NATIONAL ENERGY REGULATORY COUNCIL
GAS AND ELECTRICITY DEPARTMENT
GAS DIVISION

To be submitted to the
Meeting of the Council
The member of the Council
__/__/2019

CERTIFICATE
ON THE APPROVAL OF THE PRICES FOR THE NATURAL GAS TRANSMISSION SERVICES OF PUBLIC LIMITED LIABILITY COMPANY "AMBER GRID" FOR THE YEAR 2020

_____ 2019 No O5E-
Vilnius

I. General provisions

By the Resolution No O3E-180 of 10 June 2019 on the Adjustment of natural gas transmission revenue cap of Public Limited Liability Company "Amber Grid" for the year 2020 (hereinafter – the Resolution) the National Energy Regulatory Council (hereinafter – the Council) has set the natural gas transmission revenue cap of AB Amber Grid (hereinafter – the Company) for the year 2020. The Resolution sets out the natural gas transmission revenue cap of EUR 36,073.93 thousand.

By the official letter No 7-291-871 of 24 September 2019, AB Amber Grid (hereinafter – the Company) submitted to the Council the natural gas transmission prices approved during the Board Meeting No 1 of the Company that was held on 23 September 2019 and that are planned to be applied from 1 January 2020, and their calculations (hereinafter – the Price Project).

In accordance with the Article 9(16) of the Law of the Republic of Lithuania on Natural Gas (hereinafter – the Law on Natural Gas) and the Methodology for Determining Revenues and Prices of State-Regulated Natural Gas Transmission Activities approved by the Regulation No O3E-314 of the Council of 5 October 2018 on the Approval of the Methodology for Determining Revenues and Prices of State-Regulated Natural Gas Transmission Activities (hereinafter – the Methodology), the Gas Division verified whether the regulated prices provided by the Company, their differentiation in order to avoid cross-subsidization between groups of system users, and the principles of determination are reasonable, objective, transparent and non-discriminatory, whether the regulated prices have been calculated in accordance with the requirements of the Methodology, do not exceed the revenue cap set by the Council and are fair.

Also, in accordance with the requirements of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter – the Tariff Network Code) for the application, publication of and consultation regarding the reference price methodology, the Council consulted on pricing methodology for services provided by Lithuanian natural gas transmission system operator AB Amber Grid.

II. On pricing of services provided by Lithuanian natural gas transmission system operator AB Amber Grid

Public consultation on pricing methodology for services provided by Lithuanian natural gas transmission system operator and the indicative prices for 2020-2023

In accordance with the Articles 26 and 28 of the Tariff Network Code, on 5 March 2019 the Council made publicly available for a public consultation a document regarding the pricing methodology for services provided by Lithuanian natural gas transmission system operator AB Amber Grid and an alignment project of the preliminary prices for 2020-2023[1] (hereinafter – the Project).

The Project described the methodological provisions for the remainder of the regulatory period of the transmission services of AB Amber Grid (2020-2023), and provided the indicative prices for transmission services.

During the public consultation, comments have been received from the national regulators and market participants in the Baltic States and Finland - the assessment of the comments is publicly available on the Council's website[2].

It should be noted that in accordance with the Article 27(3) of the Tariff Network Code, on 4 July 2019 the Agency for the Cooperation of Energy Regulators (hereinafter – the Agency) published the conclusion of analysis performed according to the Article 27(2)[3] (hereinafter – the Agency conclusion).

The Agency's conclusion contains several recommendations on the pricing principles for Lithuanian natural gas transmission activities which state:

1) in accordance with Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas (hereinafter – the Directive), local network costs (costs of the units of assets of transmission system using which natural gas is distributed through high-pressure pipelines only to natural gas users in Lithuania) must be attributed to the transmission service because, as estimated by the Agency, the attribution of local network costs to "non-transmission services" (this attribution was made in accordance with the Agency's opinion No 03/2015 presented on 18 June 2015, and to avoid cross-subsidization between domestic and foreign customers of natural gas, and to have cost-based prices for natural gas transmission services) does not meet the formal requirements of the Tariff Network Code, or 2) to consider a local network which is currently assigned to the natural gas transmission activity and is directly managed by the natural gas transmission system operator AB Amber Grid, as a distribution network, accordingly attributing it to distribution activities.

In order to comply with the requirements of the Tariff Network Code, the Council and AB Amber Grid assessed the Agency's recommendations on attribution of the local network costs, and chose as the most suitable alternative the split of a local network of the natural gas transmission system from the transmission service by attributing a local network to distribution activities. It should be noted that this alternative proposed by the Agency has been selected because its implementation would ensure the absence of cross-subsidization and the principle of reasonableness of costs.

In order to implement the Agency's recommendation described above, the Council considered the fact that amendments to the Law on Natural Gas and other legislation will be required. For this reason, the draft Law on the Amendment to and Supplement of the Articles 2, 20 and 49 of the Law on Natural Gas was drawn up and sent to the Ministry of Energy of the Republic of Lithuania.

The Council also suggests to provide for a transitional period – to approve for the year 2020 the transmission service prices calculated according to the principles of the methodology provided to the public consultation, which have been calculated without taking into account the proposed split of activities, and to approve for the year 2021 the prices for natural gas transmission services fully in line with the requirements of the Tariff Network Code.

It should be emphasized that in order to fully comply from 2021 onwards with the requirements of the Tariff Network Code, the Council, in cooperation with the Company, has drawn

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

[2]https://www.regula.lt/SiteAssets/naujienu-medziaga/2019/birzelis/summary_2019_06_03.pdf

[3]https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/Agency%20report%20-%20analysis%20of%20the%20consultation%20document%20for%20Lithuania.pdf

up a detailed action plan (see Annex 2) which specifies all steps and tasks required to implement the Agency's recommendation, and the specific deadlines for the implementation of these tasks.

