**Unofficial translation**

**Decision No. 1/29 of the Board of the Public Utilities Commission**Adopted 28 November 2016

**Methodology for the Calculation of the Tariffs on the Natural Gas Transmission System Service**

*Issued pursuant to
Section 15, Paragraph 1.1 of the Energy Law and Section 9,
Paragraph one and Section 26, Paragraph one, Clause 2
of the law On Regulation of Public Utilities*

**1. General Provisions**

1. The methodology for the calculation of the tariffs on the natural gas transmission system service (hereinafter - the Methodology) establishes the procedures for calculating and determining the tariffs on the natural gas transmission system service.

2. The following terms are used in the methodology:

2.1. **consumption of natural gas for technological needs** - natural gas used for ensuring the operation of the natural gas transmission system (hereinafter – transmission system);

2.2. **losses of natural gas** - the difference between the volume of natural gas injected into the transmission system and the volume of natural gas withdrawn from the transmission system within a relevant time period excluding the consumption of natural gas for technological needs;

2.3. **costs** - technologically and economically justified costs of the natural gas transmission system operator (hereinafter – transmission system operator); necessary for efficient provision of a transmission system service;

2.4. **capacity booking service -** transmission system service ensuring the booking of the entry or exit point capacity;

2.5. **national transmission system** - part of the transmission system (branches of the cross-border system which are not used for cross-border transmission of natural gas) for the supply of populated areas with natural gas, together with branches and gas regulation stations of the system operator;

2.6. **cross-border transmission system** - part of the transmission system from the entry point from the transmission system of another country to the exit point leading to the transmission system of another country or to the entry point of a natural gas storage facility;

2.7. **estimated average daily capacity** - the average daily capacity used (kWh/d) at the entry or exit point within the three previous calendar years;

2.8. **regulatory asset base (hereinafter - the RAB)** - assets or part thereof used for effectively providing the capacity booking service by the system operator;

2.9. **single natural gas transmission entry-exit system** – a number of directly connected natural gas transmission systems of European Union Member States, among which there are no commercial interconnection points and within which transmission costs are not directly attributed to a particular transmission route;

2.10. **virtual counter flow capacity product** - transmission system capacity for the opposite direction of actual flow within a definite time period at a specific entry or exit point, at which it is physically impossible to provide natural gas in the opposite direction and in the opposite direction to the current of the actual technological regime of a natural gas storage facility which may be booked by a system user.

3. The terms used in this Methodology shall have the same meaning as in Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter – Regulation 2017/460).

4. The length of the regulatory period and the tariff period shall be three gas years, if the regulator has not made a decision of a different length of the regulatory period or the tariff period until the 15th of January of the starting year of the regulatory period or the tariff period. Regulatory period and tariff period shall start on the 1st of October of the relevant year.

5. Allowed revenue shall cover the total costs of capacity booking service within the regulatory period. The calculation of the allowed revenues shall be in compliance with the provisions set out in Section 3 of this Methodology.

6. If there are more than one tariff period within a regulatory period, the allowed revenues shall remain unchanged during regulatory period unless there are changes in the costs of securing natural gas supply that are applied to a tariff period and are determined in compliance with Paragraph 40 of this Methodology.

7. If there are more than one tariff period within a regulatory period, the planned revenue within the tariff period are changed in accordance with revenue adjustment set out in Chapter 3.4. and costs of securing natural gas supply that are applied to the tariff period in accordance with Paragraph 40 of this Methodology.

8. The system operator shall present all costs in thousands of euros (thousands of EUR) and the entry and exit point capacity in whole numbers of kilowatt hours per day (kWh/d).

**2. Total** **entry and exit capacity of the transmission system**

9. For the purpose of determining transmission system total entry capacity, the capacity at entry points from other transmission systems within the single natural gas transmission entry-exit system shall not be taken into account. Total entry capacity of the transmission system shall be calculated according to the following formula:



where

Pie - the entry capacity of the transmission system (kWh/d);

nie - the number of entry points from another transmission entry-exit system;

Pie c(i) - the estimated daily average capacity (kWh/d) of the entry point from another transmission entry-exit system i;

nie b - the number of entry points from biomethane production facilities;

Pie b(i) - the estimated daily average capacity (kWh/d) of the entry point from the biomethane production facility i;

nie lng - the number of entry points from liquefied natural gas facilities;

Pie lng(i) - the estimated daily average capacity (kWh/d) of the entry point from the liquefied natural gas facility i;

nie kr – the number of entry points from natural gas storage facilities;

Pie kr. - the estimated daily average capacity (kWh/d) of the entry point from a natural gas storage facility.

