

View on the perspective on Regional Gas Market Development in Eastern Baltic Region

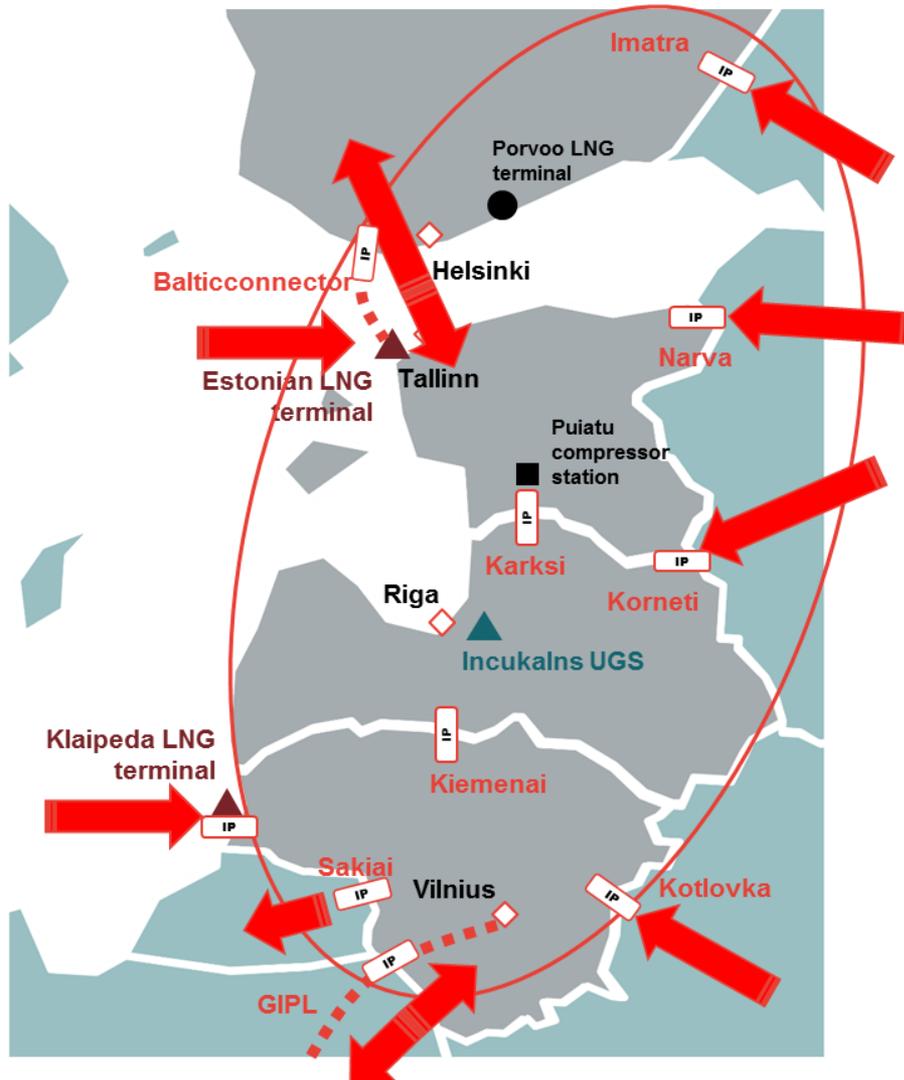
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Vision 2020

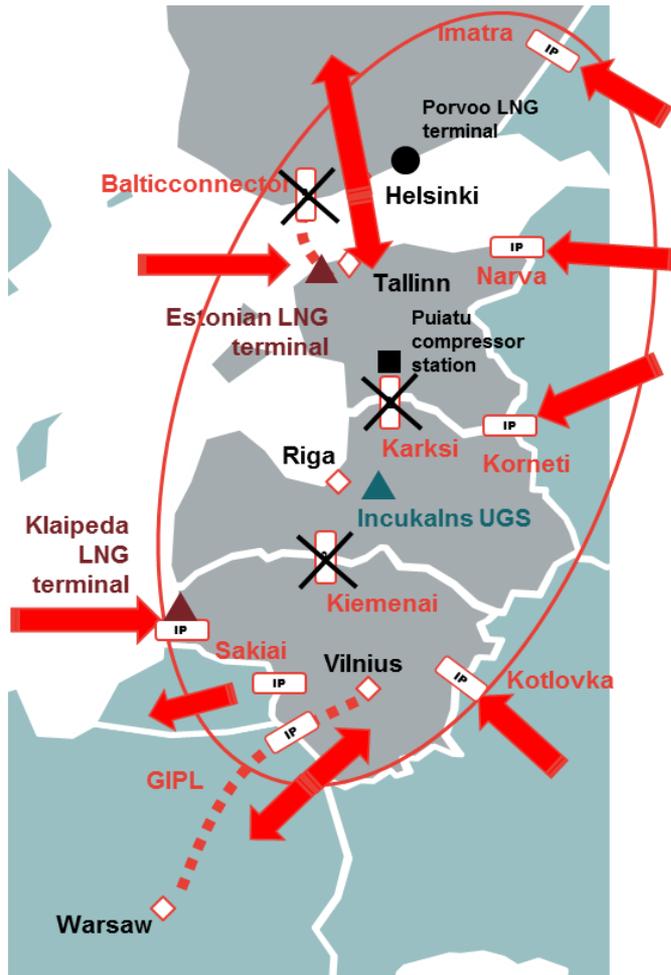
Based on FE Study, ACER GTM, BEMIP Action Plan



