

METHODOLOGY FOR CALCULATING THE TARIFF FOR THE REGASIFICATION SERVICE OF THE LNG SYSTEM OPERATOR

Article 1 Legal Basis

This methodology is drafted implementing article 16 point 1 and article 32 point 1 of Law 102/2015 “On Natural Gas Sector”, as amended as well as article 26 of the “Regulation for ERE Organization, Operation and Procedures”

Article 2 Purpose

The purpose of this methodology is the definitions of the criteria, conditions and the approach to calculate the regasification service tariff realized from the LNG system operator, based on clear principles of calculating the costs related to this service and the detail of the necessary data to define fair and transparent principles, in conformity with the principles and rules approved on the methodology of calculating the network tariff of natural gas approved with ERE Board Decision no. 78, of date 26.05.2017 as well as the other regulatory acts that foresee the activity of the LNG system operator.

Article 3 Scope

3.1 This methodology shall be applied to all LNG system operators, who are legal entities, licensed by ERE, and;

- a) belong to the national gas system as defined on this methodology and operate, maintain and develop a LNG plant.
- b) or have received approval for the use of existing system installations, in accordance with Article 11 and Article 69 of Law 102/2015, as amended;
- c) are subject to the general rules for access and to provision of the regasification service by LNG plants, according to Article 68 and 74 of Law 102/2015 for “Natural Gas Sector”, as amended;
- d) unload and re- gasify LNG, according to signed contracts;

Article 4 Definitions

The general terms used on this methodology are taken from Law no. 102/2015 “On Natural Gas Sector” as amended. They shall have the meanings as follows:

“Regasification” is the process of LNG heating until it returns to the gas state.

“LNG plant” is the terminal used for liquefaction of natural gas or import, export, unload or regasification of LNG, including ancillary services and temporary deposits, necessary for the regasification process and further delivery to the transmission system, excluding parts of LNG terminals for storage.

“LNG system operator” is the entity that carries out the activity of liquefaction of natural gas or import, export, unload the regasification of LNG and is responsible for the operation of the LNG plant.

“Liquefaction of natural gas” shall mean the process of cooling natural gas in normal conditions, to -163o C temperature, until it is converted to liquefied natural gas (LNG).

“Tariff methodology” is the act that determines the conditions and manner of calculation of tariffs for regulated natural gas activities.

“Tariff” is the price of the provided services by entities that perform regulated activities in the transmission and distribution of natural gas, and LNG plants, set based on the methodology of tariff calculation.

“Regulated Asset Base (RAB)” is the value of fixed assets owned by the LNG operator used to provide entry and regasification service to LNG plants.

“Regulatory period” is the period for which the new tariffs enter into force and are regulated according to the decision taken by the Energy Regulatory Entity, after a full and detailed review of the application of the tariffs submitted by the LNG operator.

“Base year” shall mean the first year of the regulatory period.

“Testing year” shall mean the 12 months period before the regulatory period which is used as a basis to define the required incomes for the base year.

“Efficiency improvement factor (factor X)” is the annual percentage reduction in the cost of natural gas liquefaction service, which results from improvements, service efficiency and improvements in technology.

Article 5

Tariff setting principles

- 5.1 The determination of tariffs according to this methodology shall be based on the RoR method. The network operator will be allowed to cover the justified costs for the network as well as a return on investment. With the set into operation, if the regulatory period shall be more than one year, the determination of the tariffs shall be based on “Price Cap” method.
- 5.2 The tariffs shall be set according to fair and justified costs principle.

