

METHODOLOGY FOR CALCULATING THE TARIFF OF NATURAL GAS STORAGE SERVICE

Article 1 Legal Basis

This methodology is drafted implementing Article 17 and articles 16 point 1 and 32 point 1 of Law no.102/2015 “On Natural Gas Sector”, as amended, as well as article 26 of the “Regulation on ERE Organization, Operation and Procedures”.

Article 2 Purpose

The purpose of this methodology, is to define the criteria, conditions and the approach for calculating the tariff of Natural Gas Storage service (the injection, storage and withdrawal of natural gas), based on clear calculation of costs principles regarding this service facility and that are realized by the Storage System Operator of natural gas in conformity with the effective secondary legislation.

Article 3 Scope

3.1 This methodology shall define the natural gas storage tariff and shall be implemented by the Storage System Operators, which are legal persons, licensed by ERE and that;

- a) perform the storage activity and are responsible for the Operation of natural gas storage plants according to Article 59 of Law no. 102/2015 “On Natural Gas Sector”;
- b) received the approval to use the existing plants of the system, in conformitz with Articles 11 and 59 of Law no. 102/2015 “On Natural Gas Sector”, as amended;
- c) implement the general rules for the access and ensuring the facility to the users of the storage plant and that are monitoring object by ERE according to Article 64, letter c) of Law no. 102/2015 “On Natural Gas Sector” as amended;
- d) shall provide to the storage facility users both bundled and unbundled services of storage, injection and withdrawal facilities of natural gas, according to the signed contracts supported on Article 67 of Law no.102/2015 “On Natural Gas Sector” as amended;

Article 4

Definitions

The general terms used on this Methodology are according to Law no. 102/2015 “On Natural Gas Sector”, as amended and shall have the meanings as follows:

“**Storage**” is the process of injecting natural gas to storage spaces, the storage and the withdrawal from these spaces. Storage to salt cavern formations, depleted reservoirs, aquifers or underground of the pipeline.

“**Storage System Operator**” is the entity performing the storage activity and is responsible for the operation of storage facilities.

“**Storage**” is the quantity or the volume of gas which a user is allowed to store in the a storage facility.

“**Storage space**” is the space used for storage of natural gas that is owned and/or operated by a natural gas undertaking, including in it the LNG facilities being used for storage, excluding those LNG facilities being used for the activity of production, and facilities exclusively booked for the Transmission System Operator (TSO) while performing its functions.

“**Hydrocarbons**” means crude oil and/or natural gas;

“**Injectability**” is the ratio on the quantity of gas which is allowed to be injected in the storage facility by the user of storage facility.

“**Tariff Methodology**” is the act that defines the conditions and manner of calculating tariffs on natural gas regulated activities.

“**Tariff**” means the price for the provided service by entities that carry out regulated activities on access to storage spaces, set on the basis of tariffs calculation methodology.

“**Invoicing period**” is the time-frame for which the tariffs are set.

“**Regulatory period**” is the period for which the new tariffs become effective and are regulated according to ERE Board Decision, after full and detailed review of the tariff application submitted by the Storage System Operator and shall mean the time – frame for which are defined the allowed incomes;

“Allowed incomes” are the incomes from the natural gas storage system operator to the natural gas storage facility, covering the reasoned costs from the economic and technologic approach and for which the system operator shall have the right to receive during the specific regulatory period;

“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.

“Natural gas consumption for technological reasons” – shall mean natural gas used to ensure the technological processes of storage spaces;

“Natural gas losses” shall mean the difference between natural gas volumes injected to the storage spaces and that are withdrawn from the storage space during the storage cycle, excluding natural gas consumption for technological reasons;

“Capacity” means the maximum amount of gas flow injection/withdrawal, expressed in cubic meters per unit of normal or in units of energy for every unit of time, which is given to each user in the network, according to the contracts signed with the Storage System Operator and/or according to the transport contract signed with TSO company.

“Contracted Capacity” is the storage capacity for any type of contract respectively signed with the network users and the Storage System Operator and/or the contract signed with the TSO.

“Interrupted Capacity” is the capacity, which can be interrupted by the TSO or the Storage System Operator according to the conditions agreed upon in the transmission contract signed with TSO or Storage System Operator respectively.

“Uninterrupted capacity” is the capacity set available to the grid users from the Storage System Operator for any day of natural gas storage for a given year (according to the contract connected between the grid user and the Storage System Operator).

