



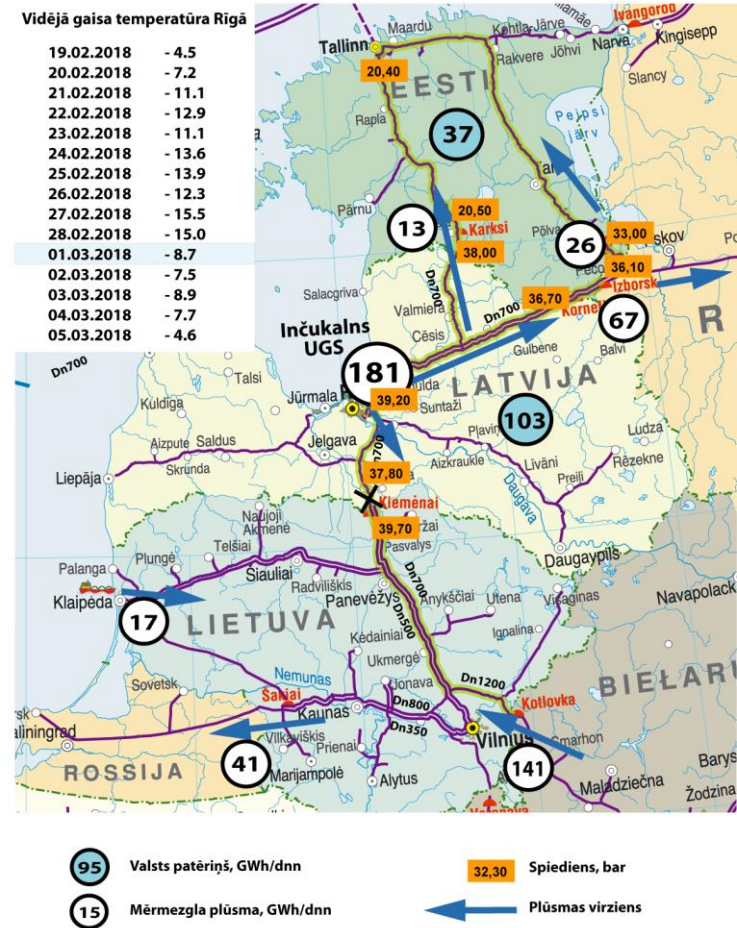
TARIFFS 2018/2019

MAY 25, 2018
ZANE KOTĀNE, CEO



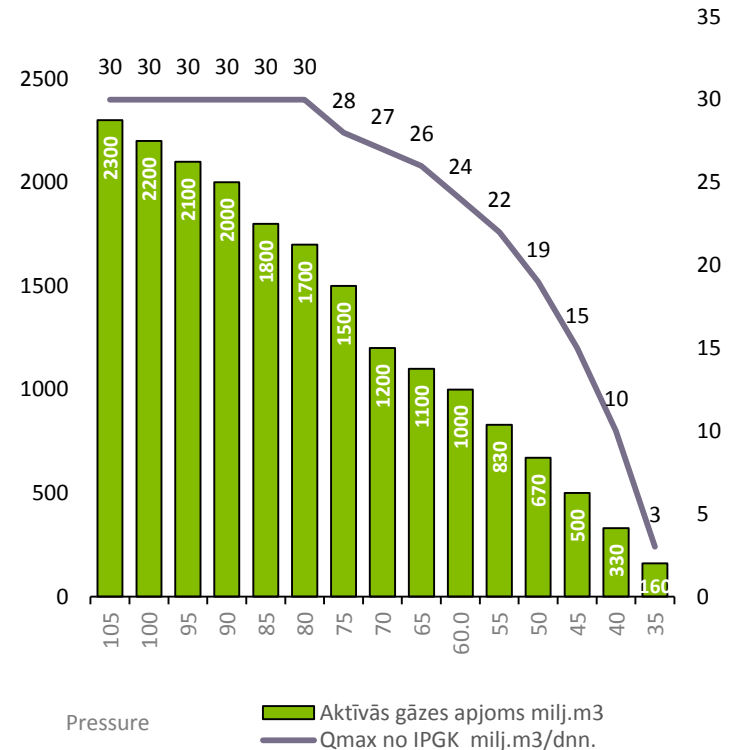
Role of Storage

- During 2017
 - 83% of Latvian winter supply were delivered from storage
 - Storage was used also for deliveries to EE; LT and RU
 - After one week of cold spell RU could not continue pipeline deliveries
 - Cold peak - all EE supply was organised from storage
- Storage – regulated asset in Latvia; part of SoS related measures introduced in 2017; LV consumers only
- Auction of 2017/2018 is not accepted by PUC, leading to financial losses to Conexus. Reason for delay in transmission tariffs



