NATIONAL COMMISSION FOR ENERGY CONTROL AND PRICES

RESOLUTION
REGARDING THE AMENDMENT OF THE RESOLUTION NO O3E-314 OF THE NATIONAL COMMISSION FOR ENERGY CONTROL AND PRICES OF 5 OCTOBER 2018 "REGARDING THE APPROVAL OF THE METHODOLOGY FOR THE DETERMINATION OF THE REVENUE AND PRICES OF THE STATE REGULATED NATURAL GAS TRANSMISSION ACTIVITIES"

_____ of 2019 No O3E-
Vilnius

In accordance with the Article 8(9)(2) of the Law of the Republic of Lithuania on Energy, the Article 7(2)(1), the Article 9(3) of the Law of the Republic of Lithuania on Natural Gas, the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonized transmission tariff structures for gas, the Law No XIII–1782 on the amendment of the Articles 2, 5, 7, 9, 20, 21, 25, 31, 37, 38, 39, 45, 46, 47 of the Law of the Republic of Lithuania on Natural Gas No VII-1973 and of the Annex thereto and on supplementing the Law with section seven[1], and having regard to the certificate No O5E–36 of the Gas Division under the Gas and Electricity Department of the National Commission for Energy Control and Prices (hereinafter referred to as the Commission) of 7 February 2019 "Regarding the amendment of the Resolution No O3E–314 of the National Commission for Energy Control and Prices of 5 October 2018 "Regarding the approval of the methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities", the Commission d e c i d e s :

To change the methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities that was approved by the Resolution No O3E–314 of the Commission of 5 October 2018 "Regarding the approval of the methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities" by recasting it (enclosed hereto).

Inga Žilienė, the Chair of the Commission

APPROVED
by the Resolution No O3E-314 of the National Commission for Energy Control and Prices of 5 October 2018 (version of the Resolution No O3E- of the National Commission for Energy Control and Prices of ____ February 2019)

METHODOLOGY FOR THE DETERMINATION OF THE REVENUE AND PRICES OF THE STATE REGULATED NATURAL GAS TRANSMISSION ACTIVITIES

CHAPTER 1
GENERAL PROVISIONS

1. The methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities (hereinafter referred to as the Methodology) governs the determination of the revenue cap and specific prices of the regulated services (products) of the natural gas transmission system operator (hereinafter referred to as the Operator).

2. The methodology has been prepared in accordance with the Law of the Republic of Lithuania on Energy (hereinafter referred to as the Law on Energy), the Law of the Republic of Lithuania on Natural Gas (hereinafter referred to as the Law on Natural Gas), the description of the natural gas accountancy procedure approved by the Order No 1–245 of the Minister of Energy of the Republic of Lithuania of 27 December 2013 "Regarding the approval of the description of the natural gas accountancy procedure", the Resolutions of the Government of the Republic of Lithuania, other legal acts of the Republic of Lithuania, and with regard to Regulation (EC) No 715/2009 of 13 July 2009 of the European Parliament and of the Council (EC) on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, the Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013, Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks (hereinafter referred to as the Balancing network code), and other requirements of the European Union legislation, the Opinion No 03/2015 of the Agency for the Cooperation of Energy Regulators of 15 June 2015 "Regarding the conformity of the decision of the National Commission for Energy Control and Prices with the guidelines of the Directive 2009/73/EC, of the Regulation (EC) No 715/2009, and with other relevant provisions of this Directive and of the Regulation", Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter referred to as the Tariff network code).

3. The terms used in the Methodology:

3.1. **Baseline long–term natural gas transmission capacity** (hereinafter referred to as the Capacity) – the estimated forecasted contracted transmission long-term capacity for a period of five years expressed in MWh daily per year. The forecasted deviations of natural gas long-term transmission capacity of that year, to be justified by the Operator, shall be assessed when performing the calculations of the regulated prices for a given year.

3.2. **Basic costs** – the calculated economically justified (requisite) costs of a regulated service for a period of five years. In accordance with the procedure established by the Methodology, the forecasted deviations of the costs for that year, to be justified by the Operator, shall be assessed when performing the calculations of the allowed revenue for a given year.

3.3. **Baseline natural gas quantity** – the calculated transmitted quantity of a natural gas for

a period of five years expressed in megawatt hours, using a baseline superior (gross) calorific value of natural gas. The forecasted deviations of the quantity of a natural gas for the specific year, to be substantiated by the Operator, shall be assessed when performing the calculations of the regulated prices for that specific year.

3.4**. Entry point** – a point to which a market participant delivers natural gas for transmission and where gas transmission begins in the service provider's system.

3.5. **Exit point** – a point where the transmission service provider's system ends and natural gas is delivered to the cross-border points of the transmission system, to interconnection points with Lithuanian natural gas distribution systems, consumer systems directly connected to the transmission system. There are two types of exit points: internal points for delivering natural gas to Lithuanian transmission network users to their delivery points or to natural gas distribution stations, and external points for delivering natural gas to cross-border points.

3.6. **Local network** – items of property of transmission system used for transmitting gas only to Lithuanian natural gas users.

3.7. **Annual costs** – the calculated economically justified (requisite) costs of a regulated service for a period of one year.

3.8. **Neutrality charge –** a charge amounting to the difference between the amounts received or receivable and the amounts paid or payable by the transmission system operator due to performance of its balancing activities which is payable to or recoverable from the relevant network users.

3.9. **Main (primary) network** – items of property of transmission system available to both Lithuanian natural gas users and network users transporting gas through cross-border entry / exit points and/or through Klaipėda liquefied natural gas terminal (Klaipėda LNG terminal).

3.10. **Revenue cap** – the sum of the basic costs of the natural gas transmission service and the return on investment that can be adjusted once a year in the event of a change in the inflation rate, prices of natural gas purchased for technological needs of the Operator, taxes, natural gas quantity and/or capacity of the regulated service, the requirements of legislation, in case the Operator has implemented the investments coordinated with the Commission or has deviated from the indicators established under this Methodology.

3.11. **Postage stamp principle** – the principle of setting reference prices for natural gas transmission services according to which uniform reference prices for natural gas transmission services are determined in the entry points of the natural gas transmission system and uniform reference prices for natural gas transmission services are determined at the exit points of the natural gas transmission system.

3.12. **Reference price –** the price for a capacity product for firm capacity with a duration of one year, which is applicable at entry and exit points and which is used to set capacity-based transmission tariffs.

3.13. **Regulatory account** – account for pricing purposes of natural gas transmission services that is used for collecting information about under- and over-recovered revenue from transmission services, deviations of the basic costs to be adjusted according to the Methodology, non-compliance of return on investment and other reasonable cost / income deviations from the indicators set or harmonised by the Commission that have a significant impact on the Operator's activities.

3.14. **Tariff period** – the time period during which a particular level of reference prices and tariffs are applicable, which duration is one calendar year.

3.15. **Technological costs** – natural gas costs which are incurred by the Operator in ensuringthe transportation of natural gas and to maintain the functional state of the transmission system, and which are classified as follows:

3.15.1. **Fuel and repairs technological costs** – costs incurred by the transmission system operator as a result of the emission of natural gas quantity into the atmosphere during repair or reconstruction works and of the use of natural gas as fuel to service equipment at compressor stations, including mobile compressors, for ensuring gas heating and operating conditions at gas distribution

and metering stations;

3.15.2. **Technological costs of errors and leaks** – losses of natural gas due to errors in measuring devices and systems and/or due to leaks in the natural gas transmission system pipelines.

3.16. **Consumption capacity** – the maximum daily amount of natural gas required by the natural gas network user and / or consumer to meet their maximum natural gas consumption needs at each natural gas delivery point.

4. Other terms used in the Methodology are understood as defined in the Law on Energy, the Law on Natural Gas and other legal acts regulating the natural gas sector.

CHAPTER 2
RULES FOR THE PRICING OF NATURAL GAS TRANSMISSION ACTIVITIES

5. The Commission sets revenue cap for a 5–year regulatory period. The regulatory period for natural gas prices can be changed by a reasoned decision of the Commission. The Commission must inform the Government or an authority designated by the Government about the decision to change the regulatory period for natural gas prices. The application of the Commission's decision on the change of the regulatory period for natural gas prices shall commence not earlier than after the end of the previous regulatory period for natural gas prices.

6. The prices of regulated transmission services are subject to a long-term price mechanism, i.e. the revenue cap for a tariff period (for one year) is set, and it is adjusted for the second and subsequent tariff period (for one year) of the regulatory period by setting the adjusted revenue.

7. The price of balancing services of a natural gas transmission system is determined by calculating a neutrality charge.

