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Sabiedrisko pakalpojumu regulēšanas komisija

CONSULTATION DOCUMENT

on the methodology for calculating tariffs for natural gas transmission system services

pursuant to Articles 26 and 28 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

04.12.2025.
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Attachments:

I Summary of the consultation document

On the basis of the mandate laid down in the Law on Energy and the Law on Regulators of Public Utilities, and in accordance with Articles 26 and 28 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ('the TAR NC') and the results of the consultation carried out in 2023, the Regulator adopted Decision No 1/7 of 13 July 2023 on the methodology for calculating tariffs for natural gas transmission system services ('the Methodology').[1]

The Public Utilities Commission (hereinafter – the Regulator) has prepared a draft methodology for the calculation of tariffs for the natural gas transmission system service (hereinafter – the draft methodology), which provides for changes in the Methodology regarding the regulatory and tariff period, the determination of the cost-efficiency ratio, the procedures for the calculation of biomethane tariffs, changes in the tariff calculation approach by determining capacity-based tariff at the exit point for supply of consumers of Latvia , and the coordination of the regulatory invoice, that is, changes in the procedures for the submission of the regulatory invoice (in accordance with the Annex), the recording of revenue and expenditure differences and the performance of revenue correction.

In accordance with Articles 10, 26 and 28 of the TAR NC, without the proposed reference price methodology (methodology for calculating tariffs for natural gas transmission system service), the consultation document on the methodology for calculating tariffs for natural gas transmission system service ('the consultation document') provides information on indicative tariffs for natural gas transmission system service, multipliers and seasonal factors affecting the level of tariffs for short-term capacity products, and the authorised revenues of the natural gas transmission system operator to be recovered by applying those tariffs for the period from 1 October 2026 to 30 September 2028, as well as on the principles of the inter-transmission system operator compensation mechanism for natural gas.

It should be noted that the natural gas transmission system service tariffs referred to in the Consultation Document are indicative and are not binding on the Latvian natural gas transmission system operator and natural gas transmission system users.

All natural gas market participants are invited to comment on the Consultation Paper. The draft methodology is attached as Annex 1 to this Consultation Document.

It is planned that the methodology for the calculation of natural gas transmission system service tariffs will enter into force on 7 May 2026.

Proposals and comments on the draft Methodology should be submitted to the Regulator in writing by sending them to the e-mail address sprk@sprk.gov.lv by 6 February 2026.

[1] https://likumi.lv/ta/id/343770-natural gas-transmission-systememas-service-tariff-calculation-methodology

II Necessity of Drafting a Regulatory Act

1. Justification

The consultation paper was drawn up on the basis of Articles 26 and 28 of the TAR NC. The aim of the consultation document is to obtain the views of interested parties on the methodology for calculating natural gas transmission system service tariffs and on the natural gas transmission system service tariffs in Latvia.

Pursuant to Section 15(1)(1) of the Energy Law, the natural gas transmission system operator shall provide a transmission service for the tariffs set by the Regulator or for tariffs set by the relevant service provider in accordance with the methodology for calculating tariffs stipulated by the Regulator authority, if a permit has been obtained from the Regulator. Section 9(1)(2) of the Law on Regulators of Public Utilities provides that the Regulator shall determine the methodology for calculating tariffs, and Section 25(1) lays down the obligation of a provider of public utilities to provide the Regulator with the information requested by it within the time limit and in accordance with the procedures laid down by the Regulator.

2. Institutions involved in the development of the project

The draft methodology was developed by the Regulator, while the indicative natural gas transmission system service tariffs were calculated taking into account the information submitted by the natural gas transmission system operator.

3. Target groups of society affected or likely to be affected by the regulatory framework

The regulation included in the draft methodology will affect the transmission system operator JSC Conexus Baltic Grid, and users of the natural gas transmission system.

4. Evaluation of the impact on target groups in society affected or likely to be affected by the regulatory framework

It is expected that the administrative burden for both the natural gas transmission system operator and the Regulator will decrease, taking into account that the draft Methodology includes a threshold for the submission of information justifying the costs of the tariff proposal. In addition, it is expected that starting from the next regulatory period the administrative burden for both the natural gas transmission system operator and the Regulator when preparing information on the regulatory account balance will be reduced, which has been achieved by supplementing the draft Methodology with the regulatory account calculation form.

III Technical characteristics of the natural gas transmission system

1. Latvian natural gas transmission system

Pursuant to Section 1(1), point 13, of the Law on Energy, laid down in Directive 2024/1788 of the European Parliament and of the Council of 13 June 2024 on common rules for the internal markets in renewable gas, natural gas and hydrogen, amending Directive 2023/1791 and repealing Directive 2009/73/EC, the transmission of natural gas is a form of energy supply which includes the transport of natural gas through high-pressure pipelines (except transport through upstream pipelines) in order to supply natural gas to the relevant distribution system or directly to users, except for the trade in energy, and Section 1(1), point 32, of that law provides that the natural gas transmission system is a gas transmission network or pipeline system with all the necessary energy supply merchant objects for the performance of the transmission function, which are used for the transportation of gas.

The Latvian natural gas transmission system consists of gas pipelines with closing fittings, the working pressure of which is above 16 bar, gas regulation stations (GRS), pressure reducing station (PRS) and gas metering stations (GMS), telemechanics, communication and power supply systems, electrochemical protection system and security systems. (Figure 1).

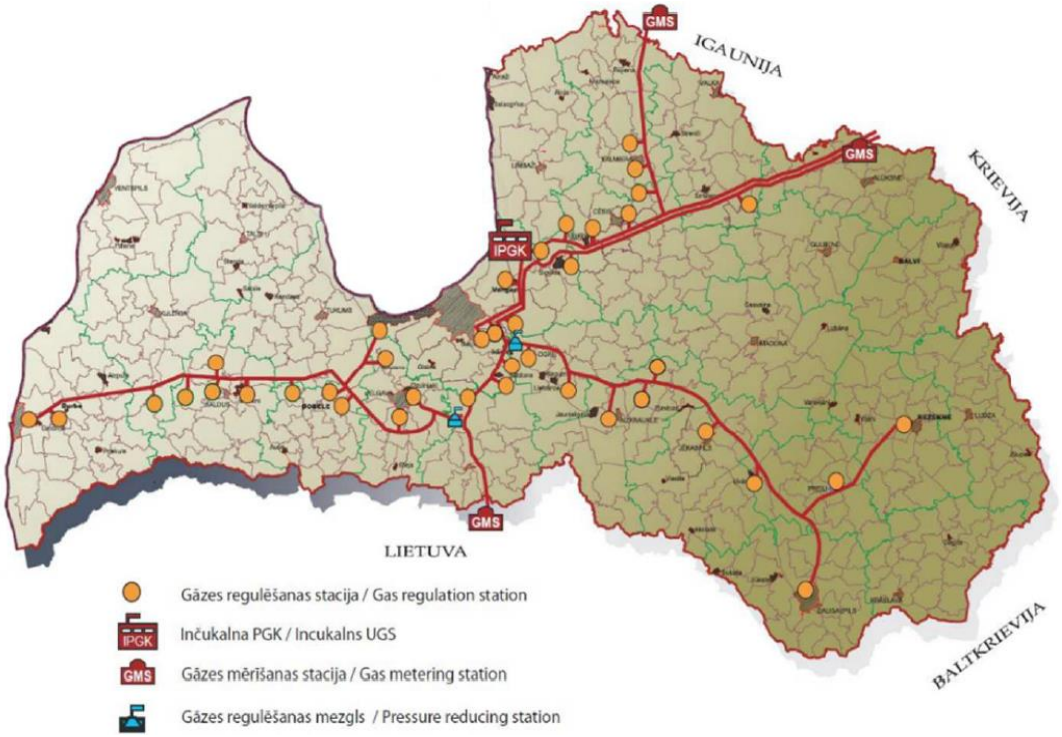


Figure 1: Latvian natural gas transmission system

Latvia's natural gas transmission system is divided into two parts, the cross-border transmission system and the national transmission system.

A cross-border transmission system is a part of a transmission system from an entry point from a transmission system of another country to an exit point to a transmission system of another country or to an entry point to a natural gas storage facility. The cross-border transmission system consists of Riga - Panevezys, Pskov - Riga, Izborsky - Inčukalns underground gas storage facility ('Inčukalns UGS'), Riga - Inčukalns UGS I line, Riga - Inčukalns UGS II line, Vireši - Tallinn gas pipelines. The length of the gas pipes is 577 km, the diameter is 700 mm, and the working pressure in them is from 28 to 50 bar.

The national transmission system shall be part of the transmission system (branches from the cross-border transmission system which are not used for the cross-border transmission of natural gas) for supplying populated areas with natural gas together with the branches and the gas regulatory stations and nodes of the system operator. The length of the gas pipelines of the national transmission system is 613 km, the diameter is from 100 mm to 500 mm (for the distribution of pipelines along the diameters, see: Table 1) and the working pressure in them is up to 35 bar (the designed working pressure is up to 55 bar).

Table 1

Length of gas pipelines of the national transmission system per diameter of pipelines

	Pipe diameter, mm						
	500	400	350	300	250	200	150 and less

Length, km	280	20	136	47	42	31	57

The gas pipelines of the national transmission system are formed in the form of beams – one branch of the gas pipeline of the national transmission system goes to Liepāja and the other to Daugavpils with a branch to Rēzekne.

The Latvian main gas pipelines are part of the unified natural gas transmission entry-exit system of Finland, Estonia and Latvia ('FinEstLat system'). The total length of the natural gas transmission system (main gas pipelines) is 1190 km. (see Table 2).

Table 2

Characteristics of the Latvian natural gas transmission system

Pipeline	Year of commissioning	Length, km	Diameter, mm	Maximum pressure, bars
Riga – Panevėžys	1983	84,03	700	40
Iecava–Liepāja	1966	209,64	500/350	25
Pskov–Riga	1972	160,63	700	47
Izborsk–Inčukalns UGS	1984	162,51	700	47
Riga–Inčukalns UGS I	1967	41,75	700	40
Riga–Inčukalns UGS II	1978	41,74	700	40
Riga–Daugavpils	1988	203,00	500	25
Heather-Tallinn	1994	88,00	700	45
Upmala–Preiļi–Rezekne	2001/2005	66,71	400/350	54
Branches		131,99		
Total:		1190,00		

There is one gas metering station in Latvia, Korneti, in the municipality of Alūksne, which is used to determine the amount of gas in units of energy transferred to the natural gas distribution system operator JSC Gaso, ,.

Commercial metering of natural gas is carried out at the Kiemenai (Lithuania) gas metering station on the Latvian - Lithuanian border and at the Karksi (Estonia) gas metering station on the Latvian - Estonian border.

The supply of a certain quantity, pressure and temperature, purified and odorized natural gas to the natural gas distribution system by measuring its quantity is ensured by 40 gas regulation stations.

On 28 July 2025, the first public biomethane entry point 'Džūkste', located in Džūkste parish, became operational. Today, through a smart system, biomethane producers have the possibility to inject the produced biomethane into the transmission system through public biomethane entry points. Biomethane is transported by freight transport as bioCNG to the entry point using high-pressure containers (250-300 bar).

At the same time, it is also possible to build direct connections to the natural gas transmission or distribution system for injection of natural gas (biomethane) into the national natural gas entry-exit system. As of 1 November 2025, two such connection points were existing.

The amount of natural gas transported in Latvia's natural gas transmission system depends on the entry and exit point capacity of the natural gas transmission system (see Table 3).

Table 3

Technical capacity of entry and exit points of the Latvian natural gas transmission system in 2025 (GWh/day)

Entry/exit point	Technical input capacity	Technical output capacity
Kiemenai (Latvia/Lithuania)	90	82
Inčukalns Underground Gas Storage	74	129
Luhamaa (Estonia/Russia)	105	105

The Inčukalns UGS is the only functioning underground gas storage facility in the FinEstLat system, and its task is to ensure a constant supply of natural gas to customers regardless of seasonal changes in natural gas consumption, usually by injecting natural gas in the summer and withdrawing it in the winter.

Inčukalns UGS started its operation in 1968. The natural gas storage facility is set up in a porous sandstone layer at a depth of approximately 600-750 metres, covered by layers of impermeable rock. The central area of the Inčukalns UGS and the equipment needed to ensure technological processes – three gas collection points and 180 gas storage wells – cover an area of approximately 8 400 hectares. In total, the Inčukalns UGS covers an area of approximately 40 km^2.

The maximum amount of active natural gas provided for in the Inčukalns UGS technological project is 24 865 GWh. The amount of natural gas stored in the storage facility and the pressure of the collector layer, i.e. the pressure at which the cover layer of the storage facility remains impermeable, are influenced by several factors, in particular the actual fill of the Inčukalns UGS with natural gas in previous storage cycles and the injection intensity during a given storage cycle.

The withdrawal of natural gas from the storage facility is based on the difference in pressure between the collector layer and the main pipeline, and the daily withdrawal capacity therefore depends on the fill of the storage facility. As the storage capacity decreases, the natural gas withdrawal capacity decreases.

Figure 2: Amount of natural gas injected and withdrawn (GWh/day) and amount of active natural gas (TWh) in the Inčukalns UGS in 2023 and 2024[2]

Within the framework of the project to improve the performance of the Inčukalns UGS described in the next chapter of the consultation document, the modernisation of the natural gas pumping unit 12z330 No 3 was carried out. After the completion of the modernisation works of the natural gas pumping unit in November 2021, it can be used to withdraw the natural gas from the storage in the spring months, when less active natural gas is available in the storage and the technical capabilities of the storage without compression withdrawal are limited.

Storage capacity is booked by users from the Baltic States, Finland, Norway, Germany, Poland and Switzerland.

For the purposes of calculating the service tariff of the natural gas transmission system, it is assumed that the supply of natural gas to gasified facilities of Latvian users connected to the natural gas distribution system is ensured through a single virtual exit point for the supply of Latvian users, which aggregates all technically possible exit points to the natural gas distribution system in the territory of Latvia.

2. Development of the regional natural gas transmission system

Pursuant to Regulation (EU) 2022/869 of the European Parliament and of the Council of 30 May 2022 on guidelines for trans-European energy infrastructure, amending Regulations (EC) No 715/2009, (EU) 2019/942 and (EU) 2019/943 and Directives 2009/73/EC and (EU) 2019/944, and repealing Regulation (EU) No 347/2013, the Baltic Sea Region has been identified as one of the European Union ('EU') priority corridors for connecting the natural gas supply system of the Baltic Sea Region to the common EU natural gas transmission network. A number of projects of common European interest have been implemented in the Baltic Sea region in order to connect to the EU natural gas transmission system, improve the security of natural gas supply and diversify natural gas supply sources (see IP/10/581, MEMO/10/199 and MEMO/10/199). Figure 3).

[2] *Annual assessment report of the natural gas transmission system operator for 2024 (https://www.conexus.lv/uploads/filedir/Reports/2024_PSO_annual_nov_report-01-07_EN.pdf)*

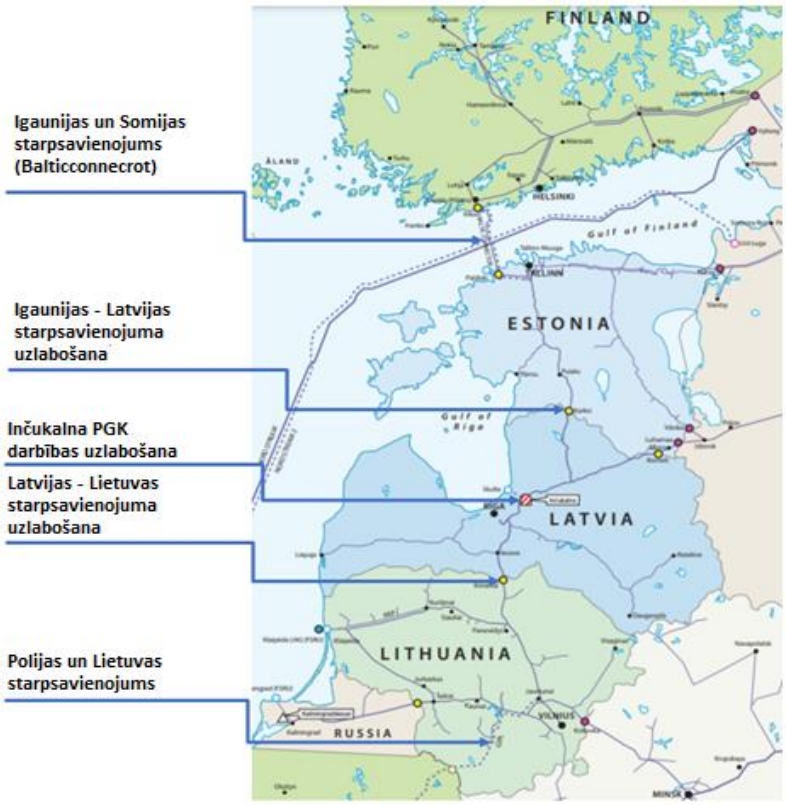


Figure 3: Projects of common European interest in the Baltic Sea Region

The Estonia-Finland interconnection ('Balticconnector') connects the Finnish natural gas transmission system with the natural gas transmission systems of the Baltic States, creating the necessary precondition for the creation of a single Baltic natural gas market. The construction of the Balticconnector was completed at the end of 2019 and the interconnector, consisting of a two-way gas pipeline, became operational on 1 January 2020.

Balticconnector had a positive impact on the overall volumes of natural gas flows transported by the region, enabling the supply of natural gas to Finnish users, including through the storage services of the Inčukalns UGS. In 2021, the amount of natural gas transported via the Balticconnector towards Finland was 6.3 TWh, representing around one third of Finland's total natural gas consumption.

The Estonia-Latvia interconnection (Karksi) ensures the transmission of natural gas from Inčukalns UGS and Lithuanian natural gas to users in Estonia and Finland, as well as the supply of natural gas to Latvian and Lithuanian natural gas users from the Estonian transmission system. In 2024, natural gas was delivered via an interconnector from the Inkoo LNG terminal for injection into the Inčukalns UGS, to Latvia's national consumption and transmission to Lithuania, as well as to Estonia's gas supply from the Inčukalns UGS in the opposite direction. The interconnector is a corridor of one pipeline with a conditional diameter of 700 mm, and its length to the connection to the two-pipe system in the territory of Latvia is 85.85 km. At the end of 2024, the maximum technical capacity at Karksi point was 116.4 GWh/d in both directions of interconnection. The maximum capacity is provided at a gas working pressure of 50 bar, while the designed maximum allowable pipeline pressure is set at 55 bar. In the previous two years, 9 667 GWh of energy was transmitted to Estonia via the interconnection, while 9 798 GWh of total time was transmitted via the interconnection from Estonia to Latvia in the last two years.

