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**Sent:** Tuesday, November 30, 2021 4:36 PM

**To:** SPRK <sprk@sprk.gov.lv>

**Cc:** Peeter Pikk <Peeter.Pikk@balticenergy.ee>; Kaido Veldemann <kaido.veldemann@scener.eu>

**Subject:** Proposals and comments on the Draft Amendments to Regulations on the use of Inculkans underground gas storage facility

Dear Sirs,

Please find here comments on behalf of Baltic Energy Partners OÜ, Scener OÜ, Scener OY and Scener SIA to the proposed consultation document on amendments to Regulations on the use of Inculkans underground gas storage facility.

First of all, I would like to strongly suggest to not to implement any of those proposed radical changes to Inculkans regulations as they mean a complete change of the Inculkans products in the market situation where most players are still getting used to open gas market and have learned how to use the Inculkans with its current rather transparent rules. The argumentative charts (fig.1) comparing actual and „optimal“ injection patterns do not differ too much from each other and there is no clear assessment of the potential additional withdrawal possibilities if the patters would become „optimal“. Its also a unclear what are the overall purposes of the changes as simultaneously to pattern change there seems to be an attempt to solve issues for market participants who require bigger firm injection capacities. As a result of those changes, there will be definitely less interest and value in using Inculkans storage services as:

- The products are too complex and specific to be properly understood and analysed by market participants. Too many new aspects at the time that makes it rather difficult for market palyers to make well-informed decisions
- There is no product proposed that could be suitable for Inculkans users who use storage primarily for balancing purposes (no need for guaranteed injection rates, but can plan considering current limitations)
- There is no product proposed that is flexible enough for pure trading purposes (buying to Inculkans and selling short term or at GetBaltic) as the fixed quarters and months take a way the necessary flexibility to capture best market prices
- The proposed products inflexibility reduces their value especially in current market situation where the seasonal spread is well below any minimum tariffs we have seen so far from Inculkans
- New potential Inculkans clients especially from Finland will certainly be postponing any plans regarding Inculkans with its new proposed rules as there is no way to assess the full effect of those to the economics of use of storage
- The new proposed products do not guarantee actual injections based on proposed curves/products as the difference of market prices from month to month can easily be above 20 €/MWh (as seen during year 2021 several times) and if its uneconomical, then the storage will remain more empty than with current products
- The costs of gas in the region will rise as there will be a need to use more short term capacity in the third country borders as unequal daily volumes within the month (injection curves) do not enable to use long term capacities efficiently (annual, quarterly or monthly is not sufficient as always some daily capacity needs to be added to follow daily pattern within the month).

In addition to previous the introduction of such changes is definitely too quick as market has had basically one week time to get understanding of new rules and give its comments while there has been no previously published information or even discussions about it with market participants. In addition, market palyers have obtained for current season 2-year bundled products and its unclear how those will be affected by such changes. Its also clear that even if the already obtained products would be not affected, then market palyers would have obtained more 2-year capacity previously if such changes woudl have been known to the market earlier.

On the other hand its communicated that such changes are necessary until the investments into Inculkans compressors will be completed. Therefore, such changes are communicated too late as postponing those measures already by one year will run into timing when the problems will be solved by other methods (investments). This undermines the need for such changes in general and the market will be likely better off not changing the rules every second year.

We would propose minimums changes really necessary in case of necessity to improve the Inculkans operations. As current products are simple and understandable, then maybe it could be introduced some products that guarantee injection capacity for LNG players. The easiest and most market based approach would be introducing e.g., a separate auction for injection priority rights for certain months for some small share of injection capacity (e.g., 10-20%). Its a similar to BalticConnector treatment where 10% is given for exchange trading at GetBaltic. Injection capacity priorities can be auctioned e.g., 1 month in advance of the actual usage month and the introduction of such change should take 2 years to ensure no interference with existing 2-year capacities (so starting with 2 year capacity auction in Spring 2022). If this is communicated well in advance then everybody can take this into account in planning their bids for Inculkans capacity auctions. It will result with minimally less value of bundled products and added market value for injection priority right. In addition to previous proposal it might make sense to have more rounds for auctioning bundled capacity (not interruptable) to ensure higher capacity use in Inculkans.

We might add some more detaiked comments before December 6th, 2021 on the topic.

With regards,

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