

## **CALL FOR PROPOSALS FOR BASREC PROJECT ACTIVITY: THE STUDY ON THE DEVELOPMENT OF REGIONAL GAS MARKET IN THE EASTERN BALTIC SEA REGION**

At the Baltic Sea Region Energy Co-operation (BASREC) Meeting of Energy Ministers in Berlin on 14-15 of May 2012, the Parties agreed to renew the BASREC budget framework for carrying out activities of EUR 1 million for the co-operation period 2012-2015 in order to finance reviews, feasibility studies, workshops, small projects and other activities and events.

On behalf of BASREC, the BASREC Executive Committee issues the following call for proposals for a project activity for the period 2012 to 2015. The tender will be carried out by Danish Energy Agency. The lead country for the project activity, carrying out the operational coordination of the project, is Estonia. The project will be coordinated by the East Baltic Sea Region Gas Transmission System Operators' (EBTSO) Coordination Group. The project contact person from EBTSO side is Kajali Kotsar – kajali.kotsar@egv.ee (AS EG Võrguteenus).

### **1. Background & Context:**

The gas markets of Baltic States (Estonia, Latvia and Lithuania) and Finland are rather small, and the increase in demand in the coming decade would be quite modest, if any. Legally Lithuanian and Estonian markets are open for competition, Latvian and Finnish markets are still awaiting market opening, expected in a few years' time. Physically until the end of 2014, when LNG terminal in Klaipeda (Lithuania) went operational, all countries in this region had been relying just on one single supplier - Gazprom. From 2015 commercial cargos started arriving at LNG terminal in Klaipeda and since then non-discriminatory third party access has allowed to import gas from global LNG market and transport through interconnected gas systems in the Baltic States. By the end of 2015, the capacity of internal pipeline system in Lithuania will be enhanced providing annual capacity to supply more than 80% of current yearly demand of the Baltic States from LNG terminal in Klaipeda. In addition to the pipeline system of the Baltic States the Incukalna Underground Gas Storage (UGS) located in Latvia with the total capacity of 4.4 bcm and working gas capacity of 2.3 bcm shall be considered as an integrated infrastructure part of the Baltic gas network. The further enhancement of the capacity and increase of flexibility of the UGS could provide more efficiency to the gas infrastructure in the region. Current agreements for cross-border gas transmission and storage for third parties illustrate ongoing changes of the Baltic gas market. It is expected that in 2019 the gas interconnection between Poland-Lithuania (GIPL) will be completed. In the years after there are plans to construct one or two mid-to-large scale LNG terminals on the coasts of Finland and/or Estonia and the interconnector between Estonia and Finland (Balticconnector).

Limited national demand levels will give little basis for building liquid and competitive gas markets and attract large market players, and also provide a need to assess the possibilities and options of regional gas market development (including different models of regional market operation and integration, level of harmonization of national legislation and regulation, need for particular infrastructure projects, maintain and increase security of supply and flexibility etc.) which would enable well-functioning, competitive and transparent market, efficient commercial and physical gas flows, and which could lead

market players to benefits from implementation of major gas infrastructure projects.

The study on the development of regional gas market in the Eastern Baltic Sea Region is intended to provide a detailed region-specific comparison of different models of regional gas market operation, including the estimation of costs and benefits. Eventually the recommendations should be given on which model (or a combination of elements of different models tailored region-wise, or set of models with transitional phases) is most rational to follow in the region, including a roadmap with implementation scheme of recommended model and identification of associated risks (linked to regional infrastructure projects, the development of regulatory framework etc.) and measures to tackle these risks. General view on how the off-grid (e.g. biogas, LNG, i.e. not connected to transmission or distribution networks) gas market development could influence grid gas market developments in the region should be presented as well.

The study should take due account of the recommendations in ACER's "Bridge to 2025" conclusions paper and the updated Gas Target Model published in January 2015, as well as the requirements of Network Codes developed in accordance with Regulation No 715/2009 requirements.

For the coordination of TSOs' work related to the development of regional gas market the East Baltic Sea Region Gas Transmission System Operators' (EBTSO) Coordination Group has been established, consisting of representatives from the TSOs in the Baltic States and Finland.