10. For the purpose of determining transmission system total exit capacity, the capacity at exit points from other transmission systems within the single natural gas transmission entry-exit system shall not be taken into account. Total exit capacity of the transmission system shall be calculated according to the following formula:



where

Piz - the exit capacity of the transmission system (kWh/d);

niz - the number of exit points from another transmission entry-exit system;

Piz c(i) - the estimated daily average capacity (kWh/d) of the exit point from another transmission entry-exit system i;

niz kr – the number of exit points to natural gas storage facilities;

Piz kr. - the estimated daily average capacity (kWh/d) of the exit point from a natural gas storage facility.

Piz v - the estimated daily maximum capacity (kWh/d) of the exit point envisaged for supplying users in Latvia.

11. Concurrently with the draft tariff, the system operator shall submit a justification if the estimated daily average entry or exit point capacity is adjusted.

**3. Planned Revenue to be Included in the Tariff Calculation**

12. The planned revenue for a tariff period covers the costs of capacity booking to be included in tariff calculation. Planned revenue for a tariff period shall be calculated according to the following formula:



where

IePSO - planned revenue of a tariff period (EUR);

IPSO – total costs of capacity booking service (EUR);

IPSO ef – the amount of the capacity booking service costs to be reduced by the system operator by improving the efficiency of the use of assets and other resource as well as operational efficiency (EUR);

ITC – balance of revenues and costs regarding to the inter-transmission system operator compensations of transmission system operators of the single natural gas transmission entry-exit system that in accordance with the inter- transmission systems operator compensation terms and conditions is attributed to the system operator (hereinafter – inter-transmission system operator compensation) (EUR).

13. Regulator, observing comparable efficiency indicators from European Union and Latvian energy transmission operators as well as other objective indicators, may determine cost efficiency coefficient for the regulatory period. While determining the efficiency coefficient, regulator considers system operator’s justified opinion regarding efficiency coefficient level and its impact on the secure operation of the transmission system. Cost efficiency coefficient shall be applied to a part of the costs of capacity booking service to determine the cost level that the system operator shall achieve until the beginning of the next regulatory period and what will be used in tariff calculations for next regulatory period. The cost amount for providing capacity booking service that the system operator must reduce by improving the efficiency of the use of assets and other resource as well as operational efficiency shall be calculated according to the following formula:



where:

Iekor – revenue adjustment attributed to cross-border and national transmission system (EUR);

Isist – costs of securing natural gas supply (EUR);

Inod(st, nac) – taxes applicable to cross-border and national transmission systems (EUR);

Kef – cost efficiency coefficient.

14. If regulatory period is longer than a year, the amount for which the system operator has to reduce the costs of capacity booking service by improving the efficiency of the use assets and other resource as well as operational efficiency is equal for all tariff periods. Following a justified request from system operator, the regulator may authorise the application of a different approach for allocating the total amount for which the system operator has to reduce the costs of capacity booking service to each tariff period within the regulatory period.

15. In the formulas specified in Paragraph 12. and 13 of this Methodology the inter- transmission system operator compensation shall be taken into account if the single natural gas transmission entry-exit system is established.

16. Inter-transmission system operator compensation amount shall be determined in accordance with the single natural gas transmission entry-exit systems inter-transmission system operator compensation terms and conditions

17.The system operator shall accurately and unambiguously specify and include in tariff calculation only such costs that are applied to provision of capacity booking service.

18.The system operator shall use the cost allocation model whose basic principles and introduction shall be coordinated with the regulator.

19. The costs of capacity booking service to be included in tariff calculation shall be formed of the capital costs of the cross-border transmission system and the national transmission system, operating costs and taxes, applied to the cross-border transmission system and the national transmission system, and the costs shall be shall be calculated according to the following formulas:



where

IPSO st - the costs of the cross-border transmission system (EUR);

IPSO nac - the costs of the national transmission system (EUR).

$$I\_{PSO st}=I\_{kap st }+I\_{ekspl st}+ I\_{nod st}+Ie\_{kor st },$$

where

Ikap st - the capital costs of the cross-border transmission system (EUR);

Iekspl st - the operating costs of the cross-border transmission system (EUR);

Inod st - taxes applicable to the cross-border transmission system (EUR);

Iekor st – revenue adjustment attributed to the cross-border transmission system (EUR).

$$I\_{PSO nac}=I\_{kap nac }+I\_{ekspl nac}+ I\_{nod nac}+Ie\_{kor nac },$$

where

Ikap nac - the capital costs of the national transmission system (EUR);

Iekspl nac - the operating costs of the national transmission system (EUR);

Inod nac - taxes attributable to the national transmission system (EUR);

Iekor nac – revenue adjustment attributed to the national transmission system (EUR).