8. The aspects listed below shall be taken into account when the Commission sets the revenue cap and approves the prices of the regulated services determined by the Operator not exceeding the revenue cap:

8.1. the scope of the costs of regulated activities, including return on investment, established and actually allocated by the Commission to transmission business unit and to relevant services (products) during the previous regulatory period;

8.2. the quantities of transmission services (products) actually provided during the previous regulatory period;

8.3. in case of start–up of new regulated activities – the reasonableness of the volume of the forecasted costs and of the quantities and / or capacities of the forecasted services (products), except where otherwise laid down in the formula for calculating revenue cap or specific price of a relevant service;

8.4. the data of comparative analysis of the comparable or similar natural gas companies of Lithuania and / or European Union countries with has a good practical example that are published in advance on the Commission's website;

8.5. the Operator‘s performance indicators for the previous regulatory period;

8.6. the planned changes in Operator activities during the next regulatory period, including the implementation of investment coordinated with the Commission that will have an impact on the scope of costs, including return on investment, and of the amount and / or capacity of services (products) provided (supplied);

8.7. significant events that will take place after the previous regulatory period, which will affect the size and structure of costs;

8.8. the reasonable size of the costs that were determined during the last inspection of the reasonableness (necessity) of the regulated service costs that was performed by the Commission;

8.9. reasonable significant changes that have a significant impact on the Operator's activities, size and structure of costs.

9. The costs of the regulated service include the economically justified costs that are requisite

for the Operator's regulated activities. The requisite costs are understood as costs that should be incurred by the Operator in order to carry out regulated activities safely and effectively as well as to comply with legal obligations relating to the activities. The actions and costs of the Operator that are not directly related to the regulated activities, the change in the size of the regulatory asset base by which a natural gas company acquires, accumulates, controls and uses financial assets are not included in the cost of the regulated activities.

10. The Operator shall support with help of arguments the planned changes in costs. If the Operator does not provide motives for cost changes or they are not duly substantiated, these costs are not recognized as reasonable. In the case of start-up of new regulated activities, account must be taken of the forecasted costs that the Operator must justify and support with help of arguments, also of forecasted service (product) quantities and / or capacity, except where otherwise laid down in the formula for the calculation of the price of the respective service.

11. The basic quantity and / or capacity shall be determined during the period of validity of the regulated prices, taking into account the amount of service to be realized within one year of the regulatory period separately for each entry and exit point, after estimating:

11.1. the actual annual amount of quantity realized and / or of capacity of the previous period of validity of the regulated prices;

11.2. network user survey data;

11.3. the reasonableness of the reasons given by the Operator as such that determine the actual changes in the amount of the realized quantity;

11.4. the reasonableness of the reasons given by the Operator as such that determine future changes in the amount of the quantity to be realized;

11.5. planned investment during the future period of validity of regulated prices;

11.6. development of other natural gas companies that may influence the baseline quantity, and obligations under the legislation;

11.7. forecasted annual quantity to be realized if a new Operator starts its activities.

12. The Operator shall determine the forecasted purchase price of natural gas, electricity and emission allowances by evaluating the sources of the acquisition, taking into account:

12.1. the formulas or specific prices established in the existing sales or service contracts. If, under the terms and conditions of the sales contracts, the price of the relevant resources is recalculated more than once a year according to the formula, then the weighted average of the forecasted 12-month price must be calculated. The price of the respective resources is calculated on a monthly basis according to the formulas and/or prices set out in the existing sales contracts as per the proportions of the quantities purchased under contracts;

12.2. transactions that have taken place in the natural gas exchange within one year prior to the submission of the data, and the trends of change in the prices of natural gas, electricity, emission allowances during the period of the application of the prices of the regulated services.

13. Investment shall be coordinated with the Commission in accordance with the procedure established by the legal acts. In setting and / or adjusting revenue cap, the Commission shall assess the efficiency of the investments made by the Operator, taking into account the indicators specified in the decision-making documents of the investment coordinated by the Operator with the Commission.

CHAPTER 3
PRICING OF THE SERVICES OF NATURAL GAS TRANSMISSION ACTIVITIES
SECTION ONE
PRICING OF THE SERVICE OF NATURAL GAS TRANSMISSION THROUGH HIGH-PRESSURE GAS PIPELINES

14.The relevant groups of the basic costs, that are attributable to the sales service regulated

by establishing the revenue cap for a period of five years, are assessed:

14.1. Technological costs:

14.1.1. In the case of fuel and repair technological costs, account shall be taken of:

14.1.1.1. average actual quantities of natural gas for fuel and repair technological needs of the last ended four years of the previous regulatory period;

14.1.1.2. the average actual annual quantity of natural gas for fuel and repair technological needs of the last four ended years of the previous regulatory period when quantities of natural gas for fuel and repair technological needs depend on the quantity realized;

14.1.1.3. the reasonableness of the reasons given by the Operator as determining the actual and future changes in quantity of natural gas fuel and repair for technological needs;

14.1.1.4. the influence of the investment implemented during the previous period of validity of regulated prices on the changes of technological costs of natural gas for fuel and repair;

14.1.1.5. the forecasted natural gas purchase price that is determined in accordance with item 12 of the Methodology;

14.1.1.6. deviation of actual fuel and repair technological costs from the costs that were determined by the Commission for the last expired tariff period that the Operator justifies to the Commission;

14.1.2. In case of technological costs of errors and leaks, account shall be taken of:

14.1.2.1. a percentage ratio of technological costs of errors and leaks established by the Commission for the regulatory period with the quantity of natural gas transported by the Operator during the relevant period (which is measured as the amount of gas injected through the entry points), which must not exceed the average of the uncertainties enshrined in the technical documentation of the natural gas measuring equipment installed at the entry points, which must be calculated by evaluating the actual volumes of technological costs of errors and leaks of the previous periods, taking into account the impact of the implemented and new investment in natural gas transmission infrastructure;

14.1.2.2. the influence of the investment implemented during the previous period of validity of regulated prices on the changes of technological costs of natural gas errors and leaks;

14.1.2.3. the forecasted natural gas purchase price that is determined in accordance with item 12 of the Methodology;

14.1.3. In determining the level of technological costs, the account shall be taken of the volume of technological costs resulting from new investments in the natural gas infrastructure, that is determined according to the investments coordinated with the Commission or according to the principles coordinated with the Commission.

14.2. Depreciation (amortization) costs. In case of these costs, account shall be taken of:

14.2.1. the chargeable annual amount of depreciation (amortization) costs of the items of non-current assets that are attributed to the relevant service at the beginning of the year for which the revenue cap is set;

14.2.2. the investments coordinated and implemented in accordance with the procedure established by the Commission;

14.2.3. the adjusting depreciation (amortization) amounts attributable to the relevant service, that must be determined if, during the previous period, the Operator for some reasons had actual deviations from the execution of the long-term regulated activities program (investment program);

14.2.4. planned write-offs or transfers of the items of non-current assets;

14.2.5. The requirements of the Description of the accounting separation of natural gas companies, distribution of costs and of the requirements related to the accounting separation approved by the Resolution No O3-316 of the Commission of 18 July 2013 “Regarding the approval of the Description of the accounting separation of natural gas companies, distribution of costs and of the requirements related to the accounting separation“;

14.2.6. Depreciation (amortizations) costs of new investment (part of investment) financed

with the funds other than the Operator‘s funds are not recognized as reasonable in calculating revenue cap, except for the investment of connecting new consumers and / or systems to the Operator's transmission system, which payback period has not yet ended, and financial flows of return on investment and depreciation costs were calculated in the evaluation of payback of the investment;

14.2.7. The Commission assesses the use of depreciation costs. When investing in relevant activities, the Operator must first use the funds accumulated to cover the cost of depreciation in these activities.

14.3. Operating costs that include repair, maintenance, operating costs, personnel costs (except for wage costs), administrative costs, marketing and sales costs, other distributed costs (hereinafter referred to as – $OPEX_{(excluding\ WAGES)}$). In the case of these costs account shall be taken of:

14.3.1. the annual volume of these costs of the penultimate year of the previous regulatory period that was set by the Commission, or the actual reasonable annual volume of these costs, after evaluating the changes in the average annual consumer price index (hereinafter referred to as the CPI) of the penultimate and last year, adjusted by means of efficiency index of 1%. If the Operator‘s actual reasonable $OPEX_{(excluding\ WAGES)}$ of the penultimate year of the previous regulatory period was lower than that set by the Commission, then the actual reasonable annual volume of these costs must be taken into account. If the volume of the Operator‘s $OPEX_{(excluding\ WAGES)}$ of the penultimate year of the previous regulatory period was higher than that set by the Commission, and the Operator has not justified such over fulfillment, then the annual volume of these costs that was set by the Commission must be taken into account. The actual or established annual volume of these costs shall be calculated on the basis of an additional assessment of the average actual performance achieved over a period of time during which the Operator was promoted, without taking into account the one-off significant cost / income deviations of the Operator, that were justified to the Commission, having a significant impact on the Operator's activities, as well as other cost / income deviations arising from factors beyond the Operator's control, including deviations due to the requirements of the legal acts governing the activities (C_x). The size of $OPEX_{(excluding\ WAGES)}$ is calculated as follows:

14.3.1.1. the economically justified annual $OPEX_{(excluding\ WAGES)}$ size for the first year of the regulatory period is calculated as per the formula (1):

$$OPEX_{t+1(excluding\ WAGES)} = OPEX_{t-1(excluding\ WAGES)} x \left(1 + \frac{I_{t-1} - e}{100}\right) x \left(1 + \frac{I_t - e}{100}\right), \text{ EUR} \quad (1)$$

here:

$OPEX_{t+1\ (excluding\ WAGES)}$ – repair, maintenance, operating costs, personnel costs (except for wage costs), administrative, marketing and sales costs, other distributed costs in t+1 year (during the first year of the regulatory period);

$OPEX_{t-1\ (excluding\ WAGES)}$ – the annual volume set by the Commission or the actual justified volume of the penultimate year of the previous regulatory period of repair, maintenance, operating costs, personnel costs (except for wage costs), administrative, marketing and sales costs, other distributed costs, which is calculated by additionally assessing the average actual performance achieved during the period during which the Operator was promoted, without taking into account the one-off significant cost / income deviations of the Operator, that were justified to the Commission, having a significant impact on the Operator's activities, as well as other cost / income deviations arising from factors beyond the Operator's control, including deviations due to the requirements of the legal acts governing the activities (C_x);

I_t – the change in CPI that was published by the Lithuanian Department of Statistics (hereinafter referred to as Statistics Lithuania) in the last month before submitting the data necessary for the establishment of revenue cap, compared to the same month of the last year, %;

I_{t-1} – the change in CPI in t-1 year, %. It is determined by comparing the CPI of the same month of t-1 year, as in case of I_t, that was published by Statistics Lithuania with the CPI of the same month of the last year (t-2), %;

e – efficiency factor of 1%;

14.3.1.2. in all other years, following the first year of a new regulatory period, $OPEX_{(excluding\ WAGES)}$ volume for each year is set according to the change in CPI that was published by Statistics Lithuania in the last month before submitting the data necessary for adjusting revenue cap, compared to the same month of the last year, and efficiency factor. $OPEX_{(excluding\ WAGES)}$ of the second-fifth year is calculated according to the formula (2):

$$OPEX_{t+n(excluding\ WAGES)} = OPEX_{t+1(excluding\ WAGES)} x\ \Pi_{n=2}^{5}\left(1 + \frac{I_{t+n}-e}{100}\right); \text{EUR} \qquad (2)$$

here:

$OPEX_{(excluding\ WAGES)}$ – repair, maintenance, operating costs, personnel costs (except for wage costs), administrative, marketing and sales costs, other distributed costs in t+n year (during the second-fifth year of the regulatory period);

$OPEX_{t+1\ (excluding\ WAGES)}$ – repair, maintenance, operating costs, personnel costs (except for wage costs), administrative, marketing and sales costs, other distributed costs in t+1 year (during the first year of the regulatory period);

I_{t+n} – the change in CPI that was published by Statistics Lithuania in the last month of the second-fifth year of the regulatory period before submitting the data necessary for adjusting revenue cap, compared to the same month of the last year, %;

e – efficiency factor of 1%;

14.3.1.3. if change in CPI ≤ 1 %, then $OPEX_{(excluding\ WAGES)}$ costs are not adjusted (costs of the same size are left);

14.4. Wage costs (hereinafter referred to as $OPEX_{(WAGES)}$). In case of these costs account shall be taken of:

14.4.1. the annual volume of these costs set by the Commission or the actual justified annual volume of the penultimate year of the previous regulatory period after evaluating the change in average gross monthly salary forecasted by the Ministry of Finance of the Republic of Lithuania and an indicator of efficiency. If the actual justified volume of wage costs of the Operator of the penultimate year of the previous regulatory period was lower than that set by the Commission, the actual justified annual volume of these costs must be taken into account. If the wage costs of the Operator of the penultimate year of the previous regulatory period exceeded those set by the Commission, the annual volume of these costs set by the Commission must be taken into account. The actual or established annual volume of these costs is calculated on the basis of an additional assessment of the average actual performance achieved over a period of time during which the Operator was promoted, without taking into account the one-off significant cost / revenue deviations of the Operator, that were justified to the Commission, having a significant impact on the Operator's activities, as well as other cost / revenue deviations arising from factors beyond the Operator's control, including deviations due to the requirements of the legal acts governing the activities (C_x). $OPEX_{(WAGES)}$ size is calculated:

14.4.1.1. the economically justified size of wage costs for the first year of the regulatory period is calculated as per the formula (3):

$$OPEX_{t+1(WAGES)} = OPEX_{t-1\ (WAGES)} x \left(1 + \frac{\Delta WAGES_t - e}{100}\right) x \left(1 + \frac{\Delta WAGES_{t+1} - e}{100}\right), \text{EUR} \quad (3)$$

here:

$OPEX_{t+1(WAGES)}$ – wage costs in t+1 year (in the first year of the regulatory period), EUR;

$OPEX_{t-1(WAGES)}$ – wage costs in t-1 year (in the penultimate year of the previous regulatory period). The actual or established annual volume of these costs is calculated on the basis of an additional assessment of the average actual performance achieved over a period of time during which the Operator was promoted, without taking into account the one-off significant cost / income deviations of the Operator, that were justified to the Commission, having a significant impact on the Operator's activities, as well as other cost / revenue deviations arising from factors beyond the Operator's control, including deviations due to the requirements of the legal acts governing the activities (C_x), EUR;

$\Delta WAGES_t$ – the forecasted change in average gross monthly salary for t year, %. It is determined according to the last economic development scenario provided by the Ministry of Finance;

$\Delta WAGES_{t+1}$ – the forecasted change in average gross monthly salary for t+1 year, %. It is determined according to the last economic development scenario provided by the Ministry of Finance;

e – efficiency factor of 1%;

14.4.1.2. in all other years, following the first year of a new regulatory period, the volume of these costs for each year is set by evaluating the change in the average gross monthly salary forecasted by the Ministry of Finance for the next year and efficiency index. The wage costs for the second-fifth year of the regulatory period is calculated according to formula (4):

$$OPEX_{t+n(WAGES)} = OPEX_{t+1(WAGES)} x \prod_{n=2}^{5} \left(1 + \frac{\Delta WAGES_{t+n} - e}{100}\right); \text{EUR} \quad (4)$$

here:

$OPEX_{t+n(WAGES)}$ – wage costs in the second-fifth year of the regulatory period, EUR;

$OPEX_{t+1(WAGES)}$ – wage costs in the first year of the regulatory period, EUR;

$\Delta WAGES_{t+n}$ – the forecasted change in average gross monthly salary for the n year, %. It is determined according to the last economic development scenario provided by the Ministry of Finance;

e – efficiency factor of 1%;

14.4.1.3. if the obtained next year value of $OPEX_{(WAGES)}$ costs that are calculated according to formula 3 or 4 is lower than the value of the previous year, then $OPEX_{(WAGES)}$ costs for the next year are left of the same size;

14.4.2. when $OPEX_{(WAGES)}$ is recalculated every year according to the formulas 3 and 4 of the Methodology, the actual data provided by the Ministry of Finance are assessed according to the last economic development scenario, i.e. the previously used forecast data are adjusted according to the actual data;

14.4.3. compulsory social security and guarantee fund contributions which are determined in accordance with the provisions of the legislation in force;

14.4.4. the personnel costs of new infrastructures are determined taking into account the number and qualification of the service personnel provided for in the maintenance requirements of the infrastructure operated by the Operator;

14.5. Tax costs. These costs are determined in accordance with applicable tax legislation. Tax costs are calculated by evaluating the tax costs to be charged for the year before the establishment of revenue cap, and the investment planned in the next one year for which the revenue cap is established (adjusted).

14.6. Return on investment is calculated taking into account:

14.6.1. reasonable rate of return on investment *r* (in percentage) according to formula (5):

$$ROI_{tso} = \frac{r\ x\ RAB_{tso}}{100}\ ; \text{EUR} \quad (5)$$

here:

ROI_{tso} – return on investment attributable to transmission service, EUR;

r – reasonable rate of return on investment *r* (in percentage) is determined according to the weighted average cost of capital (WACC), %;

RAB_{tso} – the value of the regulated assets attributable to the natural gas transmission service calculated according to the formula (6), EUR;

14.6.2. rate of return on investment (hereinafter referred to as WACC) that is determined in accordance with the Methodology for determining the rate of return on investment approved by the Resolution No O3-510 of the Commission of 22 September 2015 "Regarding the approval of the Methodology for determining the rate of return on investment". WACC is determined for the regulatory period and is adjusted on the annual basis taking into account the change in the cost of debt capital;

14.6.2.1. The rate of return on investment, established according to sub-item 14.6.2 of the Methodology, for the Operator's strategically important investment that helps achieve the national and European Union energy policy goals can be increased by the Commission's decision;

14.6.2.2. the rate of return for the investment that is associated with the activities of a natural gas transmission from a third country to a third country that were not regulated before the implementation of the entry-exit model for the transmission system is set by ensuring the payback of this investment made before the introduction of the regulation for the payback period of investment;

14.6.3. the value of the regulated assets (RAB_{tso}) attributable to transmission service (product) that is determined according to the formula (6):

$$RAB_{tso} = T + A – IT – TS– TD – TV – TN + T_{other\ companies}/2 – TA; (EUR) \quad (6)$$

here:

T – the residual (balance) non-revaluated value of non-current tangible and intangible assets of the Operator's transmission service (product) at the end of the year prior to the year for which revenue cap is established or adjusted, EUR;

A – the Operator's stocks that must be held all the time by the Operator, EUR;

IT – the residual value of the Operator's transmission service (product) investment in non-current assets not coordinated with the Commission, EUR;

TS – the value of the assets not put into operation (construction in progress), except for the construction in progress of strategically important investment that helps achieve the national and European Union energy policy goals, if due to this investment the rate of return on investment was not increased by the decision of the Commission according to sub-item 14.6.2.1 of the Methodology, EUR;

TD – the Operator's assets of transmission service (product) acquired for subsidies or grants received, EUR;

TV – the Operator's assets of transmission service (product) acquired for the consumer funds, EUR;

TN – the residual value of the unused, temporarily unused (conserved) assets, EUR;

$T_{other\ companies}$ – part of the assets that was financed by other infrastructural companies because of cost sharing of engineering works, EUR;

TA – the residual value of asset unit or of asset unit component when an asset unit or an asset unit component was renewed (modified) by means of investment coordinated with the Commission before the end of the useful life of that asset unit or asset unit component that was not assessed in the component T of the formula (6), EUR.