“Capacity booking Service” is the service of the storage system that provides the booking of a product for the storage capacity for the injection, withdrawal and storage of natural gas to /from the storage spaces.

“**Utilization of the foreseen capacity for the storage spaces**” shall mean the average storage capacity, used to the three previous storage cycles. If the technical capacity of the storage spaces is fully used for any of the three previous storage cycles, when defining the utilization of the storage spaces for this storage cycle, shall be used the foreseen of the technical capacity for the storage cycle, on which it is planned to initiate the application of the rules;

“**Regulated Asset Base (RAB)**” is the assets of the Storage System Operator or a part of it which are necessary to provide efficient storage service.

Any other term used on this methodology shall have the meaning defined on Law no. 102/2015 “On Natural Gas Sector”.

Article 5

Tariff setting principles

- 5.1 The determination of tariffs according to this methodology shall be based on the RoR method. The Storage System Operator will be allowed to cover the service costs 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 for the storage service of the Storage System Operator shall be set according to fair and justified costs principle and shall promote the efficient usage of the storage space assets.
- 5.3 The Storage System Operator shall apply the rules of this methodology for the purpose of setting the tariffs by ERE.
- 5.4 ERE shall approve the storage service tariffs for the storage system operator when the conditions and principles of this methodology are met.
- 5.5 Tariffs for the storage service of the storage 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 grid operators.
- 5.6 Deviation from any provision of this methodology shall lead to the rejection by ERE of the application for tariff of the Storage System Operator, except of the cases this is justified for major reasons.
- 5.7 The tariff for the storage service of the Storage System Operator shall be calculated and approved by ERE based on reasonable costs that the Storage System Operator uses to carry out the activity and that are in conformity with this methodology.

- 5.8 Costs and tariffs for the storage service of the Storage System Operator shall be calculated based on data obtained from the previous year of the grid operator activity.
- 5.9 For the storage service operator which operates for the first time, the evaluation of the storage service costs for the next period shall be supported based on the realization and provision of the justified costs and expenses for the current year.
- 5.10 The storage service tariffs for the Storage System Operator shall reflect service costs.
- 5.11 The allowed costs that have served to define the storage service tariffs shall be published by ERE for transparency to all users.
- 5.12 The system operator shall prepare the the tariff proposal in conformity with this Methodology, defining the incomes that are necessary to cover the costs for providing the service for the capacity booking.
- 5.13 Implementing the provisions of the “Regulation of ERE organization, operation and procuedures” the storage system operator shall submit for review at ERE the application to approve the natural gas storage tariffs in writing and the tariff calculation and their costs electronically. At the tariff application the storage system operator shall submit:
- a) Tariff proposal and the respective costs for the future regulatory period, initiating from the day when it is planned the beginning of the calculated tariff application,
 - b) The justification for the costs that form the reference tariffs in the proposed tariff calculation as well as the documents that verify the abovementioned costs in conformity with the provisions of this methodology;
 - c) The foreseen utilisation of the storage space capacity, that shall be allocated for each of capacity products, and the respective justification;
 - d) The justification on the specified coefficients according to Article 11 of this Methodology for:
 - natural gas injection capacity
 - natural gas storage capacity
 - natural gas withdrawal capacity
- 5.14 The storage system operator, shall submit ar ERE for review the coefficients mentioned on letter d) point 5.16 of this article accompanied with the assessment and the respective justification to calculate them during the regulatory period not later than 6 months before the initiation of the regulatory period during which they are planned to be applied.

5.15 The proposed tariffs shall be applied for the first operation period, to the maturity of the capacity product. For the future regulatory periods when the capacity product is matured shall be calculated allocated tariffs (for the interruptive and uninterruptive capacity).

Article 6

Revenue required for the storage service

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);

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 Storage System Operator of natural gas during the tariff application process shall submit the differences on the required incomes that result with the allowed 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 net invested capital for the testing year of the Storage System Operator of natural gas:

- a) it is calculated the value of net fixed assets;
- b) it is increased the value of net working capital or 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 Storage System Operator shall be applied the formula:

$$\mathbf{RAB= As +Bs + INV- D}$$

where:

As - shall be the residual value of the tangible fixed assets necessary for the storage spaces operation calculated with the historical cost of purchase at the beginning of the regulatory period for year (t-2) according to the audited PF

Bs -value of the assets expected to enter into operation for year **(t-1)**;

INV - new investment additions that are expected to be realized in the year **(t)**

D - shall be calculated the depreciation value, according to the asset life-cycle method.

