

On the consultation document "On the amendments"

Inčukalns underground gas storage regulations regulations"

1. Paragraph 1.4 of the draft amendment provides for clarification of paragraph 7 of the IUGS Terms of Use by stating that the forecast of the technical capacity of the IUGS for the next IUGS cycle shall be communicated *"by 4 November each year, but no later than 10 working days before the first auction of storage capacity for the next storage cycle"*. That wording of the provision allows for its interpretation in such a way that, contrary to the current rules, the provision does not impose a mandatory obligation on the system operator to publish that information by 4 November, but allows publication to be made at a later date, 10 working days before the auction. Please be informed that it is important for IUGS users and potential participants in IUGS auctions to plan their actions and opportunities to purchase IUGS capacities, and the receipt of certain information on specific dates ensures predictability regarding strategic decision-making. On the other hand, it is understood that, under the influence of various circumstances, changes may occur with regard to the forecast of the technical capacity of the IUGS, therefore it would be permissible to publish clarifications even after the publication of the initial information. In view of the above, in order to guarantee legal certainty as regards the timing of receipt of the information, please clarify paragraph 1.4 of the draft amendments by providing that, as before, the forecast is published by 4 November, while the clarifications are published no later than 10 working days before the auction:

'7. The system operator shall notify the forecast of the technical storage capacity for the next storage cycle by publication on its website by 4 November each year *and* no later than 10 working days before the first auction of storage capacity for the next storage cycle.'

2. Paragraph 1.7 of the draft amendment provides for the deletion of Sub-paragraph 10.3 of the IUGS Terms of Use, which requires the system operator to publish on its website on a daily basis information on the available capacity of the storage, including the available capacity of the storage in breakdown by IUGS capacity products. Please keep Sub-paragraph 10.3 of the IUGS Terms of Use (specifying according to the proposed types of capacity products), as this information is available to the system operator, while for IUGS users, as well as potential users, this information is very important, as it helps to plan and organize their operational activities.

3. Paragraph 1.9 of the draft amendment provides for clarification of paragraph 24.1 of the IUGS Terms of Use by requiring the system operator to publish on its website information agreed with the regulator on all storage auctions *"by 10 January, but not later than one month before the first auction of storage capacity for the next storage cycle"*. That wording of the provision allows for its interpretation in such a way that, contrary to the rules currently in force, the provision does not impose a mandatory obligation on the system operator to publish information on auctions before 10 January, but allows publication to be made even later, one month before the first storage auction. Please be informed that it is important for IUGS users and potential participants in IUGS auctions to plan their actions and opportunities to purchase IUGS capacities, and the receipt of certain information on specific dates ensures predictability regarding strategic decision-making. On the other hand, it is understood that, under the influence of various circumstances, changes may occur with regard to the planned auctions, so it would be permissible to publish clarifications even after the publication of the initial information. In view of the above, in order to guarantee legal certainty as regards the timing of receipt of the information, please clarify paragraph 1.9 of the draft amendment by providing that, as before, initially information on storage capacity auctions is published by 10 January, providing for the possibility of publishing updated information no later than one month before the first auction of the next storage cycle:

"24.1. the system operator shall, by 10 January of each calendar year *and* not later than one month before the first storage capacity auction of the next storage cycle, publish on its website information agreed with the regulator regarding all storage capacity auctions for capacity products the beginning of the period of use of which is the next storage cycle, indicating the time of the storage capacity auctions and the storage capacity products to which the storage capacity auctions relate."

4. Paragraph 1.10 of the draft amendment provides for the addition of 28 to the IUGS Terms of Use.¹ point by adjusting the system operator's handling of those system user's inventories that exceed the system user's reserved storage capacity for the next storage cycle, as well as providing for the system user's responsibility for not releasing the storage when the reserved storage capacity product expires.

