

Questions and Answers for questions asked in Regional Market Development Workshop #1

Questions

- “Most of you mentioned some welcomed and important goals (incl. improved market transparency) in your opening words. It would be nice to hear in your own words, how have we succeeded with these so far?” --> How each TSO see the status of Transparency in their area?
- What is the state of Balticconnector capacity and the compressor station projects in Estonia?
- What about greening the gas grid with biomethane and green hydrogen? Any initiatives to review gas quality standard which allows max 0,5 vol% hydrogen?
- Request for joint UMM Platform
- What is the state of the tariff-zone development and Inter TSO Compensation negotiations between the four countries?

Answers

QUESTION:

- “Most of you mentioned some welcomed and important goals (incl. improved market transparency) in your opening words. It would be nice to hear in your own words, how have we succeeded with these so far?” --> How each TSO see the status of Transparency in their area?

ANSWER:

- **AMBER GRID:** Most of transparency information Amber Grid provides in its webpage: www.ambergrid.lt. UMM messages are announced in GET Baltic platform. The transparency information on cross-border points is provided in ENTSOG Transparency platform (TP) as well, although it mainly duplicates the one available in Amber Grid webpage or GET Baltic platform. Sometimes there are quality issues with the data provided to ENTSOG TP, therefore Amber Grid implements IT solution to solve these issues and to introduce new front-end for network users as well. It shall go-live in Q4 of 2021.
- **GASGRID:** As Finnish gas market opened for competition starting from 1.1.2020 and there were key identified development items identified for 2020 in the IT-systems and services in general, the transparency goals for 2020 were to reach basic, good level in an open gas market. These goals have generally been met. Gasgrid provides transparency information on cross-border points through ENTSOG platform; relevant market information is also provided through webpages and through Gasgrid Portal. UMM messages are announced in GET Baltic platform. Market development forums are organized for market participants to be able to participate in service development and based on market need also other forms of webinars have been organized to promote dialogue. Market voice has been listened to concerning communication on maintenance plans in even a wider region than Finland, and together with Conexus and Elering joint effort has been made to improve visibility in longer term maintenance. In our vision Gasgrid will become the most transparent gas TSO in Europe. To reach this goal there is still

room for improvement from current situation. In 2021 Gasgrid will e.g. benchmark other European TSOs for best practices, develop market- and system data availability according to market need, estimate longer term tariff-development and continue dialogue with market to understand the key areas for continuous improvement in transparency topics.

- **CONEXUS:** Transparency information regarding the transmission cross-border points that are under Conexus management (transmission network) is provided through ENTSOG platform (transparency.entsog.eu) and Conexus webpage (capacity.conexus.lv). Conexus is currently also responsible for making public the transparency information related to Luhamaa entry-exit point. Transparency information related to Incukalna underground storage is provided through AGSI+ platform (agsi.gie.eu) and Conexus webpage (capacity.conexus.lv). Inside information is currently published on Conexus webpage, ENTSOG platform and AGSI+ platform. It is expected that in the near future the primary source of all inside information publications in relation to gas transmission in the EE-LV common market area will be GET Baltic inside information platform. This will be communicated to the market participants well in advance. From January 1, 2020 Conexus also acts as the Settlement and Balancing Coordinator of the EE-LV common market area and is responsible for making public the information in relation to the balancing of EE-LV common market area that is published on Conexus webpage.
- **ELERING:** For publishing transparency information, Elering utilises mostly own website section called Elering Live (<https://dashboard.elering.ee/et>). Presently also UMM messages are published on Elering Live, while we are working on moving the UMM messages to the GET Baltic relevant platform. Based on legislation, information on cross-border points is provided also on ENTSOG Transparency platform.

QUESTION:

What is the state of Balticconnector capacity and the compressor station projects in Estonia?

ANSWER:

On 14 August 2018, Elering AS entered into turnkey contracts with Control Process S.A for the construction of Paldiski and Puiatu compressor stations within the framework of the Estonian-Finnish gas pipeline Balticconnector project. According to the agreements, the operation of the compressor stations was to be transferred to Elering no later than 14 June 2020. Unfortunately, so far, the contractor has not been able to complete the design and construction of the plants and put the compressor stations into operation.

During the year, Elering has supported the contractor's activities in completing the stations (eg obtaining work permits for the contractor's employees in an emergency) and, at the contractor's request, changed the contractual intervals to help the contractor get the Paldiski and Puiatu compressor stations up and running as quickly as possible.

The Contractor explanation is that the project completion according to project plans has not been possible due to the COVID-19 and the related special situation.

