National Commission for Energy Control and Prices

Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission

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1. FOREWORD

In 2014, the electricity market of Lithuania, together with other markets of the region, was further gaining its maturity in view of the perspective of the development of the new interconnection links *NordBalt* with Sweden and *LitPol Link* with Poland. In November 2014, the Transmission System Operators (hereinafter – the TSO) of the Baltic States signed the *Memorandum on the Rules of the Calculation and Allocation of the Capacities of the Cross-Border Lines*, which in the essence reflects the provisions of the Agreement of 15 March 2013, by additionally providing for the minimum cross-border capacities with the third countries and the explicit auction for part of the capacities of Estonia-Latvia interconnection link. The mentioned Memorandum and the *Rules of the Calculation and Allocation of the Capacities of the Cross-Border Lines* set by the Memorandum were based on the results of the technical, socio-economical and the legal framework analyses, which had been performed by the TSOs. After receiving comments during the public hearing, the public clarifications of the provisions of the mentioned documents were made.

In the previous year, the issues of the integration of the European markets for the day-ahead and intraday trade were being solved as well. In November 2014, NASDAQ *OMX* proposed financial products for Latvia and, at the same time, for the trading zone of Lithuania for hedging against the market trade risks.

In 2014, as compared with 2013, the number of the market participants holding the independent electricity supply permits went up from 67 to 73, but the number of active suppliers went down from 25 to 18. At the Power Exchange *Nord Pool Spot AS* (NPS) the number of active participants in the day-ahead trade *Elspot* also dropped from 18 to 15, while in the intraday trade *Elbas* 6 participants invariably remained. In 2014, as compared with 2013, the quantity of electricity traded on the market respectively decreased by 25 percent, from 5271 GWh to 4224 GWh. The price of the basic load electricity in the day-ahead trade was further progressively increasing and reached 50.13 Eur/MWh, of the peak load electricity – 60.51 Eur/MWh.

In 2014, as compared with 2013, the electricity import in Lithuania went up 2.3 percent, export went down 74.9 percent, and the generated output decreased by 5.8 percent.

In the previous year, the electricity consumption grew by 3.2 percent, from 12.1 to 12.4 TWh. The installed capacity of the power plants increased by 0.2 percent, from 4356 to 4363 MW. This augmentation was predetermined by the 1.2 percent growth in the installed capacity of the power plants using renewable energy resources (RES). The share of the installed capacity of the RES power plants equalled 12.9 percent.

In 2014, the National Commission for Energy Control and Prices (hereinafter – the NCC) did not note any changes due to the implementation of the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 as well as Article 54 of the Law on Electricity of the Republic of Lithuania (hereinafter – the Law on Electricity). Abiding by the provisions of Articles 26 and 36 of the Law on Electricity, the NCC has been further continually supervising and controlling the compliance with the requirements of independence and unbundling by the designated transmission system operator and the distribution system operator in performing their activities as set forth in the Law on Electricity.

In 2014, the NCC completed the development of the Long-Run Average Incremental Cost Model (LRAIC) promoting the efficiency of the network and the long-term competition and thus creating benefits to the customers and other participants of the electricity sector. In August 2014, the NCC submitted the *Draft Description of the Principles of Setting the State-Regulated Prices in the Electricity Sector* to the Government of the Republic of Lithuania, and, in January 2015, the *Methodology for Setting the Price Caps of the Electricity Transmission, Distribution and Public Supply Services* was amended, and the results of the LRAIC model and of the performed audits of the costs of the transmission (*AB Litgrid*) and distribution (*AB Lesto*) operations were applied in

setting the price caps of the electricity transmission and distribution services for a new five-year regulation period of 2016–2020.

In April 2014, the NCC finished the research of the electricity production market conducted with an aim to investigate the efficiency of competition in the electricity production market and to identify the market participants having the dominating influence in this market. Based on the findings from the research of the Lithuanian electricity production market and the relevant decisions by the NCC, the total receivable amount of *AB Lietuvos energijos gamyba* subsidies of the public service obligations (hereinafter – the PSO) was reduced by the profit share surpassing the regulation profit expected to be earned in 2015 from the electricity production activity at Kruonis Pumped Storage Power Plant (KPSPP) and Kaunas Algirdas Brazauskas Hydro Power Plant (KHPP). Moreover, the part of the fixed costs was reduced as a result of the planned inspection conducted by the NCC at *AB Lietuvos energijos gamyba* for the period of 2010–2012, during which the revenues receivable by Lietuvos Power Plant of *AB Lietuvos energijos gamyba* were reduced by the specified amount, and part of the costs was evaluated with regard to the level of the costs in 2012, which was set during the inspection. A complaint against the NCC decisions was filed to court and now the legal proceedings are in progress.

On 1 August 2013, the NCC together with the regulatory authorities of other Baltic States started the investigation of the price jump at the Power Exchange *Nord Pool Spot* (hereinafter – the NPS), which had occurred on 25 June 2013, and the potential breach of Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (OJ L 326, p. 1) (hereinafter – the Regulation (EC) No 1227/2011). At that time the price, which had been forming in the electricity trading zones of Lithuania, Latvia and Estonia equalled 35.86 Lt ct/kWh or 103.85 Eur/MWh. It should be mentioned that in 2013 the average market price of electricity in Lithuania was 16.55 Lt ct/kWh or 47.93 Eur/MWh. Having received and summarized all relevant data from the NPS, the data analysis was performed the results whereof were discussed at the joint meeting of the interested parties held in Riga in October 2013. After analyzing the information, which was additionally received from the market participants, on 26 February 2014, the regulatory authorities provided their joint conclusion on the investigation to the Agency for the Cooperation of Energy Regulators (ACER). In the conclusion it was stated that the provisions of Regulation (EC) No 1227/2011 had not been breached, and the investigation was completed.

In addition to that, in October 2013, the NCC on its own initiative started the internal investigation on the variations in the market prices in 2Q 2013. The investigation was aimed at establishing whether the price level at the NPS in 2H 2013 had been predetermined by the *Agreement No SUT-64-13 on the Calculation of the Cross-border Electricity Transmission Capacities and the Principles of their Allocation in the Baltic States and with the Third Parties* signed among the Baltic States TSOs on 15 March 2013, or by some other objective reasons or the group thereof, and at investigating the behaviour of the market participants in the market during the respective time period in order to establish whether the market participants were not misusing the existing situation. On the basis of the analysis of the data obtained from various sources and the consistent research, the following essential conclusions were drawn: on 18 June 2013, the formation of the Baltic zone or the hourly trade in electricity at the NPS was completed, and the Agreement signed by the Baltic TSOs complies with the provisions set forth in Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 (hereinafter – the Regulation (EC) No 714/2009) and Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (hereinafter – the Directive 2009/72/EC), as well as with the objectives laid down in the *Baltic Energy Market Interconnection Plan* (BEMIP) aimed at establishing the common, competitive and coordinated internal market in the European Union (hereinafter – the EU). It should be separately mentioned that the regulatory authorities of the Baltic States had some remarks on the Agreement regarding the application of the equal treatment

principle, and provided their comments in the joint official letter addressed to the TSOs. It should be also noted that this Agreement and the capacity allocation mechanism set on the basis of this Agreement have been substantiated by the requirements on the system security, and with the separate electricity markets (trading zones) of the Russian Federation and the Baltic States and in the absence of the price signals and the joint distribution of the flows, this was the correct approach; moreover, the Agreement defined clear conditions for the capacity calculations, which reduce the probability of overloads and enable to reach compromises in using the interconnection capacities between the Baltic States' power systems.

After receiving the notification from the operator of the NPS, in October 2014, the NCC started the investigation on the potential breach of Article 3 of Regulation (EC) No 1227/2011 – trade by using publicly undisclosed inside information. The main objective of the investigation was to clarify whether *AB Lietuvos energijos gamyba* was allegedly trading by using the publicly undisclosed inside information. In performing the investigation the NCC was cooperating with the regulatory authorities of Latvia, Estonia, Norway, the operator of the NPS, the Competition Council of the Republic of Lithuania, and the State Energy Inspectorate under the Ministry of Energy of the Republic of Lithuania. Having completed the investigation, it was found out that on 30 June 2014 and 1 July 2014 *AB Lietuvos energijos gamyba* was trading at the Power Exchange by using the publicly undisclosed inside information, i.e. the undertaking, having in its disposition the publicly undisclosed inside information, put the trading orders, although it had no right to do so until this information was disclosed to other market participants. Consequently the operator of the Power Exchange and other participants could have incurred losses. The NCC by Resolution No O3-356 of 8 June 2015 made a decision to approve the investigation Report (confidential information). Besides, the NCC adopted a decision to initiate the procedure of imposing sanctions against *AB Lietuvos energijos gamyba* on the grounds of trading at the Power Exchange by using the publicly undisclosed inside information and thus breaching the requirements of Regulation (EC) No 1227/2011. Currently the procedure of imposing sanctions is in progress.

After approving the list of nearly 250 Projects of Common Interest (PCI) by the European Commission in October 2013, under which the projects important for the integration of Lithuania into the EU gas and electricity markets had fallen as well, at the end of 2013 and during the first half of 2014, the consultations of the respective regulatory authorities and the transmission system operators were held on the allocation of the investment costs. In July 2014, the consultations regarding the PCI for the electricity interconnection LitPol Link between Lithuania and Poland were held at the NCC among the regulatory authorities of Lithuania, Poland, Finland, Germany, Latvia, Sweden and Norway. When the regulatory authorities of the mentioned countries had failed to make a decision on the allocation of the costs of this project, ACER was committed to make the decision on sharing the investment costs among the countries. The decision made by ACER, whereby the financing of the LitPol Link project with the assistance of other countries had been excluded, was announced in April 2015. Following the decision made by ACER, *AB Litgrid* applied to the Connecting Europe Facility (CEF) regarding grants for the interconnection project LitPol Link. In July 2015 the amount of CEF allocated to this interconnection equalled to 27.4 mln. Eur.

In 2014, natural gas was imported not only by *AB Lietuvos dujos*, *UAB Dujotekana*, *UAB Haupas*, *AB Achema*, *UAB Kauno termofikacijos elektrinė*, but by *UAB Litgas* well. In 2014, natural gas was imported to Lithuania from the Russian undertaking *OAO Gazprom*, and *UAB Litgas* procured the LNG consignment assigned for the commissioning of the LNG terminal from the company *Statoil*. *UAB Dujotekana* imported natural gas from the trade intermediary *LT GAS Stream AG*.

In 2014, the market participants operating in the market of the natural gas import imported 4.4 percent less of natural gas than in 2013. The price drop of the alternative types of fuel (heavy fuel oil with 1 percent sulphur content and 0.1 percent gas oil) as well as the discount on the import price of *AB Lietuvos dujos* since 1 May 2014 received after the negotiations with *OAO Gazprom* predetermined the weighted price of natural gas import, which was 11.7 percent below the price of 2013.

In 2014, as compared with 2013, the volumes of the natural gas transit went down 3.6 percent, the transmission to the domestic customers – 3.9 percent. These factors predetermined the decrease in the total transmitted quantities by 3.8 percent.

In 2014, the distributed natural gas quantity was 13.4 percent below the distributed quantity of 2013. The biggest share of the distribution market – 98.2 percent – was held by *AB Lietuvos dujos.*

Since 2014, the market participants (legal or natural persons) concluding transactions in one or more wholesale energy markets where the wholesale trade in energy products is performed, including natural gas supply agreements, and consuming more than 600 GWh, are assigned to the wholesale natural gas supply market. Having recalculated the wholesale market of 2013 in accordance with these requirements, it was determined that the quantity of natural gas sold in the wholesale market in 2014 is 0.12 percent (2090.1 million m^3) above the quantity sold in 2013.

In 2014, the licenses of the natural gas market operator were held by the same 2 undertakings as in 2013 – *BALTPOOL UAB* and *UAB GET Baltic.* In 2014, 22 participants were registered at the Natural Gas Exchange operated by *BALTPOOL UAB,* i.e. 4.4 times more than in 2013, when there were only 5 participants. The number of the participants of the Natural Gas Exchange operated by *UAB GET Baltic* was consistently growing as well– at the end of 2014 there were 44 registered participants, i.e. twice as much as in 2013.

In 2014, in the retail natural gas market 637 million m^3 of natural gas were supplied, i.e. 8 percent less than in 2013. In 2014, as compared with 2013, the supply to the non-household customers dropped by 9.6 percent, to the household customers – by 2.62 percent

To implement the requirements on unbundling the activities, since 1 August 2013 the natural gas transmission activity has been undertaken by the newly established undertaking *AB Amber Grid*. The newly established undertaking *AB Amber Grid* took over all rights and responsibilities of *AB Lietuvos dujos*, which were related to the natural gas transmission activity, and submitted the NCC an application to issue a temporary natural gas transmission license. By the Resolution of 18 July 2013 the NCC withdrew the license of the natural gas transmission activity held by *AB Lietuvos dujos* and issued to *AB Amber Grid* the temporary natural gas transmission license, which was valid from 1 August 2013 till the date of the NCC decision on the certification of the natural gas transmission operator.

In May 2014, *UAB EPSO-G*, whose 100 percent of the shares by the right of trust are managed by the Ministry of Energy of the Republic of Lithuania, acquired 38.91 percent of *AB Amber Grid* shares from *E.ON Ruhrgas International GmbH*, and *UAB Lietuvos Energija*, whose 100 percent of the shares by the right of trust are managed by the Ministry of Finance of the Republic of Lithuania, acquired 38.91 percent of *AB Lietuvos dujos* shares held by *E.ON Ruhrgas International GmbH.*

In June 2014, *UAB EPSO-G* concluded the transaction with *OAO Gazprom* on buying out 37.10 percent of *AB Amber Grid* shares, and *UAB Lietuvos energija* concluded the transaction with OAO *Gazprom* on buying out 37.10 percent of *AB Lietuvos dujos* shares.

To proceed with the unbundling of the operations and control over them, on 20 October 2014, *AB Amber Grid* submitted an application to designate *AB Amber Grid* to act as the transmission system operator and to issue an open ended license for the natural gas transmission activity. Having evaluated the documents, data and the information submitted by the transmission system operator evidencing its compliance with the requirements embedded in the Law on Natural Gas of the Republic of Lithuania (hereinafter – the Law on Natural Gas), the NCC by the Resolution of 15 January 2015 stated that the unbundling of *AB Amber Grid* transmission activity complies with the provisions of Articles 40 – 42 of the Law on Natural Gas and *AB Amber Grid* can be designated to operate as the transmission system operator.

On 26 January 2015, the Commission informed the European Commission about the adopted preliminary decision and submitted all available data. On 26 March 2015, the NCC received the European Commission's Opinion of 23 March 2015 regarding the unbundling of *AB Amber Grid*, whereby the European Commission was dissatisfied that *AB Klaipėdos nafta*, whose

70.63 percent of the shares are held by the Ministry of Energy, holds 33.3 percent shares of *UAB Litgas* performing the supply activity. The European Commission advised the NCC to certify *AB Amber Grid* only on condition that all shares of *UAB Litgas*, which are held by *AB Klaipėdos nafta*, will be transferred.

When the shareholders of *AB Lietuvos dujos* have changed, the previously set method of unbundling the distribution and supply activities *AB Lietuvos dujos* was amended. It was decided to establish an undertaking performing the natural gas supply activity, which will be controlled by *UAB Lietuvos Energija*, by transferring to this undertaking a part of *AB Lietuvos dujos* supply activity together with the related assets, rights and liabilities. *AB Lietuvos dujos* continues the natural gas distribution activity, maintains the natural gas distribution licence, the proprietary and other rights to the assets necessary to perform the distribution activity, other rights, liabilities, employees, etc., and also, as prescribed by the Law on Natural Gas, performs the activity of the guaranteed natural gas supply.

On 2 September 2014, a new natural gas supply undertaking *UAB Lietuvos dujų tiekimas*, to which the supply activity of *AB Lietuvos dujos* was transferred, was registered in the Register of Legal Persons. On 13 October 2014, the NCC issued the natural gas supply license to *UAB Lietuvos dujų tiekimas*, and resolved that till the end of 2014 the same tariffs will be valid to the household customers, which for 2H 2014 were approved by the NCC to *AB Lietuvos dujos*.

The unbundling of control over the transmission activity was completed by 31 October 2014, and the natural gas distribution activity of *AB Lietuvos dujos* was unbundled legally, functionally and from the organizational point of view.

In preparing this Report, the NCC referred to the periodic reports submitted to the NCC by the undertakings operating in the electricity and natural gas sectors and other materials as well as the data submitted by other institutions. In the Report the main development stages of the electricity and natural gas markets are overviewed, the key problems in these sectors are specified.

Acting Chair  Darius Biekša

2. KEY EVENTS IN ELECTRICITY AND NATURAL GAS MARKETS

2.1. Electricity sector

2.1.1. Unbundling of the vertically integrated undertakings

On 26 October 2013, the information about the final decision adopted by the NCC regarding the designation of *AB Litgrid* to operate as the TSO as complying with Article 10 of Directive 2009/72/EC was published in the EU Official Journal C 312. In 2014, there were no changes related to the implementation of the provisions of the Law on Electricity concerning the unbundling of the operations performed by the electricity undertakings *AB Litgrid* and *AB Lesto* or the control over these undertakings. The NCC, abiding by the provisions of Articles 26 and 36 of the Law on Electricity, has been continually supervising and controlling the efficient unbundling of the operations in order to ensure the independence of the transmission and distribution activities from the commercial interests of the production and supply activities and to avoid cross-subsidizing of these activities.

2.1.2. Reliability of supply

Every year the Lithuanian Power System (hereinafter – the LPS) imports approx. two thirds of electricity required to cover the domestic demand. In 2014, the electricity quantity imported to Lithuania was 2.3 percent above that of 2013, and nearly half of this quantity consisted of the electricity flow from the third countries.

In the previous year, the total installed capacity of the power plants slightly increased due to the development of the power plants using RES, but it is being planned to have the interconnection lines with Sweden and Poland at the end of 2015, which would contribute to the reliability of supply in the LPS and stronger competition in the Baltic Regional Market.

In 2014, as compared with 2013, the investments in the electricity transmission sector increased by 67.4 percent. The investments in the strategic projects increased by 75.8 percent, in the network development – 37.5 percent, in the connection of new customers –22.6 percent, other investments grew twice. Respectively, the investments in the electricity distribution sector increased by 19.8 percent, from which the part of the investments in the network development grew 2.3 times.

AB Lesto has been focusing its attention on the development and modernization of the network. In 2014, the biggest augmentation was in the investments in the reconstruction of the 0.4-10 kV electricity network (81.7 percent). In 2014, the number of the newly connected customers by the undertaking by 28 percent surpassed the respective number in 2013. The available capacity of the facilities of the newly connected customers was 13 percent above that of 2013.

In 2014, *AB Lesto* has been further buying out the electricity networks of the gardeners' partnerships with an aim to satisfy the increasing electricity demand by the gardeners and their needs for the maintenance of the infrastructure. In 2014, the undertaking bought out the electricity networks of 5 gardeners' partnerships. From the beginning of the buying out process in 2003, *AB Lesto* bought out 939, or 97 percent of the total electricity networks of the gardeners' partnerships.

By January 2015, the works of the network modernization and development were completed in 75 gardeners' partnerships and other 35 sites, to which the support from the EU structural funds had been allocated.

On 13 December 2013, the undertaking signed the Financing and Administration Agreement for the project *Replacement of AB Lesto Unit-Type Substations by Pole-Mounted Substations.* According to the Agreement, the support from the EU structural funds was assigned to finance the project. In the course of the project, by performing the works of the network modernization, 724 physically worn and obsolete unit-type substations will be replaced by modern pole-mounted substations. This will enable to satisfy the growing loads and the requirements of the reliability and quality of electricity supply. The works will be performed in the entire territory of Lithuania. The planned to be implemented project will also contribute to the development of the regions. By

January 2015, the public procurement procedures were completed and the works were commenced, 94 substations were replaced.

Abiding by the *Procedure Regulations for the Assessment and Approval of Investments of Energy Undertakings at the National Commission for Energy Control* and *Prices*, the undertaking prepares the *Long-term Program of Investments in the Regulated Activity* for a regulation period. The current regulation period is 2011–2015. The value of the investments planned to be made in 2015 is Eur 115.8 million.

By implementing the provisions of Article 19 of the Law on Electricity, the NCC for the second consecutive time prepared the *Report on the Assessment of the Reliability of the Lithuanian Power System* for 2013. Having completed the modelling of the reliability (adequacy) of the electricity transmission system in accordance with the SISYFOS (*Simulation of System's Security of Supply*) method and after comparing the obtained results with the actual ones and having completed the evaluation by the experts it was stated that at present the LPS reliability is ensured.

2.1.3. Competition in the electricity supply market and market monitoring

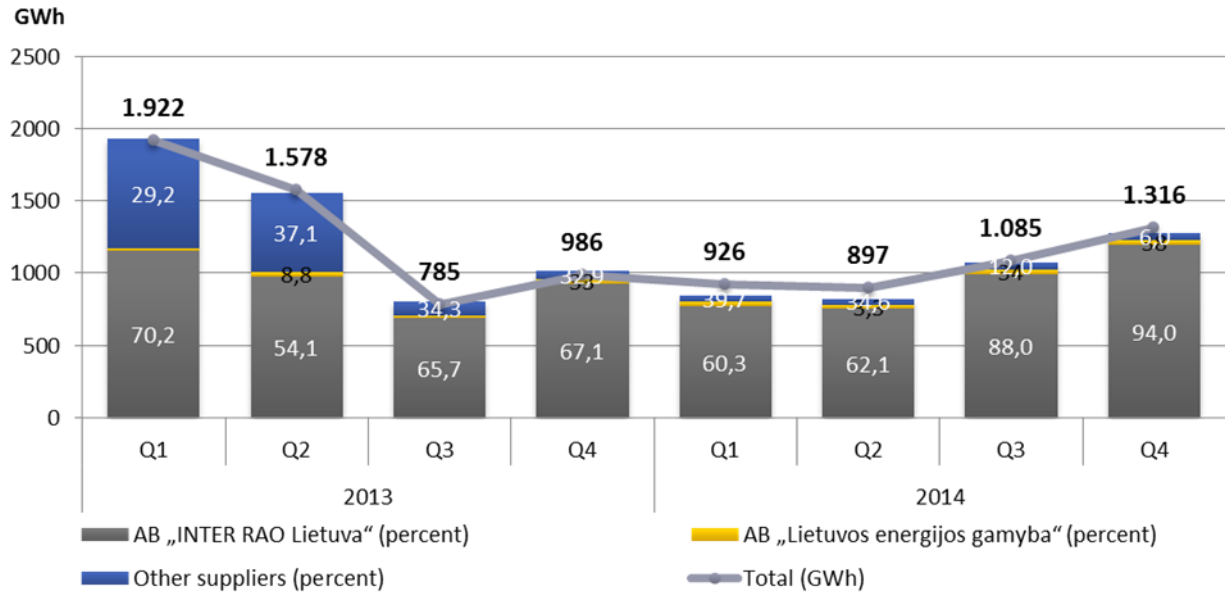
In November 2014, the *Nasdaq OMX* financial risk management framework started functioning in Latvia and in Lithuania as well. This evidences further interest and activity of the market participants in the electricity supply market.

In the previous year, abiding by the *Rules on Issuing Permits for the Activity in the Energy Sector*, the NCC issued permits to perform the activity of the independent electricity supply to 9 undertakings, 2 permits were adjusted and permits to 3 undertakings were suspended due to their failure to meet the NCC obligation to improve their financial capability ratios so that they would be equivalent or surpass the minimum threshold of the normative financial capability ratio set by the NCC on the supply activity in the electricity sector. In all, in 4Q 2014, seventy three companies had a right to perform the activity of the independent electricity supply.

In 2014, 4224 GWh of electricity were traded at the Power Exchange, i.e. 24.8 percent less than in 2013 (5271 GWh). In 2014, the active operations of independent electricity supply were performed by 18, in 2013 – by 25 independent suppliers.

In 2014, the electricity quantity sold by *AB INTER RAO Lietuva* made up 88 percent (16.7 percent more than in 2013) of the total electricity sales at the Power Exchange. In 2014, the sales by *AB Lietuvos energijos gamyba* made up 7.9 percent (7.8 percentage points more than in 2013) of the total electricity sales at the Power Exchange.

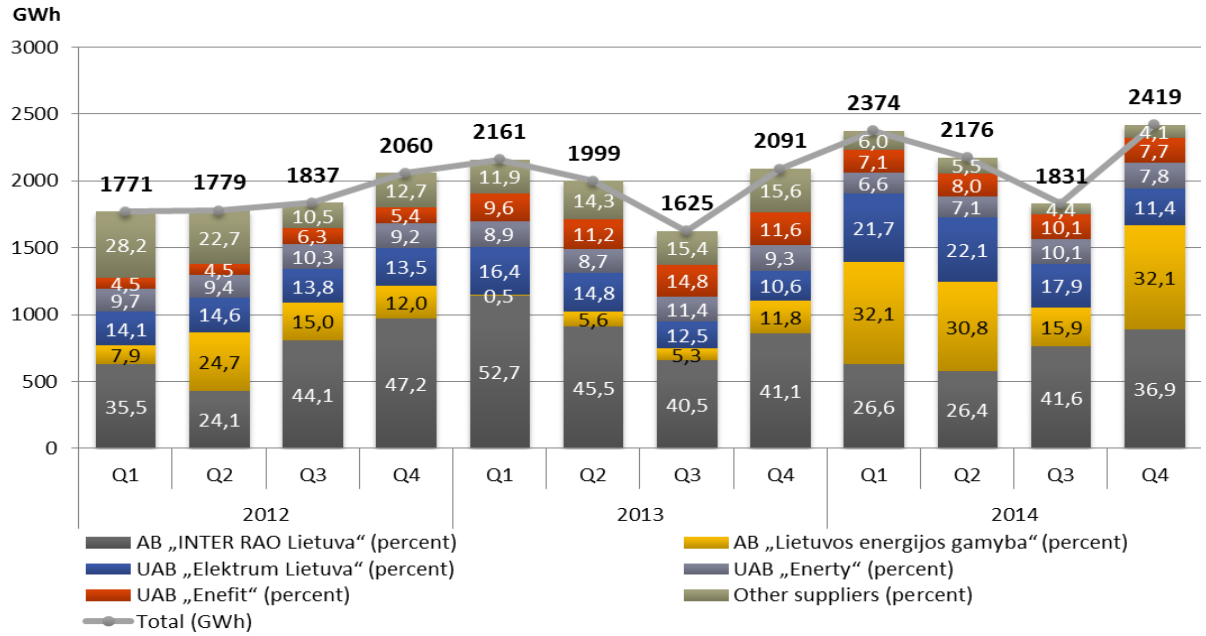
Figure 1. The structure of the sales market at the Power Exchange by companies, 2013–2014



Source – the NCC.

In 2014, the electricity quantity purchased by *AB INTER RAO Lietuva* made up 32.5 percent of the total purchased electricity quantity at the Power Exchange. In 2014, as compared with 2013, the biggest growth was of the market share held by *AB Lietuvos energijos gamyba* – by 22.6 percentage points, from 5.8 to 28.4 percent, the biggest decrease was of the market share held by *AB INTER RAO Lietuva* – by 12.8 percentage points, from 45.3 to 32.5 percent.

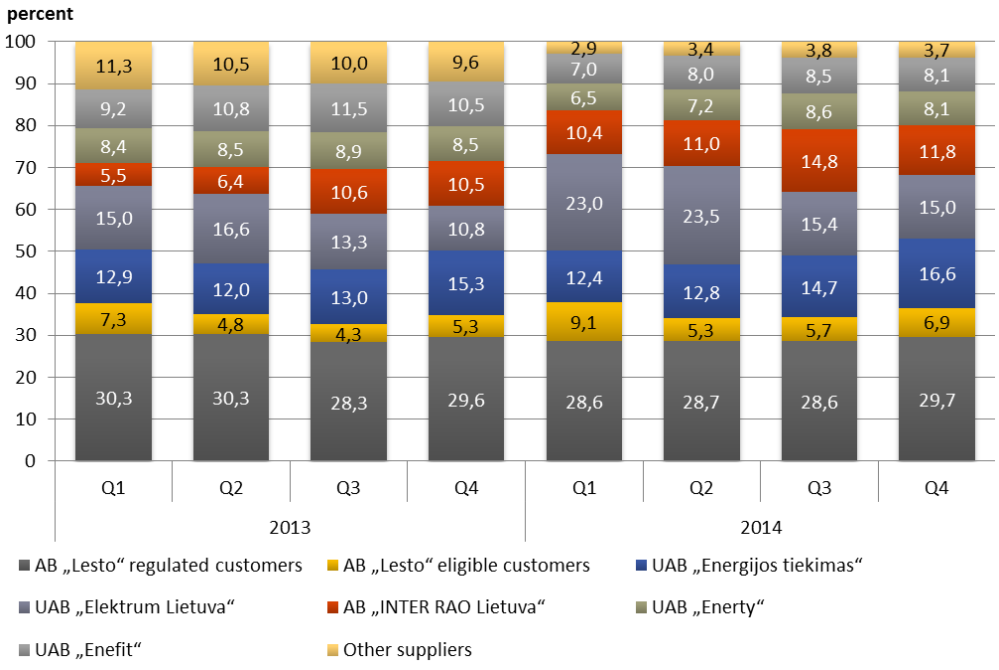
Figure 2. The structure of the electricity purchases at the Power Exchange by suppliers, 2012–2014



Source – the NCC.

In 2014, as compared with 2013, in the structure of the retail supply market the share held by *AB LESTO* increased by 0.6 percentage points, from 35.1 up to 35.7 percent. Among the independent electricity suppliers in 2014, as compared with 2013, the biggest decrease was in the market share held by *UAB Enefit* – by 2.6 percentage points, from 10.5 to 7.9 percent, and the biggest growth occurred in the market share of *UAB Elektrum Lietuva* – by 5.4 percentage points, from 13.9 to 19.3 percent.

Figure 3. The structure of sales in the retail market by suppliers, percent, 2013–2014



Source – the NCC.

To increase the awareness of the market participants and to ensure that the market participants would have access to the reliable information, in 2014 the NCC prepared the *Market Monitoring Reports* for 2012 and 2013 and posted them on the NCC website www.regula.lt. Since 2014 these Reports have been posted every quarter. In the reports the electricity production, import, transmission, distribution and supply markets are analyzed.

Abiding by Articles 8 and 26 of the Law on Energy of the Republic of Lithuania (hereinafter – the Law on Energy), Article 64 of the Law on Electricity and Article 13 of Regulation (EC) No 1227/2011, the NCC supervises the level of the market opening and the efficiency of competition in the wholesale and retail trade, cooperates with other competent institutions of the Republic of Lithuania, other member states or the EU in developing the competitive and well-functioning regional electricity and natural gas markets in the EU and the Baltic Sea Region and has to ensure the application of the restrictions set forth in Articles 3 and 5 of Regulation (EC) No 1227/2011 to trade by using publicly undisclosed inside information and to manipulate with the market.

Pursuant to the Law on Electricity (the new revision of 7 February 2012), the NCC is committed to perform the market researches, which would enable to ensure the efficient competition in the energy sector and to prevent the misuse of the influence in the market by entities having the outstanding influence in the respective market. To protect the legitimate interests of the customers and to promote the efficient competition, the individual price control measures can be applied to an entity having the outstanding influence in the market side by side with the commitments to justify the prices by the costs or by the prices set in the benchmarked markets.

In April 2014, the NCC completed the research of the electricity production market in Lithuania, and by Resolution No O3-757 of 7 August 2014 recognized one entity – *AB Lietuvos energijos gamyba* as having the outstanding influence in the electricity production market. Currently the legal proceedings are in progress.

On 26 February 2014, the NCC together with the regulatory authorities of other Baltic States finished the investigation of the price jump at the NPS, which had occurred on 25 June 2013, and the potential breach of Regulation (EC) No 1227/2011 and submitted to ACER the joint conclusion of the investigation stating that the provisions of Regulation (EC) No 1227/2011 had not been breached and the investigation was completed.

On 18 April 2014, the NCC announced the conclusions of the investigation on the price variations in the wholesale electricity market in 2H 2013. The investigation was aimed at establishing whether the price level at the NPS in 2H 2013 had been predetermined by the *Agreement No SUT-64-13 on the Calculation of the Cross-border Electricity Transmission Capacities and the Principles of their Allocation in the Baltic States and with the Third Parties* signed among the Baltic States TSOs on 15 March 2013, or by some other objective reasons or the group thereof, and at investigating the behavior of the market participants in the market during the respective time period in order to find out whether the market participants were not misusing the existing situation. On the basis of the analysis of the data obtained from various sources and the consistent research, the following essential conclusions were drawn: on 18 June 2013, the formation of the Baltic zone or the hourly trade in electricity at the NPS was completed, and the Agreement signed by the Baltic TSOs complies with provisions set forth in Regulation (EC) No 714/2009 and Directive 2009/72/EC, as well as with the objectives laid down in the *Baltic Energy Market Interconnection Plan* (BEMIP) aimed at establishing the common, competitive and coordinated internal market in the European Union. The confidential materials of the investigation were submitted to the Energy Commission of the Seimas of the Republic of Lithuania, the Special Investigation Service, the Ministry of Energy and the Competition Council.

In October 2014, after receiving the notification from the operator of the NPS, the NCC started the investigation on the potential breach of Article 3 of Regulation (EC) No 1227/2011 – trade by using publicly undisclosed inside information. The main objective of the investigation was to clarify whether *AB Lietuvos energijos gamyba* was allegedly trading by using the publicly undisclosed inside information. In performing the investigation the NCC was cooperating with the regulatory authorities of Latvia, Estonia, Norway, the operator of the NPS, the Competition Council

of the Republic of Lithuania, and the State Energy Inspectorate under the Ministry of Energy of the Republic of Lithuania. After completing the investigation it was found out that on 30 June 2014 and 1 July 2014 *AB Lietuvos energijos gamyba* was trading at the Power Exchange by using the publicly undisclosed inside information, i.e. the undertaking, having in its disposition the publicly undisclosed inside information, put the trading orders, although it had no right to do so until this information was disclosed to other market participants. Consequently the Power Exchange operator and other participants could have incurred losses. The NCC by Resolution No O3-356 of 8 June 2015 adopted a decision to approve the investigation report (confidential information). Besides, the NCC made a decision to initiate the procedure of imposing sanctions against *AB Lietuvos energijos gamyba* on the grounds of trading at the Power Exchange by using the publicly undisclosed inside information and thus having breached the requirements of Regulation (EC) No 1227/2011. Currently the procedure of imposing sanctions is in progress.

It should be mentioned that no less than once in six months the meetings of the National Committee for the Development of the Common Baltic Electricity Market are held and are attended by the representatives of the state authorities, market participants and the related associations. At the meetings the relevant information is exchanged and the problematic issues are solved by analyzing their reasons, and the steps to be taken to accomplish the efficient operation and development of the electricity market are planned.

2.1.4. Preparation of the secondary legislation enforcing the Law on Electricity

In 2014, the NCC prepared, revised and approved the following legal acts:

1. **The Methodology for Setting the Price Caps of the Electricity Transmission, Distribution, Public Supply Services and the Public Price** (*approved on 15 January 2015, No O3-3);*

2. **The Methodology for Setting the Price of Electricity and the Prices of the Services of Maintaining the Reserve Capacity** *(approved on 17 October 2014, No O3-849 and 12 December 2014, No O3-938);*

3. **The Methodology for Setting the Price of the Public Service Obligations in the Electricity Sector** *(approved on 17 October 2014, No O3-851)*;

4. **The Methodology for Setting the Rates of Connection of Electric Equipment to the Electricity Network** *(approved on 30 September 2014, No O3-819).*

Last year the NCC submitted proposals for the following legal acts:

1. The Draft Resolution of the Government of the Republic of Lithuania **Re: The Approval of the Description of the Principles for Setting the State-Regulated Prices in the Electricity Sector**;
2. **Amendments of the Rules on Issuing Permits for the Activity in the Energy Sector** to be approved by the Order of the Minister of Energy;
3. The Draft Resolution of the Government of the Republic of Lithuania **Re: Approval of the Procedure Regulations for Applying Additional Guarantees to Socially Vulnerable Electricity Consumers or Their Groups**;
4. The survey performed by the order of the Ministry of Energy **The Benchmarking Analysis of the Public Service Obligations' Regulation in Lithuania and Other Member States and Determining the Optimum Framework for Lithuania**;
5. **The Drafts of the Law Amending the Law on Electricity No VIII-1881, the Law Amending Articles 3, 20 and 42 of the Law on Energy from Renewable Resources No XI-1375, the Law Amending the Law on Energy No IX-884;**
6. **The Draft Law Amending Articles 9, 30, 31, 33, 49, 57 and 67 of the Law on Electricity No VIII-1881**;
7. **The Compliance Program of AB Lesto.**

2.1.5. Pricing the regulated activities, setting the transportation prices and connection rates

The NCC prepares and approves the Methodologies for setting the state-regulated prices, sets (adjusts) and approves the price caps of the regulated activities, publicizes the electricity tariffs. Pursuant to the Law on Electricity, the NCC sets the transmission and distribution price caps for a five-year period. The NCC also verifies whether the specific prices of the regulated services set by the electricity undertakings do not exceed the set price caps and do not discriminate the individual groups of customers.

Every year, the price caps of the electricity transportation service are revised by taking into consideration the coefficients of the impact of quantity, the unpredicted changes, the indexation and the adjustment. The impact of the quality indicators in providing the network services and the principles of the profit sharing calculation are evaluated as well.

Whereas due to the abrupt decision of the Government on the Principles in the field of the electricity prices the five-year regulation period was extended by 2015, the initial level of the revenues set for 2011–2014 was recalculated for the year 2015, and the price caps of the supplied services were set. The price caps of the electricity transportation service for the regulation period of 2011–2015 and the recalculated prices for 2015 are provided in the Table.

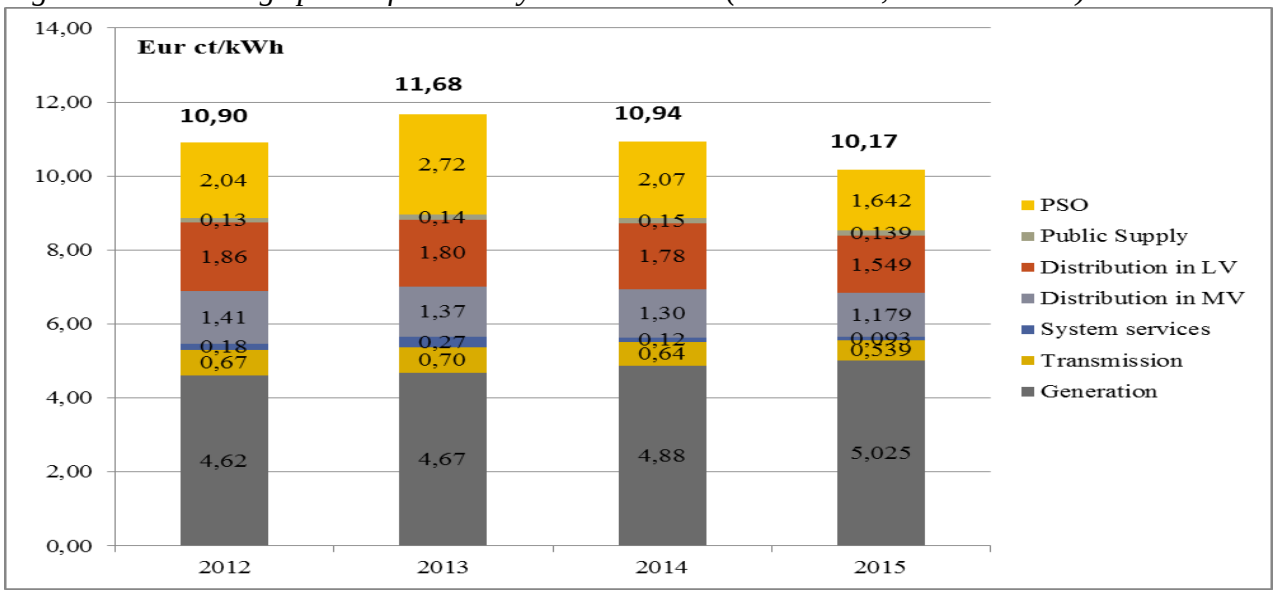
Table 1. The price caps of the electricity transportation service in 2011–2015 (Lt ct/kWh)

Indicators	AB Litgrid	AB Lesto	
		Medium voltage network	Low voltage network
The price caps of the transportation service set for 2011–2015	2,32	4,89	6,39
The price caps of the transportation service recalculated for 2015	1,858	4,068	5,351

Source – the NCC.

By taking into consideration that according to the *Development Plan of the Lithuanian Electricity Market* in 2015, like in 2014, only the household customers will pay at public tariffs, having estimated all components of the electricity price, the price cap of the public electricity price for 2015 was calculated to the household customers, whereby the transportation services, the price of the public supply service, the PSO and the price of purchased electricity were taken into account. The dynamics of the public electricity prices in 2012–2015 is provided in the Figure.

Figure 4. The average price of electricity in 2012–2015 (Eur ct/kWh, VAT excluded)



Source – the NCC.

In 2015, as compared with 2014, the public prices decreased by 7.1 percent.

