



National
Commission
for Energy
Control and
Prices

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

Prepared by:

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1. FOREWORD

In 2013, the electricity market of Lithuania was influenced by the changes related to the further development of the regional electricity market. Last year, on 15 March, the transmission system operators of the Baltic States concluded a joint Agreement on the Calculation of the Capacities of the Cross-Border Lines and the Rules on the Capacity Allocation, and on 2 June 2013 *Nord Pool Spot AS* became the operator of the Power Exchange of Latvia.

Last year, as compared with 2012, the number of the market participants holding the independent electricity supply permits grew from 65 to 67; however the number of the actively operating suppliers dropped from 27 to 25.

At the Power Exchange *Nord Pool Spot AS* the number of active participants in the Elspot day-ahead trade was 18, and 6 active participants were in the Elbas intraday trade, which started operating in Lithuania in December 2013. In 2013, as compared with 2012, the quantity of the electricity traded at the Power Exchange went down by 29 percent, from 7525 GWh to 5311 GWh. The price of the basic load electricity in the day-ahead trade equalled 48.9 EUR/MWh, and of the peak load electricity – 56.3 EUR/MWh.

In 2013, as compared with 2012, in Lithuania the electricity import decreased by 11 percent, export – by 66 percent, the generated electricity output – by 7 percent, from 4.7 TWh to 4.4 TWh. In 2008–2013, the generated electricity output went down by 69 percent.

The electricity consumption dropped by 2 percent, from 12.3 TWh to 12.1 TWh, the technological losses in the electricity networks were reduced by 2 percent as well. The electricity demand for the auxiliary consumption decreased by 26 percent.

Last year, as compared with 2012, the installed capacity increased by 2.2 percent (to 4347 MW), including the part of the installed capacity in the power plants using renewable energy resources, which made up 12.3 percent of the total installed capacity. The investments in the network infrastructure grew by 10.6 percent (from LTL 463.12 million to LTL 512.19 million).

On 30 September 2012, by implementing the provisions of the new revision of the Law on Electricity of the Republic of Lithuania which came into force on 7 February 2012 (hereinafter – the Law on Electricity) and of the Plan for Implementing the Unbundling of the Activities of the Electricity Undertakings and Control over Them in Compliance with the Requirements of the Law on Electricity, which was approved by Resolution No 826 *Regarding the Establishment of the Private Limited Company and the Investment of the State-Owned Assets* of the Government of the Republic of Lithuania of 4 July 2012, the transmission system operator submitted all relevant information to the National Commission for Energy Control and Prices (hereinafter – the NCC), which on 27 August 2013, after analysing this information and after receiving a positive conclusion with certain reservations from the European Commission, made a final decision on the unbundling of the transmission system operator (hereinafter – TSO) by stating that the unbundling of the LITGRID AB transmission activity complies with the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity, and that this undertaking can be certified as the TSO by issuing to LITGRID AB a termless license for the electricity transmission activity.

In 2013, the NCC further continued 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. The model was completed in 2014, and its results will be applied in setting the price caps of the electricity transmission and distribution services in the new five-year regulation period of 2015–2019.

Last year, by implementing the provisions of Article 19 of the revised Law on Electricity, with the assistance of the consultants, the Report on the Assessment of the Reliability of the Lithuanian Power System in 2012 was prepared for the first time. The results of the study revealed that at present, without taking into consideration the economic aspect, the sufficient reliability level is ensured in the Lithuanian Power System (hereinafter – the LPS). To maintain the adequate

reliability level in the LPS, it was proposed to estimate the scope of upgrading the LPS network components with regard to the year of the network construction and the tendencies of deterioration in the equipment condition.

By the Resolution of 13 May 2013 the NCC started the survey of the electricity production market 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. The survey should be completed in 2014. In 2015, the NCC is also planning to conduct the survey of the independent electricity supply market.

On 1 August 2013, the NCC together with the regulatory authorities of other Baltic States started the investigation of the price jump at the Electricity Exchange *Nord Pool Spot AS* on 25 June 2013. At that time the price, which was forming in the electricity trading zones of Lithuania, Latvia and Estonia, equalled 35.86 LTct/kWh or 103.85 EUR/MWh. In 2013, the average market price of electricity in Lithuania was 16.55 LTct/kWh or 47.93 EUR/MWh. On 26 February 2014, the regulatory authorities provided their joint conclusion of the investigation to the Agency for the Cooperation of Energy Regulators (ACER), which stated that the provisions of Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (hereinafter – the Regulation (EC) No 1227/2011) had been complied with, and the investigation was completed.

In October 2013, the NCC on its own initiative started the internal investigation on the price jump at the Power Exchange *Nord Pool Spot AS* in September – October 2013. The conclusions of the investigation were presented on 18 April 2014. On the basis of the analysis of the data obtained from different sources and the consistent research, it has been determined that the joint Agreement on the Calculation of the Capacities of the Cross-Border Lines and the Rules on the Capacity Allocation signed by the Baltic TSOs complies with 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 EU internal market. 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.

In 2013, the need for the international cooperation in solving the issues of the developing regional electricity market and new interconnection lines became especially evident.

The participants of the natural gas import market in 2013 were the same as in 2012. Natural gas was imported by *AB Lietuvos dujos*, *UAB Dujotekana*, *AB Achema*, *Kaunas Combined Heat and Power Plant* and *UAB Haupas*. In 2013 natural gas was imported to Lithuania from the single external supplier – the Russian company *OAO Gazprom*. *UAB Dujotekana* purchased gas not directly from *OAO Gazprom*, but from the intermediate agent *LT Gas Stream AG*.

In 2013, as compared to 2012, the participants of the natural gas import market imported by 18.7 percent less of natural gas. The decline of the prices of the alternative types of fuel (heavy fuel oil with 1 percent sulphur content and 0.1 percent gas oil) and the weakening of the US dollar against Litas resulted in 5.4 percent lower weighted price of the natural gas import as compared to 2012.

In 2013 the distributed quantity of natural gas was 12.9 percent below the distributed quantity in 2012. The biggest share of the distribution market – 97.4 percent – was held by *AB Lietuvos dujos*.

The wholesale natural gas supply market has further remained rather small: in 2013 the sold quantity of natural gas equalled 6.9 million m³, i.e. 17 percent less than the quantity sold in 2012.

In 2013, as in 2012, the same two undertakings – *BALTPOOL UAB* and *UAB GET Baltic* - had the licenses of the natural gas market operator. In 2013, as in 2012, in the Natural Gas Exchange operated by *BALTPOOL UAB*, 4 participants were registered, while the number of the participants registered in *UAB GET Baltic* operated Natural Gas Exchange has consistently increased, and at the end of 2013 there were 22 registered participants.

In 2013 in the retail natural gas market 1427.5 million m³ of natural gas were supplied, i.e. 11.6 percent below the quantity supplied in 2012. In 2013, as compared to 2012, the quantity supplied to non-household customers dropped by 17.9 percent, to household customers – by 15.5 percent.

To enforce the requirements of unbundling, the newly established undertaking *AB Amber Grid* has started operating from 1 August 2013. 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 an application to the NCC 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 is 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, has acquired 38.91 percent of the *AB Amber Grid's* shares from *E.ON Ruhrgas International GmbH* and *Lietuvos energija UAB*, whose 100 percent of the shares are managed by the Ministry of Finance of the Republic of Lithuania, has acquired the shares of *AB Lietuvos dujos* managed 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 *Lietuvos energija UAB* concluded the transaction with *OAO Gazprom* on buying out 37.10 percent of *AB Lietuvos dujos* shares. In such a way the control over the natural gas transmission and supply activities has been actually separated.

In preparing this Report, the NCC referred to the reports regularly submitted to the NCC by the undertakings operating in the electricity and gas sectors, other materials as well as the data submitted by other authorities. In the Report the main stages of the development of the electricity and gas markets have been reviewed, and the essential problems in these sectors have been pointed out.

Acting Chair



Darius Biekša

2. KEY EVENTS IN THE ELECTRICITY AND NATURAL GAS MARKETS

2.1. Electricity sector

2.1.1. Unbundling of the vertically integrated undertakings

After the new revision of the Law on Electricity came into force on 7 February 2012 and the Government of the Republic of Lithuania by Resolution No 826 *Regarding the Establishment of the Private Limited Company and the Investment of the State-Owned Assets* approved the Plan for Implementing the Unbundling of the Activities of the Electricity Undertakings and Control over Them by 1 October 2012, in Compliance with the Requirements of the Law on Electricity, *LITGRID AB* took all actions deemed necessary to ensure the enforcement of the requirements of the Law on Electricity regarding the unbundling of the TSO operations. On 30 September 2012, the TSO submitted all relevant information to the NCC, which, after analysing this information, acted as follows:

- On 21 February 2013 met with the representatives of the European Commission;
- On 26 April 2013 made the initial decision on unbundling the TSO;
- On 8 May 2013 submitted the initial decision to the European Commission;
- On 4 July 2013 received the positive conclusion with remarks from the European Commission;
- On 27 August 2013 made a final decision on unbundling the TSO.

Thus the process of unbundling the TSO ownership was completed and it was stated that the unbundling of the *LITGRID AB* transmission activities complies with the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity, and that this undertaking can be certified as the TSO, and a termless license for the electricity transmission activity can be issued to *LITGRID AB*.

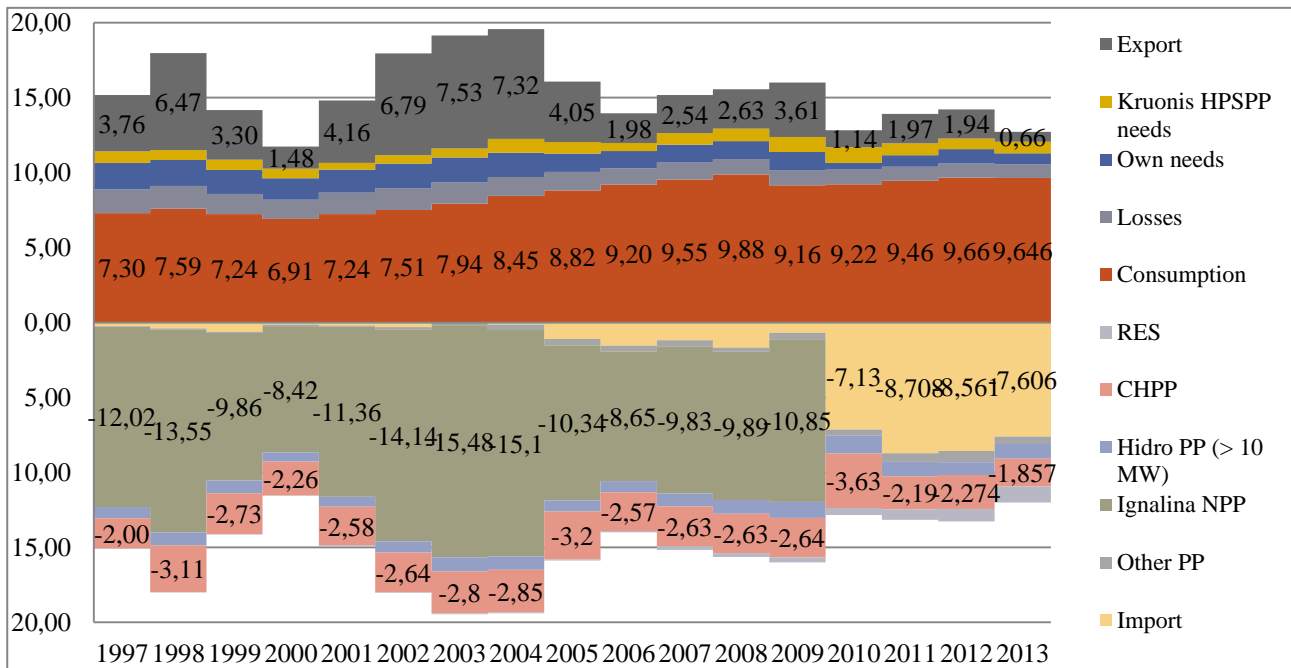
The unbundling of the ownership of the electricity distribution system operator *AB LESTO* (hereinafter – the DSO) was finished on 27 July 2012, when the NCC stated that the unbundling of the *AB LESTO* distribution activity complies with the provisions of Article 54, Paragraphs 1 and 3 of the Law on Electricity. For more detailed information see Chapter 3.1.1 of this Report.

The NCC will exercise further control over the successful unbundling of the operations by ensuring the independence of the transmission and distribution activities from the commercial interests of the production and supply activities and in order to avoid cross-subsidising of these activities.

2.1.2. Reliability of supply

Since 2010, the yearly electricity import in the LPS has constituted approx. 65 percent of the total domestic electricity demand (Figure 1). The Lithuania is the second largest power system in Europe by electricity import, after Luxemburg. Because of the great dependence on the electricity import, any alteration either in the structure or in the volume of the electricity import makes a very strong impact on the cross-border capacities and the prices.

Figure 1. Electricity balance in 1997–2013 (TWh)

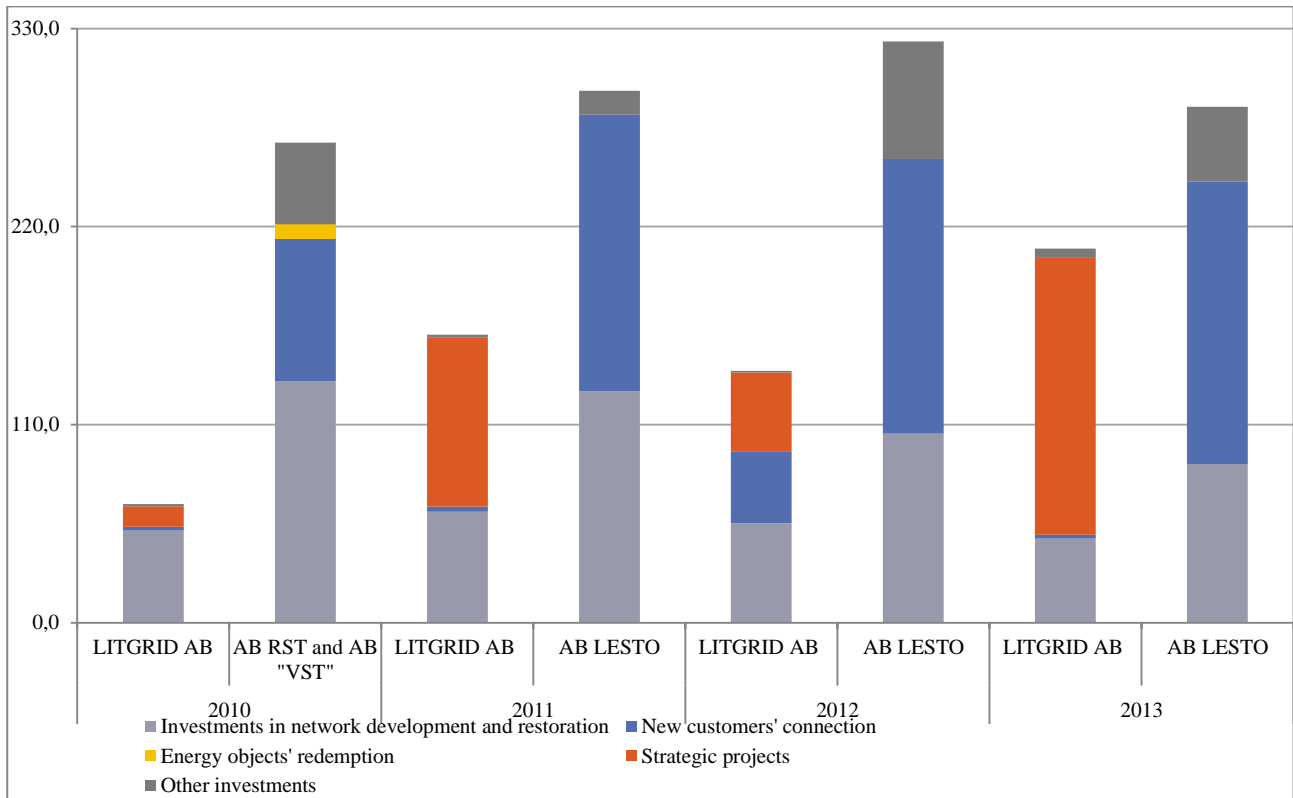


Source: NCC

During the reported year, the total installed capacity of the power plants increased by 2 percent – up to 4347 MW. In 2013, the market share of the installed capacity of the power plants using renewable energy resources (RES) reached 12.3 percent.

In the electricity sector Lithuania has set the objective to have the interconnecting lines with Sweden and Poland and to create the Baltic electricity market. The projects of the NordBalt interconnection with Sweden and the LitPol Link with Poland should be completed by December 2015. After the completion of the mentioned projects, the up-till-now isolated Lithuanian Power System would be integrated into the single European electricity market, and this would contribute to the more reliable electricity supply and bigger competition in the Baltic regional market. In 2013, as compared with 2012, the investments in the network infrastructure increased by 10.6 percent, from LTL 463.12 million to LTL 512.19 million (Figure 2).

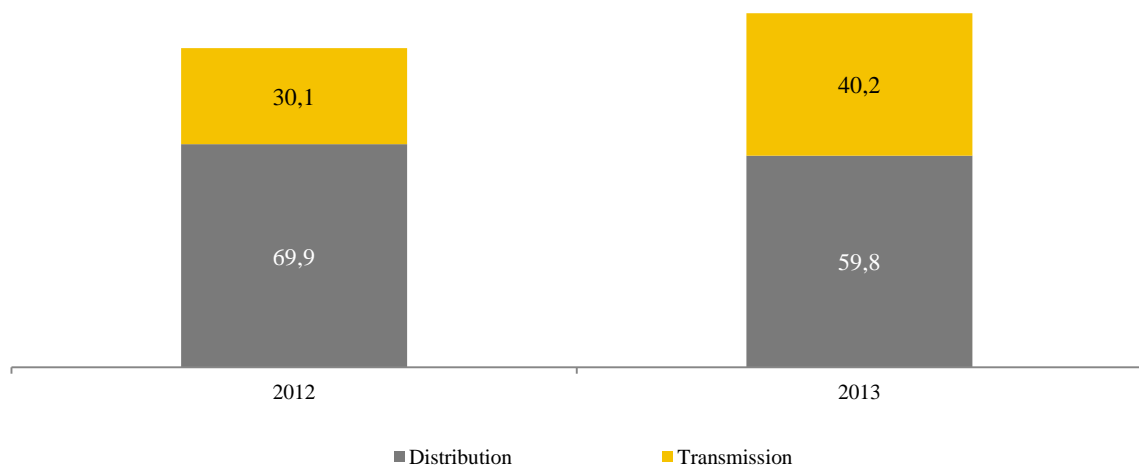
Figure 2. Investments by the transmission system operator and the distribution system operator in 2010–2013 (LTL million)



Source: NCC

In 2013, as compared with 2012, the proportion of the investments in the transmission network increased by 10.1 percentage points, from 30.1 to 40.2 percent, and the proportion of the investments in the distribution network respectively decreased (Figure 3).

Figure 3. Structure by the investments in the network infrastructure in 2012–2013 (percent)



Source: NCC

By implementing the provisions of Article 19 of the revised Law on Electricity, the NCC, with the assistance of the consultants, for the first time prepared the Report on the Assessment of the Reliability of the Lithuanian Power System in 2012. The results of the study revealed that at

present the sufficient reliability level is ensured in the LPS. To maintain the adequate reliability level in the LPS, it was proposed to estimate the scope of upgrading the LPS network components with regard to the year of the network construction and the tendencies in the deterioration in the equipment condition. For this purpose it was recommended:

- To set the tolerance limits of the minimum transportation reliability level indicators (END, AIT, SAIDI, SAIFI) or to extend the period used for determining the minimum level (5-6 years);
- To implement the economically justified monitoring system and to carry out the voltage monitoring in the distribution network;
- In order to maintain the high level of the system reliability, to consider the possibility to additionally perform a technical audit of the existing system elements and to determine the useful life of the individual system components, because around the year 2020 the lifetime of the system components will reach its limit and this can result in significant investment needs for upgrading the system.

2.1.3. Competition in the electricity supply market and the market monitoring

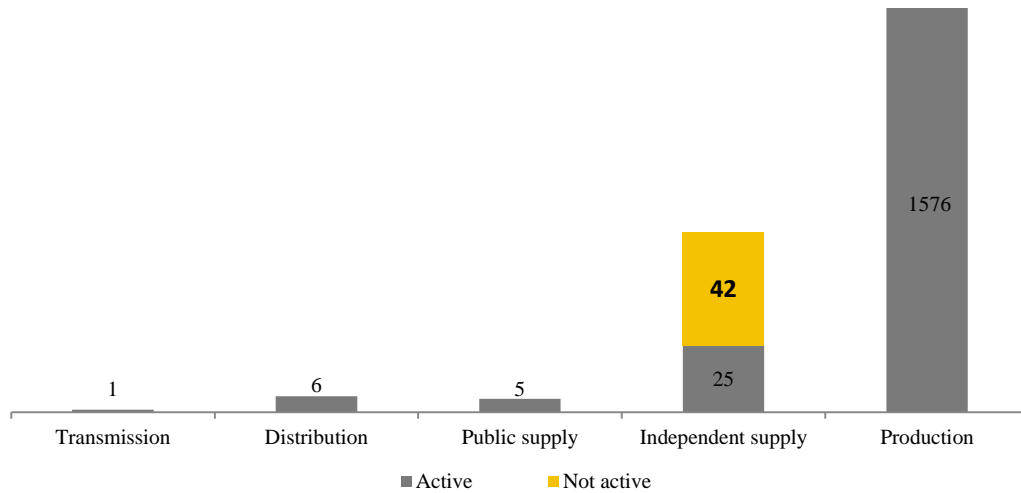
The Power Exchange *Nord Pool Spot AS*, which on 18 June 2012 started operating in Lithuania and on 3 June 2013 – in Latvia as well, completed one of the most important steps in the integration of the Baltic electricity market. In December 2013, the intraday trade in electricity was implemented in Lithuania and Latvia. It is expected that in 2014 the Nasdaq OMX financial risk management framework will start functioning in Lithuania and Latvia.

Starting from 2013, the public supplier has been bound to conclude the Agreements on the electricity supply at the regulated public prices only with the household customers who did not choose an independent electricity supplier. This means that all commercial customers have bought electricity in the market at the contractual prices.

In accordance with the Plan for the Development of the Electricity Market in Lithuania, approved by Resolution No 740 of the Government of Lithuania of 8 July 2009, starting from 2015 all household customers, excluding the socially supported ones, should buy electricity in the electricity market at the prices of the Power Exchange *Nord Pool Spot AS* or at the prices set forth in the bilateral contracts. It should be mentioned that since 2014 the electricity supplied to the household customers has been bought at the Power Exchange through the public supplier.

In 2013, three independent supply licenses were issued in the electricity sector (1 company which held the independent supply license was withdrawn from the Register) along with 1761 permits for the electricity production activity (96.5 percent of them were issued for photovoltaic power plants), 1124 new legal and natural persons started the electricity production activities. At the end of 2013, 1655 market participants were operating in the electricity market. The majority of them were the entities who held the permits for the electricity production activity.

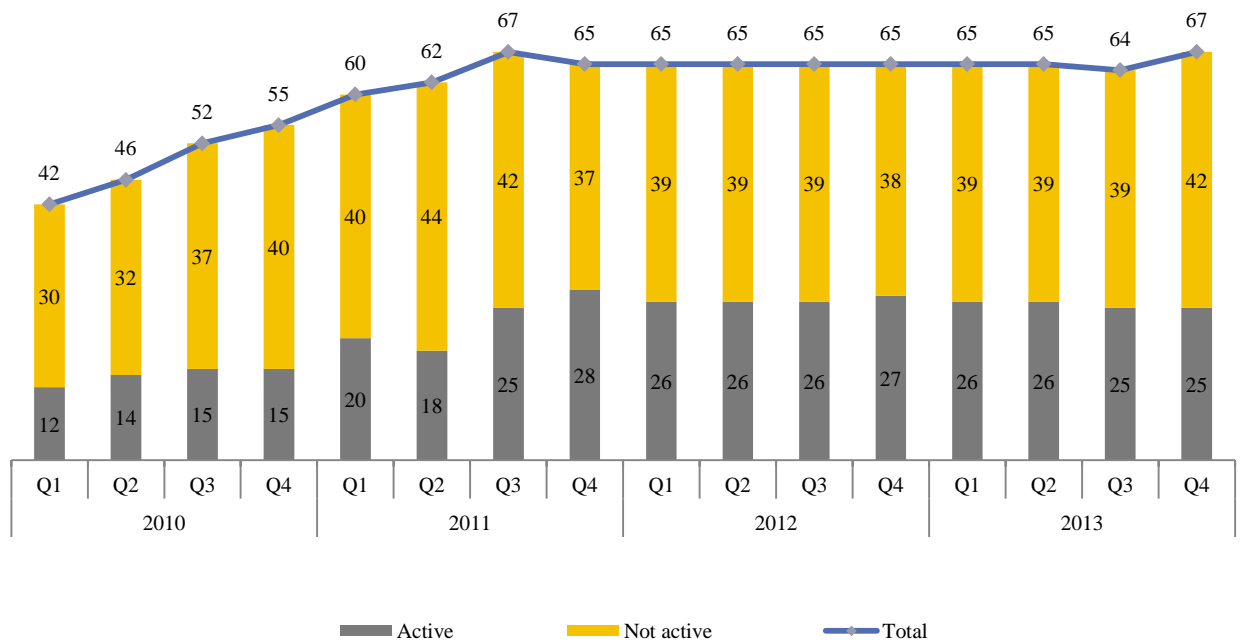
Figure 4. Number of market participants in 2013



Source: NCC

At the end of 2013, as compared with the respective period of 2012, the number of the market participants holding the independent electricity supply licenses increased by 3.1 percent, from 65 to 67. At the end of 2013, as compared with the respective period of 2012, the number of the active market participants decreased by 7.4 percent, from 27 to 25.

