

**Incremental capacity:  
SRG, TAP and DESFA**

**Joint Public Consultation of the draft  
Project Proposal**

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**Disclaimer**

All readers should note that the information and processes outlined in this document have been provided in good faith, but are indicative and remain subject to further review and updating by each of TAP, DESFA and SRG.

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## Introduction

Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems (“Regulation”, also referred to as “CAM NC” and “NC CAM”) establishes a harmonised European Union wide process for the offer of incremental capacity between Member States. EU NC CAM becomes applicable in Albania as a Contracting Party to the Energy Community Treaty from 28 February 2020.<sup>1</sup>

The rules for the allocation of capacity for this Incremental Capacity Project as set out in this document also consider the specific regulatory framework of TAP according to the Final Joint Opinion (FJO) of the Energy Regulators dated 6 June 2013.

TAP is exempted from certain provisions on third party access, regulated tariffs and ownership unbundling of Directive 2009/73/EC, subject to terms and conditions set by the FJO. The FJO was issued by the National Regulatory Authorities of Italy (ARERA), Greece (RAE) and Albania (ERE), collectively referred to here as the Authorities.

The exemption from regulated tariffs and ownership unbundling also applies to TAP’s Expansion Capacity (being capacity made available in the TAP Transportation System in addition to the Initial Capacity, up to 10 BCMA). Expansion Capacity is offered in compliance with the third-party access principles of Regulation (EU) 715/2009. Thus, the Expansion Capacity of TAP will be offered following the capacity allocation rules as set by the CAM NC to the extent they do not conflict with the FJO (as per paragraph 4.6 of the FJO) and consequent tailor-made regulatory framework as summarised in Annex I.

Following the launch of the Incremental Capacity Process on the 1<sup>st</sup> of July 2019, Trans Adriatic Pipeline (**TAP**), Snam Rete Gas (**SRG**) and DESFA have received non-binding demand indications and procured a joint Demand Assessment Report (DAR), which was published on the 21<sup>st</sup> of October 2019 with the conclusion that there was sufficient indicative demand to initiate an Incremental Capacity Project.

This document has been jointly prepared by SRG, DESFA and TAP in accordance with the provisions set in article 27 (3) of the Regulation to conduct a consultation on the identified draft project proposals to meet the received indicative demand requests.

The Incremental Capacity Project described herein concerns five Interconnection Points (IPs) along the route of the Trans Adriatic Pipeline (TAP), being: Kipoi (TAP-TANAP), Nea Mesimvria (GR), Korca (AL), Fier (AL), and Melendugno (IT).<sup>2</sup>

In particular, the Incremental Capacity Project comprises the following:

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<sup>1</sup> With TAP’s specific regulatory framework, this document also describes TAP proposed specific rules for the binding phase in accordance with the Guidelines for the 2019 Market Test - [https://www.tap-ag.com/assets/07.reference\\_documents/english/Market%20Test/Guidelines%20for%20the%202019%20Market%20Test%20of%20TAP.pdf](https://www.tap-ag.com/assets/07.reference_documents/english/Market%20Test/Guidelines%20for%20the%202019%20Market%20Test%20of%20TAP.pdf)

<sup>2</sup> Albgaz is not formally part of the process. We further note that IP of Komotini is not considered in this document, as only non-binding requests for CRF were received for that IP (see pages 9 and 10 Demand Assessment Report).

- Incremental capacity offered jointly by TAP and SRG at the IP of Melendugno as a bundled capacity product.
- Incremental capacity offered jointly by TAP and DESFA at the IP of Nea Mesimvria as a bundled capacity product. Unbundled capacity may also be allocated, but only on DESFA side.
- Incremental capacity offered by TAP at the IPs of Kipoi, Korca, Fier as unbundled capacity products on the TAP side of the IP<sup>3</sup>.



This Incremental Capacity Project is primarily driven by potential increases of the technical capacity at IPs along the TAP pipeline route. If infrastructure upgrades necessary for the Incremental Capacity Project are realised by the interconnected TSOs, then additional natural gas flows from the Greek-Turkish border will potentially reach the markets of Greece, Albania and Italy. Hence, this Incremental Capacity Project is conducted in close coordination by TAP, SRG and DESFA, to enable the offering of bundled capacities at the IPs shared by the concerned TSOs.

**All interested parties are invited to send their comments and proposals to this document, in writing, to the list of contacts on the last page, by 21 February 2020.**

<sup>3</sup> It is the responsibility of the interested party to initiate any procedures that may be necessary for capacity to be made available upstream and downstream of TAP.

## A. Description of the incremental capacity project and cost estimates

### A.1. Market demand for incremental capacity

The following non-binding demand indications for Forward Firm Long Term Capacity have been received at the IPs of Melendugno (by TAP and SRG), Fier (by TAP), Korca (by TAP), Nea Mesimvria (by TAP and DESFA) and Kipoi (by TAP), and consequently considered in the design phase of the Incremental Capacity Project. Note, the demand indications are shown below as aggregated values at each IP.

The DAR concluded that the demand indications received by TAP, SRG and DESFA were sufficient to initiate the design phase of an Incremental Capacity Project in accordance with paragraph 2 of Article 26 of NC CAM.

#### IP Melendugno TAP Exit, SRG Entry

<i>From Exit CAPACITY</i>	<i>To Entry CAPACITY</i>	<i>Gas year(s) of Forward Firm Long Term Capacity</i>	<i>Amount kWh/d</i>
TAP	SRG	2022/23	13,700,000
TAP	SRG	2023/24 – 2024/25	42,741,096
TAP	SRG	2025/26-2029/30	248,730,137
TAP	SRG	2030/31-2031/32	224,730,137
TAP	SRG	2032/33	211,030,137
TAP	SRG	2033/34-2039/40	181,989,041

#### IP Fier TAP Exit

<i>From Exit CAPACITY</i>	<i>To Entry CAPACITY</i>	<i>Gas year(s) of Forward Firm Long Term Capacity</i>	<i>Amount kWh/d</i>
TAP	Albgaz	2025/26 – 2049/50	32,337,140

#### IP Korca TAP Exit

<i>From Exit CAPACITY</i>	<i>To Entry CAPACITY</i>	<i>Gas year(s) of Forward Firm Long Term Capacity</i>	<i>Amount kWh/d</i>
TAP	Albgaz	2025/26 - 2049/50	16,841,920

**IP Nea Mesimvria TAP Exit, DESFA Entry**

<b>From Exit CAPACITY</b>	<b>To Entry CAPACITY</b>	<b>Gas year(s) of Forward Firm Long Term Capacity</b>	<b>Amount kWh/d</b>
TAP	DESFA	2020/21	1,370,000
TAP	DESFA	2021/22	32,370,000
TAP	DESFA	2022/23	41,980,000
TAP	DESFA	2023/24-2031/32	71,021,096
TAP	DESFA	2032/33	65,541,096
TAP	DESFA	2033/34-2040/41	36,500,000
TAP	DESFA	2041/42	5,500,000

**TAP Entry Kipoi**

<b>Entry CAPACITY</b>	<b>Gas year(s) of Forward Firm Long Term Capacity</b>	<b>Amount kWh/d</b>
TAP	2020/21	1,370,000
TAP	2021/22	32,370,000
TAP	2022/23	41,980,000
TAP	2023/24-2024/25	100,062,192
TAP	2025/26-2029/30	355,230,293
TAP	2030/31- 2031/32	331,230,293
TAP	2032/33	325,750,293
TAP	2033/34-2039/40	267,668,101
TAP	2040/41	85,679,060
TAP	2041/42	54,679,060
TAP	2042/43-2049/50	49,179,060

It is noted that as regards the IP Nea Mesimvria, DESFA considers the sum of requests submitted for Commercial Reverse Flow (CRF) and Forward Firm Long Term (FFLT), as shown in the table below:

<b>From Exit CAPACITY</b>	<b>To Entry CAPACITY</b>	<b>Gas year(s)</b>	<b>Amount kWh/d</b>
TAP	DESFA	2020/21	88,840,000
TAP	DESFA	2021/22	119,840,000
TAP	DESFA	2022/23	140,430,000
TAP	DESFA	2023/24 - 2029/30	169,471,096
TAP	DESFA	2030/31 - 2031/32	83,371,096
TAP	DESFA	2032/33	71,041,096
TAP	DESFA	2033/34 - 2040/41	42,000,000
TAP	DESFA	2041/42	11,000,000

A Connection Request was received by TAP for IP Korca. This request is subject to discussions with the requesting party, and the offering of FFLT Capacity at Korca will depend on the progress of the request.

