February 2nd 2021

Public consultation on long term regasification capacity products

1. Introduction

"*Natural gas can contribute to a cleaner global energy system (…)"* (IEA, Gas 2019, analysis and forecast to 2024)

LNG and gas markets have profoundly changed during the last five years because of various trends, among which the greenhouse gas policies, global consumption increasing till early 2020, dropping in 2020 and expected to slowly recover in 2021, before sustained growth forecasted till 2040.

International gas trade plays a growing role in the development of natural gas markets as they move further towards globalization. The recent convergence in market prices in major regions provides an indication of this increasing integration. International trade is supported in a substantial way by the growth in liquefied natural gas export capacity either from a production standpoint or shipping standpoint.

In the light of these market developments, the legal and regulatory framework applicable to some infrastructures evolved. Among these evolutions, we focus on the 8th July 2020 Ministry of Economic Development (MED) amendment to a 2006 decree on long term allocation of regasification capacity at partially exempted TPA LNG terminals - like Terminale GNL Adriatico ("Adriatic LNG") – and resolution of the Energy Market Authority ("ARERA") n. 576/2020/R/gas dated 22nd December 2020 ("New Long Term Allocation Framework").

2. Aim of this consultation

The purpose of this document is to consult the stakeholders of the Natural Gas market, and in particular the Liquefied Natural Gas market, mainly on the products, but also on the main features of the mechanism and rules that Adriatic LNG is developing to carry out an «Open Season» procedure to take place in mid-2021 in compliance with the MED Decree.

The purpose of the Open season will be the allocation of residual regulated third-party access (RTPA) regasification capacity available at the Adriatic LNG terminal and, if proposed, new incremental RTPA regasification capacity to be made available through additional investments.

This consultation is closely linked to the public consultation on the amendments to the regasification code where the mechanism and main rules of allocation are provided in the Regasification amendments proposal n. 12 [see **https://www.adriaticlng.it/en/market-area/regasification/updates/**].

3. Structure of the document

This document begins with a description of the general context for the global, European and Italian LNG markets (Section 4). It is followed by the description of Adriatic LNG terminal (Section 5) and the product specifications (Section 6). Then, it presents the legal and regulatory context within which Adriatic LNG will draw up and carry out its Open Season (Section 7). Finally, the elements subject to consultation in accordance with the New Long Term Allocation Framework are presented in Sections 8-10.

4. General context in the LNG market

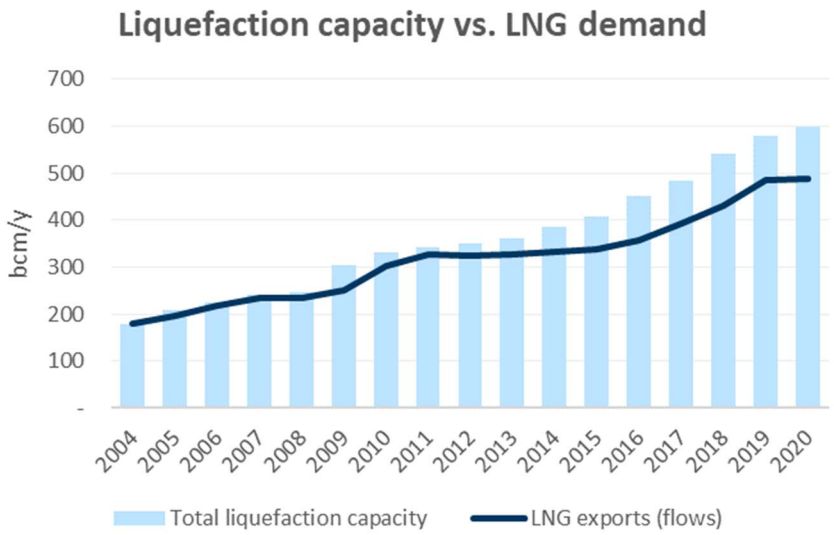
4.1 - Global LNG market developments

Over the last 16 years, the global LNG demand has experienced strong growth through a series of cycles driven by phases of large LNG liquefaction capacity increases, followed by relative pauses (see Figure 1). At the end of 2020, the total liquefaction capacity amounted to almost 600 bcm/y of natural gas[1] (equivalent to 440 million tons of LNG per annum), more than triple the liquefaction capacity available in 2004.[2]

[1] Elaboration on ICIS liquefaction infrastructure database (https://www.icis.com/explore/services/analytics/lng-market-intelligence-solution/).

[2] Conversion factor: 1 mtpa of LNG = 1.36 bcm/y of natural gas, based on BP's Approximate Conversion Factors (p.2) https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2019-approximate-conversion-factors.pdf.

Figure 1 – LNG demand and liquefaction capacity – Cycles3



Demand growth has been sustained over the period 2015-2019, at +10% per year, driven by a wave of new liquefaction capacity coming online alongside additional regasification capacity and new markets in the form of new LNG importing countries[4]. The growth of the LNG demand slowed sharply in 2020, at a rate around 1%, due to the COVID-19 pandemic and its impacts on the global economy.

The historic growth trend is however expected to resume in the long-term, driven by the global economic rebound and the increase in gas demand in many countries. In the next couple of years, the recovery is expected to be driven both by the rebound in demand as well as by the limited new supply volumes which are due to come online (a total capacity of 24 bcm/y of gas, or +2%/year expected between 2020-2022[5]).

According to ICIS, the next wave of LNG supply additions is expected between 2023 and 2027, with a total of 442 bcm/y of natural gas (or 325 mtpa of LNG) of additional capacity (under construction or announced) (+73% vs. 2020).

- This next wave has already taken shape with Final Investment Decisions (FIDs) in 2019 on significant new liquefaction capacity additions, which are typically expected online 5 years after the projects FIDs have been sanctioned. Projects committed in 2019[6] will add 85

[3] Elaboration on ICIS Liquefaction infrastructure database (assumption: plants still operational in 01/2021 only) and BP Statistical Review 2019 (LNG exports).
[4] International Gas Union World LNG Reports 2019 and 2018 and ICIS LNG flows for 2020.
[5] Elaboration on ICIS Liquefaction infrastructure database. Equivalent to 18 mtpa of LNG.
[6] Six projects identified by GIIGNL in its Annual Report 2020 (p.38).

bcm/y of natural gas (or 63 mtpa of LNG) of liquefaction capacity over the period 2023-2027[7], in addition to the 11 bcm/y (equivalent to 8 mtpa) that will come online in 2022.