2) Also, having regard to the Agency's recommendation on the price of transportation of natural gas to a third country at the Kotlovka entry point, the arguments presented in the Project and a discount applied to the capacity to transport gas to a third country with restrictions (through an exit point of Šakiai gas metering station (hereinafter – GMS) were revised. It should be noted that the following prices will be respectively presented for the freely allocable capacity and for capacity with restrictions at Kotlovka entry point: "Kotlovka GMS" and "Kotlovka GMS (for restricted capacity products)". In order to cover the costs associated with transmission to a third country (on the route Kotlovka GMS – Šakiai GMS) and to properly implement the Agency's recommendation that was presented in paragraphs 4, 61, 62, 88 of the Agency's conclusion, an average discount of 74.8% applies to capacity with restrictions at Kotlovka entry point (according to the Article 4(2) of the Tariff Network Code).

Regional Natural Gas Market

It should be noted that on 13 September 2019, the meeting of the Heads of Energy Regulators in the Baltic States and Finland was held in Vilnius. During the meeting, progress and further steps in creating a single regional natural gas market were discussed. The discussions were mainly focused on the conditions of joining the regional gas market by Lithuania. The scenarios for both joining a three-country market for natural gas (Finland, Estonia and Latvia: FINESTLAT) in the short term, i.e. from 2020, and in the long term from 2022, have been discussed during the meeting. During the discussion, the participants of FINESTLAT informed that due to tight deadlines (in Finland, the tariffs of the transmission system operator for the year 2020 were approved in June 2019) they do not see the possibilities of merger between Lithuania and FINESTLAT from 2020.

For this reason, it was generally agreed to draw up in the near future an approach to the natural gas transmission system operators and the relevant ministries of the four countries by inviting them to work together on a inter-system compensation mechanism between the transmission system operators in the region which would provide for payments for the natural gas flows transmitted by the transmission system operators when the cross-system entry / exit point tariffs are annulled, and the use of the transmission system infrastructure of each country (the inter-TSO compensation mechanism – ITC) from 2021.

Given that the decision on the establishment of common transmission service tariff zone between Lithuania and FINESTLAT countries (Finland, Estonia and Latvia) from 2020 has not been adopted, the prices for natural gas transmission services for the year 2020 have been calculated based on the national scenario (Scenario No 1) of the Project submitted for public consultation. In this case, the Lithuanian transmission system is treated as a separate tariff zone, and the entry-exit split for the main transmission network (as an input parameter) is 73.3% / 26.7%.

III. Prices for natural gas transmission services

Price differentiation for transmission services

In accordance with Clause 27 of the Methodology, the entry and exit prices for natural gas transmission is based on the "postage stamp" principle applicable to the main network. The portion of the allowed revenue attributable to entry and exit points is determined by taking into account the entry-exit split of the revenue which is applicable to the main network, and other indicators affecting a reasonable distribution of the revenue level.

According to Clause 28 of the Methodology, the natural gas transmission prices shall be calculated taking into account a portion of the allowed revenue attributed to each entry and exit point.

1. **The entry points** of Lithuanian natural gas transmission service (hereinafter – the transmission service) are:

1.1. the interconnection point of Lithuanian transmission system with the connection of the liquefied natural gas (hereinafter - LNG) terminal in Klaipėda (hereinafter – Klaipėda GMS);

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) (hereinafter – Kiemėnai GMS);

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) (hereinafter – Kotlovka GMS);

2. **The exit points** of the transmission system are:

2.1. Kiemėnai GMS;

2.2. the interconnection point of Lithuanian transmission system with the natural gas transmission system of 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 – Šakiai GMS);

2.3. The interconnection points of the transmission system with Lithuanian natural gas distribution systems and Lithuanian consumer systems directly connected to Lithuanian natural gas transmission system corresponding to one exit point for all users of the transmission system of the country (hereinafter – the domestic exit point).

It should be noted that in accordance with Clause 29 of the Methodology, the exit-entry split of the revenue from transmission service shall be determined by a motivated decision of the Council taking into account competition in the natural gas market, reasonable cost allocation of the transmission system, the average natural gas transmission price level of several countries or regions.

In order to ensure competition between natural gas import sources, as well as to promote competition between suppliers of natural gas, and not to create additional market barriers for the use of the LNG terminal gas, also taking into account the FINESTLAT decisions in connection with the natural gas transmission prices at the entry points of FINESTLAT common tariff zone, the Gas Division suggests the Council to set the entry-exit split of 73.3/26.7 of the revenue from transmission service applicable for the main network.

The Company allocates the costs and return on investments of the year 2020 to each entry-exit point within the allowable income level (EUR 36,073.93 thousand) that has been set by the Council by the Resolution.

The revenue levels attributed by the Company to each entry and exit point for the year 2020 have been determined taking into account the proposed entry-exit split of 73.3/26.7 of the revenue from transmission service, and the provisions of Section III of the Methodology (see table 1).

Table 1. Distribution of revenue level of the year 2020 for the entry and exit points of the transmission system

	MAIN NETWORK										
	Entry point of Kotlovka GMS	**Entry point of Kotlovka GMS (restricted capacity product)**	**Entry point of Kiemėnai GMS**	**Entry point of Klaipėda GMS**	**Exit point of Kiemėnai GMS**		**Exit point of Šakiai GMS**		**Domestic exit point**		**Total (main)**
	Capacity	Capacity	Capacity	Capacity	Capacity	Quantity	Capacity	Quantity	Capacity	Quantity	
Total revenue level, thousand EUR	6,333.43	3,927.00	152.38	1,408.21	179.92	27.46	4,302.35	1,544.52	5,463.76	1,180.46	**24,519.5**

LOCAL NETWORK			**TOTAL (MAIN + LOCAL)**
Domestic exit point		**Total (local)**	
Consumption capacity	**Quantity**		

Group up to 10.4 TWh	Group above 10.4 TWh	Group up to 10.4 TWh	Group above 10.4 TWh		
5,501.15	276.08	5,501.15	276.08	**11,554.46**	**36,073.93**

It should be noted that in adjusting the natural gas transmission revenue cap for the year 2020, the result of a regulatory account (mismatch of return on investment) of EUR 9.36 million for 2014-2018, which is attributed to the domestic exit point by reducing therein the prices of services provided (in proportion to the allowable revenue of a local network and of the portion of the main transmission network attributed to the domestic exit point), has been taken into consideration.