Non-binding requests for Commercial Reverse Flow capacity were also received including the IPs of Melendugno, Nea Mesimvria and Komotini. SRG and TAP may separately respond to the CRF requests after forward flow commitments have been finalised. CRF will not be offered in this Binding Phase of the Incremental Capacity Project.

## **A.2 Description of the Incremental Capacity Project**

On the basis of the capacity requests received in the non-binding demand indication phase, TAP SRG and DESFA have started analysing potential infrastructure developments in their respective transmission systems to fulfil interested parties' requests.

### TAP general

The TAP pipeline expansion can be achieved by installing additional compressor units at the compressor stations GCS00 (Kipoi) and ACS03 (Fier) and by the construction of the additional compressor stations GCS01 (Serres) and ACS02 (Bilisht). No modifications are required to pipeline sections between compressor stations.

The extent of the expansion depends on the firm demand for the Expansion Capacity; Following a review of the non-binding demand indications and the terms of the DAR, the following alternative Expansion Projects have been identified:<sup>4</sup>

- TAP partial expansion – to a total technical capacity of 48.8 MSm<sup>3</sup> per day at Entry Kipoi
- TAP full expansion – to a total technical capacity of 59.5 MSm<sup>3</sup> per day at Entry Kipoi

The Expansion Projects described in this document (including the estimated technical capacities) are indicative only and may be subject to adjustment during their development, including optimisation based on the Binding Bids.

The two different indicative infrastructural development configurations, with preliminary cost estimates according to cost risk analysis based on Pre-FEED study, are described in the following paragraphs:

### Level 1: TAP partial expansion

The required works for expansion to allow transportation of 48.8 MSm<sup>3</sup>/day are:

- GCS00: Upgrade of the existing compressor station with the addition of 2 compressor units (approx. 15 MW each), including relevant facilities, process and utility upgrade;
- ACS02: Upgrade of the existing metering facility into a compressor station with the addition of 3+1 compressor units (approx. 25 MW each), including relevant facilities, process and utility upgrade;
- ACS03: Upgrade of the existing compressor station with the addition of 2 compressor units (approx. 15 MW each), including relevant facilities, process and utility upgrade;
- IPR01: Upgrade of the metering and pressure reduction station;

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<sup>4</sup> The hydraulic simulations underpinning the maximum technical capacities assume that TAP must theoretically be able to transport all gas entering Kipoi to the exit point of Melendugno, with such gas meeting the minimum GCV.

The cost for this project is estimated to be 965 M€.<sup>5</sup>

#### Level 2: TAP full expansion

The required works for expansion to allow transportation of 59.5 MSm<sup>3</sup>/day are:

- GCS00: Upgrade of the existing compressor station with the addition of 3 compressor units (approx. 15 MW each), including relevant facilities, process and utility upgrade;
- GCS01: Upgrade of the existing scraper facility into a compressor station with the addition of 2+1 compressor units (approx. 25 MW each), including relevant facilities, process and utility upgrade;
- ACS02: Upgrade of the existing metering facility into a compressor station with the addition of 3+1 compressor units (approx. 25 MW each), including relevant facilities, process and utility upgrade;
- ACS03: Upgrade of the existing compressor station with the addition of 2 compressor units (approx. 15 MW each), including relevant facilities, process and utility upgrade;
- IPR01: Upgrade of the metering and pressure reduction station;

The cost for this project is estimated to be 1382 M€.<sup>6</sup>

#### TAP Korca Connection Request

Regarding the Connection Request at Korca, Albania, received during the non-binding phase, this may be realised through a new IP in the area of Korca through the addition of an offtake in the existing block valve station ABV25. Subject to requisite arrangements with the requesting party and finalisation of design development, this offtake will be installed inside the ABV25, on the 16" bypass of the main line valve, as already installed in other TAP block valve stations.

#### SRG

Based on the non-binding demand indications, four levels of incremental capacity at Melendugno IP were considered during the DAR.

In particular, parties were asked to provide guarantees in order for SRG to proceed with specific studies for expansions to 59,3 and 67 MSm<sup>3</sup>/day (Melendugno levels 3 and 4). Considering that no guarantees were received within the deadline set in the DAR, SRG has developed preliminary technical studies for expansions to total capacity of 46 and 56 MSm<sup>3</sup>/day (Melendugno levels 1

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<sup>5</sup>Class 4 estimate, in accordance with AACE® International Recommended Practice Cost Estimate Classification System-as applied in Engineering Procurement and Construction for the Process Industries No. 18R-97. The cost estimate includes a contingency that reflects the class 4 accuracy of the estimate and any applicable allowance.

<sup>6</sup> See footnote above.

and 2).

The different infrastructural development configurations are described in the following paragraphs for the Offer Levels:

**Level 1: 46 MSm<sup>3</sup>/day Entry Melendugno**

The existing infrastructure, taking into account the completion of the interconnection with the TAP pipeline currently under construction, would be sufficient to deliver this Offer Level and so no additional investments are needed on SRG's side of the IP.

**Level 2: 56 MSm<sup>3</sup>/day Entry Melendugno**

The infrastructures needed to guarantee this Offer Level are:

- the realization of a new compressor station in Sulmona of 33 MW.
- the upgrade of the regulation and measurement plant in Melendugno.
- the upgrade of the Italian national network along the south-north backbone (e.g. Adriatica pipeline project).

The above interventions will depend on the configuration to be identified according to further evaluation on the future expected utilization rates of the other south import points and can be gradually implemented.

A preliminary estimate of the total costs to deliver this Offer Level could amount up to 1.6 B€. With a further investment of approximately 0.3 B€ it would be possible to satisfy also levels 3 and 4, indicated in the DAR, reaching up to 74 MSm<sup>3</sup>/day.

SRG will use the months available up to the date of sending the final project proposal to the Authorities to identify the optimal solution from the point of view of the associated costs and timing of implementation.

For these reasons the investment described in this document may be subject to changes during the subsequent stages of the design phase. SRG will design the new infrastructures based on the best technical practices, taking into consideration the urban development and the environmental constraints of the territories crossed. In particular, studies to determine the piping layout will be developed with the aim of reducing the environmental impact to the minimum possible level by avoiding the most significant areas in terms of the environment. The project that will be proposed at the end of the design phase will represent the synthesis of the analysis carried out with the aim of minimizing the environmental impact and will represent the best solution for the optimization of costs and duration of the implementation phase of the new infrastructure.

DESFA

The level of incremental capacity offered by DESFA in the framework of this incremental process, is calculated taking into account the existing technical capacities of DESFA's Gas System Entry points. Any other process for increasing the capacity offered at Nea Mesimvria Entry point, is not

part of this incremental capacity process and may change the technical capacity of Nea Mesimvria Entry point.

DESFA has executed preliminary technical studies in order to identify the investments needed to make incremental capacity available at the IP Nea Mesimvria. These technical studies take into account the requests submitted during the non-binding phase. The Offer Levels, as well as the respective investments described in this document may be subject to changes during the subsequent stages of the design phase and especially after the public consultation phase. DESFA will finalize the project proposal until the deadline for the submission to the Authorities.

The different investment levels are described below:

### **Level 1: incremental capacity of 16.5 MNm<sup>3</sup>/day Entry Nea Mesimvria**

For Offer Level 1, a new pipeline of 30" diameter from Nea Mesimvria to Patima node (390 km) is needed. The cost of the the relevant project is estimated at €370 million. In addition, a new Metering Station shall be installed in order to handle the increased flow. The cost of the Metering Station is estimated at €10 million, increasing the total cost of Level 1 at €380 million.

The above-mentioned Offer Levels have as a prerequisite the completion of the planned Ambelia CS and the upgrade of the existing Nea Mesimvria CS already included in DESFA's draft 10-year Network Development Plan 2020-2029. Furthermore, the investments described above for Offer Levels 1 must also be approved by RAE as part of the respective DESFA's 10year Network Development Plans.

Until the completion of the CSs mentioned above (estimated to be completed by the end of 2023), the technical capacity at Nea Mesimvria Interconnection Point (IP) will be offered in competition with the one of the existing IP Kipoi. The total amount of the competing capacity between the two points will be equal to 4.3 MNm<sup>3</sup>/d.

