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**REGIONAL GAS MARKET COORDINATION GROUP**

**Progress report No. 1**

**January 2015 – November 2015**

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## BACKGROUND

Whereby the EU strives at the completion of the internal energy market, Estonia, Finland, Latvia and Lithuania still form the “energy island” in the context of the EU internal gas market, due to absence of gas interconnections with other EU Member States. The developments in the gas supply situation in Europe have resulted in the ever so pressing need to adopt new measures urgently, so to reduce dependence on the dominant gas supplier in the East-Baltic region, to diversify gas supply routes, sources and counterparts, to establish competitive gas market and to ensure security of gas supply.

**On December 5, 2014**, the Prime Ministers of the Baltic States in Tallinn have jointly agreed that it is of crucial importance to ensure the implementation of the EU Third energy package together with clear, transparent and competitive rules for third party access to the gas system throughout the Baltic States. The Prime Ministers of the Baltic States have also encouraged the stakeholders to work closely together with regards to the development of the functioning regional gas market and initiated the establishment of the Regional Gas Market Coordination Group (hereinafter – RGMCG), which would consist from the relevant ministries, regulators and transmission system operators, with the main task to develop an Action Plan on regional gas market development.

**On 14 January, 2015**, following the decisions made by the Prime Ministers of the Baltic States, the Ministers responsible for Energy Policy in Estonia, Latvia, and Lithuania have signed the **Declaration on Energy Security of Supply** of the Baltic States by which the Ministers agreed to establishing a Regional Gas Group, also to invite the representatives from Finland’s respective stakeholders to join the Regional Group.

Considering a small size of the East-Baltic gas market, the implementation of large-scale gas infrastructure projects of regional importance, **the ministries responsible for energy policy, the national regulatory authorities of the energy sector (NRAs) and the operators of the key gas infrastructure in the East-Baltic region** share a common interest to establish attractive conditions for existing and new market players in the Eastern-Baltic gas market to use key gas infrastructure for the benefits of the consumers and to perform the trading operations, to facilitate the implementation of the EU projects of common interest (PCIs) and to ensure high level of the security of gas supply.

Clear and harmonized rules of the regional gas market functioning together with the construction of the necessary gas infrastructure are the main preconditions for the market players to be able to cooperate with each other without borders, as well as to be prepared to react with a sufficient speed in emergency situations.

In order to achieve these goals the stakeholders have agreed to work closely together on the regional challenges focusing on implementation of measures for the development of the open, transparent and effectively functioning regional gas market as well as for the these measures. For that purpose, the regional stakeholders have decided to establish a RGMCG. The actions of the RGMCG will facilitate the achievement of Baltic Energy Market Interconnection Plan (BEMIP) objectives.

## OBJECTIVES

In total five RGMCG meetings have been held in 2015 in Lithuania as a part of Lithuania's Chairmanship for the Baltic Council of Ministers. During the kick-off meeting **on 12 February, 2015** the members of the RGMCG have agreed on the objectives and tasks to be jointly undertaken within this cooperation format. These objectives were included in the approved Terms of References of the RGMCG.

### General objectives of the Regional Gas Market Coordination Group

- to facilitate the opening of the national gas markets;
- to prepare an Action Plan on regional gas market development;
- to facilitate an effectively functioning common regional gas market in the Baltic States;
- to develop measures in order to interconnect the Baltic States regional gas market and the Finnish gas market;
- to contribute to the security of gas supply in the East-Baltic region using market measures.

It was agreed that the RGMCG shall discuss and shall seek solutions to the following issues:

- a regional gas market model in the Baltic States;
- an interconnected market between the Baltic States regional gas market and the Finnish gas market;
- transparent and non-discriminatory access to gas infrastructure;
- gas infrastructure to support East-Baltic regional gas market development;
- a unified trading and data exchange platform for the East-Baltic regional gas market;
- adoption of network codes and harmonization of the national rules;
- a common entry-exit tariff regime in the Baltic States regional gas market;
- other legal, economic and technical measures for effective functioning of a common East-Baltic regional gas market providing a level playing field for the gas market participants.

The members have jointly agreed that decisions in the RGMCG shall be taken by the ministries and national regulatory authorities by consensus.

### **On 8 June, 2015** RGMCG have approved the list of short-term and mid-term measures for improving functioning of the Eastern-Baltic regional gas market.

