

**Responses received from market participants on public consultation on Amber Grid tariffs’ methodology and indicative 2020-2023 tariffs (implementation of TAR NC) and evaluation of responses received:**

No.	Comments and proposals from market participants (consultation responses received)	Comments and proposals for evaluation of responses received
<b>AS AJ Power Gas</b>		
1.	<p>REGARDING THE INTEGRATION OF THE BALTIC NATURAL GAS MARKET</p> <p>AJ Power Gas AS, a Latvian and Lithuanian natural gas market participant, wishes to express appreciation regarding the developments with the expected merger of Latvian, Estonian (from 2020), and Finnish (from 2022) natural gas markets and forming of their joint tariff zone from 2020.</p> <p>Nevertheless, we would like to note that without accession of Lithuania to the merged market zone, barriers for direct access to alternative gas sources through the LNG terminal in Klaipeda will still exist. This barrier, in our opinion, does not provide the full potential benefits of the regional market to Baltic end-consumers of natural gas.</p> <p>Therefore we strongly support that solutions are sought with the Lithuanian side to eliminate the cross-border point between Latvia and Lithuania as soon as possible or at least a zero tariff for transmission services at the Kiemenai interconnection point is set.</p> <p>In our view, the tariff’s methodology and indicative 2020-2023 tariffs – Scenario 2 (as published by AB Amber Grid and accessible by following this link - <a href="https://ej.uz/AmberGrid">https://ej.uz/AmberGrid</a> ) would lower gas prices, substantially increase competition for pipeline gas, and incentivize diversification of gas supplies in the Baltic area.</p> <p>We would greatly appreciate receiving further information on the Lithuanian accession to the regional market and/or what is the solution for Kiemenai interconnection point tariffs from 2020 onwards.</p>	<p>The Scenario 2 (entry-exit zone with FINESTLAT), included in the Consultation Document, would bring additional benefits for the regional (Baltic-Finnish) gas market by making competitive pressure for commodity prices in FINESTLAT countries, as well as providing a better access for LNG import. However, the application of such scenario depends also on decisions to be made by FINESTLAT countries. Lithuanian national regulatory authority (NRA) (hereinafter – Lithuanian NRA or LT NRA) will make efforts to reach an agreement on application of zero tariffs at Kiemenai interconnection point (IP) from both Lithuanian and FINESTLAT sides.</p>
<b>Lietuvos Energijos Tiekimas</b>		
2.	<p>The consultation documents foresee that in 2020-2023 the period of application of prices will coincide with the calendar year. We agree that the replacement of the gas year period in October-October at a later time is more convenient for both natural gas customers and suppliers.</p>	<p>We confirm, that the tariff period is a calendar year, and it does not depend on a gas year.</p>
3.	<p>It is noted that FINESTLAT plans to move to a gas year starting in October (from 2020). In different systems, it is important to ensure that at least one of the zones has long-term</p>	<p>This comment is related not to the pricing of Lithuanian transmission system operator’s (TSO’s)</p>

	<p>natural gas transmission system products for the next consecutive 12-month period, so that system users do not bear the excessive burden of risk when concluding long-term contracts with end users. It would be risky not being aware of the transfer rates (especially in entry points) for certain periods in the future.</p>	<p>services, but to the principles of capacity booking. It will be assessed, when amendments to the TSO's rules for access to the natural gas transmission system are considered.</p>
<p>4.</p>	<p>We also propose to abolish the consumption capacity charges (tariffs), which cause inconvenience and are unclear to natural gas consumers. Also, the control or management mechanism of mentioned charges differs from the mechanism described in the legislation, which provides the consumption capacity charge as a pricing element for collecting charges of Security of supply.</p>	<p>Tariff for consumption capacity and LNGT-related extra charge related to natural gas supply security (so called "supply security charge"), are totally separate charges for different services. Tariff for consumption capacity is purely related to Lithuanian TSO's infrastructure: it is related to the maintenance of technical capacity at Lithuania's Domestic Exit Point. Expenses of the Lithuanian TSO's services are largely dependent on the size of the technical capacity created and maintained at delivery points. In accordance with provisions of the diversification procedure as set forth by the Lithuanian Government, the designated consumption capacity for specific consumers best reflect the size of capacity needed by consumers. Accordingly, setting a tariff for consumption capacity allows for a more accurate correlation between the expenses of the transmission system and the benefits generated by the Lithuanian TSO's services. Therefore, for those network users that make an effective use of the transmission capacity that are necessary for them, the expenses of the use of the transmission infrastructure decrease.</p> <p>Therefore, tariff for consumption capacity allows to develop Lithuanian TSO's transmission system in more reliable way, it maintains the strong link between Lithuanian TSO's services offered, benefits</p>

