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**Regarding Consultation on Methodology on Tariffs
Of AB Amber Grid for 2020-2023**

JSC "Latvijas Gaze" (hereafter – LG) has analyzed the consultation document "Consultation on Methodology on Tariffs of AB Amber Grid for 2020-2023" (hereafter – Document) published on 5th March 2019 by the Lithuanian National Regulatory Authority – National Commission of Energy Control and Prices (hereafter – Commission) and would like to draw the Commission's attention to the following issues:

1. Application of 75% Discount at Klaipeda LNGT Entry Point.

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 Article states that "*At entry points from LNG facilities.. ..a discount **may be** 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.

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.

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.

2. Discrimination and Distortion of Cross-Border Trade.

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.

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.

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 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'.

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 Kiemenai 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.

3. Regarding Parameters Used and Assumptions Applied.

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 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.

4. Regarding Multipliers and Limitation of Freedom of Choice for Lithuanian Consumers.

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.

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, respectively, keep the heating tariffs at their lowest, which eventually reflects as a saving for every household member.

Furthermore, the current system allows the consumer to book the long-term capacities only from January 1st until December 31st. 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.

Sincerely,

Head of Wholesale and Product
Development Division

J.Kalējs