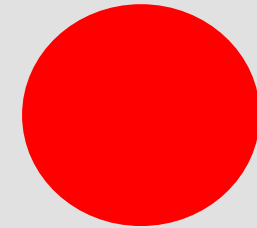


Agenda

- About expected amendments to Inčukalns underground storage regulation.
- Inčukalns underground storage congestion management in withdrawal season
- About amendments to Common Regulations for the Natural Gas Balancing of Transmission System.
- Questionnaire about cooperation with Conexus Baltic Grid
- Update on the progress with further steps of market integration
- Q & A

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B A L T I C G R I D

Amendments to Regulations on the Use of the Inčukalns Underground Gas Storage Facility

Kaspars Skrābāns, Commercial division
Riga, Latvia, November 29, 2021

Current situation

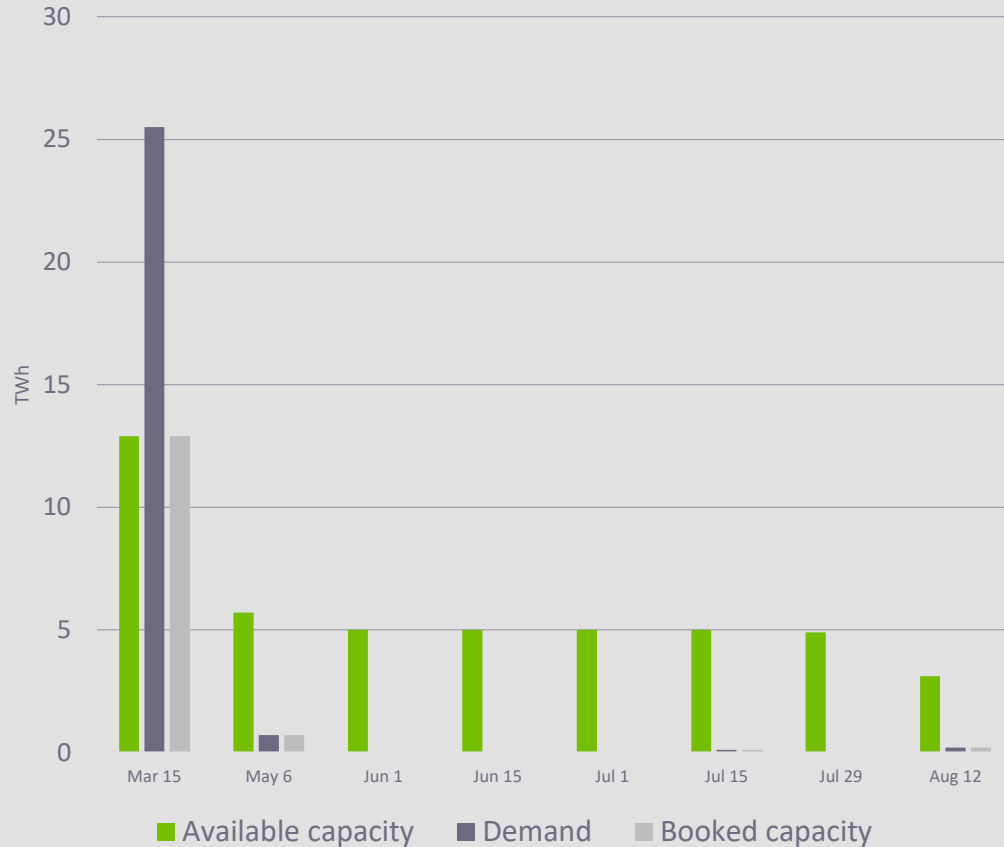
- The 2021/2022 injection season is unfavourable for the long-term efficient technical operation of the storage:
 - The available storage capacity is not fully booked
 - Injection nominations fluctuate significantly during the cycle
 - Low storage layer pressure expected at the beginning of the withdrawal season
 - Challenging winter end and spring in 2022
 - Similar situation may occur in other years
-