In accordance with Clause 30 of the Methodology, the companies calculate for the upcoming tariff period the revenue related to a local network which is only attributed to the domestic exit point, and are evaluated additionally to the revenue attributed to the domestic exit point according to Clause 28 of the Methodology by setting the prices of transmission services for this point. In the natural gas transmission service prices of the year 2020, the costs and return on investment attributable to the relevant groups of system users using the domestic exit point constitute a portion of the costs and return on investment related to the main network and another portion of the costs and return on investment attributed to a local network. Therefore, cost / revenue components for the main network and a local network are separated.

It should be emphasized that the capacity-commodity split (where 90% stands for capacity and 10% stands for commodity) of the revenue is applicable for the main transmission network. 50/50 split of attribution of the revenue to prices for consumption capacity and commodity using a local network applies both to the prices of the system users of group I (< 10.4 TWh) and group II (> 10.4 TWh) for consumption capacity and commodity.

In calculating the gas transmission service prices in the Price project, the Company assessed the expected natural gas consumption according to the gas consumption forecasts provided by the system users, it also assessed the historical capacity utilization, the difference between the planned and actual quantities transported in the previous and the current year, forecasts of the Company. The planned booked system capacity for the year 2020, compared to 2019, increases by 40.08% at the entry points, and at the exit points – by 7.2%. The data of the natural gas quantities and capacity for the year 2020 are presented in table 2 below.

Table 2. Quantities of gas transported through the transmission system and planned capacity for the year 2020

Entry and exit points	Quantity of gas, GWh		Change, %	Booked capacity, MWh/day/year		Change, % (in times)
	2020	2019		2020	2019	
Total at the entry points:	-	-	-	**194,082***	**138,550**	**4.08**
Kotlovka GMS	-	-	-	153,561	117,200	31.02
For the needs of Lithuanian consumers	-	-	-	*44,361*	*8,000*	*5.5 times*
For the natural gas transmission from a third country to a third country	-	-	-	*109,200*	*109,200*	*0.0*
Kiemėnai GMS	-	-	-	1,067	0	-
Klaipėda GMS	-	-	-	39,454	21,350	84.8
At the exit points, total:	**49,599**	**49,722**	**-0.2**	**206,676***	**192,735**	**7.2**
At the domestic exit point	21,272	22,448	-5.2	95,448	83,510	14.3
For a group of up to 10.4 TWh	*8,090*	*9,266*	*-12.7*	*53,448*	*41,510*	*28.76*
For a group of above 10.4 TWh	*13,181*	*13,181*	*-0.0*	*42,000*	*42,000*	*0.0*

Kiemėnai GMS	495	1,274	-61.2	2,028	25	81 times
Šakiai GMS	27,832	26,000	7.0	109,200	109,200	0.0

**from 1 January 2020, the booked capacity includes long-term and short-term capacity (in 2019, only long-term booked capacity at each point of the system has been assessed). Of the capacity booked for 2020, the short-term capacity at entry points account for 57 190 MWh/day/year, at the exit points – 16 712 MWh/day/year*

The prices for natural gas transmission services set separately for each point of entry to and exit from the gas transmission system operated by the gas transmission system operator AB Amber Grid:

1. The unary price for capacity for the entry points: Kotlovka GMS; Kiemėnai GMS; Klaipėda GMS;

2. The binary price – price for capacity and price for the quantity transmitted – for the exit points: Kiemėnai GMS; Šakiai GMS;

3. The ternary price – price for the booked capacity, price for the consumption capacity specified by the system user or determined by the transmission / distribution system operator, and price for the quantity transmitted – for the domestic exit point.

The binary price at the exit points consists of:

– constant part, i.e. price of long-term, short-term, interruptible transmission services for the booked capacity;

– variable part, i.e. the price of transmission services for the quantity of gas transmitted.

The ternary price at the domestic exit point consists of:

– constant part consisting of price of long-term, short-term, interruptible transmission services for the booked capacity and of price for the determined consumption capacity;

– variable part – the price of transmission services for the quantity of gas transmitted.

Natural gas transmission services by service order duration are differentiated into long-term and short-term transmission services. Separate prices for long-term and short-term transmission services are set for each entry and exit point.

Price of long-term booked capacity at the entry points (unary price)

The prices of gas transmission services are applied taking into account the capacity planned to be booked at the specific entry and / or exit point of the transmission system, the consumption capacity determined for the system users at the domestic exit point, and how much gas has been supplied per year to a specific exit point of the transmission system (if it is used).

Also, in pursuing the regional gas market development goals in the Baltic States and Finland, the prices of entry points have been harmonized with other countries in the FINESTLAT tariff zone (the entry-exit split applied in 2020 for the main transmission network amounts to 73.3% / 26.7%, in 2019 – 20/80). It should be noted that the entry price is the same for all entry points due to the application of the "postage stamp" principle, except for the following cases: 1) when in accordance with the provisions of the Tariff Network Code, the Council intends to apply a discount at the entry point of Klaipėda GMS; 2) when a discount applies on the capacity with restrictions to transport gas to a third country (through the exit point of Šakiai GMS).

Clause 33 of the Methodology provides for that a transmission price discount may be applied at the entry point of the LNG terminal, also at the points of entry from the infrastructure developed with the purpose of ending the isolation of the Member States' gas transmission systems and at the points of exit to such infrastructure in order to enhance security of energy supply and to promote the competitiveness of the natural gas market. A portion of revenue from transmission not collected due to the discount applicable at the entry point of the LNG terminal shall be compensated having regard to the mechanism of compensation of revenue difference established by the Council. It should be noted that in accordance with Clause 33 of the Methodology, the Company proposes to apply a discount of 75% at the entry point of the LNG terminal (Klaipėda GMS).

