European Union ("**TFEU**"), which lays down the obligation of the EU to promote interconnections and to ensure that islands are interconnected with mainland Europe. It was pursuant to Article 170 TFEU that the MTGP project was selected as a "Project of Common Interest" in all PCI lists to date (with the latest one issued in 2019). Moreover, the EU Council's Conclusions (EUCO 2/11) of 4 February 2011, acknowledged that "[N]o EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections." (paragraph 5). Moreover, one of the objectives of the TAR NC Regulation is to "provide incentive for investments and to maintain or create interoperability for transmission networks" (European Commission, Executive Summary of the Impact Assessment ((SWD(2017) 106 final), page 2).

Our proposal is to consider a discount pursuant to Article 9(2) of the TAR NC Regulation, which provides for discounts on transmission tariffs applied to exit points to infrastructure, which are established with the view to ending the isolation and ensuring security of supply of peripheral Member States. This objective has also been endorsed by Your Authority (see page 23 of Resolution 114/2019/R/gas, which states that "*in relation to the treatment of isolated transmission networks, the priority is to guarantee the compliance with the principles of the underlying costs and non-discrimination between the various users of the system, also in line with the requirements of the TAR Network Code by virtue of which the cost of constructing these isolated transmission networks is allocated exclusively to the users of these networks*"). Moreover, it would be consistent with the approach taken by the European Network of Transmission System Operators for Gas (ENTSO-G), which has stated in its 2019 Implementation Document for the Network Code on Harmonised Transmission Tariff Structures for Gas that such discounts "*would enable MSs to avoid a situation where they would be fully dependent on one existing infrastructure or supply source*" (page 68).

It should also be highlighted that the European Commission acknowledges that Malta is currently physically isolated from the EU gas transmission system and that the current LNG

supply to Malta through a Floating Storage Unit (FSU) is considered as a temporary solution until the island is connected to the trans-European gas network through a physical pipeline connection. This has been corroborated by past and ongoing PCI selection processes, where the MTGP pipeline has been confirmed as a PCI project specifically upon the basis on the ending of physical isolation criterion. The fact that the current FSU is considered as a temporary solution has also been acknowledged in its State Aid Decision of 2017 and also in the TYNDP 2020 CBA methodology, which considers that gasification of Malta and ending of the island's gas isolation will only be realised through a gas pipeline connection.

In the light of the above, we would be grateful if ARERA could start investigating an appropriate mechanism for a discount on the basis of Article 9(2) of the TAR NC Regulation, whereby the Gela exit point tariff of EUR5.2/year/smc/day proposed by SRG is discounted and aligned with the exit tariff of EUR1.69/year/smc/day assumed for the Investment Request/CBCA decision of 2019.

As we trust you will understand, the implementation of a project with the scale and value of the MTGP project requires certainty and long-term predictability as regards the applicable tariffs. In this light, we would also wish to discuss with you the possibility of an affordable and stable exit tariff mechanism for the specific exit point at Gela/Sicily.

We look forward to discussing our concerns outlined above at your earliest opportunity.

Yours faithfully,

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Date: 12th March 2020

Subject: Incremental Capacity Between Malta and Italy - Comments on the Public Consultation Documentation

Reference is being made to the non-binding demand indications submitted by Enemalta to Snam Rete Gas ("SRG") and to Melita TransGas Company ("MTG") on the 26th August 2019 in reply to the demand assessment phase of the Incremental Capacity process launched on 1st July 2019 and in line with the provisions of Article 26 of Commission Regulation (EU) 2017/459 for establishing new interconnection points.

In response to the Public Consultation documentation published by SRG and MTG with regards to the incremental capacity between Malta and Italy; and more precisely to the offer levels mentioned by the relative TSOs in the public consultation document, Enemalta is kindly notifying that the non-binding demand indication for forward firm capacity for interconnection point Gela (Italy) SRG – MTGP (Malta) submitted in Annex 2 is being revised as follows:

FROM		TO		THERMAL YEAR	CAPACITY	REQUEST SUBMITTED TO OTHER TSOs	CONDITIONS [Ref. Art. 26 Par.9 of Regulation]	NOTES
EXIT CAPACITY		ENTRY CAPACITY						
ENTRY-EXIT SYSTEM	EXIT POINT NAME	ENTRY-EXIT SYSTEM	ENTRY POINT NAME	[YYYY/YYYY +1]	[AWh/d]	(If positive answer, please indicate the ISO's name) (use notes field to give more detailed information)		
SNAM Rete Gas	Gela (Italy) SRG- MTGP (Malta) Interconnection Point	Melita TransGas	Gela (Italy) SRG- MTGP (Malta) Interconnection Point	2025/2026	29,520,000	SNAM Rete Gas (in the document sent to MTG) Melita TransGas (in the document sent to SRG)		Capacity based on a GCV of 34.9 MJ/Sm3 for a flow of 126,900 Sm3/hr



We remain available for any clarification or additional information you may need.

Kind regards

A handwritten signature in dark ink, appearing to be 'J. J. J.', is written over a faint, light-colored rectangular stamp or watermark.