

February 27, 2019

Energy Authority
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Gasum Ltd's request for a statement to the Energy Authority concerning capacity booking procedure at the Imatra National Cross-Border Interconnection Point as of January 1, 2020

Gasum Ltd ("Transmission System Operator with System Responsibility, TSO") is making preparations for the opening up of the natural gas market under the new Natural Gas Market Act (587/2017) which entered into force on January 1, 2018.

The opening up of the natural gas market is to be implemented in a manner whereby market participants are equally placed to operate in the market and, consequently, there is no discrimination against market participants. It is equally important that the change takes place cost-effectively, resulting in a positive change as regards the competitiveness of the gas market.

Following the opening up of the natural gas market and the unbundling of the natural gas transmission network, the new TSO with System Responsibility will provide the market with transmission services as of January 1, 2020. Transmission services will be provided as separate capacity products allocated to market participants for the gas system's entry and exit points.

Provisions of the EU Network Code on Capacity Allocation Mechanisms (NC CAM) concerning capacity allocation

According to Article 1 of the NC CAM:

"This Regulation establishes a Network Code setting up standardised capacity allocation mechanisms in gas transmission systems. The standardised capacity allocation mechanism shall include an auction procedure for relevant interconnection points within the Union and the standard cross-border capacity products to be offered and allocated."

Article 2 of the NC CAM describes the scope of the NC CAM as follows:

"This Regulation shall apply to interconnection points. It may also apply to entry points from and exit points to third countries, subject to the decision of the relevant national regulatory authority."

Interconnection points under the NC CAM mean interconnection points between two Member States of the European Union, i.e. in the case of Finland, the Balticconnector. Correspondingly, the Imatra National Cross-Border Interconnection Point is a point of cross-border connection to a third country under the NC CAM.

View of the TSO concerning the capacity allocation procedure at the Imatra National Cross-Border Interconnection Point from 2020 onwards

The TSO proposes that capacity be offered for the following periods at the Imatra National Cross-Border Interconnection Point as of 2020:

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- a) one year (12 consecutive calendar months) commencing on the first gas day of a calendar month (annual capacity);
- b) one quarter (3 consecutive calendar months) commencing on the first gas day of a quarter (quarterly capacity);
- c) one or more consecutive calendar months commencing on the first gas day of a calendar month (a calendar month may vary from 28 to 31 days depending on the length of the actual month) or one or more consecutive months calculated in multiples of 30 days. This calculation method is used if the month ordered commences on any other day than the first day of the calendar month (monthly capacity);
- d) one gas day or up to six (6) consecutive gas days (daily capacity); and
- e) from one hour up to twenty-four (24) consecutive hours within a particular gas day (within-day capacity).

In addition to the above, capacity products offered at the Imatra National Cross-Border Interconnection Point can be divided into firm and interruptible products. Allocation of firm capacity is always prioritized, and the quantity of firm capacity is determined on the basis of the transmission capacity estimated by the TSO at any time. The TSO may further increase its transmission capacity by increasing the transmission system's compressor capacity in production use. Increases in compressor capacity in production use reduce the supply security of additional transmission capacity created and, consequently, additional capacity is offered to the market under interruptible capacity agreements.

The capacity allocation principle to be used at Imatra is the first-come, first-served (FCFS) procedure according to which capacity orders are accepted in the order in which they are sent to the TSO. Capacity orders are processed under FCFS procedure immediately after they have been submitted by the market participant (processing is done in the order in which orders were received).

Capacity orders are processed by the TSO on the online web portal where market participants can submit orders for capacity products of various periods. In the event that the web portal is out of use due to a technical problem, the TSO receives capacity orders by email in accordance with the manual procedure.

The TSO's justifications for the use of the capacity allocation procedure described above

In planning taking place for the open market, such solutions are sought that will be sufficient, cost-effective and pro-competitive from the market perspective and that can be employed to ensure the equal and non-discriminatory treatment of market participants.

Under the NC CAM, there is no obligation to use an auction procedure for capacity allocation at cross-border interconnection points from and to third countries. The use of the auction procedure is justifiable at points where, in response to congestion, market participants are willing to pay a price higher than the floor price to purchase capacity products.

At the Imatra National Cross-Border Interconnection Point, there is plenty of technical import capacity when taking the projected transmission needs of the future into account. According to our calculations, we will be able to offer a quantity of firm capacity products at the Imatra National Cross-Border Interconnection Point which corresponds to instantaneous capacity of approximately 8,000 MW (net calorific value). In addition to the above, we will be able to increase our transmission capacity further and offer approximately 1,000 MW as interruptible capacity products.

On the basis of the transmission capacities, we do not anticipate congestion at the Imatra National Cross-Border Interconnection Point. However, the following procedures for congestion management in the event of the unlikely occurrence of congestion have been included in the market rules for Finland's open gas market:

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- The TSO may initiate at its own or at a market participant's initiative a procedure to offer further firm daily capacity for the Imatra National Cross-Border Interconnection Point. A market participant's initiative concerning the offering of further capacity must be submitted to the TSO by email during the business day preceding the gas day. Having received an initiative concerning the offering of further capacity, the TSO notifies all market participants of the opportunity to offer capacity transfers for the Imatra National Cross-Border Interconnection Point to increase the offering of firm daily capacity through the secondary market.
- The long-term use-it-or-lose-it (LT UIOLI) mechanism, which prevents market participants from booking long-term capacity products if they do not intend to use them by themselves.

The FCFS capacity booking procedure presented in this request for a statement is excellently suited for the Imatra National Cross-Border Interconnection Point as it will generate cost savings for the entire market and enable market participants of various sizes to operate with parity in Imatra capacity booking. Cost savings will be generated because the TSO will not need to implement its own auction platform or purchase a commercial platform as a service. On the other hand, market participants will be able to book their capacity products whenever they wish without having to wait until the closing of the auction, which will reduce market participants' risk management costs and sourcing complexity. The simpler capacity allocation procedure is more broadly suitable for a variety of market participants, reducing barriers to market entry.

Our plan is for capacity allocation at Imatra to take place via the TSO's online web portal to which market participants will be provided with access. In addition to the Imatra National Cross-Border Interconnection Point, entry capacity of the national market can also be allocated via the portal and hopefully the same interface could also be used for Balticconnector implicit capacity bookings. This way we could provide market participants with a clearer picture of the transmission services offered to and purchased by them.

The TSO is currently carrying out a great deal of work to be able to open up the market as efficiently as possible as of January 1, 2020. Acquiring a separate auction system would require extra work by the TSO, which would have a negative impact on other work relating to market opening. If, at a later stage, it is found that congestion is taking place at the Imatra National Cross-Border Interconnection Point, system acquisition required for the auction procedure can in such a case be initiated based on the identified need.

Request for a statement

Gasum requests the opinion of the Energy Authority on the following:

- 1) Does the Energy Authority approve of the allocation of capacity products by the TSO at the Imatra National Cross-Border Interconnection Point in accordance with the FCFS procedure presented in this request for an opinion as of January 1, 2020?

For further information about this request for an opinion, please contact:

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Gasum respectfully requests for an opinion of the Energy Authority on the matter by the end of April 2019.

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Kouvola, February 27, 2019

Respectfully,

A handwritten signature in blue ink, appearing to read 'J. Grönlund', with a long horizontal flourish extending to the right.

Janne Grönlund
Chief Operating Officer, TSO
Gasum Ltd