Having assessed the Company's proposal and given that the proposed discount will increase competition in the natural gas market and will promote the use of the LNG terminal, the Gas Division suggests the Council to approve the discount rate of 75% applicable to the entry point of Klaipėda GMS and to provide for the compensation of a portion of revenue not collected due to the application of discount at other points – at the exit point of Kiemėnai GMS and at the domestic exit point of the natural gas transmission system.

The Company also proposes to apply a discount of 74.8% (on average) at the entry point of Kotlovka GMS on capacity with restrictions to transport gas to a third country.

In accordance with the provisions of the Tariff Network Code, and following the conclusions of the Agency, the Gas Division approves the Company proposal and suggests to apply a discount at the entry point of Kotlovka GMS on capacity with restrictions to transport gas to a third country (through the exit point of Šakiai GMS, without the possibility to deliver gas to other points and / or to sell at a virtual natural gas trading point (natural gas exchange)).

The price of long-term booked capacity at the entry points, taking into account a discount of 75% at the entry point of Klaipėda GMS and a discount of 74.8% for restricted capacity at the entry point of Kotlovka GMS, is presented in Table 3 below.

Table 3. The price of long-term booked capacity at the entry points (taking into account a discount of 75% at the entry point of Klaipėda GMS and a discount of 74.8% for restricted capacity at the entry point of Kotlovka GMS)

Ser. No	Indicator	**Entry points**			
		Kotlovka GMS		Kiemėnai GMS	Klaipėda GMS
1.	Revenue level, thousand EUR	6,333.43	*3.927**	152.38	1,408.21
2.	Capacity MWh/day/per year	44,361	*109,200**	1,067	39,454
3.	**Price per unit of capacity, EUR/MWh/day/year** (1/2*1000)	**142.77**	***35.96****	**142.77**	**35.69**
4.	Price in 2019, EUR/MWh	*43.46*	-	*43.46*	*9.56*
5.	*Price change, EUR/MWh*	*99.31*	-	*99.31*	*26.13*
6.	*Price change, (in times)*	*3.28 times*	-	*3.28 times*	*3.73 times*

** applies to restricted capacity products of natural gas transmission when transporting gas to a third country through the exit point of Šakiai GMS.*

Transmission price of natural gas at the domestic exit point (ternary price)

Prices for long-term transmission services are differentiated according to consumer groups only at the domestic exit point according to the quantity of gas transmitted to the system users through the domestic exit point per year (only prices related to local network are differentiated, while prices of the main network are the same for both consumer groups) . Therefore, in setting the transmission service prices at the domestic exit point, the system users using the domestic exit point are divided into the following groups:

– Group I – the system users transporting up to 10.4 TWh of gas (inclusive) per year through the domestic exit point;

– Group II – the system users transporting more than 10.4 TWh of gas per year through the domestic exit point (to one natural gas delivery point).

The Company indicated that the capacity forecasted to be booked during the tariff year at specific entry and exit points of the transmission system, the forecasted consumption capacity of the system users at the domestic exit point, and the forecasted to be transmitted quantity of gas at the exit points of the transmission system are used in the calculation of gas transmission prices. The forecasted

to be booked capacity and forecasted to be transmitted quantity of gas are determined taking into account the capacity ordered during earlier periods at those entry and exit points, and the quantity of gas transmitted at the exit points, and/or the forecasts provided by the system users regarding the capacity booked and the transmitted quantity of gas. The consumption capacity shall be determined in accordance with the Description of the Procedure for the Supply of the minimum quantity of the liquefied natural gas terminal and for the Determination of the Natural Gas Consumption Capacity approved by the Resolution No 1354 of the Government of the Republic of Lithuania of 7 November 2012 on the Approval of the Description of the Procedure for the Supply of the minimum quantity of the liquefied natural gas terminal and for the Determination of the Natural Gas Consumption Capacity. In the absence of determined capacity at the time of calculation of natural gas transmission service prices, the prices shall be calculated using the forecasted consumption capacity of the transmission system operator.

The costs and return on investment attributable to the domestic exit point constitute a portion of the revenue level of each group of the system users using the main network, and the costs and return on investment (portion of the revenue level) using a local network. The revenue level and prices for the system user groups for the use of the main network shall be calculated in accordance with the "postage stamp" Methodology presented in part 5.1 of the Project submitted for the public consultation, for the use of a local network – according to part 5.4 of the Project. In accordance with the specified parts 5.1 and 5.4 of the Project, the prices related to the main network (for booked capacity) at the domestic exit point, regardless of the system user group, are the same, and the level of allowable revenue attributable to a local network shall be distributed according to the local network infrastructure used by each system user group.

The costs attributed to a local network and return on investment are attributed to each system user group that uses the domestic exit point in accordance with the following principles:

1) the directly attributed costs of a local network and return on investment for the system user groups are attributed according to the local network infrastructure used by these system user groups – the branch(es) of the gas pipeline(s) used, running from the main gas pipeline to the gas distribution station(s) (GDS) which is connected to the gas distribution (for Lithuanian needs) system(s), or to the user(s) system(s) directly connected to the transmission system, and the used GDS (GDSs);
2) if a particular local network infrastructure is used by both system user groups, the costs of shared infrastructure and return on investment are attributed to the system user groups according to these cost allocation criteria: the costs and return on investment attributed to the branch(s) of the gas pipeline(s) - in proportion to the consumption capacity of these system users during the tariff year; the costs and return on investment of GDS (GDSs) – in proportion to design capacity through that (those) GDS (GDSs) during the tariff year;
3) the indirectly attributed local network operating costs, other costs and return on investment are attributed to the local network infrastructure and at the same time to the system users according to the length (km) ratio of the gas pipeline(s) branch(s) attributed to the system user groups with the total length of pipelines attributed to a local network.

