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Finnish, Estonian and Latvian NRAs response to the consultation of tariff methodology and indicative 2020-2023 tariffs of Lithuanian TSO

On the 5th of March 2019 fulfilling the requirements of the Article 26(1) and 28(1) of the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter – TAR NC), National Control Commission for Prices and Energy of Lithuania published a document for the public consultation on the methodology for determining the tariffs of services provided by the Lithuanian natural gas transmission system operator AB Amber Grid (hereinafter – Consultation Document).

Finnish, Estonian and Latvian national regulatory authorities (hereinafter – FinEstLat NRAs) have reviewed the Consultation Document and would like to take the opportunity to express our appreciation to be able to share our views on the Consultation Document.

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.

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).

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.

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.

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.

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. 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.

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, 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 (see table below) through higher exit tariffs.

	TWh/d	Volumes transported at specific load factors (TWh/y)										
		100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
Technical capacity at Kiemenai entry point to FinEstLat and volumes transported	0,0676	25	22	20	17	15	12	10	7	5	2	0
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	0,00
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	0,00
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	0,00
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	0,00

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.

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).

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, 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.

In the conclusion FinEstLat NRAs would like to express their willingness to make every effort in order to achieve a final goal – integration of the four countries into joint natural gas market and natural gas transmission systems into common entry-exit system. FinEstLat NRAs are ready for further cooperation since the tariff proposal for Lithuanian entry-exit system with FinEstLat entry-exit system requires further discussions and exchange of opinions.