
REGIONAL GAS MARKET COORDINATION GROUP

Progress report No. 2

December 2015 – February 2017

Approved by the Regional Gas Market Coordination Group on May 23, 2017

BACKGROUND

European Union (EU) strives for the completion of the internal energy market and the implementation of large-scale gas infrastructure projects of regional importance has started and that leads to the fact that Eastern-Baltic Sea region gas market involving Finland, Estonia, Latvia and Lithuania must be reorganized by adoption of clear and harmonized rules for adequate functioning of the regional gas market. These rules are main preconditions for the countries to be able to cooperate with across borders. For that purpose, the regional stakeholders have decided to establish a Regional Gas Market Coordination Group (RGMCG).

RGMCG meetings are held several times a year to coordinate the actions required for reaching the goal of fully functioning regional gas market. During these meetings members of RGMCG reported the progress of work and changes in measures that should be considered to efficiently reach the objectives set by the RGMCG. Meetings are held by responsible Member State for a period of approximately one year within its chairmanship of the Baltic Council of Ministers. In the period of December 2015 – February 2016 the chairmanship of the Baltic Council of Ministers was held by Latvia.

In the previous period of work RGMCG was proving itself as a good structure to cope with the key challenges for regional gas market development. Common agreements have been reached on objectives of the RGMCG which cover the most important aspects of the development of regional gas market within the frame of EU legislation. It allows the stakeholders to exchange the views and monitor the implementation of the common goals.

During previous work period of RGMCG the study on the development of Finnish-Baltic regional gas market was started. It was intended that results of the study will form a substantial part of the Action Plan on regional gas market development. In parallel to this study, the RGMCG have agreed to work on the short-term and mid-term measures for improving functioning of the Eastern-Baltic regional gas market. It is intended that these measures will also facilitate the achievement of Baltic Energy Market Interconnection Plan (BEMIP) objectives.

On 9th December 2016, in Riga, Latvia, Baltic States Prime Ministers in the meeting within the framework of the Baltic Council of Ministers appreciated the progress made in the latest period of RGMCG work for development of the regional gas market until 2020. Baltic Council of Ministers welcomed the Regional Gas Market Development Action Plan and invited Finland to it and continue taking part in the regional gas market development process.

Baltic States Prime Ministers concluded that the efforts should be continued to find the most economically viable long-term regional solution to ensure diversified and secure gas supply to the Baltic States, and jointly seek the EU financial support for the implementation of such solution. This will be the key to establish competitive regional gas market in Estonia, Finland, Latvia and Lithuania.

OBJECTIVES

One of the BEMIP objectives and joint priorities of Latvia's chairmanship of the Baltic Council of Ministers concerning energy infrastructure is Regional Gas Market Development. The ministries, the national regulatory authorities of the energy sector (NRAs) and the transmission system operators (TSOs) of the key gas infrastructure in the Eastern-Baltic Sea region share a common interest to establish a regional market in the most effective and economically feasible way, while at the same time ensuring high level of the security of gas supply.

To reach best state of market performance clear and harmonized rules of the regional gas market functioning together with the construction of the necessary gas infrastructure are the main preconditions. RGMCG stakeholders evaluate all the possible cross border impacts of each proposition for regional gas market rules and the EU projects of common interests (PCIs).

The main task of RGMCG was to develop an Action plan for essential measures to ensure functioning regional gas market of the Eastern-Baltic Sea until 2020.

Objectives and tasks of the RGMCG in the period of December 2015 – February 2016:

- prepare an Action plan for mid-term measures for regional gas market development until 2020;
- facilitate development of rules for effective functioning of common regional gas market in the Baltic States;
- work closely with Finnish partners to interconnect the Baltic States regional gas market and the Finnish gas market;
- contribute to the security of gas supply in the East-Baltic region using market measures.

RGMCG agreed to discuss and seek solutions to the following issues in the period of December 2015 – February 2016:

- harmonized implementation of requirements of European Network Codes in Baltic States and Finland;
- financing of EU Projects of Common Interest;
- harmonization of measurement of gas flows for technical and commercial purposes in energy units;
- establishment of common gas Data Hub platform harmonisation of gas Network & Storage Access Rules in the entire gas market of the region;
- regional security of gas supply.

