



INČUKALNS UNDERGROUND GAS STORAGE REGULATION

June 30, 2020

RATIONALE

WHY NEW REGULATION IS REQUIRED

- On June 19, 2020 Public Utilities Commission (PUC) has issued a consultation on the rules providing for significant changes in the use of Inčukalns underground gas storage (UGS).
- Changes have been made in relation to the increased storage role in natural gas supply throughout the Baltic region.
- The draft regulation “Rule of use of Inčukalns Underground Gas Storage” provides for a series of changes that will improve the operational flexibility of Inčukalns UGS.
- Since opening of common market zone in Finland, Estonia and Latvia, liquidity and competition in the Baltic region have increased. It has also significantly changed the role of Inčukalns UGS in supplying natural gas in the Baltic region.

BOOKING

AS IS

PRO RATA

- Announcement to start booking – 1 day in advance on Conexus web site
- To assure equal conditions to all participants in situation when demand for storage service exceeds available capacity
- Separate submission for 2 year bundled capacity product – max 2 TWh
- Pro-rata principle applies
 - 2 year bundled product capacity subtracted from total available capacity
- Submissions are collected from 9:00 AM to 8:59 AM day after
- Available capacity is published every day before 13:00, not possible to book
- 2nd booking after May 21 when storage final capacity is measured
- Information to market 1 day before on Conexus web site

BOOKING

TO BE

CAPACITY AUCTIONS

- 1st auction – no later than March 15, capacity available at that moment
 - 2nd auction – on 2nd working day when total technical capacity for current storage cycle and final available capacity is determined (May 21)
 - 3rd auction – no later than June 1
 - 4th auction – no later than July 1
 - 5th auction – no later than August 1
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- Auctions 3 - 5 are held if available storage capacity is more than 0 MWh

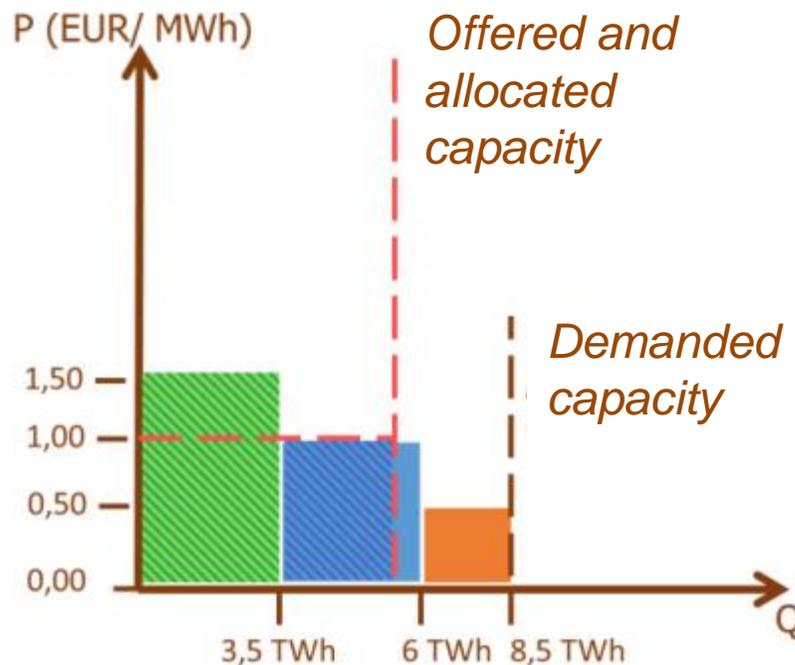
PREMIUM

- To ensure that the system operator receives set allowed revenue and does not need additional compensation mechanisms, Inčukalns UGS capacity auctions will be held for a **premium**.
- Premium is a fee for effective access to Inčukalns UGS and it represents **guarantee to receive storage services at the desired volume**.
- Premium fees will be included in system operator's **Regulatory account**. Account will be used to ensure smooth and predictable tariffs.