For this reason, a portion of revenue of the main network related to the domestic exit point, which goes to the system user groups, is the same for both groups, and the revenue level of a local network is attributed to the system user groups in accordance with the principles stated above. Accordingly, 20.265% of revenue are calculated for the system users of group II according to the prices of the domestic exit point of the year 2020, and 79.735% of revenue are calculated for the system users of group I. The revenue attributed as per the differentiation factors are presented in table 4 below (see Table 4).

Table 4. Allocation of a portion of the revenue level by the system user groups at the domestic exit point (thousand euros)

System user group by annual gas consumption	Revenue level of the main network			Attributed revenue level of a local network	Estimated final*** revenue level (of the main network + of a local network) (4+5=6)
	For booked capacity	For quantity transmitted through the domestic exit point	Total		
1	*2*	*3*	*4*	*5*	*6*
Up to 10.4 TWh	3 060*	449	3 509	11 002	14 511
More than 10.4 TWh	2 404	731	3 136	552	3 688
Total:	**5 464**	**1 180**	**6 644****	**11 554**	**18 199**

** Also taking into account the forecasted revenue for short-term capacity for the year 2020 of EUR 841 thousand.*
*** Error is possible due to rounding*
**** Taking into account the result of regulatory account of EUR 9.36 million for 2014-2018*

The transmission service price for the system user groups for the determined consumption capacity at the domestic exit point is differentiated in 2020 (in 2019 the same price was applied). The price for consumption capacity is paid irrespective of transmission services (long-term, short-term or/and interruptible) used by the transmission system users.

It should be noted that in determining the transmission price for the domestic exit point for the upcoming tariff period, the Company, in accordance with Clause 30 of the Methodology, assesses the revenue associated with a local network, which is only attributed to the domestic exit point, and the revenue attributed to the domestic exit point according to Clause 28 of the Methodology, i.e. portion of the main network revenue attributed to the domestic exit point. In setting the transmission price cap for 2020, the costs of the local network of EUR 11,554 thousand were estimated.

The Price Project of the Company specifies that in calculating the transmission prices for a new tariff period, the short-term capacity, which are converted to equivalent of a long-term (annual) capacity by evaluating the influence of multipliers and seasonal factors (coefficients applied to the respective proportion of the reference (annual capacity product) price), are forecasted.

The Company proposes in the Price Project that the revenue of the transmission operator from consumption capacity should cover 50% of the costs of a local network and should amount to: 11,554*0.50 = EUR 5,777.2 thousand. Of them, for a group of up to 10.4 TWh – EUR 5,501.1 thousand, and for a group of above 10.4 TWh – EUR 276.1 thousand (allocating the local network costs in accordance with the principles set out above, which are enshrined in the Project submitted for the public consultation). Based on the Company‘s data, it is forecasted that the consumption capacity of all system users at the domestic exit point for the year 2020 will amount to 151,302 MWh/day/year, of them: the consumption capacity of a group of up to 10.4 TWh amounts to 109,302.3 MWh/day/year, of a group of above 10.4 TWh – 42,000 MWh/day/year.

The price of consumption capacity for a group of up to 10.4 TWh is: 5,501.1/109,302.3*1000 = EUR 50.33/ (MWh/day/year). The price of consumption capacity for a group of above 10.4 TWh is: 276.1/42,000*1000 = EUR 6.57/(MWh/day/year). The calculation of the transmission price for the system user groups is shown in table 5 below.

Table 5. Prices of long-term transmission services at the domestic exit point

Ser. No	Indicator	Group of up to 10.4 TWh					Group of above 10.4 TWh					Total
		Consumption capacity	Booked capacity	Quantity (local network)	Quantity (main network)	Total/ average:	Consumption capacity	Booked capacity	Quantity (local network)	Quantity (main network)	Total/ average:	
1	Revenue level, thousand of EUR	5,501.15	3,059.53	5,501.15	448,97	14 510.80*	276.08	2,404.22	276.08	731.49	3,687.87*	18,198.67*
2.	Capacity, MWh/day/year	109,302	53,448**	-	-	53,448**	42,000	42,000**	-	-	42,000**	95,448**
3.	Quantity, GWh	-	-	8,090.42	8,090.42	8,090.42	-	-	13,181.42	13,181.42	13,181.42	21,271.84
4.	**Price per unit of capacity, EUR/MWh/day/year** (1/2*1000)	**50.33***	**57.24***			271.49**	**6.57***	**57.24***			87.81*	190.67**

5.	Price for quantity separately for a local and the main networks, EUR/MWh(1/3)			0.68	0.06				0.02	0.06		
6.	**Price for quantity, EUR/MWh**(sum of 5)			**0.74***					**0.08***			
7.	Price of 2019, EUR/MWh/day/year/ EUR/MWh	63.17	101.60	0.69		450.80	63.17	47.29	0.18		167.37	308.25
8.	*Price change, EUR/MWh/day/year/ EUR/MWh (4-7 / 6-7)*	*-12.84*	*-44.36*	*0.05*		*-179.31*	*-56.60*	*9.95*	*-0.10*		*-79.56*	*-117.58*
9.	*Price change, %*	*-20.3%*	*-43.7%*	*7.2%*		*-39.8%*	*-89.6%*	*21.0%*	*-55.6%*		*-47.5%*	*-38.1%*
10.	*Determined revenue level in 2019, thousand EUR*	*8,132.83*	*4,217.39*	*6,362.23*		*18,712.45*	*2,653.14*	*1,986.33*	*2,390.03*		*7,029.50*	*25,741.95*
11.	*Change in revenue level in 2020, thousand EUR (1-10)*	*-2,631.68*	*-1,157.86*	*-412.12*		*-4,201.65*	*-2,377.06*	*417.90*	*-1,382.46*		*-3,341.62*	*-7,543.28*
12.	*Change in revenue level in 2020, %*	*-32.4%*	*-27.5%*	*-6.5%*		*-22.5%*	*-89.6%*	*21.0%*	*-57.8%*		*-47.5%*	*-29.3%*

** Errors are possible due to rounding*
*** Evaluating long-term and short-term services (both capacity and revenue).*

Transmission price of natural gas at the exit points (binary price)

The prices of long-term transmission services at the exit point in Šakiai are calculated taking into account the revenue level attributed to the point of Šakiai GMS as well as the planned to be booked capacity and the quantity to be transported calculated. The calculated binary transmission price of this exit point is presented in table 6 below.

