

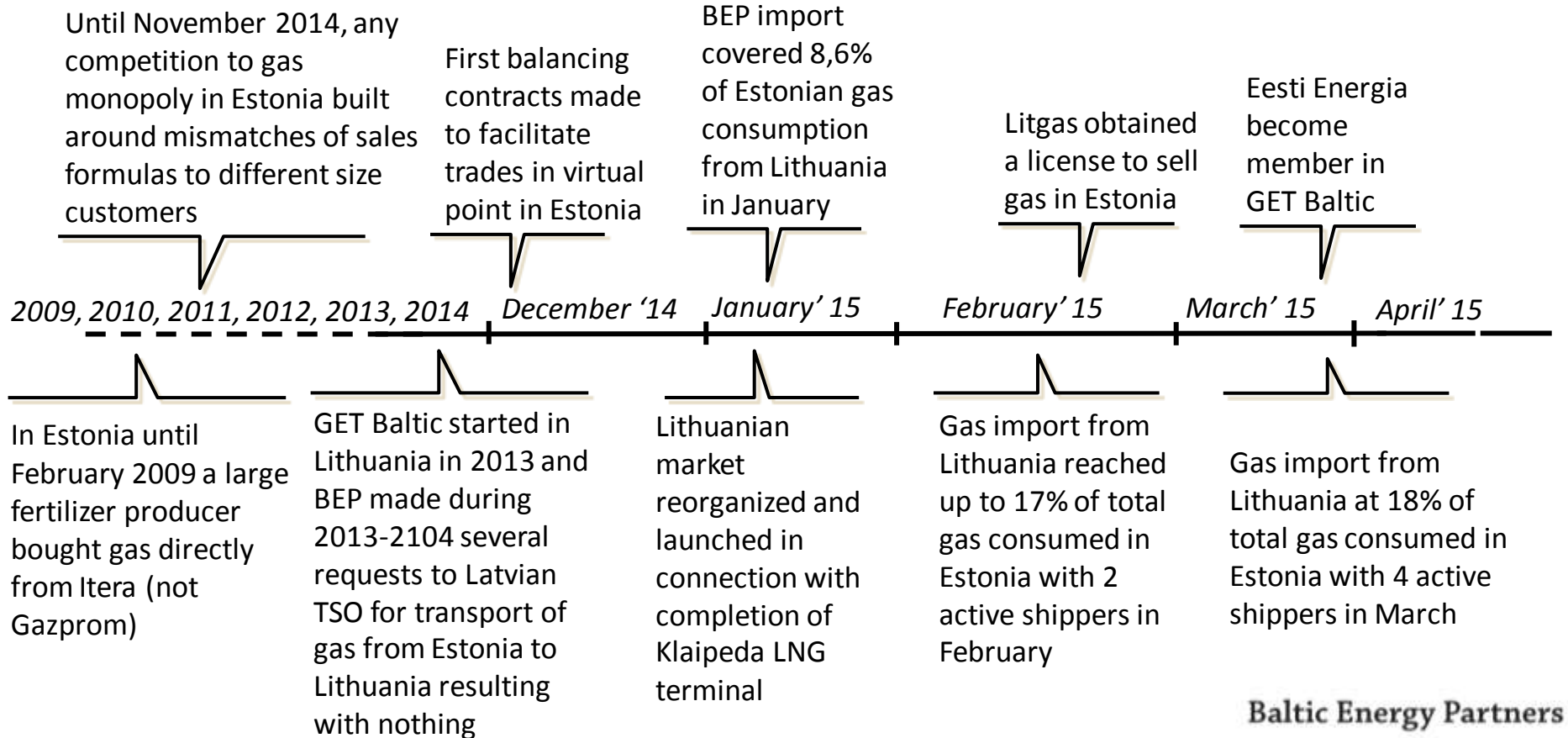


Baltic Energy Partners

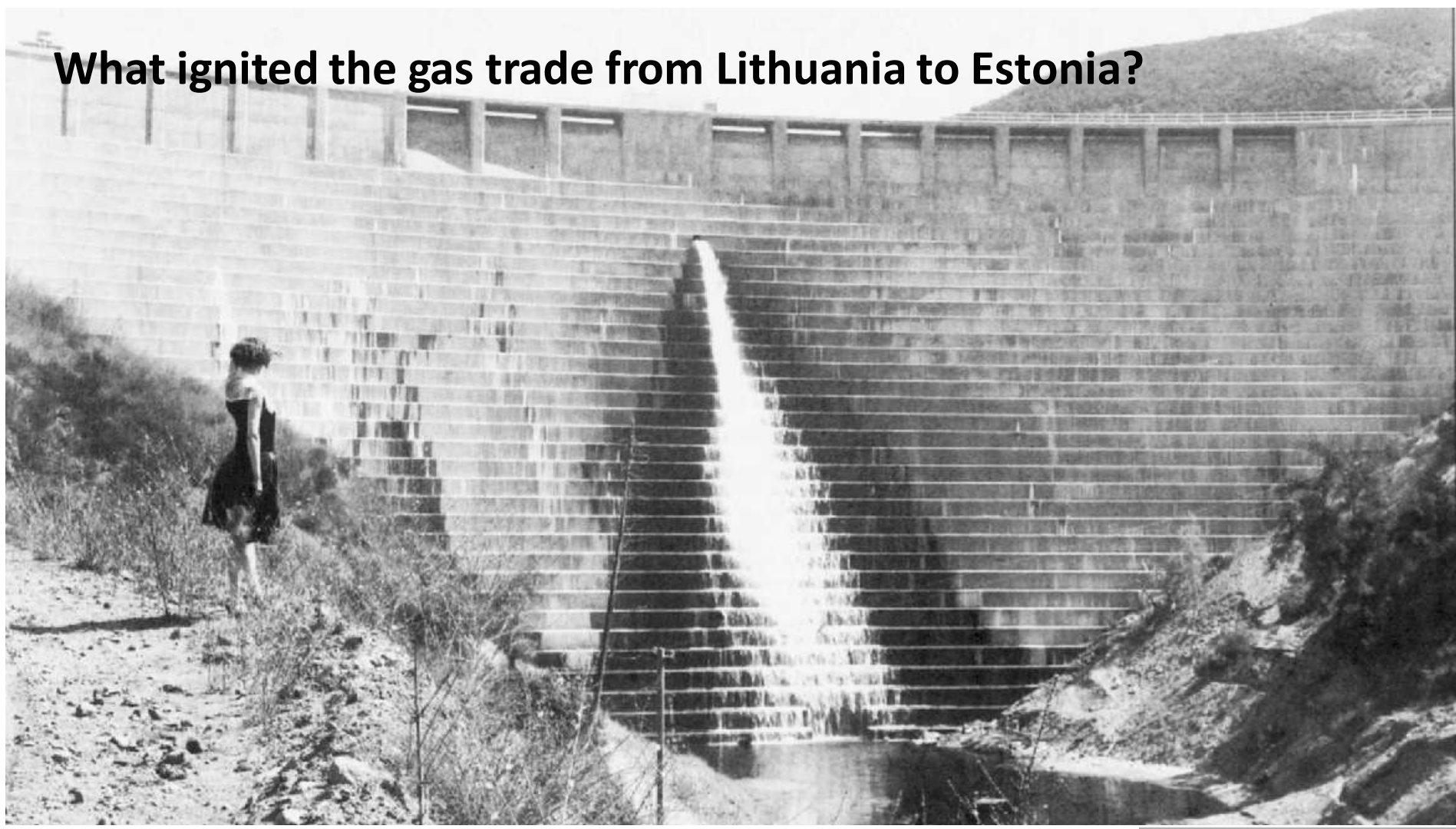
The Baltics gas market „gold rush“

April 2015

How has gas market competition evolved from Estonian perspective?



What ignited the gas trade from Lithuania to Estonia?



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**Price difference
between
Lithuania and
Estonia**

- Different Gazprom formulas result in temporary price differences when oil prices are trending up/down

**Klaipeda LNG
alternative**

- First real alternative to Russian gas in the Baltics region within the reach
- Initiated positive changes in the Lithuanian gas market
- But will the LNG ever be price competitive in such relatively small volumes in the Baltics (standard LNG ship is 3,2 mln MMBtu /1 TWh – enough to supply 150 th citizen city for a year)?

**Gazprom
shadow/
monopoly**

- Eesti Gaas has been an only real alternative for long time and customers look for an alternative
- Single supplier is clearly seen as issue from the security of supply point of view in light of threat of gas being used as political, not a commercial commodity



Today's operative challenges in gas cross-border trade

Issue description

Quick solution, 2015

Long-term solution

Mismatch in flow planning units

- Lithuania uses MWh and Estonia/Latvia use M3 for transit flows resulting in unpredictable balances for traders

- Lithuania to use M3 in Latvian border with players to match needed MWh at internal Lithuanian market

- Lithuania, Latvia and Estonia use all MWh as unit from 2017 (end of Latvian derogation)

Mismatch in flow planning flexibility

- Shippers in Lithuania and Estonia can adjust deliveries D+1, but cross-border fix deliveries can be changed D-3 (or a bit quicker with helpful TSOs)
- No efficient flow data for traders

- D+1 also for all cross-border deliveries with firm deliveries for shippers not dependent on physical flow timing or calorific value changes