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

PROGRESS TO DATE

Since the RGMCG Progress Report No.1 five meetings were held in Riga, Latvia in 2016 as a part of Latvia's Chairmanship for the Baltic Council of Ministers. During these meetings members of RGMCG reported about the progress that was made in the frame of Short-term and Mid-term Measures schedule and changes that should be considered to efficiently reach the objectives set by the RGMCG. Detailed description of progress is contained in the annex.

Milestones achieved in December 2015 – February 2016:

- On 30th March 2016 in Riga, **consultants from the *Frontier Economics* presented the final report of the Baltic regional gas market study** that provides a detailed region-specific comparison of different models of regional gas market operation. The results study summed up the benefits of regional gas market for Finland and Baltic States and **indicated timeline for creation of a single zone is 3-4 years**. On 11th May 2016, each member state involved in RGMCG presented the national positions regarding the regional market development study.
- To facilitate licencing of gas sales undertakings in the Baltic States proposal for simple registration was submitted by the NRAs in November 2015. NRAs sent the joint letter to the ministries to carry harmonisation changes. It was planned to adopt changes for gas sales registration in Q1 of 2017 in Lithuania, Latvia and Estonia. **Lithuania and Estonia is undergoing the changes in legal acts. Latvia has completed the licencing simplification process together with gas market opening.**
- **Balancing rules in Estonia were approved by NRA in January 2016 and applied from 1st of April 2016. The Capacity Allocation Rules were agreed upon with the NRA in July 2016 and implementation started from the 1st of October 2016.** TSO of Estonia 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.
- **Adoption of non-discriminatory, transparent and flexible gas Network & Storage Access Rules in the entire gas market of the region according to the legal and regulatory frame is now possible in Latvia since the market liberalization.** Latvia and Estonia has approved the Third-party Access Rules that enable a shorten nomination procedure. Standard forms of the contracts to use transmission system and gas storage have been included in Latvian Third-party Access Rules.
- In the beginning of September 2016, TSOs finished the analysis on the establishment of the virtual trading hub and a regional gas exchange. The situation concerning analysis of proposed mechanism how to offset the differences in energy content and to balance the gas flows in terms of energy was coped. A target to start the accounting of cross-border gas flows in energy value was achieved. **From April 2017, in Estonia, Latvia and Lithuania the gas is measured in energy units.**

- During December 2015 – February 2016 RGMCG work period parties provided updates about implementation of actions listed in the short-term measures for improving functioning of Eastern-Baltic regional gas market. RGMCG reviewed interrelations of action plans and discussed the new apportionment of action plans offered by the TSO. On 7th November 2016, RGMCG presented Regional Gas Market Development Action Plan essential actions to be taken until 2020. In the meeting within the framework of the Baltic Council of Ministers On 9th December 2016, in Riga, Latvia, **Baltic States Prime Ministers appreciated the progress by the RGMCG during the Latvia’s chairmanship of the Baltic Council of Ministers, welcomed development of the regional gas market in accordance with the Regional Gas Market Development Action Plan and emphasized that the representatives of Finland are invited to continue taking part in the activities of RGMCG.**

Regional Gas Market Development Action Plan

No.	Essential actions to be taken	Deadline
1.	<p>Balancing, transmission and trading</p> <ul style="list-style-type: none"> - Concept model of coordinated balancing zone - Concept model of virtual trading hub - Regulation on gas trading - Regulation of coordinated balancing zone, capacity allocation, legal basis virtual trading hub and regional gas market exchange - Functioning Market Area (Transmission system operators’ rules and information technology solutions) 	<p>2017 Q4</p> <p>2017 Q4</p> <p>2018 Q4</p> <p>2018 Q4</p> <p>2019 Q4</p>
2.	<p>Pricing of gas transmission services and inter-transmission system operator compensation mechanism</p> <ul style="list-style-type: none"> - Methodology for the pricing of gas transmission services and inter- transmission system operator compensation mechanism - Implementation of the pricing of gas transmission services and inter- transmission system operator compensation mechanism 	<p>2018 Q4</p> <p>2019 Q4</p>
3.	<p>Infrastructure (LNG terminal and storage) pricing and socialization of its costs</p> <ul style="list-style-type: none"> - Assessment of the infrastructure costs socialization necessity and its justification - Implementation of the possible infrastructure costs socialization 	<p>2018 Q1</p> <p>2019 Q4</p>

