



Questions on the LNG Rulebook published by LNG Croatia on January 17, 2018.

Disclaimer: What is the legal status of the Rulebook? Is it a binding document or a guideline for information purposes? Can the rulebook be modified in the future?

A: Rulebook is a guideline for informational purpose only and can be changed in the future as stated in the Disclaimer of the document.

1.2: Would it be possible to export the gas to any other country than Hungary?

A: LNG Croatia as an LNG Terminal Operator in this Open Season offers long term LNG regasification capacities on the Terminal. Please contact TSO Plinacro with questions about possible gas exports routes from Croatia.

2.1.3.1.: What is the status of FSRU procurement? Could the FSRU technical details set forth in this section be considered final numbers (binding commitment for the developer) or indications?

A: At the moment of writing this answer, negotiations with FSRU providers are ongoing. Therefore, FSRU technical details set forth in the Rulebook should be considered as indications, not final numbers.

2.1.3.4.: What does “ * ” mean next to the scenarios in the table?

A: Number of asterisks in front of scenarios in column “Parameter” are connecting same asterisks number in front of the values in column “Indicative value”.

2.2: What is the status of the relevant approvals for the pipeline in Scenario S1 300? When do you expect to receive the construction permit? What is the status of the EPC process for the pipeline?

A: For more information about TS pipeline status please contact Plinacro, LNG Croatia is unable to give you that information.

2.2: What happens if the terminal project reaches a positive FID and is built by the planned start time but the construction of the Omisalj-Zlobin pipeline cannot be finished by 2020?

A: This situation is covered in Open Season documentation published by Plinacro, since construction of Omisalj-Zlobin pipeline is under their supervision and stipulated in contracts with both Operators.

2.3.: What are the non-standard services? Please explain and provide tariffs for the non-standard services.

A: Only administrative non-standard services are defined at the moment, but their fee is currently not determined. The purpose of those services is related to providing transfers on the Secondary market and will be in line with similar services offered by Croatian TS and Storage Operator.

2.3.: How can capacity holders trade in-tank LNG?

A: The procedure for trade in-tank (title-transfer) is described in Rules of operation of liquefied natural gas and it is offered as a Secondary market transfer.

2.3.: Please disclose the quoted Terminal User's Service Schedule document.

A: Terminal User's Service Schedule document is actually a Request that can be found on the web-page of the Operator. By sending the Request, Users indicate their regasification service profiles and preferred Cargo arrival times. Then Operator coordinates the schedules of all the Users and sends them their new individual schedule while the final Joint Terminal Use Service Schedule is published on the web-page.

2.4.: The CAPEX range is too wide; please narrow it down as much as possible. Please also provide a cost break down of the main elements (e.g. FSRU procurement, construction of the jetty, loading arms, ancillary equipment, cost of administration, project management, etc.).

A: Please, be aware that FSRU and EPC tenders are ongoing so disclosing such information to public can have impact on the results of the procurement process, however, all available information on current CAPEX can be found on the following link: https://www.hera.hr/hr/docs/2017/Odluka_2017-12-15_04.pdf .

2.4.: Would it be possible to book capacity at the terminal following the Open Season? If yes, please explain how.

A: In case there are available capacities left after Open Season process, they will be offered in Annual Open Season process as described in the Rules of operation.

2.4.: What is the targeted investment structure of the project? What is the minimum necessary capital and external funding to reach a positive FID?

A: The targeted investment structure will depend on the owners. Almost one third of the total project value is financed through the CEF grant. The rest of the capital will be collected through the investment of the owners and through external funding.

2.4.: Who are the main investors behind the project?

A: Current owners of LNG Croatia are Plinacro and HEP. Negotiations with potential partners are in process.

2.4.: What is the current status of the financial model/structure?

A: Please, look at the answer in 2.4.

2.5.1.: Please provide a delivery rate table (not only a chart) for the Regasification Scenarios.

*A: Delivery rate table (based on which the chart from the Rulebook has been made) can be found on the web-page of Croatian Energy Re on the following link:
https://www.hera.hr/hr/docs/2017/Odluka_2017-12-15_04.pdf.*

2.5.1.: Why LNG Croatia expects delivery rate to decrease from 2025 and to further decrease from 2030 in Scenario S1 OS?

