St. Petersburg International Gas Forum 2018
- Uniper Round Table -

Gas-to-power in the Baltic region and Latvia –
Reawakening or business as usual?

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For decades natural gas in the Baltic states was exclusively supplied via pipelines from Russia

Overview of physical supply infrastructure in the Baltic region

Key features of the Baltic gas market

- Pipelines from Russia and the Incukalns Underground Gas Storage (“IUGS”) form backbone of regional supply infrastructure
- Construction of LNG terminal in Klaipeda has opened up a new supply opportunity
- However, until now no pipeline connection to western European gas infrastructure/ markets
- Development of a true regional gas market only started after opening of Latvian gas market in April 2017
- Trading activity is picking up but no fully liquid regional trading hub developed yet

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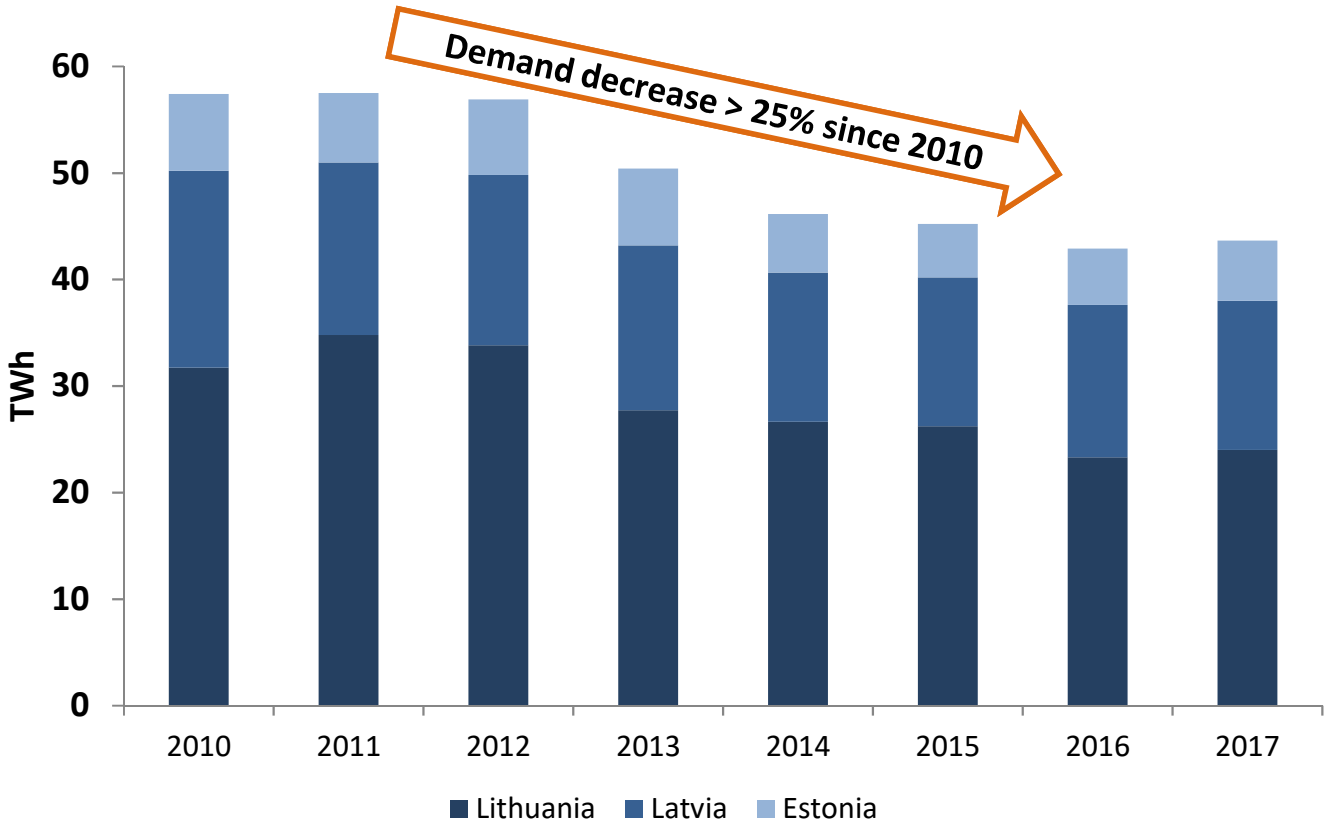
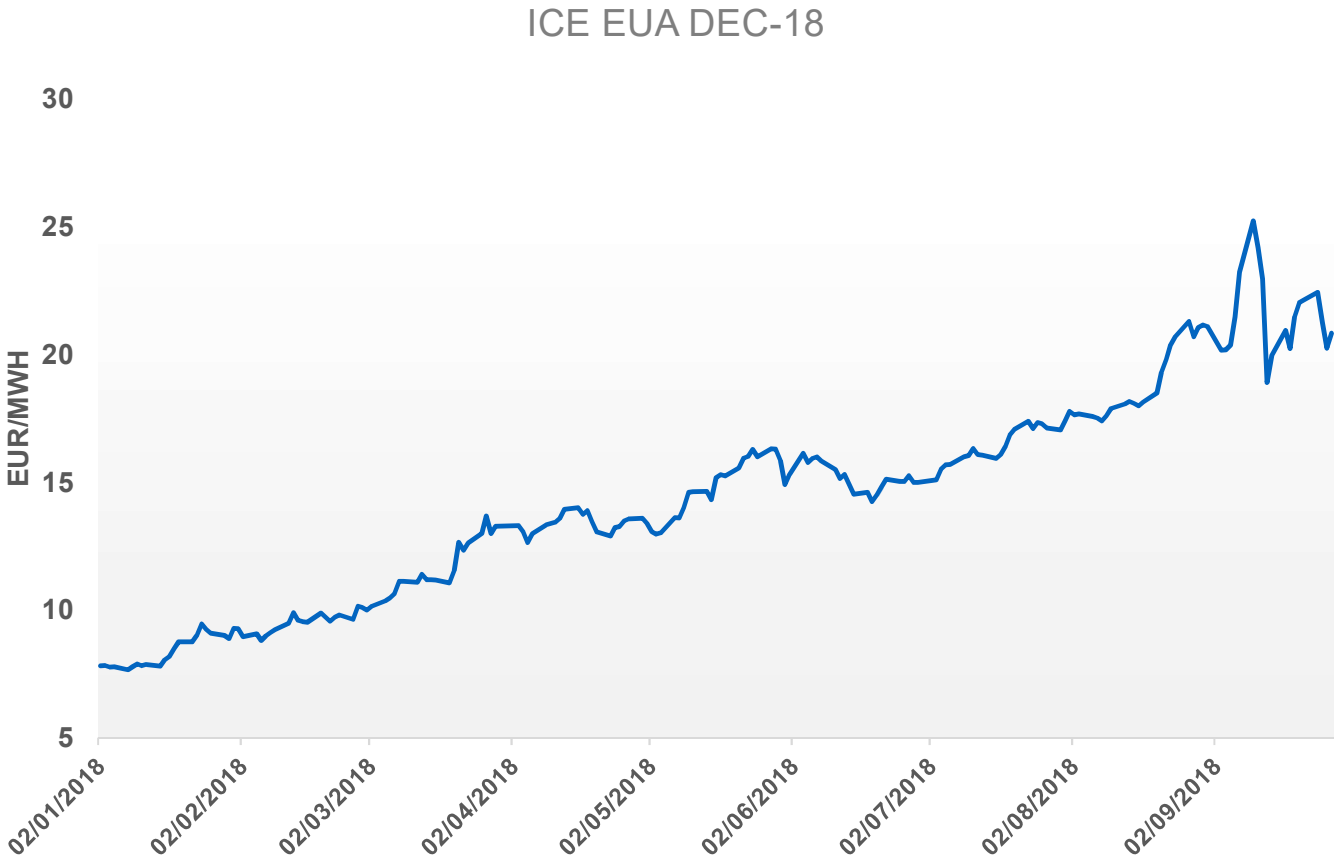
Natural gas demand in the Baltic region dropped significantly since 2010