Target

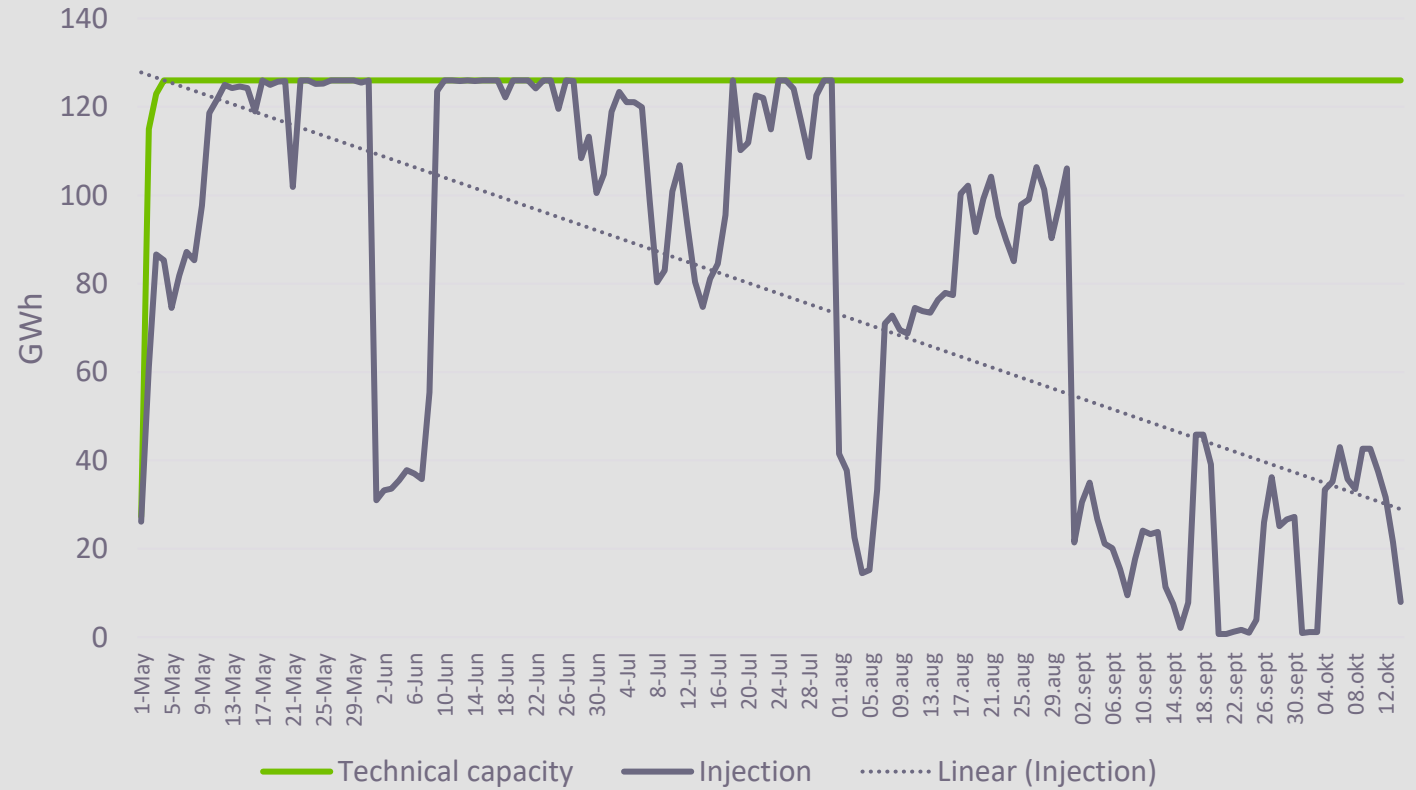
- Improve predictability of the availability of natural gas injection capacity by preventing storage congestion for firm capacity products
- Promoting the sustainability of the storage
 - More active injection at the end of the season ensures higher storage pressure in the withdrawal season

2021 injection season

Auctions 2021



Injection May 1 – October 14



15. March BCP and 2YBCP, 6. May BCP, from June ICP

Key changes

- Amended storage capacity booking procedure, stipulating that a system user has simultaneously booked the corresponding natural gas injection curve for the injection quarter or injection month when booking bundled capacity products
- Auctions take place in several rounds in which capacity products for the relevant injection quarter and injection month are booked
- Aim to ensure highest possible level of transparency of storage capacity booking auctions, preventing possible congestions during the natural gas injection season
- Clarifying the procedure for transferring the stored natural gas and the capacity product
- Ensuring compliance with contractual obligations.

