

# Klaipėda LNG terminal performance and regulatory outlook

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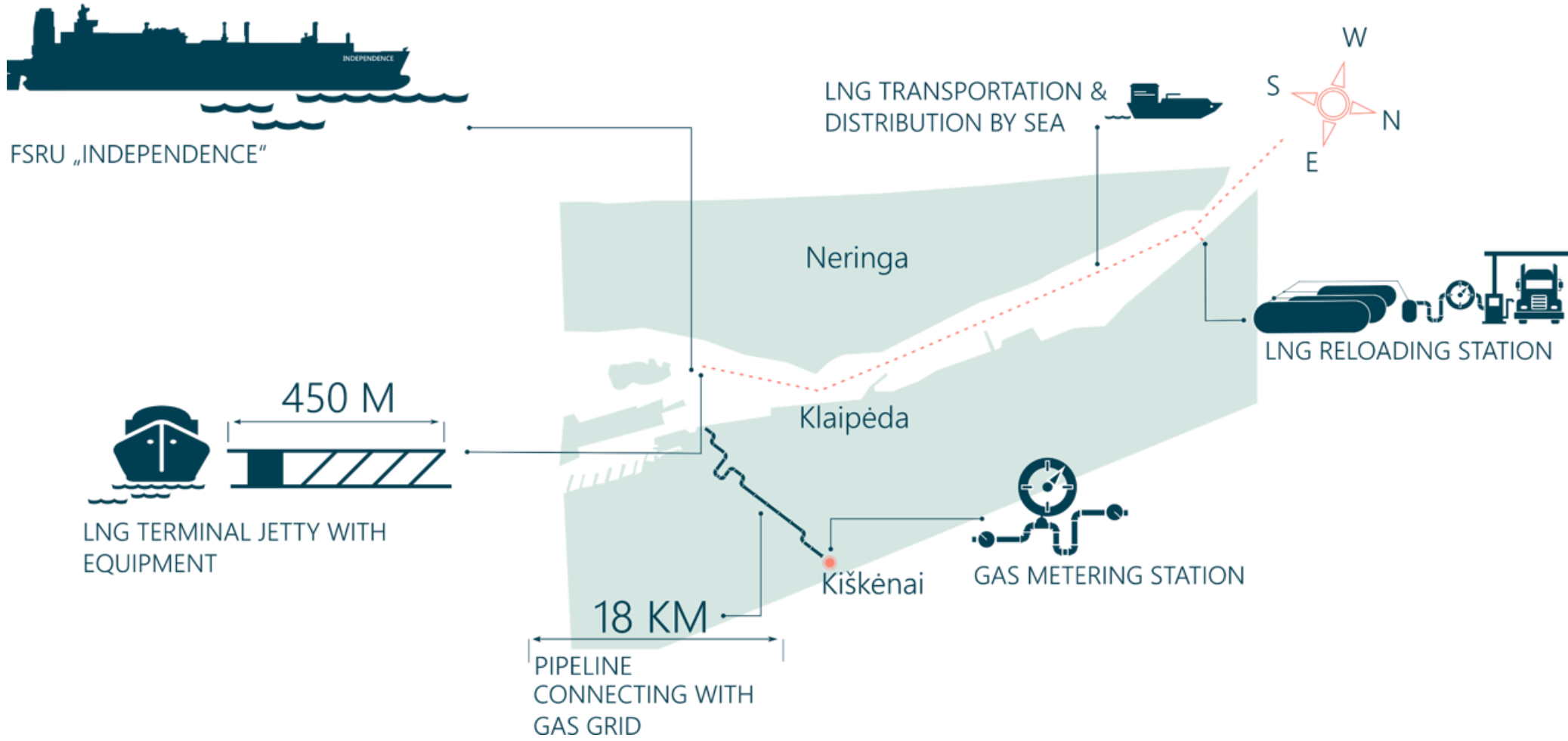