		<p>received and payment for the services, the risk of cross-subsidisation is reduced significantly due to the existence of tariff component for consumption capacity. The application of this tariff reduces cross-subsidization between an increasing number consumers which use gas as a reserve fuel and book only short-term capacity and on rear occasions (while the costs of maintaining capacity are incurred permanently), and the consumers which use gas as a primary fuel.</p>
5.	<p>The proposed overrun capacity rate is 3 (three) times bigger in comparison with the within-day rate (tariff). Taking into account the experience of the neighbouring countries, system users, in the absence of such extreme rates, are interested in planning their flows as accurately as possible (thus reducing their costs). Meanwhile, the transmission system operator safely performs its functions. We suggest you to review the size of the coefficient and reduce it by 2.0 to 2.9 times. Please pay your attention that the cost of the within-day capacity product for the coming year is expected to be significantly more expensive than the current one.</p>	<p>We would like to draw your attention, that tariff for the overrun capacity (Within-day capacity tariff multiplied by the coefficient 3.0) is applied, if the quantity of the overrun capacity recorded for a network user on a specific day at a specific entry or exit point is more than the tolerance level (currently 3 % tolerance level is applied).</p> <p>Also, it is worth noting, that prices for short-term capacity products, as a relative share of reference (yearly capacity) prices (assessing the impact of both multipliers and seasonal factors), are decreasing for 2020 (in comparison to prices as of 2019). For more detailed information see explanations for comment No. 15 below.</p> <p>Nevertheless, taking into account the existing flexibility in transmission system as well as decreasing demand pattern, the tolerance level as well as the overrun fee will be revised once the rules for access to the natural gas transmission system are revised.</p>
6.	REGARDING THE INTEGRATION OF NATURAL GAS MARKET:	See explanations for comment No. 1 above.

	<p>&lt;...&gt;</p> <ol style="list-style-type: none"> <li>1. Creating a single market, declaring benefits of market diversification, but leaving the only diversification source (LNG terminal in Klaipeda) behind the border (with the barrier of Kiemenai cross border transmission tariff) would leave the main component, ensuring diversification of supply for regional players, out of the commercial game. The regional market will not provide key diversification benefit without free access to truly alternative gas sources through LNG terminal. Moreover, once the interconnection with Poland is established, other sources from European markets would be available only at additional unnecessary costs.</li> <li>2. Lithuanian TSO and regulator are officially offering zero interconnection tariff to FI-EE-LV market zone and the significant discount for the LNG terminal entry tariff to the grid. Those solutions would add much more competitiveness to the alternative gas sources. Therefore, we strongly support and recommend considering zero tariff for transmission services in the cross-border point between Latvia and Lithuania.</li> <li>3. The offer to lock the border by having high entry tariff from LT zone is useful only for the incumbent suppliers of the region, but not for the grid operators and certainly not for the gas consumers.</li> <li>4. Integration of the entire region could bring higher competition, better utilization of the infrastructure, higher security of supply and increase service level for gas consumers.</li> </ol>	
<b>Finnish, Latvian and Estonian NRAs' joint comments</b>		
7.	FinEstLat NRAs support the preference to opt for a postage stamp reference price methodology, seeing its advantages over capacity weighted distance approach, particularly in the area of economic efficiency, facilitation of competition as well as in simplicity.	We confirm that postage stamp reference price methodology (with the features defined in the Consultation Document) is planned to be applied in Lithuania (according to „Baringa Partners“ study results and findings).
8.	<b>However, the Consultation Document contains an issue that FinEstLat NRAs cannot agree, namely of the zero tariff proposal for Lithuanian entry-exit system with FinEstLat entry-exit system (hereinafter – Proposal).</b>	We agree that in long-run there should be an agreement on common Lithuanian and FINESTLAT ITC mechanism. However, due to the lack of time and seeking to enhance the benefits of the access to