Technical Constrains Leading to SoS Risks

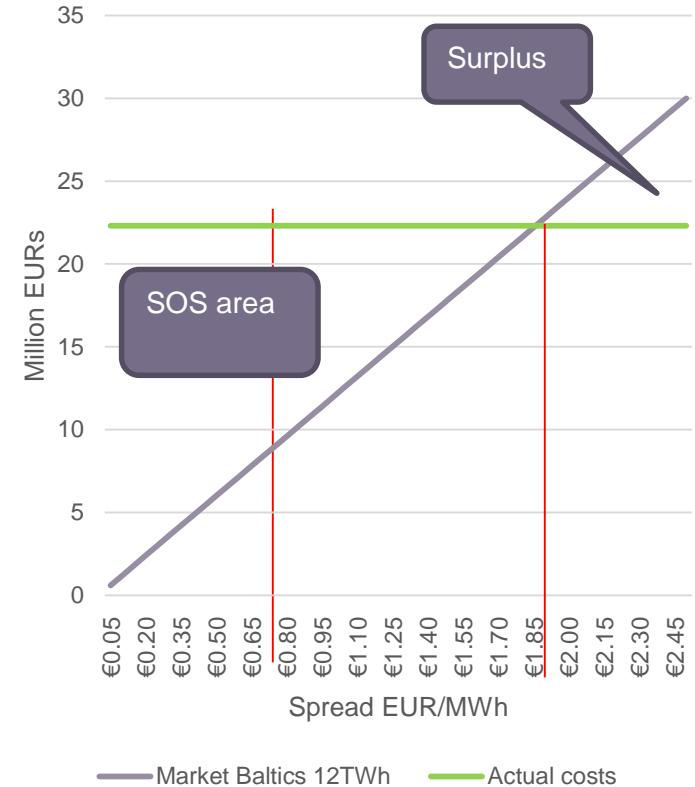
- If storage is not sufficiently full, daily peaks cannot be technically ensured
- Latvian peak demand 100 GWh, 3 TWh of storage filling at the beginning of March, if no flows to other countries
- LV+EE = 140 GWh; requiring 5TWh in storage
- Regional assessment – Ramboll Study – 8TWh storage filling, as combination of strategic storage and filling requirement
- Technical challenge – withdrawal line change if storage is not fully used (shall be renewed each season)



Value of SoS (Storage)

- Baltic market storage demand 12 TWh (EY study)
- Break-even level – spread of **1.85 EUR/MWh**
- 2018/2019 spread 0.7 EUR/MWh
- Approach to balance costs and market – two products, allowing to meet market needs in balance with SOS costs and recover costs of running the storage
 - Market product - based on commodity price spread with floor (does not cover costs)
 - Standard Bundled Unit – pricing in line with cost recoverability (costs divided by volume)
- Two products are too complicated for PUC
 - new tariff submission in September – back to one product at 1.85 EUR/MWh from 2019

Storage Economics (Income from market vs. Actual costs)



Market Product

- Available from June 5 to August 31
- Pricing formula
 - June = Winter 18/19 - July
 - July = Winter 18/19 - August
 - August = Winter 18/19 - September
- Source – Powernext future data
- Floor 0.92 EUR/MWh
- Publishing Mondays (until 16:00)
- Effective – gas days starting Tue 7am

SBU

- Pricing adjusted at the end of season based on overall storage filling level and income from sale of Market Product
- Adjusted on October 15, 2018
- Expected price published on Mondays
- Starting price 2.95 EUR/MWh
- Key assumptions
 - SBU volume 3.5 TWh
 - Income from market product 12 million EUR (13 TWh at floor price)

SoS measures = 3TWh

- Liability to freeze 3TWh of gas until March 1, 2019
- Small tranches – no barriers to participate
- Law require clearing with PUC and EM rules for ensuring system stability reserves
- Letter on key terms sent to PUC and EM one day after accepting the new regulation – no answer
- Probably clearance of final document will be August/September
- Most likely any gas will be able to participate – old, new, market product and SBU, leading to losses to Conexus and impacting next season product offers

Transmission tariffs

- Tariff project submitted in December 2017
- Transmission methodology changed on March 8, 2018
- Transmission tariff methodology under new revision in May 23, 2018
- Earliest review of tariff June 14, 2018
- Tariffs might be in force from July 15, 2018
- Key changes:
 - No tariff for entry/exit to storage
 - Winter and summer tariffs differ (entries only; not exit)
 - Tariffs higher from Nov to March including (approx. +0.2 EUR/MWh)
- Amount – generally summer entry similar to existing tariff (smaller for injection due to removal for storage exit tariff)

Conclusion

- Very unstable and bureaucratic regulatory regime (more than 6 months tariff review cycle)
- Tariffs are for one cycle only
- Market product just this season – will not be transferred to next year
- Auction for system stability – 3TWH – late at the season – don't wait
- Transmission tariffs – will be approved too late - any planning shall be based on current tariffs
- Seasonal coefficients – winter entry in LV will be higher than summer entry (diff approximately 0.2 EUR/MWh)