# Agenda

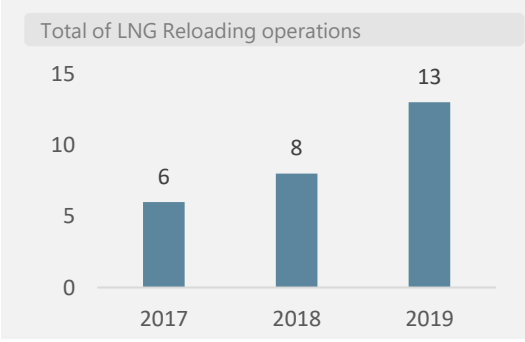
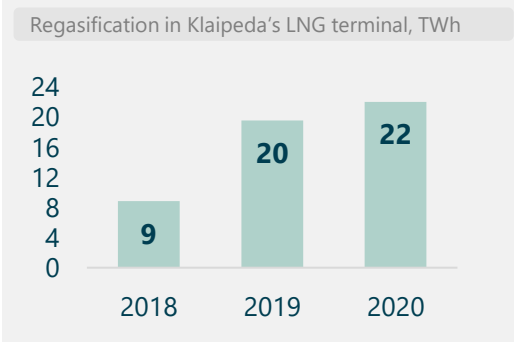
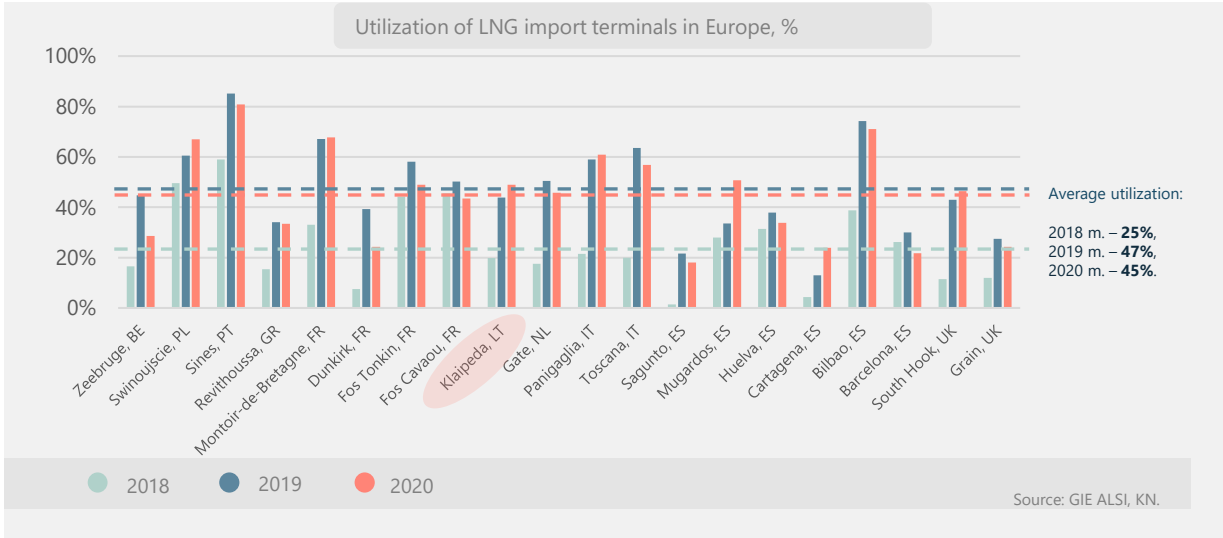
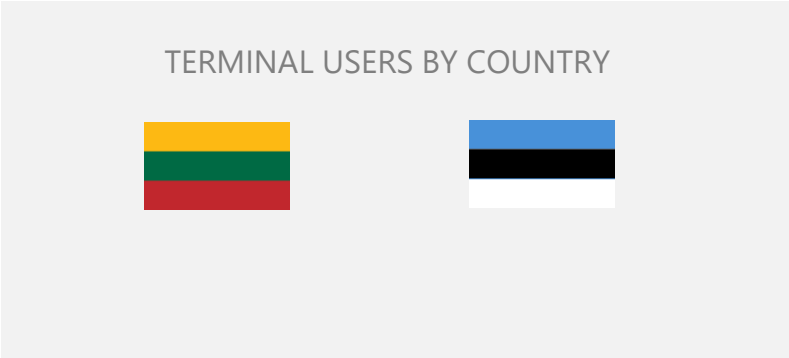
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1. Klaipėda LNG terminal infrastructure
2. Overview of Klaipėda LNG Terminal and Lithuania gas market Y2020
3. Primary capacity allocation mechanism and main principles
4. Secondary market and UIOLI at Klaipėda LNG Terminal
5. Tariff structure;
6. Regulations and rules;
7. Existing and upcoming regional natural gas interconnections