A: S1 OS corresponds to the percentage aligned with Plinacro and it is based on the non-binding offers received during the market consultation phase held by Plinacro and LNG Croatia. It was visible through the received offers that the interest of the Terminal Users is being decreased linearly. The interest is the highest for the first 5 years, then for 10 years etc.

2.5.2.: This section implies tariffs will be revised in every 5 years. What events could alter tariffs after the final open season? Will there be a range introduced within that tariffs could be amended?

A: As you probably know, LNG Croatia is regulated by Croatian Energy Regulatory Agency which is also in charge of calculating tariff items based on planned capacity bookings, justified investments, operational expenditures and reasonable return on regulatory assets. The same of similar methodology is applied in other EU states and it is important to emphasise that LNG Croatia cannot amend the tariff items unilaterally. According to the stated above, Croatian Energy Regulatory Agency provided the Decision about the indicative tariff items which first of all depend off the level of capacity bookings, and the final tariffs will be defined after collecting all the binding bids. According to regulation, tariffs are calculated for 5 years period (regulatory period) and can be amended in that period through extraordinary audit, but only if some relevant changes occur that affect the level of tariff items. All stated is prescribed in Rules of operation of liquefied natural gas terminal.

2.5.2.: Are the fees on page 17,18 binding tariffs or still indications?

A: Mentioned fees are indicative fees published by Croatian Energy Regulatory Agency and as such listed in our Rulebook. Therefore, they are mandatory in this call for submission of binding offers. Certainly, after receiving the binding offers, tariffs will be recalculated again.

3.1.: Is the capacity allocation mechanism in line with the CAM Network Code?

A: The capacity allocation mechanisms for transmission system (Dravaszerdahely point) is in accordance with CAM regulation. Omišalj point is not an interconnection point so CAM regulation doesn't apply for this point. Hungarian and Croatian regulatory Agencies have approved the allocation mechanism for Dravaszerdahely point in accordance with article 31. of the CAM Regulation.

3.2.: Please provide us with a more detailed explanation on the procedure of the economic test.

A: As indicated within the Rules for carrying out the Binding Phase of the Open Season Procedure (hereinafter referred as: the OS Rules), the economic test represents a tool which enables the project promoter to assess the profitability of the intended project. Positive economic test represents a mandatory condition for the project to be assessed as profitable. This condition will be met only if the discounted net cash flow, excluding the remaining value of the project and the free working capital, is equal or higher than the discounted investment cost.

When conducting the economic test, special attention will be devoted to determining the final regasification tariff. As already known, due to the existing regulation in Croatia, the regasification tariff has to be determined according to the Tariff Methodology adopted by the Croatian Energy Regulatory Agency and is highly dependent on the future regasification rate.

Due to the inability to estimate the future regasification rate at this stage, the indicative regasification tariff was adopted by the Croatian Energy Regulatory Agency for a set of different regasification scenarios. The regasification scenarios were determined by taking into account the planned upgrade of the gas transmission system in Croatia. In addition, one regasification scenario was determined as the minimum feasible scenario below which it is highly likely that the project will not continue. This minimum regasification scenario was identified as the reference scenario and is considered to be the starting point in the calculation of the final regasification tariffs. A more detail description of the regasification scenarios and the calculated indicative tariffs can be found in the OS Rules.

The first goal of the Open Season procedure is to determine the regasification scenario based on the actual market demand as a starting point for further tariff calculation. Based

on the previously conducted market consultations, the project promoter expects that the actual regasification rate will be higher than the reference one and consequently the final tariff will be lower than the reference one. By submitting their binding offers eligible applicants will give their informed consent that they accept the final tariff whether it is equal or lower than the reference tariff and calculated according to the adopted Tariff Methodology.

Based on the submitted binding offers, the project promoter will recalculate the regasification tariff and conduct the 1st economic test. Hopefully the new tariff will be lower than the reference tariff. If the 1st economic test with a new tariff is positive and all regasification capacity is allocated among eligible applicants, the project promoter will offer to the eligible applicants to sign the Terminal Use Agreement for the allocated capacity with new tariff.

On the other hand, if not all regasification capacity is allocated or the 1st economic test is not positive, the project promoter will invite eligible applicants to submit supplement offers requesting additional regasification capacity on top of the previously requested and allocated regasification capacity. In this stage the eligible applicants are not allowed to change the previously requested regasification capacity. Once the supplement offers are submitted, the project promoter will recalculate the regasification tariff and conduct the 2nd economic test. Hopefully the revised new tariff will be even lower from the one calculated for the 1st economic test. If the 2nd economic test with a revised new tariff is positive the project promoter will offer to the eligible applicants to sign the Terminal Use Agreement for the total allocated capacity with revised new tariff.