HIGH DEMAND

EXAMPLE

1ST AND 2ND AUCTIONS



Available capacity 6 TWh

1st user bids 1,5EUR/MWh for 3,5 TWh

2nd user bids 1,0EUR/MWh for 3,5 TWh

3rd user bids 0,5EUR/MWh for 1,5 TWh

Available capacity is reached @ bid 1,0EUR/MWh

3,5 TWh bid of 1st user is accepted and 2,5 TWh bid of 2nd user is accepted

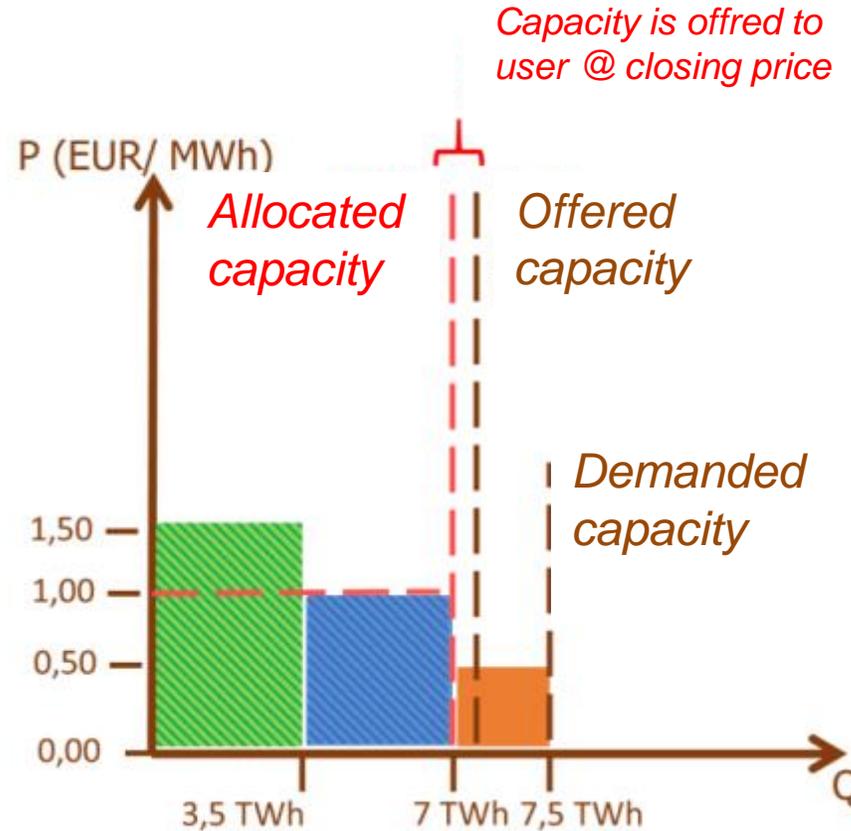
Operator revenue from premium:

$3,5 \times 1,0 + 2,5 \times 1,0 = 6$ million EUR

LOW DEMAND

EXAMPLE

3RD TO 5TH AUCTIONS



Available capacity 7,2 TWh

1st user bids 1,5EUR/MWh for 3,5 TWh

2nd user bids 1,0EUR/MWh for 3,5 TWh

3rd user bids 0,5EUR/MWh for 0,5 TWh

Available capacity is reached @ bid 0,5EUR/MWh. Then operator revenue is $0,5 \times 7,2 = 3,6$ million EUR