- 5.3 The LNG system operator shall apply the rules of this methodology for the purpose of setting the tariffs by ERE.
- 5.4 ERE shall approve the regasification service tariffs for the LNG system operator when the conditions and principles of this methodology are met.
- 5.5 Tariffs for the regasification service for the LNG system operator approved by ERE shall be valid for an exercise period (1 year), for the first regulatory period, and shall be in accordance with the regulatory period applied to the transmission and distribution network operators.
- 5.6 Deviation from any provision of this methodology shall lead to the rejection by ERE of the application for tariff of the LNG operator, except of the cases this is justified for major reasons.
- 5.7 The tariff for the regasification service of the LNG system operator shall be calculated and approved by ERE based on reasonable costs that the LNG operator uses to carry out the activity and that are in accordance with this methodology.
- 5.8 Costs and tariffs for the regasification service of the LNG system operator shall be calculated based on data obtained from the previous year of the network operator activity.
- 5.9 For the regasification service operator which operates for the first time, the evaluation of the regasification service costs shall be supported based on the realization and provision of the costs and expenses justified for the current year.
- 5.10 The regasification service tariffs for the LNG system operators shall reflect service costs.
- 5.11 The regasification service tariffs for the LNG system operator shall be calculated in such a way that, at the end of the regulatory period, the difference between the actual service costs (realized revenues) and those allowed through the tariff shall be as small as possible.
- 5.12 The regasification service tariffs for the LNG system operator shall stimulate the efficient use of the LNG assets.
- 5.13 The permitted costs that have served to define the regasification service tariffs shall be published by ERE for transparency to all users.
- 5.14 The regasification service tariffs for the LNG system operator shall permit the LNG System Operator to benefit from the permitted Rate of Return on the regulatory asset base approved by ERE.

Article 6
Revenue required for regasification service of LNG

6.1 Claimed Income are calculated annually and include operating and capital costs of the regasification activity based on accounting information, according to the National Accounting Standards.

6.2 The revenue required to cover the regasification service of LNG for each year of the regulatory period shall be equal to the sum:

- a) return on the invested net capital recognized by the regulator;
- b) depreciation;
- c) recognized operating costs (OPEX);
- d) costs for the restoration of the plant, if any,

If there is a regulatory period of more than one year, then the required incomes shall be considered even:

- a) deductible income for year t-2
- b) adjustment of different periods in period t

6.3 If the provision of the service starts during the year, the value of the recognized incomes is defined in conformity with the days on which the service is set available.

6.4 The LNG system operator during the tariff application process shall submit the differences on the required incomes that result from the financial statements with the permitted incomes, for the preliminary results regarding t-1 year. These differences in (+) or (-) coming from the previous regulatory periods shall be considered reasonable and shall be included on the required incomes of the reviewed t period.

Article 7
Return on Invested Capital

7.1 Recognition value of the fixed assets is made provided that the relevant investments are in accordance with the efficiency and security of the system.

7.2 For the purpose of determining the recognized equity invested for the testing year of the LNG system Operator:

- a) It is calculated the value of net fixed assets;
- b) The value of net working capital is increased, set as 1/12 of OPEX, in the absence of the historic costs;
- c) It is deducted the value of the assets acquired through donation or build with financial resources of liquefied natural gas customers;

- d) It is deducted the value of the disbursed capital grants for each year from the public or private bodies for the construction of the infrastructure.

7.3 For the purpose of determining the value of net fixed assets for the LNG system Operator shall be applied the formula:

$$\mathbf{RAB= A +B + C- D}$$

where:

- A** - shall be the residual value of the tangible fixed assets necessary for LNG operation calculated with the historical cost of purchase at the beginning of the regulatory period for year **(t-2)** (after deducting the amount of depreciation of the assets)
B – value of the assets expected to enter into operation for year **(t-1)**;
C - new investment additions that are expected to be realized in the year **(t)**
D - depreciation is calculated, according to the asset life-cycle method, that derives from the sum of increased products of the capital mentioned in point “B” and “C” for the respective depreciation rates.

7.4 The GNL system Operator that performs the regasification service through the infrastructures owned by different entities, calculates the reference income considering, for the purpose of calculating fixed assets, the data from the financial statements of these entities.

7.5 During the regulatory period after the test year, the share of income covering the return on recognized invested capital is updated considering:

- a) investments entered into operation during the previous year of submitting the tariff proposal t-1;
- b) investments that are expected to enter into operation in the year of presentation of the tariff proposal based on the preliminary results;
- c) grants for capital expenditures received for the realization of investments;
- d) increase of depreciation based on the life cycle of fixed assets.

7.6 The allowed return on equity after taxes shall be the base interest rate as well as a premium for the specific risk of the LNG system operator. The key interest rate is the value of government bonds published by the Bank of Albania.