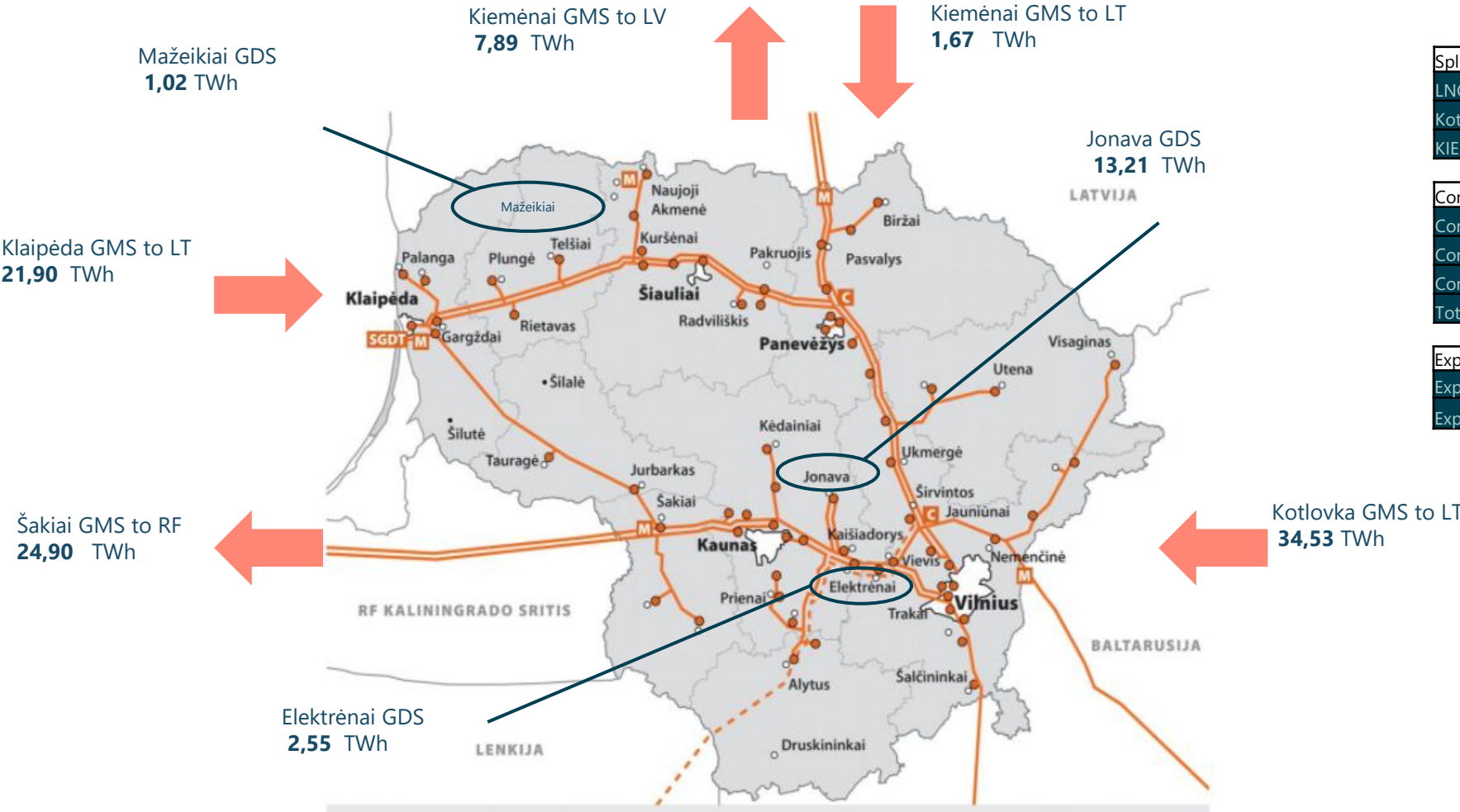
# Klaipėda LNG terminal infrastructure



# Overview of Klaipėda LNG Terminal



# Gas flows in Lithuania Y2020



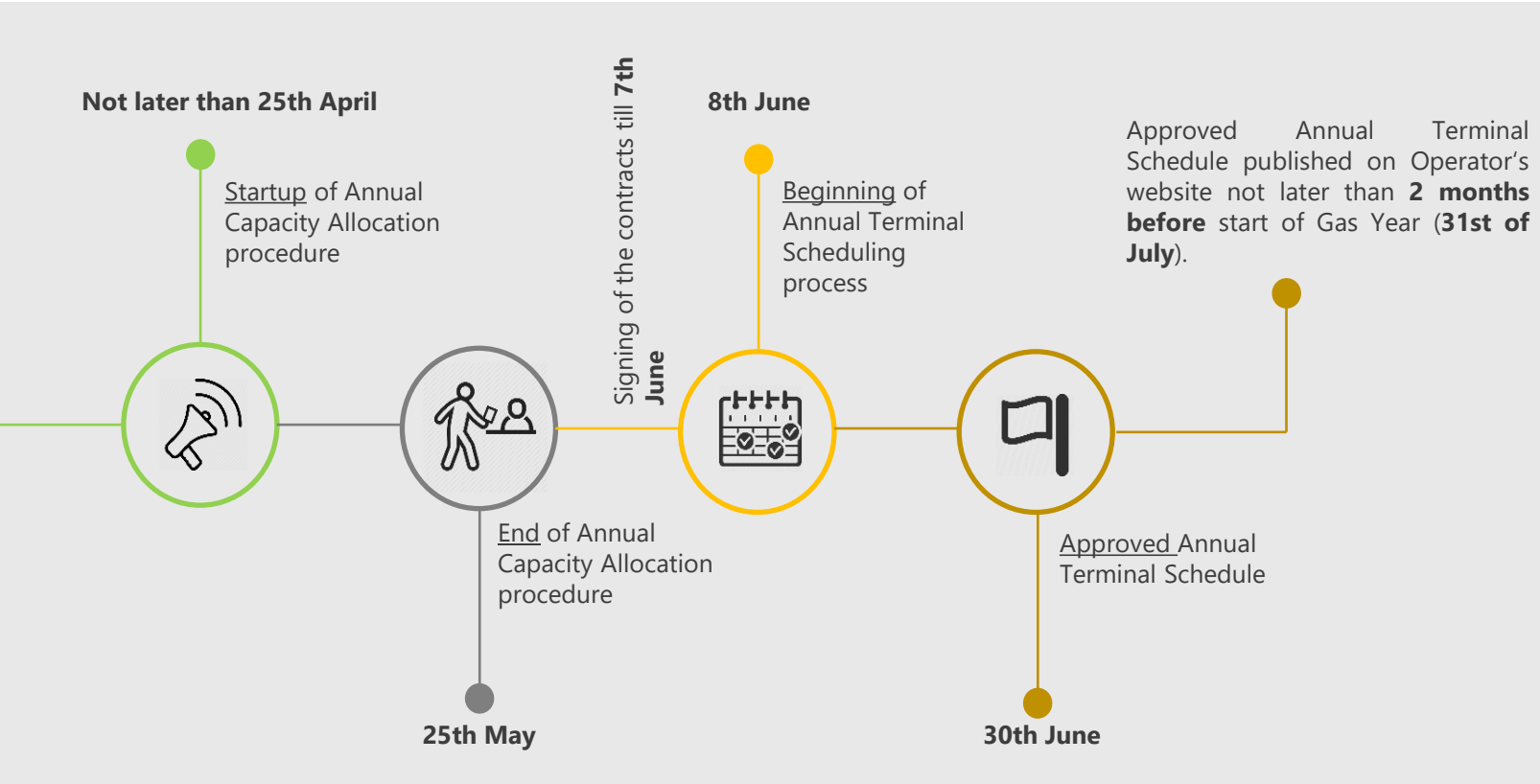
| Split between points (LT consumption)      | Proc. |
|--|-------|
| LNGT proportion from total consumption     | 64,89 |
| Kotlovka proportion from total consumption | 28,52 |
| KIEM proportion from total consumption     | 6,59  |

