

Public Utilities Commission

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Comments on the Draft Amendments to the Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility

AS Elenger Grupp has reviewed the consultation document regarding the proposed amendments to "Regulations Regarding the Use of Inčukalns Underground Gas Storage" (hereinafter: Regulations). We have the following comments and requests for clarification.

1. As a general observation, the proposed amendments move the regulatory framework from a regulated model towards a market-based approach. As part of this change, certain matters that previously required regulatory approval may in the future be determined by the system operator and published on its website. While we understand the rationale behind this approach, we would like to express our expectation that such arrangements will continue to be implemented in a transparent manner and with appropriate involvement of market participants. In our view, it is important to ensure that market participants continue to have sufficient opportunity to become aware of proposed rules and amendments to them at an early stage, provide feedback and participate in discussions on matters that may affect conditions of the use of the Inčukalns Underground Gas Storage Facility (hereinafter: storage facility).

2. In connection with the comment above, we would like to highlight a concern regarding Section 22.2 of the proposed Regulation, according to which the system operator shall publish the rules governing the auction of the storage capacity product on its website not later than five working days before the start of the auction. At the same time, Section 22.3 allows the system operator to introduce auction security requirements in the auction rules. In our view, a notice period of five working days is not sufficient where the auction rules may contain new or amended requirements, particularly with regard to auction security. Depending on the form of security required, market participants may need to obtain bank guarantees or arrange other financial instruments, which often requires more than five working days. We propose that the auction rules be published at least 14 calendar days prior to the start of the auction. We therefore kindly request that Section 22.2 be amended accordingly.

3. We also have a comment regarding the 24-hour deadline set out in Section 25.2

for submitting the requested injection or withdrawal schedule. In practice, this deadline may not be achievable, particularly where the system operator's request is submitted immediately before a weekend or public holiday, or during non-working days. We therefore request that the deadline be reviewed. At a minimum, the deadline should be calculated in working days or should exclude weekends and public holidays.

4. Proposed amendment to Section 62.2 broadens the circumstances under which the system operator may restrict or discontinue the injection or withdrawal from the storage facility without prior warning by referring to any gas supply crisis declared in accordance with Latvian Energy Law. Given the regional role of the storage facility, decisions to restrict access to or use of the storage facility may have implications not only in Latvia, but also in other interconnected markets. For this reason, we believe that the application of such restrictions should not be based solely on national considerations and should take into account the broader European framework for security of gas supply established under EU legislation. We therefore request that Section 62.2 be reviewed and supplemented to clarify how restrictions affecting the use of the storage facility will be coordinated and applied taking into account the security of supply considerations of all affected Member States.

5. We would appreciate clarification regarding the methodology for determining emission allowance costs related to the combustion of fuel gas (Clauses 59 and 89). Clause 48 provides that the system operator will publish information on emission allowance costs before the start of the storage cycle. At the same time, Clauses 59 and 89 suggest that the final costs borne by storage users will depend on actual fuel gas consumption and on when the system operator's free emission allowances are exhausted. As a result, it is difficult to understand how these provisions will work in practice and what the potential cost impact for storage users may be. We therefore kindly request that the system operator provide a practical example showing how the fee referred to in Clauses 59 and 89 would be calculated, including how the information published under Clause 48 is reflected in the final settlement of costs.

We would also encourage consideration of an approach commonly used by system operators, whereby the expected costs are forecast and incorporated into the applicable fee, with any resulting over- or under-recovery adjusted through the fees applicable in the following period. Such an approach would provide storage users with greater cost predictability before the start of the storage cycle.

6. The proposed Regulation governs only the market section of the storage facility,

while the use of the solidarity section is regulated separately by the system operator in the “Regulation on use of the solidarity section of the Inčukalns underground gas storage facility”¹ (hereinafter: Solidarity Regulation). However, the storage facility constitutes a single physical infrastructure with common operational and maintenance costs. Nevertheless, neither the proposed Regulation nor the Solidarity Regulation appears to explain how common costs are divided between the two sections of the storage facility. In particular we note that the Solidarity Regulation does not contain provisions regarding fuel gas costs or CO₂ emission allowance costs, whereas such costs are addressed in the proposed Regulation applicable to the market section. This creates uncertainty as to whether certain operating costs may in practice be borne solely by users of the market section, while users of the solidarity section may benefit from the same infrastructure without contributing to those costs. In our view, this would not be consistent with the principle of equal treatment of storage facility users. We therefore consider that the allocation of costs between the market section and the solidarity section, including fuel gas costs and CO₂ emission allowance costs, should be expressly regulated and based on transparent and non-discriminatory principles.

7. Given the regional importance of the Inčukalns Underground Gas Storage facility and the use of the facility by companies from several countries in the region, AS Elenger Grupp requests that consultation materials be published in English in future consultation processes to ensure that all regional market participants have an equal opportunity to participate effectively. While we recognise that publication in Latvian is consistent with national requirements, the absence of an English version may limit the ability of non-Latvian market participants to properly assess the proposed amendments. Publication of consultation materials in English is common practice for regional energy infrastructure and cross-border gas market arrangements involving participants from several countries.

We look forward to your feedback.

Kind regards,

/signed digitally/

Margus Kaasik

Member of the Management Board

¹ [Solidarity storage service | Conexus](#)