- Latvian TSO presented a study on PCI “Enhancement of Inčukalns UGS” including increased flexibility and use as strategic gas storage in the regional gas market conditions. RGMCG agreed that study must include additional analysis of distance of a gas supply and injection rates. **The study on “Enhancement of Inčukalns UGS” was started on 1st March 2017 and will finish by 31st October, 2017.**
- **In Finland, the Ministry Working Group established the 1st proposal for a new natural gas market legislation on 21st January 2017.** The working group proposed that the Natural Gas Market Act must be reformed and the wholesale and retail natural gas market should be gradually opened to competition. **A Government Bill for a new natural gas market legislation is expected to be given to the Parliament in May 2017.**
- **In October 2016, the promoters of the Balticconnector gas pipeline took the final decision to invest in the construction of the pipeline.** The completion of the pipeline is expected by the end of 2019.
- **The Government of Finland adopted a new Energy and Climate Strategy on 24th of November 2016. In the Strategy, the Government stated its’ objective to create a regional gas market in Finland and the Baltic States.** According to the new gas market policy, the derogation from the Internal Market in Natural Gas Directive will be dropped, and the gas market will be fully open for competition from the beginning of 2020 as the investment is completed in Balticconnector pipeline that will connect Finland’s and Estonia’s gas infrastructure. Finland’s TSO network and gas sales will be unbundled.

SUMMARY

RGMCG engagement in development of regional gas market plays an important role to achieve goals set in BEMIP framework. RGMCG brings contribution to the institutions like European Commission's Directorate-General for Energy, Agency for the Cooperation of Energy Regulators and European Network of Transmission System Operators for Gas by undertaking the goals of harmonized gas market development in the Eastern-Baltic Sea regional.

Considering that several milestones were postponed to this period from the previous period (January 2015 – November 2015) of RGMCG work, **RGMCG in its work has achieved many milestones in short-term and mid-term measures for improving functioning of the Eastern-Baltic Sea regional gas market in period of December 2015 – February 2017.** However, measures for ensuring regional security of gas supply, common approach to the definition of protected customers and harmonisation of the gas supply licencing framework (retail and wholesale) in the region were not achieved in time in accordance with the measure implementation schedule. Finland, Estonia, Latvia and Lithuania will continue to work together to ensure the implementation of these actions. The legal and regulatory frame of these measures expected be achieved in 2017.

Analysis of the current requirements for issuing gas supply licences in the Baltic States present proposals for harmonization of licensing requirements in Estonia, Latvia and Lithuania. **Lithuania and Estonia is undergoing the changes in legal acts to implement the appropriate measures. Latvia has simplified the registration process that is carried out together with market liberalization.**

The study on the development of Finnish-Baltic regional gas market was finished. Results of the study are considered for further actions of RGMCG. These actions are embedded in Regional Gas Market Development Action Plan for the next 3 – 4 years. **This Action plan sets out the necessary measures for ensuring functioning of the Eastern-Baltic regional gas market until 2020. The main task of RGMCG will be to ensure that this plan will be carried out.**

In meeting within the framework of the Baltic Council of Ministers on 9th December, 2016, in Riga, **Baltic States Prime Ministers appreciated work done for developing Regional Gas Market Development Action Plan and welcomed the implementation of actions by RGMCG in its further work.**

The next period RGMCG work in 2017 will be performed as a part of Estonia's Chairmanship for the Baltic Council of Ministers. During this period the main tasks will be to adopt a model of coordinated balancing zone for the regional gas market and model of a virtual trading hub.

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:



Annex

Short-term measures for improving functioning of the Eastern-Baltic regional gas market

No.	Measure (description where necessary)	Actions to be taken	Deadline	Responsible organisation ¹	Implementation progress update
2015					
1.	<p>Adoption of non-discriminatory, transparent and flexible gas Network & Storage Access Rules in the entire gas market of the region according to the legal and regulatory frame</p> <p><u>Description:</u> The availability of Network Access Rules and transparent contract conditions under which the Third Party Access (TPA) is provided on non-discriminatory, transparent and flexible conditions is of key importance for enhancing the functioning of competitive regional gas market</p>	<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>1.1.1. On September 10, 2015 LV NRA has approved the TPA Rules, however these TPA rules cannot be interpreted as gas market opening in a sense of Energy law definition (till April 2017 Latvian users are not entitled to choose their gas suppliers within the Latvijas Gāze trading licence zone).</p> <p>Interim measures agreed between TSOs to shorten nomination procedure 2016 Q1 (renegotiation of interconnection agreements). Estonian TSO proposal was sent in March 2016.</p> <p>Internal consultations are going on. In October the public consultations will start. Progress? The rules will be available on the web page since 11th of November, 2016. Market participants can provide comments within two weeks. By the end of November the public consultation will be done. Submission for approval was in December.</p> <p>New TPA rules are established in 2017 Q1.</p> <p>Nomination procedure has been shortened up to 16 hours for inland flows and up to 24 hours for cross-border flows. This provision is applied from the Q1 2016. The issue is solved by new TPA rules.</p>