<p>The Proposal provides that setting zero tariffs at Kiemenai interconnection point from both Lithuanian and FinEstLat entry-exit system side and therefore rescaling tariffs at Domestic exit point in Baltic States and Finland.</p> <p><b>FinEstLat NRAs are on the opinion that setting zero tariffs at Kiemenai interconnection point from FinEstLat entry-exit system side requires for Lithuanian transmission system operator (hereinafter – TSO) to join FinEstLat entry-exit system TSOs inter-transmission system operator compensation (hereinafter – ITC) agreement to ensure compliance with the requirements of TAR NC.</b></p> <p>Although Article 10 of TAR NC addresses multi-TSO arrangements in entry-exit systems within one Member State, the same requirements can be applied to entry-exit systems covering more than one Member State. According to the Article 10(3) in case of multi-TSO entry-exit system an effective ITC mechanism shall be established. The aim of effective ITC mechanism is to prevent detrimental effects on the transmission services revenue of the TSOs involved and to avoid cross-subsidisation between intra-system and cross-system network use.</p> <p>In accordance with the Consultation Document at least for a period from 2020 to 2021 there will be no ITC arrangements between Lithuanian TSO and the FinEstLat entry-exit system TSOs. <b>This would be contradicting the Article 10(3)(a) of TAR NC and creates unfair TSOs allowed revenues allocation, hidden cross-subsidisation of Lithuanian natural gas transmission system, so Lithuanian consumers and TSO to take advantage of the common entry-exit system without any commitment, if the Proposal would be implemented.</b></p> <p>Considering the indicative tariff at FinEstLat entry-exit system entry points of 142.77 EUR/MWh/d/y and multiplier for quarterly products – 1.10, monthly products – 1.25, day products – 1.50 and within day products – 1.70 the average tariff for quarterly, monthly, daily and within-day standard capacity products is 0.54 EUR/MWh/d. Assuming that natural gas price at Lithuanian virtual trading point is more competitive than at FinEstLat entry-exits system’s entry points from Russia, depending on the capacity utilization at Kiemenai entry point, <b>in 2020 without ITC arrangements end consumers in FinEstLat countries should compensate for the loss of FinEstLat TSOs revenue from 1.34 to 13.39 million EUR</b> (see table below) through higher exit tariffs.</p>	<p>alternative gas sources for overall region as soon as possible, we propose for the interim period to agree on tariffication without ITC (for 2020-2021), as it was stated in the Consultation Document. Until 2022 we propose to find common solution on ITC mechanism, to be applied from 2022 onwards, which will be acceptable to all the parties.</p> <p>Please note that for cross-border entry-exit systems not Article 10, but Article 11 of TAR NC is applicable. In case of Lithuania’s proposal on common ITC mechanism, also defined in the Consultation Document (Scenario 2), there would be no ITC mechanism, even zero tariffs at Kiemenai IP from both Lithuanian and FINESTLAT sides would be set, and there would be no requirements for any payments from the FINESTLAT’s market. Therefore, Lithuania’s proposal does not foresee any infrastructural costs moving from one market to another (no cross-subsidisation between Lithuanian and FINESTLAT markets), each market discounts are set at its own domestic exit tariffs (i.e. from FINESTLAT area side the discount of entry on Lithuania-FINESTLAT IP would be analogous as Lithuania is making discount at Klaipėda LNG Entry point – the effect of each discount remains within market area and is balanced via domestic exit tariffs).</p> <p>When it comes to indicated loss of FINESTLAT due to the elimination of tariffs at Lithuania-FINESTLAT IP (Kiemenai IP), please note that, as yearly products are also offered by Lithuanian TSO, when calculating average tariff for using capacity products of different</p>
---	--

	Volumes transported at specific load factors (TWh/y)										
	TWh/d	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
Technical capacity at Kiemenai entry point to FinEstLat and volumes transported	0,0676	25	22	20	17	15	12	10	7	5	2
Total entry revenue under-recovery at specific load factor (MEUR), including		13,39	12,05	10,71	9,37	8,03	6,70	5,36	4,02	2,68	1,34
Finland (ITC share based on FinEst Lat consumption 2018 - 57%)		7,69	6,92	6,15	5,38	4,62	3,85	3,08	2,31	1,54	0,77
Estonia (ITC share based on FinEst Lat consumption 2018 - 11%)		1,46	1,31	1,17	1,02	0,88	0,73	0,58	0,44	0,29	0,15
Latvia (ITC share based on FinEst Lat consumption 2018 - 32%)		4,24	3,82	3,39	2,97	2,54	2,12	1,70	1,27	0,85	0,42

periods, also yearly product should be assessed (as network users may also use this product supplying gas for their or their clients' needs). Due to the fact that yearly multiplier is equal to 1.0, the average tariff of all products would be 0.51 EUR/MWh/d.

