To:
Public Utilities Commission
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REGARDING THE COMMENTS ON AMENDMENTS TO THE INČUKALNS RULES FOR THE USE OF THE UNDERGROUND GAS STORAGE

UAB Ignitis is providing a response to the public consultation on amendments to the Inčukalns Rules for the use of the underground gas storage announced on January 17th, 2023.

In our view, the current proposal made by Conexus Baltic Grid would not address the market needs as opposing booking principles would be applied on different pieces of the infrastructure (cross-border transmission capacities, LNG terminals' regasification capacities and storage injection and withdrawal capacities). The following reasons are:

1. Working on the reduced (106 GWh/day) and flat injection schedule would significantly limit the physical and commercial flexibilities of market participants to inject the gas when the market is the most favorable to do it. **The Inčukalns underground gas storage should serve the market needs** but not otherwise meaning that market should hold the right to freely choose the injection months and volumes **as per currently existing regulations**. The injection rate per month should be offered at the maximum technically possible injection rate. The reduced injection rate for the 2023 season – 106 GWh/day – is not sufficient to satisfy the highly inflexible regasification schedules of both regional LNG terminals (Klaipeda and Inkoo).
2. The regasification of LNG cargo is not processed during the specific month meaning that **booking injection month into the storage would not eliminate the risk** of LNG importers getting the access to the storage for the full amount at the time of need but rather cause an opposite effect that LNG importer would be in disadvantageous position during the period outside of the month with booked injection. The regasification schedule often changes due to constant unforeseen market events.
3. In the current market circumstances – unclear gas consumption and highly fluctuating gas prices – it becomes very challenging to plan well in advance the exact natural gas injection curve as suggested in consultation documents. The market needs to have quick reaction time and continuous adjustments of gas trading positions are necessary in order to fit volatile environment. The **proposal would significantly limit the attractiveness of the** Inčukalns underground gas storage as it would heavily limit the market flexibilities and increase the financial market risk when having a requirement to firmly commit the fixed gas storage injection curve at the time of the auction.

Due to the aforementioned reasons we highly recommend leaving the auctioning mechanism and storage regulations **as is**. Shall the above not be considered, the following comments are provided on the consultation material.

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UAB „IGNITIS“ COMMENTS AND PROPOSALS
ON THE AMENDMENDTS OF INČUKALNS UNDERGROUND GAS STORAGE
25th January 2023

No	Consultation document	UAB „Ignitis“ proposal	Comment
1.	2.3.2 in an auction the capacity product with a corresponding natural gas injection curve for the injection month shall be booked. For the capacity product in the second storage cycle of use, the natural gas injection curve for the first storage cycle of use of the capacity product shall be applied.’;	The injection month associated with the two-year bundled capacity product shall be: - **For the first year as indicated in the offer;** - **For the second year allocated two weeks before the auctions for the next season take place.**	In a current volatile market environment, it is a challenge to plan deliveries two years ahead. Market and demand volatility suggest system users shall have flexibility to maximize injection volumes into the storage. Suggest allocating injection month for two-year capacity product season by season. For the first year during the auction, for the second year before the auctions take place.
2.	82.13 The natural gas injection curve to be applied for the 2023/2024 storage cycle to the two-year bundled capacity product allocated to the system user, the use period of which ends at the end of the 2023/2024 storage cycle, shall be determined by proportioning the natural gas injection capacity to be provided for the injection months to the volume of the allocated two-year grouped capacity product and dividing the injection capacity for the injection month equally among the gas days of the injection month.’;	System users owning two-year storage capacity product ending at the end of 2023/2024 storage cycle shall be given a priority for injection at any time during the injection season.	System users, by participating in last year’s auction and who got allocated with a two-year capacity product bought storage services of the highest priority and paid for the attributes of the product as defined at the time. Suggested amendments to the rules diminishes and changes the characteristics of the two-year product owned by storage users, therefore strongly suggest to keep priority for two-year product as it was initially marketed and allow holders of such product to inject at the time of need with a priority no less than highest priority available.

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3.	1.1. Sub-paragraph 2.1. shall be replaced by the following: “2.1. natural gas injection curve – a system operator’s specified distribution of natural gas injection capacity according to the volume of system user’s booked bundled capacity product or two-year bundled capacity product by gas days of the injection month, which the system operator can provide with constant capacity for the storage of natural gas during the injection season.	The current rules of auctioning and storage should stay as is. Market participants can freely choose the injection months and schedule. The storage should work on the maximum technical injection and withdrawal capacity each month **as it is now** instead of applying flat injection schedule with the mandatory injection volumes predefined in the auction.	In order to secure the highest efficiency and usage of the Inčukalns underground gas storage, the Operator should offer the maximum technical injection capacity to the market participants (as per current rules) rather than apply the flat injection schedule per month during the injection season. Currently, it indicates the reduced injection capacity – 106 GWh/day for the 2023 injection season. Such reduced injection rate (106 GWh/day) is not sufficient for the regional Baltics+FI market given the inflexible regasification schedules from Klaipeda LNG terminal and Inkoo LNG terminal. Balticconector exit capacity point and Kiemenai entry capacity to Latvia point would sum up to 170 GWh/day, which suggests the market needs’ to have a higher injection rate. **Important to note, that current practice of injecting gas to the gas storage serves the market participants in their best interests** and allows the most effective use of the storage. Shall Conexus offer injection rate in line with previous years there would be no need for complicating the system with injections curves as it would suffice market needs in full without increasing the financial risk for the storage users. Finally, please take into account that it would be difficult for the market participants importing LNG to the regional terminals to book in advance the fixed injection curve

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			(specify months with the determined daily injection gas volumes good time ahead) due to the reason that the LNG cargo is not necessarily regasified at a flat profile of a single month. Also, it is not clear how the Operator of the storage would ensure that LNG cargo volumes will be injected to the storage to its full extent (not partially) if the current injection rate is offered just at the 106 GWh/day for 2023 season. Having such risk market participants can be reluctant to buy LNG cargoes solely for the gas storage injection aim.