This document specifies concrete steps – 12 measures divided into 28 actions – for further cooperation in development of the effectively functioning common regional gas market up to the 3<sup>rd</sup> quarter of 2017, which will serve as a valuable complement to the agreements undertaken by our countries in June 2015 by signing Memorandum of Understanding on the reinforced BEMIP and approving *BEMIP Action Plan for competitive, secure and sustainable energy*.

## Short-term and mid-term measures for improving functioning of the Eastern-Baltic regional gas market<sup>1</sup>

No.	Measure	Actions to be taken	Deadline	Responsible organisation <sup>2</sup>
<b>Short-term measures</b>				
1.	<b>Adoption of non-discriminatory, transparent and flexible gas Network &amp; Storage Access Rules in the entire gas market of the region according to the legal and regulatory frame</b>	<p>1.1. An efficient, non-discriminatory, transparent and flexible framework for getting access to the transmission network and storage will be developed and adopted in:</p> <p>1.1.1. TPA Rules;</p> <p>1.1.2. Standard forms of the contracts to use transmission system and gas storage, standard application forms to use the infrastructure and other standard relevant document forms will be created and will form an integral part of the rules of the use of gas transmission and storage infrastructure;</p> <p>1.1.3. Interconnection/Cooperation Agreements between TSOs (including inter-TSO principles for the exchange of information related to cross-border flows, maintenance, etc.).</p> <p>This framework will provide options to quickly arrange gas flows between the Baltic States. Among other things it shall define signing of contracts, ordering of services, including nomination on day-ahead basis, re-nomination within delivery day, etc.</p>	2015 Q3	LT, LV, EE NRAs and TSOs
		<p>1.2.1. The establishment of virtual gas flow products on the Baltic gas market will be analysed by TSOs</p>	2015 Q3	LT, LV, EE TSOs
		<p>1.2.2. Based on the results on the analysis the virtual flow products will be decided upon and implemented accordingly</p>	2015 Q4	TSOs and NRAs

<sup>1</sup> **Abbreviations:** **EE Ministry** – Ministry of Economic Affairs and Communications of Estonia; **EE NRA** – Estonian Competition Authority; **EE TSO** – Elering Gaas AS; **FI Ministry** – Ministry of Employment and the Economy of Finland; **FI NRA** – Energy Market Authority of Finland; **FI TSO** – Gasum Oy; **LV Ministry** – Ministry of Economics of Latvia; **LV NRA** – Public Utilities Commission of Latvia; **LV TSO** – JSC Latvijas Gāze; **LT Ministry** – Ministry of Energy of Lithuania; **LT NRA** – National Commission for Energy Control and Prices of Lithuania; **LT TSO** – AB „Amber Grid“; **NRAs** – national regulatory authorities; **TSOs** – gas transmission system operators;

<sup>2</sup> **Asterisk (\*) means optional for FI.** FI is not supposed to implement the actions while the derogations of the Directive 2009/73/EC and the Regulation (EC) 715/2009 are applied in FI. When the derogations expire, FI will decide to integrate its natural gas market to the Baltic States gas market by implementing either the Interconnected National Market Model or the East Baltic Market Zone Model.

