

**Summary of proposals and comments on the consultation document on the application of the gas transmission system service tariff methodology pursuant to Article 28 and 26 of European Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas**

Item No.	Proposals and comments	The regulator's view on the proposals or comments
1	<p><b>JSC Conexus Baltic Grid</b>            Consultation Document<sup>1</sup> page 15 and page 24.            Subparagraph 2.7. of the Decision of the Council of the Public Utilities Commission No 1/10 “Methodology for calculating tariffs for the distribution of natural gas transmission system service” (hereinafter - Tariff Calculation Methodology<sup>2</sup>) of 3 July 2019 defines forecasted average daily capacity as the average daily capacity used at the entry or exit point within the three previous calendar years [kWh/d]. The forecasted daily capacity as defined in the Tariff Calculation Methodology with respect to <i>Kiemenai</i> interconnection point does not reflect the actual situation as the economic conditions for the use of <i>Kiemenai</i> interconnection point are envisaged to change significantly, i.e. entry tariff is expected to change significantly, thus reducing the economic attractiveness of using the <i>Kiemenai</i> interconnection point for system users. The Consultation Document according TAR NC Consultation on Methodology on Tariffs of AB Amber Grid for 2020-2023 (hereinafter – LT Consultation Document) published by Lithuanian regulatory authority on 5 March 2019 foresees that there will be no transit in the FinEstLat single natural gas transmission entry-exit system, which means that <i>Kiemenai</i> interconnection point will not be used to supply Lithuanian consumers from natural gas points outside the FinEstLat single natural</p>	<p>On 10 October 2019 the Lithuanian National Energy Council approved the natural gas transmission system operator's JSC Amber Grid (hereinafter - JSC Amber Grid) natural gas transmission system service tariffs for 2020, determining that the yearly standard capacity product tariff for <i>Kiemenai</i> entry point is 142.77 EUR/MWh/day/year and the yearly standard capacity product tariff for <i>Kiemenai</i> exit point is 88.73 EUR/MWh/day/year, as well as at the point of exit from <i>Kiemenai</i> there is applied tariff for the transferred natural gas of 0.06 EUR /MWh.<sup>3</sup></p> <p>The report “On the approval of the JSC Amber Grid natural gas transmission system tariffs”<sup>4</sup> (hereinafter - the Report) states that the entry point tariff is aligned with the tariff applied in the single price zone of FinEstLat countries (Estonia, Latvia, Finland) and tariff is the same for all entry points in order to effectively develop the Baltic and Finnish regional natural gas markets. The natural gas transmission system service tariffs at <i>Kiemenai</i> interconnection point are defined on the basis of the forecasted booked capacity and expected transported quantities of natural gas in 2020. According to the Report, in 2020 the forecasted booked capacity at <i>Kiemenai</i> entry point is 1.067 MWh/day/year and the planned natural gas quantity transmitted 0 kWh; at <i>Kiemenai</i> exit point forecasted capacity - 2.028 MWh/day/year and planned natural gas quantity</p>

<sup>1</sup> <https://www.sprk.gov.lv/en/node/398>

<sup>2</sup> <https://likumi.lv/ta/id/307981-dabasgazes-parvades-sistemas-pakalpojuma-tarifu-aprekinasanas-metodika>

<sup>3</sup> <https://www.regula.lt/Puslapijai/naujienos/2019-metai/2019-spalis/2019-10-10/patvirtintos-ag-gamtiniu-duju-perdavimo-paslaugu-kainos-2020-metams.aspx>

<sup>4</sup> [https://www.regula.lt/SiteAssets/posedziai/2019-10-10/1\\_ag\\_pazyma.pdf](https://www.regula.lt/SiteAssets/posedziai/2019-10-10/1_ag_pazyma.pdf)

