22/05/2024

Market Development Forum

Time and location: May 22nd 2024, at 09:00, Teams meeting

Present:

Aguera, Jack	Kade, Raul	Piirainen, Aaro
Allikson, Marko	Kalejs, Janis	Pirvola, Lauri
Andersen, Mari	Karinen, Pekka	Puikkonen, Sampsa
Baidekalns, Krisjanis	Kummunsalo, Saku	Salovaara, Kaisa
Brunaes, Carl Kevin	Lootus, Ruudi	Simola, Mikko
Fimaier, Aleksei	Lysko, Darek	Simola, Niina
Grenzmann, Anni	Mattila, Satu	Stieger, Peter
Grönlund, Janne	Niinimäki, Tiina	Stålhandske, Ville
Haapea, Heli	Niinisaari, Joona	Timgren, Jusa
Halme, Taija	Nôu, Kalvi	Truupôld, Magnus
Hansteen, Reidar	Nuppunen, Anni	Unha, Joel
Havikari, Katja	Näkki, Pasi	Vappula, Pekka
Herte, Katri	Orrain-Kuparinen, Anni	Vavilov, Mihail
Hyppänen, Raine	Paldan, Sanna	Veldemann, Kaido
Jacometti, Fernanda	Partanen, Simo	Vladimirov, Maksim
Jørpeland, Lise Angelfoss	Peltonen, Heli	Werner, Jenewein

1. Opening of the forum

Niina Simola opened the meeting and informed about incorporating of former wholesale market development group and retail market development group to as one Market Development Forum from now on.

Agenda was presented:

(1) Opening of the Forum
(2) Guarantees of Origin
(3) Topicals from Transmission Business Unit
(4) Gas market overview
(5) Terms and Conditions of BC Capacity Allocation
(6) Gas market service development
(7) Topicals from the Inkoo terminal Floating LNG Terminal Finland
(8) Mentimeter and Closing of the Forum
(9) Questions and answers

2. **Guarantees of Origin (GO) (Heli Haapea)**

Service Manager Heli Haapea gave an overview of guarantees of origin.

Gasgrid Finland is now authorized to issue both national and European EECS GO's for renewable gas and hydrogen. EECS GOs are based on a unified European system developed by the Association of Issuing Bodies (AIB). EECS GO's can be transferred through AIB Hub between AIB's so called gas member countries Finland, Latvia, Austria, and Spain now. Czech Republic will be joining next. At this point no EECS GO's have been issued yet.

For other GOs, manual Ex-Domain Cancellation can be agreed upon between EU/EEA countries, provided the transferred GOs meet the legislative requirements. Gasgrid Finland handles Ex-Domain Cancellation requests on a case-by-case basis.

GO's are separate from the physical gas flow but the tax benefits of renewable gas can only be obtained if there is a physical connection and sustainable biogas.

3. **Topicals from Transmission Business Unit (Janne Grönlund)**

Janne Grönlund started by giving an overview of the multiple changes in operating environment in the recent past: Russian invasion, energy crisis, commissioning of FSRU Inkoo and Hamina and Baltic Connector (BC) damage. Last winter there was only small flexibility. It is seen that operational environment will calm down now and bright future for methane system in Finland can be seen ahead. The transformation of the gas system into a multi-gas platform supporting the use of clean gases will accelerate as the 2030s approach. It is seen that the production and supply capacity of renewable gases will increase tenfold by 2030.

Janne was telling about Gasgrid's strategy that was updated last year. In this strategic period, we try to understand what the needs and what kind of infrastructure is needed in the future. Gasgrid's state of will is that our products and services meet the changing needs of our customers and provide security of supply to society; we utilize the full potential of the methane network and LNG terminals and can meet the flexibility and storage needs of a carbon-neutral energy system; we have created technical infrastructure and market services to support the growth of all clean gases towards carbon-neutral Finland 2035. Most important thing is creditability. Gasgrid wants to create creditability. Recently the Gas Business Unit organization has been re-organized to ensure to operate more efficiently to meet customer requirements.

Janne was highlighting the fact that the value of the gas system and the Inkoo LNG terminal to the national economy in Finland in the first week of January 2024 was: 1,5 – 3,0 mrd. €.