Source: Central Statistical Bureau of Latvia; ENTSOG; Amber Grid

- Latvian gas market comprises approx. 35 % of Baltic gas market
- Demand decline is in line with developments in major EU gas markets
- Promotion of renewables & energy efficiency are the main drivers behind the demand drop

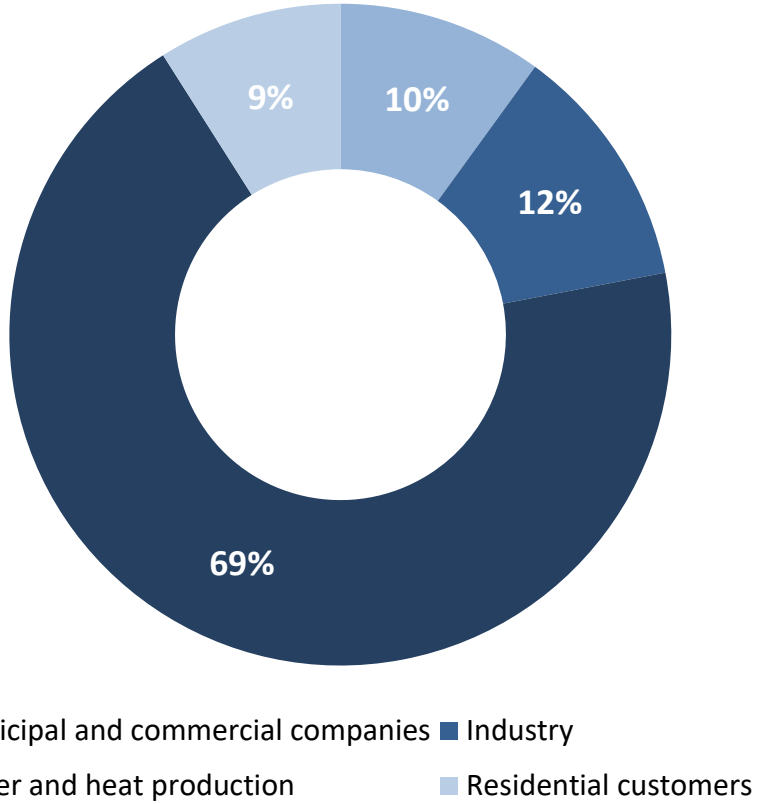
Can gas-to-power reinvigorate natural gas demand in the Baltic region as CO_2 prices are finally increasing?



Source: Reuters

Latvian natural gas demand already today strongly depends on heat and power production