Figure 5. The number of independent suppliers in 2010–2013



Source: NCC

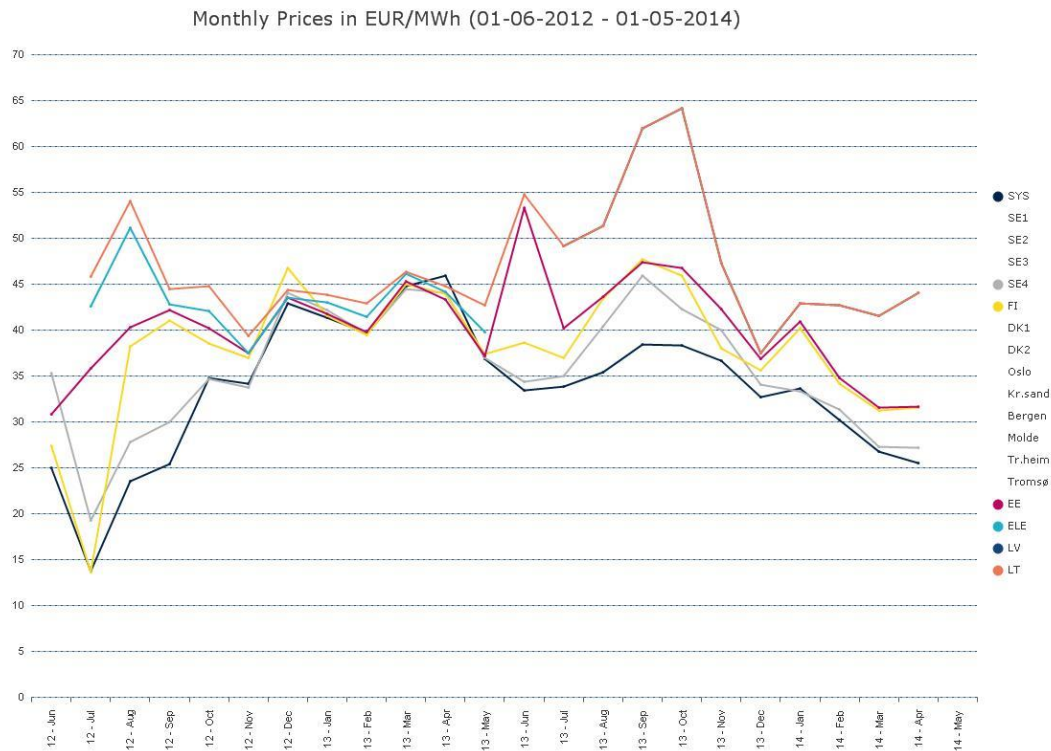
As it has been already mentioned, after adopting the new revision of the Rules on Issuing Permits for the Activity in the Energy Sector on 22 October 2013, the NCC issued the permits for performing the activity of the independent electricity supply to 3 companies – *UAB Kvanto energija*, *UAB Vaizga* and *Eesti Energia AS*. Moreover, the NCC suspended the validity of the licenses held by 2 independent electricity suppliers (*SKY ENERGY GROUP UAB* and *UAB Elektra visiems*), as they failed to meet the obligation to improve the general financial capability ratio.

According to the data of February 2014, at the Power Exchange *Nord Pool Spot AS* there were 360 active participants, among them 19 were the legal persons registered in Lithuania.

In 2013, as compared with 2012, the electricity quantity traded at the Power Exchange dropped by 29.4 percent, from 7525.2 GWh to 5311.0 GWh.

The dynamics of the electricity price at the Power Exchange in June 2012 – May 2014 is shown in Figure 6.

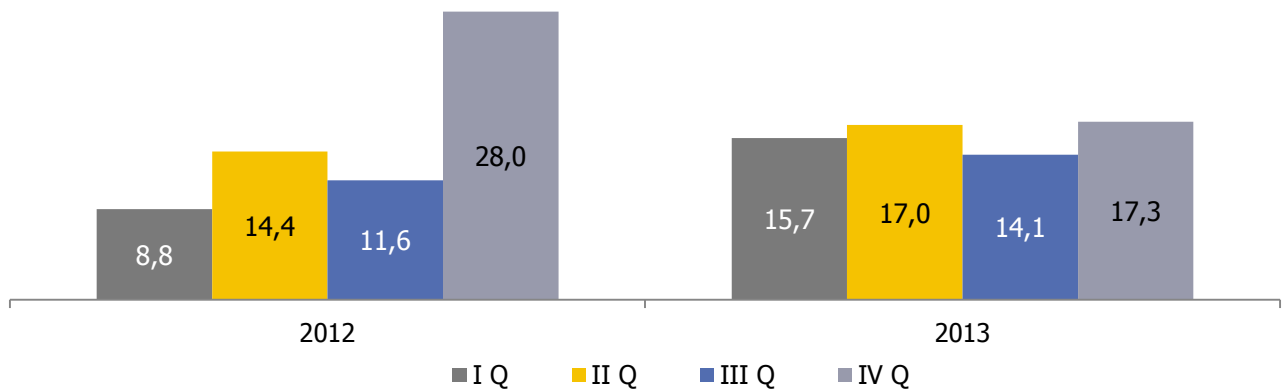
Figure 6. Monthly average electricity price in the trading zones of Lithuania, Latvia, Estonia, Finland and Sweden (EUR/MWh)



Source: www.nordpoolspot.com

In 2013, as compared with 2012, the electricity quantity traded by the price forming bids went down by 29.4 percent and constituted 16.2 percent of the total quantity traded at the Power Exchange.

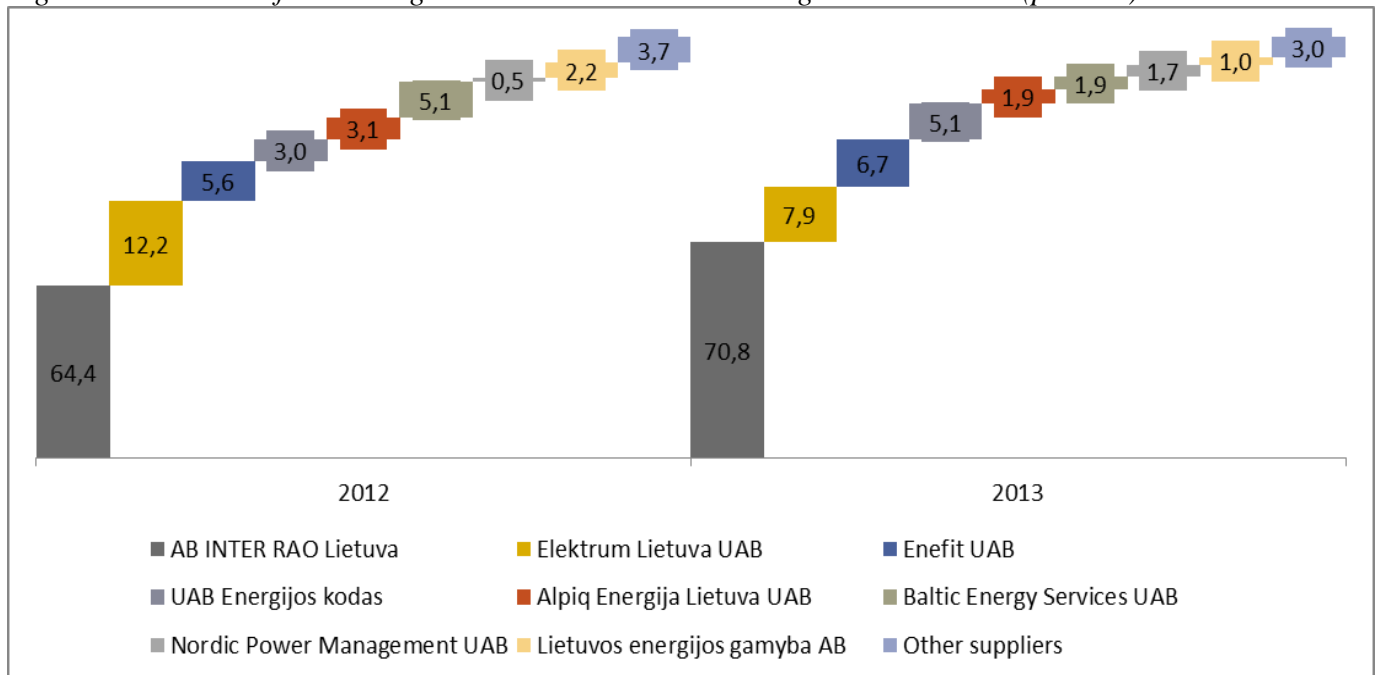
Figure 7. Price forming electricity quantities at the Power Exchange in 2012–2013 (percent)



Source: NCC

In 2013, like in 2012, the biggest share of the selling market at the Power Exchange was held by *AB INTER RAO Lietuva* (70.8 percent). The biggest decrease (by 4.3 percentage points) in the market share in 2013, as compared with 2012, was that of *Elektrum Lietuva UAB* – from 12.2 to 7.9 percent; the biggest augmentation (by 6.4 percentage points) was in the market share held by *AB INTER RAO Lietuva* – from 64.4 to 70.8 percent.

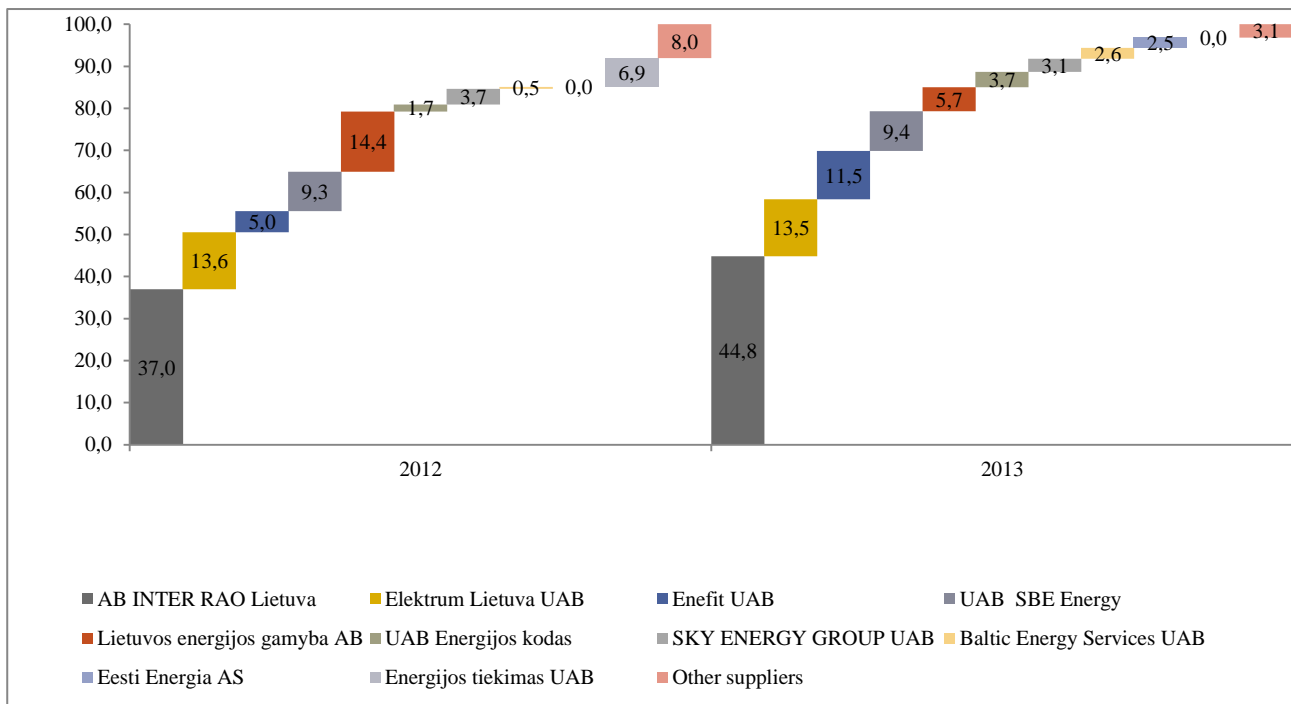
Figure 8. Structure of the selling market at the Power Exchange in 2012–2013 (percent)



Source: NCC

In 2013, the biggest share of the buying market at the Power Exchange was held by *AB INTER RAO Lietuva*, the growth of the market share of which, as compared with 2012, was the biggest among the market participants – by 7.8 percentage points, from 37.0 percent to 44.8 percent. In 2013, as compared with 2012, the biggest decrease (by 8.7 percentage points) was in the market share held by *Lietuvos energijos gamyba AB* – from 14.4 percent to 5.7 percent.

Figure 9. Structure of the buying market at the Power Exchange in 2012–2013 (percent)

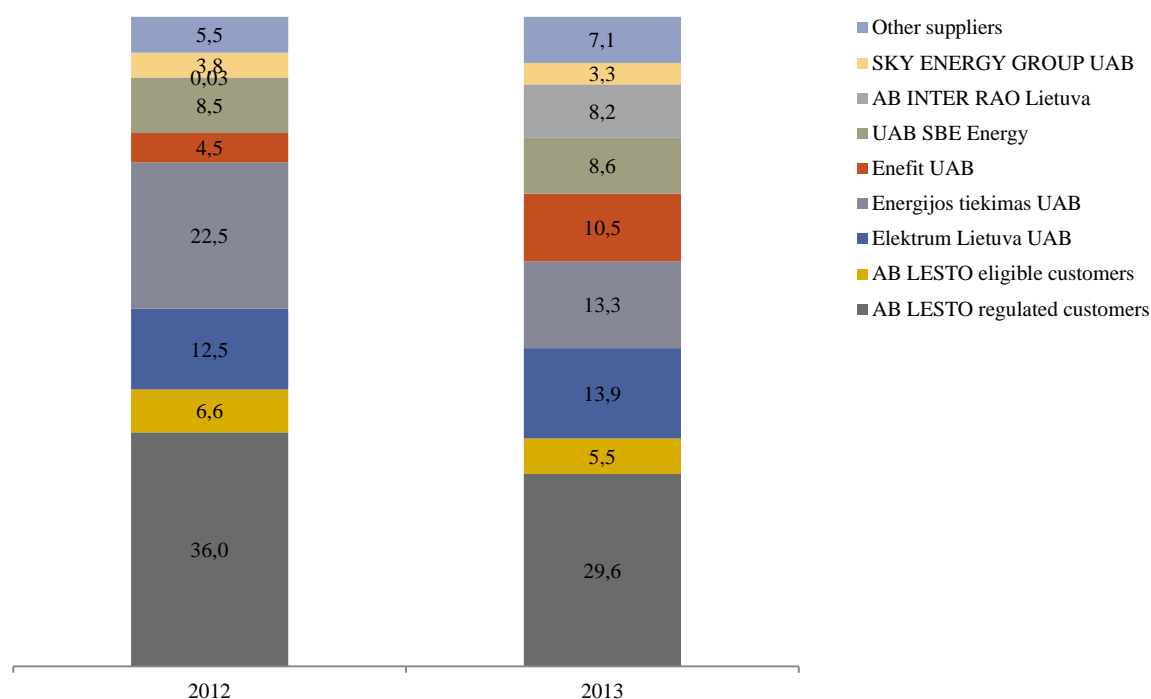


Source: NCC

In 2013, the independent suppliers supplied to the electricity consumers 5646.0 GWh of electricity, the public supplier *AB LESTO* supplied to the regulated electricity consumers 2582.7 GWh of electricity, to the unregulated electricity consumers – 478.2 GWh of electricity.

In 2013, as compared with 2012, the share held by *AB LESTO* in the retail supply market, decreased by 7.5 percentage points, up to 35.2 percent. Among the major independent electricity suppliers in 2013, as compared with 2012, the biggest growth was in the market shares held by *AB INTER RAO Lietuva* and *Enefit UAB*, by 8.2 and 6.0 percentage points respectively.

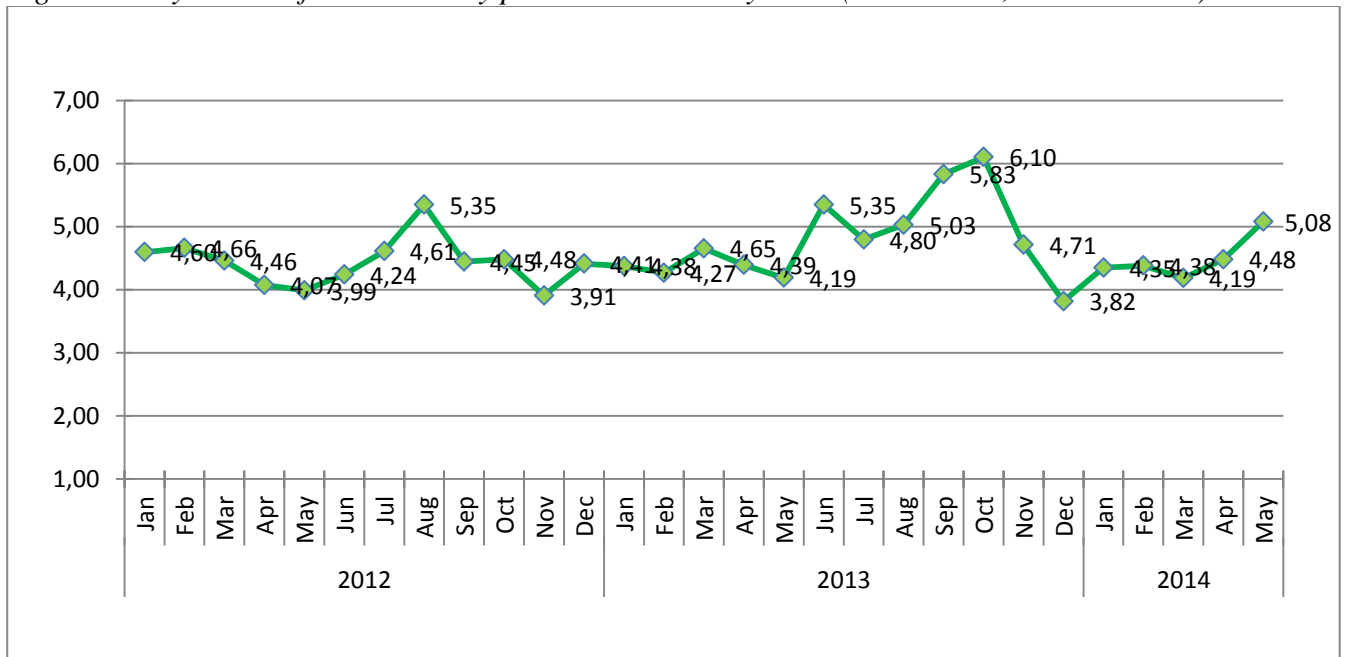
Figure 10. Structure of the retail electricity market in 2012–2013 (percent)



Source: NCC

It should be mentioned that after coming into force of the Law on Energy from Renewable Resources, a new function was assigned to the NCC – to determine 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. The market price of electricity of the previous month is applied only to those electricity producers using renewable energy resources, who 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 Energy from Renewable Resources. For such producer the public service obligations (PSO) amount to be paid 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 11. Dynamics of the electricity price in 2012 – May 2014 (EURct/kWh, VAT excluded)



Source: NCC

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 analysing their reasons, and the steps, which should be taken to accomplish the efficient operation and development of the electricity market, are planned.

2.1.4. Preparation of the legal acts for the enforcement of the Law on Electricity

In 2013, the NCC submitted proposals for the following legal acts:

1. The Draft Law Amending and Supplementing Articles 2, 6, 7, 9, 10, 30, 31, 33, 44, 49, 57, 58, 67, 69, 70, 74, 75, 78 and Amending the Title of Chapter 14 of the Law on Electricity;
2. The Draft Law Amending and Supplementing Articles 6, 9, 10, 30, 31, 33, 49, 57, 58, 67, 74, 75, 78 and Amending the Title of Chapter 14 of the Law on Electricity;
3. The Draft Law Amending Articles 2, 6, 8, 12, 15, 16, 21, 26, 34 and 37 of the Law on Energy and Supplementing the Law with Article 27¹;
4. The Draft Law Amending Articles 20 and 40 of the Law on Energy from Renewable Resources;
5. The Draft Law Supplementing Article 32 of the Law on Protection of Consumer Rights;
6. The Draft Order of the Minister of Energy Regarding the Approval of the Rules on Issuing Permits for Activities in the Energy Sector.

Last year the NCC prepared, revised and approved the following legal acts:

1. The Requirements for the Compliance Programme Prepared by the Electricity Distribution Network Operator (*approved on 21 November 2013, No O3-694*);
2. The Methodology for Setting the Rates of Connection of Electric Equipment to the Electricity Networks (*approved on 29 December 2013, No O3-139*);
3. The New Rates of Connection to the Electricity Networks, which came into force on 1 June 2013;

4. The Draft Description of the Principles of Setting the State-Regulated Prices in the Electricity Sector (*posted on the Commission's website www.regula.lt (under the heading *Viešosios konsultacijos*) for the repeatedly arranged public hearing*);

5. The Guidelines of the Technical-Technological and Economic Models of the Long-Run Incremental Costs of the Services Provided by the Transmission System Operator and the Distribution Network Operator, and the LRAIC Model (*approved on 27 December 2013, No O3-755*);

6. The Draft Requirements for Unbundling the Accounts of the Electricity Undertakings and the Related Requirements (*approved on 29 April 2014, No O3-112*);

7. The Methodology for Setting the Market Price of Electricity (*approved on 18 July 2013, No O3-323*);

8. The Methodology for Setting the Purchasing Price of Electricity Produced in Combined Heat and Power Plants Operated in the Power-and-Heat Generation Regime (*approved on 27 September 2013., No O3-418*);

9. The Sample Form of the Permit to Perform the Activity of the Independent Electricity Supplier (*approved on 21 November 2013, No O3-695*).

2.1.5. Pricing of 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, publicly announces the electricity tariffs.

Pursuant to the revised Law on Electricity, the NCC sets the price caps of the transmission and distribution services not for a three-year period, but for a five-year period. The NCC also inspects whether the specific prices of the regulated services, which have been set by the electricity undertakings, do not discriminate the individual groups of customers. The price caps of the transportation services, which had been set for the regulation period of 2011–2013, were extended for the year 2014. Every year, the price caps of the electricity transportation service are revised by taking into consideration the coefficients of the impact of quantity, unpredicted changes, indexation and the adjustment. The impact of the quality indicators in providing the network services and the principles of calculating the profit exceeding the profit sharing are evaluated as well.

On 27 December 2013, the NCC approved the Guidelines of the Technical-Technological and Economic Models of the Long-Run Incremental Costs of the Services Provided by the Transmission System Operator and the Distribution Network Operator and the LRAIC Model, whereby the initial level of the revenues from the electricity transmission and distribution services will be recalculated for the new regulation period of 2015–2019.

The price caps of the electricity transportation services for the regulation period of 2011–2014 are provided in Table 1.

Table 1. Price caps of the electricity transportation service in 2011–2014 (LTct/kWh)

Indicators	LITGRID, AB	AB LESTO	
		Medium voltage network	Low voltage network
The price caps of the transportation service set for 2011–2014	2.32	4.89	6.39
The price caps of the transportation service recalculated for 2014	2.206	4.479	6.162

Source: NCC

The NCC, after performing the analysis of the revenues, costs, investments of *LITGRID AB* during a four-year regulation period, found out that:

- LTL 43.347 million of additional revenues were received and this amount will be reimbursed to the customers in two years (2014–2015) by respectively reducing the transmission price cap;
- The costs of capital increased by LTL 12.089 million, by taking into account the actual investments made during the regulation period;
- The quantity of the transmitted electricity increased by 0.5 percent;
- The inflation on the level of revenues was 3 percent.

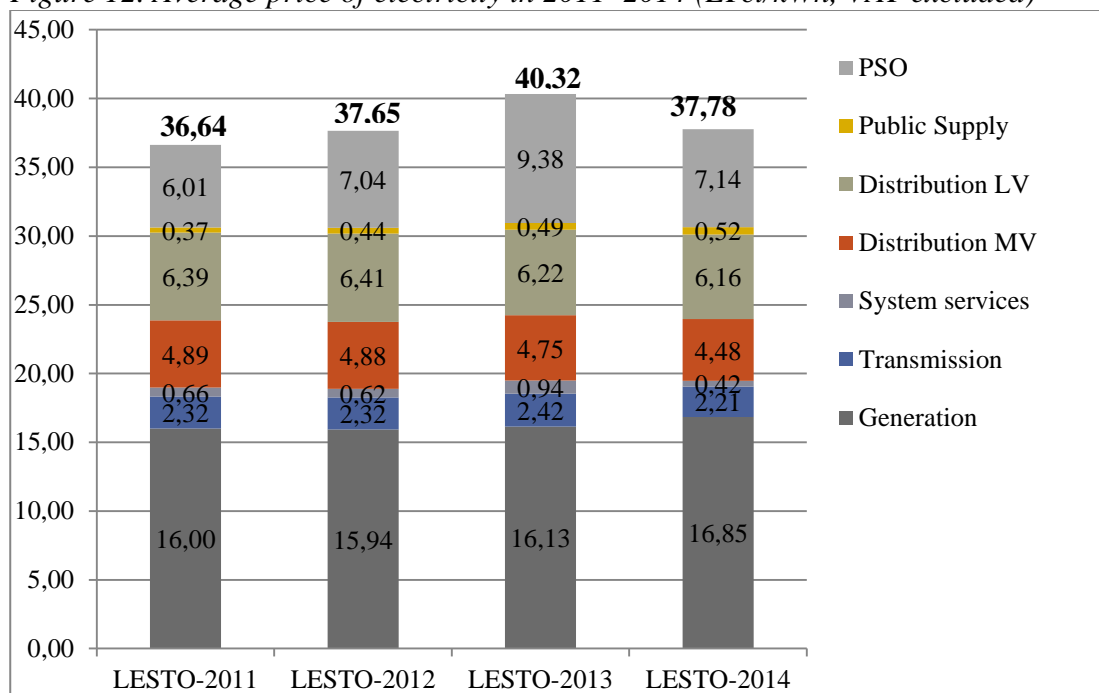
The NCC, after performing the analysis of the revenues, costs, investments of *AB LESTO* during a four-year regulatory period, found out that:

- LTL 48.926 million of additional revenues were received and this amount will be reimbursed to the customers in two years (2014–2015) by respectively reducing the distribution price cap;
- The costs of capital increased by LTL 41.028 million, by taking into account the actual investments made during the regulation period;
- The quantity of the distributed electricity increased by 0.5 percent;
- The inflation on the level of revenues was 3 percent.