¹ *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 (description where necessary)	Actions to be taken	Deadline	Responsible organisation ¹	Implementation progress update
					<p>Estonian Balancing Rules were approved by NRA in January 2016, applied from 1st April 2016. Public consultation of the Capacity Allocation Rules was arranged in January 2016. The Rules were agreed with the NRA in July 2016, implementation started from Oct 1st 2016.</p> <p>1.1.2. Standard forms of the contracts to use transmission system and gas storage has been included in Latvian TPA Rules.</p> <p>Estonian TSO has included measure 1.1.2 in the Balancing and Capacity Allocation Rules.</p> <p>1.1.3. Estonian TSO has sent draft proposal for amendments to the existing bilateral agreements to Latvian and Lithuanian TSO and received comments. Bilateral agreements between TSOs on interoperability expected to be prepared for signing no later than Q1 2016. EE TSO has sent draft bilateral agreement to Latvian TSO on 31 March 2016. Latvian TSO sent its comments.</p> <p>Latvian TSO consultations with NRA on TPA rules were planned regarding to Lithuanian agreement, which proposes a shortened nomination procedure and a mechanism to offset the differences in energy content of gas. The comments on new TPA rules and establishing of Conexus Baltic Grid regarding Estonian agreement were sent in Q1 2017.</p> <p>In February, 2016 Lithuanian TSO prepared an amended text of the interconnection agreement and sent it to Latvian TSO and Estonian TSO. The agreement includes an improved nomination scheme and a mechanism to offset the differences in energy content of gas.</p> <p>Expected from April, 2017.</p>

No.	Measure (description where necessary)	Actions to be taken	Deadline	Responsible organisation ¹	Implementation progress update
		<p>1.2.1. The establishment of virtual gas flow products on the Baltic gas market will be analysed by TSOs</p> <p>1.2.2. Based on the results on the analysis the virtual flow products will be decided upon and implemented accordingly</p>	<p>2015 Q3</p> <p>2015 Q4</p>	<p>LT, LV, EE TSOs and TSOs NRAs</p>	<p>Proposal on virtual gas flow products included in the draft amendments to the existing bilateral-TSO agreements.</p> <p>Estonian TSO's Capacity Allocation Rules (agreed with the Estonian NRA in April 2016, applied from 1st of October, 2016, auction for yearly capacity is currently open) will enable virtual gas flow products.</p> <p>Latvian TSO analysed establishment of virtual gas flow products. Products will be implemented with the creation of E-E zone. New TPA rules, new tariff methodology expected in 2017 Q2.</p>
		<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>	<p>Estonian TSO's Capacity Allocation Rules (applied from 1.10.2016) will enable short-term transportation and storage products.</p> <p>Latvian TSO analysed standard short-term transportation and storage products (on firm and interruptible basis). The Board approval of the transportation products is awaited. Transportation products will be introduced with the new tariff system. The issue on introduction of storage products is postponed. Expected in 2017 Q2.</p>
2.	Accounting of cross-border gas flows offsetting the differences in energy value	<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>	<p>Ongoing discussions by the TSOs.</p> <p>Estonia will start using energy units by 2017 at the latest. Until then the difference is paid by the Estonian consumers. Expected in 2017 Q2.</p> <p>In February, 2016 Lithuanian TSO has proposed to Latvian TSO a mechanism to offset the differences in energy content of gas. It essentially suggests that the differences in energy value of gas are offset by adjusting the volume (in cubic metres) of the flow. The resulting greater (or lower) volume in cubic metres withdrawn from Latvia than injected to</p>