Moreover, FINESTLAT assesses only the part of TSO's revenue to be lost, while total benefits to be gained of intergration of Lithuanian and FINESTLAT's markets, are completely disregarded and not assessed. In our view, the potential loss should be netted with the potential benefits (for more detailed information on foreseen benefits for market merger and zero tariffs at Lithuanian-FINESTLAT IP see explanations for comment No. 1), as only the assessment of net results (by making cost-benefit analysis) should provide the value for such an analysis of potential losses/benefits. In addition, in our opinion, the potential loss of 13 million EUR (indicated by FINESTLAT) is a completely theoretical figure, as due to the market constraints, such volumes of gas are hardly expected to be transported. Moreover, the risk has to be managed via regulatory account which has to be established based on Article 19 of Regulation (EU) 2017/460 (Tariff Network Code).

In case of the application of Scenario 2, it should be noted, that Lithuanian TSO would also face a risk, as tariff lifting is expected due to bringing tariffs at Kiemenai IP to zero.

To conclude, the risks in case of the application of Scenario 2 are seen on both Lithuanian and

		FINESTLAT sides, but, in our view, the benefits outweigh the potential risks.
9.	<b>Besides tariff proposal for Lithuanian entry-exit system with FinEstLat entry-exit system creates a false impression for market participants that an agreement between Lithuania and FinEstLat entry-exit system countries on this form of cooperation has already been achieved.</b>	The Scenario 2 (entry-exit zone with FINESTLAT), included in the Consultation Document, was only a proposal, aiming to integrate into the regional gas market. For this reason, it was clearly stated in the Consultation Document that this proposal of integration of Lithuanian entry-exit system with FINESTLAT entry-exit system was only a scenario to be considered. If an agreement between Lithuania and FINESTLAT entry-exit system countries had been achieved, we wouldn't have provided for the public consultation the separate scenario (i.e. Scenario 1: entry-exit zone – only Lithuania (national scenario)).
10.	<p>According to the Consultation Document a discount of 75% (the same as in 2019) is proposed to be applied in 2020 at entry point from Klaipeda LNG terminal in order to increase security of supply, and foster diversification of energy sources (respectively adjusting the allowed revenue level of Domestic Exit point and, thus, rescaling tariffs at Domestic exit point). The discount at LNG terminal entry point is planned to be applied during all regulatory period – from 2019 until 2023 (five years).</p> <p>Although FinEstLat NRAs are in the view that Klaipeda LNG facility has introduced more competition in the region putting downward pressure on natural gas prices, they also believe that discount applied at the entry point from LNG facility should not aim for importing natural gas at the expenses of other natural gas transmission systems in the region. Thus, <b>FinEstLat NRAs are not oppose to any discount level at entry point from Klaipeda LNG facility as long as the lost revenue is to be recovered from the tariffs at Lithuanian domestic exit point.</b></p>	We confirm that the proposal (in Scenario 2) is formed and the tariff model and the methodology thereof, published for public consultation, is prepared in a way that the lost revenue due to application of LNG entry point discount would be recovered from the tariffs at Lithuanian Domestic exit point.
<b>Latvijas Gaze</b>		
11.	<p><b>Application of 75% Discount at Klaipeda LNGT Entry Point.</b></p> <p>In the Document the Commission refers to the EU Commission Regulation's 2017/460 (hereafter TAR NC) Article 9.2. as grounds for providing such discount. The</p>	Currently, Klaipėda LNG Entry Point is the only alternative gas supply source in the Baltic-Finnish (Lithuanian-FINESTLAT) region and the only competitor to dominance of Russian natural gas in

<p>Article states that “At entry points from LNG facilities... a discount <b>may be</b> applied to the respective capacity-based transmission tariffs for the purposes of increasing security of supply.” The Article itself does not specify the magnitude of such discount and it allows the National legislators freedom of choice in applying such discounts.</p> <p>Nevertheless, in LG’s opinion, any discounts that are applied for particular entry points should be based on sound financial calculations and strict argumentation. In the current version of the Document there is no reference to such calculations and argumentation. The Section 6.2. of the Document Discount for Entry Point From LNG Terminal simply states that the discount shall be applied based on Article 9.2 of TAR NC without any detailed explanation and reasoning behind it.</p> <p>In LG’s opinion, the competition in any business area, including natural gas sales and supply has to be based on commercial principles and not on benefits gained from regulatory norms. Looking at the current version of the Document, the reasoning for providing advantage for Klaipeda LNGT Entry point is lacking any commercial grounds and are based solely on subjectivity and bias.</p>	<p>the region, therefore, the application of discount at Klaipėda LNGT Entry Point puts further pressure on prices of Russian natural gas as well as for all prices of natural gas in the market and thus creates economic welfare for market area.</p> <p>The discount on Klaipeda LNG Entry point is applied in accordance with Article 9.2 of Tariff Network Code with the purpose of ending the isolation of Member States in respect of their gas transmission systems, and also for the purposes of increasing security of supply. The level of the proposed discount was estimated taking into account transmission tariffs on LNG point, regasification price and technological losses of regasification process, in order to increase the competition level on product prices and avoid the different import sources discrimination.</p> <p>It is worth noting, that the importance of better access conditions to LNG market is also stressed in so called EU Quo Vadis Study on gas market design for Europe (<a href="https://ec.europa.eu/energy/sites/ener/files/documents/quo_vadis_executive_summary_16feb18.pdf">https://ec.europa.eu/energy/sites/ener/files/documents/quo_vadis_executive_summary_16feb18.pdf</a>). In the Study has been stated that: <i>“The most efficient measure to put competitive pressure on EU pipeline gas suppliers and improve EU welfare is to provide seamless access for LNG to the EU IGM [internal gas market]. Aside from the Strategic Partnership concept, it was only in the LNG glut sensitivity scenario where we could simulate remarkable wholesale gas price decreases. An LNG glut in combination with a Combined Capacity-Commodity Release Scenario could reduce EU gas wholesale prices the most. <u>Tariff Reform Scenario</u></i></p>
--	--

