The Baltic Sea Region: Cross Border Cooperation and Regional Markets with emphasis on Natural Gas Sector

Ms Inga Žilienė, Chair, NCC

ERRA Chairmen meeting
19/10/2016, Bratislava, Slovakia
„Existing arrangements such as [..] Baltic Energy Market Interconnection Plan (BEMIP) are initiatives on which to build further. [..]The Commission will ensure that all regional initiatives evolve in a coherent way and lead towards a fully integrated Single Energy Market.“
Key objectives of BEMIP

- Internal market for electricity and gas
- Infrastructure
- Power generation
- Security of supply
- Energy efficiency
- Renewable energy
- Integration of Baltic electricity network to CEN

- AGREED IN JUNE 2009
- REVIEWED IN JUNE 2015 WITH REINFORCED BEMIP
- EXTENDED SCOPE
- RENEWED STRUCTURE
- PARTICIPATION OF ACER, ENTSOs, NRAs, TSOs, PPs, experts and other stakeholders.
Energy software: predictable regulatory framework in gas

- **OU** in all 3 Baltic States
- **Gas Market reform by 2020:**
  - Common entry-exit tariff regime
  - Network codes implemented
  - Access to infrastructure
  - Single balancing zone
  - Unified trading platform for the regional gas market
Regional Gas Market Coordination group (RGMCG)

- For a single goal to form and coordinate regional gas market.
- Composed of Representatives of FI, EE, LV and LT Ministries, NRAs, TSOs, LNG terminal operators, SSOs.
- Currently chaired by LV (previously LT) representatives.
- Following Detailed plan of short term goals and forming Action plan to reach the main goal.

- 2 task forces led by NRAs: TF for gas transmission services pricing and ITC mechanism and TF for analysis of infrastructure pricing and socialization of its costs.
Baltic regional gas market study: main changes in 3 to 4 years

1. Single market zone
- A single entry-exit zone between LT, LV, EE can be formed including FI – when Balticconnector is built
- IPs between the Member States are commercially removed

2. Single virtual trading point
- A virtual trading area between all the entry points and all the exit points in the merged market zone

3. Single balancing zone

4. Market area manager – one stop shop
- A joint venture of the TSOs of the merged market zone
- The company manages balancing/settlement AND could provide gas exchange services and manage capacity allocation

5. United tariff regime and inter-TSO compensation

6. The interim stages possible (implicit capacity allocation mechanism; separate, but harmonized market rules)
Licensing harmonization as short term goal

Recent trend is to **remove licensing** of supply companies and replace it with the requirement to register:

- Supplier submits a registration form to relevant NRA
- No financial, managerial and technical capability analysis
- No fees for registration process
- Inclusion of candidate supplier in online register = start of the activity
- Natural gas supply still recognized as regulated activity
TF for gas transmission services pricing and ITC mechanism (1/3)

First phase (analysis and selection):

- **Analysis of the existing market** (historical performance – age of network, network capacities, future outlook, etc.);

- **Analysis of principles for infrastructure tariff setting** (in the region and their accordance with Tariff Network Code);

- **Harmonization of the inputs** for transmission services setting methodology (definition of: geographical market, number of entry/exit points, allowed revenues, capacity/commodity split, etc.; evaluation and solutions for variances in between countries: regulatory asset base, depreciation, incentive mechanism, WACC, CAPEX, OPEX; cost allocation test; inter-TSO compensation – ITC – scheme);

- **Selection** of reference price methodology and establishment of ITC mechanism;

- **Preparation of draft** Methodology for pricing of gas transmission services and ITC mechanism project.
TF for gas transmission services pricing and ITC mechanism (2/3)

Second phase (implementation):

- **Public consultation** according to the NC on Tariffs requirements for Methodology, for ITC Rules (few if necessary, including comment evaluation)

- **Approval of final decision** for Methodology, for ITC Rules;

- **Implementation** for all parties concerned (NRAs, TSOs).
TF for gas transmission services pricing and ITC mechanism (3/3)

Analysis of the market
Harmonization of inputs
Preparation of drafts

2017 1Q  2017 2Q  2017 4Q  2018 1Q  2018 4Q  2019 4Q

Analysis of the tariff setting principles
Methodology and ITC scheme selection
Implementation

Along the implementation way to consider:
- Will there be one methodology, or few separate ones?
- What is the most efficient way for public consultation?
- How few countries will take decisions for tariff approval?
TF for analysis of infrastructure* pricing and socialization of its costs

- **Analysis of infrastructure** (regional gas market and its development; characteristics of existing infrastructure: location, size, capacities, investments planned/ongoing, etc.);

- **Role assessment** of LNG terminal and storage in the regional gas market (outlook time period definition; social economic benefits based on CBA methodology; the extent to which each infrastructure object shall be included in the regional socialisation scope);

- **Elaboration of potential socialization principles** (cost identification; socialization mechanism definition);

- **Implementation** of potential cost socialization mechanism (establishment of legal and regulatory framework).

(LNG terminal and storage)
Energy hardware: infrastructures in gas (1)

Projects of relevance for Eastern Baltic region:
- PL-LT interconnection GIPL
- Enhancement of LT-LV interconnection
- Enhancement of Incukalns underground gas storage
- Enhancement of LV-EE interconnection
- Interconnector between EE and FI Balticconnector
Energy hardware: infrastructures in gas (2)

Projects in Lithuania:

- **GIPL**
  - Planned commissioning 2021
  - Capacity – 2.4 bcm per year, possibility to increase to 4.1 bcm. Reverse capacity to PL – 1 bcm
  - CEF funding
  - CBCA decision

- **Klaipėda-Kieménai project**
  - Commissioned in October 2015
  - CEF funding

- **Enhancement of LT-LV interconnection**
  - Planned commissioning 2020

- **LNGT in Klaipėda**
  - In operation starting from December 2014
To sum up...

- BEMIP as successful example of regional cooperation!
- Regional cooperation as key factor towards full EU-wide market integration!
Thank you!