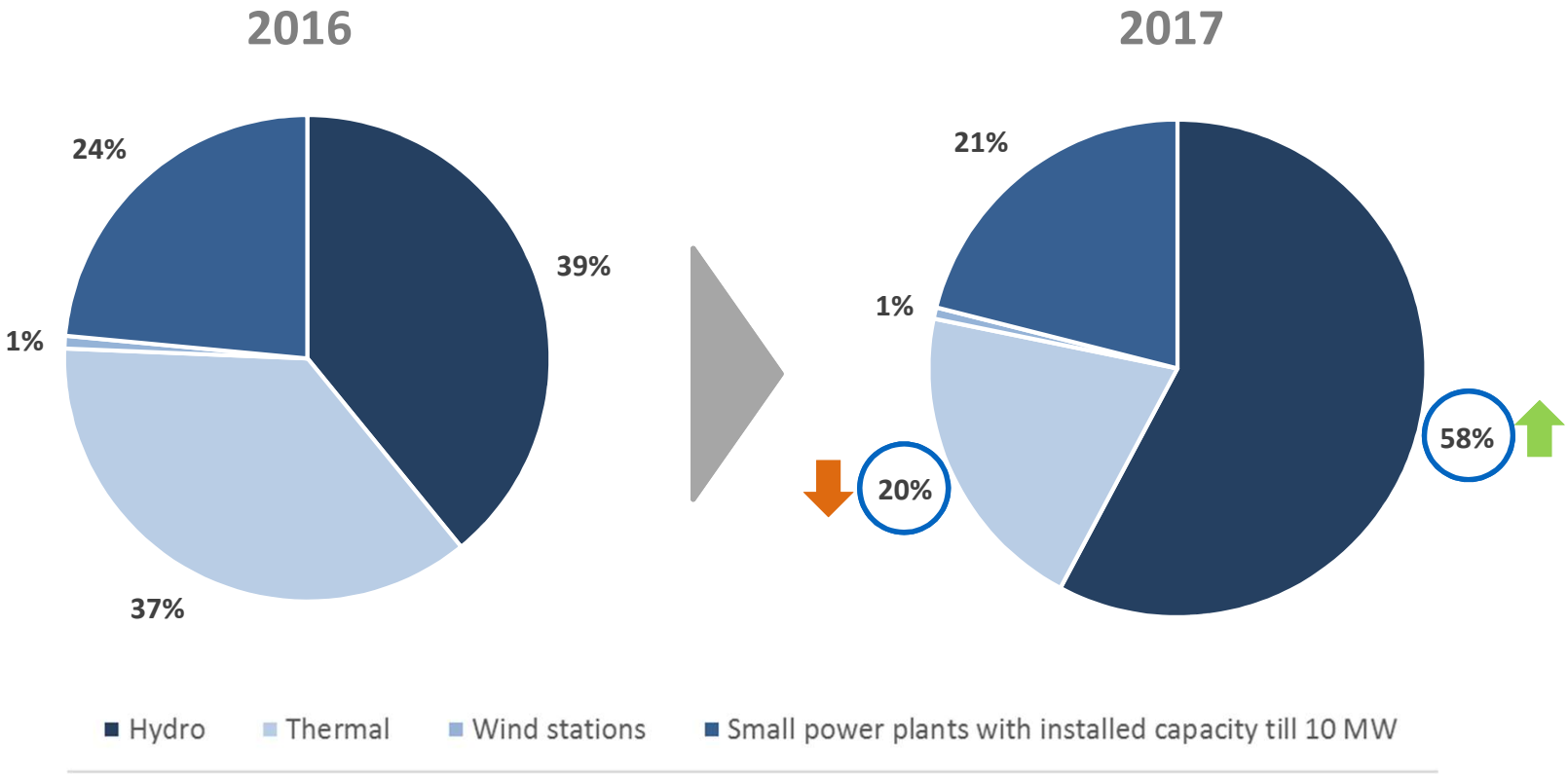
Shares of natural gas by customer groups in Latvia, 2015



Source: ENTSOG, “Gas Regional Investment Plan 2017”

However, due to a high share of renewables gas demand for power generation in Latvia is highly volatile

Composition of Latvian power production by source



Source: http://www.ast.lv/en/electricity-market-review

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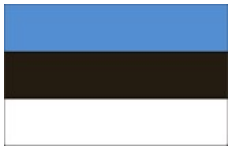
Gas-to-power potential in Lithuania and Estonia currently is rather limited

- **Lithuania** imports approx. 2/3 of its electricity (Latvia, Estonia, Finland, Sweden and Poland)
- Share of electricity generated from renewables resources in Lithuania in 2017 > 50%
- Lithuanian government recently published a new energy strategy with the goal to phase out fossil fuels



- **Estonia** still produces more than 80% of its electricity from shale oil (Narwa power plants)
- However, share of renewables has continuously increased during recent years due to respective state incentive and support schemes

Several factors influence the burning of natural gas in the Baltic power generation segment