Because of the amendments in the Procedure Regulations on the Supply of the Public Service Obligation Services in the Electricity Sector, which were approved by Resolution No 916 of the Government of Lithuania of 18 July 2012, in 2014 *AB LESTO* will not pay the prices of the system services and PSO for the electricity purchased to cover the technological and auxiliary consumption. Moreover, by calculating the return on investments, the costs of interest will be eliminated from the costs, and therefore the price caps of the electricity distribution services will be reduced.

By taking into consideration that, according to the Development Plan of the Lithuanian Electricity Market, in 2014 only the household customers will pay for electricity at public tariffs, after estimating all components of the electricity price, the price cap of the public electricity price for 2014 was calculated to the household customers, while taking into account the transportation services, the price of the public supply service, the PSO and the price of purchased electricity – equalling 16.85 LTct/kWh. The dynamics of the public electricity prices in 2011–2014 is provided in the Table.

Figure 12. Average price of electricity in 2011–2014 (LTct/kWh, VAT excluded)



Source: NCC

The public prices in 2014, as compared with 2013, dropped by 6.3 percent. The price decrease in 2014 was predetermined by the following reasons:

- The lower PSO component – 2.236 LTct/kWh;
- The lower transmission price (together with the price of the system services) – 0.731 LTct/kWh;
- The lower price of the distribution service by the medium voltage networks – 0.268 LTct/kWh, by the low voltage networks – 0.057 LTct/kWh. In all, the price of the distribution service dropped by 0.325 LTct/kWh.

In 2013, the procedure for calculating the costs of connecting the new producers was amended in the electricity sector in the same way as in the sector of producing energy from RES. Moreover, in the Methodology for Setting the Rates of Connection of Electric Equipment to the Network the procedure for calculating the connection rate depending on the installed or increased available capacity (kW) and the shortest geometric distance (m) was amended as follows:

- In setting the rate per 1 m of an electric line, the customers allocated to Group I and Group II will be treated as a single group, i.e. the rate per 1 m of the electricity network, installed for either of the groups, will be the same;
- In calculating the connection rate, the free of charge installation of the electricity network in 25 m distance will not be applied.

It should be mentioned that previously the costs incurred by the operator in relation with the installation of the electricity network in 25 m distance were included in the rate for installation or increasing capacity by 1 kW, therefore, after adopting the decision not to apply the free of charge installation of the electricity network in 25 m distance, the rate per 1 kW of the available capacity was reduced to most customers. Because of this decision adopted by the NCC, the part of the costs incurred by the operator for the installation of the electricity network will be paid by those customers by whom these costs have been incurred.

The definition of the concept of the customer of Group I was revised in the Methodology as well, and the time period, during which the customer reducing the available capacity of his electric equipment has to pay to the operator for the reduction of this capacity the remaining amount of the actually incurred costs pro rata to the reduced capacity, was extended up to 2 years.

By Resolution No 03-140 of 29 April 2013 the NCC approved the rates of connecting the customers to the electricity network, which came into force on 1 June 2013.

Table 2. Rates of connection to electricity networks, which were adjusted (100 percent) by the NCC in 2013

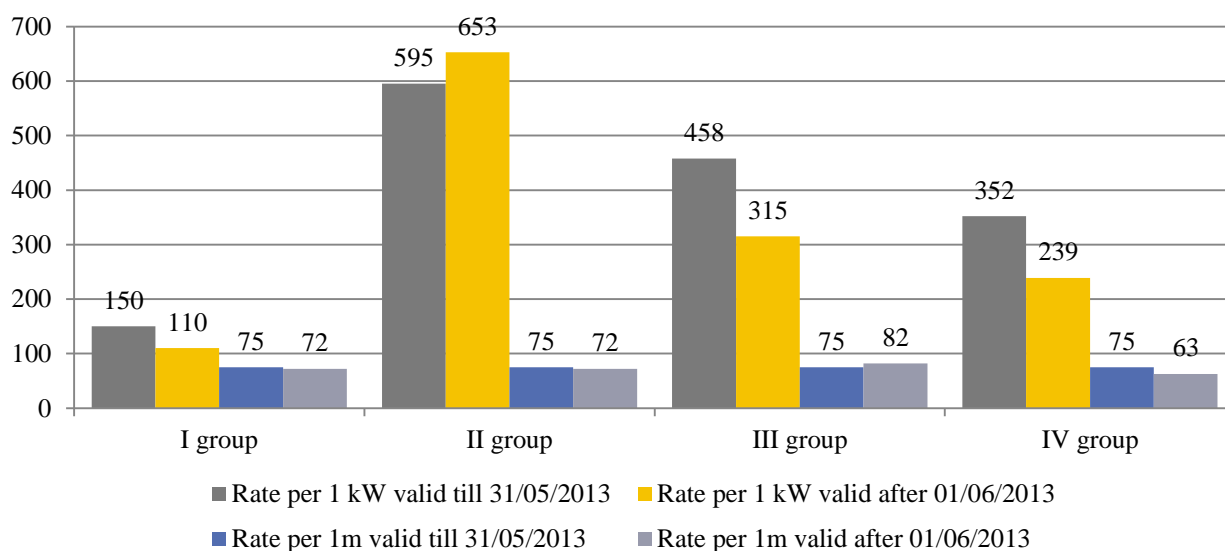
Customer group	Rate for installing or increasing 1 kW of available capacity of electric equipment (LTL)			Rate for installing 1 m of electricity network (LTL)		
	Valid till 31/05/2013	Valid from 01/06/2013	Adjustment percent	Valid till 31/05/2013	Valid from 01/06/2013	Adjustment, percent
Group I	150	110	-26.67	75	72	-4.00
Group II	595	653	+9.75	75		
Group III	458	315	-31.22	75	82	+9.33
Group IV	352	239	-32.10	75	63	-16.00

Source: NCC

The connection rates for the installation of 1 kW of the available capacity of the electric equipment or for the respective increase of this capacity for Group I was reduced by 26.67 percent, to Group II it was increased by 9.75 percent, to Group III it was reduced by 31.22 percent, and to Group IV it was reduced by 32.1 percent.

The connection rate for 1 m of the installed electricity network to Groups I and II was reduced by 4 percent, to Group III it was increased by 9.33 percent, and to Group IV it was reduced by 16 percent.

Figure 13. Connection rates per 1 kW of installed or increased available capacity of electric equipment and for installing 1 m of electricity network in 2012–2013 (LTL)



Source: NCC

By Resolution No 03-113 of 29 April 2014 the NCC approved the new rates of connection to the electricity network, which came to force on 1 June 2014 and replaced the connection rates valid from 1 June 2013.

The adjustment in the rates for the installation of 1 kW of the available capacity of the electric equipment or for the respective increase of this capacity and for the installation of 1 m of the electricity network by individual customer groups is provided in the Table.

Table 3. Rates of connection of new customers to electricity network (100 percent)

Customer group	Rate for installing or increasing 1kW available capacity of electric equipment (LTL)			Rate for installing 1 m of electricity network (LTL)		
	Valid till 01/06/2014	Valid from 01/06/2014	Adjustment, percent	Valid till 01/06/2014	Valid from 01/06/2014	Adjustment, percent
Group I	110	121	+10	72	72	0
Group II	653	851	+30.32			
Group III	315	300	-4.76	82	69	-15.85
Group IV	239	212	-11.3	63	79	+25.4

Source: NCC

To get access to the electricity network, the household and socially vulnerable customers will pay the fee constituting 20 percent, all other customers – 40 percent of the above indicated rates.

Every year, in accordance with the costs, which last year were actually incurred by the electricity network operators in connecting new customers, the NCC recalculates and by 30 April approves the rates of connection to the electricity network.

By summarising it can be stated that in the electricity sector the NCC exercises regulation over more than 200 economic entities. In 2013, the yearly price recalculations were made to 23 economic entities.

Table 4. Indicators of the electricity sector

	2009	2010	2011	2012	2013	Adjustment
Number of participants in the sector*	201	202	237	429	1640	1211
Revenues in the electricity sector per year, LTL million	2 520	2 783	2 839	2 946	3 140	194
Sales in the electricity sector, TWh	9.16	9.22	9.38	9.58	9.65	0.07
Total investments in the electricity sector, LTL million	374.1	332.7	328.9	463.12	512.19	49.07

* The number of participants includes independent suppliers and producers.

Source: NCC

2.1.6. International cooperation

On 7 March 2014, with an aim to ensure that the requirements set forth to the national regulatory authorities in conducting investigations and to other market participants in trading in the wholesale electricity market, as prescribed by Regulation (EC) No 1227/2011, would be efficiently and consistently implemented, the NCC, other national regulatory authorities of the Nordic Countries and the Baltic States and the Power Exchange operator *Nord Pool Spot AS* signed the Memorandum of Understanding. The Memorandum of Understanding encompasses the procedural issues of the information exchange among the regulatory authorities, providing notices about non-compliances, investigations and imposing sanctions, which will assure the optimum, transparent and clear course of the investigations jointly conducted by the national regulatory authorities.

In 2013, the dimension of the Third Energy Package made a significant impact on the international activity of the NCC as of the national regulatory authority of the energy sector in Lithuania. In the same way as in 2012, the NCC, together with the national regulatory authorities of

other European Union (EU) member states and in cooperation with ACER, contributed to the joint preparation of the network codes in the fields of electricity and gas and their conciliation with the European Network of Transmission System Operators (ENTSOs) as well as to providing the recommendations to the European Commission and the opinions on the adoption of the network codes.

The opinions, recommendations regarding the network codes and other related issues were discussed in the ACER Board of Regulators consisting of the Heads of the national regulatory authorities or other high-level representatives. Moreover, the specialised working groups assisted in getting ready for the meetings of the ACER Board of Regulators. The NCC Commissioners and specialists took part in the activities of the ACER Board of Regulators and working groups. An active input was made in the preparation and conciliation of the joint ACER opinions according to the competencies laid down in Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators and in other documents of the Third Energy Package. In 2013, nine meetings of the ACER Board of Regulators were convened, the Electricity Working Group met together 8 times, the Gas Working Group – 11 times, the Implementation, Monitoring and Procedures Working Group – 9 times, and Monitoring, Integrity and Transparency Working Group – 7 times.

The membership in the Council of European Energy Regulators (CEER), which strives to create the preconditions and to promote the development of the single internal EU energy market, is closely related to the NCC activity in ACER. Namely, ACER/CEER Annual Report on the results of monitoring the internal electricity and natural gas markets in 2013, having significant importance for the development of the single EU energy market, and for which the Lithuanian indicators were submitted by the NCC, was prepared in cooperation between these two organisations. In 2013, in addition to the already mentioned ACER meetings, which are organised together with the meetings of the respective CEER working groups, the NCC representatives kept track of the activities of the Customers and Retail Markets Working Group and International Strategy Group. To analyse the issues of the DSO role, in 2013 CEER established a new Working Group.

The NCC also took part in the meetings of the Legal Regulation Working Group, Licencing/Competition, Tariffs/Pricing and Chairmen Committees of the Energy Regulators Regional Association (ERRA), where the NCC presented the main challenges and progress in the Lithuanian energy market, discussed the outstanding issues of the development of the sector. By implementing the joint decision, which in 2012 had been adopted by the NCC, Latvian and Estonian regulatory authorities and the ERRA Secretariat, in 2013 the traditional Annual ERRA Energy Regulation and Investment Conference was designated to the problems of the Baltic Region and on 16-17 September organised in Tallinn, Estonia.

When in October 2013 the European Commission approved the list of nearly 250 Projects of Common Interest (PCI), and to get ready for making decisions on the PCI cost allocation, on 18 December 2013, the NCC representatives took part in the consultations held in Riga on the modernisation and development of Inčukalns Underground Gas Storage Facility. On 15 January 2014, similar consultations were held at the NCC among the regulatory authorities of Lithuania, Latvia, Estonia and Poland and the electricity and gas TSOs of Lithuania and Poland regarding the implementation of the projects for the construction of the Lithuania–Poland electricity interconnection LitPol Link, the Gas Interconnection Poland–Lithuania GIPL, and for increasing the capacity of the gas pipeline Klaipėda–Kiemėnai.

One more example of the close cooperation among the NCC and the regulatory authorities of the neighbouring countries – the twice per year arranged Baltic Common Electricity Market Mini-Fora, which traditionally is attended by the representatives of ACER, the energy regulators from the Baltic and Scandinavian countries, Ministries and market participants. In May 2013, the 15th Mini-Forum was arranged in Vilnius, and, in November 2013, the 16th Mini-Forum was held in Tallinn. The main subjects of the meeting were the rules for calculating the cross-border capacities and their allocation, which had been approved by the Baltic TSOs on 15 March 2013, the

congestion management, the implementation of the risk management measures in the physical and financial markets, and the issues of the PCIs.

The cooperation, which last year had been started with the Georgian National Energy and Water Supply Regulatory Commission (GNERC), was further continued in 2013. In 2012, after signing the Memorandum on Partnership in the Energy and Water Supply Areas between the NCC and the regulatory authority of Georgia, on 26-28 May 2013, by the NCC invitation, the delegation of the GNERC representatives visited Lithuania. During the visit they learned about the latest developments in the energy sector of Lithuania, the Long Run Average Incremental Costs (LRAIC) Model and the possibilities to use the Model in the energy sector, the ancillary services and the quality requirements in supplying electricity in Lithuania.

The cooperation with the representatives of other countries of the European Eastern Partnership is continued on as well. On 27 September 2013, the NCC was visited by the delegation of the representatives of the international energy co-operation programme between the European Union and the Eastern Partner Countries (INOGATE). The representatives from Armenia, Azerbaijan, Belarus, Georgia, Moldova and the Ukraine were mostly interested in the issues of the mandatory conditions for the development of energy production from renewable resources, the principles of setting the incentive tariffs, the integration of the renewable energy production sources in the existing infrastructure and the energy efficiency.

2.2. Gas sector

2.2.1. Unbundling the vertically integrated undertakings

In 2013, to enforce the requirements set forth in the Law on Natural Gas of the Republic of Lithuania (hereinafter – the Law on Natural Gas) so that the natural gas transmission activity would be unbundled from the supply activity by separating the ownership of the transmission system from the natural gas undertakings performing the supply activity, the unbundling of *AB Lietuvos dujos* transmission and distribution activities was further continued in line with the Action Plan for Unbundling *AB Lietuvos dujos*, which had been approved by the company's Board in 2012. According to this Plan, a new company operating as the TSO and a subsidiary operating as the DSO had to be established. In January 2013, *AB Lietuvos dujos* submitted to the NCC the Unbundling Conditions of *AB Lietuvos dujos* with the Annexes (hereinafter – the Unbundling Conditions), which provided that the part of the transmission activity is separated from *AB Lietuvos dujos*, and on the basis thereof a new undertaking *AB Amber Grid* having the same legal form is established, and the remaining part of *AB Lietuvos dujos* will continue the supply and distribution activities. The Unbundling Conditions stipulated the distribution of the shares, capital, assets and the liabilities among the newly established undertaking and the undertaking continuing the activities, which was prepared in accordance with the splitting balance sheet as of 31 October 2012. By the Resolution of 28 February 2013 the NCC stated that the unbundling of *AB Lietuvos dujos* transmission activity was performed in line with the deadlines set forth in the Plan, the assets were distributed according to the principles approved by the NCC in 2011 and the investments revised and approved in 2012, and the Unbundling Conditions enabled to legally, functionally and in the organisational aspects to unbundle the natural gas transmission activity from the supply activity by 31 July 2013.

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 an application to the NCC 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 will be valid from 1 August 2013 till the date of the NCC decision on the certification of the natural gas TSO. *AB Amber Grid*, which started operating from 1 August 2013, by the NCC Resolution was obligated to apply the price cap of the transmission service which had been set to *AB Lietuvos dujos* – 44.26 LTL/thousand m³ (VAT excluded) and the additional and integral component to the natural

gas transmission price cap (the supplementary price component of the Liquefied Natural Gas Terminal (hereinafter – the LNG terminal) aimed to compensate the costs of construction of the LNG terminal, its infrastructure and the link – 37.53 LTL/thousand m³ (VAT excluded).

In October 2013, the NCC approved the investment project Investments in Unbundling the Distribution System Operator and Establishing the New Undertaking, which was submitted by *AB Lietuvos dujos* and valued at LTL 2 240 thousand.

In 2014, the unbundling of the control over the transmission and supply activities was carried out. In March 2014, *AB Amber Grid* Board approved the Preliminary Plan for Implementing the Unbundling of the *AB Amber Grid* Control, whereby it was envisaged to address the NCC regarding its consent to the transaction to be made for reorganising 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 company's shares from *E.ON Ruhrgas International GmbH*. By implementing the requirements of the Law on Securities, *UAB EPSO-G* by a 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.

After analysing the submitted information, the NCC found out that the concluded transaction will diminish 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 of Activities 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 concluded transaction and the planned subsequent transactions cannot make any impact on the prices of the regulated services.

AB Lietuvos dujos 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 Implementing the Law on Natural Gas is applicable in the case of *AB Lietuvos dujos* and to adopt the respective decision. The NCC, after analysing 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 subsequent transactions pursuant to the procedure set forth in the Law on Securities, and resolved that the concluded 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. In such a way the control over the natural gas transmission and supply activities has been actually separated.

2.2.2. Construction of the Liquefied Natural Gas Terminal

In 2013, the construction of the LNG terminal and the preparation of the legal acts necessary for the operation of the LNG terminal were further continued.

On 20 June 2013, the Seimas of the Republic of Lithuania passed the Law Amending Articles 5, 10 and 11 of the Law on the Liquefied Natural Gas Terminal. By the mentioned Law, several essential amendments were introduced:

- The costs of construction of the LNG terminal, its infrastructure and the link financing thereof is not possible from other sources available to *AB Klaipėdos nafta*, as well as all fixed

operation costs of the liquefied gas terminal, its infrastructure and the link necessary to assure the operation of the liquefied natural gas terminal in accordance with the procedure and conditions set by the NCC will be included in the additional component of the natural gas price – the component of the security of the natural gas supply;

- Paragraph 3 of Article 10, which ensured the priority to Lithuanian customers in using the LNG terminal in respect of other states of the Baltic region, was invalidated;

- The obligations to the state-regulated electricity and/or heat energy production undertakings, which should assure that the natural gas by the order of priority would be purchased through the LNG terminal with an aim to ensure the mandatory operation of the LNG terminal, were set. The Government will approve the minimum yearly quantity of the gasified natural gas deemed necessary for ensuring the operation of the LNG terminal, and the supply of this quantity will be ensured by the appointed supplier. The appointed supplier will be selected by the Ministry of Energy by arranging the tender in line with the procedure and conditions set forth by the Government.

On 27 December 2013, the NCC issued the natural gas supply license to the appointed supplier *UAB Litgas*.

With an aim to ensure that the fair and undiscriminating conditions would be applied to the energy producers purchasing gas through the LNG terminal, on 29 April 2014, the NCC approved the terms and conditions of the Natural Gas Selling-Purchasing Agreement to be concluded between the appointed supplier and the energy producers, which had been drafted by the appointed supplier *UAB Litgas* and the essential provisions of which are as follows:

- First of all the energy producers will purchase the natural gas quantity imported through the LNG terminal, which corresponds to the mandatory quantity of the LNG terminal;

- The rights and duties of the parties have been set forth along with the procedure and conditions for distributing the mandatory LNG terminal quantity among the energy producers;

- The procedure for setting the prices and settling the payments for the supplied gas has been defined.

It has been projected that in the territory of Lithuania the LNG terminal and the natural gas infrastructure for ensuring its efficient operation has to be constructed by December 2014.

With an aim to ensure the transparent and undiscriminating conditions to the entities intending to use the LNG terminal, in April 2014, the NCC approved the Rules on Using the Liquefied Natural Gas Terminal, which had been drafted by *AB Klaipėdos nafta*. The essential provisions of these Rules are as follows:

- Access to the terminal is free, and all market participants will be able to use the capacities of the LNG terminal;

- The clear and consistent procedure and conditions to the market participants intending to use the LNG terminal have been defined;

- The set mechanism for using the LNG terminal has to ensure the maximum efficiency in the use of the terminal capacities.

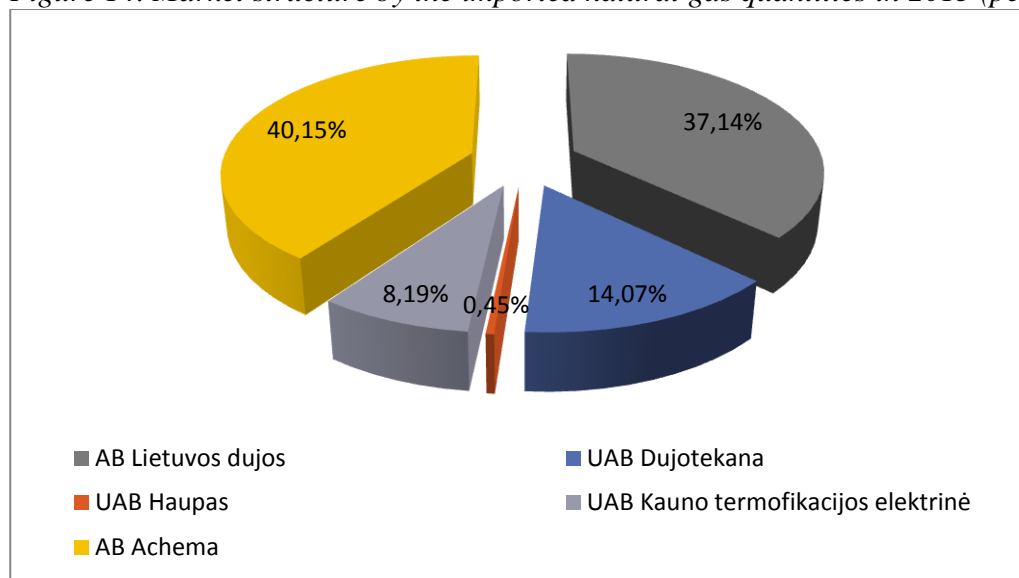
In June 2014, *AB Klaipėdos nafta* as the company implementing the project of the LNG terminal submitted the project of the LNG terminal for the revision and approval by the NCC.

2.2.3. Development of competition in the gas supply market, the main changes in the gas market monitoring in 2013

In 2013, the natural gas was imported by 5 undertakings. As compared with 2012, the quantity of the imported natural gas dropped by 18.7 percent and equalled 2701.5 million m³, whereas in 2012 the imported quantity was as high as 3407.4 million m³. This decrease was predetermined by the smaller quantities of natural gas imported by *AB Lietuvos dujos*, *UAB Dujotekana*, *UAB Haupas* and *AB Achema*. The augmentation in the imported natural gas quantities, as compared with 2012, occurred only at *UAB Kauno termofikacijos elektrinė* (Kaunas CHP), and equalled 1.2 percent.

As compared with 2012, the biggest decrease was in the market share held by *AB Achema* – 25.1 percent, *UAB Dujotekana* – 19.8 percent, *UAB Haupas* – 14.8 percent. Only at *AB Kauno termofikacijos elektrinė* (Kaunas CHP) some growth was observed, which, as compared with 2012, equalled 1.2 percent.

Figure 14. Market structure by the imported natural gas quantities in 2013 (percent)



Source: NCC

According to the quantitative assessment, in 2013, as compared with 2012, the quantities imported by all undertakings, excluding *UAB Kauno termofikacijos elektrinė* (Kaunas CHP), went down. The biggest decrease was in the gas quantity imported by *AB Achema* – 364 thousand m³.

In March 2013, the NCC on its own initiative started the survey of the natural gas supply market thus seeking to investigate the efficiency of the competition in the natural gas supply market and to identify the market participants having the dominating influence in the market. During the survey it has not been ascertained that the economic entity *AB Lietuvos dujos* was applying the unduly high prices due to the lack of the efficient competition or was using the price pressure thus causing damage to the market participants, however, taking into account the rapidly growing number of the market participants planning to get involved in the natural gas supply activities in 2013–2014, along with the circumstances of the initial development stage of the Natural Gas Exchanges in Lithuania, which presuppose the probability of the development of the natural gas supply market and the potential emergence of the competition in the natural gas supply market, and also taking into consideration the fact that the natural gas supply price caps had been set to the natural gas suppliers until August 2011, i.e. the processes of competition in the natural gas supply market could be assessed only since 2012, the NCC is planning to conduct the next survey of the natural gas supply market in 2015.

In 2013, the licenses of the natural gas market operator were held by the same 2 companies as in 2012 – *BALTPPOOL UAB* and *UAB GET Baltic*. The licenses to the mentioned companies were issued in 2011 and 2012 respectively. The main functions of these market operators – to organise the secondary trade in natural gas at the Natural Gas Exchange. The NCC revised and approved the rates of the Natural Gas Exchange services provided by *BALTPPOOL UAB* and *UAB GET Baltic*. The companies holding the licenses of the natural gas market operator decided to apply a 100 percent discount on the primary registration and yearly membership fees. The companies indicated that the discount will encourage a bigger number of the natural gas market participants to take a try and to get used to the Natural Gas Exchange as one of the instruments for trading in natural gas, and in the future this will enable to actively trade in natural gas. In 2013, like in 2012, four participants were registered at the Natural Gas Exchange operated by *BALTPPOOL UAB*, and the number of

participants of the Natural Gas Exchange operated by *UAB GET Baltic* was consistently growing – at the end of 2013 there were 22 registered participants.

The main changes observed in monitoring the gas market in 2013, as compared with the data of 2012:

- In 2013, as compared with 2012, the volumes of the natural gas transit decreased by 0.7 percent, the transmission to the domestic customers dropped by 18.4 percent. These factors predetermined the 11 percent decrease in the total transmitted volumes;
- In 2013, the revenues earned from the natural gas transmission to the domestic customers were LTL 123.1 million, and, as compared with 2012, decreased by 4.1 percent;
- In 2013, the distributed natural gas quantity was by 12.9 percent below the distributed quantity in 2012. The biggest share of the distribution market – 97.4 percent – was held by *AB Lietuvos dujos*;
- The wholesale natural gas supply market¹ has further remained rather small: in 2013, 6.9 million m³ of natural gas were sold, i.e. by 17 percent less than in 2012;
- In 2013, in the retail natural gas market 1427.5 million m³ of natural gas were supplied, i.e. by 11.6 percent less than in 2012. In 2013, as compared with 2012, the supply to the non-household customers dropped by 17.9 percent, to the household customers – by 15.5 percent.