- Initially, between 220 and 290 bcm/y of new liquefaction capacity was expected to be committed in 2020. However, due to the uncertainty arising from the COVID-19 situation, most projects (and FID) have been delayed (but not cancelled) and only one LNG export project, of a smaller nature in Mexico (~3.4 bcm/y of natural gas = 2.5 mtpa of LNG)[8], has been financially sanctioned in 2020. This plant is expected to be operational in 2023 according to ICIS.

  Major projects for which FID expected in the next couple of years include the 66 bcm/y (~50 mtpa) Qatari expansion project (FID expected to be taken in 2021[9]), Driftwood LNG (+ 38 bcm/y, expected FID before 2023)[10] and Plaquemines LNG (+ 29 bcm/y)[11].

[7] Elaboration on ICIS Liquefaction infrastructure database.

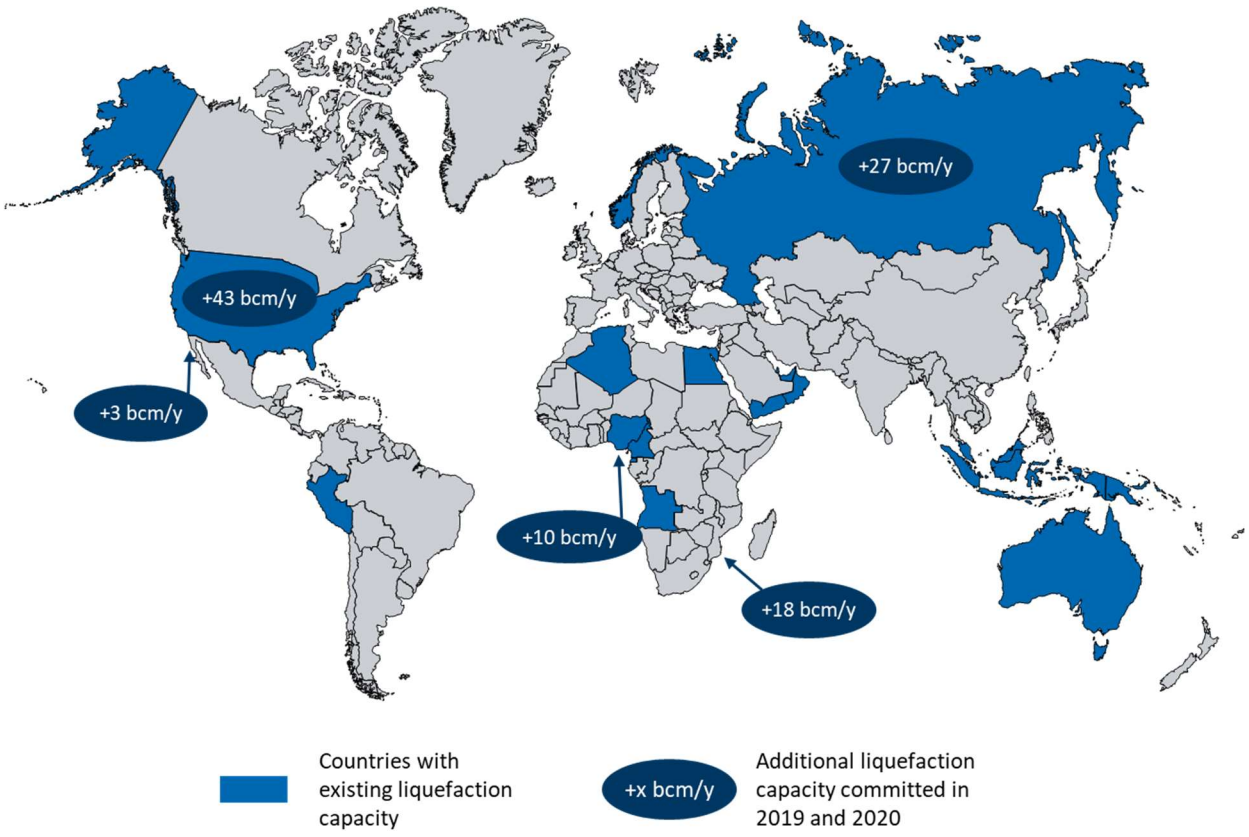
[8] Sempra – Press Release – Sempra Energy Announces FID for Landmark Energía Costa Azul LNG Export Project (17/11/20) – https://www.sempra.com/sempra-energy-announces-fid-landmark-energia-costa-azul-lng-export-project.

[9] https://www.spglobal.com/platts/en/market-insights/latest-news/coal/111320-feature-set-for-huge-capacity-expansion-qatar-eyes-new-lng-homes

[10] Riviera – FID's delayed by global uncertainty (24/04/20), based on Poten & Partners – https://www.rivieramm.com/news-content-hub/news-content-hub/fidrsquos-delayed-by-global-uncertainty-59073.

[11] Reuters – Venture Global delays Louisiana Plaquemines LNG export FID to 2021- https://www.reuters.com/article/usa-venture-global-plaquemines-lng/venture-global-delays-louisiana-plaquemines-lng-export-fid-to-2021-idUSL1N2I42CQ

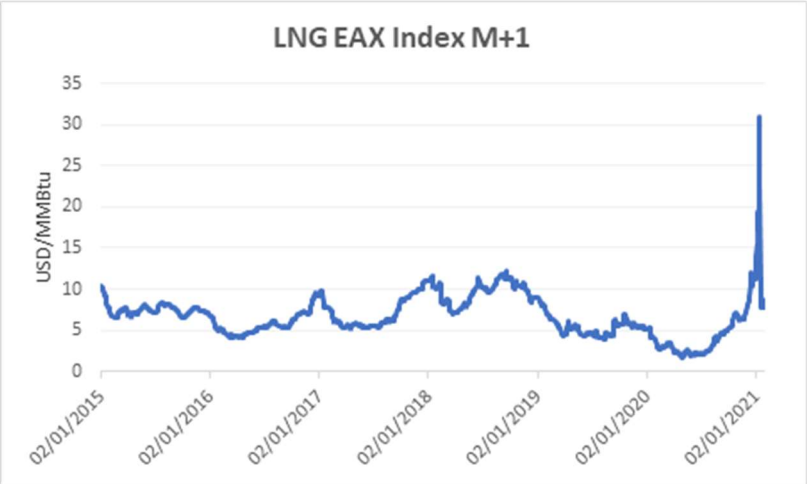
Figure 2 – Liquefaction capacity map[12]



While in 2020 many projects have been paused due to uncertainty, the prospects for market recovery (and investments) are positive, with LNG prices increase in the last months of 2020 (EAX Index M+1) demonstrating tight supply, as shown in Figure 3. An upturn in investments in LNG liquefaction projects can therefore be expected from 2021 onwards.

