Public Utilities Commission
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Opinion on public consultation on proposed amendments to the Regulations of Use of the Inčukalns Underground Gas Storage Facility

AS Eesti Gaas appreciates the opportunity to provide feedback on the proposed amendments to the "Common Regulations for the Use of Natural Gas Transmission". We have identified several concerns with the proposed amendments and offer the following comments:

1. **Auctioning of Five-Year Bundled Capacity Product**

The proposed changes aim to give users a tool for long-term planning and to help the system operator manage storage capacity and conduct timely auctions. However, the five-year premium-based auctions present several risks:

Mispricing Risk
The starting price for the five-year auction, set by AS Conexus Baltic Grid, is based on:

- Long-term operating cost estimates;
- Market demand assessments;
- Insights from previous auctions.

There is a risk that AS Conexus Baltic Grid might misjudge the market, leading to auction results that either do not cover operating costs or generate excessive revenue for the storage operator. Both outcomes are problematic as they contradict the purpose of a regulated entity, which is to maintain the critical public assets without excessive losses or gains and to ensure fair and stable pricing. The correction mechanism for addressing such issues is unclear - is the operator going to add losses to the tariff, or vice versa, if there are excess profits, how will they be distributed back? The latter is especially difficult in relation to the bidders that have borne the excessive costs and are bound by such unfounded costs for five years.

Long-Term Impact
In a current unstable market situation, any predictions for five years in the energy market may turn out to be inadequate. The five-year duration of the auctioned

product means that errors in auction pricing or bidding could have long-lasting effects. If the market makes a mistake by offering premiums too high in the first auction or there is a mispricing by AS Conexus Baltic Grid, there is an impact on the following auctions and participants would face a disadvantage due to the long-term commitments made in the first auction. This creates an uneven situation, where the initial mispricing has long-lasting effects on competition leading to long-term imbalances and unfair market conditions. Some companies may even face existential risks due to higher costs compared to other market players. Regional issues could arise that make it expensive to store gas in our region for 5 years.

We suggest implementing the pro rata allocation principle for Five-Year Bundled Capacity Product to mitigate these risks.

2. **Offering of Products and Volume Limits**

Clear principles are needed regarding how the storage facility offers products of different durations and what are capacity limits for each. Currently, there are established rules for the one-year product that allow market participants to estimate the capacity of storage offered. Following the amendments it will be known that up to 80% of the storage facility's technical capacity will be allocated for the five-year product and at least 1 TWh will be allocated to one-year product. These boundaries are very wide, creating uncertainty about the actual allocation (e.g., whether 80% or only 10% will be allocated as a long-term product).

It is also unclear how available storage capacity will be calculated, including the deductions for reserve requirements and technical operations the amounts of which are not disclosed. This lack of transparency creates uncertainty and may lead to market miscalculations due to difficulties in assessing actual available capacity.

Our proposal is to establish clear rules for calculating the available storage capacity and to link the capacity offered as a five-year product to a specific percentage of the available storage capacity.

3. **Reserve Capacity**

The amendments introduce a reserve capacity - storage part for reserves. It is stated that this is the storage part, where natural gas is stored in the amount of reserves required by regulatory legislation or to ensure security of natural gas supply. It is not clear how the size of this part of the reserve will be determined, on what it will depend and for whom it will be intended.

These details are crucial as the reserve capacity will directly affect the amount of

storage available to users. We request clearer rules to understand how this reserve impacts available storage capacity.

It is also unclear whether all regional needs for reserves have been considered. We believe Estonian system operator should be provided with the necessary reserve capacity to ensure effective operation.

4. **Unused Fuel Gas**

We disagree with the proposed change stating: "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." The regulation does not specify the exact timing for returning the unused fuel gas or when the user must have sufficient available capacity.

A prudent user would fully use their storage capacity, and without a clear timeframe for when the system operator is to return the unused fuel gas, it is impossible for users to plan for the sufficient available capacity. It is unreasonable that the system operator holds the unused fuel gas for an extended period. The gas that belongs to the user should be returned as soon as the user has the required available capacity. If the regulation stipulates returning unused gas to the virtual trading point when the user lacks capacity, it is unreasonable to delay this return by six months until one month after the off-take season. The gas should be returned promptly, or the user should be compensated for any delay.

Considering the factors mentioned above, we propose maintaining the current fuel gas return arrangements without any changes.

In conclusion, while we appreciate the intent behind these amendments, we believe they require significant refinement to ensure fair, transparent, and efficient operation of the natural gas storage system. We look forward to further discussions on these critical issues.

Kind regards,

/signed digitally/
Margus Kaasik
Chairman of the Management Board