2.2.4. Preparation of the legal acts enforcing the Law on Natural Gas

The Law Amending Articles 2, 8, 26, 34, 36 and the Annex of the Law on Energy of the Republic of Lithuania came into force on 23 November 2013. The reason which induced the preparation of this law is to enable the national regulatory authority to properly exercise the rights set forth in Article 13 of Regulation (EC) No 1227/2011 and to provide the latter with the adequate, efficient means to speedily react to and to efficiently prevent possible non-compliances in order to ensure the compliance with the provisions of Regulation (EC) No 1227/2011. In line with Article 13 of Regulation (EC) No 1227/2011, this law set forth that the NCC should have adequate and efficient means to speedily react to and to efficiently prevent possible non-compliances in order to ensure the compliance with the provisions of Regulation (EC) No 1227/2011, i.e. stipulated the sanctioning of the NCC actions prescribed in Regulation (EC) 1227/2011 in the administrative courts of the Republic of Lithuania. After coming into force of the provisions of this law, the efficient mechanism for supervising the wholesale energy market has been ensured by enabling the national regulatory authority to practically exercise the powers laid down in Regulation (EC) No 1227/2011, by validating the efficient and deterrent sanctions to the wholesale energy market participants for the non-compliances with the provision of Regulation (EC) No 1227/2011. Thus the probability that the entities would distort the transparency and integrity of the wholesale energy market has been diminished and the value of the fines as a deterrent measure would to the maximum restrain the entities from illegal actions.

To ensure the clear, consistent and transparent pricing in setting the state-regulated prices in the energy sector, the NCC prepared and submitted to the Ministry of Energy the Draft Description of the Principles of Setting the State-Regulated Prices in the Natural Gas Sector. The Description of the Principles defined the following principles of setting the state-regulated prices in the natural gas sector:

- The main principles of setting the state-regulated prices in the natural gas sector, which would create preconditions for ensuring the legal certainty, economic development, transparency of the regulation criteria and their non-discriminatory application;
- The principles of evaluating the value of the assets used in the regulated activity. In the essence, these are the same principles of the value of the regulated assets, which had been approved by the Government's Resolution No 1276 of 7 October 2009, i.e. the adjustment in the value of the

¹ Only the gas quantity which is purchased from the importers by other companies involved in the distribution and supply activities in the specific regions of Lithuania.

assets, which has not been coordinated with the NCC, is not included in the value of the regulated assets, the results of the revaluation of the non-current assets, not related with the regulated energy activity (including the assets used to transport gas by transit), the unused, kept in stocks, temporary unused assets, as well as the assets acquired for the received subsidies, grants, the part of the investments made by using the European Union structural funds, and, with regard to the provisions of the Law on Natural Gas, the revenues from connection of new system users and/or natural gas consumers, and the amount of unjustifiably used investments;

– The return on investments by the suppliers of the regulated services is defined on the basis of the economic factors, with regard to the optimum structure of capital of the economic entity, and the price of the debt and equity capital. Moreover, by implementing the provisions 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 (hereinafter – Regulation (EU) No 347/2013), it has been stipulated that the additional return on investments can be set to the strategically important investments aimed at accomplishing the goals of the national and European energy policy.

In 2013, by performing the assigned obligations, the NCC was further preparing the draft legal acts enforcing the Law on Natural Gas and the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania, presented them for public hearings, assessed the comments of the customers, gas undertakings and other interested persons and approved the prepared legal acts by the NCC Resolutions.

To set the clear and transparent rules for unbundling the accounts and the costs allocation, the NCC prepared and approved the Description of the Requirements for Unbundling the Accounts and the Costs Allocation and the Requirements Related to Unbundling the Accounts (*approved on 18 July 2013, No O3-316*).

The final stage in the formation of the consistent pricing system in the natural gas sector has been achieved. The NCC approved the Methodology for Setting the State-Regulated Prices in the Natural Gas Sector (*approved on 13 September 2013, No O3-367*), which regulates the price setting of all regulated prices in the natural gas sector.

2.2.5. Pricing of 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 accounts and the costs. The natural gas transmission and distribution prices are calculated on the basis of the post stamp principle, regardless of the transmission or distribution distance. However it is being planned from 1 January 2015, when the LNG terminal is launched into operation, to start using the entry-exit price setting model in the transmission system. Therefore in September 2013 the NCC commenced the works for implementing the entry-exit price setting model in the transmission system of the natural gas sector. During the initial meetings with the participants of the natural gas market of Lithuania the principles of functioning of the model were presented and the procedure of its development was discussed. In January 2014, on the basis of the economic information submitted by *AB Amber Grid*, the economic modelling was started the results thereof will make the direct impact on the implementation of the entry-exit price setting model in Lithuania, by taking into consideration the specifics of the country. It is being planned to start using the entry-exit price setting model in setting the natural gas transmission prices for 2015.

In 2013, the NCC set the natural gas transmission price cap to *AB Amber Grid* for the new 2014–2018 regulation period – LTL 50.30 per thousand m³. As compared with the transmission price cap valid in 2013 (LTL 44.26 per thousand m³), it has been increased by 13.65 percent, but is by 4.99 percent lower than projected by the company (LTL 52.94 per thousand m³). The biggest impact on the increase of the transmission price cap was made by the decreasing projected

quantities of the transmitted natural gas, the investments in the transmission system made in the previous regulation period (2009–2013) and the unbundling of the TSO.

In 2013, the Commission set the natural gas distribution price cap to *AB Lietuvos dujos* for the regulation period of 2014–2018 at LTL 229.78 per thousand. m³ which, as compared with the distribution price cap valid in 2013, is higher by 28.1 percent. The reasons of the adjustment in the natural gas distribution price cap of *AB Lietuvos dujos* – the decreasing projected quantities of the distributed natural gas and the planned investments.

In line with the Methodology for Setting the Rates of Connection of New Natural Gas Customers, New Natural Gas Systems and Biogas Power Plants, which has been prepared and approved by the NCC, the TSOs and DSOs 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 recognised 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 for each meter of the gas pipeline. According to the natural gas quantity consumed per year, the household customers are grouped into two groups, and the connection rate for these groups is calculated separately. The dynamics of the connection rates in 2010–2014 is shown in Table 5.

Table 5. Dynamics of the connection rates of household customers in 2010–2014

Indicator	2010–2011	2012	2013	2014	Adjustment in 2014, as compared with 2013, in percent
Household customers consuming up to 500 m ³ of gas per year*					
Fixed component of the rate, LTL	2205.60	3323.9	3323.19	3323.19	0
Rate per one meter of gas pipeline, LTL/m	63.09	142.16	142.16	142.16	0
Household customers consuming more than 500 m ³ of gas per year					
Fixed component of the rate, LTL	1402.56	1249.05	915.54	719.36	-21.4
Rate per one meter of gas pipeline, LTL/m	94.48	50.26	57.05	55.77	-2.2

**The connection rate is set for the lead-in to the staircase landing of the block of apartments. In connecting the household customers, the indicated rate has to be divided by the number of the potential customers.*

Source: 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

Pursuant to Article 9 of Directive 2009/72/EC, the Member State, which has chosen the model of the full ownership unbundling, has to ensure the unbundling of the transmission activity from the supply and production activities as well as the commercial interests of these activities, including the unbundling of the ownership of the transmission activity.

The revised Law on Electricity, which was passed by the Seimas of the Republic of Lithuania on 17 January 2012 and whereby the provisions of Directive 2009/72/EC were transposed, provided for unbundling the electricity transmission activity from the activities of the electricity production and supply, by unbundling the TSO ownership from the electricity undertakings performing the electricity production and /or supply activities.

To accomplish the set goals, the following main actions were taken:

- On 7 February 2012, the revised Law on Electricity, whereby the provisions of the Third Energy Package were transposed and the model of the full unbundling of the ownership of the transmission activity was enforced, came into force;
- On 15 March 2012, on the NCC initiative the unbundling of the *LITGRID AB* transmission activity was started;
- On 4 July 2012, the Government of the Republic of Lithuania passed Resolution No 826 *Regarding the Establishment of the Private Limited Company and the Investment of the State-Owned Assets*, whereby the Plan for Implementing the Unbundling of the Activities of the Electricity Undertakings and Control over Them in Compliance with the Requirements of the Law on Electricity was approved;
- By 1 October 2012, *LITGRID AB* completed all actions deemed necessary to comply with the requirements of the Law on Electricity on implementing the unbundling of the transmission activities and submitted all relevant information to the NCC;
- On 29 April 2013, after analysing the received information, the NCC stated that the *LITGRID AB* transmission activity complies with the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity, and that this undertaking can be designated to operate as the TSO;
- On 9 May 2013, the NCC informed the European Commission about the adopted decision and submitted the documents justifying this decision;
- On 4 July 2013, the European Commission provided its conclusion with the following essential comments, which were proposed to be taken into consideration by the NCC while making the final decision:
 - To elaborate whether the Prime Minister has the power to make influence, e.g. by giving direct orders to the Ministers in making decisions related to *LITGRID AB* and *UAB Visagino atominė elektrinė*, which would be more favourable to the interests of the latter but would not be beneficial to other users of the *LITGRID AB* transmission network;
 - To elaborate whether (1) the Ministry of Energy is not exercising any rights in respect of *AB Lietuvos dujos*, or (2) at least there is no conflict of interests due to which the Ministry of Energy would be able to use control over *LITGRID AB* by seeking for more favourable conditions to *AB Lietuvos dujos* than to other network users;
 - To specify the reasons due to which at present the function of supply of the liquefied natural gas has to be performed by the Lithuanian Oil Products Agency, which is subordinate to the Ministry of Energy, and what specific actions at present are performed by this nominated supplier of the liquefied natural gas. To ensure the absence of the conflict of interests and to avoid the

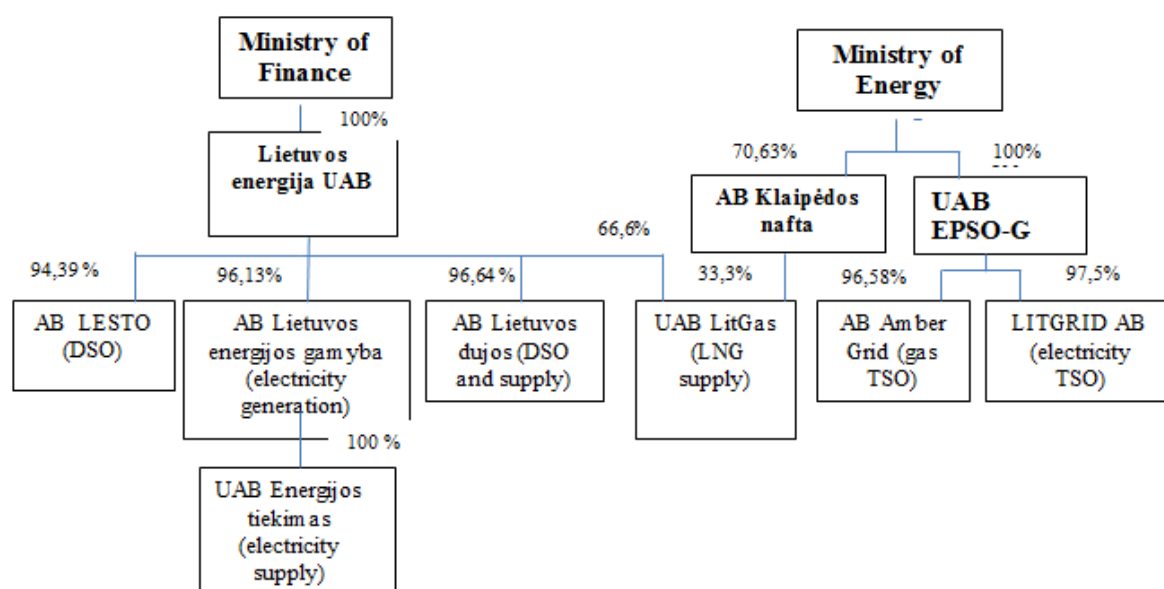
occurrence of such conflicts in the future, the European Commission proposed to respectively evaluate the activity performed by the Lithuanian Oil Products Agency, and subsequently – by *UAB Litgas* as well;

- The European Commission also pointed out that certain persons, who at present are the Members of the Board of *UAB Litgas*, are the representatives of the Ministry of Energy as well, and in the future this problem will have to be solved.

• On 27 August 2013, after analysing in detail the documents and all relevant information submitted by the Ministry of Energy and the TSO *LITGRID AB*, and having taken into consideration the conclusion of the European Commission, the NCC stated that the unbundling of the *LITGRID AB* transmission activity complies with the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity, and that this undertaking can be designated to operate as the TSO, and issued to *LITGRID AB* a termless license for the electricity transmission activity.

On 26 October 2013, the information about the final decision adopted by the NCC regarding the designation of *LITGRID AB* 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.

Figure 15. Unbundling the activities in the electricity and natural gas sectors. Control over the undertakings after unbundling *LITGRID AB* from the vertically integrated undertaking



Source: NCC

Pursuant to Article 26 of the Law on Electricity, the NCC will be further continuously supervising and controlling how the designated TSO, in performing its activity, complies with the requirements of independence and unbundling the operations set forth in the Law on Electricity.

Article 26 of Directive 2009/72/EC

Pursuant to Article 26 of Directive 2009/72/EC, the Member State has to ensure that in the cases when the DSO is a part of a vertically integrated undertaking, the DSO, at least in terms of its legal form, organisational structure and the decision making process has to be independent from other activities not relating to distribution. This requirement does not create an obligation to separate the ownership of the assets of the DSO from the vertically integrated undertaking.

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.

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 purpose of the Rules – to create preconditions for the development of the relationships in the competitive electricity market by embedding the relationships of the market participants complying with the requirements of justice, rationality and fairness, and to regulate the supervision of the functioning of the electricity market. These Rules provide that the supplier of the balancing energy is the person holding the electricity supply license, or the producer, which are trading in the balancing electric energy with the TSO. The document also stipulates the procedure of trading in the balancing electric energy whereby the hourly quantity of the balancing energy is calculated.

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. The document was approved by the NCC in 2009, and since then it has not been amended. Nevertheless, the NCC representatives are involved in the Working Groups of the Baltic Sea Region Initiative, and they have been monitoring the situation so that the pricing of the balancing electricity would comply with the principles applied in the Region. At present the pilot Balancing Study is under preparation, and it should be completed by the end of 2014. It is important to harmonize the method of pricing the balancing energy with the methods applied in the Baltic Sea (Nordic) Region, and in particular by 2015, when the new interconnection lines with the electric power systems of Poland and Sweden are expected to be launched into operation.

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

The functions to monitor the issues related to the safety and security of supply in the electricity sector of the country, which in accordance with the Procedure Regulations for Supplying the Public Obligation Services in the Electricity Sector were set to the Ministry of Energy, and the functions to monitor and assess the reliability of the transmission and distribution networks, which were set to the NCC pursuant to the Law on Electricity passed in January 2012, as compared with 2012, 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).

In 2013, the first Report on the Assessment of the Reliability of the Lithuanian Electric Power System in 2012 was prepared. In 2014, the Study prepared by the consultants has been further elaborated by developing the Model of the Simulation of System's Security of Supply (hereinafter – SISYFOS, an abbreviated form of SIMulering af SYstemers FOrSyningsikkerhed in Danish) and its Methodology.

In the mentioned Report it was stated that:

- The forecast of the electricity demand basically corresponds to the alteration in the electricity demand, which was forecasted by other sources (*LITGRID AB* and the Lithuanian Energy Institute (LEI)), i.e. in the long term, the electricity demand should grow by 1.5 percent per year;

- On 31 December 2012, the installed capacity of the power plants was 4254 MW, the available capacity – 3324 MW;
- According to the assessment of the faults (the unscheduled repair works), which occurred in 2012 in the electricity generation facilities of Lithuania, the condition of the generating facilities can secure the reliable electricity production. In 2012, the average number of the unscheduled disconnections of the power plants (with the electric capacity above 100 MW) occurred no more than twice. The removal of the faults lasted up to 48 hours. A small number of the critical faults shows that the scope of the equipment maintenance and upgrading is sufficient.
- According to the analysis of the operation regimes of the electricity generation sources of Lithuania, the electricity output produced by the producers basically depends on the state support, the price at the Power Exchange and the seasonality;
- By 2020, with an aim to implement the projects set forth in the National Energy Independence Strategy, the installed generation capacities in the Lithuanian Electric Power System will be increased to 4388 MW;
- The capacities planned to be installed in Lithuania will be sufficient to satisfy the forecasted electricity demand in the system, when by 2030 the forecasted electricity demand will reach 2300 MW, and the installed operated electric capacity in the electric power system will be 2886 MW, excluding the wind, photovoltaic power plants and Kruonis HPSP;
- In the cases of the actual deviations because of the inaccuracies in the electricity production or consumption quantities, the TSO will make the necessary regulation orders in accordance with the concluded Agreements on the System Services, i.e. will buy or sell the balancing electricity according to the concluded Selling-Purchasing Agreements of the Balancing Electric Energy;
- The TSO owns approx. 6683 km of the 330–110 kV overhead and cable lines, the age of approx. 70 % of the 330–110 kV overhead lines is above 30 years, and with the ageing overhead lines, the number of defects in the ferro-concrete poles, lightning conductors and insulators has been increasing. In 2012, 1238 km of the ageing overhead lines were repaired, i.e. by 29.5 percent more than in 2011 (873 km). According to the assessment conducted by the TSO, next year (in 2014), 329 line supports will have to be repaired;
- In 2012, 252 faults were recorded in the transformer substations, the biggest number of these occurred in the circuit breakers (the age of 37 percent of the circuit breakers is above 30 years) and in the disconnectors (the age of 48 percent of the disconnectors is above 30 years). The time of being in operation of approx. 40 % of the commutation apparatus in the 330–110 kV substations (circuit breakers, separators and disconnectors) exceeds the life time set by the manufacturer;
- With regard to the year of the network construction and the tendencies in the alteration of the equipment condition, the existing technical condition of the individual TSO's network components can become inadequate to ensure the reliable electricity supply in the transmission network. To maintain the adequate reliability level, every year it is necessary to reconstruct 6 transformer substations and approx. 300 supports of the overhead lines;
- The majority of the DSO's overhead lines have been operated for more than 30 years. In 2012, as compared with 2011, the number of the faults in the overhead lines to some extent increased in the 10 kV lines, but decreased in the 0.4 kV lines. In 2012, the total number of the faults in the 6–10/0.4 kV transformer substations was similar to that in 2011. The weakest component in the 35–110 kV transformer substations and the 10 kV distribution centres – the 10 kV oil circuit breakers and their gears, and the faults in the secondary circuits. After assessing the status of the network components managed by the DSO, it can be stated, that the technical condition of the individual DSO network components is quite good, and the majority of the faults occurred due to the external impact (it is necessary to avoid thefts, toppling of trees, etc.);

In the long term, the quality of the services provided by the DSO will not deteriorate if the maintenance level of the distribution network components is preserved as it is (and in some cases – even is improved);

- In 2012, the actual quantity of the electricity not delivered by the TSO (the END indicator) reached 7.36 MWh per year, i.e. by 2.36 MWh exceeded the minimum level of 5 MWh set by the NCC. Respectively, the actual interruption time (the AIT indicator) was as high as 0.34 min./per year, whereas the limit set by the NCC was 0.26 min./per year;
 - The reliability indicators of the Lithuanian TSO are much better than those of other countries, although the Lithuanian TSO failed to ensure to the customers the minimum level of the reliability indicator set by the NCC;
 - The bulk of the planned investments in the transmission network will be necessitated by the projects for the construction of the interconnection links and for the preparations for the network operation with the Continental Europe Network (CEN), respectively LTL 789 million (NordBalt and the related projects), LTL 594 million (LitPol Link and the related projects) and LTL 767 million (the network preparation for operation with the CEN). In all – approx. LTL 2151 million;
 - In 2012, the system average interruption duration index (SAIDI) reached 55.6 min. per customer, i.e. did not surpass the level of 66 min. per customer set by the NCC. Respectively, the system average interruption frequency index (SAIFI) was 0.79 times per customer, whereas the level set by the NCC was 0.93 times per customer. It should be mentioned that in assessing the DSO activity it would be expedient to take into consideration the indicator of the Force Majeure, because a significant number of faults of the Lithuanian DSO occurs due to the impact of the Force Majeure (sleet, storms, emergency crews, etc.) and their neutralisation requires additional investments;
 - In the long term, the scope of the required investments in the distribution network will remain at the same level as in 2012, i.e. approx. LTL 150 million per year (excluding the investments for connecting new customers);
 - In 2012, the LPS had the reserve margin of 68 percent, and according to all three scenarios till 2030 it will not fall below the margin of 30 percent (the basic scenario – the LPS with all existing and planned to be constructed generating capacities, but without the cross-border lines, the scenario with LitPol Link and NordBalt cross-border lines, and the scenario only with NordBalt cross-border line, with the annual growth of the demand by 3 percent), without taking into consideration the value of the electricity price in the market. The reserve margin recommended by the European Network of Transmission System Operators for Electricity (ENTSO-E) is from 5 to 20 percent.

In summarising the results of the study, it can be stated that at present the adequate reliability level is ensured in the LPS. To maintain the adequate reliability level in the LPS, it is proposed to estimate the scope of upgrading the LPS network components with regard to the year of the network construction and the tendencies of deterioration in the equipment condition. To accomplish this goal it has been recommended:

1. The presently valid Methodology for Setting the Minimum Levels of the Transportation Reliability Indicators (END, AIT, SAIDI, SAIFI) provides that the minimum level is set on the basis of the average indicator in the previous regulation period, which cannot be below (i.e. has to exceed) the previously set level of the minimum indicator. The peculiarity of the Methodology is such that during the assessment period (3 years) the disconnection of a large customer in the system may not occur (there were the disconnections of small customers only or the supply interruptions). It has been proposed to consider the economic justification in the requirements on the calculation of the indicators: to set the tolerance limits for the newly set indicators or to extend the period used for determining the minimum level (5-6 years);

2. On the basis of the information submitted by the DSO it has been found out that the undertaking is not monitoring the electricity voltage in the distribution network. By taking into account that the voltage fluctuations are directly related to the reliability of supply to the customers, the possibility to introduce the economically justified monitoring system, which would enable to identify the problematic segments of the network and to improve the reliability and stability of supply (including the electricity parameters), should be considered.

3. The bulk of the existing electricity transmission and distribution system facilities (the transformer substations, the majority of the overhead lines, supports, etc.) were constructed in 1960–1970, therefore around 2020 the remaining useful life of these system components will be marginal, and this can predetermine the significant needs for investments in the rehabilitation of the system (in comparison with the current level of investments). To maintain the high level of the system reliability, the possibility to additionally perform a technical audit of the existing system components and to determine the useful life of the individual system components should be considered.

Monitoring the time periods set for connection and repairs (Article 37(1)(m))

Pursuant to the Rules of the Electricity Supply and Consumption approved by the Minister of Energy, the reliability of the electricity transportation and the duration of the restoration of the electricity supply (hereinafter referred to as the reliability category) till the boundary of the network ownership between the operator and the customer have to be set by the agreement between the customer and the operator or the supplier. In the mentioned Rules three reliability categories have been distinguished:

- To the customers of the third (III) reliability category the supply of electricity has to be restored during the time period not exceeding 24 hours, excluding the cases provided otherwise in the legal acts and agreements;
- To the customers of the second (II) reliability category the supply of electricity at the boundary of the network ownership between the operator and the customer has to be restored during the time period not exceeding 2.5 hours;
- To the customers of the first (I) reliability category the supply of electricity cannot be interrupted for the time period which is longer than it is necessary for the automated switching from one autonomous electricity source to another.

As compared with 2012, the terms for connecting the customer's electric equipment to the network, set forth in line with the provisions of the Procedure Regulations for Connection of the Producers and Consumers' Electric Equipment to the Electricity Network approved by the Order of the Minister of Energy, 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 for 2012).

Every year, the quality of the services of the operators and the suppliers rendering the 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 connected new customers;
- The restoration of the interrupted electricity supply in line with the set 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 2013

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	1.68	100
III	hour	24	3.48	100

Source: NCC

The AB LESTO indicators of the quality of the services in 2013 are provided in the Table.

Table 7. AB LESTO indicators of the quality of the services in 2013

Item No	Indicator of the quality of the services	Measurement unit	Set indicator of supplying the service to a customer		Indicator of the timely supply of the service to a customer (percent)	
			Household customers	Other customers	Household customers	Other customers
1.	Time period during which the electric equipment of a new customer was connected (when to connect the customer's equipment it is necessary to install only the branch with the metering cabinet and the design for these works is not required)	Number of business days	20	20	95.63	94.68
2.	Time period during which the equipment of the customer who has paid his arrears is	Number of business days	5	2	98.46	87.59

	connected after its disconnection because of the overdue payment					
3.	Time period from the notice to the customer till the scheduled interruption of electricity transportation due to the network maintenance works	Number of calendar days	10	10	100	100
4.	The identified fault of the metering device or metering circuit	Number of business days	5	5	99.99	100
5.	Duration of the investigation of the claim	Number of calendar days	30	30	95.44	100

Source: NCC

In 2013, *LITGRID AB* received 5 claims from the customers, neither of them was justified. Four claims were investigated during 30 calendar days, i.e. the timely investigated claims made up 80 percent.

Pursuant to the revised Requirements on the Transportation Reliability and the Quality of Services, the NCC not only supervises the compliance with the set minimum levels of the reliability indicators, but also is entitled to impose sanctions with regard to all indicators set in the mentioned Requirements.

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

The TSO *LITGRID AB* is responsible for ensuring the national electric energy balance. To secure the reliability of supply, the Plan of the TSO Preparedness for the Emergency Situation in the Electric Power System, which consists of the instructions prepared by the operator, the procedure regulations and other documents, has been drawn up. The constituent parts of the Plan are as follows:

1. The *LITGRID AB* Plan of Liquidation the Emergency Situations;
2. The Black Start Plan of the LPS after the Black-out;
3. The Instructions on the Liquidation of Accidents and Technological Failures;
4. The Procedure Regulations for Disseminating Information about the Extraordinary or Emergency Events in *LITGRID AB*, their Examination and Accounting.

