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PAKALPOJUMU  
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KOMISIJA

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# THE CONSULTATION DOCUMENT

## on the Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility

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18 June 2020  
Riga

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**Appendix:** Draft decision “Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility”.

## **I Summary of the consultation document**

The purpose of the consultation document is to inform the public and find out the opinion of the stakeholders on the draft decision of the Public Utilities Commission (hereinafter - the Regulator) "Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility" (hereinafter - the draft Regulations).

In accordance with Article 15(7) of the Energy Law, the Regulator shall approve the regulations for the use of natural gas transmission and storage system or the regulations for the use of natural gas storage facility drawn up by the natural gas transmission and storage system operator, which shall be objectively based, economically justified, fair, equal, transparent and accessible to all system users and applicants who request access to the relevant system. The Regulator is entitled to make changes to these regulations.

Pursuant to the provisions of the Energy Law, the Regulator adopted the decision No 1/10 Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility (hereinafter - the Regulations) on 28 May 2018.

Due to growing liquidity and competition level in the natural gas market in the Baltic region, the role of the Inčukalns underground gas storage facility (hereinafter - Inčukalns UGS) is changing in the natural gas supply sector. Natural gas market participants use the Inčukalns UGS not only to balance the price risk, taking into account the differences between the winter (withdrawal) and summer (injection) prices of natural gas, but also as a security for the stability of the planned natural gas flows. In order to improve the operational flexibility of the Inčukalns UGS, offer Inčukalns UGS capacity reservation in a way that satisfies market demand and ensure the highest possible transparency when providing the storage service to storage system users (hereinafter - system user), the natural gas storage system operator joint-stock company Conexus Baltic Grid (hereinafter - JSC Conexus Baltic Grid) developed and on 2 December 2019, in compliance with the provisions of Article 15(7) of the Energy Law, submitted the draft Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility to the Regulator for approval.

Based on the solutions developed during the working meetings of the Regulator and JSC Conexus Baltic Grid, the draft Regulations provide for significant changes in the regulatory framework for the use of the Inčukalns UGS. In the draft Regulations, in comparison with the existing regulatory framework for the use of Inčukalns UGS, new storage capacity products have been defined, providing for the use of an auction procedure for their reservation, the procedure for the use of capacity products and transfer of stocks has been clarified, etc.

The draft Regulations determine the rights and obligations of the combined natural gas transmission and storage system operator (hereinafter – the system operator) and the system users, the procedure by which an applicant shall submit an application to acquire the rights to use the storage facility and a storage service contract shall be concluded, requirements for the publication of information about the storage facility, the procedure for storage capacity reservation, the transfer of the natural gas in the storage facility, the transfer of the storage capacity, the principles of congestion management, as well as the criteria and procedure according to which the system operator may request the system user to submit a collateral for the fulfilment of obligations. The draft Regulations specify cases when the system operator may interrupt or restrict the provision of natural gas storage system services - natural gas injection, storage, and withdrawal.

The Regulations have been redrafted, and upon their entry into force, the current Regulations will be repealed.

Through these amendments, the Regulator will align the requirements of the methodology for the calculation of natural gas storage service tariffs to the changes in the procedure for the

use of the Inčukalns UGS. Before approving the regulatory framework for the calculation of natural gas storage service tariffs, the Regulator will consult with the stakeholders to hear their opinion about it. The launch of the public consultation is planned in July 2020.

Please submit proposals and comments on the draft Regulations to the Regulator in writing to the e-mail address [sprk@sprk.gov.lv](mailto:sprk@sprk.gov.lv) by **16 July 2020**.

The draft Regulations prepared by the Regulator are attached in the Annex to this document.

## **II The need to develop the draft regulatory act**

### **1) Justification**

The draft Regulations have been prepared considering the growing interest of the natural gas market participants in the option to store natural gas in the Inčukalns UGS and the shortcomings in the existing storage regulation, which could deter market participants from using the Inčukalns UGS.

### **Auction - a method for storage capacity reservation**

In accordance with the Regulations, the capacity reservation of the Inčukalns UGS is carried out when the system user submits a capacity product application to the system operator. The system operator shall allocate the storage capacity by taking into account the system users' capacity product applications submitted from 9:00 on the previous working day to 8:59 on the relevant working day. If the amount of the storage capacity to be reserved which is specified in the capacity product applications submitted by the system users exceeds the available storage capacity set for the capacity product reservation, the capacity product shall be allocated in proportion to the share of the storage capacity to be reserved in the amount of the available storage capacity specified in the system user's application. Furthermore, according to the Regulations, the system user may reserve storage capacity for the current or next storage cycle on any day of the storage cycle.

Such a procedure for the Inčukalns UGS capacity reservation in case of high demand for the storage capacity does not guarantee the transparency of the storage capacity reservation process for the system users, raises suspicions about possible violations by other system users and the system operator in the storage capacity reservation and allocation process.

An assessment of the European Union regulatory framework regarding the reservation of natural gas storage and transmission system capacities, as well as storage capacity reservation methods used by other European Union member states leads to a conclusion that there has been a systematic transition to auctions in the natural gas market; auctions are very popular at the moment and an auction procedure ensures the highest level of transparency and non-discrimination. The regulation of the storage use in Italy, France, the Czech Republic, Hungary, Spain and Portugal provides for the reservation of the storage capacity through an auction procedure.

In view of the above and to improve the clarity, comprehensibility, and transparency of the Inčukalns UGS capacity reservation process, the draft Regulations stipulate that the allocation of the Inčukalns UGS capacity shall be performed through an auction procedure. Furthermore, the draft Regulations set a specific time for the auctions, i.e. the draft Regulations provide an auction calendar to the system users. The draft Regulations stipulate that the capacity reservation of the Inčukalns UGS shall take place in accordance with the notification of the system operator regarding the storage capacity auction:

- 1<sup>st</sup> auction - not later than March 15 of the relevant year,
- 2<sup>nd</sup> auction - on the second working day after the day of publication of the technical capacity of the storage facility and the available capacity of the storage facility for the

current storage cycle (the system operator must publish the technical capacity of the storage facility and the available capacity of the storage facility for the current storage cycle by May 21 of the relevant year),

- 3<sup>rd</sup> auction - not later than June 1 of the relevant year,
- 4<sup>th</sup> auction - not later than July 1 of the relevant year,
- 5<sup>th</sup> auction - no later than August 1 of the relevant year.

3<sup>rd</sup> - 5<sup>th</sup> auctions are organized if the available storage capacity exceeds 0 kWh.

In order to guarantee that the system operator receives the needed revenues and there is no need to implement a mechanism to compensate the permitted revenues if the price of the capacity product obtained in the auction is lower than the approved tariff of the capacity product, the Inčukalns UGS capacity auctions will be based on the principle of **the premium**. The premium is a fee for providing efficient access to the Inčukalns UGS, which shall be paid by the system user to receive a guaranteed storage service.

If the capacity of the Inčukalns UGS is reserved in an auction procedure, upon the receipt of the notification about the capacity product allocation, the system user is obliged to pay the system operator for the allocated capacity product in accordance with the storage service tariffs and the premium specified by the capacity auction procedure.

In accordance with Article 33 (4) of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, in the case of regulated access, the regulatory authorities where Member States have so provided or Member States shall take the necessary measures to give natural gas undertakings and eligible customers either inside or outside the territory covered by the interconnected system a right to access to storage, linepack and other ancillary services, on the basis of published tariffs and/or other terms and obligations for use of that storage and linepack, when technically and/or economically necessary for providing efficient access to the system, as well as for the organisation of access to other ancillary services. The regulatory authorities where Member States have so provided or Member States shall consult system users when developing those tariffs or the methodologies for those tariffs. The right of access for eligible customers may be given by enabling them to enter into supply contracts with competing natural gas undertakings other than the owner and/or operator of the system or a related undertaking.

Article 112(17) of the Energy Law stipulates that the combined natural gas transmission and storage system operator, in addition to the provisions of Article 15 of this Law, is obliged to collect all payments related to the natural gas transmission and storage system.

Based on the above, it can be concluded that the premium is another payment that is economically necessary to ensure efficient access to the Inčukalns UGS. Therefore, it is justified to apply the tariff for the relevant capacity product approved by the Regulator, as well as the premium determined in the storage capacity auction to the settlements for the natural gas storage service. It should be noted that if the system operator generates additional revenues in excess of the permitted revenues during the regulatory period, they will be taken into account when setting the storage service tariffs for the next tariff period.

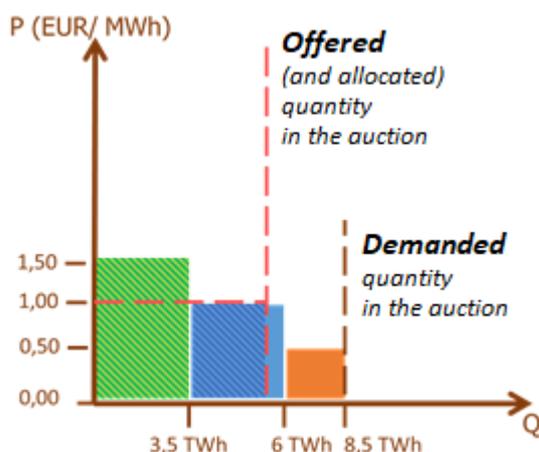
In accordance with the planned amendments to the methodology for the calculation of the natural gas storage service tariffs, the system operator will create a **regulatory invoice** to which the system users' premium payments and the actual permitted revenues at the end of the tariff period, which are higher or lower than the planned permitted revenues for the tariff period, will be credited. The purpose of the regulatory invoice is to minimize the under-recovery and over-recovery of storage service revenues, with due regard to the investment needs. The principles of operation of the regulatory invoice and the obligation of the system

operator to create the invoice will be determined in the methodology for the calculation of the natural gas storage service tariffs.