No later than by 30 April of the current calendar year the NCC calculates, approves and posts on its website the rates of connection of the customers' equipment. The NCC sets the new connection rates if, as compared with the valid ones, the new connection rates have been adjusted by 3 percent or more.

In September 2014, with an aim to simplify the conditions of connection of the customers' equipment to the network and to ensure the prorated procedure for calculating the connection fees, the NCC revised the *Methodology for Setting the Rates of Connection of Electric Equipment to the Electricity Network*. The main amendments in the document are as follows:

- the division of the customers into groups has been adjusted – instead of 4 groups there are 3, by respectively adjusting the limits of the available capacity (the maximum available capacity remained unchanged – 500 kW). Thus it is being pursued to have simpler and clearer calculation of the connection fees;
- in calculating the connection fee the use of the total available capacity has been withdrawn in the cases when a customer is replacing a single-phase feeder to a three-phase feeder, and vice versa, and at the same time he is changing the available capacity – then the connection fee paid by the customer will reflect the real costs incurred by the operator;
- the 40 percent discount on the connection fee has been set to those household customers, who organized the engineering works to connect the customer's equipment to the network by paying from their own funds;
- the procedure for calculating the price of the network development per 1 kW has been specified in a more detailed way;
- a five-year period, during which the customers, who are being connected to the network, have to pay an additional fee for the network development, has been set – this will ensure a prorated cost allocation to the networks users;
- the procedure of payment for reducing the available capacity and changing the reliability category to the lower one after the expiration of less than 3 years has been amended by revoking the division of this time period into the period up to 2 years and the period from 2 to 3 years. The amount payable by the customer is calculated depending on the connection price of the equipment per 1 kW and the reduced or transferred to the lower category available capacity.

Every year, to ensure that the connection fees justified by the real operator's costs would be applied to the customers who are connecting their electric equipment to *AB Lesto* distribution network, the NCC evaluates and approves the rates of connection of the customers' electric equipment to the electricity network. The main adjustments from 1 June 2015 when the new connection rates approved by the NCC have been applied:

- Instead of 4 groups there are 3, by respectively adjusting the limits of the available capacity;
- The rate for the installation of the electricity network will not be calculated to the customers of Group I*.

As compared with the presently valid connection rates, the fee for the installation or increase of the available capacity has been reduced to all customer groups, but they will have to pay more for the installation of the electricity network. Most of all the reduction of the fees will be felt by the customers of Group II – their payments for the installation or increase of the available capacity will decrease by nearly 49 percent.

Table 2. The rates of connection of electricity customers' equipment to the electricity networks (100 percent), Eur, VAT excluded

Customer group	Rate for installing or increasing 1 kW of available capacity of electric equipment	Rate for installing 1 m of electricity network
Group I	28,13	-

Group II	126,59	21,78
Group III	52,10	22,52

Source – the NCC.

*Table 3. The rates of connection of electricity customers' equipment to the electricity networks to household and socially vulnerable customers**, Eur, VAT excluded*

Customer group	Rate for installing or increasing 1 kW of available capacity of electric equipment	Rate for installing 1 m of electricity network
Group I	5,63	-
Group II	25,32	4,36
Group III	10,42	4,50

*** indicated in the list approved by the Government or its authorized institution*
Source – the NCC.

*Table 4. The rates of connection of electricity customers' equipment to the electricity networks to other customers***, Eur, VAT excluded*

Customer group	Rate for installing or increasing 1 kW of available capacity of electric equipment	Rate for installing 1 m of electricity network
Group I	11,25	-
Group II	50,64	8,71
Group III	20,84	9,01

**** excluding the household customers or the customers who were indicated in the list approved by the Government or its authorized institution as socially vulnerable.*
** Customer groups:*
Group I *– the customers, whose available capacity of the electric equipment being connected or the capacity of the electric equipment being increased is below 50 kW and for connection thereof it is not necessary to install, replace or reconstruct the operator's electric facilities , it is not necessary to prepare the design for connecting the customer's electric equipment to the electricity network, or it is necessary to prepare such design, but, pursuant to Item 14 of the Procedure Regulations, it is prepared and conciliated by the customers themselves;*
Group II *– the customers, whose available capacity of the electric equipment being connected or the capacity of the electric equipment being increased is below 100 kW (excluding the customers of Group I);*
Group III *– the customers, whose available capacity of the electric equipment being connected or the capacity of the electric equipment being increased is from 100 to 500 kW (this being inclusive).*
Source – the NCC.

Pursuant to the provisions of the Law on Electricity, when the electric equipment of the household or socially vulnerable customers is being connected to the network, they will pay 20 percent, all other customers – 40 percent of the above indicated rates in Table 2.

2.1.6. International cooperation

The objective defined by the EU Council for 2011 – to complete the development of the internal energy market by 2014 and to achieve that after 2015 not a single EU member state would remain isolated from the integrated European gas and electricity networks – has made the biggest influence of the European agenda and the NCC activity in the area of its international cooperation in 2014.

In 2014, in the electricity sector the Network Code on Capacity Allocation and Congestion Management, the Network Code for Grid Connection of Generators, the Network Code on Demand

Connection were discussed at the Comitology Committee of the European Commission. The Network Code on Load Frequency Control and Reserves and the Network Code on Operational Security, regarding which ACER had submitted its recommendation in 2013, as well as the Network Code on Forward Capacity Allocation and the Network Code on High Voltage Direct Current Connections, regarding which ACER had submitted its recommendations in May and July 2014, were handed over for the revision by the European Commission. The ACER opinion on the Network Code of Electricity Balancing had been provided in March 2014, and after the European Network of Transmission System Operators for Electricity (ENTSO-E) had submitted to ACER the updated Network Code, ACER was planning to prepare its recommendations on this Network Code by the end of 2014, however in 2015 the discussions on this issue were further proceeded. The Network Code on Emergency and Restoration is under preparation at ENTSO-E and should be submitted to ACER in 2015.

The issues related to the Network Codes were discussed at the ACER Board of Regulators consisting of the Heads of the National Regulatory Authorities and other high-level officials. The NCC representatives took part not only in the meetings of the ACER Board and working groups, but in the jointly with ACER arranged meetings of the General Assembly and working groups of the Council of European Energy Regulators (CEER) as well.

CEER, like ACER, seeks to create the preconditions for and to promote the development of the single, efficient, competitive and sustainable internal EU energy market. In addition to that, CEER focuses its attention on the issues related to the consumers of energy services, and, as one of the energy associations, provides its opinions and recommendations on the relevant issues to ACER. In particular, in 2014, by cooperating between ACER and CEER, the ACER Conclusion Paper *Energy Regulation: A Bridge to 2025* was prepared. The mentioned document presents a vision of the energy markets operation by 2025, the objectives to be accomplished and the actions to be taken in order to implement this vision in the electricity and natural gas sectors, in the field of the consumer rights protection and the retail markets and well as in strengthening the role of the distribution system operators. The document also reviews the role of the national regulatory authorities and ACER in performing the supervision of the market and the entities operating in the market, the actions aimed at increasing the transparency of the activity of these regulatory authorities.

In 1H 2014, in the period of the Greek Presidency of the EU Council, the NCC actively contributed to the formation of the position of the Republic of Lithuania regarding the European Commission's Communication on the Energy Prices and Costs in Europe and the Communication on the Political Agenda for the Climate Change and Energy from 2020 to 2030, for discussions on the Strategy of the European Energy Security at the Energy Working Group of the EU Council and at the EU Transport, Telecommunications and Energy Council as well as in preparing the draft conclusion papers of the EU Council on energy prices, vulnerable customers and competitiveness.

In 2H 2014, in the period of the Italian Presidency of the EU Council, the NCC actively contributed to the formation of the position of the Republic of Lithuania regarding the European Commission's Communication on the Energy Efficiency and its Input to Energy Security and the Political Agenda for the Climate Change and Energy by 2030 as well as the Communication on the Short-Term Resilience of the European Gas System – Preparedness for a Possible Disruption of Supplies from the East during the Fall and Winter of 2014/2015 and the Communication on Progress towards Completing the Internal Energy Market at the Energy Working Group of the EU Council and at the EU Transport, Telecommunications and Energy Council as well as in preparing the draft conclusion papers of the EU Council on the completion of the internal energy market.

After approving the list of nearly 250 Projects of Common Interest (PCI) by the European Commission in October 2013, which also includes the projects important for the integration of Lithuania into the EU gas and electricity markets, at the end of 2013 and during 1H 2014, the consultations of the respective regulatory authorities and the transmission system operators were held on the allocation of the investment costs. In July 2014, the consultations regarding the PCI for the electricity interconnection line LitPol Link between Lithuania and Poland were held at the NCC

among the regulatory authorities of Lithuania, Poland, Finland, Germany, Latvia, Sweden and Norway. After the regulatory authorities of the mentioned countries had failed to make the decision on the allocation of the costs of this project, ACER was committed to make the decision on sharing the investment costs among the countries. The decision made by ACER, whereby the financing of the LitPol Link project with the assistance of other countries had been excluded, was announced in April 2015. Following the decision made by ACER, *AB Litgrid* applied to the Connecting Europe Facility (CEF) regarding financing of the mentioned interconnecting line. In July 2015 the amount of CEF allocated to this interconnection equalled to 27.4 mln. Eur.

On 29 October 2014, the European Commission adopted the decision regarding the allocation of the grants of the CEF fund to the PCI projects among which four strategic energy projects of Lithuania are included as well. The proposal to finance 50 percent of the costs of the feasibility study on the interconnection of the Baltic States power systems and big capacity generation sources for synchronous operation with the networks of continental Europe was approved.

In May 2014, the NCC was visited by the delegation from the Transport and Energy Audit Unit of the European Court of Auditors, which performed the preliminary study on the reliability of supply. The objective of the preliminary study performed in few selected countries was to collect the primary information about the operation of the common energy market, enforcement of the Third Energy Package, the main changes in the structure of the energy market in the recent years. In September 2014, the NCC was informed that on the basis of the information collected during the preliminary study, the European Court of Auditors decided to undertake the performance audit to verify whether by applying the measures of the EU internal energy market and financing the interconnection links and storage facilities the security of energy supply has been efficiently improved. In performing the audit, on 19–20 November 2014, the representatives of the European Court of Auditors visited the NCC, the Ministry of Energy, the gas and electricity TSOs of Lithuania. The scope of the audit – the BEMIP and projects in Bulgaria, Spain, Poland. The audited areas – the European Commission, regulatory authorities, regions/member states. The European Court of Auditors is planning to issue the audit report, prepared jointly with the European Commission, within one year.

The NCC has been a member of the Energy Regulators Regional Association (ERRA) since 2000, where it takes part in the meetings of the Consumers and Retail Markets Working Group, Licensing/Competition, Tariffs/Pricing and Chairmen Committees, where the NCC presents the main challenges and progress in the Lithuanian energy market, discusses the outstanding issues of the development of the sector. By uniting more than 30 members from the countries and organizations of Europe, Asia, North America and Africa, ERRA focuses on sharing the experience among the members of the organization, improving the qualification of the representatives of the members of the organization and the long-term training programs.

The NCC closely cooperates with the regulatory authorities and the TSOs of the neighbouring countries through the regularly arranged Baltic Electricity Market Mini-Forum, which twice per year by rotation is held in a different Baltic country. To create possibilities to the participants of the Forum to flexibly respond to the changing national regulatory environment, to take over the stimulating experience of other countries and to more quickly adopt it is their own work, on 7 November 2014 the Mini-Forum was arranged in Vilnius. In the event organized for the 18^{th} consecutive time, the regulators of the Lithuanian, Latvian, Estonian energy sectors, energy policy makers, TSOs, electricity producers, suppliers, traders, the representatives of the associations uniting energy undertakings and consumer organizations discussed the progress reached in the development of the energy market. Over 80 participants of the event also discussed the issues of calculating the capacities of new interconnection lines and their allocation rules, infrastructural projects, energy balancing, demand side management.

In February 2014, the NCC representatives visited Riga, Latvia, where the seminar, jointly arranged with the national regulatory authority of Latvia, on the supervision of the wholesale electricity market took place. During the one-day event the concept of the balancing energy, the

operation of the day-ahead market, network congestion management in the day-ahead market, intraday trade, electricity trading periods, financial instruments in the electricity markets were introduced.

2.2. Gas sector

2.2.1. Unbundling of vertically integrated undertakings

In 2014, having implemented the requirements of the Law on Natural Gas to unbundle the natural gas transmission activity from the supply activity by separating the ownership of the transmission system from the ownership of the natural gas undertakings performing the supply activity, the unbundling of *AB Lietuvos dujos* transmission, distribution and supply activities was completed. By implementing the *Plan of Unbundling the Activities of AB Lietuvos dujos* approved by the undertaking's Board in 2012, a new undertaking – the natural gas transmission system operator *AB Amber Grid* was established and took over all rights and liabilities of *AB Lietuvos dujos* related to the natural gas transmission activity, and from 1 August 2013 started the natural gas transmission operations. By 31 July 2013, the natural gas transmission activity was legally, functionally and from the organizational point of view separated from the supply activity. On 18 July 2013, the NCC issued to *AB Amber Grid* a temporary licence for the natural gas transmission activity, which was valid from 1 August 2013 till the NCC decision regarding the date of designation of the natural gas transmission operator.

In 2014, the unbundling of control over the transmission and supply activities was carried out. In March 2014, the Board of *AB Amber Grid* approved *the Preliminary Plan for Implementing the Unbundling of AB Amber Grid Control,* whereby it was planned to apply to the NCC for the approval of the transaction for reorganizing the control.

On 8 May 2014, *AB Amber Grid* informed the NCC that *UAB EPSO-G*, whose 100 percent of the shares by the right of trust are managed by the Ministry of Energy of the Republic of Lithuania, intends to acquire 38.91 percent of the *AB Amber Grid* shares from *E.ON Ruhrgas International GmbH*. By implemeting the requirements of the Law on Securities, *UAB EPSO-G* by the subsequent transaction intends to acquire the remaining shares of the undertaking, i.e. to acquire 100 percent of *AB Amber Grid* shares. *AB Amber Grid* requested the NCC to approve the mentioned transactions.

After analyzing the submitted information, the NCC found out that the intended transaction will reduce the control, as it has been set forth in Article 41, Paragraph 1 of the Law on Natural Gas, and this will enable to properly implement the unbundling requirements prescribed by Chapter 8, Unbundling the Operations and Accounts of the Law on Natural Gas. By the Resolution of 9 May 2014, the NCC approved the transaction for the transfer of the shares to be concluded between *UAB EPSO-G* and *E.ON Ruhrgas International GmbH*, and resolved that the intended transaction and the planed subsequent transactions cannot make any impact on the prices of the regulated services.

AB Lietuvos dujos, which at that time was also performing the supply activity, by its official letter of 12 May 2014 in writing informed the NCC that *Lietuvos energija UAB*, whose 100 percent of the shares are managed by the Ministry of Finance of the Republic of Lithuania, intends to acquire the shares of *AB Lietuvos dujos* managed by *E.ON Ruhrgas International GmbH*, and requested the NCC to evaluate whether the provision of Article 3, Paragraph 2 of the Law on the Enforcement of the Law on Natural Gas is applicable in the case of *AB Lietuvos dujos* and to adopt the respective decision. The NCC, after analyzing the documents and data submitted by *AB Lietuvos dujos* and *Lietuvos energija UAB*, justifying that the concluded transaction will reduce the control as it has been set forth in Article 41, Paragraph 1 of the Law on Natural Gas, by the Resolution of 19 May 2014 approved the transaction for the transfer of the shares to be concluded between *Lietuvos energija UAB* and *E.ON Ruhrgas International GmbH* as well as the planned acquisition of the shares of *AB Lietuvos dujos* by concluding the subsequent transactions pursuant to the

procedure set forth in the Law on Securities, and resolved that the intended transaction and the planned subsequent transactions cannot make any impact on the prices of the regulated services.

In June 2014, *UAB EPSO-G* concluded the transaction with *OAO Gazprom* on buying out 37.10 percent of *AB Amber Grid* shares, and *Lietuvos energija UAB* concluded the transaction with *OAO Gazprom* on buying out 37.10 percent of AB *Lietuvos dujos* shares. Thus the control over the natural gas transmission and supply activities have been actually separated and the requirement to unbundle the operations and control over them no later than by 31 October 2014, set forth in the NCC Resolution No O3-145 of 15 June 2012 *Re: The Action Plans for Unbundling AB Lietuvos dujos Transmission and Distribution Activities,* has been met.

In the *Action Plan of Unbundling the Activities of AB Lietuvos dujos*, which had been approved in 2012, to perform the distribution activity it was planned to establish a new subsidiary – a private limited company, the authorized capital thereof would be increased by transferring to the latter the natural gas distribution activity together with the assets, rights and liabilities allocated to this activity as a non-pecuniary contribution for the new shares to be issued by this subsidiary and signed by *AB Lietuvos dujos*.

After the changes of the shareholders of *AB Lietuvos dujos*, on 21 July 2014, the undertaking submitted to the NCC for its revision *the Amended Plan of Unbundling the Activities of AB Lietuvos dujos*, which had been approved by the Board of *AB Lietuvos dujos*.

In the Amended Plan it was proposed to unbundle the distribution and supply activities by transferring the part of the supply activity together with the assets, rights and liabilities allocated to this activity to the new private limited company to be established by the main shareholder of *AB Lietuvos dujos – UAB Lietuvos energija. AB Lietuvos dujos* would continue the natural gas distribution activity, maintain the natural gas distribution licence, the held proprietary and other rights to the assets necessary to perform the distribution activity, other rights, liabilities, employees, etc., and also, as prescribed by the Law on Natural Gas, would perform the activity of the guaranteed natural gas supply.

The chosen method of unbundling the distribution and supply activities was most compatible with the management model of the main shareholder's group and the strategy of operations, enabled to simplify the management of the individual subsidiaries and created conditions for easier consolidation of the activities in the future. Whereas the natural gas distribution activity was continued by AB *Lietuvos dujos,* the process of unbundling the operations became more simple because it was not required to return and then obtain a new distribution licence, to reregister in the name of another undertaking a big quantity of non-current assets, and a smaller number of the employees would have to be transferred.

The NCC by its Resolution of 28 July 2014 ordered to keep to the methods and deadlines set forth in the *Amended Plan of Unbundling the Activities* so that the legal, functional and the organizational unbundling of the distribution activity would be completed no later than by 31 October 2014.

On 2 September 2014, a new natural gas supply undertaking – *UAB Lietuvos dujų tiekimas*, to which supply activity of *AB Lietuvos dujos* had been transferred, was registered in the Register of Legal Persons. On 13 October 2014, the NCC issued to this undertaking the natural gas supply licence and by its Resolution of 30 October set forth that till the end of 2014 the same tariffs will be valid to the natural gas customers, which for 2H 2014 had been approved by the NCC to *AB Lietuvos dujos*.

By 31 October 2014, the unbundling of the control over the transmission activity was completed and the natural gas distribution activity of *AB Lietuvos dujos* was unbundled legally, functionally and from the organizational point of view.

On 20 October 20, *AB Amber Grid* submitted the application to designate *AB Amber Grid* to operate as the transmission system operator and to issue the open-end licence for the natural gas transmission activity. The NCC, after evaluating the documents, data and the information submitted by the transmission system operator on the compliance with the requirements set forth in Articles 40–42 of the Law on Natural Gas, by Resolution No O3-5 of 15 January 2015 *Re: The Preliminary*

Decision on the Unbundling of the Natural Gas Transmission Activity and Designation of the Transmission System Operator stated that the unbundling of *AB Amber Grid* transmission activity complies with the provisions of Articles 40– 42 of the Law on Natural Gas and *AB Amber Grid* can be designated to operate as the transmission system operator.

On 26 January 2015, the NCC informed the European Commission about the adopted preliminary decision and submitted all available data. On 26 March 2015, the NCC received the European Commission's Opinion C (2015) 2135 final of 23 March 2015 regarding the unbundling of *AB Amber Grid*, whereby the European Commission stated that it was not satisfied that AB *Klaipėdos nafta*, whose 70.63 percent of the shares are owned by the Ministry of Energy, holds 33.3 percent of the shares of *UAB Litgas* performing the supply activity. The European Commission advised the NCC to certify *AB Amber Grid* only on the condition that all shares of *UAB Litgas*, which are held by *AB Klaipėdos nafta*, will be transferred.

The NCC, having evaluated the Opinion provided by the European Commission, on 27 March 2015 addressed the Ministry of Energy and the Ministry of Finance, respectively having control over the natural gas transmission and supply activities, with the request to provide the information about the time period, during which, without exceeding the maximum twelve-month transitional period proposed by the European Commission, the shares of *UAB Litgas*, which are held by *AB Klaipėdos nafta*, could be transferred to the economic entity, which is neither directly nor indirectly controlled by the Ministry of Energy.

The Ministry of Energy, which indirectly controls *AB Amber Grid* and holds up to 1/3 of *UAB Litgas* shares, confirmed that it will take the necessary actions to transfer the shares of *UAB Litgas*, which are held by *AB Klaipėdos nafta*, to the economic entity, which is neither directly nor indirectly controlled by the Ministry of Energy. The Ministry of Finance informed that it will make all efforts and will search for the appropriate means to ensure the completion of the acceptable transfer of *UAB Litgas* shares, which are held by *AB Klaipėdos nafta*, within the time period not exceeding 12 months.

The NCC by Resolution No O3-242 of 10 April 2015 revoked the fixed-date natural gas transmission licence issued by the NCC to *AB Amber Grid* on 18 July 2013, and issued to *AB Amber Grid* the open-end natural gas transmission licence on condition that that the Ministry of Energy no later than within 12 months from the date of validity of the Resolution will take the actions to transfer the shares of *UAB Litgas*, which are held by *AB Klaipėdos nafta,* to the economic entity, which is neither directly nor indirectly controlled by the Ministry of Energy, as set forth in the Opinion by the European Commission.

2.2.2. The Liquefied Natural Gas Terminal project

In 2014, the NCC revised and approved the project of the Liquefied Natural Gas (LNG) Terminal.

Item 79 of the National Energy Independence Strategy, approved by Resolution No XI-2133 of 26 June 2012 of the Seimas of the Republic of Lithuania provides that the LNG terminal is the priority project in the natural gas sector in developing the natural gas market. *AB Klaipėdos nafta* was designated to act as the project development company by Resolution No 864 of 11 July 2012 of the Government of the Republic of Lithuania *Re: The Amendment of Resolution No 199 of 15 February 2012 of the Government of the Republic of Lithuania on the Construction of the Liquefied Natural Gas Terminal.* On 6 June 2014, *AB Klaipėdos nafta*, as the project development company, submitted to the NCC the project of the LNG terminal for its revision. In the submitted materials AB *Klaipėdos nafta* specified the legal acts and provided the documents justifying:

– the selection of the site of the LNG terminal;

– the choice of the technology, infrastructure and the optimal technical solution of the LNG terminal;

– the choice of the type of the floating storage and regasification unit and the key parameters;

– the costs of the design and construction works of the LNG terminal jetty; the technical parameters of the gas pipelines and the costs of the design and construction works;

– the schedule of implementation of the LNG terminal project;

– the cost estimates of the LNG terminal project;

– the financial capability indicators of *AB Klaipėdos nafta*.

AB Klaipėdos nafta indicated that after analyzing the available alternatives, the site selected for the LNG terminal is located in the southern part of Klaipėda state seaport, near Kiaulės Nugara Island. The LNG terminal consists of the floating storage and regasification unit, which is permanently moored alongside the jetty. To make the choice of the floating storage and regasification unit, the comprehensive analysis of the market was conducted and the newly constructed floating storage and regasification unit with 170 thousand m^3 storage capacity was selected. By arranging the public procurement procedure a Norwegian undertaking *Höegh LNG* was selected as the supplier of the facility. The project is financed from the loans of the European Investment Bank and Nordic Investment Bank with the state guarantee.

AB Klaipėdos nafta has estimated the capitalized costs of construction of the LNG terminal at Lt 332.80 million. After analyzing the submitted costs and their justification, the NCC recalculated these costs and by Resolution No O3-859 of 13 October 2014 *Re: The Revision and Approval of the Liquefied Natural Gas Terminal Project* approved the project of the LNG terminal by setting its preliminary value at Lt 300.96 million (Eur 87.164 million), and noted that this value will be used in calculating the additional component of the security of supply of natural gas to the natural gas transmission price cap for 2015.

Article 5, Paragraph 2 of the Law on the Liquefied Natural Gas Terminal provides that all fixed costs of operation of the LNG terminal, its infrastructure and the link, which are needed to ensure the activity of the LNG terminal, shall be included in the additional component of the security of supply of natural gas to the natural gas transmission price cap according to the procedure set by the NCC. The security component shall be collected, administrated and disbursed to the operator or the undertaking of the LNG terminal by the natural gas transmission system operator according to the procedure set by the NCC.

Having analyzed the data submitted by *AB Klaipėdos nafta*, the NCC recognized 233 178 400 Lt as the indispensable costs, i.e. by 5 820 280 Lt less than the costs, which were requested to be recognized by *AB Klaipėdos nafta.* The costs of collection of the security component and the administration costs of the collected amounts to be incurred by the transmission system operator are included in the costs of the security component.

After assessing the available information, in 2015 the natural gas liquefaction price cap (the security component) was set at 9.43 Lt/MWh or 98.07 Lt/thousand m^3, which will be valid from 1 January 2015 till 31 December 2015. In calculating the value of the security component, the funds collected in 2013, which remained unused and which were allocated to the costs of construction of the LNG terminal, its infrastructure and the link, were evaluated as well. After assessing the reimbursable amounts (Lt 49 971 491.2), in 2015 the security component to the natural gas consumers of Lithuania was reduced to 7.41 Lt/MWh (2.15 Eur/MWh) or 77.06 Lt/thousand m^3.

2.2.3. The entry-exit points pricing in the transmission system

In September 2013, with regard to Article 19 of the Preamble of 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 (hereinafter – Regulation (EC) No 715/2009) stating that to enhance competition through liquid wholesale markets for gas, it is vital that gas can be traded independently of its location in the system, the NCC started the works for implementing the Entry – Exit Pricing Model in the natural gas sector. On 7 August 2014, the NCC approved the

Methodological Guidelines of the Entry – Exit Pricing Model in the Natural Gas Transmission System.

After the amendments of the *Methodology for Setting the State Regulated Prices in the Natural Gas Sector* had been approved by the NCC on 10 October 2014, the application of the Entry – Exit Pricing Model in Lithuania was started since 1 January 2015, whereby the following entry and exit points of the natural gas transmission system of Lithuania were identified:

– the interconnection with the LNG terminal (an entry point);

– the interconnection with the natural gas transmission system of Latvia (entry and exit points);

– the interconnection with the natural gas transmission system of Belarus (an entry point);

– the interconnection with the natural gas transmission system of the Kaliningrad Region of the Russian Federation (an exit point);

– one internal exit point for all users of the transmission system of the country.

The Pricing Model provides that 20 percent of the transmission revenues will be allocated to the entry points, and 80 percent – to the exit points. Such proportion of the revenues would enable to create preconditions for the development of the natural gas market, the use of the alternative natural gas supply sources, the emergence of new suppliers and for the formation of the competitive conditions.

The security component is applied on the internal exit point to all users of the transmission system of the country, and its application on the entry point of the LNG terminal will be started in the year, immediately following the year when the capacities of the LNG terminal, which are not related to the transportation of the mandatory quantity from the LNG terminal, will have been booked and used, and will be applied on the transported natural gas quantity, which is not related to the mandatory quantity from the LNG terminal.

2.2.4. The development of competition in the gas supply market, the main changes in the gas market monitoring in 2014

In 2014, one operator – *AB Amber Grid* was operating in the natural gas transmission market, and in the natural gas distribution market the activity was performed by 6 distribution system operators – *AB Lietuvos dujos*, *UAB Intergas*, *UAB Druskininkų dujos*, *AB Agro company Josvainiai*, *UAB Fortum Heat Lietuva* and *AB Achema*.

On 27 November 2014, the natural gas liquefaction licence was issued to *AB Klaipėdos nafta*, which had implemented the project of the LNG terminal and since 3 December started the activity of the operator of the liquefied natural gas terminal.

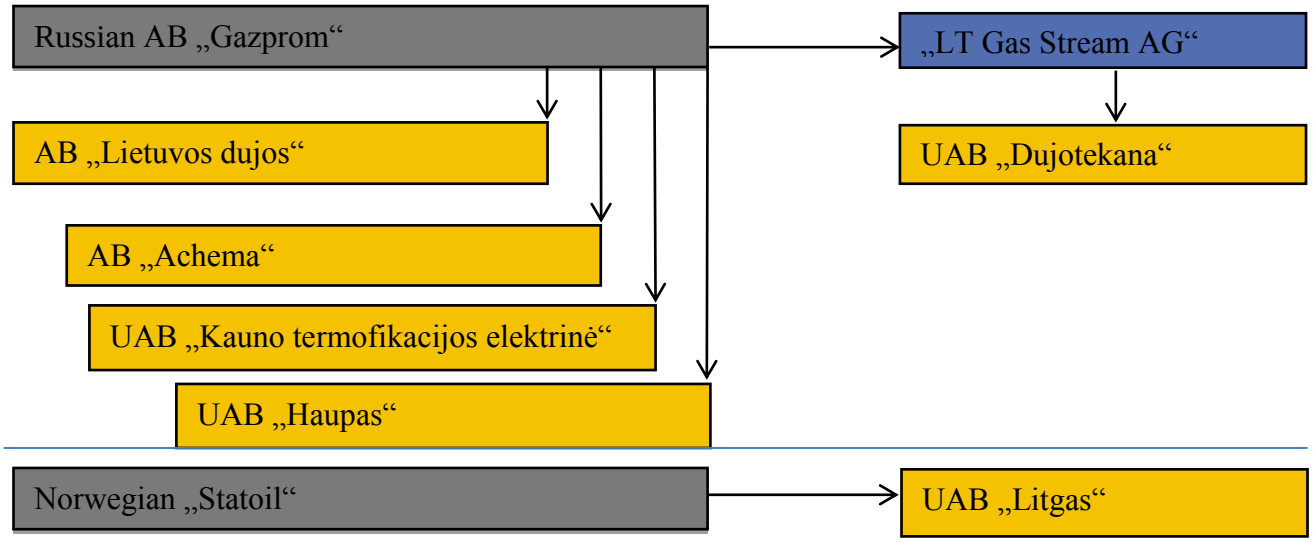
In 2014, 5 natural gas supply licenses were issued in the natural gas sector to *NORDARSI OU*, *UAB European Gas Trading Group*, *UAB Energijos prekyba*, *UAB Lietuvos dujų tiekimas*, *AB Kauno energij*a, 2 natural gas supply licenses held by UAB SKY ENERGY GROUP and *UAB Iteralit,* the joint Lithuanian and the US private limited company, were withdrawn. At the end of the year, the natural gas supply licenses were held by 32 undertakings, 11 of these were performing the supply operations.

In 2014, the licenses of the natural gas market operator were held by the same 2 companies as in 2013 – *UAB Baltpool* and *UAB GET Baltic*. The licenses to the mentioned companies were issued in 2011 and 2012, respectively. As compared with 2013, the number of the market participants, which performed the activities of the natural gas transmission, distribution, supply and of the Natural Gas Exchange operator, remained unchanged.

In 2014, natural gas was imported not only by *AB Lietuvos dujos*, *UAB Dujotekana*, *UAB Haupas*, *AB Achema*, *UAB Kauno termofikacijos elektrinė*, but by *UAB Litgas* as well. In 2014, natural gas to Lithuania was imported from the Russian company *OAO Gazprom*, and UAB *Litgas* purchased the LNG consignment for commissioning of the LNG terminal from the Norwegian company *Statoil*. Starting from 2015, *UAB Litgas* imports liquefied natural gas through

the LNG terminal in Klaipėda on a permanent basis, in accordance with the long-term Agreement with *Statoil*. *UAB Dujotekana* imported natural gas through the intermediary *LT GAS Stream AG*.

Figure 5. The participants of the segment of the natural gas import to Lithuania



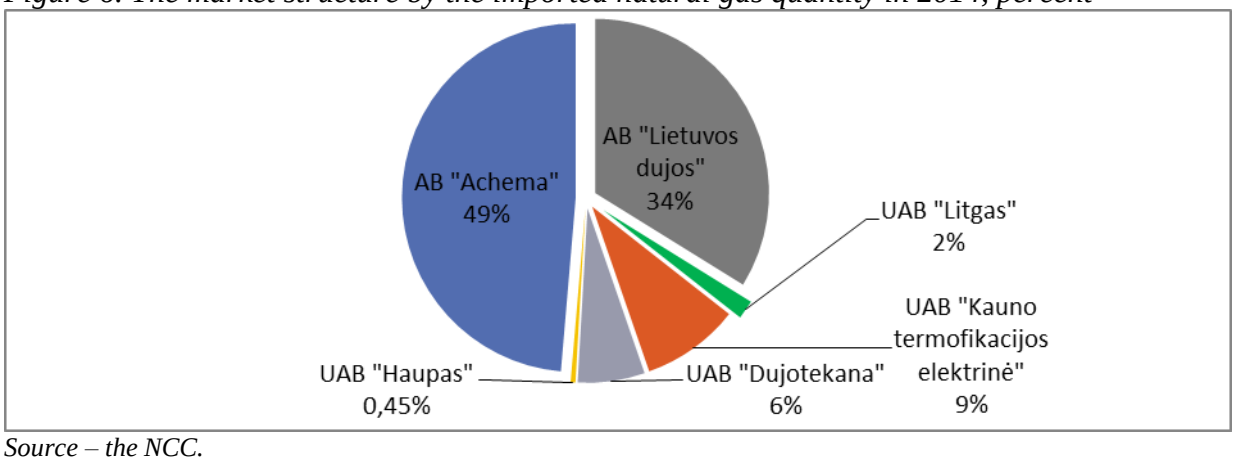
Source – the NCC.

In 2014, 2578.2 million m^3 of natural gas were imported to Lithuania, i.e. 4.5 percent less than in 2013, when the natural gas import was as high as 2701 million m^3. As compared with 2013, the natural gas quantities imported by *UAB Dujotekana*, *AB Lietuvos dujos* and *UAB Haupas* dropped by 57.8, 13.1 and 3.7 percent, respectively, while the natural gas quantities imported by *UAB Kauno termofikacijos elektrinė* and *AB Achema* increased by 6.3 and 15.6 percent, respectively.

UAB Litgas started the natural gas supply activity only from 4Q 2014, when the natural gas quantity procured for the works of the start-up and commissioning of the LNG terminal was traded at the Exchanges (45.1 million m^3).

As compared with 2013, the market shares held by *AB Achema*, *UAB Kauno termofikacijos elektrinė* increased by 8.5 and 0.9 percentage points, respectively, while the market shares held by *UAB Dujotekana* and *AB Lietuvos dujos* decreased by 7.9 and 3.3 percent, respectively, and the market share of *UAB Haupas* remained unchanged.

Figure 6. The market structure by the imported natural gas quantity in 2014, percent



Source – the NCC.

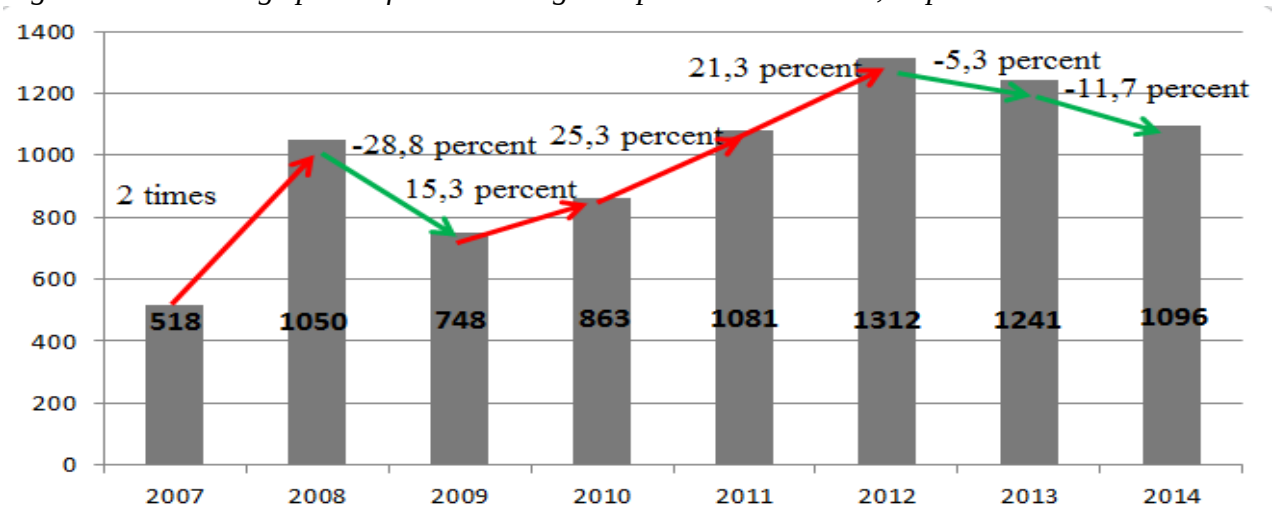
In analyzing the market shares held in 2008–2014, it has been observed that AB *Achema* according to the imported gas quantity covered nearly one half of the market, and the market share

held by this undertaking was the biggest since 2008. The market share held by *AB Lietuvos dujos* was the biggest in 2011, but in 2014 it was the smallest since 2008. The market share held by *UAB Dujotekana* in importing natural gas was decreasing most rapidly, as compared with other market participants, and in 2014 it equaled 6.23 percent, while the market share held in 2008–2013 was 14–17 percent. The market share of *UAB Haupas* in 2013–2014 equaled 0.45 percent and has not significantly changed during the analyzed period.

On 8 May 2014, at *Nasdaq Omx* Vilnius Exchange *AB Lietuvos dujos* disseminated a notice about the essential event that *AB Lietuvos dujos* reached the Agreement with Russian *OAO Gazprom* on the reduction of the natural gas import price. These factors predetermined that in 2014, as compared with 2013, the average price of the imported gas on the average dropped by 11.7 percent – from 1241 Lt to 1096 Lt per thousand m^3.

The price discount according to the mentioned Agreement consisted of two parts: the discount for the retrospectively consumed natural gas from 1 January 2013 till 30 April 2014 and the discount for the natural gas which will be sold in 2015. On 23 December 2014, the Government of the Republic of Lithuania passed Resolution No 1451 whereby it resolved that after the amendment of the fundamental conditions of the Natural Gas Supply Agreement concluded with the legal entity originating from the third country and supplying natural gas to the territory of the Republic of Lithuania, by keeping to the objective criteria the conditions should be created for revising (decreasing) the natural gas prices in the future periods to the non-household customers of the natural gas supply undertakings, which have received the price discount and are purchasing natural gas for the purposes of its consumption in the territory of the Republic of Lithuania (not for selling or reselling), to the system operators using natural gas for the technological needs as well as to the vertically integrated natural gas undertakings operating in the territory of the Republic of Lithuania (or in the part thereof) and supplying natural gas to the consumers connected to their natural gas systems, which are purchasing natural gas for the purposes of its consumption in the territory of the Republic of Lithuania (not for selling or reselling). *UAB Lietuvos dujų tiekimas*, which from 1 November 2014 took over the natural gas supply activity from *AB Lietuvos dujos*, prepared the *UAB Lietuvos dujų tiekimas Procedure of the Natural Gas Pricing Applied to Non-household Customers and System Operators in 2015–2016* (approved by NCC Resolution No O3-964 of 30 December 2014), whereby the repayment of the discount during 2015–2016 to the consumers listed in the mentioned Resolution of the Government was set. Due to this additional discount, the gas selling price applied by *UAB Lietuvos dujų tiekimas* has been further reduced by approx. 20 additional percent. Other gas importing undertakings (*UAB Dujotekana, UAB Haupas, UAB Kauno termofikacijos elektrinė*) in negotiations with *OAO Gazprom* also reached agreements on the discounts in the import prices and in 2015 started applying these discounts to their customers.

Figure 7. The average price of the natural gas import in 2007–2014, Lt per thousand m^3



Source – the NCC.

The main changes observed in monitoring the gas market in 2014, as compared with the data of 2013:

- In 2014, 4637.9 million m^3 were transported through the transmission system (3.77 percent less than in 2013), distributed – 761.4 million m^3 (13.4 percent less than in 2013), supplied – 1400.4 million m^3 (9.3 less than in 2013);
- The part of the transit in the transmission structure increased from 28.22 percent in 2008 up to 44.75 percent in 2014;
- In 2014, as compared with 2013, the revenues of the natural gas sector went down 14.9 percent due to the decrease in the revenues from the natural gas supply activity by 18.8 percent. In 2014, the revenues from the natural gas transmission and distribution activity increased by 7.5 and 15.9 percent, respectively;
- In 2014, 2090,1 million m^3 of natural gas were sold and/or consumed in the wholesale natural gas supply market, i.e. 0.12 percent more than in 2013, when the sold and/or consumed quantity of natural gas was 2087.5 million m^3;
- In 2014, 637 million m^3 of natural gas were sold in the retail natural gas supply market, i.e. 8 percent less than in 2013, when 693 million m^3 of natural gas were sold. The sales to the non-household natural gas customers dropped by 9.6 percent, to the household customers – by 2.6 percent.