		<p><u>versions that increase LNG entry tariffs to the EU transmission grid are highly destructive for EU welfare.”</u></p> <p>Moreover, the entry discount in Klaipeda LNGT Entry point is fully beneficial for FINESTLAT – from market perspective it creates benefits, whereas the costs of transmission tariff discount are netted out in Lithuanian Domestic exit tariff.</p>
12.	<p><b>Discrimination and Distortion of Cross-Border Trade.</b></p> <p>In the Document’s Section 5.1.7. Assessment of the Proposed Reference Price Methodology, the Commission refers TAR NC requirements among which are also included “(c) ensuring non-discrimination and prevent undue cross-subsidisation...” and “(e) ensuring that the resulting reference prices do not distort cross-border trade”. The analysis of the Document and proposed tariffs clearly indicate that these principles are grossly violated.</p> <p>First, the violation of principle of non-discrimination and prevention of undue cross-subsidization. The analysis of the Document’s Section 5.1.5. Indicative Reference Prices, Table 4, Scenario 1: just Lithuania, shows that the difference in prices in EUR/MWh/day between Entry points in Klaipeda LNG and Kiemenai and Kotlowka is 0.30 EUR/MWh (rounded to 2 digits after comma), respectively – 0.10 EUR/MWh in Klaipeda and 0.40 EUR/MWh in Kiemenai in Kotlovka. Such tariff difference gives clear advantage for the Klaipeda LNGT Entry point and is purely discriminatory against all other entry points in Lithuanian transmission system. Even if considering the average regasification cost of 0.13 EUR/MWh that could be added to the Klaipeda LNGT Entry point, it still would give 0.17 EUR/MWh (42.5%) advantage to this entry point, which remains highly discriminatory against other entry points in the system.</p> <p>With regards to the principle of undue cross-subsidisation LG refers to article published in Argus European Natural Gas, Issue 19-78, 23 April 2019, where it was stated that the largest natural gas consumer in Baltics - fertilizer producer Achema will contest the decision of European Commission on authorizing the state aid for Klaipeda LNG terminal. According to the article, in order to artificially support the operations of the</p>	<p>See explanations for comments No. 1 and 11.</p> <p>When it comes to Lithuanian state’s support scheme for LNG terminal in Klaipėda, it has no effect for cross-border flows between market zones. The directions of natural gas flows in the region will depend on LNG market situation, and on the pricing policy of Russian gas suppliers and importers.</p> <p>Moreover, it is important to note, that Klaipeda LNG terminal users/suppliers also cover the part of technological losses in kind, which occur during the regasification process, but there are no additional technological losses/costs when gas user/supplier takes gas from pipeline.</p>

