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**PROPOSAL OF THE RULES OF OPERATION OF THE LIQUEFIED NATURAL
GAS TERMINAL**
- CONSULTATION DOCUMENT -
Accompanying public consultations from June 25 to July 9 2021

1. INTRODUCTION

Pursuant to Article 93 of the Gas Market Act (Official Gazette No. 18/18 and 23/20, hereinafter: GMA) and the Decision on approval of the Croatian Energy Regulatory Agency (CLASS: 003-07/18-03/07, FILE NO.: 371-01-18-6) of 21 June 2018, the LNG terminal operator, LNG Hrvatska d.o.o., adopted the Rules of Operation of the Liquefied Natural Gas Terminal on 2 July 2018, the Rules on the amendments to the Rules of Operation of the Liquefied Natural Gas Terminal on 30 March 2020, and the Rules on the amendments to the Rules of Operation of the Liquefied Natural Gas Terminal on 4 December 2020 (hereinafter: Rules).

The Rules regulate the description of the LNG Terminal (hereinafter: Terminal), the development, construction and maintenance of the Terminal, the operation of the Terminal, the contractual relationships and the general terms and conditions of the Terminal use, the booking and use of the Terminal's capacities, the rules of measuring and rules of allocation, data publication and information exchange, indemnification and the rules of selling LNG or natural gas of the Terminal Users in an open procedure.

2. REASONS FOR THE ADOPTION OF THE NEW RULES OF OPERATION OF THE LIQUEFIED NATURAL GAS TERMINAL

The Terminal began operations on 1 January 2021. After the first quarter of the Terminal's commercial operation, it was noticed that the valid text of the Rules had to be adjusted to the new circumstances listed below.

Among the more significant amendments, we would like to point out amendments in the capacity booking procedure, with the aim of simplifying the booking procedure on the one hand, and protecting the interests of the Terminal Operator on the other.

In addition, there was a need to nomotechnically refine the current wording of certain provisions so that the provisions are understandable, unambiguous and clear to Terminal Users and all other addressees, all for the purpose of improvement and more efficient implementation.

A chapter of the Rules entitled “LNG redischarge from the Floating LNG Storage and Regasification Unit into the LNG carrier or LNG transport truck” was added, prescribing the manner of using these non-standard services of the Terminal, and regulating in detail the mutual rights and obligations of the users of these services and the Terminal Operator.

Furthermore, the Natural Gas Allocation Policy, which sets out the principles of calculation of natural gas available at the Terminal, has been moved to a separate document that will be published by LNG Hrvatska d.o.o. on its website, while the basic rules and principles of the the Natural Gas Allocation Policy are now set out in the text of the Rules themselves.

In addition to the above, we wish to point out that the adoption of the Rules from 2018 was followed by two more amendments to the Rules in 2020, and that these amendments changed more than half of the Rules’ provisions. In view of the above, it is not sufficient to adopt amendments of the existing Rules; instead, it is necessary to adopt new Rules.

Following all the above, below is a brief explanation and description of the main amendments by chapters of the Proposal of the Rules of Operation of the Liquefied Natural Gas Terminal.

I. GENERAL PROVISIONS

The general provisions prescribe the subject and scope of the Rules, and the definitions.

In relation to the existing Rules, a large number of definitions has been amended in such a way that the definitions have been simplified as much as possible, some have been harmonized with the regulations in force, and some of them have been deleted due to being redundant.

II. TECHNICAL CHARACTERISTICS AND TECHNICAL CONDITIONS OF THE TERMINAL

The title of chapter II has been shortened, for simplification purposes, to “Terminal description”, while the content has remained approximately the same.

The existing provisions prescribe the components of the Terminal through technical characteristics, technical conditions and connection to the gas transmission system, as well as the obligation of the Terminal Operator to adopt and publish on its website the technical conditions of the Terminal, an integral part of which are the technical characteristics of the Terminal.

The introduced amendments have further clarified the relationship between the Terminal Users and the Operator in the event of a change in the technical conditions of the Terminal during the duration of the Terminal Use Agreement.

III. DEVELOPMENT AND CONSTRUCTION OF THE TERMINAL

The title of chapter III was, in order to be harmonized with its contents, renamed to "Operation, maintenance and connection of the Terminal with the transmission system". In relation to the

existing Rules, the redundant parts concerning the obligation of the Operator regarding the completion of the Terminal and its commissioning have been deleted.

