Regional Gas Market Council #1

Regional Gas Market Council

18.2.2021

Program

- Presentation on results of Regional Gas Market Development consultation questionnaire
- Regional development plans
- National development plans
  - Gasgrid Finland
  - Elering
  - Conexus
  - Amber Grid

Presentation on results of Regional Gas Market Development consultation questionnaire

Leena Sivill

AFRY

Overview

The consultation was sent to 70+ stakeholders and received 11 responses from 9 different organisations. Responses to the questionnaire depict the views of the largest players in the markets (with the exception of Finland). There was also some misinterpretation of the questions, which impacted the quality and comprehensiveness of the collected responses.

Shipper	Four gas wholesale companies	Two gas end-users	One gas wholesale company	One gas wholesale company
LNG Terminal				Terminal operator

Key current challenges

Nearly all responders highlighted the Balticconnector capacity challenges as a key issue. Respondents emphasized that the market has been driven by significant technical and commercial bottlenecks that need a resolution.

Balticconnector capacity congestion

- Unstable market environment due to unpredictable events like decreasing of BC capacity
- Implicit capacity allocation mechanism has not functioned during periods when the BC congestion situation is constant
- BC is heavily congested due to failure to install the Puiatu and Paldiski compressor stations
- Recommendation to focus on market needs and finish the BC project by any means necessary

“Non-harmonized and at some points inefficient capacity allocation mechanisms,...risk of congestions, frequent maintenances (underutilization), short-notice communication from the operators and regulators, imbalances, absence of structured and holistic transmission practices and products i.e. deficiencies in linked capacities, coordinated rules of allocation, transmission processes, along with absence of the well-established common platforms (i.e. IT issues).

All this leads to the lack of trans-border supply security, efficiency and transparency.”

Lack of transparency and harmonisation

- Non-harmonized TSO to DSO exit tariff rules
- Lack of transparency on technical capacity calculation
- Lack of transparency in the distribution of the key market information

Poor communication and unpredictability

- Poor distribution of information on capacity changes and maintenance
- Unpredictability of available technical capacity at other interconnection points
- Changing regulations - difficult to plan long term

What should be the next steps and priorities for regional gas market development?

Various priorities were highlighted by the respondents, with the below three key themes emerging as a priority:

★ Complete the Balticconnector project and resolve related capacity congestion issues e.g. increase technical transmission capacity from EST-FIN	Over half of respondents emphasized BC issues as a top priority
★ Develop a common market/tariff zone and system (with Lithuania)	Three different organisations stated that a common tariff zone should be a priority next step
★ Improved transparency, harmonization and communication	Common themes across most of the responses

OTHER RECOMMENDED NEXT STEPS AND PRIORITY AREAS

- Develop a balancing zone between Finland and Estonia/Latvia
- Remove or reduce other physical bottlenecks on the borders and in Incukalns
- Unified trans-border capacity allocation mechanism
- Advancement of the development of secondary capacity market
- Clear regulation with GIPL
- Transparent technical capacity calculation for border points with third countries
- Harmonized TSO to DSO exit tariff rules
- Clearly defined info/data submission processes for the market players from the TSOs

What should be the next steps and priorities in terms of….

…further market harmonization?	…a common tariff area?	…a common balancing area?
• Establish effective, efficient and transparent model that does not favour one player over another • Harmonize market rules between all countries • Improve TSO cooperation (e.g. coordinate amount of transfer capacities offered to the market)	*Multiple shippers emphasized that the development of a common tariff area was the key priority next step in terms of market integration.* • Develop common / harmonized market rules • Additional issues that could be resolved: subsidized Klaipeda LNG terminal, dispute in Lithuania regarding the support that one market player gets for the use of LNG terminal, long term capacity tariffs being much less than short-term in domestic exit point in Lithuania, the current tariff proposal for GIPL	• Resolve Balticconnector capacity issues • Develop common / harmonized balancing rules • Harmonize existing pricing differences (develop the balancing area gradually). CBA should be reached in a moderate manner, going in line with the price convergence process.

Respondents highlighted some of the benefits and risks in terms of…

Note that the below benefit statements are more wishful objectives than hard facts since the responses did not address how such outcomes could be guaranteed.