Depending on the type of the capacity product to be reserved through the auction procedure - constant or interruptible capacity product - the draft Regulations provide for a different application of the auction procedure. Constant capacity products will be reserved in an auction based on the principle of the "last accepted bid" premium. Meanwhile, the interruptible capacity product will be reserved in an auction based on the principle of the "optimised last accepted bid" premium.

The solvency of each system user shall be taken into account **for the auction based on the principle of the "last accepted bid" (pay as cleared) premium.**

To determine the amount of the storage capacity reserved by the system user and the premium, the bids of the system users shall be ranked according to the prices submitted in the bids (EUR/MWh) in the most advantageous order, ranking the bid with the highest price first until the available amount of the storage capacity specified in the auction rules is reached. Bids whose submitted capacity volume exceeds the specified capacity volume after the bids have been ranked in the order of the most advantageous price shall be rejected. If the specified amount of the available storage capacity is exceeded in part, only the part exceeding that amount shall be rejected. The premium specified in the auction procedure is the price submitted in the bid at which the volume of the available storage capacity specified in the auction rules is reached (see the figure below).



Available storage capacity 6 TWh

1<sup>st</sup> user bids 1.5 EUR/MWh for 3.5 TWh

2<sup>nd</sup> user bids 1.0 EUR/MWh for 3.5 TWh

3<sup>rd</sup> user bids 0.5 EUR/MWh for 1.5 TWh

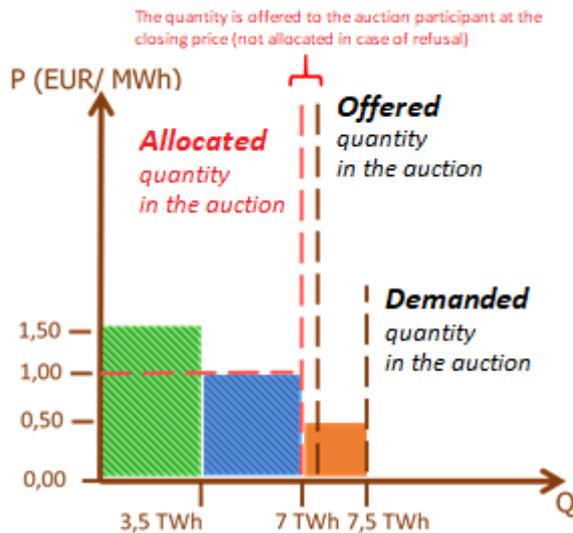
The available storage capacity is reached at the bid price of 1.0 EUR/MWh

1<sup>st</sup> user's bid for 3.5 TWh and 2<sup>nd</sup> user's bid for 2.5 TWh are accepted

The system operator's revenue from the premium:

$$3.5 \times 1.0 + 2.5 \times 1.0 = 6 \text{ million EUR}$$

Considering that the interruptible capacity product must be offered for reservation in storage cycles when there is a low demand for the capacity of the Inčukalns UGS, the total solvency of the market is taken into account **for the auction based on the principle of the "optimised last accepted bid" premium.** To determine the amount of the storage capacity reserved by the system user and the premium, the bids of the system users shall be ranked according to the prices submitted in the bids (EUR/MWh) in the most advantageous order, ranking the bid with the highest price first. If the total auction revenues decrease when the next bid is accepted, this bid shall not be accepted (see the figure below).



Available storage capacity 7.2 TWh

1<sup>st</sup> user bids 1.5 EUR/MWh for 3.5 TWh  
 2<sup>nd</sup> user bids 1.0 EUR/MWh for 3.5 TWh  
 3<sup>rd</sup> user bids 0.5 EUR/MWh for 0.5 TWh

The available storage capacity is reached at the bid price of 0.5 EUR/MWh. At this price, the system operator's revenues would be  $0.5 \times 7.2 = 3.6$  million EUR.

The maximum auction revenues are reached at the bid price of 1.0 EUR/MWh.

1<sup>st</sup> user's bid for 3.5 TWh and 2<sup>nd</sup> user's bid for 3.5 TWh are accepted

The system operator's revenue from the premium:  
 $1.0 \times 3.5 + 1.0 \times 3.5 = 7$  million EUR

The system users whose bids are rejected are offered to purchase the storage capacity at a premium corresponding to the closing price, if the volume of the available storage capacity specified in the auction rules allows it. If the system user rejects the offer, its non-reserved storage capacity shall be auctioned in the next storage capacity auction, if such an auction is planned to be organized in accordance with the draft Regulations.

### Storage capacity products

The draft Regulations stipulate that the system users will be able to reserve the Inčukalns UGS capacity by using the bundled capacity product, the two-year bundled capacity product, the interruptible capacity product, the virtual reverse-flow product and the stock transfer product. The draft Regulations stipulate that the reservation of the bundled capacity product, the two-year bundled capacity product, and the interruptible capacity product shall be carried out through an auction procedure, therefore the system user must pay for the reservation of these capacity products in accordance with the tariff for the relevant capacity product and the premium set by the capacity auction procedure. When reserving the virtual reverse-flow product or stock transfer product, the system user shall pay according to the tariff for the relevant capacity product.

**The bundled capacity product** is a constant capacity product that includes the use of the storage capacity in the amount of the bundled capacity product available to the user, unlimited amount of natural gas to be placed into the storage, taking into account the amount of the capacity product available to the system user, and unlimited amount of natural gas to be withdrawn from the storage by providing the withdrawal of stocks stored with the capacity product.

The tariff for the bundled capacity product will be determined as the actual cost per unit of capacity, taking into account the revenues permitted by the system operator attributable to the unbundled capacity product. The detailed regulation regarding the permitted revenues that would be attributable to the bundled capacity product will be determined by making the planned amendments to the methodology for the calculation of natural gas storage service tariffs, which will, among other things, allocate the regulatory invoice balance to the tariff of the relevant capacity product.

**The two-year bundled capacity product** is a constant capacity product that provides the use of the bundled capacity product for two storage cycles. The draft Regulations stipulate that the storage capacity of 2 TWh is available for the reservation of the two-year bundled capacity product. This amount has been determined by taking into account the system operator's estimates that the optimal quantity of stocks at the end of the storage cycle would be 4 TWh, and the Inčukalns UGS technical properties - the smallest possible quantity of stocks in the aquifer storage at the end of the storage cycle ensures the greatest possible technical capacity of the storage facility in the next storage cycle which is especially important if the storage is used to varying degrees from cycle to cycle. This promotes the greatest possible technical capacity of the storage facility in the next storage cycle and avoids the situation when the stocks cannot be technically withdrawn in the next natural gas withdrawal season due to insufficient pressure difference between the storage facility and the natural gas transmission system. The tariff for the two-year bundled capacity product will be calculated in accordance with the methodology for the calculation of natural gas storage service tariffs.

**The interruptible capacity product** is an interruptible capacity product that includes the use of the storage capacity in the amount of the bundled capacity product available to the user, unlimited amount of natural gas to be injected into the storage, taking into account the amount of the current capacity product available to the system user, and unlimited amount of natural gas to be withdrawn from the storage by providing the withdrawal of stocks stored with the capacity product.

Reservation of the interruptible capacity product is planned for storage cycles when there is a low demand for the capacity of the Inčukalns UGS, and the product will be available for reservation in auctions starting no later than June 1, July 1 and August 1 of the relevant year. The tariff for the interruptible capacity product will be set by considering the need to cover the costs of the system operator to the greatest possible extent in the storage cycles with low capacity demand for the Inčukalns UGS. The tariff for the interruptible capacity product will be calculated in accordance with the methodology for the calculation of natural gas storage service tariffs.

The regulations for the 2020/2021 storage cycle stipulate that at the end of the storage cycle the existing stocks of the service user exceeding 5% of the total reserved capacity within the relevant product shall be carried over to the next storage cycle as a **stock transfer product**, which will be settled with the system operator in accordance with the stock transfer product tariff set for the next storage cycle.

Taking into account the above-mentioned technical characteristic of the Inčukalns UGS - a small quantity of stocks at the end of the storage cycle ensures the highest possible technical capacity of the storage in the next storage cycle, as well as efficient, safe and stable operation of the storage in the long run – the draft Regulations stipulate that regarding the quantity of stocks at the end of the storage cycle stored within the relevant capacity product the system user shall be deemed to have reserved the stock transfer product for the next storage cycle in the relevant stock quantity, which will be settled with the system operator in accordance with the stock transfer product tariff set for the next storage cycle.