Furthermore, the article regulating the commissioning, management and supervision of the Terminal has been deleted, as it has lost its meaning since the Terminal has been in operation since 1 January 2021, and accordingly, amendments have been made to the article determining the connection to the transmission system.

IV. OPERATOR SERVICES

These provisions prescribe the services provided by the Terminal Operator.

In relation to the existing Rules, amendments have been made with the aim of defining the obligations of Terminal Users in terms of concluding or acceding to the Joint Terminal Use Agreement in a better and clearer manner, and a new reason why the Operator may deny the LNG Regasification Service has been added.

Redundant services have been deleted from the exhaustive list of non-standard services provided by the Terminal Operator, and LNG redischARGE from the Floating LNG Storage and Regasification Unit into an LNG transport truck or LNG carrier, as well as carrying out extraordinary inventory requested by a Terminal User and change of the terminals for arrival of LNG carriers have been added as non-standard services.

V. CONTRACTING THE LNG REGASIFICATION SERVICE AND LNG REGASIFICATION CAPACITY ALLOCATION

These provisions regulate the procedure for contracting the Terminal's services, managing the LNG regasification capacities and their allocation.

Amendments have been made in relation to the existing Rules, and the article regulating the open season process has been deleted.

In the annual capacity booking, the deadline within which a gas supplier or gas trader may submit a request for capacity allocation has been amended in such a way that the request may be submitted no later than by 31 May of the gas year immediately preceding the first gas year covered by the request for allocation of the LNG regasification capacity, and the obligation of the Operator to publish the form of that request on its website has been prescribed. This shortening of deadlines for submitting requests for capacity allocation is prescribed for business processes around the development of service schedules, so that the LNG terminal users could in due time before the gas year, contract the arrival of ships and take other related actions.

The procedure for submitting requests for capacity allocation in an annual capacity booking has been amended, which now, in order to be taken into consideration, has to be submitted together with the capacity allocation guarantee, in the form of a cash deposit or an unconditional and irrevocable bank guarantee, and the procedure for contracting the Terminal's services has

been elaborated in detail, from submitting the request for capacity allocation to signing the Terminal Use Agreement, i.e. Joint Terminal Use Agreement and returning the capacity allocation guarantee. The capacity allocation guarantee is introduced to ensure the claims of the LNG terminal operator in a situation where applicants wish to unilaterally withdraw from the Terminal use agreement after submitting the request for LNG regasification capacity allocation.

The procedure for submittal of requests for short-term LNG regasification capacity booking has also been amended accordingly.

VI. TRADING IN LNG REGASIFICATION CAPACITY AND LNG

The title of chapter VI has been, for simplification purposes and in order to be harmonized with its content, renamed to "Trading on the secondary market".

These provisions prescribe the procedures for trading in LNG and regasification capacity on the secondary market. The rights and obligations of Terminal Users when trading in LNG stored in the Terminal's tanks with or without transfer of unused capacity, and the rights and obligations of Terminal Users when transferring the contracted LNG regasification capacity or transferring the right to use the contracted LNG regasification capacity, have been regulated.

In relation to the existing Rules, the procedures have been described in a simpler way, the text has been nomotechnically re-processed, and additional mechanisms have been introduced to protect the Terminal Operator and the Terminal Users from unfair and fraudulent intentions of regasification capacity acquirers in the secondary market.

VII. SERVICE SCHEDULE FOR TERMINAL USE

The majority of amendments in this chapter have been made in order to harmonize it with the amendments in other chapters of the Rules, so additional information that the monthly schedule plan will contain has been introduced, all in accordance with the introduction of LNG redischARGE as a non-standard service of the Terminal. Furthermore, the possibility of changing the approved slots for arrival of LNG carriers at the request of the Terminal Users has been provided. Most of the other amendments are nomotechnical in nature.

VIII. JOINT TERMINAL USE

Many of the amendments, apart from the nomotechnical ones, concern the harmonization with the rest of the text of the Rules, the deletion of redundant parts and text simplification. An amendment has been introduced that, in a transparent manner, while protecting the interests of the Terminal Operator and the Terminal Users, allocates the responsibility for LNG replacement up to the LNG heel to the user responsible for non-arrival or delay in a row of two or more LNG carriers.

