



## Main principles of Entry-Exit tariffs

COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonized transmission tariff structures for gas explains that after the introduction of the concept of the entry-exit system by Regulation (EC) No 715/2009, transmission costs are no longer directly associated to one specific route as entry and exit capacity can be contracted separately, and network users can have gas transported from any entry to any exit point. Under this framework, the transmission system operator decides the most efficient way of flowing gas through the system.

Understanding the need to implement these changes on the regional level, as well as the fact that regional framework is foreseen to begin operating, NRAs from Lithuania, Latvia, Estonia and Finland, propose the following solutions:

- I. Interim solution.** The Entry-Exit model applied to the Baltic gas market area, which consists of Estonia, Latvia and Lithuania, starting-up from 2018.
- II. Long-term solution.** The Entry-Exit model applied to common Baltic-Finnish gas market area, which consists of Finland, Estonia, Latvia and Lithuania, expected after 2020 (after the commissioning of Balticconnector). The exact timeline and details will be determined lateron.

The solutions and their principles will be established by Task Force for Gas Transmission Services Pricing and Inter-TSO Compensation Mechanism Application in the Region of Regional Gas Market Coordination Group considering its action plan measures.

Entry-Exit tariffs (hereafter – tariffs) setting methodology preparation is NRAs responsibility, while the creation of inter-TSO compensation (hereafter – ITC) mechanism is TSOs task which NRAs should approve.

### INTERIM SOLUTION (from 2018)

The tariffs setting process consists of three tasks:

- I. determination of annual total allowed revenue for each TSO in the Baltic gas market area or any other decision by the NRAs that limits the TSOs revenues collected from natural gas transmission system users (hereafter – system users);
- II. allocation of annual total allowed revenue to system users' charges on fair and non-discriminatory way;
- III. establishment of ITC mechanism to cover the actual costs incurred for the provision of transmission services for each TSO in the Baltic gas market area.

#### I. Determination of total allowed revenue

During the Interim Solution, each Baltic NRA and TSO assumes allowed revenue as it is stated in the natural gas transmission service tariffs calculation and adoption decision

made by relevant NRA based on national methodology for calculation of tariffs for natural gas transmission system service. Based on TSO's information for tariffs template data<sup>1</sup> for 2016 approximated allowed revenues for TSOs are:

- Estonia 10,2 M€;
- Latvia 31,11 M€;
- Lithuania 49,48 M€.

Total: 90,79 M€

The annual total allowed revenue for TSO should be published 3 months before the tariffs enter into force.

## **II. Allocation of total allowed revenue to system users' charges**

Allowed revenue for each TSO in the Baltic gas market area will be recovered by TSOs through following:

$$\text{Allowed revenue}_{TSO} = \text{Entry revenue} + \text{Exit revenue} \pm \text{ITC}$$

$$\text{ITC} = \pm \text{Deficit/Surplus Allowed Revenue} \pm \text{Compensation for Hosting of Flows}$$

The Compensation for hosting of flows will be calculated based on short-term marginal (incremental) costs and will be paid to the TSO hosting of flows on annual bases. The methodology for calculation of those costs will be prepared by the TSO's and approved by the regulators.

### **1. Entry tariffs**

Entry points with injection of gas to the Baltic gas market area where Entry tariffs apply are the following:

- Narva (EE);
- Värskä (EE);
- Misso (EE);
- Inčukalns UGS (LV);
- Kotlovka (LT);
- Klaipeda LNG (LT).

#### Main principles in designing of Entry tariffs:

- a) As the entry-exit split for Interim Period is 20/80 (entry-exit split based on detailed Lithuanian NRA gas transmission system costs analysis results, which shows that 20/80 entry exit split is cost reflective in Lithuania and agreement between NRAs that mentioned entry-exit split is cost reflective), in total each relevant TSO in the Baltic gas market area has to receive 20% of allowed revenue from sum of Entry tariffs (capacity-based Entry tariffs for short and long-term products):

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<sup>1</sup> Source: NRAs collected information from the template "Questionnaire for tariff modelling" collected at the beginning of 2017.

- Estonia 2,04 M€;
- Latvia 6,22 M€;
- Lithuania 9,89 M€.