After the completion of the above-mentioned CSs and the debottlenecking of the Greek Gas System, the technical capacity at Nea Mesimvria Interconnection Point will be equal to 4.8 MNm<sup>3</sup>/d taking into account that the level of the existing Technical Capacities of Sidirokastro and Kipoi Entry Points will remain as of today

Regarding the reverse flow from DESFA System towards TAP a new booster Compressor is already included in DESFA's draft 10year Network Development Plan 2020-2029 with estimated completion by the end of 2023. The level of the requests submitted during the non-binding phase can be covered without any new investments after the completion of the above-mentioned booster CS.

## **B. Offer Levels**

According to the different project configurations described above it will be possible to propose distinct Offer Levels per IP. The Offer Level may be combined in different ways, depending on the

overall set of Binding Bids received. (E.g. an Offer Level 2 at Kipoi may be combined with an Offer Level 1 at Nea Mesimvria and with Offer Level 1 at Melendugno, or only with Offer Level 2 Melendugno).

In line with the provisions of Articles 8(8) and 30(5) of the CAM NC, as well as in accordance with the FJO for TAP, SRG, TAP and DESFA propose to set aside an amount of 10% of the capacity of the actually built incremental capacity to be offered as short-term capacity, as applicable for each TSO.

Readers should also note the terms of Section E in connection with Annual Requests made in respect of TAP.

The Offer Levels in the table below represent the capacity that could be allocated in the Binding Bidding Phase of this Incremental Capacity Project, taking into account the requirements for capacity to be set aside for the short-term capacity offering. In order to guarantee firm transportation service, the levels are also calculated based on all gas to be transported through the TAP pipeline having a minimum GCV of 9.71 kWh/Sm<sup>3</sup><sup>7</sup>.

IP	Offered Capacity (kWh/d)	Offered Capacity (kWh/d)	Entry / Exit and TSO offering capacity
	Level 1	Level 2	
Kipoi <sup>8</sup>	110,909,704	204,679,174	Entry TAP
Nea Mesimvria	169,471,096 <sup>9</sup>		Exit TAP and Entry DESFA
Korca	16,841,920		Exit TAP
Fier	32,337,140		Exit TAP
Melendugno	143,512,010	230,884,010	Exit TAP and Entry SRG

### C. Alternative allocation mechanism

To increase the possibility that the economics for the Incremental Capacity Project are passed in accordance with the provisions of art. 30 (1) of CAM NC and considering TAP’s specific regulatory framework as well as the findings of the non-binding demand indications, SRG, TAP and DESFA intend to apply an Alternative Allocation Mechanism (“AAM”) with an extended capacity booking horizon of 20 years after the start of the operational use, subject to the approval of the concerned

<sup>7</sup> TAP applies reference temperature for combustion 15°C with Standard volume calculated at 15°C and atmospheric pressure.

<sup>8</sup> Note that even though the offered incremental capacity at entry Kipoi is lower than at exit Melendugno, the additional capacity at Melendugno may theoretically still be used, given existing TAP commitments for exit Greece.

<sup>9</sup> Note that bundled capacity may only be offered up to a maximum of 71,021,096 kWh/d. From this level up to the maximum, such capacity may be allocated only on DESFA side as unbundled.

Authorities.

The criteria envisaged under Article 30 (2) of CAM NC for the potential application of an AAM are achieved by this Incremental Capacity Project, on the following basis:<sup>10</sup>

- The Incremental Capacity Project involves at least three entry-exit systems in the EU (TAP, SRG, DESFA), Albania and potentially other entry-exit systems in the future.
- Non-binding requests for FFLT Capacity were received for 5 IPs.
- Interest concerns capacity reservations of more than 1 year, with most requests for durations of 10 to 20 years.
- Participants have indicated interest for commitments linking more than one IP.

In accordance to the provision of article 30 (3) of the CAM NC, TAP, DESFA and SRG intend to allow interested parties to submit Binding Bids on the following basis:

- Commitment at one IP linking commitments at other IP(s);
- Commitments across a number of different standard yearly capacity products;
- Commitments conditional on the allocation of a minimum amount of capacity.

In the light of the characteristics of the Incremental Capacity Project, the proposed AAM intends to prioritize bids depending on their booking durations, in accordance with article 30 (4) of the CAM NC. In particular, TAP, SRG and DESFA intend to give a priority to commitments for durations of at least 5 consecutive standard yearly products starting from the E-COD and linking more than one IP along the gas route as further specified in the following parts of this document.

Binding Bids will be processed subject to Participants meeting the requirements set out in section E.1. In the event of congestion, in order to be consistent with TAP specific regulatory framework (i.e. the TAP Tariff Code provisions) and to ensure coherent allocation results for interconnected TSOs, a ranking will be performed on the basis of the net present value (“NPV”) of incremental revenues from each Binding Bid per unit of annual capacity requested as further specified in Section E<sup>11</sup>.

## **D. Provisional Timeline of the incremental capacity project**

This chapter describes the proposed timeline for the conclusion of the Incremental Capacity Project (section D.1) and provides estimates of the possible time needed for the realization of the new incremental capacity (section D.2).

### **D.1 Incremental capacity cycle timeline**

The public consultation on the Incremental Capacity Project will be open until the 21<sup>st</sup> February 2020. In April 2020, TAP, SRG and DESFA intend to finalize and submit the Project Proposal, to the

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<sup>10</sup> Please also refer to the evidence provided in the DAR.

<sup>11</sup> The TAP Tariff Code does not foresee an auction except for the exceptional situation of equal marginal bids.

Italian, Albanian and Greek Authorities for their coordinated approval. The Binding Phase Notice is expected to be published in October 2020 and incremental capacity to be offered to Participants in 2021.

#### **D.1.1 Timeline of the Information Phase and the Binding Phase**

The Binding Phase will commence with the publication of the Binding Phase Notice, currently anticipated to be issued on 1 October 2020.

Towards the end of an initial three-month information phase commencing upon the issue of the Binding Phase Notice (the “Information Phase”), the parties interested in participating in the Binding Bidding Phase will be requested to register with the concerned TSOs as an Applicant in order to participate in the Binding Bidding Phase.

At the beginning of the Information Phase, together with the Binding Phase Notice, TAP, SRG and DESFA will make available a list of the relevant documentation that needs to be submitted by the Applicants for their registration and the respective deadline for submission of such documentation.

In a Bid Submission Window expected to last approximately 2 weeks in January 2021, the parties interested in participating in the Binding Bidding Phase will be required to submit Binding Bids. Please see Section E.2 on the content of the Binding Bids.

Following the end of the Bid Submission Window, TAP, SRG and DESFA will proceed with bid evaluation, preliminary capacity allocation and the Economic Viability Test (EVT), entering into Gas Transportation Agreements with the successful Participants. The Binding Phase ends either in case no Offer Level passes the EVT or with GTAs, as applicable for each TSO, becoming effective (see section E.7 on Conditions Precedent to the GTAs).

#### **D.2 Duration of project realization**

Below is a preliminary overview of the timing expected by the concerned TSOs for the realization of the respective projects.

##### **TAP**

Following receipt of Binding Bids and a positive EVT for one of the two Offer Levels for entry Kipoi, TAP intends to award a contract for the development of the Front-End Engineering and Design (FEED) which will develop and further specify the technical elements, schedule and costs of the Expansion Project corresponding to the selected Offer Level. In parallel to the development of the FEED, TAP will seek relevant key permits and third-party financing.

It is currently anticipated that the FEED will be completed by May 2022. The design, approval, procurement, construction and commissioning for both the partial and the full Expansion Project is estimated to require approximately 5 years from award of the contract for the FEED, according to preliminary schedule risk analysis based on Pre-FEED study.

##### **SRG**

The new capacity for Offer Level 1 will be available with the completion of the TAP Pipeline Interconnection, currently under construction.

The duration of the activities to build the new capacity for Offer Level 2 will take approximately 4 years after the positive outcome of the EVT, the conclusion of the incremental capacity procedure and the GTAs with the respective TSOs. SRG may waive Condition(s) Precedent under GTAs and proceed with project implementation (see section E.7).

#### **DESFA**

Regarding Offer Level 1, DESFA estimates that the duration of the activities from the design, until the commissioning of the projects needed will be approximately 5 years after the signing of the GTAs with the respective Participants. In any case, it must be noted that the above-mentioned timeframes, for the DESFA Offer Level which includes major investments, are indicative and will be clarified during the technical studies phase.