7.7 The return on equity after taxes will be decided by ERE, and shall published at the beginning of the year on which the GNL System Operator shall initiate the activity.

Article 8

Allowed depreciation

8.1 For the purposes of determining the depreciation allowed for year **t**, the LNG system Operator:

- a) calculate the gross fixed assets of individual asset categories in operation up to 31 December of that year;
- b) deducts from gross fixed assets of individual asset categories obtained through grants;

- c) determines the annual depreciation as a ratio of the value referred to in letter(a) and (b), for each asset category, to the life cycle of the asset or the life cycle defined by the Regulator;
- d) shall add the annual depreciation referred to in letter (c) accumulated depreciation for prior periods.

Article 9

Operating costs

- 9.1 The share of the income to cover operating costs is determined, for the year, when the Methodology shall be applicable from the companies, according to the operating costs incurred by the LNG System Operator. Actual operating costs shall include all cost items of a repetitive nature that actually occur and are attributed to the LNG regasification service and are determined based on the annual accounts according to the Financial Statements.
- 9.2 In case of significant differences between the items of cost articles required for the regulatory period and those occurring in previous years, and where not justified by the regasification company/LNG, the actual operating costs will be determined based on an average of these costs in previous years excluding those costs that are not of repetitive nature and that are not justified or reasoned.
- 9.3 The actual costs shall be calculated according to the formula:
OPEX= C maintenance + C salary+ C general + C electricity + C the costs regarding the cooled / filled gas + C technologic consumption and the losses in the regasification process

Where:

C maintenance – shall include the operation cost (maintenance, service, repairs and others);

C salary – shall include the operation costs (staff costs);

C general – shall include the services in general (the rent, insurances and others);

C electricity – shall include the cost of electricity;

C the cooled/filled gas costs – the costs regarding cooled/filled gas, which serves as a reserve and is technologically necessary to realize the regasification shall be defined equal with the purchase value resulting from the procedures respecting the costs effectiveness principle of the performed purchases;

C technological consumption and the losses in the regasification process – the costs to cover self- consumption and the losses in the regasification process.

In order for the ERE to assess whether these costs are reasonable and justified, the LNG System Operator must submit a benchmark of the costs referred to in point 9.3 realized by the regasification service from similar operators operating in the region or beyond.

- 9.4 The total share of the required incomes for the regasification service shall be attributed to operational costs:

- a) for the first year of providing effective regasification service, the required revenue is proposed by the LNG System Operator and is subject to ERE verification. This proposal shall include comparable data or evidence proving cost minimization efforts as well as:
- i. the differentiation, for each item of operational costs between fix and variable costs,
 - ii. any differentiation between the operational costs directly attributed to the plant operation and the administrative and structural costs:
- b) For the regulatory years period after the beginning of providing the service, shall be defined beginning from the proposed assessment from the LNG system operator, from the availability of the final data regarding the current operational costs issued from the Financial Statements that represent one full year, based on the financial statements audited for the previous year and unified accounts submitted in conformity with the respective regulation.

9.5 When the regulatory period is composed of some years, then the regasification service tariff for the LNG system operator for the years after the base year shall be corrected as follows:

For the second year of the tariff assessment cycle (Year 2), the average transmission tariff for the current year is multiplied by the annual adjustment factor:

$$A = (1 + RPI - X)$$

A - is the annual adjustment factor.

RPI- is the inflation rate for consumer prices forecasted for the 2nd year by the Bank of Albania or INSTAT

- ERE shall also determine the factor X as the annual percentage of reduction in the cost of natural gas liquefaction service, resulting from efficiency of service and improvements in technology.
- For the first regulatory period the factor X will be zero.

9.6 The LNG system Operator may submit a request for the activation off Y parameter to cover the costs resulting from extraordinary and unpredictable events and changes by the Regulator. The LNG system Operator shall demonstrate that these costs are increasing relative to the actual costs considered in the base year, as well as the actual unpredictability and extraordinary nature of the events considered; and demonstrate any activities undertaken, the corresponding costs in the base year, as well as additional activities that become necessary in the implementation of the expected changes, both those and the amendments to the Legal Acts.