	<p>gas transmission entry-exit system. In addition, for the Lithuanian market participants the use of Inčukalns Underground Gas Storage (hereinafter - Inčukalns UGS) will become significantly less favourable, since the expected payment resulting from several addends (Lithuanian exit tariff, Latvian entry tariff, the Inčukalns UGS storage tariff, Latvian exit tariff and Lithuanian entry tariff) will be significantly higher than the expected summer-winter natural gas price spread, which is one of the main economic considerations for the use of Inčukalns UGS. JSC Conexus Baltic Grid has submitted a draft transmission tariffs in which the assessment of gas flows is based on the assumptions contained in the LT Consultation Document.</p>	<p>transmitted - 495 GWh. The LT Consultation Document<sup>5</sup> for Kiemėnai interconnection point provides the same forecasted booked capacity and planned natural gas quantity transmitted<sup>6</sup>. The Lithuanian National Energy Council has considered the assumption of JSC Amber Grid that there will be no natural gas flows from Latvia to Lithuania through <i>Kiemėnai</i> interconnection point in 2020 to be justified.</p> <p>Having assessed the Report and JSC Conexus Baltic Grid comment on The Consultation Document on the application of the methodology for the calculation of the tariffs on the natural gas transmission system service pursuant to Article 28 and 26 of European Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter - the Consultation Document) and taking into account the approved JSC Amber Grid natural gas transmission system service tariffs for 2020, the Public Utilities Commission (hereinafter - the Regulator) concludes that it is reasonable to assume that the natural gas quantity transmitted at <i>Kiemėnai</i> exit point will be 0 kWh. Tariffs are accumulated (tariff ‘pancaking’) when transporting natural gas from one natural gas transmission entry-exit system to another, as well as when transporting natural gas from one natural gas transmission entry-exit system to another, storing natural gas in an underground gas storage facility and transporting it back. As a result of the tariff ‘pancaking’, the cost of transporting natural gas from Latvia to Lithuania will be close to or higher than winter-summer natural gas price spread, thereby excluding natural gas trade incentives between the two countries.</p>
2	<p><b>UAB Ignitis</b> We encourage to create favourable conditions for users of natural gas system to maximize the utilization of all the available infrastructure in the region by reducing any kind of barriers, including tariffs. Based on the market development in a current gas year, both LNG terminal and</p>	<p>Article 7 of the European Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter - TAR NC) states that the reference price methodology must ensure non-discrimination and that a significant volume risk — in particular in relation to transport within an entry-exit</p>

<sup>5</sup><https://www.vert.lt/en/Pages/Updates/Public-Consultation-on-tariff-methodology-and-indicative-2020-2023-tariffs-of-Lithuanian-TSO-implementation-of-the-Networ.aspx>

<sup>6</sup><https://www.regula.lt/en/Pages/Updates/Public-Consultation-on-tariff-methodology-and-indicative-2020-2023-tariffs-of-Lithuanian-TSO-implementation-of-the-Networ.aspx>

underground gas storage is of the interest of market participants and brings value to end consumers in all the Baltic countries and Finland. Klaipeda LNG terminal has a strategic importance for natural gas supply security and diversification for all Baltic States and from 2020 for Finland, since currently it is the only alternative to the pipeline gas in the region. The market participants can effectively use all gas infrastructure and get benefits from gas diversification only by using both LNG terminal and Inčukalns UGS. Therefore, we support the least feasible tariffs at the interconnection points of common gas market zone, including exit tariff from Latvia to Lithuania where two aforementioned natural gas facilities are located. Historical data of current and previous years shows that market participants utilize the interconnection whenever market presents such occasions.

system — should not be taken by end-users in that entry-exit system and that the reference price methodology should not lead to undue cross-subsidisation including between intra-system and cross-system network use. Pursuant to Article 3 (8) and (9) of the TAR NC intra-system network use means transporting gas within an entry-exit system to customers connected to that same entry-exit system; and cross-system network use means transporting gas within an entry-exit system to customers connected to another entry-exit system.

The Tariff Calculation Methodology<sup>7</sup> is focused on avoiding undue cross-subsidisation and requires that the planned revenue of the natural gas transmission system operator for a tariff period shall be divided into revenue of a cross-border transmission system and of a national transmission system, as well as the costs of capacity booking service to be included in tariff calculation shall be formed of the capital costs, the operating costs, taxes and revenue adjustments attributable to the cross-border and national transmission system.

In order to comply with TAR NC requirements, lowering the tariffs at the interconnection points by increasing the charge for the use of the exit point for supplying gas users in Latvia is not possible, because, thus, the intra-system network (national transmission system) and cross-system (cross-border transmission system) use will not be respected and conditions will be created for the national transmission system users to subsidise the cross-border transmission system users.

*Quo vadis* EU gas market regulatory framework – Study on a Gas Market Design for Europe<sup>8</sup> (hereinafter – Study) identifies that the currently applied entry-exit transmission tariff system leads to a tariff ‘pancaking’ effect (accumulation of tariffs to be paid by traders when shipping gas through several zone borders), therefore, the transmission tariff structure can be considered as one of the key barriers to an European Union wide

<sup>7</sup> Decision Nr.1/10 of the Regulator of 3 July 2019 on the methodology for calculating tariffs for transmission of natural gas transmission system — <https://likumi.lv/ta/id/307981-dabasgazes-parvades-sistemas-pakalpojuma-tarifu-aprekinasanas-metodika>

<sup>8</sup> [https://ec.europa.eu/energy/sites/ener/files/documents/quo\\_vadis\\_report\\_16feb18.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/quo_vadis_report_16feb18.pdf)