Janne finished his presentation and encouraged to contact him or the team directly if any questions and reminded also about our ticketing system.

4. **Gas market overview (Aaro Piirainen)**

Aaro Piirainen, gas market specialist from Gasgrid, was giving gas market overview on what has been going on lately at Finnish market from TSO perspective, and what kind of changes have been made since re-commissioning of BC.

This year so far there has been higher consumption compared to last couple of years 2022-2023 but we remain on lower level compared to the pre-energy crisis levels. Gas prices have been coming down recently and getting closer to normal which helps to get closer to normal consumption levels. On daily consumption levels there has been major fluctuation, especially during last winter. As the BC was not in use all the market gas demand needed to be covered by LNG deliveries. That reduced the flexibility of the market. Forecasting of upcoming consumption levels were challenging. Due to these reasons and major market imbalances especially in the beginning of January 2024, there was also demand for heavier balancing actions required from Gasgrid side to maintain gas system balance during the winter.

Price levels on Finnish market area compared to Latvia, Estonia, and Lithuania, significantly increased during last winter and during the unavailability of BC. After winter and recommissioning of the BC, the Finnish market prices have fell back to similar level in Baltic market areas. After winter and BC successful recommissioning the market status has been stable and market participants have been well in balance.

After re-commissioning the BC Gasgrid has been closely monitoring the capacity utilization in the pipeline. There has been a high demand for the FI-Exit OTC capacity and at the same time the capacity allocated for the GetBaltic was not fully utilized. That was causing some inefficiency to the capacity utilization. That’s why it was decided to re-allocate the capacity shares between the bilateral trading and gas exchange to the Finnish exit direction: re-allocation between OTC and GetBaltic capacity shares in Fi-exit direction: 95 % for OTC (previous 90%) and 5 % for GetBaltic (previous 10%) since May 14th. No changes were made to the Fi-entry direction allocations. Gasgrid keeps closely monitoring the situation and if the market situation would change, Gasgrid would act and re-allocate again.

During the end of 2024 there will be capacity restrictions coming up. More detailed information on restrictions is published on Entsog transparency platform.

5. Terms and Conditions of BC Capacity Allocation (Aaro Piirainen)

Aaro was telling that Gasgrid has proposed changes to the terms and conditions of BC capacity allocation mechanism. Two most significant proposed changes are the virtual reverse flow capacity calculation method and launch of the shipper group concept. Regarding the proposed changes, the Finnish Energy Authority (Energiavirasto) organized a public consultation which ended April 5th, 2024.

At the time of the Market Development Forum no decisions have been confirmed by the Finnish energy authority (Energiavirasto) regarding the proposed changes and the discussions regarding the changes are still ongoing between Gasgrid and Energiavirasto.

Virtual capacity calculation method. In the proposed changes Gasgrid suggests that in the future Gasgrid could offer virtual capacity based on the virtual reverse flow at BC to increase the available capacity and thereby enhance the capacity utilization at BC. The new model would mean that during congestion Gasgrid would not be able to confirm downward renominations in full, partially or at all to the non-congested direction since this capacity has been already booked as virtual capacity. Downward nominations to the congested direction and upward nominations to the non-congested direction however could be confirmed within the acceptable nomination limit (technical capacity allocated for bilateral trading).

6. Gas market service development (Tiina Niinimäki)

Tiina Niinimäki, Head of Gas Market Systems and Solutions, started by giving a brief overview of recent implementations. Gas market systems and solutions team have recently done things that are not directly visible to the market and customers but were necessary to do to have a road map and the right direction.

Organizationally Gasgrid has changed the way to operate, and service development unit has been implemented. Currently four people are working in the team of development of services and support. Gasgrid has improved internal processes so that operational activities become clearer and more efficient. As a result of these follow up actions, Gasgrid can focus on things and services that also create values for customers and market in whole.

In the digital service site in the platform, lot of changes have done. There is a new application software, relational database that is called operation center of service for maintaining tasks and operation. This is part of the customer Portal but for security reasons there is separate login there. Invoicing processes regarding of capacities and imbalances has been implemented. Source data for billing and reporting are directly implemented based on market and customer actions in the portal side. This is done for to simplify processes, and this requires less human performed actions. There are no interfaces in between. Compared to previous model this is simpler to use and saves time as there is no need to update that many platforms.