20. Concurrently with the draft tariff, system operator shall submit justification if the costs of capacity booking service to be included in tariff calculation is not allocated in accordance with paragraph 19 of this Methodology.

**3.1. Capital Costs**

21. Capital costs consist of return on capital and depreciation (amortisation):



where

Ikap (st,nac) - the capital costs of cross-border and national transmission system (EUR);

PKA - the return on capital for cross-border and national transmission system (EUR);

Inol - the depreciation of fixed assets and value of written-off intangible investments for cross-border and national transmission system (EUR).

22. The system operator shall establish such accounting of capital costs which provides an accurate and unambiguous picture of the capital costs of cross-border transmission system and capital costs and the national transmission system. Concurrently with the draft tariff, the system operator shall submit its own explanation of the capital cost allocation method used.

**3.1.1. Regulatory Asset Base**

23. The calculations of the RAB value of the transmission system shall include the residual and the balance sheet value of the fixed assets, the intangible investments and inventories owned and leased by the system operator from the financial statement of the previous year at the 1st of January of the starting year of regulatory period, as well as the payments listed in the assets for participation in international transmission infrastructure projects and commitments arising from decisions on the allocation of investment costs, which have been taken in accordance with Regulation No. 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure and repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009 by excluding financial investments, amounts receivable, securities, participating interest in capital, monetary instruments, the accumulated supplies of gas for sale as well as the value of a part of the fixed assets financed under the financial assistance or financial support of the local government, a foreign state, the European Union, another international organisation and institution. The RAB shall correspond to the value of the capital assigned for the provision of long-term services (equity capital, long-term credits and the relevant part of the leased assets capital).

24. Fixed assets acquired from the assets of users (connection fee) shall not be included in the RAB value; the depreciation of the fixed assets shall not be covered by the tariffs and no return on capital shall be planned for these assets.

25. The balance sheet value of the fixed assets or their parts which are not efficiently used in the provision of capacity booking service shall not be included in the RAB, and their depreciation shall not be covered with a tariff. The regulator may require the system operator to submit an evaluation of the technical condition and the operating life of the fixed assets.

**3.1.2.** **Return on Capital**

26. The RAB and the return rate on capital shall be used for determining the capital costs. The return on capital shall be calculated according to the following formula:



where

RAB (st,nac) - the value of the RAB for cross-border and national transmission system (EUR);

wacc - the weighted average cost of capital (%).

27. The Regulator sets the weighted average cost of capital in accordance with the Methodology of calculating the return rate on capital. The system operator shall apply a different weighted average cost of capital for those assets included in RAB, which have been revaluated and assets included in RAB that have not been revaluated as determined in the Methodology for calculating weighted average cost of capital.

**3.1.3. Depreciation of Fixed Assets and the Write-off of the Value of Intangible Investments**

28. The depreciation of fixed assets and the write-off of the value of intangible investments shall be calculated according to the following formula:



where:

Inol pam (st,nac) - the depreciation of fixed assets for cross-border and national transmission system (EUR);

Inol.nem (st,nac) - the write-off of the value of intangible investments for cross-border and national transmission system (EUR).

29. Depreciation of fixed assets shall be calculated in accordance with the international accounting standards and the accounting policy adopted by the system operator.

30. If the fixed assets have not been fully used for the provision of a capacity booking service, the calculated depreciation shall be adjusted in accordance with efficient use of the fixed assets.

31. The write-off of the intangible investment value shall be calculated for the research and development costs of the system operator, the costs arising from concessions, patents, licences, trademarks and other intangible investments (except for the intangible value of the system operator) by taking into account the international accounting standards and the accounting policy adopted by the system operator.

**3.2. Taxes**

32. The immovable property tax shall be calculated only from the assets included in the RAB in accordance with the laws and regulations.

**3.3. Operating Costs**

33. The operating costs of the cross-border transmission system shall be calculated according to the following formula:



where:

Iekspl,st - the operating costs of the cross-border transmission system (EUR);

Itehn proc,st - the costs of natural gas transmission losses and of ensuring technological processes of the cross-border transmission system (EUR);

Ipers,st –staff and social costs of the cross-border transmission system (EUR);

Irem,st - the costs for the current operating repairs necessary and performed for the maintenance of property of the cross-border transmission system (EUR);

Isaimn, st - other costs of economic activity of the cross-border transmission system (EUR).