Moreover, on 14 January 2015, following the decisions made by the Prime Ministers of the Baltic States in Tallinn, the Ministers responsible for Energy Policy in Estonia, Latvia, and Lithuania have signed the Declaration on Energy Security of Supply of the Baltic States by which the Ministers have agreed to establishing a Regional Gas Market Coordination Group (RGMC Group), also inviting the representatives from Finland's respective stakeholders to join this group. RGMC Group includes representatives of Finnish, Estonian, Latvian and Lithuanian ministries responsible for energy policy, the National Regulatory Authorities (NRA) and the operators of the key gas infrastructure in the East-Baltic region and amongst other objectives will be focused on facilitate an effectively functioning common regional gas market in the region.

## **2. Scope of the study:**

The following parts and building blocks should be encompassed in the Study:

- I. Analysis of characteristics of the gas markets in the region (Lithuania, Latvia, Estonia and Finland):
  - a. Demand & Supply – Existing & Expected (including the impact of long-term agreements based on the information from public sources and from EBTSO members);
  - b. Market structure;
  - c. Description of the off-grid (biogas, etc.) gas market (ongoing & planned developments);
  - d. Gas Infrastructure – Existing & Planned;
  - e. Legislation & Regulation
    - i. General overview of national legislative & regulatory frameworks and current amendment plans;
    - ii. General overview of EU legal & regulatory context in relation to the national perspective (EU requirements, Gas Target Model, etc.);
  - f. Business Rules (Network Codes, inter-TSO agreements, etc.).

- II. Overview of possible models of regional market development and market integration, including:
  - a. the features of possible regional market models;
  - b. the role and a need of gas infrastructure;
  - c. contribution of different models towards functioning gas market development
  
- III. Comparison of implementation of different models of regional gas market operation in the region should be based on:
  - a. costs & benefits analysis;
  - b. the level of harmonization of legislation and regulation needed;
    - i. need of harmonization of national gas market acts;
    - ii. aligned level of EU Network Codes application;
    - iii. need of harmonization of rules and methodologies to be set by National Regulatory Authorities;
    - iv. identification of further analysis needed in other legislation (taxation and accounting, corporate and licensing, data publishing);
  - c. the estimation of possible congestions within the market zone and investment needs into gas infrastructure to remove the energy bottlenecks;
  - d. other investment needs (including operational expenditure) for:
    - i. gas infrastructure;
    - ii. IT systems (for data transmission, capacity allocation, balancing, dispatching, trading platforms, invoicing, etc.);
    - iii. other (additional bodies/organizational structures, etc.)
  - e. operating models and rules needed for the efficient and transparent operation of certain market model:
    - i. Network & Storage access rules (capacity allocation and nomination, balancing arrangements, setting of the tariffs, congestion management procedures, etc.);
    - ii. storage and LNG terminals' role as integrated part of market models;
    - iii. potential hub structure & trading rules;
    - iv. physical/operational balancing & congestion management arrangements;
    - v. inter-TSO compensation schemes and its regulation;
    - vi. network interoperability and regional dispatching;
  - f. risks and barriers related to the development process.
  
- IV. Recommendations on:
  - a. regional gas market development model with geographical and temporal definition of the market and step-wise approach for market integration;
  - b. implementation scheme of EU requirements;
  - c. level of harmonization of national legislation & regulation;
  - d. investments into gas and related infrastructure and measures;
  - e. gas market rules.
  
- V. Roadmap (including implementation plan & risk analysis)

Executive Summary with the focus on (1) recommendations and (2) the roadmap should be included in the final report of the Study.

The more detailed structure of the Study should be proposed by Contractor in the proposal and agreed in the Inception report.

The EBTSO TSOs shall provide all the necessary non-confidential information which is related to their activity needed to draft the state of affairs.

As an input for the estimation of needed gas infrastructure and possible congestions for various market development models, the EBTSO Coordination Group will provide the needed simulation of different gas flow scenarios of the gas grid to the Contractor. The set of simulated cases should be proposed by the Contractor and agreed between the Contractor and EBTSO Coordination Group during performance of the study.

### **3. Time schedule and the form of the performance of the Study:**

The Contractor should undertake to perform the Study within the following time schedule and forms:

1. **Within 15 days after signing of the Contract** a *kick-off meeting* should be organized afterwards to extensively discuss the Working Plan and approach to perform the Study.
2. **Within 10 days after the kick-off meeting the Contractor** should prepare and submit an *Inception report*, which should include Working Plan with a detailed description of the structure of the Study.
3. **Within 15 days after the delivery of the Inception report a new meeting is held in order to decide the final scope and activities as well as milestones of the Study**
4. **Within 90 days after signing of the Contract** – the Contractor should prepare and submit a *Draft report of the Study* consisting of comparison of different regional market models with initial recommendations on which model should be chosen.  
A *workshop* should be organized afterwards to present the initial results of the Study and extensively discuss the Draft report of the Study.
5. **Within 130 days after signing of the Contract** – the Contractor should prepare the *Draft report of the Study* covering all the Scope of the Study.  
A *workshop* should be organized afterwards to present the initial results of the Study and extensively discuss the Draft report of the Study.
6. **Within 160 days after signing of the Contract** – the Contractor should prepare the *Final report of the Study* covering all the Scope of the Study.