The 3rd round of offer submission and the 3rd economic test will be conducted only if the previous round did not result with a positive economic test and with a final tariff equal or lower than the reference once. In that case the project promoter will calculate the favourable tariff under which the project can achieve a positive economic test. It can be expected that the calculated tariff will be higher than the reference tariff. In that case the eligible applicants are allowed to resign from the Open Season procedure without any cost or to completely revise the previously expressed regasification capacity requested.

3.2. Please define “favourable tariff” and “revise the offer”.

A: The favourable tariff represents the tariff under which the project can achieve a positive economic test. It will be calculated according to the Tariff Methodology, adopted by the Croatian Energy Regulatory Agency, when the actual regasification scenario differs from the reference regasification scenario. Actual regasification scenario will be determined based on the submitted binding offers and/or the supplement binding offers, and/or revised binding offers. Indicatively, the actual regasification scenario will always differ from the reference regasification scenario and therefore the favourable tariff will be calculated for each of the envisaged economic tests.

The Terminal Use Agreements (hereinafter referred as: the TUA) will be offered with the favourable tariff calculated based on the latest actual regasification scenario. If the TUA's are offered immediately after the 1st economic test, the favourable tariff can be equal or

lower (which is more likely) than the reference tariff. If the TUA's are offered after the 2nd economic test, the favourable tariff can be equal or lower (which is more likely) than the favourable tariff calculated for the 1st economic test.

The favourable tariff can be higher than the reference tariff only in the case when the actual regasification scenario is lower than the reference regasification scenario. This can be the case when the 2nd economic test is not positive. In that case the eligible applicants can withdraw from the Open Season procedure without any cost or can further participate in the Open Season procedure by reconsidering their previously submitted binding offers i.e. by submitting the revised binding offer, due to the likelihood that the favourable tariff will be higher than the reference tariff.

The revised binding offers will replace the previously submitted binding offers (for the 1st economic test) and supplement binding offers (for the 2nd economic test). Based on the actual regasification scenario determined based on the submitted revised binding offers the final favourable tariff will be calculated and offered within the TUA's.

For better understanding of the envisaged procedure, it is worth pointing out that the supplement binding offers (for the 2nd economic test) will be added on top of the previously submitted binding offers (for the 1st economic test) and are not intended to replace in any way the previously submitted binding offers (for the 1st economic test). For better understanding the envisaged procedure is described in steps in the following table.

Step	Offer submission	Tariff calculated	Economic test	Comment
0	Determination of the reference regasification scenario. Based on market consultation.	Reference tariff	Preliminary economic test	Starting point for the binding Open Season procedure
1	Submission of binding offers	Favourable tariff calculated based on the actual regasification scenario determined after the capacity allocation. The tariff will be preferably lower than the reference tariff.	1 st economic test	If the 1 st economic test is positive and all of the regasification capacity is allocated the project promoter will offer TUA's with the favourable tariff. If there is regasification capacity still available, the project promoter will conduct additional step in order to sell the available regasification capacity.
2	Submission of supplement binding offers	Favourable tariff calculated based on the actual regasification scenario determined after the capacity allocation. The capacity allocation will be conducted only for the capacity requested within the supplement binding offers. The tariff will be preferably lower than the favourable tariff from the previous step.	2 nd economic test	If the 2 nd economic test is positive the project promoter will offer TUA's with the favourable tariff. If the 2 nd economic test is negative, and the favourable tariff is higher than the reference tariff, the applicants can withdraw from the Open Season procedure without any cost or continue when reconsidering their previously submitted offers.

Step	Offer submission	Tariff calculated	Economic test	Comment
3	Submission of revised binding offers. The revised offers will replace the previously submitted binding offers and supplement binding offers.	Favourable tariff calculated based on the revised actual regasification scenario determined after the capacity allocation. The capacity allocation will be conducted based on the revised binding offers. The favourable tariff will be most likely higher than the reference tariff.	3 rd economic test	If the 3 rd economic test is positive the project promoter will offer TUA's with the favourable tariff.

3.2.: Will the tariffs be re-calculated following the first bidding round?