The purpose of the construction of the Poland-Lithuania interconnection (GIPL) was to connect the natural gas transmission systems of Poland and Lithuania, thereby ensuring the integration of the natural gas transmission systems of the Baltic States and Finland into the EU natural gas

transmission system and increasing the security of natural gas supply in the region. The diameter of the GIPL pipeline is 700 mm, with a total length of approximately 508 km, including 343 km in Poland and 165 km in Lithuania. The planned capacity is 73,9 GWh/d for Lithuania and 58 GWh/d for Poland.

The GIPL was launched on 1 May 2022. In October 2022, GIPL successfully passed the maximum capacity test. In the nine months of 2025, 2.7 TWh of gas were transported to Europe via the GIPL interconnector between Lithuania and Poland. 10 TWh of gas were transported for Latvia, Estonia and Finland, an increase of 27% compared to the same period in 2024. Since the start of GIPL's operations, the number of its users has been steadily increasing, now reaching ten market participants.

The improvement of the Latvia-Lithuania interconnection not only allows for a greater exchange of natural gas between Latvia and Lithuania, but also guarantees sufficient capacity of the Latvian transmission system to ensure natural gas flows in the FinEstLat natural gas market. The interconnector is a single-pipeline corridor with a nominal diameter of 700 mm and the length of the interconnector to the two-pipeline system is 83,79 km. Following the implementation of the Latvia-Lithuania interconnector upgrade project in 2024, the technical capacity from Lithuania to Latvia has been set at up to 90 GWh/d and 82 GWh/d from Latvia to Lithuania. The maximum capacity is provided at a gas working pressure of 50 bar, while the design maximum allowable pipeline pressure is set at 55 bar.

In the previous two years, 4 026 GWh of energy were transported to Lithuania via the interconnection point, with the interconnection point operating in this direction for 157 days or 21% of the total time. In the course of the last two years 25 195 GWh of energy were transported through this interconnection point from Lithuania to Latvia. The large gas flows towards Latvia can be explained mainly by the fact that the Klaipeda liquefied natural gas (LNG) terminal was the most important source of gas supply for gas consumption in the Baltic-Finnish region during this period, as well as by the choice of system users to store gas in the Inčukalns UGS during the gas injection season.

Within the framework of the Inčukalns UGS performance improvement project, it is planned to rebuild the third gas collection point, restore 36 wells, as well as upgrade five existing natural gas pumping units and install a new pumping unit. The installation of a new pumping unit will ensure the withdrawal of natural gas from the storage with a compression with an output pressure of 50-55 bar in the Inčukalns UGS interconnection with the natural gas transmission system, even if the pressure in the storage reservoir will be lower than the pressure in the transmission system. Consequently, the implementation of the project will significantly reduce the dependence of the capacity available for withdrawal on the amount of natural gas in the storage facility, which will significantly improve the security of natural gas supply as well as the efficiency of the operation of the storage facility, which is particularly important for the optimal and most efficient functioning of the single Baltic-Finnish natural gas market. The project will also implement environmental protection measures, reducing CO_2, NO_x and other emissions. The project is planned to be completed in November 2025.

IV Description of the proposed reference price methodology

1. FinEstLat unified natural gas transmission entry - exit system

The FinEstLat system became operational on 1 January 2020. Its establishment was based on the concept of entry - exit system introduced by 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 (hereinafter 'Regulation 715/2009') and on the conclusion of the study 'Quo vadis EU gas market regulatory framework – Study on a European gas market design' (hereinafter 'the Study') that setting intra-EU cross-border tariffs at zero increases the liquidity of bidding zones and thus price levelling across the EU.

Accordingly, the reduction in revenues of a specific natural gas transmission system operator should be compensated by increasing either EU entry tariffs or domestic exit tariffs (or a combination of both) and reallocating revenues through the inter-transmission system operator compensation (ITC) mechanism .

The purpose of setting up the FinEstLat system was to take advantage of the savings mentioned in the Study, as well as the economies of scale, thus:

- promoting the free movement of natural gas in the region and preventing discrimination of supply routes;
- reducing barriers to entry for new entrants to FinEstLat's natural gas market and thereby promoting competition in the market;
- providing more liquidity to the market;
- improving the use of and preventing over-investment in existing infrastructure;
- improving security of supply through market-based measures;
- reducing the complexity of the tariff system and ensuring transparency and predictability of tariffs;
- ensuring a higher levelling of prices (convergence) in FinEstLat countries;
- reducing the market power of major natural gas suppliers and increasing the independence of FinEstLat's natural gas market.

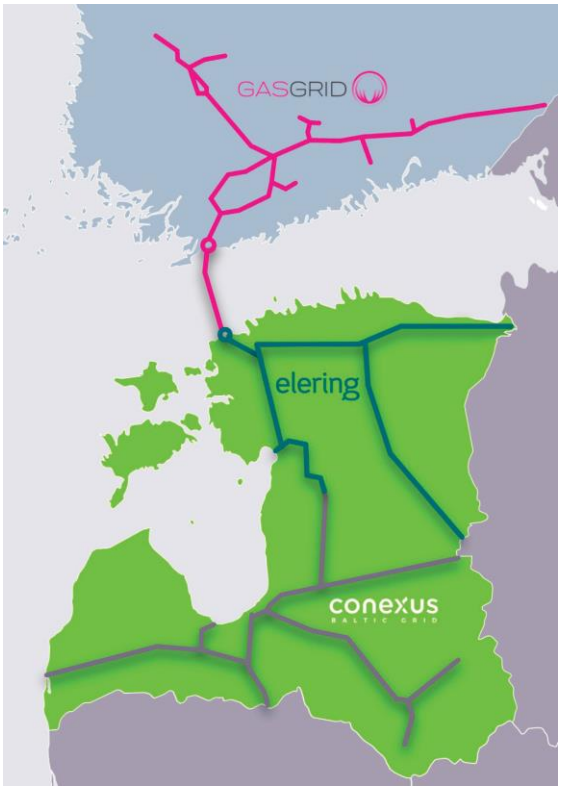
FinEstLat's and Lithuanian national regulatory authorities cooperated with the consultancy firm Baringa Partners LLP (hereinafter 'Baringa') to select the most appropriate natural gas transmission entry-exit system model. In line with[3] the findings of the Baringa study on the tariff-setting model of the unified Baltic-Finnish natural gas transmission entry-exit system in the Finnish-Baltic gas market, the FinEstLat system has the following main features:

- there are no internal interconnection points in the system, including the exit point to the Inčukalns UGS and the entry point from the Inčukalns UGS;
- the stamp reference price methodology shall be applied in each country of the system on a case-by-case basis;
- uniform tariffs are set at system entry points through benchmarking and revaluation;
- the service revenues of the natural gas transmission system recovered from the tariffs of entry points shall be distributed through the ITC mechanism in proportion to the amount of natural gas consumed in each country of the system;
- exit point tariffs are set to ensure that each natural gas transmission system operator recovers the remaining revenues of the transmission system service not recovered from entry point tariffs;
- revenues for non-transmission services are decided on a case-by-case basis by each system country.

[3] https://www.sprk.gov.lv/sites/default/files/editor/ED/Konsultaciju_dokumenti/Dabasgaze/2019/Tariff%20model_Baringa%20Phase%202%20Report_Final_V3_0.pdf

Given the different level of development of the natural gas market (the Finnish natural gas market was only opened in 2020), two balancing zones have been established in the FinEstLat system: the single Estonian - Latvian balancing zone and the Finnish balancing zone.

Uniform rules on third-party access to services, capacity allocation and congestion management, as well as balancing are applied in the single balancing zone between Estonia and Latvia. By Decision No 41 of 29 May 2025 on the harmonisation of uniform rules for the use of the natural gas transmission system, the Regulator, in agreement with the Estonian regulatory authority, harmonised the latest version of the uniform rules for the use of the natural gas transmission system drawn up by transmission system operators JSC Conexus Baltic Grid, and 'Elering' AS.[4]



The amendments to Section 106(4) of the Energy Law of 14 July 2022, which entered into force on 1 January 2023, prohibit the supply of natural gas from the Russian Federation ('third country'). In the Republic of Estonia, changes have also been made to the regulatory framework by imposing a ban on the import of natural gas from a third country. On the basis of these regulatory amendments, the Uniform Rules for the Use of the Natural Gas Transmission System stipulate that for natural gas originating in a third country, system users can only transit, i.e. transport of natural gas originating in a third country to a third country through the common balancing zone and other adjacent balancing zones.

By Decision No 88 of 2 October 2025 on the harmonisation of the rules for balancing the single natural gas transmission entry-exit system, the Regulator, in agreement with the Estonian regulatory authority, harmonised the latest version of the Single Rules for balancing natural gas in the transmission system drawn up by the natural gas transmission system operators AS Conexus Baltic Grid and Elering, AS.[5]

In accordance with those rules, a system user shall conclude a balancing agreement with any natural gas transmission system operator of the single balancing zone and a transmission service agreement with a transmission system operator with whom a balancing agreement has been concluded.

The trading platform, the EEX gas exchange, is the first source of natural gas needed to balance natural gas transmission system operators. 94% of all balancing transactions were carried out on the trading platform, while bids submitted by transmission system balancing service providers were used in 6% of cases.

For balancing purposes, natural gas transmission system operators shall purchase standardised short-term (current or day-ahead) products with delivery to a virtual trading point *(title product)* as a priority on a trading platform, but may also use a *locational product*. Under the methodology for

[4] https://likumi.lv/ta/id/353010-on-uniform-natural gas-transmission-system-use-regulation-harmonisation

[5] *https://likumi.lv/ta/id/363513-on-uniform-natural gas-transmission-input-output-system-balancing-regulation-harmonisation* https://likumi.lv/ta/id/336021-par-vienotas-dabasgazes-parvades-ieejas-izejas-sistemas-balansesanas-noteikumu-saskanosanu

calculating the neutrality charge, all costs and revenues of balancing activities are allocated to the neutrality charge. The neutrality fee shall be paid or received by the system user.

For the transport of natural gas in the Finnish balancing zone, the system user shall conclude a balancing agreement and a natural gas transmission system service agreement with the Finnish natural gas transmission system operator Gasgrid Finland Oy.

In 2024, the total amount of natural gas transported was 25.22 TWh, a decrease of 13.4% compared to the previous year. In 2024, natural gas supplies were provided for the needs of Latvia, Lithuania and Estonia, as well as for the needs of Finland as of April, when the operation of the Balticconnector submarine gas pipeline was restored. Total natural gas consumption increased slightly. The increase in consumption was influenced both by the cold weather in the first months of the year, increasing consumption for heating needs, and by the higher amount of electricity production in Latvia. (Figure 4).

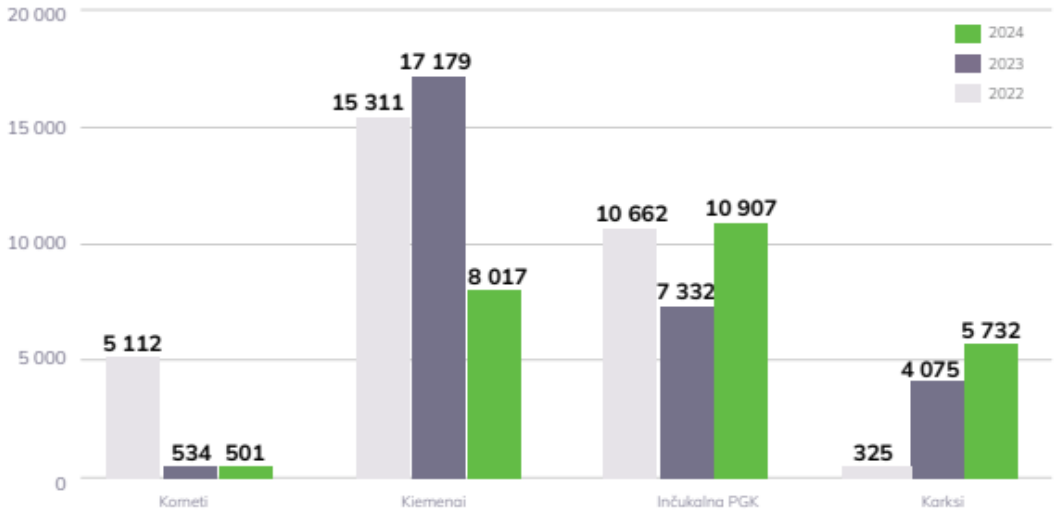


Figure 4. Amount of natural gas received in the transmission system in 2022, 2023 and 2024 (GWh)

Changes in the dynamics of natural gas flows in 2024 can be observed: still the largest natural gas deliveries to Latvia came from Lithuania, but compared to the previous year, the amount of natural gas received from Lithuania has decreased by 53%. The reduction in the volume of natural gas received from Lithuania was affected by the maintenance of the Klaipėda LNG terminal from 1 May to 13 June 2024 and the repair of the Riga - Panevezys transmission pipeline in August. In turn, during the 2024 injection season of the Inčukalns UGS, large volumes of gas were transited through Estonia from the Inkoo LNG terminal in Finland. In 2024, the amount of natural gas received from Estonia in Latvia increased by 1.65 TWh. There was no supply of natural gas from Russia. In October and November 2024, a transit of 0.5 TWh of natural gas from the Luhamaa point to the Kaliningrad area took place.

No impact factors have been identified to significantly change the demand for natural gas in Latvia and in the entire FinEstLat system in the coming years.

The five-year results of FinEstLat's market show that all the players involved in the supply of natural gas benefit significantly. For the customers of the natural gas transmission system and natural gas end-users the choice of of suppliers has increased significantly, as the establishment of the single - entry tariff zone does not require payments for crossing the borders between the countries of the zone, thus promoting competition among natural gas traders and simplifying access to alternative sources of gas. Natural gas traders have the opportunity to use the available

natural gas transmission and storage infrastructure more efficiently, but the unified Estonian-Latvian balancing zone reduces bureaucratic burden and ensures a comfortable and transparent balancing process.

2. Choice of reference price methodology

Article 6(1) and (3) of the TAR NC provides that the reference price methodology shall be set or approved by the national regulatory authority through the adoption and publication of a reasoned decision following the final discussion of the reference price methodology in accordance with Article 26 of the TAR NC. The TAR NC does not provide for any default rules or specific requirements for entry-exit systems covering several Member States where several transmission system operators are active. Therefore, pursuant to Article 11 of the TAR NC, natural gas transmission system operators operating in such an entry-exit system may apply the same reference price methodology jointly or separately, or different reference price methodologies may be applied separately.

As already mentioned in the previous chapter, the Baringa study concluded that FinEstLat should apply the postage stamp reference price methodology on a country-by-country basis in the single entry-exit system for natural gas transmission. The conclusion was reached in the first phase of the study by comparing the postage stamp, capacity-weighted distance and matrix reference price methodologies. The comparison of reference prices assessed the impact of each methodology on the functioning of the natural gas market, the competitiveness of natural gas and the welfare of users, as well as the simplicity of the methodology and the amount of transfers within the compensation mechanism between natural gas transmission system operators (which should be as small as possible).

The results of the analysis and broader assessment carried out by Baringa show that the postage stamp reference price methodology has a number of positive features (see: Table 4).

Table 4

Results of the comparison of reference price methodologies

Criterion	Postage stamp reference price methodology	Capacity-weighted distance reference price methodology	Matrix reference price methodology
Economic efficiency			
Promoting the well-being of long-term users			
Fostering competition			
Simplicity			
Avoidance of significant transfers between national transmission system operators			

For example, in terms of simplicity, economic efficiency and competition criteria, the postage stamp reference price methodology has received the highest rating. However, using the postage stamp reference price methodology will require large transfers under the ITC mechanism, providing the authorised revenues for each natural gas transmission system operator. Consequently, the postage stamp reference price methodology is subject to the lowest assessment as regards the fulfilment of the criterion 'avoidance of significant transfers between national transmission system operators.

The capacity-weighted distance and matrix reference price methodologies ensure greater long-term user well-being compared to the postage stamp reference price methodology. However, even with the use of the capacity-weighted distance reference price methodology, there will be relatively large transfers between national transmission system operators. The matrix reference price methodology provides the smallest transfers under the ITC mechanism.

Having assessed the advantages and disadvantages of all the reference price methodologies, Baringa concluded that the postage stamp reference price methodology was the most appropriate for setting the natural gas transmission system service tariffs in FinEstLat's unified natural gas transmission entry-exit system, in particular in the light of assessment criteria such as economic efficiency and competition in the supply of natural gas.

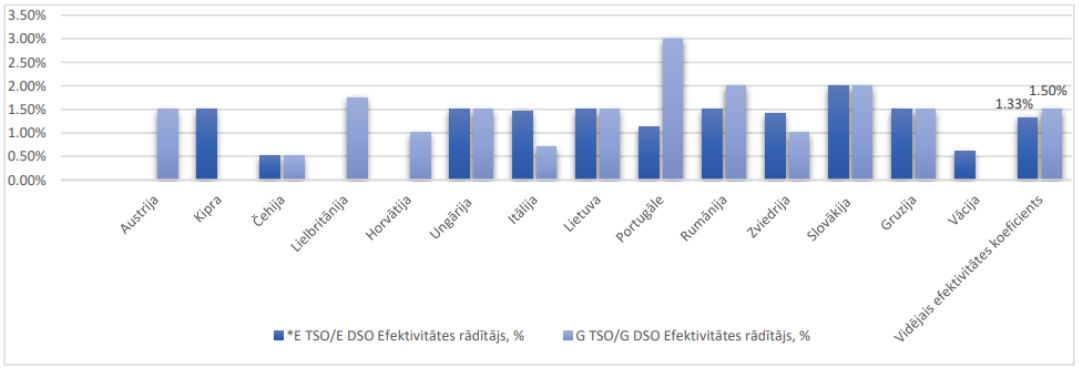
On 13 July 2023, on the basis of an agreement between the national regulatory authorities of the FinEstLat single natural gas transmission entry-exit system to apply the postage stamp reference price methodology on a country-by-country basis, the Regulator approved the Methodology.

3. Need for methodological amendments

The draft methodology (see: Annex 1) was drawn up taking into account the need for clarifications regarding the determination of the allowed revenue, the procedure for calculating and using the regulatory account. The draft methodology makes changes to the procedure for calculating the cost- efficiency ratio, as well as introduces a new tariff for capacity products that will be applied to biomethane producers and end-users.

4. Determination of the cost - efficiency ratio

Having evaluated the calculation of tariffs of natural gas and electricity system operators, the Regulator concluded that the current regulation, which provides for merchants to determine the coefficient of efficiency themselves, should be improved in order to promote the introduction of efficiency processes. At the same time, system operators recognise that determining efficiencies is challenging, as is demonstrating the efficiencies achieved. Examining the experience and practice of European energy regulators, it was concluded that for the most part the level of efficiency to be achieved in other EU Member States is determined by regulators and is on average 1.33% in the natural gas sector and 1.5% in the electricity sector (see Figure 5).