| Consumption export evaluated | TWh   |
|------------------------------|-------|
| Consumption from LNGT        | 16,42 |
| Consumption from Kotlovka    | 7,22  |
| Consumption from Kiemėnai    | 1,67  |
| Total                        | 25,31 |

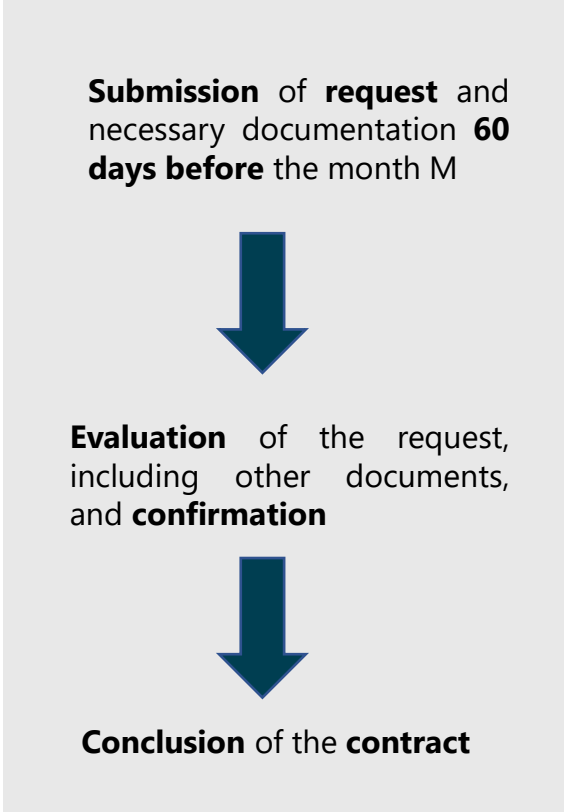
| Export deductions                 | TWh  |
|-----------------------------------|------|
| Export part dedicated to Kotlovka | 2,41 |
| Export part dedicated to LNGT     | 5,48 |

# Primary capacity allocation

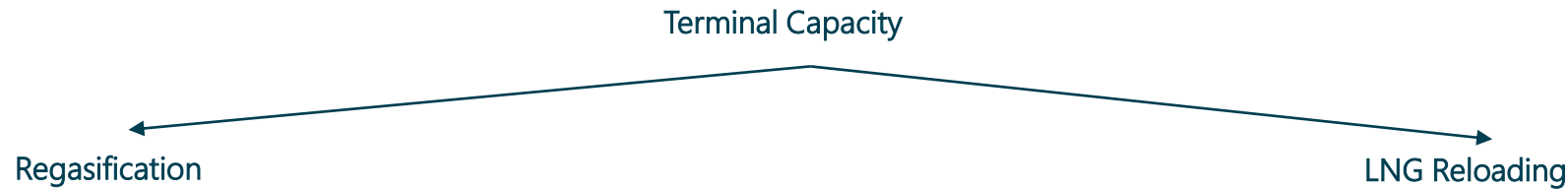
## Annual capacity allocation procedure



## Spot capacity allocation



# Primary capacity allocation principles



If the Applicants whose Requests have not been rejected seek to obtain more than the Terminal Capacities available for the respective Gas Year, the Operator offers Terminal Capacities to the Applicants in accordance with the following order of priority:

1. to the Designated Supplier within the minimum quantity necessary to ensure the fulfillment of Terminal mandatory quantity supply obligation set by the legal acts
2. to Applicants seeking to obtain LNG Regasification Capacities whose **average regasification rates** ( $V_{vid}$ ) **are the greatest** throughout the **entire** requested Service use **period** (in months) on the Gas Year for which Terminal Capacities are being allocated
3. If average **regasification rates** per month are **equal**, to the Applicant who has requested LNG Regasification Capacities for a **longer period**
4. If LNG Regasification Capacity time **periods** also are **equal** according to the "**first-come-first-served**" principle
5. To Applicants seeking to obtain LNG Reloading Capacities who intend to reload the biggest amount of LNG throughout the entire requested period
6. If several Applicants seek to reserve the same amount of LNG Reloading Capacities, LNG Reloading Capacities are provided to the Applicant who seeks to **use capacities over the shortest period** of time
7. If several Applicants seek to reserve the same amount of LNG Reloading Capacities and use them over the same period of time, LNG Reloading Capacities are allocated according to the "**first-come-first-served**" principle

# Secondary market principles

**Regulations** for use of LNG Terminal **set** the **procedure** of Management of **Unused** Terminal **capacities**

*Common rule that users must use their allocated capacities.*

**Regulations provide** terminal users with the **opportunity** to **transfer unused** terminal **capacities** on the **Secondary market**. Few key **requirements** are set:

- The **responsibility** for transferring the capacities is **set to** terminal **users** themselves;
- The **price** of unused capacities shall **not** be **higher than** the set **tariff**;
- **Consent** of Terminal **operator** shall be obtained.

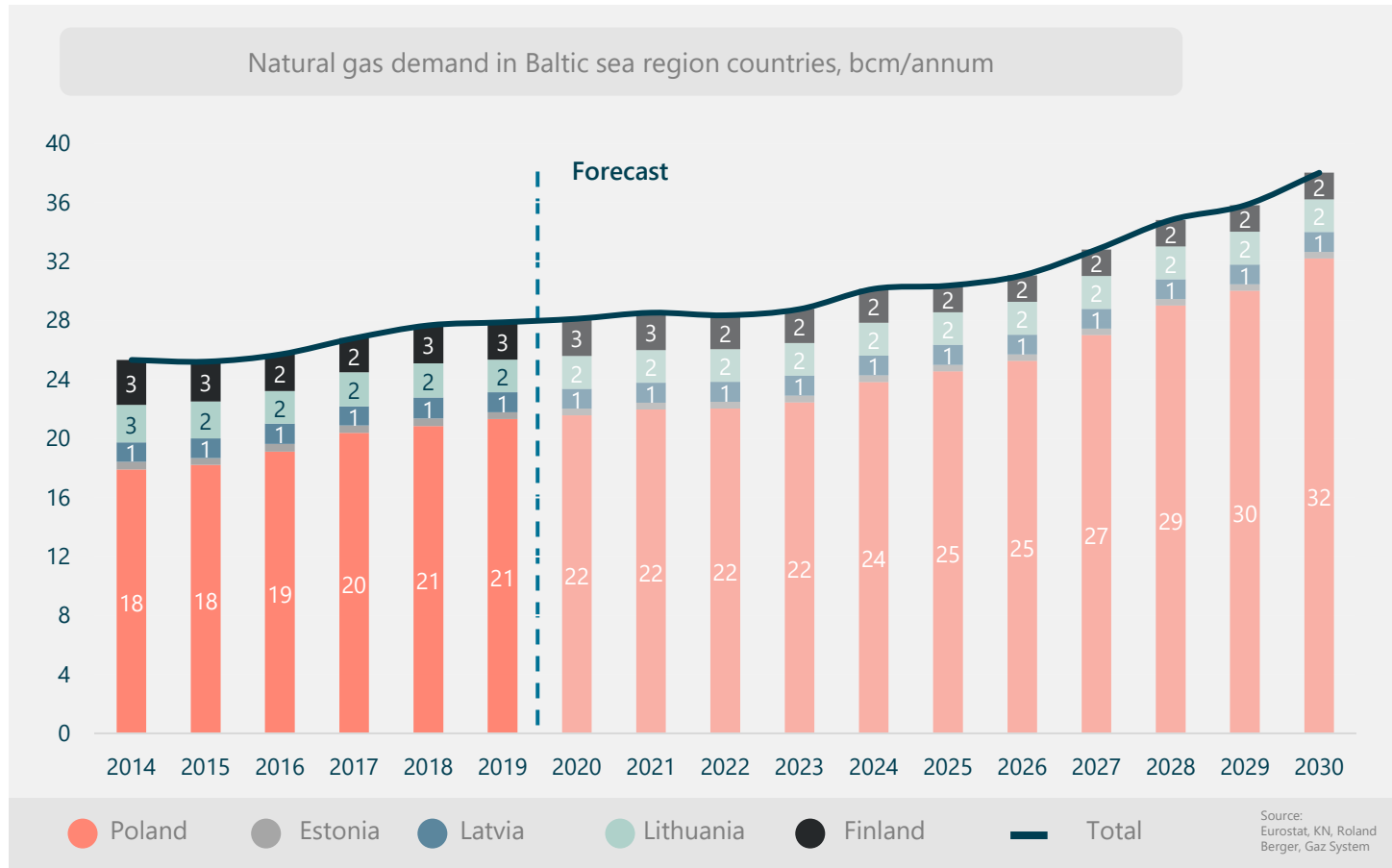
If all the requirements are reached, the **transfer** of the capacities is **approved by trilateral agreement** between the **parties** and **operator** and accordingly reflected in the Terminal User's contract.