Max revenue is reached @ bid price 1EUR/MWh

3,5 TWh bid of 1st user is accepted and 3,5 TWh bid of 2nd user is accepted

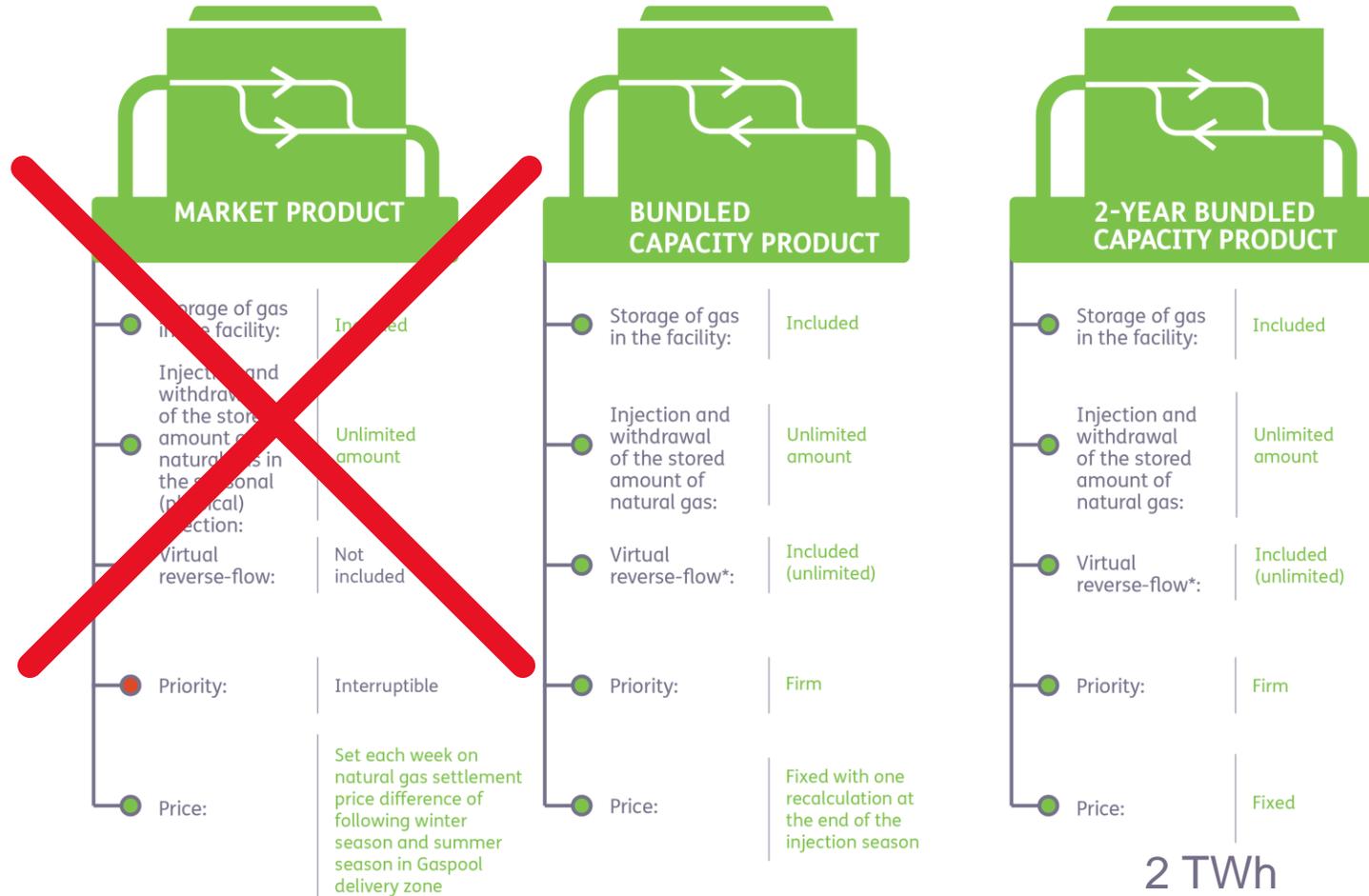
Operator revenue from premium:

$3,5 \times 1,0 + 3,5 \times 1,0 = 7$ million EUR

NATURAL GAS STORAGE SERVICES IN THE INČUKALNS UNDERGROUND GAS STORAGE

PRODUCTS

CURRENT PRODUCTS



* VIRTUAL REVERSE-FLOW:
Gas transportation in the opposite direction to the seasonal direction of the storage facility.