A: For the regasification capacity requested within the submitted offers, the project promoter will conduct the allocation of that regasification capacity. Prior to conducting the economic test, the project promoter will recalculate the tariffs based the previously allocated regasification capacity. The allocated regasification capacity stands for the actual regasification scenario. Preferably, the first two bidding rounds will result with a consecutive decrease in tariff.

Finally, it can be concluded that the tariffs will be recalculated for each bidding round prior to conducting the economic test.

3.2.: Would it be possible to submit a bid in the second round (if any) even if the applicant didn't apply for capacity in the first round?

A: Yes, however if the participation in the second round is allowed without mandatory participation in the first round than it is most likely that all the eligible participants would have an interest to wait for the second round. In that way, the second round would lose its purpose and would practically become the first round. If that happens there will be no second round and there will be no opportunity to maximize the utilisation of the LNG terminal regasification capacity. So it would be preferably to submit an offer in the first round.

3.2.: Would it be possible to withdraw a bid after a successful first economic test?

A: It is always possible to withdraw the offer regardless of the outcome of the economic test. However, withdrawing the bid from either of the first two rounds, as long as the favourable tariff is equal or lower than the reference tariff and the economic test is positive, imposes a great risk to the project promoter. In that case the project promoter will activate the bank guarantee and the applicant will bear the cost of the bid withdrawal.

The project promoter will not activate the bank guarantee only if the applicant withdraws the bid because the offered favourable tariff is higher than the reference tariff. That can most likely happen only in the case when the 2nd economic test is not positive and there

is a need for a third round of offer submission i.e. the submission of the revised binding offers.

3.3.: Please explain what you meant under “under certain circumstances” (page 21).

A: Since the binding phase of the Open Season procedure was prepared in close collaboration with the respective transmission system operator and since there are numerous interested stakeholders in the project, the phrase “under certain circumstances” refers to any unpredictable situation that might cause the prolongation of the planned activities.

3.4.: Please clarify/define “initially adopted indicative tariff”.

A: The phrase “initially adopted indicative tariff” refers to the phrase “the reference tariff”.

3.4.: We suggest introducing a tariff cap.

A: A tariff cap cannot be introduced due to the regulation constrains. The tariff will be calculated according to the Tariff Methodology adopted by the Croatian Energy Regulatory Agency. The Tariff Methodology is based on the Regulated Revenue. Meaning, the LNG terminal operator is allowed to achieve predefined revenue which will be sufficient to cover the operating expenses, the depreciation and amortization and the return on regulated assets.

However, the tariff cap is indirectly introduced in the Open Season procedure under the name “the reference tariff”. By introducing the reference tariff the project promoter takes the risk of the Open Season outcome.

As previously answered, the reference tariff represents a threshold above which the applicant can withdraw the offer without any cost and below which the applicant will bear the cost of offer withdrawal.

3.4.: How much is the expected free working capital?

A: The amount of the free working capital is commercially sensitive information and cannot be provided. However, it is worth pointing out that, according to the adopted Tariff Methodology, the working capital is not part of the regulated asset and the return on the working capital is not allowed. Therefore, the working capital is not included in tariff calculation.

3.4.: What is the value of the Discounted Investment Cost?

A: The value of the discounted investment cost is around 272 million EUR. The value can still change depending on the final price of the FSRU vessel and the construction works.

3.5. This section states that 2.6 bcm/a capacity will be offered during the Open Season procedure. In light of this, why were the S2 400 and S3 600 scenarios published?

A: We truly apologize for the mistake. The offered capacity is not limited in the Open Season procedure.

3.5.: Is it possible to submit a bid with a start date after 2020 (eg. capacity request between 2025-2030)?

A: Yes, it is possible.

3.5.: Is it possible to submit a bid with a different annual capacity request?

A: Yes, it is possible.

3.5.: Is the “size of the LNG carriers and their annual arrival date” a binding commitment or indication for scheduling purposes?

A: The size and the arrival date are just an indication for scheduling purposes.

3.5.: Please explain the procedures for virtual LNG storage and the capacity allocation mechanism.

A: Virtual storage is a feature of service delivery and it is not connected with capacity allocation mechanism.

3.5.: What happens if a company books capacity from January 1st, 2020, but the terminal cannot commence commercial operation?

A: That situation is stipulated in Article 4 of TUA.

3.5.: As start of the commercial operation is planned by January 1st, 2020, when LNG Croatia plans to hold the first delivery scheduling meeting for terminal capacity holders?