	<p>LNG terminal, state-owned company Lietuvos Energijos Tiekimas (hereafter – LET) receives security fees from Lithuanian consumers to cover the costs of purchasing minimum quantities of LNG through the terminal. Furthermore, LET is being compensated for the difference between LNG sale and purchase prices. In LG’s opinion as well, such state’s support scheme is inappropriate and breaches fair competition standards. Such scheme, together with the proposed discount of 75% at Klaipeda LNGT Entry point is, in LG’s view, significantly discriminatory, involves high risk of cross-subsidies, and provides and supports unfair competition through state-owned companies. Although we may see the underlying further abstract goal of enhancing the factual energy independence that the Lithuanian authorities may be seeking to support, this must be done strictly in line with applicable EU competition and internal gas market rules rather than on basis ‘the circumstances dictate unconventional measures’.</p>	
13.	<p>Second, the violation of principle of cross-border trade non-distortion. The calculations in Table 4 in Section 5.1.5 of the Document show that the entry tariffs for point in Kiemėnai will be 0.40 EUR/MWh/day whereas the exit tariffs at the same point will be 0.27 EUR/MWh/day. In LG’s opinion, such entry/exit tariff differences at the same point are directly hampering the competition and cross-border trade. Application of such tariffs are unfair, competition damaging and provide specific and overall advantages for Lithuanian traders willing to enter FINESTLAT natural gas market against FINESTLAT traders willing to enter the Lithuanian natural gas market. Application of such tariffs in combination with the 75% discount at Klaipeda LNGT Entry point and state aid provided for LET, makes it impossible for any other trader to compete and even more - it will damage competition in all the other markets where the market participants are operating on pure commercial grounds without state and regulatory aid. In other words, the Lithuanian market plays a significant role for Latvian players as well, and this shall be duly accounted when designing any applicable regulatory schemes in Lithuania.</p>	<p>Commercially and in terms of Lithuanian TSO’s tariff methodology, Kiemėnai Entry Point (LV &gt; LT) and Kiemėnai Exit Point (LT &gt; LV) are two separate points as for entry points entry tariffs are applied, while for exit points exit tariffs are applied. In addition, there are different amounts of forecasted capacity bookings at entry and exit points, which (together with the other parameters used and assumptions applied in the proposed reference price methodology) leads to different tariff levels ant entry and exit points.</p>
14.	<p><b>Regarding Parameters Used and Assumptions Applied.</b></p> <p>In the Section 5.1.3 of the Document the Commission provides the structure of gas supplies for Lithuanian needs based on which the forecasted bookings and transmission tariff adjustments are made. LG draws the Commission attention to the fact</p>	<p>Currently, there are no obligations related to purchasing of natural gas using the Klaipeda LNG terminal (LNGT) for the end users of natural gas. However, the obligation has remained for the designated natural gas supplier, which is obliged to</p>

	<p>that application of such split is inappropriate and subjective, since until 1 January 2019 Lithuanian regulated heat and energy producers with consumption of more than 50 GWh/year were obliged to purchase all of their supply from the LNG terminal based on the Lithuanian laws. Therefore, to draw any forecasts and conclusions on future consumption is wrong as if not the historical state regulation the supply structure would have been completely different.</p>	<p>deliver and supply minimum quantity of natural gas via the LNGT, required to ensure continuous technological operations of the LNGT in a cooled state.</p>
<p>15.</p>	<p><b>Regarding Multipliers and Limitation of Freedom of Choice for Lithuanian Consumers.</b></p> <p>In the Section 6.1. Multipliers and Seasonal Factors the Commission provides the level of multipliers that will be applied for different Entry and Exit points of the Lithuanian transmission system. In the Table 22 the multiplier applied against annual tariff for Lithuanian Domestic Exit Point for Monthly capacities is 1.50 and for Day or Within-Day capacities is 3.00, which is maximum according to TAR NC Article 13. As a reason for applying such tariff multiplier the Commission has stated to avoid cross-subsidization between consumers with higher winter consumption and consumers with more flat offtake. On top of these multipliers, also seasonal multipliers will be applied which in 2020 would reach even up to 1.95 on January.</p> <p>In LG's opinion such multiplier system limits Lithuanian consumers from choosing the best possible price options for their supply needs. The current multiplier system and system provided in the Document limits the consumers in their supply sourcing, strips of any flexibility and forces them to lock themselves for one-year contracts with the suppliers as the long-term capacity booking is the most beneficial and economically advantageous under current and proposed regulation. The multiplier system does not allow the consumers to choose between different suppliers, diversify their portfolio, choose different supply periods and get the best natural gas purchase price for their needs. For example, in Republic of Latvia, there is one tariff set for exit to domestic supply throughout the year despite the consumption profile of the consumer. Such system provides huge flexibility and gas sourcing options for Latvian consumers. Large district heating companies and other consumers are able source the gas supplies for different periods – quarters, months and they are not paying more for such options. Flexibility like this allows these companies to source for the best gas prices and,</p>	<p>Prices of transmission capacity products for different seasons during a year, offered by Lithuanian TSO, are influenced mainly by the peak consumption of natural gas, which usually occurs in the winter months. Commodity prices do not affect prices of transmission capacity products due to the fact that the direct object of the competition in natural gas market is commodity price.</p> <p>It is worth noting, that Domestic Exit Point is not an IP, and specifically at Kiemėnai IP, seeking to incentivise cross-border flows and reflecting absence of particular historical seasonality pattern at this point (as it was stated in the Consultation Document), seasonal factors are not applied. Moreover, zero tariffs at Kiemėnai IP from both Lithuanian and FINESTLAT sides are proposed in one of the scenarios provided in the Consultation Document (Scenario 2).</p> <p>When it comes to differences of short-term capacity prices in relation to prices for yearly capacity products at Domestic Exit Point, these differences are not so high that consumers would be locked for one-year contracts. Moreover, due to the application of seasonal factors at Domestic Exit Point, the prices for</p>