Well interconnected competitive Baltic gas market, comprising single entry-exit zone with liquid virtual trading point, where market integration is served by appropriate levels of infrastructure, which is utilized efficiently and enabling all consumers to benefit from secure gas supplies and effective retail competition

Development of the Regional Gas Market

Essential changes



1. **Single market zone**
 - A single entry-exit zone between LT, LV, EE can be formed immediately and with FI – when Balticconnector is built
 - IPs between the Member States are commercially removed
 - No capacity products are sold and booked there
2. **Single virtual trading point**
 - A virtual area between all the entry points and all the exit points in the merged market zone
 - All trades of gas happen in this area
3. **Single balancing zone**
 - Harmonised balancing and settlement regime
4. **Market area manager – one stop shop**
 - A joint venture of the TSOs of the merged market zone
 - The company manages balancing and settlement
 - Potentially: provide gas exchange services
 - Potentially: manage capacity allocation
5. **United tariff regime and inter-TSO compensation**
 - Regime that minimises distributional impacts
 - Facilitates competitive gas price formation
6. **The interim stages of the market reform possible (implicit capacity allocation mechanism; separate, but harmonized market rules)**

Development of the Regional Gas Market

Harmonisation issues

Gas market legal frameworks

- Significant harmonization of legislation is not required. Overall legal framework constrained by requirements of EU Third Package.
- Key area of legislation that require harmonization - the creation of potential new institutions (e.g. a market area manager) and consistent definition of market roles for NRAs and TSOs.

Regulatory frameworks

- Harmonization of regulatory frameworks would be desirable (necessary), if fully harmonized entry and exit tariffs were chosen e.g. in relation to existing and new infrastructure or cost approval.
- However, since a tariff model based on collecting revenues nationally is recommended for a single zone this is less critical.
- Though some harmonization will be required given some shared costs (e.g. congestion management) and some need for inter-TSO transfers, which need to be allocated.

Market and access rules

- Within a single zone, with fully harmonized balancing, harmonization of market rules (market timelines, nomination, balancing and settlement rules) will be difficult to avoid.
- These will be defined by the establishment of a single balancing code.
- Harmonization of access rules is a function of the choice of tariff model. NRAs will need to apply consistent tariff policy.

Institutions and IT platforms

- Key institutions (TSO, NRA) likely to remain national, though a harmonized approach to balancing may require a system of greater cooperation e.g. an overarching TSO body. The most significant need for new IT systems will be for the market area manager to handle balancing and settlement e.g. (e.g. nominations, settlement).
- TSOs will also need to collect data and calculate tariffs which will require new systems and processes for establishing these.

Development of the Regional Gas Market

Roles and responsibilities

Legislators

Finland should continue with the implementation of the entry-exit zone if uncertainty remains over BC.

In other Baltic States, legislation will need to be amended so that:

- NRAs are obligated to coordinate in management of the zone and develop balancing and tariff policy.
- There is an option to implement a 'market area manager' that is obligated to balance and settle the zone.
- TSOs will be obligated to implement the codes.
- Market participants are obligated to adhere to the codes.

NRAs

Establishment of NRA coordination group for single zone development.

- Rules governing operation of 'market area manager', any necessary amendments to existing TSO licenses, as well as providing on-going oversight of regional balancing.
- They must approve the network codes, and provide overall governance for any updates to codes.
- Establishment of rules for inter-TSO compensation in relation to any requirement to redistribute tariff revenue.

Each NRA will need to define allowed revenue (though given revenue model, not changed particularly from now)

Lithuanian engagement with Poland to establish CAM/CMP mechanisms over GIPL.