The purpose of the stock transfer product is to stimulate the system users to withdraw as much natural gas as possible from the Inčukalns UGS by the end of the withdrawal season in order to ensure the sustainable operation of the storage facility. The tariff for the stock transfer product will be calculated in accordance with the methodology for the calculation of natural gas storage service tariffs.

Regarding the reservation of the **virtual reverse-flow product**, the draft Regulations specify a maximum reserve capacity of 27.7 GWh/day. Such capacity volume equals the nominal capacity of one reciprocating compressor unit. Above this capacity, the system operator should

stop both compressor units to ensure virtual reverse-flow capacity, because repeatedly switching the units off and on may adversely affect the natural gas injection process.

### Indicative size of the capacity product tariffs

To give an idea about the size of the tariffs for storage capacity products and to be able to compare them, the table below summarizes the relative values of the indicative tariffs for the storage capacity products.

Capacity product	Description of the size of indicative tariffs for the storage capacity products
<b>Bundled capacity product (BCP)</b>	The tariff shall be determined by taking into account the permitted revenues of the system operator attributable to the bundled capacity product, the determination of which shall consider, inter alia, the amount of the regulatory invoice.
<b>2-year bundled capacity product tariff (2BCP)</b>	$T_{2BCP} = T_{BCP} \times K_{2BCP} ,$ <p>where  <math>T_{2BCP}</math> – tariff for the two-year bundled capacity product (EUR/kWh/storage cycle);  <math>T_{BCP}</math> – tariff for the bundled capacity product (EUR/kWh/storage cycle);  <math>K_{2BCP}</math> – tariff modification coefficient, <math>K_{2BCP} &gt; 1</math>. The coefficient shall be determined by taking into account the advantages of the medium-term cost stability of the two-year bundled capacity product for system users.</p>
<b>Interruptible capacity product (ICP)</b>	$T_{ICP} = T_{BCP} \times K_{ICP} ,$ <p>where  <math>T_{ICP}</math> – tariff for the interruptible capacity product (EUR/kWh/storage cycle);  <math>T_{BCP}</math> – tariff for the bundled capacity product (EUR/kWh/storage cycle);  <math>K_{ICP}</math> – tariff modification coefficient, <math>K_{ICP} &lt; 1</math>. The coefficient shall be determined by taking into account the cost structure of the system operator, as well as the risks related to insufficient filling of the storage facility.</p>
<b>Stock transfer product (STP)</b>	$T_{STP} = \frac{I_{2BCPy-1}}{2} \times K_{STP} ,$ <p>where  <math>T_{STP}</math> – tariff for the stock transfer product (EUR/kWh/storage cycle);  <math>I_{2BCPy-1}</math> – the total revenue of the system operator from the two-year bundled capacity product per unit of the two-year bundled capacity product sold (taking into account the revenues from the tariff and the revenues from the auction premium) in the previous storage cycle (EUR/kWh/storage cycle);  <math>K_{STP}</math> – tariff modification coefficient, <math>K_{STP} &gt; 1</math>. The coefficient shall be determined by taking into account the need to promote effective use of the storage facility.</p>

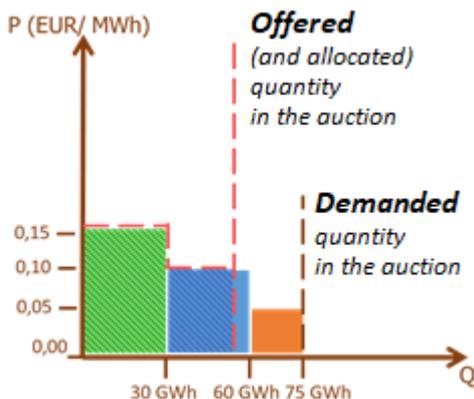
## Priority rights for injection capacity

The draft Regulations, compared to the Regulations, do not make changes to the storage congestion management measures - in case of storage congestion, natural gas injection or withdrawal capacity must be allocated in proportion to the storage capacity reserved by the system users.

The draft Regulations introduce a new type of storage service - priority rights for injection capacity. The purpose of the new service is to provide system users with a guaranteed amount of daily natural gas injection capacity to ensure continuous receipt of the storage service in case of storage congestion.

Priority rights for injection capacity will be available to the system users which have reserved constant capacity products, i.e. the bundled capacity product and the two-year bundled capacity product, and they will be offered for injection capacity corresponding to the capacity of one compressor providing natural gas injection. By acquiring priority rights for injection capacity, the system user, in addition to the already reserved constant capacity product, will gain a priority in the allocation of injection capacities in case of a physical congestion.

Priority rights for injection capacity shall be granted based on the principle of the "**pay-as-bid**" auction premium. To determine the amount of the storage injection capacity of the system user with priority rights and the premium, system users' bids shall be ranked according to the prices submitted in the bids (EUR/MWh) in the most advantageous order, ranking the bid with the highest price first until the amount of the storage capacity specified in the auction rules is reached. Bids whose submitted capacity volume exceeds the specified capacity volume after the bids have been ranked in the order of the most advantageous price shall be rejected. If the specified amount of the available storage capacity is exceeded in part, only the part exceeding that amount shall be rejected. The premium specified in the auction procedure is the price submitted in the bid of each system user whose bid was approved (see the figure below).



Capacity available for injection 52 GWh/day

- 1<sup>st</sup> user bids 0.15 EUR/MWh for 30 GWh/day
- 2<sup>nd</sup> user bids 0.10 EUR/MWh for 30 GWh/day
- 3<sup>rd</sup> user bids 0.05 EUR/MWh for 15 GWh/day

The available storage capacity is reached at the bid price of 0.10 EUR/MWh.

*The following bids are accepted:*

- 1<sup>st</sup> user's bid for 30 GWh/day (price of 0.15 EUR/MWh) and
- 2<sup>nd</sup> user's bid for 22 GWh/day (price of 0.10 EUR/MWh)

The system operator's revenues from the premium:

$$(30 \times 0.15) \times 30 \text{ days} + (22 \times 0.10) \times 30 \text{ days} = 6700 \times 30 \text{ days} = 201 \text{ thousand EUR}$$

The tariff for the priority rights for injection capacity will be calculated in accordance with the methodology for the calculation of natural gas storage service tariffs. In the opinion of the Regulator, the tariff for this product should be set at 0 EUR/kWh/day.

The system users' payments for the premiums of the priority rights for injection capacity will be credited by the system operator to **the regulatory invoice**, reducing the insufficient and excessive recovery of the storage service revenues.

**The Regulator invites stakeholders, in particular the users of the Inčukalns UGS, to express their opinion on the types of auctions proposed by the Regulator for reserving storage capacity products and granting priority rights for injection capacity, indicating which type of auction – an auction based on the principle of the “last accepted bid” premium, an auction based on the principle of the “optimised last accepted bid” premium or an auction based on the principle of the “pay-as-bid” premium – is the most appropriate type of auction to reserve constant capacity products, interruptible capacity products and to grant the priority rights for injection capacity.**

## **2) Institutions involved in the development of the draft**

The draft Regulations have been developed in cooperation with the combined natural gas transmission and storage system operator JSC Conexus Baltic Grid.

## **3) Public target groups which are or could be affected by the regulatory framework**

The regulatory framework included in the draft Regulations will affect the users of the Inčukalns UGS, as well as the combined natural gas transmission and storage system operator.

Chairman

R. Irklis

THE DOCUMENT WAS SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

## Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility

*Issued pursuant to Article 15(7)  
of the Energy Law*

### I. General Provisions

1. The Regulations prescribe:
  - 1.1. the procedure for the use of the Inčukalns Underground Gas Storage Facility (hereinafter – the storage facility);
  - 1.2. the procedure for receipt of the storage service;
  - 1.3. the rights, obligations and liability of the combined natural gas transmission and storage system operator (hereinafter – the system operator) and the natural gas storage system user (hereinafter – the system user);
  - 1.4. the procedure for the exchange of information between the system operator and the system user;
  - 1.5. the procedure for the interruption and restriction of the storage service;
  - 1.6. the procedure by which a person submits an application for the acquisition of the right to use the storage facility and by which the storage service contract is concluded;
  - 1.7. the procedure by which the system operator is entitled to request a collateral for the fulfilment of obligations and the amount of the collateral.
2. The following terms are used in the Regulations:
  - 2.1. **working day** - any day from Monday to Friday, which is not designated as a public holiday in the Republic of Latvia, and a working day that has been transferred on the basis of Article 133 of the Labour Law;
  - 2.2. **fuel gas** – the natural gas quantity required for the operation of natural gas compression units to ensure the injection of natural gas into the storage facility;
  - 2.3. **capacity product** - the storage service offered by the system operator in accordance with the types of the capacity product specified in Annex 2 to these Regulations;
  - 2.4. **stocks** – the natural gas quantity stored in the storage facility under a storage service contract;
  - 2.5. **storage cycle** - the time period from the start of the season for the natural gas injection into the storage facility until the end of the season for the natural gas withdrawal from the storage facility;
  - 2.6. **unused storage capacity** - the part of the technical storage capacity reserved by the system users and not used for the storage of stocks;
  - 2.7. **available storage capacity** - the part of the technical capacity of the storage that has not been allocated and is available at the relevant time to the system users for reservation, taking into account the integrity of the storage facility and the requirements for the storage management;