34. The operating costs of the national transmission system shall be calculated according to the following formula:



where:

Iekspl,nac - the operating costs of the national transmission system (EUR);

Itehn proc,nac - the costs of natural gas transmission losses and of ensuring technological processes of the national transmission system (EUR);

Ipers,nac –staff and social costs of the national transmission system (EUR);

Irem,nac - the costs for the current operating repairs necessary and performed for the maintenance of property of the national transmission system (EUR);

Isaimn, nac - other costs of economic activity of the cross-border transmission system (EUR).

Isist – costs of securing natural gas supply (EUR).

35.The costs of natural gas transmission losses and of ensuring technological processes of cross-border and national transmission system are related to the difference between the volume of natural gas supplied to the transmission system and the natural gas withdrawn from the transmission system within a particular time period which is formed by the losses of natural gas transmission and the consumption of natural gas for technological needs. The costs of natural gas transmission losses and of ensuring technological processes shall be calculated according to the following formula:



where:

Itehn proc (st,nac) – the costs of natural gas transmission losses and of ensuring technological processes of cross-border and national transmission system (EUR).

Izud (st,nac) – the payment for the losses of natural gas in the cross-border and national transmission system (EUR);

Iteh (st,nac) - the payment for the consumption of natural gas for technological needs in the cross-border and national transmission system (EUR)

Ezud (st,nac) - the estimated losses of natural gas in the cross-border and national transmission system (kWh)

Eteh (st,nac) - the estimated consumption of natural gas for technological needs in the in the cross-border and national transmission system (kWh);

Czud - the estimated average price of the losses of natural gas (EUR/kWh).

36. Staff and social costs of the cross-border and national transmission system shall be calculated in accordance with the Labour Law and the laws and regulations governing the field of social insurance.

37. The costs of the current operating repairs (necessary and performed for the maintenance of property and the costs of works necessary for the maintenance in working order and preservation of the fixed assets (buildings, structures, equipment, etc.) of the cross-border and national transmission system assets and administration assets which are leased by the system operator and are in the accounting balance sheet thereof, and performed by other merchants shall be written off and recorded in the accounting period during which they have arisen. This position also includes financing costs of accumulated natural gas supplies respecting the according turnover cycle and applying the incurred interest rate. The costs of maintaining natural gas supplies are estimated considering necessary volume of natural gas supply considering continuous provision of capacity booking service and compliance with requirements of the security of supply. If the incurred interest rate, that is applied to financial costs of maintaining accumulated natural gas supplies are greater than the six month average variable interest rate for (new) short term loans (euro) (comparable to the volume of the accumulated supplies to be maintained) for non-financial institution published by Bank of Latvia, the costs of maintaining accumulated natural gas supplies are set at the six month average variable interest rate for (new) short term loans (euro) (comparable to the volume of the accumulated supplies to be maintained) for non-financial institution published by Bank of Latvia. Capitalised repair costs and costs concerning the development of new assets and financing costs of maintaining related natural gas supplies shall not be recorded into this balance item.

38.Other costs of economic activity of cross-border and national transmission system are the costs related to the economic activity of the system operator, which are not recorded under other balance items of costs.

39.Costs of securing natural gas supply related to the obligation of system operator stipulated in the Cabinet of Ministers Regulation to ensure necessary natural gas withdrawal capacity from Inčukalns underground gas storage facility during the energy crisis, shall be included in the draft tariff in accordance with the actual, justified amount. These costs are to be recovered in two gas years starting from the moment the costs are incurred.

**3.4. Regulatory Account (Revenue Adjustment)**

40.The system operator shall create a regulatory account, where the difference between planned revenue and revenue obtained are attributed after the end of each gas year distinguishing between revenue attributed to the cross-border transmission system and the national transmission system. Planned revenues for the gas year are determined considering forecasted weighed average entry and exit capacity of the transmission system and the corresponding approved entry or exit point tariffs on capacity products.

41.The system operator shall submit to the regulator, within two months after the end of the gas year, information regarding the regulatory account balance and its justification.