### **E. General rules and conditions for the Binding Phase**

This chapter describes the general rules and conditions which the involved TSOs intend to apply for the participation of interested parties in the Binding Phase.

The Binding Phase will be open to all interested parties, including those that have not submitted a non-binding demand indication.

Access to the transportation service on the respective TSOs systems is permitted impartially and on an equal basis to all interested parties that possess the specific requirements as shown below in this document.

Incremental capacity will be offered to Participants for a minimum duration of 5 consecutive gas years, with the earliest possible start date being the planned E-COD and the latest possible end date being the earliest to occur of (i) the end of the 20<sup>th</sup> gas year after the planned E-COD and (ii) the expiry of TAP's exemption. Demand requests of shorter duration will also be evaluated in the allocation process, subject to the restrictions described below.

#### **E.1 Participation criteria and Registration**

Applicants will have to submit a filled-in Registration Form to TAP, SRG and DESFA. The Registration Form(s) will be provided as an Annex to the Binding Phase Notice and the information to be submitted by Applicants shall be required to include (but not be limited to) the following information:

- Company Name and Address.
- Name and contact details of Company Representative.
- A list of the IPs where the Applicant intends to submit a binding commitment.

Further requirements can be envisaged by individual TSOs in relation to their applicable

regulatory framework as indicated below.

At the end of the Information Phase TAP, SRG and DESFA will communicate to Applicants their eligibility to participate in the Binding Bidding Phase.

### **TAP**

Applicants will be required to submit a number of supporting documents as part of its Registration Form – these will be defined in the Binding Phase-Notice but are currently expected to contain inter alia:

- A statement that no sanctioned gas will be transported through the TAP pipeline.
- A statement confirming how the Binding Phase-Applicant expects to fulfill the TAP Credit Support Criteria.
- A statement confirming that Authorities have deemed the Applicant compliant with the Capacity Caps set out in Paragraphs 4.7.3, 4.7.6 and 4.7.9 of the FJO or as otherwise decided by the Authorities.<sup>12</sup>

At the time of a Participant submitting a Binding Bid to TAP, the Participant will be required to deliver to TAP an on-demand bank guarantee (the Bank Guarantee), cashable at first request of TAP and equal in value to the lower of:

- 20% of the maximum annual capacity requested by the Participant per IP multiplied by the TAP tariff for Forward Firm Long Term Capacity published for calendar year 2020; and
- 45 MEUR.

By submitting a Registration Form, the Participant accepts that:

- Submission of a Binding Bid will constitute an irrevocable commitment to enter into a GTA with TAP, subject only to the successful outcome of the EVT.
- If the Participant is allocated capacity but the GTA between TAP and the Participant does not, for any reason, become fully effective, TAP will allocate the actual costs incurred by TAP for the Incremental Capacity Process up to that point to each Participant allocated capacity, on a pro rata basis calculated on the basis of the amount of their Bank Guarantee as a proportion of the aggregate value of Bank Guarantees received by TAP. Such pro rata costs will be payable by the Participant and, if not paid, may be recovered by TAP under the Bank Guarantee. The Bank Guarantee is otherwise returned once:
  - The EVT is finally determined to be negative; or
  - The Participant is not allocated incremental capacity after a positive EVT;

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<sup>12</sup> For IP Melendugno, the relevant Authority is ARERA, for IP Nea Mesimvria RAE and for IP Fier and Korca, ERE. TAP is not involved in the Capacity Cap review process conducted by the Authorities and relies on the confirmation received from Applicants and the Authorities.

or

- If the Participant is allocated incremental capacity, then upon the GTA between TAP and the Participant becoming fully effective.

The results of the EVT undertaken by TAP will be made available to the respective Participants no later than 30 business days after the closing of the bidding round taking into account the provisions defined in section E.6.

### **SRG**

Participants will be required to state the possession of relevant requirements defined in paragraph 1.1 – Chapter 5 of Snam Rete Gas Network Code.

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

In addition, Participants must submit within the required deadlines a bank guarantee, as described below, and potentially be enabled to operate on a jointly identified capacity Platform if so decided by the involved TSOs.

Participants shall be required to present to SRG within the required deadlines a bank guarantee, cashable at first request, issued by an Italian financial institute or Italian branch of a foreign bank, equal in value to 20% of the maximum annual capacity charge (based on the indicative tariff made available by SRG) of the incremental capacity they intend to request.

SRG will publish on its own web sites the estimated value of the annual capacity charge referred to in the Incremental Capacity Project.

Each Participant will have to accept that:

- the capacity allocation referred to in the Incremental Capacity Process is subject to the positive outcome of the EVT of the concerned TSOs;
- in case of a negative outcome of the EVT, SRG will give back the bank guarantee and no transport capacity will be contractually allocated;
- in case of a zero or positive outcome of the economic test the successful Participant shall enter into a GTA and transmit to SRG a bank guarantee as described below in Section E.7;
- if the Participant is allocated capacity but the GTA between SRG and the Participant does not, for any reason, become fully effective, SRG will allocate the actual costs incurred by SRG for the Incremental Capacity Process up to that point to each Participant to which capacity has been allocated, on a pro rata basis calculated on the basis of the amount of

their Bank Guarantee as a proportion of the aggregate value of Bank Guarantees received by SRG. Such pro rata costs will be payable by the Participant and, if not paid, may be recovered by SRG under the Bank Guarantee.

Binding Bids by Participants will be accepted only within the limits of the guarantees which will have been presented to SRG according to the provisions above.

The results of the EVT undertaken by SRG will be made available to the respective Participants no later than 30 business days after the closing of the Bid Submission Window.

## **DESFA**

Participants will be required to state the possession of relevant requirements.

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

In addition, Participants must submit within the required deadlines a bank guarantee, as described below, and potentially be enabled to operate on a jointly identified capacity platform if so decided by the involved TSOs.

Participants shall be required to present to DESFA within the required deadlines a bank guarantee, cashable at first request, issued by a Bank or Credit Institution legally operating in a Member State of the European Union or the European Free Trade Association, equal in value to 20% of the maximum annual capacity charge (based on the indicative tariff made available by DESFA) of the incremental capacity they intend to request.

DESFA will publish on its own web sites the estimated value of the annual capacity charge referred to the Incremental Capacity Project.

Each Participant accepts that:

- the capacity allocation referred to in the Incremental Capacity Process is subject to the positive outcome of the economic test of the concerned TSOs;
- in case of a negative outcome of the EVT, DESFA will give back the bank guarantee and no transport capacity will be contractually allocated;
- in case of a zero or positive outcome of the EVT the successful Participant shall enter into a GTA (becoming thus a Shipper) and transmit to DESFA a bank guarantee as described below in Section E.7;

- if the Participant does not sign the GTA, the TSO will request the forfeiture of the bank guarantee, without any obligation to determine or justify the reasons of such request

Binding Bids by Participants will be accepted only within the limits of the guarantees which will have been presented to DESFA according to the provisions above.

The results of the EVT undertaken by DESFA will be made available to the respective Participants no later than 30 business days after the closing of the Bid Submission Window.

## **E.2 Bid content**

During the Binding Bidding Phase, Participants will have to submit their Binding Bids for incremental capacity products to each TSO.

Participants shall specify in each Binding Bid:

- **The capacity requested (in kWh/day) per IP.** Capacity requested cannot exceed the maximum incremental capacity on offer at a particular IP
- **The first year of the capacity request (Start Year).** The first gas year of the request cannot be before the planned E-COD.
- **The duration of the capacity request.** Except for Annual Requests (with restrictions as noted below), the duration cannot be less than 5 consecutive gas years, with the latest possible end date being the earliest to occur of the end of the 20th gas year after the planned E-COD and the expiry of TAP's exemption. For the avoidance of doubt, each Binding Bid must relate to consecutive years.

Participants must indicate if a Binding Bid is a Linked Bid. In a Linked Bid the capacity requested at the TAP Entry Point of Kipoi must equal the capacity requested at one other IP.

Participant must also indicate whether they will accept a reduction in their capacity allocation (and up to which amount) in the event of congestion and their bid happens to be marginal. For Linked Bids, any reduction in capacity at the IP where the Linked Bid is assessed as being marginal will result in an equal reduction in incremental capacity at the linked IP. (It should be noted that bundled capacity is reduced by the same amount at both sides of the IP.)

