



**VALSTYBINĖ ENERGETIKOS REGULIAVIMO TARYBA  
NATIONAL ENERGY REGULATORY COUNCIL**

Verkiu str. 25C-1, LT-08223 Vilnius, Lithuania  
Tel. +370 5 213 51 66. Fax. +370 5 213 52 70. E-mail. rastine@vert.lt

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Public Utilities Commission

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**REGARDING FINAL CONSULTATION DOCUMENT ON THE APPLICATION OF THE  
METHODOLOGY FOR THE CALCULATION OF TARIFFS ON THE NATURAL GAS  
TRANSMISSION SYSTEM SERVICE**

On the 8<sup>th</sup> of August 2019 fulfilling the requirements of the Article 26(1) and 28(1) of the European Commission Regulation (EU) No. 2017/460 of 16<sup>th</sup> of March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter – TAR NC), Public Utilities Commission published a document on the application of the methodology for calculation of tariffs on the natural gas transmission system service (hereinafter – Consultation Document).

National Energy Regulatory Council<sup>1</sup> (hereinafter – the Council) has reviewed the Consultation Document and we would like to take the opportunity to express our views on the Consultation Document.

The Council supports the Public Utilities Commission's preference to apply a postage stamp reference price methodology. In our point of view, the postage stamp methodology has many attractive features: the simplicity, economic efficiency and facilitation of competition criteria.

However, the Consultation Document contains some specific statements, which raise the following doubts or questions for the Council:

- 1) According the Consultation Document the national transmission system or local branches are indicated in the Latvian Consultation Document (Table 2, Table 7), but Consultation Document does not describe on separation principles of national transmission system from cross-border transmission system. Please provide the clarification on mentioned point.
- 2) Indicative transmission tariffs calculations, which are presented for consultation, include costs of securing natural gas supply. According to the Consultation Document, costs of securing natural gas supply are allocated to exit point for supplying gas users in Latvia. Lithuania has the similar situation with LNG terminal costs, which are specified as costs of securing natural gas supply – Lithuanian regulatory principles include the additional security of supply component, it means that costs of securing natural gas supply are separated and do not participate in transmission tariff

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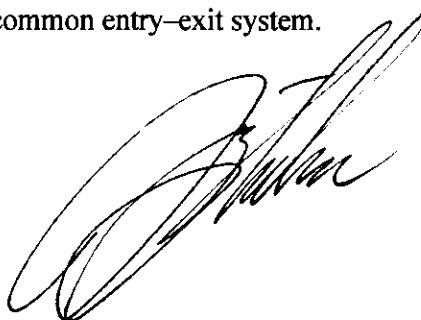
<sup>1</sup> The National Energy Regulatory Council, as a consolidated institution, following the process when the State Energy Inspectorate under the Ministry of Energy has been reorganised by way of merger and joined to the National Commission for Energy Control and Prices, started its activities from 1<sup>st</sup> of July 2019 and took over the economic and technical regulation and market supervision and control functions of energy market in the Republic of Lithuania. The consolidation

calculations at all. In order to avoid cross-subsidisation in transmission activity and also to increase the transparency on mentioned issue, we propose to take into account the Lithuanian case and separate costs of securing natural gas supply from transmission system services tariffs.

- 3) According to the Consultation Document the chosen entry-exit split is 50%/50%. Please share the arguments, how transmission system entry points yearly standard capacity product tariff is equal to 142,77 EUR/(MWh/day/year), exit points – 66,75 EUR/(MWh/day/year), when for determining transmission tariffs 50/50 entry–exit split was applied.
- 4) As the Council understood from Consultation Document (13 page), the capacity–commodity split is 100%/0%. It means that 100 percent of allowed revenues are allocated to capacity products, accordingly, there is no commodity product tariffs at all. Please provide the additional explanation, why for the domestic exit point tariff calculations the quantities are used?
- 5) The Consultation document includes an indicative short term firm capacity product tariffs (Annex 4). Please provide the arguments, why Latvian short term firm capacity product tariffs are different from Estonian short term product tariffs, if agreed transmission pricing principles (equal tariffs on entry points, level of multipliers and etc.) are the same?
- 6) In addition, small remark regarding the construction of the gas interconnector Poland–Lithuania (GIPL). Planned capacity is 58 GWh/day in the direction of Poland.

In conclusion, the Council would like to note that the Council is ready for further cooperation in order to achieve the final goal – integration of the four countries into joint natural gas market and natural gas transmission systems into common entry–exit system.

Chair



Inga Žilienė