Terminal users also have the possibility to **request** terminal **operator** to **announce** about the **sale** of **capacities** on the Secondary market on its **internet website**.

**Note:** *The acquirer of the capacities on the Secondary market shall meet the requirements set to the terminal users.*

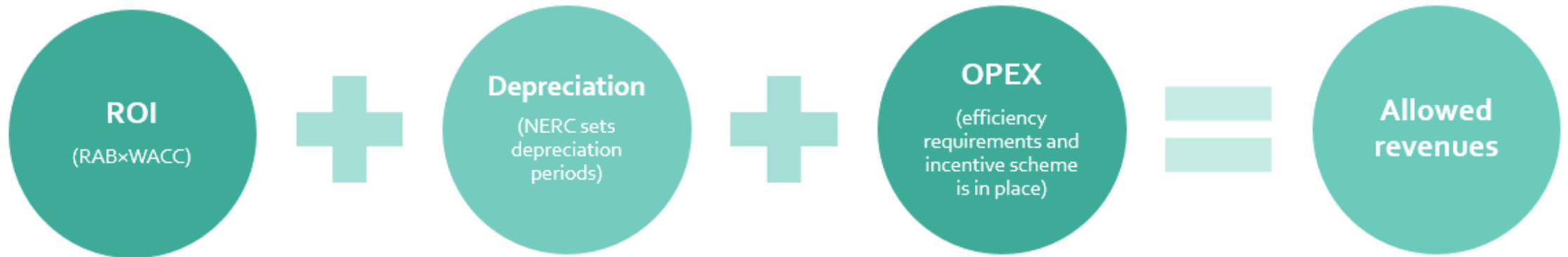


# Market liquidity affects secondary market



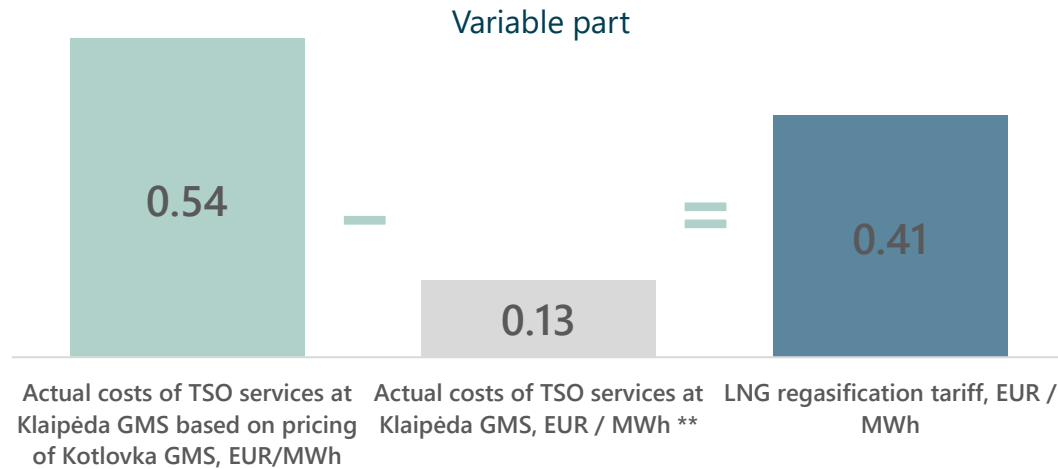
- LNG terminal **activities** are **mostly covered** by **spot requests** for capacity allocation;
- Klaipėda LNG **terminal** is **employed in small** and **not diverse** natural gas **market**;
- In Y2020 the **record utilization rate (49%)** of LNG terminal was achieved;
- Quite **small market** and **free** (unallocated) **capacities** lead to **inactive secondary market**;
- The situation **might change after start** of the **GIPL** when Lithuanian **market** will be well **connected to** huge (in comparison to LT and FINESTLAT) **Poland** market.