Article 10

New investments regarding the additions of regasification capacity

10.1 For the purposes of recognizing the investments made in the required revenue the LNG system operator who intends to build a regasification capacity is required to submit a cost-benefit analysis of the investment to ERE, conducted in accordance with general criteria of the regulation for submitting and approving the investment plans from the natural gas transmission and distribution operators and considering the guidelines set out in the regulatory acts for the assessment of natural gas transmission network development interventions.

ERE after evaluation of these investments shall decide whether or not to accept their integration in the tariff in order to ensure consistency between the level of the performed service and the level of known return.

10.2 For the purposes of calculating the reference income for the first year of the t regasification service, the companies calculate the annual parts of the income in relation to the return on equity invested and the economic - technical depreciation based on the capital increase value regarding the fixed assets in operation reflected in the financial statements for the year in which the tariff proposal for **period t-1** is submitted.

Article 11

Tariff calculation for the regasification service

11.1 Every year of the cycle to review the tariff, this tariff for the regasification service is equal with:

$$T = (C \text{ capital} + C \text{ operational}) / S$$

T – regasification service tariff expressed in ALL / m³ liquid LNG and ALL / kWh

S – the annual amount contracted expressed in m³-liquid LNG and kWh

Article 12

Application for Tariff

12.1 Based on this methodology, the LNG system Operator shall submit at ERE a request for approval of new tariffs, no later than 6 months before their entry into force.

12.2 In the application, the LNG system operator shall submit at ERE all the necessary data on the costs of the LNG plant.

Article 13

Requirements for the Public

- 13.1 The LNG system operator after taking the decision for opening the procedures to review the application for the regasification service tariffs, informs the interested parties to apply the definitions of the “Regulation on ERE Organization, Operation and Procedures”.
- 13.2 The LNG system operator shall publish the regasification service tariffs approved by ERE 15 days prior to their entry into force, in conformity with the definitions of point 8, Article 33 of Law no. 102/2015 “On Natural Gas Sector” as amended.

Article 14

Documentation

14.1 The proposal for the regasification tariffs of the LNG system Operator shall contain:

1. Full audit report on the financial statements.
2. A description on the incomes and expenses for the entire closed exercise period as well as:
 - a) the amount of reference income Rr;
 - b) additional revenue components if resulting from PF;
 - c) the tariffs referred to in Article 10
 - d) the value of the technical capacity of the plant;
 - e) technical - economic conditions for the provision of additional services if provided for the consumption and the losses in the regasification process registered in LNG terms and possibly electricity, during the previous year and the relative rate of LNG caused in the terminal;
 - f) the evaluated consumption and losses in the regasification process, in terms of LNG and possibly electricity, together with the details of the expected conditions of terminal operation, defined together on the basis of historical data and other assumptions considered for the purpose of evaluation.
 - g) details of the criteria used to make the possible division between:
 - i. quantities of electricity or LNG available for the production of electricity for the essential operation of the terminal, considering the average power used for the essential operation of the terminal;
 - ii. quantities of electricity or LNG associated with consumption and losses in the regasification process;
 - iii. list of unified accounts
 - iv. financial statements for the testing year and of the current period;
 - v. comparison of allowed and resulting costs;
 - vi. any document justifying extraordinary or non-repetitive expenses.
3. Detailed description of planned interventions and relative cost of investments divided by asset category
4. Any increase in regasification capacity estimated times for the realization of these investments.
5. The difference between allowed incomes and those actually realized, to enable the correction of income in the following period.

Article 15
Interpretation

In case, one issue is not handled on this Methodology, ERE shall decide case by case to issue the guidelines according to the respective requirements.

Article 16
Amendments of the Methodology

This methodology is subject of review with ERE Board Decision, in conformity with Law no. 102/2015 “On Natural gas sector” as amended and the “Regulation for ERE Organization, Operation and Procedures”.

Article 17
General Provisions

17.1 This methodology is approved with ERE Board Decision no. 229 dated 15.11.2021.

17.2 This methodology enters into force after publication in the Official Gazette.