Changes in auction schedule

Before

- Auction **calendar is not published**
- The Regulations must be published **10** working days before the auction
- BCP auctions shall take place before March 15 and after the publication of the technical storage capacity and the available storage capacity for the current storage cycle
- Available storage capacity is auctioned
- ICP auctions from **June 1 to August 15**

After

- Auction calendar published by **January 10**
- The Regulations must be published **5** working days before the auction
- BCP auctions shall take place no later than March 15 until the sixth working day after the publication of the technical storage capacity and the available storage capacity for the current storage cycle
- The auction shall offer the available storage capacity, if it is not less than 5% of the technical storage capacity until May
- ICP auctions from **May 15 to October 1**

Capacity product usage curve

- Amount of natural gas specified by the system operator corresponding to the amount of the 1YBCP or 2YBCP booked by the system user during the period of use of the capacity product
- Broken down by gas days, which the system operator can provide for placement of natural gas into the storage facility during the season.
- When booking a bundled capacity product, the system user has at the same time booked the corresponding natural gas injection curve
 - Two types of capacity product usage curves:
 - Consecutive three-month period (injection quarter)
 - Period of one month (injection month)
- Auctions of bundled capacity products will be organised in rounds, ensuring that the system user can choose and design the most appropriate schedule of natural gas injection

Auction procedure

- 1st and 2nd Auction:
 - BCP is first offered for booking with a corresponding natural gas injection curve for injection quarter
 - For subsequent rounds with a corresponding natural gas injection curve for the injection month from Oct to May
- Subsequent auctions (3rd, 4th, etc.):
 - BCP is first offered for booking with a corresponding natural gas injection curve for the relevant month from Oct to May
 - For subsequent rounds with a corresponding natural gas injection curve for the injection quarter starting with the second injection quarter
- Injection capacity shall be allocated between the capacity products for the injection quarters and the capacity products for the injection months by applying an allocation coefficient:
 - 0.4 for capacity products for injection quarters
 - 0.6 for capacity products for injection months

Auction procedure continued

- Auctions after the date of publication of the storage technical capacity and the storage available capacity for the existing storage cycle (middle of May):
 - Where BCP are fully booked for the injection quarters, but system users do not choose to book BCP for the injection months, the non-booked capacity shall be offered for booking for injection quarters and vice versa
- 2YBCP booking auctions take place in two rounds:
 - First round offering a capacity product for the second injection quarter
 - Second round – for the first injection quarter

2YBCP auctions for injection quarters and auctions first offering 1YBCP for injection quarters

Auctions first offering 1YBCP for injection quarters

Interruptible capacity product auction

Example of the first auction *

Capacity available for booking **5.5 TWh**

Daily natural gas injection capacity for bundled capacity products for all injection season – **100 GWh/day**:

- 40 GWh/day for injection quarters;
- 60 GWh/day for injection months.