2.2.5. Pricing the regulated activity, setting the transportation prices and connection rates

In the natural gas sector the NCC prepares and approves the methodologies for setting the state-regulated prices, sets (adjusts) and approves the price caps, the requirements for unbundling the regulated activity and the costs. Starting from 1 January 2015, when the LNG terminal was launched into operation, the gas transmission prices are calculated by applying the Entry – Exit Points Pricing Model in the transmission system.

The NCC set the total level of the transmission revenues in 2015 – 186.74 mln. Lt. From 2015, the transmission price cap is set and adjusted per capacity unit and separately for each entry and exit point. The implementation of the Entry – Exit Points Pricing Model makes no impact on the adjustment of the price caps, because it does not influence the permissible level of the revenues, but reallocates this level among the entry and exit points. In 2015, the average price per capacity unit to the users of the internal point of the Lithuanian transmission system has increased by 21 percent. This increase is predetermined by the transported quantity of natural gas in 2014, which was 9.3 percent below the planned one, by the increase of the return on investments due to the investments made in 2014 in the strategic project *Increasing the capacities of the gas mains Klaipėda–Kiemėnai*, and the capacities planned to be booked in 2015, which are 10.2 percent below the capacities of 2014, and that is why the average price cap has increased by 12 percent.

The NCC set the natural gas distribution price cap for 2015 at 268.24 Lt/thousand m^3 (77.68 Eur/thousand m^3) or 25.80 Lt/MWh (7.47 Eur/MWh) (VAT excluded). The main impact on the adjustment of the natural gas distribution price cap was made by the decreasing distributed natural gas quantities – in 2015 it is being planned to distribute 711.2 million m^3 of natural gas, i.e. nearly17 percent less than in 2014.

Pursuant to the *Methodology for Setting the Rates of Connection of New Natural Gas Customers, New Natural Gas Systems and Biogas Power Plants*, which was prepared and approved by the NCC, the operators of the transmission and distribution systems set the rates of connection of the systems of the new household and non-household customers and the biogas production facilities. The NCC approves the rates of connection of the systems of the new household customers. The Methodology provides that the natural gas undertaking has to cover the economically justified costs of the system development and the costs of connection incurred by the entities, which are being connected to the system. The entities, which are being connected to the system, have to cover the costs exceeding the economically justified costs of connection.

The costs of connection to the existing natural gas systems cannot be recognized as the justified costs if they have caused the price increase to the existing system users and natural gas consumers. In the territories with the newly constructed gas supply systems the natural gas transmission and distribution price, which would cover the investments, can be set for the pay-back period.

The connection rate to the household customers consists of the fixed part, which is not dependent on the length and capacity of the being-constructed gas pipeline, and of the part of the connection rate, which is applied per one meter of the gas pipeline. Depending on the natural gas quantity consumed per year, the household customers are grouped into two groups, and the connection rate to these groups is calculated separately. The dynamics of the connection rates in 2012–2015 is shown in the Table.

Table 5. The changes of the connection rates of the household customers in 2012–2015

Indicator	**2012**	**2013**	**2014**	**2015**	**Adjustment in 2015, as compared with 2014, in percent**
Household customers consuming below 500 m^3 of gas per year*					
Fixed part of the rate, Lt	3323,9	3323,9	3323,19	3323,19	0
Rate per one meter of gas pipeline, Lt/m	142,16	142,16	142,16	142,16	0
Household customers consuming above 500 m^3 of gas per year					
Fixed part of the rate, Lt	1249,05	915,54	719,36	719,25	-0,02
Rate per one meter of gas pipeline, Lt/m	50,26	57,05	55,07	50,37	-9,68

* The connection rate is set for feeder to the staircase landing of the apartments block. In connecting the household customers, the indicated rate has to be divided by the number of the potential customers.
Source – the NCC.

3. ELECTRICITY MARKET

3.1. Network regulation

3.1.1. Unbundling

Articles 10, 11 of Directive 2009/72/EC and Article 3 of Regulation (EC) No 714/2009

On 26 October 2013, the information about the final decision adopted by the NCC regarding the designation of *AB Litgrid* to operate as the TSO as complying with Article 10 of the Directive 2009/72 /EC was published in the Official Journal of the European Union C 312. By this action the complete TSO certification procedure embedded in the legal framework of the European Union and in the Law on Electricity was officially finalised.

In 2014, there were no changes related to the implementation of the provisions of the Law on Electricity concerning the unbundling of the operations performed by the electricity undertaking *AB Litgrid*. The NCC, abiding by the provisions of Articles 26 of the Law on Electricity, has been continually supervising and controlling the efficient unbundling of the operations in order to ensure the independence of the transmission and distribution activities from the commercial interests of the production and supply activities.

Article 26 of Directive 2009/72/EC

Pursuant to the Law on Electricity, which came into force on 7 February 2012 and whereby the provisions of Directive 2009/72/EC were transposed, after submitting all relevant documents by the electricity distribution undertaking, the NCC at the meeting held on 26 July 2012 stated that the unbundling of the distribution activity of *AB Lesto* complies with the provisions of Article 54, Paragraphs 1 and 3 of the Law on Electricity.

In the case of the altered circumstances due to which there would be no possibility to enforce the requirements on unbundling the types of the activities and the accounts set forth in Article 54, Paragraphs 1 and 3 of the Law on Electricity, *AB Lesto* is obligated to inform the NCC about these altered circumstances no later than within 5 business days from their occurrence. In 2014, there were no changes related to the circumstances.

3.1.2. Technical functioning

Balancing services Article 37(6)(b), Article 37(8)

The relationships among the participants of the electricity market in performing the wholesale trade in electricity in the territory of the Republic of Lithuania are regulated by *the Rules of Trading in Electricity* approved by the Order of the Minister of Energy. The prices of the balancing energy are calculated in accordance with the *Description of the Procedure Regulations for Regulating the Price of the Balancing Energy*, prepared in line with the requirements of the national and European Union legal frameworks. In 2014, there were no changes in the scheme and principles of *Trading in Balancing Energy*.

In October 2014 *Feasibility Study Regarding Cooperation between the Nordic and the Baltic Power Systems within the Nordic ENTSO-E Pilot Project on Electricity Balancing* has been completed in order to establish common regional balancing market. The *Study* state thats there is no balancing market in Baltic region and the pricing model „pay as bid“ in Baltic countries is different from “marginal pricing” applicable in Northern countries in the absence of technical measures and general conditions. In 2015, it is planned to perform a more detailed analysis, which could harmonize principles of balancing energy trade.

Safety and reliability standards, quality of service and supply (Article 37(1) (h))

The Law on Electricity defines that the NCC shall set the requirements for reliable transmission of electricity and quality of services and shall control compliance with them.

In determining the minimum electricity transmission service requirements the NCC shall inform users what are the parameters of the network for the technical quality applied for the transmission and distribution operators. In the end of the year, power interruptions causes appeared due to factors depending upon the transmission and distribution system operators are summarized, and the NCC shall decide whether there were violations of minimum requirements for electricity transportation service reliability.

In 2012 the requirements for electricity transmission reliability and quality of services have been changed, under which the NCC, setting up the upper price limits for the new regulatory period, adopt the minimum energy transmission reliability levels, taking into account the average of actual transmission reliability levels of the previous regulatory period. Minimum electricity transmission reliability levels are valid until the end of the regulatory period and cannot be lower than the minimum quality levels approved for the previous regulatory period. As the validity period of the transmission and distribution price caps has been extended by 2015, the validity of minimum of electricity transmission reliability levels, that were set up in 2012, have also been extended until the end of the regulatory period, namely for the year 2015.

Indicators of the quality of the services of electricity transportation and their minimum levels shall be calculated separately for electricity transmission system and distribution network (see the diagrams).

Figure 8. The actual quantity of the electricity not delivered due to interruptions in transmission network (END) and the minimum level of the indicator, MWh

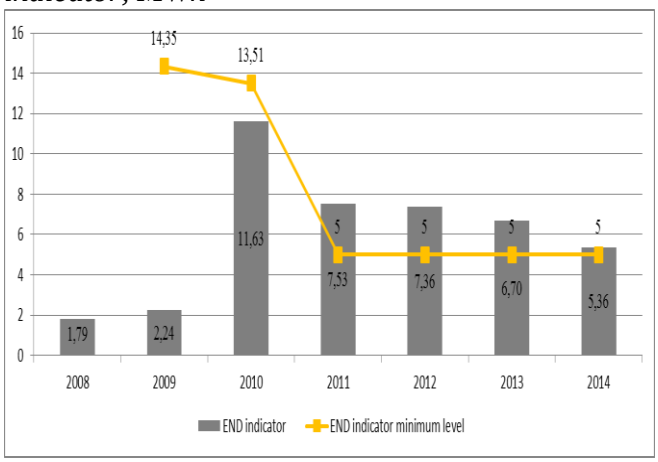
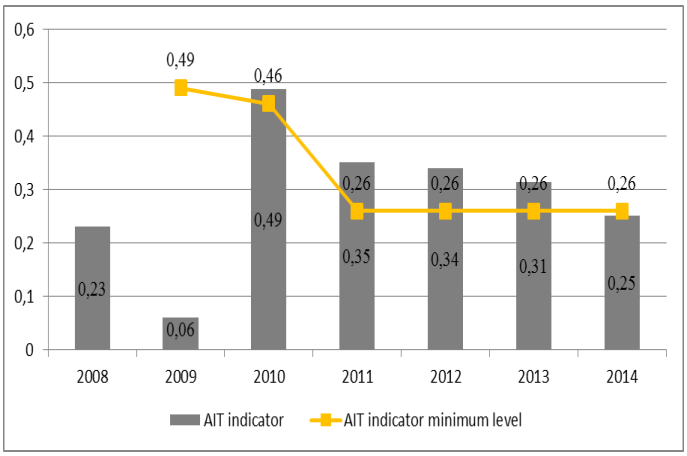


Figure 9. The average duration of interruptions in transmission network (AIT) and the minimum level, min.



Source – the NCC.

The reliability indicators set forth by the NCC in 2014 obligate the TSO to assure that technical quality of service will be better or equal to the minimum requirements: the average duration of system interruption shall not be longer than 0.26 min, and the quantity of the electricity not delivered shall not go above 5 MWh. In comparison with the established minimum level, the reliability of transportation according to END indicator declined by 34.06 percent, and according to AIT indicator - by 20.38 percent, accordingly the price cap following these indicators in 2015 was reduced by 0.1 percent for each.

Figure 10. The average duration of the system average interruption duration index (SAIDI) and its minimum level, min./per user

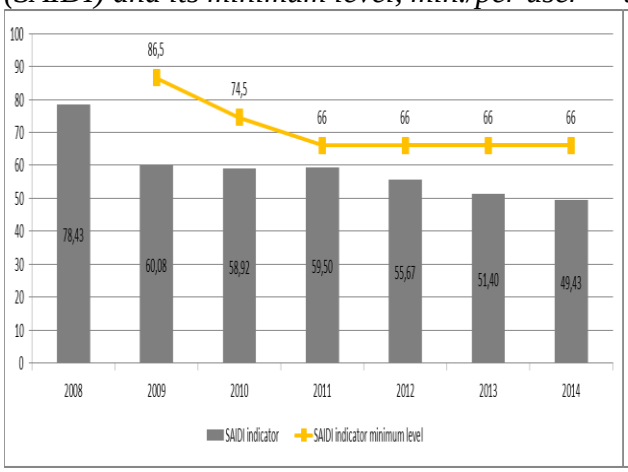
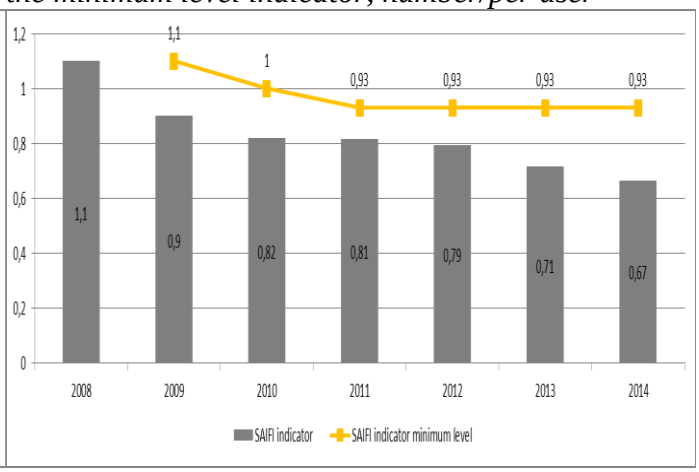


Figure 11. The average number of the system average interruption frequency index (SAIFI) and the minimum level indicator, number/per user



Source – the NCC.

The reliability indicators of transportation of *AB Lesto* are consistently declining. It means that the transportation service quality improves, the yearly duration of disconnection per one consumer becomes shorter and the number of disconnections per consumer is lower.

Every year, the quality of the services of the operators and the suppliers delivering transportations services is evaluated in the *NCC Annual Report* in line with the revised

Requirements on the Transportation Reliability and the Quality of Services approved by the NCC in 2012.

The following indicators have been set to the suppliers of the distribution service:

- The percentage of the timely (within 20 days after the receipt of connection payment) connected new customers;
- The re-establishment of the interrupted electricity supply in line with the described terms;
- The percentage of the timely investigated claims of the customers and network users.

To the TSO, independent electricity suppliers and the public supplier, only one indicator of the quality of services has been set – the percentage of the timely investigated claims.

Table 6. AB Lesto indicators of the quality of the transportation reliability in 2014

Reliability category of electricity supply	Measurement units	Set indicator of supplying the service to a customer	Average indicator of supplying the service to a customer	Indicator of the timely supply of the service to a customer (percent)
I		During the time period not exceeding the time of automatic switching from one independent power source to another	During the time period not exceeding the time of automatic switching from one independent power source to another	100
II	hour	2.5	1.29	100
III	hour	24	3.52	100

Source – the NCC.

The functions set forth to the NCC pursuant to the Law on Electricity passed on in January 2012 to monitor and evaluate the realiability of the transmission and distribution network, remained unchanged (for more detailed information see the *Annual Report on the electricity and gas markets of the Republic of Lithuania to the European Commission 2012 and 2013*).

By implementing the provisions of Article 19 of the Law on Electricity, the NCC for the second consecutive time prepared the *Report on the Assessment of the Reliability of the Lithuanian Power System* (LPS) for 2013. This report provides statistics and prognostic assessments related to electricity demand and supply (actual consumption) balance in the national power system, the estimated electricity demand levels in the future and supply options, power generation capacity expansion, means to meet the demand of electricity at peak times; and system balancing and regulatory measures as well as the level of supervision of the power system and its quality. Having completed the modelling of the reliability (adequacy) of the electricity transmission system in accordance with the SISYFOS (*Simulation of System's Security of Supply*) method and having compared the obtained results with the actual ones as well as having completed the evaluation by the experts it was stated that at present the LPS reliability is ensured. The mentioned Report is available at the NCC website www.regula.lt

Monitoring the safeguards measures (Article 37(1) (t))

The TSO AB *Litgrid* is responsible for ensuring the national electric energy balance. *The Plan of the TSO Preparedness for the Emergency Situation in the Electric Power System* consists of the instructions, procedure regulations and other documents prepared by the Operator. The essential parts of *the Plan* are as follows:

1. *The Procedure Regulations for Disseminating Information about the Extraordinary or Emergency Events, their Examination and Accounting*;

2. Lithuanian power system *Black Start Plan* after full blackout;
3. *The Instructions on the Liquidation of Accidents and Technological Failures*;
4. *The Instructions on the Liquidation of Accidents and Technological Failures for Eastern Region Network Management Group*;
5. *The Instructions on the Liquidation of Accidents and Technological Failures for Western Region Network Management Group*;
6. *The Procedure on Consumer Disconnection and Limitation of Electricity Supply*;
7. *The Instruction on the Information about Disconnections of Users or Power Supply Restrictions.*

In order to assure electricity supply to consumers the TSO orders the tertiary capacity reserve, which can be activated in the period of the maximum electricity consumption, when there is the shortage of supply in the electricity market.

Pursuant to *the Procedure Regulations on the Conditions of the Temporary Interruption of Electricity Transportation to Secure the Public Interests and the Calculation and Compensation of the Related Losses* approved by Order No 1-121 of the Minister of Energy of 19 April 2010 and to the provisions of other legal acts, AB *Lesto* approved the order of Director of 11 May 2011 the *Procedure for Drawing up the Schedules and Performing the Interruption of Electricity Transportation to Customers and the Capacity Limitations*. Every year the *Schedules of the Capacity and Electric Energy Limitations and of the Emergency Disconnections* are drawn up at the company and are submitted to the TSO. The limitation schedules (for one year period) are drawn up after summarising and analysing the system demand, network parameters and the available information of the network users, therefore year by year the scopes of the limitations can be adjusted. The network users, which have been entered into the limitation schedules, are in advance in writing informed about the scheduled limitations and the arising responsibilities. The *AB Lesto* distribution network is capable of satisfying the demand during the peak electricity consumption because the installed capacity significantly exceeds the exiting peaks. In 2014, not a single customer was disconnected and the supply was not limited to any customer by the company due to the shortage of the distribution capacities.

The regulation structure of renewable energy resources (hereinafter – the RES): the Report on the RES connection, use and dispatch control, and especially – on the priority problems. The report on the responsibilities for the RES balancing (Article 11 of Regulation (EC) 713/2009)

Due to the fast growth of the electricity production by using the RES, Lithuania, like other countries, is also facing the problems of the security of supply (in maintaining the frequency in the system). In 2011, by adopting the Law on Energy from Renewable Resources, quite favourable development conditions were established for the RES producers: there is no responsibility for balancing, the discount on the fees for connecting the electric equipment is applied, the priority is given in access to the electricity network and its use, etc.

In 2014 the NCC accomplished a planned inspection of *AB Lesto* to verify the compliance of PSO funds collection and payment activities to the legal acts, namely the inspection was carried out for fixed tariffs applicable for RES producers, and compensation amounts applied for the connection to the power grid, PSO fund collection from the thermal mode combined power and thermal production cycle plants (TEC), payment of PSO to TEC and PSO funds dedicated to cover the balancing costs of residents, that use renewable energy resources for production.

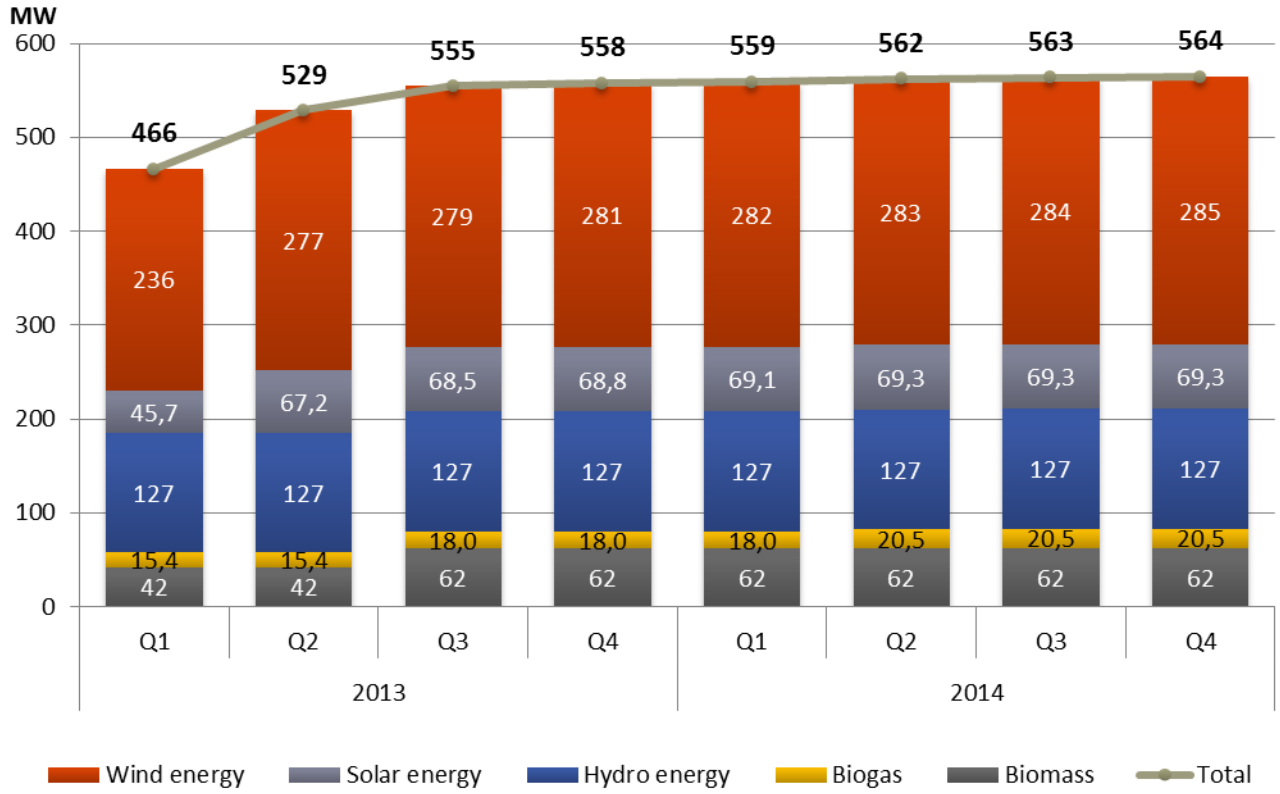
The inspection started on 15 February 2014 and was completed on 29 September 2014. The inspected period of regulated activity of *AB Lesto* covers up 1st January 2011 to 31 December 2013. The NCC obligated *AB Lesto* within one month to correct the identified violations in relation to the application of the fixed tariff levels of renewable energy sources that are non-compliant with the legislative provisions, violations for missed payments and misused PSO budget as well as non-compliance of the agreements on the purchase of electricity from renewable energy sources with

legislative requirements and balancing prices that are not specified in contracts with balancing electricity supplier on electricity produced from renewable energy sources.

Analogous inspection has been carried out at *AB Litgrid*. The NCC obligated *AB Litgrid* to follow the settlement procedure as defined in the *Balancing Energy Trade Agreement.*

In 2014, the biggest quantity of electricity produced by using the RES was produced in the wind power plants – 50.4 percent, in the hydro power plants – 22.6 percent, and in the solar energy – 12.3 percent, biomass – 11.1 percent, biogass – 3.5 percent. In 2013 the total installed capacity structure using RES the capacity of wind power plants totalled to 50.9 percent, hydro power plants – 24.3 percent, biomass power plants – 9.8 percent, the biogas power plants – 3.2 percent, in the photovoltaic power plants – 11.8 percent.

Figure 12. RES structure by installed capacity in 2013–2014., MW



Source – the NCC.

In 2014, the share of the installed capacity of electricity produced by using the RES totalled to 12.9 percent.

3.1.3. Tariffs of connection and access to the network

Article 37(1) (a), Article 37(6) (a), Article 37(8), Article 37(10), Article 37(12), Articles 37(3) (c) and (d)

Article 37(1) (a)

Pursuant to Article 8, Paragraph 9 of the Law on Energy, the NCC approves the price setting methodologies of the state-regulated prices, sets the state-regulated prices and the price caps whereof, and, if necessary, prepares and submits to the Government the principles of setting the state-regulated prices and supervises how the state-regulated prices and tariffs are being applied. The NCC approves the connection rates of the energy facilities (network, systems, equipment) by following the general criteria for setting the rates laid down by the laws constituting the legal

frameworks of the individual energy sectors. The mentioned Law also provides that the NCC unilaterally sets the state-regulated prices if the energy undertakings do not comply with the requirements for setting these prices, and, in setting the state-regulated prices, evaluates the costs of the supplied services by taking into account the reasonable return on investments.

Pursuant to Article 67, Paragraph 2 of the new Law on Electricity, the prices of the transmission and distribution services are regulated by the NCC by setting the price caps for a five-year period. Both – *the Methodology for Setting the Prices of the Transmission and Distribution Services and Their Price Caps and the Procedure Regulations for Differentiating the Prices of Electricity Transmission, Distribution, Public Supply Services and the Prices of Public Electricity*, which were approved by the NCC, regulate the principles of calculating the prices of the specific network services. With regard to the provisions of the revised Law on Electricity stipulating that the service suppliers have to set the procedure for differentiating the prices the description whereof has to be approved by the NCC, a separate document regulating the conditions and the procedure for differentiating the prices of the electricity transmission, distribution and public supply services and the public electricity prices was prepared. After the legislative public consultation, NCC resolutions are adopted in public meetings in NCC, in which all interested parties may submit comments and suggestions.

The price caps of the transportation services had been set for the regulation period of 2011–2015 (see 2.1.5). Specific prices set forth by service providers shall not exceed the fixed price cap and shall not discriminate the customers. Electricity transmission service tariffs differentiated according to customer groups, 3 load coefficient plans, capacity and power component, time as well as prices for connecting to the gris are available publicly at website www. regula.lt.

Article 37(6) (a)

The energy undertakings involved in the activities with the regulated prices are obligated to conciliate with the NCC the planned investment projects, which are related to the construction of the new energy facilities, the reconstruction, and modernisation of the existing energy facilities or the development of the operating energy facilities in the field of energy production, transmission, distribution and supply.

The Law on Energy sets forth the NCC duty to evaluate the justification of the investments of the energy undertakings. If the investments have not been conciliated with the NCC, they cannot be recognised as the justified ones and are not included in the price caps calculations.

The return on investment is determined by weighted average cost of capital method (WACC) and is equal to 6.79 percent. In 2011–2015 undertakings engaged in transmission activities in total invested and will invest Lt 954.8 million.

Article 37(8)

Pursuant to Article 68, Paragraph 5 of the Law on Electricity, the NCC has the right to set the costs coverage mechanism and/or the price setting methodology promoting the efficiency, and, in as much as it is possible, the long-term competition in the electricity production and independent supply markets, the implementation of the strategic projects of the state in the electricity sector enhancing the energy independence of the state, the security and reliability of the electricity supply, and increasing benefits to the customers. To accomplish this goal, the NCC in entitled to take into consideration the costs and the prices of the respective suppliers proposed in the comparative markets.

Pursuant to Article 69, Paragraph 4 of the Law on Electricity, the NCC has to ensure that the TSO and the DSO would be provided with the relevant incentives in the long term and in the short term to increase the efficiency of the energy consumption, to promote the integration of the electricity market and the reliability of supply and to support the related scientific research. The respective provisions have been transposed to *the Procedure Regulations for Differentiating the*

Prices of the Electricity Transmission, Distribution, Public Supply Services and the Public Electricity Price.

Article 37(10)

The NCC rights and duties related to the prices and tariffs of the suppliers of the transmission and distribution services, as provided by Article 37(10) of Directive 2009/72/EC remained unchanged (for more detailed information see *the Annual Report on the electricity and gas markets of the Republic of Lithuania to the European Commission 2012 and 2013*).

Article 37(12)

The claims regarding the NCC Resolutions can be filed in accordance with the procedure set forth by the *Law on Administrative Litigation of the Republic of Lithuania*.

Articles 37(3) (c) and (d)

In 2014, as compared with 2012, the rights and duties set to the NCC pursuant to Article 33 of the Law on Electricity in relation to the preparation, assessment and monitoring of the ten-year plan of the development of the transmission grid remained unchanged (for more detailed information see *the Annual Report on the electricity and gas markets of the Republic of Lithuania to the European Commission 2012 and 2013*) except that pursuant to the Law Amending Articles 9, 30, 31, 33, 49, 57 and 67 of the Law on Electricity, Article 49 thereof was supplemented by a new Item 3 establishing for the right of the NCC, having identified the non-compliance of the grid development plan with the provisions of this Article, shall present the recommendations for TSO for the improvement or the amendment of the grid development plan and give a reasonable time to carry out the supposed actions.

Every year on July 1st *AB Litgrid* shall submit to the NCC the ten-year plan of the development of the transmission grid. After implementation of public consultation the NCC shall announce by the Resolution that *the Plan of the Development of the 330–110 kV Grid of the Lithuanian Electric Power System* for the next decade submitted by *the TSO* complies with the requirements of Article 33, Paragraphs 2, 3 and 5 of the Law on Electricity.

The NCC having analyzed the ten-year development plan of the 330-110kV Grid of the Lithuanian Electric Power System (for 2014–2023) prepared by the electricity TSO *AB Litgrid* and submitted to the NCC in July 2014, on 30 April 2015 concluded that the planned investments guarantee the rational development of the electric power grid that shall accomplish the market participant needs as well as reliable and efficient operation of the transmission system that will allow to assure the quality of services to consumers. The total investments in 2014–2023 amount to Eur 960.6 million.

Table 7. The key groups of investments to electricity transmission network in 2014–2023

Key groups of investments	Amount, mln. Eur	Project deadline
Interconnection Lithuania–Sweden	184.4	by 2016
Interconnection Lithuania –Poland	123.8	by 2016
Grid preparation for synchronous operation with CEN	375.4	by 2023
Transmission grid development and restoration projects	218.8	by 2023
ITT and other projects	13.1	by 2023
Transmission grid project initiated	45.1	by 2023

consumers and producers		
Total investments:	**960.6**	

Source – the NCC.

It is planned that the EU funds will be up to half a strategic project interconnection system Lithuania–Sweden (NordBalt) of the total value of the investment project. Having evaluated the influence of the electricity transmission service price for intersystem connection Lithuania–Poland (LitPol Link) and after ACER has adopted decision of April 2015 on this project for cross-border allocation of investment costs, the PSO AB *Litgrid* appealed to the CEF fund. In July 2015 CEF fund allocated Eur 27.4 million for LitPol Link.

Investment projects are to ensure safe and reliable LPS, combine it with the continental European networks for synchronous operation, the integration of the European electricity market. Law on Electricity provides for the obligation of PSO AB *Litgrid* annually to prepare and submit to the NCC ten-year transmission network development plan, in which the main transmission infrastructure required to install or upgrade over the next ten years is identified, and which identifies the investments already decided, as well as new investments to be implemented over the next ten years, and the estimated total investment of project implementation terms. Lithuanian power system of 330-110 kV network development plan (2014–2023 m.) can be found on the NCC website.

It shall be mentioned that on July 1st 2015, LPS plan for the development of transmission network has been received that actually did not change in comparison with 2014. The NCC shall announce a public consultation of the said plan and taking into account the remarks, the resolution by the NCC shall be taken.

Prevention of cross-subsidies (Article 37(1) (f))

The functions set forth to the NCC pursuant to Article 8, Paragraph 9, Item 13 of the Law on Energy and Article 9, Paragraph 4, Item 5 of the Law on Electricity to control the efficient unbundling of the activities in the energy sector in order to ensure the independence of the transmission and distribution activities from the commercial interests in the energy activities and to avoid cross-subsidies, as compared with the last year, remained unchanged (for more detailed information see the Annual Report on the electricity and gas markets of the Republic of Lithuania to the European Commission 2012 and 2013).

It shall be mentioned that *the Description of the Requirements to the Electricity Undertakings for Unbundling the Accounts, Costs Allocation and the Requirements Related to Unbundling the Accounts* was approved by the NCC Resolution No O3-112 of 29 April 2014. Its essential provisions are:

• The special accounting of the regulation activity is introduced. The regulated electricity undertakings have to keep the accounts in line with the requirements approved by the NCC by unbundling the revenues, costs, assets and the liabilities in the electricity production, transmission, distribution, supply and other regulated and unregulated activities;

• The clear and uniform to all entities systematic classification of the costs: three categories of the costs have been distinguished (the direct, indirect and the general costs), and the list of the costs groups was compiled thus ensuring the objectivity and the comparability of the regulation accounting;

• The list of the limiting factors was provided by indicating which costs and to what extent are included in the cost price of the regulated services. The list of the limiting factors will serve as an additional safeguard to the costs groups which have passed the filter of the causality and objectivity;

• Ensuring transparency by providing that all information about each business unit and the return on investments (excluding the confidential one) will be publicly announced both on the website of the electricity undertakings and of the NCC www.regula.lt.

3.1.4. Problems of cross-border trade

Access to cross-border infrastructure, including capacity allocation and congestion management (Article 37(6) (c), Article 37(8), Article 37(9), use of revenues for interconnection links (Article 37(3) (f))

The Law Amending Articles 9, 30, 31, 33, 49, 57 and 67 of the Law on Electricity No. VIII-1881 has been adopted on March 13, 2014. The Law provides for the additional functions for the NCC:

- To approve the *Price Calculation Methodology for the Use of Interconnection Services*, the Rules submitted by the transmission system operator on the management of the Transmission Grid and Interconnections, establishment of their permeability, allocation and congestion management;
- To implement the monitoring of the implementation of the measures as provided in the Law on Energy applicable on the announcement of the state-level emergency energy situation, as well as on the provision of a power outage and the limitation on other grounds, according to its competence cooperate in the implementation of these measures and make recommendations regarding their compliance with the requirements of the law;
- To control the compliance with the rules on the management of the transmission grid and interconnection links, establishment of their permeability, allocation and congestion management. The NCC has the right to give binding instructions to the TSO on the adjustment or amendment of these rules;
- The NCC, in accordance with the approved methodology determines the service price for the use of interconnection lines, which is determined and shall apply in the light of the reasoned report of the Ministry of Energy. In determining the service price for the use of interconnection lines, the costs of services, reimbursed in accordance with the provisions of Commission Regulation (EU) No 838/2010 of 23 September 2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging ((OL 2010 L 250, p. 5)), are not evaluated. The service prices for the use of the interconnection lines shall take effect two months after their publication. Network users and (or) market participants, depending on what is causing additional costs for the use of interconnection services, have to separately pay only the costs of these services, as it is provided by the legal procedures, which are not included in the electricity transmission service price or the Lithuanian electricity market entrance fee determined by the NCC.

In November 2014, the Transmission System Operators (hereinafter – the TSOs) of the Baltic States signed the *Memorandum on the Rules of the Calculation and Allocation of the Capacities of the Cross-Border Lines*, which in the essence reflects the provisions of the Agreement of 15 March 2013, by additionally providing for the minimum cross-border capacities with the third countries and the explicit auction for part of the capacities of Estonia-Latvia interconnection link. The mentioned Memorandum and the *Rules of the Calculation and Allocation of the Capacities of the Cross-Border Lines* set by the Memorandum were based on the results of the technical, socio-economical and the legal framework analyses, which had been performed by the TSOs. After receiving comments during the public hearing, the public clarifications of the provisions of the mentioned documents were made.

The situation concerning the access to infrastructure of the interconnection system will change in 2016 as soon as the launch of operation of interconnection lines with Sweden and Poland.

In 2014 Lithuanian electricity TSO has received Eur 37,384.53 overload income, and in 1H 2015 – Eur 224,581.75. All these funds will be used for the constructions of new interconnection links with Sweden NordBalt and Poland LitPol Link.

In 2014, the maximum electricity consumption was 1835 MW, i.e. by 1.4% more than in 2013 (1810 MW).

All important information relevant to access to and use of the transmission grid is posted on the *AB Litgrid* website www.litgrid.eu and the Nord Pool Spot AS website ww.nordpoolspot.com.

Monitoring the technical cooperation between the Community and third-country transmission system operators (Article 37(1) (s))

In 2014 the NCC representatives continued to take part in the meetings of the working groups of the ACER Baltic Regional Initiative, where the outstanding issues are presented and the information on the technical cooperation between the Community and the third-countries' TSOs is exchanged. If required, the NCC adopts the relevant decisions, submits its comments on the draft legal acts on the mentioned issues, in particular – concerning the electricity prices.

Review of the transmission system operator's investment plans according to the TYNDP (Article 37(1) (g))

The review of the investment plans of the TSO AB *Litgrid* is performed in line with the conditions indicated in Chapter 3.1.3, which have been embedded in the Law on Electricity.

It should be mentioned that having adopted the amendments to the Law on Electricity, which came into effect on 13 March 2014, the NCC shall monitor the implementation of the grid development plan and perform its evaluation. The NCC having identified non-compliance of the grid development plan with the requirements set forth in this Article, shall provide recommendations to the TSO regarding the correction or amendment of the grid development plan and specify the reasonable time period to perform these actions.

If TSO fails to submit a grid development plan within the stated timeframe or submits the grid development plan without complying with the requirements and fails to correct the violations within the period specified by the NCC is considered to be in breach of the conditions of the regulated electricity transmission activities. There were no such violations in 2014.

The NCC together with the TSO takes part in the process of implementing the PCI, and collaborates with the energy regulatory authorities of other countries in order to successful completion of the construction of strategic interconnections as provided in 10-year grid development plan.

Cooperation (Article 37(1) (c))

The Law on Electricity provides that the NCC has to cooperate with the national regulatory authorities of the energy sector of foreign countries

The NCC can enter into agreements on cooperation in the electricity sector with the national energy sector regulatory authorities of other states, and, within its competence, to participate in the activities of international or regional organizations, associations, committees, commissions or working groups

It is also provided that the NCC, within its competence, represents the Republic of Lithuania in the ACER, acting in accordance with Regulation (EC) No 713/2009. The NCC, in cooperation with the ACER and the national energy sector regulatory authorities of foreign countries, is exchanging information which is necessary to perform the NCC functions set forth by this Law and other legal acts. The NCC ensures the confidentiality of the received information.

Besides, the NCC is a member of the CEER and ERRA organizations. The NCC representatives take part in the meetings of the working groups, perform the joint benchmarking analyses of energy undertakings, fill-in various questionnaires, provide the required information and monitor the process of drafting the documents.

3.1.5. Compliance with legal acts

The Regulator's compliance with the binding decisions of the ACER, the European Commission (Article 37(1) (d)) and with the Guidelines (Article 39)

The NCC has been continuously receiving the information about the ACER and the European Commission's legal acts that are being drafted or have been already passed. Moreover, by means of the joint information system, the NCC conciliates its positions with other state authorities. The provisions of the relevant legal acts of the European Union have been transposed to the provisions of the national legal framework and within the competence are complied with.

Ensuring compliance of transmission and distribution system operators, system owners and electricity undertakings with the relevant Community legislation, including cross-border issues (Articles 37(1) (b), 37(1) (q), 37(3) (a), (b), (e) and 37(5) but (a) and (c) +imposing penalties (Article 37(4) (d))

If not provided otherwise in other legal acts, the NCC prepares and sets forth in its legal acts the detailed requirements on compliance with the Community legal framework and the liability in the case of non-compliance with their provisions. Compliance with the provisions of the legal acts on cross-border trade has been described in Chapters 2.1.3 and 3.1.4 of this Report.

Pursuant to Article 9, Paragraph 7 of the Law on Electricity, the NCC, according to the procedure and conditions prescribed by the laws, imposes efficient, commensurate and dissuasive sanctions on the electricity undertakings for non-compliances in performing the state-regulated activity in the electricity sector. The penalties imposed by the NCC for non-compliance in performing the state-regulated energy activity and the procedure for imposing these penalties are set forth in the Law on Energy.

Article 36 of the Law on Energy provides that, to ensure compliance with the conditions of the regulated activity set forth in the laws, the NCC imposes penalties on the energy undertakings for non-compliances in performing the regulated activity, which have not been removed during the reasonable time period set by the NCC.

In the cases when the actions of the unfair competition or the infringement of the principle of equal treatment of the customers are investigated by the Competition Council within the assigned competence, such actions are investigated, binding instructions to the energy undertakings are issued and the liability for the infringements, including the sanctions imposed on the energy undertakings, is defined according to the procedure and conditions prescribed by the Law on Competition. For this purpose, the NCC and the Competition Council collaborate between themselves in order to efficiently identify the scope of the actions of the unfair competition or the infringement of the principle of equal treatment of the customers in the energy sector, and their impact on the energy consumers and/or other energy undertakings. The energy undertakings are held liable for the same infringement either pursuant to the Law on Energy or the Law on Competition, depending on the competence assigned either to the NCC or to the Competition Council.

3.2. Promotion of competition

3.2.1. Wholesale market

In February 2014 there was an official opening of the interconnection line Estlink-2 between Estonia and Finland.

Starting January 2014 *AB Litgrid* started to provide forecast of wind energy volumes on daily basis for the trade at Power Exchange. According to this forecast the electricity energy sales proposals are submitted to NPS Power Exchange Lithuanian trade zone.

On April 2014, the *Electricity Market Development Committee of Lithuania* started operating; the Chairman of the Committee has been appointed the Chairman of the Board and the CEO of *AB Litgrid*. Members of the Committee include the representatives of the NCC, the National Consumer Protection Authority, the representatives from associated businesses, power generation and distribution companies, as well as agents of electricity market participants – the stock exchange operator and independent power companies.

In November 2014, the Transmission System Operators of the Baltic States signed the Memorandum that consolidates the principles on *the Calculation and Allocation of the Capacities of the Cross-Border Lines* that are in force as of January 1, 2015. By this Memorandum the TSO of the Baltic States have agreed to maintain the same methodology on *the Calculation and Allocation of the Capacities of the Cross-Border Lines* that was applicable from the start of 2014.

