



Sabiedrisko pakalpojumu regulēšanas komisija
Ūnijas ielā 45, Rīga, LV-1039, Latvia
+371 67097200
sprk@sprk.gov.lv

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COMMENTS AND RECOMMENDATIONS REGARDING THE TRANSMISSION SYSTEM OPERATOR JSC „CONEXUS BALTIC GRID” RULES ON THE USE OF THE NATURAL GAS TRANSMISSION SYSTEM

Dear Sirs,

We are sending our comments and suggestions to the Sabiedrisko pakalpojumu regulēšanas komisija regarding the JSC „CONEXUS BALTIC GRID” rules on the use of natural gas transmission system.

We would like to note that most of our previous suggestions submitted to AS “Latvijas Gāze” on 2016-11-24 No. SD/2016-243 regarding the use of the natural gas system in Latvia have not been taken into account leaving the same potential obstacles that might prevent the effective cross-border trading in the Baltic region unsolved. We would be very grateful for the proper evaluation of our indications so that to ensure the transparent, open and competitive gas trading market.

Also, we would like to stress the fact that currently proposed gas balancing rules lacks flexibility and conformity with EU Network Code on Gas Balancing of Transmission Networks, including Estonian and Lithuanian gas balancing rules. Also, the proposed daily imbalance charges are unreasonably high compared with EU market practice leading to the more costly usage of the transmission system and the following reduction of competitiveness in the market that would ultimately benefit gas end-users in the Republic of Latvia. The more detailed recommendations are provided in the attachment.

For any questions, please contact Viktorija Ditmonaite, phone no.: +370 612 93025, email: viktorija.ditmonaite@litgas.lt.

Attachment 1. Comments and suggestions, 4 sheets.

Chief Executive Officer


Vytautas Čekanavičius

V. Ditmonaite, tel. + 370 612 93025, e-mail: viktorija.ditmonaite@litgas.lt

UAB LITGAS / Zveju str. 14, 09310, Vilnius
Tel. +370 5 2125779 / Fax. +370 5 2782115 / Email: info@litgas.lt/ www.litgas.lt
Company Code: 302937277 / VAT Code: LT100007793319
C/a Nr. LT407044060007868115 / AB SEB bank

**RULES ON THE USE
OF THE NATURAL GAS TRANSMISSION SYSTEM**

Article	Proposed corrections/recommendations	Comments
Draft version of “Rules on the use of natural gas transmission system” are published only in the Latvian language.	The draft of “Rules on the use of natural gas transmission system” and any other related regulations governing the usage rules of natural gas transmission and underground gas storage facility of the Republic of Latvia shall be issued in both the Latvian and English language at the same public issue date.	The draft of “Rules on the use of natural gas transmission system” (further – Rules) for a public consultation was provided only in Latvian language. Based on European Union legislation governing natural gas supply system, the above Rules must be presented in the transparent way for all existing and potential natural gas transmission system users of the Republic of Latvia, including the implementation and adaptation procedures. Taking into account the above, we consider it as a procedural irregularity for newcomers’ gas supply companies seeking to use the transmission system of the Republic of Latvia as it is difficult for non-native speakers to properly assess the changes to the Rules and provide valuable input of their own.
2.14. The terms used in the rules: Gas year (hereinafter – year) – the period starting at 7:00 o’clock on April 1 each year and ending at 7:00 o’clock on April 1 the following year (from 5:00 to 5:00 UTC in the period of winter time and from 4:00 to 4:00 UTC in the period of daylight saving time).	Gas year (hereinafter – year) – the period starting at 7:00 o’clock on January 1 each year and ending at 7:00 o’clock on January 1 the following year (from 5:00 to 5:00 UTC in the period of winter time and from 4:00 to 4:00 UTC in the period of daylight saving time).	Gas transmission networks would be much more harmonised if working in accordance with the same terms and conditions as in the neighbouring EU member states. Thus for a better synchronisation with adjacent TSOs and System Users, we suggest to start gas year form the 1 st month of the year.
100. [official English version of this statement was not provided]	If multiple system users nominate interruptible capacities and the total natural gas quantity to be transmitted according to quantity requests exceeds the available capacity, the TSO shall allocate the existing	The changed principle to allocate interruptible capacities (if those exceeds the available system capacity) from “pro rata” to the “receipt of booking time” basis is not reasonable for bigger trading capacities holding System Users as they might be limited to transfer