Maximum storage capacity, considering the distribution of injection capacity that could be attributed to:

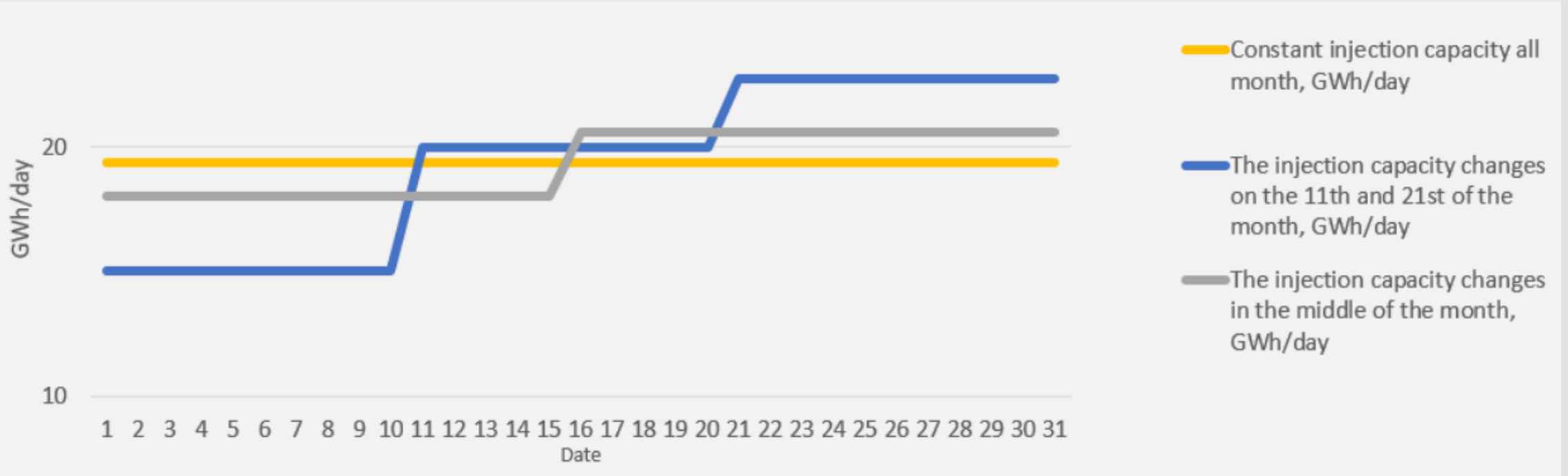
- capacity product for injection quarter from August to October – 3.05 TWh;
- capacity product for injection quarter from May to July – 3.68 TWh;
- capacity product for injection months – 10.08 TWh.

Round 1	3.05 TWh are offered for booking with injection from August to October	2.5 TWh are booked in Round 1 (premium 0 EUR / MWh)
Round 2	$5.5 - 2.5 = 3$ TWh are offered for booking with injection from May to July	3 TWh are booked in Round 2 (premium 0.20 EUR/MWh)
Round 3	Does not happen because all available capacity is booked	

* Does not reflect the actual technical performance of the storage facility

Example of creation of a natural gas injection curve *

The system user has booked 600 GWh as a capacity product for the injection month (July)



The system user's individual natural gas injection curve will be formed by the sum of the relevant natural gas injection curves for all auctions in which 1YBCP or a 2YBCP has been booked by the system user