	Further market harmonization	Common tariff area	Common balancing area
Benefits	• Increased market liquidity • Cost savings • Efficient operations – best practice implemented across all countries • Efficient use of all infrastructure/assets • Ease of business, easier to expand.	• Increased competition (wider selection of supply options) • Increased market liquidity • Direct access to Klaipeda LNG terminal for FIN/EE/LV shippers • Better use of assets	• Bigger market, more stable system level balance due to increased number of market participants and higher variety in gas consumption profiles • Lower balancing costs • More efficient market operations and utilization of assets
Risks	• Less arbitrage • Large sellers will benefit more	• Development of common legislation may be challenging • Less arbitrage • Large sellers will benefit more	• Allocation of costs between tariff areas • Cost of IT/resources • Less arbitrage • Large sellers will benefit more

What development questions would require further analysis?

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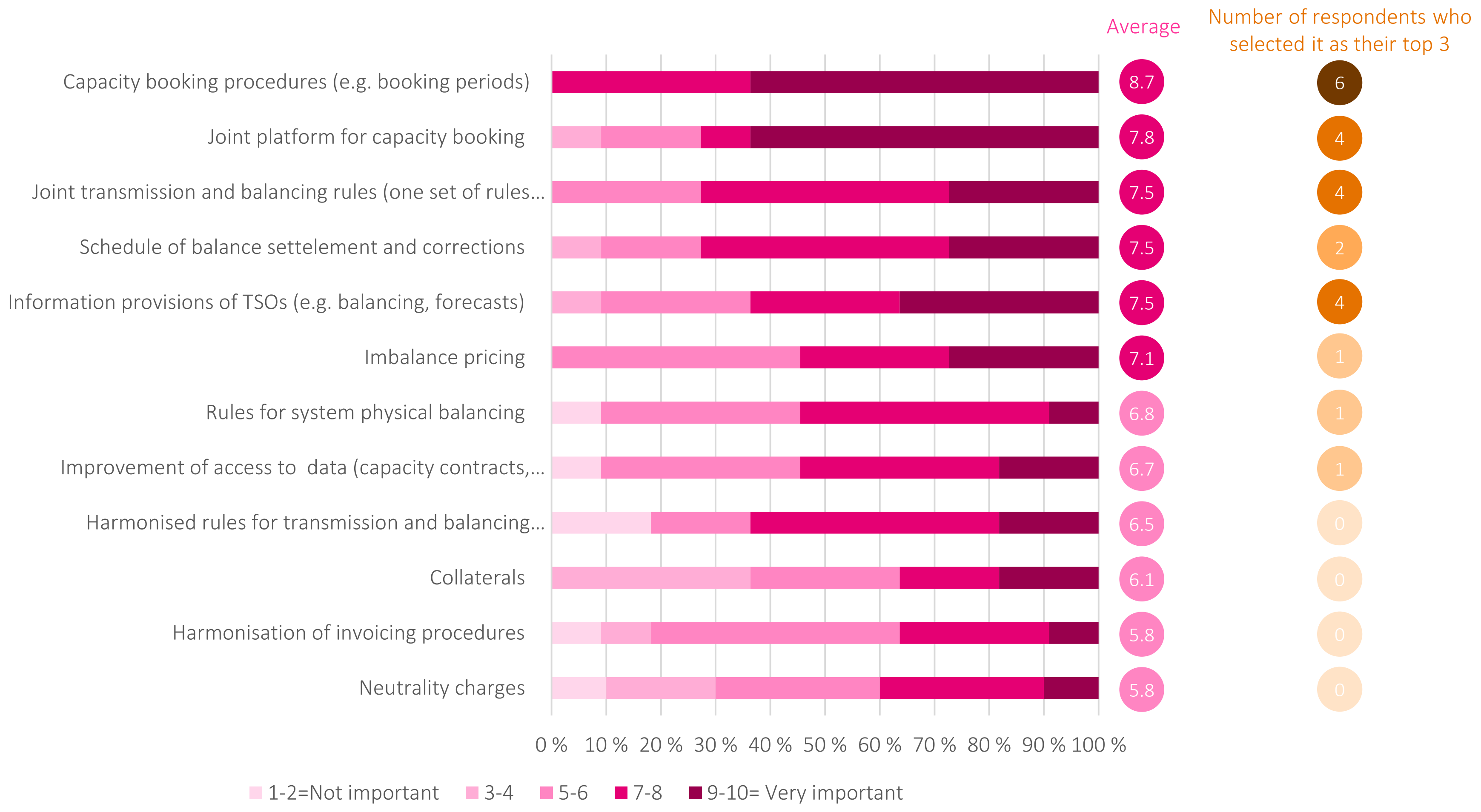
- The role of GIPL in the market
- Development of a single market operator
- Earlier implementation of a single balancing zone
- Best method for booking transfer capacities inside the common market zone
- Analysis of market area management based on MAM model, particularly in comparison of cost for the end users between TCO and MAM models
- Harmonisation with Poland
- How to avoid the creation of an artificial tariff based situation
- How to use the developed infrastructure and fairly share infrastructure costs
- Role of gas infrastructure in the context of hydrogen
- Role of gas infrastructure in the context of the EU Green Deal