No.	Measure	Actions to be taken	Deadline	Responsible organisation <sup>2</sup>
		<p>1.3.1. The possibility of introducing standard short-term transportation and storage products (on firm and interruptible basis) will be analysed by TSOs and a storage operator.</p> <p>1.3.2. The above mentioned products will be introduced based on the analysis.</p>	<p>2015 Q3</p> <p>2015 Q4</p>	<p>LT, LV, EE TSOs and NRAs</p>
2.	<b>Accounting of cross-border gas flows offsetting the differences in energy value</b>	<p>2.1. LV TSO in cooperation with other TSOs will analyse and propose a mechanism how to offset the differences in energy content and to balance the gas flows in terms of energy.</p> <p>2.2. The mechanism will be implemented based on the analysis.</p>	<p>2015 Q3</p> <p>2015 Q4</p>	<p>LV, LT, EE TSOs and NRAs</p>
3.	<b>Harmonization of gas quality requirements</b>	<p>3.1. Analytical works will be carried out by the TSOs. The results of the analysis will be presented to the Regional Gas Group during the meeting in June 8, 2015 following by the agreement on the harmonization of the gas quality requirements;</p> <p>3.2. Legislation amendments to harmonize the gas quality requirements will be adopted by the Baltic States and FI* according to national legislative procedures.</p>	<p>2015 Q2</p> <p>2015 Q4</p>	<p>EE, FI*, LV, LT TSOs</p> <p>EE, FI*, LV, LT Ministries</p>
4.	<b>Harmonisation of the gas supply licencing framework (retail and wholesale) in the region</b>	<p>4.1. NRA's will analyse current requirements for issuing gas supply licences in the Baltic States and will prepare and present proposals to the RGMCG to harmonize licensing requirements for agreement.</p>	<p>2015 Q3</p>	<p>EE, FI*, LV, LT NRAs</p>
5.	<b>Roadmap for harmonized implementation of requirements of European Network Codes in Baltic States and Finland;</b>	<p>5.1. NRAs will establish a joint task force which could involve TSOs if necessary;</p> <p>5.2. Joint task force will analyse the requirements of network codes (first of all, of Balancing Network Code on Gas Balancing of Transmission Networks) and will seek for agreement on harmonized approach of implementation and will prepare the roadmap for harmonized implementation of requirements of European Network Codes;</p> <p>5.3. NRAs will coordinate the opinions on Network &amp; Storage Rules in the region.</p>	<p>2015 Q3</p> <p>2016 Q4</p> <p>Continuous</p>	<p>EE, FI, LV, LT NRAs and TSOs</p> <p>EE, FI, LV, LT NRAs and TSOs</p> <p>EE, FI, LV, LT NRAs and TSOs</p>
6.	<b>Data exchange</b>	<p>6.1. Publishing all the data required by REMIT and other regulations* on TSO webpages;</p> <p>6.2. Participation of TSOs in ENTSOG Transparency Platform (TP) to increase the transparency of daily</p>	<p>2015 Q4</p> <p>2015 Q4</p>	<p>EE, LV, LT, FI TSOs</p> <p>EE, LV, LT, FI* TSOs</p>

No.	Measure	Actions to be taken	Deadline	Responsible organisation <sup>2</sup>
		TSO operations across the region.		
7.	<b>Common approach to the definition of protected customers</b>	7.1. Agreement on a harmonized approach to apply security of supply regulation including harmonized definition of protected customers and adoption of Joint Preventive Action Plan and Emergency Plan.	2015 Q4	EE, FI, LV, LT ministries
8.	<b>Financing of EU Projects of Common Interest (PCI)</b>	8.1. Discussions on cross-border cost allocation for PCIs applying for CEF financing on the <i>ad hoc</i> basis.	Continuous	Ministries, TSOs, NRAs
<b>Mid-term measures</b>				
9.	<b>Harmonization of measurement of gas flows for technical and commercial purposes in energy units (kWh at gross calorific value)</b>	9.1. Analytical works will be performed to determine how a harmonised measurement system in energy units should be implemented in the region;	2016 Q1	EE, FI*, LV, LT, TSOs
		9.2. Necessary legislation to implement the needed measurement system in energy units in the whole regional gas market will be proposed and adopted;	2016 Q2	EE, FI*, LV, LT ministries
		9.3. Clear provisions on accounting policy in terms of metering units including losses and balancing will be established;	2016 Q2	EE, FI*, LV, LT TSOs
		9.4. Technical requirements for measuring gas in energy units will be elaborated and the necessary equipment installed in line with the legislation.	2016 Q4	EE, FI*, LV, LT TSOs
10.	<b>Launching a common virtual trading hub and a gas exchange in the region</b>	10.1. Analysis by TSOs will be performed and proposals for establishment of a common virtual trading hub and a gas exchange will be prepared (what preconditions needed, timetable, etc.).	2016 Q3	EE, LV, LT, FI TSOs
11.	<b>Establishment of common gas Data Hub platform</b>	11.1. Analysis on the possibility to use a common gas Data Hub platform (e.g., as used by Elering in electricity sector) for gas meter and other related data will be performed.	2016 Q3	TSOs
12.	<b>Harmonisation of gas Network &amp; Storage Access Rules in the entire gas market of the region</b>	12.1. Possibilities for a harmonised framework for access to the transmission network and storage will be analysed and the selected options will be adopted depending on the preferred market model;	2017 Q3	LT, LV, EE NRAs and TSOs
		12.2. Clear and transparent capacity products (long-term and short-term) will be agreed upon and used via allocation on transparent principles and terms;	2017 Q3	LT, LV, EE NRAs and TSOs