* Averages for Italy, Portugal and Sweden

Figure 5. Values of efficiency indicators in Europe

In the light of the above, and in order to ensure an approach to the determination of the efficiency ratio that is as simple, transparent as possible and does not require a large contribution of resources from utilities and the Regulator, the draft Methodology defines what is considered to be efficiency. In addition, the draft Methodology defines cost-efficiency as the amount of cost savings that an economic operator has to achieve within the regulatory period by improving the efficiency of economic activity, it being understood that cost savings for improving short-term financial indicators or transferring work processes or costs to the next regulatory period are not considered to be efficiencies. Efficiency is the targeted improvement of processes, which ensures cost reduction in the long term.

At the same time, uniform principles for the calculation of efficiency have been laid down, which provide that the value of the efficiency coefficient is set at 50% of the consumer price index (inflation) forecasted by Latvian National Bank for the following calendar year. At the same time, the Regulator sees that it is also necessary to determine the minimum value of the coefficient of performance in case of deflation and the highest value, ensuring compliance with the principle of proportionality. The efficiency factor is determined for the whole regulatory period. The draft methodology is intended to introduce an equal approach to measuring efficiency in the electricity and natural gas sectors. The draft methodology provides for the removal of the incentive for determined cost-efficiency provided for in the methodologies for the calculation of services in the electricity and natural gas system, making it possible to reduce the regulatory account balance to 50% if efficiency is achieved. Instead, the draft Methodology provides for the possibility for the transmission system operator to retain revenues attributable to over-efficiency. In order to ensure the legitimate expectations of the transmission system operator, the final issues of the draft Methodology state that the paragraph of the Methodology on the incentive for over-efficiency will enter into force as of the next regulatory period, therefore the current Regulation of the Methodology is applicable to the regulatory period currently in force and the preparation of the final regulatory account related to the efficiency incentives.

At the same time, when planning the costs eligible for the regulatory period, the transmission system operator must respect the energy efficiency first principle laid down in Article 27 of Directive (EU) 2023/1791 of the European Parliament and of the Council of 13 September 2023 on energy efficiency and amending Regulation (EU) 2023/955.

5. Calculation and coordination of the regulatory account

In accordance with Article 20(1) and (3) of the TAR NC, full or partial coordination of the regulatory account shall be carried out in accordance with the applied reference price methodology in order to compensate the natural gas transmission system operator for the under- recovery of revenues and to return the over-recovered revenues to the system users.

The methodology provides that the natural gas transmission system operator shall draw up a regulatory account in which it shall, six months before the end of the tariff period, account for the difference between the planned revenue and the actual revenue during the tariff period, as well as for unforeseen costs incurred due to changes in external regulatory enactments of the previous tariff period or prevention of emergency situations, separating the revenue attributable to the cross-border and national transmission system. If the actual revenues are lower than the expected revenues, the balance of the regulatory account is negative, which increases the cost of the transmission service for the next tariff period. If the actual revenues are higher than the expected revenues, the balance of the regulatory account is positive, which reduces the cost of the transmission service for the next tariff period. In the previous tariff period, due to changes in external regulatory enactments or the prevention of emergency situations, justified unforeseen costs increase the costs of the transmission service for the next tariff period.

6. Calculation of cumulative inflation

Having assessed the previous practice regarding the difference between the planned increase in the costs caused by inflation in the regulatory period and the forecasted increase in the costs caused by inflation in the tariff period, as well as the difference between the planned increase in

the costs caused by the change in the nominal gross wage in the tariff period and the forecasted increase in the costs caused by the change in the nominal gross wage in the tariff period, the Regulator concluded that the existing regulation is not unambiguous, as well as has caused uncertainties in the application of the regulation regarding the calculation of the regulatory account. In the light of the above, the draft Methodology contains a more precise framework for changing the way in which the above-mentioned difference is calculated for each of the tariff periods. The new approach will ensure a more accurate accounting of spreads according to actual economic indicators.

7. Clarifications related to the update of the indicators for the following periods

Taking into account that when drawing up the draft tariffs, the transmission system operator plans the costs in the long term, as well as taking into account the forecasts of future costs, the draft methodology includes a new norm, which provides that the transmission system operator has the right to account in the regulatory account the expected difference in the costs of future tariff periods (to specify the planned inflation in the calculation of tariffs and for the needs of the loss of purchase prices of natural gas). The new regulation provides that the cost difference is calculated not only against the planned costs in the calculation of tariffs, but also against the expected costs if the planned costs have been revised in the previous tariff period.

8. Form of submission of the regulatory account

In order to facilitate the calculation of the regulatory account, as well as to establish a uniform procedure for the submission of the regulatory account to the transmission system operator, the draft Methodology envisages supplementing the Methodology with the form of the regulatory account in the 'Excel' format, which the transmission system operator must complete and submit to the Regulator. The developed form provides that data on the planned costs of each tariff period are automatically loaded from the cost worksheet included in the calculation of tariffs, while the transmission system operator must enter data on the actual costs of the tariff period. The balance of the regulatory account is calculated automatically, taking into account the formulas included in the worksheets, which will both facilitate the work of the transmission system operator and shorten the time necessary for the Regulator to evaluate the regulatory invoice. The draft methodology stipulates that the calculation and submission of the regulatory account according to the developed format in Excel format is foreseen from the next regulatory period onwards. The calculation and submission of the regulatory account for the regulatory period starting on 1 December 2023 must be carried out in the same way as during that regulatory period, i.e. the system operator performs the calculations in accordance with the Methodology and submits them in the form of a table established by the system operator.

9. Calculation of the cost of exit point for supply of consumers of Latvia

Pursuant to Article 4(3) of the TAR NC, revenues from natural gas transmission services are recovered through capacity-based tariffs. In order to comply with the provisions of the TAR NC, the Methodology Project has changed the principle of setting the charge for exit point for supply of consumers of Latvia by replacing the resource-based tariff with a capacity-based tariff. The draft methodology specifies the formula for calculating the charge for the use of the exit point for supply of consumers of Latvia , specifying that the volume of reservations of traders' capacities forecasted at the exit point for supply of consumers of Latvia is taken into account. In addition, when calculating the charge for the use of the exit point for supply of consumers of Latvia, revenues to be recovered are calculated without taking into account the projected revenues from the entry points from the production facilities of renewable and low-carbon gases.

10. Calculation of tariffs at entry points from renewable and low-carbon gas production facilities

Pursuant to the Energy Law, renewable gases and low-carbon gases obtained in Latvia may be injected into the national natural gas entry-exit system through a direct connection to the natural

gas transmission or distribution system (hereinafter referred to as the entry point from the production site of renewable gases and low-carbon gases) or a natural gas transmission system entry point constructed by the single natural gas transmission and storage system operator for the injection into the natural gas transmission system of gaseous fuels produced or extracted from renewable energy sources (hereinafter referred to as the entry point for renewable gases and low-carbon gases).

At the same time, it is apparent from Section 110(7) of the Law on energy that the tariffs imposed on the natural gas transmission system operator are applicable to the injection of natural gas into the national natural gas entry-exit system. Therefore, the tariff should also be set for entry points from renewable and low-carbon gas production facilities and entry points for renewable and low-carbon gases. This requires a change in the methodology for determining how the relevant tariffs are to be calculated.

The draft methodology includes a new formula requiring users to pay the eligible costs to entry points from renewable and low-carbon gas production facilities and to entry points for renewable and low-carbon gases, whereby the tariff is to be calculated by dividing the eligible costs by the planned capacity of the entry point.

11. Cost factors used in the reference price methodology

According to Article 3(18) of the TAR NC, the cost factor is an essential determinant of the activity of the natural gas transmission system operator, which correlates with the costs of the transmission system operator, such as distance or technical capacity.

The draft methodology has been developed on the basis of an agreement between the national regulatory authorities of the FinEstLat unified natural gas transmission entry-exit system to apply the postage stamp reference price methodology on a country-by-country basis. The draft methodology provides that the same natural gas transmission system service tariffs (reference price) are applied at all entry and exit points, irrespective of the distance of natural gas transport. The use of distance as a cost factor would not be consistent with the essence of the postage stamp reference price methodology. According to the draft Methodology, the tariffs for the natural gas transmission system service depend on the determined allowed revenues, the allocation of entry-exit revenues, as well as the assumptions regarding the reservation of capacity.

12. Distribution of entry-exit revenues

The draft methodology provides that the natural gas transmission system operator, when calculating the planned revenue for the tariff period to be recovered from the reservation of capacity at entry points from other transmission entry-exit systems and from exit points to other transmission entry-exit systems, shall apply a distribution factor of 0.50 to the revenue from the reservation of capacity at entry points for the tariff period and a distribution factor of 0.50 to the revenue from the reservation of capacity at exit points for the tariff period of the planned revenue. At the same time as submitting natural gas transmission system service tariff proposal, the system operator shall submit a justification if the allocation coefficients of the planned revenues are adjusted.

13. Distribution of capacity- and resource-based revenues

The draft methodology provides that the revenue allowed shall cover the costs of the capacity reservation service over the regulatory period, taking into account the size of the costs of the capacity reservation service, which the system operator must reduce by improving the efficiency of the use of fixed assets and other resources, as well as the efficiency of economic activity and compensation between system operators.

According to the natural gas market model introduced in Latvia with the opening of the natural gas market in 2017, the current regulation establishes a balancing regime covering both natural gas transmission and distribution systems. The ‘reserved as measured’ principle is used to reserve capacity for the supply of Latvian users of the virtual exit point, replacing the requirement

of pre - booking with the obligation to submit non - binding nominations to the natural gas transmission system operator for ensuring the technical management of the natural gas transmission system, and the 'assigned as measured' principle has been applied to determine the allocation, taking into account that:

- more than 80% of the services provided to natural gas transmission system users serve the needs of the Latvian natural gas retail market;
- consumption of natural gas by household customers and other users, whose gasified objects are equipped with a non-daily metering site, is approximately 10% of Latvia's total natural gas consumption, and they are characterized by unpredictability of consumption;
- the natural gas distribution system operator is currently unable to provide accurate allocation data for the gas day; and
- the natural gas transmission system is technically capable of meeting 100% of winter peak demand.

Such a principle does not hinder cross-border flows of natural gas, ensures the correct allocation of costs between the wholesale and retail markets of natural gas, and is compatible with the principle used in Estonia, which also does not provide for the reservation of the capacity of the exit point for the supply of Estonian customers by effectively harmonising the conditions for the use of the natural gas transmission system in the two natural gas transmission systems forming the single balancing zone of Estonia and Latvia.

The Regulator has assessed the need to change the principle of determining the tariff of the exit point for supply of consumers of Latvia and to determine the capacity-based tariff in the future. In the draft methodology, the principle of determining the exit point for supplyi of consumers of Latvia has been changed by replacing the resource-based tariff with a capacity-based tariff. In the future, when determining the exit point tariff, the volume of reservations of traders' capacities forecasted at the exit point will be taken into account.

At the same time, when calculating capacity-based tariffs, it is envisaged to define both the annual standard capacity product and the short-term products: daily, current day, monthly and quarterly.

The draft methodology has been supplemented with new formulae for calculating the cost of the exit point for supplyi of consumers of Latvia. For the calculation of short-term products, it is planned to use the same coefficients as previously agreed in FinEstLat's unified natural gas transmission entry-exit system.

Recovery of transmission services revenues from resource-based transmission tariffs is not foreseen.

14. Inter-transmission system operator compensation mechanism (ITC)

Pursuant to Article 10(3) of the TAR NC, in order to allow for the appropriate joint application of the same reference price methodology, an effective ITC mechanism should be established to avoid adverse effects on the transmission service revenues of the transmission system operators involved and cross - subsidisation between intra-system and cross-system network use.

One of the essential principles of FinEstLat's unified natural gas transmission entry - exit system is the absence of internal commercial interconnection points and the possibility of applying the same tariff at all FinEstLat's unified natural gas transmission entry - exit system entry points from other natural gas transmission entry-exit systems. In order to cover the reasonable costs incurred by natural gas transmission system operators in providing the natural gas transmission service in FinEstLat's unified natural gas transmission entry - exit system, without adversely affecting the transmission service revenue of the participating natural gas transmission system operators, on 14 February 2019 FinEstLat's unified natural gas transmission entry-exit system transmission system operators signed an agreement on the ITC procedure for the unified natural gas transmission entry - exit system of Finland, Estonia and Latvia, according to which the Latvian

natural gas transmission system operator and the other natural gas transmission system operators operating in FinEstLat's unified natural gas transmission entry - exit system collect or make payments to other FinEstLat's unified natural gas transmission entry - exit system operators.

The basic principles of the ITC procedure for FinEstLat's unified natural gas transmission entry-exit system, which were consulted during the 2019 consultation and applied from the start of operation of FinEstLat's unified natural gas transmission entry - exit system on 1 January 2020, are as follows:

- the revenue recovered from the entry point tariffs of all FinEstLat's single entry - exit system for the transmission of natural gas is pooled;
- the combined revenues are distributed to the transmission system operators on the basis of the proportion of the quantity of natural gas supplied through the transmission system to ensure domestic consumption in the country concerned, including losses of natural gas transmission and ensuring the technological process, in the total quantity of natural gas supplied through the natural gas transmission system for consumption on the FinEstLat natural gas market. The allocation of the combined revenues shall be carried out on a monthly basis on the basis of the share of natural gas consumption of each country of the previous year in the total annual consumption of the countries of the single natural gas transmission entry-exit system of FinEstLat;
- the variable costs incurred by transmission system operators for the provision of natural gas flows within the FinEstLat unified natural gas transmission entry - exit system and not linked to supplies to the national natural gas market shall be compensated on the basis of a regional flow scenario agreed between the transmission system operators and an estimate of the cost of compressor fuel gas related to the provision of regional natural gas flows;
- the eligible variable costs to be compensated by the natural gas transmission system operator concerned are separated from the distributed revenues recovered from the entry point tariffs. Eligible variable costs to be compensated shall be supported by an appropriate invoice or calculation.
- At the end of 2004, the revenue recovered from the entry-exit tariffs of FinEstLat's unified natural gas transmission system is harmonised. During the harmonisation process, the share of revenues attributable to each natural gas transmission system operator shall be recalculated using actual data on the annual domestic natural gas consumption of Finland, Estonia and Latvia and the redistribution of revenues based on the determined share of actual revenues attributable to each transmission system operator. The determined share of the actual revenues attributable to each transmission system operator shall be used for the allocation of the combined revenues of the following year;
- the part of the revenue recovered from the entry point tariffs of FinEstLat's unified natural gas transmission entry-exit system is calculated and the annual revenue is coordinated by an elected data administrator. The data administrator is one of the natural gas transmission system operators of the FinEstLat unified natural gas transmission entry - exit system;
- the data administrator is rotated once a year. The natural gas transmission system operators shall perform the duties of data administrator in the following order: 'Elering' AS, 'Conexus Baltic Grid' AS, 'Gasgrid Finland' Oy.

In early 2022, the Russian invasion of Ukraine significantly changed the geopolitical situation in Europe and around the world, which has led to major changes in the functioning of FinEstLat and the natural gas market in the region as a whole. The new situation on the region's natural gas market is characterised by the fact that:

I there will be no supply of natural gas from Russia in the medium term;
II Klaipeda LNG terminal and Inkoo LNG have become the main sources of natural gas supply in the region;

III the tariff at the entry point from Klaipeda LNG terminal is no longer discounted because of the maximum terminal load;
IV In May 2022, the use of the GIPL was launched, which aims to cover the demand for natural gas in both Central Europe and the Baltic States.

In view of the unexpected change in the sources of natural gas supply, it can be concluded that FinEstLat has no natural gas transit in the single entry - exit system for the transmission of natural gas and that, in the near future, there will be virtually no transit of natural gas and the entire system operates to meet domestic natural gas demand. In addition, the natural gas transmission system operators of FinEstLat's single entry-exit system for the transmission of natural gas do not make physical *point – to - point* supplies but use netting of flows. It is therefore considered that the ITC system, which is based on the allocation of revenues between natural gas transmission system operators on the basis of the domestic consumption of natural gas in a given country, does not allow cross-subsidisation between intra-system and inter-system network use.

One of the features of FinEstLat's unified natural gas transmission entry - exit system is the uniform tariffs set at all entry points to the unified natural gas transmission entry - exit system, eliminating discrimination in supply routes and reducing barriers to entry for new market participants in FinEstLat's natural gas market. In view of the above, changes in the practice of natural gas traders to reserve entry capacity to the natural gas transmission system are difficult to predict. Taking into account the topology of natural gas transmission systems in FinEstLat's unified natural gas transmission entry - exit system, which effectively prevents the arc-shaped transport of natural gas through changes in natural gas entry flows in FinEstLat's unified natural gas transmission entry-exit system, the currently less used part of the transmission system will be loaded, relieving the currently more used part of the transmission system.

If significant internal (technical) cross-border flows of natural gas occur in the FinEstLat single entry-exit system for natural gas transmission, their provision gives rise to variable costs, which are clearly identifiable by the natural gas transmission system operators and are essentially related to the operation of compressors. Accordingly, the agreement on the ITC arrangements for the unified natural gas transmission entry-exit system in Finland, Estonia and Latvia sets out the specific variable costs to be considered as eligible, as well as the principles for their attribution and compensation. Such variable cost compensation arrangements shall ensure that there is no adverse impact on the transmission service revenues of the transmission system operators involved.

Despite the changes in natural gas flows following Russia's invasion of Ukraine, the situation in the region has not changed significantly in such a way that the transmission system is primarily used to cover FinEstLat's internal consumption, and therefore no need to change the application of the ITC mechanism has been identified.

The draft methodology stipulates that, when calculating the service tariff of the natural gas transmission system, the revenues and expenses incurred by the natural gas transmission system operator in accordance with the ITC procedure of the unified natural gas transmission entry - exit system shall be taken into account. The draft methodology provides that the allowed revenues of the natural gas transmission system operator shall be determined using the following formula:

$$AIe_{PSO} = I_{PSO} - I_{PSOef} - ITC,$$

where:

$AIe_{PSO,}$ the allowed revenues of the regulatory period [EUR];
I_{PSO}, the total cost of the capacity reservation service to be included in the calculation of tariffs [EUR];
$I_{PSO\ ef}$ – the amount of the costs of the capacity reservation service to be reduced by the system operator by improving the efficiency of the use of fixed assets and other resources and of economic activity [EUR];

ITC – balance of revenue and expenditure on compensation between transmission system operators of the single natural gas transmission entry-exit system, allocated to the system operator (hereinafter: compensation between system operators) in accordance with the procedures for compensation between transmission system operators of the single natural gas transmission entry-exit system [EUR].

Given that the allowed revenues of the natural gas transmission system operator are allocated to the revenues of the cross-border transmission system and the national transmission system, the ITC shall allocate the costs of the cross-border transmission system and the national transmission system in accordance with the cost allocation method. This ensures that the structure of the allowed revenues of the natural gas transmission system operator does not change regardless of whether the ITC is applied or not.