# Calculation of allowed revenues

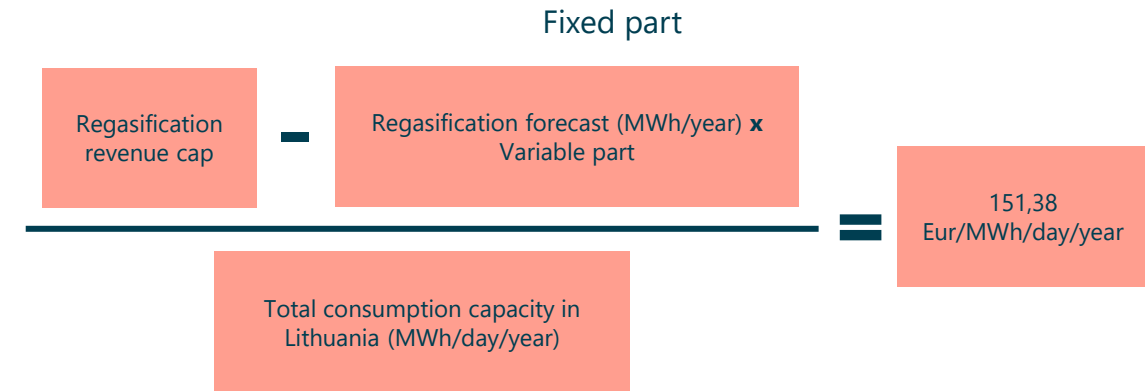


# Determination of regasification tariff

## LNG regasification price



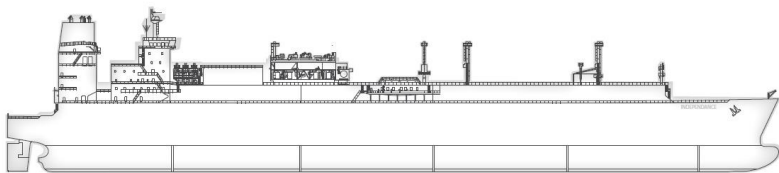
- The **picture** above **illustrates formula** stated in the KN Methodology **for determination of LNG regasification tariff** which is approved by **NERC**;
- The main **principle** is to **ensure** the **effective competition between** the **import routes** (LNG and pipeline) by evaluating the difference of actual costs of TSO services at respective entry point;
- **Single bundled tariff** at the LNG terminal **ensures transparency** and is **easily understandable** for existing and potential terminal users.



- The **picture** above **illustrates formula** stated in the KN Methodology **for determination of LNG regasification tariff** which is approved by **NERC**;
- **Fixed** part of **regasification price** is **socialized** via the **security supplement mechanism** and **fee** applied **for** Lithuania natural gas **consumers**;
- Security **supplement** is **collected** and **administrated** by the **TSO** and ensures the **collection** of allowed **revenues** for **KN** as the **operator of strategic importance LNG Terminal**.

- **Regulated** tariffs **foster transparency** and **equal conditions** for all market participants;
- However, **regulated tariffs cause additional administrative burden** to the LNG terminal operators.

# Changes in tariffs of LNG Terminal services



**Y 2020**

**Y2021**

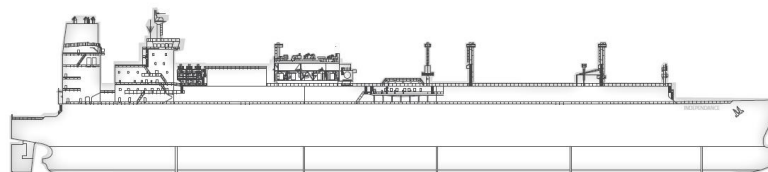
| LNG regasification                         | LNG reloading                         | LNG regasification                         | LNG reloading   |
|--|---------------------------------------|--|---|
| LNG regasification tariff:<br>0,35 EUR/MWh | LNG reloading tariff:<br>1,11 EUR/MWh | LNG regasification tariff:<br>0,41 EUR/MWh | LNG reloading tariff:<br>Up to 15.000 m3 – 0,53 EUR/MWh<br>From 15.000 to 50.000 m3 – 0,41 EUR/MWh<br>From 50.000 m3 – 0,30 EUR/MWh |

Capacity allocated before and during the Gas Year (October – October)

Minimum send-out ensures constant operational availability  
Storage already included in the regasification/reloading tariff  
Part of the revenue collected from security of supply supplement paid by all Lithuania natural gas consumers

# Main transparency rules and regulation

- All interested **market participants** have the **possibility** to **use** LNG terminal infrastructure;
- **Access rules** and all activities **related information** are **publicly available** on LNG terminal operator's website;
- **Regulations** and access **rules** are **approved** by **NERC**;
- LNG terminal **operator** **performs periodic revision** and **updates** of regulations;