A: There are deadlines for every step of the procedure. Operator announces an invitation to submit the requests for capacity allocation every year by May 30th. Deadline to submit

the requests is June 29th. July 8th is the deadline to provide TUA/GTC to be signed by potential Terminal Users and the deadline for signing is July 15th.

3.5.: When Applicants to the tender submit requests for regasification capacity, is that capacity going to be available evenly throughout the gas year or will that be made available to regasify the delivered LNG over a certain period?

A: Operator guarantees for a flat rate service and the Terminal User seeks for a service profile that he can get in accordance with other Terminal Users.

3.5.: Criteria #1: “In case of contractual congestion, the Applicant requesting the larger regasification capacity will have the priority in allocation “. It is unclear whether it means larger capacity request on a yearly basis or larger aggregated capacity between 2020-2039.

A: It means the larger aggregated capacity between 2020-2039.

3.5.: It is difficult to interpret the second priority criterion to be applied in case of contractual congestion, it is suggested to clarify.

A: In case of a contractual congestion, the advantage is on the side of the User who has offered the lowest minimum capacity. That User is considered to be more flexible and ready to accept any capacity offered, except the requested one.

5.3.: What are the bank guarantee requirements? Are there any requirements concerning the issuing banks? Shall the applicants get an approval on the text of the bank guarantee prior to the bid submission?

A: Bank guarantee requirements as prescribed in point 5.3 of the Rulebook, issuing bank are rated OECD financial institution (at least BBB+ by S&P/ Fitch or Baa1 by Moody's FC LT).

If a Terminal User is willing, it would be good to send the text of the bank guarantee to the Operator for approval before the official submission of the documentation.

5.3.: The Rulebook says that „ The bank guarantee shall be issued [...] by the bank acceptable to the project promoter” Could you please clarify which requirements shall be met when selecting the bank? Please provide a list of the acceptable banks.

A: Please, look at the answer on the previous question.

Annex 4.: Bank guarantee sample is missing. Please disclose a sample bank guarantee template or at least the major legal requirements that shall be included in the text of the guarantee.

A: It was not an Operator's intent to enclose a bank guarantee. Annex 4 represents a content of the offer. It is on the Terminal User to send a bank guarantee to the Operator as Annex 4.

5.4.1.: Is there a hard-stop date after which LNG Croatia cannot request the prolongation of the offer's validity?

Hard-stop date has not been defined.

5.4.3.: Deadline: "14.a.m." should be modified to "2 p.m." or "14:00 (CET)".

A: We apologize for the mistake.

5.4.4.: "Chapter 3.1." should be modified to „Chapter 3.3.”

A: We apologize for the mistake.

5.4.: How will you handle received offers? Do you open them at the same time in the presence of a notary public?

A: Presence of the public notary is not a precondition for the opening of the received offers. The public opening of the received bids is not possible because all the received bids are confidential data that mustn't be revealed to third parties.

General questions

When will the final terminal documents be published?

- Rules of Operation**
- General Terms and Conditions**
- Tariff System (with numeric examples)**
- Final Gas Accounting Policy (with numeric examples)**
- Rules of Supplementary Services**

**Please provide us numeric examples on tariff system and gas loss calculations.
Would it be possible to pass over the capacity management rights to a third party?
Please provide us information on the anticipated port charges and port regulation.**

A: Most likely new public consultation on the ROO/GTC will be held before the end of February 2018 meaning that given documentation should be in force at the beginning of March 2018.

A: The indicative tariff exists, and it is listed in the Rulebook, but the final tariff will be calculated when all the parameters are known. Numeric examples are published on the following link: https://www.hera.hr/hr/docs/2017/Odluka_2017-12-15_04.pdf.

A: It is possible to pass over the capacity management rights to a third party and it is described in the ROO.

A: Maritime study is currently under the approval procedure and it is expected to be published soon. It contains the data concerning port charges and regulation.

Here are some of the information regarding port activities and charges:

- In the first year, berthing will be possible only during the day.*
- LNGC is coming with 4 and leaving with 2 tugboats*
- During the LNG discharge, one tugboat with the firefighting system needs to be present on the Terminal*
- Port charges include pilotage and tugboats which are publicly available on the web-site of the Port Authority of Rijeka*
- Port charges for 1 Carrier should vary between 60 and 70 000 €*