42.Where the length of the regulatory and tariff periods is the same, the revenue adjustment as defined in Paragraph 19 of this Methodology that is attributed to cross-border or national transmission system shall be determined as follows:

42.1. if the regulatory account balance is negative (revenue obtained is below planned (allowed) revenue), revenue adjustment is equal to regulatory account balance and it increases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next regulatory period;

42.2. if the regulatory account balance is positive (revenues obtained is surpass the planned (allowed) revenues), revenue adjustment is equal to regulatory account balance and it reduces the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next regulatory period;

42.3. if the incurred costs of capacity booking service (at cost-group level) during the previous regulatory period are lower than the approved costs of capacity booking service (at cost-group level) (hereinafter – cost savings), the system operator shall submit justification for the said deviation. Revenue adjustment is equal to cost savings and the planned costs of the capacity booking service attributable to the system users for the next regulatory period shall be reduced for cost savings. If the cost savings are derived from operational efficiency, the revenue adjustment component is equal to 50% of cost savings;

42.4. if due to changes in regulatory framework or due to mitigation of extraordinary event there have been unforeseen justified costs during previous regulatory period, revenue adjustment is equal to justified unforeseen costs and it increases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next regulatory period.

43.Where there is more than one tariff period within the regulatory period the revenue adjustment as defined in in Paragraph 19 of this Methodology that is attributed to cross-border or national transmission system shall be determined as follows:

43.1. if the regulatory account balance is negative (revenues obtained are below revenues planned), revenue adjustment is equal to regulatory account balance and it increases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next tariff period;

43.2. if the regulatory account balance is positive (revenues obtained is surpass the revenues planned), revenue adjustment is equal to regulatory account balance and it reduces the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next tariff period;

43.3. if due to changes in regulatory framework or due to mitigation of extraordinary event there have been unforeseen justified costs during previous regulatory period, revenue adjustment is equal to justified unforeseen costs and it increases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next tariff period.

44.Where there are several tariff periods within the regulatory period, the revenue adjustment as defined in Paragraph 19 of this Methodology that is attributed to cross-border or national transmission system shall be determined as follows:

44.1. if regulatory account balance is negative (revenues obtained are below revenues planned), allowed revenue adjustment is equal to regulatory account balance and it increases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next regulatory period;

44.2. if the regulatory account balance is positive (revenues obtained is surpass the revenues planned), revenue adjustment is equal to regulatory account balance and it decreases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next regulatory period.

44.3. if the incurred costs of capacity booking service (at cost-group level) during the previous regulatory period are lower than the approved costs of capacity booking service (at cost-group level) (hereinafter – cost savings), the system operator shall submit justification for the said deviation. Revenue adjustment is equal to cost savings and the planned costs of the capacity booking service attributable to the system users during next regulatory period shall be reduced for cost savings. If the costs savings are derived from operational efficiency, the revenue adjustment component is equal to 50% of cost savings;

42.4. if due to changes in regulatory framework or due to mitigation of extraordinary event there have been unforeseen justified costs during previous regulatory period, revenue adjustment is equal to justified unforeseen costs and it increases the costs of capacity booking service determined in Paragraph 19 of this Methodology for the next regulatory period.

45.When determining the revenue adjustment laid down in Paragraphs 42 to 44 of this methodology, account shall be taken of the difference between the planned and the actual inter-transmission system operator compensation.

**4. Allowed Revenue Allocation Principles**

46. The planned revenues for a tariff period shall be divided into revenue of cross-border transmission system and national transmission system. The cross-border and national transmission system revenue shall be allocated respectively to cover the costs of cross-border and national transmission system calculated in accordance with the Paragraph 19 of this Methodology, considering the amount of costs of capacity booking service which the system operator must reduce by improving the efficiency of the use of assets and other resources as well as operational efficiency and inter-transmission system operator compensation. The cost of capacity booking service to be reduced by the system operator by improving the efficiency of the use of assets and other resources as well as operational efficiency and inter-transmission system operator compensation shall be allocated between cross-border transmission systems in accordance with cost allocation methodology.

47. In calculating the planned revenue for tariff period to be recovered from the revenue of capacity booking of the entry points from other transmission entry-exit systems and the exit points to other transmission entry-exit systems, the system operator shall apply the total revenue allocation coefficient 0.50 to the revenue for booking the entry point capacity and the total revenue allocation coefficient 0.50 for booking the exit point capacity. Concurrently with the draft tariff, the system operator shall submit a justification if the revenue allocation coefficients are adjusted.

40. The system operator shall specify the revenue allocation coefficient for the entry point from the natural gas storage facility and the exit point to the natural gas storage facility between the transmission system and the exit point for supplying gas users in Latvia (Kreg), as well as the discount applicable to the tariffs for the entry point from the natural gas storage facility and the exit point to the natural gas storage facility (Dkr). The system operator may specify the discount applicable to the entry point from the liquefied natural gas facility. Concurrently with the draft tariff, the system operator shall submit the justification for the defined coefficient and the amount of the discount.