Table 6. Prices of long-term transmission services at the exit point of Šakiai GMS

Ser. No	Indicator	**Exit point of Šakiai GMS**		
		Capacity	Quantity	Total / average:
1.	Revenue level, thousand EUR	4,302.35	1,544.52	5,846.87
2.	Capacity MWh/day/year	109,200		109,200
3.	Quantity, GWh	-	27,832	27,832
4.	**Price per unit of capacity, EUR/MWh/day/year** (1/2*1000)	**39.40***		**53.54***
5.	**Price, EUR/MWh** (1/3)		**0.06***	
6.	Price in 2019, EUR/MWh/day/year	*31.72*	*0.07*	*48.06*
7.	*Price change, EUR/MWh/day/year*	*7.68*	*-0.01*	*5.48*
8.	*Price change, %*	*24.2 %*	*-14.3 %*	*11.40 %*
9.	*Determined revenue level in 2019, thousand EUR*	*3,463.434*	*1,784.193*	*5,247.627*
10.	*Change in revenue level in 2020, %*	*24.22 %*	*-13.4 %*	*11.4 %*

** Errors are possible due to rounding*

The prices of transmission services at Kiemėnai exit point are set based on the forecasted levels of booked capacity and/or the planned to be transported quantity of gas. The price composition at the exit point of Kiemėnai and its comparison with the valid price are shown in table 7 below.

Table 7. Prices of long-term transmission services at the exit point of Kiemėnai GMS

Ser. No	Indicator	**Exit point of Kiemėnai GMS**		
		Capacity	Quantity	Total / average:
1.	Revenue level, thousand EUR	179.92	27.46	207.4
2.	Capacity MWh/day/per year	2,028	-	2,028
3.	Quantity, GWh	-	494.795	494.795

4.	**Price per unit of capacity, EUR/MWh/day/year** (1/2*1000)	**88.73***		**102.27***
5.	**Price, EUR/MWh** (1/3)		**0.06**	**0.06**
6.	Price in 2019, EUR/MWh/day/year	*152.95*	*0.00*	*152.95*
7.	*Price change, EUR/MWh/day/year*	*-64.22*	*0.06*	*-50.69*
8.	*Price change, %*	*-42%*	-	*-33 %*
9.	*Revenue level in calculations of prices of 2019, thousand EUR*	*3.824*	*0.00*	*3.824*
10.	*Change in the revenue level in 2020 (in times)*	*47 times***	-	*54 times*

**Errors are possible due to rounding*
*** In evaluating long-term and short-term services (both capacity and revenue), in 2019 only long-term booked capacity at each point of the system have been evaluated*

As can be seen from tables 5, 6 and 7, the average prices of transmission services of the domestic, Šakiai and Kiemėnai exit points, taking into account the forecasted to be booked capacity, consumption capacity and quantity at the entry and exit points of the transmission system, do not exceed the level of the allowed revenue from natural gas transmission in 2020 set for those points by the Resolution of the Council, or the calculated revenue cap for the year 2020 which is specified in the Resolution. The total allocation of revenue of all points between charges for capacity and charges for quantity amounts, accordingly, to 76.36% and 23.64%. The total revenue (of the main and a local network) from the entry points amounts to 32.77%, and the revenue from the exit points – 67.23%.

Assessment of natural gas transmission cost allocation

Article 5 of the Tariff Network Code and Clause 36 of the Methodology lay down the term of cost allocation – the set prices of natural gas transmission service at the entry and exit points must satisfy the condition of non-discrimination between system users, i.e. the percentage of the average price per unit of expected capacity for cross-border transportation of gas to the average price per unit of capacity expected for the domestic system users must not exceed 10% (in other cases, a detailed explanation of the circumstances in which thee expected criterion is exceeded must be provided).

According to the requirements of Article 5(1) of the Tariff Network Code, the value of cost allocation comparison index calculated for the cost allocation assessment specified in clause a) of part 1 (capacity), without taking into account the local network costs, amounts to 62.72%. Without taking into account costs attributable to service of transportation to a third country and the result of the regulatory account (attributed to the domestic exit point) – 1.98%. It should be noted that the evaluation of the result of the regulatory account distorted the comparison index because it significantly (by 18.6%) reduced the price per unit of capacity for intra-system users (for Lithuanian internal system users). For this reason, without taking into account an effect of the regulatory account, the comparison index decreases significantly and does not exceed the condition of 10%.

According to the requirements of Article 5 of the Tariff Network Code, the cost allocation comparison index calculated for the cost allocation assessment specified in clause b) of part 1 (quantity), without taking into account the local network costs, amounts to 0.00%. It should be noted that the result of the regulatory account did not affect this index.

Also assessing the local network costs at the domestic exit point (i.e. by allocating a portion of the consumption capacity revenue to intra-system users for the calculation of the capacity index, and by allocating a portion of revenue of the price for a quantity using a local network to intra-system users for calculating the quantity index, leaving the same cost drivers), cost allocation comparison index for capacity would be – 93.41% (assessing the effect of the regulatory account and the costs attributable to service of transportation to a third country).

Detailed calculations of cost allocation comparison indexes are presented in the model of calculation of the natural gas transmission service prices.

