

Response to the consultation on Gasgrid Finland's tariffs

Gasgrid Finland organized a consultation on the information to be published prior to the tariff period under Article 30 of the network code on harmonised transmission structures for gas ("tariff network code", "TAR NC") including Gasgrid Finland's pricelist for 2021. Gasgrid received three opinions from the following market participants:

- UPM
- Haminan Energia
- Nivos Energia Oy together with Mäntsälän Biovoima Oy.

Gasgrid thanks the market participants for their valuable opinions.

Below, Gasgrid explains the key points set out in the opinions.

1) Rationale for increasing the commodity charge and the aims of the commodity charge component

In its pricing, Gasgrid Finland aims for predictability and the avoidance of major changes in the annual level. These objectives apply to both capacity tariffs (reference prices) and the commodity charge. However, the commodity charge is more volatile than the capacity charge. The reasons for this are described below.

The major rise in the 2021 commodity charge compared to that in 2020 is attributable to two key factors:

- a) The change in the terms and conditions to connection to the natural gas transmission network confirmed by the Energy Authority whereby the transmission system operator (TSO) is responsible for the costs of consumables used at pressure reduction stations and which are collected from market participants as part of the commodity charge. These costs were earlier allocated directly to parties connected to the pressure reduction station. The change will mean the maintenance costs of Gasgrid Finland's pressure reduction stations will increase by around €1.5 million a year compared to 2020.
- b) An update of the estimated operating costs of the new compressor unit in Inkoo during the first year of operation.

The size of the commodity charge component is significantly affected by weather conditions during the year, the level of pressure in adjacent transmission systems and the price of electricity, because these affect the running of compressor stations. Consequently the amount of revenue collected through commodity charges may vary significantly at the annual level. Due to the new compressor station and the significant change in market operation, Gasgrid Finland has no historical data in the new situation. Accumulation of historical data and active monitoring of the components affecting the commodity charge will enhance Gasgrid Finland's ability to assess the commodity charge. The reasons given above, however, explain why the commodity charge is more volatile than the capacity charge but Gasgrid Finland aims to keep fluctuations in the commodity charge as moderate as possible at the annual level.

2) Capacity charges for distribution entry

Under the gas market model applied in Finland, all gas entering the Finnish natural gas system¹ is commercially available at any exit point. This is referred to as a full entry-exit system. This means that regardless of the physical location of the entry point in the Finnish natural gas system, the gas is transferred commercially to a virtual trading point (VTP) maintained by Gasgrid Finland. The market model enables biogas from a biogas plant connected to the distribution network or gasified natural gas from an LNG terminal to be available anywhere in Finland's natural gas system.

Under the Natural Gas Market Act, "*The area of responsibility of the transmission system operator with system responsibility shall be the natural gas system for which the transmission system operator has been assigned system responsibility. The transmission system operator with system responsibility shall be responsible for the duties included in system responsibility in its area of responsibility and for other duties belonging to the transmission system operator which are laid down in this Act and in the Natural Gas System Decree.*" Further, the detailed rationale in Government proposal HE 50/2017 (p. 90) stated that with regard to the provisions, the natural gas transmission network and associated distribution networks constitute the natural gas system. The natural gas system also includes all the liquefied natural gas processing facilities connected to these networks, production of gas from renewable energy sources, gas storage facilities as well as gas metering points.

Gasgrid Finland is also responsible for the natural gas system laid down in the network licence granted. This includes distribution networks into which liquefied natural gas (LNG) processing facilities and biogas production facilities inject gas. Consequently, the facilities are part of the natural gas system for which Gasgrid Finland is responsible. Under the market model, LNG gas and biogas injection points form the LNG and biogas virtual entry point. Virtual point means treating one or more entry points or one or more exit points as a single virtual point, regardless of where these points are physically located in the networks, to improve the functioning of the gas market. Regardless of their physical location in the commercial sense, the LNG and biogas entry points become the virtual LNG and biogas entry point for the wholesale market and thus the natural gas system for which Gasgrid Finland is responsible for setting the price.

By setting capacity charges for all gas entering and exiting the Finnish natural gas system, Gasgrid Finland ensures fair treatment. Should no capacity charge be set for gas injected through the distribution network, this would put the entry points in the Finnish natural gas transmission system in an unequal position since in the market model, all gas injected into the gas system goes commercially via the virtual trading point (VTP).

Because of the regional entry tariff zone, there is no tariff at Balticconnector. However, the entry capacity tariffs that have been harmonised with Estonian and Latvian gas transmission operators are included in shipper deliveries. Consequently all gas injected into the regional entry tariff zone is subject to harmonised entry capacity tariffs. Removal of the Balticconnector tariff means that shippers do not need to buy capacity outside of the entry tariff zone as well as in the city-gates between the countries in the zone. This avoids the *pancaking* phenomenon, where the entry and exit charges of different transmission system operators accumulate because of city-gate tariffs. Because of the regional entry tariff zone, all gas injected into the Finland-Estonia-Latvia zone is subject to harmonised entry capacity tariffs just once when the gas is injected into the regional entry tariff zone. In the same way, all gas exiting the zone is subject to exit capacity tariffs just once when the gas exits from the gas system.

Gasgrid Finland strives to develop the business conditions for biogas on the Finnish gas market. At the same time, Gasgrid Finland must comply with EU regulation and Finland's Natural Gas Market Act, which do not currently allow for a discount on biogas. The preliminary work to the Natural Gas Market Act (HE 50/2017 vp) states the following on the transmission tariff system based on the entry-exit model: "To ensure non-discriminatory access of gas originating from

¹ The Finnish natural gas system comprises the transmission network and connected distribution networks.

different delivery sources to the natural gas system, also distribution networks are covered by the entry-exit tariff." The matter regarding LNG has been described in point 4.

3) Definitions of the biogas and LNG physical and virtual entry points

In its consultation material, Gasgrid Finland stated that Gasgrid is able to receive biogas and LNG complying with the quality requirements into the Finnish natural gas system without constraint. This is why no technical capacity has been imposed on the biogas virtual entry point and LNG entry point.

The Handbook referred to in the Decree on the Settlement and Measurement of Natural Gas states that the entry point of natural gas gasified in an LNG processing facility shall be the virtual point in the natural gas system where the natural gas gasified in the LNG processing facility is injected into the Finnish natural gas system. With regards to the injection of biogas and LNG into the network, Gasgrid Finland sees no need to constrain the technical capacity. According to the definition, technical capacity means the fixed maximum capacity that the transmission system operator can offer network users taking into account the functioning of the system and the operational requirements for the transmission network. Gasgrid estimates it is capable of receiving biogas or LNG injected into the transmission network without constraint. In the case of distribution injection, the flow is commercial, which is why Gasgrid Finland does not restrict the technical capacity offered for the market participants. Physical constraints on distribution injection naturally depend on the distribution system operator's capability to receive biogas or LNG into its network.

The following clarifications are made with regard to the virtual and physical biogas and LNG entry points:

- **Biogas virtual entry point** is a virtual entry point where biogas is injected commercially into the Finnish natural gas system. This includes biogas entry points connected to the transmission network and distribution networks, so that there is always a commercial access to the virtual trading point either directly from the transmission network or from the city-gate, which is the connection point between the transmission network and the distribution network.
- **Biogas entry point** means a physical point at which the upgraded biogas is injected into the transmission system or the distribution network connected to the transmission network.
- **LNG entry point** means a physical point where gasified LNG is injected to the transmission network or to the distribution network connected to the transmission network from the LNG facility.
- **LNG virtual entry point** means a virtual entry point for gasified LNG, where LNG is commercially injected into the Finnish natural gas system. This includes LNG entry points connected to the transmission and distribution networks, so that there is always a commercial access to the virtual trading point, either directly from the transmission network or from the city-gate between the transmission network and the distribution network.

4) Application of discounts

The EU network code on transmission tariffs allows a discount to be given for a liquefied natural gas entry point that enhances the security of supply of the system. Finland's security of supply has been at a very high level and the Balticconnector interconnection point brought into use at the start of the year has further enhanced the security of the supply of the Finnish system. The Hamina LNG terminal will further increase Finland's security of supply but despite this the transmission system operator does not consider it justified to propose a discount in the transmission charge for the terminal's entry point as this would, at the same time, set the entry points of the Finnish natural gas market in an unequal position. To ensure the fair treatment and non-discrimination of market participants, the transmission system operator has proposed to the regulatory authority, the Finnish Energy Authority, that the discount allowed by the network code should not be applied to the LNG terminal. Concerning the transmission system operator's proposal, the

Energy Authority has stated the following: "The Energy Authority considers the proposal not to apply the discount at the transmission system entry point to be justified and non-discriminatory."

The transmission system operator has defined the principles for the application of the development obligation based on the development of the system for which the transmission system operator is responsible in cases where a new interconnector provides proven additional benefit to the market or in cases where new infrastructure contributes to the transmission system operator's meeting the system operator's obligations. The additional benefits of security of supply is also be assessed in the areas of application of the development obligation and so the transmission system operator is, within the limits of its competence and obligations, promoting the development of the Finnish gas market from the security of supply perspective through the development obligation.