V Discounts, multipliers and seasonal factors

In accordance with Article 28(1) of the TAR NC, at the same time as the final discussion of the reference price methodology provided for in Article 26(1) of the TAR NC, the national regulatory authority shall consult the regulatory authorities of all directly connected Member States and affected stakeholders on the level of multipliers, the level of seasonal factors, where applicable, at entry points from LNG facilities and from infrastructure to end isolation, as well as discount levels for tariffs for interruptible capacity products.

The Latvian natural gas supply system does not include LNG facilities, and their infrastructure dedicated to ending isolation.

1. Discount applicable to the tariffs of the entry point from the natural gas storage facility and the exit point to the natural gas storage facility

Under Article 9(1) of the TAR NC, capacity-based transmission tariffs at entry points to and exit points from a storage facility are subject to a discount of at least 50%, unless, and to the extent that, a storage facility connected to several transmission or distribution networks is used to compete with an interconnection point.

The draft methodology requires the system operator to submit a proposal for a discount on the tariffs of the entry point from the natural gas storage facility and the exit point to the natural gas storage facility (D_{kr}). The system operator shall submit the justification for the proposed amount of the discount at the same time as the draft tariffs.

AS Conexus Baltic Grid plans to apply a 100% discount to the tariffs for the entry point from the natural gas storage facility and the exit point to the natural gas storage facility. Such a discount is also applied to the tariffs in force and its amount was determined on the basis of the conclusion of the Baringa study that one of the main principles to be observed when setting up FinEstLat's unified natural gas transmission entry-exit system is the absence of internal interconnection points, including the exit point to the Inčukalns UGS and the entry point from the Inčukalns UGS. This eliminates the risk of multiple applications of natural gas transmission system service tariffs, facilitates the free movement of natural gas in the region and improves the use of existing infrastructure. The following factors were taken into account in the determination of the discount:

- the specific role of the Inčukalns UGS in the region in ensuring the security of natural gas supply, the continuity of natural gas flows and system integrity;
- facilitating natural gas trade in the region, while balancing the interests of natural gas producers, traders and end-users, enabling the former to optimise their natural gas purchase programmes and the others to avoid unjustified price increases;
- increasing competition and independence of the natural gas reserves stored in the region, since the natural gas in the storage facility will have already crossed the external border of FinEstLat's single entry-exit system for natural gas transmission, thereby reducing the market power of natural gas suppliers relying on direct deliveries at peak times;

– the application of the discount will enable the system users to use the natural gas stored by the Inčukalns UGS more efficiently in daily balancing.

It is therefore reasonable to take the view that the use of the natural gas transmission system point in question without charging a 100% discount on the tariff, with the result that the natural gas transmission system point is merely a technical point and is not commercially visible to the market, is comparable to the removal of commercial interconnection points between the countries forming the single entry-exit system for natural gas transmission, which strengthens the sustainability of the integrated Baltic gas market, increases the bargaining power of market participants operating on the integrated market with their suppliers, increasing the positive impact of the regional natural gas market integration process.

According to the draft Methodology, the natural gas transmission system operator recovers the revenue foregone as a result of applying a tariff discount to the entry point from the natural gas storage facility and the exit point to the natural gas storage facility by applying a charge for the use of the exit point for the supply of consumers of Latvia.

Natural gas transmission system operators of the unified FinEstLat's natural gas transmission entry-exit system did not provide, in the agreement on the ITC of the unified natural gas transmission entry-exit system in Finland, Estonia and Latvia, for a procedure for compensating for revenue foregone as a result of the application of a 100% discount to the entry point from the natural gas storage facility and the exit point to the natural gas storage facility. Nor have the national regulatory authorities of the natural gas transmission system of the single natural gas transmission entry-exit system of FinEstLat reached an agreement on the procedure for compensating for those forgone revenues, taking the view that, without a reasonable forecast of the use of transmission system capacities linked to the Inčukalns UGS, compensating for forgone revenues may lead to an unjustified socialization of costs.

In order to prevent an adverse impact on the transmission system service revenue of the transmission system operator and to ensure that the costs of the natural gas transmission system operator are covered, and taking into account the fact that the natural gas supply from the Inčukalns UGS plays a significant role in covering the demand for natural gas in Latvia, it is justified to recover the revenue foregone as a result of the application of a tariff discount at the entry point from the natural gas storage facility and the exit point to the natural gas storage facility by applying a charge for the use of the exit point for the supply of Latvian customers.

2. Tariff discounts for renewable and low - carbon gases

Article 18 of Regulation (EU) 2024/1789 of the European Parliament and of the Council of 13 June 2024 on the internal markets for renewable gas, natural gas and hydrogen, amending Regulations (EU) No 1227/2011, (EU) 2017/1938, (EU) 2019/942 and (EU) 2022/869 and Decision (EU) 2017/684 and repealing Regulation (EC) No 715/2009 ('Regulation 2024/1789') provides for a specific framework for tariff reductions for renewable and low-carbon gases. The tariff discounts provided for in this Article shall apply unless the regulatory authorities decide not to apply the discounts or to set lower discount levels. In accordance with Articles 18 and 89 of Regulation 2024/1789, tariff discounts for renewable and low-carbon gases are applicable from 5 February 2025 at entry points from their production facilities and from 5 August 2025 at interconnection points between Member States.

Article 18(5) of Regulation 2024/1789 provides that regulatory authorities may decide not to apply discounts or to set lower discount levels than those provided for in Regulation 2024/1789, where such a derogation is consistent with the general tariff principles laid down in Regulation 2024/1789, in particular the principle of cost - reflectiveness, and where one of the following criteria is met:

(a) the derogation is necessary for the efficient operation of the transmission system in order to ensure a stable financial system for existing investments or to avoid unjustified cross-subsidies,

distortion of cross - border trade or an inefficient inter - transmission system operator compensation mechanism;

(b) the application of discounts or corresponding discount rates is not necessary due to the progress made in the wider uptake of renewable and low-carbon gases in the Member State or the existence of alternative support mechanisms for the deployment of renewable or low-carbon gases.

In 2025, after assessing AS Conexus Baltic Grid's request to decide on the application of a tariff at the entry point of the national natural gas entry - exit system from renewable and low - carbon gas production facilities (entry point from the Latvian production facility), on the non-application of tariff discounts at the entry point of the national natural gas entry - exit system from renewable and low - carbon gas production facilities and on the non - application of tariff discounts at the Kiemenai interconnection point, the Regulator concluded that there were grounds not to apply tariff discounts, as at least two of the criteria referred to in Article 18(5) of the Regulation were met:

1. a derogation from the application of tariff reductions is necessary for the efficient operation of the transmission system in order to avoid unjustified cross-subsidies;
2. The application of discounts is not necessary as there are alternative support mechanisms in place in Latvia for the deployment of renewable and low-carbon gases.

By point 4 of the[6] operative part of Decision No 46 of 27 June 2025 'On the procedure for applying the Regulator's Decision No 119 of 26 October 2023 on tariffs for the natural gas transmission system service of Joint Stock Company "Conexus Baltic Grid"', the Regulator decided that AS "Conexus Baltic Grid" shall not apply tariff discounts at entry points from renewable and low-carbon gas production facilities and at entry points for renewable and low-carbon gases from 1 January 2026. At first sight, the circumstances on which that decision not to apply discounts is based have not changed, so that no discounts are provided for in the calculations in the annex to the consultation document. The issue of applying tariff discounts for renewable and low-carbon gases will be reassessed when assessing the next draft tariff proposal submitted in 2026.

3. Multipliers

The draft methodology provides that the system operator shall submit the economic justification for the multiplier used in the draft tariff proposal and the size of the seasonal factor at the same time as the draft tariff proposal, taking into account the obligation of the system operator to ensure the efficient use of the transmission system for the provision of the capacity reservation service and the coverage of the total costs of the capacity reservation service.

The natural gas transmission system is designed with the ability to transport large quantities of natural gas at peak demand conditions, but under average conditions it is only partially used. Consequently, the cost of providing short-term transmission capacity does not differ significantly from the cost of providing annual capacity. The application of multipliers for tariffs for short-term capacity products higher than 1 shall allow transmission system users contributing to peak demand to be charged higher for the use of the natural gas transmission system service than transmission system users having an even profile of the use of the natural gas transmission system service. This facilitates the interest of system users in booking long-term capacity products. By applying lower multipliers, the capacity booking profile of transmission system users corresponds more closely to their needs, thereby facilitating trade in natural gas.

In accordance with Article 13 of the TAR NC, for the calculation of tariffs for short-term standard capacity products (tariffs for quarterly (K_c) and monthly (K_m) standard capacity products) multipliers within the following range $1 \leq (K_c; K_m) \leq 1.5$. In contrast, for daily (K_d) and current (K_{dl}) standard capacity products, the range is $1 \leq (K_d; K_{dl}) \leq 3$ and, in duly justified cases, in the range 0

6 *https://www.sprk.gov.lv/sites/default/files/cmaa_files/Council%20l%C4%93mums%20N046%20D27062025%20_electronic_ar%20%C4%A3erboni.pdf*

≤ (K_d; K_{dI}) ≤1. In accordance with Article 28(3) of the TAR NC, the following aspects are to be taken into account when determining the level of multipliers:

- the balance between facilitating short-term gas trade and long-term incentives for efficient investments in the transmission system;
- the impact on transmission services revenues and their recovery;
- the need to avoid cross-subsidisation between system users and to ensure that reserve prices reflect costs;
- situations of contractual and physical congestion;
- the impact on cross-border flows.

One of the objectives of FinEstLat's unified natural gas transmission entry-exit system is to avoid undue competition between FinEstLat's unified natural gas transmission entry-exit system entry points by improving natural gas trade in FinEstLat's natural gas market and optimising natural gas flows between Finland, Estonia and Latvia. On the basis of that objective, when setting the tariffs for short-term capacity products at the entry points of FinEstLat's single entry-exit system for the transmission of natural gas, the following uniform multipliers are applied:

- 1 for the annual standard capacity product;
- 1,1 for the quarterly standard capacity product;
- 1,25 for the monthly standard capacity product;
- 1,5 for a daily standard capacity product;
- 1,7 for the current day standard capacity product.

The same multipliers are also intended to be used when calculating the charges for the use of the exit point for supply of consumers of Latvia when setting tariffs for short-term capacity products.

All natural gas transmission system users shall be subject to the same tariffs for standard capacity products. Multipliers are not differentiated depending on the natural gas consumption profile of the system user, the size of the consumption or other factors characterising the system user, thus avoiding cross-subsidization between system users.

Multipliers were consulted during the 2019 consultation and their level took into account the capacity booking practice of the Latvian transmission system, which showed that users mostly use daily and current daily standard capacity products without using the annual standard capacity product at all. The multipliers were raised in 2019 to facilitate the booking of long-term capacity products and provide effective signals for investment.

According to the information provided by the natural gas transmission system operator, the interest of system users in reserving longer-term capacity – monthly, quarterly and annual – is growing year on year as a result of the multipliers (see Table 5).

Table 5

Capacity reservations in 2023 and 2024 by product type

Capacity product	Share of reserved capacity in 2023, %	Share of reserved capacity in 2024, %
Annual	29%	47%
Quarterly	31%	18%
Monthly	15%	16%
Days	21%	15%
Current days	4%	5%

As can be seen, the application of the fixed multipliers from 1 January 2020 has stimulated the interest of transmission system users (traders) in more precise supply planning, thus providing natural gas transmission system operators with a more appropriate information base for optimising the operation of the natural gas transmission system, which is particularly important given the increased interoperability within the FinEstLat system and the need to implement security of supply measures. Consequently, the multipliers set for the tariffs for short-term capacity products at the entry points of the FinEstLat single natural gas transmission entry - exit system are not warranted to be revised and will apply for the tariff period from 1 October 2026 to 30 September 2028.

4. Seasonal factor

The seasonal factor shall be applied when setting tariffs for short-term capacity products to take into account the seasonality of natural gas flows during the year. The purpose of the application of the seasonal factor is to incentivise transmission system users to use the natural gas transmission system during the low-load season (summertime) by shifting demand from the winter peak, thus ensuring efficient use of the natural gas transmission system.

Given the different level of development of the natural gas market in FinEstLat's single natural gas transmission entry-exit system and the low risk of transmission system congestion in a context of high natural gas demand, a seasonal factor of 1.0 has been set for FinEstLat's single natural gas transmission entry-exit system entry points, which does not lead to seasonal tariff differentiation. The seasonal factor was consulted during the 2019 consultation. The assessment of the risks of transmission system congestion has not been changed, therefore the value of the seasonal factor is not changed.

VI Indicative natural gas transmission system service tariffs

The indicative tariffs for the natural gas transmission system service for the regulatory period from 1 October 2026 to 30 September 2028 have been set on the basis of the draft Methodology, using Chapter 6 of Title II of this Consultation Document for the allocation of entry - exit revenues, Chapter 7 for the allocation of capacity - based revenues, Chapter 1 of Title III for the discount applicable to entry point tariffs from and exit point to a natural gas storage facility, the multipliers set out in Chapter 2 and the seasonal factor set out in Chapter 3.

1. Projected entry and exit point capacity and volumes of natural gas transported

According to the draft Methodology, the forecasted daily average capacity of an entry or exit point is equal to the daily average capacity used in the three previous calendar years. The natural gas transmission system operator shall submit a justification at the same time as the draft tariffs if the forecasted daily average input or output capacity is adjusted.

The total entry capacity and total exit capacity of the transmission system for the regulatory period from 1 October 2026 to 30 September 2028 shall be determined on the basis of the actual natural gas flows of the three preceding years. The total entry capacity of the transmission system for the regulatory period from1 October 2026 to 30 September 2028 is set at 46 312 810 MWh/year and the total exit capacity at 43 310 024 MWh/year (see Table 6). The capacity of entry point Korneti is set at 0 MWh/year from 1 October 2026, taking into account the current geopolitical situation and the existing regulation of natural gas flows from and to Russia.

Table 6

Total reserved entry and exit capacity of the transmission system in 2023 and 2024 and for the regulatory period from 1 October 2026 to 30 September 2028, MWh/year

Capacity of entry/exit points	Fact	Projection		
	01/10/2023 – 30/09/2024	01/10/2026 – 30/09/2027	01/10/2027 – 30/09/2028	Regulatory period 01/01/2026- 30/09/2028
Total entry capacity of the transmission system, including:	**19 524 519**	**23 450 831**	**23 450 831**	**46 901 661**
entry point Korneti capacity	0	0	0	0
entry point Kiemenai capacity	8 446 442	13 501 815	13 501 815	27 003 630
entry point Karksi capacity	-	0	0	0
entry point from storage capacity	11 078 077	9 628 622	9 628 622	19 257 244
entry point from Latvian production facility	20 777	320 394	320 394	640 787
Total exit capacity of the transmission system, including:	**22 004 420**	**21 655 012**	**21 655 012**	**43 310 024**
exit point Korneti power	0	0	0	0
exit point Kiemenai power	3 133 498	1 979 818	1 979 818	3 959 636
exit point Karksi power	0	0	0	0
exit point to storage capacity	9 207 334	8 596 068	8 596 068	17 192 136
capacity of the exit point for supply of consumers of Latvia	9 663 588	11 079 126	11 079 126	22 158 252

15. Calculation of indicative annual capacity product tariffs

According to Article 3(1) of the TAR NC, the reference price is the price of an annual firm capacity product of entry and exit points used to determine the tariffs of short - term standard capacity products and interruptible capacity products.

The TAR NC does not provide for specific rules or specific requirements for natural gas transmission entry-exit systems covering several Member States where several transmission system operators are active. Therefore, transmission system operators operating in that natural gas transmission entry - exit system may apply the same reference price methodology jointly or separately, or different reference price methodologies may be applied separately, in accordance with Article 11 of the TAR NC.

Article 6(4)(a) of the TAR NC provides that the application of the reference price methodology at all entry and exit points may be adjusted by benchmarking, which results in the reference prices at a given entry or exit point being adjusted in such a way that the resulting values correspond to the level of a competitive reference price.

FinEstLat's entry points to the single natural gas transmission entry - exit system in Finland, Estonia and Latvia are similar and are in competition with each other in the absence of internal interconnection points between the natural gas transmission systems of those countries. At the entry points of FinEstLat's single entry - exit system for the transmission of natural gas, congestion is not expected to occur or may be low, and most of the natural gas supplied through the entry points comes from the same source of supply. Given that the actual supply of FinEstLat's unified natural gas transmission entry - exit system takes place via Inkoo LNG, Klaipėda LNG and GIPL, while Estonia is located between these interconnectors without direct access, so as not to create risks for security between the Finnish and Lithuanian directions, differences in entry tariff levels are not desirable.

In view of the above, as of 1 January 2020, by mutual agreement between the natural gas transmission system operators of Finland, Estonia and Latvia and the regulatory authorities, the tariffs at the entry points of the single natural gas transmission entry-exit system of FinEstLat have been set in the same way, at a tariff of EUR 142.77/MWh/day/year, applying the multipliers and seasonal factors set out in Chapters 3 and 4 of Title III of this Consultation Document.

During the regulatory period from 1 October 2026 to 30 September 2028, the entry point tariff (reference price) of FinEstLat's single natural gas transmission entry - exit system, EUR 142.77/MWh/day/year, as well as the applicable multipliers and seasonal multipliers, are not revised (justification in Chapters 3 and 4 of Title III of this Consultation Document).

Indicative calculation of the annual capacity product tariffs (see Table 7) was carried out in accordance with the explanation provided in Chapter 3 of Title II of this Consultation Document on the calculation of tariffs for capacity products set out in the draft Methodology, where a single entry - exit system for the transmission of natural gas has been established.

Taking into account that JSC Conexus Baltic Grid self-imposed tariffs are applied as of 1 October 2025, which are 21% higher than previously approved, the indicative charge for the use of the exit point for the supply of consumers of Latvia has increased by 8.2% (see Table 8).