## PROGRESS TO DATE

### Milestones achieved in June – November 2015

- On July 17<sup>th</sup> The Baltic States TSOs have prepared a proposal for **harmonized gas quality requirements** and submitted this proposal to responsible national institutions for approval. Latvia has approved harmonized gas quality requirements in October. Lithuania has undergone public consultation procedures and will adopt new gas quality requirements in December. Estonian TSO has adopted the proposal as its (non-binding) quality requirement; the requirements would be incorporated into legislation by the 1<sup>st</sup> quarter of 2016. Harmonised gas quality requirements effectively reduce barriers for new entrants and provide a better basis for competition of gas from different sources in the region – be it pipeline gas or LNG from the global market. This makes the region more attractive for new market players.
- On September 10<sup>th</sup> Public Utilities Commission of Latvia has approved the **Third Party access (TPA) rules to the Latvian gas transmission and storage infrastructure**. TPA rules are the first step towards creation of the functional regional gas market and set clear provisions for Lithuanian and Estonian market participants. Standard forms of the contracts to use transmission system and gas storage has been included in the TPA Rules. Infrastructure capacity nomination procedure has been shortened up to 16 hours for inland flows and up to 24 hours for cross-border flows. This provision will be applied from the Q1 2016.
- On August 2015, preparation of the **study on the development of Finnish-Baltic regional gas market was started**. The study is conducted by consultant *Frontier Economics*, coordinated by Finnish and Baltics gas TSOs and funded by BASREC. The study is intended to provide a detailed region-specific comparison of different models of regional gas market operation, including the estimation of costs and benefits. Eventually the recommendations should be given on which model (or a combination of elements of different models tailored region-wise, or set of models with transitional phases) is most rational to follow in the region. This includes a roadmap with implementation scheme of recommended model and identification of associated risks (linked to regional infrastructure projects, the development of regulatory framework etc.) and measures to tackle these risks. Initial report of the study was presented in the RGMCG at the meeting on 26<sup>th</sup> of November 2015. The initial report covered the present status of the regional gas market and the essential building blocks moving towards regional gas market which fulfils the requirements of Gas Target Model. The size of the entry-exit zone, transmission capacity allocation, hub structure, balancing setup, gas quality issues and pricing of the transmission capacity were pointed out as important considerations for a functioning regional gas market. The study is scheduled to finalise in February 2016.

- On September 4<sup>th</sup> **agreement on GIPL financing structure** has been reached between the Baltic States and Poland Ministries and project promoters. According to the timeline, the project will be commissioned by the end of 2019.
- Estonia and Finland have reached an **agreement to re-submit BalticConnector construction project application** to the European Commission to secure EU financing for construction of the Estonia-Finland gas interconnection in the next call for proposals in spring 2016. According to the timeline, the project will be commissioned by the end of 2019.
- On November 2015 the Baltic NRAs have established task force for preparation of the **Roadmap for harmonized implementation of requirements of European Network Codes in Baltic States and Finland.**
- By November, 2015 **all Baltic TSOs have started publishing data according to relevant regulations**, incl. requirements of Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (REMIT). TSOs publicly report their technical, booked and available capacities along with the actual gas flows and other relevant data to the market players. This introduces transparency to the market, promotes equal treatment of transmission system users and results in a more efficient and attractive market.

### **Milestones which was not achieved within agreed timeline**

- Latvian TSO is bound to international and national treaties till April 2017 and therefore **Latvia still does not provide TPA on a full scope including non-discriminatory basis.** The free access to infrastructure capacity is limited till that time to available which is not needed by the JSC Latvijas Gāze. Latvian TPA rules foresee exceptional conditions for a dominant supplier and Latvian users are not entitled to freely choose their gas suppliers till April 2017 according to Latvian energy law. Since the current rules only allow nominations for periods of one month or longer further improvements are needed as for shortening the nomination period down to one day.
- The Latvian regulation only provides mechanism for metering and billing natural gas in cubic m as well as the current Estonian regulation. Therefore, during the Q3 of 2015 Latvian TSO could not finalize and propose a mechanism how to offset the differences in energy content and to balance gas flows in terms of energy for volumes passing Latvian territory. **A target to start the accounting of cross-border gas flows offsetting the differences in energy value have not been achieved yet in Latvia.** In European gas markets the balancing is done in terms of energy. Without balancing of gas flows in terms of energy, the risk of the changed energy content in transmission network is borne by the system user. Therefore, when gas with higher energy content is injected to the transmission network than it is received at the exit point (and vice versa) energy losses are incurred. Currently the losses are borne by the Estonian end-consumers and that hurdles cross-border trade.