**5. Calculation of the Tariffs on the Yearly Standard Capacity Products**

49. Tariffs on the yearly standard capacity product for entry points from another transmission entry-exit system shall be calculated according to the following formula:

$$T\_{ie (g)}=\frac{Ie\_{PSO st}×V\_{ie}×\left(1-\frac{P\_{ie kr}}{P\_{ie}}×D\_{kr}×K\_{reg}\right)}{P\_{ie}-P\_{ie kr}×D\_{kr}}$$

where:

Tie (g) - the tariff on the yearly standard capacity product for entry points from another transmission entry-exit system (EUR/kWh/d/year);

IePSO st – the planned revenue for the tariff period attributed to the cross-border transmission system (EUR);

Vie – planned revenue allocation coefficient for revenues from standard capacity product booking at the entry points from another transmission entry-exit system;

Pie kr - the forecasted daily average capacity at the entry point from a natural gas storage facility for the tariff period (kWh/d);

Pie - the entry capacity of the transmission system for a tariff period (kWh/d);

Dkr - the discount applied to the tariffs on capacity products of the entry point from a natural gas storage facility and the exit point to a natural gas storage facility;

Kreg - the revenue allocation coefficient for the entry point from the natural gas storage facility and the exit point to the natural gas storage facility between the transmission system and the exit point for supplying gas users in Latvia;

50. The tariff on the yearly standard capacity product for the entry points from a natural gas storage facility shall be calculated according to the following formula:



where:

Tie.kr (g) - the tariff on the yearly standard capacity product for the entry point from a natural gas storage facility (EUR/kWh/d/year).

51. The tariff on the yearly standard capacity product for exit points to another transmission entry-exit system shall be calculated according to the following formula:



where:

Tiz (g) - the transmission system tariff on the yearly standard capacity product for the exit points to another transmission entry-exit system (EUR/kWh/d/year);

Viz –planned revenue allocation coefficient for revenue from standard capacity product booking at exit points from another transmission entry-exit system;

Piz - the exit capacity of the transmission system for tariff period (kWh/d);

Piz kr - the forecasted daily average capacity at the exit point to a natural gas storage facility for tariff period (kWh/d).

52. The tariff on the yearly standard capacity product for the exit point to a natural gas storage facility shall be calculated according to the following formula:



where:

Tiz.kr (g) - the tariff on the yearly standard capacity product for the exit point to a natural gas storage facility (EUR/kWh/d/year).

53. The charge for the use of the exit point for supplying gas users in Latvia shall be proportional to the estimated amount of natural gas supplied to the gasified objects which are connected to the transmission and distribution system of natural gas and it shall be calculated in the following way:

$$K\_{pārv}=\frac{Ie\_{PSO nac}+Ie\_{PSO st}×D\_{kr}×K\_{reg}×\left(\frac{P\_{ie kr}×V\_{ie}}{P\_{ie}}+\frac{P\_{iz kr}×V\_{iz}}{P\_{iz}}\right)+T\_{iz (g)}×P\_{iz v}}{Q\_{nod liet (g)}}$$

where:

Kpārv - the charge for the use of the exit point for the supplying gas users in Latvia (EUR/kWh);

Qnod liet - the forecasted amount of natural gas supplied within the tariff period to the gasified objects which are connected to the transmission and distribution system of natural gas (kWh);

IePSO nac – planned revenue for the tariff period attributed to the national transmission system (EUR).

**6. The Size of Multiplier and the Seasonal Factor**

54. Concurrently with the draft tariff, the system operator shall submit the economic justification for the size of multipliers used in the draft tariff by taking into account the system operator's obligation to ensure efficient use of the transmission system for the provision of the capacity booking service and for covering the total costs of the capacity booking service.

55. The congestion multiplier of the transmission system entry and exit points, shall be calculated according to the following formula:



where

Kpārsl - the congestion multiplier of the transmission system entry and exit points;

P - the congestion probability of the transmission system entry and exit points.



where:

n - the estimated number of standard capacity products replaced with the capacity products to be interrupted;

La - the estimated average duration of the replacement of one standard capacity product (h);

L - the total duration of the replacement of the relevant standard capacity product by the capacity product to be interrupted (h);

Na - the estimated average amount of the capacity replaced at one standard capacity product replacement (kWh/d);

N - the total capacity of the replacement of the relevant standard capacity product with the capacity product to be interrupted (kWh/d);

If the calculated congestion multiplier equals to 0, the congestion multiplier which is equal to 0.05 shall be used for the calculation of tariffs.

