



**Demand assessment report
for incremental capacity
between *Snam Rete Gas* and *Melita TransGas***

2019-10-21



This report is a joint assessment of the potential for incremental capacity projects conducted by

Snam Rete Gas SpA

Address: Piazza Santa Barbara, 7
20097 San Donato Milanese
Italy

T: +390237039727

E: ipa@snam.it

www.snam.it



Melita TransGas Company Ltd

Address: Block A, 2nd Floor, Vjal I-Avjazzjoni
Luqa, LQA 9023
Malta

T: +356 222 08 601

E: info@melitatrangas.com.mt

www.melitatrangas.com.mt





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A. Non-binding Demand indications

Snam Rete Gas (“SRG”) and Melita TransGas Company (“MTG”) have launched the Demand Assessment phase of the Incremental Capacity process on 1st July 2019, in line with the provisions of Article 26 of Commission Regulation (EU) 2017/459 establishing a network code on capacity allocation mechanisms in gas transmission systems (“CAM NC”).

The following table shows **aggregated non-binding demand indications** for forward firm capacity per Gela (Italy) SRG – MTG (Malta) IP. All non-binding demand indications were submitted by the interested parties to SRG and MTG, in compliance with the 8 weeks deadline set out as per Article 26(6) of CAM NC.

The following aggregated non-binding demand indications for firm capacity have been used as a basis for this demand assessment:

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

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

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



B. Demand assessment

The Demand Assessment phase commenced immediately after the start of the annual yearly capacity auction, as specified in Article 11(4) of CAM NC, and closes maximum 16 weeks after the annual yearly capacity auction in accordance with Article 26 of CAM NC.

The transmission systems operators conducting this market demand assessment report, gave network users the opportunity to submit non-binding demand indications to quantify potential demand for incremental capacity from 1st July up to 26th August 2019.

Malta is currently completely disconnected from Europe mainland and gas network, as a consequence there is no existing entry-exit capacity system in the country. In line with:

- the 4 February 2011 European Council conclusions, where the Council noted that *“No EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections”*;
- the October 2014 European Council conclusions, where Malta is specifically mentioned as requiring special attention in the context of PCI implementation;
- the March 2015 European Council conclusions, where the Council called for the acceleration of infrastructure projects, *“including interconnections in particular to peripheral regions”*;
- the Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Policy which calls for the end of energy islands from the main electricity and gas networks,

the Government of Malta, through the newly established public company Melita TransGas Company Ltd, is working to implement a connection to the trans-European Natural Gas Network via a gas pipeline from Gela (Italy) to Delimara (Malta) that will end the country's isolation and will meet Malta's future gas demand, initially for power generation.

The Interconnection Point between Maltese and Italian network has been preliminary set in Gela following a pre-feasibility study conducted by SRG and the Maltese Ministry for Energy and Water Management (MEW). The interconnection point in Gela has been confirmed in the basic design studies completed in 2017 and the Front-End Engineering Studies currently being conducted by MEW.