The Gas Division proposes to set for the year 2020 the prices of natural gas long-term uninterrupted transmission services (exclusive of Value Added Tax):

1. At the entry points:

1.1. at the interconnection point of Lithuanian transmission system with the connection of the liquefied natural gas terminal in Klaipėda – EUR 35.69/(MWh/day/year);

1.2. at the interconnection point of Lithuanian transmission system with Latvian natural gas transmission system (the natural gas transmitted through this point to Lithuanian natural gas transmission system is accounted for in Kiemėnai gas metering station) – EUR 142.77/(MWh/day/year);

1.3. at the interconnection point of Lithuanian transmission system with Belarusian natural gas transmission system (the natural gas transmitted through this point to Lithuanian natural gas transmission system is accounted for in Kotlovka gas metering station) – EUR 142.77 /(MWh/day/year), for restricted capacity products in Kotlovka gas metering station – EUR 35.96 /(MWh/day/year);

2. At the exit points:

2.1. at 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:

2.1.1. for capacity – EUR 88.73/(MWh/day/year);

2.1.2. for quantity of gas transmitted – EUR 0.06/MWh;

2.2. at the interconnection point of Lithuanian transmission system with the natural gas transmission system of 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):

2.2.1. for capacity – EUR 39.40/(MWh/day/year);

2.2.2. for quantity of gas transmitted – EUR 0.06/MWh;

2.3. at the domestic exit point:

2.3.1. for the system users transporting up to 10.4 TWh of gas per year through the domestic exit point:

2.3.1.1. for booked capacity – EUR 57.24/(MWh/day/year);

2.3.1.2. for quantity of gas transmitted – EUR 0.74/MWh;

2.3.1.3. for consumption capacity – EUR 50.33/(MWh/day/year);

2.3.2. for the system users transporting more than 10.4 TWh of gas per year through the domestic exit point (to one delivery point for natural gas):

2.3.2.1. for booked capacity – EUR 57.24/(MWh/day/year);

2.3.2.2. for quantity of gas transmitted – EUR 0.08/MWh.

2.3.2.3. for consumption capacity – EUR 6.57/(MWh/day/year).

Calculation of the prices of short-term and interruptible transmission services

In fulfilling the requirements of Article 14 of the Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing regulation (EC) No 1775/2005 (OJ 2009 L 211 p. 36), the Company calculates the prices of short-term and interruptible transmission services for AB Amber Grid transmission system users.

The prices of the natural gas short-term transmission services are calculated according to the calculation principles of Section 6 of the Project submitted for the public consultation. The prices of short-term transmission services for the quantity of gas transmitted at the exit points are equal to the prices for quantity of long-term transmission services determined for those points:

1. At the domestic exit point:

1.1. for the system users transporting up to 10.4 TWh of gas per year through the domestic exit point – EUR 0.74/MWh;

1.2. for the system users transporting more than 10.4 TWh of gas per year through the domestic exit point (to one delivery point for natural gas) – EUR 0.08/MWh;

2. Šakiai GMS – EUR 0.06/MWh;

3. Kiemėnai GMS – EUR 0.06/MWh.

The prices of the short-term transmission services for booked capacity are divided into the quarterly, monthly and daily / within-day capacity prices. The quarterly capacity prices are set for each quarter; the monthly and daily / within-day prices – for each month. Multipliers and seasonality factors are applied to the quarterly, monthly and daily / within-day prices of the short-term transmission services for capacity. Multipliers and seasonality factors of calculation of the prices of the short-term transmission services are presented in tables 8 and 9 below.

Table 8. Multipliers of calculation of the prices of booked capacity of the short-term transmission services

For the entry points of Kotlovka GMS, Kiemėnai GMS, Klaipėda GMS			**For the exit point of Kiemėnai GMS**			**For the domestic point and the exit point of Šakiai GMS**		
Quarter	Month	Daily/Within-day	Quarter	Month	Daily/Within-day	Quarter	Month	Daily/Within-day
2019								
1.25	1.50	2.25	1.25	1.40	1.50	1.25	1.50	2.25
2020								
1.10	1.25	1.50	1.10	1.25	1.50	1.25	1.50	3.00

Table 9. Seasonality factors of calculation of the prices of booked capacity of the short-term transmission services

Domestic exit point															
Quarterly products				**Monthly products**											
I	II	III	IV	January	February	March	April	May	June	July	August	September	October	November	December
2019 (quarterly and monthly)															
3.08	1.12	0.95	1.90	2.75	3.04	1.96	1.62	1.02	1.05	1.02	1.02	1.05	1.57	1.62	2.75
2019 (daily / within-day)															
				2.84	2.84	2.03	1.62	1.05	1.05	1.05	1.05	1.05	1.62	1.62	2.84
2020															
1.63	0.72	0.43	1.22	1.95	1.46	1.47	0.87	0.70	0.60	0.26	0.27	0.77	1.08	1.20	1.37

Exit point of Šakiai GMS															
Quarterly products				**Monthly products**											
I	II	III	IV	January	February	March	April	May	June	July	August q	September	October	November	December
2019 (quarterly and monthly)															
3.08	1.12	0.95	1.90	2.75	3.04	1.96	1.62	1.02	1.05	1.02	1.02	1.05	1.57	1.62	2.75

2019 (daily / within-day)															
				2.84	2.84	2.03	1.62	1.05	1.05	1.05	1.05	1.05	1.62	1.62	2.84
2020															
1.59	0.66	0.65	1.10	1.63	1.45	1.70	0.74	0.59	0.65	0.43	0.67	0.84	1.06	1.14	1.11

In accordance with the multipliers of calculation of the prices of booked capacity of the short-term transmission services and the seasonality factors specified in table 9 above, the prices for capacity at the entry and exit points of the transmission system are calculated. The prices of the short-term transmission services for capacity for the entry and exit points of Kiemėnai GMS have been calculated without applying seasonality factors.