		<p>integrated natural gas market. It was concluded in the Study that the setting of the intra- European Union cross-border tariffs to zero is leading to increased liquidity between the zones and, therefore, to higher price convergence across the European Union.</p> <p>In order to prevent the tariff ‘pancaking’ and to provide more liquidity to the natural gas market, three countries - Finland, Estonia and Latvia - are developing a single FinEstLat natural gas transmission entry-exit system, which will be operational on 1 January 2020.</p> <p>The Baltic States and Finland continue the active work in order to find an appropriate solution and to ensure the accession of Lithuania to the single natural gas transmission entry-exit system. There are no internal interconnection points within single natural gas transmission entry-exit system, thus, the accession of Lithuania to the FinEstLat single natural gas transmission entry-exit system will facilitate the free movement of natural gas in the Baltic region and utilization of the natural gas infrastructure, including the Klaipeda LNG terminal and Inčukalns UGS.</p>
3	<p><b>JSC AJ Power Gas</b></p> <p>With regards to the Tariff Calculation Methodology, in simple terms, the factors determining the level the natural gas transmission system service tariffs are the total eligible revenue and amount of capacity to which that revenue is allocated in order to obtain the tariffs.</p> <p>Table 6 and 7 of the Consultation Document indicates that the forecasted transmission system capacity has not decreased significantly while the allowed revenue has even fallen comparing them to the <i>status quo</i>. Such development of tariffs effecting factors would suggest that the tariffs could remain at the existing level or even decrease in the next tariff period. However, tariffs for the use of the transmission system mentioned in the Consultation Document have increased several times, apart from the insignificant reduction in the charge for the use of the exit point for supplying gas users in Latvia.</p> <p>JSC AJ Power Gas considers Tariff Calculation Methodology contained in the Consultation Document, which leads to the mentioned tariff increase, to be insufficiently justified. The increase of draft tariffs over the existing situation is mainly due to the setting of all tariffs against the</p>	<p>According to Article 7 of the TAR NC, the reference price methodology has to comply with Article 13 of Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 and with the following requirements:</p> <ul style="list-style-type: none"> <li>– enabling network users to reproduce the calculation of reference prices and their accurate forecast;</li> <li>– taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;</li> <li>– ensure non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments provided for in Article 5 of the TAR NC;</li> <li>– ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;</li> <li>– ensuring that the resulting reference prices do not distort cross-</li> </ul>

reference price of 142.77 EUR/MWh/day/year for yearly standard capacity products at entry and exit points of the transmission system.

The proposed indicative reference price is based on an approximation to the average level of the European Union market, thereby completely ignoring the specificities of the Latvian natural gas supply system and the interests of Latvian end-users. Annex 11 of the Consultation Document demonstrates that the tariffs of the European Union Member States used for setting the reference price differ significantly from one another without justifying the use of average value. In addition, the use of a standard error, which represents both a positive and a negative deviation from the average in statistics, is an action which is illogical and not justified by the transmission system operating costs.

border trade.

Subject to the requirements of the TAR NC, the Tariff Calculation Methodology is aimed at preventing undue cross-subsidisation.

When calculating existing yearly standard capacity product tariffs, the TAR NC requirements were not fully applicable. When calculating the indicative yearly standard capacity product tariffs for the next tariff period and taking into account the requirements of the TAR NC as well as changing market situation due to the establishment of the FinEstLat single natural gas transmission entry-exit system, the pre-existing cross subsidisation between intra-system and cross-system network use is avoided, resulting in a change in the ratio between the costs (and consequently the revenues) attributable to the cross-border and national transmission system. The increase and decrease in the indicative capacity products tariffs are not proportional as the forecasted average daily entry and exit capacity of the transmission system has also changed.

If Latvia operates in the FinEstLat single natural gas transmission entry-exit system, the capacity of *Korneti* entry and exit point and *Karksi* exit point shall not be taken into account in the calculation of the average daily entry and exit capacity of the transmission system. Accordingly, the average daily entry capacity has decreased by 54%, the average daily exit capacity by 7%.

The comparison of the yearly standard capacity product tariffs, determined on the basis of the input data used for existing yearly standard capacity product tariffs applying the cost re-distribution coefficient of 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  $K_{reg}$  used in determining the provisional tariffs referred to in the Consultation Document and the provisional tariffs referred to in the Consultation Document, if FinEstLat single natural gas transmission entry-exit system applies the same entry rates in the single natural gas transmission entry-exit system, is shown in the table below.