Participants may submit more than one Binding Bid. Binding Bids submitted by the same Participant may vary by IP, duration of capacity requested and capacity amount. As a basic rule, in the same Binding Bid, Participants may specify only one value of incremental capacity for all gas years requested. A Binding Bid may however indicate a ramp-up over the first two years of the period to which the Binding Bid relates, with a minimum value for the first gas year of 40% of capacity and 70% for the second gas year. Should Participants wish to profile their capacity request further, then they should submit separate Binding Bids.

A Binding Bid does not have to specify a bid price, as the price applicable to the incremental capacity for the purposes of the evaluation process shall be equal to the Reserve Price. The TAP Tariff is specified according to TAP Tariff Code. The respective annual capacity charge by SRG and DESFA, according to the provisions of the relevant Tariff Regulations, as approved by the

respective Authorities (to be used as estimated reference price for the duration of the initial incremental capacity requests), will be published on their own web sites during the Information Phase. There will be no additional auction premia charged on top of the Reference Prices (unless under the marginal equal bid conditions).

If required, SRG and DESFA may specify a Mandatory Minimum Premium charged on top of Reference Prices to meet their EVT in accordance with Article 33 of EU NC TAR NC (such a premium being allocated only to the relevant adjacent TSO subject to approval of the relevant Authority).

Bids will have to be submitted inside the Bid Submission Window in accordance with the instructions that will be provided in the Binding Phase Notice.

By submitting a Binding Bid, a Participant will be required to agree to the process outlined in the Binding Phase Notice, including the process regarding the overall Project Proposal and the potential liability of the Participant for a pro rata share of the costs incurred by the respective TSOs for the Incremental Capacity Process up to that point.

### **E.3 Bid Evaluation**

At the end of the Bid Submission Window, each TSO will assess the respective received Binding Bids for completeness and compliance with respective requirements. Those Binding Bids that are accepted at this stage are considered in the preliminary capacity allocation procedure of Section E.4 below. In case of rejection of a Binding Bid, the relevant TSO shall notify the relevant Participant and the other concerned TSOs within 5 business days from the end of the Bid Submission Window.

### **E.4 Preliminary Capacity Allocation Procedure (Bid Ranking)**

The rules for preliminary capacity allocation of incremental capacity at all five IPs are described in brief below.

The TSOs will undertake the actions listed below.

- For each year, the sum of Binding Bid capacity requests is computed at each IP.
- If there is no congestion at any IP, the concerned TSOs shall undertake a preliminary capacity allocation and proceed with the EVT process set out in Section E.6.
- If, there is congestion at an IP and in consideration of the specific regulatory framework defined for TAP by the Authorities, Binding Bids received in relation to that IP are ranked according to the ratio of the NPV of the hypothetical revenues on the TAP system from the bid divided by the maximum annual capacity of the bid. In case of Linked Bids, the hypothetical revenues include revenues from both the TAP Entry Point in Kipoi and the other TAP Exit Point component of the bid. A Marginal Bid at a congested IP is allocated the remaining incremental capacity unless the Participant has explicitly declared, in its Binding Bid, non-acceptance of a capacity reduction. If the Participant of such Marginal Bid has declared non-acceptance of capacity reduction, the remaining capacity is allocated to the next Participant with a lower NPV/capacity ratio. If there is no other Participant with a lower NPV/capacity ratio, only the allocated capacity (without such Participant) will be considered in the EVT.

- In the case of two or more Equal Marginal Bids, an auction may be initiated according to Section E.5.
- If a Linked Bid happens to be the Marginal Bid or one of Equal Marginal Bids, an equal capacity reduction shall be made by the concerned TSOs at the linked IPs.
- The final outcome of the preliminary allocation process shall comprise of a table showing each Offer Level and IP showing all Binding Bids.

The timescales and the administrative details related to the bid submission process will be specified in the Binding Phase Notice.

### **E.5 Allocation of Equal Marginal Bids**

Auctions will take place only at the IP(s) where there are Equal Marginal Bids.

Only Participants with Equal Marginal Bids will be involved in the auction.

The Participants with the Equal Marginal Bids shall be invited to submit up to 10 bids for the applicable marginal capacity. Each such bid shall include a capacity amount (up to a maximum of the capacity available in the auction and down to a minimum of the capacity requested in the original bid, if lower), a revised end date of the bid (if later than the original bid) and an auction premium to be considered above the Reserve Price, which serves as a floor price in this auction.

The involved TSOs shall calculate the NPV value of all submitted bids (for this purpose, taking into account the auction premium) and rank all bids according to the NPV/capacity ratio as above. In the event that oversell of capacity reoccurs, capacity is allocated to the Participant(s) with the highest NPV/capacity ratio. The Participant(s) who submitted the Marginal Bids are allocated any remaining capacity, provided that any Participant who receives capacity less than it requested can withdraw if their original Binding Bid specified that curtailment would not be accepted.

The timescales and the administrative details related to the bid submission process will be specified in the Binding Phase Notice.

### **E.6 Economic Viability Test**

The Economic Viability Test (EVT) is carried out separately by each TSO at their side of the relevant IP.

For TAP, the EVT takes into account the net present value of the cost estimates and hypothetical incremental revenues, applying TAP target IRR as the discount factor (see TAP Tariff Code / Annex I for more details). For the avoidance of doubt, the EVT concerns the TAP sides of all IPs where incremental capacity is offered. Costs concern all costs borne by TAP for the expansion of the pipeline to meet each Offer Level. Thus, revenues for the calculation of the NPV relate to incremental revenues to be collected by TAP from the application of the TAP Tariff to all incremental capacity allocated at TAP's side of all IPs.

TAP will accept bids for capacity for individual years, also for a period lower than 5 consecutive

years, (“Annual Requests”). However, any Annual Requests will not, in accordance with TAP’s Tariff Code, be treated as Expansion Capacity Bookings and will not be taken into account in the EVT to be performed in accordance with Section E.6 below. Annual Requests will be allocated capacity only following conclusion of the EVT and the entry into GTAs with successful Participants for the Expansion Capacity. Annual Requests will be allocated capacity to the extent that there is remaining capacity available in the relevant year up to the Offer Level implemented as part of the Incremental Capacity Project. If TAP is not able to allocate capacity to all Annual Requests in a particular year, it will allocate capacity according to a similar prioritisation procedure as described in Section E.5.

For SRG, the EVT takes into account the present value of the estimated increase in its allowed revenue multiplied by the f-factor (see Section G.1) as approved by the Italian Regulator ARERA and the present value of binding commitments of Participants for contracting capacity, which is calculated as the discounted sum of the respective Reference Prices and a potential Mandatory Minimum Premium multiplied by the amount of contracted incremental capacity according to Article 22 of EU NC CAM).

For DESFA, the EVT takes into account the present value of the estimated increase in its allowed revenue multiplied by the f-factor (see Section G.2) as approved by the Greek Regulator RAE and the present value of binding commitments of Participants for contracting capacity, which is calculated as the discounted sum of the respective Reference Prices and a potential Mandatory Minimum Premium multiplied by the amount of contracted incremental capacity according to Article 22 of EU NC CAM).

The following results are anticipated following each TSO carrying out their EVT:

- A. TAP, SRG and DESFA will each verify the EVT with the lowest Offer Level meeting the maximum amount of Binding Bids at each IP. If positive for all concerned TSOs, capacity is allocated according to the bid ranking.
- B. If the EVT is negative for one of the concerned TSOs, Binding Bids are curtailed and the lower Offer Level at the concerned IP is tested. Curtailment of Linked Bids may impact the Offer Level to be tested at another IP.
- C. The process continues until a combination of Offer Levels yielding a non-negative EVT for the concerned TSOs is found. The auction process under Section E.5 may need to be run prior to finalisation of incremental capacity allocation at given Offer Level.
  - If the EVT yields a negative result at all Offer Levels, the concerned TSOs will promptly inform the relevant Authorities of this result. The Binding Bids received from Participants shall remain valid until the Authorities have concluded or waived the third-party verification described in Article 4.1.8 of the FJO. TAP, SRG and DESFA will inform Participants of the end of the Incremental Capacity Project.

## **E.7 Gas Transportation Agreement (“GTA”)**

Each successful Participant will be required to enter into a GTA with the concerned TSO according to the respective applicable regulatory framework in relation to the allocated capacity, as further detailed below.