Table 7

Indicative tariffs for annual standard capacity products for the regulatory period from 1 October 2026 to 30 September 2028 and the values used for their calculation

Indicator	Designation	Unit of measurement	Tariffs in force	Indicative y tariffs
Total cost of the capacity reservation service, including:	I_{PSO}	EUR	37 876 109	42 655 775
Costs of supplying natural gas		*EUR*		
Adjustment of the cost of supplying natural gas		*EUR*		
Compensation between transmission system operators	ITC	EUR	4 229 869	3 362 358
Allowed revenue	**Ie_{PSO}**	**EUR**	**33 646 240**	**39 293 417**
Costs of the Cross-border transmission system	$I_{PSO\ ST}$	EUR	2 674 304	2 750 539
Costs of the national transmission system	$I_{PSO\ nac}$	EUR	30 971 937	36 542 878
Entry capacity of the transmission system	P_{ie}	kWh/d/g	60 417 704	63 355 417
Exit capacity of the transmission system	P_{iz}	kWh/d	89 090 876	59 247 639
Projected daily average capacity of the entry point from the natural gas storage facility	$P_{ie\ kr}$	kWh/d	33 465 335	26 343 699
Projected daily average capacity of the entry point from the Latvian production facility	$P_{ie\ b}$	kWh/d	0	640 787
Projected daily average capacity of the exit point to the natural gas storage facility	$P_{iz\ kr}$	kWh/d	38 309 475	30 312 246
Projected maximum daily capacity of the exit point for supply of consumers of Latvia	$P_{iz\ v}$	kWh/d	32 034 755	23 550 871
Forecast of natural gas volumes supplied to gasified objects connected to the natural gas transmission and distribution system during the year	$Q_{nod\ liet}$	kWh	11 692 685 425	8 596 068 000
Cost redistribution ratio of the entry point from the natural gas storage facility and the exit point to the natural gas storage facility between the transmission system and the exit point for the supply of Latvian customers	K_{reg}		100%	83%
Discount applied to the tariffs of the entry point from the natural gas storage facility and the exit point to the natural gas storage facility	D_{kr}		100%	100%
Annual standard capacity product tariff for entry points from another transmission entry-exit system	**T_{ie}**	**EUR/kWh/d/g**	**0,14277**	**0,14277**
Annual standard capacity product tariff for the entry point from a natural gas storage facility	**$T_{ie\ kr}$**	**EUR/kWh/d/g**	**0,0000000**	**0,0000000**
Tariff of the annual standard capacity product for exit points to another transmission entry-exit system	**T_{iz}**	**EUR/kWh/d/g**	**0,14277**	**0,14277**
Tariff of the annual standard capacity product for the exit point to the natural gas storage facility	**$T_{iz\ kr}$**	**EUR/kWh/d/g**	**0,0000000**	**0,0000000**
Charge for the use of the exit point for supply of consumers of Latvia	**$K_{pārv}$**	**EUR/kWh/d/g**[7]	**0,0020669**	**0,0034684**
Ratio of revenue distribution between entry points and exit points			**2/98**	**2/98**

[7] *The tariffs in force were set in different units of measurement, set at EUR/kWh. From 1 October 2025, the applicable tariff shall be EUR 0,0032051/kWh.*

Table 8

Comparison of tariffs for existing and indicative annual capacity products

Type of tariff	Tariffs in force EUR/kWh/ daily/annual	Indicative tariffs, EUR/kWh/ daily/annual	Comparison of indicative tariffs with those in force	
			Abs.	%
Tariff for entry points from another transmission entry - exit system	0,14277	0,14277	0	0
Tariff for exit points to another transmission entry - exit system	0,14277	0,14277	0	0
Tariff of interruptible capacity for entry points from a transmission system of another country	0,1356315	0,1356315	0	0
Tariff of interruptible capacity at exit points to the transmission system of another country	0,1356315	0,1356315	0	0
Charge for the use of exit point for the supply of consumers of Latvia	0,0032051	0,0034684	0,0002633	8,22%

The charge of using the exit point for supply of consumers of Latvia increases as the tariff for entry points and exit points of the standard annual capacity product does not change during the regulatory period from 1 October 2026 to 30 September 2028 compared to the tariff in force. At the same time, the increase in the tariff is affected by the fact that Chapter 1 of Title II of this Consultation Document states that, in the FinEstLat unified natural gas transmission entry - exit system, exit point tariffs are set in order to ensure that each natural gas transmission system operator recovers the remaining revenue from the transmission system service that has not been recovered from the entry point tariffs. According to the draft Methodology, the revenue foregone as a result of applying a 100% discount to the entry point from the natural gas storage facility and the exit point to the natural gas storage facility is also attributed to the charge for the use of the exit point for the supply of consumers of Latvia.

At the same time, it should be noted that the draft Methodology intends to change the tariff calculation method, i.e. in the future tariffs will be calculated using the capacity - based tariff calculation method rather than the resource-based approach.

The amount of the indicative charge for the use of the exit point for the supply of consumers of Latvia in the regulatory period from 1 October 2026 to 30 September 2028 is determined by the fact that the total costs of the natural gas transmission system have increased by 13% on average per gas year in comparison with the average costs approved by the Regulator for the year of gas forming the tariff in force. This increase is mainly due to an increase in inflation, as a result of which operating costs have increased by 12%, capital costs, including depreciation of fixed infrastructure assets, have increased by 10%, while the return on capital has more than doubled (123%), although the base of regulated assets has increased only by 4%. The significant increase in the cost of return on capital is related to the regulatory rate of return on capital of 5.82% (previously 2.72%). In addition, the capacity utilization of the exit point for the supply of consumers of Latvia, which accounts for about 90% of the revenues of the transmission segment, has decreased by 26%.

For allowed revenues recoverable from entry points from other transmission entry-exit systems and from exit points to other transmission entry-exit systems during the regulatory period from 1 October 2026 to 30 September 2028, a distribution coefficient of 0,02 has been

applied to the revenues from the reservation of capacity at entry points over the tariff period and a distribution coefficient of 0,98 has been applied to the revenues from the reservation of capacity at exit points over the tariff period of the planned revenues.

2. Calculation of indicative tariffs for short - term capacity products

Tariffs for short - term capacity products (See Annexes 2 to 5)

3. Assessment of cost allocation

Article 5 of the TAR NC provides that the cost allocation assessment must be carried out in order to verify that there is no cross - subsidisation between intra-system and cross-system network use. The cost allocation assessment shall be carried out by establishing a cost allocation comparison index. The size of the cost allocation comparison index depends on the intra-system capacity indicator and the cross-system capacity indicator. If the cost allocation comparison index exceeds 10%, a justification for this result must be provided.

The intra - system capacity indicator shall be calculated by dividing the transmission service capacity revenue to be derived from intra-system network use, both at all entry points and at all exit points, by the value of the relevant capacity cost factors for intra-system network use.

The cross-system capacity indicator shall be calculated by dividing the transmission service capacity revenue to be derived from cross-system network use both at all entry points and at all exit points by the value of the relevant capacity cost factors for cross-system network use.

According to Article 3(8) and (9) of the TAR NC, intra-system use of the network is the transport of natural gas through the entry-exit system to customers connected to the same entry-exit system, and cross-system use of the network is the transport of natural gas through the entry-exit system to customers connected to another entry-exit system.

Natural gas entering the relevant natural gas transmission entry-exit system (cross-system network use) at a cross-border entry point may be discharged at the national exit point, storage (intra-system network use) or cross-border exit point (cross-system network use). Therefore, the cross-system network use will be determined on the basis of Article 5(5) of the TAR NC: the allocated capacity volumes attributed to the provision of transmission services for cross-system network use at all entry points are equal to the capacity volumes attributed to the provision of transmission services for cross-system network use at all exit points and that capacity is used to calculate the transmission services revenues to be generated from cross-system network use at entry points. Other transmission services revenues shall be revenues generated from intra-system network use at entry points.

The cost allocation assessment has been carried out on the basis of the cost factor used in the reference price methodology, i.e. the forecasted reserved entry and exit capacity of the natural gas transmission system (see Table 7), indicative tariffs (see Table 8) and corresponding indicative revenues for reserved natural gas transmission system capacity for the regulatory and tariff period from 1 October 2026 to 30 September 2028.

In order to determine the degree of cross-subsidisation between intra - system and cross-system network use, the intra-system and cross-system capacity indicator as well as the capacity cost allocation comparison index have been calculated on the basis of the proposed reference price methodology (see Table 9).

Table 9

Assessment of cost allocation

Indicator		Cost factor - forecasted reserved capacity of the natural gas transmission system	Revenue
Entry	Intra - system network use	8 596 068	3 362 358
	Cross - system network use	13 501 815	1 927 654
Exit	Intra - system network use	10 474 905	36 542 878
	Cross - system network use	1 979 818	282 659
Internal system capacity indicator		2,321133101	
Cross-system capacity indicator		0,14277	
Comparison index of cost allocation		176,82	

Given that the revenue from the transmission system service which has not been recovered from the tariffs of entry points, the costs of ensuring the supply of natural gas, as well as the revenue forgone as a result of the application of a 100% discount on tariffs from the entry point from the natural gas storage facility and the exit point to the natural gas storage facility is attributed to the charge for the use of the exit point for the supply of consumers of Latvia , the degree of cross-subsidization is high – the cost allocation comparison index is 176.82.

The reasons why the draft Methodology envisages allocating the costs of ensuring the supply of natural gas, as well as the revenue foregone as a result of applying a 100% tariff discount to the entry point from the natural gas storage facility and the exit point to the natural gas storage facility to the charge for the use of the exit point for the supply of consumers of Latvia are explained in Chapters 1 and 7 of Title II of this Consultation Document.

VII Assessment of the proposed reference price methodology

Pursuant to Article 7 of the TAR NC, the reference price methodology must comply with Article 13 of Regulation 715/2009 and the following requirements:

- enable network users to reproduce the calculation of reference prices and their exact forecast;
- take into account the actual costs incurred in the provision of transmission services, taking into account the degree of complexity of the transmission network;
- ensure non - discrimination and avoid unjustified cross - subsidization, including by taking into account the cost allocation assessments provided for in Article 5 of the TAR NC;
- ensure that significant volume risk, in particular for transport within the entry - exit system, is not borne by the end - users of that entry-exit system;
- ensure that the resulting reference prices do not distort cross-border trade.

The draft methodology shall be consistent with a postage stamp reference price methodology that is transparent, takes into account the need for system integrity and its improvement and reflects the actual costs incurred, insofar as those costs correspond to those of an efficient and structurally comparable network operator and are transparent, while including an appropriate return on investment and taking into account, where appropriate, the benchmarking of tariffs developed by the regulatory authorities.

The draft methodology, i.e. the draft postage stamp reference price methodology, ensures that costs are properly reflected and predictable, as according to the methodology all revenues of the capacity reservation service are attributed to all entry and exit points of the natural gas entry-exit system, based on the allocation key of the revenues for the reservation of capacity of entry and exit points, reflecting the degree of utilization of entry and exit points. Since, under normal conditions of operation of the natural gas transmission system, the degree of utilization of entry and exit points is characterized by the average daily capacity utilization during the three previous calendar years, the attribution of the allowed revenues is easily predictable. In exceptional cases, a reasonable forecast by the natural gas system operator may be used instead of the average daily used capacity of the three preceding calendar years. Information on the natural gas transmission system capacities used shall be publicly available both on the website of the natural gas transmission system operator and on the transparency platform of the European Network of Transmission System Operators for Natural Gas.

The draft methodology provides that the total entry and exit capacity of the transmission system, and consequently the tariffs, do not take into account the capacity of entry points from other transmission systems that are part of the single natural gas transmission entry-exit system and the capacity of exit points to other transmission systems that are part of the single natural gas transmission entry-exit system, thus avoiding the possibility of unjustified cross-subsidisation.

The draft methodology enables system users to reproduce the calculation of the reference prices and their exact forecast using the tariff of the annual standard capacity products specified therein (see Annex 1, Chapters 5 and 6), the tariff for short-term standard capacity products (see Annex 1, Chapter 8), the tariff for interruptible capacity products (see Annex 1, Chapter 9) and the tariff for interruptible virtual counterflow capacity products (see Annex 1, Chapter 10) the calculation formulae.

Users of the system may use a simplified tariff model for the reproduction of the reference price calculations, which is published on the website of the Regulator as one of the annexes to this Consultation Document.

Applying a uniform reference price (tariff) of EUR 142.77/MWh/day/year to FinEstLat at the entry points of the single natural gas transmission entry-exit system and the corresponding national exit prices ensures equal treatment of natural gas transmission system users in the country. The reference price of entry points calculated and applied in this way ensures transparency and predictability of tariffs not only in Latvia, but also in other FinEstLat countries, as well as price convergence in the region.

VIII Comparison between the proposed reference price methodology and the capacity-weighted distance reference price methodology

Recital 3 of the TAR NC states that if the proposed reference price methodology is not a capacity-weighted distance reference price methodology ('CWD methodology'), that methodology should serve as a basis for comparison with the proposed reference price methodology.

The postage stamp method means that regardless of the distance at which natural gas is to be transported, they are subject to the same tariff at the entry points or exit points of the natural gas transmission system. Therefore, the forecasted reserved capacity is the only cost factor to be used.

According to the CWD methodology, the length (distance) of the pipeline, weighted by the technical capacity of the pipeline, acts as a cost factor. The application of the CWD methodology results in different tariffs for each entry and exit point of the natural gas transmission system.

A comparison of the rates of entry and exit points of the natural gas transmission system using the postage stamp and CWD method is made in Table 10.

Table 10

Comparison of entry and exit rates of the natural gas transmission system using the postage stamp and CWD method

Entry/exit point	Indicative tariffs		
	Methodology of the postage stamp	CWD methodology	Comparison (postage stamp-CWD)
Entry point Korneti	-	-	-
Entry point Karksi	-	0,51620	-
Entry point Kiemenai	0,14277	0,83366	-0,6909
Entry point from natural gas storage	-	0,65484	-
Entry from Latvian production facilities	0,33006	1,0726	-0,7425
Exit point Korneti	-	-	-
Exit point Kiemenai	0,14277	0,50994	-0,3672
Exit point Karksi	-	1,72650	-
Exit point for supply of consumers of Latvia	0,00347	0,81714	-0,81365
Exit point to natural gas storage	-	-	-

The indicative tariffs have been calculated using the CWD methodology in accordance with the formulae set out in Article 8 of the TAR NC. For the purposes of the calculation of the CWD methodology, the weighted average distance of entry/exit points (AD) determined on the basis of the distance matrix of the Latvian natural gas transmission network, including the length of the local network used for the distribution of gas on the domestic market (the shortest pipeline route distance according to the TAR NC), as well as the weight of costs (W), the revenues of the transmission system (R) and the forecasted capacity in the next regulatory period, have been used. Given that there is currently no natural gas flow from and to Russia, the Korneti entry/exit point tariff was not set. In addition, in order to obtain a full insight into the provisional tariffs, the tariff for the entry/exit point of Karksi was calculated using the CWD methodology, but the postage stamp method does not indicate a tariff, as a single tariff is applied throughout the FinEstLat zone and no tariffs are set for the entry/exit points located in the separate zone.

According to the results of the calculations carried out, the application of the CWD methodology results in significantly different entry point tariffs for FinEstLat's single natural gas transmission entry-exit system, the lowest of which is EUR 0.516/MWh and the highest of which is EUR 0.834/MWh. The starting point tariffs also vary from EUR 0.510/MWh to EUR 1.723/MWh.

IX Allowed revenue of the transmission system operator

Allowed revenues are revenues which cover the economically justifiable costs associated with the service of the natural gas transmission system and which the transmission system operator is entitled to receive during a specific regulatory period.

The draft methodology sets a regulatory period of between two and five gas' years . The duration of the tariff period shall be one gas' year. When submitting the draft tariffs, the system operator shall submit a justification for the regulatory period used for the calculation of the tariffs and, if necessary, for the tariff period. The Regulator shall determine the regulatory period by decision and may decide to extend the tariff period.

If there are several tariff periods in the regulatory period, the same share of the revenue allowed is allocated to each of the tariff periods. If there are several tariff periods in the regulatory period and any of the tariff periods is longer than a gas' year, the amount of allowed revenues (planned revenues) for each tariff period shall be determined in proportion to the length of the tariff period. The expected revenue does not change, unless there is a change in the revenue attributable to the tariff period.

Allowed revenues shall be determined by subtracting from the total cost of the capacity reservation service the cost of the capacity reservation service to be reduced by the system operator by improving the efficiency of the use of fixed assets and other resources and the business operation and ITC.

1. Cost of the capacity reservation service

The natural gas transmission system operator shall include in the calculation of tariffs and specify in a precise and unambiguous manner only the costs related to the provision of the capacity reservation service.

The costs of the capacity reservation service shall consist of the capital costs, operating costs, taxes and revenue adjustment of the cross-border transmission system and the national transmission system attributable to the cross-border and the national transmission system and shall be determined using the following formulae:

$$I_{PSO} = I_{PSOst} + I_{PSOnac},$$

where:

$I_{PSO\ st}$ – costs of the cross-border transmission system [EUR];

$I_{PSO\ nac}$ – costs of the national transmission system [EUR];

$$I_{PSOst} = I_{kap\ st} + I_{ekspl\ st} + I_{nod\ st} - Ie_{kor\ st},$$

where

$I_{kap\ st}$ – cost of capital of the cross-border transmission system [EUR];

$I_{eksplst}$ – operating costs of the cross-border transmission system [EUR];

$I_{nod\ st}$ – taxes attributable to the cross-border transmission system [EUR];

$Ie_{kor\ st}$ – revenue adjustment attributable to the cross - border transmission system [EUR];

$$I_{PSOnac} = I_{kap\ nac} + I_{ekspl\ nac} + I_{nod\ nac} - Ie_{kor\ nac},$$

where:

$I_{kap\ nac}$ – capital cost of the national transmission system [EUR];

$I_{ekspl\ nac}$ – operating costs of the national transmission system [EUR];

$I_{nod\ nac}$ – taxes attributable to the national transmission system [EUR];

$I_{kor\ nac}$ – revenue adjustment attributable to the national transmission system [EUR].

2. Cost of capital

The draft methodology stipulates that the accounting and calculation of capital costs and their components shall be carried out in accordance with the methodology for accounting and calculation of capital costs determined by the Regulator.[8]

3. Rate of return on capital

In accordance with the methodology for accounting and calculation of capital costs determined by the Regulator, the Regulator shall prepare the calculation of the rate of return on capital once a year by 1 September and shall determine the rate of return on capital by a decision. A merchant shall apply the rate of return on capital determined by the Regulator when developing a draft tariff proposal, the effective date of which is planned for the next calendar year after the day of taking of the decision of the Regulator on the determination of the rate of return on capital.

Pursuant to Decision No 49 of the Regulator of 3 July 2025 on the rate of return on capital for the calculation of the draft tariffs for the natural gas transmission system, natural gas distribution system and natural gas storage services, the natural gas transmission system operator must use a rate of return on capital of 5.82% when calculating the tariffs for the capacity reservation service.[9] That rate of return on capital was used to set the indicative tariffs referred to in Table 8 for the regulatory period from 1 October 2026 to 30 September 2028.

4. Indicative allowed revenue

The indicative annual allowed revenue for the regulatory period from 1 October 2026 to 30 September 2028 is *39 293 thousand euros, following the principles for the determination of allowed revenues described in Section VII of* this Consultation Document. (see. Table 11).