### Comparison of tariffs (EUR/kWh/day/year)

Type of tariff	Existing tariffs	Tariffs set using existing input data and the new $K_{reg}$ arrangements	Provisional tariffs if the FinEstLat system has the same entry tariffs	Comparison of the provisional tariff, if the FinEstLat system has the same entry tariffs with the existing tariffs		Comparison of the provisional tariffs, if the FinEstLat system has the same entry rates, with the tariffs using the new $K_{reg}$ procedure	
				Abs.	%	Abs.	%
Yearly standard capacity product tariff for entry points from another transmission entry-exit system	0.0312507	0.1048994	0.14277	0.1115193	356.9	0.0378706	36.1
Yearly standard capacity product tariff for exit points to other transmission entry-exit system	0.0329931	0.2100080	0.0667545	0.0337614	102.3	-0.1432535	-68.2
Charge for the use of the exit point for supplying gas users in Latvia	0.0025327	0.0021813	0.0019722	-0.0005605	-22.1	-0.0002091	-9.6

The comparison of the tariffs confirms the above mentioned, that the changes in the level of indicative tariffs mentioned in the Consultation Document comparing to the existing tariffs are basically due to the changes in the procedures for calculating  $K_{reg}$  and the changes in the forecasted average daily entry and exit capacity of the transmission system have less significant impact.

Based on the agreement between national regulatory authorities of the FinEstLat single natural gas transmission entry-exit system, flat tariffs are determined at entry points of single natural gas transmission entry-exit system using benchmarking and rescaling. As indicated in the Consultation Document, after a careful assessment, the regulatory authorities of Finland, Estonia and Latvia have jointly concluded that the competitive reference price for the entry points is the average yearly entry capacity product tariff of all EU countries (except the Baltic States and

		<p>Finland) for which an uncertainty adjustment was applied (standard error). The following factors justify the conclusion:</p> <ul style="list-style-type: none"> <li>– the reference price at the entry points shall be calculated in such a way that the wider objective of the FinEstLat single natural gas transmission entry-exit system joining the EU common market is taken into account;</li> <li>– reference price at the entry point thus calculated gives a motivating price signal to the natural gas suppliers to ensure compatibility with the changes in the competitive environment after ending the state of isolated market;</li> <li>– reference price at the entry point thus calculated facilitates trade links with the EU's continental market through forward swap transactions;</li> <li>– reference price for the entry point thus calculated motivates third parties to launch their activities in the FinEstLat single natural gas transmission entry-exit system.</li> </ul> <p>On 28 June 2019, the Finnish gas transmission system operator with system responsibility published new gas transmission service tariffs that will be applied to the natural gas transmission system in Finland from 1 January to 31 December 2020<sup>9</sup>. The publication provides that the tariff at the Imatra entry point, the liquefied natural gas entry point and at the biogas virtual entry point is 0.14277 EUR/kWh/day/year.</p> <p>The Estonian Competition Authority by decision No 7-3/2019-054 of 30 September 2019 approved the natural gas transmission system service tariffs for JSC Elering, including tariff for entry points of 0.14277 EUR/kWh/day to be applied to the Estonian natural gas transmission system as of 1 January 2020.<sup>10</sup></p> <p>In light of this, the Regulator, in line with the Agreement between the national regulatory authorities of the FinEstLat single natural gas transmission entry-exit system, will approve the yearly standard capacity</p>
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<sup>9</sup> <https://kaasumarkkina.fi/wp-content/uploads/2019/06/Transmission-tariff-ENG.pdf>