7.4 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.

7.5 The allowed return on equity after taxes shall be the base interest rate as well as a premium for the specific risk of the Storage System Operator for natural gas. The key interest rate is the value of government bonds published by the Bank of Albania.

7.6 The return on equity after taxes shall be decided by ERE, and shall published at the beginning of the year on which the Storage System Operator of natural gas shall initiate the activity.

Article 8

Allowed depreciation

8.1 For the purposes of determining the depreciation allowed for year **t**, the Storage System Operator of the Natural Gas shall:

- a) calculate the gross fixed assets of individual asset categories in operation up to 31 December of that year;

- b) deduct from gross fixed assets of individual asset categories obtained through grants;
- c) determine 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) 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 Storage System Operator of Natural Gas. Actual operating costs shall include all cost items of a repetitive nature that actually occur and are attributed to the Natural Gas Storage 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 company that exercises the role of the Storage System Operator of Natural Gas, the actual operating costs shall 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:

$$\text{OPEX} = \text{C maintenance} + \text{C salary} + \text{C general} + \text{C electricity} + \text{C injection} + \text{C withdrawal} + \text{C technological consumption and the losses in the storage process}$$

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 injection – includes the cost of injecting natural gas into the storage facilities.

C withdrawal – includes the cost of withdrawal of natural gas from the storage facilities.

C technological consumption and the losses in the storage process - costs to cover self-consumption and losses in the natural gas storage process.

Costs for natural gas losses and for providing technological processes shall be determined using the following formula:

C technological consumption and the losses in the storage process = (P + K) × Ç

Where:

P – planned losses of natural gas [kWh or Nm³];

K – planned consumption of natural gas for technological reasons [kWh or Nm³];

Ç – planned average price for natural gas losses [EUR/kWh or EURO/ Nm³].

In calculating the cost of operating the storage space, the system operator shall take into account the planned inflation for the years included in the relevant regulatory period. The system operator must provide justification for the planned inflation used to index operating costs.

The costs to ensure the technological processes shall not include the costs of natural gas used to provide operation of the compressors.

For the first year of the operation in order for ERE to assess if these costs are reasonable and justified, the Storage System Operator of natural gas shall submit a benchmark of the costs mentioned on point 9.3 realized from the storage service from the similar operators that operate in the region and beyond.

9.4 The total share of the required incomes for the storage facility shall be attributed to operational costs:

- a) for the first year of providing effective storage service, the required revenue is proposed by the Storage System Operator of natural gas 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 towards other costs;
- b) for the regulatory period after the beginning of providing the service, these costs shall be defined beginning from the proposed assessment from the Storage System Operator of the Natural Gas, from the availability of the final data regarding the current operational costs issued from the Financial Statements that represent financial data presented according to the “**Unified System of Accounts for Regulated Companies in Natural Gas Sector**”.

9.5 When the regulatory period is composed of some years, then the regasification service tariff for the Storage System Operator for the years after the base year shall be corrected for each tariff period within the regulatory period considering the correction related to:

- the difference between planned and actual revenues, including payments of users of the natural gas system specified in the Storage Regulations for storage capacity reservation auctions or other activities related to the provision of capacity reservation services by storage system operator;
- the differences between the planned costs and the actual costs which include the costs caused by extraordinary and unforeseen events and changes.

9.6 The Storage System Operator must demonstrate that these costs are different compared to the actual costs considered in the base year and must also demonstrate the actual unpredictability and exceptional nature of the events considered; and demonstrate each activity undertaken, the corresponding costs in the base year, as well as the additional activities that become necessary in the implementation of the Legal Acts.

Article 10

New investments regarding the additions of storage capacity

10.1 For the purposes of recognizing the investments made in the required revenue the Storage System Operator who intends to build a storage 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.

10.2 Following the evaluation of these investments ERE 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.

10.3 For the purpose of calculating the income required to cover the CAPEX for the first year of the storage service t, the company that exercises the activity of the Storage System Operator shall calculate the return on the net capital invested and the depreciation based on the value of the fixed assets in operation reflected in the financial statements and the prediction for the current year.