Total: 18,15 M€

- All entry points have the same Entry tariff agreed upon by NRAs in the Baltic gas market area (except storage facilities)<sup>2</sup>.
- A discount according to the article 9(1) provisions of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas shall be applied to capacity-based Entry tariffs at entry points from storage facilities (Inčukalns UGS)<sup>2</sup>.
- Short term capacity products tariffs should be applied on the entry points. The tariffs are calculated applying multipliers and seasonal factors, reflecting the variation of usage of the transmission system capacities at the all entry points during the year. The introduction of short term capacity products shall be decided and coordinated between all TSOs in the Baltic gas market area and their pricing determination principles shall be approved by the NRAs.
- Baltic TSOs could apply bundled capacity products.

## 2. Exit tariffs

Exit points (homogeneous group of points) from Baltic gas market area where Exit tariffs apply are the following:

- Estonian domestic exit point;
- Misso exit point (EE to Russia);
- Latvia's domestic exit point;
- Inčukalns UGS exit point (LV);
- Lithuania's domestic exit point;
- Šakiai exit point (LT to Kaliningrad).

### Main principles in designing of Exit tariffs:

- In total, each relevant TSO in the Baltic gas market area has to recover 80% of annual allowed revenue from Exit tariffs:
  - Estonia 8,16 M€;
  - Latvia 24,88 M€;
  - Lithuania 39,58 M€.

Total: 72,62 M€

- Every relevant Baltic NRA calculates Exit tariffs as well as allowed revenues in accordance with national methodology or calculation of tariffs for natural gas

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<sup>2</sup> The ITC mechanism will not include discounts applied on Entry points. The discount will be compensated through Latvia's internal exit point tariff.

transmission system service, taking into account 80% annual allowed revenue for TSO criteria.

### 3. ITC

ITC mechanism will be designed by Baltic TSOs and approved by relevant NRAs in the region. Main principles of ITC design:

- each Baltic's TSO will get annual allowed revenue from sum of Entry tariffs (capacity-based Entry tariffs) which calculation was based on 20/80 costs split plus additional revenue for hosting of flows.
- the compensation for hosting of flows will be calculated based on short-term marginal (incremental) costs and will be paid to the TSO hosting of flows on annual base.
- annual allowed revenue for Latvian TSO will also be covered from Exit tariff applied for Misso exit point if gas is transported from Latvia to Russia.

The payments of netted ITC fees shall be effected between the TSO's. The payments realized through this ITC mechanism shall be accumulated in a system, netted against each other ultimately included in the total allowed revenue base, including the revenue for hosting of flows.

The deficit or surplus of allowed revenue from long-term and short-term capacity products should be allocated between the TSOs applying the proportionality according to the annual allowed revenues principle, including the revenue for hosting of flows.

The payments and receipts resulting from calculations of hosting of flows shall be taken into account by setting of allowed revenue on national level (setting of national exit tariffs).

In case the sum of entry, exit and ITC payments for individual TSO differs from the allowed total revenue, the deficit or surplus shall be treated in same fashion as any other deficit or surplus revenue as per the prevailing regulatory framework.

#### Role of TSOs

It's important to underline the essential role of TSOs in the implementation process. In order to secure the smooth implementation of the model the agreement among the TSOs to implement the ITC scheme is with high importance.

There is an example of calculation, based on the ITC mechanism.

		EE	LV	LT	total
Revenue set by the regulator	m€	9,5	31,1	49,5	90,1
Domestic consumption	GWh	5 000	13 000	25 000	43 000
Transmission tariff today	€/MWh	1,90	2,39	1,98	
Entry	GWh	14 000	0	29 000	43 000
Entry fee	€/MWh	0,4	0,4	0,4	
Revenue from entry	m€	5,6	0,0	11,6	17,2
Exit	GWh	5 000	13 000	25 000	43 000
Exit fee	€/MWh	1,50	1,99	1,58	
Revenue from exit	m€	7,5	25,9	39,5	72,9
<b>Total revenue</b>	<b>m€</b>	<b>13,1</b>	<b>25,9</b>	<b>51,1</b>	<b>90,1</b>
Non-balance	m€	3,6	-5,2	1,6	0,0
Hosting of flows (incremental costs)	m€	0,1	-0,3	0,2	
ITC	m€	-3,5	4,9	-1,4	0,0
Final revenue	m€	9,6	30,8	49,7	90,1

### LONG-TERM SOLUTION (expected after 2020)

The tariffs setting process in the Baltic-Finnish market area is thought to consists of three tasks:

- I. determination of total allowed revenue for each TSO in the Baltic-Finnish market area or any other decision by the NRA that limits the TSOs revenue collected from system users;
- II. allocation of annual total allowed revenue to system users' Entry and Exit charges on fair and non-discriminative ways;
- III. establishment of ITS mechanism covering the actual costs incurred for the provision of transmission services for each TSO in the Baltic - Finnish gas market area.