Ambient temperatures

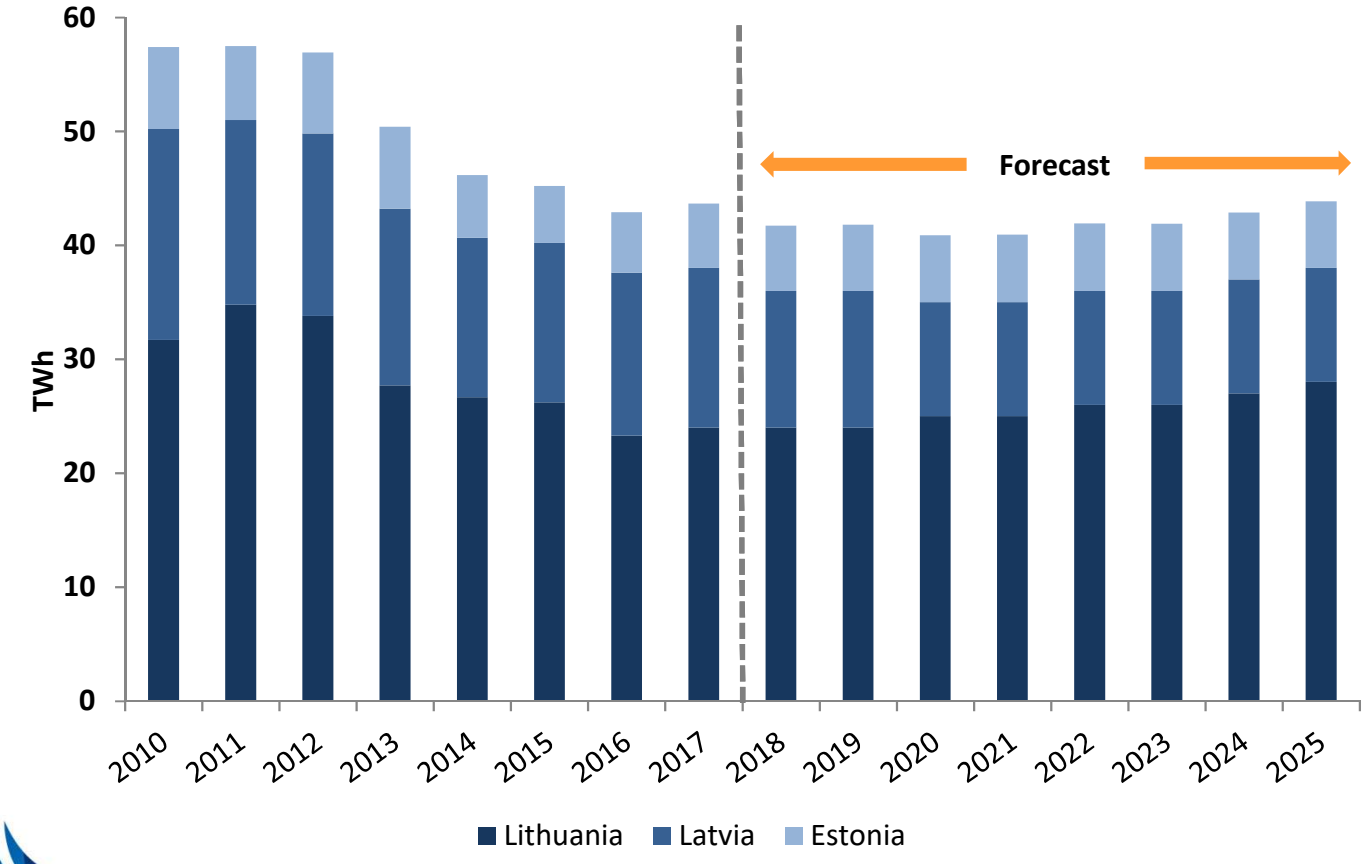
Water levels

Availability of NordBalt cable

Commodity and CO_2 prices

Infrastructure tariffs (e.g. storage tariffs)

No quick recovery of natural gas demand driven by gas-to-power expected in the Baltic region