Article 11

Tariff calculation for the Natural Gas storage system

11.1 The natural gas storage system tariff for the storage system operator shall be calculated according to the following formula:

$$TD = C_s \times S + C_i \times I + C_e \times E$$

Where:

C_s –value expressed in (ALL)/MWh/year or (ALL)/Nm³/year of the storage space.

S –the capacity of storage space on an annual basis available to the storage facility user, expressed in MWh/year or m³/year

C_i –the value expressed in (ALL)/MWh/day or (ALL)/Nm³/day of the injection capacity in the storage space.

I –the injection capacity in annual basis available to the storage facility user expressed in MWh/day or Nm³/day

C_e –the value expressed in (ALL)/MWh/day or (ALL)/Nm³/day of the natural gas withdrawal capacity from storage space

E –the withdrawal capacity in annual basis available to the storage facility user expressed in MWh/day or Nm³/day

11.2 The values expressed for each of the storage service activities are calculated for each tariff year as follows:

$$c_s = \alpha_s \times \frac{A}{S}$$

$$c_i = \alpha_i \times \frac{A}{I}$$

$$c_e = \alpha_e \times \frac{A}{E}$$

$$A = TA - TAs$$

Where:

A-the total required income (OPEX+CAPEX)

TA –is the required income of the natural gas storage service for the tariff year

TAs –are the incomes expected to be realized from the natural gas storage service which shall be recovered from the strategic reserve owned by the Storage System Operator during the tariff year calculated from the return of the invested capital and the monetary value of the amount of natural gas strategic reserve.

In the event that there shall be no strategic reserves foreseen according to the legislation in force at that time $A = TA$.

α –are the coefficients for allocation of the required income between storage capacity, injection and withdrawal of natural gas from the storage space. The Storage System Operator shall submit in the tariff application, the calculation of these coefficients together with a benchmarking of these coefficients carried out by the storage service by similar operators operating in the region or beyond.

S- is the capacity space made available for natural gas storage by the Storage System Operator

E –is the capacity space made available for the withdrawal of natural gas by the Storage System Operator

I –is the space of the maximum capacity made available for the injection of natural gas by the Storage System Operator at the beginning of the injection phase, considering the case of injecting all the natural gas that shall serve for the strategic reserve in the event that one shall be provided in the storage code.

Article 12

Tariff Application

12.1 Based on this methodology, the Storage System Operator of Natural Gas 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 Storage System Operator of Natural Gas shall submit at ERE all the necessary data on the costs of the storage facility activity.

Article 13

Requirements for the Public

13.1 Following the approval of the decision to open the procedures for reviewing the tariff application of the storage service, ERE shall notify the interested parties in accordance with the provisions of the "Regulation for ERE Organization, Operation and Procedures.

13.2 The Storage System Operator of Natural Gas shall publish the storage service tariffs approved by ERE 15 days prior their entry into force, in accordance 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 storage tariffs of the Storage System Operator of Natural Gas 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 the required income TA
 - b) additional revenue components if resulting from PF;
 - c) the tariffs referred to in Article 11
 - d) the amount of technical capacity of the storage facility, injection and withdrawal of natural gas in the storage facility;
 - e) justifications and assessments on the provision of additional services if it is foreseen that there shall be costs beyond the forecast related to technological consumption and natural gas losses related to the storage activity or other costs regarding the storage activity accompanied by justifying documents;
 - f) the prediction of the costs related to the activity of the storage service together with the data on the expected conditions of the operation of the storage space, also determined on the basis of historical data and other relevant assumptions considered for the purposes of the assessment of the proposed tariffs.
 - g) the criteria used to divide the income between the storage services, injection and withdrawal of natural gas as well as the coefficients that are proposed, determined according to Article 11 of this methodology.
 - h) list of accounts of natural gas storage activity separated from other activities;
 - i) financial statements for the testing year and of the current period;
 - j) comparison of allowed and resulting costs;
 - k) any document justifying extraordinary or non-repetitive expenses.
3. Detailed description of planned interventions and relative cost of investments divided by asset category
4. Detailed description on the investments that are expected to be realized for increasing the capacity of the storage facilities, injection and withdrawal of natural gas, the estimated time for the realization and putting into operation 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
Final Provisions

- 17.1 This methodology is approved with ERE Board Decision no. 185 dated 21.07.2022.
- 17.2 This methodology enters into force after publication in the Official Gazette.