### **TAP**

Following a non-negative EVT result and the ensuing allocation of capacity, TAP will:

- I. Award a Front-End Engineering and Design study (FEED) of the technical solution providing the capacity of the selected Offer Level. The FEED will allow TAP to estimate the schedule and costs for the specific expansion solution with a higher degree of accuracy.
- II. Seek key permits required for the expansion works in the relevant host countries.
- III. Seek third party financing for the expansion works
- IV. Countersign the GTA with the Participant(s) that have been allocated capacity within 30 days from allocation of capacity. The GTA(s) will each become effective upon a set of Conditions Precedent being met to the satisfaction of TAP or otherwise waived by TAP, including:
  - a. FEED cost and schedule estimates have been obtained, supported by required key permits; and
  - b. The relevant Participants have presented acceptable credit support as required by the GTA, still comply with the requirements set out in section E.1 (e.g. no sanctioned gas and not exceeding any capacity caps for dominant players in a target market) and have not exercised the step-out right described below; and
  - c. The information from (a) and (b) above (i.e. cost, schedule and capacity bookings) still provide for an economically viable expansion. (If the revised information would have led to a negative outcome had it been available at the time of the EVT, TAP will discuss with Participants the option to extend the duration of the bookings under their bid(s) until a later date up to the earliest to occur of either (i) the end of TAP’s exemption and (ii) 20 years after E-COD).

If the Conditions Precedent are not met or waived by a longstop date falling 15 months after the entry into of the GTA, TAP will close the Incremental Capacity Project and void the GTAs.

Separately, Participants will be given the option to step-out from the GTA if the FEED schedule provided by TAP indicates the E-COD taking place more than 12 months later than the E-COD estimated at the start of the Binding Phase.<sup>13</sup>

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<sup>13</sup> It is understood that the Participants will be allowed a minimum period of time to exercise their option to withdraw should it be applicable.

If the GTAs do not become effective, as provided in Section E.1, TAP will allocate the actual costs incurred by TAP for the Incremental Capacity Process up to that point to each Participant with a GTA, pro rata to the amount of their Bank Guarantee as further described in Section E.1. The Bank Guarantee will be returned after such actual costs have been settled.

## **SRG**

In the event of a positive EVT, the Participant is bound to the commitments expressed in relation to the successful Offer Level. SRG will countersign the GTA with the Participant within 30 days from allocation of capacity.

It is intended that the final positive outcome of the EVT leading to the realization of the Incremental Capacity Project is subject to the subscription to the relevant GTA(s) by all Participant(s) with successful binding commitments.

The GTA(s) will each become effective upon a set of Conditions Precedent being met to the satisfaction of SRG, including:

- a. key permits have been obtained; and
- b. the relevant GTAs between the Participant and all concerned TSOs have become effective.

If the Conditions Precedent are not met or waived by SRG by a longstop date falling 15 months after entry into of the GTA, SRG will close the Incremental Capacity Project and void the GTAs.

It is understood that in the case of any potential prolongation of the commitment under the GTA to a maximum of 20 years, if required as described above in paragraph E.7 IV c), the GTA between the successful Participant and SRG will be amended accordingly. As a requirement under the relevant GTA, the Participant shall present to SRG, by the above deadline for the signing of the GTA, a bank guarantee, cashable at first request, issued by an Italian financial institute or Italian branch of a foreign bank, equal in value to the amount required in SRG Network Code (Chapter 5 Paragraph 1.3.4 and 1.3.5). It is understood that in case of any amendment of the GTA according to the conditions described above, the bank guarantees will have to be amended accordingly.

The bank guarantees shall remain valid for the entire duration of the relevant GTA, with an expiry date at the end of the sixth month following the end of the relevant GTA.

If the GTAs do not become effective, as provided in Section E.1, SRG will allocate the actual costs incurred by SRG for the Incremental Capacity Process up to that point to each Participant with a GTA, pro rata to the amount of their Bank Guarantee as further described in Section E.1. The Bank Guarantee will be returned after such actual costs have been settled.

If the GTA will not become effective for the reasons stated in this paragraph the successful Participant shall incur the penalty described in Section E.1 above.

Following the execution of the GTA, the Participant shall be required to pay to SRG all the applicable transmission charges with start date from the date the capacity is made available and for full duration of the GTA.

#### **DESFA**

In case of a positive EVT, each Participant is bound to the commitments expressed in relation to the successful Offer Level.

DESFA will countersign the GTA with the Participant(s) within 30 days from allocation of capacity.

It is intended that the final positive outcome of the EVT leading to the realization of the Incremental Capacity Project is subject to the execution of the GTA(s) by all of the Participant(s) with successful binding commitments.

The GTA(s) will each become effective upon a set of Conditions Precedent being met to the satisfaction of DESFA, including:

- a. key permits have been obtained; and
- b. the relevant GTAs between the Participant and all concerned TSOs have become effective.

If the Conditions Precedent are not met or waived by DESFA by a longstop date falling 15 months after entry into of the GTA, DESFA will close the Incremental Capacity Project and void the GTAs.

It is understood that in case of any potential prolongation of the commitment to a maximum of 20 years, if so required as described above in paragraph E.7 IV c), the GTA between the Participant and DESFA will be amended accordingly.

The Participant shall present to DESFA by the above deadline for the GTA execution the required bank guarantees, cashable at first request, issued by a Bank or Credit Institution legally operating in a Member State of the European Union or the European Free Trade Association, subject to the Greek Regulatory Authority for Energy not expressing objections The Guarantee shall be equal to the net present value of the 100% of the annual capacity charge of all years of capacity allocation discounted at the value of the latest approved WACC (nominal pre-tax) at the time of the guarantee request (before the allocation starting date process). Bank guarantees will be reduced every year by an amount equal to the fifty percent of the Participant's payments during the previous year. It is understood that in case of any amendment of the GTA according to the conditions described above, the bank guarantees will be required to be amended accordingly by the relevant Participants. The bank guarantees 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 GTA.

If a successful Participant does not execute the GTA in accordance with the above, it shall incur the penalty described in Section E.1.

Following the execution of the GTA, the Participant shall be required to pay to DESFA all the applicable transmission charges with start date from the date the capacity is made available and for full duration of the GTA.

#### **E.8 Progress of the project, lack of permits, delays in making available transportation capacity**

SRG, TAP and DESFA will share with the relevant Participants the progress of the Incremental Capacity Project.

By signing the GTA, the Participant shall be deemed to have accepted that, if the authorizations, permissions, easements and any other relevant land rights necessary for the construction phase of the project are not obtained or delayed, then the execution times for the implementation of the Incremental Capacity Project will be considered correspondingly extended, and TSOs shall have no liability to any Participant in connection with such delays.

#### **E.9 Force Majeure**

Force Majeure conditions of the different TSOs are defined in their respective contractual provisions as indicated below.

##### **TAP**

Force Majeure provisions will be set out in the TAP GTA.

##### **SRG**

With reference to “Force Majeure”, the conditions defined in SRG Network Code chapter 19.4 apply.

##### **DESFA**

“Force Majeure” for the DESFA part of the project is defined in art. 104 of the Greek Network Code (Government Gazette B 788/7.3.2018).

### **F. Element IND and RP for fixed price approach**

##### **TAP**

Based on the specific TAP regulatory framework, this section is not applicable to TAP.

##### **SRG**

To be consistent with the tariff regulatory framework in place, SRG proposes to apply floating applicable prices derived from its reference price methodology also to the incremental capacity. SRG is therefore not considering the adoption of a fixed price approach and consequently elements IND and RP foreseen by Regulation 2017/460 are not relevant.

##### **DESFA**

To be consistent with the tariff regulatory framework in place, DESFA proposes to apply floating

applicable payable price derived from its reference price methodology also to incremental capacity. DESFA is 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 EVT envisaged in articles 22 and 24 of the Regulation.

### **TAP**

Based on the specific TAP regulatory framework, this section is not applicable to TAP.

### **SRG and DESFA**

A final proposal by the TSOs on the level of f-factor(s) will be submitted by SRG and DESFA to the Italian and Greek Authorities 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 will be finally set by the Italian and Greek Authorities according to article 28 of the Regulation.

#### **G.1 Economic test parameter for SRG**

The preliminary levels of user commitments (f-factor) proposed for the individual EVT on the Italian side is 0.8 and will be reviewed on the basis of the project configuration to be identified as described in section A.2.

#### **G.2 Economic test parameter for DESFA**

The preliminary levels of user commitments (f-factor) proposed for the individual EVT on the Greek side is 1.0.

