Public Consultation
on the Amendments to the Common Regulations for the Use of Natural Gas Transmission System

November 22, 2024

Summary of the public consultation

The purpose of this consultation document, developed by the Latvian gas transmission system operator JSC "Conexus Baltic Grid" and Estonian gas transmission system operator Elering AS (hereinafter separately referred to as TSO or jointly – TSOs), is to inform and ascertain the opinion of public regarding the proposed amendments to the "Common Regulations for the Use of Natural Gas Transmission System" (hereinafter – the Regulation), as coordinated by and between the Public Utilities Commission of Latvia (Decision No. 34 of June 20, 2024), and Estonian Competition Authority (Decision No.7-29/2024-001, May 31, 2024) (hereinafter –Amendments).

Main purpose of the Amendments is to:

- ensure Kiemenai interconnection point capacity booking procedure in transparent way on market-based principles;
- implement the Estonian Competition Authority decision 01.10.2024 nr 7-29/2024_002 on Regulation 715/2009 Article 18(4), approving the relevant points of the Estonian transmission system;
- enable capacity booking and allocation for a one-time LNG-facility connection and cargo injection into the transmission system via the Pakrineeme LNG entry point;
- implement the requirements of Regulation 2024/1789 in order to facilitate the participation of renewable gas and low-carbon gas on the wholesale market;
- implement the changes in clearing and settlement of the gas exchange after the European Energy Exchange AG (EEX) takes over the exchange platform currently operated by GetBaltic UAB.

In addition, to ensure effective regulatory development, other improvements in the Regulation are made:

- new definitions to facilitate the included amendments (Amendments section 2.);
- reference to Regulation 2024/1106 of the European Parliament and of the Council of 11 April 2024 amending Regulation (EU) 1227/2011 and Regulation (EU) 2019/942 as regards improving the Union's protection against market manipulation on the wholesale energy market (REMIT) (Amendments section 11.3.2. and 19.4.);
- corrections in wording and grammar for better understanding (throughout the document).

The Amendments are intended to enter into force 30 days after coordinated approval by the Public Utilities Commission of Latvia and the Estonian Competition Authority.

Please submit your proposals, questions and comments on the Amendments (in English) till December 20, 2024 by sending them to the TSOs e-mail addresses: JSC "Conexus Baltic Grid" (capacity@conexus.lv) or Elering AS (airi.noor@elering.ee).

1. Essence and justification of main Amendments

1.1. Kiemenai entry/exit point allocation mechanism

Proposed solution by "Conexus Baltic Grid" AS and AB "Amber Grid" implementation of auctions as capacity allocation mechanism, together with implicit capacity allocation via trading platform at Kiemenai entry/exit point. This hybrid solution is chosen to ensure Kiemenai interconnection point capacity booking procedure in transparent way on market-based principles while at the same time preserving market merging via exchange, promoting liquidity.

Currently applied capacity allocation mechanism at Kiemenai entry/exit point with pro-rata allocation and bundled capacity is improved short term solution that was expected to be efficient only while there are no congestions, providing simple capacity allocation mechanism until implementation of common market area without Kiemenai entry/exit point. As the common market area development has stalled and congestions is regular occurrence in current market operations, it is clear, that there is need long term solution for capacity booking process, to ensure efficient and equal access for system users.

From October 23, 2023, till November 6, 2023 "Amber Grid" and "Conexus Baltic Grid" organized survey on capacity allocation at Kiemenai interconnection point. Reason to launch survey was the capacity allocation results in couple past years. Network User`s input is important to make informed decisions that better serve the needs and expectations of all stakeholders. In survey 12 responses from 10 different companies representing five countries were received.

After comments received within the survey and based on discussions among "Amber Grid" and "Conexus Baltic Grid" as the best solution it is chosen to implement auctions as capacity allocation mechanism, foreseen in Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 (CAM NC), which is default capacity allocation mechanism.

Additionally, almost all (11 from 12) respondents choose to keep implicit capacity allocation. Even though implicit capacity allocation is used for less than 4% of total capacity booking at Kiemenai entry/exit point, it is welcome capacity allocation procedure by market and should be applied also in the future as it connects market areas via exchange trading.

1.1.1. Additional changes which are required due to changes Kiemenai entry/exit point allocation mechanism

During the assessment of needed changes of capacity allocation at Kiemenai it was identified that additional following amendments would be needed to successfully implement the capacity allocation at capacity booking platform:

- Change capacity unit resolution to kWh/h – currently Kiemenai entry/exit point is only point in Lithuanian transmission system using capacity unit of KWh/day. At the same time Kiemenai entry/exit point in the common balancing zone is the only point where capacity is booked in advance. In order to have smoother cooperation it was agreed to change hourly capacity unit which is prevailing standard in European Union. Such change impacts all aspects of information

previously used in resolution of day – technical capacity, available capacity, nominations, matching procedure. Change of unit is foreseen for products beginning from the new gas year – October 1 2025.

- over-nomination procedure – procedure of booking within-day interruptible capacity by sending nomination exceeding already confirmed nomination.

1.1.2. Change to Kiemenai entry/exit point capacity interruption procedure

During previous consultations opinion was received from market participants, to simplify the capacity interruption procedure. Comparing capacity interruption procedure with other European transmission system operators, it was found that firm capacity interruption rules currently used in common market area is complex as interruption criteria is based on multiple capacity products and multiple booking times of each capacity booking even for the same product, which is even more complicated by secondary capacity market transfers. Therefore, it is proposed to simplify firm capacity interruption procedure to determine interruption amount proportionally based only on capacity, not considering capacity product types, and booking timestamps, while leaving unchanged interruptible capacity interruption procedure.