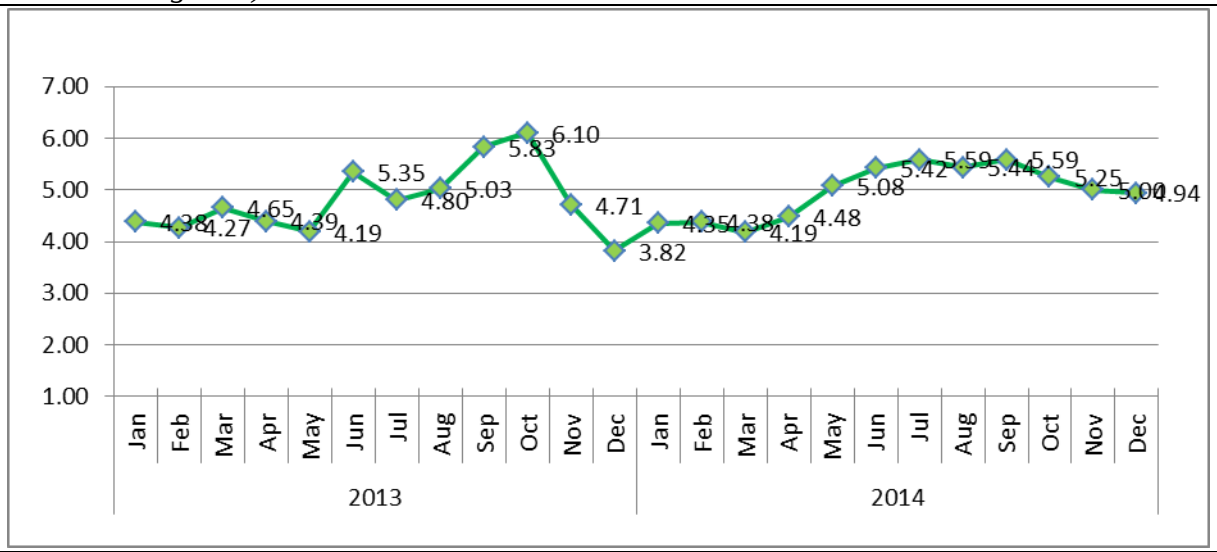
In November 2014, Nasdaq *OMX commodities* proposed financial products for Latvia and, at the same time, for the trading zone of Lithuania for hedging against the market trade risks – to hedge on the price difference between the Lithuania–Latvia and NPS system price "EPAD Riga" and hedging against the NPS system price fluctuations. These financial tools enable market players to guard against electricity price volatility in the stock exchange and to better manage the risks arising from trade between different price areas.

In 2014, as compared with 2013, the number of the market participants holding the independent electricity supply permits went up from 67 to 73, but the number of active suppliers went down from 25 to 18. At the Power Exchange *Nord Pool Spot AS* the number of active participants in the day-ahead trade *Elspot* also dropped from 18 to 15, while in the intraday trade *Elbas* 6 participants invariably remained.

In 2014, as compared with 2013, the quantity of electricity traded on the market respectively decreased by 25 percent, from 5271 GWh to 4224 GWh. The price of the basic load electricity in the day-ahead trade was further progressively increasing and reached 50.13 Eur/MWh, of the peak load electricity – 60.51 Eur/MWh.

After coming into validity of the *Law on Renewable Resources*, a new function was assigned to the NCC – to set the market price of electricity of the previous month, which is calculated as the weighted average of the quantities and prices traded at the Power Exchange in the price zone of Lithuania as well as reflect NPS exchange price dynamics. The market price of electricity of the previous month is applied only to those electricity producers using the renewable energy resources, which took part and won the quotas and fixed tariffs in the auctions arranged by the NCC in accordance with the procedure set by the Law on Renewable Energy resources. For such producer the amount of the public service obligations (PSO) from the PSO fund is set as the multiplication of the electricity quantity which was actually produced and supplied to the network by the difference between the fixed tariff won in the auction arranged by the NCC and the price which is not lower than the average market price of electricity in the previous month.

Figure 13. Dynamics of electricity market price established every month in 2013-–2014. (Eur ct/kWh excluding VAT)



Source – the NCC.

The NCC publishes the average electricity market price for the last month on its website each month till 5 day of the month.

When the second interconnection cable line Estonia–Finland was launched in operation in 2014, the transmission capacity with the Nordic Countries grew up from 350 MW to 1000 MW, however the trade in electricity is limited by the bottlenecks in the interconnection line Estonia–Latvia.

Possibilities for the wholesale market participants shall increase from 2016 when in Lithuania, as well as in the region, 2 new interconnection lines with Poland and Sweden will be launched and interconnection capacity will increase respectively by 500 MW and 700 MW. New *Rules on the Calculation and Allocation of Intersystem Capacity* are drafted and explicit auction is under discussion for these links in order to avoid a possible surge of market participants trade in electricity risk.

Forecasting potential energy flows, from 2016 in Lithuania it is planned to introduce the fee for the use of interconnection lines, which will be intended to cover the costs that will be incurred if Lithuania next year will become a transit country for electricity. So far, Lithuania for many years was the only electricity importing country. However, after the launch of LitPol Link with Poland and NordBalt with Sweden, Lithuania could become not the only importing, but also electricity exporting country. That would be the case if electricity coming from the West will be supplied to the third countries where prices are higher. In such a situation, Lithuanian consumers will only gain the expenses, if the fee for the use of the electricity interconnection lines and services will not be approved, to build connections and to maintain them. If the receivers from the interconnection lines will be in the third countries, they will have to pay the service fee for the use of interconnection lines. This rate will be at a level to cover expenses not enclosed into the transmission rate and payments under the contract between transmission system operators (ITC mechanism).

3.2.1.1. Monitoring the level of prices, transparency, efficiency of market opening and competition, Articles 37(1)(i), (j), (k), (l), (u) and 40 (3)

The monitoring of electricity prices is conducted according to the *Procedure Regulations on Electricity Market Supervision*, approved by the NCC, and the results are published in *the Annual Reports and its Annexes on Monitoring* electricity sector development and in annually and quarterly publishes *Market monitoring reports*, which are posted on the NCC website www.regula.lt (more in Chapter 2.1.3).

It should be mentioned that no less than once in six months the meetings of the National Committee for the Development of the Common Baltic Electricity market are arranged, which are attended by the representatives of the state authorities, market participants and the related associations. At the meetings the relevant information is exchanged and the problematic issues are solved by exploring their reasons, and the steps, which should be taken to accomplish the efficient operation and development of the electricity market, are planned.

To assure transparency, the NCC monitors whether the information is disseminated in compliance with the transparency requirements set forth in Chapter 5 of the Guidelines of Regulation (EC) No 714/2009 and with the provisions of Regulation (EC) No 838/2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging. In addition to that, the NCC uploads on its website all information related to its activities: news, various explanations, statistics, convened meetings, materials of the meetings, etc.

3.2.2. Retail market

Since 2013, all commercial customers have been paying for electricity at the market prices, and, in the case of necessity, a six-month guaranteed electricity supply is secured to these customers. The household customers also have the right to choose an independent electricity

supplier and to buy electricity either in the market, or by concluding bilateral agreements. Since 2014, the public supplier has been buying the major part of electricity at the Power Exchange.

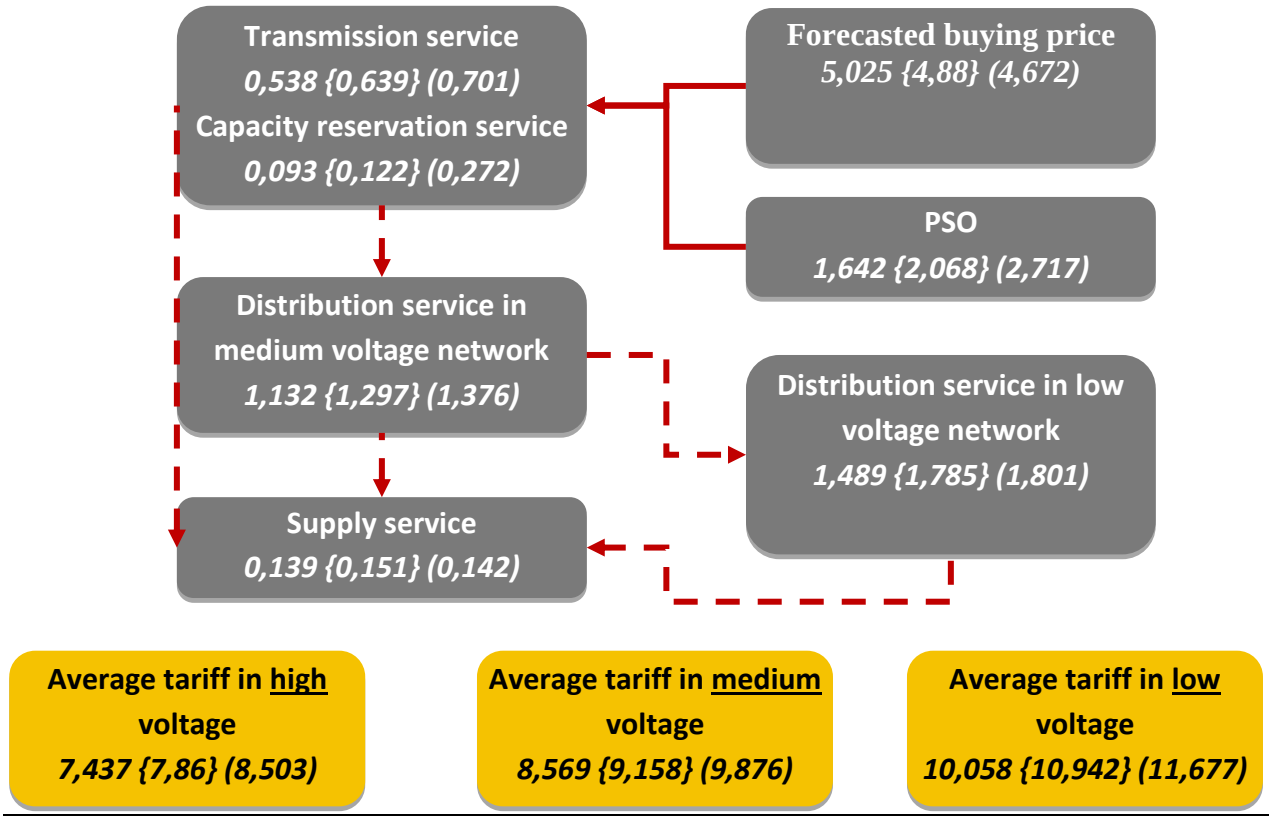
Last year, the average electricity consumption by the household customers increased from 1613 kWh to 1644 kWh. In 2014, the retail market share held by the historic public supplier *AB Lesto* stayed the same – around 35 percent, including quarantee supply. The three biggest independent electricity suppliers in the retail market are *Energijos tiekimas UAB, UAB Elektrum Lietuva* and *AB INTR RAO Lietuva* (which replaced *Enefit UAB, former title UAB SBE Energy)*. In 2014, as compared with 2013, among the biggest independent electricity suppliers the biggest augmentation was in the market shares held by *UAB Elektrum Lietuva*.

The number of the domestic customers increased from 1 635 758 to 1 655 991 customers, 129 545 of them were the non-household customers. During 2014, the consumption of the non-household customers buying electricity at the public prices dropped from 0.13 TWh to 0.12 TWh. During 2014, the consumption by the household customers buying electricity at the public prices amounted to 2.51 TWh of the end-use electricity consumption in the country. 21 household customers have purchased electricity on the market under negotiated prices.

3.2.2.1. Monitoring the level of prices, transparency, efficiency of market opening and competition, Articles 37(1)(i), (j), (k), (l), (u) and 40 (3)

The Law on Electricity ensures to all customers a possibility to choose an independent supplier. In 2014, the average price of electricity sold by the independent producers to the end-users who have chosen the independent electricity supplier equalled 16.91 Lt ct/kWh and was by 1.3 percent higher than in 2013.

Figure 14. Structure of the public price in 2015 {2014} (2013) (Eur ct/kWh)



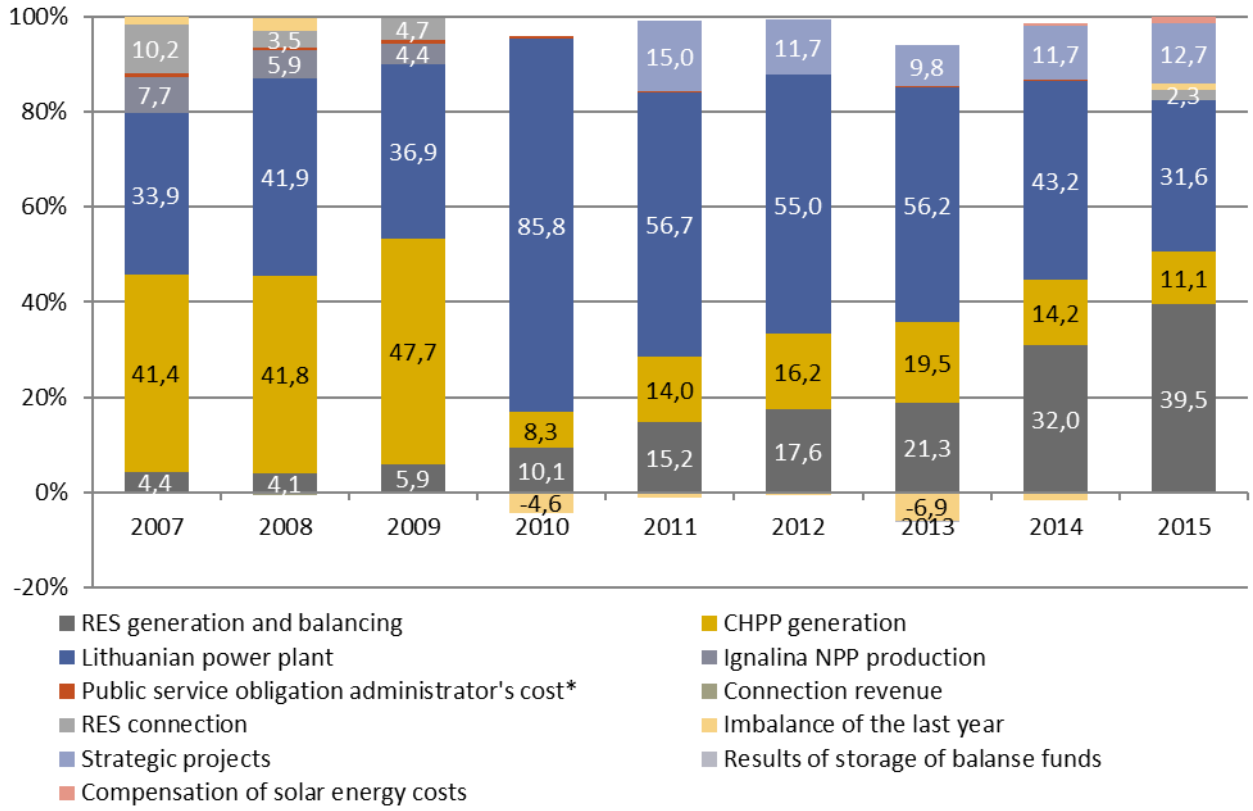
Source – the NCC.

Whereas the infrastructural energy components in 2014 basically remained unchanged and with the PSO price drop by 20.6 percent, from 2.068 Eur ct/kWh to 1.642 Eur ct/kWh, the price cap

of the electricity price to the end-users in 2015, as compared with 2014, decreased by 8.1 percent and equals 10.058 Eur ct/kWh, VAT excluded.

In the structure of the PSO budget in 2015, as compared with 2014, the biggest growth was in the part assigned to the RES production and balancing –from 32.0 to 39.5 percent. Other parts of PSO have decreased.

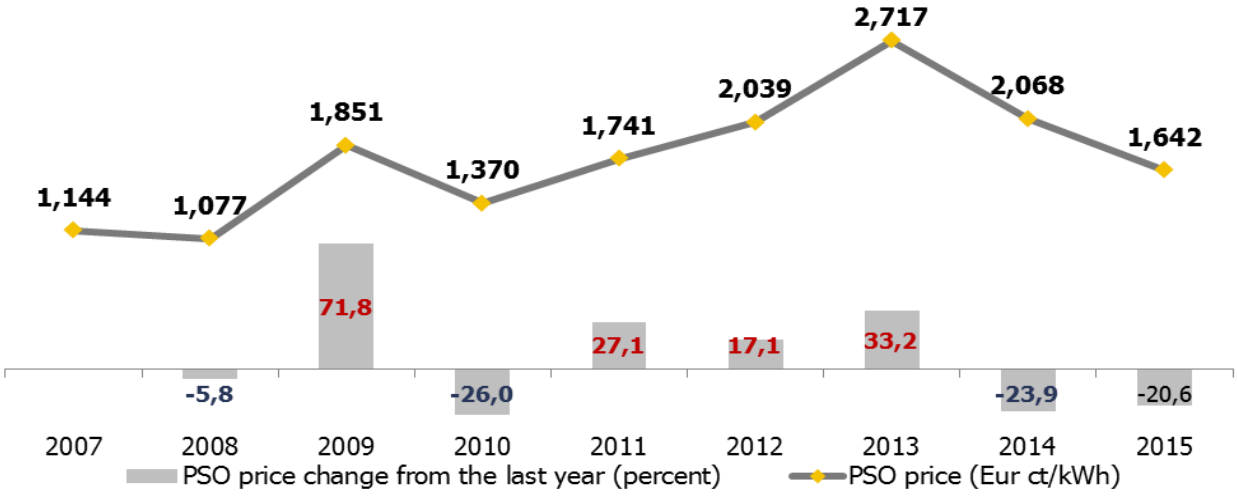
Figure 15. Structure of the PSO funds in 2007–2015 (percent)



* *Till 2011 – the costs of the market operator. Source – the NCC.*

In 2007–2015, the PSO price increased by 43.5 percent, from 1.144 to 1.642 Eur ct/kWh. With regard to the decrease in the demand for the PSO funds the PSO price in 2015, as compared with 2014, decreased by 20.6 percent, from 2.068 to 1.642 Eur ct/kWh.

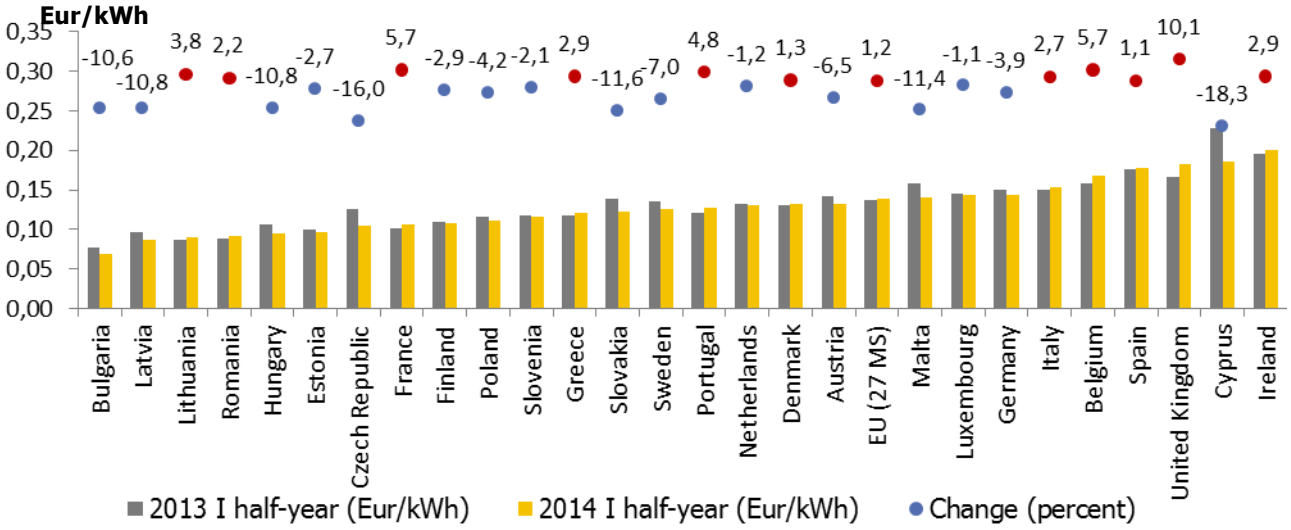
Figure 16. PSO price and dynamics in 2007–2015, Eur ct/kWh



Source – the NCC.

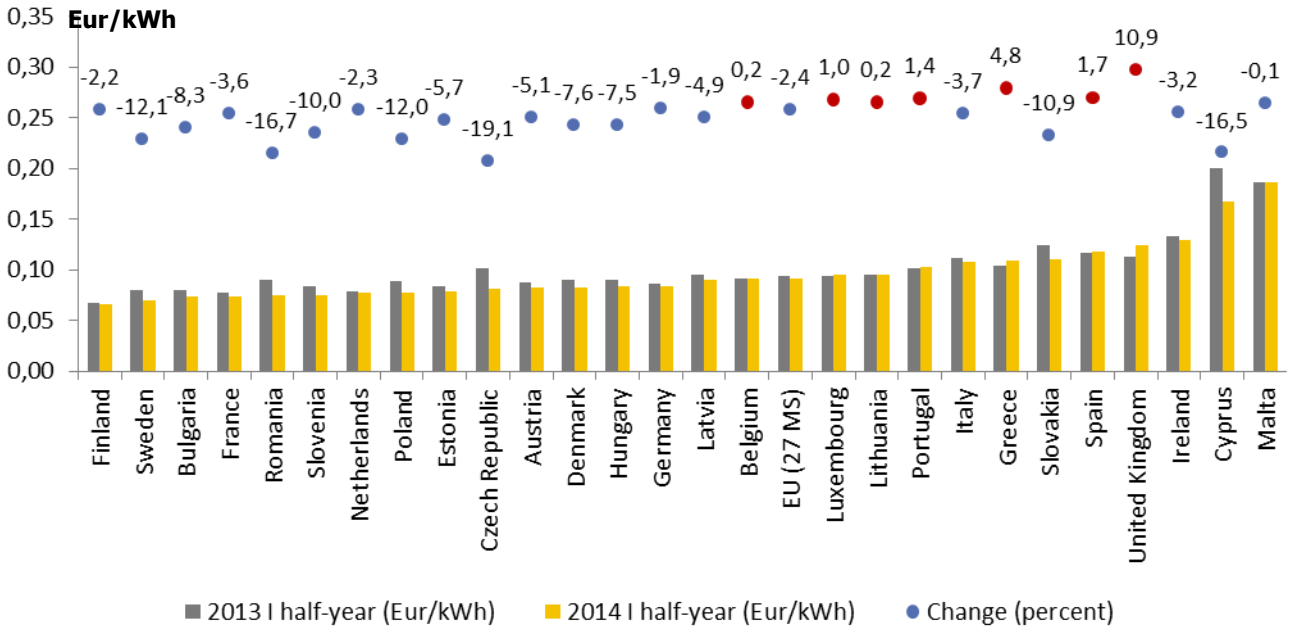
To compare electricity prices for household and non-household customer's information from the Eurostat database have been used. It should be noted that the price paid by domestic consumers remains well below the EU average, while commercial users pay a bit more than this average. It is desirable that the recent price levels decline.

Figure 17. Electricity price to household customers consuming 2500–5000 kWh per year, without taxes in the first half of 2013–2014 (Eur/kWh)



Source – Eurostat.

Figure 18. Electricity price to non-household customers consuming 500–2000 MWh per year, without taxes in the first half of 2013–2014 (Eur/kWh)



Source – Eurostat.

The prices and tariff plans of *AB Lesto* are posted on the website www.lesto.lt and disseminated through the company's customer service centres, the customers are individually informed about the new prices and tariff plans on the self-service website www.manoelektra.lt, and those who have provided their contact information – by SMS messages or e-mail. The company

informs the customers about the tariff plans and the conditions of their application by the customer service number 1802.

3.2.2.2. Recommendations on supply prices, market research and application of measures for promoting efficient competition

Article 37(1) (o)

Pursuant to Article 8, Paragraph 9, Items 15 and 16 of the Law on Energy, the NCC has to monitor whether the concerted practices that would restrict competition have not occurred, including the conditions of the exclusive rights, whereby big non-household customers may be prevented from or their possibilities may be limited to simultaneously conclude agreements with more than one supplier, and has to inform the Competition Council about such practices, and no less than once a year has to issue the recommendations related to the compliance of the prices of the services supplied in the energy sector with the requirements of transparency, equal treatment and other requirements prescribed by the laws, and to submit them to the Competition Council.

The procedures of submitting to the Competition Council the information about the market distortions or restrictions, including the submission of the relevant information on the investigation of the respective occurrences in the market, are carried out in accordance with the requirements set forth in the laws. Pursuant to Article 8, Paragraph 9, Item 16 of the Law on Energy of the Republic of Lithuania and Article 9, Paragraph 4, Item 7 of the Law on Electricity of the Republic of Lithuania, the NCC no less than once per year issues the recommendations on the compliance of the prices of the services rendered in the electricity sector with the transparency, non discrimination and other requirements set forth in the Laws, and submits them to the Competition Council.

Information about the studies carried out and measures taken by the NCC, is described in detail in Chapter 2.1.3.

Article 37(4) (b)

Pursuant to the new revisions of the Law on Energy and the Law on Electricity, the NCC supervises the level of the market opening and the scope and efficiency of the competition in the wholesale and retail trade (including the Power and/or Gas Exchange), the prices applied to the household customers (including the pre-payment schemes), the percentage of the customers who have changed the supplier, the percentage of the customers disconnected from the electricity or gas supply networks, the fees charged for the maintenance services and the supply of these services, within its competence – the cases of distortion of the competition and constraining the activity in the energy sector, and pursuant to Paragraph 19, the NCC performs the market survey, which is aimed at ensuring the efficient competition in the energy sector and preventing the misuse of the influence in the market by the entities having the dominating influence in the respective market.

With an aim to create the competitive and economically sound markets of natural gas and electricity, to prevent the misuse of the dominating influence in these markets, the NCC drew up and on 8 June 2012 approved the *Rules of the Market Survey* (hereinafter – the Rules) that were revised on 30 October 2014 namely that the NCC in order to prevent energy market participants to abuse the market when trading at power exchange and (or) trading under bilateral agreements that are concluded not at the exchange, approved the new version of the Rules of the Market Survey. The key provisions of the Rules:

- The procedure on Market survey has been defined, be detailing stages of the survey;
- The criteria on which the relevant market will be defined have been established, as well as the decision-making procedure, procedure on confidential information protection;
- The evaluation criteria, whereby define the effectiveness of competition in the market and related entities, have been identified;
- The evaluation criteria, which are to decide on sanctions to be adopted, have been defined;

• The list of sanctions that could be applied by the NCC and the procedure for their application has been concluded.

The NCC has been further monitoring and assessing the situation, and, if necessary, can impose the measures set forth in Article 68 of the Law on Electricity to the dominating market participants:

1) To set the obligations to supply the services at the cost-based prices by taking into consideration the reasonable return on investments;

2) To set the obligations related to the costs accounting systems assigned to supply the specific types of the services;

3) To obligate to adjust the applied prices of the services or to set the price caps of the regulated services.

In 2014 the inspections of the operation costs AB *Litgrid*, AB *Lesto* and UAB *Baltpool* and of the management of PSO funds have been completed. The audit results of power companies have been evaluated and incorporated into electricity transmission and distribution price cap set forth in 2015 for 2016.

Article 76 of the Law on Electricity provides that the NCC, in cooperation with the ACER and the national regulatory authorities of foreign countries, exchanges information deemed necessary to perform the NCC assignments in accordance with this law and other legal acts. The NCC ensures the confidentiality of the received information. As it has been already mentioned, in the cases of the outstanding issues or the necessity to make joint decisions, the NCC closely cooperates with the energy regulators of the Baltic region by participating in the meetings, by e-mail or by preparing joint official letters in order to present their positions to the market participants.

3.3. Reliability of supply (if and to the extent in which the Regulator is a competent authority)

Taking the safeguard measures (Article 42)

The National Energy Independence Strategy, which was approved by the Seimas of the Republic of Lithuania in 2012, sets the main goals of the Lithuanian energy sector and the directions for their accomplishment by 2020, as well as the guidelines for the development of the Lithuanian energy sector by 2030 and by 2050. The main objective of the directions and actions of the energy policy set forth in this Strategy – to ensure the energy independence of Lithuania by 2020, thus enhancing the energy security and competitiveness of Lithuania. The energy independence of Lithuania will ensure the possibility to freely choose such mix of the energy resources and the diversity of their supply sources (including the local production), which most of all match up the energy security needs of the state and the interests of Lithuanian consumers to buy the energy resources at the most favourable prices.

Lithuania, like many other European countries, is facing the important challenges in three fields: the security of energy supply, the competiveness of the energy sector and the sustainable development of the energy sector. Such situation of Lithuania was predetermined both by the historic and political circumstances and the limited internal energy resources. The bulk of the fuel and energy consumed in Lithuania are imported. After the closure of Ignalina Nuclear Power Plant, Lithuania is not capable to satisfy its energy demand at competitive prices. The power grid is not interconnected with the European electric power systems; therefore the electricity import in Lithuania is possible only from a few countries.

Striving to achieve that Lithuania would become a prosperous member state of the European Union, the energy sector of the country has to be fully integrated into the European energy systems, and the country itself must have sufficient local capacities to satisfy its energy demand and to be able to participate and to compete in the integrated European Union energy markets, and to efficiently cooperate with other countries in the field of energy. The Strategy defines the goals and

the key solutions in the fields of the electricity, heat, gas, oil, RES, improvement of energy efficiency, environmental protection and the reduction of greenhouse gas emissions. The implementation of the initiatives, indicated in the Strategy and targeted to accomplish the energy independence of Lithuania, would costs to the state sector Eur 3.2–3.8 billion (including the funds of the state-owned undertakings, the European Union structural funds and other international support). The additional Eur 3.2–4 billion would be raised from private investors. Every year these investments would enable to save Eur 0.9–1.2 billion, which now are spent on the import of energy resources (at the current prices this amounts to 3–4 percent of the Gross Domestic Product of Lithuania). Furthermore, after the implementation of the initiatives provided in the Strategy (the strategic projects), the reliable electricity supply will be ensured side by side with the more stable and competition-based prices.

The Rules for Access to the Grid were approved by the Order of the Minister of Energy, whereby the supply conditions of the system and transportation services to the network users and the ancillary services to the network operators, the issues of planning the long-term development, the requirements to the network users and the network operation, the requirements on electricity metering and information exchange in the electric power system are regulated. The provisions of the Rules are binding to the TSO and DSO, electricity producers, consumers and the suppliers. Chapter IV of the Rules stipulates that the system services of preventing and liquidating the accidents and failures include the preparation and revision of the emergency plan, setting and implementing the measures for accident prevention and liquidation, and the liquidation of accidents and failures. The black start of the system after its black-out is coordinated by the TSO. No less than once per year the TSO has to propose to the DSO and the network users, whose electric equipment is connected to the high and medium voltage network, the trainings of the operating and technical staff, simulating the accidents and the implementation of their liquidation plan, to arrange and coordinate these trainings.

In 2015 the Government of the Republic of Lithuania and the Seimas of Lithuania intends to adopt a new energy strategy. The new strategy is needed because it is planned to review the situation in Lithuania after the approaching completion of the huge energy projects – new interconnection links with Poland and Sweden. The future of renewable energy sources at the national level shall also be evaluated. It is planned politically to assess the factor of the tense geopolitical situation of the Russian–Ukrainian conflict.

3.3.1. Monitoring the supply and demand balance

Article 4

The relevant information is provided in Chapters 2.1.2 and 3.1.2 herein.

3.3.2. Monitoring investments in generation capacities related to security of supply

Article 37(1)(r)

In accordance with the provisions of the Law on Electricity the NCC shall monitor the implementation of the grid development plan and shall perform the evaluation. AB *Litgrid* prepares ten-year grid development investment plans on an annual basis which evaluates the development scenarios of forecasted new generation sources.

In the plan that was submitted in 2014 it is forecasted that the installed capacity of new electricity generation sources will increase to 4898 MW or by 14 percent. Half of this share would be the power plants using RES.

It should be noted that LPS has strong enough interconnection links with neighbouring countries as well as it is scheduled from 2016 to start operation of new interconnection links LitPol and NordBalt with Poland and Sweden that will contribute to the security of supply. Under these

conditions, in any case, the technical capacity of electricity generation capacity deficiency (if it is) to cover by imported electricity would be available.

Security of the operating network

Article 7 of Directive 2005/89/EC

About two-thirds of electricity due to uncompetitive production capacity is imported. In 2014 the possible import of electricity amounted to 7789 GWh. Since 2016 LPS can become from the importing to the exporting system, but it is not related to domestic production, but to the increase in interconnection capacity for new electricity interconnection links with Poland and Sweden. It means that power system will become transit and be linked with 4 different markets.

Investments in cross-border capacities 5 and more years ahead

Article 7 of Directive 2005/89/EC

The integration of the LPS with the CEN covers 3 projects: NordBalt, LitPol Link and the synchronisation with CEN. The first 2 shall start operating in 2016.

The interconnection link with Poland – LitPol Link

In March 2014 the construction of the double-circuit 400 kV line from Alytus to the Lithuanian-Polish border: the construction of base for the metal pillars, two thirds of 150 pillars, electricity power lines have been installed.

In May 2014 the construction of the 400 kV switchyard in Alytus transformer substation was started. At the factory it has also been produced and successfully tested one of the most important DC converter station technological devices - converter valves and transformers.

The reconstruction works at Alytus TS 330/110/10 kV to 330 kV switchyards continued in 2014: Dispatcher Center was built, all equipped with the first stage of the open switchyard equipment. The works to be completed in July 2015.

The interconnection link with NordBalt

By the end of December 2014 more than 95 percent of sea cable of NordBalt link was manufactured. On 11 April 2014, the submarine cable-laying vessel *Topaz Installer* approached Kursiu Nerija and started laying electric cables in the Baltic Sea. By the end of August it was built 250 km of the power cable of the link (full link length is 400 km). Marine cable laying work is scheduled for completion by September 2015.

In May–October 2014 on land cable laying works within the territory of Klaipeda city and Klaipeda region municipalities have been carried out – total of 13 km of land cable.

In May 2014 the construction of NordBalt DC converter near Klaipeda TP have been launched. In December 2014 the first two out of four NordBalt transformers were delivered to NordBalt DC converter construction site, which were installed on a special foundation. By the end of December the construction of converter valves building was completed.

In December 2014 the reconstruction of Klaipeda 330/110/10 kV TS was completed. By carrying the reconstruction, the old 330 and 110 kV switchyards were dismantled; the reconstruction of more than ten 110 kV overhead power lines was carried out, while in the territory of the substation new 10 kV, 110 kV and 330 kV modular buildings have been erected.

In the middle of October 2014, 330 kV transmission line Klaipėda-Telšiai (length 89 kilometres) was built and it is the first such line built since the independence of country. The line is connected to the reconstructed Klaipeda TS and after the launch of NordBalt link, this line will be possible to use for the transmission of electricity from Scandinavia to the rest of Lithuania.

Projects on the reconstruction and transmission grid development

In 2014, 17 projects on transmission network reconstruction and transmission grid development designed to ensure the reliability of the network operation and flexibility of

management system, have been completed. Eight projects were related to the reconstruction works of transformer substations and nine - with airline refurbishment works.

Especially important were the renewal of major electricity transmission system nodes: in 2014 the reconstruction works of two 330/110/10 kV transformer substations in Klaipeda and Panevezys were completed and the reconstruction of Siauliai TP 330/110/10 kV to 110 kV switchyard, wherein modern management technologies, equipped with modern facilities have been installed.

There were 330 kV overhead lines refurbished in Vilnius region and in Utena district - 110 kV overhead lines. The replacement of poles was carried out in Northern Lithuania by replacing in 110 kV overhead lines, extending from Pasvalys to Birzai and from Birzai to Latvia. In 2014 projects related to the reconstruction of 110 kV and Trakai KHE 110 kV switchyards have been launched, the tender for Šyšos 330 kV switchyard construction works have been announced.

The above-mentioned projects and Phase II for LitPol Link shall complete the development of interconnection capacity and integration into the continental European networks.

According to *the Description on the Evaluation and Adjustment of Investments of Power Companies with the NCC* the TSO shall match individual investments, whose volume is equal to or greater than Eur 3.5 million.

Strategic projects of transmission grid on interconnection links in 2014–2023 should amount to EUR 684 million and thus together with the development of the transmission grid and rehabilitation in total will amount to Eur 961 million. The investments of *AB Litgrid* over the next three years are shown in the table below.

Table 8. Investments of the TSO in 2016–2018

Indicator	2016	2017	2018
Planned investments, mln. Eur	35.6	37.0	31.7

Source – AB „Litgrid“.

Expected future demand and projected capacity for the next five-year period and 5-15 years ahead

Article 7 of Directive 2005/89/EC

In 2014, in Lithuania the maximum hourly electricity demand (net) was 1835 MW, i.e. by 1.4 percent more than in 2013 (1810 MW). In 2014, the maximum hourly electricity demand in distribution network was 1639 MW, and in January–April 2015 – 1555 MW.

The volume of the currently transmitted electricity and the volume of electricity projected to be transmitted 10 years ahead (in 2014–2023) are shown in the Table.

Table 9. Electricity demand forecast for the next 10 years

Year	Electricity demand according to scenarios (with grid losses), TWh		
	Actual/Base	Optimistic	Pesimistic
2014	10.71		
2015	10.81	10.86	10.76
2016	11.20	11.30	11.11
2017	11.42	11.57	11.27
2018	11.68	11.88	11.48
2019	11.98	12.24	11.72
2020	12.26	12.58	11.95
2021	12.54	12.93	12.17
2022	12.81	13.26	12.37

2023	13.06	13.58	12.55

Source – AB Litgrid.

In 2014, the distribution network transported 9.06 million kWh of electricity, including the technological losses and auxiliary consumption. The quantity of electricity to be transported in 2015–2017 is forecasted in line with the provisions of the *Methodology for Setting the Prices of the Electricity Transmission and Distribution Services and Their Price Caps*, approved by the NCC, i.e. it is being planned that the electricity consumption will grow by ½ of the GDP adjustment value. According to the projections of the economic indicators of Lithuania, announced by the Ministry of Finance in April 2015, the forecasted GDP growth in Lithuania in 2015–2017 will be 2.5 %, 3.2 % and 3.5 % (½ of the GDP growth respectively equals 1.25 %, 1.6 % and 1.75 %).

In 2014, *AB Lesto* supplied 3.22 million kWh of electricity, in this quantity 2.61 million kWh was the public supply of electricity, and 0.61 million kWh – the guaranteed supply of electricity. The company predicts that in the year 2015–2017 the quantity of electricity planned to be supplied to regulated customers will grow by 0.5% by year.

3.3.3. Measures to cover peak demand or shortage of suppliers

Article 4

Pursuant to the legal acts, the electricity TSO *Litgrid AB* is responsible for ensuring the national electricity balance. To secure the supply of electricity to the customers, the TSO has to order the tertiary reserve, which can be activated during the period of the maximum electricity consumption when in the electricity market there is a shortage of supply.

Pursuant to the Procedure Regulations on the Conditions of Temporary Interruption of Electricity Transportation to Assure the Public Interests and the Calculation and Compensation of the Related Losses approved by Order No 1-121 of 19 April 2010 of the Minister of Energy (hereinafter – the Procedure Regulations) and the provisions of other legal acts, the Procedure for Drawing up the Schedules and Performing the Interruption of Electricity Transportation to Customers and Capacity Limitations was approved by Order No 176 of 11 May 2011 the General Director of the company. The limitation schedules (for one year period) are drawn up by *AB LESTO* after summarising and analysing the system demands, network parameters and the available information of the network users, therefore the scopes of the limitations year by year can be adjusted. The network users included in the limitation schedules are in advance in writing informed about the planned limitations and the arising responsibilities. The *AB Lesto* distribution network is capable of satisfying the peak electricity demand because the installed capacity significantly surpasses the existing peak demands. In 2014, AB Lesto did not disconnect or limit the supply to any customer because of the shortage of the distribution capacities.

4. GAS MARKET

4.1. Network regulation

4.1.1. Unbundling of the vertically integrated undertakings

On 30 June 2011, the Seimas of the Republic of Lithuania passed the new Law on Natural Gas, whereby the provisions of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (hereinafter – Directive 2009/73/EB) were transposed to the national legal framework. Chapter 8 of the Law on Natural Gas provides that the natural gas transmission activity has to be unbundled from the natural gas production activity and the supply activity by unbundling the ownership of the transmission system and/or the transmission system operator from the undertakings performing the production and/or supply activity (Article 40).

Pursuant to the *Procedure Regulations for Unbundling the Operations and Control of the Natural Gas Undertakings not Complying with the Requirements of the Law on Natural Gas*, approved by Resolution No 1417 of 7 December 2011 of the Government of the Republic of Lithuania (hereinafter – the Procedure Regulations), on 31 May 2012 *AB Lietuvos dujos* submitted to the NCC the description of the method chosen for unbundling the natural gas transmission activity and control over this activity and for unbundling the distribution activity together with the action plans (hereinafter – the Unbundling Plan), whereby it was envisaged by 31 July 2013 legally, functionally and from the organizational point of view to unbundle the natural gas transmission activity of *AB Lietuvos dujos* by establishing a new transmission operator's undertaking, to complete the unbundling of the control over the transmission activity by 31 October 2014, and legally, functionally and from the organizational point of view by 31 October 2014 to unbundle the natural gas distribution activity by establishing a subsidiary of *AB Lietuvos dujos* (hereinafter – the Distribution Plan).

The NCC, by implementing the requirements of the Law on Natural Gas and the related legal acts enforcing the provisions of the Third EU Energy Package on unbundling the natural gas transmission activity and control over this activity from the production and supply activities, by Resolution No O3-292 of 18 July 2013 issued to *AB Amber Grid* a fixed-date licence for the natural gas transmission activity, which was valid till the effective date of the NCC decision regarding the designation of the natural gas transmission operator. *AB Amber Grid* started the natural gas transmission activity on 1 August 2013.

