

Dear Public Utilities Commission team,

First, we would like to thank you for the given opportunity to express our opinion about the proposed changes in the Incukalns UGS rules. It is crucial to cooperate between Regulator, Storage Operator and Storage users to ensure the most efficient operation of the storage and common gas market in the Baltic states.

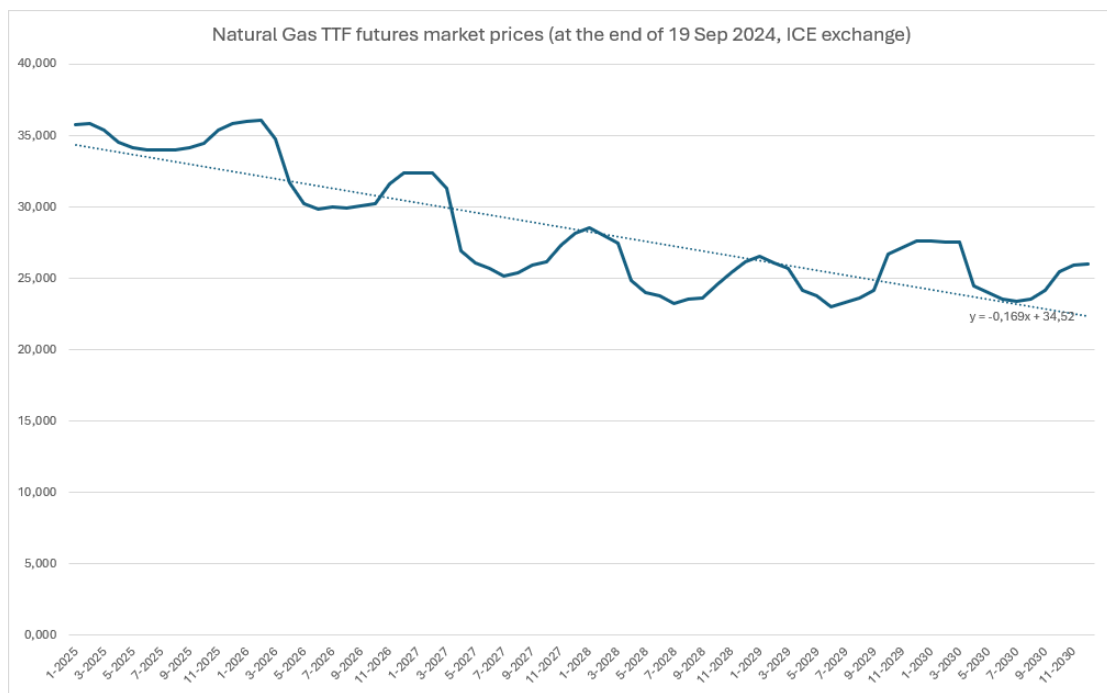
We welcome the idea of introducing 5-year storage capacity product as it will help the companies who keep the mandatory gas reserves for their countries to keep their storage costs under control. But we do not agree that allocation of up to 80% of the storage capacity is reasonable. Such a high proportion will make it extremely difficult for smaller players to operate on this market and it will make extremely complicated for new players to enter the market as it will require at least 5-year horizon of future operations. At the same time existing market players will have to tie them up with the storage for at least for 5 years to have a chance to succeed in this business. We do not see any need in allocating up to 80% of the storage capacity for 5-year storage product. It can be limited to 20% of the storage capacity (4.6 TWh of storage in aggregate) and it will be sufficient to solve the aimed issues leaving enough 1-year storage product for short-term operations.

Also, it is said in the document “In particular, the regulation essentially incentivizes the use of half of the reserved capacity of the long-term product for long-term storage, while the other half of the capacity of the long-term product is pumped out and injected once a year.”

However, if up to 80% of the storage capacity will be booked under 5-year capacity product and up to 50% of inventories under the 5-year storage capacity product can be kept unwithdrawn free of charge, that basically creates the framework when 40% (= $80\% * 50\%$) of the entire storage capacity can remain unwithdrawn without any extra costs for market players. Considering the current technical capacity of the storage space (23 TWh), it will make it possible to keep unwithdrawn $40\% * 23 = 9,2$ TWh of gas. However, under the current rules the maximum volume of gas that can be kept unwithdrawn without any extra costs is limited to 4 TWh (at the end of 1st storage cycle of the two-year storage product). So, the new regulation basically makes it more reasonable to keep unwithdrawn larger volumes of gas that should affect the storage capacity negatively. Therefore, we repeat our suggestion not to allocate more than 20% of the storage capacity for a 5-year storage product. Otherwise, this might hurt the technical capacity of the storage.

Throughout the consultation document it is mentioned multiple times “the desire of natural gas market participants to build and store long-term natural gas reserves”, but it should be noted that the vast majority of the market participants would prefer to withdraw all the inventories they have by the end of the nearest storage cycle, convert

this gas into the money by selling it and refill the storage during the next injection season. Especially considering the fundamental outlook of the gas prices, when more and more LNG will become available on the market in the upcoming years, it is forecasted that gas prices will go lower and lower making it even less reasonable to keep inventories unwithdrawn. Therefore, storage rules should be focused on making the short-term utilisation the most efficient without damaging the storage technical capacity. You can look at the TTF price curve (please take a look at the price graph below) and acknowledge the market players are not interested in storing the gas for multiple years in a row unwithdrawn. It is obvious that companies who bear the burden to maintain strategic reserves for their countries are interested in such product to keep their storage costs under control. Therefore, we find it reasonable to limit the volume to be offered under the 5-year storage product to 20% in aggregate from the storage technical capacity. So, it will make up to 4.6 TWh available for 5-year storage product, up to 8 TWh for 2-year storage product and all the remaining approx. 10.4 TWh should be comfortable enough for short-term planning under 1-year storage product and stock transfer product (“INTP”).



It should be also noted that the total volume of the storage capacity products should be known and remain unchanged during the entire storage product auction period. Otherwise, it makes impossible to prepare the auction participation strategy if in the middle of the auction season the total offered volume of the storage products is increased. It is understandable that storage operator tries to offer as much storage volume as possible for the benefit of the local gas market, but such changes in the middle of the auction season makes it less reasonable to participate in the first auctions of the season. Market participants perform their calculations trying to find the actual value behind the storage product considering the gas demand in the region, shape of the

price curve and total capacity of the storage. If one of the most crucial variable changes, it makes unreasonable to participate in the auctions up to the moment when that variable is finalised.

Please do not hesitate to contact us if some of our arguments remain unclear. We would be more than happy to have a call or a meeting with you to elaborate on our concerns regarding the proposed changes in the rules.

Thank you

Kind regards

Aleksei Fimaier

Chief Gas Trader

Eesti Energia AS   

+372 5569 9276 | aleksei.fimaier@energia.ee

Lelle 22, 11318 Tallinn | www.energia.ee