## **H. Additional demand Indication**

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

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

### **Implication for TAP**

The Incremental Capacity Project concerns 5 IPs of TAP. If the Incremental Capacity Project is realised, the technical capacity of TAP will be increased, resulting in a further utilisation of the pipeline. This section is therefore not relevant to TAP.

### **Implication for the Italian systems**

At the current stage it is not possible to anticipate whether the Incremental Capacity Project might determine a sustained, significant decrease in the utilisation of other gas infrastructure (existing and/or planned) in the Italian or in adjacent entry-exit systems, as this effect could also depend on the supply strategies and portfolios of commercial players.

### **Implication for the Greek systems**

DESFA's gas Transmission System is one of the youngest natural gas transmission systems in Europe. The commercial operations of DESFA started in November 1996. Part of the existing gas infrastructure has been operating for less than 12 years. Furthermore, Revithoussa LNG terminal was commissioned 20 years ago. In October 2007, DESFA completed the 1st Upgrade of the LNG Terminal and in December 2018 the 2nd Upgrade of the LNG facility. From the above, it is clear that the Greek gas infrastructure is not fully depreciated until now. Some major expenses such as those for the 2nd Upgrade of the Revithoussa LNG Terminal are very recent so only a very small part of them have already depreciated.

Taking into account that the examined incoming flows from the Nea Mesimvria entry point will reduce respectively the flows from the existing entry points and that the major part of these flows will be directed to the Greek exit points (it is not expected to be directed to neighbouring countries), it is clear that the bigger the incoming flows are, the bigger the decrease in the utilization of the non-depreciated gas infrastructure.

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## Annex I - TAP Specific Provisions

This Annex is for information purposes only. It provides readers with a further insight on the specific regulatory framework of TAP. For more information, readers are referred to the Final Joint Opinion of the Authorities<sup>14</sup> and the TAP Tariff Code<sup>15</sup>.

### K. TAP Regulatory Framework

The exemption from regulated tariffs and ownership unbundling, granted to TAP by the Authorities applies to TAP's Expansion Capacity offered in by this document. Incremental capacity in TAP is open to third party access (i.e. the rules as set by the EU NC CAM) to the extent they do not conflict with the FJO (as per Paragraph 4.6 of the FJO) and consequent tailor-made regulatory framework.

An amount of 10% of the actually built Expansion Capacity is set aside and offered as Forward Firm Short-Term Capacity according to Paragraph 4.1.10 of the FJO.

#### K.1 Key concepts of TAP Tariff code

Clause 3.3.1 of the TAP Tariff Code specifies the EVT that TAP will conduct to decide on incremental capacity. The methodology for the EVT is as follows:

- a) Cost estimates<sup>16</sup> are evaluated for each Offer Level in the Incremental Capacity Project by taking into account capital, operational expenditures and working capital.
- b) The incremental revenue is calculated as the sum of the product of the currently applicable TAP Tariff (prior to the expansion) and the capacity requests submitted in the Binding Phase, for all years during which capacity products are offered.<sup>17</sup>
- c) The net present value ("NPV") of cost estimates and incremental revenues (items (a) and (b) above) is evaluated by applying the TAP target IRR as the discount factor.

After passing the EVT, the recalculation of the TAP Target Revenue and the TAP Tariff to be applied from the beginning of the Expansion Recovery Period is done by applying as a boundary condition that TAP Tariffs do not increase from their pre-expansion levels<sup>18</sup>. Thus, an EVT with a zero NPV implies that unit tariffs do not change compared to the situation prior to the Incremental Capacity

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<sup>14</sup> [https://www.tap-ag.com/assets/07.reference\\_documents/english/Market%20Test/Final%20Joint%20Opinion.pdf](https://www.tap-ag.com/assets/07.reference_documents/english/Market%20Test/Final%20Joint%20Opinion.pdf)

<sup>15</sup> [https://www.tap-ag.com/assets/07.reference\\_documents/english/Market%20Test/TAP%20Tariff%20Code-.pdf](https://www.tap-ag.com/assets/07.reference_documents/english/Market%20Test/TAP%20Tariff%20Code-.pdf), approved in November 2013 by the Italian, Greek and Albanian National Regulatory Authorities. A subsequent amendment was approved in July 2018

<sup>16</sup> Clause 3.3.1(c) of the TAP Tariff Code

<sup>17</sup> Clause 3.3.1(b) of the TAP Tariff Code

<sup>18</sup> Clause 3.3.3(b) of the TAP Tariff Code

Process. An EVT with a positive NPV leads to a reduction in TAP Tariffs<sup>19</sup>. In the case of a negative NPV, the TAP Tariff Code calls for TAP to investigate alternative (technical) solution(s) meeting only part of the demand. This requirement of the TAP Tariff Code has been implemented in Section E.6 where TSOs consider a lower Offer Level in case of a negative EVT.

If negative NPV values are still calculated, even in cases of alternative solutions as above, then the EVT is considered as failed<sup>20</sup>. This requirement is also implemented in Section E.6.

There are two main differences between the EVT of TAP and the EVT of Article 22 of EU NC CAM.

- In EU NC CAM incremental revenues are calculated by taking into account a potential auction premium and a potential Mandatory Minimum Premium. Binding commitments typically include an inherent willingness of interested parties to pay (“WTP”) for the capacity increase. WTP is expressed through incremental capacity auctions (including the standard ascending clock auctions of Article 17). This is not the case with TAP. In the incremental process of TAP, Participants submit binding commitments that express a willingness to reserve a certain amount of capacity over a certain period of time. The resulting unit tariffs will be the same for all allocated Participants (and also TAP’s current Shippers). Allocation in case of congestion takes place through ranking of bids by the ratio of the NPV of the capacity request over the annual capacity requested.<sup>21</sup> This is core to the TAP business model. An auction for TAP is only foreseen for a very specific case of congestion (Equal Bids, Section E.5).
- EU NC CAM allows for the socialisation of part of the cost of the expansion to the remaining users of a transmission system (this is through the f-factor of Article 22 of EU NC CAM). As TAP is, the risk of expansion is borne solely by TAP.

## **K.2 TAP Tariff Methodology**

This Section highlights only the main elements of tariff regulation. Readers are referred to the TAP Tariff Code for a full description.

The TAP tariff is an amount in EUR/kWh/Gas Day/Gas Year. The breakdown between the Target Revenue allocated to the entry point of Kipoi and the Target Revenue allocated to all Exit Points is 50/50. The level of the exit tariff depends on the distance of each IP from TAP’s Entry Point at Kipoi.

The TAP Target Revenue has been updated annually from 2016, according to the formula in Clause 2.1 of the TAP Tariff Code, to ensure an escalation of tariffs at the start of each calendar year. The escalation is a function of the Euro area HICP<sup>22</sup> and of the respective inflation indices of Greece, Italy and Albania. Tariffs for incremental capacity are determined in accordance to a

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<sup>19</sup> Reduction refers to current tariff levels without taking into account the TAP Target Revenue escalation due to inflation as per Clause 2.1 of the TAP Tariff Code.

<sup>20</sup> Clause 3.3.1(d) of the TAP Tariff Code

<sup>21</sup> Clause 3.3.1(c) and (e) of the TAP Tariff Code.

<sup>22</sup> “Harmonised Indices of Consumer Prices” as defined in the Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016

model (the “Tariff Calculation Model”) developed by TAP, which is based on a discounted cash flow methodology that calculates the TAP Target Revenue. The methodology for recalculating Target Revenue and tariffs upon expansion is specified in Clause 3.3.3 of the TAP Tariff Code.

As a short summary, a key provision is that unit tariffs will never increase as a consequence of an expansion. In case of bookings underpinning an expansion having an end date prior to the expiry of the Exemption, this means that Target Revenue will be reprofiled to ensure that unit tariffs do not increase when FFLT capacity bookings tails off. Further, this means that TAP carries the risk of actual costs increasing beyond what would have given a positive EVT, as such cost increases cannot be reflected in the tariff.

## Annex II – Definitions and Abbreviations

This Annex contains definitions and abbreviations used in this document

This list is non-exhaustive and can be enriched following the joint public consultation.

This section is structured in two parts:

- The first part (I1) lists key definitions used in this document.
- The second part (I2) includes a list of key abbreviations used in this document.