- Equal opportunity for delivery flexibility for all players with either D+1 or linepack solution for adjusting to consumption

Unclear transit at times of maintenance

- The route from Klemenai in Lithuania to Karksi in Estonia has maintenance in June/July, while clients need gas also in the Summer

- TSOs to offer „buffer“ for maintaining steady flow via linepack

- Baltics TSOs to offer uninterrupted transit opportunity via alternative routes (Russia) during maintenance periods



Prerequisites for well-functioning gas trading market in the Baltics

Diversified sources of gas

- Local LNG role likely limited – more for security of supply than price competitive alternative
- Links to bigger markets needed – Baltconnector (LNG), Polish-Lithuanian gas interconnector (shale gas?)
- Competition on Russian side for exports (Novatek?)

Unbundling vertical monopolies and empowering TSOs

- Roles of TSO and traders need to be clarified, eg., Eesti Gaas versus EG Võrguteenus; Latvijas Gaze in different roles
- General responsibility for gas quality to be clarified – traders or grid companies

Clear market rules for Third Party Access

- Clear rules for market participants transmission/storage (Inculkans) usage pricing and contracting needed
- Gas distribution to be included in entry/exit/virtual trading point based balancing area

Transparent market information

- No available balancing price information, no transparent information on transmission capacities availability, not datahub for metering or swiching information

A black and white photograph showing a long line of people and cars on a road. The line starts in the distance and extends towards the foreground. On the right side of the road, a large crowd of people is gathered, some standing and some sitting. The background shows a grassy field and trees.

Thank you!

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