**7. Calculation of the Tariffs on the Short-term Standard Capacity Products**

56. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for the entry points from another transmission entry-exit system shall be calculated according to the following formula:



where:

Tie(c,m,d,dl) - the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for entry points from another transmission entry-exit system;

S(c,m,d,dl) - the seasonal factor for the quarterly, monthly, daily and within-day standard capacity products;

d - the number of days in the period when the short-term standard capacity product is used;

G - the number of days in the year when the tariff is applied.

57. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for exit points to another transmission entry-exit system shall be calculated according to the following formula:



where

Tiz (c,m,d,dl) - the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for exit points to another transmission entry-exit system.

58. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for the entry point from a natural gas storage facility shall be calculated according to the following formula:



where:

Tie kr (c,m,d,dl) - the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for the entry point from a natural gas storage facility.

59. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for the exit point to a natural gas storage facility shall be calculated according to the following formula:



where:

Tiz kr(c,m,d,dl) - the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for the exit point to a natural gas storage facility.

60. The tariff on the short-term standard capacity product for the entry point from a natural gas storage facility during natural gas injection and for the exit point to a natural gas storage facility during natural gas withdrawal shall be calculated in accordance with the formula laid down in Paragraph 66 of this Methodology.

**8. Calculation of the Tariffs on the Interruptible Capacity Product for the Entry and Exit Points**

61. Tariff on the yearly interruptible capacity product for entry points from another transmission entry-exit system shall be calculated according to the following formula:



where;

Tat ie,(g) - the tariff on the yearly (EUR/kWh/d/year) interruptible capacity product for entry points from another transmission entry-exit system.

62. Tariffs on the quarterly, monthly, daily and within-day interruptible capacity products for entry points from another transmission entry-exit system shall be calculated according to the following formula:

,

where:

Tat ie (c,m,d,dl) - the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) interrupted capacity product for entry points from another transmission entry-exit system

63. Tariff on the yearly interruptible capacity product for exit points to another transmission entry-exit system shall be calculated according to the following formula:



Where:

Tat iz,(g) - the tariff on the yearly (EUR/kWh/d/year), interrupted capacity product for exit points to from another transmission entry-exit system.

64. Tariffs on the, quarterly, monthly, daily and within-day interrupted capacity products for exit points to another transmission entry-exit system shall be calculated according to the following formula:

,

where:

Tat iz (c,m,d,dl) - the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) interrupted capacity product for exit points to another transmission entry-exit system.

**9. Calculation of the Tariffs on the Products of the Virtual Counter Flow Capacity to be Interrupted**

66. Tariffs on the yearly products of the virtual counter flow capacity to be interrupted at the entry and exit points shall be calculated according to the following formula:



where:

Tp.virt(ie.,iz,)(g) --the tariff on the yearly (EUR/kWh/d/year), product of the virtual counter flow capacity to be interrupted at the entry or exit point.

66. Tariffs on the quarterly, monthly, daily and within-day products of the virtual counter flow capacity to be interrupted at the entry and exit points shall be calculated according to the following formula:



where:

Tp.virt(ie.,iz,) (c,m,d,dl) --the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) product of the virtual counter flow capacity to be interrupted at the entry or exit point.

**10. Tariff Setting Procedure**

**10.1. Development and Submission of a Draft Tariff**

67. The system operator shall develop a draft tariff pursuant to this Methodology by calculating the planned revenue for the tariff period necessary for covering the costs of capacity booking service.

68. The system operator shall calculate the tariffs in such a way that the total planned revenue for the tariff period does not exceed the justified costs of the system operator attributed to the capacity booking service.

69. The system operator shall calculate tariffs for the single natural gas transmission entry-exit system as followed:

69.1. calculate the tariffs on the standard capacity product with the assumption that Latvian transmission system is not a part of the single natural gas transmission entry-exit system;

69.2. calculate the tariffs on the standard capacity product with the assumption that Latvian transmission system is a part of the single natural gas transmission entry-exit system;

69.3. if the tariffs on standard capacity products for entry or exit points from another transmission entry-exit system, calculated in accordance with Sub-paragraph 62.9. of this Methodology are different from those agreed between the transmission system operators and regulatory authorities of the single natural gas transmission entry-exit system, the change in planned revenue for the tariff period is attributed to the charge for the use of the exit point for the supplying gas users in Latvia.