The explanation for the drafting of the amendments justifies the need to ensure the cyclical functioning of the IUGS according to the reserved capacity products and, consequently, the need to encourage system users to release IUGS in a timely manner from stocks for which there is no reserved capacity for the subsequent storage cycle. It is understood that it is not the responsibility of the system operator to guarantee that all bidders obtain a capacity product, as long as the system operator has ensured equally accessible access to storage under fair, reasonable and competitive auction conditions. However, the interests of the system user should also be taken into account in a proportionate manner, in particular in a situation where, given the volume of long-term products, the bundled capacity products of storage (and also the interruptible capacity product) may not be available in the required quantity and it has not been possible for the system user to obtain them at auction. Therefore, it would be necessary to define in the draft amendment that the product of five-year bundled capacity will be put up for auction gradually by year in a sliding order, so that it is possible to reserve this long-term product annually instead of once or twice over a five-year period.

4.1 In view of the above, please clarify paragraph 1.10 of the draft amendments to the IUGS Terms of Use 28 Section 11:

1. In order to ensure that the system user is able to store stock balances also in the next storage cycle and not to use the forced return mechanism before the end of all auctions for IUGS capacity products, the deadline for the withdrawal of stocks from the IUGS should take into account not the closing date of the withdrawal season, but the storage auction calendar, i.e. the auction date of the last storage capacity products by which system users have had the opportunity to purchase interruptible capacity. (if not the entire bundled capacity product has been sold) to enable the system user to transfer its stocks.

2. Conversely, in a situation where storage capacity products are no longer available for the next storage cycle, the system operator should be expected not to take a unilateral decision on the timing of the transfer of stocks, but to hear and consult the system user, ensuring a proportionate application of the rule. Accordingly, please supplement the provision that the system operator transfers the stocks to the system user by agreeing on a reasonable delivery schedule with the system user. Thus, taking into account, on the one hand, the ability of the system user to deliver the received natural gas to customers and, on the other hand, excluding the possibility of delaying the acceptance or transfer of the stock balance. It should be borne in mind that in most cases, when a situation arises with the stock balance, however, the system user will have tried to obtain IUGS capacity at storage auctions, and the formation of a stock balance will not be the result of malicious or deliberate actions of the system user. In addition, the system user will pay the system operator for the storage of stocks, therefore a reasonable procedure for the transfer of stocks and some flexibility in this situation should be ensured.

3. It is also not clear from the regulation where the stock balances will be delivered in the transmission system, therefore we invite you to clarify the terminology in accordance with the terminology used throughout

the text of the IUGS Terms of Use and to provide that the delivery is carried out *at the "transmission virtual trading point"*.

4.2. Please clarify paragraph 1.10 of the draft amendment to paragraph 28 of the IUGS Terms of Use 12 sub-clause which provides that *"the system user shall pay a storage charge for the storage of stocks without a capacity product of 0,15% of the value of the stored stocks, calculated for each gas day on the basis of the balance of stocks in storage at the beginning of the gas day, applying the last published price of the EEX Natural Gas Spot TTF Day Ahead financial instrument (Last price) at the beginning of the gas day."*

Please note that the fee for the use of IUGS storage, whether it is set for capacity reservation or, in the context of that paragraph, for the temporary storage of stocks for which no capacity product is reserved until delivery to the system user, cannot depend on the value/valuation of the stored stocks.

Both the justification for the need to develop draft amendments and the text of the draft amendment itself indicate what circumstances are taken into account and what constitutes the price of storage products. All these factors are objectively related to the cost of maintaining IUGS and the amount of revenue required. The residual value of inventories is in no way and cannot be attributed to their storage costs.

Please provide if IUGS Terms of Use 28 Sub-paragraph 12 complies with the laws and regulations of higher legal force and general principles of civil law, and to set the fee for the storage of stock balances in an amount that does not depend on the value/valuation of the stock balance, but is related to the provision of the storage service (for example, in a certain amount from the fee for other capacity products, etc.).

5. Paragraph 1.13 of the draft amendment provides for the amendment of Paragraph 56 of the IUGS Terms of Use and to provide that *"If the system user does not have a capacity product in an appropriate volume when the system operator transfers the unused fuel gas to the system user, the system operator shall transfer that volume of fuel gas to the system user within one month after the end of the off-take season at the virtual trading point."*

As the system user is not obliged to reserve IUGS capacities for subsequent IUGS cycles, and the system user may not obtain the required IUGS capacity in the auction, the mechanism for the return of unused fuel gas provided for in the IUGS terms of use should be proportionate to the system user's ability to receive the unused fuel gas he owns.