The comments provided by EBTSO Coordination Group contact person during performance of the Study should be duly evaluated by the Contractor.

The meetings/workshops during performance of the Study with BASREC, EBTSO Coordination Group representatives should take place in Baltic States or Finland. The exact locations will be agreed between BASREC and EBTSO Coordination Group members in due time (not later than 7 days prior to the meeting) and communicated to the Contractor. Meetings in other Member States could be agreed by mutual consent.

RGMC Group will be invited by BASREC or EBTSO Coordination Group to take part in the workshops. Other stakeholders could be invited by BASREC or EBTSO Coordination Group initiative as well.

Additional workshops should be organized if needed to discuss the preparation of the Study with BASREC and EBTSO Coordination Group.

#### **Implementation:**

- The tenderer may conduct the study as a single organization or form a consortium or transnational project group comprising several organizations;

- Budget: the budget is limited to MAX EUR 110.000;
- The BASREC Executive Committee will function as the contractor (client) including signing of contracts and invoices for reimbursement to the Danish Energy Agency;
- As account holder the Danish Energy Agency manages the administration and payments according to the contract
- For further information regarding the implementation rules and procedures, see attached Guidelines for BASREC Project Activities;
- The standard Short Term Consultant Contract template is attached;
- The final design of the study is dependent on data availability, and information on political objectives and development of the energy system in the region. To this aim the contractor may interact with representatives from the BASREC member states.

#### **4. Structure of proposal and eligibility criteria:**

Submitted proposals should include:

- Methodology and approach;
- Timetable and milestones;
- Deliverables i.e. reports and presentations;
- A short description of previous research, studies and projects of the tenderer and its experience in the substantive fields;
- Presentation of the tenderer. In case of a consortium, the lead consultant and main responsible persons shall be specified and each of the parties shall be presented;
- A list of the project team (including CV) and respective capacities. The project team should include experts in gas market and gas infrastructure issues, economic analysis, and be with the knowledge of the applicable national and European legislation in the region. The CV's shall include language abilities relevant for the performance of the study;
- The price of the proposal.

#### **Selection criteria:**

The received proposals will be ranked according to the following criteria. The overall assessment is composed of the three criteria weighted according to the percentage:

- Clarity and consistency of the description and approach/methodology (40%)
- Capacity and experience of the participating institution(s) and nominated experts (50%)
- Financial offer (10%)

## **5. About BASREC**

In 1998, the intergovernmental Baltic Sea Region Energy Co-operation (BASREC)<sup>1</sup> was initiated by the Baltic Sea countries and the European Commission.

BASREC's main objective is to promote sustainable growth, security and prosperity in the region and supports therefore the creation of competitive, efficient and well-functioning energy markets. BASREC is promoting energy efficiency and renewable energy measures, along with measures to develop and use new, low-carbon and energy-efficient technologies and Carbon Capture and Storage (CCS) in order to ensure sustained economic growth in the short and long term.

## **6. Deadline for submission and contact details**

A paper copy as well as an electronic version of the proposal should be sent by 22 May 2015 to the following address (on behalf of BASREC):

Danish Energy Agency  
Att: Vivi Yieng Kow or Per Stokholm  
Amaliegade 44  
DK- 1256 Copenhagen  
Denmark  
Email: [vyk@ens.dk](mailto:vyk@ens.dk) or [pst@ens.dk](mailto:pst@ens.dk)

Subject: BASREC Regional Gas Market Project

Questions: tel. +45 33 92 66 or email [vyk@ens.dk](mailto:vyk@ens.dk) , [pst@ens.dk](mailto:pst@ens.dk) or  
Kajali Kotsar tel. +372 617 0026, +372 53 439 63 or email [kajali.kotsar@egv.ee](mailto:kajali.kotsar@egv.ee)

## **Annex: Application Pack**

- Guidelines for BASREC Project Activities;
- Template for standard Short Term Consultant Contract;

---

<sup>1</sup> Governments of Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia and Sweden