	<p>respectively, keep the heating tariffs at their lowest, which eventually reflects as a saving for every household member.</p> <p>Furthermore, the current system allows the consumer to book the long-term capacities only from January 1<sup>st</sup> until December 31<sup>st</sup>. This is another limitation that has been put on the Lithuanian consumers. If looking at the historical price developments in the most liquid European hubs, then the gas prices and prices of forwards are the highest in Winter, compared to prices and forwards in Summer. Therefore, by getting in these forced long-term agreements in the Winter, to avoid increased tariffs for the short term capacity bookings, the natural gas consumers and, eventually households, are paying more than they would had if they had the chance and equal opportunities to source the gas for shorter periods.</p>	<p>Daily and Within-day products for particular summer months (July, August), prices for Monthly products for all summer months (June-August), as well as prices for Quarterly products for calendar quarters II and III at this point are foreseen to be even cheaper (in comparison to relative price derived from yearly product) for 2020 for both scenarios (Scenario 1 and Scenario 2). It should also be noted, as it was explained in the Consultation Document, that general effect out of application of foreseen multipliers and seasonal factors on short-term capacity products' tariffs (compared to tariffs as of 2019) – significant lowering of short-term prices (by averagely ca. 40 % for Quarterly and Monthly products and ca. 20 % for Daily/Within-day products at Domestic and Šakiai Exit points (especially at peak winter (as seasonal factors at these points are applied) season), ca. 10 %, 20 % and 30 % respectively for Quarterly, Monthly and Daily/Within-day products at Entry points (where difference between Within-day tariffs under the 2 scenarios exists), ca. 10 % for Quarterly and Monthly products at Kiemėnai Exit Point). Therefore, having regard to the above, the proposed pricing of Lithuanian TSO's services from 2020 is being constructed in a way to provide more flexibility to network users and consumers.</p>
<b>Klaipėdos nafta:</b>		
16.	<p>AB Klaipėdos nafta (hereinafter - the Company) notes that it supports the integration of tariffs of the Lithuanian transmission system with FINESTLAT and zero entry and exit tariffs at the Kiemėnai entry/exit point on the both sides of Lithuania and FINESTLAT. According to the Company's assessment, the second scenario would create</p>	<p>See explanations for comment No. 1.</p>

	<p>preconditions for more efficient use of the existing infrastructure, including the Inčukalns natural gas storage facility, which would create a positive value for all natural gas consumers in the region.</p>	
<p>17.</p>	<p>The Company provides proposals for both scenarios. The Company agrees with the arguments set forth in the consultation documents, which justify the need to apply a discount to the entry tariff at the Klaipėda Entry Point. At the same time, the Company proposes to increase the applicable discount rate to 100%, as the discount would encourage competition for the market participants to supply natural gas at competitive prices via the LNG terminal. Applying the discount, the value chain becomes relatively attractive in comparison with the supply of natural gas via pipeline. A lower discount rate could increase the attractiveness of Kotlovka entry point and weaken the impact of alternative supply on competition.</p> <p>The Company notes that the Tariff Network Code does not provide for limits of discount at the LNG terminal entry point. In addition, the rules for access to AB Amber Grid's transmission system (hereinafter – Rules) include a charge for ordered, but unused capacities at a price of 0 EUR / MWh (paragraphs 73-75 of the Rules) and therefore 100% discount would not pose a risk of unjustified capacity hoarding.</p>	<p>According the Methodology for the determination of the revenue and prices of the state regulated natural gas transmission activities (Article 33) Lithuanian NRA decides on the discounts application. We agree, that Tariff Network Code does not provide any limits for discount level, in order to have the most beneficial solution on LNG discount application, the proposal of higher discount on LNG entry point should be evaluated in details. The discount on Klaipeda LNG Entry point is applied in accordance with Article 9.2 of Tariff Network Code with the purpose of ending the isolation of Member States in respect of their gas transmission systems, and also for the purposes of increasing security of supply. The level of the proposed discount was estimated taking into account transmission tariffs on LNG point, regasification price and technological losses of regasification process, in order to increase the competition level on product prices and avoid the different import sources discrimination.</p> <p>Also, it should be noted, that 75 percent LNG discount level on Klaipėda entry point, it is the same level, which is applied for the current period's (2019) transmission tariffs on Klaipeda entry point. The decision on discount level for 2019 was made taking into account the detailed calculations.</p> <p>To sum up, the Lithuanian NRA needs more analysis on higher LNG discount application. If the mentioned</p>