Table 11

Indicative total annual natural gas transmission system costs and allowed revenues of the natural gas transmission system operator for the regulatory period from 1 October 2026 to 30 September 2028

Cost items	Designation	Annual costs, thsd. EUR
Cost of capital $I_{kap} = P_{KA} + I_{nol}$	I_{kap}	24 537
Taxes $I_{nod} = I_{Īp.nod}$	I_{nod}	448

[8] *https://likumi.lv/ta/id/335113-kapitala-izmaku-uzskaites-un-aprēķināšanas-metodika*

[9] *https://likumi.lv/ta/id/361712-on-capital-return-rates-natural_gas-transmission-system-natural_gas-distribution-system-and-natural_gas-suspension-service*

Operating costs $I_{ekspl} = I_{tehn\ proc} + I_{pers} + I_{rem} + I_{saimn}$	I_{ekspl}	17 672
Cost of the total capacity reservation service	I_{PSO}	42 656
Compensation between transmission system operators	ITC	3 362
Allowed revenue	Ie_{PSO}	39 293

The amount of the ITC is determined on the basis of the basic principle of the ITC procedure of FinEstLat's unified natural gas transmission entry-exit system: the revenues recovered from the tariffs of all entry points of FinEstLat's unified natural gas transmission entry - exit system are pooled and distributed among the transmission system operators in proportion to their annual domestic consumption. The planned consumption of natural gas in Latvia is 8 596 068 000 kWh. By multiplying the planned natural gas consumption by the FinEstLat entry point tariff of 0.14277 EUR/kWh/d/g for the single natural gas transmission entry - exit system, the annual amount of ITC is set at 3 362 thousand *EUR*.

5. Simplified tariff model

Simplified tariff model is published on the website of the Regulator https://www.sprk.gov.lv/content/public-consultation

Chair of the Board A. Ozola

THE DOCUMENT IS SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Annex 1 to the Consultation Paper on the methodology for the calculation of tariffs for natural gas transmission system services;

Methodology for the calculation of tariffs for natural gas transmission system services

Issued pursuant to Section 15(1)(1) of the Energy Law;[and]
the Law on Regulators of Public Utilities
Section 9, first paragraph, point (2), and Article 25, first paragraph

1. General questions

1. The methodology for the calculation of natural gas transmission system service tariffs (hereinafter – the methodology) shall determine the procedures for the calculation and determination of natural gas transmission system (hereinafter – the transmission system) service tariffs.
2. The following terms are used in the methodology:

2.1. **allowed revenue** – revenue which covers economically justifiable costs related to the transmission system service and which the transmission system operator is entitled to receive during a specific regulatory period;

2.2. **consumption of natural gas for technological purposes** – natural gas used to ensure the operation of the transmission system;

2.3. **natural gas losses** – the difference between the amount of natural gas entering the transmission system and the amount of natural gas leaving the transmission system over a given period of time, excluding the consumption of natural gas for technological purposes;

2.4. **costs** – technologically and economically justified costs of the transmission system operator (hereinafter referred to as 'the system operator') which are necessary for the efficient provision of the transmission system service;

2.5. **cost - efficiency** – the amount of cost-savings that an economic operator must achieve during the regulatory period by improving the efficiency of its economic activity;

2.6. **capacity reservation service** – a transmission system service that provides the reservation of an entry or exit point capacity product;

2.7. **national transmission system** – part of the transmission system (branches from the cross-border transmission system which are not used for the cross-border transmission of natural gas) for supplying populated areas with natural gas together with the branches and gas regulatory stations of the system operator;

2.8. **cross-border transmission system** – the part of a transmission system from an entry point from a transmission system of another country to an exit point to a transmission system of another country or to an entry point to a natural gas storage facility;

2.9. **planned revenue** – the share of allowed revenue allocated to the tariff period;

2.10. **forecasted average daily capacity –** average daily capacity used for the three previous calendar years of the entry or exit point [kWh/d];

2.11. **regulatory period** – the period for which the allowed revenue is determined;

2.12. **regulatory account** – an account that includes the under- or over-recovery of the revenues of the capacity booking service and the differences between planned and actual costs identified in this methodology;

2.13. **tariff** – a charge payable by a transmission system user for a capacity reservation service provided to it, including the injection of biomethane, determined in accordance with the planned revenues;

2.14. **tariff period** – the period during which the tariffs are to be applied;

2.15. **virtual counterflow capacity product** – transmission system capacity for the actual reverse flow over a specific period of time – gas year, gas quarter, gas month or gas day – at an entry or exit point where it is not possible to physically provide natural gas in the opposite direction, and for the reverse flow of the actual technological regime of the natural gas storage facility, which can be booked by the system user.

3. The terms included in this methodology are used within the meaning of European Commission Regulation 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.

4. The duration of the regulatory period shall be between two and five gas years. The duration of the tariff period shall be one gas year. When submitting the draft tariffs, the system operator shall submit a justification for the regulatory period used for the calculation of the tariffs and, if necessary, for the tariff period. The Public Utilities Commission (hereinafter – the Regulator) shall determine the regulatory period by decision and may decide to extend the tariff period.

5. If there are several tariff periods in the regulatory period, including if the length of any tariff period is not equal to the gas year, the amount of allowed revenue (planned revenue) for each tariff period is determined in proportion to the number of calendar days in the tariff period. The expected revenue does not change unless there is a change in the revenue attributable to the tariff period in the cases referred to in Chapter 3.2 of this methodology.

6. The system operator shall accurately and transparently reflect the cost of the capacity reservation service in thousands of *euros* [thousands. EUR] to one decimal place and the power of entry or exit points in kilowatt-hours per day [kWh/d], rounded to the nearest integer.

2. Total entry and exit capacity of the transmission system

7. The capacity of entry points from other transmission systems forming part of the single entry-exit system for natural gas shall not be taken into account for the determination of the total entry capacity of the transmission system. The total input capacity of the transmission system shall be determined in accordance with the following formula:

$$P_{ie} = \sum_{i=1}^{n_{ie}} P_{iec}(i) + \sum_{i=1}^{n_{ieb}} P_{ieb}(i) + \sum_{i=1}^{n_{ielng}} P_{ielng}(i) + \sum_{i=1}^{n_{iekr}} P_{iekr}(i) \quad ,$$

where:

P_{ie} — Total entry capacity of the transmission system [kWh/d]

n_{ie} – number of entry points from another transmission entry-exit system;

$P_{ie\,c}(i)$ — forecasted daily average capacity of the entry point of the transmission system from another transmission entry-exit system i [kWh/d];

$n_{ie\,b}$ – number of entry points to the national natural gas entry-exit system for gaseous fuels produced or produced from renewable energy sources and low-carbon gaseous fuels (including hydrogen), excluding entry points to the transmission system from another transmission entry-exit system and entry point from a natural gas storage facility;

$P_{ie\,b}(i)$ – the entry point to the national natural gas entry-exit system for gaseous fuels produced or produced from renewable energy sources and low-carbon gaseous fuels (including hydrogen), excluding the entry points to the transmission system from another transmission entry-exit

system and the entry point from a natural gas storage facility, i the projected average daily capacity [kWh/d];
$n_{ie\ lng}$ — number of entry points from the liquefied natural gas facility;
$P_{in\ lng}$ (i) — projected daily average capacity of the entry point from the liquefied natural gas facility i [kWh/d];
$n_{ie\ kr}$ — number of entry points from the natural gas storage facility;
$P_{ie\ kr}$ (i) — projected daily average capacity of the entry point from the natural gas storage facility i [kWh/d].

8. The capacity of exit points to other transmission systems that are part of the single natural gas transmission entry-exit system shall not be taken into account for the determination of the total exit capacity of the transmission system. The total exit capacity of the transmission system shall be determined in accordance with the following formula:

$$P_{iz} = \sum_{i=1}^{n_{iz}} P_{iz\ c}(i) + \sum_{i=1}^{n_{izkr}} P_{iz\ kr}(i) + P_{iz\ v} \ ,$$

where:
P_{is} — total exit capacity of the transmission system [kWh/d];
n_{iz} — number of exit points to other transmission entry-exit systems;
$P_{iz\ c}$(i) — projected daily average capacity at the exit point of the transmission system to another transmission entry-exit system i [kWh/d];
$n_{iz\ kr}$ — number of exit points from the natural gas storage facility;
$P_{iz\ kr}$ (i) — projected daily average capacity of the exit point to the natural gas storage facility i [kWh/d];
$P_{iz\ v}$ – average daily capacity expected to supply Latvian users at the exit point [kWh/d].

9. The system operator shall submit a justification at the same time as the draft tariffs if the forecasted daily average entry or exit capacity is adjusted.

3. Determination of allowed revenue

10. Allowed revenue shall be determined in accordance with the following formula:

$$AIe_{PSO} = I_{PSO} - I_{PSOef} - ITC,$$

where:
AIe_{PSO} – Allowed revenues of the regulatory period [thousands. EUR];
I_{PSO} – total capacity reservation service costs to be included in the calculation of tariffs [thousands. EUR];
$I_{PSO\ ef}$ – the amount of capacity reservation service costs to be reduced by the system operator by improving the efficiency of the use of fixed assets and other resources and of economic activity [thousands. EUR];
ITC – balance of revenue and expenditure for compensation between transmission system operators of the single natural gas transmission entry-exit system, which, in accordance with the procedures for compensation between transmission system operators of the single natural gas transmission entry-exit system, have been allocated to the system operator (hereinafter – compensation between system operators) [thousands. EUR].

11. The cost-effectiveness of a capacity reservation service shall be determined in accordance with the following formula:

$$I_{PSO\ ef} = \left(I_{kap} + I_{eksp}\right) \times K_{ef} \ ,$$

where:
K_{ef} – cost-efficiency ratio, which is set at 50 per cent of the consumer price index (inflation) forecast for the calendar year following the year in which the efficiency is determined. The value of the efficiency ratio shall not be less than zero and not more than 1,5 per cent.

12. If the tariff period is longer than a year, the same cost-efficiency of the transmission system service is attributed to each tariff period within the regulatory period. Upon a reasoned request of the system operator, the regulatory authority may allow the application of a different cost-effectiveness of the transmission system service for each tariff period within the regulatory period.
13. In the formula set out in paragraph 10 of this methodology, compensation between system operators shall be taken into account where a single entry - exit system for the transmission of natural gas has been established.
14. The amount of compensation between system operators shall be determined in accordance with the procedures for compensation between natural gas transmission system operators of the single natural gas transmission entry-exit system.
15. The system operator shall include in the calculation of tariffs and shall specify in a precise and unambiguous manner only the costs related to the provision of the capacity reservation service.
16. The system operator shall use a cost allocation method, the basic principles and implementation of which shall be coordinated with the Regulator.
17. The cost of a capacity reservation service shall consist of the capital costs, operating costs, taxes and revenue adjustment of the cross-border transmission system and the national transmission system attributable to the cross-border and the national transmission system and shall be determined in accordance with the following formula:

$$I_{PSO} = I_{PSO\ st} + I_{PSO\ nac},$$

where:

$I_{PSO\ st}$ – costs of cross-border transmission system [thousands EUR];

$I_{PSO\ nac}$ – costs of the national transmission system [thousands EUR];

$$I_{PSOst} = I_{kap\ st} + I_{ekspl\ st} + I_{nod\ st} - Ie_{kor\ st},$$

where

$I_{kap\ st}$ – cost of capital of the cross-border transmission system [thousands EUR];

$I_{ekspl\ st}$ – operating costs of the cross-border transmission system [thousands EUR];

$I_{nod\ st}$ – taxes attributable to the cross-border transmission system [thousands EUR];

revenue adjustment due to deviations in previous forecasts of costs and revenues of the regulatory period attributable to the cross-border transmission system [thousands. EUR];

$$I_{PSOnac} = I_{kap\ nac} + I_{ekspl\ nac} + I_{nod\ nac} - Ie_{kor\ nac},$$

where:

$I_{kap\ nac}$ — capital cost of the national transmission system [thousands EUR];

$I_{ekspl\ nac}$ – operating costs of the national transmission system [thousands EUR];

$I_{nod\ nac}$ – taxes attributable to the national transmission system [thousands EUR];

$I_{kor\ nac}$ – revenue adjustment due to deviations in previous forecasts of costs and revenues of the regulatory period attributable to the national transmission system [thousands EUR].

18. The system operator shall submit a justification at the same time as the draft tariffs, if the costs of the capacity reservation service to be included in the calculation of tariffs are not allocated in accordance with Paragraph 17 of this Methodology.
19. Real estate tax shall be calculated in accordance with the laws and regulations only from the assets included in the composition of the base of regulated assets and assets established at the funds of third parties.
20. The accounting and calculation of capital costs and their components shall be carried out in accordance with the methodology for accounting and calculation of capital costs laid down by the regulator.

3.1. Operating costs

21. The operating costs of a cross-border transmission system shall be determined in accordance with the following formula:

$$I_{ekspl\ st} = I_{tehn\ proc\ st} + I_{pers\ st} + I_{rem\ st} + I_{saim\ st},$$

where:

$I_{tehn\ proc\ st}$ – costs of loss of natural gas and provision of technological process in the cross-border transmission system [thousands EUR];

$I_{pers\ st}$ – staff and social costs of the cross-border transmission system [thousands EUR];

$I_{rem\ st}$ – costs of operating repairs necessary and carried out for the maintenance of the current property of the cross-border transmission system [thousands EUR];

$I_{saim\ st}$ – other operating costs of the cross-border transmission system [thousands EUR].

22. The operating costs of the national transmission system shall be determined in accordance with the following formula:

$$I_{eksplnac} = I_{tehn\ proc\ nac} + I_{pers\ nac} + I_{rem\ nac} + I_{saim\ nac} + I_{sist},$$

where:

$I_{tehn\ proc\ nac}$ – costs of loss of natural gas and provision of technological process in the national transmission system [thousands EUR];

$I_{pers\ nac}$ – personnel and social costs of the national transmission system [thousands EUR];

$I_{rem\ nac}$ – costs of operating repairs necessary and carried out for the maintenance of the national transmission system [thousands EUR];

$I_{saim\ nac}$ – other operating costs of the national transmission system [thousands EUR].

23. The costs of losses of natural gas transmission and of ensuring the technological process of the cross-border and national transmission system shall be related to the difference between the amount of natural gas entering the transmission system and the amount of natural gas leaving the transmission system during the relevant time period, which is made up of losses of natural gas and consumption of natural gas for technological purposes. The costs of natural gas losses and of ensuring the technological process shall be determined in accordance with the following formula:

$$I_{tehn\ proc\ (st,nac)} = I_{zud\ (st,nac)} + I_{teh\ (st,nac)} = \left(E_{zud(st,nac)} + E_{teh\ (st,nac)}\right) \times C_{zud},$$

where:

$I_{tehn\ proc\ (st,nac)}$ – costs of loss of natural gas and provision of technological process in the cross-border and national transmission system [thousands EUR];

$I_{zud\ (st,nac)}$ – charges for natural gas losses in the cross-border and national transmission system [thousands EUR];

$I_{teh\ (st,nac)}$ – charges for the technological use of natural gas in the cross-border and national transmission system [thousands EUR];

$E_{zud\ (st,nac)}$ – forecasted losses of natural gas in the cross-border and national transmission system [kWh];

$E_{teh\ (st,nac)}$ – forecasted consumption of natural gas for technological purposes in the cross-border and national transmission system [kWh];

C_{zud} — forecasted average price of natural gas losses [EUR/kWh].

24. If the transmission system operator enters into a natural gas variable price contract for the purchase of natural gas, the merchant shall use the guidelines of the Regulator for the forecasting of the natural gas price for the calculation of the justified costs related to the forecast of the natural gas price and the calculation of the justified costs related thereto. If other principles of natural gas price forecasting are used or a contract has been entered into for the purchase of natural gas at a fixed natural gas price, the transmission system operator shall provide economic justification for the choice of such approach.

25. Personnel and social costs of the cross - border and national transmission system shall be calculated in accordance with the Labour Law and the regulatory enactments regulating the field of social insurance. The principles for the assessment of personnel and social costs are laid down in the Guidelines for the Calculation of Personnel Costs of the Regulator.

26. The costs of the current operational repairs necessary and performed for the maintenance of the property of the cross-border and national transmission system and the work

necessary for the maintenance in working order and maintenance of the fixed assets (buildings, structures, equipment, etc.) of the transmission assets and administration assets in the accounting balance sheet of the system operator and leased and carried out by other merchants shall be written off and recorded in the reporting period in which they have been incurred. This cost item includes the cost of financing the maintenance of stocks according to the planned life of the stocks, applying the actual borrowing rate of the operator. The cost of financing the maintenance of stocks is assessed taking into account the amount of stocks necessary for the provision of a continuous and security-compliant capacity reservation service. If the actual borrowing rate applied for the assessment of the stock financing costs exceeds the average short-term loan (euro) variable rate (new transactions) published by Latvijas Banka for the last six months according to the inventory volumes, the inventory maintenance financing costs are assessed by applying the average short - term loan (euro) variable rate (new transactions) published by Latvijas Banka for the last six months according to the inventory volumes. Costs related to capitalised repairs and the creation of new fixed assets and the cost of financing the inventory held for their operation are not recorded under this cost item.

27. Other operating costs of the cross - border and national transmission system are costs related to the operation of the system operator which are not included under other cost items.

28. Costs related to the development of the transmission system operator, studies and related consultations may not exceed one per cent of the average operating costs included in the tariff proposal.

29. The costs of ensuring the supply of natural gas, which are related to the obligation of the system operator to ensure the necessary natural gas withdrawal capacity from the Inčukalns Underground Gas Storage Facility during an energy crisis laid down in Cabinet Regulation, shall be included in the tariff proposal according to the actual, justified value, providing for their recovery within two gas years from the moment of the occurrence of the costs of fulfilling the obligations of ensuring the supply of natural gas.

30. The economically justified costs of storage of energy security reserves, which are related to the obligation of the system operator laid down in Section 82.[1], Paragraph two of the Energy Law to ensure availability of Inčukalns underground gas storage facility for energy security reserves and storage thereof, shall be included in the draft tariffs according to the planned value.