- 2.8. **technical storage capacity** - the ability of the storage facility to ensure the maximum quantity of natural gas stored in the storage facility which the system operator can offer to the system users;
  - 2.9. **applicant** – a person which submits to the system operator an application for the right to use the storage;
  - 2.10. **reverse-flow capacity** – the natural gas transmission system capacity for the direction opposite to the flow of the actual technological mode of the storage facility available to the system users for reservation;
  - 2.11. **trade notification** - the system user’s notification to the system operator in accordance with the standard communication protocol regarding the transfer of the quantity of natural gas from the storage facility to the natural gas transmission system or from the natural gas transmission system to the storage facility;
  - 2.12. **storage service contract** - a contract concluded between the system operator and the system user on the basis of which the system operator provides a storage service to the system user.
- 3. The system operator shall provide a storage service which is compatible with the use of the natural gas transmission system, ensuring equal and non-discriminatory treatment of the system users. To ensure efficient and secure provision of storage services, the system operator has the right to request and receive from the system user the information that the system operator needs to perform the activities specified in these Regulations.
  - 5. Upon communication with the system operator in the cases provided in these Regulations, the system user shall submit information and documents to the system operator either in Latvian or in English. The electronically sent documents specified in these Regulations should be signed with a secure electronic signature, unless agreed otherwise between the system operator and the system user. The system user is obliged to follow the procedure for the use of the storage facility stipulated in these Regulations and in the storage service contract, follow the system operator’s instructions for the receipt of the storage service, provide to the system operator the information required for the receipt of the storage service, as well as not to use the storage service in a way that limits, distorts or prevents competition, for example, through hidden capacity accumulation.

## **II.Publication of Storage Information**

- 7. The system operator shall publish on its website the forecast of the technical capacity of the storage facility for the next storage cycle by 4 November each year.
- 8. The system operator shall publish on its website the provisional available storage capacity, including the provisional available storage capacity for the reservation of the bundled capacity product and the interruptible capacity product and the provisional available storage capacity for the reservation of the two-year bundled capacity product in the following order:
  - 8.1. the first notice regarding the next storage cycle shall be published no later than one working day before the commencement of the storage capacity reservation for the next storage cycle;
  - 8.2. thereafter, by 30 April, a notice regarding the next storage cycle shall be published every day by 13:00;
  - 8.3. from 1 May until the date of publication of the technical capacity of the storage facility and the available capacity of the storage facility for the current storage cycle in accordance with paragraph 9 of these Regulations, a notice regarding the current storage cycle shall be published every day by 13:00.

9. The system operator shall publish on its website the technical capacity of the storage facility and the available capacity of the storage facility for the existing storage cycle, including the available capacity of the storage facility for the reservation of the bundled capacity product and the interruptible capacity product and the available capacity of the storage facility for the reservation of the two-year bundled capacity product by 21 May each year. The available storage capacity for the current storage cycle shall be calculated by the system operator as a difference between the technical capacity of the storage facility and the storage capacity reserved by the system users for the existing storage cycle.
10. The system operator shall publish on its website the following information regarding the current storage cycle every day by 13.00:
  - 10.1. technical capacity of the storage facility (kWh);
  - 10.2. stocks (kWh);
  - 10.3. the available capacity of the storage facility, including the available capacity of the storage facility for the reservation of the bundled capacity product and the interruptible capacity product and the available capacity of the storage facility for the reservation of the two-year bundled capacity product (kWh);
  - 10.4. unused storage capacity (kWh);
  - 10.5. reverse-flow capacity on gas day D (kWh);
  - 10.6. the maximum quantity of natural gas which can be placed into the storage or withdrawn from the storage on gas day D.
11. The natural gas injection season of the storage cycle shall begin on 1 May of the relevant year and end on 14 October of the relevant year. The natural gas withdrawal season of the storage cycle shall begin on 15 October of the relevant year and end on 30 April of the following year.

### **III. Procedure for the Conclusion of the Storage Service Contract**

12. The applicant shall submit to the system operator an application for acquiring the right to use the storage facility (Annex 1). The applicant shall append the following documents to the application:
  - 12.1. a document that proves that the applicant has registered for commercial activity pursuant to the national laws and regulations;
  - 12.2. a proof of representation, if the application is submitted by an authorised representative of the applicant;
  - 12.3. a document that has been issued no earlier than one month before the date of submission and proves that the applicant is not under insolvency proceedings, the applicant's economic activity is not suspended, and the applicant is not under liquidation;
  - 12.4. the annual report for the previous three years (or the actual operation period, taking into account the time of the establishment or beginning of operation of the applicant on which the annual report is to be submitted) or an equivalent document proving the applicant's economic and financial position under the laws and regulations of the relevant country;
  - 12.5. information on the identification code assigned to the applicant in accordance with

the Energy Identification Code Scheme;

- 12.6. information on the applicant's credit rating awarded by a well-known credit agency or rating agency (not required if it is planned to provide a collateral in accordance with Chapter X of these Regulations).
13. If the information in the documents specified in paragraph 12 of these Regulations is available in Latvian or English free of charge in an official gazette or a public register, the applicant is entitled to not submit the relevant documents, specifying in its application the website where the relevant information is available.
14. If along with an application for the right to use the storage facility the applicant submits an application for the right to use the natural gas transmission system (pursuant to the regulations on the use of the natural gas transmission system), the documents listed in paragraph 12 of these Regulations are not required unless they differ for each application.
15. The system operator shall review the application and the attached documents thereto referred to in paragraph 12 of these Regulations within five working days from the date of receipt and, if necessary, is entitled to request the applicant to submit the missing documents or additional information.
16. If the system operator has requested the applicant to submit additional information or documents, the applicant shall submit them within ten working days from the day of dispatch of the request. If the applicant fails to submit the additional information or documents within the given deadline, the applicant shall be deemed to have withdrawn its application.
17. The applicant may submit the documents and additional information referred to in paragraphs 12 and 15 of these Regulations to the system operator electronically.
18. If the applicant has submitted all the documents and additional information referred to in paragraphs 12 and 15 of these Regulations, the system operator shall within five working days from the day of receipt of all the documents and additional information prepare the natural gas storage service contract and send it to the applicant. The system operator shall publish a sample natural gas storage service contract on its website.
19. The applicant shall submit to the system operator a signed storage service contract in two copies within ten working days from the day of the dispatch of the storage service contract. If the applicant has not submitted to the system operator a signed storage service contract within ten working days from the day of the dispatch of the storage service contract, the applicant shall be deemed to have withdrawn its application.
20. The system operator shall sign the storage service contract within three working days after the receipt of the storage service contract signed by the applicant and send one copy to the applicant.
21. The system operator shall notify the applicant of the refusal to conclude the storage service contract by sending a notice to the e-mail address indicated in the application within one working day after the review of the application. The system operator shall send a motivated refusal to conclude the storage service contract in writing to the postal address indicated in the application within the deadline specified in the Law On Regulators of Public Utilities.

#### **IV.Procedure for the Reservation of the Storage Capacity Product**

22. In order to ensure the reservation of the storage capacity for the system users, the system operator shall, within the deadlines specified in Annex 2 to these Regulations, offer system

- users the capacity products and the priority rights for injection capacity specified in Annex 2 to these Regulations.
23. The system user shall reserve the capacity product and the priority rights for injection capacity in accordance with the reservation method specified in Annex 2 to these Regulations.
  24. If the storage capacity reservation method specified in Annex 2 to these Regulations is an auction procedure:
    - 24.1. the system operator shall publish the storage capacity auction regulations, which have been agreed with the Regulator, on its website not later than five working days before the auction start time specified in the auction regulations;
    - 24.2. the system operator shall inform the system user regarding the amount of the storage capacity allocated within the relevant capacity product and the premium applicable thereto by sending an appropriate notification to the system user electronically within three working days after the end of the storage capacity auction procedure;
    - 24.3. upon the receipt of the capacity product allocation notification, the system user is obliged to pay the system operator for the allocated capacity product according to the procedure specified in these Regulations, the storage service contract and the auction regulations in accordance with storage service tariffs and the premium specified in the capacity product allocation notification.
  25. If the storage capacity reservation method specified in Annex 2 to these Regulations is a different procedure from the auction procedure:
    - 25.1. the system operator shall inform the system user regarding the amount of the storage capacity allocated within the relevant capacity product not later than within one hour after the receipt of the trade notification or the deadline specified in sub-paragraph 4.2 of Annex 2 to these Regulations by sending an appropriate notification to the system user electronically;
    - 25.2. upon the receipt of the capacity product allocation notification, the system user is obliged to pay the system operator for the allocated capacity product according to the procedure specified in these Regulations and the storage service contract in accordance with the storage service tariffs.
  26. Priority rights for injection capacity shall be reserved in accordance with sub-paragraph 6.2 of Annex 2 to these Regulations, under the following conditions:
    - 26.1. the system operator shall publish the auction regulations for the priority rights for injection capacity, which have been agreed with the Regulator, on its website not later than five working days before the start time of the auction specified in sub-paragraph 6.1 of Annex 2 to these Regulations;
    - 26.2. the system operator shall inform the system user regarding the amount of the injection capacity for which priority rights have been granted and the premium applicable thereto within one day by sending an appropriate notification to the system user electronically after the end of the auction procedure for priority rights for injection capacity;
    - 26.3. upon the receipt of the notification about the allocation of priority rights for injection capacity, the system user is obliged to pay the system operator for the allocated priority rights for injection capacity according to the procedure specified in these Regulations,

the storage service contract and the auction regulations in accordance with the tariff for the priority rights for injection capacity and the premium specified in the notification about the allocation of the priority rights for injection capacity.

27. After the allocation of the capacity product, the system operator shall not be obliged to cancel the storage capacity reservation upon the request of the system user.
28. Upon the request of the system operator, the system user shall submit within 24 hours:
  - 28.1. the schedule of injection of the natural gas quantity indicating the estimated natural gas quantity to be injected in each gas month of the injection season - the average minimum and maximum natural gas injection quantity per gas day D;
  - 28.2. the schedule of withdrawal of the natural gas quantity indicating the estimated natural gas quantity to be withdrawn in each gas month of the withdrawal season - the average minimum and maximum natural gas withdrawal quantity per gas day D.
29. The system user's stocks at the end of the storage cycle shall be transferred to the next storage cycle in accordance with the stock transfer procedure for the relevant capacity product specified in Annex 2 to these Regulations.

#### **V. Use of the Storage Capacity Product**

30. The system user shall use the capacity products reserved according to the procedure specified in Chapter IV of these Regulations in accordance with the procedure for the use of the relevant capacity product specified in Annex 2 to these Regulations.
31. The system operator shall publish on its website a schedule of the quantity of natural gas available for placement into the storage and withdrawal from the storage for the current storage cycle and it shall be updated within one hour after the processing of trade notifications of new system users.
32. The system user which has reserved a capacity product and wishes to place a certain quantity of natural gas into the storage or withdraw it from the storage in the current storage cycle shall submit a trade notification to the system operator within the deadlines for the submission of nomination and re-nomination specified in the Regulations Regarding the Use of Natural Gas Transmission System and in accordance with the standard communication protocol by indicating the appropriate capacity product code.
33. The system user may submit trade notifications for the placement of natural gas into the storage facility in the amount of unused storage capacity at the disposal of the system user and for the withdrawal of natural gas from the storage system in the quantity of the system user's stocks stored within the capacity product specified in the trade notification. If the quantity of natural gas specified in the system user's trade notification exceeds the unused storage capacity or the quantity of stocks at the disposal of the system user, the system operator shall apply the rule of the smallest quantity of natural gas.
34. The storage capacity indicated in the system user's trade notification for the placement of the quantity of natural gas or its withdrawal from the storage facility shall not be used for other activities specified in these Regulations until the execution of the trade notification. The quantity of natural gas specified in the system user's trade notification for the withdrawal of the quantity of natural gas from the storage facility shall not be used for other activities specified in these Regulations until the execution of the trade notification.
35. The system operator shall evaluate the received trade notifications in accordance with the

schedule specified in paragraph 31 of these Regulations, taking into account whether the capacity product is offered with constant or interruptible capacity in accordance with Annex 2 to these Regulations and the order of receipt of trade notifications.

36. After processing the trade notification submitted by the system user using the standard communication protocol, the system operator shall send a confirmation to the system user regarding the quantity of natural gas to be placed into the storage facility or withdrawn from the storage facility, but in case of congestion, if necessary, using the standard communication protocol, inform the system user of changes in the storage facility or the quantity of natural gas to be placed into or withdrawn from the storage facility.
37. The system user may correct the already approved quantity of natural gas to be placed into the storage facility or withdrawn from the storage facility for gas day D until 17:00 of the next day in the following cases:
  - 37.1. the system user performs the transportation of natural gas as a non-Union commodity, and the correction is necessary so that the quantity of natural gas placed into or withdrawn from the storage facility corresponds to the quantity of natural gas transmitted as a non-Union commodity in the natural gas transmission system;
  - 37.2. if an adjustment is made to the allocation determined at the entry or exit point of the natural gas transmission system, except for the exit point for the supply of natural gas to Latvian users. It is possible to correct the quantity of natural gas to be placed into or withdrawn from the storage facility in the amount by which the formation of an imbalance in the natural gas transmission system is prevented for the system user.
38. The system user shall allocate the stocks among the capacity products at the disposal of the system user in accordance with the stock transfer procedure specified in Annex 2 to these Regulations by submitting an application to the system operator regarding the application of the capacity product to the stocks in accordance with the application form published on the system operator's website. The system operator shall electronically inform the system user no later than by 17:00 of the gas day D+1 about the approved or rejected changes in the capacity products applied to the system user's stocks on the gas day D.

## **VI. Procedure for the Transfer of the Capacity Product and Natural Gas Placed into the Storage Facility**

39. The system user, in agreement with another system user, is entitled to transfer its capacity product or natural gas placed into the storage facility to another system user. When transferring its natural gas placed into the storage facility, the system user shall comply with the procedure for the transfer of stocks stored within the relevant capacity product specified in Annex 2 to these Regulations.
40. The system user which transfers its capacity product or natural gas placed into the storage facility and the system user which receives the relevant capacity product or natural gas placed into the storage facility shall inform the system operator in accordance with the standard communication protocol by submitting the following information to the system operator:
  - 40.1. the type of the capacity product in accordance with Annex 2 to these Regulations;
  - 40.2. the quantity of the transferred natural gas (kWh) or the quantity of the transferred capacity product (kWh/storage cycle);

- 40.3. the commencement of the use of the transferred natural gas or capacity product;
- 40.4. Energy Identification Codes of both system users.
41. If the applications of the system users regarding the transfer of natural gas, which is a European Union commodity, placed into the storage facility or the transfer of the capacity products reserved by the system user are received by 15:00 (13:00 UTC during the winter period and 12:00 UTC during the summer period), the system operator shall confirm the transaction by 17:00 (15:00 UTC during the winter period and 14:00 UTC during the summer period) according to the standard communication protocol.
42. If the applications of the system users regarding the transfer of natural gas, which is a European Union commodity, placed into the storage facility or the transfer of the capacity products reserved by the system user are received after 15:00 (13:00 UTC during the winter period and 12:00 UTC during the summer period), the system operator shall confirm the transaction by 17:00 on the next day (15:00 UTC during the winter period and 14:00 UTC during the summer period) according to the standard communication protocol.
43. Natural gas or capacity product shall be available for use by the system user to whom they are transferred on the next day after receipt of the transaction confirmation of the system operator.
44. An application for the transfer of natural gas, which is not a commodity of the European Union, placed into the storage facility shall be submitted by the system users, which are parties to the transaction, to the system operator only for natural gas for which customs procedures have been completed.
45. Upon the transfer of its capacity product, the system user shall transfer the right to use the capacity product to the other system user. During the term of the use of the capacity product, the obligations towards the system operator, including the obligation to pay for the reserved capacity product, shall be incumbent on the system user who originally reserved the capacity product.
46. As soon as the transaction is confirmed, the system user having received the relevant storage capacity or natural gas quantity shall become entitled to use it.
47. The system operator shall refuse to confirm the transfer of natural gas placed into the storage facility or capacity product to another system user if:
- 47.1. information on the conclusion of the transaction is received only from one system user (one transaction party);
  - 47.2. the information submitted by the system users does not match or is incomplete;
  - 47.3. the transaction party receiving natural gas has not reserved a capacity product in the appropriate quantity.
48. The system operator shall electronically notify both transaction parties of refusal to confirm the transaction within two hours after the receipt of the applications specified in paragraphs 41 and 42 of these Regulations and within three days after the receipt of the applications specified in paragraph 44 of these Regulations.

## **VII.Procedure for the Determination of the Natural Gas Quantity**

49. The system operator shall determine the placed natural gas quantity, the withdrawn natural gas quantity and the stock quantity for the system user for each gas day D.

50. The natural gas quantity placed into the storage facility on a gas day D shall be determined by the following formula:

$$Q_{\text{nov } D} = Q_{\text{piešk } D} - Q_{\text{deg}D} ,$$

where

$Q_{\text{nov } D}$  – the natural gas quantity placed into the storage facility on the relevant gas day D (kWh);

$Q_{\text{piešk } D}$  – the natural gas quantity allocated to the system user for placement into the storage facility on the relevant gas day D (kWh);

$Q_{\text{deg } D}$  – the fuel gas quantity to ensure the process of injection of the system user's natural gas (kWh) on the relevant gas day D. If the system user's natural gas is injected using the virtual reverse-flow, the fuel gas quantity shall be zero.

51. The system user shall provide at its own expense the quantity of fuel gas necessary for the operation of natural gas pumping units in accordance with the fuel gas consumption coefficient specified by the system operator. The system operator shall publish on its website the fuel gas consumption coefficient and the methodology to determine the coefficient at least one month before the start of the injection season.
52. The quantity of natural gas withdrawn from the storage facility on gas day D shall be equal to the quantity of natural gas allocated to the system user for withdrawal from the storage facility on the relevant gas day D.
53. The system user's stock quantity on gas day D shall be determined by the following formula:

$$Q_{\text{kr } D} = Q_{\text{kr } D-1} + Q_{\text{nov}D} - Q_{\text{izņ } D} ,$$

where

$Q_{\text{kr } D}$  – the system user's stock quantity on gas day D (kWh);

$Q_{\text{kr } D-1}$  – the system user's stock quantity on gas day D-1 (kWh);

$Q_{\text{izņ } D}$  – the natural gas quantity withdrawn from the storage facility by the system user on gas day D (kWh).

54. Every day by 14:00 (12:00 UTC during the winter period and 11:00 UTC during the summer period) the system operator, using a standard communication protocol, shall inform the system user of the natural gas quantity placed into the storage, withdrawn from the storage, transferred to another system user or received from another system user on gas day D-1, and of the stock quantity at the beginning of the gas day.
55. Within 14 days after the end of the injection season, the system operator shall determine the actual fuel gas consumption for the provision of the natural gas injection process.
56. If the amount of fuel gas consumed by the system operator to ensure the natural gas injection process is less than the quantity received from the system user during the injection season, the system operator shall return the unused fuel gas to the system user in proportion to the quantity actually injected during the injection season.
57. If the system user does not have the storage capacity product in the appropriate amount when the system operator returns the unused fuel gas to the system user, the system operator shall store this quantity of fuel gas free of charge until the system user has sufficient storage capacity to place this quantity of fuel gas.

58. If the quantity of fuel gas consumed by the system operator during the injection season is greater than the quantity of fuel gas delivered by the system users during the injection season, no additional settlements shall be made between the system users and the system operator.

### **VIII. Congestion Management of the Storage Facility**

59. If the system operator detects a physical capacity congestion by 15:00 on the gas day D-1:
- 59.1. during the withdrawal of natural gas from the storage facility, the system operator shall, within the framework of congestion management, allocate the natural gas withdrawal capacity among the system users by prioritising the bundled capacity product and the two-year bundled capacity product and in proportion to their reserved storage capacity, first providing the system user which supplies natural gas to protected customers and only in the amount natural gas to be provided to protected customers;
  - 59.2. during the natural gas injection into the storage facility, the system operator shall, within the framework of congestion management, allocate the natural gas injection capacity among the system users by prioritising the bundled capacity product and the two-year bundled capacity product within the available capacity and in proportion to their reserved available storage capacity.
60. If the system operator detects a physical capacity congestion after 15:00 on the gas day D-1:
- 60.1. during the withdrawal of natural gas from the storage facility, the system operator shall, within the framework of congestion management, allocate the natural gas withdrawal capacity among the system users in the order of receipt of trade notifications and by prioritising the bundled capacity product and the two-year bundled capacity product indicated in the trade notification, first providing the system user which supplies natural gas to protected customers and only in the amount of natural gas to be provided to protected customers;
  - 60.2. during the natural gas injection into the storage facility, the system operator shall, within the framework of the capacity and congestion management available for placement of the natural gas for storage, allocate the natural gas injection capacity among the system users in the order of receipt of trade notifications by prioritising the bundled capacity product and the two-year bundled capacity product.

### **IX. Interruption or Restriction of the Storage Service**

61. The system operator has the right restrict or interrupt the injection of natural gas into the storage facility or withdrawal from the storage facility without a prior warning to the system users in the following cases:
- 61.1. there is damage in the natural gas transmission system or the storage facility that may cause an accident or emergency situation, or an accident has occurred or an emergency situation has developed;
  - 61.2. an energy crisis has been declared in accordance with the Energy Law;
  - 61.3. there are deviations from the normal operating mode in the natural gas transmission system or the physio-chemical properties of the natural gas do not comply with the natural gas quality characteristics specified by the Cabinet of

- Ministers and the system operator has requested to stop the natural gas injection into the storage facility or withdrawal from the storage facility;
- 61.4. the pressure of the natural gas flow does not correspond to the pressure necessary for the provision of the storage service;
  - 61.5. it is necessary to perform urgent repair work in order to eliminate damage or consequences of an accident or to prevent an emergency situation in the natural gas transmission system or storage facility;
  - 61.6. it is necessary to perform technical maintenance, repair, connection, disconnection or dismantling measures, and such work cannot be performed without restricting or interrupting the injection of natural gas into the storage facility or the withdrawal from the storage facility.
62. In the cases specified in paragraph 61 of these Regulations, the system operator shall immediately, as soon as possible, but not later than within 24 hours, publish a notice and indicate the publishing time thereof on the system operator's website regarding the reasons for the interruption or restriction of natural gas injection into the storage facility or withdrawal from the storage facility and the estimated time for the renewal of natural gas injection into the storage facility or withdrawal from the storage facility, at the same time sending an appropriate electronic notification to the system users and the Regulator.
  63. The system operator may, in compliance with the provisions of this Chapter, reduce the quantity of natural gas injected into and withdrawn from the storage facility for a period of maintenance, service and renovation works at the storage facility (hereinafter – maintenance works). The system operator shall carry out the maintenance works so as to minimise hindrance to the use of the storage facility and reduction of the natural gas injection and withdrawal capacity.
  64. Every year by September 1 the system operator shall publish on its website information on the planned maintenance works, their description, possible duration and changes in the natural gas quantity that may be placed into or withdrawn from the storage facility for the period from October 1 of the relevant year up to September 30 of the next year. The system operator shall update the published information depending on the course of the maintenance works.
  65. If the maintenance works affect the amount of natural gas that can be placed into or withdrawn from the storage, the system operator shall inform the system users not later than 42 days before the planned maintenance works, electronically sending information to the system users on the amount, duration and changes in the quantity of natural gas; which can be stored or withdrawn from the storage facility.
  66. Regarding the performance of unscheduled maintenance works that may affect the capacity of natural gas injection into and withdrawal from the storage facility, the system operator shall inform the system users and the Regulator electronically as soon as possible, but not later than by 18:00 (16:00 UTC during the winter period and 15:00 UTC during the summer period) of the previous day before performing the unscheduled maintenance works, also indicating the quantity of natural gas available for placement into and withdrawal from the storage facility on that gas day.
  67. During the injection season specified in paragraph 11 of these Regulations, the system operator may make a transition from the injection mode to the withdrawal mode due to unplanned repairs to the natural gas transmission system or the adjacent natural gas transmission system. The system operator shall publish the relevant notice on its website

immediately, but not later than 24 hours before the change of the operating mode of the storage facility, indicating the time of publication, at the same time informing the system users and the Regulator about the change of the operating mode of the storage facility.

68. The system operator is not obliged to extend the natural gas injection or withdrawal season if the system operator has suspended the injection of natural gas into the storage facility or withdrawal from the storage facility in cases specified in paragraph 63 of these Regulations or due to unplanned storage maintenance.
69. The system operator shall not indemnify the system user for losses incurred in cases specified in paragraphs 61 and 64 of these Regulations, as well as when the planned maintenance works are performed within deadlines published in accordance with paragraphs 66 and 67 of these Regulations.

### **X. Collateral for the fulfilment of obligations**

70. The system operator shall evaluate the information specified in sub-paragraph 12.6 of these Regulations in order to determine the necessity to request the applicant to submit a collateral for the fulfilment of obligations (a security deposit, a guarantee of the financial service provider or related merchant which meets the criteria specified in paragraph 73 of these Regulations) before concluding a storage service contract or during its duration.
71. After the first full calendar year from the conclusion of the storage service contract until 1 May and 15 October of the relevant year, the system user shall submit to the system operator updated information regarding the credit rating of the system user. The system user is obliged to immediately inform the system operator about any changes in the system user's credit rating. The system operator is entitled to request the system user to submit updated information on the system user's credit rating.
72. During the conclusion of a storage service contract or its duration, the system operator is entitled to request the system user to submit a collateral for the fulfilment of obligations (a security deposit, a guarantee of the financial service provider or related merchant which meets the criteria specified in paragraph 73 of these Regulations) to cover claims arising from the storage service contract if:
  - 72.1. the system operator has grounds to believe that the system user is unable or will not be able to fully or partially cover the obligations arising from the storage service contract;
  - 72.2. the system user is under insolvency or liquidation proceedings;
  - 72.3. the system user does not have an appropriate credit rating pursuant to the criteria set out in paragraph 73 of these Regulations;
  - 72.4. the system user has twice delayed the payments specified in the storage service contract within twelve months.
73. The system user's credit rating shall be deemed appropriate if it complies with at least one of the following criteria:
  - 73.1. a long-term rating of BBB- or higher under Standard & Poor's;
  - 73.2. a long-term rating of BBB- or higher under Fitch Ratings;
  - 73.3. a long-term rating of Baa3 or higher under Moody's;

- 73.4. a risk class rating of II or higher under Creditreform, or equivalent rating of another well-known credit agency or rating agency and the amount of credit specified in the rating statement issued to the system user, shall correspond to or exceed the amount of the collateral specified in paragraph 78 of these Regulations.
74. If the system user or related merchant does not agree with the system operator's finding regarding non-compliance of the credit rating of the system user or related merchant, the system user or related merchant may submit appropriate evidence within five working days to objectively assess the creditworthiness of the system user. The system user may choose one or more types of the collateral for the fulfilment of obligations (a security deposit, a guarantee of the financial service provider or related merchant which meets the criteria specified in paragraph 73 of these Regulations).
75. The system user shall submit the collateral to the system operator within seven working days from the day of receipt of the system operator's request.
76. The system operator shall recognize a guarantee as an adequate collateral for the fulfilment of obligations if it complies with the following conditions:
- 76.1. the guarantee has been issued by a financial service provider with a long-term foreign currency credit rating of at least Baa1 according to Moodys's or BBB + according to Standard & Poor's or BBB + according to Fitch Ratings. Where a financial service provider or group of financial service providers has been assigned a long-term borrowing rating by at least one credit rating agency referred to in this paragraph, the guarantee issued by such financial service provider or group thereof shall be deemed to be appropriate;
- 76.2. the guarantee has been issued by a related merchant whose credit rating complies with paragraph 73 of these Regulations;
- 76.3. it is an irrevocable first demand guarantee.
77. The collateral for the fulfilment of obligations shall be valid for the entire term of the storage service contract if the system operator has requested a collateral from the system user.
78. The amount of the collateral shall be determined and applied by the system operator in the amount of a two-month fee per storage cycle for the capacity products reserved by the system user in each storage cycle.
79. If the system user's obligations under the storage service contract exceed the amount for which the collateral has been submitted, the system operator has the right to request the system user to increase the amount of the collateral and submit a collateral that complies with the conditions of paragraph 78 of these Regulations to the system operator within seven days.
80. Upon the termination of the storage service contract, the system operator shall refund the amount of the collateral, which has not been used to cover the system user's outstanding obligations, to the system user within five working days or return the submitted original of the guarantee to the financial service provider or related merchant whose credit rating complies with paragraph 73 of these Regulations.

## **XI.Final Provisions**

81. The system operator shall evaluate the applications for the acquisition of the rights to use the storage facility, which have been submitted to the system operator before the date of entry into force of these Regulations, and conclude a storage service contract in accordance with these Regulations.
82. For a system user which has a storage service contract in force on the date of entry into force of these Regulations, the contract shall be in force in so far as it does not contradict these Regulations. If the terms of a storage service contract concluded before the date of entry into force of these Regulations contradict these Regulations, these Regulations shall apply.
83. At the end of the 2020/2021 storage cycle of the system user within the capacity product, the period of use of which expires, the existing stocks shall be transferred to the next storage cycle as follows:
  - 83.1. regarding the stocks at the end of the storage cycle not exceeding 5% of the total reserved capacity within the bundled capacity product and the two-year bundled capacity product, the system user shall be deemed to have reserved the relevant capacity product for the next storage cycle in the relevant stock quantity to be settled with the system operator in accordance with the tariff for the relevant capacity product set for the next storage cycle;
  - 83.2. regarding the stocks at the end of the storage cycle not exceeding 5% of the total reserved capacity within the market product, the system user shall be deemed to have reserved the interruptible capacity product for the next storage cycle in the relevant stock quantity to be settled with the system operator in accordance with the tariff for the interruptible capacity product set for the next storage cycle;
  - 83.3. regarding the stocks at the end of the storage cycle in excess of 5% of the total reserved capacity within the relevant capacity product, the system user shall be deemed to have reserved the stock transfer product for the next storage cycle in the relevant stock quantity to be settled with the system operator in accordance with the tariff for stock transfer product set for the next storage cycle.
84. Decision No. 1/10 of the Public Utilities Commission of 28 March 2018 “Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility” (Latvijas Vēstnesis, 2018, No. 105) is repealed.
85. The Regulations shall enter into force on 1 September 2020.

Chairman

R. Irklis

**Application for the Right to Use the Inčukalns Underground Gas Storage Facility**

\_\_\_\_\_, 20 \_\_\_\_  
No \_\_\_\_\_

Addressee: \_\_\_\_\_, unified registration No \_\_\_\_\_,  
*/name of the storage operator/*  
Registered office: \_\_\_\_\_

Applicant: \_\_\_\_\_  
*/name/*  
EIC\*  
Registered office:  
Telephone number:  
E-mail address:  
Fax number:  
Bank details:  
VAT registration  
number:

Note

\* To be specified if the applicant has been given an EIC.

I hereby request the right to use the Inčukalns Underground Gas Storage Facility and to conclude a storage service contract under the Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility (hereinafter – the Regulations Regarding the Use of the Storage).

**Information about the representative**

	Name, surname	Position	Phone, e-mail address, fax
The person authorised to represent the applicant and to conclude a storage service contract			

	Phone	E-mail
Contact details which the storage operator may use at any time for communication with the storage user		

### Appended documents

1.  A document that proves that the applicant has registered for commercial activity pursuant to the laws and regulations of the relevant country.  
\* \_\_\_\_\_
2.  A proof of representation if the application is signed by a person who is not a member of the applicant's administrative body.  
\* \_\_\_\_\_
3.  A document that proves that the applicant is not under insolvency proceedings, the applicant's economic activity has not been suspended, and the applicant is not under liquidation.  
\* \_\_\_\_\_
4.  The annual report for the previous three years (or the actual operation period, taking into account the time of establishment or beginning of operation of the applicant on which the annual report is to be submitted) or an equivalent document proving the applicant's economic and financial position in accordance with the regulatory acts of the relevant country.  
\* \_\_\_\_\_
5.  Information about the applicant's credit rating granted by a well-known credit agency or rating agency.  
\* \_\_\_\_\_

(please mark with "x" as appropriate)

\* If the document is available in an official publication or a public register of the country, the website shall be specified.

The applicant confirms that he/she has acquainted himself/herself with the Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility.

The applicant confirms that he/she undertakes to submit a collateral (a security deposit or a guarantee by a financial service provider) at the storage operator's request.

### Contact details of the person submitting the application

\_\_\_\_\_  
(name, surname)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(position)

\_\_\_\_\_  
(phone, e-mail, fax)

Receipt of the application (to be completed by the storage operator)

Registration number

Registration date

Chairman

R. Irklis

## **The Capacity Products of the Inčukalns Underground Gas Storage and Priority Rights for Injection Capacity, the Procedure for Reservation and Use Thereof**

### **1. Bundled capacity product (product code IPGK1YP)**

- 1.1. Storage capacity reservation time:
  - 1.1.1. for the next storage cycle - in accordance with the notification of the system operator regarding the auction of storage capacity, but not later than 15 March of the relevant year;
  - 1.1.2. for the existing storage cycle - on the second working day after the day of publication of the technical capacity of the storage facility and the available capacity of the storage facility for the existing storage cycle in accordance with paragraph 9 of these Regulations.
- 1.2. Type of storage capacity reservation: auction procedure.
- 1.3. Auction procedure used to reserve the capacity product: auction based on the principle of the 'last accepted bid' premium.
- 1.4. Storage capacity available for reservation: unlimited amount within the available capacity of the storage facility.
- 1.5. Procedure for the allocation of storage capacity: in accordance with paragraph 24 of these Regulations.
- 1.6. The duration of use of the capacity product: one storage cycle.
- 1.7. The capacity product includes:
  - 1.7.1. the use of storage capacity in the amount of the bundled capacity product at the disposal of the user;
  - 1.7.2. placement of natural gas into the storage facility: unlimited amount, ensuring placement of stocks in a quantity that can be stored with the available product;
  - 1.7.3. withdrawal of natural gas from the storage facility: unlimited amount, ensuring withdrawal of stocks stored with the product;
  - 1.7.4. the use of virtual reverse-flow to use the storage capacity up to the amount of capacity available to the user: free of charge.
- 1.8. Injection of natural gas for storage in the storage facility and withdrawal of natural gas from the storage facility: constant capacity product.
- 1.9. The transfer of stocks in a storage facility: within a standard bundled capacity product and a two-year bundled capacity product.
- 1.10. Payment for the capacity product: in accordance with paragraph 24 of these Regulations.
- 1.11. Carry-over of stocks to the next storage cycle: regarding the quantity of stocks at the end of the storage cycle that are stored within a bundled capacity product, the system user is deemed to have reserved the stock transfer product for the next storage cycle in the corresponding quantity of stocks for which it pays the system operator according to the tariff for the stock transfer product set for the next storage cycle.

### **2. Two-year bundled capacity product (product code IPGK2YP)**

- 2.1. Storage capacity reservation time:

- 2.1.1. for the next storage cycle - in accordance with the notification of the system operator regarding the auction of storage capacity, but not later than 15 March of the relevant year;
- 2.1.2. for the existing storage cycle - on the second working day after the date of publication of the technical capacity of the storage and the available capacity of the storage for the existing storage cycle in accordance with paragraph 9 of these Regulations, if the amount of storage capacity available for capacity product reservation is greater than 0 kWh.
- 2.2. Type of storage capacity reservation: auction procedure.
- 2.3. Auction procedure used to reserve the capacity product: auction based on the principle of determining the premium of the 'last accepted bid'.
- 2.4. Storage capacity available for reservation: 2,000,000 (two million) MWh for two consecutive storage cycles.
- 2.5. Procedure for the allocation of storage capacity: in accordance with paragraph 24 of these Regulations.
- 2.6. The duration of use of the capacity product: two consecutive storage cycles.
- 2.7. The capacity product includes:
  - 2.7.1. the use of storage capacity in the amount of the two-year bundled capacity product at the disposal of the user;
  - 2.7.2. injection of natural gas into the storage facility: unlimited amount, ensuring injection of stocks in a quantity that can be stored with the available product;
  - 2.7.3. withdrawal of natural gas from the storage facility: unlimited amount, ensuring withdrawal of stocks stored with the product;
  - 2.7.4. the use of virtual reverse-flow to use storage capacity up to the amount of capacity available to the user: free of charge.
- 2.8. Injection of natural gas for storage in the storage facility and withdrawal of natural gas from the storage facility: constant capacity product.
- 2.9. The transfer of stocks in a storage facility: within a bundled capacity product and a two-year bundled capacity product.
- 2.10. Payment for the capacity product: in accordance with paragraph 24 of these Regulations.
- 2.11. Carry-over of stocks:
  - 2.11.1. at the end of the first storage cycle of the capacity product operation, the stocks shall be transferred to the second storage cycle of the two-year bundled capacity product operation;
  - 2.11.2. capacity product operation at the end of the second storage cycle:
    - 2.11.2.1. 50% of the stocks shall be transferred as a two-year bundled capacity product, if a new two-year bundled capacity product is purchased for the relevant quantity of stocks in accordance with the type of capacity product reservation specified in sub-paragraph 2.2 of this Annex;
    - 2.11.3. as for 50% of the remaining stocks, the system user is deemed to have reserved the stock transfer product for the next storage cycle in the relevant stock quantity, which will be settled with the system operator according to the stock transfer product tariff set for the next storage cycle.

### **3. Interruptible capacity product (product code IPGKAP)**

- 3.1. Storage capacity reservation time for the current storage cycle:
  - 3.1.1. in accordance with the notification of the system operator regarding the auction of the storage capacity, but not later than on 1 June of the relevant year, if the available capacity of the storage facility exceeds 0 kWh;

- 3.1.2. in accordance with the notification of the system operator regarding the auction of the storage capacity, but not later than on 1 July of the relevant year, if the available capacity of the storage facility exceeds 0 kWh;
- 3.1.3. in accordance with the notification of the system operator regarding the auction of the storage capacity, but not later than on 1 August of the relevant year, if the available capacity of the storage facility exceeds 0 kWh.
- 3.2. Type of storage capacity reservation: auction procedure.
- 3.3. Auction procedure used to reserve the capacity product: auction based on the principle of determining the premium of the 'optimised last accepted bid'.
- 3.4. Storage capacity available for reservation: unlimited amount within the available storage capacity.
- 3.5. Procedure for the allocation of storage capacity: in accordance with paragraph 24 of these Regulations.
- 3.6. The duration of use of the capacity product: one storage cycle.
- 3.7. The capacity product includes:
  - 3.7.1. the use of storage capacity in the amount of interruptible capacity product at the disposal of the user;
  - 3.7.2. injection of natural gas into the storage facility: unlimited amount, ensuring injection of stocks in a quantity that can be stored with the available product;
  - 3.7.3. withdrawal of natural gas from the storage facility: unlimited amount, ensuring withdrawal of stocks stored with the product;
  - 3.7.4. the use of virtual reverse-flow to use storage capacity up to the amount of capacity available to the user: at the virtual reverse-flow tariff.
- 3.8. Injection of natural gas for storage in the storage facility and withdrawal of natural gas from the storage facility: interruptible capacity product.
- 3.9. The transfer of stocks in the storage facility: within an interruptible capacity product.
- 3.10. Payment for the capacity product: in accordance with paragraph 24 of these Regulations.
- 3.11. Carry-over of stocks to the next storage cycle: regarding the quantity of stocks at the end of the storage cycle that are stored within an interruptible capacity product, the system user is deemed to have reserved the stock-transfer product for the next storage cycle in the corresponding quantity of stocks for which it settles with the system operator according to the tariff for the stock transfer product set for the next storage cycle.

#### **4. Stock Transfer Product (ITP)**

- 4.1. Type of storage capacity reservation: in accordance with the procedure for the transfer of stocks specified in sub-paragraphs 1.11, 2.11.3 and 3.11 of this Annex.
- 4.2. Storage capacity reservation time for the current storage cycle: on the second day after the end of the previous storage cycle in accordance with paragraph 11 of these Regulations.
- 4.3. Storage capacity available for reservation: unlimited stocks at the end of the storage cycle in accordance with sub-paragraphs 1.11, 2.11.3 and 3.11 of this Annex.
- 4.4. Procedure for allocation of storage capacity: in accordance with sub-paragraphs 1.11, 2.11.3 and 3.11 of this Annex.
- 4.5. The duration of use of the capacity product: one storage cycle.
- 4.6. The capacity product includes:
  - 4.6.1. the use of storage capacity in the amount of the current stock transfer product;
  - 4.6.2. injection of natural gas into the storage facility: not possible;

- 4.6.3. withdrawal of natural gas from the storage facility: in the amount of stocks that are stored with the stock transfer product;
- 4.6.4. the use of virtual reverse-flow for the withdrawal of natural gas from the storage in the reserved amount of capacity at the user's disposal: at the virtual reverse-flow tariff.
- 4.7. Natural gas withdrawal from the storage: interruptible capacity product.
- 4.8. Stock transfer in the storage: within the stock transfer product.
- 4.9. Payment for the capacity product: in accordance with paragraph 25 of these Regulations.
- 4.10. Carry-over of stocks to the next storage cycle: regarding the quantity of stocks at the end of the storage cycle that are stored within a stock transfer product, the system user is deemed to have reserved the stock transfer product for the next storage cycle in the corresponding quantity of stocks for which it settles with the system operator according to the tariff for the stock transfer product set for the next storage cycle.

## **5. Virtual reverse-flow product**

- 5.1. Type of storage capacity reservation: by submitting a trade notification to the system operator.
- 5.2. Storage capacity reservation time for the current storage cycle:
  - 5.2.1. during the use of the bundled capacity product;
  - 5.2.2. during the use of the interruptible capacity product.
- 5.3. Storage capacity available for reservation: 27.7 GWh/d in the amount of bundled capacity product or interruptible capacity product available to the user.
- 5.4. Procedure for allocating storage capacity: in the order of receipt of trade notifications.
- 5.5. Duration of the use of the capacity product: a gas day for which the capacity product was reserved.
- 5.6. The capacity product includes: injection of natural gas into the storage facility and withdrawal of natural gas from the storage facility in the opposite direction to the flow direction of the actual technological regime of the storage facility.
- 5.7. Injection of natural gas for storage: constant or interruptible capacity product, depending on the capacity product indicated in the trade notification.
- 5.8. Stock transfer in the storage: not applicable.
- 5.9. Payment for the capacity product: in accordance with paragraph 25 of these Regulations.
- 5.10. Carry-over of stocks to the next storage cycle: not applicable.

## **6. Priority rights for injection capacity**

- 6.1. Reservation time of priority rights for injection capacity:
  - 6.1.1. for the next storage cycle:
    - 6.1.1.1. in accordance with the notification of the system operator regarding the auction on 15 April of the relevant year or on the next working day, if the said date is a non-working day or an official holiday;
    - 6.1.1.2. in accordance with the notification of the system operator regarding the auction on 15 May of the relevant year or on the next working day, if the said date is a non-working day or an official holiday;
  - 6.1.2. for the current storage cycle:
    - 6.1.2.1. in accordance with the notification of the system operator regarding the auction on 15 June of the relevant year or on the next working day, if the said date is a non-working day or an official holiday;

- 6.1.2.2. in accordance with the notification of the system operator regarding the auction on 15 July of the relevant year or on the next working day, if the said date is a non-working day or an official holiday.
- 6.2. Type of reservation of priority rights for injection capacity: auction procedure.
- 6.3. Auction procedure used to reserve the priority rights for injection capacity: an auction based on the principle of the “pay-as-go” premium.
- 6.4. The amount of injection capacity available for reservation with priority rights: the system operator shall determine and publish on its website 10 (ten) working days before the auction date.
- 6.5. Procedure for granting priority rights for injection capacity: in accordance with paragraph 26 of these Regulations.
- 6.6. Duration of exercising the priority rights for injection capacity: one month, specified in the capacity auction regulations.
- 6.7. The priority rights for injection capacity include: priority injection in the amount of storage capacity available within the bundled capacity product and two-year bundled capacity product. It is the user's responsibility to provide the bundled capacity product and the two-year bundled capacity product for the use of the injection capacity priority product.
- 6.8. Injection of natural gas for storage: priority towards constant capacity product and interruptible capacity product.
- 6.9. Stock transfer in the storage: not applicable.
- 6.10. Payment for the priority rights for injection capacity: in accordance with paragraph 26 of these Regulations.
- 6.11. Exercising the priority rights for injection capacity:
- 6.11.1. if the system user does not use all the capacity purchased for priority injection during the gas day, it shall become available to other system users by 21.00 of the current day free of charge;
  - 6.11.2. the system user may transfer the priority rights of the injection capacity to another system user.

Chairman

R. Irklis