Unbundling the control and selling AB Amber Grid shares

On 27 March 2014, the Board of *AB Amber Grid* approved the *Preliminary Plan of Unbundling AB Amber Grid Control* and submitted this Plan to the NCC.

Pursuant to Paragraph 2, Article 3 of the Law on the Implementation of the Law Amending the Law on Natural Gas (hereinafter – the Law on the Implementation) providing that prior to concluding a transaction for reaching compliance with the unbundling requirements set forth in Chapter 8 *Unbundling the Operations and Accounts* of the Law on Natural Gas, on the basis whereof the control set forth in Article 41 of the Law on Natural Gas is or can be adjusted (arise, disappear, increase or decrease), the natural gas undertakings not complying with the requirements of the Law on Natural Gas have to obtain the approval by the NCC, therefore *AB Amber Grid* by Official Letter Ref. No. 7-110-806 of 8 May 2014 informed the NCC that *UAB EPSO-G*, whose 100 percent of the shares by the right of trust are managed by the Ministry of Energy of the Republic of Lithuania, intends to acquire 38.91 percent of the company's shares from *E.ON Ruhrgas International GmbH* (hereinafter – E.ON). By implemeting the requirements of the Law on Securities, *UAB EPSO-G* by the subsequent transaction intends to acquire the remaining shares of the company, i.e. to acquire 100 percent of *AB Amber Grid* shares. *AB Amber Grid* requested the NCC to give its consent to the mentioned transactions.

Paragraph 2, Article 3 of the Law on the Implementation provides that in accordance with the procedure set by the Government or its authorized institution, the NCC within 10 business days has to analyze the information submitted by the natural gas undertaking and to give its consent to the transaction, if the NCC has decided that the specific transaction will enable the undertaking not complying with the requirements of the Law on Natural Gas to reach compliance with or to get ready for reaching compliance with the requirements set forth in Chapter 8 *Unbundling the Operations and Accounts* of the Law on Natural Gas. The evaluation of the transaction is an intermediate procedure for the proper unbundling of the activities, which has influence when making the decision by the NCC on the certification of the transmission operator.

To evaluate the transaction, the NCC reviewed the documents indicated in Items 21.1.1–21.1.12 of the *Licensing Rules of the Natural Gas Transmission, Distribution, Storage, Liquefaction, Supply and the Market Operator* (hereinafter – the Rules) submitted by *AB Amber Grid* and *UAB EPSO-G*, which would evidence that between *UAB EPSO-G* and *AB Amber Grid*,

performing the transmission activity, there does not exist the impermissible control as defined in Paragraph 1, Article 41 of the Law on Natural Gas.

The NCC by Resolution No O3-125 of 9 May 2014 stated that:

– The concluded transaction will reduce the control, as set forth in Paragraph 1, Article 41 of the Law on Natural Gas, and the transaction will enable to properly implement the unbundling requirements set forth in Chapter 8 *Unbundling the Operations and Accounts* of the Law on Natural Gas;

– The planned transaction of the acquisition of 38.8 percent of *AB Amber Grid* shares will be financed from the dividends received by the electricity transmission operator *AB Litgrid* in 2013–2014, and from the borrowings. The dividends constitute the bulk of the financing sources of this transaction. The borrowings will be reimbursed during a five-year period, after receiving the dividends of the subsidiaries;

– The NCC will make a final decision whether the unbundling of *AB Amber Grid* control complies with the requirements of Article 41 of the Law on Natural Gas after AB *Amber Grid* submits all documents and data relevant to the designation of the transmission system operator, as set forth in Article 28 of the Law on Natural Gas.

By the same Resolution the NCC approved the transaction of the transfer of the shares to be concluded between *UAB EPSO-G* and *E.ON*, and the acquisition of the shares of *AB Amber Grid* planned by the subsequent transactions to be concluded in accordance with to the Law on Securities, and resolved that the transaction to be concluded between *UAB EPSO-G* and *E.ON* and the planned subsequent transactions cannot make any impact on the prices of the regulated services.

Unbundling the control and selling AB Lietuvos dujos shares

AB Lietuvos dujos by its official letter Ref. No7-11-532 of 12 May 2014 in writing informed the NCC that *UAB Lietuvos energija*, whose 100 percent of the shares by the right of trust are managed by the Ministry of Finance, intends to acquire the shares of *AB Lietuvos dujos* managed by *E.ON*, and requested the NCC to evaluate whether the provision of Article 3, Paragraph 2 of the Law on the Implementation is applicable in the case of *AB Lietuvos dujos* and to adopt the respective decision.

UAB Lietuvos energija indicated that the transaction of the acquisition of AB *Lietuvos dujos* package of the shares will be financed from the equity of *UAB Lietuvos energija* by using the accrued cash and the held state securities of the Government of the Republic of Lithuania.

To evaluate the transaction, the NCC requested to submit all documents and data listed in Item 21.1.1–21.1.12 of the Rules, which would evidence that the impermissible control, as it is defined in Paragraph 1, Article 41 of the Law on Natural Gas, does not exist or at least is not increasing among *UAB Lietuvos energija* and *AB Lietuvos dujos*, performing the supply and distribution activity, as well as *AB Amber Grid*, performing the transmission activity and UAB EPSO-G, which is the shareholder of *AB Amber Grid* and *AB Litgrid* (the electricity transmission operator) in striving to implement the proper unbundling of the activities by 31 October 2014. The NCC reviewed the submitted documents and other available data and found out that the transaction to be concluded between *UAB Lietuvos energija* and *E.ON* will reduce the control of the entity performing the transmission activity in the undertaking performing the supply activity – *AB Lietuvos dujos*: the Ministry of Finance will have indirect control over 56.6 percent of the shares, and in accordance with the information provided in *AB Lietuvos dujos* Official Letter No 7-14-545 of 14 May 2014, it is being planned to acquire the whole 100 percent of the shares in the nearest future, and that would mean that the natural gas supply undertaking would not be controlled by the electricity and/or natural gas transmission system operator, and vice versa.

The NCC by Resolution No O3-127 of 19 May 2014 *Re: The Implementation of the Plan of Unbundling AB Lietuvos dujos Control* approved the transaction of the transfer of the shares to be concluded between *UAB Lietuvos energija* and *E.ON*, as well as of the shares of *AB Lietuvos dujos* planned to be acquired by the subsequent transactions to be concluded pursuant to the Law on Securities, and resolved that the transaction to be concluded between *UAB Lietuvos energija* and

E.ON and the planned subsequent transactions cannot make any impact on the prices of the regulated services. By the subsequent transactions *UAB EPSO-G* and *UAB Lietuvos energija* acquired the packages of the shares owned by *OAO Gazprom*.

Amendment of the Distribution Plan

In the Distribution Plan it had been envisaged to establish a new private limited company, which will perform the natural gas distribution activity. The incorporation of this undertaking had been planned in two stages:

- In the first stage – to establish a subsidiary;
- In the second stage – to increase the authorized capital of the subsidiary by paying for the newly issued shares with non-pecuniary contributions of *AB Lietuvos dujos*.

It had been planned that after the incorporation of the subsidiary, its authorized capital would be increased by transferring to the latter the natural gas distribution activity together with the assets, rights and liabilities assigned to this activity as the non-pecuniary contribution for the new shares to be issued by the subsidiary and to be signed by AB *Lietuvos dujos*.

After the shareholders of *AB Lietuvos dujos* changed, the undertaking by Official Letter No7-11-826 of 21 July 2014 submitted to the NCC for its revision the amended *Description of the Methods for Unbundling AB Lietuvos dujos Distribution Activity* (hereinafter – the Amended Distribution Plan), approved by Minutes No 7 of 21 July 2014 of the Board of *AB Lietuvos dujos*.

AB Lietuvos dujos has chosen the method of unbundling the distribution and supply activity by transferring the supply activity together with the assets, rights and liabilities assigned thereto to the undertaking controlled by the main shareholder of *AB Lietuvos dujos* as follows:

1. *UAB Lietuvos energija* will establish an undertaking for performing the natural gas supply activity (hereinafter – the Supply Company);
2. *AB Lietuvos dujos* will transfer to the Supply Company a property complex (a part of the undertaking), i.e. the natural gas supply activity together with the assets, rights and liabilities assigned thereto;
3. *AB Lietuvos dujos* will continue the natural gas distribution activity, retain the natural gas distribution licence, the held proprietary and other rights in respect of the assets necessary to perform the distribution activity, other rights, liabilities, employees, etc., and also, as prescribed by the Law on Natural Gas, will perform the activity of the guaranteed natural gas supply.

The chosen method of unbundling the distribution and supply activities is most compatible with the management model and the strategy of operations of the group of the main shareholder of *AB Lietuvos dujos*, enables to simplify the management of the individual subsidiaries and establishes conditions for easier consolidation of the activities in the future.

Whereas the undertaking retains the natural gas distribution activity, the process of unbundling the operations is more simple, less expensive and time-consuming, because it will not be required to return and then obtain a new distribution licence, to reregister in the name of another undertaking a large quantity of non-current assets, and a smaller number of the employees will have to be transferred. As it has been set forth in the legal acts, the completion of the unbundling process – 31 October 2014.

The NCC by Resolution No O3-332 of 28 July 2014 Re: *The Amendment of the Action Plan of Unbundling AB Lietuvos dujos Distribution Activity* stated that after submitting the Amended Distribution Plan by *AB Lietuvos dujos* and due to the emergence or occurrence of new circumstances, which are making impact on the implementation of the Distribution Plan, the NCC reserves the right to issue the relevant orders to *AB Lietuvos dujos* concerning the submitted Distribution Plan. The NCC instructed to keep to the methods and deadlines set forth in the Distribution Plan so that the legal, functional and the organizational unbundling of the distribution activity would be completed no later than by 31 October 2014, and to submit to the NCC the documents to be provided under the Distribution Plan on the dates indicated therein and to immediately inform the NCC about the cases of the delayed implementation or the failure to

implement the actions indicated in the Distribution Plan, as well as about any other circumstances, which are important for implementing the Distribution Plan.

On 2 September 2014, a new natural gas supply undertaking UAB *Lietuvos dujų tiekimas*, to which the supply activity of *AB Lietuvos dujos* had been transferred, was registered in the Register of Legal Persons. The NCC by Resolution No O3-824 of 13 October 2014 issued the natural gas supply licence to *UAB Lietuvos dujų tiekimas*.

By taking into consideration that *UAB Lietuvos dujų tiekimas* took over the natural gas supply activity and all related rights and liabilities from *AB Lietuvos dujos*, the NCC by Resolution No 878 of 30 October 2014 *Re: The Application of the Natural Gas Tariffs of UAB Lietuvos dujų tiekimas to Household Customers in 2014* resolved that till the end of 2014 the same tariffs will be valid to the natural gas customers, which for 2H 2014 had been approved by the NCC to *AB Lietuvos dujos*.

By 31 October 2014, the unbundling of the control over the transmission activity was completed, and the natural gas distribution activity of *AB Lietuvos dujos* was unbundled legally, functionally and from the organizational point of view.

The unbundling of the transmission system operator from the vertically integrated undertaking was performed in compliance with Paragraph 5, Article 41 of the Law on Natural Gas (corresponding to Article 9(6) of Directive 2009/73/EB), providing that where the person is the Member State or another public body, two separate public bodies exercising control over a transmission system operator or over a transmission system on the one hand, and over an undertaking performing any of the functions of production or supply on the other, it shall be deemed not to be the same person or persons.

Designation of the natural gas transmission system operator and issuing the licence for the natural gas transmission activity

AB Amber Grid by Official Letter Ref. No 7-302-1569 of 20 October 2014 submitted to the NCC the information about the full unbundling of the undertaking from the vertically integrated undertaking *AB Lietuvos dujos*, and submitted the application to designate *AB Amber Grid* to operate as the transmission system operator and to issue an open-end licence of the natural gas transmission activity. The NCC evaluated whether *de facto* the unbundling of *AB Amber Grid* complies with the requirements of the Law on Natural Gas and the secondary legislation on unbundling the transmission activity (hereinafter – the Requirements) and whether *AB Amber Grid* complies with the requirements of the licensed activity.

Item 1, Paragraph 5 of Article 20 of the Law on Natural Gas (corresponding to Article 9(1)(a) of Directive 2009/73/EB) provides that the persons, seeking to obtain the licenses of the transmission system operators, have to manage the transmission systems either by the proprietary rights, as indicated in this Law, or on any other legal grounds.

To issue the licence, the NCC evaluated the technological capacity of *AB Amber Grid* in line with the requirements of Item 1, Paragraph 5, Article 20 of the Law on Natural Gas, Item 13 of the Licensing Rules, the Procedure Regulations for Assessing the Technological, Financial and Management Capacity of a Legal Entity approved by the NCC Resolution No O3-6 of 29 January 2009 (hereinafter – the Procedure Regulations).

Pursuant to Item 7.4 of the Procedure Regulations, the technological capacity of the entity is evaluated as being sufficient when the equipment managed by the entity as well as the entity's rights to the equipment (including the content of these rights, their validity period and other important criteria) are appropriate and sufficient to perform the respective regulated activity according to the procedure set forth by the laws, and the entity, whose technological capacity is being evaluated, has submitted to the NCC the Certificate issued by the State Energy Inspectorate under the Ministry of Energy, granting him the right to operate the relevant energy equipment, or a copy of the long-term Agreement on the operation and maintenance of the relevant equipment concluded with an undertaking, which has got the Certificate granting the right to perform this

activity. Pursuant to Item 9.2.2 of the Procedure Regulations, *AB Amber Grid* submitted to the NCC the information about the operated equipment.

AB Amber Grid also submitted all relevant information in accordance with the requirements on the evaluation of the undertaking's technological capacity, set forth in the Procedure Regulations.

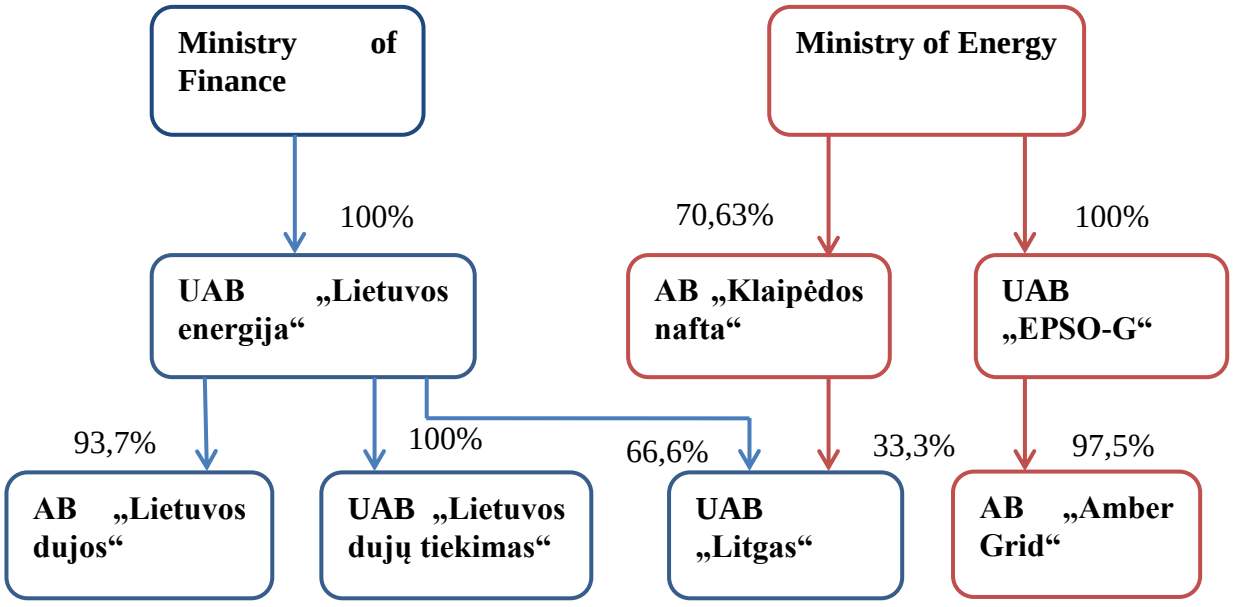
The NCC stated that AB *Amber Grid* by the proprietary rights manages the transmission network, its technological connected facilities and other assets necessary to properly perform the natural gas transmission activity, and complies with one of the requirements for issuing the licence for the natural gas transmission activity set forth in Article 20, Paragraph 5, Item 1 of the Law on Natural Gas.

Item 1, Paragraph 1, Article 41 of the Law on Natural Gas (corresponding to Article 9(1)(b)(i) of Directive2009/73/EB) provides that the same person or persons have no right to directly or indirectly control the undertaking performing the production and /or supply activity and to directly or indirectly control the transmission system operator or the transmission system, or to exercise the control or management rights in respect of the transmission system operator or the transmission system.

Item 2, Paragraph 1, Article 41 of the Law on Natural Gas (corresponding to Article 9(1)(b)(ii) of Directive 2009/73/EB) provides that the same person or persons have no right to directly or indirectly control the transmission system operator or the transmission system and to directly or indirectly control the undertaking performing the production or supply activity, or to exercise the control or management rights in respect of such undertaking. The methods of control embedded in Paragraph 4, Article 41 of the Law on Natural Gas (corresponding to Article 9(2) of Directive 2009/73/EB) consist of: (1) the authority to exercise the voting rights; (2) the authority to appoint the members of the supervisory bodies, management bodies or other body representing the undertaking; (3) the management and having at one's disposal the controlling portfolio of the shares.

The relationship of the undertaking performing the transmission activity is presented in the systematically analyzed general chart of control over all undertakings performing the electricity and natural gas activities in the Republic of Lithuania.

Figure 19. Relationship among the undertakings of the natural gas sector after implementing the Third Energy Package



Source – the NCC.

Having assessed the documents, data and the information submitted by the transmission system operator regarding the implementation of the requirements embedded in Articles 40–42 of the Law on Natural Gas, the NCC by Resolution No O3-5 of 15 January 2015 *Re: The Unbundling of the Natural Gas Transmission Activity and the Preliminary Decision on the Designation of the Transmission System Operator* has resolved as follows:

- To state that the unbundling of the *AB Amber Grid* transmission activity complies with the provisions of Articles 40–42 of the Law on Natural Gas, and *AB Amber Grid* can be designated to operate as the transmission system operator;

- To inform the European Commission about the adopted preliminary decision and to submit the documents justifying this decision;

- To adopt the final decision on the designation of the transmission system operator according to the procedure set forth in Paragraphs 2 and 3 of Article 28 of the Law on Natural Gas;

- In the case of the changed circumstances due to which it is not possible to ensure the implementation of the requirements on unbundling the transmission activities set forth in Articles 40–42 of the Law on Natural Gas, to obligate *AB Amber Grid* to inform the NCC hereof no later than within 5 business days from the date when these circumstances become known to *AB Amber Grid*.

On 26 January 2015, the NCC informed the European Commission about the adopted preliminary decision and submitted all available documents, and on 26 March 2015, the NCC received the European Commission's Opinion C (2015) 2135 final of 23 March 2015 regarding the unbundling of *AB Amber Grid*, whereby the European Commission provided the following significant comments:

- The conception of the proprietary rights of *AB Klaipėdos nafta* and *UAB Litgas*, accepted by the Government of the Republic of Lithuania, is not identical to the method proposed during the certification of *LITGRID AB*, i.e. the separation between the two state institutions will be performed only partially, but not completely;

- Although the European Commission agrees that the adopted structure of the unbundling to a large extent is efficient in seeking to avoid the risks that the control and development of the transmission system operator will not be carried out independently, the European Commission is not satisfied that the in-depth assessment of other indirect rights by the Ministry of Energy in *UAB Litgas* was not performed in accordance with Article 9(2) of Directive 2009/73/EC;

- The European Commission is concerned that the unacceptable impact, e.g. in terms of the capacity allocation, maintenance or the investments, can be made on the undertaking *AB Amber Grid* by the financial incentives of the Ministry of Energy, which is the shareholder of the gas supplier *UAB Litgas.*

Due to the aforesaid reasons, the European Commission advised the NCC to certify *AB Amber Grid* only on condition that all shares of *UAB Litgas*, which are held by *AB Klaipėdos nafta*, will be transferred. If in performing such process it will be also necessary to transfer the employees, a reasonable transitional period, e.g. of twelve months, can be set.

Having evaluated the Opinion provided by the European Commission, the NCC by Official Letter Ref. No R2-(T)-1025 of 27 March 2015 requested the Ministry of Energy and the Ministry of Finance, respectively having control over the natural gas transmission and the supply activities, to submit the information about the possibilities to implement the condition of *AB Amber Grid* certification provided in the mentioned Opinion of the European Commission, i.e. during what time period not exceeding the maximum twelve-month transitional period proposed by the European Commission the shares of *UAB Litgas*, held by *AB Klaipėdos nafta*, could be transferred to the entity, which is neither directly nor indirectly controlled by the Ministry of Energy.

The Ministry of Energy provided its answer to the mentioned enquiry by Official Letter Ref. No 7.5-09)3-993 of 2 April 2015, and the Ministry of Finance – by Official Letter Ref. No (27.18-02)-5K-1507298-6K-1502806 of 2 April 2015.

The Ministry of Energy, which indirectly controls *AB Amber Grid* and holds up to 1/3 of *UAB Litgas* shares, confirmed that it will take the necessary actions to transfer the shares of *UAB*

Litgas, held by *AB Klaipėdos nafta*, to the entity which is neither directly nor indirectly controlled by the Ministry of Energy. The Ministry of Finance informed that it will make all efforts and will search for the appropriate means to ensure the completion of such transfer of *UAB Litgas* shares, held by *AB Klaipėdos nafta*, within the time period not exceeding 12 months.

The NCC by Resolution No O3-242 of 10 April 2015 resolved as follows:

1. To state that the unbundling of *AB Amber Grid* transmission activity complies with the provisions of Articles 40–42 of the Law on Natural Gas and *AB Amber Grid* can be designated to operate as the transmission system operator, on condition that that the Ministry of Energy of the Republic of Lithuania, no later than within 12 months from the effective date of the NCC Resolution regarding *AB Amber Grid* designation, will perform the actions for the transfer of *UAB Litgas* shares held by *AB Klaipėdos nafta* to the entity, which is neither directly nor indirectly controlled by the Ministry of Energy, as it has been indicated in the Opinion by the European Commission;

2. To revoke the NCC Resolution No O3-292 of 18 July 2013 *Re: Issuing a Fixed Date Licence for the Natural Gas Transmission Activity to AB Amber Grid;*

3. To issue to *AB Amber Grid* an open-end licence for the activity of the transmission system operator, on condition that the Ministry of Energy of the Republic of Lithuania, no later than within 12 months from the effective date of the NCC Resolution regarding *AB Amber Grid* designation, will perform the actions for the transfer of *UAB Litgas* shares, held by *AB Klaipėdos nafta*, to the entity, which is neither directly nor indirectly controlled by the Ministry of Energy, as it has been indicated in the Opinion by the European Commission.

4. To obligate *AB Amber Grid*:

4.1. To ensure that no later than within 12 months from the effective date of this NCC Resolution the actions for the transfer of *UAB Litgas* shares held by *AB Klaipėdos nafta* to the entity, which is neither directly nor indirectly controlled by the Ministry of Energy, as it has been indicated in the Opinion by the European Commission, will be completed, and to inform about the progress in performing this process within 10 calendar days from the end of the reported Quarter;

4.2. In the case of the alteration of other circumstances, excluding those indicated in Item 4.1. herein, due to which the implementation of the requirements set forth in Articles 40–42 of the Law on Natural Gas for unbundling the transmission activity cannot be ensured, to inform the NCC no later than within 5 business days from the date when these circumstances became known to *AB Amber Grid*.

4.1.2. Technical functioning

Rules on access to the system

Pursuant to Paragraphs 3 and 4, Article 49 of the Law on Natural Gas, the NCC revises and approves the rules on access to the system prepared by the transmission and distribution system operators. In 2014, having evaluated the compliance of the submitted rules on access with the requirements approved by the NCC, the NCC approved the *AB Amber Grid Rules on Access to the Natural Gas Transmission System* (Resolution No O3-35 of 31 January 2014). Later these Rules were updated and conciliated with the NCC by revising the provisions forming the Entry–Exit Tariffs Model, the provisions on adjusting the gas year, as well as the rights and obligations of the transmission system operator and the transmission system users, etc. (Resolutions No O3-436 of 28 July 2014, No O3-913 of 27 November 2014). Moreover, the NCC approved the *AB Lietuvos dujos Rules on Access to the Distribution System* (Resolution No O3-751 of 28 July 2014). Later these Rules were updated and conciliated with the NCC by revising the provisions of the procedure for allocating the natural gas quantities to the system users and gas consumers (Resolution No O3-889 of 17 November 2014). The approved Rules defined the procedure and conditions for using the natural gas systems, the rights and obligations of the system operators and system users, the

guidelines of cooperation among the system operators, mechanisms of the allocation of the system capacities and congestion management, etc.

Pursuant to Paragraph 1, Article 10 of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania, Item 21 of Resolution No 199 of 15 February 2012 of the Government of the Republic of Lithuania *Re: The Implementation of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania*, Item 20 of the Requirements to the Rules on Access to the Liquefied Natural Gas Terminal approved by Resolution No O3-433 of 21 December 2012 of the National Commission for Energy Control and Prices, the NCC approved the *Rules on Access to the Liquefied Natural Gas Terminal* prepared by *AB Klaipėdos nafta* (Resolution No O3-103 of 14 April 2014). The mentioned Rules were updated and conciliated with the NCC by revising the provisions on shortening the deadlines of the capacity allocation procedures, distribution of responsibilities and risks between the operator and the user of the Terminal , procedures for reloading natural gas, etc. (Resolution No O3-810 of 26 September 2014).

Balancing services

The NCC approved the updated *AB Amber Grid Rules on Balancing the Natural Gas Transmission System* (Resolution No O3-914 of 27 November 2014).

In 2014, the Rules were supplemented with the requirements, which are applied to the transmission system operators, system users, operators of other systems; the provisions on imposing the disbalance when the transported quantities of natural gas are adjusted were revised and formulated more explicitly, the conditions on providing a performance security of contractual obligations were defined, etc.

The Rules regulate the relationship, rights and obligations of the transmission system operator, users of the transmission system and other market participants trading in gas on the basis of bilateral selling-purchasing agreements and/or at the Exchange, the distribution system operators and the market operators in the cases when these entities are taking part in the system balancing.

The primary responsibility for balancing the natural gas quantity is born by the market participants taking part in the balancing of the transmission system, who during the balancing period have to balance the natural gas quantity, which was withdrawn from the transmission system, by supplying the equivalent gas quantity to the system. The final responsibility for the balanced operation of the transmission system is born by the transmission system operator. His reasoned instructions on balancing the gas flows are binding upon the market participants taking part in the balancing of the transmission system and the distribution system operators.

The consumers, to whom the supply undertakings supply gas up to the consumer's system, are not involved in the balancing of the transmission system. To these consumers gas is delivered and supplied by the supply undertaking to the delivery point set forth in the gas selling-purchasing agreement (-s) or the agreement (-s) on the supply of services. In this case the supply undertaking is considered to be a system user.

When the market participant, who is taking part in the balancing of the transmission system, fails to balance the gas quantities, the transmission system operator shall sell the balancing gas to this market participant, if the latter has caused the gas shortage in the transmission system, or shall purchase the balancing gas from this market participant, if the latter has caused the gas surplus in the transmission system, and shall calculate the disbalance fee in accordance with the balancing prices set by the NCC, and shall take measures to maintain the balance of the transmission system. The whole transmission system operated by the transmission system operator is a single balancing zone. The market participants, who are taking part in the balancing of the transmission system, have to comply with the requirements of the balancing rules and to conclude the agreements stipulating the balancing conditions with the transmission system operator. The disbalance fee is applied to the market participants, who are taking part in the balancing of the transmission system and who have caused the disbalance, which is calculated by multiplying the quantity of the disbalance gas, which occurred during the balancing period and exceeded the disbalance tolerance margin, by the balancing price set by the NCC. The tolerance margin of 5 percent is applied in October–April, and

of 15 percent in May–September months. The disbalance fee equals 10 percent of the marginal purchasing price of the balancing gas in the cases when the market participant has caused the gas shortage in the transmission system, or 10 percent of the marginal selling price in the cases when the market participant has caused the gas surplus in the transmission system. In the cases when the market participants have caused the disbalance and the available gas resources held by the transmission system operator are not sufficient to ensure the proper operation of the gas transmission system, the transmission system operator shall buy/sell gas at the Natural Gas Exchange and/or under bilateral agreements. The transmission system operator shall trade in the balancing gas at the Natural Gas Exchange pursuant to the provisions of the Regulations on Trading at the Natural Gas Exchange.

The Rules provide that the information about the status of the system users in respect of the system balancing is provided individually to each system user, on the balancing account developed for each user of the system.

The NCC supervises the activity of the balancing service, evaluates the costs and revenues from the balancing service. The Rules on Providing Information by the Energy Undertakings, the new revision whereof was approved by the NCC Resolution No O3-209 of 6 March 2015, provide that the entity holding the transmission system operator's licence, within 20 days after the expiration of the reported period shall submit to the NCC the information split by days about the quantities of the balancing gas, which was purchased, sold by the entity, the gas quantities withdrawn/ supplied from/to the gas storage facility (-ies) or the transmission system (-s) for the balancing purposes by indicating the price of the gas assigned for maintaining the balance, as well as the information about the gas quantity stored for the balancing purposes. The pricing of the balancing service in the transmission activity is based on the principle that the revenues from the balancing activity have to correspond to the costs of the balancing activity. Every year the difference between the costs and the revenues of the balancing activity is evaluated in adjusting the transmission price cap.

Paragraph 5, Article 34 of the Law on Natural Gas provides that the distribution system operator, if he is responsible for maintaining the balance in the distribution system, for this purpose has to issue the Rules, which will be objective, transparent and undiscriminating. *UAB Intergas*, the distribution system operator in Lithuania, is responsible for balancing the distribution system owned by this undertaking. The NCC by Resolution No O3-12 of 19 January 2015 approved the *UAB Intergas Rules on Balancing the Natural Gas Distribution System*. The tolerance margin and the disbalance fee set forth in the Rules on Balancing the Distribution System are analogous to those applied in the transmission system.

Indicators of the quality and reliability of services

The Law on Natural Gas provides that the NCC shall set the indicators of the quality, including the reliability, of the services supplied by the natural gas undertakings, as well as the procedure for their evaluation. Pursuant to the Procedure Regulations for the Quality and Reliability Indicators of the Services Supplied by the Natural Gas Undertakings and their Evaluation, approved by the NCC Resolution O3-90 of 11 April 2012, the minimum quality indicators to each gas undertaking are set individually for each particular period of the price regulation.

The NCC has been monitoring the indicators of the transportation reliability and the quality of the services since 2009. The key indicators of the quality of the uninterruptible natural gas supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI) during the reported period. The SAIDI and SAIFI indicators are differentiated depending on the reasons of the supply interruption.

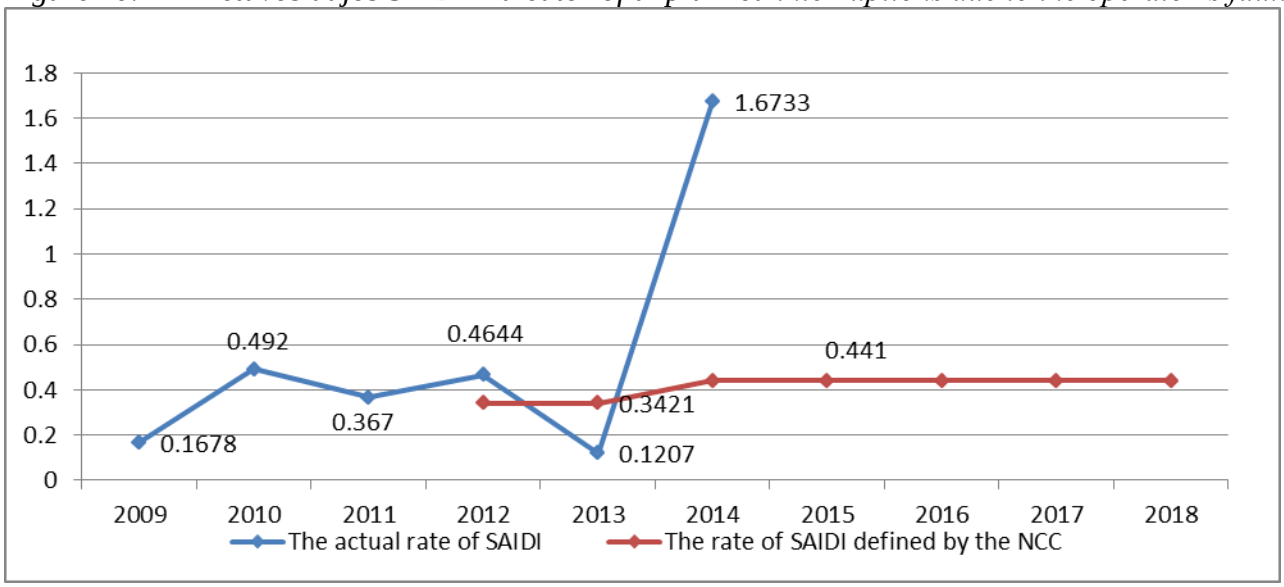
In 2013, the NCC set the minimum quality levels for the regulation period or the part whereof individually to each gas undertaking. In 2015, a new five-year price caps regulation period started for 3 undertakings: *UAB Intergas, UAB Fortum Heat Lietuva, UAB Druskininkų dujos*, therefore in 2014 the NCC set for these undertaking the minimum levels of the quality of the services, which will be valid till 31 December 2019.

The incentives are given to the gas undertakings, which supply the services at the higher parameters than the minimum quality levels set to them, and vice versa, with the lower indicators of the quality of the services and the reliability of supply, the economic sanctions are imposed, as provided in Items 20 and 50 of the Methodology for Setting the State-Regulated Prices approved by the NCC Resolution No O3-367 of 13 September 2013 *Re: The Approval of the Methodology for Setting the State-Regulated Prices.*

The NCC by Resolution No O3-838 of 13 October 2014 stated that the services supplied by *AB Amber Grid*, *AB Lietuvos dujos*, *AB Achema*, *UAB Intergas*, *UAB Druskininkų dujos*, *UAB Fortum Heat Lietuva*, *AB Agro Company Josvainiai* complied with the minimum quality levels set to the respective gas undertaking.

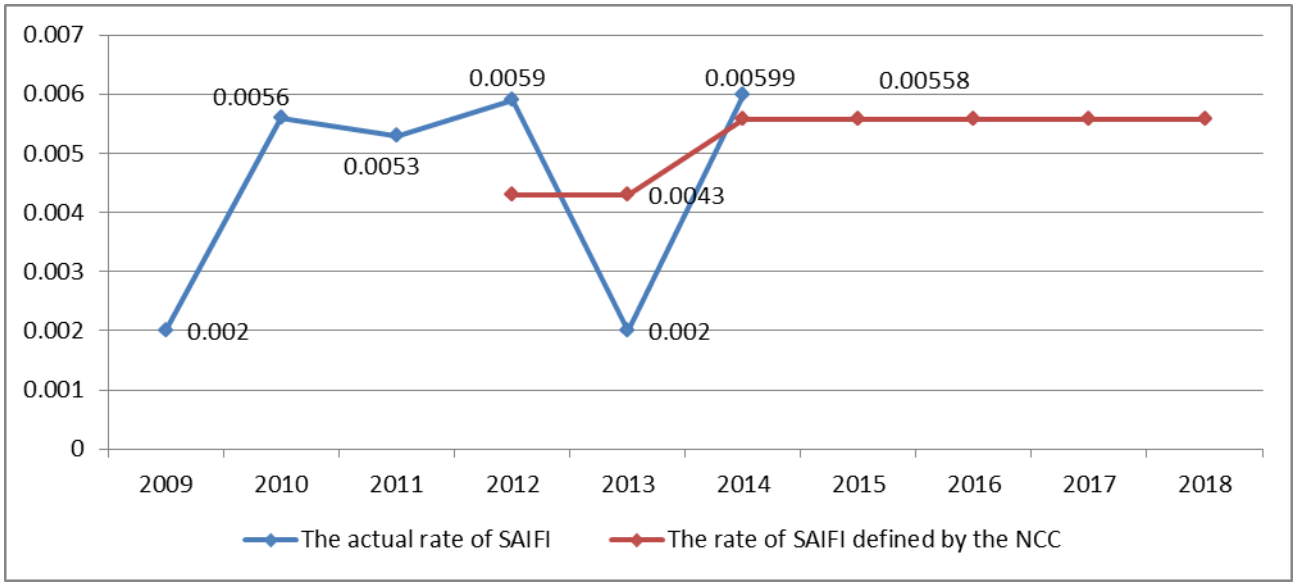
The SAIDI and SAIFI indicators of the biggest natural gas undertaking *AB Lietuvos dujos* in 2009–2014 are shown in the Figures. The indicators for 2014 were submitted by the undertakings, but have not been approved yet by the NCC.

Figure 20. AB Lietuvos dujos SAIDI indicator of unplanned interruptions due to the operator's fault



Source – the NCC.

Figure 21. Average number of unplanned interruptions per customer at AB Lietuvos dujos



Source – the NCC.

As seen from the Figures, in 2014, as compared with 2013, the indicators of *AB Lietuvos dujos* deteriorated. The average duration of unscheduled interruptions increased from 0.1207 to 1.6733, and the number of interruptions – from 0.002 to 0.00599. The rise of these indicators was predetermined by the disruption in the natural gas transportation, which occurred in the natural gas system managed by *AB Lietuvos dujos* and was caused by the fault of the natural gas pressure regulation equipment. There were no interruptions in other natural gas distribution undertakings.

In 2014, the indicator of the customer applications timely analyzed (ATS) in the distribution system of *AB Lietuvos dujos* was as high as 99.36 percent, while in 2013 it was 98.91 percent. The indicator of the customer applications timely analyzed set by the NCC till 31 December 2018 is 95.43 percent. Other undertakings timely analyzed applications of both household and non-household customers. The time of arrival of the emergency services to household customers' sites to verify a reported accident causing gas leakage in all companies 100 percent corresponded to the set time.

Monitoring the time of customers' connection to the network and maintenance works

The transmission and the distribution system operators render the service of connection of new customers' systems to the operating transmission and distribution systems, which is subject to 2 service quality requirements:

• Examination of new customers' applications to connect their systems to the operating transmission system;

• Connection of a new customer's system to the operating transmission or distribution system in accordance with a connection contract.

In 2014, the rate of timely, i.e. within 30 calendar days, sent responses to a new customer at *AB Amber Grid* was 100 percent. In 2013, this indicator was as high as 100 percent as well.

There were no customers, which had not been connected to the transmission system due to the fault of the transmission system operator *AB Amber Grid*. According to the data of *AB Lietuvos dujos*, in 2014 the rate of new customers, which had not been connected due to the distribution system operator's fault, equaled 0.42 percent, in 2013 – 0.55 percent. Other undertakings both in 2013 and 2014 timely connected new customers.

The NCC by Resolution No O3-192 of 31 January 2014 approved the *AB Amber Grid Rules of Access to the Transmission System*. The approved Rules have defined the procedure and conditions for access to the natural gas systems, the rights and obligations of the operators and system users, the cooperation guidelines, the mechanisms of the capacity allocation and congestion management, the organization of the repair and maintenance works, notification about them, the procedure and principles of performing the repair and maintenance works, etc.

The transmission system operator has to post on its website the schedule of the repair works, listing the construction, reconstruction and maintenance works of the gas transmission system scheduled in the current year, which can affect system user rights. The schedule of the repair works must indicate the sites and the types of the works planned to be carried out therein, the commencement and completion dates of the planned repair works and disconnection works in the sites of certain zones, their impact on the gas supply. The transmission system operator has to publicly inform the system users about the planned gas system repairs or the beginning of the connection works of other user systems, when gas transmission is interrupted or restricted, at least 42 calendar days before the start of the said works. The transmission system operator has to notify the system users of the time of interruption or restriction of the gas transmission and of the duration thereof in writing, by mail, e-mail, via a courier or by fax at least 5 days before the beginning of the gas system repairs or the connection works of other user systems. The distribution system operator has to notify the system users about the start and the duration of interruption or restriction of gas distribution at least 5 days before the commencement of the maintenance works of the gas system or the connection works of other gas systems by one of the following – by mail, e-mail, via a courier or by fax.

The localization of accidents and failures is performed in accordance with the *Plan of Actions of the Personnel for the Localization of Accidents and Failures in the Natural Gas Systems*, approved by Order No 1-69 of 30 June 2014 of *AB Lietuvos dujos* Chief Executive Officer.

AB Lietuvos dujos indicated in the Quality Indicators Report for 2014 that on 4 October 2014 the information was received about the interrupted gas supply, which occurred on 4 October 2014, 11:38 a.m. in Mindaugo str., Širvintos. After verifying the reported accident, it was found out that the operation of the gas pressure regulator was disrupted because of the defect in the design of the device. After the repair works, the gas supply was restored on 5:15 p.m., and the supply to the customers was gradually restored by the 6th of October. The replacement of the pressure regulator took 3.5 hours.