Which areas would you like for the TSO's to harmonize or organize jointly?



"All of the statements are important. I would rather suggest to organize them in the order of implementation timing."

Which contact option would you prefer in balancing and transmission services?

Participants had indicated their preference for a free choice of one point of contact. However, even respondents from the same organisations had differing views over the contact option.

One point of contact (centralized service): 4

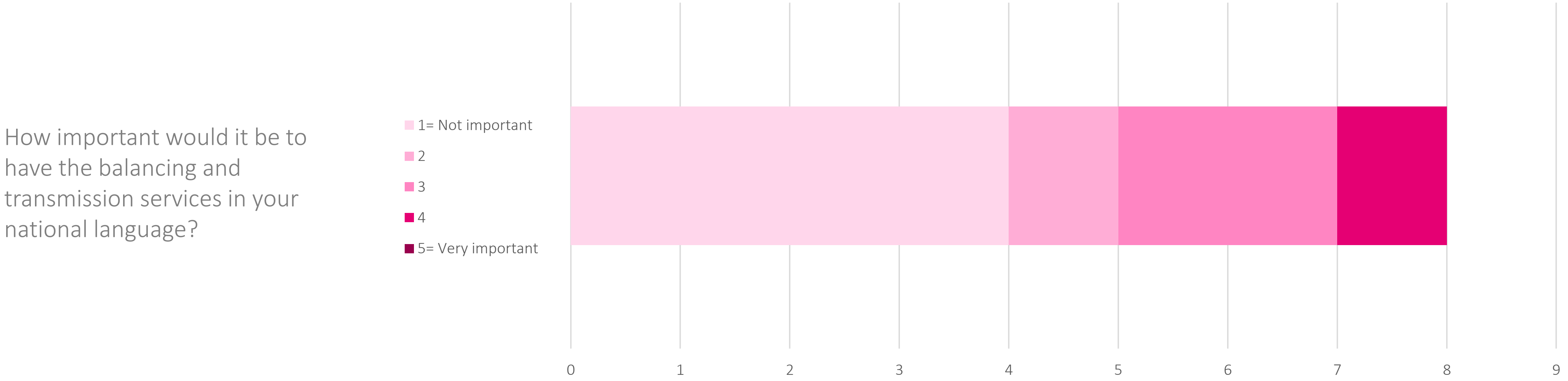
Free choice of one point of contact (service provided by all TSOs): 7

"It is highly preferred that one entity be responsible for all balancing and transmission services. If one company takes care of the balancing and transmission services in all four countries, it will be done in the best possible way taking into account the balancing status in all four countries and no country will be a preferred one."

How important would it be to have the balancing and transmission services in your national language?

This result is likely biased since the respondents mainly represented shippers who are active in more than one country.

Most respondents do not think it is necessary to have the balancing and transmission services in their national language.



"If we really desire to become an International gas hub open for new market players and higher level of competition all such kind of discussion should be in English and be open for everyone."

Some closing remarks

“More stability in terms of rules and market design.”

“The main driver steering every development step should be the improved competitiveness of gas.”