[12] Elaboration on ICIS liquefaction infrastructure database.

Figure 3 – JKM M+1 price evolution (EAX index) – 2015-2021 YTD[13]



4.2 - Typical contractual process

Given the large amounts to be invested ($10 to $30 billion per liquefaction project),[14] LNG liquefaction developers naturally seek long-term agreements with LNG offtakers to ensure that investments would be recouped:

- In 2019, new LNG contracts had a duration of up to 30 years.[15]
- In 2020, the number of contracts signed decreased significantly due to COVID-19 uncertainty, with however several new long-term contracts or heads up agreement with durations up to 20 years.[16]

As liquefaction has the longest lead time and is the most expensive part of the LNG value chain, final investment decision for liquefaction is typically secured first, with its supporting LNG supply agreements. Then, the players typically turn to securing the rest of their value chain, namely: LNG shipping and regasification.

[13] Source: Elaboration on ICIS price data – Spot LNG - EAX Index Month +1 Closing Value Daily (Mid), 2 January 2015 – 11 January 2021

[14] Russian Arctic-2 LNG with a capacity of 27 bcm/y of natural gas (20 mtpa of LNG) which reached FID in September 2019 has an estimated cost of $25.5 billion. Tanzania's pre-FID LNG project with a capacity of 18 bcm/y (13 mtpa of LNG) is estimated at $30 billion. See IGU annual report 2019. Canadian pre-FID Goldboro project of 14 bcm/y (10 mtpa of LNG) is estimated at $10 billion.

[15] GIIGNL Annual report 2020.

[16] Elaboration on ICIS LNG contracts database. For instance, Venture Global Plaquemines LNG and EDF have signed an SPA for a duration of 20 years in February 2020. The final investment decision has not been yet made for the project though. See https://fr.reuters.com/article/idUSL4N2AP1AC.https://www.reuters.com/article/us-saudi-aramco-gas/saudi-aramco-signs-us-lng-deal-with-sempra-idUSKCN1SS07H

Given the long-term nature of LNG supply agreements, LNG importers generally wish to book shipping and regasification capacity of similar duration to back their long-term LNG supply contracts.

4.3 - European regasification market

In this context of increasing global LNG supply around 2023-2027, Europe is an attractive area to book regasification capacity for the offtakers of the new LNG volumes, as the region offers:

- The prospects of increasing gas imports in Europe, with new end-user demand for imported LNG[17] (expected increase of LNG imports from 62 bcm in 2018 to 133 bcm in 2035 in BP's Business As Usual scenario), and
- The access to the only gas hubs (available in LNG importing regions) that are currently liquid enough to absorb the volumes of several LNG cargoes at short notice. This provides LNG players with a relative guarantee of offtake for their regasified imported LNG, at any time, offering a back-up outlet for their global LNG portfolio.

Accordingly, there has been renewed interest in the European regasification market around and after the final investment decisions were taken on new LNG liquefaction.

A series of open seasons for long-term capacity bookings were held by European LNG terminals in 2019 (including Zeebrugge LNG, Gate terminal, Montoir and Grain LNG) and 2020 (including Fos Cavaou and Świnoujście) for their existing capacity and – in some cases – additional regasification capacity for contract with a duration between 9 and 25 years.

The regasification operators seem now in a competitive race to capture the upside of the new LNG supply wave expected in 2023-2027, through securing long-term bookings of their regasification capacity.

This suggests a window of opportunity for Italy, and Adriatic LNG, to join the race and offer to the market new long-term capacity bookings, in line with the needs of new long-term LNG offtakers.

4.4 – Italian gas market

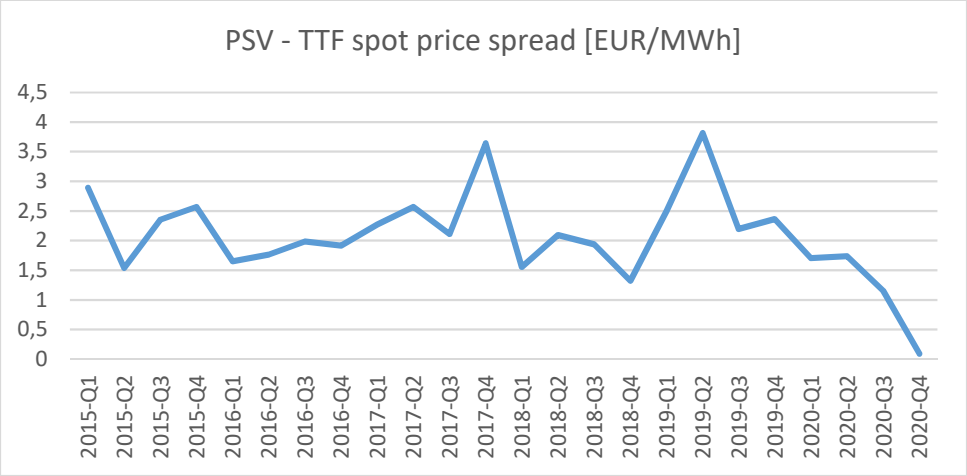
Italy's domestic gas consumption amounted to 70.7 bcm 2020 (slightly lower than the 74.3 bcm observed in 2019, mainly due to Covid-19 impacts). This makes Italy the 3rd gas market in Europe behind Germany (91.8 bcm in 2019) and the UK (79.0 bcm in 2019)[18].

[17] According to BP Energy Outlook 2020 "Business-as-Usual scenario" (p.82) and Shell LNG Outlook 2020 (p.14).
[18] Eurostat database (Supply, transformation and consumption of gas – monthly data – Inland consumption - observed).

The size and liquidity of the Italian market drives competition between various gas sources, coming from different gas producing regions. In 2020, the Italian gas demand was supplied by indigenous production (7%), by pipeline imports [Russia (40%), Algeria (17%), Northern Europe 12%), Libya (6%), and the start of Azerbaijan imports through TAP[19], as well as by LNG imports (18%) mainly from Qatar, US and Algeria[20]. The unique diversity of supply sources available in Italy supports a competitive market with gas and LNG suppliers vying to capture demand, as demonstrated by the evolving shares of import origins in the supply mix. As an example, amidst a declining gas demand (-4.3% in 2020 vs. 2019), Algerian pipeline imports increased by +17.8% in 2020 vs. 2019, gaining significant market share to the detriment of Russian, Northern European and Libyan imports[21].