- **Trilateral Interconnection/Cooperation Agreement between the Baltic TSOs (including inter-TSO principles for the exchange of information related to cross-border flows, maintenance, virtual gas flow products etc.) has not been signed** during the Q3 2015. Agreement between the Baltic TSOs is expected to be signed no later than Q1 2016. The agreed principles of organising cross-border flows would facilitate more flexible and efficient provision of transmission services. Furthermore this agreement will set high-level rules for cross-border balancing between the TSO-s and cooperation principles for cases of emergency and threat to system security of supply.
- During the Q3 of 2015 **Latvian TSO hasn't finalised the analysis of the possibility of introducing standard short-term transportation and storage products** (on firm and interruptible basis). Newly adopted TPA rules regarding access to storage are limited to seasonal physical gas flow. Any short term products require additional clarification in respect to pricing and tariffication of current fully regulated business of Latvian TSO and storage unit. Short term products would allow market participants to react to the market needs with more flexibility, create more opportunities for traders and possibilities to hedge against short-term trading risks.
- The **Baltic NRAs haven't finalised proposals to the RGMCG on how to harmonize licensing requirements for issuing gas supply licences** in the Baltic States. Necessary information about licencing process in Baltic States was submitted to Lithuanian NRA in November. Received information is being analysed at the moment. Harmonised licensing requirements would remove unnecessary administrative burden and reduce barriers for gas supply companies to access consumers.
- During the Q3 2015 **Estonian TSO has not included new standard forms of the contracts to use transmission system, standard application forms to use the infrastructure and other standard relevant document forms** in the rules of the use of gas transmission infrastructure. The current forms and rules do not comply with the EU network codes. Estonian TSO plans to approve the new Balancing Rules and by the end of 2015 and Capacity Allocation Rules by Q1 of 2016.

## SUMMARY AND OVERALL ASSESSMENT

Preparation of the **study on the development of Finnish-Baltic regional gas market was started** under supervision of the stakeholders of the Regional Gas Market Coordination Group (RGMCG) and it is planned to be completed in February 2016. Results of the study will form a substantial part of the **Action Plan on regional gas market development**, which is the main task of the RGMCG.

In parallel to the main task mentioned above, the RGMCG have agreed to work on the **short-term and mid-term measures for improving functioning of the Eastern-Baltic regional gas market**. However, while several important milestones have been reached on schedule, **7 out of 10 actions** (scheduled for the Q2 and Q3 of the 2015) **have not been implemented within agreed timeline**. High-level steering at ministerial and NRAs level could facilitate timely achievement of the objectives and targets agreed by the RGMCG.

In conclusion, despite that part of the additional tasks which were undertaken by the RGMCG is being implemented with a delay, it is important that these works have been already started. RGMCG is proving to be a good platform for in-depth discussions on key challenges for regional gas market development, exchanging best practises and monitoring of the implementation of the common goals. Common agreement have been reached among the key regional stakeholders on the objectives of the RGMCG which covers the most important aspects of the development of the liberal, transparent and effectively functioning regional gas market.

**RGMCG can play important role in the reinforced BEMIP framework** acting as one of the regional *implementation groups* of the reinforced BEMIP Action Plan (which is still to be prepared and confirmed) dealing with regional gas wholesale market questions. This would also allow RGMCG to avoid overlapping with similar scope of foreseen activities at the reinforced BEMIP framework with regards to creation of a *truly competitive and liquid regional gas market*. RGMCG would benefit from the European Commission's Directorate-General for Energy, ENSTOG and Agency for the Cooperation of Energy Regulators involvement in this regional cooperation format, especially in the Q1 of 2016 when the stakeholders of the RGMCG will have to reach an agreement on a regional gas market model in the Baltic States and interconnected gas market with Finland.

## Members of the Regional Gas Market Coordination Group

### Ministries responsible for energy policy:



### National regulatory authorities of the energy sector:



### Operators of the regional importance gas infrastructure:

