

# THE SUMMARY OF NON-BINDING MARKET SURVEY FOR THE NEW TRANSMISSION CAPACITY IN GIPL



## Overview

Over sixty participants expressed interest in the non-binding market survey. After consultations and an organized webinar, nine organizations had provided their views on the project implementation. GAZ-SYSTEM S.A. and AB Amber Grid are grateful for all market participants and stakeholders for participating in the survey and for providing their time and efforts responding on the topics relevant for better GIPL usage and its value for the market. Both TSOs will use this valuable information in further work designing GIPL access conditions and for dialogue with National Regulatory Authorities. More detailed proposals will be provided for public consultation in due course upon their preparation.

### SUMMARY OF ANSWERS:

<b>If you are (or consider to be) a network user, please indicate:</b>	<b>a) Probability of using GIPL IP</b> Market players had expressed a common high interest in the utilization of GIPL.
	<b>b) The drivers behind using GIPL IP and potential cases, when you expect to use GIPL IP</b> Majority of respondents indicated that they might use GIPL for flows in both directions. The main drivers behind the usage of GIPL IP were the ability to negotiate better terms for natural gas supply, price arbitrage, business expansion possibilities, or, in rare cases, a crisis situation management.

# Tariffication

## **What is your view on GIPL transmission tariffs discounts: do you find it purposeful to apply?**

The respondents had favored the tariff discounts on GIPL IP, arguing that it would increase the market players' competitiveness from either of the trading zones, promote the use of the IP, and created downward pressure for gas prices in Polish and the Baltics region markets. Some respondents express the view that discounts should be made so that tariffs in both directions on GIPL IP would be equal, thus creating a level playing field for Polish or Baltic traders.

## **What level of discounts do you find most impactful?**

The respondents expressed the main opinion that the larger the discount, the more interest in the service it can generate. It was indicated that discounts should be considerable - 50-75%. Some respondents mentioned that discounts should be designed so that to make the tariffs equal to both sides of GIPL IP.

## **What benefits such discounts might bring?**

Market participants stated that discounts can be beneficial to all stakeholders with various benefits: they will stimulate cross-border trade, promote competition by expanding business for suppliers in both directions, more intensive use of gas infrastructure, and also allow traders to retain capacity in both directions at the same time, which gives great choice and quick response to market conditions.

## **Are there certain risks, which should be taken into consideration when setting the discount level?**

Market players expressed that initially indicated tariffs look relatively high, insufficient (small) discounts will not stimulate the use of GIPL IP. Some respondents indicated the risks of monopolization of GIPL IP capacity in case of big discounts, and reduction of capacity bookings on other gas entry points.

# Capacity Allocation

**Please indicate whether you would find ICA application beneficial. If yes, then please explain why.**

Market participants expressed different views on the benefits and necessity of using the ICA application. Some felt that it was definitely beneficial to increase interest in IP GIPL, others saw no need to apply ICA for IP GIPL, or indicated that more information was needed on how ICA would work, and that ICA products should be applied without distorting the market.

**Please indicate what capacity products apart from standard ones, you find it relevant to be offered on GIPL point.**

On the question of which capacity products, other than standard ones, should be relevant for the offer at GIPL, market participants have shown interest in standard and non-standard period products bundled with commodity (exchange, LNG, etc.) and in synergy with LNG terminals in Lithuania and Poland. Of the non-standard products, some respondents indicated the need for Balance of the Month and Balance of the Week products. It was pointed out the need for the possibility of gas transmission via GIPL IP between contractors. In case, TSOs must work in framework of European Network Codes which introduced many market-based mechanisms and transparency rules, but also limit a scope of services and offered products.

**Please elaborate which products might be the most important for you to offer and in which direction, as well as which direction would be primary one for you (in direction from Poland to Lithuania, in the direction from Lithuania to Poland). Please explain why.**

Market participants expressed different needs on which capacity products may be most important to them and which direction will be the main one (from Poland to Lithuania, from Lithuania to Poland). Some noted short-term (day, within-day) products, others long-term. The answers show that both directions are equally important. In addition, synergies with LNG terminals and other infrastructure were mentioned as potentially considered.

**What could be business cases of using non-standard capacity products?**

Of those market participants who answered this question, the majority indicated business cases related to LNG - for shipments and for bundling with LNG terminal capacity. Other cases included trading on exchanges (and having corresponding capacity products to the traded commodity), risk management (in the case of the Balance of the Week and Balance of the Month products), and a few other cases.

**Do you find any type of capacity products which would be convenient in case GIPL is used to dispatch LNG deliveries? If yes, what shall be characteristics of such capacity product(s) – term, allocation opening and closing windows, etc.?**

Market participants with an interest in using the GIPL for LNG delivery indicated that the capacity product should match the potential regasification profile. Also, a proposal to hold monthly auctions for the remainder of the year came from one market participant.

**How much of an impact it would provide in deciding on LNG based imports of gas? Which characteristics of such capacity products would be the most critical ones?**

Flexibility in the selection of capacity products and products which matches LNG delivery were mentioned as important in deciding on LNG based imports of gas.

**Please indicate what would be the best channels to allocate capacity via ICA – exchanges or brokerage houses? Or both? Please explain why.**

Market participants hold different points of view, and most of them prefer exchanges, but some point out that both channels for allocating capacity through ICA - exchanges or brokerage houses - would be convenient. Transparency was indicated as an important feature for the trading platform.

**Please provide your opinion regarding the breakdown between GIPL capacity allocated through auctioning and through ICA. Do you consider it relevant to introduce exact quotas for ICA? If yes, what percentages you suggest to apply? Please explain your proposal.**

Market players have different opinions regarding the breakdown between GIPL capacity allocated through auctioning and through ICA, however majority of the respondents indicated that the higher share of capacity should be auctioned. Although the ICA model, if applied, should be flexible to change proportions depending on the needs of market participants.

## ADDITIONAL QUESTIONS FROM THE RESPONDENTS AND TSOS ANSWERS:

### Question:

The need for such discount would only be necessary in order to equalize the PL-LT tariff and LT-PL tariff. At the moment it is not understandable why the LT-PL tariff is 54% higher than the PL-LT tariff which by no doubt gives huge competitive advantage for gas flows from Poland. **Have the TSO's assessed this in the scope of breach of competition law by deliberately giving such an enormous competitive advantage to Polish transmission system users?** Currently the Baltic TSO's in the scope of joint market zone are intensively working in the direction of tariff harmonization, whereas this proposal is in complete contradiction to this ideology.

### Answer:

The levels of transmission tariff in PL and LT are the result of decisions taken by independent regulatory authorities in both countries. The asymmetry of charges in the PL->LT and LT->PL directions results from the different coefficients of revenue distribution between entries and exits adopted by regulatory authorities. The TSOs are aware of how mentioned asymmetry affects the attractiveness of transmission depending on direction, however more specific arrangements in this regard could be made at the level of regional cooperation of regulatory authorities and are beyond the TSOs capabilities. Nevertheless, we will address this topic in our further discussions with NRAs. The TSOs have not assessed the case of the different overall cost of transmission between the countries/markets dependent on the flow direction in the context of the breach of competition law.

### Question:

It is not clear what is the principle of ICA capacity allocation - pro rata or FCFS or auction?  
Without this information is difficult to imagine what are we talking about?

### Answer:

Both TSOs provided only the general information on the ICA within the Market Survey procedure. We informed that concrete ICA conditions and set of capacity products might be designed based on market needs, but yet have to be approved by National Regulatory Authorities (URE in Poland, VERT in Lithuania). Therefore, our intention was not to prejudge how ICA mechanism should be designed but ask the market participants about their opinion on the need for providing such a tool and how it should be designed in order to be the most efficient. In any case, once decision made on design of ICA solutions, the details of ICA model will be the object of consultation with the market as well.

**Question:**

For one of respondent it is very important to have a product where it can purchase gas "on the border", which means not becoming a shipper in Poland and the party which sells the gas not becoming shipper in Lithuania. Having said that, will it be possible with only bundled capacity products? If not, please ensure this possibility.

**Answer:**

Both TSOs are going to offer only bundled capacity products. According to the NC CAM, the TSOs are obliged to offer bundled capacity at the interconnection points, which means that a shipper buying capacity at the IP has to be active in both transmission systems. The only possibility of offering unbundled capacity is the ICA model, however unbundling of capacity would still be subject to the approval of both NRAs (Polish and Lithuanian). We will investigate this option once working on potential ICA solution.

**Question:**

LNG is not the only available natural gas source in the region and with GIPL also pipeline gas from Western Europe will be available. Even more - with Baltic Pipe (10 bln m<sup>3</sup>/annum) becoming operational during second half of 2022, even more alternative pipeline sources will become available. **Why is so much credit given to LNG?**

**Answer:**

LNG is an important element impacting the price scenarios in Europe and considering existing LNG infrastructure in Poland and Lithuania it plays also an important role in our region. In this context and based on the performed economic analyses, both TSOs intended to ask the market participants about their opinion on the need for providing specific capacity products related to LNG and how they should be designed in order to be the most efficient. Nevertheless, our interest does not intend to undermine the role of pipeline gas in the region and the opportunities that may be brought by access to the diversified sources of supply.