70. Each year, by 1 February, the system operator shall submit in writing and in electronic form (tariff and tariff composing cost calculations in Excel format) to the regulator the following items for evaluation:

70.1. tariff calculations specified in Sub-paragraph 69.1. and 69.2. of this Methodology, allowed revenue and corresponding justified costs for the regulatory period starting from 1 October of the according year concurrently with the cost justification including information on any changes in cost levels in comparison with the previous regulatory period, explanations and cost justification documents in accordance with regulator’s regulations on tariff composing cost justification as well as planned revenue and the corresponding costs for the tariff period;

70.2. information on the forecasted inter-transmission system operator compensation and its justifications for the regulatory period and the tariff periods within the regulatory period;

70.3. information on the revenue from the capacity booking service and the actual total costs of the transmission system capacity booking service for the previous regulatory period.

71. Except for the case specified in Paragraph 70 of this Methodology, by 1 July of the starting year of tariff period, the system operator shall submit in writing and in electronic form (tariff and tariff composing cost calculations in Excel format) to the regulator the following items for evaluation:

71.1. change in costs as specified in Paragraph 39 of this Methodology in comparison with the pervious tariff period, explanation and justification documents in accordance with regulator’s regulations on tariff composing cost justification;

71.2. information on revenue adjustment that is to be attributed to the planned revenues for the tariff period.

72. The system operator may submit to the regulator a justified request for authorisation to set tariffs itself pursuant to this Methodology.

**10.2. Evaluation of the Draft Tariff**

73. The regulator shall approve or reject the tariffs by evaluating the justification of the costs on which they are based.

74. During the evaluation of the draft tariff, the system operator may submit adjustments and additions to the draft tariff.

75. If the regulator has granted authorisation pursuant to Paragraph 1.1, Section 15 of the Energy Law, the system operator shall determine the tariffs itself in accordance with this Methodology by taking into account the following procedures:

71.1. if the system operator takes a decision on new tariffs then the tariffs shall be published in the official gazette “*Latvijas Vēstnesis*” not later than two months before the beginning of the gas year when the new tariffs enter into effect. Concurrently, the system operator shall submit to the regulator the tariffs, the tariff justification and information on the actual costs of the previous tariff period, the estimated data of the new tariffs, as well as comparison tables which indicate changes in the planned revenue and the corresponding costs for the tariff period and other documents justifying the need for the new tariffs;

71.2. within 21 days after the receipt of the tariffs, the regulator shall evaluate the compliance of the submitted tariffs with this Methodology and their economic justification;

71.3. if within 21 days after the receipt of the tariffs the regulator has not taken a decision on the non-conformity with this Methodology or has not rejected the economic justification of the tariffs, they enter into effect on the first day of the relevant gas year;

71.4. if within 21 days after the receipt of the tariffs the regulator takes a decision on the non-conformity of the submitted tariffs with this Methodology or rejects the economic justification of the tariffs, they do not enter into effect on the first day of the relevant gas year. Within 7 days after the regulator has taken the decision, he or she shall send it to the system operator and publish a notification in the official gazette "*Latvijas Vēstnesis*" about the decision in which he or she cancels its entry into effect.

76. While approving the tariffs the regular may specify the procedure for the tariff application in regulatory and tariff period.

**11. Closing Provisions**

77. The system operator, while preparing tariff project with will enter into force on 1 January 2020 takes into account the following:

77.1. the regulatory period and tariff period shall be from 1 January 2020 till 30 September 2022.

77.2. for the calculation of the charge for the use of the exit point for supplying gas users in Latvia shall include the adjustment for costs of securing natural gas supply which were incurred in 2018 and 2019. The adjustment shall be determined taking into account the costs of securing natural gas supply to be covered as well as costs actually recovered;

77.3. for the regulatory period from 1 January 2020 to 30 September 2022, the system operator shall indicate the charge for the use of the exit point for supplying gas users in Latvia in the form of a table at the various costs of securing natural gas supply with 100’000 EUR increments. Concurrently with the tariff project the system operator shall submit justification for the chosen highest and lowest level of the costs of securing natural gas supply used to determine the charge for the use of the exit point for supplying gas users in Latvia.

77.4. RAB value is determined as for the 1January 2019

78. The Paragraph 4 of this Methodology shall enter in force on 1 January 2020.

79. Decision No. 1/29 of the Public Utilities Commission of 28 November 2016, Methodology for the Calculation of Natural Gas Transmission Service Tariffs (*Latvijas Vēstnesis*, 2016, No. 236), shall be repealed.

80. This Methodology shall enter into effect on the day following the publication thereof in the official gazette *Latvijas Vēstnesis*.

Acting Chair of the Board of the Public Utilities Commission, Commissioner I.Birziņš