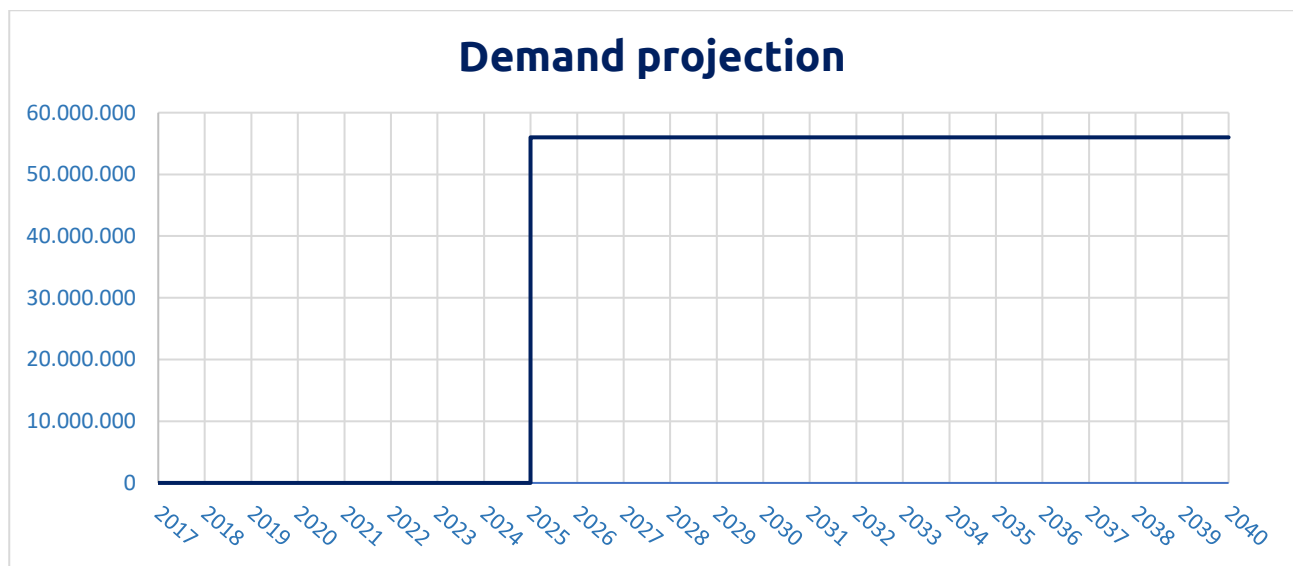
The Italian network constitutes one of the more diversified entry-exit systems in Europe and can guarantee to Malta the access to a plurality of source of supply. The underlying benefit of the project is to eliminate Malta's gas isolation and thus contribute to:

- i) market integration and solidarity as it will allow the Maltese consumer to access the natural gas market at a lower cost thereby improving competitiveness;
- ii) security of supply as it provides a more reliable and energy efficient form of fuel transport;
- iii) sustainability as it contributes to the reduction of GHG emissions from more polluting fuels.

The project fully addresses the needs identified under the market integration criterion for the 4th PCI list selection process for NSI WEST corridor for a connection between Malta and the European gas market. The Malta gasification need was also suggested in the assessment conducted by ENTSOG in the Ten-Year Network Development Plan 2018 (TYNDP).

i. Historical usage pattern

As there is no interconnection point currently existing, the expressed demand indications as presented in chapter A, served as basis for modelling the following future demand projection.



ii. Results of current annual yearly auction

Not applicable

iii. Relations to GRIPS, TYNDP, NDPs

The TYNDP 2018 developed by ENTSOG identify Malta as one of the specific areas of Europe that would require further gas infrastructure to join the internal energy market. The TYNDP 2018 takes into account that the access to different supply sources is a prerequisite for competition. The possibility to attract different supplies, as well as the volumes of these supplies is a prerequisite for diversification. The realization of an interconnection with Italy makes accessible to Malta the sources of Italian market that is one of the more diversified of the continent.

The project of connection of Malta to trans-European Gas Network by a pipeline interconnection with Italy has been selected as Project of Common Interest (PCI) and inserted in the 3rd union list of PCI. The project has been proposed to be included in the 4th PCI process whose definition is still ongoing.



The Ten-Year Development Plan 2018-2027 of SRG takes into account the project and declare that *“Snam Rete Gas is ready to implement the measures necessary to facilitate the connection to the national network, when the progress of the project will prefigure an effective commitment to its realization”*.

Even though there is currently no specific Maltese NDP for gas, the project has been included in the “Malta National Reform Programme” of 2019 and the draft 2030 National Energy and Climate Plan.

iv. Expected amount, direction and duration of demand for incremental capacity

The amount and direction of the demand for incremental capacity considered during the pre-sent procedure is the ones represented at paragraph (i). This demand level shall serve as input for the technical studies that will result in the offer level. The capacity will be offered for the maximum period defined by the Regulation (EU) 2017/459.