#### I. Determination of total allowed revenue

Relevant NRAs make national decisions concerning allowed revenue level and relevant TSOs calculate their tariffs according to the level set in NRA's tariffs calculations decision or according to limits defined in relevant national methodology decision.

When applicable allowed revenues are determined annually. The annual total allowed revenue for TSO should be published 3 months before the moment when the tariffs entry into force. The TSOs tariffs should be calculated using one of reference price methodologies (postage stamp, capacity weighted distance, matrix) which will be approved by NRAs. The Entry / Exit split shall be agreed between the NRAs and subsequently the transmission tariffs shall be calculated accordingly using common

Baltic-Finnish gas market area methodology for Entry points reflecting cost-based split. The level of further harmonization principles of allowed revenue calculation is foreseen in the future.

## II. Allocation of total allowed revenue to system users charges

Allowed revenue will be gathered by TSOs through following charges and payments:

$$\text{Allowed revenue}_{TSO} = \text{Entry revenue} + \text{Exit revenue} \pm \text{ITC}$$

$$\text{ITC} = \pm \text{Deficit/Surplus Allowed Revenue} \pm \text{Compensation for Hosting of Flows}$$

The Compensation for hosting of flows is calculated based on methodology prepared by TSOs and approved by the regulators.

### 1. Entry tariff

Entry points with injection of gas to the Baltic-Finnish gas market area where Entry tariffs apply are the following:

- Imatra (FI);
- Narva (EE);
- Värskä (EE);
- Misso (EE);
- Inčukalns UGS (LV);
- Kotlovka (LT);
- Klaipeda LNG (LT);
- GIPL (LT) – after commissioning 2021;
- Biogas producers (all countries).

#### Main principles in designing of Entry tariffs:

- a) In total each TSO in the Baltic-Finnish's gas market area has to receive a regional system cost based average percentage (after the gas transmission system costs analysis is carried out) of allowed revenue from sum of Entry tariffs (capacity-based Entry tariffs for short term and long term products).
- b) Every Entry point has the same Entry tariff. Biogas entry points, where applicable shall have special entry tariff. If the discounts are applicable, they will be compensated through relevant country's internal exit point tariff.
- c) Short term capacity products tariffs should be applied on the entry points. The tariffs should be calculated applying multipliers and seasonal factors, reflecting the variation of usage of the transmission system capacities at the all entry points during the year. For short term capacity products the entry tariffs may vary in order to reflect the utilization level of the gas transmission system. The introduction of short term capacity products shall be decided and coordinated between all the TSOs in Baltic-Finnish gas market area and their pricing determination principles shall be approved by the NRAs.
- d) TSOs could apply bundled capacity products.

## 2. Exit tariff

Exit points (homogeneous group of points) from Baltic-Finnish gas market area where Exit tariff apply are the following:

- Finland's domestic exit point;
- Imatra exit point (FI to Russia);
- Estonian domestic exit point;
- Misso exit point (EE to Russia);
- Latvia's domestic exit point;
- Inčukalns UGS exit point (LV);
- Lithuania's domestic exit point;
- Šakiai exit point (LT to Kaliningrad);
- GIPL (LT) – after commissioning 2021.

Main principles in designing of Exit tariffs:

- a) Each TSO may receive a regional system cost based percentage after the gas market analysis of allowed revenue from Exit tariffs is carried out by NRAs.
- b) Every relevant NRA determines the principles for the TSO to follow when calculating the tariffs in accordance with national legislation, taking into account a regional system cost based average percentage after the gas transmission system costs analysis allowed revenue for TSO criteria.

## 3. ITC

ITC mechanism will be designed by relevant TSOs and approved by the relevant NRAs in the region.

Main principle of ITC design will be, that ITC mechanism will be in place to compensate the other regional TSO's for opening their system for the gas transactions where the amount of gas traded travels through, or can be effected due to the existence of other regional TSO's system. The payments of netted ITC fees shall be effected regularly between the TSO's. The payments realized through this ITC mechanism shall be accumulated in a system, netted against each other and ultimately included in the total allowed revenue base.

The deficit or surplus of allowed revenue from long-term and short-term transmission products may be carried forward using the national regulatory model on annual total allowed revenues principle.

In case the sum of entry, exit and ITC payments for individual TSO differs from the allowed total revenue, the deficit or surplus shall be treated in same fashion as any other excess revenue as per the prevailing regulatory framework.