

Consultation on an EU strategy for liquefied natural gas and gas storage.

Dear Sirs, please find below our opinion on the questions asked in the consultation document.

1. Infrastructure development challenges

We agree, that the Baltic region is heavily dependent on Russian gas and there is a need for additional infrastructure. In our opinion, the best solution to the region would be an interconnected market (Finland, Estonia, Latvia and Lithuania) with a multifunctional regional size (at least 160 000m³) LNG terminal capable of servicing grid costumers as well as off-grid consumers. This would increase the supply security, increase the competition in the regional energy sector as a whole and help to achieve the low carbon economy goals set. The optimal level of LNG supplies should be based on the price and market demand rather than a regulated level, although for security of supply reasons, a calculated amount of reserve should be kept in case of an emergency.

We do not agree on the analysis on the point, where there is said that the Baltic Regional LNG terminal will be built in Finland and the work is set to start in 2015. Based on our best knowledge, the decision to build a terminal in Finland and the size of it is yet to be taken, making the completion date of 2019 unrealistic. In case Finland decides not to build the terminal or would like to build a smaller terminal, the regional size terminal will be built in Estonia.

2. Costs and benefits of the new infrastructure

As a project promoter, we have analysed the costs and benefits of a regional size terminal in Estonia, Paldiski, near the landfall of Balticconnector. The socio-economic cost benefit calculation done show a net positive effect on all of the effected countries (Estonia, Latvia and Finland) and for both grid and off-grid consumers. The calculations done, assume, there will be only one regional terminal, where smaller terminals in the region will be supplied from. The analysis done also show, that there is only a need for one regional terminal in the area.

The need for a new LNG terminal in the East Baltic region in addition to the already existing one in Klaipeda is related to the limitation of infrastructure and the costs to upgrade the infrastructure. It will be more cost-effective to build the LNG terminal closer to the consumers, reducing the need for transmission capacity, rather than to invest in new transmission capacities.

3. Regulations

In our opinion, there is no need for additional regulation. New regulations and the involvement of EU should be considered in case of a non-functioning market or to provide incentives for additional investments and market development, but the effect of those incentives should be thoroughly studied, not to distort the market situation. The use of LNG could be further improved by a wider use of off-grid LNG solutions such as transportation and off-grid heating.

4. Low utilisation of infrastructure

The low usage rate could be explained by relatively high LNG price and low availability compared to pipe gas. With the new LNG exporting capacity coming online in US and Australia, it should make LNG

cheaper and availability would be higher, potentially increasing the usage rate of regasification terminals.

5. Gas vs renewables

At the current state, the reliability of renewables technology such as wind and power is moderate and should be balanced with more reliable energy production. Natural gas as the cleanest fossil fuel would be the best choice for that, covering the peak demand and acting as a backup system for renewables. LNG will probably have a large influence also on reducing the greenhouse gases of the transport sector.

6. Regulatory barriers

The biggest regulatory barrier is the absence of a clear legislative and regulatory framework and the frequent changes to it (such as increasing of excise tax, transmission fees), producing uncertainty for the potential stakeholders of the LNG business (providers, customers etc.). Also we agree that the incomplete implementation of the 3rd Energy Package is reducing the cross-border cooperation and competition of the gas industry.

7. Other barriers

The current biggest financial tackle in the East Baltic Sea region is the high cost of the construction of the infrastructure and the small size of the grid gas market, which is why the off grid market is of relevant importance. Also the off grid market of LNG needs investments to develop (such as tanking equipment for bunkering or transportation), which is why a clear and predictable regulatory and legislative framework should exist across the region, making it easier to do the investments.

8. EU aid to tackle barriers

In our opinion the ongoing initiatives are good for developing the LNG market and should help develop the market.

9. Worldwide LNG market development

As already mentioned above, the availability of LNG will increase due to the liquefaction plants coming operational in US and Australia, making it easier to acquire LNG. The extra liquidity should also stabilise and converge the price of LNG worldwide, which probably would provide a possibility to move from oil-indexed contracts to LNG market based contracts.

10. Problems related to the LNG market

The increased production capacity in politically stable countries such as US and Australia should reduce the risk of any unexpected supply problems or price hikes. Taking that into account, we don't see any needs for specific actions by the EU.

11. Technological development

The need for cleaner fuels will probably increase the usage of LNG, especially in transport sector. Already today, there is a clear shift towards gas powered engines in shipping industry as well as public transport and heavy duty vehicles. This shift will bring also the need for development, to

achieve higher efficiency and better infrastructure to promote the wider usage of gas as a transport fuel. We think that the different EU support systems like CEF Energy and Transport Calls, are enough to support the development of the infrastructure.

12. Sustainability

We agree to the point that LNG is a good substitute fuel for more polluting fuels such as Fuel Oil and Gasoil and it would be economically more viable to transport LNG to locations with no grid access. This is why LNG should not be viewed only as a supply source for grid gas and the environmental benefits should be considered on the economy as a whole.

13. Supply projections

No additional comments

14. Regulatory conditions for SoS

No additional comments

15. Market based reserves

No suggestions to market based alternatives to ensure minimum reserves.

16. Storage level

We have not performed any analysis on that topic.

17. Additional regulations

In our opinion, there is no need for additional regulation.

18. Low utilisation of storages

The current political decision is towards the higher usage of natural gas, as the cleanest fossil fuel. For reducing the risk of overinvestments or stranded assets, a clear and long term policy should be in place, which would help make market based decision for investments.

19. Regulatory barriers

The incomplete implementation of the 3rd Energy Package to ensure 3rd Party Access could help to increase the usage of gas storages.

20. EU aid to tackle barriers

In our opinion, no further initiatives are required from the EU.

21. EU tariff regimes

The decisions should be based on national or regional level needs and an EU-level regime would not be in our opinion optimal.

22. Access difficulties to storage

Have not encountered any problems.

23. LNG gasification difficulties

Have not encountered any problems.