C. Conclusion for the (non)-initiation of an incremental capacity project/process

Based on the evaluation of the received non-binding demand indications as presented in chapter B, taking into account that Malta and Italy are not interconnected at the moment and so there is no existing technical capacity for the same period at the interconnection point required by Demand Indication phase, **an incremental capacity project will be initiated**. Therefore, in the upcoming Design phase, the affected TSOs will conduct technical studies with the aim to create offer level in order to meet the expected demand for incremental capacity. These technical studies will be based on the considerations made in chapter B paragraph iv., therefore, one level will be studied during the Design Phase:

(a) Level 1 56,000,000 kWh/d

D. Provisional timeline

The following indicative timeline provides an overview about the planning for the technical studies and consultation on the draft project proposal to be developed and conducted in the up-coming Design phase according to Article 27 of Regulation (EU) 2017/459.

Activity		Expected start*	Expected end*	Expected duration
<i>Incremental Capacity Process</i>				
<i>Design Phase</i>				
	<i>Technical studies for incremental capacity projects</i>	21/10/2019	13/01/2020	12 weeks
	<i>Public Consultation on draft project proposal</i>	14/01/2020	14/03/2020	2 months

After the end of the Design phase, the proposal for the incremental capacity project will be submitted to the relevant national regulatory authorities (NRAs) for coordinated approvals. In case



of positive decision of the NRAs, binding phase will start and an allocation notice will be published on the TSOs websites at least 2 months before the start of incremental capacity auction.

If the economic test for at least one offer level will be positive, the realization of the incremental capacity project will be initiated. The TSOs confirm that the requested capacity will be available from 1st October 2024, provided that any delays in obtaining the authorization for construction may occur, the timing may therefore differ from what is stated here, without any consequence for the TSOs. TSOs will provide more details during the next steps of the process.

E. Interim arrangements for the auction of existing capacity on the concerned IP(s)

Interim arrangements for the auction of existing capacity on the concerned IP(s) The level of incremental capacity will be offered in the annual yearly capacity auction at the end of the process, taking into consideration the provisions for offering capacity according to Article 8.6, Article 8.8 and Article 9 of Regulation (EU) 2017/459. The respective offer levels will be developed in the Design phase and will be based on the assumptions presented in chapter C.

F. Fees

SRG and MTG do not currently charge any fees foreseen by Article 26.11 of Regulation EU 2017/459.

G. Further Costs

In order to start the Design phase of the incremental capacity procedure, SRG (according to Italian NRA Resolution n. 245/2019) and MTG will charge the costs incurred for the respective technical studies as explained here below.

The interested parties will have to cover the costs incurred by SRG and MTG for the respective technical studies, issuing a bank guarantee or cash deposit within 15 days after the publication of the DAR.

The costs for the respective technical studies will be the following:

- a) SRG: Level 1 (56.000.000 kWh/d) 0 €
- b) MTG: Level 1 (56.000.000 kWh/d) 0 €



Each interested party will provide an amount equal to its willingness to proceed with the project. In any case, SRG and MTG will proceed with the Design phase for the level for which the costs for the respective technical studies are covered. In case the amount exceeds a level without reaching the next one, SRG and MTG will return the exceeding amount proportionally to the guarantee issued.

Such guarantee will be reimbursed if the economic test is positive for at least one offer level that includes incremental capacity or, if the economic test is negative, when the invoices issued by SRG related to technical studies are paid.

H. Contact information

<p>Mr. Daniele Capizzi Head of Contracts, Trading and Billing Telephone: +39 02 370 39191 Email: daniele.capizzi@snam.it</p> <p>Mr. Luca Miniussi Head of Infrastructure Planning Telephone: +39 02 370 39611 Email: luca.miniussi@snam.it</p> <p>Piazza Santa Barbara, 7 20097 San Donato Milanese (MI), Italy Telephone + 39 02.3703.1 www.snam.it</p> 	<p>Ing. Jonathan Scerri Executive Director Telephone: +356 222 08 220 Email: jonathan.scerri@melitatrangas.com.mt</p> <p>Ing. Alexandra Meli Senior Project Manager Telephone: +356 222 08 601 Email: alexandra.meli@melitatrangas.com.mt</p> <p>Block A, 2nd Floor, Vjal l-Avjazzjoni Luqa, LQA 9023, Malta Telephone: +356 222 08 601 www.melitatrangas.com.mt</p> 
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