Therefore, , please clarify paragraph 56 of the IUGS Terms of Use included in Paragraph 1.13 of the draft amendments, providing that unused fuel gas is transferred to the system user free of charge and the parties agree in good faith on the schedule for the transfer of unused fuel gas, as well as clarifying the terminology in accordance with the terminology used throughout the text of the IUGS Terms of Use ":

"56. If the system user does not have the capacity product in the appropriate amount, when the system operator transfers unused fuel gas to the system user, the system operator shall transfer this quantity of fuel gas to the system user free of charge within one month after the end of the withdrawal season at the transmission virtual trading point, agreeing with the system user on the transfer schedule."

We also consider that the system operator should enable the system user to purchase capacities for the next storage cycle, and the return of fuel gas to the transmission virtual point of sale should only take place when all capacity auctions have been concluded and the system user has not purchased storage capacity. In view of the above, please supplement the draft amendments with a reservation that the transfer of unused fuel gas to the system user in accordance with paragraph 56 shall be carried out, taking into account the timing

of the capacity auction scheduled for the last possible auction of the capacity product (interruptible capacity product).

6. Grouped capacity product (product code IUGS1YP):

6.1. Please supplement the regulation of the Grouped Capacity Product with a new paragraph on the starting price of the auction or the criteria for setting it and coordination with the Regulator.

6.2. Please clarify point 1.10 regarding the settlement of the capacity product (currently reference is made to paragraph 24, which determines the settlement in accordance with tariffs and premiums).

6.3. Point 1.11 provides for the possibility of transferring stocks from the bundled capacity product to the bundled capacity product reserved for the next storage cycle, then there is no legal or technical justification not to provide for the transfer of the stock balance from the bundled capacity product to the reserved five-year bundled capacity product. Secondly, paragraph 1.10 of the draft amendment contains paragraph 28 of the IUGS Terms of Use. The wording of paragraph 1 provides for the transfer of stocks to the system user only if the system user does not have reserved capacity for the next storage cycle, from which it is presumed that the transfer of stock balances for the next cycle between capacity products must be ensured by the system operator and paragraph 28. The mechanism provided for in paragraph 1 shall only be applicable as a last resort if the user does not have the capacity for the next cycle. The wording of point 6.12.1 also provides for the transfer of stocks for the next storage cycle to a five-year bundled capacity product "from any product". In the light of the above, please supplement point 1.11 by setting out the conditions for transferring the stock balance to the next storage cycle from the bundled capacity product to the five-year bundled capacity product.

6.4. Paragraph 1.11 provides that stocks stored in a bundled capacity product may be transferred to the next storage cycle for a fee if the system user has reserved the bundled capacity product for the next storage cycle. The system operator shall calculate the carry-over charge by applying the higher of two indicators: (1) two euro per MWh of the stock balance to be carried forward; 2) 1.25 times the EEX Natural Gas Futures TTF Settlement price next winter/summer price difference.

We consider that it is disproportionate to introduce a charge for the transfer of stocks to the next storage cycle in the amount specified in 1.11.pun, if a capacity product is reserved for the next storage cycle. Under such regulation, the user pays double the amount of the system, both for the purchase of capacity by auction and for the transfer of stocks. In view of the above, in view of the IUGS's natural monopoly position, in order to ensure a fair and competitive transfer fee for carry-over of stock balances for storage in the next storage cycle, please review the conditions for carry-over of stocks by providing reasonable conditions and charges for the carry-over of stocks that are consistent with the cost of the storage service provided.

7. Product of five bundled capacity (product code IUGS5YP):

7.1. We would object if, taking into account the interpretation of the terminology included in the draft amendments, the draft amendments would allow the sum of the five-year grouped capacity product to be greater than 80% of the amount of active natural gas storage capacity (which is currently around 25 TWh).

For trading companies five years capacity products are senseless due to the shorter planning cycles and essence of the business. Interstic UAB objects with the amendment that 80% of the capacity is allocated to the five years capacities and suggests to significantly reduce the above allocation to maximum 20%.