<sup>10</sup> <https://www.konkurentsiamet.ee/index.php?id=18317>

		<p>product tariff for entry points from another transmission entry-exit system of 0.14277 EUR/day/year.</p> <p>The transmission system operators and the national regulatory authorities of the FinEstLat single natural gas transmission entry-exit system are continuing to evaluate the benchmarking methods, in order to choose the most appropriate method to be applied to determine flat natural gas transmission entry-exit system entry tariffs for the next regulatory period.</p>
4	<p><b>JSC AJ Power Gas</b></p> <p>Short - term capacity tariffs are increased significantly by aligning the level of multipliers applied for standard capacity products to the European average. In the opinion of JSC AJ Power Gas, the changes in the structure of tariffs (prices for different term products) included in the Consultation Document are insufficiently justified, because they do not stem from the specific features of Latvian gas supply systems and contradict economic logic, thus reducing the efficiency of the market. Until now, Latvian end-users have been able to benefit from the specifics of the local market infrastructure by storing the cheapest gas purchased during the summer period for winter consumption. Costly short-term capacity products restrict market participants' flexibility in purchasing natural gas, effectively depriving the ability to pass on favourable wholesale prices to end-users. In this situation, the economic benefits of lower natural gas prices will only be available to the system operators, who will be able to dictate higher prices for the use of short-term products. The need for investment signals is cited as an additional justification for the massive short-term tariff increase, but Chapter 2 of Title IV of the Consultation Document states that both the FinEstLat single natural gas transmission entry-exit system and the Latvian transmission system are characterised by excess transmission capacity.</p>	<p>The FinEstLat single natural gas transmission entry-exit system established by Finland, Estonia and Latvia will be operational on 1 January 2020. Thereby, not only the specific features of Latvian natural gas supply system should be taken into account when analysing the indicative entry and exit tariffs and multipliers for short-term capacity products set out in the Consultation Document, but the impact of the applicable multipliers on the entire FinEstLat single natural gas transmission entry-exit system should be assessed. In addition, it should also be noted that the tariff structure of the standard capacity product, as set out in recital 7 of TAR NC, is designed for the purpose : “<i>to promote stability of transmission tariffs for network users, to foster financial stability and to avoid detrimental effects on the revenue and cash flow positions of transmission system operators</i>”.</p> <p>The experience of previous years shows that due to the tariff ‘pancaking’ natural gas traders store natural gas at the Inčukalns UGS only at high summer-winter natural gas price spread, despite a low level of multipliers.</p> <p>One of the objectives of the creation of the FinEstLat single natural gas transmission entry-exit system is to avoid non-justified competition between the entry points of the FinEstLat single natural gas transmission entry-exit system, improving the natural gas trading in the FinEstLat natural gas market and optimising natural gas flows between Finland, Estonia and Latvia. Following that objective, the same multipliers are applied when setting the tariffs for short-term capacity products at the entry points of the FinEstLat single natural gas transmission entry-exit system. The following considerations have been taken into account</p>