3.2. Adjustment of revenues and quantities of natural gas transported

31. The system operator shall establish, in accordance with the Annex to this methodology, a regulatory account listing, in accordance with points 32, 34, 38, 39 and 40 of this methodology, the difference between allowed (planned) and actual revenues and the difference between planned and actual costs, distinguishing between revenues attributable to the cross-border and the national transmission system. The residue of the regulatory account shall be allocated to subsequent tariff and regulatory periods in accordance with paragraphs 36 and 41 of this methodology. When a new regulatory period starts, the balance of the regulatory account is set at zero *euro.*

32. The system operator shall list in the regulatory account six months before the end of the tariff period:

32.1. the difference between the actual (expected) and planned revenues for the tariff period, determined by summing up the actual difference for the closed months in the relevant tariff period and the forecasted difference at the time of calculation, for the remaining months of the relevant tariff period. Additional revenues related to the auctioning of capacity shall also be taken into account in the calculation of the difference;

32.2. the difference between the planned and actual (predicted) costs of ensuring the technological process and natural gas losses, which is determined taking into account the actual natural gas price in the closed months of the tariff period and the natural gas price for the other months of the tariff period forecasted at the time of calculation. When determining the difference between the costs of ensuring the technological process and natural gas losses, the amount of natural gas losses that does not exceed the approved amount of natural gas losses attributable to the relevant tariff period shall be used in the calculations;

32.3. the difference between the expected increase in costs due to inflation over the tariff period of the regulatory period and the projected or expected increase in costs due to inflation, if the expected costs have been revised in the previous tariff period, determined in accordance with the following formula:

$$IIP_{t\,pr} = ((I_{pers,t} + I_{rem,t} + I_{saimn,t}) - I_{ne,t}) \times (PCI_{pl} - PCI_{pr})/PCI_{pl},$$

where:

$IIP_{t\,pr}$ – the expected difference between the expected increase in costs caused by inflation over the relevant tariff period of the regulatory period and the expected increase in costs caused by inflation over that tariff period [thousands EUR];

$I_{pers,t}$ – personnel and social costs included in the calculation of tariffs, calculated using the inflation forecast and attributable to the relevant tariff period [thousands EUR];

$I_{rem,t}$ – the calculation of tariffs includes the costs of operating repairs necessary for the maintenance of the property and performed by other merchants, which are attributable to the relevant tariff period [thousands EUR];

$I_{saimn,t}$ – other operating costs included in the calculation of tariffs, which are attributable to the relevant tariff period [thousands EUR];

$I_{ne,t}$ – the calculation of tariffs includes operating costs that are attributable to the relevant tariff period and for which inflation induced cost changes during the regulatory period are not planned [thousands EUR];

PCI_{pl} – the cumulative indicator of the projected consumer price inflation used in the calculation of tariffs for the relevant tariff period;

PCI_{pr} – the cumulative indicator of the projected consumer price inflation for the relevant tariff period;

32.4. the difference between the projected cost increase due to the change in nominal gross wage over the tariff period and the projected cost increase due to the change in nominal gross wage over the tariff period, determined in accordance with the following formula:

$$PIP_{tpr} = I_{pers\,BAI,t} \times (BAI_{pl} - BAI_{pr})/BAI_{pl},$$

where:

$PIP_{t\,pr}$ – forecasted difference between the cost increase due to the planned change in the nominal gross wage over the relevant tariff period of the regulatory period and the cost increase due to the change in the actual nominal gross wage over that tariff period [thousands EUR];

$I_{pers\,BAI,t}$ – personnel costs calculated using the forecast of the change in the nominal gross wage and attributable to the relevant tariff period are included in the calculation of tariffs [thousands EUR];

BAI_{pl} – the cumulative rate of change of the planned nominal gross wage used in the calculation of the tariffs for the relevant tariff period;

BAI_{pr} – the projected cumulative rate of change in the nominal gross wage for the relevant tariff period;

32.5. the difference between the actual (forecast) and the planned amount of inter-system operator compensation in the tariff period, determined by summing up the actual difference for the closed months in the relevant tariff period and the forecasted difference at the time of calculation, for the remaining months of the relevant tariff period;

32.6. the difference between the planned and actual (predicted) costs of ensuring the supply of natural gas and the economically justified costs of storing security of supply reserves, which is determined by summing up the actual difference for the closed months in the relevant tariff period and the forecasted difference at the time of calculation, for the remaining months of the relevant tariff period;

32.7. reasonable actual unexpected costs due to changes in external regulatory enactments or the prevention of emergency situations that have occurred during the previous or current tariff period of the relevant regulatory period and are not recoverable otherwise;

32.8. the differences between the actual and projected costs and revenues referred to in subparagraphs 32.1, 32.2, 32.3, 32.4, 32.5 and 32.6 of this methodology for the months of the previous tariff period, including for the months of the last tariff period of the previous regulatory period for which cost forecasts were used when calculating the regulatory invoice in the previous tariff period, including the last tariff period of the previous regulatory period;

32.9. in the regulatory account for the first tariff period, the transmission system operator shall list the difference between the forecasted and actual cost of capital for the last tariff period of the previous regulatory period.

33. The transmission system operator shall have the right to account in the regulatory account, no later than six months before the end of the tariff period, the expected difference in the costs of the following tariff periods, which shall be determined as the difference in the costs between the costs of the following tariff periods planned in the tariff proposal and the costs of the following tariff periods expected at the time of drawing up the regulatory account, under the following cost items:

1) the costs of loss of natural gas and provision of the technological process;

2) the estimated cumulative inflation impact costs in the approved tariff and the forecasted inflation for the next years of the regulatory period;

3) the projected cost of the effect of the nominal gross wage coefficient in the approved tariff and the projected nominal gross wage coefficient for the next years of the regulatory period.

34. The spreads referred to in paragraph 32 of this methodology shall be determined for the following period:

34.1. the differences referred to in points (32.1), (32.2), (32.3), (32.4), (32.5) and (32.6) of this methodology shall be determined on the last day of the tariff period;

34.2. the costs referred to in point 32.7 of this methodology are determined at the time of submission of the calculations;

34.3. the costs referred to in point 32.8 of this methodology shall be determined for the last day of the last tariff period of the previous tariff period, including the previous regulatory period.

35. The system operator shall submit to the regulator, no later than four months and two weeks before the end of the tariff period, information on the regulatory account balance determined in accordance with paragraphs 32 and 34 of this methodology and its justification.

36. If there are several tariff periods in the regulatory period, the part of the adjustment of revenue attributable to the next tariff period shall be determined as follows:

36.1. where the balance of the regulatory account is negative, the system operator shall have the right to extend the balance of the regulatory account to the next tariff period and to increase the expected revenues of the next tariff period, subject to the following conditions:

36.1.1. the balance of the regulatory account exceeds one per cent of the average planned operating costs of the tariff period included in the calculation of tariffs;

36.1.2. the revenue adjustment part attributable to the tariff period shall not exceed 40% of the planned operating costs of the tariff period. The 40% restriction shall not apply to the difference in costs, which is formed as a result of the deviations in the costs of ensuring the technological process and natural gas losses, if the average actual natural gas price in the relevant tariff period was six *euros* or more per MWh higher than the planned natural gas price;

36.2. if the balance of the regulatory account is positive, the system operator is obliged to allocate the balance of the regulatory account to the next tariff period and reduce the planned revenues of the next tariff period if the balance of the regulatory account exceeds one per cent of the planned operating costs of the tariff period;

36.3. the balance of the regulatory account that is not allocated to the next tariff period in accordance with point 36.1 or 36.2 of this methodology shall be taken into account by the system operator when determining the share of the revenue correction attributable to the tariff period for the next tariff period or the next regulatory period.

37. The balance of the regulatory account set out in point 32 of this methodology shall be equal to the revenue correction part and shall increase or decrease the cost of the capacity booking service set out in point 17 of this methodology for the tariff period starting at the same time as the next regulatory period.

38. The system operator shall, together with a new draft tariff proposal in accordance with the Annex to this methodology, submit to the Regulator information on the balance of the regulatory account and its justification. In determining the current regulatory account balance, the system operator shall list:

38.1. the forecast balance of the non - attributed regulatory account accounted for in accordance with points 32 and 34 of this methodology, until the submission of a new draft tariff proposal;

38.2. cost savings by cost groups defined as the difference between actual costs and planned costs in the corresponding regulatory period for those cost groups whose actual costs during the regulatory period were lower than planned and which are not charged to the regulatory invoice in accordance with points 32 and 34 of this methodology;

38.3. an adjustment to the cost of capital calculated in accordance with the regulatory methodology for accounting and calculating the cost of capital.

39. If the system operator, by implementing efficiency improvement measures during the regulatory period, has reached a level of efficiency exceeding the cost - efficiency calculated in accordance with paragraph 11 of this methodology, by submitting a justification to the regulator, the system operator shall have the right to reduce the balance of the regulatory account determined in accordance with the procedure referred to in paragraph 38 of this methodology by the amount of actual cost savings exceeding the determined level of cost efficiency.

40. The values referred to in paragraphs 38 and 39 of this methodology are set at the last day of the last tariff period of the relevant regulatory period.

41. The revenue adjustment set out in paragraph 11 of this methodology for the next regulatory period shall be determined as follows:

41.1. where the balance of the regulatory account is negative, the system operator shall have the right to allocate the balance of the regulatory account, in whole or in part, to the following regulatory period, with a corresponding increase in the revenue allowed under paragraph 11 of this methodology for the following regulatory period;

41.2. where the balance of the regulatory account is positive, the system operator shall be obliged to attribute the balance of the regulatory account to the next regulatory period and to reduce the expected revenues of the regulatory period set out in point 11 of this methodology.

4. Principles for attributing allowed revenue

42. The allowed revenues of a system operator shall be allocated to the revenues of the cross-border transmission system and the national transmission system in accordance with the following formula:

$$AIe_{PSO} = AIe_{PSOnac} + AIe_{PSOst},$$

where:

$Aie_{PSO\ nac}$ — Allowed revenue of the national transmission system [thousands. EUR];

$Aie_{PSO\ st}$ – Allowed revenues of cross-border transmission system [thousands. EUR].

43. The allowed revenues of the cross-border and the national transmission system shall be used to cover the costs of the cross border transmission system and the costs of the national transmission system, calculated in accordance with the formulae set out in point 17 of this methodology, taking into account cost-efficiency and compensation between system operators, respectively. The amount of the costs of the capacity reservation service to be reduced by the system operator by improving the efficiency of the use of fixed assets and other resources as well as the efficiency of economic activity and the compensation between system operators shall be attributed to the costs of the cross-border transmission system and the national transmission system according to the cost allocation method. Allowed revenues shall be recovered by the system operator through tariffs for capacity products by providing a capacity reservation service.

44. For the calculation of the allowed revenues to be recovered from the reservation of capacity at entry points from other transmission entry - exit systems and from exit points to other transmission entry - exit systems, the system operator shall apply a allowed revenue allocation factor of 0,50 to the revenue for the reservation of capacity at entry points and a allowed revenue allocation factor of 0,50 to the revenue for the reservation of capacity at exit points. The system operator shall submit a justification at the same time as the tariff proposal if the allocation coefficients of the allowed revenues are adjusted.

45. The system operator shall submit a proposal for a revenue redistribution coefficient between the transmission system and the exit point for the supply of Latvian users from the natural gas storage facility and the exit point to the natural gas storage facility (K_{reg}), as well as the amount of the discount applicable to the tariffs for the entry point from the natural gas storage facility and the exit point to the natural gas storage facility (D_{kr}). A system operator may determine a discount applicable to the tariffs of an entry point from a liquefied natural gas installation. The system operator shall submit the justification for the redistribution coefficient and the amount of the discount at the same time as the tariff proposal.

5. Calculation of tariffs for annual standard capacity products where a single entry - exit system for natural gas transmission has been established

46. The annual standard capacity product tariff for entry points into the single natural gas transmission entry - exit system from another transmission entry - exit system shall be set by the single natural gas transmission entry - exit system operators by mutual agreement and taking into account the views of the regulatory authorities of the single natural gas transmission entry - exit system.

47. The annual standard capacity product tariff for exit points to another transmission entry - exit system shall be set equal to the annual standard capacity product tariff for entry points to the single natural gas transmission entry - exit system in accordance with the following formula:

$$T_{iz\,(g)} = T_{ie\,(g)}, \text{kur}$$

where:

$T_{ie\,(g)}$ — annual standard capacity product tariff of the transmission system for entry points from another transmission entry - exit system [EUR/kWh/d/year];
$T_{iz\,(g)}$ — annual standard capacity product tariff of the transmission system for exit points to another transmission entry - exit system [EUR/kWh/d/year].

48. The tariff for an annual standard capacity product for an entry point from a natural gas storage facility shall be determined in accordance with the following formula:

$$T_{ie\,kr\,(g)} = T_{ie(g)} \times (1 - D_{kr}),$$

where:
$T_{ie\,kr\,(g)}$ — annual standard capacity product tariff for the entry point from the natural gas storage [EUR/kWh/d/year].

49. The tariff for an annual standard capacity product for an exit point to a natural gas storage facility shall be determined in accordance with the following formula:

$$T_{iz\,kr\,(g)} = T_{iz\,(g)} \times (1 - D_{kr}),$$

where:
$T_{iz\ kr\,(g)}$ — annual standard capacity product tariff for the exit point to the natural gas storage [EUR/kWh/d/year].

50. The annual standard capacity product tariff at entry points from renewable and low - carbon gas production facilities shall be set in accordance with the following formula:

$$T_{ieb\,(g)} = \frac{I_b}{P_{ie\,b}}, \text{ where:}$$

$T_{ie\,b\,(g)}$ — annual standard capacity product tariff at entry points from renewable and low carbon gas production facilities [EUR/kWh/d/year];
I_b – costs attributable to production facilities for renewable and low - carbon gases [thousands EUR];
$P_{ie\,b}$ – projected daily average capacity of the entry point from the Latvian production facility [kWh/d].

51. The charge for the use of the exit point for the supply of consumers of Latvia shall be determined in accordance with the following formula:

$$K_{pārv} = \frac{AIe_{PSO\,nac} - T_{iz\,kr\,(g)} \times P_{iz\,kr} - T_{ie\,kr\,(g)} \times P_{ie\,kr} - T_{ie\,b\,(g)} \times P_{ie\,b}}{P_N}$$

where:
$K_{pārv–}$ charge for the use of the exit point for the supply of consumers of Latvia [EUR/kWh/d/g];
P_N – Nominated capacity of the exit point for the supply of consumers of Latvia [kWh/d].

6. Calculation of tariffs for annual standard capacity products in the absence of a single entry - exit system for natural gas transmission

52. The annual standard capacity product tariff for entry points from another transmission entry - exit system shall be set in accordance with the following formula:

$$T_{ie\,(g)} = \frac{Ie_{PSO\,st} \times V_{ie} \times \left(1 - \frac{P_{ie\,kr}}{P_{ie}} \times D_{kr} \times K_{reg}\right)}{P_{ie} - P_{ie\,kr} \times D_{kr}}$$

where:
$I_{ePSO\,st}$ – planned revenues of the cross - border transmission system [thousands. EUR];
V_{ie} — planned revenue allocation factor for revenue from the reservation of capacity of an entry point from another transmission entry-exit system;
$P_{ie\,kr}$ — projected daily average capacity of the entry point from the natural gas storage facility over the tariff period [kWh/d];
P_{ie} – input capacity of the transmission system during the tariff period [kWh/d];

K_{reg} – redistributive revenue ratio of the entry point from the natural gas storage facility and the exit point to the natural gas storage facility between the transmission system and the exit point for the supply of consumers of Latvia.

53. The annual standard capacity product tariff for an entry point from a natural gas storage facility shall be determined using the formula set out in point 48 of this methodology.

54. The annual standard capacity product tariff for exit points to another transmission entry exit system shall be set in accordance with the following formula:

$$T_{iz\,(g)} = \frac{Ie_{PSO\,st} \times V_{iz} \times \left(1 - \frac{P_{iz\,kr}}{P_{iz}} \times D_{kr} \times K_{reg}\right)}{P_{iz} - P_{iz\,kr} \times D_{kr}}$$

where:

V_{iz} — planned revenue allocation factor for the revenue from the exit point to the capacity reservation of other transmission entry - exit systems;

P_{iz} — exit capacity of the transmission system over the tariff period [kWh/d];

$P_{iz\ kr}$ – projected daily average capacity of the exit point to the natural gas storage facility over the tariff period [kWh/d].

55. The tariff for an annual standard capacity product for an exit point to a natural gas storage facility shall be determined using the formula set out in point 49 of this methodology.

56. The charge for the use of the exit point for the supply of consumers of Latvia shall be determined in accordance with the following formula:

$$K_{pārv} = \frac{Ie_{PSO\,nac} + Ie_{PSO\,st} \times D_{kr} \times K_{reg} \times \left(\frac{P_{ie\,kr} \times V_{ie}}{P_{ie}} + \frac{P_{iz\,kr} \times V_{iz}}{P_{iz}}\right) + T_{iz\,(g)} \times P_{iz\,v}}{P_N}$$

where:

$Ie_{PSO\ nac,}$ the planned revenue of the national transmission system [thousands EUR].

7. Multiplier and seasonal factor size

57. The system operator shall submit the economic justification for the multiplier used in the tariff proposal and the size of the seasonal factor, taking into account the obligation of the system operator to ensure the efficient use of the transmission system for the provision of the capacity reservation service and the coverage of the total costs of the capacity reservation service, together with the tariff proposal.

58. The transmission system entry and exit point congestion multiplier (hereinafter referred to as the 'congestion multiplier') shall be determined in accordance with the following formula:

$$K_{pārsl} = P \times 100\%$$

where:

$K_{pārsl}$ — Transmission system entry and exit point congestion multiplier;

P – probability of transmission system entry and exit point congestion;

$$P = \frac{n \times L_a}{L} \times \frac{N_a}{N}$$

where:

n - the forecasted number of replacements of the standard capacity product by interruptible capacity products;

$L_{a\,-}$ the projected average duration of the replacement of one standard capacity product [h];

L — total duration of the replacement of the relevant standard capacity product with an interruptible capacity product [h];

N_a – forecasted average of the capacity replaced in one replacement of the standard capacity product [kWh/d];

N - the total capacity [kWh/d] of the replacement of the relevant standard capacity product with the interruptible capacity product.

59. If the calculated congestion multiplier is equal to 0, the congestion multiplier equal to 0,05 shall be used for tariff calculations.

8. Calculation of tariffs for short term standard capacity products

60. The quarterly, monthly, daily and current daily standard capacity product tariff for entry points from another transmission entry - exit system shall be determined in accordance with the following formula:

$$T_{ie\ (c,m,d,dl)} = \frac{T_{ie\ (g)} \times K_{(c,m,d,dl)} \times S_{(c,m,d,dl)}}{G} \times d$$

where:

$T_{ie(c,m,d,dl)}$ – the product tariff of the quarterly (EUR/kWh/d/cet), monthly (EUR/kWh/d/month), daily or current day (EUR/kWh/d) standard capacity for entry points from another transmission entry - exit system;

$K_{(c,m,d,dl)}$ – multiplier for quarterly, monthly, daily or current daily standard capacity products;

$S_{(c,m,d,dl)}$ – seasonal factor for quarterly, monthly, daily or current daily standard capacity products;

d – -the number of days in the period when the short-term standard capacity product is used;

G – the number of days in the year of application of the tariff.

61. The quarterly, monthly, daily and current daily standard capacity product tariff for exit points to another transmission entry - exit system shall be determined in accordance with the following formula:

$$T_{iz\ (c,m,d,dl)} = \frac{T_{iz\ (g)} \times K_{(c,m,d,dl)} \times S_{(c,m,d,dl)}}{G} \times d$$

where:

$T_{iz\ (c,m,d,dl)}$ – the rate of a standard capacity product of a quarterly (EUR/kWh/d/cet), monthly (EUR/kWh/d/month), daily and current day (EUR/kWh/d) for exit points to another transmission entry-exit system.

62. The quarterly, monthly, daily and current daily standard capacity product tariff for an entry point from a natural gas storage facility shall be determined in accordance with the following formula:

$$T_{ie\ kr\ (c,m,d,dl)} = \frac{T_{ie\ kr\ (g)} \times K_{(c,m,d,dl)} \times S_{(c,m,d,dl)}}{G} \times d$$

where:

$T_{ie\ kr\ (c,m,d,dl)}$ – the tariff of the standard capacity product at the entry point from the natural gas storage facility for the quarterly (EUR/kWh/d/cet), monthly (EUR/kWh/d/month), daily and current day (EUR/kWh/d).