As illustrated by the first recent gas exports from Italy to Switzerland in October 2020 and January 2021[22], there is also a potential for Italy to export gas to Northern Europe which would increase Italian gas market volumes even further, and reinforce its role as a major European gas hub. Italy's increased bidirectional integration with other European markets – for now limited to short term arbitrage - is evidenced by the recent decline in the price spread observable between North-Western Europe and Italy, keeping - however - a positive spread on average, as illustrated below.

Figure 4 – PSV minus TTF spot price spread, Quarterly average[23]



Backed by a competitive and dynamic gas hub, LNG operators already active in Italy or interested to be active in Italy are well-equipped to attract long-term capacity bookings, which would contribute to further competition and development for the Italian wholesale market.

[19] Staffeta quotidiana from 4 January 2021.
[20] Source: ICIS
[21] Staffeta quotidiana from 4 January 2021.
[22] Staffetta quotidiana, SNAM, Italy exported to Switzerland for 4 days, 19 October 2020 and 26 January 2021
[23] Source: Elaborations on energymarketprice.com data

5 - Existing LNG regasification asset brief description

5.1 – Terminal scope

From a technical standpoint, the Adriatic LNG Terminal includes:

- a gravity based structure ("GBS") that hosts two LNG tanks, with a capacity of 125,000 cubic meters each. Inside the tanks, the LNG is stored at atmospheric pressure and at a temperature of -162° C to keep it in a liquid state;
- a regasification plant, installed at the top of the GBS, which contains: 4 open rack LNG vaporizers, which use the heat naturally found in seawater; 1 heat recovery LNG vaporizer, which reuses the heat from the gas turbines; 2 cryogenic compressors; 4 pumps for transferring LNG from the tanks; 5 pumps to send the LNG into the vaporizers, and from there into the pipeline; utility systems, such as units for generating electricity with gas turbines; mooring and LNG unloading facilities; living quarters; and a heliport.

The Terminal is connected to the Italian national grid through a 40-kilometer-offshore pipeline from the Terminal to the metering station near Cavarzere (Venice), and a 85-kilometer pipeline from Cavarzere to the national distribution network near Minerbio (Bologna).

5.2 – Terminal operations

The Company started to offer commercial service in November 2009. To date, the following operational results have been achieved inter alia:

- more than 812 LNG cargoes discharged;
- more than 50 vessels approved as technically compatible and suitable for berthing and discharge;
- The only LNG terminal in Italy capable to berth the largest choice of LNG carriers : from 65.000 m3 to 217.000m3 LNG
- approx. 68,5 billion cubic meters ("bcm") of gas delivered into the national grid;

For additional technical, operational and commercial details about Adriatic LNG and the Terminal please visit https://www.adriaticlng.it/en/the-terminal/the-plant.

5.3 – Terminal capacity

a) The offshore structure has a current regasification capacity of **8 billion cubic meters per year** ("bcm/y"). Out of these 8 bcm/year, 6.4 bcm/y are booked until November 2034, and 1.6 bcm/y are currently available.

b) In July 2020 the Company has undertaken a process towards the public authorities to request the clearance to add 1 bcm/y of capacity (equivalent to one additional 145.000 m3 LNG slot/month) which can be obtained by optimizing the operation of the terminal. To Adriatic LNG understanding the outcome of this request are expected to be known by the launch of the Open Season and if this request is successful, the total capacity will be **9 bcm/y ("Request for additional base capacity").**

c) In addition, subject to the outcome of the Open Season procedure, the Company plans to perform works for a **further capacity addition of 0.5 bcm/y which would start to be available in the period from mid-2024 to end 2025 (the "Incremental Capacity").**

At this stage, a first technical feasibility study of the development of the Incremental Capacity leveraging on the existing facility has already been carried out by Adriatic LNG and internationally renowned technical consultants. The main relevant conclusions of the feasibility study are that:

- The tanks capacity will not be modified (eg. no additional tank);
- The perimeter of the current Gravity Base Structure (GBS) will be maintained;
- No new pipe will be added to current pipeline connecting to the national grid.

The Incremental Capacity will however only be available after works by Adriatic LNG to increase its capacity. Adriatic LNG expects to launch such works subject to the results of the Open Season procedure. Should Adriatic LNG take the FID for the Incremental Capacity, construction and operational activities will be subject to the prior issuance or update of permits, authorizations or favorable opinions by Public Authorities as required by law, as the case may be.

The Incremental Capacity will start to be made available in a time window – expected to be Mid 2024 to End 2025 – and the User of such capacity will be asked to choose a first month of delivery in a window of 6 months notified by Adriatic LNG.

The Incremental capacity will not be developed if the construction CapEx budget exceeds by more than 10% to the planned CapEx budget.

6 - Products features

6.1 – Scope of the "Open Season"

By means of the «*Open Season*» procedure illustrated herein, Adriatic LNG intends to allocate all the available regasification capacity and newly build capacity for a total duration of 25 years, starting, for example, in January 2022. [24]

[24] At this stage, unless otherwise stated in this document all proposed dates and volumes are based on preliminary studies and analysis performed by ALNG or its consultants. Nevertheless, they must be considered as illustrative only and subject to potential adjustment.

The available regasification capacity and newly build capacity will be offered as long-term products, with a fixed volume and a fixed duration. Products will cover (A) all the RTPA available capacity (the "Current Capacity") bundled with the Incremental Capacity to be built, or (B) the Current Capacity only.

The Current Capacity offered will be 1.6 bcm per year (or 2.6 bcm per year if the Request for additional base capacity is cleared) from January 2022 to November 2034. After the expiry of a long-term contract in November 2034, an additional 6.4 bcm per year capacity will be added to the Current Capacity offered, which will put Current Capacity at 8.0 bcm per year (or 9.0 bcm per year if the Request for additional base capacity is cleared) starting from December 2034 and until the end of the 25-year period in December 2046.

