

(!Baltic gas TSOs public consultation on the implicit capacity allocation model has been completed (2016-10-28). The stakeholders had no comments for the information provided)

Baltic gas transmission system operators announce a public consultation on the implicit capacity allocation model at interconnection points

The Baltic gas markets are in the early stage of development and have limited liquidity. However, the markets of the Baltic States have physical interconnections and liquidity can be increased via cross-border trade between market areas. Therefore, Baltic State gas transmission system operators (TSOs) AB Amber Grid, Elering AS and JSC Latvijas Gaze are seeking for measures for closer integration of the national gas markets of Lithuania, Latvia and Estonia, which would foster the cross-border trade and development of a competitive regional market. With this in mind, the TSOs are considering to implement implicit capacity allocation method for short-term cross-border capacity and trade. When this method is applied both cross-border transmission capacity and a corresponding quantity of purchased gas are allocated at the same time through the trading platform of gas exchange. Thus, the national gas markets would be coupled to the extent of available interconnection capacity.

The framework for the allocation of cross-border gas transmission capacity at interconnection points (further – IPs) connecting adjacent entry-exit systems is also set out by the European Union Commission Regulation No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (further – NC CAM). Upon the decision of National Regulatory Authorities (further - NRAs) NC CAM allows applying two alternative capacity allocation mechanisms: explicit auctions or implicit allocation mechanism (Article 2(4)). Where explicit auctions are chosen, capacity is allocated using standardised capacity allocation mechanisms based on auction procedures and using joint capacity booking platforms. Where implicit capacity allocation methods are applied, the IP capacity is allocated at the same time with the quantities of gas traded between market areas on the gas exchange.

Auction procedures set out by NC CAM are rather extensive and may place considerable administrative burden on the market players. For the developing gas markets with limited demand and liquidity and non-congested cross-border capacity – like those of the Baltic States – it is reasonable to streamline the administrative procedures. Therefore, after extensive analysis gas TSOs of Lithuania, Latvia and Estonia have prepared a model for implicit capacity allocation, which as explained above, provides a high degree of integration and transparency of markets for the short-term trading.

The main aspects of the model are the following:

- The implicit capacity allocation model would be applicable at IPs between adjacent gas transmission systems of Lithuania, Latvia and Estonia. Namely, at IP Kiemenai between Lithuania and Latvia and at IP Karksi between Latvia and Estonia.
- The allocation of transmission capacity would be related to the trading of gas on the gas exchange between market areas.
- The implicit capacity allocation method would apply to day-ahead gas and capacity products during the trading session on the gas exchange. For every cross-border trade of gas on the exchange a corresponding day-ahead IP capacity would be implicitly allocated.
- TSO make would available a substantial share or all the day-ahead capacity between market areas to the implicit allocation process. TSO would allocate other than day-ahead capacity (yearly, monthly, etc.) using *first-come-first-served* or *pro-rata* method.
- After the hours of the trading session of a particular day, TSO would offer the unallocated day-ahead capacity in intraday timeframe using *first-come-first-served* or *pro-rata* method.
- In the future, depending on the market development and needs, the implicit allocation method on a gas exchange could be extended to other timeframes.

The main benefits of the implicit capacity allocation model as compared to the auction procedure are the following:

- Implicit capacity allocation model couples the Lithuanian, Latvian and Estonian short-term gas markets and increases their liquidity and the level of competition;
- The model increases the flexibility and transparency of gas transmission via cross-border IPs and reduces the administrative costs for market participants and TSOs.

With the goal to consider the opinions of market players and other stakeholders and with the endorsement of the national regulatory authorities, the TSOs of the Baltic States announce a public consultation of the implicit capacity allocation model. The detailed description of the model is provided [here](#). Please provide your comments and opinions in English until October 28, 2016 by email to consultation@ambergrid.lt. Should you have any questions please contact:

- the representative of Amber Grid AB Mr. Mindaugas Beržanskis by email m.berzanskis@ambergrid.lt
- the representative of Elering AS Ms. Airi Noor by email airi.noor@elering.ee
- the representative of JSC Latvijas Gaze Mr. Jānis Eisaks by email

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This being an international public consultation the TSOs expect to receive the questions and intend to provide the answers in English as well.

The comments and suggestions regarding this consultation provided to the TSOs will be published on the TSO webpages. We deem that the stakeholder comments and suggestions will be a valuable input when taking decisions regarding the implementation of the model.