To avoid similar accidents, the preventive measures were taken – the unscheduled inspection of all gas pressure regulation devices was conducted at *AB Lietuvos dujos* Vilnius Branch.

Access to the storage facilities

Article 50 of the Law on Natural Gas establishes two methods for access to the underground natural gas storage facilities owned by the undertakings and for using the services of natural gas storage in the pipelines:

1. When the right to use the natural gas storage facilities, the services of natural gas storage in the pipelines, and other additional services is implemented by negotiations, the consumers and system users negotiate the agreements with a respective operator of the storage system or with the natural gas undertakings. Every year, the storage system operators and natural gas undertakings publicly announce the commercial terms for using their storage facilities, the services of natural gas storage in the pipelines and other additional services. The storage system operators and natural gas undertakings shall set such terms after consulting with the system users.

2. The NCC takes the necessary measures to ensure the right of the natural gas undertakings and consumers to use the storage facilities, services of natural gas storage in the pipelines and other additional services at the tariffs announced in advance and/or under other conditions and obligations in using the storage facilities, services of natural gas storage in the pipelines. The NCC shall set the fees and their calculation methodology after consulting with the system users.

Currently there is no gas storage facility in Lithuania, thus *UAB Lietuvos dujų tiekimas* uses the Inčukalns natural gas storage facility in the Republic of Latvia. Based on the submitted applications, *Latvijas Gaze AS* allocates the capacities of the gas storage facility in the Republic of Latvia.

UAB Lietuvos dujų tiekimas under the agreement with *Latvijas Gaze AS* stores at Inčukalns storage facility the amount of natural gas that is needed to supply with gas those household customers and non-household consumers, which have signed the agreements on the uninterruptible supply of natural gas, for the time period set by the State.

Monitoring the security measures (Article 41(1) (t))

In 2014, as compared with 2012 and 2013, the provisions of the laws governing the supervision of security measures remained unchanged (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012 and 2013).

4.1.3. Network and LNG tariffs for access and connection

Unbundling the accounts and ensuring the avoidance of cross subsidies

To establish the explicit and transparent rules for unbundling the accounts and allocating the costs by the natural gas undertakings, the NCC prepared and approved the *Description of the Requirements to the Natural Gas Undertakings for Unbundling the Accounts, Allocating the Costs and the Requirements Related to Unbundling the Accounts*, which came into validity on 1 January 2014. The natural gas undertakings, which were operating on the date of validity of the

Description, within six months have to submit to the NCC the Description of the Regulatory Accounting System executed in a freely chosen form, which has to reveal the principles, methods and procedures used by the natural gas undertaking in the regulatory accounting (unbundling the accounts and allocating the costs) in performing the unbundling of the accounts and the allocation of the costs. Every year, on the basis of the provided Descriptions of the Regulatory Accounting System, the natural gas undertakings submit to the NCC the annual financial statements of the regulated activity.

In the natural gas sector the NCC prepares and approves the Methodologies for setting the state-regulated prices, sets (adjusts) and approves the price caps, the requirements for unbundling the accounts and allocating the costs of the regulated activity in order to avoid cross subsidies.

The price caps are set for a 5-year period, and once per year the price caps are revised for 8 entities. The NCC also inspects whether the specific prices of the regulated services set by the gas undertakings do not discriminate individual consumer groups, and approves the natural gas tariffs for household customers twice a year. Every year the NCC sets, revises and verifies about 100 prices.

Since 2015, the price caps and the specific prices of the natural gas undertakings are set by using the natural gas quantity expressed in energy units (kWh), because pursuant to the Procedure Regulations for the Accounting of Natural Gas approved by the Order of the Minister of Energy of the Republic of Lithuania, from 1 January 2015, the natural gas quantity in the transmission and distribution systems has to be accounted either in volume units (m3) and/or in energy units (kWh), by using the upper calorific value of natural gas. These adjustments are necessary for ensuring the efficient operation of the Liquefied Natural Gas (LNG) Terminal, because the quality parameters of the natural gas supplied to Lithuania significantly differ from up-till-now supplied natural gas from the Russian Federation, therefore for the purposes of accounting and settlement of payments it is reasonable to use the energy value but not the volume of natural gas.

Important changes in tariff regulation

Entry – Exit Tariffs in the transmission system

Article 19 of the Preamble of Regulation (EC) No 715/2009 provides that to enhance competition through liquid wholesale markets for gas, it is vital that gas can be traded independently of its location in the system. The only way to accomplish this goal is to grant the right to the network users to freely book the gas input and output capacities thus ensuring the gas transportation through the zones, but not by the routes defined in the Agreements.

With regard to this, in September 2013 the NCC started the works for implementing the Entry–Exit Tariffs Model in the natural gas sector. On 7 August 2014, the NCC approved the *Methodological Guidelines of the Entry–Exit Tariffs Model in the Natural Gas Transmission System (approved on 7 August 2014, No O3-765).*

The Guidelines include:

- Overview of the existing situation, legal framework and the main players of the natural gas market;
- Overview of the strategically important projects in the transmission system;
- Analysis of the possible calculation methods of the Entry–Exit Tariffs Model;
- Selection and justification of the most acceptable methodology for the natural gas transmission system of Lithuania, the development of the Entry–Exit Tariffs Model;
- Description of the requirements for the input data in the Entry–Exit Tariffs Model;
- Analysis of the implementation of Entry–Exit Tariffs Model in the context of the existing regulation.

After the amendments of the *Methodology for Setting the State Regulated Prices in the Natural Gas Sector* were approved by the NCC on 10 October 2014, since 1 January 2015 the application of the Entry–Exit Tariffs Model in Lithuania has been started.

The main provisions:

– *The entry and exit points of the natural gas transmission system of Lithuania were identified.*

The entry points of the natural gas transmission system of Lithuania are:

1) The interconnection point between the transmission system and the link of the LNG Terminal in Klaipėda;

2) The interconnection point between the transmission systems of Lithuania and Latvia;

3) The interconnection point between the transmission systems of Lithuania and Belarus.

The exit points of the natural gas transmission system of Lithuania are:

1) The interconnection point between the transmission systems of Lithuania and Latvia;

2) The interconnection point between the transmission systems of Lithuania and the Kaliningrad Region of the Russian Federation;

3) One internal exit point to all domestic users of the transmission system.

– *The 20/80 ratio for allocating the transmission revenues between the entry and exit points was set* to create preconditions for the development of the natural gas market, the entrance of new suppliers to the market and the formation of competitive conditions.

– *The application of the security component was embedded*, by stipulating that it is applied:

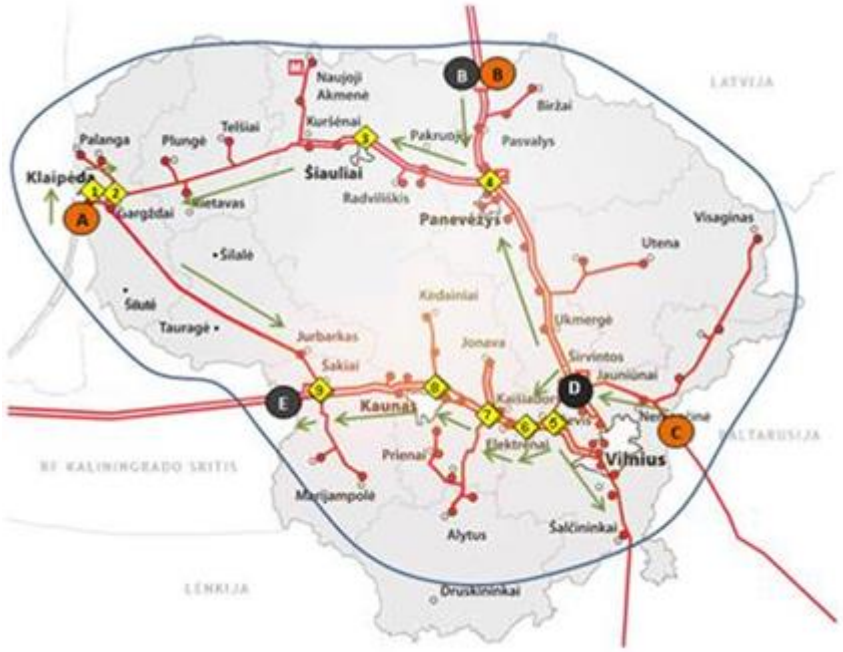
1) To the internal exit point to all domestic users of the transmission system;

2) Its application to the LNG Terminal will be started in the year, immediately following the year when the capacities of the LNG Terminal, which are not related to the transportation of the mandatory quantity from the LNG Terminal, will have been booked and used, and will be applied to the transported natural gas quantity, which is not related to the mandatory quantity from the LNG Terminal.

– *The use of the LNG Terminal is promoted* by making an exception to the entry point of the LNG Terminal in 2015, i.e. the price cap set for the interconnection point between the transmission system and the link of the LNG Terminal in Klaipėda equals 0;

– *The transitional period for the transmission from the third country to the third country (transit) through the territory of the Republic of Lithuania was set.* After the implementation of the Entry–Exit Tariffs Model, the transmission from the third country to the third country through the territory of the Republic of Lithuania by the transmission pipelines became a regulated activity and is categorized as the transmission service via the gas transmission pipelines. To evaluate the pay-back of the already made investments, which are allocated to the activity of the transmission from the third country to the third country through the territory of the Republic of Lithuania, until the pay-back period of the investments this service in the regulatory accounting will be separated as a separate service provided by the transmission business unit.

Figure 22. Topological map of the Lithuanian natural gas transmission system according to the Entry-Exit Tariffs Model



Source – the NCC.
** Note. Points A, B and C on the map (shown in yellow) were defined as the entry points of natural gas; Points B, E and D (shown in black) were defined as the exit points, where Points B and E are the cross-border points, and Point D – the internal point to all domestic users of the natural gas transmission system of Lithuania.*

The NCC by Official Letter Ref. No R2-2805 of 11 November 2014 addressed the Agency for the Cooperation of Energy Regulators (ACER) with the request for its Opinion on the compliance of the approved Methodology with the EU legislation in order to evaluate whether the pricing model selected by the NCC – to start the regulation of the transmission activity from the third country to the third country through the territory of the Republic of Lithuania and to equally treat all users of the transmission system – complies with the EU legal framework. According to the NCC data, the Opinion by ACER should be issued in July 2015.

Adjustment of AB Amber Grid transmission price cap in implementing the Entry–Exit Tariffs Model

AB Amber Grid submitted to the NCC the information about the segments of the gas pipelines and the direct costs of Lt 51.94 million allocated to them as well as the forecasted capacities of the entry and exit points in 2015. Pursuant to the provision of the Methodology providing that for the investments, related to the natural gas transmission from the third country to the third country through the territory of the Republic of Lithuania, which before the implementation of the Entry–Exit Tariffs Model in the transmission system had not been regulated, rate of return shall be set by ensuring the pay-back of these investments, made before the regulation was introduced, during the pay-back period of the investments. On 10 October 2014, AB *Amber Grid* submitted the projected level of the revenues to be earned in 2015 from to the natural gas transmission from the third country to the third country through the territory of the Republic of Lithuania, ensuring the pay-back of the investments made before the implementation of the Entry–Exit Tariffs Model – Lt 39.05 million.

The total level of the transmission revenues in 2015 set by the NCC – Lt 186.74 million. Whereas since 2015 the implementation of the Model of Entry–Exit Tariffs has been started in the natural gas sector and the transmission price cap has to be set and adjusted per capacity unit, the NCC at its meeting adjusted the price caps of *AB Amber Grid* transmission service for 2015.

Table 10. Price caps of the transmission service in 2015 set per capacity unit

At the entry points of the natural gas transmission system of Lithuania:	
The interconnection point of the transmission system of Lithuania with the link of the Liquefied Natural Gas (LNG) Terminal in Klaipėda;	0 Lt/MWh/day/year; (0 Eur/MWh/day/year)
The interconnection point of the transmission system of Lithuania with the transmission system of Latvia, whereby the natural gas transmitted to the natural gas transmission system of Lithuania accounted in Kiemėnai Gas Metering Station;	171,20 Lt/MWh/day/year; (49,58 Eur/MWh/day/year)
The interconnection point of the transmission system of Lithuania with the natural gas transmission system of Belarus, whereby the natural gas transmitted to the natural gas transmission system of Lithuania accounted in Kotlovka Gas Metering Station;	171,20 Lt/MWh/day/year; (49,58 Eur/MWh/day/year)
At the exit points of the natural gas transmission system of Lithuania::	
In the external exit points:	
The interconnection point of the transmission system of Lithuania with the transmission system of Latvia, whereby the natural gas transmitted from the natural gas transmission system of Lithuania accounted in Kiemėnai Gas Metering Station;	171,20 Lt/MWh/day/year; (49,58 Eur/MWh/day/year)
The interconnection point of the transmission system of Lithuania with the natural gas transmission system of the Kaliningrad Region of the Russian Federation, whereby the natural gas transmitted from the natural gas transmission system of Lithuania accounted in Šakiai Gas Metering Station;	186,53 Lt/MWh/day/year; (54,02 Eur/MWh/day/year)
At the internal exit point	1038,17 Lt/MWh/day/year; (300,68 Eur/MWh/day/year)

Source – the NCC.

The implementation of the Entry–Exit Tariffs Model has no effect on the adjustment of the price caps, because it makes no impact on the permissible level of the revenues, but reallocates this level among the entry and exit points. In 2015, the average price per capacity unit to the users of the internal point of the Lithuanian transmission system has increased by 21 percent. This increase is predetermined by 8.7 percent higher level of the revenues, the adjustment thereof is mainly accounted for by the transported natural gas quantity, which was 9.3 percent below the planned one, and the increase of the return on investments due to the investments made in 2014 in the strategic project *Increasing the capacities of the gas transmission line Klaipėda–Kiemėnai*, and the capacities planned to be booked in 2015, which are 10.2 percent below those of 2014, and that is why the average price cap has been increased by 12 percent.

Introduction of the additional security of supply component to the natural gas transmission price

Article 5, Paragraph 2 of the Law on the Liquefied Natural Gas Terminal provides that all fixed operation costs of the LNG Terminal, its infrastructure and the link, which are needed to ensure the activity of the LNG Terminal, shall be included in the additional component of the security of natural gas supply to the natural gas transmission price cap according to the procedure set by the NCC. The security component shall be collected, administrated and disbursed to the

operator or the undertaking of the LNG Terminal by the natural gas transmission system operator according to the procedure set by the NCC.

Paragraph 1, Article 9 of the Law on Natural Gas provides that the NCC shall regulate the prices of the natural gas liquefaction service by setting the liquefaction price cap. Item 30 of the Methodology provides that the price cap of the liquefaction service consists of the fixed part of the liquefaction price, which is set as the security component, and of the variable part of the liquefaction price. *AB Klaipėdos nafta*, as the operator of the liquefaction system, addressed the NCC for setting the security component for 2015, and specified the indispensable fixed costs for the operation of the LNG Terminal, and indicated the variable costs equal to 0. The liquefaction price cap was calculated pursuant to Item 37 of the Methodology, having evaluated the indispensable costs for the liquefaction activity. Having analyzed the data submitted by *AB Klaipėdos nafta*, the NCC recognized Lt 233 178 400 as the indispensable costs, i.e. by Lt 5 820 280 less than the costs, which had been requested to be recognized by *AB Klaipėdos nafta.* The costs of collection of the security component and the costs of administration of the collected amounts to be incurred by the transmission system operator are included in the costs of the security component.

After evaluating the available information, the natural gas liquefaction price cap (the security component) for 2015 was set at 9.43 Lt/MWh or 98.07 Lt/thousand m^3, and it will be valid from 1 January 2015 till 31 December 2015. The Government of the Republic of Lithuania by Resolution No 1251 of 12 November 2014 amended Resolution No 199 of 15 February 2012 of the Government of the Republic of Lithuania *Re: The Implementation of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania* by supplementing it with Item 14, providing that in accordance with the procedure set forth pursuant to Item 2, Article 5 of the Law on the Liquefied Natural Gas Terminal, the payments of the Liquefied Natural Gas Terminal, which are paid and payable by (collectible from) the payers of the Republic of Lithuania, and are assigned to cover the costs of construction of the Liquefied Natural Gas Terminal, its infrastructure and the link, if they have not been used<...>, they shall be reimbursed by adjusting (reducing) the value of the additional component of the security of supply to the natural gas transmission price in 2015 and 2016 (VAT excluded) applicable to all payers of the Republic of Lithuania of the payments of the Liquefied Natural Gas Terminal. <...> the reimbursable amounts shall be distributed in equal parts.

In accordance with the data submitted by *AB Amber Grid* as the administrator of the payments of the security component, the reimbursable amount in 2015 was set at LTL 49 971 491.2. Having taken into account the reimbursable amounts, in 2015 the security components will be reduced to the natural gas customers of Lithuania up to 7.41 Lt/MWh or 77.06 Lt/thousand m^3.

Adjustment of the distribution price cap

The NCC, having analyzed the actual data of *AB Lietuvos dujos* for 2014 and having evaluated the projections submitted by this natural gas undertaking, set the natural gas distribution price cap for 2015 at 268.24 Lt/thousand m^3 (77.68 Eur/thousand m^3) or 25.80 Lt/MWh (7.47 Eur/MWh) (VAT excluded). The main impact on the adjustment of the natural gas distribution price cap was made by the decreasing quantities of the distributed natural gas – in 2015 it is planned to distribute 711.2 million m^3 of natural gas, i.e. nearly17 percent less than in 2014.

Table 11. Dynamics of the distribution price caps in 2009–2015, Lt/thousand m^3

2009	2010	2011	2012	2013	2014	2015	Adjustment in 2015, as compared with 2014, percent.
AB Lietuvos dujos							
181.93	168.43	158.57	166.5	179.33	229.78	268.24 (7.47Eur/MWh)	16.7
UAB „Fortum Heat Lietuva“							

154.68	134.4	136.95	150.53	150.26	158.9	220.51 (6,14Eur/MWh)	38.77
UAB Intergas (Druskininkai Municipality)							
63.38	92.64	83.87	85.65	82.52	82.04	94.61 (2.73 Eur/MWh)	15.3
UAB Intergas (Mažeikiai District Municipality)							
584.55	92.64	83.87	85.65	82.52	82.04	94.61 (2.73 Eur/MWh)	15.3
UAB Druskininkų dujos							
1213.2	1213.2	1383.3	1446.55	1449.7	1334.75	1259.82 (35.08Eur/MWh)	-5.6
AB Josvainiai							
47.35	52.59	54.42	59.27	65.14	70.51	73.67 (2.05Eur/MWh)	4.48

Source – the NCC.

Connection of new customers

Pursuant to Paragraph 2, Article 9 and Paragraph 5, Article 37 of the Law on Natural Gas, the NCC sets the rates of connecting the systems of new household customers.

Pursuant to the *Methodology for Setting the Rates of Connection of New Natural Gas Customers, New Natural Gas Systems and Biogas Power Plants* (hereinafter – the Connection Methodology), which was approved by the NCC Resolution No O3-187 of 17 November 2008, the NCC sets the rates of connection of the systems of new household customers, and the natural gas undertakings calculate the rates of connection of new non-household customers.

The rates of connecting household customers cannot be adjusted more often than once per year. The connection rate consists of two parts: the fixed part, which does not depend on the distance, and the variable part, i.e. the price of connection per each meter of the installed gas pipeline.

In 2014, only one natural gas undertaking – *AB Lietuvos dujos* addressed the NCC regarding the connection of new customers. The undertaking submitted the data only for the recalculation of the connection rates of the customers of Group II, because during the last four quarters (4Q 2013 – 3Q 2014) the data whereof were used for setting the new connection rate, there were no newly connected customers of Group I. During the last four quarters *AB Lietuvos dujos* connected 2659 household customers of Group II. To connect the customers, 37.066 km of the distribution pipelines were constructed, and the investments assigned for connecting new customers were Lt 9057.68 thousand (in this amount Lt 3985.48 thousand were payments by the customers). The average connection tariff is calculated by evaluating the pay-back of investments in 20 years and the impact on the distribution price cap, i.e. the planned investments cannot increase the distribution price cap. The average rate is differentiated into the fixed and variable parts according to the coefficients set by the undertaking.

Abiding by the Connection Methodology, the NCC set the rates for connecting natural gas to the customers of Group II in 2015. The comparison of the connection rates in 2009–2015 is shown in the Table.

Table 12. Dynamics of connection rates in 2009–2015

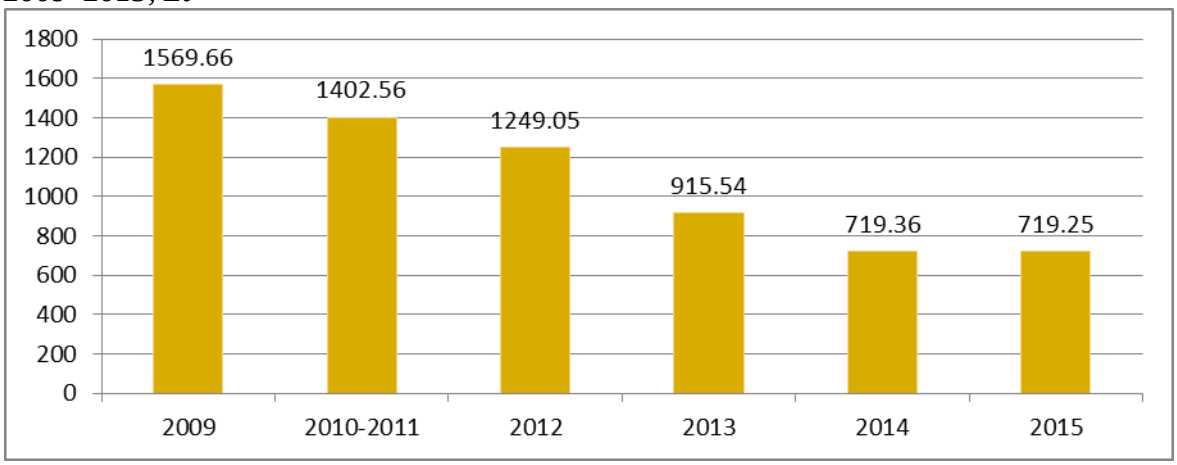
Indicator	Connection rate regardless of the distance, Lt	Rate per installed m of gas pipeline, Lt/m
Connection Rate 2009	1 569,66	89,26
Connection Rate 2010–2011	1 402,56	94,48

Connection Rate 2012	1 249,05	50,26
Connection Rate 2013	915,54	57,05
Connection Rate 2014	719,36	55,77
Calculated connection rate for 2015	**719,25**	**50,37**
Adjustment, as compared with 2014, percent	-0,02	-9,68

Source – the NCC.

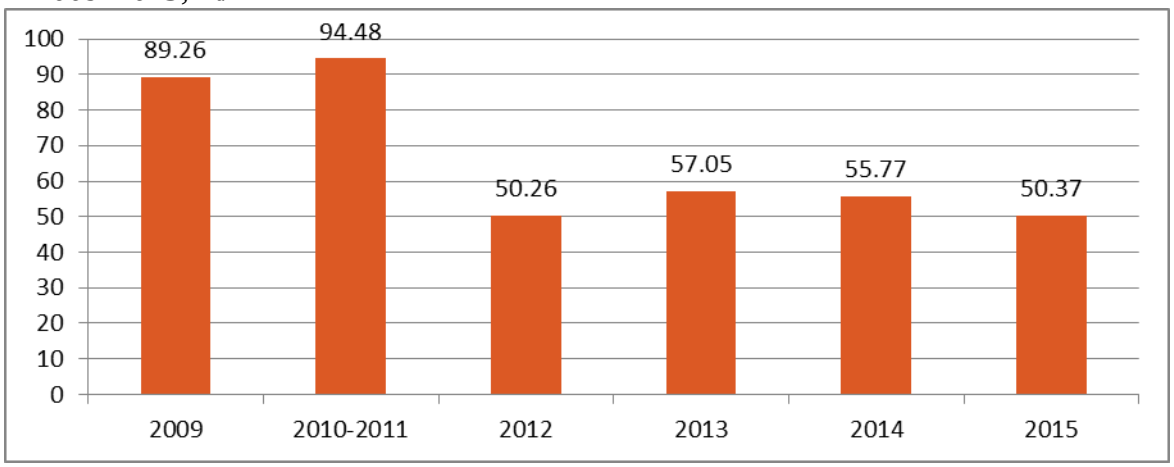
The dynamics of the fixed and variable parts of the connection rates for household customers of Group II in 2009–2015 is shown in the Figures.

Figure 23. Dynamics of the fixed part of connection rates for household customers of Group II in 2009–2015, Lt



Source – the NCC.

Figure 24. Dynamics of the variable part of connection rates for household customers of Group II in 2009–2015, Lt/m



Source – the NCC.

The average rate of connection, calculated by estimating the connected pipeline of 30 m length, is shown in the Table.

Table 13. Comparison of the average connection rate for household customers of Group II

Indicator	2014	2015	Adjustment, percent.

Average rate (30 m), Lt	2392,54	2230,35	-6,78

Source – the NCC.

The connection rate for household customers of Group I remained unchanged, i.e. the fixed part – Lt 3323.19, the variable part – 142.16 Lt/m.

Other natural gas undertakings in 2014 did not adjust the rates of connecting the natural gas.

4.1.4. Cross-border issues

Access to cross-border infrastructure facilities, mechanisms of capacity allocation and procedure of congestion management at cross-border points

In 2014, the Lithuanian natural gas transmission system was interconnected with the LNG Terminal. At present the transmission system of *AB Amber Grid* is interconnected with the natural gas transmission systems of the Republic of Latvia, the Republic of Belarus and the Kaliningrad Region of the Russian Federation, with Klaipėda LNG Terminal and the distribution systems of the distribution system operators of Lithuania. The natural gas from the Russian Federation is imported to Lithuania through Kotlovka Gas Metering Station (GMS); moreover, this cross-border point is used for transit via the Republic of Lithuania to the Kaliningrad Region. Šakiai GMS is 100 percent used for the natural gas transit to the Kaliningrad Region, and the Lithuania–Latvia gas interconnection (Kiemėnai GMS) is currently used for the purposes of the security of supply by using the Inčukalns natural gas storage facility located in Latvia, where gas for vulnerable customers of Lithuania is stored thus aiming to ensure the security of supply in the case of emergencies. At present the capacities of Kotlovka GMS are allocated for the domestic consumption based on the "first come, first served" principle, because the capacities at this cross-border point are not fully used and neither contractual nor physical overloads are forming there: the technical capacity of Kotlovka GMS Qmax is 31200 thousand m^3 / day. When evaluating the access to Kotlovka GMS, it should be noted that in 2014 a part of the capacities at this cross-border point was reserved for the transit operations (Šakiai GMS capacities – 10500 thousand m^3 / day), and the remaining part of the capacities is freely accessible to domestic consumers, however, it should be emphasized that the Law on Natural Gas provides that in the case of gas supply interruption, the volume of gas transported by transit shall be limited pro rata to the gas volumes limited for domestic consumers.

The technical capacities and their use at the important points of the transmission system are shown in the Table.

Table 14. Technical capacities and their use at cross-border points

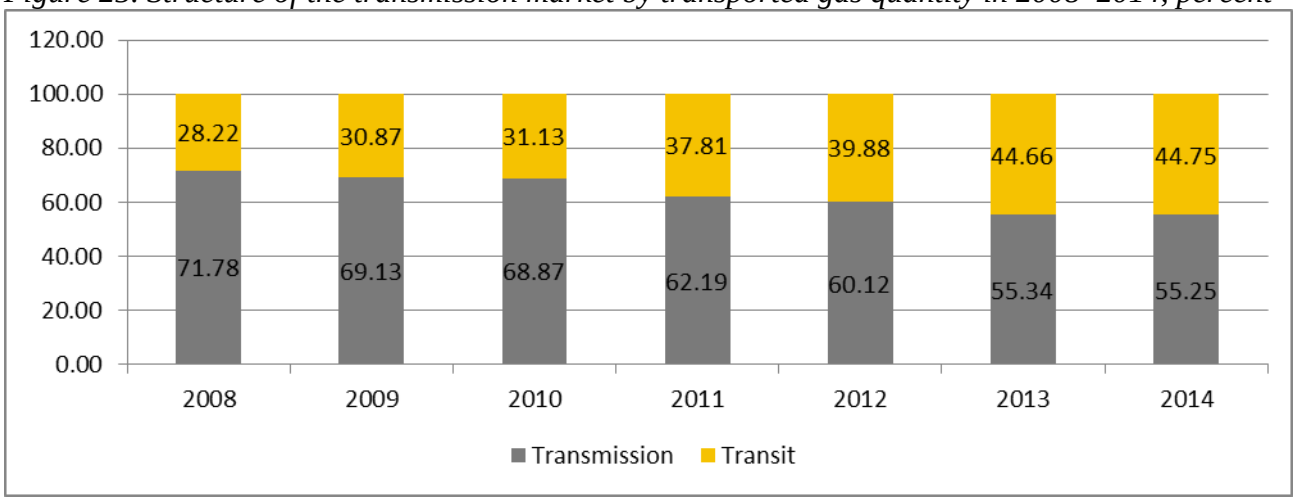
Gas metering station	Technical capacities, MWh/day	Maximum permanent and interruptible capacities booked in 1Q 2015, MWh/day	Use of capacities, percent
Kotlovka	325.433,47	225.460	69,3
Kiemėnai:			
to Latvia	67.590,03	4.320	6,4
to Lithuania	65.086,69	0	0
Šakiai (to Kaliningrad)	109.520,88	109.200	99,7
Klaipėda (to Lithuania)	47.344,31	30.523	64,5

Source – AB „Amber Grid".

In 2014, the transmission system operator transported 4637.9 million m^3 of natural gas. 2562.5 million m^3, or 55.3 percent of the total quantity were delivered to Lithuanian consumers, and 2075.4 million m^3 were transported to Russia. In all, in 2014 the transported quantity of natural gas was 3.77 percent below the transported quantity in 2013. In 2014, the natural gas transmission to Lithuanian consumers was 3.9 percent below that of 2013.

In 2014, as compared with 2008, the market share of the natural gas transmission to Lithuanian consumers went down 16.5 percentage points, from 71.78 to 55.25 percent. The transit part in the transmission structure grew from 28.22 percent in 2008 to 44.75 percent.

Figure 25. Structure of the transmission market by transported gas quantity in 2008–2014, percent



Source – the NCC.

Revision and approval of investments

Pursuant to the Law on Energy, the NCC evaluates the justification of investments to be made by the natural gas undertakings. If the investments have not been agreed with the NCC, they cannot be recognized as the justified ones and are not included into the price caps.

In 2014, pursuant to the Procedure Regulations for the Evaluation and Approval of Investments at the National Commission for Energy Control and Prices approved by the NCC Resolution No O3-100 of 10 July 2009, the NCC revised and approved the investment projects of the gas undertakings the value whereof is above Lt 1 million. The evaluation criteria of the investment projects depend on the purpose of the investments.

In 2014, in evaluating the investments aimed at the development of the systems and connection of new customers, the NCC calculated the pay-back of the investment during the pre-defined period and evaluated the impact of the investment on the regulated prices. Pursuant to the provisions of the Law on Natural Gas, the investments in new customers' connection cannot increase the price for the existing customers. In evaluating the investments assigned to ensure the security of the systems and the reliability of supply, the rehabilitation and reconstruction of the existing system, the NCC evaluated the social, system security and supply reliability benefits and calculated the return on investments, and, in revising an investment project, indicated the impact to be made by the investments on the regulated prices.

Investment Projects of Common Interest

On 31 October 2013, the NCC received 3 applications for revising and approving the projects of common interest (PCI) in the natural gas sector:

1. **Construction of the gas interconnection Poland–Lithuania (GIPL)** (the project development companies – GAZ SYSTEM S. A., *AB Amber Grid*). The construction of the gas interconnection between Poland and Lithuania is aimed at the integration of the gas markets of the Baltic States and Finland into the single gas market of the European Union, at the diversification of gas supply sources and the enhancement of the security of gas supplies. The applications for

revising and approving the GIPL project were also received by the national regulatory authorities of Latvia, Estonia and Poland. The NCC was appointed the project coordination authority.

The NCC by Resolution No O3-124 of 12 May 2014 stated that the decision on the distribution of the project costs among the national regulatory authorities of Lithuania, Poland, Latvia, Estonia in accordance with the deadlines and procedure set forth in Paragraphs 4 and 5, Article 12 of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 had not been adopted and handed over to ACER all information related to the revision and approval of the project.

On 11 August 2014, ACER adopted the decision regarding the allocation of the project costs and stated that the total project value equals Eur 558 million. The cost–benefit analysis revealed that Poland is the only state taking part in the project to whom the negative benefit from the project had been calculated, therefore the transmission system operators of Lithuania, Latvia and Estonia have to pay the compensation of Eur 85.8 million, which is distributed as follows: Eur 54.9 million – to Lithuania, Eur 29.4 million – to Latvia, Eur 1.5 million – to Estonia. The decision made by ACER also meant that the transmission system operator of Lithuania has got the right to apply to the European Commission for the project financing under the CEF. Respectively, *AB Amber Grid* and GAZ SYSTEM S. A. applied to the European Commission regarding the possibility to finance from the CEF funds the maximum feasible amount– Eur 369.2 million (75% of the total project costs). At the Energy Meeting of the CEF Coordination Committee it was decided to finance 60% of the project costs – Eur 295.4 million. It is expected that the project will be completed at the end of 2019, and the interconnection with Poland will be launched into operation in 2020.

2. **Capacity enhancement of Klaipėda–Kiemėnai pipeline** (the project development company – *AB Amber Grid*).

The main objective of the project – to install sufficient capacities for transporting natural gas from the LNG Terminal in Klaipėda to consumers in Lithuania and other Baltic States thus enabling the participants of the Baltic market to diversify the gas supply sources and to increase the competitiveness of the market. It is projected to enhance the capacity of the existing gas pipeline Klaipėda–Kiemėnai by constructing the second gas transmission branch from the point of interconnection with the LNG Terminal in Klaipėda to Kuršėnai. The application to approve the project was also received by the national regulatory authorities of Latvia and Estonia, later the application submitted to the Estonian regulatory authority was withdrawn. The NCC was appointed the project coordination authority.

The NCC by Resolution No O3-118 of 29 April 2014 approved the project valued at Eur 63.7164 million. The project was approved on the condition that the investments up to Eur 34.2266 million will be financed from *AB Amber Grid* funds, and the remaining amount of the investment (Lt 29.4898 million), including the part of the Republic of Latvia, will be covered from the external financing sources. The Latvian national regulatory authority also made an individual decision whereby it approved the project and committed to pay Eur 1.897 million to the Lithuanian transmission system operator. Moreover, the NCC and the Latvian national regulatory authority embedded their decisions by signing the international Agreement on the project financing and other important project implementation conditions. After the relevant decisions had been timely made by the NCC and the Latvian national regulatory authority, the Lithuanian transmission system operator was able to apply to the European Commission for financing the project under the CEF. *AB Amber Grid* applied to the European Commission regarding the possibility to finance from the CEF funds the maximum amount – Eur 27.6 million. At the Energy Meeting of the CEF Coordination Committee it was decided to allocate to the project the maximum requested amount – Eur 27.6 million. It is expected that the project will be completed in 2015 and will start operating in 2016.

3. **Modernization and development of Inčukalns Underground Natural Gas Storage Facility** (the project development company – *JSC Latvijas Gaze*).

The application to approve the project was also received by the national regulatory authorities of Latvia and Estonia, later the application submitted to the Estonian regulatory authority was withdrawn. The Latvian national regulatory authority was appointed the project coordination authority. The value of the project totals Eur 89.7 million. The NCC by Resolution No O3-119 of 29 April 2014 approved the application submitted by AS *Latvijas Gāze* regarding the investment project and the cost allocation provided therein, by co-financing the project from *AB Amber Grid* funds by the invested amount up to Eur 6.88 million. *AS Latvijas Gāze* indicated in the application that the deficient part of the financing would be covered from the funds of the Latvian transmission system operator and the CEF. The Resolution also stipulated that the decision can be reconsidered due to several reasons, among these – the alteration of the essential circumstances making significant impact on the project. Therefore, after the relevant decisions had been timely made by the NCC and the Latvian national regulatory authority, the Latvian transmission system operator was able to apply to the European Commission for financing the project under the CEF. *AS Latvijas Gāze* applied to the European Commission regarding the possible financing from the CEF funds, but the application was rejected at the Energy Meeting of the CEF Coordination Committee. It should be noted that the European Commission was not addressed regarding the alternative structure of the project financing.

Project of the Liquefied Natural Gas Terminal

In 2014, the NCC revised and approved the project of the Liquefied Natural Gas (LNG) Terminal.

Item 79 of the National Energy Independence Strategy approved by Resolution No XI-2133 of 26 June 2012 of the Seimas of the Republic of Lithuania provides that the LNG Terminal is the priority project in the natural gas sector in developing the natural gas market. After constructing the LNG Terminal, the natural gas supply will be diversified and the country will not be dependent on the single gas supplier, the country will be able to enter the international gas markets and to implement the requirement of Paragraph 1, Article 6 of Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard the security of gas supply and repealing Council Directive 2004/67/EC, and providing that in the event of a disruption of the single largest gas infrastructure, the capacity of the remaining infrastructure, determined according to the N-1 formula, will be sufficient to satisfy the total gas demand of the calculated area during a day of the exceptionally high gas demand. On 30 September 2010, the Seimas of the Republic of Lithuania passed Resolution No XI-1050 *Re: the Draft Development Plan of the Liquefied Natural Gas Import Terminal*, whereby it was stated that the LNG Terminal is the energy project having the state importance. By Resolution No 871 of 13 July 2011 of the Government of the Republic of Lithuania *Re: Ranking the Project of the Liquefied Natural Gas Terminal as the Economic Project Having Importance to the State,* the project of the LNG Terminal was acknowledged to be the economic project having the state importance, and it was resolved that pursuant to the requirements of Regulation (EU) No 994/2010 the project has to be implemented by 3 December 2014. By Resolution No 199 of 15 February 2012 of the Government of the Republic of Lithuania it was decided to assent that the LNG Terminal would consist of the floating storage and regasification unit, the ground facilities of the Terminal, the link with the natural gas transmission system and/or its technological connected equipment, and that *AB Klaipėdos nafta* would take the actions necessary to acquire by the proprietary right the relevant technologies and equipment or to obtain the rights to manage these on some other grounds. *AB Klaipėdos nafta* was designated to act as the project development company by Resolution No 864 of 11 July 2012 of the Government of the Republic of Lithuania *Re: The Amendment of Resolution No 199 of 15 February 2012 of the Government of the Republic of Lithuania on the Construction of the Liquefied Natural Gas Terminal.* On 6 June 2014, *AB Klaipėdos nafta*, as the project development company, by Official Letter No (22.03) SGD-440 of 6 June 2014 submitted to the NCC the project of the LNG Terminal for its revision and approval. In the submitted materials AB *Klaipėdos nafta* specified the legal acts and provided the documents justifying:

– The choice of the site of the LNG Terminal;

– The choice of the technology, infrastructure and the optimal technical solution of the LNG Terminal;

– The choice of the type of the floating storage and regasification unit and the key parameters;

– The costs of the design and construction works of the LNG Terminal jetty; the technical parameters of the gas pipelines and the costs of the design and construction works;

– The schedule for implementing the project of the LNG Terminal;

– The cost estimates of the project of the LNG Terminal;

– The financial capability indicators of *AB Klaipėdos nafta*.

AB Klaipėdos nafta pointed out that after analyzing the available alternatives, the site located in the southern part of Klaipėda state seaport, near Kiaulės Nugara Island was selected for the LNG Terminal. The LNG Terminal consists of the floating storage and regasification unit, which is permanently moored alongside the jetty. To select the floating storage and regasification unit, the comprehensive analysis of the market was conducted and the newly constructed floating storage and regasification unit with 170 thousand m^3 storage capacity was chosen. By arranging the public procurement procedure a Norwegian undertaking *Höegh LNG* was selected as the supplier of the facility. The project is financed from the loans of the European Investment Bank and Nordic Investment Bank with the state guarantee.

AB Klaipėdos nafta had estimated the capitalized costs of construction of the LNG Terminal at Lt 332 803 137. After analyzing the submitted costs and their justification, the NCC recalculated these costs and set the preliminary value of the infrastructural part of the LNG Terminal at Lt 300.96 million, i.e. the scope of the capitalized costs of the infrastructural part of the LNG Terminal was reduced by Lt 31.84 million.

The NCC by Resolution No O3-859 of 13 October 2014 *Re: The Revision and Approval of the Project of the Liquefied Natural Gas Terminal* approved the project of the LNG Terminal by setting its preliminary value at Lt 300 961 254 million (Eur 87 164 404 million), and noted that this value will be used in calculating the additional component of the security of the natural gas supply to the natural gas transmission price cap for 2015. By the mentioned Resolution, the NCC committed *AB Klaipėdos nafta*, after implementing the project of the LNG Terminal and settling payments with all contractors and suppliers, within 30 calendar days to submit to the NCC all information and documents, which will be used in auditing the costs of the project of the LNG Terminal and in estimating the final value of the project of the LNG Terminal.

