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**Sent:** Thursday, January 26, 2023 12:43 PM

**To:** SPRK <sprk@sprk.gov.lv>

**Cc:** Kaspars Skrābāns <kaspars.skrabans@conexus.lv>; Jānis Eisaks <janis.eisaks@conexus.lv>; uldis.bariss@conexus.lv

**Subject:** Comments to the proposed new storage regulations

Dear A. Ozola,

Please find below our concerns and comments to the proposed “amendments to the Regulations of Use of Inčukalns Underground Gas Storage Facility (IUGS)” as published by SPRK.

Since the gas market liberalization started in Latvia, there has been an expressed wish from the regulator and TSO/SSO that the market should develop to a well-functioning gas market. Equinor has 40 years of experience operating in gas markets that go through all the stages of market liberalization. A well-functioning market has stable and predictable regulatory framework that support development of liquidity and treat all participants equally.

The physical gas flow patterns in the Baltic gas markets have completely changed the last year. This requires the gas infrastructure to operate with flexibility for the users, while at the same time maintaining security of supply and high capacity utilisation. For the gas market participants, one of the most significant change is the connection to the European pipeline gas market and the risk mitigating tools this represent.

We question the rationale for introducing the proposed changes, as there has not, to our knowledge, been any experienced issues that prompt a need to revise the regulations on the use of the IUGS. The market should be allowed to function.

We see the proposed changes as not addressing the real problems in the current regulations and it is our view that the proposed changes would increase the risk for market participants and could reduce the utilization of capacities in the gas infrastructure.

Introducing such drastic changes would be very negative for the continued development of the gas market in the Baltic region. Regulatory changes should seek to improve experienced issues, not be based on assumptions.

Below we have highlighted some additional issues related to various topics addressed in the proposed amendments:

Planning:

For the users of IUGS there are now three (3) supply routes – LNG re-gas from Finland, LNG re-gas from Klaipeda or Pipeline supplies from Europe. All these sources are connected to different market mechanisms, planning horizons and flexibility. All the sources should be treated equally.

The assumption, stated in the consultation, that an LNG delivery need to be re-gassed during one calendar month is not completely accurate. All European LNG terminals, including Inchoo and Klaipeda, have different rules. 30 day re-gas is rarely the case, and allocating firm injection profiles on a monthly basis could in fact be an additional risk for a storage user and lead to reduced utilization of the storage.

Congestion management:

No experience so far suggests a need to amend the regulations on the use of the storage due to congestion management issues.

All market participants are familiar with the existing congestion management procedure when using the IUGS and plan accordingly.

The existing congestion management framework threat all storage users equally.

It should not be the role/cost of the storage (operator) to remove this risk for some market participants. The storage users should use the market for this risk mitigation.

Auction procedure/ Price:

The cost of using the storage is set as a fee pr MWh capacity in the storage, without any cost link to the defined injection profile.

Across Europe the experience is that a re-gas profile rarely turn out as expected. The proposed changes will lead to an “over booking”/hoarding of injection curve capacity as there is no cost/risk for the storage user to do this. For the SSO it will lead to inefficient utilization of the storage capacity. Such “over booking” of capacity reduce the ability for other market players to plan their use of the storage and will distort the market.

Secondary market for “injection profile”:

The consultation document seem to assume that a secondary market for “injection curves” will exist. No functioning secondary market exists for transport capacity or storage capacity today.

In addition, the current regulations do not allow the TSO/SSO to maximise the utilization of capacities if market participants are not using booked capacity. This should be an issue the regulator should have first priority in amending.

The lack of a secondary market and the lack of regulations that allow TSO/SSO to maximise utilization of capacities can, as experienced, create situations where some market participants can prevent others from utilising capacities.

Impact on the target groups:

The proposed changes would reduce flexibility in planning for users of the storage. This could lead to negative financial impact due to not being able to mitigate issues across the value chain.

The SSO/TSOs would be negatively impacted due to the increased burden of managing the injection curves and possible negative financial impact from lower system utilization.

The cost of energy could increase for society and industry.

We hope the regulator considers our comments and we are happy to have detailed discussions on issues if that could be useful.

Kind regards

Reidar Hansteen

Best regards,

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**Reidar Hansteen**  
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