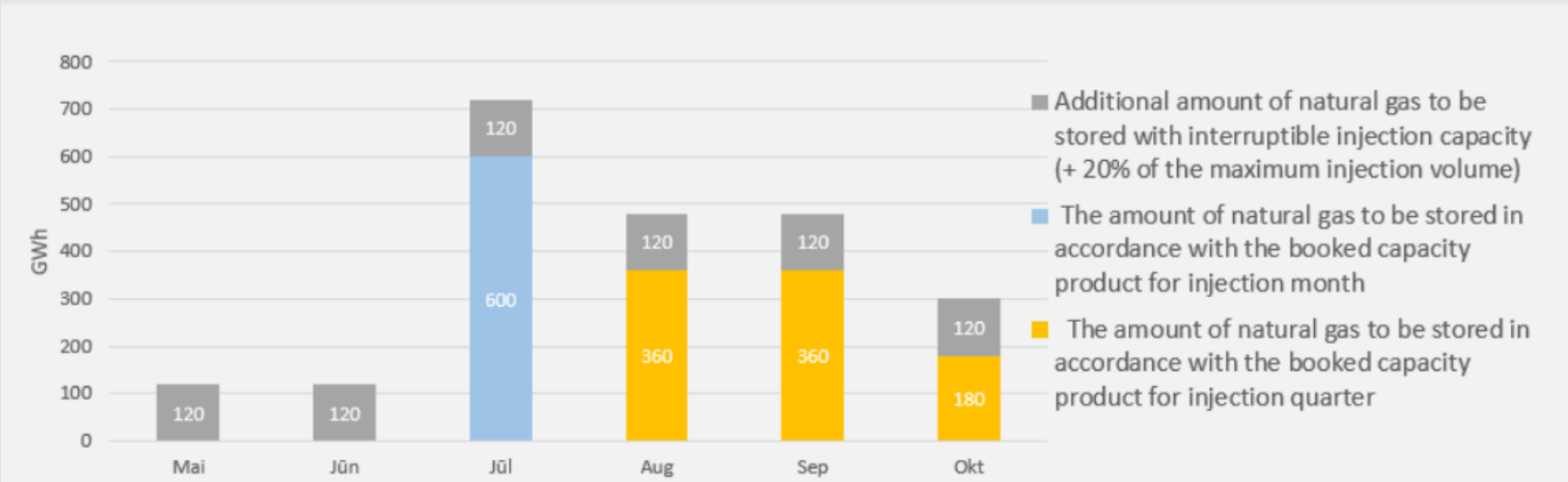
* Does not reflect the actual technical performance of the storage facility

Example of System user's individual natural gas injection curve

The system user has booked a total of 1,500 GWh of bounded capacity product.

The system user has booked it in two auctions:

- 900 GWh booked as capacity product for 2nd injection quarter (August– October) (~12 GWh/day)
- 600 GWh booked as capacity product for injection month (July) (~20 GWh/day)



- Amount of natural gas determined in the natural gas injection curve for the capacity product at the disposal of the system user may be exceeded by amount not exceeding 20% of the maximum daily amount of natural gas set in the injection curve of the capacity product, and said amount of natural gas is placed in a storage with interruptible injection capacity
- Use of interruptible injection capacity does not change the amount of storage capacity booked but allows natural gas to be injected more flexibly.

Other amendments

Transfer of natural gas and capacity

- Application for the transfer of storage capacity product to another system user must indicate the storage capacity auction number if the capacity product to be transferred is a 1YBCP or a 2YBCP.
- Such a requirement is for the system operator to be informed of the natural gas injection curve of the capacity product that would apply to the trading notifications submitted by the system user receiving the capacity product.

Restrictions

- In cases of restrictions (accidents, etc.) system operator shall confirm the amount of natural gas:
 - Reject the amount of natural gas within the interruptible capacity product
 - Allocate the available natural gas injection or withdrawal capacity among system users within the 1YBCP and the 2YBCP in proportion to the amount of natural gas specified in the natural gas injection curve on the relevant gas day.

Contractual obligations

- During the term of the storage service contract, the system user may secure the fulfilment of contractual obligations by means of appropriate credit rating of the network user or collateral.
- Credit rating of the system user or related merchant in case if guarantee is issued, shall be deemed appropriate if it complies with at least one of the following criteria:
 - Standard & Poor's long-term rating BBB- or higher;
 - Fitch long-term rating BBB- or higher;
 - Moody's long-term rating Baa3 or higher
 - ~~Creditreform 2~~

Conexus input to Consultation document (TBD)

* For the first time in the history of the storage, Compression unit will now be able to be used for natural gas compression withdrawals during the spring months, when the storage has less active natural gas available and the technical capacity of the storage is limited without compression withdrawals.

The use of a compressor will significantly improve the continuity and security of natural gas supply under high natural gas demand conditions, also at the end of the natural gas withdrawal season.



- Improved process to withhold fuel gas from network user based on metered consumption separately from injection and withdrawal allocations

* <https://www.conexus.lv/aktualitates-eng-575/incukalna-pazemes-gazes-kratuves-modernizacija-butiski-uzlabo-latvijas-dabasgazes-apgades-stabilitati>



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