Regarding the status of the compressor station's construction, unfortunately contractor has not presented any time schedules since July 2020, and none of time schedules or contractual milestones

have fulfilled by the contractor. Civil and mechanical construction works are in finalization phase, pre-commissioning has been started in parallel with construction works in both stations.

In Puiatu compressor station mechanical and technological and control systems are installed, construction works of roads, fences, security systems are still ongoing. Start of commissioning of Puiatu compressor station is expected during November.

In Paldiski compressor station mechanical and technological and control systems are in finalization stage, some of piping systems have to be re-tested or re-constructed. Construction works of firefighting systems, roads, fences and security systems are still ongoing.

Completion of the compressor stations and achieving full operation of the Balticconnector cluster continues to be the highest priority for Elering.

The capacities communicated to the market previously on 28.10.2020 assumed Puiatu compressor station being ready for market use by February 2021, which is the current estimate by Elering based on status of construction works. However, due to issues mentioned above there is no certainty that contractor is able to fulfil milestones required to reach this time schedule. Elering will give regular updates to the market related to the finalised works in order to give more transparent view of the status. Taking this into account further delays are possible and if there is any indication on those, the values for the period 2021 will be updated to reflect the situation. In this case the updated capacity values would be in the range given to the market last year same period.

Reaching Balticconnector full capacity towards Finland after commissioning of compressor stations requires sufficient inlet pressure from Latvia. TSOs of the common Zone are in cooperation to assess the possible scenarios in order to assure as high operational flow at Balticconnector as technically feasible. One of the main targets of the TSO cooperation is to increase market understanding and awareness about how the regional gas system works and how the market services possibilities and limitations are reached.

QUESTION:

- What about greening the gas grid with biomethane and green hydrogen? Any initiatives to review gas quality standard which allows max 05 vol% hydrogen?

ANSWER:

There are clear conclusions coming from studies that decarbonization of economies in EU in upcoming decades cannot be done without green gases (biomethane, green hydrogen, synthetic methane). The need and value of gas infrastructure in future energy framework already acknowledged widely by policy-makers. All of that has moved preparedness for green gases topic to top priorities of TSOs analytical works and planning. Especially to be ready for more hydrogen, which entails different characteristics that methane dominated natural gas.

For more effective transformation, TSOs of all 4 countries has started cooperation: a dedicated working group has been established for cooperation; analysis on technical and quality aspects of hydrogen injection is planned and should be started in 2021; the mapping of relevant aspects to establish regional framework for Guarantees of origin (GOs) for biomethane (and later hydrogen) is currently performed and the actions are planned to, in best case, enable cross-border trade of GOs already in 2022.

What regards gas quality standards for hydrogen, the review will be initiated once analytical works will be accomplished. Currently in some countries (e.g. Lithuania) upon evaluation of TSO, the hydrogen injection could be allowed up to 2% of gas mix in the corresponding network location.

QUESTION:

- Request for joint UMM Platform

ANSWER:

There is already an ongoing work in progress in cooperation between Elering and Conexus with the aim to reduce the number of platforms used for EE-LV common market area inside information publications. It is expected that in the near future the primary source of all inside information publications in relation to gas transmission in the EE-LV common market area will be GET Baltic inside information platform. This will be communicated to the market participants well in advance. After Conexus Baltic Grid and Elering joins GET Baltic inside information platform, it is expected to contain inside information published by all Baltic-Finnish TSOs.

QUESTION:

- What is the state of the tariff-zone development and Inter TSO Compensation negotiations between the four countries?

ANSWER:

Since 1 January 2020, Latvia, Finland and Estonia have established a common tariff area with the following characteristics:

- Entry tariff set at 142.77 €/MWh/day/year. The entry tariff has been chosen based on a benchmark of European tariffs
- No tariffs on internal borders
- No tariff for entry/exit from/to storage site
- Exit tariff to DSOs and adjacent TSOs set nationally

An inter-TSO compensation mechanism has been set up:

- Revenues from entry tariffs are pooled (eligible variable costs that are incurred by regional flows are subtracted by TSOs before pooling)
- Revenues are distributed to TSOs based on the relative proportion of national gas consumption in the participating countries
- Monthly settlement, with annual reconciliation

The three-country ITC system performs according to expectations so far. It is expected that more variable costs will be claimed in the future, when additional compressors will be commissioned.

So far common understanding is that creating a four-country-tariff area (I.e. removing tariff from Lithuania-Latvia border) in general would be beneficial for the market area and it also acts as a prerequisite for a four-country balancing area.