14.6.4. the assets leased or transferred on the basis of lending, that are used in the regulated activities of the Operator even when the full scope of unregulated activities is not exercised are included in the value of the regulated assets.

15. The annual revenue of natural gas transmission service (P_{tso}) is calculated according to the formula (7):

$$P_{pso} = S_{tso} + ROI_{tso} + P_{\Delta}.; \text{ EUR} \quad (7)$$

here:

S_{tso} – the set annual basic costs of transmission service are calculated as follows:

$$S_{tso} = OPEX_{(excluding\ WAGES)} + C_L + C_{DA} + OPEX_{WAGES} + C_T; \text{ EUR} \quad (8)$$

here:

$OPEX_{(excluding\ WAGES)}$ – the set operating costs of transmission service are calculated according to sub-item 14.3 of the Methodology, EUR;

$$OPEX_{(excluding\ WAGES)} = C_M + C_P + C_A + C_S + C_O; \text{ EUR} \quad (9)$$

here:

C_M – repair, maintenance and operating costs, EUR;

C_P – personnel costs exclusive of wage costs and social security costs, EUR;

C_A – administrative costs, EUR;

C_S – marketing and sales costs, EUR;

C_O – other distributable costs, EUR.

C_L – natural gas costs for technological purposes calculated according to sub-item 14.1 of the Methodology, EUR;

C_{DA} – depreciation (amortisation) costs calculated according to sub-item 14.2 of the Methodology, EUR;

$OPEX_{WAGES}$ – wage costs, social security costs and costs of contributions to the Guarantee Fund calculated according to sub-item 14.4 of the Methodology, EUR;

C_T – tax costs calculated according to sub-item 14.5 of the Methodology, EUR;

ROI_{tso} – return on investment of transmission activities calculated according to sub-item 14.6.1 of the Methodology, EUR;

P_{Δ} – under- and over recovered revenue from transmission services, deviations of basic costs to be adjusted according to the Methodology, non-conformity of return on investment and other reasonable cost / revenue deviations from the indicators established or harmonized by the Commission which have a significant impact on the Operator's activities and are accumulated in a regulatory account calculated in accordance with the principles set out in section 2 of this Chapter of the Methodology.

SECTION TWO
PRINCIPLES OF THE MANAGEMENT OF REGULATORY ACCOUNT

16. Deviations from the indicators of allowed revenue and basic costs established by the Commission for transmission service are accumulated in the regulatory account (P_{Δ}).

17. The following deviations are accumulated in the regulatory account (P_{Δ}):

17.1. deviation of allowed revenue of transmission service (P_Q) for t-1 year is calculated according to the formula (10);

$$P_{Q,\ t-1} = P_{forecasted,\ t-1} - P_{actual,\ t-1}; \text{ EUR} \quad (10)$$

here:

$P_{Q,\ t-1}$ – deviation of allowed revenue of transmission service for t-1 year, EUR;

$P_{forecasted,\ t-1}$ – forecasted revenue of transmission service for firm and interruptible long-term and short-term services (including revenue for booked, consumption capacity and transmitted quantity of gas) in t-1 year estimated by establishing revenue cap for t year, EUR;

$P_{actual,\ t-1}$ – actual revenue of transmission service for firm and interruptible long-term and short-term services (including revenue for booked, consumption capacity and transmitted quantity of gas) in t-1 year, EUR;

17.2. neutrality charge of imbalance of transmission system (C_{NC}) for t-1 year calculated according to item 44 of the Methodology, EUR;

17.3. actual net revenue of t-1 period received due to the difference in calorific value of natural gas transmitted from a third country to a third country ($P_{calorific}$), EUR;

17.4. non-conformity of return on investment calculated according to items 19-25 of the Methodology (C_G);

17.5. deviations of the costs referred to in item 14.1 of the Methodology and other significant cost / revenue deviations justified to the Commission that have a significant impact on the Operator's activities, and other cost / revenue deviations due to factors beyond the Operator's control, including due to the requirements of the legal acts which govern the activities (C_x).

18. In determining the size of the regulatory account (PΔ), the deviations accumulated in the regulatory account according to sub-items 17.1-17.5 of the Methodology are assessed for the first, second, and fourth year of the regulatory period (after two, four and five years of the regulatory period), while the deviations accumulated according to sub-items 17.1-17.3 and 17.5 of the Methodology are assessed for the third and fifth year of the regulatory period (after the first and third year of the regulatory period).

The regulatory account for the year of the regulatory period (P_Δ) is calculated according to the formula (11):

$$P_\Delta = P_Q - C_{NC} - P_{calorific.} + C_G + C_x;\ EUR \qquad (11)$$

here:

P_Q – deviation of transmission service revenue for t-1 year calculated according to formula (10), EUR;

C_{NC} – neutrality charge of imbalance of transmission system for t-1 year calculated according to item 44 of the Methodology, EUR;

$P_{calorific}$ – actual net revenue of t-1 period received due to the difference in calorific value of natural gas transmitted from a third country to a third country, EUR;

C_G – non-conformity of return on investment calculated according to items 19-25 of the Methodology;

C_x – deviations of the costs referred to in item 14.1 of the Methodology and other significant cost / revenue deviations justified to the Commission that have a significant impact on the Operator's activities, EUR.

19. If due to operational efficiency of the Operator, i.e. due to increase of efficiency of $OPEX_{(excluding\ WAGES)}$ and $OPEX_{WAGES}$ (hereinafter both together are referred to as OPEX), that was proved to Commission by the Operator, the return on investment of the first two years of the regulatory period for the regulated activities, and later – of four and all five years of the regulatory period, after assessing the impact of the applicable adjustments made in accordance with item 14 of the Methodology, is higher than the established return on investment for a relevant year, then the allowed return on investment of a relevant period for these activities is increased with a size of return on investment that is calculated according to the formula (12):

$$G_1 = (OPEX_{established,tso} - OPEX_{actual,tso})/2\ ;\ EUR \qquad (12)$$

here:

G_1 – amount by which the allowed return on investment which is attributable to transmission service is increased, EUR;

$OPEX_{established,tso}$ – the established volume of OPEX in the first two years, later – in four years of the regulatory period and throughout the regulatory period attributable to transmission service, EUR;

$OPEX_{actual,tso}$ – actual volume of OPEX in the first two years, later – in four years of the regulatory period and throughout the regulatory period attributable to transmission service, EUR.

20. If due to operational efficiency of the Operator, i.e. due to increase of efficiency of OPEX after making business decisions about reorganization of the company and other decisions that are not directly related to the regulated activities of the company, and that was proved to Commission by the Operator, the return on investment of the first two years of the regulatory period for the regulated activities, and later – of four and all five years of the regulatory period, after assessing the impact of the applicable adjustments made in accordance with item 14 of the Methodology, is higher than the return on investment for the relevant activities established by the Commission, then the allowed return on investment for these activities is increased with a size of return on investment that is calculated according to the formula (13):

$$G_2 = (OPEX_{established,tso} - OPEX_{actual,tso})/2;\ EUR \quad (13)$$

here:

G_2 – amount by which the allowed return on investment which is attributable to transmission service is increased, EUR;

$OPEX_{established,tso}$ – the established volume of OPEX in the first two years, later – in four years of the regulatory period and throughout the regulatory period attributable to transmission service, EUR;

$OPEX_{actual,tso}$ – actual volume of OPEX in the first two years, later – in four years of the regulatory period and throughout the regulatory period attributable to transmission service, EUR.

21. Due to operational efficiency of the Operator return on investment is adjusted for the regulatory period after the evaluation of non-conformity of return on investment according to item 20 of the Methodology by estimating 50% of the sum exceeding the cap of return on investment that was calculated according to the formula 13 of the Methodology. Due to operational efficiency of the Operator a revenue cap for transmission service during the regulatory period is reduced by 50% of the sum exceeding the cap return on investment that was calculated according to the formula 13 of the Methodology. An incentive mechanism is applied for OPEX, i.e. OPEX is neither increased nor reduced during the regulatory period and for a new regulatory period in cases other than those enshrined in the Methodology.