		analysis presents more benefits for Lithuanian gas market, Lithuania NRA will consider this proposal.
<b>Conexus Baltic Grid:</b>		
18.	Consultation document foresees 75% discount applied at Klaipeda LNG terminal entry point. Such discount in combination with existing Lithuanian aid scheme in place to support the construction and operation of Klaipeda LNG terminal, in Conexus Baltic Grid opinion introduces misleading market signals about the actual costs of such alternative gas supply route.	See explanations for comments No. 11 and 12.
19.	<p>Consultation document proposes to introduce 70%-30% entry-exit split applied to the part of the allowed revenue attributable to the primary transmission network of AB Amber Grid. Taking into account that until 2022, when the Lithuanian-Polish gas interconnection pipeline (hereafter – GIPL) starts operations, Kiemenai will be the only exit point from the Lithuanian primary network to the adjacent transmission systems of other EU member states, Conexus Baltic Grid would like to indicate that the actual commercial flows via Kiemenai interconnection point (hereinafter – Kiemenai IP) were enabled solely due to the fulfilment of the project of common interest 8.2.3. “Capacity Enhancement of Klaipeda-Kiemenai pipeline in Lithuania” (hereafter – PCI No 8.2.3). Since its commissioning, the goal of the PCI No 8.2.3 was to eliminate a bottleneck in the gas transmission system and enable sufficient capacity to import and transport gas volumes from LNG terminal in Klaipeda, by this creating a possibility to enhance security of gas supply and decrease energy dependency on a single source of supply in the Baltic states, as well as to enhance competition in the gas market of the Baltic states.<sup>1</sup>  <i>(<sup>1</sup><a href="https://ec.europa.eu/inea/en/connecting-europe-facility/cef-energy/8.2.3-0001-lt-p-m-14">https://ec.europa.eu/inea/en/connecting-europe-facility/cef-energy/8.2.3-0001-lt-p-m-14</a>)</i></p> <p>Conexus Baltic Grid would like to remind that the PCI No 8.2.3 project was implemented with the contribution of the Latvian transmission system operator and in its view, this contribution must be reflected in the estimation of the entry-exit split and resulting calculation of the Kiemenai IP exit tariff especially for Scenario While permission to set the discount for entry point from LNG terminals is explicitly stated in the Article 9(2) of Commission regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas (hereafter – TAR NC), TAR NC does not hinder national regulatory authorities to set the entry/exit split in a way reflecting the actual circumstances. The most important ones in Conexus Baltic Grid opinion are the PCI No</p>	We would like to note, that decisions on cross-border cost allocation regarding the PCI project No. 8.2.3 “Capacity Enhancement of Klaipeda-Kiemenai pipeline (construction of gas pipeline Klaipeda-Kuršenai)” were made without making any assumptions on reduced tariffs. The expected commercial revenues were calculated based on average transmission tariffs. If a reduced tariff had been assumed, the cross-border costs compensations would have been higher.

	<p>8.2.3 contribution and fact that before substantial Kiemenai IP tariff increase in 2019, the Kiemenai IP was actively used by the Lithuanian shippers for portfolio optimization and lessening of the suppliers' market power influence. Thus, setting the appropriate entry-exit split, which would properly reflect the historical decisions regarding infrastructure development, cross-border cost allocation and contributions, goals to-be-reached behind them and market realities, would improve the prospects of reaching the goal of the PCI 8.2.3. of enhancing the competition among sources of gas, even in case if the Scenario 1 would be implemented.</p>	
20.	<p>Taking into account the position explained in Article item 2, Conexus Baltic Grid suggests to use above explained principle also for setting of entry and exit tariffs for GIPL in Scenario 1 or exit tariff at GIPL for Scenario 2.</p>	<p>In GIPL any evaluation of CBCA payments would just increase the tariffs from Lithuanian side, as the Lithuanian TSO is not receiving, but paying cross-border costs' compensation to the Polish TSO.</p>