LITGRID AB performs the interruption or limitation of the electricity supply in accordance with the provisions of Chapter 22 of the Instructions on the Liquidation of Accidents and Technological Failures and with regard to the provisions of the Agreements on the Electricity

Transmission Service signed between the TSO and the network users. In the recent three-year period there were no interruptions of electricity supply or its limitation because of the emergency situation.

To satisfy the peak demand of the electricity consumption, or to cover the electricity shortage, or to secure the supply of electricity to the customers, the TSO *LITGRID AB* orders to maintain 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. The tertiary reserve set in 2013 was 340 MW, and the tertiary reserve planned for 2014 is 270 MW.

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, the DSO *AB LESTO* approved 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 *LITGRID AB*. 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 existing peaks. In 2013, 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 terms of validity of the electricity selling-purchasing agreements are not regulated by the legal acts of Lithuania. Usually the electricity selling-purchasing agreements with producers are concluded for the period of one calendar year with a possibility of the automatic extension of their validity in the cases when the conditions of the agreement have not been amended and the parties have not expressed a wish to terminate the agreement. With new producers the electricity selling-purchasing agreements are concluded with the validity till the expiration of a calendar year with the similar possibility of the automatic extension of their validity for the next year.

It should be also mentioned that to avoid the disturbances in the electric power system and to ensure the restoration of the system after accidents, the requirements for operation of the electric power system and the safeguard measures have been defined by the Rules for Access to the Network, the Rules of Operation of the Power Plants and Electricity Network approved by the Minister of Energy of the Republic of Lithuania as well as by other relevant legal acts. The TSO is responsible for implementing the relevant measures to prevent accidents in the system and in the transmission grid, for drawing up the emergency plan in the case of the black-out of the system, and for the coordination of the emergency plans of the power plants and network utilities. To ensure the safety and reliability of operation of the transmission grid, the TSO concludes contracts or enters into agreements with other transmission operators on the bilateral (multilateral) measures enabling to secure the smooth operation of the entire synchronously operating electric power system.

The data and information exchange and their conciliation on the regional level is performed at the meetings of the working groups of the mentioned ACER Baltic Electricity Market Initiative and at the Baltic Electricity Market Mini-Forums arranged twice per year. The full information is posted on the websites of the Baltic Energy Regulators and the ACER: www.regula.lt and www.acer.europa.eu (www.energy-regulators.eu).

The NCC supervises the compliance of the information posted on the website of the TSO www.litgrid.eu with the requirements set forth by the EU Regulations. The concepts defined in the Community's legal framework are one of the key factors for reaching compatibility in the data exchange.

The regulation structure of renewable energy sources (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 Sources, 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. Recently the measures have been taken to balance the development of the electricity production by using the RES by reducing the tariff of the purchased electricity, revising the procedure for issuing permits, etc.

In 2013, like in the previous year, the NCC actively participated in the preparation of the legal acts regulating the RES. With regard to the amendments in the Law on Energy from Renewable Sources, which came into force on 1 February 2013, the NCC twice revised the Methodology for Setting the Tariffs of Electricity Produced by Using the RES. On 22 February 2013, the following amendments of the Methodology were approved by the NCC:

- The tariffs will be recalculated 4 times per year;
- The definition of a small power plant was amended: the installed capacity of a small power plant is limited up to 10 kW;
- The tariffs of the surplus electricity will be applied to the small power plants, and they also will not be approved more frequently than 4 times per year;
- The estimation of the capital to be invested to connect the power plant to the operator's network was revised by taking into account the adjusted values of the compensation of the costs incurred in connecting the facility to the network;
- The installed capacity of the connected facilities was adjusted;
- With regard to the fast development of the technologies and their increasing efficiency, the technological capacity ratios were adjusted;

On 14 May 2013, the NCC approved the following amendments of the Methodology:

- The amounts of the operation costs and the costs corresponding to the costs of purchasing raw materials (fuel), allocated to the production of electric energy and to the production of heat energy, were unbundled;
- The concept of the power plants was defined by distinguishing the power plants where the electricity generation facilities and buildings are reconstructed by adapting them for electricity production by using biomass;
- The group of the power plants, where the electricity generation facilities are reconstructed, was distinguished separately;
- The amount of the capital to be invested in installing the power plant, where the reconstructed facilities will be used for electricity production, was revised.

With an aim to improve the existing system of the auctions for distributing the incentive quotas in accordance with the gained practical experience, by optimising and improving the procedure of the auctions for distributing the incentive quotas and its terms, the NCC revised the Regulations of the Auctions for Distributing the Incentive Quotas (approved on 16 October 2013, No O3-628).

The main amendments:

- It was provided that the producer has to submit (as one of the documents of the auction) a confirmation about the installed or planned to be installed new (earlier not operated) generation facilities. Therefore the producers, who are installing the already operated generation facilities, will not be able to take part in the auctions;
- The option, when the producer was allowed to take part in the auction with several projects, was repealed. It was also stipulated that at least two participants, who among themselves are not related in any manner, which would enable them to influence their reciprocal behaviour

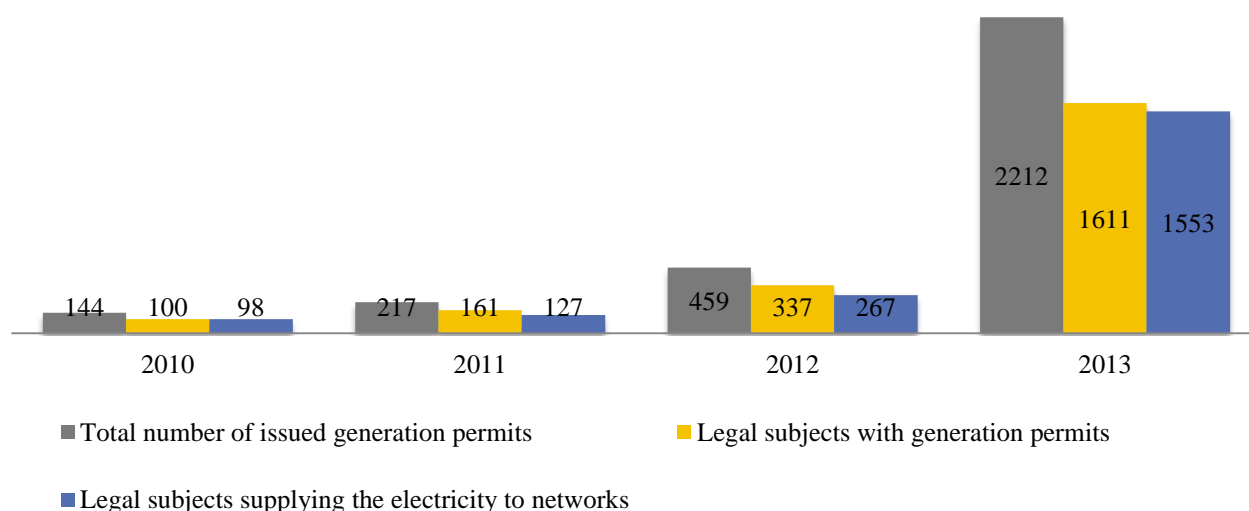
during the auction or to experience this influence themselves, have to take part in the auction. This aspect has to be considered by the Auction Commission during the stage of the evaluation of the documents. This amendment has been made after having evaluated the tendencies observed in the auctions: in certain auctions numerous different undertakings took part, the managers or the authorised persons whereof were the same physical persons or the persons related by kinship, and it was planned to construct the power plants in the adjacent sites, therefore the competition-based procedures of the auctions were not complied with, there could have been agreements among the related persons on the tender for the fixed tariff, and the practice, when one participant with several projects for the power plants was taking part in the same auction, did not ensure the efficient competition;

- The single round auction was introduced and other terms of arranging the auction were optimised with an aim to optimise the auction and the observed tendency to indicate the maximum value of the fixed tariff in the initial bid and then to reduce the bids on the fixed tariff only when the revised bids are submitted.

The information related to the connection rates is provided in Chapter 2.1.5 herein.

By the end of 2013, 2212 permits to produce electricity were issued to the producers using the RES. These production permits were issued to 1611 different economic entities (among them 626 were physical persons, and 985 – legal persons). In all, 1753 production permits were issued in 2013, i.e. 7.2 times more than in 2012 (242 production permits). By the end of 2013, the electric energy from the RES was produced and supplied to the network by 1553 physical and legal persons (96 percent of the production permit holders), i.e. by 5.8 times more than by the end of 2012.

Figure 16. Number of the issued RES production permits and RES producers in 2010–2013



Source: NCC

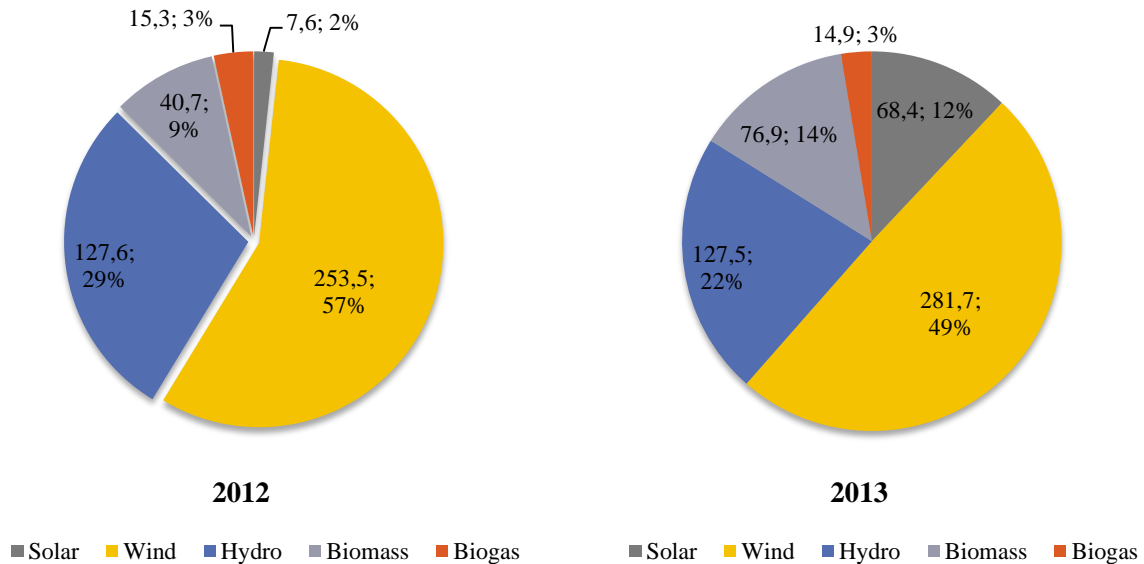
In 2013, the part of the production permits issued to the physical persons² producing electricity from the RES increased: by the end of 2013, the number of the production permits issued to the physical persons in the RES market structure made up 31.4 percent of the total number of the issued permits (694 of 2212), by the end of 2012 – 28.8 percent (132 of 459).

By the end of 2013, the installed capacity (hereinafter – the IC) of the electricity producers producing electricity from the RES and supplying it to the network reached 569.4 MW: the IC of

² Pursuant to the Law on the Farmer's Farm of the Republic of Lithuania, the farmers are categorised as physical persons.

photovoltaic power plants – 68.4 MW, the IC of wind power plants – 281.7 MW, the IC of hydro power plants – 127.5 MW, the IC of biomass power plants – 76.9 MW, the IC of biogas power plants – 14.9 MW. In 2013, according to the IC, the biggest market share was covered by the wind power plants – 49.5 percent, the smallest share – by the biogas power plants (2.6 percent).

Figure 17. Market structure by installed capacity in 2012–2013 (percent and MW)



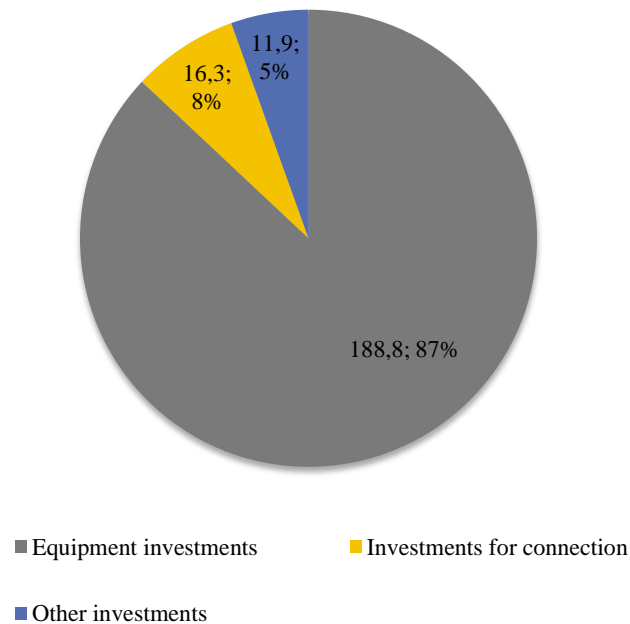
Source: NCC

In 2013, the quantity of electricity produced by using the RES totalled 1423.7 GWh: the biggest quantity was produced in the wind power plants – 42.1 percent, and in the hydro power plants – 36.3 percent. The quantity of electricity produced in the biomass power plants in the total market structure equalled 15.8 percent, in the biogas power plants – 2.7 percent, in the photovoltaic power plants – 3.1 percent.

According to the data submitted by the electricity producers³, in 2013 the investments in the RES sector totalled LTL 220.2 million. The bulk of the investments – 87 percent (LTL 188.8 million) were made in the electricity generation facilities, the investments to connect the producers to the transmission and distribution networks in the total market structure represented 8 percent (LTL 16.3 million), other investments related to the production of electricity – 5 percent (LTL 11.9 million).

³ The information about the producers, who failed to submit the information for two or more Quarters of 2012-2013, is posted on the NCC website www.regula.lt

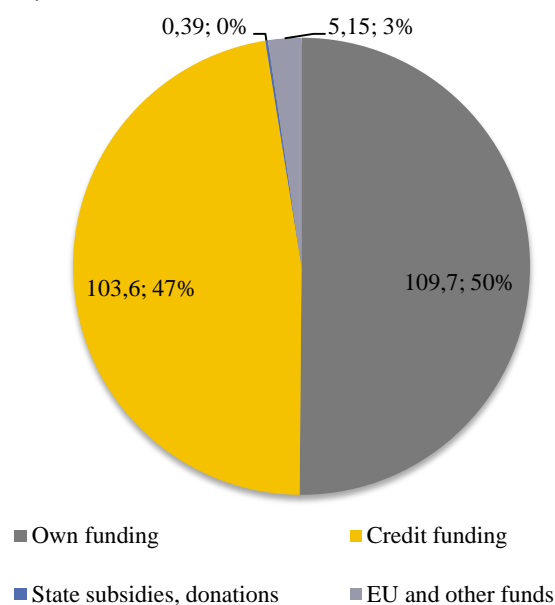
Figure 18. Structure of the investment market by the objective of the investments in 2013 (LTL million and percent)



Source: NCC

The analysis of the market structure by the investments sources according to the data submitted by the electricity producers showed that the borrowed funds accounted for 47.3 percent (LTL 103.6 million), the equity – 50.1 percent (LTL 109.8 million), the support of the EU and other funds – 2.4 percent (5,2 mln. Lt), the grants and subsidies from the state and municipality budgets – 0.2 percent (LTL 0.4 million) of the total investments, which in 2013 were made by the producers producing electricity from the RES.

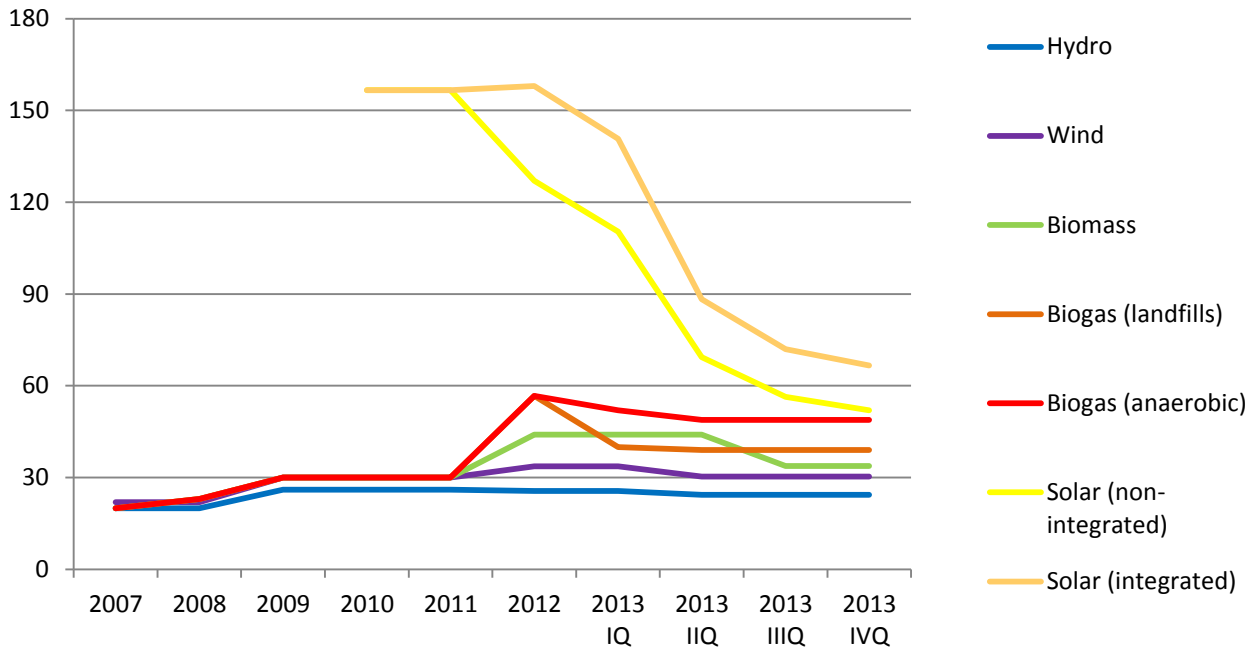
Figure 19. Market structure by the investment sources in 2013 (LTL million and percent)



Source: NCC

In 2013, depending on the installed capacity, the tariffs of the purchased electricity produced in the wind power plants were 26–37 LTct/kWh (VAT excluded), in the hydro power plants – 22–28 LTct/kWh (VAT excluded), in the biomass power plants – 29–50 LTct/kWh (VAT excluded), in the biogas power plants – 33–59 LTct/kWh (VAT excluded), in the photovoltaic power plants – 48–160 LTct/kWh (VAT excluded).

Figure 20. Fixed tariffs of the power plants producing electricity from the RES in 2007–2013 (LTct/kWh)



Source: NCC

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.

The price caps of the transportation services had been set for the regulation period of 2011–2013. Every year the price caps of the electricity transportation service are revised by taking into consideration the coefficients of the impact of quantity, unpredicted changes and the indexation. Whereas the regulation period was extended to cover the year 2014 as well, the initial level of the revenues, which had been set for 2011–2013, was recalculated for 2014, and the price caps of the supplied services were set.

By taking into consideration that in accordance with the Lithuanian Electricity Market Development Plan, in 2014 only the household customers will pay at the public tariffs, after setting all components of the electricity price, the price cap of the public price was recalculated for the year 2014 by taking into account the transportation services, the public supply price, the PSO and the price of the purchased electricity. The dynamics of the public electricity prices in 2011–2014 is provided in the Table.

Table 8. Dynamics of the public electricity prices in 2011–2014 (LTct/kWh, VAT excluded)

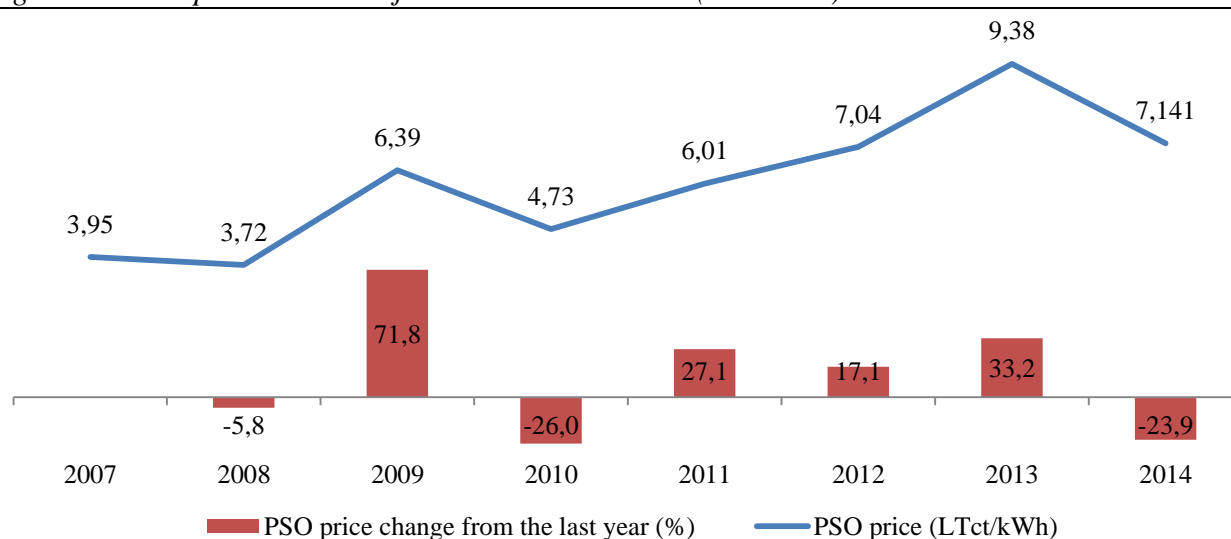
Indicators	2011	2012	2013	2014	Adjustment as compared with the price set for 2013, percent
Buying price	16	15.94	16.133	16.85	4.4
PSO price	6.01	7.04	9.377	7.141	-23.8
Price of the system services	0.66	0.62	0.942	0.42	-55.4
Price cap of the transmission service	2.32	2.32	2.415	2.206	-8.7
Price cap of the public supply price	0.37	0.44	0.49	0.52	6.1
Price cap of the distribution service by medium voltage network	4.89	4.88	4.747	4.479	-5.6
Price cap of the public price to customers buying electricity from medium voltage network	30.25	31.24	34.104	31.616	-7.3
Price cap of distribution service by low voltage network	6.39	6.41	6.219	6.162	-0.9
Price cap of the public price to household customers buying electricity from low voltage network	36.64	37.65	40.323	37.778	-6.3

Source: NCC

The tariffs of the electricity transportation services, which are differentiated by the customer groups, three plans of the capacity factors, capacity and energy components and the time, as well as the rates of connection to the electricity networks are publicly announced on the NCC website www.regula.lt.

Like in the previous year, the prices of the electricity transportation services were mostly influenced by the adjustments in the PSO price. The PSO price in 2007–2014 increased by 1.8 times, from 3.95 to 7.141 LTct/kWh. The biggest decrease in the PSO price (by 26 percent) occurred in 2010, as compared with 2009, the biggest augmentation (by 71.8 percent) was in 2009, as compared with 2008. With regard to the lower demand for the PSO funds (in 2014 the price of the natural gas decreased and the production volume of the supported electricity was reduced), the PSO price in 2014, as compared with 2013, dropped by 23.9 percent, from 9.38 to 7.14 LTct/kWh.

Figure 21. PSO price and its adjustment in 2007–2014 (LTct/kWh)



Source: NCC

The NCC decisions, adopted in 2013 in the fields of the cost accounting and the pricing supervision, enabled the electricity consumers to save at least LTL 147 million. The NCC exercises regulation over more than 200 economic entities. In 2013, the yearly price recalculations were made to 23 economic entities.

Article 37(6)(a)

The NCC functions in the accounting of the regulated activities, pricing and the price setting are specified in the Law on Energy and in the Law on Electricity. The values of the regulatory asset base, the set rate of return on investments and the return on investments of the regulated undertakings in 2010–2014 are provided in the Table.

Table 9. Regulatory asset base, set rate of return on investments and return on investments in 2010–2014

	Value of regulatory (economically justified) asset base (RAB), LTL million					Set rate of return on investments (WACC) (percent)					Set return on investments, LTL million				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
LITGRID AB	934.4	841.54	808,1	818.1	842.07	5	5	5	6.13	6.13	47	42.1	40.4	50.14	51.612
AB LESTO	RST 1099.0	1665.5	1602.7	1693.25	1793.628	5	5	5	6.13	6.13	91.5	83.3	80.1	103.78	109.936
	VST 730.0														
AB Lietuvos energija	-	-	-	1408.36	1079.1	-	-	-	6.13	6.13	-	-	-	72.83	66.14

Source: NCC

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 coordinated with the NCC, they cannot be recognised as the justified ones and are not included in the price caps calculations.

In setting the initial level of the revenues in 2011-2013 to the undertakings providing the transportation service, the long-term programmes of the regulated activities performed by the electricity transmission and distribution undertakings were approved.

In 2011–2013, these undertakings planned to invest LTL 1 257.7 million (excluding the strategic projects).

Table 10. Investments by the electricity transmission and distribution undertakings in 2011–2013, LTL million

Investments infrastructure	in	2011	2012	2013
Planned		430.288	407.072	420.337
Actual		445.25	463.157	512.186

Source: NCC

Pursuant to the Procedure Regulations for the Evaluation and Approval of Investments of the Energy Undertakings, the TSO has to coordinate the individual investments the amount whereof is equal or above LTL 12 million.

In 2013, the NCC did not approve the individual investments of the TSO *LITGRID AB*, the amount whereof exceeded LTL 12 million. The total investments of *LITGRID AB* were LTL 206.186 million, from this amount LTL 152.484 million were assigned to the investments in the strategic projects.