22. Adjustment of superprofit is applied for the 2014-2018 regulatory period due to operational efficiency of a natural gas company, i.e. due to increase of efficiency of OPEX:

22.1. If return on investment of all five years of the regulatory period for regulated activities, after evaluating the impact of applicable adjustment factors, is higher by more than 2%, compared to the established return on investment of the relevant year (the first cap of non-conformity of a positive return on investment), the revenue cap for these activities for the next year and/or in determining prices for the first year of the next regulatory period is reduced by 50% with an amount that exceeds the first cap of non-conformity of a positive return on investment that is calculated according to the formula (14):

$$G_1 = (ROI_f - 1{,}02\ ROI_i)/2\ ;\ EUR \quad (14)$$

here:

G_1 – amount by which the costs of the next year of the regulatory period and/or of the first year of the next regulatory period are reduced when the actual return on investment exceeds the established one by more than 2%, (EUR):

ROI_i – the established return on investment throughout the regulatory period attributable to transmission service, (EUR);

ROI_f – actual return on investment throughout the regulatory period, (EUR);

22.2. If the return on investment of a natural gas company increases and exceeds by more than 6% the return on investment of the relevant activities established by the Commission (the second cap of non-conformity of a positive return on investment), in determining prices for the first year of the next regulatory period the revenue cap is reduced with a total return on investment that exceeds an amount above the second cap of non-conformity of a positive return on investment, and with a 50% return on investment that exceeds an amount above the first cap of non-conformity of a positive return on investment. In this case, an amount by which the costs of the next regulatory year or of the first year of the next regulatory period are reduced is calculated according to the formula (15):

$$G_2 = ROI_f - 1{,}04\ ROI_i;\ EUR \qquad (15)$$

here:

G_2 – amount by which the costs of the next year of the regulatory period or of the first year of the next regulatory period are reduced when the actual return on investment exceeds the established one by more than 6%, (EUR);

ROI_i – the established return on investment throughout the regulatory period attributable to transmission service, (EUR);

ROI_f – actual return on investment throughout the regulatory period, (EUR).

23. The following shall not be deemed to be increase of operational efficiency of natural gas companies:

23.1. specific savings that reduce the quality and reliability of the services provided by natural gas companies;

23.2. savings due to repair works that were not implemented, due to the scheduled services that were not required, except where repair works or scheduled services due to specific business decisions made by natural gas companies have been implemented at lower costs;

23.3. lower than expected public procurement results caused by the market;

23.4. decrease in operating costs due to demand, introduction of demand response measures, including decrease of network investment costs.

24. When reducing costs and pursuing greater efficiency and return on investment, the Operator must ensure reliable operation of the system and quality of customer service. In accordance with the Description of the indicators of reliability and quality of services provided by natural gas companies, and of the procedure of their assessment approved by the Resolution No O3-90 of the Commission of 11 April 2012 “Regarding the approval of the Description of the indicators of reliability and quality of services provided by natural gas companies, and of the procedure of their assessment“, return on investment of natural gas transmission after the first two years of the regulatory period , and later - after the end of the regulatory period is reduced respectively for each indicator of transmission reliability:

24.1. 1% if an indicator of transmission reliability, for which a minimum level was established, has fell off from 5 to 10%, compared to a minimum level established by the Commission;

24.2. 2% if an indicator of transmission reliability, for which a minimum level was established, has fell off by more than 10%, compared to a minimum level established by the Commission.

25. If it is found after the first two years, and later – after four years of the regulatory period, and after the end of entire regulatory period that the actual return on investment, taking into account the impact of the applicable adjustments, has exceeded the size established by the Commission, then the size of exceedance of the established return on investment is calculated, by which the allowed level of revenue of the regulatory activities is reduced for the fourth and later – for the first and second

year of a new regulatory period. The following shall be assessed when calculating the size of exceedance of the established return on investment:

25.1. the actual return on investment that was earned by the Operator from the regulated activities;

25.2. additional income received by the operator in connection with the provision of regulated services and / or products for the provision of which the resources of the regulated activities are used or not used;

25.3. an amount of exceedance of the costs, for which the Commission has established the relevant reference values for the cost groups referred to in item 14 of the Methodology, that is calculated in accordance with the Methodology;

25.4. deviation from the indicators established by the Commission after evaluating the causes that determine the operational efficiency;

25.5. effectiveness of OPEX calculated according to items 19-23 of the Methodology;

25.6. change in return on investment calculated according to item 24 of the Methodology;

25.7. when the repayment of return on investment, that was calculated in accordance with items 19-25 of the Methodology, exceeding the size established by the Commission is arranged over a period of more than one year, then the monetary value must be evaluated. The cap of cost of debt capital, that is referred to in the column "Rate of return on investments (WACC)" of the Commission's website, shall apply for the determination of the Monetary value. ½ of the interest rate shall apply in the year of the regulatory period when the repaid return on investment, that was received by the Operator, exceeds the one that was established by the Commission.

SECTION THREE
PRINCIPLES OF DETERMINING THE PRICES FOR THE SERVICE OF NATURAL GAS TRANSMISSION THROUGH HIGH-PRESSURE GAS PIPELINES

26. The entry and exit prices of natural gas transmission are determined according to the postage stamp principle applicable for the main network. (1) the direct costs and the indirect costs separated by means of reasonable cost-drivers, that are related to the service of natural gas transmission from a third country to a third country, and (2) the value of the regulated assets that is attributable to this service are assessed when determining the prices of natural gas transmission services for the service of transportation from a third country to a third country.

27. The prices of natural gas transmission are calculated by estimating the share of allowed revenue attributed to each entry and exit point:

27.1. The entry points of Lithuanian natural gas transmission system are:

27.1.1. The interconnection point of Lithuanian transmission system with the connection of Klaipėda liquefied natural gas terminal (hereinafter – entry point of Klaipėda LNG);

27.1.2. The interconnection point of Lithuanian transmission system with the natural gas transmission system of the Republic of Latvia. The natural gas transmitted through this point to Lithuanian natural gas transmission system is accounted for in Kiemėnai Gas Metering Station;

27.1.3. The interconnection point of Lithuanian transmission system with the natural gas transmission system of the Republic of Belarus. The natural gas transmitted through this point to Lithuanian natural gas transmission system is accounted for in Kotlovka Gas Metering Station;

27.2. the exit points of Lithuanian natural gas transmission system are:

27.2.1. external exit points:

27.2.1.1. The interconnection point of Lithuanian transmission system with Latvian natural gas transmission system. The natural gas transmitted through this point from Lithuanian natural gas transmission system is accounted for in Kiemėnai Gas Metering Station;

27.2.1.2. The interconnection point of Lithuanian transmission system with the natural gas transmission system located in Kaliningrad region of the Russian Federation. The natural gas transmitted through this point from Lithuanian natural gas transmission system is accounted for in Šakiai Gas Metering Station (hereinafter referred to as Šakiai GMS exit point);

27.2.2. the domestic exit point – the interconnection points of Lithuanian natural gas transmission system with Lithuanian natural gas distribution systems and Lithuanian consumers' systems which are directly connected to Lithuanian natural gas transmission system – which corresponds to one exit point for all users of the country's transmission system.

28. The share of allowed revenue that is attributable to entry and exit points is determined by assessing the proportion of revenue allocation between the entry and exit points that is applicable for the main network, and other indicators that influence a reasonable allocation of revenue level.

29. The proportion of sharing of revenue of transmission service between the entry and exit points is determined by the motivated decision of the Commission, taking into account the competition in the natural gas market, reasonable cost allocation of the transmission system, the average level of natural gas transmission prices of several countries or regions.

30. The Operator calculates for the next tariff period the revenue that is related to the local network and that is attributable to the domestic exit point only, and, in addition to the revenue attributed to the domestic exit point according to item 28 of the Methodology. These revenue are evaluated by determining the prices of transmission services for this point.

31. The short-term capacity bookings that are forecasted in that tariff year are assessed when determining the transmission prices for a new tariff period (or when respectively reducing the attributable allowed revenue for the long-term services with the receivable revenue from short-term services, or when converting the sizes of the forecasted short-term capacity bookings to an equivalent of long-term (annual) capacity, by assessing the impact of multipliers (coefficients applicable to the relevant proportion of the reference price when calculating the prices for short-term capacity products).

32. The Operator, by taking into account the decision of the Government of the Republic of Lithuania on participation in the regional natural gas market area, evaluates payments of the inter-system compensation mechanism calculated according to the inter-system compensation mechanism for transmission system operators coordinated by the Commission.

33. The transmission price discount can be applied at the entry point of Klaipėda LNG, also at the entry points from an infrastructure that was developed with the purpose of ending the isolation of the Member States in respect of their gas transmission systems, and at the exit points to such infrastructure, to enhance the security of energy supply and promote the competitiveness of the natural gas market. The share of the transmission revenue that was not collected due to the discount applicable at the entry point of Klaipėda LNG is compensated taking into account the mechanism for covering the revenue difference established by the Commission.