Investment projects in the transmission system

The Ten-Year (2013–2022) Network Development Plan of the Natural Gas Transmission Operator (hereinafter – the Ten-Year Plan) prepared by *AB Amber Grid* envisages the measures for the modernization of the gas transmission pipelines, reconstruction of the gas distribution stations (hereinafter – the GDS), upgrading and development of the SCADA system and data transmission network. The NCC by Resolution No O3-656 of 24 October 2013 *Re: The Ten-Year (2013–2022) Network Development Plan of the Natural Gas Transmission Operator* stated that the Ten-Year Plan submitted by *AB Amber Grid* complies with the requirements of Paragraphs 1, 2, and 3 of Article 31 of the Law on Natural Gas and committed the undertaking to submit the investment projects listed in the Ten-Year Plan, including the structure of the project financing, for their revision and approval by the NCC in accordance with the procedure set forth in the legal acts. In 2014, the NCC revised and approved 5 investment projects submitted by *AB Amber Grid*:

1. The investment project **Replacement of tap nodes No 2, 3 with by-pass lines and control mechanisms in the gas transmission pipeline Vilnius–Kaunas and their connection to SCADA**

AB Amber Grid informed that tap nodes No 2 and 3 in the gas transmission pipeline were leaky, the gas leakage through the tap sealing and flanged joints was detected. The taps and their control mechanisms were worn out and it was not expedient to repair them, therefore it was

necessary to replace the tap nodes. For the remote control of the taps, the gas-hydraulic gear and the control modules were installed and connected to the telemetry (SCADA) system. The set of these measures will ensure the remote control of the gas flow in this segment of the gas transmission pipeline and its disconnection in the case of an accident. The undertaking planned the investments for the project implementation at Lt 1526.0 thousand (VAT excluded). The project was financed from *Ab Amber Grid* equity. The amount of the investments did not go beyond the Ten-Year Pan approved by the NCC and the data of the Investment Budget (Program) for 2014 approved by the Board of the company. The project was completed in 2014, the actual amount of the investments equaled Lt 1137.1 thousand.

2. The investment project **Installation of two gas pressure limiting units (in Dauparai Village, Klaipėda District and Lapkasiai Village, Šiauliai District)**.

The investments were aimed at ensuring the safety and reliability of the operating gas transmission pipelines for gas input from the LNG Terminal in Klaipėda. Currently the maximum allowable operating pressure in the gas transmission pipeline DN300 and its branches to the gas distribution stations in Klaipėda, Gargždai, Palanga, Kretinga, Telšiai, and Plungė is 4.7 MPa. After connection of the LNG Terminal to the operating natural gas transmission system, the pressure in the connection points will reach 5.4 MPa. Therefore, to ensure the safety of the transmission system and the efficiency of its operation in accepting gas from the LNG Terminal it is necessary to install two gas pressure limiting units in the gas pipeline (in Dauparai Village, Klaipėda District and Lapkasiai Village, Šiauliai District). These units had to be installed and launched into operation by December 2014, i.e. by the date of the start-up of the operation of the LNG Terminal set forth in the laws. The projected investments, necessary to implement the investment project – Lt 7100.0 thousand (VAT excluded). Part of the investments necessary to implement the project (Lt 2498.5) was the assistance from the EU structural funds under the Economic Growth Action Program (VP2), Facility *Modernization and Development of the Natural Gas Transmission System*, which was assigned to implement the project the *Construction of the Gas Transmission Pipeline Jurbarkas – Klaipėda*. The remaining part (Lt 4601.5 thousand) was financed from *AB Amber Grid* equity. The project was completed in 2014, the actual amount of the investments equaled Lt 6947.8 thousand.

3. The investment project **Installation of the system for gas accounting in energy units**

The variation in the composition and calorific value of the natural gas supplied from the Russian Federation is not significant. After the start-up of the operation of the LNG Terminal and by supplying natural gas from different sources, its composition and quality differs. Pursuant to the Procedure Regulations for Accounting Natural Gas approved by Order No 1-245 of 27 December 2013 of the Minister of Energy of the Republic of Lithuania (hereinafter – the Gas Accounting Regulations), since 1 January 2015, the gas quantity for the purposes of settling the payments for the gas transmission services with the system users should be accounted in energy units. Therefore, it was necessary to adjust the presently used system of the natural gas metering in cubic meters to the billing system in energy units. Pursuant to the Gas Accounting Regulations, by 1 November 2014, chromatographs had to be installed in Vilnius, Elektrėnai, Jonava, Kaunas-1, Panevėžys-2, Šiauliai, Rietavas gas distribution stations. It is planned to install the remaining 5 chromatographs in 2015 in Marijampolė, Prienai, Nemenčinė, Ukmergė, Pasvalys Gas Distribution Stations. Moreover, pursuant to the Gas Accounting Regulations, in the gas accounting systems, metering gas with the surplus pressure above 6 bar, it will be necessary to replace 51 gas flow computers with the new ones, which will have an option to automatically, remotely (by using the data transmission network) enter the relevant data from the chromatographs in order to calculate the compression factor and to store the gas metering data and the remotely obtained parameters of the gas quality. The planned investments for implementing the project – Lt 5164.0 thousand. It is planned to finance the project from *AB Amber Grid* equity.

4. The investment project **Reconstruction of Panevėžys natural gas distribution station No 1.**

Panevėžys GDS No1 has been in operation since 1987. It is necessary to reconstruct the GDS because of the worn-out technological equipment and constructions. The equipment is not reliable and its operation is unsafe, some spare parts are no longer manufactured. Metal containers where the equipment of the station is installed are damaged by corrosion, leaky, atmospheric precipitation falls on the equipment. The objective of the reconstruction – to increase the safety and reliability of the gas transmission. In the station there is no technological controller.

Part of the taps are worn out, leaky, the lubricant used for their sealing contaminates the pipelines and interferes with the equipment's operation. Part of the pipelines is damaged by corrosion. It is necessary to procure a new container-type GDS where safer and more reliable equipment, which is compatible with the contemporary requirements, would be installed. The procured GDS should be highly automated, the main technical parameters should be remotely controlled. The planned investments for implementing the project – LTL 5520.0 thousand. It is planned to finance the project from *AB Amber Grid* equity.

5. The investment project **Reconstruction of Klaipėda natural gas distribution station No 1**.

Klaipėda GDS No1 has been operated since 1997. It is necessary to reconstruct the GDS because of the unreliably operating gas metering system, the worn out gas pressure reduction equipment, power supply, automation, alarm systems. The outdated technological equipment does not meet the contemporary requirements, some spare parts are no longer manufactured, it is not possible to ensure the required accuracy of the gas metering, and the equipment's operation is unreliable and unsafe. The automation equipment does not perform the necessary functions and does not meet the set requirements: there are no signals about the status of the electricity network, no possibility to install the interface among the GDS automation, alarm and telemetering (SCADA) systems. The objective of the reconstruction – to increase the safety and reliability of the gas transmission. The planned investments for implementing the project – Lt 1810.0 thousand. It is planned to finance the project from *AB Amber Grid* equity.

The value of the investment projects, which were approved by the NCC in the transmission activity, and their impact on the transmission price cap are shown in the Table.

Table 15. Investment projects in the transmission activity, which were approved in 2014

Item No	Project title	Value, Lt thousand	Impact of the price cap	
			Lt/thousand m^3	Percent
1.	Replacement of tap nodes No 2, 3 with by-pass lines and control mechanisms in the gas transmission pipeline Vilnius–Kaunas and their connection to SCADA	1526,0	0,155	0,31
2.	Installation of two gas pressure limiting units (in Dauparai Village, Klaipėda District and Lapkasiai Village, Šiauliai District)	7100,0	0,235	0,47
3.	Installation of the system for gas accounting in energy units	5164,0	0,437	0,87
4.	Reconstruction of Panevėžys natural gas distribution station No 1.	5520,0	0,315	0,63
5.	Reconstruction of Klaipėda natural gas distribution station No 1.	1810,0	0,103	0,20
	Total in the transmission activity:	21120,0	1,245	2,48

iSource – the NCC.

In 2014, at the request of *AB Amber Grid* the investment project **Installation of the controller's actuator and input chambers in the gas transmission pipeline Pabradė–Visaginas,** which had been earlier submitted by *AB Lietuvos dujos* (the NCC Resolution No O3-133 of 14 June 2011, the project value up to Lt 2480 thousand), was repeatedly revised. Since 1 August 2013, the transmission activity and the project implementation was taken over by *AB Amber Grid*, which, after implementing the project, indicated the project value at Lt 2956 thousand and submitted to the NCC the application to approve this value. After analyzing the justification of the financial costs, the NCC by Resolution No O3-92 of 24 March 2014 approved the value of the investments requested by *AB Amber Grid*. The project implementation caused the price cap increase by 0.112 Lt/thousand m^3 or 0.22 %.

The ten-year plan of the transmission network development in 2014–2023

The NCC received *AB Amber Grid* Official Letter No 7-302-1775 of 11 December 2014, whereby the undertaking submitted the Ten-Year (2014–2023) Network Development Plan of the Natural Gas Transmission Operator. The undertaking pointed out that the Development Plan on 21 November 2014 was posted on its website for a public consultation with the interested entities. The public consultation lasted till 4 December 2014, but no comments or proposals were received by the undertaking. The NCC presented the Development Plan for a public consultation, which lasted till 13 January 2015. Having examined and evaluated the Development Plan, the NCC by Resolution No O3-222 of 20 March 2015 stated, that the Development Plan submitted by *AB Amber Grid* complies with the requirements of Paragraphs 1, 2, 3 and 5 of Article 31 of the Law on Natural Gas, and committed *AB Amber Grid* to conciliate the projects indicated in the Development Plan (including the structure of the project financing) with the NCC in accordance with the procedure set forth in the legal acts.

Investments in the distribution activity

In 2014, the NCC revised and approved 2 investment projects submitted by AB *Lietuvos dujos:*

1. Reconstruction of medium and low pressure pipelines by shoving polythene pipes in the Old Town of Vilnius.

2. Reconstruction of low pressure pipelines by shoving polythene pipes in Vilijampolė block of houses in Kaunas city.

AB Lietuvos dujos, as the distribution system operator, is responsible for the long-term capability of the system to perform the natural gas distribution by economically operating, maintaining and developing the safe, reliable and efficient system. *AB Lietuvos dujos* pointed out that these investment projects are necessary to ensure the safety and reliability of the natural gas supply. After examining the alternatives of the pipelines' reconstruction, *AB Lietuvos dujos* for both projects chose a partial reconstruction of the pipelines by shoving new polyethylene pipelines through the old ones.

The value of the investment projects approved by the NCC and their impact on the distribution price cap are shown in the Table.

Table 16. Investment projects in the distribution activity, which were approved in 2014

Item No	Project title	Value, Lt thousand	Impact of the price cap	
			Lt/thousand m^3	Percent
1.	Reconstruction of medium and low pressure pipelines by shoving polythene pipes in the Old Town of Vilnius.	4638,0	0,479	0,21

2.	Reconstruction of low pressure pipelines by shoving polythene pipes in Vilijampolė block of houses in Kaunas city.	4704,0	0,522	0,23
	Total in the distribution activity:	9342,0	1,001	0,44

iSource – the NCC.

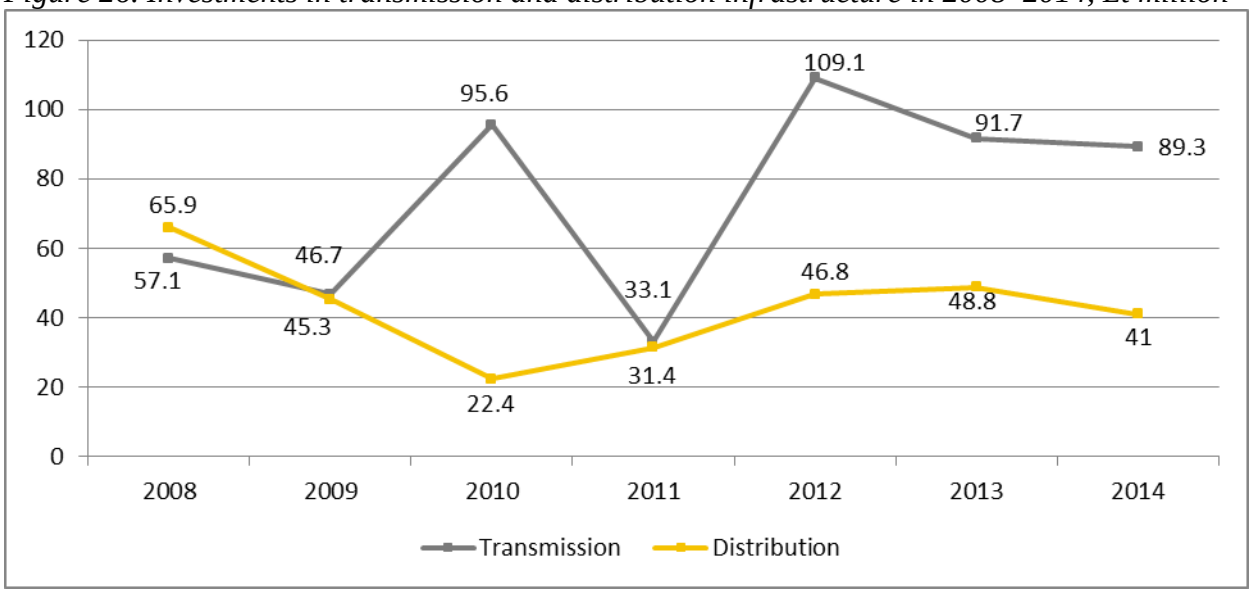
The approved investment projects reduced the operation costs by Lt 37.0 thousand, and increased the capital costs by Lt 898.0 thousand, and increased the distribution price cap by 1.00 Lt/thousand m^3, i.e. 0.44 %.

Other gas undertakings did not submit investment projects for their revision and approval by the NCC.

Investments in 2014

In 2014, the natural gas undertakings invested Lt 131.1 million – 6.8 percent less than in 2013 (Lt 140.67 million). The transmission and distribution operators invested in the natural gas transmission and distribution sectors Lt 130.3 million, i.e. 7.3 percent less than in 2013, when the invested amount was Lt 140.5 million. In 2014, as compared with 2013, the investments in the supply activity grew nearly 6 times, i.e. from Lt 125 thousand to Lt 715.1 thousand. The scope of the investment in the transmission and distribution activities is shown in the Figure.

Figure 26. Investments in transmission and distribution infrastructure in 2008–2014, Lt million



iSource – the NCC.

4.1.5. Compliance with legal acts

Amendment of the requirements for the Compliance Program prepared by the natural gas distribution operator *(approved by the NCC Resolution No O3-93 of 28 March 2014)*

The European Commission by Letter No SG-Greffe (2013) D-2326 of 22 February 2013 provided the Reasoned Opinion – Infringement 2011/1082 concerning measures for transposing Directive 2009/73/EB to the national legal framework. In the Reasoned Opinion the European Commission stated that, pursuant to Paragraph 1, Article 258 of the Treaty on the Functioning of the European Union, the European Commission advises the Republic of Lithuania within two months after receiving the Reasoned Opinion on Infringement 2011/1082 to take the necessary measures with regard to the Reasoned Opinion. By taking this into account, the Seimas of the

Republic of Lithuania took immediate actions to react to the maximum extent to the remarks by the European Commission and passed the Law Amending Articles 7, 29, 43, 57 of the Law on Natural Gas No VIII-1973 and Supplementing this Law with Article 43^1, which came into validity on 20 March 2014. Pursuant to the Law, the operator of the storage system, in line with the standard requirements approved by the NCC, has to prepare the Compliance Program where the applicable measures for avoiding the discriminating behavior and for ensuring its proper supervision have to be set. In the Compliance Program the specific responsibilities of the employees have to be defined for reaching these goals. A person or division responsible for the supervision of the compliance program has to submit to the regulatory authority an annual report, where the applicable measures have to be indicated. The operator of the storage system has to post the report on his website.

Evaluation of publicly disseminated information by the entities operating in the natural gas sector

Pursuant to Paragraph 1, Article 8 of the Law on Energy, the NCC regulates the activity of the entities operating in the energy sector. The entities, performing the activity for which a licence or a permit is required and/or to whom the state-regulated prices are applied, must publicly disseminate the information set forth in the legal acts about the regulated activity performed by them. The requirements to the natural gas undertakings on the dissemination of the public information are set forth in the Law on Energy, Law on Natural Gas, Procedure Regulations for Publicly Disseminated Information approved by the NCC Resolution No O3-761 of 27 December 2013 *Re: The Approval of Procedure Regulations for Publicly Disseminated Information*, the Rules on Providing Information Related to Energy Activity to the State, Municipal Institutions, Offices and/or other Entities approved by Order No 1-145 of 19 May 2010 of the Minister of Energy of the Republic of Lithuania *Re: The Approval of the Rules on Providing Information Related to Energy Activity to the State, Municipality Institutions, Offices and/or other Entities*.

In performing the monitoring of the information the public dissemination whereof is mandatory to the gas undertakings, the NCC by Official Letter Ref. No R2-1001 of 7 April 2014 *Re: The Information the Public Dissemination whereof is Mandatory* pointed out to the natural gas undertakings that not all undertakings have complied with the requirements set forth in the legal acts on the mandatory publicly disseminated information. With regard to this and to ensure the compliance of the regulated activity performed by the natural gas undertakings with the conditions of the regulated activity set forth in the legal acts, the NCC by the mentioned Official Letter set the period of 20 days, during which the undertakings had to ensure that all mandatory information about the regulated activity would be publicly disseminated and would comply with the requirements of the legal acts. The NCC notified the gas undertakings that pursuant to Item 1, Paragraph 1, Article 36 of the Law on Energy, a pecuniary penalty can be imposed on the gas undertaking if after the set period of time the violations of the requirements of the legal acts regarding the information about the regulated activity the public dissemination whereof is mandatory will be identified and such violations will not be rectified within the time period no longer than 2 months, set by the NCC.

The NCC evaluated whether the information, which is publicly posted on the websites of the entities operating in the electricity and gas sectors, complies with the requirements of the legal acts on the information the public dissemination whereof is mandatory.

It should be brought to attention that Item 5 of the Procedure Regulations provides that only important and correct information, set forth in the Procedure Regulations, has to be posted on the undertakings' websites. The entities, which do not have their own websites, have to post the information, set forth in the Procedure Regulations, on the websites of the municipalities in the territories whereof they are performing the regulated activity, or submit the publicly disseminated information to the NCC, which will post the received information on the NCC website.

The entities operating in the natural gas sector were in writing informed about their compliance/non-compliance with the requirements on the publicly disclosed information.

AB Achema, which holds the natural gas distribution and supply licenses, by Official Letter Ref. No 032/1897 of 30 July 2014 informed the NCC that all relevant information related to the regulated activity in the energy sector had been posted on the company's website, and it complied with the requirements set forth in the Procedure Regulations. The NCC repeatedly examined the information posted on the website of the company, but did not find part of the information set forth in the Procedure Regulations and requested the company no later than by 7 October 2014 to send the direct links to the company's website, which would confirm that the company had publicly disseminated the information, which is mandatory in accordance with Items 6, 7.1, 7.3–7.5, 7.7–7.10, 13.1.4., 13.2.1 of the Procedure Regulations and Items 47–50 of the Rules. In response to this request AB *Achema* posted on the website the information about the costs of purchasing natural gas and thus partly implemented the requirements of Items 46, 47, 48.1 and 50 of the Rules. The NCC, having not received *AB Achema* response by 7 October 2014, which would confirm that the company publicized all above mentioned information, prepared an additional inquiry, whereby it requested to send by 12 March 2015 the direct links, which would confirm that the company posted the missing information the public dissemination whereof is mandatory.

AB Achema by Official Letter Ref. No 032R/666 of 16 March 2015 informed that the requirements of Item 7.8 of the Procedure Regulations are not applicable to the company, because the company does not propose maintenance services on the market. By taking into account that *AB Achema* failed to provide the responses regarding non-compliance with other requirements related to the activity of *AB Achema* in the natural gas sector, which were indicated in the above mentioned Official Letters by NCC, and did not rectify the non-compliances, the NCC by Resolution No O3-237 of 7 April 2015 stated that *AB Achema* has failed to disseminate the information prescribed by the legal acts and ordered to rectify the indicted violations of the regulated activity within 20 days from the date of validity of the Resolution, and to inform the NCC about the actions taken. The Resolution also stipulated that should the indicated violations remain unrectified, the penalty from two hundred eighty nine euros up to 0.5 percent of the yearly revenues of the energy company, earned during the previous financial year from the specific regulated activity in performing which the violation has been made, will be imposed pursuant to Item 1, Paragraph 1 Article 36 of the Law on Energy. *AB Achema* implemented the requirement and rectified the non-compliance during the set period.

REMIT

In accordance with Item 2, Article 9 of Regulation (EU) No 1227/2011, providing that no later than 3 months after the date on which the European Commission adopts the implementing acts set out in Article 8(2) of the mentioned Regulation, the national regulatory authorities shall compile the national registers of the market participants which they shall keep up to date. The mentioned implementing acts were passed on 17 December 2014. With regard to that, on 2 March 2015, the NCC started the registration of the participants of the wholesale natural gas market. Currently 6 market participants from the natural gas sector are registered in the register.

A completely new market monitoring system, which has been individually adapted to the electricity and gas sectors, will be helpful in identifying the cases of the market abuse and to prevent such cases in the EU energy markets, where energy is traded by keeping to the highest standards of transparency and integrity. The NCC, with an aim to ensure the thorough supervision of the wholesale market in the context of Regulation (EU) No 1227/2011, will actively collaborate with the Competition Council and the Bank of Lithuania.

4.2. Promotion of competition

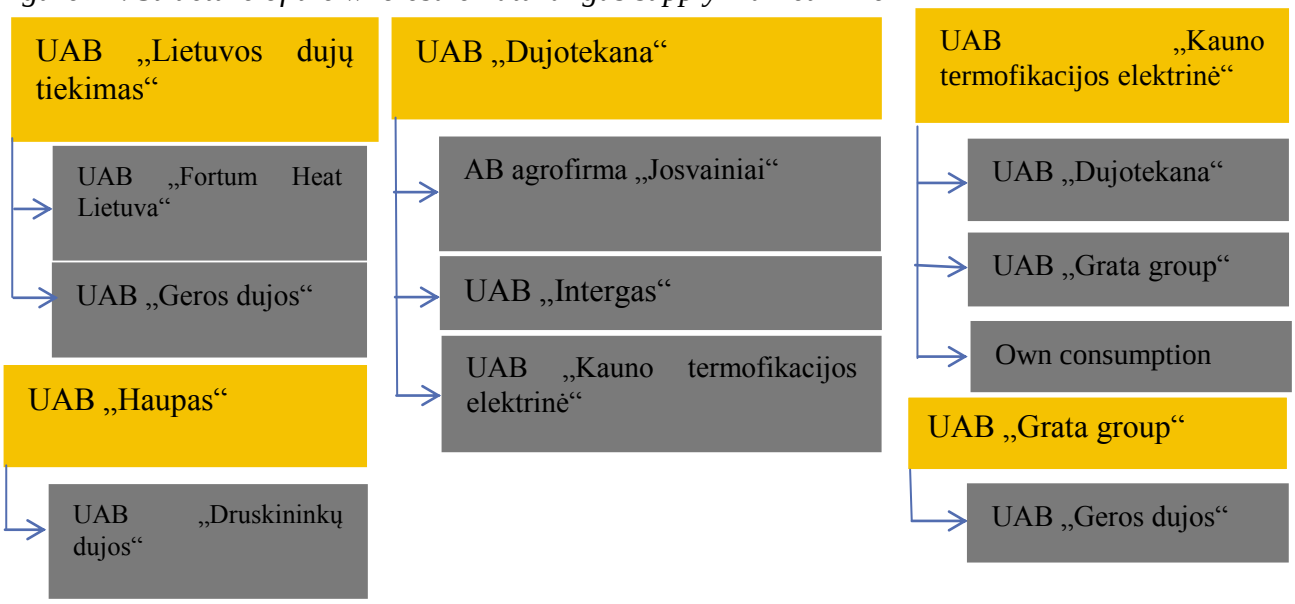
4.2.1. Wholesale market

4.2.1.1. Monitoring the natural gas price level, transparency, open market and competition efficiency in the wholesale market

Participants and structure of the wholesale market

Pursuant to Items 4–8, Article 2 of Regulation (EU) No 1227/2011, the market participants (natural and legal persons) concluding transactions in one or more wholesale energy markets where trade in wholesale energy products is performed, including natural gas supply contracts, and the consumption whereof is above 600 GWh, are assigned to the wholesale energy market. According to the NCC data, in the natural gas sector there were 8 entities whose actual natural gas consumption exceeded 600 GWh. In 2014, *UAB Lietuvos dujų tiekimas*, *UAB Dujotekana*, *UAB Grata group* were selling the imported or purchased from other suppliers natural gas not only to the end users, but to other suppliers as well, who resold the purchased gas to the end users. In should be noted that in 2014 *UAB Kauno termofikacijos elektrinė*, which up till then used natural gas only for its own consumption, and *UAB Grata group* started trading in natural gas on the wholesale natural gas market. *UAB Grata group* purchases natural gas from *UAB Kauno termofikacijos elektrinė*. The wholesale natural gas consumers purchasing natural gas for reselling and for their own consumption are shown in the Figure.

Figure 27. Structure of the wholesale natural gas supply market in 2014



Source – the NCC.

In 2014, 2090.1 million m^3 of natural gas were sold and /or consumed in the wholesale natural gas market (including the sales at the Exchange), i.e. by 0.12 percent more than in 2013, when the sold and/or consumed quantity of natural gas equaled 2087.5 million m^3 .

It is being observed that the wholesale natural gas consumers, the actual consumption whereof exceeds 600 GWh, are purchasing less and less of natural gas on the basis of the bilateral agreements. This decrease is partially predetermined by the fuel conversion from natural gas to other alternative types of fuels and by the higher liquidity of the Natural Gas Exchange.

Trade at the Natural Gas Exchanges

Regulation concerning Baltpool energy resources

Pursuant to Item 5, Paragraph 1, Article 8 of the Law on the Energy Resources Market of the Republic of Lithuania, the NCC by Resolution No O3-821 of 30 September 2014 *Re: Supplementing Resolution No O3-318 of 18 July 2013 of the National Commission for Energy Control and Prices on the Approval of the Regulations of the Energy Resources Exchange*, approved the supplement to the Regulations by the special part *Trade in Natural Gas*, stipulating the explicit regulation for starting trade in natural gas.

Regulations of GET Baltic Natural Gas Exchange

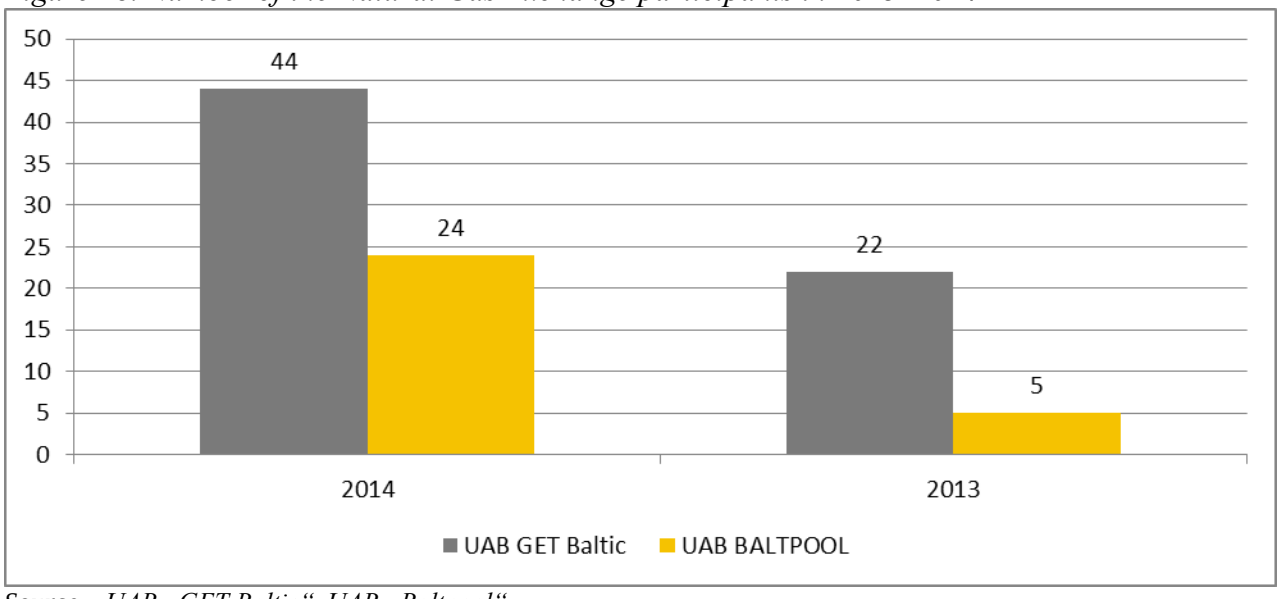
To accomplish that the natural gas market operator would set forth the transparent and clear procedure and rules on the online trading in natural gas at the Exchange, the NCC approved the new wording of the Regulations for Trading at the Natural Gas Exchange prepared by *UAB GET Baltic* (approved by Resolution No O3-954 of 19 December 2014).

The essential amendments:

- The terminology was revised to reach conformity between the concepts used in the Regulations and the international legal acts or the drafts legal acts;
- The requirements on the natural gas accounting were implemented – from 1 January 2015 the natural gas quantity traded at the natural Gas Exchange is expressed in megawatt hours, by using the upper calorific value of gas, as set forth in Item 7 of Order No 1-94 of the Minister of the Republic of Lithuania of 23 April 2014 *Re: The Amendment of Order No 1-245 of 27 December 2013 of the Minister of Energy of the Republic of Lithuania on the Approval of the Procedure Regulations for the Natural Gas Accounting*;
- The concepts related to the adjustment of the natural gas day since 1 January 2015 were revised;
- The provisions related to the restriction or withdrawal of the participant's status were revised by providing the fixed list of the circumstances when the market operator can restrict or invalidate the status of the market participant;
- The procedures were set for revoking the futures contracts;
- The application of more stringent requirements on performance securities (bank guarantees) was established.

In 2014, at the Natural Gas Exchanges the operators whereof are *UAB Baltpool* and *UAB GET Baltic*, in all there were 68 registered participants. The consecutively growing number of the Exchange participants illustrates their recognition among the market participants and potential demand for these Exchanges.

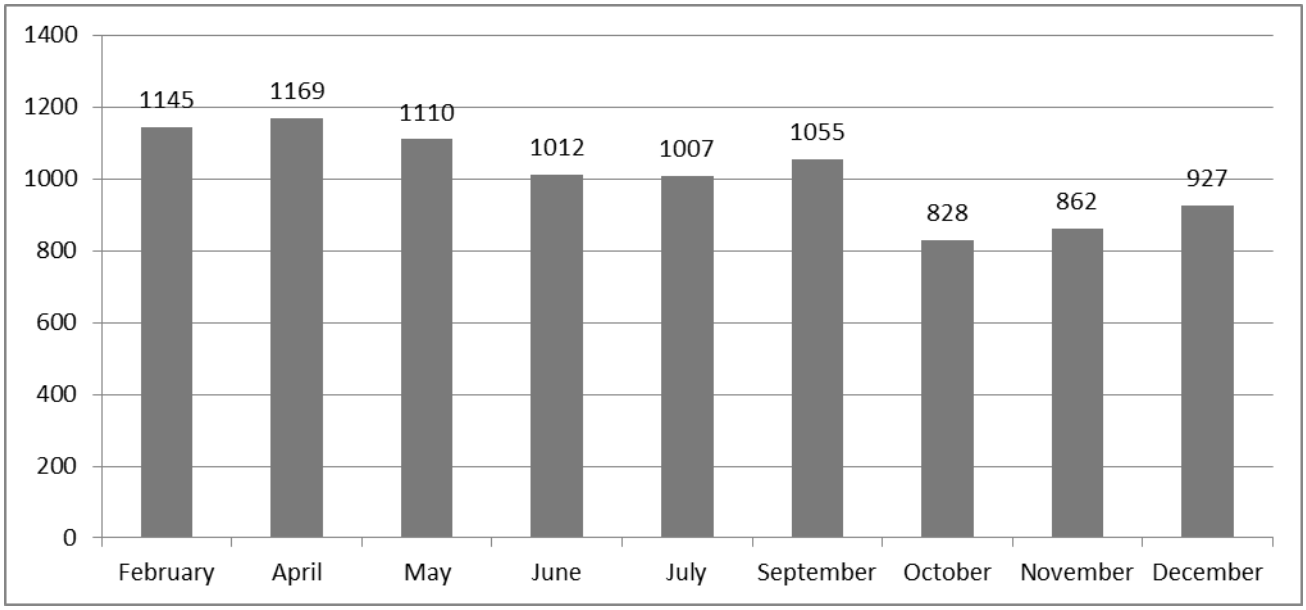
Figure 28. Number of the Natural Gas Exchange participants in 2013–2014



Source – UAB „GET Baltic", UAB „Baltpool".

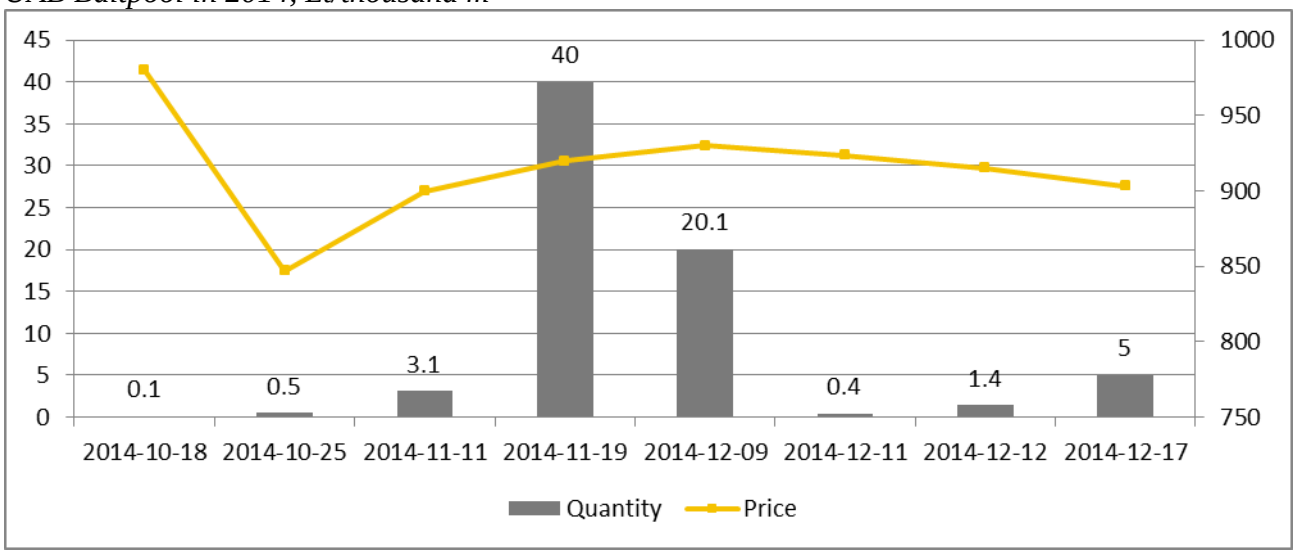
In 2014, 70.6 thousand m^3 of natural gas were traded at the Natural Gas Exchange of *UAB Baltpool*, and 108.9 million m^3 of natural gas were traded at the Natural Gas Exchange of *UAB GET Baltic.* As compared with the same period of the previous year, the natural gas quantity sold at the Natural Gas Exchange of *UAB GET Baltic* was by 89 percent bigger than in 2013. It should be noted that in 4Q 2014, the natural gas quantity assigned for the commissioning works of the LNG Terminal (45 million m^3)[1] was sold at the Natural Gas Exchanges operated by *UAB GET Baltic* and *UAB Baltpool*. During that period the average natural gas price at the Exchange of *UAB GET Baltic* was 962 Lt/thousand m^3, or 16.8 percent below the price of 2013, when it was 1156 Lt/thousand m^3. The average weighted price at the Natural Gas Exchange of *UAB Baltpool* was 920.28 Lt/thousand m^3. In 2014, the trade turnover at both Exchanges totaled Lt 104.9 million.

*Figure 29. Average price of natural gas at the Natural Gas Exchange of UAB GET Baltic in 2014, Lt/thousand m^3**



*In January, March and August no transactions were concluded.
Source – UAB „GET Baltic".

Figure 30. Average price of natural gas of concluded transactions at the Natural Gas Exchange of UAB Baltpool in 2014, Lt/thousand m^3



Source – UAB „Baltpool".

[1] http://litgas.lt/litgas-prades-prekyba-sgd-terminalo-bandymui-skirtomis-dujomis/

4.2.2. Retail natural gas supply market

4.2.2.1. Monitoring the natural gas price level, transparency, open market and competition efficiency in the retail market

In 2014, the natural gas supply activity was performed by the following undertakings: *UAB Lietuvos dujų tiekimas*, *UAB Dujotekana*, *UAB Haupas*, *UAB Fortum Heat Lietuva*, *UAB Druskininkų dujos*, *AB Agro company Josvainiai*, *UAB Grata group* and *UAB Geros dujos*, *UAB Intergas*.

In 2014, 637 million m^3 of natural gas were sold in the retail natural gas supply market, i.e. 8 percent less than in 2013, when 693 million m^3 of natural gas were sold. This was mainly influenced by the decreasing sales: by 9.6 percent to non-household and by 2.6 percent to household natural gas customers. In 2014, as compared with 2013, the concentration of the sales in the retail market changed: *UAB Lietuvos dujų tiekimas* and *UAB Dujotekana*, which in 2013 had covered 99 percent of the market, were joined by the new market participant – *UAB Grata group*. In 2014, these three undertakings covered 99.1 percent of the retail natural gas supply market, the remaining part – 0.9 percent was shared by the remaining market participants.

In 2014, the market shares held by *UAB Lietuvos dujų tiekimas*, *UAB Dujotekana* and *UAB Grata group* were 90.6 percent, 5.1 percent and 3.3 percent, respectively.

In 2014, in Lithuania there were 565.2 thousand natural gas customers, from these 558.5 thousand –household customers and 6.7 thousand – non-household ones. In evaluating the natural gas market in the longer perspective it can be noticed that the number of non-household natural gas customers is increasing.

Segment of household and non-household customers

In 2014, like in 2013, in the retail market gas for household customers was supplied by 6 undertakings. In 2014, household customers consumed 150 million m^3 of natural gas, i.e. 2.62 percent less than in 2013. Household customers paid Lt 209.1 million for natural gas, i.e. 13.3 percent less than in 2013. *UAB Lietuvos dujų tiekimas* has further remained the main supplier of natural gas to household customers. In 2014, the market share held by this undertaking accounted for 99.88 percent of the sales.

In 2014, in the retail market gas for non-household customers was supplied by 9 undertakings, which during the reported period sold 487 million m^3 of natural gas. As compared with 2013, gas consumption by non-household customers dropped by approx. 8 percent.

Natural gas tariffs for household customers

Pursuant to Paragraph 16 of Article 9 of the Law on Natural Gas, the NCC verifies whether the specific natural gas transmission and distribution prices submitted by the natural gas undertakings do not discriminate individual customer groups and do not exceed the set price cap. Pursuant to Paragraph 17 of Article 9 of Law on Natural Gas, the NCC approves tariffs for household customers every half year. In 2014, the NCC twice per year approved the tariffs for household customers of 6 gas companies, by differentiating these customers by groups.

With an aim to expediently respond to the changes in the contractual conditions of the natural gas import and to provide for a possibility to revise the natural gas tariffs for household customers in the case of extraordinary circumstances, the NCC amended the Methodology for Setting the State-Regulated Prices in the Natural Gas Sector. The main amendment: in the case of extraordinary circumstances, the difference between the actual and calculated (forecasted) purchasing (import) price of natural gas in setting the natural gas tariffs for household customers shall be evaluated as follows: the accrued difference will be distributed throughout the period set by the NCC, which, in order to achieve the optimum long-term effect by preserving the tariff stability, cannot be longer than the future four periods of setting tariffs for household customers (half-year periods). With regard to this, since 1 July 2014, the natural gas tariffs of *AB Lietuvos dujos* for household customers were reduced – household customers on the average paid 15-23 percent less

for gas consumed by them. The natural gas tariffs for household customers of *AB Lietuvos dujų tiekimas* (which took over the activity of *AB Lietuvos dujos*) since 1 January 2015 have remained unchanged.

