Regional Gas Market Development

Consultation questionnaire responses

2020-12-16

Overview and next steps

The consultation was sent to 70+ stakeholders and received 11 responses from 9 different organisations. Responses to the questionnaire depict the views of almost all the largest players in the markets.

The results of the questionnaire will be used as a base for prioritizing future market development in the Finnish-Baltic gas market region. The TSOs of the region shall organize a joint workshop during the Q1/2021 where the summary of consultation questionnaire responses and next steps of market development activities presented.

The TSOs of Finnish-Baltic region thank all market participants for giving valuable opinions to the topics covered:

- Key current challenges in the market?
- What should be the next steps and priorities for regional gas market development?
- What development questions would require further analysis?
- Which areas would you like for the TSO's to harmonize or organize jointly?
- Which contact option would you prefer in balancing and transmission services?
- How important would it be to have the balancing and transmission services in your national language?

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
- 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 Ignitis 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.

*Additional issues listed were highlighted by one responder, with the exception of the subsidized LNG terminal, which was raised by two responders. As regards to the comment about Ignitis, this is probably a reference to Ignitis's role as designated supplier for the LNG terminal in Klaipeda to guarantee minimum LNG quantities in FSRU so that the LNG terminal would be kept in cold status and ready to accept LNG cargos throughout the year.

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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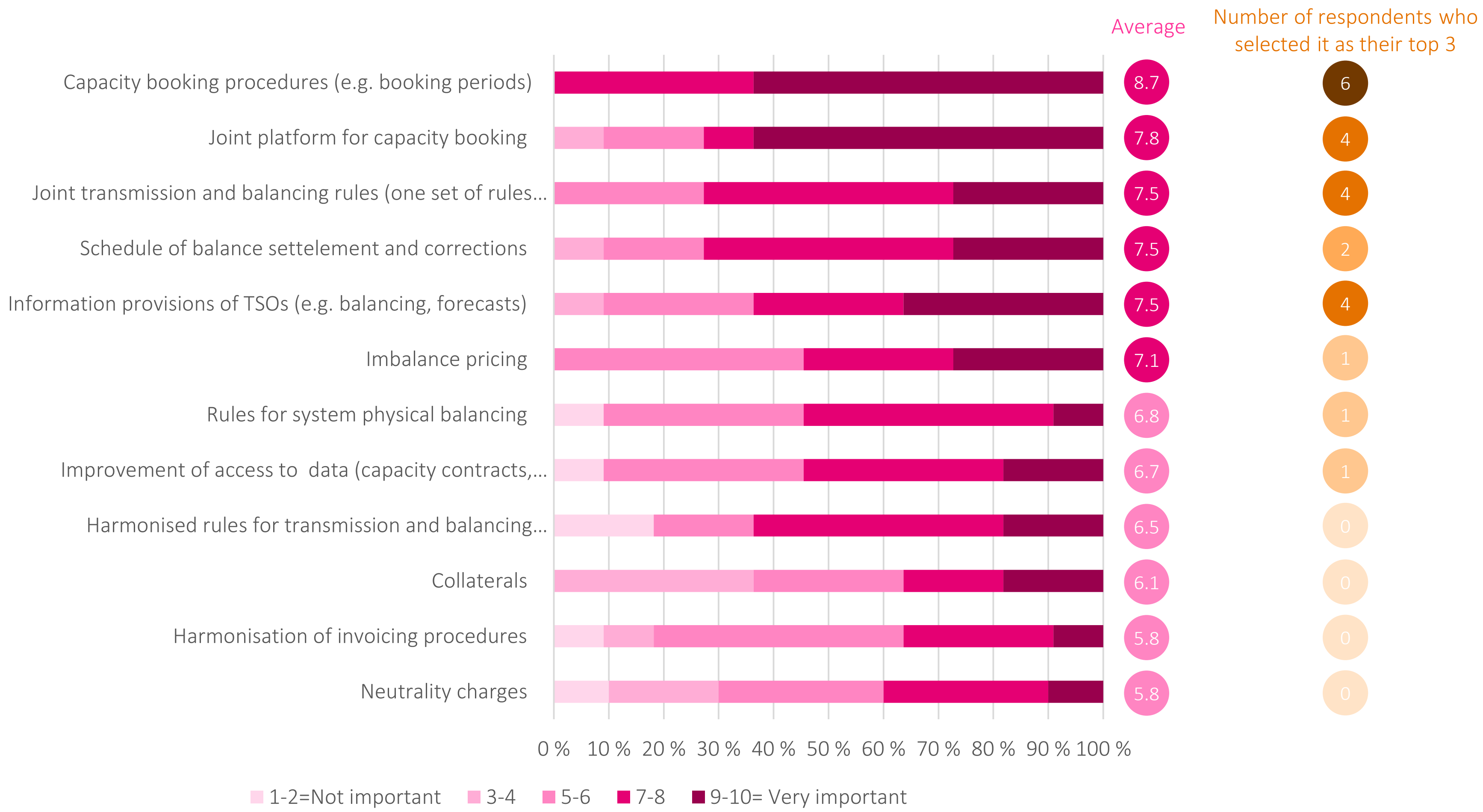
- The role of GIPL in the market
- Development of a single market operator
- Earlier implementation of a single balancing zone
- Best method for booking transfer capacities inside the common market zone
- Analysis of market area management based on MAM model, particularly in comparison of cost for the 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)

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

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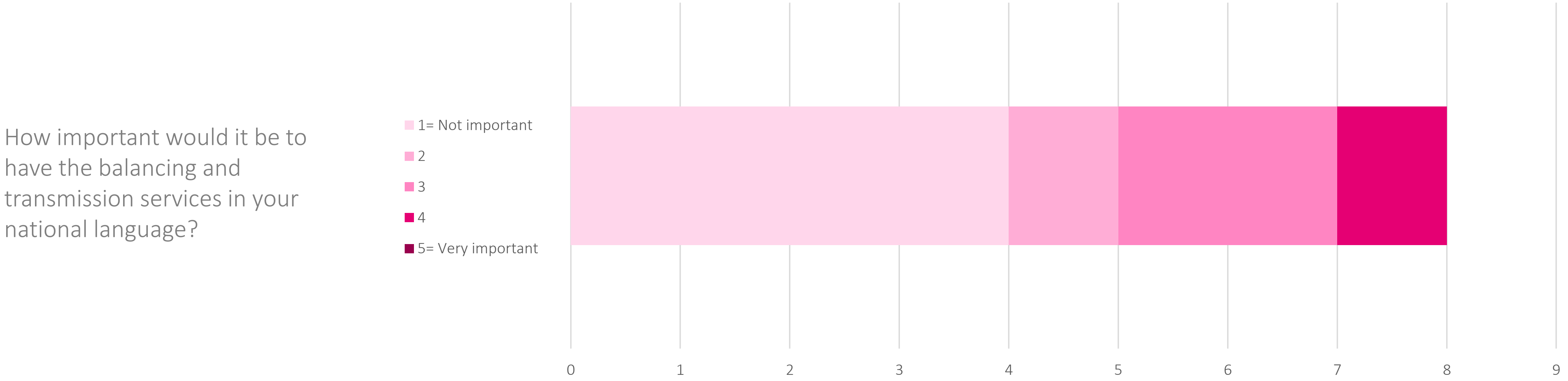
“It is highly preferred that one entity be responsible for all balancing and transmission services. If one company takes care of the balancing and transmission services in all four countries, it will be done in the best possible way taking into account the balancing status in all four countries and no 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 1 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.”