PRODUCTS

NEW PRODUCTS

INTERRUPTIBLE CAPACITY PRODUCT

Available on auctions 3 - 5

Storage of gas in the facility:	Included
Injection and withdrawal of the stored amount of natural gas in the seasonal (physical) direction:	Unlimited amount
Virtual reverse-flow:	Not included
Priority:	Interruptible

INVENTORY

TRANSFER PRODUCT

Inventory below 5% stays as original product (1YBCP or 2YBCP)

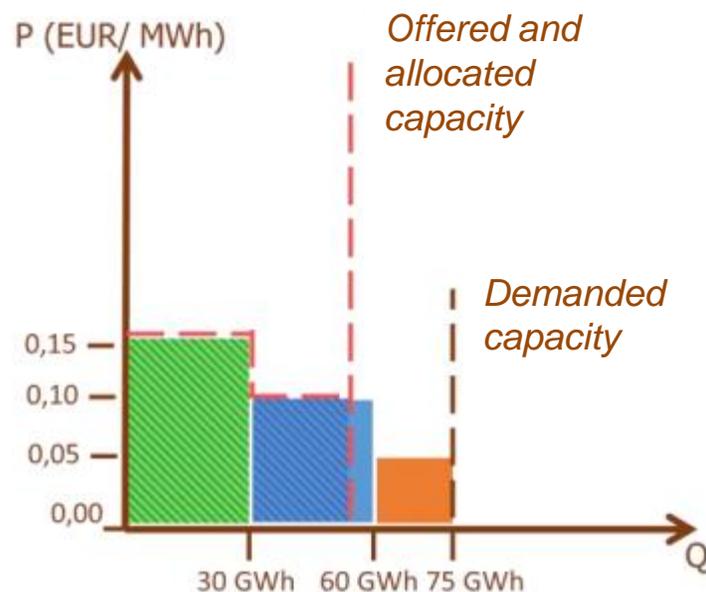
VIRTUAL COUNTER-FLOW PRODUCT

Technical restriction max 27,7 GWh/day

PRODUCTS

INJECTION
PRIORITY

PAY AS BID



Floor price 0,00 EUR/MWh
Revenue goes to Regulatory account

Available capacity for injection 52 GWh/day
1st user bids 0,15EUR/MWh for 30 GWh/day
2nd user bids 0,10EUR/MWh for 30 GWh/day
3rd user bids 0,05EUR/MWh for 15 GWh/day

Capacity is reached @ bid 0,10EUR/MWh

Accepted:

30 GWh/day bid of 1st user @
0,15EUR/MWh

22 GWh/day bid of 2nd user @
0,10EUR/MWh

Operator revenue from premium:

$$(30 \times 0,15) \times 30\text{days} + (22 \times 0,10) \times 30\text{days} = \\ = 6700 \times 30\text{days} = 201 \text{ thousand EUR}$$

OTHER

- Congestion management (do not apply to Injection priority product) – remains as is – pro-rata on booked unused storage capacity
- Additional method for collateral - related merchant guarantee. Related merchant has to meet following creditworthiness requirements:
 - “Standard & Poor’s” BBB- or higher
 - “Fitch Ratings” BBB- or higher
 - “Moody’s” Baa3 or higher
 - “Creditreform” risk class II or higher
- Regulation enters in force from September 1, 2020
- Public consultation open until July 16, 2020
- PUC meeting with market participants and system operator on July 10th
- Latvian and English version of the Consultation document already available on sprk.gov.lv

The background of the image shows a complex industrial machine, possibly a pump or engine, with various pipes, valves, and components. The machine is primarily grey and red, with some yellow accents. The lighting is somewhat dim, creating a professional and technical atmosphere. The text is overlaid on the center of the image.

**THANK YOU FOR
ATTENTION**

www.conexus.lv