To reflect the evolution of the Current Capacity already built before and after November 2034, as well as the optionality of the Incremental Capacity to be built, six products have been defined to offer options to interested bidders:

	Product 1A	**Product 1B**	**Product 2A**	**Product 2B**	**Product 3A**	**Product 3B**
Period of Contract	Jan. 2022 – Nov. 2034	Jan. 2022 – Nov. 2034	Dec. 2034 –Dec. 2046	Dec. 2034 –Dec. 2046	Jan. 2022 – Dec. 2046	Jan. 2022 – Dec. 2046
Current Capacity	✓	✓	✓	✓	✓	✓
Incremental Capacity	✓	-	✓	-	✓	-

✓: included

Each of the six products is further described hereafter:

a) **Product 1A** covers the period **from January 2022[25] to November 2034** and includes:

- current residual RTPA regasification capacity of 1.6 bcm per year (or 2.6 bcm per year if the Request for additional base capacity is cleared) ("Current Capacity"); and
- additional regasification capacity of 0.5 bcm per year ("Incremental Capacity"), from the start date of its commercial availability if it is developed (e.g. start date within a time window from mid-2024 to end 2025) [26]

b) **Product 1B** covers the period **from January 2022[27] to November 2034** and includes:

[25] For year 2021, volume of actual regasification capacity shall be adjusted taking into account the starting date of the service.
[26] Best estimate to date.
[27] For year 2021, volume of actual regasification capacity shall be adjusted taking into account the starting date of the service.

- current residual RTPA regasification capacity of 1.6 bcm per year (or 2.6 bcm per year if the Request for additional base capacity is cleared) ("Current Capacity")

c) **Product 2A** covers the period **from December 2034[28] to December 2046[29]** and includes:

- current residual RTPA regasification capacity of 8.0 bcm per year (or 9.0 bcm per year if the Request for additional base capacity is cleared) ("Current Capacity"); and
- additional regasification capacity of 0.5 bcm per year ("Incremental Capacity").

d) **Product 2B** covers the period **from December 2034[30] to December 2046** and includes:

- current residual RTPA regasification capacity of 8.0 bcm per year (or 9.0 bcm per year if the Request for additional base capacity is cleared) ("Current Capacity")

e) **Product 3A** covers the period **from January 2022 to December 2046** and combines Product 1 and Product 2 as a single product:

- current residual RTPA regasification capacity of 1.6 bcm (or 2.6 bcm per year if the Request for additional base capacity is cleared) until November 2034 and 8.0 bcm per year (or 9.0 bcm per year if the Request for additional base capacity is cleared) starting from December 2034 ("Current Capacity"); and
- additional regasification capacity of 0.5 bcm per year ("Incremental Capacity") from the start date of its commercial availability if it is developed (e.g. start date within a time window from mid-2024 to end 2025).

f) **Product 3B** covers the period **from January 2022 to December 2046** and combines Product 1 and Product 2 as a single product:

- current residual RTPA regasification capacity of 1.6 bcm (or 2.6 bcm per year if the Request for additional base capacity is cleared) until November 2034 and 8.0 bcm per year (or 9.0 bcm per year if the Request for additional base capacity is cleared) starting from December 2034 ("Current Capacity").

"Current Capacity" and if applicable "Incremental Capacity" are together referred to as the "Offered Capacity", for all products.

6.2 – Precision related to the capacity offered

[28] From November 2034 to June 2035 proportional curtailments of 8 bcm/y capacity could be made by ALNG for contractual commitments.

[29] Products starting after 3 years from the date of the closure of the allocation need market regulatory clearances expected before Summer 2021.

[30] From November 2034 to June 2035 proportional curtailments of 8 bcm/y capacity could be made by ALNG for contractual commitments.

For the sake of clarity, it is possible to bid for the Offered Capacity:

- From 2022 to 2034 (Products 1A and 1B), and/or
- From 2034 to 2046 (Products 2A and 2B), or
- From 2022 to 2046 (Products 3A and 3B), i.e. the overall contract period.

It is not possible to bid not for a lower capacity volume[31] and/or for shorter duration[32].

For the sake of this public consultation it is assumed that the additional base capacity of 1 bcm/y is available at the moment of the Open Season and is part of the Current Capacity. The additional 1 bcm/y base capacity will be tendered only if the Request for additional base capacity is cleared before the start of the Open Season's tender.

Based on the Products' descriptions above, the total regasification volume offered by product will be the following:

- Product 1A: 38.5 bcm[33]
- Product 1B: 33.6 bcm
- Product 2A: 114.8 bcm
- Product 2B: 108.8 bcm
- Product 3A: 153.3 bcm
- Product 3B: 142.3 bcm

[31] For example, for Product 1B, if the Request for additional base capacity is cleared then the capacity is 2.6 bcm per year, no bid will be accepted for only 1.6 bcm/y from 2022 to 2046.
[32] For example, no bid will be accepted for all the Offered Capacity but only from 2023 to 2040.
[33] Calculation assumes 0.5 bcm Incremental Capacity is available in Jan 2025.

Figure 5 – Illustration of the Products 1A and 1B (January 2022 – November 2034)

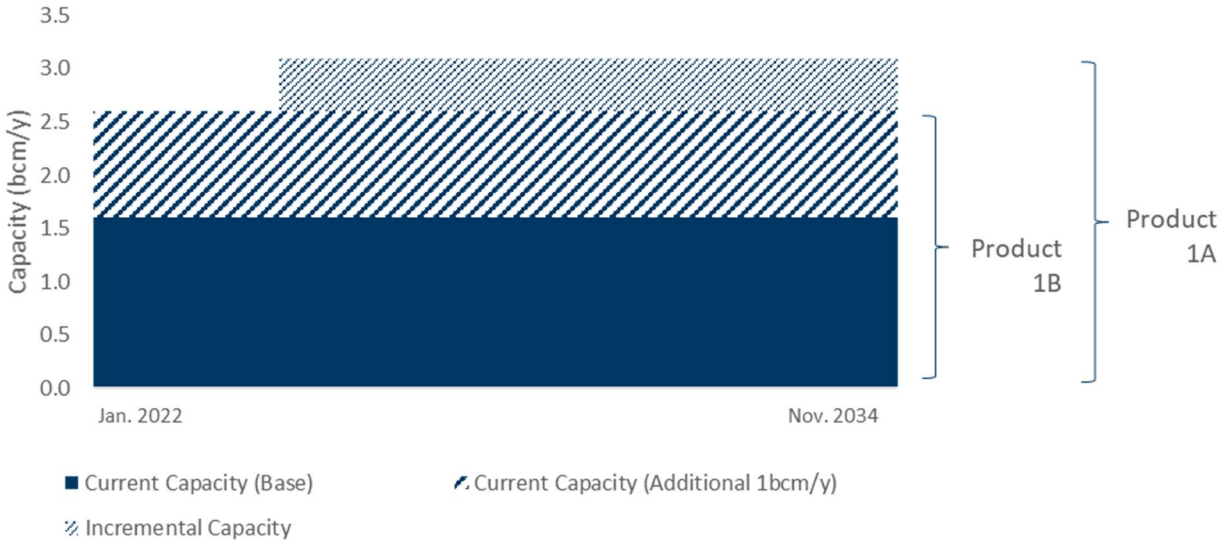


Figure 6 – Illustration of the Products 2A and 2B (December 2034 – December 2046)