### I.1 List of key definitions used in this document.

1. **Alternative Allocation Mechanism** as *[defined in art 30 EU NC CAM]*.
2. **Annual Requests** means the bids for capacity for individual years, also for a period lower than 5 consecutive years.
3. **Authorities** means the National Energy Regulatory Authorities of Italy ('ARERA'), Greece ('RAE') and Albania ('ERE').
4. **Binding Bid** means a bid submitted by an interested party during the Binding Phase.
5. **Binding Bidding Phase** means the final phase of the Incremental Capacity Process whereby interested parties can submit Binding Bids to TAP, SRG and DESFA in accordance with Section E and during which TAP, SRG and DESFA will perform the Economic Viability Test and will proceed to capacity allocation.
6. **Binding Phase** means the general phase of the Incremental Capacity Process which is composed of the Information Phase and the Binding Bidding Phase.
7. **Binding Phase Applicant (Applicant)** means the interested party that registers to the Binding Phase according to Section E.1.
8. **Binding Phase Registration Form (Registration Form)** means the form attached to the Binding Phase Notice to be used by Applicants for their registration to the Binding Phase by which Participants will declare acceptance of the conditions set by TSOs.
9. **Binding Phase Notice (Notice)** means the announcement to be issued by TAP, SRG and DESFA informing interested parties on the initiation of the Binding Phase of the Incremental Capacity Project.
10. **Binding Phase Participant (Participant)** means the Applicant that was pre-qualified by TSOs Concerned according to Section E.1.
11. **Binding Phase Guarantee (or Guarantee)** means a valid and enforceable guarantee, the form of which shall be attached to the Notice, to be issued in favour of a Participant for submitting a valid and complete Binding Bid as described in Section E.1.
12. **Bid Submission Window** means the period during which Participants may submit a Binding Bid.
13. **Capacity Cap Form** means the form to be provided with the Binding Phase Notice for Applicants to declare compliance to the pro-competitive measures for the Italian, Greek and Albanian market as set out in points 3, 6 and 9 of paragraph 4.7 of the FJO.
14. **Condition(s) Precedent** means the events or actions that must be completed (or otherwise waived) before the GTA(s) become effective pursuant to the terms of the relevant GTA(s), as required by each

TSO in their respective sub-section of section E.7.

15. **Connection Request** means a binding and/or non-binding request to TAP from an interested party to build a new entry and/or exit point in Albania or Greece and/or to increase the technical capacity of an already existing entry and/or exit point in Albania, in accordance with Sections 4.7.5 and 4.7.8 FJO.
16. **Coordinated Design Phase** means the design phase *[defined in Article 27 of EU NC CAM]*.
17. **Demand Assessment Report or DAR** means the report published jointly by TAP, SRG and DESFA on 21 October 2019 *[defined in Article 26 of EU NC CAM]*. The DAR summarises the results of the non-binding demand indications received in the 8-week period from 1 July 2019.
18. **Economic Viability Test or EVT** means a test applied to assess the economic viability of the Incremental Capacity Project
19. **Expansion Capacity** means capacity in the TAP Transportation System made available in addition to Initial Capacity, up to 10 BCMA.
20. **Expansion Project** means a project to expand TAP's capacity in TAP's existing entry and/or exit points or to establish new entry and/or exit points on the TAP transportation system, in accordance with the FJO, the CAM NC and TAP's Tariff Code.
21. **Expansion Recovery Period** means, in respect of any Expansion, the period starting on the day on which the relevant Expansion first becomes commercially operational and ending on the earlier of (a) the day on which the gas transportation agreements regarding the relevant Expansion Capacity expire, and, if such gas transportation agreements expire on different days, on the day of expiry which falls last in time and (b) the day falling 25 years after the first day of such period *[defined in the TAP Tariff Code]*.
22. **Equal Marginal Bids** means the bids that have the same ratio of NPV of incremental revenues from each binding request per unit of annual capacity requested and the available capacity at the Offer Level is not enough to meet capacity requested.
23. **Expansion Commercial Operation Date (E-COD)** means the commercial operation date of the incremental capacity realised following a non-negative (zero or positive) EVT.
24. **Final Joint Opinion or FJO** means the Final Joint Opinion of the Italian, Albanian and Greek energy regulators on TAP AG's Exemption Application, issued on June 6, 2013.
25. **Forward Firm Long-Term Capacity or FFLT Capacity** means Capacity Products for transportation capacity booked by reference to one or more Interconnection Points for the forward transportation of natural gas, and which the Transporter is not permitted to interrupt except for planned maintenance, capacity restrictions or a force majeure.
26. **Guidelines** means the Guidelines for the 2019 Market Test of Trans Adriatic Pipeline, approved by the Authorities in 2019. The Guidelines set out how TAP will perform the Market Test launched in 2019, with a view to offer all interested parties Expansion Capacity up to the Total Capacity of the pipeline as per Paragraph 4.1.7 of the FJO and to accommodate Connection Requests.<sup>23</sup>
27. **Incremental Capacity Process** means the current process to assess market demand for incremental

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<sup>23</sup> For avoidance of doubt, these Guidelines for the 2019 Market Test of Trans Adriatic Pipeline are distinct from the guidelines for TAP's first market test, jointly approved by the Authorities in April 2012, as referenced in the FJO.

capacity along TAP route, including the interconnection points of Nea Mesimvria and Melendugno with DESFA and SRG *[established according to EU NC CAM]*.

- 28. Incremental Capacity Project** means the project described in this document aiming to increase the amount of technical capacity at 5 interconnection points along TAP route *[defined in art 3 (11) EU NC CAM]*. This concerns the project to increase the amount of technical capacity at the five IPs of Kipoi, Nea Mesimvria, Korca, Fier and Melendugno following the 2019 demand assessments of TAP, SRG and DESFA.
- 29. Information Phase** means the first part of the Binding Phase.
- 30. Interconnection Points (IPs)** means the 5 interconnection points along TAP route *[referred in art 2 EU NC CAM]*.
- 31. Linked Bid** means a bid where the participant has indicated that its binding request at the TAP Entry Point of Kipoi is subject to allocation of an equal amount of capacity and duration at a second IP (Exit Point) *[referred in art 30 (3a) EU NC CAM]*.
- 32. Marginal Bid** means a bid where capacity cannot be met by TSOs Concerned at one Offer Level. This bid is the immediate lowest NPV/capacity ratio bid following all other bids where requested capacity has been allocated in full.
- 33. Mandatory Minimum Premium** means an additional amount added on the Reference Price applicable to SRG and DESFA to ensure a non-negative (zero or positive) EVT *[according to Article 33 of EU NC TAR]*.
- 34. Offer Level** means the respective level of incremental capacity offered for each of the yearly standard capacity products at an interconnection point for each incremental technical solution.
- 35. Participation Fee** means the fee to be paid by Applicants registering with the Binding Phase.
- 36. Reserve Price** shall equal the sum of the Reference Prices set by TAP (TAP Tariff), SRG and DESFA *[referred in EU NC TAR]*.
- 37. Reference Price** means the price for a capacity product for firm capacity of duration of one year at one IP.
- 38. TAP Credit Support Criteria** means the requirements set by TAP as defined in the GTA (to be made available with the Binding Phase Notice).
- 39. TAP Target Revenue** means the annual revenue stream, required to achieve the TAP target IRR by the end of the Recovery Period, as may be recalculated upon an Expansion pursuant to Clause 3.3.3 of the TAP Tariff Code *[defined in the TAP Tariff Code]*.
- 40. TSOs Concerned** means TAP and SRG for the IPs of Melendugno, TAP and DESFA for the IP of Nea Mesimvria, and TAP only for the IPs of Kipoi, Korca and Fier.

## 1.2 List of Key Abbreviations

AAM	Alternative Allocation Mechanism
BCMA	Billion cubic metres of natural gas per annum
CRF	Commercial Reverse Flow

DAR	Demand Assessment Report
E-COD	Expansion Commercial Operation Date
EVT	Economic Viability Test as defined in TAP Tariff Code and Section E.7 of this document
EU NC CAM	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) No 984/2013
EU NC TAR	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas
FEED	Front End Engineering and Design
FJO	Final Joint Opinion of the Energy Regulators of Italy, Greece and Albania dated 6 June 2013.
FFLT Capacity	Forward Firm Long-Term Capacity
GCV	Gross Calorific Value
GTA	Gas Transportation Agreement
IP	Interconnection Point
NPV	Net Present Value
SRG	Snam Rete Gas
TAP	Trans Adriatic Pipeline
WTP	Willingness to Pay