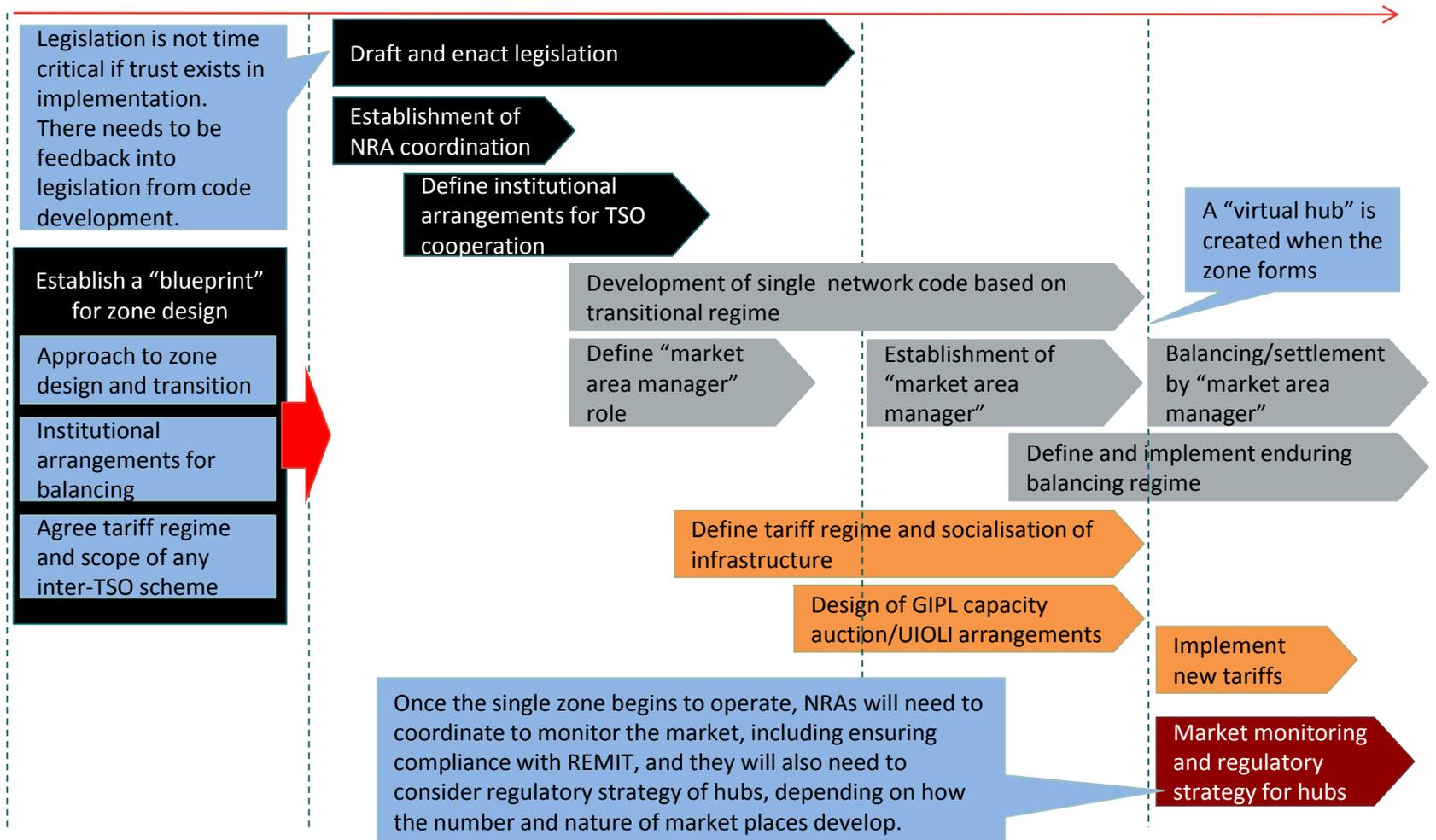
Once the zone has commenced operation, NRAs will need to monitor the market and coordinate with financial regulators. This includes both potential regulation of market trading platforms, and market participants e.g. through REMIT.

TSOs

- Work with NRAs to establish if creation of the 'market area manager' is the most effective way of meeting obligations to balance the zone.
- If required, create 'market area manager' as a joint owned company, or nominate existing TSO.
- Drafting of network codes.
- Implementation of network code.
- New process and systems to implement e.g. settlement systems
- Shipper engagement on design of the code.
- Implementation of tariff policy as directed by the NRAs.
- Implement auction on GIPL.

Indicative timeline for creation of a single zone

3 to 4 years to complete



Main Building Blocks of the Gas Market Model

Highlight

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Size of an entry-exit zone

- **Single zone** of all four countries is the most favourable
- The principal benefit comes from the efficiency gain from **removing IP tariffs**
- There are important **distributional impacts** to consider from a single zone

②

Access to entry-exit capacity

- A well designed tariff regime can mitigate the distributional impacts
- **Harmonised entry** tariffs ensure best gas price across the whole zone
- **National exit** tariffs diminish distributional impacts for TSOs and consumers

③

Access to LNG and storage

- **Hybrid model**: competitive business + **socialisation** of unrecovered costs

④

Balancing and settlement

- **Harmonised balancing and settlement** regime necessary
- **Market area manager** needs to be appointed

⑤

Market liquidity

- The most likely outcome will be the existence of a **single trading platform**

GET Baltic – Gas Exchange Today & Platform for Wholesale Market Services Tomorrow

- TSO ownership dominated company, established in Lithuania
- Gas exchange trading activity from 2013 – currently trading in virtual point in Lithuania
- 55 exchange participants registered, mostly from Lithuania, but some from Estonia and Latvia as well
- Day-ahead, within day and balancing (previous day) products traded



Possible areas of GET Baltic involvement in regional market

Region-wide gas trading platform / exchange

REMIT reporting (trades on exchange & bilateral contracts)

Sales in primary capacity market

Organisation of secondary capacity market

Settlement of balancing positions

One-stop shop for wholesale market players

**Thank you for your
attention**

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