



National Commission for Energy Control and Prices
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REGARDING THE PUBLIC CONSULTATION ON THE MAIN PRINCIPLES OF ENTRY-EXIT TARIFFS

National regulatory authorities (NRAs) of Lithuania, Latvia, Estonia and Finland on 20 June 2017 has released for public consultation the draft of the Main principles of the Entry-Exit tariffs, which should serve as guidelines for the creation of common entry-exit tariff system in the Baltic region (hereinafter – Draft Guidelines) and are asking to provide comments and submit proposals for it.

AB Amber Grid welcomes such initiative of NRAs and their will to accelerate development of regional gas market and creating better conditions for competitive gas market in our region.

Herewith we provide the following proposals for the content of the Draft Guidelines:

1. In accordance with the Draft Guidelines, Kiemėnai GMS and Karksi GMS entry/exit points already in the interim solution are eliminated as commercial cross-border points between adjacent Member States in the single market zone. That *per se* provides for the status when not only joint entry-exit tariff zone is formed, but also the balancing and trading zones are merged.

The establishment of the single regional market (trading) zone and single balancing zone in Baltic States (and possibly Finland) is foreseen in Regional Gas Market Development Plan, which includes a number of activities and tasks to be fulfilled by governmental institutions, NRAs and TSOs, until the merger is done by 2020. Also, both primary and secondary legislation shall be changed, IT systems and contractual framework between operators and market players have to be established in order to enable the functioning of regional trading & balancing zone. The regulatory framework for supervision of trading activities in joint market zone should be in place too.

Even the deadline of 2020 requires strong commitment from the parties to perform the tasks of the action plan in timely manner, as the deadlines foreseen are challenging. While the deadline of 2018 introduced in the Draft Guidelines seems to be not feasible due the extensive nature of needed legislative, technical, regulatory and contractual changes and the procedures, these changes have to be passed through. To verify the feasibility of

introduction of proposed solution by 2018, we propose to develop an action plan, encompassing the needed tasks for its implementation.

In addition, we see that at least from the perspective of the needed changes to be implemented in Lithuania, it might be more feasible for the interim solution to have joint entry-exit zone. In that case, the interconnection points (IPs) between Member States would remain contractually with requirements for the network users to book capacity and nominate the flows to be transported through IPs. Regarding tariffs on IPs, we propose to consider instead of removal of those (instead of applying zero level tariffs) to apply heavily discounted tariffs (it may be the fixed level of 0.01-0.05 EUR/MWh). Such level essentially would not pose a barrier for cross-border trade, and provide most of the benefits and convergence of gas markets as zero level tariffs. However, additional benefits and possibility to implement in fast manner for such short-term solution would be the scope of needed changes – just discounting of the tariffs would require the changes solely in legislation and methodologies related to tariff setting. Also, it would stipulate lower Inter-TSO compensation (ITC) payments. While applying zero tariffs would require establishment of additional effective congestion management procedures (CMP) on IPs and so the amendments of the Network Rules, in order to handle the capacity hoarding situations on IPs, which at least on LT-LV IP might frequently appear due to “no-cost” for capacity booking. Also, in such case the zero tariff solution might even be counter-productive for cross-border trade, as due to congestion and uncertainty as to whether capacity will be released through CMP or not, the possible imports of LNG cargos and subsequent use of Incukalns UGS might even not happen.