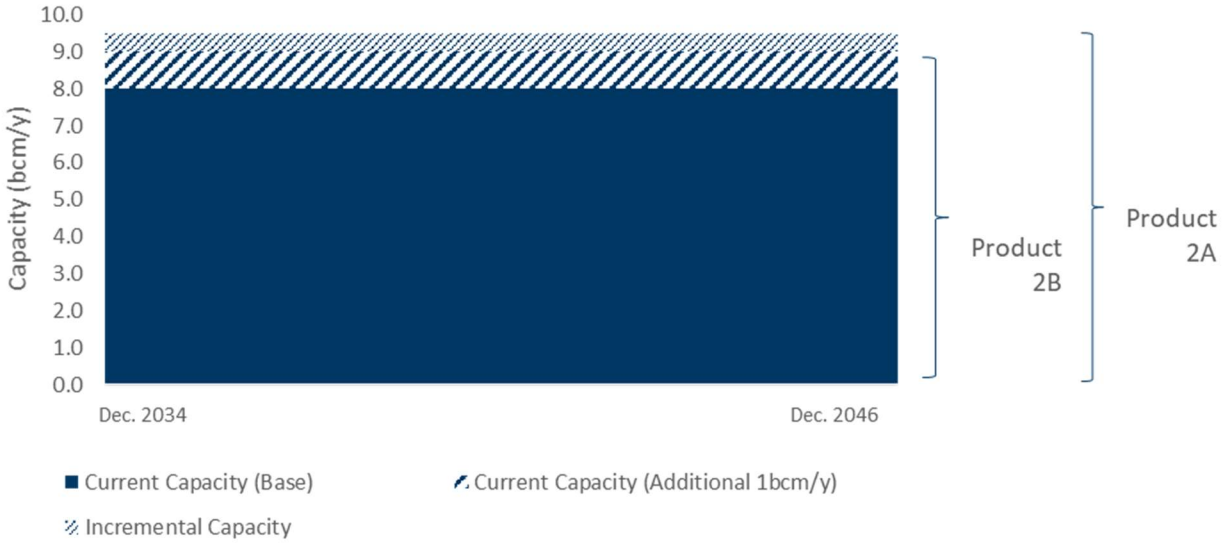
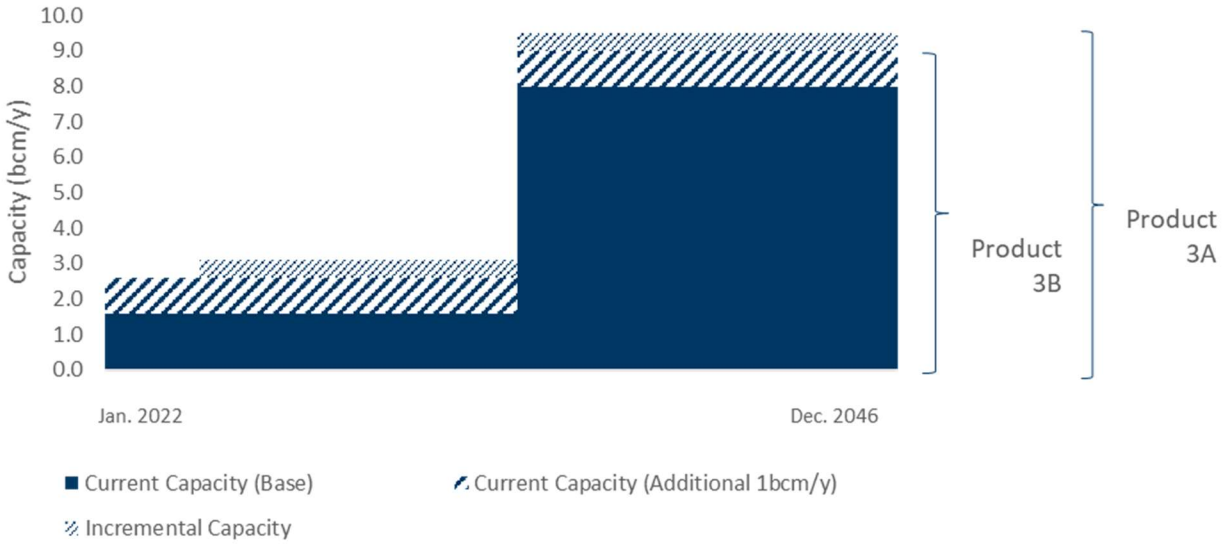


Figure 7 – Illustration of the Product 3A and 3B (January 2022-December 2046)



7 – Summary of capacity allocation process, legal and regulatory framework

On November 26, 2004 MED granted Adriatic LNG a partial exemption from the RTPA established by Art. 36 of Directive No. 2009/73/EC, and Art. 1(17) of Law No. 239 of August 23, 2004. This exemption covers 80% of the Terminal's nominal regasification capacity (6.4 bcm/y of 8 bcm/y) for a 25-year period from the start date of its business activities. The exempted 6.4 bcm/y capacity is accordingly allocated through a 25-year contract expiring in November 2034.

Under the RTPA, the remaining 20% of the nominal capacity – 28.8% in case of clearance of the Request for additional base capacity – is offered on the market through a regular subscription processes, following the rules established by ARERA and the MED, namely:

a) an annual process; and
b) an intra-annual process, which runs once per week, which is based on the auction process for intra-annual available capacity, and the first come first served allocation for spot slots, according to the rules of the relevant ARERA Resolution[34].

No guarantee of revenues is provided to the regulated capacity per applicable ARERA **tariff regulation**[35] as each year Adriatic LNG faces the risk that only a part or none of its regulated capacity would be subscribed and that the outcome of the auction would result in a lower price than expected. Therefore, the **short and long-term RTPA business of Adriatic LNG is fully exposed to the market risk.**

[34] Resolution 660/2017/R/Gas "Riforma della regolazione in materia di conferimento della capacità di rigassificazione di GNL sulla base di meccanismi di mercato (Aste)
[35] Art. 16 Res. 474/2019/R/Gas https://www.arera.it/allegati/docs/19/474-19rtrg.pdf

The New Long-Term Allocation Framework provides for:

- Auction of all the available capacity;
- 25 years maximum duration contract (from the date the auction is closed) ;
- Premium in the allocation ranking for:
    - Greatest volume requested;
    - Longest duration requested;
    - Continuity i.e. premium for single user vs multiple users;
    - Availability to invest in additional capacity;
    - Bidders who own at the time of the bid less than 25% of import capacity (regas + pipeline) in Italy.