To create a joint tariff area and remove the tariff from Lithuania-Latvia border, requires a functioning Inter-TSO-Compensation model between all the four countries. The impacts of the removal of the tariff between Lithuania and Latvia would not be limited to Amber Grid and Conexus, since, under the current ITC-agreement between Conexus, Elering and Gasgrid, revenues are pooled (after subtracting eligible variable costs) and redistributed to the three TSOs. Therefore, the removal of this tariff will impact the share of entry tariffs received by all TSOs, leading to potential adjustments of their exit tariffs in order to ensure TSOs can recover the appropriate level of revenues as determined by national regulation.

The four TSOs are investigating ways to achieve a common understanding on ITC-agreement, however so far it has proven difficult to reach consensus for an ITC-model that would satisfy all the four countries. The ITC is also subject to regulatory supervision from each regulatory authority in the four countries.

Some insights to the negotiations and blocking points:

- **Eligibility of the costs that can be compensated for under the ITC mechanism**

TSOs have expressed different views on the costs that could be compensated for under the ITC mechanism. At present, under the ITC agreement between Latvia, Finland, Estonia, only the variable costs that are directly attributable to transit flows within the region (e.g. costs of fuel or electricity to power compressors) can be deducted from the revenues TSOs collect from entry point tariffs, prior to revenue pooling. These costs therefore depend on the structure of gas flows.

Since important investments have been made to build or reinforce the gas system in recent years, several TSOs have supported high investment costs. One of the identified blocking points so far is the position of the Lithuanian TSO to be compensated for costs resulting from the hosting of cross-border flows (both variable and fixed transmission costs), as otherwise such integration would end-up in disbenefits for Lithuania.

While not totally opposed to compensations where they can be duly justified, without socialising the cost of infrastructure, the other TSOs have mentioned that they have already directly or indirectly supported part of some of the fixed costs related to the Lithuanian infrastructure. Amber Grid notes that the CBCA decisions have been reached under the assumption of the presence of tariffs between Lithuania and Latvia, and that that assumption has resulted in rather low CBCA payments by other TSOs, compared to typical CBCA compensations. Moreover, received CBCA payments are fully deducted from allowed revenues (tariffs) of Amber Grid – both regulated asset base and depreciation base.

- **Rationale for discounts and allocation of their impacts**

TSOs have expressed different points of view on the relevance and/or justification of offering discounts to particular alternative gas supply sources: LNG terminals and GIPL.

Discounts, in essence introduce an unequal treatment of different gas sources. This sort of different treatment of gas sources requires clear justification. Discounts to certain points in common gas market (eg one LNG terminal) also introduce reasonable expectation for other points (eg other LNG terminals) to receive same treatment.

In the case at hand, the discounts that are being considered for LNG terminals and GIPL could reflect policy objectives such as the diversification of gas supply by lowering the reliance on a single supply source, the enhancement of security of supply, increase of competition and downward pressure for gas wholesale prices.

The discount can either be expected to have a limited impact by slightly increasing the imports from the entry points that are granted a discount, or a more general impact by exerting pressure on the prices of other gas supply sources. A combination of the two effects could also materialise, for example discounted routes could be preferred only until when the other supply routes have renegotiated their prices, leading to overall lower gas prices.

An enhanced level of security of supply is one of the reasons discounts can be introduced, according to Article 9(2) of the network code on harmonised transmission tariff structures for gas (TAR NC, Regulation (EU) 2017/460), which mentions that: *“At entry points from LNG facilities, and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems, a discount may be applied to the respective capacity-based transmission tariffs for the purposes of increasing security of supply.”*

Currently, the Klaipėda LNG terminal is granted a 75% discount on the entry tariffs that apply in Lithuania.

The allocation of the compensation for the shortfall of revenues should be treated in the ITC mechanism. Indeed, since a discount would result in a reduced level of revenues collected on a given entry point, then, if no further compensation mechanisms were to be introduced, the level of revenues for each of the TSOs would decrease (as the pooled revenues would decrease) with an allocation between TSOs corresponding to the demand in their respective countries. However, if the benefits linked with the introduction of a discount do not have the same allocation as the associated revenue shortfalls, then situations in which the TSO having implemented the discount can extract benefits in a way that is not proportionate to its costs could appear.

- **In conclusions of above-mentioned:**

In general, TSOs see that if a compensation would be set in place, all the TSOs would have to be sure that the result of the compensation mechanism, in various gas price scenarios, would be beneficial for the gas users in their respective countries compared to status quo.

All the TSOs agree that ITC mechanism should be simple and easily explainable to market participants and public authorities (ministries, national regulatory authorities, European Commission, ACER, etc.), that the solution should provide as much stability as possible.

On top of the requirement that the inter-TSO compensation mechanism produces a fair and robust outcome, the question of the governance of the discount-setting decision-making process has to be addressed regionally.