		<p>determining the level of multipliers applicable to the FinEstLat single natural gas transmission entry-exit system:</p> <ul style="list-style-type: none"> <li>– the promotion of short-term natural gas trade while maintaining long-term price (investment) signals, given that the relatively low level of multipliers creates an unwanted incentive for system users to make natural gas transmission system capacity bookings as late as possible and increasing accordingly costs which transmission system operator incurs from keeping available capacity for network users with non-yearly bookings;</li> <li>– justified and balanced distribution of costs between network users with a distributed natural gas transmission system service use profile who book longer term capacity products and network users with an unpredictable natural gas transmission system service use profile who book capacity products for the shortest possible period;</li> <li>– there is no physical congestion in the natural gas transmission systems in Finland, Estonia and Latvia which requires more short-term capacity booking incentives;</li> <li>– the use of longer term capacity products reduces the impact of natural gas price volatility on natural gas end-users;</li> <li>– ensuring the financial stability of the transmission system operator as the expected low level of yearly capacity bookings would render the revenue of the natural gas transmission system operator less secure.</li> </ul> <p>In the entire Baltic region both in the FinEstLat single natural gas transmission entry-exit system and in Lithuania, the almost the same multipliers are applied in the pricing of short-term capacity products (see table below) and the tariffs for capacity products are approved by the relevant national regulatory authorities, so there is no system operator in the region that may dictate the higher tariffs for the use of short-term capacity products.</p> <p style="text-align: center;">Multipliers applicable in the Baltic region</p>
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		<table border="1" data-bbox="1256 188 2112 424"> <thead> <tr> <th data-bbox="1256 188 1541 292">Type of standard capacity product</th> <th data-bbox="1541 188 1823 292">A multiplier applicable within FinEstLat single natural gas transmission entry-exit system</th> <th data-bbox="1823 188 2112 292">Multipliers applicable in Lithuania</th> </tr> </thead> <tbody> <tr> <td data-bbox="1256 292 1541 320">Yearly</td> <td data-bbox="1541 292 1823 320">1</td> <td data-bbox="1823 292 2112 320">1</td> </tr> <tr> <td data-bbox="1256 320 1541 349">Quarterly</td> <td data-bbox="1541 320 1823 349">1.1</td> <td data-bbox="1823 320 2112 349">1.1</td> </tr> <tr> <td data-bbox="1256 349 1541 378">Monthly</td> <td data-bbox="1541 349 1823 378">1.25</td> <td data-bbox="1823 349 2112 378">1.25</td> </tr> <tr> <td data-bbox="1256 378 1541 406">Daily</td> <td data-bbox="1541 378 1823 406">1.5</td> <td data-bbox="1823 378 2112 406">1.5</td> </tr> <tr> <td data-bbox="1256 406 1541 424">Within-day</td> <td data-bbox="1541 406 1823 424">1.7</td> <td data-bbox="1823 406 2112 424">1.5</td> </tr> </tbody> </table> <p data-bbox="1256 459 2112 660">The application of higher multipliers facilitates the booking of long-term capacity products, which in turn gives a better signal to the natural gas transmission system operators to manage their investments, since investments in natural gas transmission assets have a long-term perspective and system users benefit from a natural gas transmission system that evolves to increase the efficiency and security of supply.</p>	Type of standard capacity product	A multiplier applicable within FinEstLat single natural gas transmission entry-exit system	Multipliers applicable in Lithuania	Yearly	1	1	Quarterly	1.1	1.1	Monthly	1.25	1.25	Daily	1.5	1.5	Within-day	1.7	1.5
Type of standard capacity product	A multiplier applicable within FinEstLat single natural gas transmission entry-exit system	Multipliers applicable in Lithuania																		
Yearly	1	1																		
Quarterly	1.1	1.1																		
Monthly	1.25	1.25																		
Daily	1.5	1.5																		
Within-day	1.7	1.5																		
5	<p data-bbox="371 676 1240 705"><b>JSC AJ Power Gas</b></p> <p data-bbox="371 705 1240 1150">Although the common natural gas trading zone in theory offers general and in the Consultation Document vaguely formulated advantages, they are nevertheless abstract, while the planned cost increase is quite realistic. As a result of the flat entry tariff application in the single system, Latvian end-users or market participants subsidise the more expensive Estonian and Finnish transmission systems, which is not an optimal solution. JSC AJ Power Gas is of the opinion that a more successful solution would be to cover the costs of the Latvian transmission system by making appropriate change in the charge for the use of the exit point for supplying gas users in Latvia because it is precisely this charge that end-users see in their bills that stimulates efficient use of resources and fully ensures that the service received is paid directly by the consumer, eliminating formation of economically inefficient cross-subsidies.</p>	<p data-bbox="1256 676 2112 884">In view of the requirements of the TAR NC, the Tariff Calculation Methodology is aimed at preventing undue cross-subsidisation. When paying the bill received from the natural gas trader, the Latvian natural gas end-user shall pay for the use of the cross-border transmission system only if the relevant natural gas trader has used the cross-border transmission system for the supply of natural gas.</p> <p data-bbox="1256 900 2112 1139">If the costs of the Latvian natural gas transmission system are covered by a change in the charge for the use of the exit point for supplying gas users in Latvia, a situation is created where the intra-system network use subsidises cross-system network use (the Latvian end-user pays for the use of the cross-border transmission system, regardless of whether the cross-border transmission systems were used for its supply with natural gas or not). This is contrary to the requirements of TAR NC.</p> <p data-bbox="1256 1155 2112 1321">In accordance with Tariff Calculation Methodology the natural gas transmission system service tariffs shall depend on the determined allowed revenue, revenue allocation as well as on capacity booking assumptions. The changes to the indicative tariffs mentioned in the Consultation Document compared to the existing tariffs are mainly due to</p>																		

		<p>the change in the calculation of the cost re-distribution coefficient between the transmission system and the exit point for supplying gas users in Latvia <math>K_{reg}</math> avoiding cross-subsidisation between intra-system and cross-system network use. As a result, the ratio between costs (and revenues, respectively) attributable to the cross-border and national transmission systems have changed. The level of indicative tariffs is also influenced by the changes in the forecasted average daily entry and exit capacity of the transmission system since the capacity of the FinEstLat single natural gas transmission entry-exit system's internal interconnection points is not taken into account when determining tariffs.</p> <p>The Finnish, Estonian and Latvian regulatory authorities decided on the model for the single natural gas transmission entry-exit system on the basis of the conclusions of a study by a consultancy company Baringa Partners LLP on tariff model for the natural gas entry-exit system for the common Baltic-Finnish market (hereinafter - Baringa Study)<sup>11</sup>. Based on the modelling results Baringa Study concluded that consumer welfare is maximised by flat entry tariffs. The intuition behind this result is that flat tariffs across different entry points allow the model, which mimics expected market dynamics, to maximise flow from the lowest marginal cost supply sources.</p>
6	<p><b>Lithuanian National Energy Council</b> 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.</p>	<p>Sub-paragraph 2.5. and 2.6. of the Tariff Calculation Methodology provide that the cross-border transmission system is a part of the natural gas transmission system from the entry point from the transmission system of another country to the exit point to the transmission system of another country or to the entry point to the natural gas storage facility and the national transmission system is a part of the natural gas 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.</p>