The same conditions of use, i.e. the "*Regasification Code*" approved by ARERA, applies to the exempted and regulated capacity.[36] The Regasification Code regulates the use or the loss of obligations for the users of regulated capacity and RTPA-exempted capacity. *Inter alia*, «*Use-it-or-lose-it*» clause applies to ensure that any regasification capacity that any user will not use will be available to the market.

8. Brief description of the Open Season allocation process

In compliance with European and national guiding principles of non-discrimination, transparency and competition enhancement, and guided by the most recent best practice experienced by other European LNG terminals for the allocation of long-term products by means of open season procedures, Adriatic LNG intends to allocate its regasification capacity through a two-stage process described as follows:

- **Non-binding qualification phase** (up to 3 months)**:** in this phase, interested players can submit a request for qualification using the subscription documentation Adriatic LNG will make available on its website. The applicant will provide to Adriatic LNG the documentation and evidence of compliance with the conditions provided for in the Regasification Code and other conditions Adriatic LNG may provide for the Open Season allocation[37]. Adriatic LNG will check whether the applicant qualify as an eligible bidder. Such qualification is carried out on a non-discriminatory basis as per the applicable regulation and Regassification Code[38].

[36] The current version of the Regasification Code is published on the Company website (https://www.adriaticlng.it/en/market-area/regasification) and is currently under an amendment process.
[37] Eg. A bid bond of reasonable amount may be requested.
[38] For additional details please visit https://www.adriaticlng.it/en/market-area/regasification

- **Binding phase: allocation of the capacity** (about 1 month)**:** in this phase, qualified bidders can, but are not obliged to, make a binding, unconditional, offer for any of the Products 1A, 1B, 2A, 2B, 3A, 3B. Adriatic LNG will make available on its website to all qualified bidders a draft regasification service agreement[39], and by placing a bid for any of the Products the qualified bidders accept unconditionally the regasification service agreement proposed by Adriatic LNG.

Adriatic LNG will then scrutinize all binding offers received from the qualified bidders and make the decision regarding the allocation of the available capacity to the winning binding offer based on the allocation criteria (presented hereafter in Section 10).

At its own discretion, Adriatic LNG may organize additional multiple blind rounds inviting the bidders to improve the price offered in their previous bids. Each of these additional rounds will have a maximum duration of 3 business days (in Milan).

In any case, Adriatic LNG will reserve the right not to allocate the Offered Capacity in the event that one or more conditions provided in the Open Season rules, the applicable regulation or the Regasification Code are not met (e.g. delivery of conditional offers).

Adriatic LNG will use the support of a notary in Milan (Italy, MI) to assist the bidding process and, in any case, will deposit the reserve price or minimum contract value towards a notary before the start the of the binding phase.

In the event that Adriatic LNG were to reach the conclusion that the Offered Capacity can be allocated to a qualified bidder, for any Product, Adriatic LNG will notify the allocation of the Offered Capacity to the winning qualified bidder – who become User – and ARERA, and publish on its website a declaration of "successful end of the allocation process", which will specify which Product or Products has or have been allocated.

In the event that Adriatic LNG were to reach the conclusion that the Offered Capacity, for all Products, cannot be allocated to a qualified bidder, Adriatic LNG will notify such event to ARERA, and publish on its website a declaration of "unsuccessful end of the allocation process".

The procedure provided in the amendments n.12 to the Regasification Code is subject to compatibility check by ARERA as per article 2 para. 1 of the New Long-Term Allocation Framework.

9. Framework for placing price bids

[39] It is reminded that the Regasification Code applies to any LNG regasification agreement.

For each Product they are interested in, bidders will have to make an offer for the Offered Capacity distinguishing:

- The price offered for the Current Capacity, in EUR/m3 LNG; and
- The price offered for the Incremental Capacity, in EUR/m3 LNG.

In setting their Current Capacity price and Incremental Capacity price, for any of the Products offered, bidders have three different options for their price offering:

(i) a single fixed price for all the product duration (i.e. an identical yearly price applicable for the entire duration); or

(ii) a different fixed price set for each year/period of several years of the product duration[40]; or

(iii) a price combining a fixed component (remaining constant over the entire product duration) plus a variable part indexed on one or more relevant markets presenting liquid multi-year forward curves (i.e. TTF, NBP, Brent and PSV).

The offer should also include an estimate of the total contract value for the Product sought, calculated as a net present value in line with the methodology presented hereafter in Section 10 of this public consultation, and using reference price sources (for TTF, NBP, Brent and PSV) and relevant financial parameters (inflation forecast, discount rate) specified by Adriatic LNG at the time of the tender.

The fixed part of each price offered shall be considered as expressed in real terms and will be indexed on inflation in line with the Regasification code[41]. The variable part will correspond to the nominal value of the market index of the corresponding year when the contract is applied.[42] For the purpose of the assessment of the total contract value for this Open Season process, both parts will be discounted to a net present value.

The bid shall result in a total contract value (calculated as a net present value) not lower than the *minimum total contract value*[43] set by Adriatic LNG (floor). A bid below the minimum contract value will be disqualified and not considered in the allocation process. There will be distinct minimum contract values for each Product (1A, 1B, 2A, 2B, 3A, 3B) and their combination (eg. 1A + 2B).

[40] For example, for the Current Capacity 10€/m3liq for years 2020 to 2026, 12€/m3liq for years 2027 to 2040, 8€/m3liq for years 2040 to 2046 ; and for the Incremental Capacity 8€/m3liq for the start date to 2046.

[41] Following the *Indice nazionale dei prezzi al consumo per le famiglie di operai e impiegati* as described by the Istituto Nazionale di Statistica (ISTAT).

[42] The variable part corresponding to an indexation to a market price will reflect the nominal value of the market price but will only be known in the future. To the contrary, the fixed part of the bid will be expressed in real terms and then inflated to its nominal value in the future.

[43] The minimum total contract value will correspond to the present value of an offer valued at a fixed price set at the level of a reserve price determined by Adriatic LNG, and computed in line with the methodology presented in the next section.