2. We understand the need of ITC mechanism in joint entry-exit zone. Nevertheless, we propose that both for interim and long-term solutions ITC would be based on the same economical and industry principles with the aim of avoiding cross-subsidization between Member States and due compensation for hosting of cross-border flows. Thus, we propose to avoid simplifications for interim ITC mechanism presented in the Draft Guidelines, and assign the Baltic TSOs with a task to deliver for NRAs approval the drafted ITC mechanism, which would meet the above-mentioned principles. As no detailed analysis have been performed so far and no genuine ITC model is developed, we propose to refrain NRAs of detailing the separate (out of a set) provisions of ITC model in the Draft Guidelines, which might appear to be limiting factors for building a proper functioning ITC mechanism encompassing all the necessary details for determining compensation payments.
3. In accordance with the Draft Guidelines, the compensation for hosting of gas flows will be calculated based only on short-term marginal (incremental) costs. However, in transmission activity short-term marginal costs make up only a small fraction of all TSO's costs. The key part of TSO's costs is related to capital and fixed operating costs incurred to establish and maintain transmission capacity. And if none of these elements would be taken into account when calculating the costs of hosting of cross-border flows, it would pose a situation that cross-border use of transmission system is heavily subsidized by the domestic market. To avoid that, we propose to supplement the Draft Guidelines, stating that TSOs' fixed

operating costs and capital costs related to gas infrastructure enabling hosting of flows are also taken into account when calculating the compensation for hosting of cross-border flows.

4. The Draft Guidelines as indication provides the figures of all allowed revenues of particular TSOs. These revenues include also substantial part of compensations of the costs, which are attributed to infrastructure exclusively used for transportation of gas for domestic (national) customers and not used for cross-border purposes. The use of such infrastructure do not fall under the services of transmission as it is defined in EC Regulation No 715/2009 on conditions for access to the natural gas transmission networks. Following that, it should not be a subject for building up joint tariffication of entry points to the zone and ITC mechanism.

Therefore, we propose to specify in the Draft Guidelines that the joint entry-exit tariffication and related ITC mechanism should take into account allowed revenues related to transmission services as it is defined in EU legislation, while the part of the costs and allowed revenues of TSOs attributed to infrastructure used exclusively for the purposes of providing gas to domestic customers, should be included in the tariffs applied for outflows to national consumption sites.

5. The Draft Guidelines aim at establishment of equalized tariffs for long-term and short-term capacity products in all entry points to the zone, so that the level playing field conditions would be the same for imports from all the sources, which may be supplied to Baltic markets. To achieve this goal, the existence of objective entry costs related to regasification costs in entry point from LNG terminal should be taken into account. Thus, for equalizing market conditions, we propose to consider the discount of transmission entry tariff in entry point from LNG terminal, or some alternatives, like the parameter fee for the imports from third countries within the scope of ITC mechanism (similar as in electricity sector).
6. For long-term solution to be implemented by 2020 there is already an action plan / roadmap in place, approved in last year under the umbrella of Regional Gas Market Development Plan. For interim solution, which has to be introduced within much shorter deadlines, apparently there is no action plan. Therefore, we propose alongside with development and approval of the Guidelines, to prepare the detailed action plan / roadmap, specifying what joint and what individual actions in each country have to be accomplished, when it has to be done and what responsible party(-ies) are. The existence of such plan would be helpful for involved parties and would contribute to the introduction of interim solution within timeframe foreseen in the Guidelines.
7. We would like to draw NRAs attention that there are some editorial issues and uncertainties/inaccuracies in the Draft Guidelines, which shall be removed or clarified. For example:
 - 1) ITC component, specified in the formulas of the Draft Guidelines (used to calculate allowed revenues for each TSO), includes all differences of revenue regardless of their

origin (the differences due to domestic consumption and cross-border flows are pooled together). While in fact ITC should determine only the principles of allocation and reconciliation of part of allowed revenue related to entry points (not to all points) and cross-border flows;

- 2) It is unclear from the paragraphs II.2 of chapters "INTERIM SOLUTION (from 2018)" and "LONG-TERM SOLUTION (expected after 2020)" as to whether all exit points are considered as homogenous group of points or not. Do the term "homogenous group of points" means only a combination of physical domestic exit points to one cluster, or something else?

Commercial Director

A handwritten signature in blue ink, consisting of several overlapping loops and a final flourish, positioned between the text 'Commercial Director' and 'Vytautas Ruolia'.

Vytautas Ruolia

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