Third party access

Non-discrimination

Publicly available information

Safety and reliability

Regulations approved by NERC

Regulated tariffs

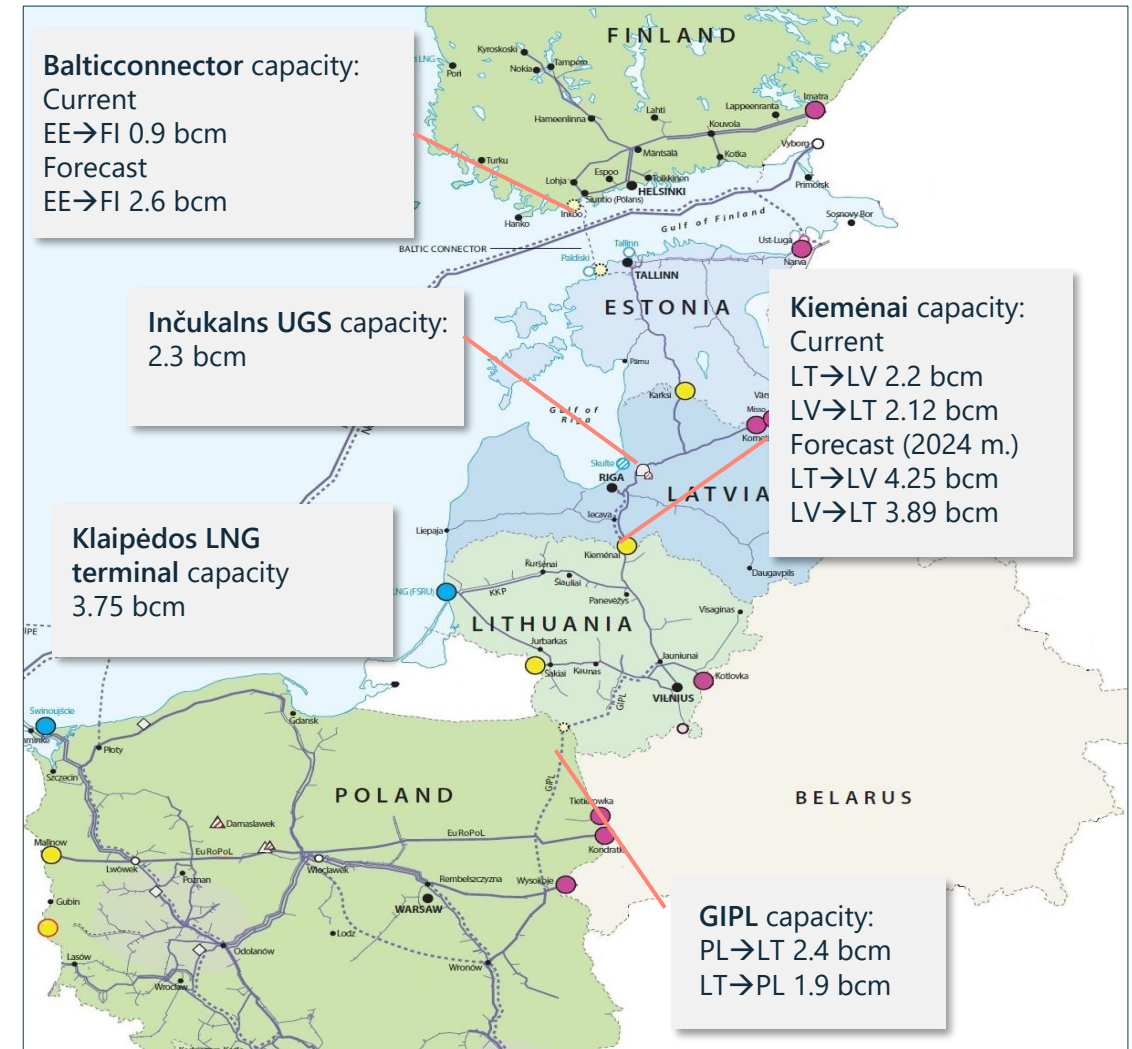
Periodic revision of access rules

Compliance with EU REMIT requirements

- LNG terminal **operator ensures non-discriminatory access** for all market participants;
- **Maximum efforts** are put to ensure **safe** and **reliable operations** at the LNG terminal;
- All **tariffs applied** at the LNG terminal **are regulated** and **approved** by NERC;
- LNG terminal **operator implements REMIT requirements** published on ACER guidance.

# Integration with natural gas TSO

- Development of natural gas interconnections are seen as the **highest importance** to foster effective LNG and NG market integration and liquidity.
- Since the commissioning of **Balticconnector** (Jan 2020), Baltics are **directly connected** to Finland market; however, Balticconnector has **not yet reached planned capacities**.
- As of Jan 2020, **FinEstLat** market **formed** common tariff area (CTA).
- **Lithuania** negotiates to join CTA, most **probably after Y2024** (finish of ELLI project); though, ITC mechanism still **should be solved**.
- **GIPL** opens **Poland** market which leads to **worldwide interest** in Baltic region due to **major increase** in market size;
- Consistency of TSO tariff structure should create effective environment and reflect market needs.



# THANK YOU FOR YOUR ATTENTION!

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