Furthermore, in the interest of the Terminal users, the procedure for collecting the bank guarantee according to the Joint Terminal Use Agreement has been elaborated in detail.

IX. TERMINAL USE CONDITIONS

Most amendments to the provisions on the Terminal use conditions that describe the procedures for approving LNG carriers for arrival at the Terminal, arrival and departure of LNG carriers, and define the procedures for discharge of LNG to the Terminal and LNG regasification, are structural and nomotechnical in nature. In relation to the existing Rules, the actual laytime that starts running when an LNG carrier is moored at the Terminal has been amended.

X. LNG AND REGASIFIED NATURAL GAS QUALITY SPECIFICATION AND MEASUREMENT

In relation to the existing Rules, amendments have been made in such a way that the existing text of the Rules was amended by introducing additional clarifications, and the right of the Terminal Operator to warn Terminal Users of the possibility of a change in the gas or LNG quality parameters from the moment of its takeover in the port or loading until delivery at the delivery point has been introduced as an additional instrument to protect the interests of the Terminal Operator.

The LNG quality specification indicated in the General Gas Supply Conditions of the Agency, which must be fulfilled by the cargo delivered to the Terminal, has been deleted from the existing provisions, and the addressee is directed to the Terminal Operator's website, where it will be published.

XI. AUDIT OF LNG AND DISPATCHED GAS QUANTITIES

These provisions prescribe the procedures for LNG inventory at the Terminal, determination of quantities of LNG and dispatched gas, and the allocation of any identified deficit or surplus, and do not contain any amendments other than nomotechnical ones.

XII. TERMINAL MAINTENANCE

In relation to the existing text of the Rules, the provisions concerning maintenance and the publication of the planned annual regular maintenance works schedule have been amended, and the duration of regular unplanned works has been amended as well. The duration of regular unplanned works was extended because the LNG terminal operator identified that this was necessary due to the technical characteristics of the LNG terminal.

XIII. CHANGES AND LIMITATIONS OF THE TERMINAL MANAGEMENT

In relation to the existing text of the Rules, the obligation of the users in cases when the Terminal Operator terminates or restricts the provision of services due to circumstances attributable to the Terminal User's responsibility has been prescribed in more detail, while most other amendments are nomotechnical in nature.

XIV. SALE OF LNG OR NATURAL GAS OF THE TERMINAL USER IN AN OPEN PROCEDURE

In relation to the previous text of the Rules, apart from the nomotechnical ones, there are no significant amendments.

XV. RELOADING OF LNG FROM A FLOATING STORAGE AND REGASIFICATION UNIT IN THE LNG TRANSPORT SHIP OR IN THE LNG TRANSPORT TRUCK

XVI. INDEMNIFICATION

In relation to the previous text of the Rules, apart from the nomotechnical ones, there are no significant amendments.

XVII. DATA PUBLICATION AND INFORMATION EXCHANGE

In relation to the previous text of the Rules, apart from the nomotechnical ones, there are no significant amendments.

XVIII. CALCULATION AND ACCOUNTING OF GAS LOSS AT THE TERMINAL

As the Natural Gas Allocation Policy, which determines the principles of calculating natural gas available at the LNG terminal, has been separated into a separate document that LNG Hrvatska d.o.o. will publish on its website, the basic rules and principles of Natural Gas Allocation Policy are now laid down in Chapter XVIII. ("CALCULATION AND ACCOUNTING OF GAS LOSS AT THE TERMINAL ") of the Rules.

XIX. TRANSITIONAL AND FINAL PROVISIONS

The final provisions regulate the entry into force of the new Rules. In relation to the valid text of the Rules, apart from the nomotechnical ones, there are no significant amendments.

ANNEX I. GENERAL TERMS AND CONDITIONS OF THE LIQUEFIED NATURAL GAS TERMINAL USE

The subject of the General Terms and Conditions is the regulation of the mutual rights and obligations of the Terminal Operator and Terminal Users, as well as the establishment of General Terms and Conditions that will apply to the provision of LNG regasification service and the non-standard services described in the Rules.

In relation to the existing General Terms and Conditions, a nomotechnical amendment was made in such a way that the General Terms and Conditions are fully harmonized with Croatian regulations, and with the proposed amendments to the Rules.