By implementing the provisions of the Law on Energy, on 5 July 2013, the NCC announced the public hearing on the Plan of the Development of the 330–110 kV Grid of the Lithuanian Electric Power System in 2013–2022 (hereinafter – the Plan), prepared by *LITGRID AB*, and thus created conditions to the public to familiarise themselves with the Plan and to provide comments and proposals. After taking into consideration the comments and the revised data received during the public hearing from the interested parties, and after assessing the adjustments, which appeared in the Plan as compared with the Plan which had been approved in 2012, on 20 February 2014 the NCC stated that the Plan submitted by *LITGRID AB* complies with the requirements of Article 33, Paragraphs 2, 3 and 5 of the Law on Electricity, and also obligated *LITGRID AB* to coordinate the investment projects indicated in the Plan, including the structure of their financing, in line with the procedure set forth in the NCC legal acts, excluding the investment projects which had been earlier approved by the NCC, and to submit the Report on the implementation of the Plan to the NCC.

The DSO has to coordinate with the NCC the individual investments the amount whereof is equal or above LTL 5 million. In 2013, the NCC approved 7 investment projects of *AB LESTO*, the total value of which reached LTL 66.09 million.

Every year of the regulation period, in recalculating the price caps of the transportation services, the investments, which were actually made in the previous year (the value of the assets commissioned into operation), are evaluated. In 2013, the investments made by *AB LESTO* totalled LTL 306 million. From this amount LTL 175 million were assigned to connect new customers, LTL 131 million – to strengthen and reconstruct the existing network.

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

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 is 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, approved by the NCC by Resolution No 03-252 of 19 September 2012.

It should be mentioned that in the spring of 2012 the development of the LRAIC Model was started in the electricity sector, which will promote the efficiency of the network and the long-term competition and thus will be beneficial to the customers and other participants of the electricity sector. The documents of the model, which were relevant to the undertakings *LITGRID AB* and *AB LESTO*, were approved in December 2013, and in the autumn of 2014 its results should be reflected in the price caps of the transmission and distribution services to be set for 2015-2019.

It should be also mentioned that in implementing the provisions of Directive 2012/27/EU on the energy efficiency, the Law on Energy Efficiency has been drafted, and in line with this Draft Law, the respective amendments in the Law on Energy, the Law on Electricity, the Law on Natural Gas and the Law on Heat Sector are being made. After the adoption of these legal acts, the amendments in the secondary legislation should be respectively made with an aim in the period of 2015–2020 to save 740 ktoe or 3.4 TWh of the end-use energy, from this quantity – 190 ktoe or 15 percent of electric energy. The scheme of the energy efficiency obligations should ensure that the committed parties – *AB LESTO*, *AB Lietuvos dujos* and the heat supply undertakings – would reach the national end-use energy savings target. The Energy Agency at the Ministry of Energy would act in the capacity of the administrator of these obligations.

The NCC has the power to request from the entity having the dominating influence in the electricity market as well as from the supplier of the transmission, distribution services and/or the public supplier to prove the justification of the set prices by the costs. The NCC has the right to set a binding reasonable time period for providing such proof. If the entity having the dominating influence in the electricity market as well as the supplier of the transmission, distribution services and/or the public supplier fails to prove the justification of the cost-based prices, it will be considered that the prices set by entity have not been justified by the costs.

Pursuant to Article 8, Paragraph 9, Item 12 of the Law on Energy, the NCC obligates the energy undertakings to conclude the agreements on the electricity transmission, distribution or supply when the energy undertakings have unreasonably refused to provide the services to the third parties or to supply energy to the consumers.

Moreover, it should be mentioned that in March 2013 the TSOs of the Baltic States signed the Agreement whereby they approved the rules for setting the transfer capability of the interconnection lines and the capacity allocation, also including the third countries. This also contributed to the coordinated and more efficient use of the electric power systems in the regional dimension and emphasised the needs for closer cooperation with the TSOs and the market participants of the third countries.

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/EU, as compared with 2012, 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).

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 2013, 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).

It should be mentioned that pursuant to the Law Amending Articles 9, 30, 31, 33, 49, 57 and 67 of the Law on Electricity, which came into effect on 20 March 2014, Article 33, Paragraph 6 was amended by authorising the NCC, after having identified non-compliance of the plan of the development of the grid with the requirements set forth in this Article, to provide recommendations to the TSO regarding the correction or amendment of the plan of the development of the grid and to indicate the reasonable time period to perform these actions.

In line with the provisions of the mentioned Law, in July 2013 the electricity TSO *LITGRID AB* submitted to the regulatory authority the ten-year plan of the development of the transmission grid. The NCC by Resolution No03-56 of 20 February 2014 stated that the Plan of the Development of the 330–110 kV Grid of the Lithuanian Electric Power System in 2013–2022 submitted by *LITGRID AB* complies with the requirements of Article 33, Paragraphs 2, 3 and 5 of the Law on Electricity.

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 2012, 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).

Pursuant to Article 56 of the Law on Electricity, the TSO, DSO and the public supplier have to keep separate accounts of the electricity transmission, distribution, public supply activities, the supply of the PSO and other activities unrelated to the activities in the energy sector. The NCC sets the rules for unbundling the accounts and the relevant requirements, as well as the requirements for the independent audit, which has to be performed by the entities indicated in the Law on a regular basis, as it is set by the NCC.

To avoid the occurrences of the cross-subsidising, the electricity undertakings submit to the NCC the Compliance Programmes. *AB LESTO* abides by the *AB LESTO* Compliance Programme, approved by Order No 49 of the General Director of 29 February 2012 (hereinafter – the Programme), where the respective measures and obligations of employees have been set in order to create the conditions for ensuring the publicity of the company’s activities and information dissemination as well as other principles of the licensed activity. With regard to the Requirements for the Compliance Programme Prepared by the Electricity Distribution System Operator approved by the NCC Resolution No O3-694 of 21 November 2013, the undertaking updated *AB LESTO* Compliance Programme, which was approved by Order No 103 of the General Director of 30 April 2014. The implementation of the measures provided in the Compliance Programme:

1) Application of the justified and clear pricing and tariffs of the electricity services. The company’s employees, who are drafting the prices of the company’s electricity transportation service and the public electricity prices, the tariffs and the procedure of their application, have to ensure the distinct undiscriminating criteria and conditions for assigning the users into certain groups, the price of the electricity transportation service and the tariffs should correspond to the relevant components in the public electricity prices and tariffs, and the principles of application of the price of the electricity transportation service and the price of the public electricity should be clear and easily understandable to all users. The company’s employees applying the price of the electricity transportation service, the price of the public electricity and the tariffs should ensure the undiscriminating and equal application of the prices and tariffs to all network users.

2) Proper and timely information dissemination to the network users about the planned adjustments in the price of the services and in the conditions of rendering the services. The company’s employees, who are responsible for the public relations, as well as the employees to whose competence the application of the price of the electricity transportation service and the price of the public electricity and the tariffs is assigned, abiding by the procedure prescribed by the legal acts, should inform the network users about the adjustments in the price of the company’s electricity transportation service, the price of the public electricity and the tariffs, as well as to provide all other relevant information in line with the procedure prescribed by the legal acts.

By concluding the electricity selling-purchasing agreements with producers, *AB LESTO* abides by the Civil Code, the Law on Electricity and the Law on Energy from Renewable Sources, the Rules of Trading in Electricity, the Procedure Regulations for Supplying the Services of the

Public Service Obligation and the Administration of the Public Service Obligation Funds. Usually the electricity selling-purchasing agreements with producers are concluded for the period of one calendar year with the possibility of the automatic extension of their validity in the cases when the conditions of the agreement have not been amended and the parties have not expressed a wish to terminate the agreement. With new producers the electricity selling-purchasing agreements are concluded with the validity period till the expiration of a calendar year with the similar possibility of the automatic extension of their validity for the subsequent year.

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 February 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.

Starting from 1 January 2015, the regulated electricity undertakings will have to submit to the NCC the reports on the costs accounting in line with the new Description.

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))

Pursuant to Article 76 of the Law on Electricity, the NCC cooperates with the national regulatory authorities of the energy sectors of foreign countries in:

- Ensuring that the TSO would have one or more systems integrated on the regional level and covering one or more Member States for ensuring the allocation of the transmission capacity and the security of the electricity network;

- Facilitating the allocation of the cross-border capacities and the development of the systems for ensuring the security of the electricity network ;

- Creating the conditions for ensuring sufficient cross-border capacities, including new interconnection links, in order to develop the efficient competition and to improve the security of supply without discriminating the suppliers of the Member States and by coordinating the preparation of the congestion management rules.

Pursuant to Article 31, Item 18 of the Law on Electricity, the TSO has to ensure the congestion management by the market mechanisms, to distribute of the earned congestion revenues and to compensate the costs incurred due to the cross-border electricity flows in accordance with the principles set forth in Regulation (EC) 714/2009. In preparing the network development plan, the TSO has to make justified assumptions on the tendencies in the electricity production, supply, consumption and the cross-border electricity flows, with regard to the investment plans drawn up for the regional power system and the grid of the European Union.

With regard to the transparency requirements of the mentioned Regulation, the TSO *LITGRID AB* publicly announces the relevant information on its website, including the Methodological Guidance on Determining the Stability in the BRELL Electricity Ring and the Rules on the Calculation and Allocation of the Cross-Border Capacities for Trading in Electricity in the Baltic Internal Market and with the Third Countries, which have been revised by providing comments by the NCC and the regulatory authorities of other Baltic States.

At present two separate Agreements on the calculation and allocation of the cross-border capacities are in effect in the Baltic States – between the electricity TSOs of Estonia and Latvia and between the electricity TSOs of Latvia and Lithuania. With regard to the agreements reached at the meeting of the Energy Committee of the Baltic Council of Ministers, which on 9 May 2014 took place in Tallinn, and with an aim to accomplish that a uniform coordinated mechanism of the calculation and allocation of the cross-border capacities would be applied in the Baltic Region, the TSOs of the Baltic States have analysed 6 alternative scenarios, which should enable to find the best solution for the capacity allocation under the market conditions. The new Agreement should be submitted to the regulatory authorities of the Baltic States in September 2014, and it should come into force in 2015. As it has been already mentioned, one of the key aspects in this project is the impact of the third countries on the electricity trade in the Baltic Region.

The NCC, the regulatory authorities of Latvia and Estonia have been cooperating in solving these issues at the meetings of the working groups with the TSOs of the Baltic States, and twice per year they discuss the outstanding issues with the Baltic electricity market participants at the organised Mini-Forums.

Meanwhile the NCC, by exercising the powers prescribed by the legal acts, in June 2014 addressed the Competition Council of Lithuania regarding the Regulations on the Calculation and Allocation Rules of the Cross-Border Capacities for Trading in Electricity.

The competition in the Baltic regional electricity market remains rather limited, at least till 2016, when it is being planned to start the operation of the interconnection links with Sweden and Poland. The third interconnection line Estonia–Latvia would help to solve the presently existing congestion problem between these countries. In 2013, the Lithuanian electricity TSO did not earn any congestion revenues.

Pursuant to Item 26 of the revised Rules on Trading in Electricity, all electricity quantities, which are supplied to Lithuania from other foreign countries or are supplied to foreign countries from Lithuania, are traded only at the Power Exchange. The TSO has the power to limit the quantities of the electricity supplied to Lithuania from other foreign countries or supplied to foreign countries from Lithuania, when the capacity of the electricity lines in the respective directions of supplying electricity to or from Lithuania is limited. No later than one calendar day prior to the operation day, till 10 a.m. the TSO has to declare the transfer capability of the interconnection lines in all directions of supply to or from Lithuania during each particular hour of the given operation day. If the aggregated capacity of all bids at the Power Exchange for trading in the electricity during any hour in the respective direction of the electricity supply to or from Lithuania exceeds the capacity announced by the TSO, the part of the capacity of the selling bids with the highest quoted price and/or of the buying bids with the lowest quoted price at the Power Exchange, which exceed the transfer capability declared by the TSO in the respective direction, are rejected.

The LPS has borders with 3 countries. The maximum load of the network, the average maximum load, the actual use of the cross-border capacities with Latvia, Belarus and the Kaliningrad Region in 2013 are provided in the below Table.

Table 11. Duration of the network load in 2013 from the yearly 8760 hours (percent)

Load, %	Total in transmission grid	330 kV overhead lines	Load duration	110 kV overhead lines
0-40	50.9	75.0	17.4	51.7
40-60	29.9	25.0	26.1	31.7
60-80	13.0	0.0	43.5	10.3
>80	6.2	0.0	13.0	6.3

Source: LITGRID AB

Table 12. Duration of the load of the LPS interconnection lines from the yearly 8760 hours (percent)

Indicators	LV-LT	BY-LT	LT-Kaliningrad
Load <50 %	78.1	66.2	13.5
Load 50-90 %	21.0	18.2	15.5
Load 90-100 %	0.7	15.6	70.9
Load >100 %	0.2	0	0.1

Source: LITGRID AB

Table 13. Maximum technical transfer capability of the LPS interconnection lines in 2013

Direction	MW
From Lithuania to Latvia	1200
From Latvia to Lithuania	1500
From Lithuania to Belarus	1350
From Belarus to Lithuania	1300
From Lithuania to Kaliningrad	680
From Kaliningrad to Lithuania	600

Source: LITGRID AB

Table 14. Average actually available technical transfer capability of the LPS interconnection lines in 2013

Direction	Available transfer capability, MW	Available transfer capability, %
From Lithuania to Latvia	725	100
From Latvia to Lithuania	928	70
From Lithuania to Belarus	1219	98
From Belarus to Lithuania	860	82
From Lithuania to Kaliningrad	563	99
From Kaliningrad to Lithuania	347	60

Source: LITGRID AB

In 2013, there were no cases when access to the system was denied because of e.g. the shortage of capacity needed to connect the customers. However it should be mentioned that last year the impact of the regional trade in electricity was especially noticeable in terms of the capacity calculation and allocation, i.e. the capacity of the cross-border line Belarus–Lithuania was estimated by taking into consideration the capacity of the cross-border line Estonia–Latvia, therefore in individual cases the capacity of the cross-border line Belarus–Lithuania for the trading purposes was set as equal to zero. This problem should be solved after constructing the third interconnection line between Estonia and Latvia.

In 2013, the maximum electricity consumption was 1810 MW, i.e. by 2.6% less than in 2012 (1859 MW).

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

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

The NCC representatives 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 drawn up by the Ministry of Energy on the mentioned issues, in particular – concerning the electricity prices.

In February 2012, on the initiative of the Baltic States, the European Commission got the mandate to enter into negotiations with the relevant institutions of the third countries regarding the synchronous operation of the electricity transmission systems of Lithuania, Latvia and Estonia with the CEN. The issues of the technical cooperation among the Baltic States and the Russian Federation as well as the Republic of Belarus regarding the operation of the electric power systems and the perspectives should have moved forward. The role of the ENTSO-E and the TSOs of the Baltic States in the process of the synchronisation is of great significance, however at present this process is at a standstill.

Having started the negotiations between the European Commission and the Russian Federation on the reorganisation of the management of the Baltic States electric power systems in line with the requirements of the EU Third Energy Package, on 12 June 2012 the Law on Integration of the Electric Power System into the European Electric Power Systems was passed. The Seimas of the Republic of Lithuania passed this Law by taking into consideration the strategic goals of the European Union energy policy providing that by 2014 the internal energy market of the European Union, the integrated energy infrastructure of the European Union, including the Baltic States will have to be developed and by 2015 the energy isolation of the Baltic States will have to be removed. In parallel, the projects of the interconnection links with Poland and Sweden deemed necessary for the integration of the electric power systems and markets are implemented and the integration of the Lithuanian electricity market into the common Nordic market and later – into a single European electricity market is consecutively pursued.

Abiding by the National Energy Independence Strategy of Lithuania, Lithuania is seeking for interconnection with the CEN for the synchronous operation by 2020, and for connecting the new Visaginas Nuclear Power Plant to the electric power system which is synchronously operating with the CEN.

The main planned tasks:

In 2013–2018:

- The completed Feasibility Study on constructing the potential links for integration of the Baltic States into the EU internal electricity market;

- The list of the BEMIP projects supplemented with the project for synchronous interconnection to the CEN;
- Reached agreement among the European Commission, Russia and Belarus regarding desynchronisation of the Baltic States' electric power systems from the IPS/UPS;
- The official application for interconnection of the Baltic States electric power systems with the CEN submitted to the ENTSO-E;
- The technical requirements for the synchronous operation with the CEN obtained from the ENTSO-E;
- Reached compliance with the technical and infrastructural requirements.

In 2019–2020:

- The completed testing of the isolated operation of the Baltic States;
- Desynchronisation from the IPS/UPS;
- The completed testing of the synchronous operation of the Baltic States and the CEN;
- The start-up of the synchronous operation of the Baltic States with the CEN.

In autumn 2013, the Feasibility Study on the Integration of the Baltic States into the EU Internal Electricity Market by 2020 was completed by the Baltic electricity TSOs and the Swedish consultancy company *Gothia PowerAB*. On the basis of the performed load flows' calculations the conclusion was drawn that:

- The synchronic operation of the Baltic States electric power system with the CEN is feasible from a load flow contingency point of view;
- To overcome the identified bottlenecks in the Baltic States, several new transmission lines have to be constructed. The possible measures to strengthen the Polish electric power system, which is adjacent to Lithuania, were analysed as well;
- The proposed interconnections and strengthening measures are recommended by taking into consideration the existing and projected system capacities in the affected regions, thus the limitation of import and/or export will be applied only subject to the extreme operation conditions;
- Whereas, when operating synchronously with the CEN, the existing IPS/UPS transmission ring could be retained only for the purposes of trading in electricity, the assumption has been made, that the Western part of the Russia/Belarus transmission grid will have to be strengthened;
- If the Kaliningrad Region joins the synchronous operation of the Baltic States with the CEN, the interconnector LitPol Link should be switched for operation in the alternating current and a double-circuit AC link between Kaliningrad and Poland should be installed;
- If the link between the Kaliningrad Region and the Baltic States is asynchronous, then, to ensure the safe and reliable operation of the Baltic States electric power systems, it is necessary to install the second double-circuit AC link between Lithuania and Poland;
- To ensure the electricity exchange with the IPS/UPS system, the following high-voltage back-to-back links should be installed: Lithuania–Belarus, Estonia–Russia, Latvia–Russia;
- Also the assumption has been made that in the case when the synchronisation of the Baltic electric power systems with the CEN is made without the Kaliningrad region, the synchronisation process would take more time. More information about the study is available on the *LITGRID AB* website.

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 *LITGRID AB* is performed in line with the conditions indicated in Chapter 3.1.3, which have been embedded in the Law on Electricity.

In July 2013, *LITGRID AB* submitted the Development Plan of 330–110 kV Electricity Transmission Grid of the Lithuanian Electric Power System in 2013-2022, prepared by the

undertaking, and the NCC on its website announced the public hearing on the Plan, which covers the main transmission infrastructure that has to be constructed or renovated in the nearest decade, the investments on which the decisions had been already made, along with the new investments to be made in the coming ten-year period, as well as the deadlines for implementing the investment projects. This Plan is quite similar to that which had been submitted in 2012, with the exception of the planned investments, which were increased by LTL 50 million, thus, as it has been already mentioned, in February 2014 the NCC approved the updated Plan by passing the Resolution.

The main investments remained in the planned 6 strategic projects for:

1. The interconnection line NordBalt (700 MW by 2016);
2. The interconnection line LitPol Link 1 with Poland (500 MW by 2016, and additional 500 MW or 1000 MW by 2020);
3. The interconnection line LitPol Link 2 with Poland (1000 MW by 2020);
4. The network development (new 330 kV lines Visaginas–Kruonis (1080 MVA), Vilnius– Neris (943 MVA) and Visaginas–Liksna (additional 943 MVA) related to the new Visaginas Nuclear Power Plant (1350 MW), where the project partners are other Baltic States and the company Hitachi (Japan). The planned completion of the construction – 2020;
5. The strengthening of the internal network (new 330 kV lines Klaipėda–Telšiai (943 MVA) and Panevėžys–Mūša (1080 MVA)) related to the NordBalt interconnection link with Sweden (700 MW by 2016);
6. The synchronous operation with the CEN (by 2020).

The investments in these and other projects are presented in the Table.

Table 15. Projects included in the Plan for 2013–2022 and planned investments

Main groups of investments	Planned investments in 2013–2022, LTL million
Interconnection link Lithuania–Sweden	789.20
Interconnection link Lithuania–Poland	594.40
Integration of Visaginas Nuclear Power Plant’s capacities	154.34
Preparation of the grid for synchronous operation with the CEN	766.91
Projects for the development and reconstructions of the transmission grid	539.16
IT and other projects	63.9
Projects in the transmission grid on the customers and producers’ initiative	176.2
TOTAL INVESTMENTS	3084.1

Source: NCC

The estimated value of the projects included in the Plan during the ten-year period will total approx. LTL 3084.10 million. As it has been already mentioned, the projects are undertaken for the LPS interconnection with the CEN for synchronous operation, the integration into the European electricity market and to ensure the safety and reliability of the LPS.

LITGRID AB is obligated to coordinate the investment projects indicated in the Plan, including the structure of financing the projects, abiding by the procedure set forth in the NCC legal acts. Besides, the TSO is obligated, within 40 days from the end of Quarter II and within 40 days from the end of the reported year, to submit to the NCC the Report on the Implementation of the Plan. If the TSO makes a decision to cancel, to postpone or to terminate the implementation of the investment projects indicated in the Plan, or to do so due to the amendments in the legal acts which impact the adjustments in the investments projects and/or the necessity to implement them,

including the amendments in the National Energy Independence Strategy, approved by Resolution No XI-2133 of 25 June 2012 of the Seimas of the Republic of Lithuania regarding the approval National Energy Independence Strategy, and in the European Union legal acts, the TSO has to submit the information about such decisions no later than within 5 business days from the date when they were passed by *LITGRID AB*.

Besides, 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.

Cooperation (Article 37(1)(c))

As it has been mentioned in Chapter 3.1.4, 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 ERA 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.

Pursuant to the provisions of the Annex of Regulation (EC) 714/2009 – the Guidelines on the Management and Allocation of the Available Transfer Capacity of Interconnections between National Systems, the NCC monitors the information posted on the TSO website (www.litgrid.eu) related to the transparency of the cross-border power exchange and its compliance with the provisions set forth in the Guidelines. To develop the transparent conditions for the regional trade in electricity, at the meetings with the market participants it is clarified what data is missing and what inaccuracies have occurred.

The TSO of Lithuania is a party of the ITC Clearing and Settlement Multi-Year Agreement No SUT-84-11, which was signed on 22 March 2011. The NCC, by passing the relevant Resolution, revises and monitors the application of this fee. In 2013, this fee was set at 0.276 LTct/kWh (VAT excluded) or 0.8 EUR/MWh, i.e. by 0.1 EUR/MWh less than in 2012. The NCC has been cooperating with the ACER in adjusting the fund of the clearing mechanism among the TSOs.

With an aim to develop the integrated European electricity market, the NCC implements the regional and inter-regional working plans set forth by BEMIP, which are related to the day-ahead, intra-day trade, the assignment of the long-term physical and financial rights to the TSO and the implementation of the cross-border capacity allocation mechanism. The NCC revises and approves the investment projects related to the common interests of the region in accordance with the

provisions of Regulation (EU) No 347/2013. Part of the set functions is performed by the Ministry of Energy (www.enmin.lt) and the Energy Agency (www.ena.lt) subordinate to this Ministry.

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 3.1.4 and 3.1.5 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.

The outstanding issues, and especially those, which concern the methods of the cross-border capacity allocation and the instruments of the financial risk management, on the regional level are solved by the joint official letters of the Baltic States regulatory authorities. Besides, it is attempted to solve the arising problems related to the unusually high prices at the Power Exchange *Nord Pool Spot AS* by e-mail, letters and jointly performed investigations.

On 1 August 2013, the NCC together with the regulatory authorities of other Baltic States started the investigation of the price jump at the Electricity Exchange Nord Pool Spot on 25 June 2013. At that time the price, which was forming in the electricity trading zones of Lithuania, Latvia and Estonia equalled 35.86 LTct/kWh or 103.85 EUR/MWh. In 2013, the average market price of electricity in Lithuania was 16.55 LTct/kWh or 47.93 EUR/MWh. On 26 February 2014, the regulatory authorities provided their joint conclusion of the investigation to the ACER, which stated that the provisions of Regulation No 1227/2011 had been complied with, and the investigation was completed. It should be noted that only the aspects of compliance with the mentioned Regulation had been analysed during the investigation.

In October 2013, the NCC on its own initiative started the internal investigation on the price jump at the Power Exchange *Nord Pool Spot* in September – October 2013. The conclusions of the investigation were presented on 18 April 2014. On the basis of the analysis of the data obtained from different sources and the consistent research, it has been determined that the joint Agreement signed by the Baltic TSOs complies with provisions set forth in Regulation (EC) No 714/2009 and

in Directive 2009/72/EC and the objectives of the BEMIP aimed at establishing the common, competitive and coordinated EU internal market.

The NCC submitted the material of the investigation on the changes in the electricity wholesale market prices in the second half of 2013 to the Competition Council. Besides, both authorities are continuously exchanging other relevant information.

3.2. Promotion of competition

3.2.1. Wholesale market

From 18 June 2012, when Nord Pool Spot AS started operating in Lithuania, and from 3 June 2013, when Latvia joined the mentioned system, the hourly trade in electricity has been jointly performed in the whole Baltic market and the market of the Nordic Countries. In December 2013, the intra-day trade in electricity was launched in Lithuania and Latvia, however because of the liquidity problems and the absence of the financial risks management instruments, the Baltic integrated electricity market as yet has remained insufficiently effective. These steps are part of the BEMIP adopted in 2009, under which not only the integration of the markets is expected, but the interconnection of the transmission grids of the Scandinavian countries and the Baltic States as well.

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. In March 2013, the Baltic TSOs reached a compromise and signed the agreement on the calculation of the transfer capability of the interconnecting lines, thus the capacity allocation in the Baltic States on the principle of the implicit auction is performed by Nord *Pool Spot AS*.

By taking into consideration the experience of the neighbouring countries and in order to avoid the unreasonably high prices at the Power Exchange in the cases when there is the shortage of electricity supply, in May 2013 the marginal price of the peak capacity bids was set at 70.09 LTct/kWh or 203 EUR/MWh. It should be noted that this price does not guarantee that in certain cases the prices exceeding the marginal prices of the peak capacity bids will not be formed in the electricity trading zone of Lithuania (the maximum price – 2000 EUR/MWh, the current price – 3000 EUR/MWh).