<sup>11</sup> [https://www.sprk.gov.lv/sites/default/files/editor/Kosn\\_dokumenti/Tariff%20model\\_Baringa%20Phase%202%20Report\\_Final\\_V3\\_0.pdf](https://www.sprk.gov.lv/sites/default/files/editor/Kosn_dokumenti/Tariff%20model_Baringa%20Phase%202%20Report_Final_V3_0.pdf)

		<p>According to Paragraph 18 of the Tariff Calculation Methodology, the transmission system operator shall use the cost allocation model whose basic principles and introduction shall be coordinated with the regulator. The natural gas transmission system operator shall take into account the definitions of the cross-border transmission system and of the national transmission system when developing the cost allocation method. The natural gas transmission system operator submits to the Regulator the cost allocation method at the same time as the draft tariff and it is approved accordingly, when the Regulator takes a decision regarding the approval of the natural gas transmission system service tariffs.</p>
7	<p><b>Lithuanian National Energy Council</b>  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 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.</p>	<p>According to Paragraph 34 of the Tariff Calculation Methodology, the costs of securing natural gas supply shall be included in the operating costs of the national transmission system and shall only be taken into account when determining the charge for the use of the exit point for supplying gas users in Latvia. Such principle of cost allocation has been established when assessing the results created by the costs of securing natural gas supply: the supply of natural gas during the energy crisis in Latvia has been ensured and the required level of pressure in the natural gas transmission system has been ensured.</p> <p>The natural gas transmission system operator fulfilling its obligation to ensure that the Inčukalns UGS facility maintains a quantity of working gas of not less than 3160 thousand MWh, also provides the pressure level in the natural gas transmission system, because the Inčukalns UGS as an active pressure control facility depends on its inventory level.</p>
8	<p><b>Lithuanian National Energy Council</b>  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.</p>	<p>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 were applied setting the tariffs before the benchmarking exercise, which resulted in an entry tariff of 0.14277 EUR/kWh /day/year and in the appropriate tariff rescaling. As a result of the tariff benchmarking and rescaling the entry-exit split has been changed.</p>
9	<p><b>Lithuanian National Energy Council</b></p>	<p>Given that that no capacity booking is made for the exit point for supplying gas users in Latvia , but the principle “booked as measured” is</p>

	<p>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?</p>	<p>used, the capacity-based transmission tariff for the use of the exit point for supplying gas users in Latvia is converted into the energy charge. For capacity booking at the virtual exit point for the supplying gas users in Latvia principle “booked as measured” is introduced taking into account that:</p> <ul style="list-style-type: none"> <li>– more than 80 % of the services provided to the natural gas transmission system users serve for the needs of Latvian retail market;</li> <li>– the consumption of natural gas by household users and other users of non-daily metered sites is about 10 % of Latvia’s total natural gas consumption and they are characterised by its own intrinsic unpredictability;</li> <li>– the natural gas distribution system operator is not currently in a position to provide accurate allocation data during gas day; and</li> <li>– the natural gas transmission system is technically capable to quench 100% of the winter peak demand.</li> </ul>
10	<p><b>Lithuanian National Energy Council</b> 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?</p>	<p>One of the objectives of the creation of the FinEstLat single natural gas transmission entry-exit system is to avoid non-justified competition between the entry points of the FinEstLat single natural gas transmission entry-exit system, improving the natural gas trading in the FinEstLat natural gas market and optimising natural gas flows between Finland, Estonia and Latvia. Following that objective, the same multipliers are applied when setting the tariffs for short-term capacity products at the entry points of the FinEstLat single natural gas transmission entry-exit system including entry points located in Latvia. The multipliers are as follows:</p>
11	<p><b>UAB “Ignitis”</b> There is a small discrepancy in tariffs presented in Annex 4 of aforementioned consultation documents and consultation carried out by Estonian energy authorities during this summer (ended 26 July 2019). Therefore, please, harmonize calculation methods within one market zone.</p>	<ul style="list-style-type: none"> <li>– for yearly standard capacity product — 1;</li> <li>– for quarterly standard capacity product — 1,1;</li> <li>– for monthly standard capacity product — 1,25;</li> <li>– for daily standard capacity for products — 1,5;</li> <li>– for within day standard capacity product — 1,7.</li> </ul> <p>Article 12 of the TAR NC, which sets out the general provisions for calculating tariffs for standard capacity products, provides for the gradual</p>