Source: Central Statistical Bureau of Latvia; ENTSOG; Amber Grid

- Due to a high share of renewables and a strong position of natural gas in power generation already today the growth potential remains limited
- International and local climate policies aim at further increasing the share of renewables
- Stronger growth of gas-to-power in the Baltic region would require significant capital investments (e.g. switch from shale oil to natural gas in Estonia)

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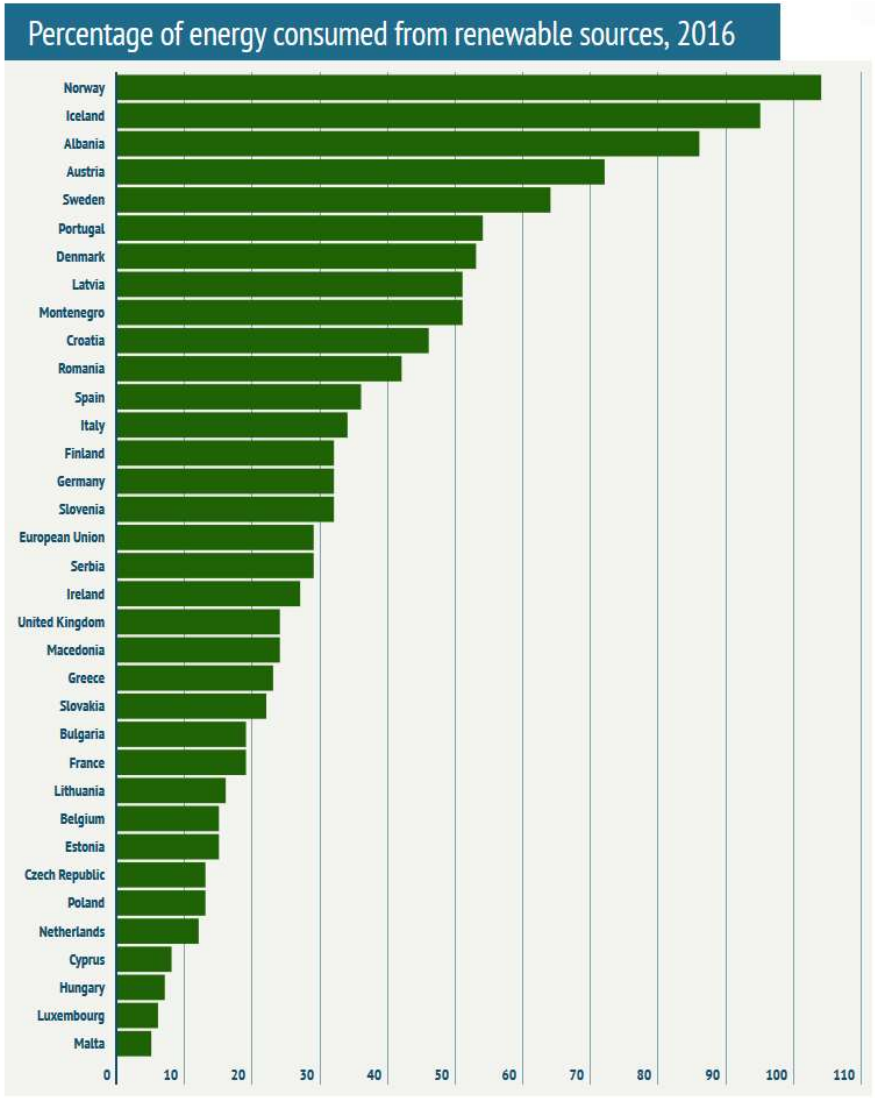
However, potential for gas-to-power varies across Europe depending on share of renewable and generation mix



- Despite limited short-term growth potential for gas-to-power in the Baltics the region may serve as good example for the efficient combination of renewables and the high flexibility of natural gas in covering short-term demand changes.

Source: https://www.euronews.com/2018/09/27/which-european-nations-lead-the-way-with-renewable-energy-euronews-answers

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Thank you!