34. The transition period for the service of gas transmission from a third country to a third country that was an unregulated service before the introduction of the entry-exit model is established for the level of the annual revenue collected from Šakiai GMS exit point. The transition period is established after estimating the duration of the price regulatory period and by ensuring payback of investment made before the start of the implementation of the entry-exit model.

35. The Operator establishes the prices of natural gas transmission services within the revenue cap set according to this Methodology, by evaluating the results of the regulatory account, and the Commission approves them.

36. The natural gas transmission prices may be differentiated according to the network user groups, natural gas transmission quantity, the capacity booked, duration and reliability of natural gas supply. Customer discrimination, application of cross-subsidization between customers or their groups are prohibited in determining and differentiating prices. The determined prices of natural gas transmission service at the entry and exit points must meet the clause of non-discrimination of the

network users, i.e. the percentage ratio of the average price of the unit of capacity created for cross-border gas transportation with the average price of the unit of capacity created for the domestic network users must not exceed 10% (in other cases a detailed explanation of the circumstances in which the criterion established was exceeded must be provided). It is appropriate to follow the costs incurred and not exceed the total allowed revenue level when differentiating the prices.

37. The transmission prices can be differentiated and distributed:

37.1. according to the groups of the users of the natural gas transmission system:

37.1.1. the network users transporting up to 10.4 terawatt hours (TWh) of natural gas per year to a single natural gas delivery point;

37.1.2. the network users transporting more than 10.4 terawatt hours (TWh) of natural gas per year to a single natural gas delivery point;

37.2. according to the interruption of natural gas transmission into two groups:

37.2.1. continuous (firm) transmission of natural gas;

37.2.2. interruptible natural gas transmission;

37.3. according to the duration of the booking for natural gas transmission services (duration of contract):

37.3.1. short-term transmission (duration of the contract from 1 to 364 days);

37.3.2. long-term transmission (duration of the contract – 1 year and longer);

37.4. In agreement with the Commission, the Operator may also apply other capacity products (for example, that are linked to the transportation path).

38. A monomial, binary or trinary transmission price may be determined for the network users.

39. Natural gas transmission price consists of fixed and variable components

39.1. a fixed components of the price is calculated according to:

39.1.1. user-defined consumption capacity at the domestic exit point;

39.1.2. transmission capacity booked by the network user;

39.2. the variable component calculated according to the quantity of natural gas transmitted;

39.3. The Operator establishes a fixed component payment factor (≤ 1) for a period of five years, which may be subject to change based on a change in legislation or a reasoned offer by the Operator. The total fixed component payment factor in the natural gas transmission is not less than 0.7;

39.4. the amount of costs per transmission service price calculated for consumption capacity cannot exceed the costs related to the local network (the allowed revenue level attributable to the local network).

40. The natural gas quantity assigned to the network users and the capacity ordered are established by means of contracts with the Operator and by means of the network code applicable by the Operator.

SECTION FOUR
PRICING OF THE SERVICE OF BALANCING IN THE NATURAL GAS TRANSMISSION SYSTEM

METHODOLOGY FOR THE CALCULATION OF BALANCING NEUTRALITY CHARGES

41. By paying and receiving daily imbalance charges, within-day charges, balancing action charges calculated in accordance with the provisions of the Operator‘s balancing rules approved by the Commission and other charges related to its balancing activities which are considered to be the activities of the transmission system operator carried out in accordance with the obligations laid down in the Balancing Network Code, the Operator does not make a profit and does not incur losses, i.e. follows the principle of neutrality.

42. The principle of neutrality is understood as the principle according to which the Operator‘s cash flows related to balancing of the transmission system and reasonable balancing costs are financially neutral, and such the revenue and costs are distributed to the network users.

43. The balancing neutrality charge is paid by all network users or such the charge is paid in proportion to the quantity of natural gas transported to them (EUR/MWh) irrespective of whether or not a daily imbalance is established for them.

44. The imbalance neutrality charge C_{NC} for the relevant years of the regulatory period (t+1) is equal:

$$C_{NC} = C_{BP} – C_{PB} – C_{KB} + \Delta C_{NC} \text{ ; (EUR)} \quad (16)$$

here:

C_{BP} – variable revenue of the transmission system balancing for t year, EUR;

C_{PB} – fixed costs of the transmission system balancing for t year, EUR;

C_{KB} – variable costs of the transmission system balancing for t year, EUR;

ΔC_{NC} – the difference between the neutrality charge set for t-1 year and its actual value, EUR.

45. The following neutrality charge procedure shall apply in approving or adjusting the Operator's revenue cap in 2019:

45.1. the balancing neutrality charge is set and adjusted on the annual basis, taking into account the Operator‘s forecasted reasonable revenue and costs of balancing activities of t year, and is included in the Operator‘s revenue level in accordance with item 14 of the Methodology;

45.2. the Operator attributes and shares the imbalance neutrality charge costs to the system consumers through a variable element of transmission price enshrined in sub-item 39.2 of the Methodology.

46. The following neutrality charge procedure shall apply when approving or adjusting the Operator‘s revenue cap in 2020 and subsequent years:

46.1. the balancing neutrality charge is established and adjusted on the annual basis, taking into account the Operator‘s forecasted revenue and costs of balancing activities;

46.2. the Operator applies and publishes for the network users the data of the total amount of the neutrality charges at least as to the same frequency as invoices of the relevant charges are issued to the network users, but at least once a month.

47. In the course of the year, the imbalance neutrality charge is paid to the network users or is charged in parts in proportion to the transported quantity of the reporting period at the periodicity set forth in sub-item 46.2.

48. The Operator applies for the network users the credit risk management rules enshrined in the natural gas transmission system balancing rules coordinated with the Commission, or in the balancing network code.

CHAPTER 4
REQUIREMENTS RELATING TO DETERMINING THE REVENUE AND PRICES FOR THE REGULATED ACTIVITIES OF THE TRANSMISSION SYSTEM OPERATOR

49. For the purpose of establishing the regulated services revenue cap, the Operator must not later than until the 15th day of March of the current tariff period provide the Commission with:

49.1. summary of the data for the establishment of the revenue cap (Annex 1 to the Methodology);

49.2. the value calculation table for the assets used in the activities (Annex 3 to the Methodology);

49.3. long-term regulated activities program table (Annex 4 to the Methodology);

49.4. an explanatory note detailing the justification for the data provided.

50. For the purpose of adjusting the revenue cap for the next tariff period, the Operator must not later than until the 15th day of March of the current tariff period provide the Commission with:

50.1. summary of the data for the adjustment of the revenue cap and return on investment (Annex 2 to the Methodology);

50.2. after the end of 2014-2018 regulatory period – the data for the adjustment of the established return on investment of 2014-2018 (Annex 5 to the Methodology);

50.3. the value calculation table for the assets used in the activities (Annex 3 to the Methodology);

50.4. an explanatory note detailing the justification for the data provided.

51. If the Operator does not provide all the necessary data to the Commission in time, the Commission may extend the period of validity of the revenue cap and prices established.

52. The entity to whom the responsibility for balancing the Operator‘s networks has been delegated shall, in accordance with the Annex 1 to the Methodology, *mutatis mutandis* provide the Commission, together with the data of the establishment/adjustment of transmission revenue cap, with a summary of revenue, fixed and variable costs for the balancing service of the previous and the following year.

53. The Commission shall adopt a decision on the establishment of revenue cap for regulated natural gas services no later than within 45 days, and a decision on the adjustment of revenue cap for regulated natural gas services - no later than within 30 days from the date on which the last accurate data of the Operator were provided.

54. The specific prices for the next tariff period are calculated according to the Operator's pricing methodology, which is prepared and submitted by the Operator to the Commission together with the price calculation project.

55. If the Commission finds that the prices determined by the Operator discriminate the customers, that cross-subsidization between different services or groups of consumers is applied, the Commission makes the Operator aware of its errors. The Operator must correct the errors within 15 days. If the Operator fails executing the requirement of the Commission, the Commission is entitled to unilaterally set specific regulated prices. The specific regulated prices for the next tariff period must be set and published no later than 30 days before the new tariff period or annual capacity auction of the year (i.e. until the 1st of June of the current tariff period if the provisions of the Article 29 of the Tariff network code apply (the prices to be published before the annual yearly capacity auction), and until the 2nd of December of the current tariff period – in other cases).

56. The data provided must be as accurate as expressed in thousands of euros (with two decimal places). The calculations shall be made exclusive of Value Added Tax (VAT).

57. The specific prices determined by the Operator according to this Methodology and approved by the Commission are published and applied in accordance with the Article 19(3) of the Law on Energy.

CHAPTER 5
FINAL PROVISIONS

58. The Commission shall have the right to obtain from the Operator within a reasonable time limit set by the Commission all the information and documentation necessary to carry out the functions of the Commission in relation to the establishment and adjustment of revenue cap for regulated natural gas services according to this Methodology.