	capacities to system users pro rata to the interruptible capacity amounts requested.	more natural gas to their customers. Also, the “pro rata” principle is defined in the Lithuanian and Estonian transmission system operating rules. We do not see any reasonable reason why this principle should be modified.
109. The TSO may charge a fee for VTP transactions. The amount of the fee shall be published on the TSO’s website.	11.8 The TSO may charge a fee for VTP transactions. The amount of the fee shall be published on the TSO’s website.	Such title transfer transactions shall not be charged if TSO does not incur any financial costs. Otherwise, it may slower the development of virtual trading transactions that are beneficial for final customers in Latvia purchasing natural gas at virtual trading point.
XIV. Balancing rules	Natural Gas balancing rules should be harmonised with European Commission Regulation No. 312/2014 of 26 March 2014 “ Network Code on Gas Balancing of Transmission Networks ”	Currently proposed gas balancing rules are not harmonised with Estonian, Lithuanian and overall EU gas balancing rules. The main conflicting terms are related with daily imbalance charge calculation and tolerance levels of daily gas imbalances. As defined in proposed Rules, the imbalance charge and tolerance limits are higher than in Estonian or Lithuanian transmission system rules and do not correspond EU Network Code on Gas Balancing of Transmission Networks Article 22 and Article 50.
142 – 143	Gas imbalance tolerance should be revised	In order to incentivize System Users to use more transmission system capacities of the Republic of Latvia and to lower the transmission costs for Latvian end-users of natural gas (that are supplied from other Baltic countries’ gas suppliers) we recommend not to charge daily gas imbalances that do not exceed 5% of the nominations for all entry point nominations. This effective rule is stipulated in the Lithuanian transmission system rules;

		therefore, the harmonization of imbalance tolerances would benefit all the System Users of Latvian natural gas transmission system.
142 – 143	Gas imbalance tolerance should be revised	In the warm season of the year (May-September) when there is an obvious decrease in consumption of the gas and the usage of transmission system is lower, the imbalance tolerance limit (adjustment) in May-September period could be increased up to 15% percent of the gas quantity (instead of 5%). Otherwise it might be uncompetitive and costly for smaller suppliers to use the system at certain time periods.
143	<...> shall be added a coefficient of 10% <...>	<p>According the EU Network Code on Gas Balancing of Transmission Networks Article 22, the daily imbalance charge shall be cost reflective and shall take account of the prices associated with transmission system operator's balancing actions. The value of the small adjustment shall not exceed 10% of the weighted average price unless the transmission system operator concerned can justify otherwise to the national regulatory authority and have it approved.</p> <p>We consider the imbalance charge should not differ depending on the imbalance quantities. The currently proposed 20% coefficient might significantly increase the costs of cross-border trading that in turn would limit the market competition and the possibilities of Latvian end-users of natural gas to be supplied from other Baltic countries but Latvia. The application of 20% coefficient could be seen as a tool of market barrier creation for potential new gas suppliers in the</p>

		Republic of Latvia favouring incumbent gas suppliers in Latvia that import gas from the East, and have daily strong gas flows allowing easier gas balancing portfolio management.
XVIII. Collateral		In addition to the stipulated collateral forms (security deposit or a credit institution guarantee for payment claims) there should be determined a possibility to have an advance payment for the rendered transmission services and/or balancing services.
<i>Appendix 2</i> Transmission system service contract		
6.9. If the System user does not pay for the transmission system services provided <...> the Transmission system operator shall impose on the System user a late payment penalty of 0.15% (zero point fifteen percent)	6.8 <...> the Transmission system operator shall impose on the System user a late payment penalty of 0.04% (zero point zero four percent) <...>	Comparing the payment penalties among neighbouring countries – 0.15% is unreasonable high and we suggest to lower to the 0.04%.
6.15. If the Transmission system operator does not provide transmission system services within the Deadlines <...> the Transmission system operator shall pay to the System user a contractual penalty of 0.15% of the amount of transmission system services <...>		Such size of penalty fixed in the article is unreasonable low, thus we suggest to determine the size of penalty depending on the losses caused by TSO's failure to provide services.