Table 10. Prices of the short-term firm transmission services per unit of capacity

	Unit of capacity	**Prices per unit of booked capacity, in euros, exclusive of VAT**															
		At the entry points								**At the exit points**							
		Kotlovka GMS		**Kotlovka GMS (for restricted capacity products)**		**Kiemėnai GMS**		**Klaipėda GMS**		**At the domestic exit point**				**Kiemėnai GMS**		**Šakiai GMS**	
										For a group of up to 10.4 TWh		**For a group of above 10.4 TWh**					
Prices of quarterly capacity, for capacity booked for a quarter:																	
Q 1	MWh / day / quarter	39.05		9.83		39.05		9.76		29.00		29.00		24.27		19.47	
Q 2		39.05		9.83		39.05		9.76		12.81		12.81		24.27		8.08	
Q 3		39.48		9.94		39.48		9.87		7.73		7.73		24.53		8.05	
Q 4		39.48		9.94		39.48		9.87		21.94		21.94		24.53		13.62	
Prices of monthly (M) and daily / wihin-day (P) capacity, for capacity ordered for a month / day / within-day of the relevant month																	
	(M) MWh / day / month / (P) MWh / day	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M	P
January		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	14.18	0.91	14.18	0.91	9.39	0.36	8.16	0.53
February		14.14	0.59	3.56	0.15	14.14	0.59	3.53	0.15	9.93	0.69	9.93	0.69	8.79	0.36	6.79	0.47
March		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	10.69	0.69	10.69	0.69	9.39	0.36	8.51	0.55
April		14.63	0.59	3.68	0.15	14.63	0.59	3.66	0.15	6.12	0.41	6.12	0.41	9.09	0.36	3.58	0.24
May		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	5.09	0.33	5.09	0.33	9.39	0.36	2.95	0.19
June		14.63	0.59	3.68	0.15	14.63	0.59	3.66	0.15	4.22	0.28	4.22	0.28	9.09	0.36	3.15	0.21
July		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	1.89	0.12	1.89	0.12	9.39	0.36	2.15	0.14
August		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	1.96	0.13	1.96	0.13	9.39	0.36	3.35	0.22
September		14.63	0.59	3.68	0.15	14.63	0.59	3.66	0.15	5.42	0.36	5.42	0.36	9.09	0.36	4.07	0.27
October		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	7.85	0.51	7.85	0.51	9.39	0.36	5.31	0.34
November		14.63	0.59	3.68	0.15	14.63	0.59	3.66	0.15	8.45	0.56	8.45	0.56	9.09	0.36	5.52	0.37
December		15.12	0.59	3.81	0.15	15.12	0.59	3.78	0.15	9.96	0.64	9.96	0.64	9.39	0.36	5.56	0.36

** Errors are possible in the table due to rounding*

The prices of the interruptible transmission services are equal to the prices of firm capacity, but in the event of actual interruption the users of the system shall be provided compensation. Compensation for each day on which interruption occurs after purchase of firm capacity products at a given entry or / and exit point is equal to the price of the daily firm capacity product of that point multiplied by 3 (this amount of compensation is regulated in Article 16.4 of the Tariff Network Code).

It should be noted that in 2019 an *ex-ante* discount of 10% was applied for interruptible capacity products (in other words, their price accounted for 90% of the price of firm capacity product). In 2020, for the proper implementation of the provisions of the Tariff Network Code, the aforementioned discount principle no longer applies.

IV. Final provisions

In accordance with Article 9(16) of Law on Natural Gas, and the Methodology, and:

1. having regard to Clause 29 of the Methodology, and in order to ensure competition between natural gas import sources, as well as to promote competition between suppliers of natural gas, and not to create additional market barriers for the use of the LNG terminal gas, also taking into account the FINESTLAT decisions in connection with the natural gas transmission prices at the entry points of FINESTLAT common tariff zone, the Gas Division suggests the Council to set the entry-exit split of 73.3/26.7 of the revenue from transmission service applicable for the main network;

2. Given that the discount at the entry point of Klaipėda GMS will increase competition in the natural gas market and will promote the use of the LNG terminal, the Gas Division suggests the Council to approve the discount rate of 75% applicable to the entry point of Klaipėda GMS and to provide for the compensation of a portion of revenue not collected due to the application of discount at the exit point of Kiemėnai GMS and at the domestic exit point of the natural gas transmission system;

3. Having regard to the Price Project of the natural gas transmission services submitted by the official letter No 7-291-871 of AB Amber Grid of 24 September 2019, the Gas Division states that the transmission prices approved by the Board of AB Amber Grid, that will be effective from 1 January 2020, meet the requirements of the Methodology, i.e.

the calculated prices, taking into account the forecasted to be booked long-term and short-term capacity, consumption capacity and quantity at the entry and exit points of the transmission system, do not exceed the revenue level for the year 2020 determined by the Resolution of the Council, create no discrimination between the transmission system users, and ensure the absence of cross-subsidization. Consequently, the Gas Division suggests the Council to approve the submitted Project of the Resolution.

ENCLOSED:

1. Project of the Resolution on the Approval of the prices of the natural gas transmission services of Public Limited Liability Company “Amber Grid” for the year 2020, 3 pages;

2. Action Plan for approving the service prices of AB Amber Grid (from 2021 onwards) that are in line with the Agency's opinion (recommendations), 1 page;

3. Model for setting the prices of the services provided by Lithuanian natural gas transmission system operator AB Amber Grid, Excel file.

Marta Vorobjova-Derkač, the Advisor of the Gas Division

Entities invited to the Meeting:

1. Ministry of Energy of the Republic of Lithuania;
2. State Consumer Rights Protection Authority, tarnyba@vvtat.lt;
3. AB Amber Grid, info@ambergrid.lt;
4. AB Achema, sekretoriatas@achema.com
5. AB Energijos skirstymo operatorius, info@eso.lt

6. UAB Ignitis, info@ignitis.lt
7. Representatives of UAB EPSO-G, info@epsog.lt