1.2. Relevant points of the Estonian transmission system

The Estonian Competition Authority decided on 01.10.2024, in line with Regulation 715/2009 Article 18(4), to approve Estonian TSO Elering's request on the new list of relevant points of the Estonian transmission system.

Elering's request was motivated, in part, by the Estonian government's ban on Russian natural gas imports on September 29, 2022. On July 14, 2022, the Parliament of the Republic of Latvia amended the Energy Law, banning the supply of natural gas from the Russian Federation as of January 1, 2023. Based on these legislative decisions, and in order to update the rules to align with the actual situation, as there is no market activity possible with third countries, the following changes were made:

- The Narva and Värska entry/exit points are removed from the Regulation.
- Capacity allocation at the Luhamaa exit point was changed to transit procedure capacity allocation, as the only possible transportation procedure exiting could be transit flow.

Secondly, as there is no LNG terminal at the Pakrineeme entry point currently, it was specified that the Pakrineeme entry point is considered a relevant point in the Estonian gas transmission system only during the validity of the LNG facility connection agreement or TSO-LNG facility cooperation agreement, as an LNG terminal or one-time cargo.

1.3. Capacity booking and allocation in Pakrineeme entry point

A market participant has shown interest in using the Pakrineeme entry point only temporarily by bringing an FSRU with a one-time cargo download and leaving immediately afterward, with no intention to operate or offer LNG terminal services to the market. The Estonian NRA has assessed that an FSRU temporarily connected to the grid cannot be considered an LNG terminal within the meaning of the Estonian Natural Gas Act §2 p13.

To allow a one-time cargo injection at the Pakrineeme entry point, Elering has prepared special terms and conditions for connecting to the gas transmission network at Elering AS, currently under public consultation until December 9, 2024[1].

When offering and allocating capacity at the Pakrineeme entry point, the impact of flows arising from announced annual service schedules of regional LNG terminals (including Inkoo LNG, Hamina LNG, Pakrineeme LNG, and Klaipeda LNG entry points) shall be considered in the order that the annual service schedules were published.

At the Pakrineeme entry point, capacity is allocated exclusively to the LNG facility operator during the validity period of the connection contract or the TSO-LNG facility cooperation agreement. The Pakrineeme connection agreement can be concluded with the Estonian TSO based on the FCFS principle as outlined in the Estonian TSO's terms and conditions for connecting to the gas transmission network at Elering AS. This connection agreement can be signed up to 18 months in advance for a period of up to 60 days, and capacity can be booked after the verification of the connection agreement application by Elering as proposed in Amendments subsections 5.5 and 8.1.3.

It should be noted that if the LNG facility operates as an LNG terminal, the terminal operator must provide third-party access services in accordance with EU Regulation 2024/1789, and the rules for capacity allocation to third parties shall be defined in the LNG terminal rules as approved by the national regulator.

1.4. Implement the requirements of Regulation 2024/1789 in order to facilitate the participation of renewable gas and low-carbon gas on the wholesale market

In 2024, the European Union adopted Regulation (EU) 2024/1789 of the European Parliament and of the Council, which will enter into force on February 5, 2025. Regulation 2024/1789 stipulates that gas produced from renewable energy sources connected to the distribution network must have access to the virtual trading point. Furthermore, the balancing zone must include distribution networks, and the transfer of gas between balancing managers must occur at the virtual trading point (Whereas 26 and 46 and Article 3d).

According to sections 13 and 14 of the Estonian Natural Gas Act, balancing is carried out across the entire gas system, including distribution networks. Currently, the Estonian Natural Gas Act does not regulate whether the common entry-exit zone of the Estonian and Latvian gas system should include distribution networks, including gas production points connected to the distribution network from renewable energy sources. Therefore, currently, the trading rules for gas entering through the distribution network are unclear.

In the amendments to the Latvia Energy Law, approved on June 13, 2024, a new definition of the natural gas entry-exit system was included, meaning interconnected systems, which also include the gas distribution system. This design also provides market access to the virtual trading point for biomethane

[1] https://elering.ee/node/2234

producers who are connected to the gas distribution system. New definition is as follows: “National natural gas entry-exit system - means the set of interconnected Latvian natural gas transmission system and natural gas distribution system, in which commercial flows are not linked to a specific physical flow route and which includes entry points, exit points and a virtual trading point;”

To create clarity and harmonize the rules between Estonia and Latvia, and to clearly define the rules for renewable gas and low-carbon gas access to the virtual trading point even if injected into the distribution system, Elering and Conexus propose to implement corresponding Amendments in subsections 4.8, 4.9, 5.6, 9.1.6, and amend the definitions of the entry point and production.

1.5. Implement the changes in clearing and settlement of the gas exchange

European Energy Exchange AG (EEX) will take over the exchange platform currently operated by GetBaltic UAB on May 27, 2025[2]. To align with the changes in exchange clearing and settlement, Elering and Conexus propose to implement corresponding Amendments in subsections 8.2 and 16.8 and introduce the definitions of the Central Counterparty (CCP) and Clearing transactions.

2. Annex

1. The proposed Amendments of the Common Regulations for the Use of Natural Gas Transmission System of Latvia and Estonia with track changes [word file]
2. The proposed Amendments of the Common Regulations for the Use of Natural Gas Transmission System of Latvia and Estonia [pdf file]

[2] https://www.getbaltic.com/en/news/eex-to-launch-baltic-finnish-gas-markets-on-27-may-2025/