

Public Utilities Commission

Unijas street 45
LV-1039 Riga, Latvia
sprk@sprk.gov.lv

08.12.2021
Tallinn, Estonia

Eesti Gaas AS feedback to the CONSULTATION DOCUMENT on amendments to Regulations on the use of Incukalns underground gas storage

According to the public consultation for "Amendments to Decision No 1/14 of the Public Utilities Commission of 1 October 2020 "Regulations on the Use of Inčukalns Underground Gas Storage Facility"" we send our comments to the discussed topic. With this letter we would like to draw attention to what Eesti Gaas AS sees as the key issues regarding the potential changes in storage regulation.

The biggest obstacle to agreeing with potential regulation changes is that some of the amendments compared to 2020/2021 rules would create additional limitations for all market participants including Eesti Gaas AS, resulting with lower usage of the storage.

Moreover, we truly believe that proposed changes do not comply with Conexus Baltic Grid interests and do not result with higher fulfilment of Incukalns underground storage. Below we bring out some problems regarding the draft amendments.

Natural gas injection curve

We do understand the initial idea to introduce natural gas injection curve and current considerations: promoting the sustainability of the storage and predictability of the availability of natural gas injection capacity by preventing storage congestion for firm capacity products. Although, we do not agree with the effects that such additional limitations to market participants would increase the usage of the storage.

From physical perspective only stable and balanced injection schedule could ensure that all storage facility would be filled up with gas. But on the other side, looking from market participant's perspective, the need for injection to the storage does not always align with the stable schedule. It is mostly market-driven

need and can be dictated by several constraints, such as:

- Limitations on natural gas purchase contracts (Take-or-Pay and flexibility)
- Seasonal calendar spreads
- Weather conditions and client consumption
- Need for balancing daily portfolio
- Credit availability and capital costs

For example, market participants interest to inject high gas volumes is driven by factors like high seasonal spread, sufficient flexibility on purchase contract, warm weather conditions and low client consumption.

On the other hand, the need to inject gas can be also driven by low flexibility in the purchase contract where market participants need to take the contracted gas volumes, but there might be not enough seasonal spread.

And if there is a situation where is not enough seasonal spreads, then the market interest is usually smaller to inject. Also, when there are periods with very high gas price, then we see appearing constraints like credit availability and capital costs. The more we add constraints to the list, the more likely it is that we will face lower levels of injections or less premium offered for the storage products.

Dividing the storage capacity into smaller pieces will significantly increase the complexity during both the bidding phase and injection phase and acts as a new barrier to use the storage. One can be certain, that using quarterly or monthly products would not have brought higher storage utilization during 2021/22 season.

Then there is an issue with the quarters. A calendar quarter is a time period quite commonly used in gas trade. Capacity can be booked by quarters, gas supply is planned by quarters and so on. Injection quarters are proposed as something else. This is very inconvenient. For example, if a storage user has planned to inject during the Q3-22, has booked already quarterly entry capacity, has booked the gas for the quarter, then he cannot participate in quarterly storage product auction, but must use those monthly products. This is not a good situation at all.

One idea to consider though is to use injection curves (predetermined daily injection rates) for current 1y and 2y products. This would give greater certainty for a storage user to inject himself or possibly trade that injection right with other storage user. Current pro rata system does not give that certainty. At the same time not using the allowed injection rate would quite likely mean that the capacity cannot be filled fully and this encourages the system user to inject according to the injection curve. In the end Conexus get the injections as close as possible to the targeted curve. In our opinion, the key enabler here is predetermined injection rate not division of the storage into quarterly and monthly products.

Once more I like to emphasize here the importance of certainty. If the injection curves are used, then the curves must be known at the time of booking and the curves cannot change for worse from storage user point of view. If there is possibility to add injection capacity during the season then allocating it pro rata to system users is OK, but the initial injection rate must be guaranteed.

Proposed injection flexibility of 20% does not really help storage user. If this flexibility means exchanging the bundled product for interruptible product then this flexibility is not attractive at all. We suggest keeping the current system whereby additional capacity can be obtained on pro rata basis.

Collateral

We do not support the idea of removing the Creditreform rating from the proofs of creditworthiness. Credit rating from Moodys, S&P et al are obtained by companies who issue debt on the international debt markets. There are only very few companies in the Baltics who do that. Creditworthiness depends on objective measures (like strength of the balance sheet, available credit lines, business risk etc) and it is not right to say that a company who does not have a Moodys rating at all is objectively weaker than a company with Moodys rating at the investment grade level. This kind of criteria is discriminating and the solution could be either to keep Creditreform rating that is more accessible or lose the ratings altogether and put in objective credit quality measures.

2021/22 injection season

The proposed changes originate from the experiences of the 2021/22 injection season. Therefore we like comment this topic from a storage user point of view. One issue was that not all capacity was booked. It happened, because there was not enough price spread between winter and summer, especially during spring and early summer. Splitting the capacity product into quarterly or monthly products would not have helped at all. What would have helped:

- Having longer period for selling the interruptible product. There were better spreads available during September and October, but storage products were not available anymore.
- Having a possibility to have lower premium than zero for interruptible product. If the spreads are low then maybe storage users are not willing to pay 80 cents for interruptible capacity, but they would pay 30 cents. Even if

the price is lower than regulated price, Conexus receives additional revenues and storage is fuller, pressure is higher etc.

The second issue was that some of the booked capacity remained unused. This was mainly due to extra high natural gas prices on the market and some storage users were just not able to finance the gas purchases. The cost of storage gas was too high. Again, no changes to the rules would have helped to alleviate this problem.

As a conclusion we see that adding another layer of constraints by splitting the injection season into quarters and months increases the probability that injecting gas to the storage would be even more difficult than it was so far. There is a chance that this additional complexity decreases the injection volumes next year, but on the other hand we see no chance that this complexity would have given better result for Conexus during the last injection season.

We would like to emphasize the need for stable and predictable regulation and urge to change the regulation as little as possible and only those items that guarantee a better outcome for the next storage seasons.

Regards

Margus Kaasik
Member of the Board