Raine Hyppänen, new specialist working with gasmarket systems and solutions, introduced himself and was telling about software development. In the software projects, Raine will have a project manager role. Raine was telling about agile development, new way of working. The aim is to get better tracking on software overall progress and better possibility to estimate how well the project targets are achieved.

Tiina was telling that the team is quite new, and her role is to oversee development and solutions. As a project owner Tiina is responsible for that services meet market rules and customer’s needs. Aim is to co-operate more closely together with customers.

At the moment there are several developments works ongoing, one of those is BC new model of capacity allocation calculation. By developing the aim is to achieve benefits like: Improved efficiency, transparency, and customer experience; reduced maintenance costs, and time and have inspirational working methods due to system consolidation; handle error more flexible way; scalability and flexibility through cloud adoption; archive good quality of data and accurate information, real time and forecasts; to combine data from different sources and produce information for markets in collaboration with other actors.

7. Topicals from the Inkoo terminal Floating LNG Terminal Finland (Satu Mattila)

Satu Mattila, CEO of the Inkoo LNG Terminal, was telling about last year which was a first commercial operational year for the terminal starting activities in January 2023. All the operations got up and running and routines were developed. Although the damage of BC affects the terminal was able to succeed during the wintertime.

Satu put great emphasis on the cooperation when telling about all the learnings during the winter time. The terminal would not have been able to handle the situation all by themselves. Cooperation through the whole supply chain was successful. Communication that everybody has the relevant and up-to-date information is vital and that was a role for terminal to keep everybody informed. Constant communication with the terminal users was very constructive. It was important that there were market-based operations running through whole wintertime. For this Satu wanted to thank market participants.

Learnings from last winter are adopted for new terminal rules of 2025. It was noticed that we need more flexible terminal rules. More flexibility to market participants is offered e.g. to give opportunity to request for additional slots and deliveries if storage level allows it. Terminal schedule optimization is reviewed as per considering first year experience and very important feedback from market participants.

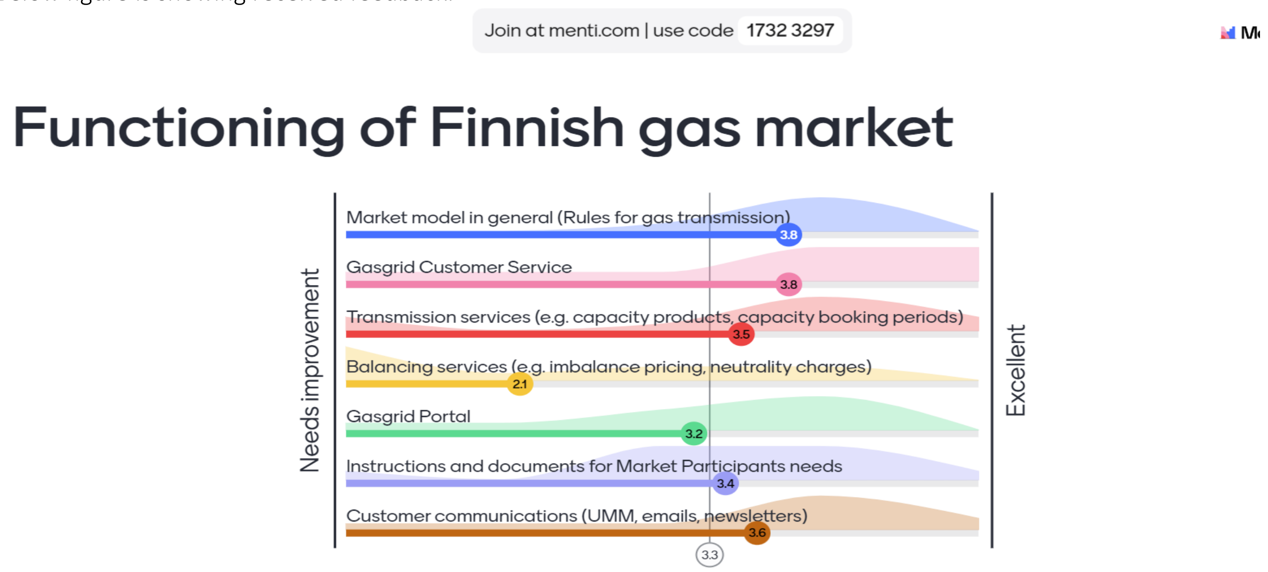
Terminal will continue working transparent, flexible, and assuring equal treatment for all terminal users. Terminal rules are under review of energy authority for acceptance and there is a hearing going on right now. Comments received will be reviewed very carefully and terminal rules will be released as good and as flexible as possible to serve all participants in this area.