		<p>harmonisation of the tariff period and gas year (starting on 1 October of the current year and ending on 30 September of the following year). For the purposes of the harmonisation of the tariff period and the gas year, the gas year 2020 shall start on 1 January 2020 and end on 30 September 2020.</p> <p>The difference between the indicative short term firm capacity product tariffs set out in Annex 4 to the Consultation Document and tariffs set in the Final Consultation Document of the Estonian Competition Authority on tariffs (prices) for Estonia’s natural gas transmission system service<sup>12</sup> is formed because Annex 4 of the Consultation Document sets indicative tariffs for short-term firm capacity product, taking into account that the long-term capacity product tariff is set <u>for a year</u>, while Estonia's Final Consultation Document sets long-term and short-term capacity product tariffs <u>for the gas year 2020</u>.</p> <p>In both consultation documents, a long-term capacity product tariff is set at 0.14277 EUR/kWh/day/year. Applying a long-term capacity product tariff of 0.14277 EUR/kWh/day/year for the gas year 2020, it should be noted that there are 274 days in that gas year, accordingly, the long-term capacity product tariff for the gas year shall be 0.10688 EUR/kWh/day/gas year.</p> <p>Decision No 2019-3/2019 of the Estonian Competition Authority of 30 April 7 on the natural gas transmission system service prices of the JSC Elering is subject to tariffs for both, year 2020 and the gas year 2020<sup>13</sup>. Regarding the tariffs for the natural gas transmission system service, the Regulator will take a decision in line with the aforementioned decision of the Estonian Competition Authority.</p>
12	<p><b>UAB “Ignitis”</b> Shippers value certainty in services (firm capacities) provided by transmission and storage system operators. In order to create such</p>	<p>The procedure for capacity booking and nominations at the entry point from the Inčukalns UGS and at the exit point to the Inčukalns UGS are specified in the Common Regulations for the Use of Natural Gas</p>

<sup>12</sup> <https://www.konkurentsiamet.ee/index.php?id=18309>

<sup>13</sup> <https://www.konkurentsiamet.ee/index.php?id=18317>

	<p>certainty for injection and withdrawal to/from gas storage facility we kindly ask to consider re-introducing entry/exit tariffs into/from natural gas storage facility. This way TSO would allocate the injection and withdrawal capacities via entry/exit products, and storage facility operator would only allocate storage service capacities (1 year, 2 years, market product and/or others). Such amendment would benefit a) national end consumers of Latvia by reducing entry tariff into DSO system, b) contribute to facilitation of operations of shippers in Baltic region c) create simple congestion management mechanism on entry/exit points with storage and d) allow storage operator to have a better planning overview and market participants to avoid situations which has been incurred during the current injection season.</p>	<p>Transmission System (hereinafter – Common Regulations) elaborated by the natural gas transmission system operators Elering AS and JSC Conexus Baltic Grid and approved by Regulator by Decision No 165 of 28 October 2019<sup>14</sup> as well in the Regulations for the Use of Inčukalns Underground Gas Storage Facility (hereinafter – Storage Regulations) approved by Regulators by Decision No Nr.1/10 of 28 May 2018.</p> <p>The above regulation stipulates that the natural gas transmission system operator shall allocate the capacity necessary for natural gas injection to the Inčukalns UGS or withdrawal from the Inčukalns UGS and the storage system operator shall allocate storage capacity.</p> <p>Pursuant to sub-paragraph 4.1.1 of the Common Regulations, capacity allocation mechanism for entry/exit point to Inčukalns underground gas storage facility is governed by legal acts of Latvia applicable to the provision of third-party access services concerning storage facilities. The sub-paragraph 7.1.2 of the Common Regulations states that for entry from Inčukalns underground gas storage and exit to Inčukalns underground gas storage, nomination and renominations must also be in conformity with prevailing legal acts governing access to Inčukalns underground gas storage.</p> <p>Paragraphs 13 and 32 of the Storage Regulations stipulate that for the purposes of booking the storage capacity, the system user may request the capacity product, by submitting an application to the storage system operator in accordance with the application form posted on the website of the system operator regarding the bundled unit capacity product or market product or by submitting trade notification to the transmission system operator, indirectly booking the storage capacity in the amount additionally required for the placement of the natural gas quantity into the storage facility. The system user, willing to place a certain natural gas quantity into the storage facility or withdraw it from the storage facility, shall submit the trade notification to the transmission system operator, specifying the corresponding capacity product code.</p> <p>As regards the operational management of the storage facility “first-come,</p>
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<sup>14</sup> <https://www.vestnesis.lv/op/2019/220.8>

		<p>first-served” principle is generally applied, taking into account the priority of the bundled unit capacity product. The principles of congestion management are laid down in Paragraphs 59 of the Storage Regulations, which provide that in the event of physical congestion the priority is given to the bundled unit capacity product and the principle of proportionality is applied: during the injection of the natural gas to the storage facility the capacity is allocated in proportion to the available storage capacity booked by system user and during the withdrawal of the natural gas from the storage facility - in proportion to the storage capacity booked by system user.</p>
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