Pursuant to the Plan of the Development of the Electricity Market in Lithuania, approved by Resolution No 740 of the Government of the Republic of Lithuania of 8 July 2009, and to the Law on Electricity, in 2013 all domestic commercial customers purchased electricity either in the market by concluding the bilateral agreements, or at the Power Exchange, and the regulated prices of the public electricity cannot be applied to these customers. The public supplier has to conclude the agreements on the electricity supply at the regulated public prices only with those household customers who have not chosen an independent electricity supplier. It should be mentioned that since 2014 the electricity supplied to the household customers has been purchased at the price formed at the Power Exchange.

In accordance with the mentioned Plan, since 2015 all household customers, excluding the socially supported ones, will have to purchase electricity in the market either at the prices of the Power Exchange *Nord Pool Spot AS* or at the prices set by the bilateral agreements.

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, which are posted on the NCC website www.regula.lt. It should be noted that the key indicators of the monitoring of the wholesale electricity market have been provided 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 (EU) No 714/2009 and with the provisions of Regulation (EU) 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.

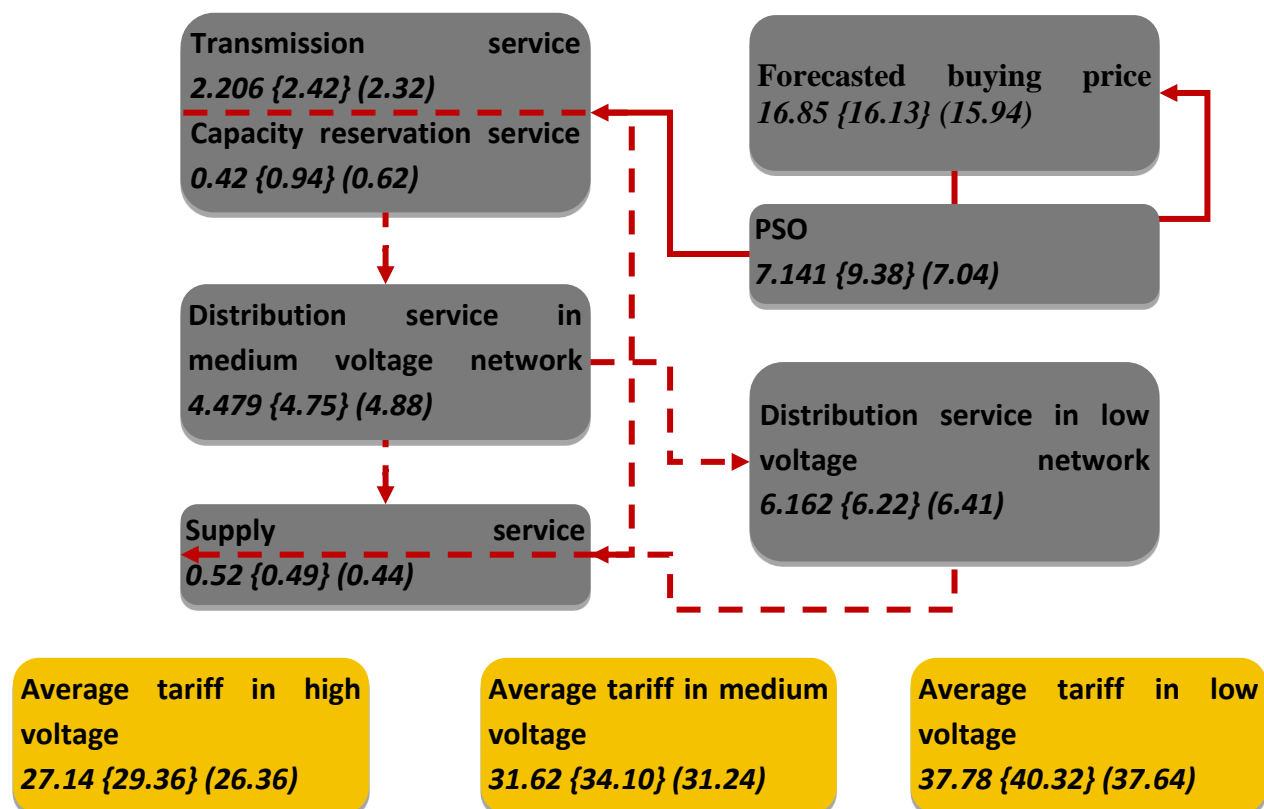
Last year, the average electricity consumption by the household customers dropped from 1657 kWh to 1613 kWh. In 2013, the retail market share held by the historic public supplier *AB LESTO* decreased from 44 percent to 35 percent. The three biggest independent electricity suppliers in the retail market are *Energijos tiekimas UAB*, *UAB Elektrum Lietuva* and *Enefit UAB* (which replaced *UAB SBE Energy*). In 2013, as compared with 2012, among the biggest independent electricity suppliers the biggest augmentation was in the market shares held by *AB INTER RAO Lietuva* and *Enefit UAB*, by 8.2 and 6.0 percentage points respectively.

The number of the customers increased from 1 619 530 to 1 635 758 customers, 126 078 of them were the non-household customers. During 2013, the number of the non-household customers buying electricity at the public prices decreased from 73 percent to 21 percent, and their consumption dropped from 0.57 TWh to 0.13 TWh. During 2013, the consumption by the household customers buying electricity at the public prices decreased from 2.48 TWh to 2.43 TWh or from 26 percent to 25 percent of the end-use electricity consumption in the country.

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 2013, the average price of electricity sold by the independent producers to the end-users who have chosen the independent electricity supplier equalled 16.70 LTct/kWh and was by 4.4 percent lower than in 2012.

Figure 22. Structure of the public price in 2014 {2013} (2012) (LTct/kWh)

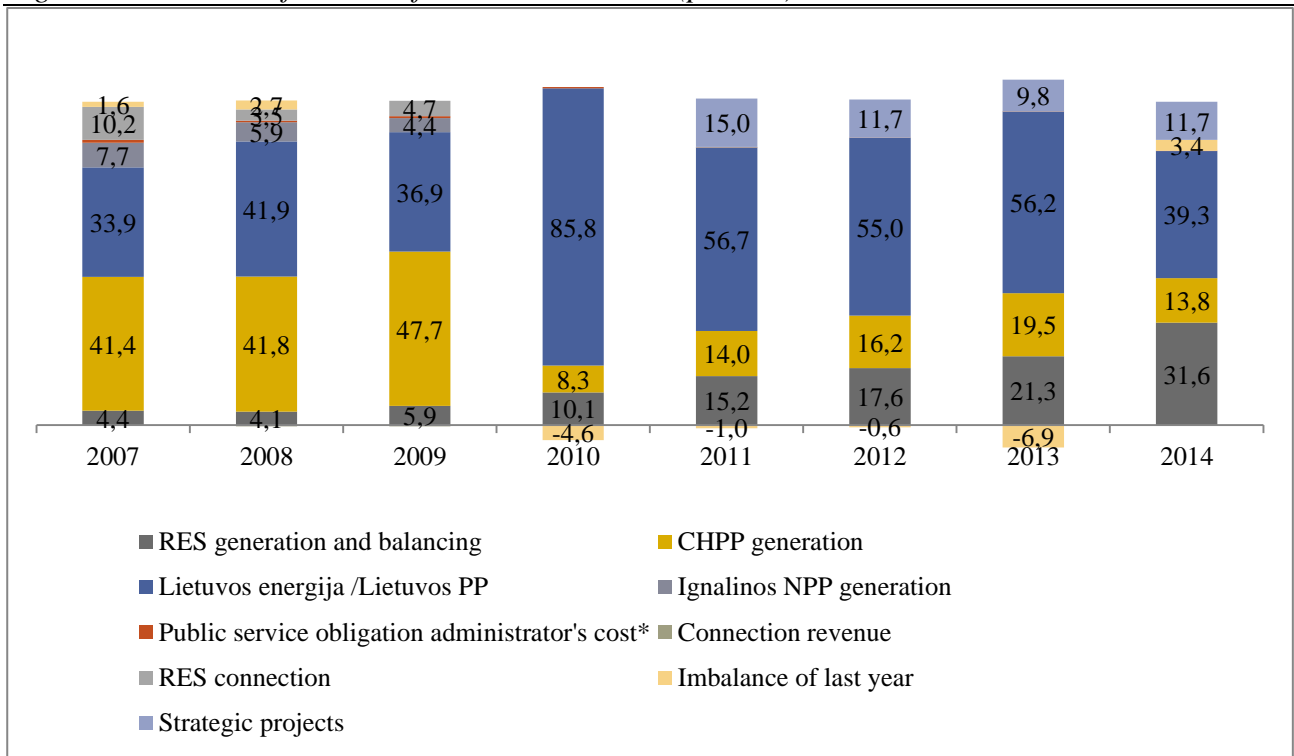


Source: NCC

Whereas the infrastructural energy components in 2014 basically remained unchanged and with the PSO price drop by 23.9 percent, from 9.38 LTct/kWh to 7.141 LTct/kWh, the price cap of the electricity price to the end-users in 2014, as compared with 2013, decreased by 6.33 percent and equals 37.78 LTct/kWh, VAT excluded.

In the structure of the PSO budget in 2014, as compared with 2013, the biggest growth was in the part assigned to the RES production and balancing – 10.3 percentage points, from 21.3 to 31.6 percent. The part of the PSO funds allocated to the power plant *Lietuvos elektrinė* decreased by 16.9 percentage points, from 56.2 to 39.3 percent, and the part of the PSO funds assigned to the combined heat and power plants decreased by 5.7 percentage points, from 19.5 to 13.8 percent.

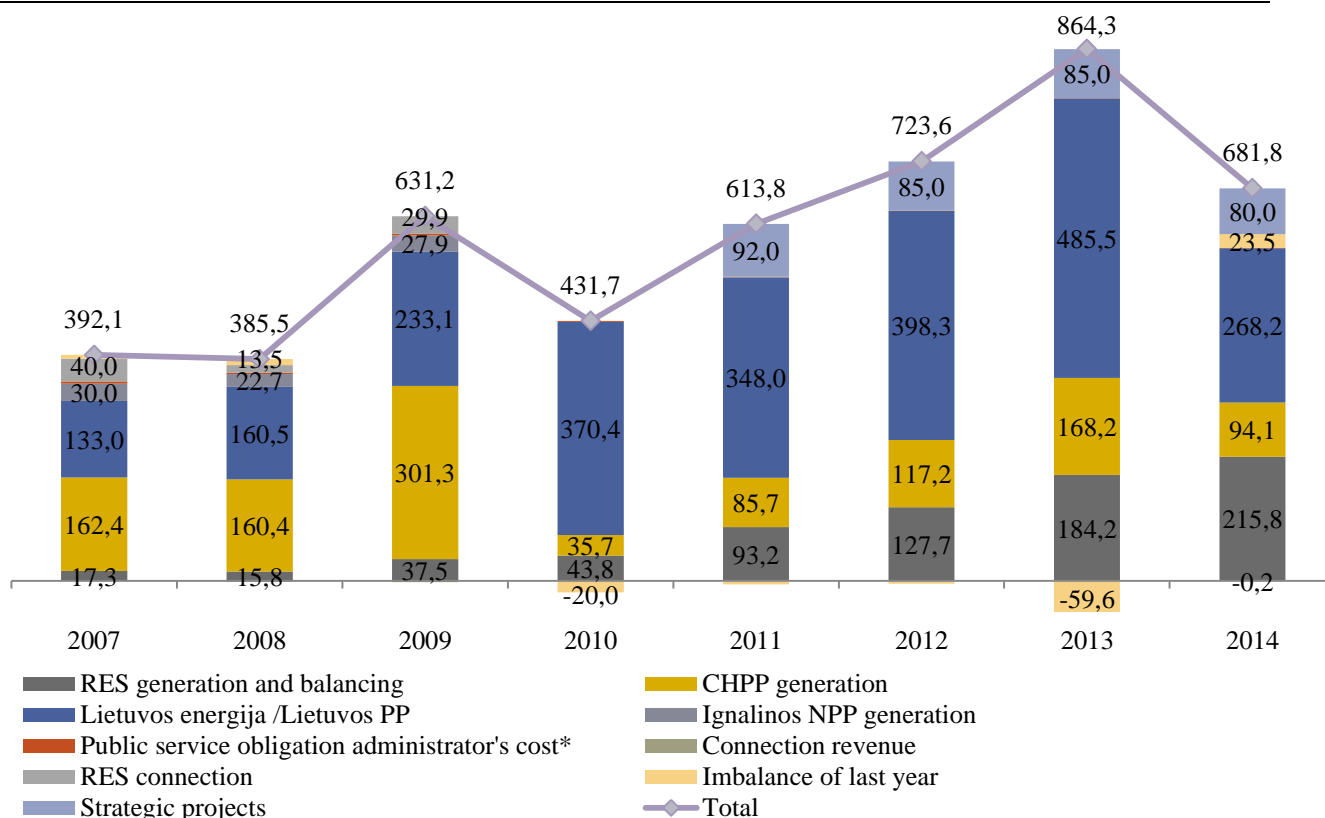
Figure 23. Structure of the PSO funds in 2007–2014 (percent)



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

According to the quantitative evaluation, in 2014, as compared with 2007, the biggest growth was in the PSO funds allocated to the power plants using the RES – 12.5 times, from LTL 17.3 million to LTL 215.8 million. The PSO allocations to the power plant *Lietuvos elektrinė* grew twice as much as in 2007, from LTL 133 million to LTL 268.2 million, and the PSO allocations to the CHP plants decreased by 42.1 percent, from LTL 162.4 million to LTL 94.1 million.

Figure 24. Structure of the PSO funds in 2007–2014, LTL million

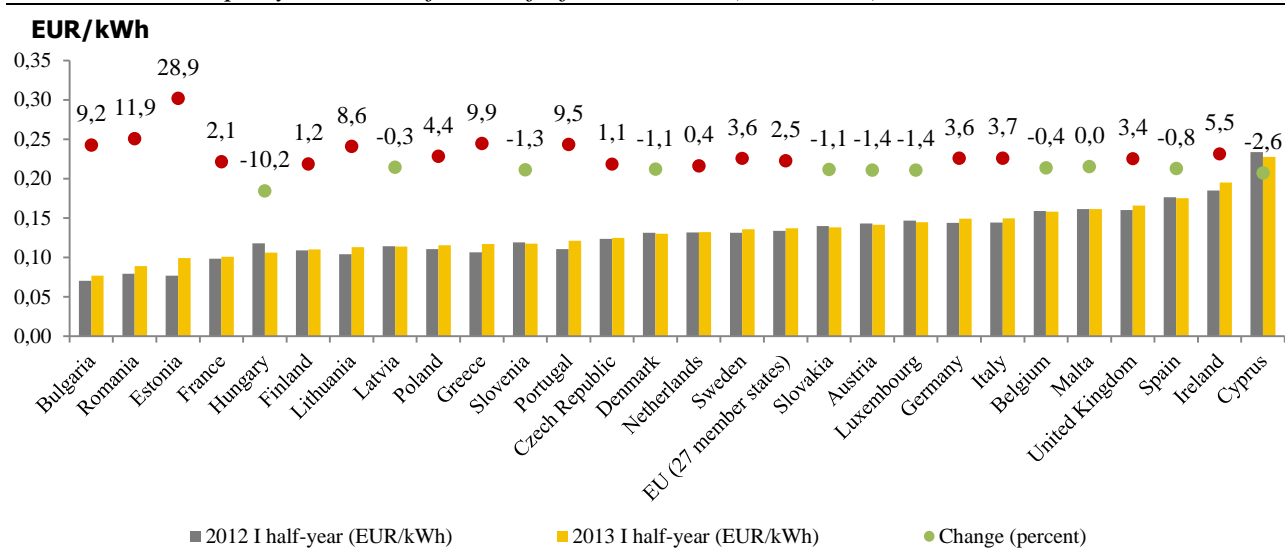


* Till 2011 – the costs of the market operator. Source: NCC

In 2007–2014, the PSO price increased 1.8 times, from 3.95 to 7.141 LTct/kWh. The biggest price drop (by 26 percent) was observed in 2010, as compared with 2009, the biggest augmentation (by 71.8 percent) was in 2009, as compared with 2008. With regard to the decrease in the demand for the PSO funds (in 2014 the price of natural gas went down and the volumes of production of the supported electricity were reduced), the PSO price in 2014, as compared with 2013, decreased by 23.9 percent, from 9.38 to 7.141 LTct/kWh.

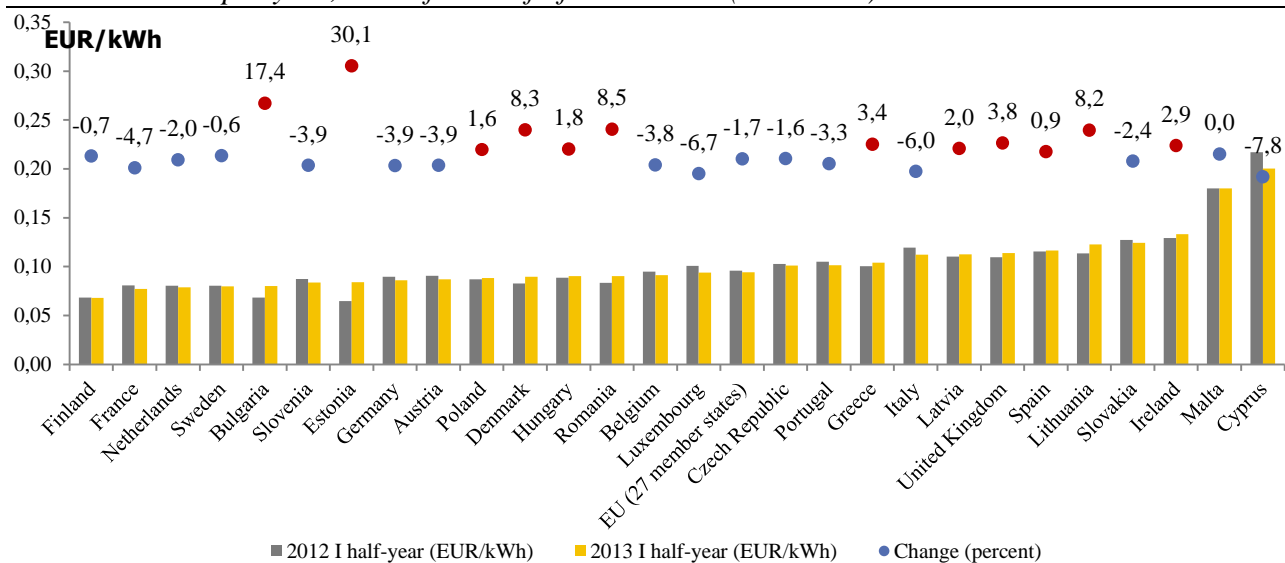
In the NCC Review of the Energy Sector Development in 2013, the comparison of prices in the EU member states was made for the household customers consuming 2500–5000 kWh per year and the non-household customers consuming 500–2000 MWh per year. As it is seen from the below Figures, the Lithuanian household customers are among those paying the lowest prices for electricity, but the commercial customers, on the contrary, fall among the customers paying for electricity at higher prices than the average in the European Union.

Figure 25. Electricity price (excluding taxes) to household customers consuming 2500–5000 kWh per year, in the first half of 2012–2013 (EUR/kWh)



Source: Eurostat

Figure 26. Electricity price (excluding taxes) to non-household customers consuming 500–2000 MWh per year, in the first half of 2012–2013 (EUR/kWh)



Source: Eurostat

It is worth mentioning that the public supplier *AB LESTO* has been acting in line with the Compliance Programme of *AB LESTO* (hereinafter - the Compliance Programme) approved by Order No 48 of 29 February 2012 of the General Director, where the respective measures and obligations to the employees have been set in order to create preconditions for the publicity of the company's activities and the information dissemination as well as other principles of the licensed activity.

The prices and tariff plans of *AB LESTO* are posted on the website www.lesto.lt, 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 new Law on Energy passed in December 2011, 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, indiscriminability and other requirements set forth in the Laws, and submits them to the Competition Council. Since 2013, the NCC has been more closely collaborating with the Competition Council on investigating the relationships and interests, which are forming in the market.

On 1 August 2013, the NCC together with the regulatory authorities of other Baltic States started the investigation of the price jump at the Electricity Exchange Nord Pool Spot on 25 June 2013. At that time the price, which was forming in the electricity trading zones of Lithuania, Latvia and Estonia equalled 35.86 LTct/kWh or 103.85 EUR/MWh. It should be mentioned that in 2013, the average market price of electricity in Lithuania was 16.55 LTct/kWh or 47.93 EUR/MWh. On 26 February 2014, the regulatory authorities provided their joint conclusion of the investigation to the ACER, which stated that the provisions of Regulation No 1227/2011 had been complied with, and the investigation was completed.

In October 2013, the NCC on its own initiative started the internal investigation on the price jump at the Power Exchange *Nord Pool Spot* in September – October 2013. The conclusions of the investigation were presented on 18 April 2014. On the basis of the analysis of the data obtained from different sources and the consistent research, it has been determined that the joint Agreement signed by the Baltic TSOs on the Rules of the Cross-border Capacity Calculations and the Capacity Allocation complies with provisions set forth in Regulation (EC) No 714/2009 and in Directive 2009/72/EC as well as with the objectives of BEMIP aimed at establishing the common, competitive and coordinated EU internal market. 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, which were submitted in the joint official letter to the TSOs.

The cooperation among the Baltic energy regulators and dissemination to the market participants of the unanimous positions or information in the form of jointly prepared documents on the implementation of the financial measures, congestion management mechanisms and the calculation and allocation of the cross-border capacities have contributed to the promotion of the effective competition.

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).

In 2012, the survey of the reserve capacity market was conducted by the decision of the NCC (for more detailed information see the Annual Report on the electricity and gas markets of the Republic of Lithuania to the European Commission 2012).

On 13 May 2013, the NCC, by passing the Resolution, started the survey of the electricity production market with an aim to investigate the efficiency of the competition in the electricity production market and to identify the market participants having the dominating position in the market. On 9 May 2014, the NCC announced the public hearing on the results of the market survey. Having completed the survey, the NCC characterised the electricity production market, evaluated its structure and concentration, the barriers for entrance to the market, potential competition, possibilities to an undertaking to apply unjustified (too high) prices, and the price pressure (too low prices). By taking into consideration the circumstances identified in the report of the survey, an entity having a dominating influence in the electricity production market – *Lietuvos energijos gamyba AB* – was pointed out, and the respective obligations were set. On 10 June 2014, the comments and proposals of the market participants were received, which at present are being reviewed. It is expected to approve the results of the mentioned survey in July 2014. The NCC is planning to conduct the survey of the independent electricity supply market in 2015.

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.

By performing the functions of supervision of the economic entities, in 2012 the NCC conducted the unplanned inspection of the activity of *LITGRID AB* as the administrator of the PSO funds, the inspection of the activity of *UAB Anvilis* regarding the adequacy of the management capacity to perform the licensed activity, the planned inspection of *UAB Elektros energijos prekyba* and the unplanned inspection of *SKY ENERGY GROUP, UAB* regarding the adequacy of the financial capacity to perform the activity of the independent supply. In addition to that, the NCC performed the evaluation of *Lietuvos energija AB* costs incurred in constructing Unit 9 of the power plant *Lietuvos elektrinė* and the final estimation of the indispensable costs of this investment, which in the year 2013 had been included in PSO. In 2013, the general inspection of the operation costs of *Lietuvos energija AB* was conducted, and in 2014, the inspections of the costs of the regulated activities and the justification of the PSO funds were started at *LITGRID AB, AB LESTO, BALTPOOL UAB*.

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 competitiveness 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 cost to the state sector LTL 11–13 billion (including the funds of the state-owned undertakings, the European Union structural funds and other international support). The additional LTL 11–14 billion would be raised from private investors. Every year these investments would enable to save LTL 3–4 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.

Pursuant to the Procedure Regulations for the Supply of Public Service Obligations in the Electricity Sector, the functions assigned to the Ministry of Energy to monitor the issues related to the security and safety of the electricity supply in the electricity sector of the country, and the functions assigned to the NCC pursuant to the Law on Electricity, which was passed in January 2012, to monitor and assess the reliability of the transmission and distribution networks, as compared with 2012, 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). More information is provided in Chapter 3.1.2.

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)

After the closure of Ignalina Nuclear Power Plant at the end of 2009, Lithuania has been importing the major part of electricity from the third countries. In 2011, this share represented 62 percent, in 2012 – 57 percent, in 2013 – 48 percent of the total electricity demand in Lithuania. According to the TSO estimation, if the presently not operated old units (2x300 MW) of the power plant Lietuvos elektrinė are included in the unutilised capacities of the power plants, in 2014–2015 the balance of the active power will not be secured. During the next few years the unutilised capacity of the power plants basically will be increasing just because of the development of the wind power plants. Taking into consideration that the operation of the old units of the power plant Lietuvos elektrinė can be resumed, in the next period the capacity balance in the system can be fully secured.

Table 16. Capacity balance in the electric power system in the period of 31 December 2012 – 31 December 2022 (MW)

Indicator	Available capacity of the power plants	Unutilised capacity of the power plants	Active power reserve	Surplus capacity	Maximum demanded capacity in the system	Balance of the system capacity
	1	2	3	4	5	6
2012.12.31	4204	1393	564	2247	1734	513
2013.12.31	4304	1453 (873***)	439	2412 (2992)	1810	602 (1182)
2014.12.31	4004*	1502 (922***)	500	2002 (2582)	1834	168 (748)
2015.12.31	3962	1150 (580***)	1099	1713 (2283)	1914	-201 (369)
2016.12.31	3802	680	1636**	1486	1969	-483
2017.12.31	3917	839	1695	1383	2022	-639
2018.12.31	3868	841	1696	1331	2076	-745
2019.12.31	3870	841	1697	1332	2128	-796
2020.12.31	3873	841	1698	1334	2177	-843
2021.12.31	3873	841	1699	1333	2226	-893
2022.12.31	3873	841	1701	1331	2273	-942

Source: LITGRID AB

Notes:

* The plans of the power plant *Lietuvos elektrinė* to terminate the operation of 2x150 MW units were taken into account.