Satu was replying from terminal side to the earlier question about how to secure the peak demand for gas during the cold winter months from the Inkoo terminal. One thing is the schedule optimization, so the terminal slots are as usable as possible. Hopefully end users have been thinking a bit differently and try to secure gas volumes already for the next winter. Everybody needs to think a bit ahead. Last winter showed that as it comes for ice conditions there shouldn't be worry about that.

8. Mentimeter and closing of the forum

Niina Simola summarized Market Develompent Forum's topics very much being related to development. Niina encouraged participants to give feedback and ideas for development by replying to Mentimeter. Niina closed the meeting at 10:40.

Below figure is showing received feedback.



9. Questions and answers

Question: What is the current state of creating common balancing zone between Finland, Estonia, and Latvia (that would make it possible to bring the utilization rate of Baltic Connector to 100% when needed) and common tariff zone with Lithuania?

Janne Grönlund: Gasgrid's goal is to develop the regional gas market in close cooperation with the Baltic transmission system operators. In recent years, development has focused especially on maintaining security of supply as a result of the changed operating environment. Now Gasgrid's goal is to stabilize the market and especially to promote development that leads to the improvement of the broad usability and predictability of transmission services and the overall flexibility of the market.

Before the Russian war of aggression, transmission system operators were very close to a solution that would have led to the unification of the Lithuanian market into the same tariff area. However, the interruption of Russian deliveries and the arrival of the Inkoo terminal on the market changed the assumptions of the planned model so that the model would no longer have produced the intended benefits for all markets in the region.

Expanding the common balance area from the current Estonia-Latvia area to also cover Finland is currently very unlikely, as Balticconnector's limited capacity in relation to Finland's peak demand would lead to significant balance measures that would not be desirable in terms of market development.

Question: Before the Baltic Connector incident there were 0 slots booked at Inkoo terminal for q1-2024. What are the plans to motivate shippers to book slots in q1 even when Baltic Connector is up and running? Otherwise, situation for q1-2025 might repeat, there will be zero slots booked for q1-2025 and potential shortage of physical gas during the coldest weeks of the year in Finland as Baltic Connector alone is not capable to cover entire gas consumption in Finland.

Janne Grönlund: Achieving commercial interest for the Inkoo LNG terminal is very important in the upcoming winter season, so that the peak demand of Finnish gas users can be met in sufficient quantities. Infrastructure operators strive to develop their services, among other things, to be more flexible, thereby improving the attractiveness of using the services. Gasgrid TSO has no plans to prepare itself like last winter through the Inkoo terminal by tendering LNG as balance gas – last winter's decision was based purely to the fact that there was no Balticconnector available for the market.

Question: Neutrality charge for March 2024 was 0,69314 €/MWh. Now when BalticConnector is back online can It be expected that neutrality charge will be back to its normal values, or are where any other balancing costs of TSO that are yet to be covered with neutrality charge in the upcoming months?

Aaro Piirainen: Market balance has remained stable and there have been no major imbalances, and we have BC in use, so it is expected neutrality charges to get back to more typical level. Of course, it is hard to predict and say for sure, but we would expect that there would not be that high prices anymore.

Question: Would it be reasonable to introduce interruptible capacity for BalticConnector? So that when capacity allocated to GetBaltic is not fully utilized in the end of the day, then some extra capacity could be allocated to those who applied for interruptible capacity?

Janne Grönlund: this is one of the measures we can evaluate and discuss about it with our colleagues in Estonia, Latvia and Lithuania. This could be one option to add un-utilized capacity back to the market as interruptible capacity. But we need to be sure if we implement something it will work. First, if it requires development from the system, nothing can happen immediately. Secondly, as we offer services, we must be able to also implement and carry-on with providing the services. We do not want to give something we cannot provide. On the other side of the scale there is security and supply. We want to be sure that we are not jeopardizing that.