No.	Measure (description where necessary)	Actions to be taken	Deadline	Responsible organisation ¹	Implementation progress update
4.	Harmonisation of the gas supply licencing framework (retail and wholesale) in the region	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.	2015 Q3	EE, FI*, LV, LT NRAs	<p>Necessary information about licencing and registration process in the Baltic States was submitted to Lithuanian NRA in November 2015. Analysis is being carried out. NRAs sent the joint letter to the ministries to carry on harmonisation changes (LT Ministry already began legal acts' changes). Bill was presented to Parliament at the end of September. The draft was sent to public consultation. The draft will be adopted on the Q1 of 2017. Expected to come into force since 2017 Q1 in Lithuania.</p> <p>In Latviaregulation was adopted on 18th of October. It provides online registration, no fees and removal from the register if no any actions within one year.</p>
6.	Data exchange	<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 TSO operations across the region.</p>	2015 Q4	EE, LV, LT, FI TSOs	<p>TSOs are publishing data according to relevant regulations and are preparing for data publishing in line with the requirements of REMIT regulation from Q2 2016.</p> <p>Estonia - All data is being sent to TP from January 2016, except for the cross-border capacities. The rules for calculation of cross-border capacities have been approved by the Board and published on ER web page.</p> <p>Lithuanian TSO provides information to transparency platform since April 2014.</p> <p>Latvian TSO participates in TP from Q1 2017.</p> <p>Finland's TSO provides information the Transparency Platform.</p>
7.	Common approach to the definition of protected customers	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 (JPAP) and Joint Emergency Plan (JEP).	2015 Q4	EE, FI, LV, LT ministries	Being implemented within action ensuring regional security of gas supply.

No.	Measure (description where necessary)	Actions to be taken	Deadline	Responsible organisation ¹	Implementation progress update
8.	Financing of EU Projects of Common Interest (PCI)	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	<p>On September 4, 2015 agreement on GIPL financing structure has been reached between the Baltic States and Poland Ministries and the project promoters.</p> <p>The alternative route is being proposed. Amendments to CEF agreement were in signed in December 2016. Feasibility of technical projects in Poland is planned for mid 2017. 3Q or 4Q 2017 Lithuania will preannounce the public procurement. The implementation deadline is shifted to 2021.</p> <p>The Balticconnector PCI has been agreed upon between Finland and Estonia. A new Finland's promoter Baltic Connector Oy has been established on October 2015. The Balticconnector studie continues according to schedule. Application regarding Balticconnector and EE-LV interconnection enhancement was sent on 27th of Aprin, 2016. On 26th of October promoters made an investment decision, CEF agreement was signed on 21st of October. Financing decision was positive. Planned to end constructions in 2019.</p> <p>Inčukalns Underground Gas Storage enhancement PCI: TSO applies for CEF call in November 2016 to make a study with the aim to identify the best solution to increase flexibility of gas market and raise gas supply security. The study will finish in October 2016.</p>

No.	Measure (description where necessary)	Actions to be taken	Deadline	Responsible organisation ¹	Implementation progress update
2016					
9.	Harmonization of measurement of gas flows for technical and commercial purposes in energy units (kWh at gross calorific value). <u>Description:</u> Accounting of gas transportation and trading in energy units is inevitable in case of diversified gas flows and required by EU 3 rd Energy Package (Commission Regulation 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules and Regulation No 715/2009)	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	TSOs have finished analytical work. Goal - the use of energy units from 1 st of January, 2017.
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	Expected to be adopted in whole region by 2017 Q4.	
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	Expected to be adopted in whole region by 2017 Q4.	
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	Latvian TSO have tendered the equipment and it is being installed.	
13.	Ensuring regional security of gas supply	13.1. BEMIP Focus Group on Regional Cooperation will update Joint risk assessment of security of gas supply of Estonia, Latvia and Lithuania	2016 Q4	LT, LV, EE ministries, NRAs and TSOs	<p>The deadline for approval of JPAP and JEP, defined in Vision paper in view of identifying specific measures within BEMIP is 2016 at the latest.</p> <p>JRC was involved in development of Risk Assessment model.</p> <p>The meeting of the Ministries was organized on 12th of May, 2016, 15th of September, teleconference in October. The draft document of scenarios was sent by JRC to the states till 15th of November. On 10th of February meeting in Riga was held. It was decided to proceed further with the study and identify the social effects of gas supply risks.</p>