“The topic of the information/data delivery/obtainment periodicity from the TSOs is highly important for us….From our point of view at least the deadlines – exact dates should be defined…”

“It is highly preferred when only one entity would be responsible for all balancing and transmission services.“

“TSOs have done a good job opening each country’s gas markets. Integration/harmonization is the next logical step. Lot of work needs to be done on this front, but in the end it is worth it.”

Regional Market Development Roadmap 2021-2022

Anni Sarvaranta
Gasgrid Finland

Status of development

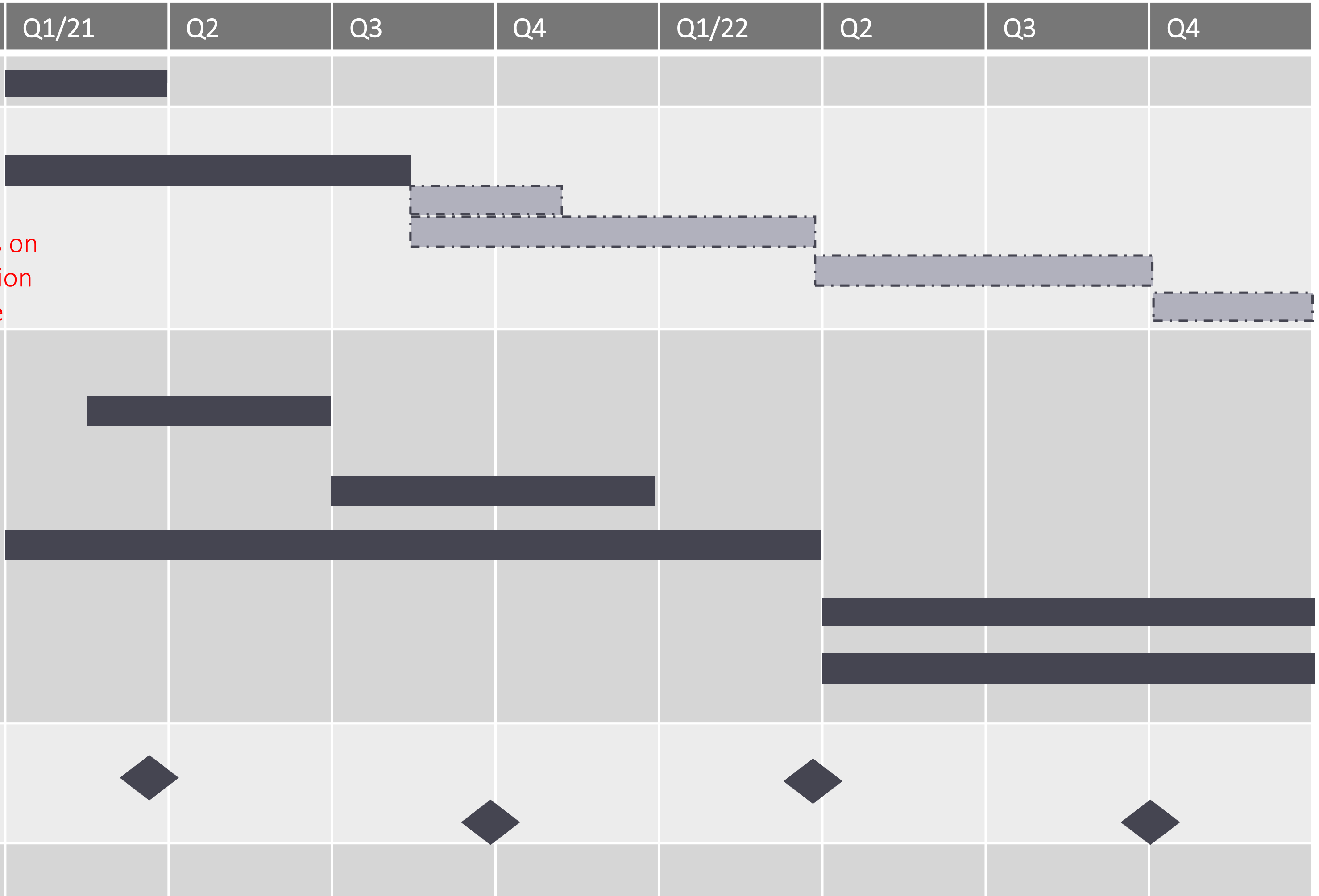
Market priority based on questionnaire	Status
– Complete the Balticconnector project and resolve related capacity congestion issues	• Balticconnector project and ELLI project will improve the capacity situation > Elering and Conexus key responsible TSOs. In Finland the BC delay and resulted congestion may result to NRA requesting capacity auctions for BC.
– Develop a common market/tariff zone and system (with Lithuania)	• Planned development included in next slides
– Improved transparency, harmonization and communication • harmonizing capacity booking procedures • Increasing transparency and predictability	• Planned development included in next slides

Decisions on improved communication towards the market in 2021

- Market Development Steering Group consisting of market development responsible leaders from each company meets ~once per month to steer joint development activities
- TSO CEOs and Market development responsible leaders meet ~once per month to discuss relevant topics concerning the regional gas market and follow-up on development activities
- TSO's will organize three joint Regional Market Development Councils starting from 2021 to inform market participants on relevant topics
  - Council 1 in Q1
    - Results of common market survey
    - Key Development activities / roadmap for the next two years
  - Council 2 in Q2/Q3
    - Publication of coordinated maintenance plans and status of PCI projects
  - Council 3 in Q3/Q4
    - Follow-up on development activities / roadmap
- Common market survey for roadmap development 2022-2023 Q4
- All four TSOs use GET Baltic UMM platform, also common UMM-principles under discussion

Development on Market Integration and Harmonization

MARKET INTEGRATION AND HARMONISATION



Development of common regional roadmap

Development of joint tariff area between FINESTLAT and LIT
- Negotiation of compensation mechanism & joint position
- Market and regulatory consultation
- Agreement preparation and negotiations
- Tariff consultations and preparation
- Go-live (earliest Q4/2022)

Depends on negotiation outcome

Harmonization and Deeper Market Integration
- Assessment of harmonization needs of Network and Balancing rules in the region (Q1-Q2, 2021)
- Consultation and decisions regarding possible needs for Network and Balancing Rules amendments (Q3-Q4, 2021)
- Monitoring market functioning, capacity and collecting feedback (2021-Q1/2022)
- Evaluation of feasibility of developing of common capacity booking platform + potential plans (2022)
- Evaluation of three/four country balancing zone feasibility and decisions on next steps (2022)

COMMS: Regional Market Council for market participants
- Development plans and roadmap (Q1)
- Follow-up on Development plans and roadmap (~Q3/Q4)

Development on Technical and Operational co-operation

TECHNICAL AND OPERATIONAL CO-OPERATION	Q1/21	Q2	Q3	Q4	Q1/22	Q2	Q3	Q4
Assessment of Regional Transmission System Capability with current setup and after ongoing infrastructure development projects								
Coordination of Joint Maintenance Plans								
COMMS: Regional Gas Market Council • Publication of Regional Transmission system capability assessment (~08) • Presentation and publication of PCI-project status and joint maintenance plans								

Development on Green Gases

GREEN GASES	Q1/21	Q2	Q3	Q4	Q1/22	Q2	Q3	Q4
Guarantees of Origin Development • Investigate possibility on digital cross-border exchange of mutually recognised gas guarantees of origin in the Finnish-Baltic region by harmonising the rules and developing solutions (2021) • Work continues depending on 2021 results (2022)								
Hydrogen Development • Evaluating the high pressure-gas system capability to receive hydrogen: Preparation and possible execution of joint study regarding implications of hydrogen injection into existing TSO network (2021) • Joint study regarding hydrogen injection into Baltic States and Finnish gas transmission system and needs for gas network retrofitting (2022)								
COMMS: Regional Market Council for market participants • Development plans and roadmap (Q1) • Follow-up on Development plans and roadmap (~Q3/Q4)								

Gasgrid Finland
Gas Market Development Activities 2021

Mika Myötyri
Gasgrid Finland

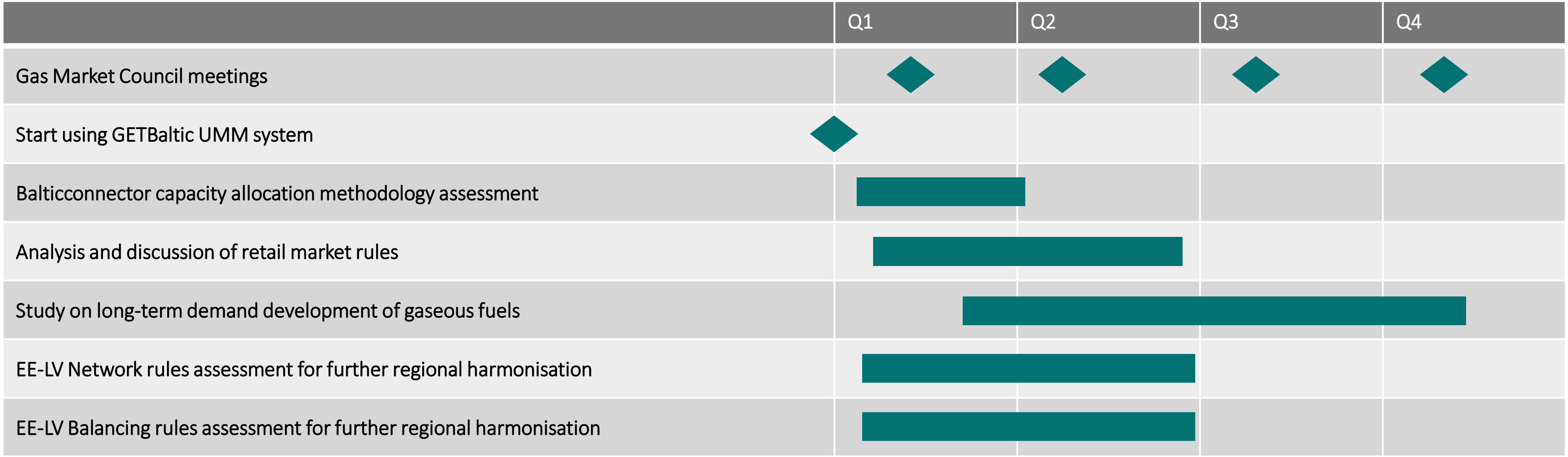
Key Development Activities Finland 2021

	Q1	Q2	Q3	Q4
Evaluation of Balticconnector capacity allocation principle (FI and EE TSOs)				
Assessment of tariff period harmonization				
Wholesale and retail market forums (exact dates to be announced)				
Development and Commissioning of Guarantee of Origin system in Finnish market				
Transmission tariffs for 2022 published by the end of November				
Development of Finnish market area commercial services				
Joint study with Electricity TSO Fingrid on future energy system (hydrogen development in Finland) (in planning phase, detailed schedule and information to be published later)				

Elering
Gas Market Development Activities 2021

Erkki Sapp
Elering

Key Market Development Activities Estonia 2021



Conexus
Gas Market Development Activities 2021

Janis Eisaks
Conexus

Key Development Activities Latvia 2021

	Q1	Q2	Q3	Q4
Approval of Inčukalns UGS tariffs for 5 year regulatory period				
Introduction of capacity auctions at Inčuklans UGS				
Market participant events				
Introduction of national Guarantees of Origin system				

Amber Grid
Gas Market Development Activities 2021

Vytautas Ruolia
Amber Grid

Key Development Activities in Lithuania 2021

	Q1	Q2	Q3	Q4
Harmonization of capacity management on Kiemėnai IP: •Dynamic technical capacity calculation at Kiemenai IP; •Different capacity allocation issues at Kiemėnai point (resolve the issue of equalization of capacity placed on the market).				
Publication of Lithuanian transmission tariffs, effective from 01 01 2022 (incl. Santaka (GIPL) Interconnection Point), publication by 31 05 2021.				
Public Consultation of amendments of Amber Grid Network and Balancing Rules (incl. GIPL capacity auctioning, harmonization with LV-EE and FI rules), effective from 01 01 2022.				
Announcement of plans on the first auction of the capacity of Santaka (GIPL) IP, announcement expected in June/July 2021.				
Approval of amendments of Amber Grid Network and Balancing Rules, effective from 01 01 2022.				
The launch of a new IT platform for data exchange with network users (capacity booking, nominations, imbalance position, etc.), expected in early December 2021				

All material will be published on TSOs websites.

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Thank you for your interest!