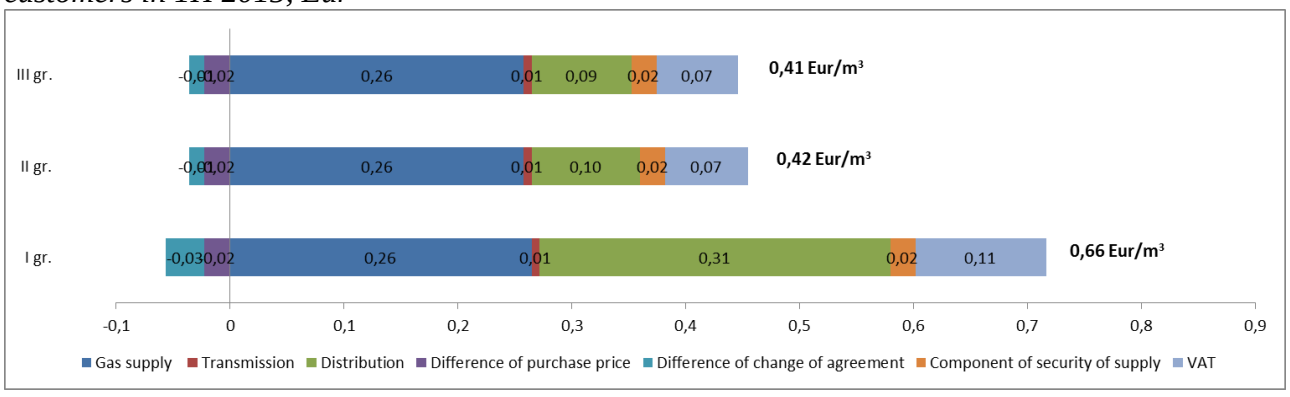
Table 17. Natural gas tariffs for household customers (VAT inclusive), Lt

Undertaking	Group	2 H 2014, Lt		1 H 2015		Adjustment, Lt	
		Fixed part of the tariff	Variable part of the tariff	Fixed part of the tariff, Lt (Eur)	Variable part of the tariff, Lt (Eur)	Fixed part of the tariff	Variable part of the tariff
AB „Lietuvos dujų tiekimas“	I gr.	1,95	2,28	1,95 (0,56)	2,28 (0,66)	0,00	0,00
	II gr.	13,76	1,45	13,76 (3,99)	1,45 (0,42)	0,00	0,00
	III gr.	13,76	1,42	13,76 (3,99)	1,42 (0,41)	0,00	0,00
UAB „Druskininkų dujos“	I gr.	2,00	4,19	2,00 (0,58)	4,43 (1,28)	0,00	0,24
	II gr.	14,00	3,85	14,00 (4,05)	3,91 (1,14)	0,00	0,06
UAB „Fortum Heat Lietuva“	II gr.	9,10	1,63	9,10 (2,64)	1,87(0,54)	0,00	0,24
AB agrofirmos "Josvainiai"	I gr.	2,15	2,04	2,15 (0,63)	1,68 (0,48)	0,00	-0,36
	II gr.	13,80	1,80	13,79 (3,30)	1,40 (0,41)	-0,01	-0,40
UAB „Intergas“	I gr.	5,00	2,08	5,00 (1,45)	1,82 (0,53)	0,00	-0,25
	II gr.	5,00	1,77	5,00 (1,45)	1,74 (0,51)	0,00	-0,03
UAB „Geros dujos“	I gr.	-	2,66	-	2,86 (0,83)	-	0,20
	II gr.	-	1,72	-	1,97 (0,57)	-	0,25
	III gr.	-	1,69	-	-	-	-

Source – the NCC.

The natural gas tariff for household customers consists of the sum of the forecasted prices of natural gas (product), the specific prices of transmission, distribution, storage, liquefaction and supply, and the difference between the natural gas (product) prices forecasted during the previous tariff validity period and the actual natural gas (product) prices. The gas import price for the next half-year period is forecasted based on a forecast of the variable components of the import price (1 percent sulphur content heavy fuel oil, diesel fuel (0.1), USD/EUR exchange rate and calorific value of gas). The difference in the revenues, which occurs due to the difference between the forecasted and actual import prices, is evaluated by setting the natural gas tariffs for household customers for the following half-year period.

Figure 31. Structure of the variable part of AB Lietuvos dujų tiekimas prices for household customers in 1H 2015, Eur



Source – the NCC.

Monitoring the natural gas market

The NCC supervises the scope and efficiency of the opening of the natural gas market and the competition in the wholesale and retail trade. To increase the awareness of the market participants so that the market participants would have access to reliable information, every quarter the NCC prepares the monitoring reports of the natural gas market and posts them of the NCC website www.regula.lt. In the reports the markets of the natural gas import, transmission, distribution and supply (wholesale and retail) are surveyed.

After receiving complaints and enquiries from natural gas customers regarding the applicable natural gas prices for non-household customers by *AB Lietuvos dujos* in the period from 1 January 2013 till 30 April 2014, the NCC on 14 October 2014 initiated the investigation of *AB Lietuvos dujos* actions in allegedly abusing the market power.

The decision to start the investigation of the natural gas market with an aim to examine the efficiency of competition in the natural gas market and to identify the market participants having the dominating influence on this market, if any, and to evaluate whether the participants having the dominating influence on the market were not abusing their market power, was adopted on 19 December 2014 by the NCC Resolution No O3-952. The investigation of the natural gas market covers the period from 1 January 2013 till the end of 1H 2015.

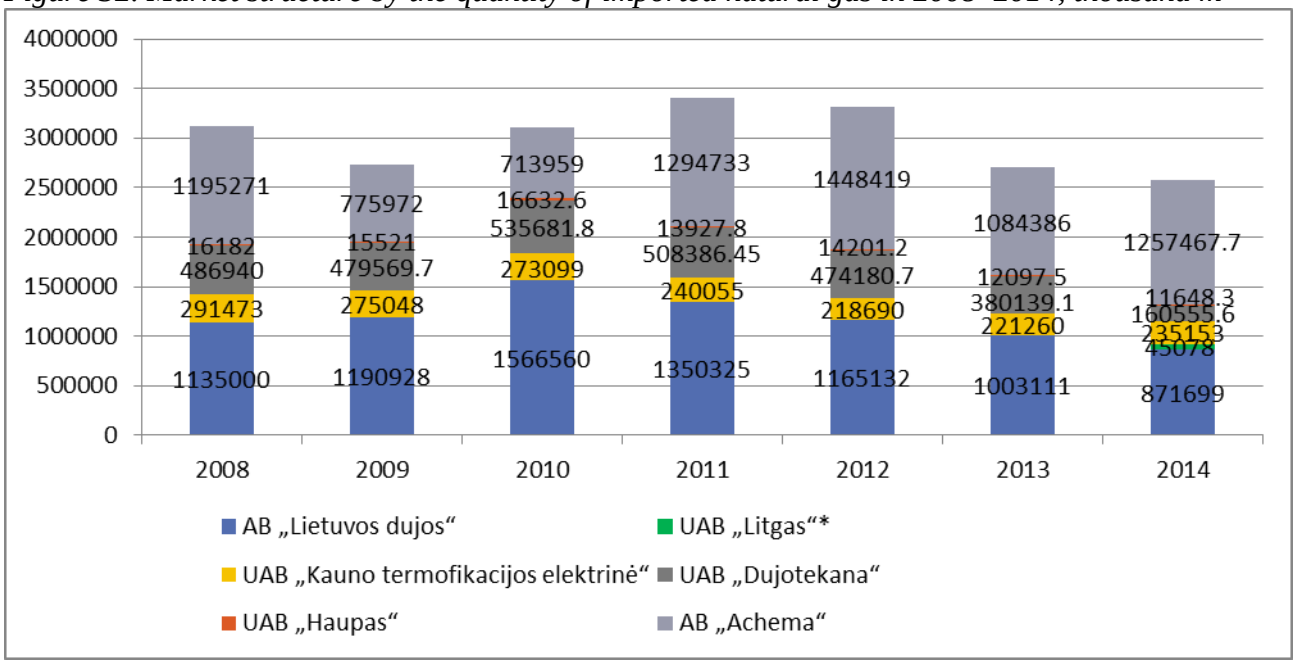
With regard to the circumstances identified during the investigation, the NCC can set certain commitments related to the accounting and pricing. The individual price control measures and commitment to justify the prices by the costs or by the prices set in the benchmarked markets can be imposed on the entity having the dominating position in the market.

4.3. Reliability of supply

4.3.1. Monitoring the demand and supply

Since 2011, the natural gas supply and consumption have been decreasing every year.

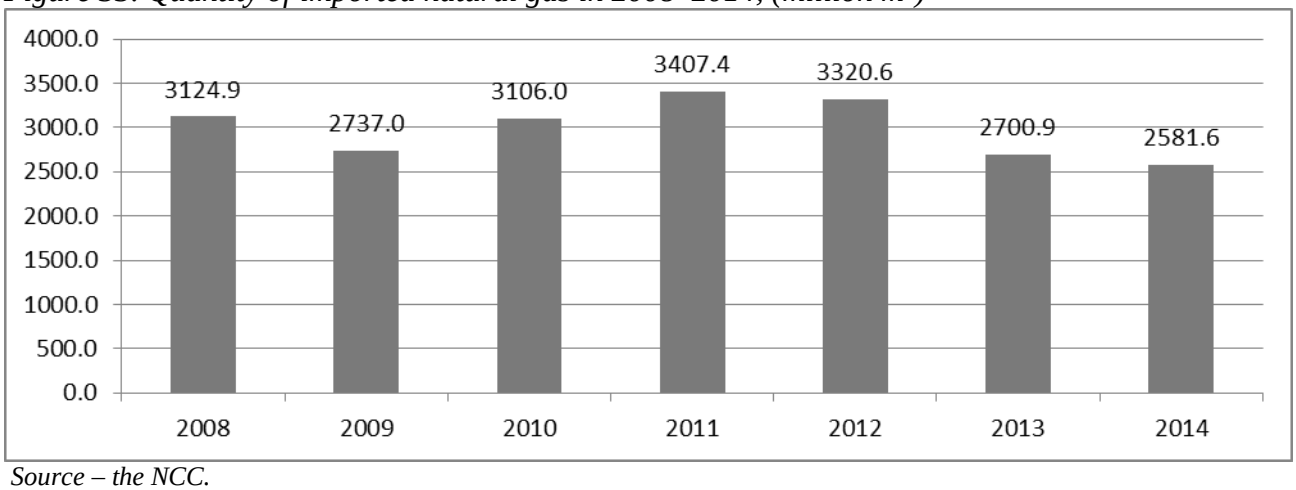
Figure 32. Market structure by the quantity of imported natural gas in 2008–2014, thousand m^3



*The natural gas quantity purchased from *UAB Litgas* for the start-up and commissioning works of the LNG Terminal.
Source – the NCC.

In 2014, as compared with 2013, the imported natural gas quantity dropped by 4.4 percent. The dynamics of the natural gas import in 2008–2014 is shown in the Figure.

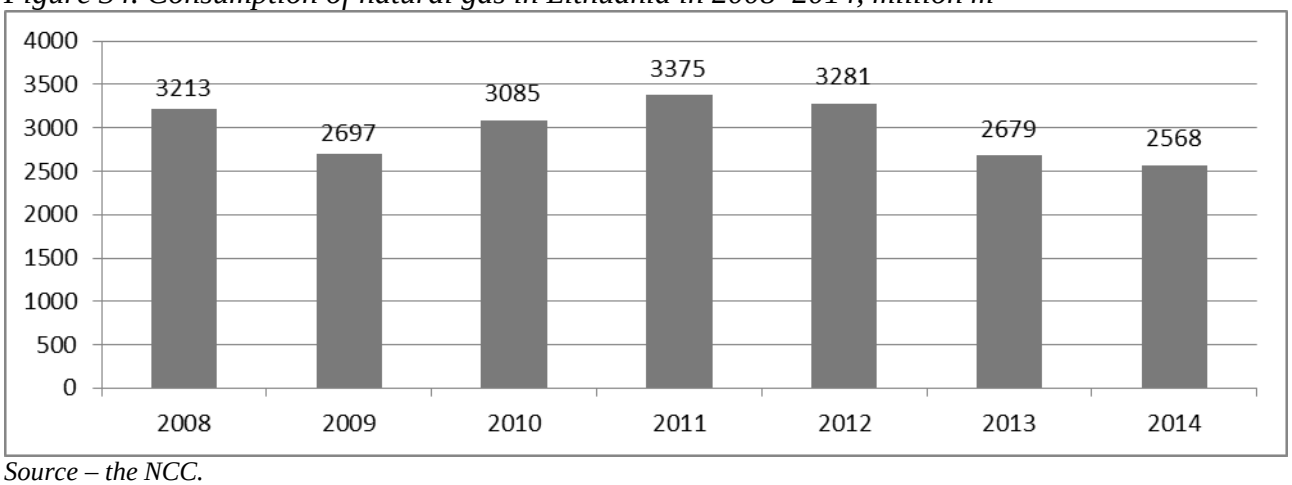
Figure 33. Quantity of imported natural gas in 2008–2014, (million m^3)



Source – the NCC.

The quantity of imported natural gas has been going down because of the decreasing consumption. The main reason for the reduced gas consumption is the construction of biofuel boilers and the use of biofuel by district heating undertakings. In 2014, the quantity of consumed natural gas was 4.1 percent below the quantity consumed in 2013, and this was the smallest consumed quantity of natural gas in the period of 2008–2014.

Figure 34. Consumption of natural gas in Lithuania in 2008–2014, million m^3



Source – the NCC.

After constructing the LNG Terminal in Klaipėda, the natural gas supply has become diversified and the country is not dependent any more on the single gas supplier. Thus the requirement, which is set forth in Paragraph 1, Article 6 of Regulation (EU) No 994/2010 providing that in the event of a disruption of the single largest gas infrastructure, the capacity of the remaining infrastructure, determined according to the N-1 formula, will be sufficient to satisfy the total gas demand of the calculated area during a day of the exceptionally high gas demand, which according to the statistical probability occurs once in 20 years, has been complied with.

4.3.2. Projected demand, required capacities and supply

According to the data provided by Lithuanian consumers, the quantity of consumed natural gas should be decreasing from 25.6 TWh in 2014 to 24.7 TWh in 2015. The projected natural gas quantity to be transmitted in the subsequent years on the average equals 22.5 TWh per year. In the future, it is planned to transmit to the Kaliningrad Region 21.8 TWh of natural gas per year.

4.3.3. Measures to cover peak demand or shortage of suppliers

The natural gas transmission system operator *AB Amber Grid* encourages the system users to more accurately and steadily plan the necessary capacities by setting the transmission price, 70 percent whereof is made up of a fixed part for the capacities booked by the user. The unused (free) capacities are offered on the market with a possibility to conclude agreements for interruptible capacities. Having concluded an agreement for the natural gas transmission, distribution services, a system user has a possibility to book (adjust) the capacities each week and/or day. The system user may book the capacities (adjust the order) online or in writing according to the terms and conditions of the agreement. When the capacities are being ordered for a respective period of time, the system user must have the already purchased quantity of gas. The supply schedule has to be agreed upon with a supply undertaking according to the terms and conditions of the purchasing–selling agreement.

Under normal conditions of operation and supply of the transmission system of Lithuania, the peak gas demand is fully satisfied. In the case of disruption in the gas transportation, the following measures would be used:

– The system users who have signed an agreement with the supply company on the uninterruptible gas supply shall have gas reserves in Inčukalns underground gas storage facility;

– The natural gas supply and transportation priorities and the order of gas supply limitation and gradual termination thereof in the case of an emergency or disruption in gas supply are set forth in the natural gas transmission agreements with the system users directly connected to the transmission system;

– The distribution system operators have to carry out the instructions issued by the transmission system operator in the case of an emergency or disruption in gas supply, as it is set forth in the National Natural Gas Supply Emergency Plan.

The capacities of the LNG Terminal in Klaipėda are sufficient to cover the yearly natural gas demand of Lithuania.

5. CONSUMER PROTECTION AND DISPUTE RESOLUTION IN ELECTRICITY AND GAS SECTORS

5.1. Consumer protection

Compliance with Annex 1 (Article 37(1)(n))

Electricity consumer protection measures remained unchanged in 2014 as compared to 2012 (for more information, see *the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012 and 2013*).

It should be noted that pursuant to the Law Amending Articles 9, 30, 31, 33, 49, 57 and 67 of the Law on Electricity, Article 49 thereof was supplemented by a new Item 3 establishing that conditions of contracts concluded by users shall be transparent, fair and non-discriminatory. Rights, obligations and liability of the parties must be laid down in a clear and understandable manner in the contracts, without setting excess administrative and (or) procedural requirements, on the basis of which the possibility of users to make use of rights provided for in this law and other legislation would be limited. Unfair or deceptive methods for the provision of electricity sector services or trade in electricity shall be prohibited.

The preparation of implementation of a pilot smart grid project has started in 2014, the aim of which is electricity bill equal to Eur 0. A selected group of electricity consumers will be tested having applied new measures and tools for electricity accounting. The project is scheduled to start in 2016.

The NCC, in accordance with the goal specified in Directive 2009/72/EC to encourage competition in the electricity supply sphere, by taking into consideration the right of consumers, which is stipulated in Article 51 of the Law on Electricity, to receive transparent information about applied prices, rates, and all conditions related to electricity supply services, as well as in order to fulfil the function, which is specified in Article 51 of the Law on taking necessary actions to ensure that information provided to the consumers is reliable and is being provided by applying easily comparable method at national level, implemented the project on *Electricity Prices Comparison* tool.

Figure 35. The tool for Electricity Prices Comparison

Source – the NCC.

It is expected that the *Electricity Prices Comparison* tool will help electricity consumers to select rate plans that best suit their needs and will inform consumers about their rights and liabilities if they decide to change their electricity suppliers or select an independent electricity supplier.

Consumer protection measures are provided for in Article 57 of the Law on Natural Gas. Consumers have the right to regularly receive accurate information about actual gas consumption and natural gas prices from natural gas companies without additional fees. Natural gas companies shall publish on their websites the prices of natural gas and the service prices provided by the companies; they shall also specify available options of paying for consumed gas or received services, for example: cash payment, internet banking, or direct debit agreement. Consumers shall have the right to change the supplier free of charge. This change shall be implemented by natural gas companies within three weeks after receiving an application for changing the supplier.

A consumer is entitled to receive from the NCC and the State Consumer Rights Protection Authority all necessary information about their rights, dispute resolution methods, and effective legal acts regulating the natural gas sector.

Ensuring access to customer data (Article 37(1)(p))

In 2014, the conditions of consumer data access essentially did not change compared to 2013 (for more details, please see *the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania for 2012 and 2013 submitted to the European Commission*). It is worth mentioning that in 2015, distributors and suppliers of electricity and natural gas begin cooperation: gradually, a service section for AB Lietuvos dujų tiekimas customers will begin to operate in existing *AB Lesto* customer service centres. This is a pilot project, during which both companies will assess synergy possibilities in order to offer services and customer service to electricity and gas consumers in one location. Customer service in one location is particularly useful for settlers who become consumers of gas and electricity for the first time: they will be able to submit necessary documents and carry out procedures necessary for connecting to electricity and gas distribution

networks in the same location. In the customer service centre, it will be possible not only to conclude agreements on the sale and purchase of electricity, but also to conclude agreements regarding natural gas, to receive information about payments, and to become a new consumer. In additions, specialists will give advice on reorganising electricity and gas systems as well as on the safe use of electricity and natural gas, they will also provide other relevant information.

In 2014, electricity supply was terminated for 3243 (last year: 2179) customers because of unpaid debts (including 461 corporate customers and 2782 private customers; in 2013 – 271 and 1908 respectively). Termination of electricity supply is not implemented if the highest daily weather temperature is lower than minus 15 (fifteen) or higher than plus 30 (thirty) degrees Celsius; termination is not implemented on Fridays and on days on the eve of holidays either.

Pursuant to Article 57 Paragraph 2 of the Law on Natural Gas, consumers shall have the right to conclude a contract with a freely selected natural gas supply company, which would indicate supplier's data and address, the services provided, quality level of the services offered and initial connection term, types of the offered technical maintenance services, measures through the use of which the latest information on all applicable tariffs and payments for technical maintenance can be obtained, contract validity period, conditions for the renewal and disconnection of service provision as well as for contract extension and termination thereof, also, whether the right to terminate the contract without the application of sanctions, reimbursement and return of money is planned for in case service quality is below the level specified in the contract, including inaccurate and late invoices, the method of initiation of out-of-court dispute resolution procedures, information on consumer rights and examination of complaints. All the said information must also be published on the natural gas company's website.

Public Service Obligations

For a list of PSO and the procedure for the provision thereof, see *the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012 and 2013*.

Data related to the price of PSO and their dynamics are published on the website of the NCC at www.regula.lt. More information on PSO is given in Chapter 3.2.2.1 of this report.

Definition of vulnerable customers

For more information on the definition of vulnerable customers, see *the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012 and 2013*.

It should be mentioned that the Government of the Republic of Lithuania issued Resolution No. 527 as of 27 May 2015, which confirmed the *Description of the Procedure of Applying Additional Guarantees to Socially Vulnerable Electricity Consumers*. According to the document, vulnerable consumers are household consumers or their household members who receive monetary social support according to the procedure stipulated in *the Law on Monetary Social Support for Deprived People of Republic of Lithuania*. Vulnerable consumers receive additional guarantees related to electricity supply:

1. Electricity supply and (or) transportation cannot be restricted and (or) terminated, if the debt to the distribution networks operator or public supplier does not or did not exceed 3 basic social benefits;

2. In all cases, electricity supply and (or) transportation cannot be terminated on Fridays, Saturdays, Sundays, on holidays or on days before holidays, or in emergencies (when the highest daily air temperature is lower than minus 15 °C or higher than plus 30 °C);

3. They have the right to pay the distribution networks operator or the public supplier by the last day of the month;

4. When electrical equipment is connected to electricity networks managed by the distribution networks operator, partial (60 per cent and remaining) connection fees shall be charged, which exceed Eur 600;

5. For 3 months since the day of missing the payment term, penalties shall not be imposed;

6. The paper payment document shall be compensated.

The application of additional guarantees to vulnerable consumers shall begin and (or) stop as soon as respective data are received from the information system of the Social Family Support.

Changes of the Law on Energy and Law on Electricity related to respective provisions and further market development as well as the protection of vulnerable consumers have been drafted.

Economic Assessment of Long-term Costs and Market Benefit of Natural Gas Intelligent Metering Systems

In accordance with Directive 2009/73/EC, Clause 10 of Article 5 and Paragraph 3 of Article 57 of the Law on Natural Gas, the NCC was tasked with performing *the Economic Assessment of Long-term Costs and Market Benefit of Natural Gas Intelligent Metering Systems (hereinafter referred to as the Assessment)*. The NCC, as per the *Description of the Procedure of Economic Assessment of Long-term Costs* and *Market Benefit of Natural Gas Intelligent Metering Systems*, which was confirmed by the NCC Resolution No. O3-307 as of 18 July 2013, prepared the Assessment Project, which was confirmed by the NCC Resolution No. O3-229 as of 28 July 2014 *On Coordinating the Project of Economic Assessment of Long-term Costs and Market Benefit of Natural Gas Intelligent Metering Systems*.

The Assessment analysed and evaluated the costs and benefits of installing natural gas intelligent metering systems in the Republic of Lithuania over a long period of time (while natural gas intelligent metering systems are in use) and conclusions were provided to the Government of the Republic of Lithuania regarding the installation of natural gas intelligent metering systems in Lithuania.

The Assessment analysed three main scenarios: optimistic, when natural gas intelligent metering systems are installed for all consumers of natural gas; realistic, when natural gas intelligent metering systems are installed for consumers who consume over 500 m^3 of natural gas per year, and pessimistic, when natural gas intelligent metering systems are installed for consumers who consume over 20 000 m^3 of natural gas per year. In the case of every scenario, two functionalities of intelligent metering systems were analysed as well: basic (remote reading, one-way communication, interval reading and access to the Internet portal) and expanded (remote reading, two-way communication, interval reading, access to the Internet portal, remote controls and home automation).

The project was revealed for public consultation in the draft legal acts information system of the Seimas of the Republic of Lithuania and on the website of the NCC. The results of the financial analysis of the Assessment with regard to investments showed that none of the scenarios make positive return for the coordinator of the Project, i.e. the distribution system operator. The least negative result is the basic functionality case of the Pessimistic scenario due to the following main reasons:

1. Installation of natural gas intelligent metering systems is carried out at the smallest extent, so investments and all operating costs are lower;

2. Natural gas intelligent metering systems with basic functions are installed, and their price is lower.

Table 18. Financial Analysis Results

Scenario	Optimistic		Realistic		Pessimistic	
Scenario functionality	Basic	Expanded	Basic	Expanded	Basic	Expanded
Net present value (in 2015–2027), thousand Lt	-316 295	-512 309	-55 967	-87 140	-12 577	-12 755

Source – the NCC.

Economic analysis of scenarios in the Assessment, which examined not only the actual cash flows to the coordinator of the Project like the financial analysis, but it also made a wider

assessment: an evaluation of external benefits for the state and the consumers showed that the pessimistic scenario is profitable; therefore, it is possible to conclude that the installation of natural gas intelligent metering systems in the case of this scenario is beneficial for Lithuania.

Table 19. Economic Analysis Results

Scenario	Optimistic		Realistic		Pessimistic	
Scenario functionality	Basic	Expanded	Basic	Expanded	Basic	Expanded
Net present value (in 2015–2027), thousand Lt	-276 897	-456 411	-20 294	-38 617	4 129	6 029

Source – the NCC.

Although the results of the financial analysis of the Assessment that showed benefit for the coordinator of the Project were negative, the results of economic analysis that evaluated external benefits for the state and consumers demonstrated that the result of the pessimistic scenario in the case of both basic and expanded functionality is positive, i.e. the scenario is economically profitable. The Assessment determined that the result of the pessimistic scenario with expanded functionality is more profitable than the result of the basic functionality option. The main reasons that caused the positive results of the cost and benefit analysis are as follows:

1. Consumers in group 3–7 use the largest quantities of natural gas in the country (according to the NCC data, in 2013, the total consumption of these groups amounted to 78.6 per cent). Due to possibly more effective consumption of natural gas the relatively greatest benefit is achieved, compared to other scenarios.

2. In the case of this scenario, during the installation of natural gas intelligent metering systems new meters are installed for relatively few consumers: only for systems equipped with meters ≤G6; i.e. 589 units or 28 per cent of group 3–7 consumers (the 3–7 group of consumers comprises 0.3 per cent of all natural gas consumer meters without remote reading).

The Assessment determined that in the case of the profitable scenario the greatest benefit is derived from reduced consumption of natural gas (76 per cent of all created benefits). Consumers are given the opportunity to monitor consumption changes in real time and to compare data with previous periods; thus, they are encouraged to pay more attention to watching the consumption of natural gas. Consumers who see how their natural gas bill changes in real time are encouraged to make their consumption more effective by changing consumption habits (e.g., when natural gas is used for heating: to lower the temperature at night or in unused rooms, to lower it during the day, etc.) or to replace equipment with more effective equipment (i.e. equipment that consumes less natural gas).

Sensitivity analysis of the Assessment showed that these variables have the greatest impact on the results of the Project:

1. Changes of natural gas import price;
2. Changes in natural gas consumption habits;
3. Changes of the price of intelligent metering equipment;
4. Changes of operating costs.

Considering that the results of the economic analysis of the Assessment, which evaluates the benefits for the operator of natural gas intelligent metering systems as well as for the state and the consumers, not the results of the financial analysis of the Assessment, showed that the pessimistic scenario is economically profitable, in order to implement the profitable scenario determined by the Assessment, the NCC suggested the following methods to manage risks associated with implementing this scenario:

1. **The trial stage.** The NCC took into consideration the results of the profitable scenario and suggests first determining and implementing the trial stage before carrying out the entire Project. The coordinator of the Project would be responsible for checking the main assumptions (e.g.: changes of natural gas import price, changes in natural gas consumption habits, changes of the price of intelligent metering equipment, changes of operating costs), which may influence the

results of the Assessment, during this stage. The sample of natural gas intelligent metering systems to be installed should not exceed the first year's scope of installing intelligent systems units with expanded functionality in the case of the pessimistic scenario used in the Assessment (approx. 20 per cent of the number of meters changed in this scenario). The sample may consist of randomly selected consumers proportionally chosen from every consumer group of the profitable scenario.

2. **Reviewing the Assessment.** In one year after the implementation of the trial stage, it is very important to review the Assessment again with the help of external experts and to check the results under the conditions of the current situation, which would determine the further progress of implementing the Project. In other words, the Assessment must be carried out again to get the result in the presence of real investments, operational costs and created benefits. Only then a decision shall be made on whether the Project will be implemented fully and in what stages.

3. **The monitoring system.** The coordinator of the Project should create a monitoring system (appoint responsible persons, etc.), which would work as a control system during Project implementation and would ensure that the Project is implemented successfully. In addition, the coordinator of the Project should submit annual reports on the progress of implementing the Project to the NCC and the Government or its authorised body.

4. **External financing.** Considering that the Project is profitable in the case of a pessimistic scenario according to the results of economic, not financial, analysis, the coordinator of the Project should apply for financial support to implement the trial stage of the Project (as well as the entire Project, if the results of the trial stage demonstrate that the Project should be implemented fully). The coordinator of the Project should apply to various funds that would be able to finance the Project.

5. Considering that a trial is planned in the electricity sector, the coordinator of the Project should consider the possibility of cooperating with the operator of the electricity distribution system to properly implement the Project trial.

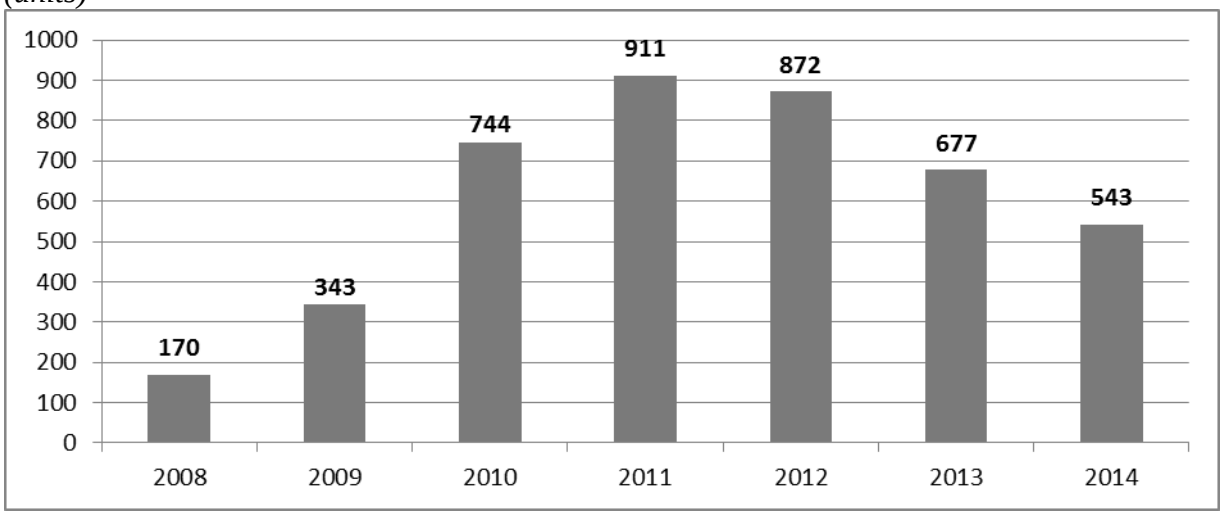
5.2. Dispute resolution

For more information on procedures carried out by the NCC in compliance with requirements provided for in the Law on Energy and conditions prescribed in the *Description on the Procedure of Advance Mandatory Complaint and Dispute Resolution in an Out-of-Court Procedure*, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012 and 2013.

In 2014, the NCC classified applications and complaints submitted by consumers according to the provisions of recommendation No. SEC (2010) 572 “On the Use of a Harmonised Methodology for Classifying and Reporting Consumer Complaints and Enquiries” of the European Commission as of 12 May 2010 and other related international documents. Consumers' enquiries are analysed according to the Nomenclature of Consumers' Applications, Complaints, and Disputes confirmed by order No. O1-25 of the Chair of the Commission as of 6 March 2014.

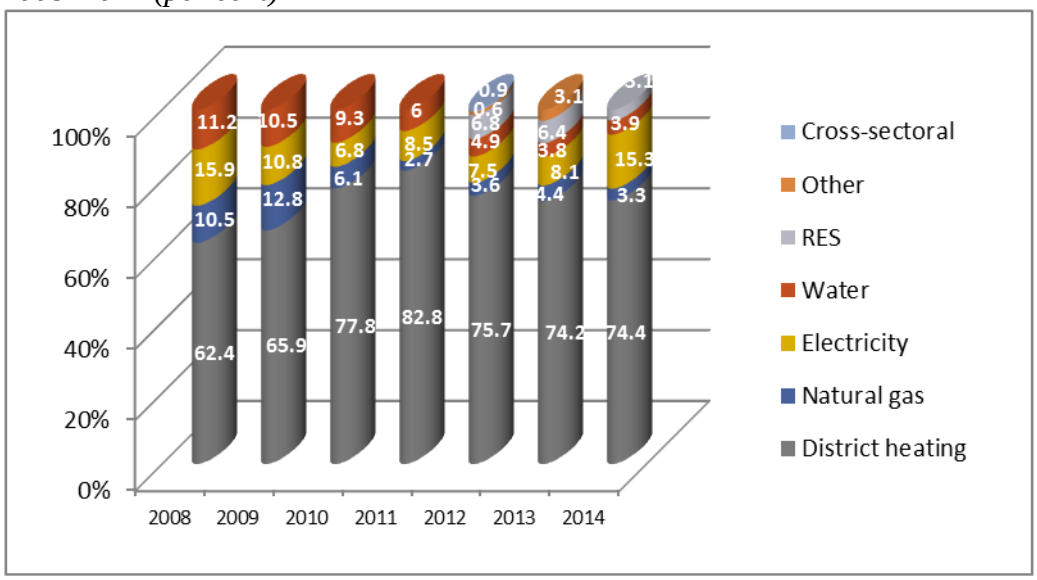
Nomenclature data are collected, structured, analysed and summarised every quarter. Analysis data are published on the website of the NCC, in the section “For Consumers”. Consistent analysis of consumers' enquiries data based on classification principles used at the national and the EU level makes it possible to identify the trends of consumers' enquiries, to find problematic issues and to take preventive action to resolve them.

Figure 36. Dynamics of consumer complaints and applications received by the NCC in 2008–2014 (units)



Source – the NCC.

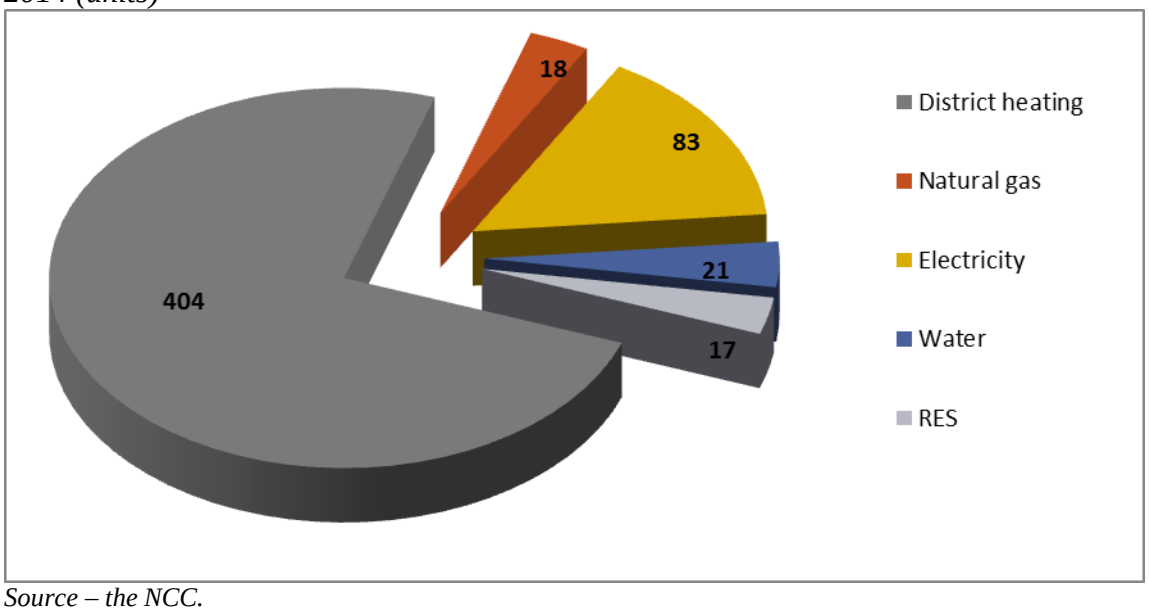
Figure 37. Distribution of consumer complaints and applications received by the NCC by sector in 2008–2014 (per cent)



Source – the NCC.

The most frequent reason for applying to the NCC is the heating sector. Despite the decrease of the overall number of enquiries, the number of enquiries regarding the heating sector remains practically the same: over the course of the last three years, they comprised approx. 75 per cent of all consumer enquiries received by the NCC. In 2014, the number of enquiries regarding the electricity sector increased dramatically (by 7.2 percentage points), the changes of the number of enquiries in other sectors in 2014 were insignificant.

Figure 38. Distribution of consumer complaints and applications received by the NCC by sector in 2014 (units)

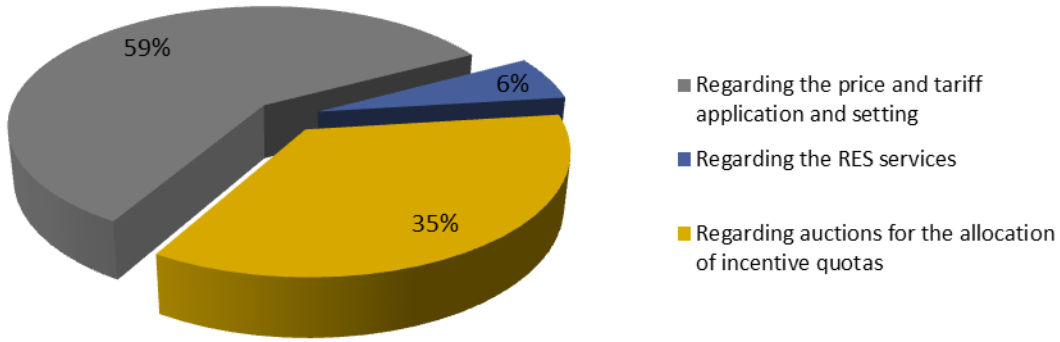


Source – the NCC.

Renewable resources energy sector

In 2014, the NCC received 17 enquiries (16 applications and 1 complaint) regarding the renewable energy sector.

Figure 39. Consumer complaints and applications in the renewable resources sector (per cent)

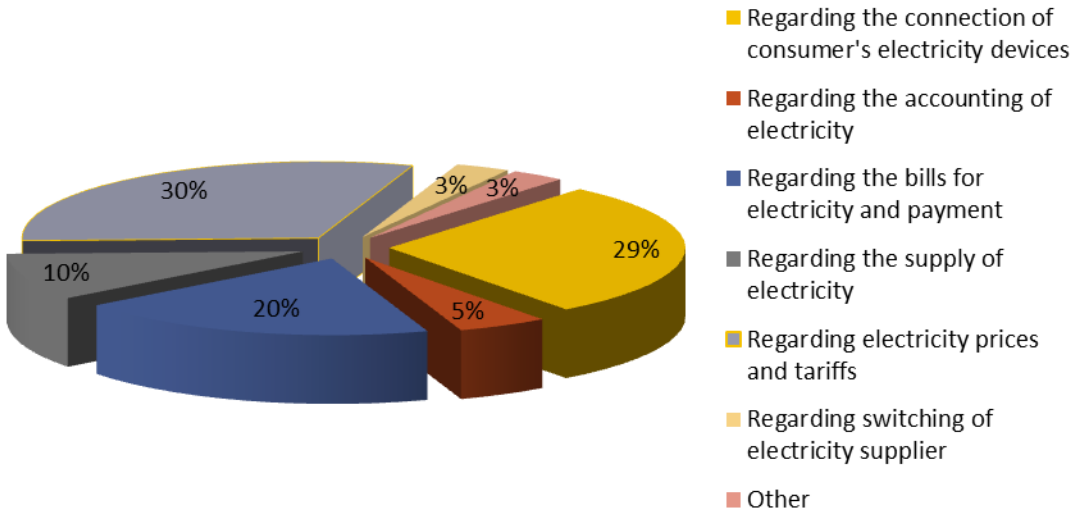


Source – the NCC.

Electricity sector

The electricity sector was mentioned 83 times in enquiries (42 applications and 41 complaints). Consumers most often filed enquiries about issues regarding connection (and (or) disconnection) to electricity networks, regarding electricity prices and rates, and regarding the payment of electricity bills.

Figure 40. Consumers' written enquiries in the electricity sector by enquiry type (per cent)



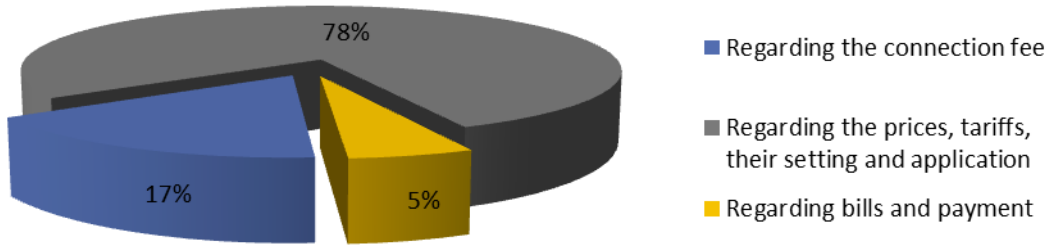
Source – the NCC.

Natural gas sector

In 2014, the NCC received 18 enquiries (13 applications and 5 complaints) regarding the natural gas sector: 13 regarding natural gas and 5 regarding liquefied petroleum gas.

Consumers most often file enquiries about issues related to gas rates and the setting and application of rates; issues concerning connection rates and bill payment are raised less frequently.

Figure 41. Consumers' complaints and applications in the natural gas sector (per cent)



Source – the NCC.