59. The Operator having violated the requirements set out in the Methodology shall be liable in accordance with the procedure and conditions set forth in the legal acts.

60. The actions and omission of the Commission related to the compliance and implementation of the Methodology may be appealed against in the manner and under the conditions

established by the laws of the Republic of Lithuania.

_____

Annex 1
To the Methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities

Particulars of the entity:		Particulars of the contact person:	
Name		Forename, surname	
Code		Position held	
Registered office address		Telephone	
Telephone		Fax	
Fax		E-mail	
Website			
E-mail			

_____ SUMMARY OF THE DATA FOR THE ESTABLISHMENT OF THE REVENUE CAP

(name of a natural gas company)

_____

date on which the document was drawn up

To: National Commission for Energy Control and Prices
Verkių str. 25C-1, Vilnius, LT-08223, rastine@regula.lt

Ser. No	Indicator		Pcs	Transmission activities										
				Previous regulatory period					Average	Next regulatory period				
				20__	20__	20__	20__	20__	20__ -20__	20__	20__	20__	20__	20__
ACTIVITIES INDICATORS														
1.	S	**Costs of the regulatory natural gas activities, total**	(thousand EUR)											
1.'	S'	**Planned costs due to investment**	"-"											
1.1.		**Variable costs, total**	"-"											
1.1.1.	C_L	Natural gas costs for technological needs	"-"											
1.1.2.	C_{KB}	Variable system balancing costs	"-"											
1.1.3.	C_K	Other variable costs (must be listed)	"-"											

1.2.		**Fixed costs, total**	"-"											
1.2.1.	C_{DA}	Depreciation (amortization) costs	"-"											
1.2.1.'	C_{DA}'	Planned costs due to investment	"-"											
1.2.2.	C_M	Repair, maintenance and operating costs	"-"											
1.2.2.'	C_M'	Planned costs due to investment	"-"											
1.2.2.1.		*through contracting*	"-"											
1.2.2.2.		*through holding*	"-"											
1.2.2.3.		*utilities (electricity, heat, water, wastewater, litter, etc.) costs (of non-administrative premises)*	"-"											
1.2.2.4.		*fuel*	"-"											
1.2.2.5.		*materials, spare parts, low-cost inventory*	"-"											
1.2.2.6.		*maintenance and operation works and services*	"-"											
1.2.5.	C_P	Personnel costs	"-"											
1.2.5.'	C_P'	Planned costs due to investment	"-"											
1.2.5.1.		*wage costs*	"-"											
1.2.5.2.		*compulsory social security costs*	"-"											
1.2.5.3.		*guarantee fund contributions costs*	"-"											
1.2.5.4.		*occupational safety and health costs*	"-"											
1.2.5.5.		*training, further training, study costs*	"-"											
1.2.5.6.		*mission costs*	"-"											
1.2.6.	C_T	Tax costs	"-"											
1.2.6.'	C_T'	Planned costs due to investment	"-"											
1.2.6.1.		*property tax*	"-"											
1.2.6.2.		*land rental fee*	"-"											
1.2.6.3.		*environmental pollution tax*	"-"											
1.2.6.4.		*non-deductible VAT*	"-"											
1.2.6.5.		*stamp duty*	"-"											
1.2.6.6.		*charge payable to NCECP*	"-"											
1.2.6.7.		*other taxes, fees, charges*	"-"											
1.2.7.	C_A	Administrative costs	"-"											
1.2.7.1.		*legal services*	"-"											
1.2.7.2.		*consultancy services*	"-"											
1.2.7.3.		*communication services*	"-"											
1.2.7.4.		*Other administrative costs*	"-"											
1.2.8.	C_S	Marketing and sales costs	"-"											
1.2.8.1.		*advertising*	"-"											
1.2.8.2.		*costs of administration and collection of customer payments*	"-"											
1.2.8.3.		*other marketing, sales costs (indicate amounts*	"-"											

		greater than 5% of the amount referred in item 1.2.8)												
1.2.9.	C_O	Other distributable costs	"-"											
1.2.9.1.		*Asset insurance costs*	"-"											
1.2.9.2.		*Operating risk insurance costs*	"-"											
1.2.9.3.		*Audit costs*	"-"											
1.2.9.4.		*Membership, entrance fee costs*	"-"											
1.2.9.5.		*Other distributable costs (indicate amounts greater than 5% of the amount referred in item 1.2.9)*	"-"											
1.2.10.	C_{PB}	Fixes system balancing costs (must be listed)	"-"											
2.	ROI	**Return on investment**	"-"											
II.		**TRADE**												
1.	Q	Gas transportation, total	MWh											
		of them (must be listed by groups; network users to whom more than 156 GWh per year are transported must be provided in detail)	"-"											
2.	Q_{TECH}	Gas consumption for technological needs	"-"											
3.	Q'	Gas transfer due to investment undertaken	"-"											
4.	Q_b	Gas quantities due to balancing	"-"											
4.1.	Q_{b1}	Of them: sold to the market participants	"-"											
4.2.	Q_{b2}	purchased from the market participants	"-"											
III		**EFFICIENCY INDICATORS**												
1.		Total regulated activities costs per 1 MWh of gas	(thousand EUR/ MWh)											
3.		Total regulated activities costs per 1 km of gas pipeline	(thousand EUR/ km)											
4.		Operating costs (OPEX) per 1 MWh of gas	(thousand EUR/ MWh)											
6.		Activities costs (OPEX) per 1 km of gas pipeline	(thousand EUR/ km)											
9.		Wage costs per 1 MWh of gas	(thousand EUR/ MWh)											
10.		Wage costs per 1 km of gas pipeline	(thousand											

			EUR/ km)												
12.		The length of the existing gas pipelines per employee	km/ employee												
13.		Number of employees	pcs												
14.		Average superior (gross) calorific value	MWh/thousand m^3												

Approved by:

_____	_____	_____
Position held	Signature	Forename, surname

_____

Annex 2
To the Methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities

Particulars of the entity:		Particulars of the contact person:	
Name		Forename, surname	
Code		Position held	
Registered office address		Telephone	
Telephone		Fax	
Fax		E-mail	
Website			
E-mail			

_____ **SUMMARY OF THE DATA FOR THE ADJUSTMENT OF THE REVENUE CAP AND RETURN ON INVESTMENT**
(name of a natural gas company)

_____
date on which the document was drawn up

To: National Commission for Energy Control and Prices
Verkių str. 25C-1, Vilnius, LT-08223, rastine@regula.lt

Ser. No	**Indicator**		**Pcs**	**Transmission activities**					
				I	II	III	IV	V	I
				20__	20__	20__	20__	20__	20__
1	2	3	4	5	6	7	8	9	10
I.1*	Q_t	Estimated baseline natural gas quantity (consumption capacity)	MWh, (MWh per day, per year)						
I.2	Q_{tf}	Actual natural gas quantity of t+1 year (consumption capacity)	"-"						
II.1*	I_t	Change in CPI (after assessing efficiency) that is used for the calculation of the	%						

		next year‘s $OPEX_{(excluding\ WAGES)}$							
II.2*	OPEX (exclusive of WAGES)t	determined $OPEX_{(excluding\ WAGES)t}$	thousand EUR						
II.3**	OPEX	actual $OPEX_{(excluding\ WAGES)f}$	“-“						
	(exclusive of WAGES)f								
III.1*	ΔDU_t	Determined (forecasted) $\Delta WAGES_t$ (after assessing efficiency) that is used for the determination of the next year‘s $OPEX_{(WAGES)}$	%						
III.2*	OPEX (WAGES)t	Determined (forecasted) $OPEX_{(WAGES)}$	thousand EUR						
III.2**	OPEX (WAGES)f	Actual $OPEX_{(WAGES)f}$	thousand EUR						
III.4**	ΔDU_{tf}	Actual (revised) $\Delta WAGES_{tf}$ (after assessing efficiency)	%						
III.5**	OPEX (WAGES)tf	To be calculated $OPEX_{(WAGES)tf}$ value according to the actual (revised) $\Delta WAGES_{tf}$ (after assessing efficiency)	thousand EUR						
IV.1*	C_{Lt}	Technological costs, determined	thousand EUR						
IV.2**	C_{Lf}	Technological costs, actual	thousand EUR						
V.1*	C_{DAt}	Depreciation costs, determined	thousand EUR						
V.2**	C_{DAf}	Depreciation costs, actual	thousand EUR						
VI.1*	C_T	Tax costs, determined	thousand EUR						
VI.2**	C_{Tf}	Tax costs, actual	thousand EUR						
VII.1**	C_{NC}	Transmission system imbalance neutrality charge	thousand EUR						
VII. 2**	P_{cal}	Actual income of t-1 period received due to the difference in calorific value of natural gas transmitted from a third country to a third country	thousand EUR						
VII.3*	$P_{forecasted,\ t-1}$	Revenue (for the long-term and short-term services), forecasted	thousand EUR						
VII.4**	$P_{actual,\ t-1}$	Revenue (for the long-term and short-term services), actual	thousand EUR						
VII. 5	P_Q	Difference of revenue (for the long-term and short-term services)	thousand EUR						
VII.6	P_Q - C_{NC} - P_{cal}	Deviations due to revenue deviation, imbalance neutrality charge and difference in calorific value of natural gas transmitted from a third country to a third country are accumulated in a regulatory account	thousand EUR						
VIII.1*	WACC	Established rate of return on investment in t year	%						
VIII.2*	RAB	Value of the asset used in the licensed activities	thousand EUR						
VIII.3*	ROI_t	Return on investment, established	thousand EUR						
VIII.4**	ROI_f	Return on investment, actual	thousand EUR						
VIII.5	$ROI_{(f-t)}$	Difference of return on investment	thousand EUR						
IX.1*	OPEX	$OPEX_{(exclusding\ WAGES)t} + OPEX_{(WAGES)t}$	thousand EUR						