63. The quarterly, monthly, daily and current daily standard capacity product tariff for the exit point from a natural gas storage facility shall be determined in accordance with the following formula:

$$T_{iz\ kr\ (c,m,d,dl)} = \frac{T_{iz\ kr\ (g)} \times K_{(c,m,d,dl)} \times S_{(c,m,d,dl)}}{G} \times d$$

where:

$T_{iz\ kr\ (c,m,d,dl)}$ – the tariff of the standard capacity product at the exit point from the natural gas storage for the quarterly (EUR/kWh/d/cet), monthly (EUR/kWh/d/month), daily and current day (EUR/kWh/d).

64. Tariffs for short-term standard capacity products for the entry point from a natural gas storage facility at the time of injection of natural gas and for the exit point to a natural gas storage facility at the time of withdrawal of natural gas shall be calculated in accordance with the formula set out in point 63 of this methodology;

65. The quarterly, monthly, daily and current daily standard capacity product charges for the use of the exit point for the supply of Latvian customers shall be determined in accordance with the following formula:

$$K_{pārv\ (c,m,d,dl)} = \frac{K_{pārv} \times K_{(c,m,d,dl)} \times S_{(c,m,d,dl)}}{G} \times d$$

9. Calculation of tariffs for interruptible capacity products for entry and exit points

66. The annual product tariff for interruptible capacity for entry points from another transmission entry - exit system shall be set in accordance with the following formula:

$$T_{atie(g)} = T_{ie(g)} \times \left(1 - K_{pārsl}\right),$$

where:

$T_{at\ ie,(g)}$ — annual product tariff of interruptible capacity [EUR/kWh/d/year] for entry points from another transmission entry - exit system.

67. The tariffs for the quarterly, monthly, daily and current day products of interruptible capacity at entry points from another transmission entry - exit system shall be determined in accordance with the following formula:

$$T_{at\ ie\ (c,m,d,dl)} = T_{ie\ (c,m,d,dl)} \times \left(1 - K_{pārsl}\right) \times S_{(c,m,d,dl)},$$

where:

$T_{at\ ie\ (c,m,d,dl)}$ – product tariff of the quarter [EUR/kWh/d/cet], month [EUR/kWh/d/month], day and current day [EUR/kWh/d] of interruptible capacity for entry points from another transmission entry - exit system.

68. The annual product tariff for interruptible capacity at exit points to another transmission entry - exit system shall be set in accordance with the following formula:

$$T_{at\ iz(g)} = T_{iz(g)} \times \left(1 - K_{pārsl}\right)$$

where:

$T_{at\ iz(g)}$ — annual product tariff of interruptible capacity [EUR/kWh/d/year] for exit points to another transmission entry - exit system.

69. The tariffs for the quarterly, monthly, daily and current day products of interruptible capacity at exit points to another transmission entry - exit system shall be determined in accordance with the following formula:

$$T_{atiz\ (c,m,d,dl)} = T_{iz\ (c,m,d,dl)} \times \left(1 - K_{pārsl}\right) \times S_{(c,m,d,dl)}$$

where:

$T_{at\ iz\ (c,m,d,dl)}$ – product tariff of the quarter [EUR/kWh/d/cet], month [EUR/kWh/d/month], day and current day [EUR/kWh/d] of interruptible capacity at exit points to another transmission entry - exit system.

10. Calculation of tariffs for interruptible virtual counterflow capacity products

70. The annual product tariff for interruptible virtual counterflow capacity for entry and exit points shall be determined in accordance with the following formula:

$$T_{p\ virt(ie,iz)\ (g)} = T_{(ie,iz)\ (g)} \times K_{virt},$$

where:

$T_{p\ virt\ (ie,iz)\ (g)}$ — annual product tariff of interruptible virtual counterflow capacity [EUR/kWh/d/year] at entry or exit point;

K_{virt} – multiplier for short-term virtual counterflow products of interruptible capacity.

71. The tariff for interruptible virtual counterflow capacity for entry and exit points for quarterly, monthly, daily and current day products shall be determined in accordance with the following formula:

$$T_{p\ virt\ (ie,iz)\ (c,m,d,dl)} = T_{(ie,iz)\ (c,m,d,dl)} \times K_{virt},$$

where:
$T_{p\ virt\ (ie,iz)\ (c,m,d,dl)}$ – tariff of interruptible virtual counterflow capacity, quarterly [EUR/kWh/d/cet], monthly [EUR/kWh/d/month], daily and current day [EUR/kWh/d] products at entry or exit point.

11. Procedure for setting tariffs

11.1. Preparation and submission of tariff proposal

72. The draft tariff proposal shall be developed by the system operator in accordance with this methodology by calculating the allowed revenues necessary to cover the costs of providing the capacity reservation service.
73. The system operator shall calculate tariffs in such a way that the allowed revenues do not exceed the system operator's reasonable costs attributed to the capacity reservation service.
74. By 1 March of the year of the start of the regulatory period, the system operator shall submit in writing and in electronic form (calculations *of tariffs and their constituent costs in Excel* format) to the Regulator for assessment:
    74.1. the calculation of tariffs, the allowed revenues and the corresponding costs and the calculation of inter - system operator compensations for the regulatory period, together with a justification of those costs, including an explanation of changes in costs compared to the previous regulatory period, and supporting documents in accordance with the regulatory authority's rules on the justification of costs constituting tariffs, as well as the planned revenues and the corresponding costs for the tariff period;
    74.2. information on the revenues of the previous regulatory period from the capacity reservation service and the total actual costs of the capacity reservation service of the transmission system.
75. The transmission system operator shall submit the documents justifying the costs at the same time as the tariff proposal if the cost item included in the calculation of tariffs has increased by more than 10 per cent compared to the amount of the cost item included in the current tariffs.
76. A system operator may make a reasoned request to the regulator to be allowed to set its own tariffs in accordance with this methodology.

11.2. Assessment of the tariff proposal

77. When assessing the justification of the costs forming the tariff proposal, the Regulator shall approve or reject the tariffs, or instruct the transmission system operator to perform a tariff recalculation, or amend the tariff proposal, if the public service provider does not provide the Regulator with additional information regarding the justification of the costs forming the tariffs in accordance with the procedures and within the time period specified by law during the procedure for the evaluation of the tariff proposal, or if any of the costs forming the tariffs is economically unreasonable and the Regulator may certify it in another legal way during the evaluation of the tariff proposal.
78. During the assessment of the tariff proposal, the system operator may submit corrections and additions to the tariff proposal.
79. The fixed tariffs shall remain in force until new fixed tariffs enter into force. If in the previous tariff period the transmission system operator has exercised the right to allocate the balance of the regulatory account in accordance with point 36.1 of this methodology, but in calculating the next balance of the regulatory account does not exercise the right to allocate the balance of the regulatory account to the next tariff period, then the transmission system operator shall calculate the tariffs applicable in the next tariff period using the same values that were taken into account in the decision taken pursuant to the

procedure referred to in points 74 and 77 of this methodology. The transmission system operator shall be obliged to publish tariffs in accordance with the procedure referred to in point 80.1 of this methodology.

80. The system operator may set tariffs for tariff periods within the existing regulatory period, if the Regulator has granted a permit, in accordance with Article 15(1)(1) of the Energy Law. In such a case, the system operator shall determine tariffs in accordance with this methodology in accordance with the following procedures:

80.1. if the system operator sets new tariffs, the system operator shall publish the tariffs in the official gazette Latvijas Vēstnesis not later than two months before the beginning of the gas year when the new tariffs are due to enter into force. At the same time, the system operator shall submit to the Regulator the tariffs, the justification for the tariffs and information on the actual revenues of the previous tariff period, the forecast data of the new tariffs, as well as comparison tables indicating the planned revenues in the tariff period and the changes in the corresponding costs thereof, and other documents justifying the necessity of the new tariffs;

80.2. the Regulator shall, within 21 days after receipt of the tariffs, assess the conformity of the submitted tariffs with this methodology and the economic justification of the submitted tariffs;

80.3. if the Regulator has not taken a decision on the non conformity of the submitted tariffs with this methodology within 21 days after receipt of the tariffs or has not rejected the economic justification of the tariffs, the tariffs shall enter into force on the first day of the relevant gas year;

80.4. if the Regulator, within 21 days after receipt of the tariffs, takes a decision on the nonconformity of the submitted tariffs with this methodology or rejects the economic justification of the tariffs, the tariffs shall not enter into force on the first day of the relevant gas year. The Regulator shall send the adopted decision to the system operator within seven days after the adoption of the decision and publish a notice in the official gazette Latvijas Vēstnesis regarding the adopted decision, in which the entry into force of tariffs shall be revoked.

81. When approving tariffs, the Regulator may determine the procedures for the application of tariffs during the regulatory and tariff period.

12. Closing issues

82. If the transmission system operator has implemented efficiency improvement measures within the regulatory period laid down in the Regulator's Decision No 119 of 26 October 2023 on tariffs for the natural gas transmission system service of Joint Stock Company "Conexus Baltic Grid" and, in accordance with them, has taken into account the cost-efficiency ratio referred to in point 11 of this methodology in the calculation of the tariff proposal for the relevant regulatory period, the transmission system operator has the right to reduce the regulatory account balance determined in accordance with the procedure referred to in point 38 of this methodology by up to 50% of the actual cost savings determined taking into account the additional costs related to efficiency improvement measures and the cost savings achieved.

83. The annex referred to in points 31 and 38 of this methodology shall be completed and submitted starting from the regulatory period starting in 2026. The information on the balance of the regulatory account and its justification, to be submitted together with the tariff proposal starting in 2026 in accordance with point 38 of this methodology, shall be provided in free form by the system operator without using an annex to this methodology.

84. Annuls Decision No 1/7 of the Public Utilities Commission of 13 July 2023 on the methodology for calculating tariffs for natural gas transmission system services (Latvijas Vēstnesis 2023, No 135);

85. The methodology shall enter into force on the day following that of its publication in the official gazette Latvijas Vēstnesis.

–Chair of the Board A. Ozola

INDICATIVE SHORT TERM TARRIFS OF FIRM CAPACITY PRODUCTS for the tariff period 01.10.2026-30.09.2028

Produkts	Jaudas vienības	Dienu skaits periodā	Tarifi par rezervēto jaudas vienību, EUR, bez PVN			
			Ieejas punkti		Izejas punkti	
			No citas valsts pārvades sistēmas Tie	No dabasgāzes krātuves Tie kr	Uz citas valsts pārvades sistēmu Tiz	Uz dabasgāzes krātuvi Tiz kr
Ceturkšņa jaudas produkts						
1. ceturksnis	kWh / dienā / ceturksnī	90	0,0387239	0,0000000	0,0387239	0,0000000
2. ceturksnis		91	0,0391542	0,0000000	0,0391542	0,0000000
3. ceturksnis		92	0,0395844	0,0000000	0,0395844	0,0000000
4. ceturksnis		92	0,0395844	0,0000000	0,0395844	0,0000000

Mēneša, dienas un pašreizējās dienas jaudas produkts

		Dienu skaits periodā	**Mēnesis Tie m**	**Diena Tie d**	**Pašreizējā diena Tie dl**	**Mēnesis Tie m**	**Diena Tie d**	**Pašreizējā diena Tie dl**	**Mēnesis Tiz m**	**Diena Tiz d**	**Pašreizējā diena Tiz dl**	**Mēnesis Tiz m**	**Diena Tiz d**	**Pašreizējā diena Tiz dl**
Janvāris	Mēnesis - kWh / dienā / mēnesī Diena, Pašreizējā diena - kWh / dienā	31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Februāris		28	0,0136903	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0136903	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Marts		31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Aprīlis		30	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Maijs		31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Jūnijs		30	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Jūlijs		31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Augusts		31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Septembris		30	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Oktobris		31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Novembris		30	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0146682	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000
Decembris		31	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000	0,0151571	0,0005867	0,0006650	0,0000000	0,0000000	0,0000000

Īstermiņa standarta jaudas produktu reizinātāji

K_c	1,10
K_m	1,25
Kd	1,50
K_{dl}	1,70

Sezonālo standarta jaudas produktu reizinātāji

Sc	1,00	**Q1; Q4**	**Q1; Q4**
Sm	1,00	**Jan, Feb,**	**Jan, Feb,**
Sd	1,00	**Mar, Apr,**	**Mar, Apr,**
Sdl	1,00	**Nov, Dec**	**Nov, Dec**

INDICATIVE TARIFFS OF INTERRUPTIBLE CAPACITY for tariff period 01.10.2026-30.09.2028

Produkts	Jaudas vienības	Dienu skaits periodā	Tarifi par rezervēto jaudas vienību, EUR, bez PVN			
			Ieejas punkti		Izejas punkti	
			No citas valsts pārvades sistēmas Tat ie	No dabasgāzes krātuves Tie kr	Uz citas valsts pārvades sistēmu Tat iz	Uz dabasgāzes krātuvi Tiz kr
Gada jaudas produkts	kWh / dienā / gadā	365	0,1356315	0,0000000	0,1356315	0,0000000
Ceturkšņa jaudas produkts						
1. ceturksnis	kWh / dienā / ceturksnī	90	0,0367877	0,0000000	0,0367877	0,0000000
2. ceturksnis		91	0,0371965	0,0000000	0,0371965	0,0000000
3. ceturksnis		92	0,0376052	0,0000000	0,0376052	0,0000000
4. ceturksnis		92	0,0376052	0,0000000	0,0376052	0,0000000

Mēneša, dienas un pašreizējās dienas jaudas produkts

		Dienu skaits periodā	**Mēnesis Tat ie m**	**Diena Tat ie d**	**Pašreizējā diena Tat ie dl**	**Mēnesis Tie m**	**Diena Tie d**	**Pašreizējā diena Tie dl**	**Mēnesis Tat iz m**	**Diena Tat iz d**	**Pašreizējā diena Tat iz dl**	**Mēnesis Tiz m**	**Diena Tiz d**	**Pašreizējā diena Tiz dl**
Janvāris	Mēnesis - kWh / dienā / mēnesī Diena, Pašreizējā diena - kWh / dienā	31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Februāris		28	0,0130058	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0130058	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Marts		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Aprīlis		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Maijs		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Jūnijs		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Jūlijs		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Augusts		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Septembris		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Oktobris		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Novembris		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Decembris		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000

Pārvades sistēmas ieejas un izejas punktu pārslodzes reizinātājs

$K_{pārsl}$	0,05

INDICATIVETARRIFS OF VIRTUAL COUNTERFLOW CAPACITY for tariff period 01.10.2026-30.09.2028.

Produkts	Jaudas vienības	Dienu skaits periodā	Tarifi par rezervēto jaudas vienību, EUR, bez PVN			
			Ieejas punkti		Izejas punkti	
			No citas valsts pārvades sistēmas Tp virt ie	No dabasgāzes krātuves Tp virt ie kr	Uz citas valsts pārvades sistēmu T p virt iz	Uz dabasgāzes krātuvi Tp virt iz kr
Gada jaudas produkts	kWh / dienā / gadā	365	0,1356315	0,0000000	0,1356315	0,0000000
Ceturkšņa jaudas produkts						
1. ceturksnis	kWh / dienā / ceturksnī	90	0,0367877	0,0000000	0,0367877	0,0000000
2. ceturksnis		91	0,0371965	0,0000000	0,0371965	0,0000000
3. ceturksnis		92	0,0376052	0,0000000	0,0376052	0,0000000
4. ceturksnis		92	0,0376052	0,0000000	0,0376052	0,0000000

Mēneša, dienas un pašreizējās dienas jaudas produkts

		Dienu skaits periodā	**Mēnesis Tp virt ie m**	**Diena Tp virt ie d**	**Pašreizējā diena Tp virt ie dl**	**Mēnesis Tp virt ie kr m**	**Diena Tp virt ie kr d**	**Pašreizējā diena Tp virt ie kr dl**	**Mēnesis Tp virt iz m**	**Diena Tp virt iz d**	**Pašreizējā diena Tp virt iz dl**	**Mēnesis Tp virt iz kr m**	**Diena Tp virt iz kr d**	**Pašreizējā diena Tp virt iz kr dl**
Janvāris	Mēnesis - kWh / dienā / mēnesī Diena, Pašreizējā diena - kWh / dienā	31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Februāris		28	0,0130058	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0130058	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Marts		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Aprīlis		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Maijs		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Jūnijs		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Jūlijs		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Augusts		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Septembris		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Oktobris		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Novembris		30	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0139347	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000
Decembris		31	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000	0,0143992	0,0005574	0,0006317	0,0000000	0,0000000	0,0000000

Atslēdzamās jaudas produktu reizinātājs pretplūsmas pakalpojumam

K_{virt}	0,95

Annex 5to the Consultation Paper on
the methodology for the calculation of tariffs for natural gas transmission system services;

INDICATIVE TARRIFS OF SHORT TERM FIRM CAPACITY FOR THE USE OF EXIT POINT FOR SUPPLY OF CONSUMERS OF LATVIA for the tariff period 01.10.2026 - 30.09.2028.

Produkts	Jaudas vienības	Dienu skaits periodā	**Tarifi par rezervēto jaudas vienību, EUR, bez PVN**
Ceturkšņa jaudas produkts			
1. ceturksnis	kWh / dienā / ceturksnī	90	0,0009407
2. ceturksnis		91	0,0009512
3. ceturksnis		92	0,0009616
4. ceturksnis		92	0,0009616

Mēneša, dienas un pašreizējās dienas jaudas produkts

		Dienu skaits periodā	**Mēnesis Tie m**	**Diena Tie d**	**Pašreizējā diena Tie dl**
Janvāris	Mēnesis - kWh / dienā / mēnesī Diena, Pašreizējā diena - kWh / dienā	31	0,0003682	0,0000143	0,0000162
Februāris		28	0,0003326	0,0000143	0,0000162
Marts		31	0,0003682	0,0000143	0,0000162
Aprīlis		30	0,0003563	0,0000143	0,0000162
Maijs		31	0,0003682	0,0000143	0,0000162
Jūnijs		30	0,0003563	0,0000143	0,0000162
Jūlijs		31	0,0003682	0,0000143	0,0000162
Augusts		31	0,0003682	0,0000143	0,0000162
Septembris		30	0,0003563	0,0000143	0,0000162
Oktobris		31	0,0003682	0,0000143	0,0000162
Novembris		30	0,0003563	0,0000143	0,0000162
Decembris		31	0,0003682	0,0000143	0,0000162

Īstermiņa standarta jaudas produktu reizinātāji

K_c	1,10
K_m	1,25
Kd	1,50
K_{dl}	1,70

Sezonālo standarta jaudas produktu reizinātāji

Sc	1,00	**Q1; Q4**	**Q1; Q4**
Sm	1,00	**Jan, Feb,**	**Jan, Feb,**
Sd	1,00	**Mar, Apr,**	**Mar, Apr,**
Sdl	1,00	**Nov, Dec**	**Nov, Dec**