Question: What actions/measures will be taken to ensure safety of BC in the future?

Janne Grönlund: We are doing everything we reasonably can. We cannot open the case, that what kind of measures we have implemented as those are security topics and we do not give the information to public. Naturally we are doing co-operation with our Estonian colleagues and with electricity TSOs and authorities. Also, technology is developing all the time and that gives us new tools possibly. But there is not much more we can tell about the topic.

Question: Are you considering potentially lower regasification fee at Inkoo terminal during q1 to compensate for risk of additional ice/weather related costs?

Satu Mattila: At the moment we have introduced same pricing for the whole year 2025.

Question: Could you please summarize the main justifications for the change from the gas year to calendar year with the terminal capacity allocation process.

Satu Mattila: Klaipeda terminal has already changed to the calendar year. It has been a request for Inkoo terminal as well. There have been questions about why Inkoo terminal is using the gas year instead of calendar year as usually terminals operate on calendar year. As an example, it was difficult as last springtime the capacity was opened for terminal usage already in April and the scheduling was done during the summertime. On the TSO side the maintenance works are usually published only during the summertime. So, the terminal was not aware of all the restrictions that maintenance work would have effect on efficient usage of Inkoo terminal. With changing to the calendar year Inkoo terminal will be able to take into account all this already onto scheduling phase and how much capacity can be offered.

Question: Would it be reasonable for GasGrid Finland and/or terminal company to tender at least some quantities of LNG to be kept throughout Q1-2025 to cover gas consumption in those days when BalticConnector is not sufficient to cover Finnish gas consumption if no slots will be booked for q1-2025?

Satu Mattila: Physically the terminal vessel is not very good storage for LNG. It is not efficient to store LNG in the vessel for longer times.

Janne Grönlund: Currently there is no plans to activate such measures. Gasgrid sees the real value of the market-based operations and it is the purpose that market would handle this issue. Last winter Gasgrid did have LNG balancing service. It was usable when the BS was out of operation but now the circumstances are different.

Question: What are the plans on Finnish rules (any changes?) for keeping security storage for gas in light of potential changes planned by Conexus in the Inculkans product mix?

Janne Grönlund: Responsible party is NESA (The National Energy Supply Agency). They are the responsible to set rules for keeping the stocks. There is also EU regulation that demands market participants to stock gas to Incukalns and NESA is responsible party with that one also. As for future prospects, Gasgrid is not capable to comment anything on behalf of NESA.

Question: What are the expectations on impact of GetBaltic migration to EEX exchange platform/rules/pricing to Finnish gas market?

Tiina Niinimäki: On rules and pricing we don't have information. We hope smooth integration to our system.

Aaro Piirainen: We are having conversations with EEX and ECC at the moment. Discussions are still ongoing. At this moment there is not really anything to comment. As soon as everything is clarified, we will give an update.

Janne: From the market participants it's heard that there are some risks and we understand those. We see that the customers should be discussing on the services they want to use. It is not the best solution that TSOs are discussing with EEX, should be better if customers are in discussion. We have pointed out to EEX to have discussions directly with customers. We think that the benefits that are seen in the current system should be adopted to the new system as well. Risks that we have been made aware of are related to payments and liquidity of the market. We understand the worries and we are doing all we can to in our role.

Question: What will be the basis index for balancing price when GetBAltic transforms to EEX?

Janne Grönlund: Currently neutrality index are the average prices. Now as the EEX will be available we have understood that the Get Baltic won't be offering services no more. So there will be one exchange in Finnish area and as our understanding the neutrality price in EEX will be the average price. Based on the market rules that is the way it has been described.

Comment: There is no same index in EEX...

Aaro Piirainen: this has been in discussions between TSOs and EEX.

Niina Simola: Obviously the transformation to the EEX is something that the market is interested in of course. We will have this in discussions later in the market updates and in the market development forum in the fall when we will have more information.

Comment: Just wanted to note also that the regulation of security stock affects the way the market is operated by the players, so its relevant also for the market.