	established								
IX.2**	$OPEX_{actual}$	$OPEX_{(excluding\ WAGES)f} + OPEX_{(WAGES)f}$	thousand EUR						
IX.3***	G_{1+2}, $G_{3–5}$	$OPEX_{established} – OPEX_{actual}$	thousand EUR	x	x	x		x	
IX.4***		The size at which the revenue cap is reduced due to the current regulatory period	thousand EUR	x	x	x		x	
IX.5*		Non-conformity of return on investment due to the previous regulatory period	thousand EUR			x	x	x	
IX.6	C_G	Total non-conformity of return on investment (due to the current and previous regulatory periods)	thousand EUR			x		x	
X.1	C_x	Other significant cost / revenue deviations justified to the Commission that have a significant impact on the Operator's activities are accumulated in a regulatory account	thousand EUR						
XI.1	P_Δ	Deviations accumulated in a regulatory account, total (P_Q - $C_{NC} – P_{cal} + C_G + C_x$)	thousand EUR						
XI.1*	$S_{pso} + ROI_{pso}$	Revenue level (without a regulatory account), determined	thousand EUR						
XI.2*	$P_{pso, t}$	Revenue level (after assessing a regulatory account), determined ($S_{pso} + ROI_{pso} + P_\Delta$)	thousand EUR						

*Starts to be completed for the second year of the regulatory period. In calculating costs for the second year of the regulatory period, the difference between the determined and actual OPEX and ROI of the previous regulatory period should be considered.

**Starts to be completed for the third year of the regulatory period when the actual (revised) data of the first year are available, and when completing the forecasted data for the third year.

***Starts to be completed for the fourth year of the regulatory period when the actual data of the first and second year are available, when calculating the results of lines IX.3 and IX.4.

Approved by:

_____	_____	_____
Position held	Signature	Forename, surname

_____

Annex 3
To the Methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities

Particulars of the entity:		Particulars of the contact person:	
Name		Forename, surname	
Code		Position held	
Registered office address		Telephone	
Telephone		Fax	
Fax		E-mail	
Website			
E-mail			

_____ THE VALUE CALCULATION TABLE
(name of a natural gas company)

FOR THE ASSETS USED IN THE ACTIVITIES

_____
date on which the document was drawn up

To: National Commission for Energy Control and Prices
Verkių str. 25C-1, Vilnius, LT-08223, rastine@regula.lt

Ser. No	Name	Unit of measurement	31 December 20__
1.	Economically justified value of non-current assets (RAB) 31 December 20__ (2+3-4-5+6-7-8-9+10/2-11)	thousand EUR	
2.	Residual value of the non-current assets of the regulated activities 1 January 20__ (at the beginning of the reporting period)	"-"	
3.	Investment of the gas company coordinated with the Commission and implemented in 20__ (reporting year)	"-"	
4.	Non-current assets depreciation costs charged in 20__ (reporting year)	"-"	
5.	Residual value of the assets sold, transferred and written off on 31 December 20__ (at the end of the reporting year)	"-"	
6.	Stocks that must be held by the gas company on 31 December 20__ (at the end of the reporting period)	"-"	
7.	Residual value of grants and subsidies (including consumer connection fees, resources from the EU funds) on 31 December 20__	"-"	
7.1.	of them: new consumer connection fees	"-"	
8.	Value of the unused, temporarily unused (conserved) assets on 31 December 20__	"-"	
9.	Value of construction in progress at the end of the reporting period on 31 December 20__	"-"	
10.	Part of the assets that was financed by other infrastructural companies because of cost sharing of engineering works 31 December 20__	"-"	

11.	Residual value of the assets that were renewed by means of investment coordinated with the Commission on 31 December 20_	"-"	

Approved by:

_____	_____	_____
Position held	Signature	Forename, surname

_____

Annex 4
To the Methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities

Particulars of the entity:		Particulars of the contact person:	
Name		Forename, surname	
Code		Position held	
Registered office address		Telephone	
Telephone		Fax	
Fax		E-mail	
Website			
E-mail			

LONG-TERM REGULATED ACTIVITIES PROGRAM

_____
(name of a natural gas company)

TABLE

_____
date on which the document was drawn up

To: National Commission for Energy Control and Prices
Verkių str. 25C-1, Vilnius, LT-08223, rastine@regula.lt

Ser. No	Name	_____activities					
		20__	20__	20__	20__	20__	total
1	2	3	4	5	6	7	
1.	FINANCING SOURCES (thousand EUR)						
1.1.	Non-current assets depreciation and amortization costs						
1.2.	Borrowed funds						
1.3.	Grants and subsidies						
1.3.1.	*of them: state budget resources*						
1.4.	Revenue from the connection fee and from the non-recoverable portion of the connection fee						
1.5.	Share of net profit for the implementation of the operational program						
1.6.	Other financing sources						
1.6.1.	*(must be listed)*						
2.	USE OF RESOURCES (thousand EUR)						
2.1.	Investment projects financed not only with the resources of the regulated activities (lines 1.3, 1.6)						
2.1.1.	*(must be listed)*						
2.2.	For the exercising the Company's business						

	programs, total:						
2.2.1.	New assets, total:						
2.2.1.1.	gas system development						
	(must be listed)						
2.2.1.2.	vehicles						
2.2.1.3.	computer equipment						
2.2.1.4.	other equipment, appliances, devices						
2.2.1.5.	intangible assets						
2.2.1.6.	other assets						
	(must be listed)						
2.2.2.	Asset recovery, reconstruction, total:						
2.2.2.1.	Gas pipelines						
	(must be listed)						
2.2.2.2.	gas compressor stations						
2.2.2.3.	gas distribution stations						
	(must be listed)						
2.2.2.4.	Gas regulation points						
	(must be listed)						
2.2.2.5.	other appurtenances of gas systems						
	(must be listed)						
2.2.2.6.	other assets						
	(must be listed)						
2.3.	For redeeming the systems of general use						
2.4.	Other uses of funds						
2.4.1.	*(must be listed)*						

Approved by: _____ _____ _____

Position held Signature Forename, surname

_____

Annex 5
To the Methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities

Particulars of the entity:		Particulars of the contact person:	
Name		Forename, surname	
Code		Position held	
Registered office address		Telephone	
Telephone		Fax	
Fax		E-mail	
Website			
E-mail			

_____ **THE DATA FOR THE ADJUSTMENT OF THE ESTABLISHED RETURN ON INVESTMENT OF 2014-2018**

_____
date on which the document was drawn up

To: National Commission for Energy Control and Prices
Verkių str. 25C-1, Vilnius, LT-08223, rastine@regula.lt

Ser. No	Indicators	Unit of measurement	Transmission service						
			20__	20__	20__	20__-20__ (4+5+6)	20__	20	20__-20__ (4+5+6+8+9)
1	2	3	4	5	6	7	8	9	10
1.	Established rate of return on investment in t year	%							
2.	Value of the asset used in the licensed activities	thousand EUR							
3.	Return on investment, established	thousand EUR							
4.	Actual return on investment	thousand EUR							
5.	Actual rate of return on investment	%							
6.	Exceedance of the return established	thousand EUR							
7.	Exceedance of the return established due to operational efficiency	thousand EUR							
8.	First cap (2%) of non-conformity of a positive return on investment (line 3 x 0.02)	thousand EUR	x	x	x		x	x	
9.	Second cap (6%) of non-conformity of a positive	thousand	x	x	x		x	x	

	return on investment (line 3 x 0.06)	EUR							
10.1.	Exceedance of the first cap of non-conformity of a positive return on investment (line 9 – line 8) (shall be completed if line 7 > line 9)	thousand EUR	x	x	x		x	x	
10.2.	Exceedance of the first cap of non-conformity of a positive return on investment (line 7 – line 8) (shall be completed if line 7 < line 9)	thousand EUR	x	x	x		x	x	
11.	Exceedance of the second cap of non-conformity of a positive return on investment (line 7 – line 9) (shall be completed if line 6 > line 9)	thousand EUR	x	x	x		x	x	
12.	Adjustable exceedance of the established return on investment (line 6 – line 7 + line 10/2+ line 11)	thousand EUR	x	x	x		x	x	

Approved by:

_____	_____	_____
Position held	Signature	Forename, surname

_____