10. Criteria of allocation

10.1 Criteria

Adriatic LNG will allocate in a non-discriminatory manner the Offered Capacity, based on criteria set at the beginning of the binding phase.

The ranking of bids received will predominantly rely on the bids' total contract value, incorporating appropriate adjustments to reflect other criteria mentioned in the New Long-Term Allocation Framework.

In practice, **the Offered Capacity will be allocated to the bid or combination of bids with:**

(i) **The highest total contract value** (for Product 1A or 1B; for Product 2A or 2B; for Product 3A or 3B, to be also compared to combinations of Product 1A or 1B and Product 2A or 2B) considering together the price offered for the Current Capacity and the price offered for the Incremental Capacity. The total contract value will be assessed as a net present value of the annual payments for the allocated capacity considering the price offering of the bidder for each year of the contract duration;

(ii) **The less risky/more predictable contract value,** i.e. preference will be given to fixed price offers as opposed to indexed-price offers to reflect the risk of over-evaluated expectations. The computation in the total contract value of any variable price component will therefore be adjusted through multiplication by a coefficient <1 (to be set at the time of the tender). As a result, a dynamic formula-based variable price offer with expected annual price equal or slightly above the fixed annual price offer of another bidder can lead to a lower ranking compared to the fixed price offer;

(iii) **Without penalising offers with lower value put on the Incremental Capacity,** i.e. the Incremental Capacity will weigh less than its share in the total volume of the Offered capacity. In the computation of the total contract value, the Incremental Capacity will be adjusted through multiplication by a 25% coefficient, to reflect the low risk of availability of current capacity and the efforts needed to build the new incremental capacity**;** and

(iv) **With a premium for maximisation and continuity,** i.e. the offers for Products 3A and 3B will be subject to an uplift factor, when compared with Products 1A/1B and Products 2A/2B. The computation of the total contract value of bids for Product 3A and Product 3B will be increase by a 1% premium when compared to other bids.

For the sake of clarity, the above criteria will mean that in case three fixed priced offers have been made by (1) one bidder for Product 1B, by (2) another bidder for Product 2B and by (3) a third bidder for Product 3B, then:

- If the value of (1) + (2) is equal or below the value of the bid (3), then the bid (3) wins all the capacity;
- If the value of (1) + (2) is greater by 1 (one)% or less than the value of the bid (3), then the bid (3) wins all the capacity;
- If the value of (1) + (2) is greater by more than 1 (one)% than the value of the bid (3), then the bids (1) + (2) win all the capacity;

10.2 Illustrations of assessment of the total contract value weighting in the allocation criteria

Example 1: Bid for Product 1A with a fixed price of 12 €/m3 LNG applicable each year (in real terms) for Current Capacity and a fixed price of 9 €/m3 LNG for Incremental Capacity

- Total contractual value =

  $(12xC_{1C}+9xC_{1I}x25\%)xD_1+(12xC_{2C}+9xC_{2I}x25\%)xD_2+\ldots$
  $+(12xC_{12C}+9xC_{12I}x25\%)xD_{12}+(12xC_{13C}+9xC_{13I}x25\%)xD_{13}$

- C_{iC} with i = 1-13: available Current Capacity for year 1-13 of the contract (i.e. year 2022-2034) as described in Section 6 of this public consultation;
- C_{iI} with i = 1-13: available Incremental Capacity for year 1-13 of the contract (i.e. year 2022-2034) as described in Section 6 of this public consultation;
- Di with i = 1-13: discount factor for year 1-13 of the contract (i.e. year 2022-2034). Assuming the discount rate of 6.6%, D1 = 1, D2=1/1.066=0.94, D3=1/(1.066)^2=0.88, etc.
  - ✓ Based on the above, the total contract value, in net present value, would then be EUR_{2021} 1,206,319,384.[44]

Example 2: Bid for Product 1A with a price combining a fixed component of 10 €/m3 LNG applicable each year (in real terms) and an additional variable component corresponding to 3% of the PSV spot price index; same price applied for both Current and Incremental Capacity

- Total contractual value[45] =
  $[10+3\%PSV_1x70\%]x(C_{1C}+C_{1I}x25\%)xD_1+[10+3\%PSV_2x70\%]x(C_{2C}+C_{2I}x25\%)xD_2+\ldots$
  $+[10+3\%PSV_{12}x70\%]x(C_{12C}+C_{12I}x25\%)xD_{12}+[10+3\%PSV_{13}x70\%]x(C_{13C}+C_{13I}x25\%)xD_{13}$
- C_{iC} with i = 1-13: available Current Capacity for year 1-13 of the contract (i.e. year 2022-2034) as described in Section 6 of this public consultation;
- C_{iI} with i = 1-13: available Incremental Capacity for year 1-13 of the contract (i.e. year 2022-2034) as described in Section 6 of this public consultation;

[44] Assuming 585 m3 gas per 1 m3 LNG (ratio taken from IGU Natural Gas Conversion Pocketbook)
[45] Assuming a variable price component coefficient set at 70%.

- Di with i = 1-13: discount factor for year 1-13 of the contract (i.e. year 2022-2034). Assuming the discount rate of 6.6%, D1 = 1, D2=1/1.066=0.94, D3=1/(1.066)^2=0.88, etc.
- 3%PSVi with i=1-13: variable component corresponding to 3% of the average PSV spot price in year 1-13 of the contract (i.e. year 2022-2034) expressed in €/m3 LNG (in real terms)
  - ✓ For illustration, the contract net present value, for the fixed part only, would be in this case EUR_{2021} 1,010,642,972. The net present value of the variable part would then need to be added based on then relevant forwards and forecasts.

11. Invitation to comment

We would like to invite all interested parties to submit any comments they may have on this document by email at the following address: alng_mercato@adriaticlng.it

The deadline to provide comments is **22nd March 2021 at 5.00 PM (Milan Time).**

Please clarify if your response shall be treated confidential, the absence of any provision regarding the confidentiality of your response id deemed to be a consent to Adriatic LNG to make it public.

Disclaimer

This document has been prepared by Adriatic LNG in the process of elaboration of the next regasification service allocation process and products, solely for consultation purposes. It aims at providing information on possible future tendencies and on main expected evolutions. Numbers and parameters contained in this document are indicative best estimates subject to possible changes or corrections. Under no circumstances shall any person, company, corporate body or other entity be entitled to assert any right, claim or other entitlement against Adriatic LNG (or either its directors, managing directors or employees) as a result, or on the basis of this document.

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