7.2. It shall be inferred from the regulation contained in point 6.12.1 in the context of sub-paragraph 6.12.2 that stocks may be transferred to a five-year bundled capacity product free of charge from any product

in the amount of 50% of the five-year bundled capacity product at the disposal of the system user for the next storage cycle. Please supplement and clarify point 6.1.2.1 by clearly establishing the possibility of transferring stocks from all capacity products that allow for the carry-over of stocks, as well as taking into account the fee provided for in point 6.12.2 for carry-over of stocks above 50%, clearly stating that the volume is up to 50% of the five-year bundled capacity product available for the next cycle, is carried over free of charge.

Please note that the current provisions of paragraph 6.12.1 are vague and its grammatical wording may be interpreted in different ways, for example, it is not clear from what volume of capacity product the 50% carry-over limit is calculated.

7.3. According to the first sentence of paragraph 6.12.2, 'a transfer of stocks to a five-year bundled capacity product above 50% of the five-year bundled capacity product at the disposal of the system user for the next storage cycle may be subject to a transfer of stocks to a five-year bundled capacity product as defined in the auction rules for the specific storage capacity product'. Please note that the current regulation of the first sentence of paragraph 6.12.2 is vague and its grammatical wording may be interpreted in different ways, for example, it is not clear from what volume of capacity product the 50% carry-over limit is calculated. In accordance with the requirements of legal technique, the author of the norm is obliged to ensure that the wording of the norm is clear and unambiguously interpretable, so that its enforcer can clearly and unambiguously understand the scope of the rights and obligations provided for in the norm, therefore, please clarify the first sentence of paragraph 6.12.2.

Since point 6.12.1 provides that at the end of the five-year bundled capacity product storage cycle (during and at the end of the life of the capacity product) it is possible to transfer stocks of up to 50% of the bundled capacity products from any product to five years, there is no reasonable and proportionate legal basis for inconsistent regulation of the transfer of inventories from any capacity product also to the extent referred to in point 6.12.2. In addition, paragraph 1.10 of the draft amendment contains paragraph 28 of the IUGS Terms of Use. The wording of paragraph 1 provides for the transfer of stocks to the system user only if the system user does not have reserved capacity for the next storage cycle, from which it is presumed that the transfer of stock balances for the next cycle between capacity products must be ensured by the system operator and 28. The mechanism provided for in paragraph 1 shall only be applicable as a last resort if the user does not have the capacity for the next cycle. In the light of the above, point 6.12.1 and the objections thereto and the arguments set out in this opinion, please clarify point 6.12.2 by providing for the transfer of stocks under this paragraph to a five-year bundled capacity product also from the bundled capacity product.

7.4. The second sentence of paragraph 6.12.2 provides that *“the system operator shall set the transfer fee for the entire lifetime of the capacity product by applying the higher of the following two indicators at the time of the auction announcement: (1) one EUR per MWh of transfer storage balance; (2) 0,75 times the arithmetic average of the EEX Natural Gas Futures TTF four consecutive winter/summer price spreads per MWh of transfer storage balance.”*

We consider that the alignment of the passing-on fee with the difference between the next four winter/summer prices is disproportionate and equivalent to the charge for the capacity product that could be achieved as a result of the auction. System users shall determine their fee bid for the capacity product in the operator's auction on the basis of the next winter/summer price difference. By providing for a carry-over fee in the amount offered, the system user is obliged to pay both the fee for the capacity acquired in the auction round and the stock transfer fee in an equivalent amount. In view of the above, in view of the IUGS's natural monopoly position, in order to ensure a fair and competitive transfer fee for carry-over of stock balances for storage in the next storage cycle, please review the conditions for carry-over of stocks by providing reasonable

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conditions and charges for the carry-over of stocks that are consistent with the cost of the storage service provided.

Please also reassess whether it is possible to comply with the source for setting the carry-forward charge provided for in clause 6.12.2, which provides for the use of the EEX Natural Gas Futures TTF four-forthcoming winter/summer price difference. According to the information available seasonal quotations for the third and fourth year are not always traded, available and accessible to all system users. It would therefore be unreasonable to apply such lengthy seasonal indices, as stocks are only carried over to the next cycle and, accordingly, the passing-on fee could be set on a year-by-year basis using only the one year's next low/summer price difference.

CEO

Andrius Butkus

Handwritten signature of Andrius Butkus in black ink, consisting of stylized initials 'AB' followed by a surname 'Butkus' and a horizontal line.

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