** It is projected that since 2016 the reserve required for ensuring the system adequacy, which has been estimated by taking into account the biggest potential disturbance – the capacity of the NordBalt link, will amount to 700 MW.

*** If there is a shortage of the generating capacities to ensure the adequacy of the LPS and the underprovided capacity demand cannot be covered by using the interconnection lines, the operation of the old units of the power plant *Lietuvos elektrinė* must be resumed. In this case the unutilised capacity of the power plants is reduced by 580 MW.

It is important to note that the LPS has sufficiently strong interconnection lines with the neighbouring countries and is implementing the projects of the new interconnection lines LitPol Link and NordBalt. Under such circumstances, in any case there are technical possibilities to cover the underprovided generating capacities (if any) by the imported electricity.

Security of the operating network
Article 7 of Directive 2005/89/EC

The LPS, which for the fifth consecutive year has been importing about two thirds of electricity, is not safe, and this impacts not only the technical situation, but the economic situation as well. The country has sufficient generating capacities, however they are not competitive because of the prices of natural resources. In 2013, the projected quantity of the imported electricity equalled 16581 GWh.

Lithuania, like other countries, is facing the problem of the growing impact of electricity production by using the RES. In the country very favourable conditions for the development of this type of generation were set, but, as it has been mentioned in paragraph 3.1.2, recently the measures have been taken to restrict this impact.

In Lithuania, like in the whole Baltic region, the following problems of the network security are important:

- Balancing the unforecastable energy resources (wind, solar, biomass/biogas);
- Significant flows of surplus electricity in the Nordic countries till 2020 will have to be transported by the CEN;
- The network development may be delayed because of the insufficient transfer capability of the internal networks, if the goals of supporting the renewable energy resources will be implemented as planned;
- Uncertainties regarding the market development at the border between the European Union and the Russian Federation;
- Big uncertainty regarding the investments in the generation capacities is a challenge to the network development;
- Energy flows in the North-South direction in all Baltic States.

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 interconnection line with Sweden – NordBalt

The cross-border electricity transmission line NordBalt is the 700 MW capacity 300 kV direct current electricity cable from the 330/110/10 kV Klaipėda transformer substation (hereinafter – the TS) to the 400 kV Nybro TS (Sweden) and the converter stations connected to these transformer substations. This link will connect the electricity transmission infrastructures of Lithuania and Sweden and will create possibilities for trading in electricity, and in 2016 it will enable to fully complete the integration of the Baltic and North Europe electricity markets.

The Cooperation Agreement for implementing the NordBalt project signed in 2010 between Lithuanian and Swedish TSOs provides that the cooperation between the parties will cover the

designing and construction stages, and the infrastructure developed in constructing the link will be separately owned by the parties – the TSO of Lithuania will own the converter station in Klaipėda TS, the cable from Klaipėda TS to the sea and 50% of the undersea cable. The respective part of the cable and the infrastructure of the interconnector on the side of Sweden will be owned by the Swedish TSO. The European Union allocated EUR 131 million (LTL 452.3 million) to finance the NordBalt project and the remaining part of EUR 205 million (LTL 707.8 million) will be financed from the mechanism of the PSO price.

The main technical parameters of the link:

- The 300 kV direct current (HVDC) undersea power optic cable. The cable length – 397 km;
- The 300 kV direct current (HVDC) underground power optic cable (on the Lithuanian side). The cable length – 13 km;
- The 300 kV direct current (HVDC) underground power optic cable (on the Swedish side). The cable length – 40 km;
- The link's capacity: 700 MW (in the AC network of the country, which is receiving energy);
- The converter technology – VSC (Voltage Source Converter), manufacturer – ABB;
- The estimated service life – 30 years;
- The estimated project cost – EUR 552 million.

Figure 27. Diagram of the interconnection line Lithuania – Sweden



The works completed in 2013:

- The documents permitting the construction of the cable line and the converter station were obtained;
- The archaeological survey in the cable route on the Lithuanian side was completed;
- The manufacturing of the undersea cable is in progress (manufactured approx. 300 km);
- The preparation of the detailed design of the converter station is in progress;
- The preparatory works were completed (horizontal drilling) to install the cable under the Curonian Lagoon and on the shore of the Baltic Sea.

The interconnection link with Poland – LitPol Link

The cross-border electricity transmission line LitPol Link is the high voltage 400 kV double circuit electricity transmission line from Alytus to Elk (Poland), the back-to-back station in Alytus as well as the reconstruction and upgrading of the transformer substations in Alytus and Elk. The link will interconnect the electric power systems of Lithuania and Poland, as well as the electric power systems of the Baltic States and Continental Europe, will create conditions for trading in

electricity, and will enhance the security of electricity supply in Lithuania. This is the first stage of the project for synchronous connection to the CEN.

To interconnect the electric power systems of Lithuania and Poland, 163 km of the high voltage 400 kV double circuit electricity transmission line will be installed from Alytus to Ełk (Poland), and the back-to-back station in Alytus will be constructed. 51 km of the line will be installed in Lithuania, in the territory of Alytus and Lazdijai Districts. To secure the cross-border flows, it is also necessary to upgrade the electricity transmission network in Lithuania and in the North-East part of Poland.

It is being planned to complete the first stage of the project (the double circuit line with the transfer capability of no less than 1000 MW and the 500 MW back-to-back station) in 2015, and the second stage (the development of the internal network in Poland by ensuring the transfer capability of no less than 1000 MW and the second 500 MW back-to-back station) – in 2020. The 500 MW back-to-back station, which is planned to be constructed in 2016, after the completion of the project for the synchronous operation of the Baltic States with the CEN, would be readjusted for radial operation to the Grodno (Belarus) 330 kV line.

The main technical parameters of the Link:

- The high voltage double-circuit 400 kV overhead power line from Ełk (Poland) to Alytus (Lithuania).
 - The length of the power line – approx. 163 km. Approx. 51 km of the line will be installed in Lithuania (Alytus and Lazdijai Districts of Alytus County) and approx. 112 km in Poland (Podlaskie and Warmińsko-Mazurskie Voivodships);
 - The back-to-back station in Alytus;
 - The capacity of the link – 1000 MW (500 MW in 2015, 1000 MW in 2020, after completing the second stage of construction of the converters);
 - The estimated cost of the project – LTL 1.28 billion (Lithuania's contribution – approx. LTL 600 million).

The projected works of the line construction on the Polish side:

- The 400 kV line from the Lithuanian border to Ełk TS (~112 km);
- The additional double-circuit 400 kV line Ełk–Łomża (~95 km);
- The single-circuit 400 kV line Narew–Łomża and the double-circuit line Łomża–Ostrołęka (total length – ~119 km);
 - The 400 kV TS in Łomża;
 - The reconstruction of two 220 kV TS (in Ełk and Ostrołęka) by constructing two 400 kV switchyards;

After such development of the transmission network, in 2016–2020 Poland will be able to import from Lithuania up to 500 MW.

The works projected on the Polish side in the following stage of the project:

- To construct the 400 kV double-circuit line Ostrołęka–Olsztyn–Matki (~140 km), where one circuit will be operated at 220 kV voltage;
- To construct the 400 kV substation in Stanisławów, by connecting the lines Milosna–Narew, Milosna–Siedlce;
- To construct the 400 kV double-circuit line Stanisławów – Ostrołęka (~106 km, instead of the existing 220 kV line Milosna– Ostrołęka);
- To construct the 400 kV double-circuit line Plock–Olsztyn–Matki (~170 km);
- To reconstruct the 400 kV double-circuit line Milosna–Stanisławów;
- To reconstruct the 400 kV single-circuit line Stanisławów–Narew;
- To install the second 400/110 kV transformer in the Ełk substation.

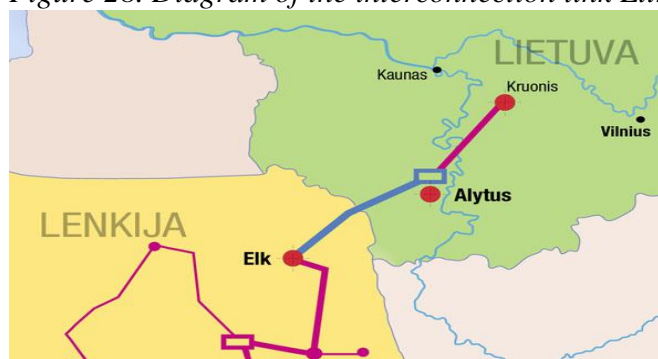
After such development of the transmission network, the capacity exchange up to 1000 MW will be possible between the electric power systems of Poland and Lithuania.

The works projected and in progress on the Lithuanian side:

- The construction of the double-circuit 400 kV line from Alytus to the Polish border (~51 km);

- The construction of the 400 kV switchyard in Alytus transformer substation;
- The installation of the 500 MW back-to-back station in Alytus transformer substation;
- The reconstruction and upgrading of the Alytus TS 330 kV switchyard;
- The construction of the 330 kV double-circuit line Kruonis–Alytus (~53 km);
- The construction of the 330 kV transmission line Kruonis–Visaginas NPP (~200 km).

Figure 28. Diagram of the interconnection link Lithuania – Poland



This project is necessary to integrate the electric power systems of the Baltic States with those of Continental Europe and to develop a single European electricity market. After the completion of the project, the Baltic Ring connecting the electric power systems of Lithuania, Latvia, Estonia, Finland, Sweden, Norway, Denmark, Poland and Germany will be finished. The LitPol Link project is included in the list of the PCI among the priority energy projects of the European Union.

The works completed in 2013:

- In February 2013, a contract for the designing and construction works of the back-to-back station was concluded;
- In February 2013 the technical design of the Alytus TS 330 kV switchyard was completed;
- In March 2013, the technical design for the 400 kV line was completed;
- In April 2013, a permit for the construction of the Alytus TS 300 kV switchyard was obtained;
- In April 2013, the public procurement procedures for the reconstruction of the Alytus TS 300 kV switchyard and the construction of the transmission line were started;
- In May 2013, a permit for constructing the transmission line was received;
- In June 2013, the reconstruction of Alytus TS 110 kV switchyard was started. These preparatory works are necessary for further reconstruction of the substation;
- In September 2013, the contract for the reconstruction of the Alytus TS 300 kV switchyard was signed;
- In November 2013, the last Contract Agreement within the framework of LitPol Link project was signed for constructing the 400 kV transmission line from Alytus TS to the Lithuanian – Polish border;

In December 2013, the permit to construct the most important facility of the link – the back-to-back station – was obtained. It should be noted that the financing of the project has not been raised yet and at present the efforts are being made to obtain the financing in line with Regulation (EU) 347/213, as the project has been included in the PCI list.

Construction of the 330 kV line Kruonis PSPP – Alytus

The works completed in 2013:

- The preparation of the territorial planning documents (the special plan) and the assessment of the impact of the planned economic activity on the environment were started;

- In July 2012, the Strategic Environmental Impact Assessment (SEIA) Report and the Environmental Impact Assessment (EIA) Programme were approved;
- In October 2012, the public presentation of the EIA Report was started;
- In October 2012, the preparation of the special plan was started;
- In August 2013, the EIA Report was approved;
- In August 2013, the plans of the servitude easements, the acts of the compensation calculations were prepared;
- In October – December 2013, the public dissemination of the solutions of the special plan;
- In December 2013, the final meetings – conferences on the special plan were arranged;
- In February – March 2014, the revision and approval of the special plan;
- August 2013 – April 2014, the negotiations with the owners of the land plots, 53 percent of the servitude easement agreements were signed;
- In March 2014, the inspection protocol was received from the State Territorial Planning and Construction Inspectorate;
- In February 2014, the Order of the Minister of the Environment was passed on the revision of the layout of the forest areas of the state significance.

The 330 kV OHL line Klaipėda–Telšiai

This project is important for the integration of the Lithuanian electric power system with European electricity systems and the electricity market, namely – for the interconnection link with the electric power system of Sweden. For this purpose it is necessary to substantially strengthen the electricity transmission network in Klaipėda region. The line Klaipėda-Telšiai will also enhance the security of the Lithuanian electric power system.

General information about the project:

- The 330 kV overhead line, planned to be installed via Klaipėda, Plungė and Telšiai Districts;
- The length of the route – 89 km;
- The transmitted capacity – 900 MW (1650 A);
- The scheduled commissioning into operation – in 2014.

The works completed in 2013:

- 75 % of supports, wires, and OPGW cable were installed in Klaipėda, Plungė, Telšiai Districts.

Reconstruction of the 330/110/10 kV Klaipėda transformer substation

The reconstruction of the 330/110/10 kV Klaipėda transformer substation is necessary in order to increase the reliability of the LPS operation, which is one of the conditions for Lithuania in constructing the electricity transmission lines to Sweden and Poland, therefore the project will also increase the energy independence of the country from the neighbouring countries. After the reconstruction of the substation, it will be equipped for the connection of the electricity transmission lines Klaipėda–Telšiai and Lithuania–Sweden, which presently are under construction. The reconstruction of the substation will also improve the reliability of electricity supply to the Western part of Lithuania, which has few electricity generation sources.

The project is co-financed by the European Regional Development Fund under the EU Economic Action Program, Priority 4 Essential Economic Infrastructure, Implementation measure Modernization and Development of Electricity Transmission.

It is planned to replace all equipment of the substation with the new one by the end of 2014.

The works completed in 2013:

- The 330 kV line 324 (Grobinės) was installed, along with 110 kV switchyard and 10 kV switchgear equipment;
- The works of the bus bars installation were completed;

- The 330 kV autotransformer AT-1 was installed;
- The tranches of the control cable were installed;
- The control cables were installed and energised;
- The equipment commissioning works were completed within the scope of the 1st stage of the reconstruction;
- The infrastructure networks and the ground circuit were installed;
- The road construction and asphalt coating works were completed;
- The 330/110kV OHL supports were installed.

Reconstruction of the 330/110/10 kV Panevėžys transformer substation

The reconstruction of the 330/110/10 kV Panevėžys transformer substation is necessary in order to increase the reliability of the LPS operation, and this is one of the conditions for Lithuania in constructing the electricity transmission lines to Sweden and Poland, therefore the project will also increase the energy independence of the country from the neighbouring countries.

After the reconstruction of this substation, the reliability of supply to the Western part of Lithuania, where there are almost no electricity generation sources, will be enhanced. The project is co-financed by the European Regional Development Fund under the EU Economic Action Program, Priority 4 Essential Economic Infrastructure, Implementation measure Modernization and Development of Electricity Transmission. It is planned to replace all equipment of the substation with the new ones by the end of 2014.

The works of the 2nd reconstruction stage, which were completed in 2013:

- The 330 kV Jonava branch was reconstructed, and the bus bars Š-301 and Š-302 were fully refurbished ;
- The following 110 kV branches were reconstructed: Velžys1, Ekranas 2, Krekenava1, Velžys 2, Savitiškis, Stiklas;
- On the 110 kV side, the breaker cells TS-124, TS-113 and the bus bars Š1-110 and Š2-110 were installed;
- The lead-in of the autotransformer AT-1 to in 110 kV side of the switchgear was installed.

Reconstruction of the 110 kV switchyard in the 330/110/10 kV Šiauliai TS

The works completed in 2013:

- The installation works were completed in the cells AT-2-2, AT-2-3, Gubernija 2 and Meškuičiai, by using the 110 kV old disconnectors with supports, which were dismantled from the cells Gubernija-2, Meškuičiai and TS-100 in the old switchyard;
- The commissioning and installation works were completed;
- A new double-circuit terminal tower was constructed for the lines Šiauliai–Meškuičiai and Šiauliai–Gubernija 2. The lines Šiauliai–Meškuičiai and Šiauliai–Gubernija 2 were connected to the cells of the new switchyard. The lines were energised and launched into operation;
- A new double-circuit terminal tower was constructed for the Rėkyva and Radviliškis lines. The Rėkyva and Radviliškis lines were connected to the cells of the new switchyard. The lines were energised and launched into operation.
- A new double-circuit terminal tower was constructed for the Kuršėnai–1 and Kelmė lines. The Kuršėnai–1 and Kelmė lines were connected to the cells of the new switchyard. The lines were energised and launched into operation;
- A new single-circuit terminal tower was constructed for the Kuršėnai–2 line. The line Kuršėnai–2 was connected to the new cell. The line was energised and launched into operation.

Pursuant to the provisions of the Law on Energy, the NCC is committed to assess the justification of the investments to be made by the electricity undertakings. If the investments of the electricity undertakings have not been coordinated with the NCC, they cannot be recognized as the justified ones and are not calculated in the price caps.

Pursuant to the NCC Procedure Regulations for the Evaluation and Approval of the Investments of the Energy Undertakings, the TSO has to coordinate the individual investments the

value whereof is equal to or above LTL 12 million, the DSO has to coordinate the individual investments the value whereof is equal to or above LTL 5 million.

The investments of *LITGRID AB* for the next three-year period are shown in the Table.

Table 17. Investments by the transmission system operator in 2014–2016

Indicators		2014	2015	2016
Planned investments, million	LTL	344.1	273.7	741.6

Source: LITGRID AB

The electricity DSO *AB LESTO* focuses the company's attention to the development and modernisation of the distribution network. In 2013, the company's investments were as high as LTL 306 million. In 2013, the company connected the facilities of 20649 new customers. The available capacity assigned to the new customers equalled 297.4 MW.

In 2013, the company continued buying-out the electricity networks of the gardeners' partnerships. During 2013, the company bought out the electricity networks of 19 gardeners' partnerships. Since the beginning of the buying-out process in 2003, the company has bought out 934, or 97% of the total electricity networks located in the gardeners' partnerships.

On 27 December 2013, the implementation of the Financing and Administration Agreement of the Project for the Modernisation and Development of *AB LESTO* Distribution Network – the Electrification of Rural Homesteads, which on 29 March 2012 had been signed among the Company, the Ministry of Economy of the Republic of Lithuania and the Lithuanian Business Support Agency (hereinafter – LBSA) was completed. The subject of the Agreement – the technical works for connecting 31 non-electrified homesteads to the electricity network in the Western part of Lithuania. For this purpose, 29.26 km of the electricity supply lines were constructed and 16 transformer stations were installed.

On 10 October 2013, the implementation of the Financing and Administration Agreement of the Project for the Modernisation of the Electricity Distribution Network of the Public Limited Liability Company *VST*, which on 19 November 2009 had been signed among the Company, the Ministry of Economy of the Republic of Lithuania and the LBSA, was fully completed. The subject of the Agreement – the construction of the new transformer substations, distribution centres, and the replacement of the overhead electricity supply lines with the underground cable lines, the reconstruction of the distribution networks, the expansion of the SCADA information system. To accomplish this goal, 5 transformer substations were newly constructed or refurbished, 46.27 km of the power lines were newly installed, the reliability of the electricity supply was improved to 27 thousands electricity consumers.

By implementing the Financing and Administration Agreement of the Project for the Modernisation and Development of *AB LESTO* Distribution Network in the Sites of the Gardeners' Partnerships, which on 29 March 2012 had been signed among the Company, the Ministry of Economy of the Republic of Lithuania and the LBSA regarding the modernisation and development of the electricity networks located in 76 gardeners' partnerships in the territory serviced by *AB LESTO*, in 2013 the electricity distribution network modernisation and development works were completed in 30 gardeners partnerships. The amount allocated for financing the project from the EU structural funds – up to LTL 9.147 million.

By implementing the Financing and Administration Agreement of the Project for the Replacement of *AB LESTO* Overhead Lines with the Cable Lines (36 sites), which on 28 December

was signed among the Company, the Ministry of Economy of the Republic of Lithuania and the LBSA, in 2013 the electricity distribution network modernisation and development works were fully completed in 26 sites. The amount allocated for financing the project from the EU structural funds – up to LTL 5.408 million.

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 2013, in Lithuania the maximum hourly electricity demand (net) was 1810 MW, i.e. by 2.6 percent less than in 2012 (1859 MW).

The volume of the currently transmitted electricity and the volume of electricity projected to be transmitted 10 years ahead (in 2013–2022) are shown in the Table.

Table 18. Forecasted electricity demand 10 years ahead

Year	Electricity demand (including network losses) by scenarios, TWh		
	Actual/Basic	Optimistic	Pessimistic
2013	10.59		
2014	10.80	10.90	10.74
2015	11.10	11.30	11.00
2016	11.38	11.67	11.22
2017	11.65	12.04	11.43
2018	11.91	12.42	11.63
2019	12.16	12.79	11.82
2020	12.40	13.14	11.99
2021	12.62	13.49	12.15
2022	12.84	13.84	12.29

Source: LITGRID AB

In 2013, the maximum hourly electricity demand at *AB LESTO* was 1542 MW, and in January–April 2014 – 1639 MW. For comparison, the maximum hourly electricity demand in 2012 was 1618 MW.

In 2013, *AB LESTO* transported 8.9 million kWh of electricity, including the technological losses and auxiliary consumption. The quantity of electricity to be transported in 2014–2016 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 2014, the forecasted GDP growth in Lithuania in 2014 – 2016 will be 3.4 %, 4.3 % and 4 % (½ of the GDP growth respectively equals 1.7 %, 2.15 % and 2 %).

In 2013, *AB LESTO* supplied 3.06 million kWh of electricity, in this quantity 2.58 million kWh was the public supply of electricity, and 0.48 million kWh – the guaranteed supply of electricity. The quantity of electricity planned to be supplied to the public consumers in 2014–2016 has been forecasted on the basis of the mentioned assumptions.

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.

The Plan of the TSO Preparedness for the Emergency Situation in the Energy Sector consists of the instructions, procedures and other documents which have been prepared by the operator. The constituent parts of the Plan are:

1. The procedure regulations for disseminating information about the extraordinary or emergency events, their examination and accounting;
2. The black start plan of the Lithuanian electric power system after the black-out;
3. The instructions on the liquidation of accidents and technological failures;
4. The instructions on the liquidation of accidents and technological failures for the dispatch control group of the Eastern region;
5. The instructions on liquidation of accidents and technological failures for the dispatch control group of the Western region;
6. The procedure of the customers' disconnection or limitation of supply;
7. The instructions for providing information about the customers' disconnection or limitation 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 2013, *AB LESTO* did not disconnect or limit the supply to any customer because of the shortage of the distribution capacities.

Pursuant to Item 13 of the Procedure Regulations, to avoid an emergency situation in the electric power system or to expediently liquidate such situation if it does occur, the operator every year, by October 13 has to draw up the following schedules and to inform the customers included in the schedules of the electricity transportation interruption or limitation about:

1. The schedules of the emergency disconnection of the customers, which are drawn up to avoid or to liquidate the accident in the electricity transmission system or in the distribution network (Item 13.1);
2. The schedules of the limitation of the customers' utilised electric capacity, which are drawn up to avoid the emergency situation when in the Lithuanian electric power system there is a shortage of the generation capacities, and there are no possibilities to use the capacity reserves of other power systems (Item 13.2);
3. The schedules of the limitation of electricity supply to the customers, which are drawn up to avoid the emergency situation when due to unforeseen circumstances there is a shortage of fuel for electricity generation in the Lithuanian electric power system and at that particular time there are no possibilities to deliver fuel to the site of electricity generation and no possibilities to use the electricity generation sources of other power systems (Item 13.3).

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 adopted the Law Amending the Law on Natural Gas of the Republic of Lithuania (hereinafter - the Law on Natural Gas) and Law Implementing the Law Amending the Law on Natural Gas (hereinafter - the Law Implementing the Law on Natural Gas). These laws took effect on 1 August 2011.

The Law on Natural Gas was drawn up in the implementation 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 - the Directive 2009/73/EC) and Regulation (EU) No. 994/2010 of the European Parliament and of the Council of 11 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

The Law on Natural Gas provides for the unbundling of natural gas transmission activity from the natural gas production and supply activities, unbundling the ownership of the transmission system and/or transmission system operator from natural gas companies engaged in the production and/or supply activity. Decisions regarding the use of assets needed for maintenance, supervision or development of the system shall be carried out independently by transmission, storage, distribution or LNG system operators. The Law on Natural Gas provides for requirements for unauthorized control by transmission system operator or transmission system.

The Government of the Republic of Lithuania, abiding by the provisions of the Law on Natural Gas, by its Resolution No 1239 as of 28 October 2011 approved the plan for implementing the unbundling of the activities of the natural gas companies, which do not comply with the requirements of the Law, and for control over them. Pursuant to this Plan, natural gas companies noncompliant with the provisions of the Law on Natural Gas had to choose a method for the unbundling of the natural gas transmission activity and control: either by rearranging the control of natural gas companies, or by reorganizing (unbundling) natural gas companies. The NCC was obligated to supervise the efficient unbundling of the relevant activities by assuring independence of the transmission and distribution activities from the commercial interests

In Lithuanian there is only one natural gas undertaking not complying with the requirements of the Law on Natural Gas – *AB Lietuvos dujos* involved in the activities of natural gas transmission, distribution and supply.

The General Meeting of Shareholders of *AB Lietuvos dujos* held on 28 May 2012 decided to unbundle the transmission activity and to establish a new company on the basis of assets, rights and obligations attributed thereto.

The Board of Directors of *AB Lietuvos dujos* approved the Description of the Methods for the Unbundling and Control of Gas Transmission and Distribution Activities (hereinafter - the Description) with the Action Plan for the unbundling of *AB Lietuvos dujos* by establishing a new transmission system operator (hereinafter - the Transmission Plan) and the Action Plan for the Reorganization of *AB Lietuvos dujos* Activities by establishing a New Distribution System Operator Subsidiary (hereinafter - the Distribution Plan).

By implementing the Transmission Plan and following the deadlines indicated therein, on 30 January 2013, *AB Lietuvos dujos* submitted to the NCC its Unbundling Conditions. At the same time the Evaluation Report of the Unbundling Conditions prepared by audit company *UAB Grand Thornton Rimess* and Resolution of the Board of Directors of *AB Lietuvos dujos* of 30 January 2013 On the Approval of Unbundling Conditions were presented to the NCC. The Unbundling Conditions provided that the part of the transmission activity shall be separated from *AB Lietuvos dujos*, and on the basis thereof a new undertaking *AB Amber Grid* having the same legal form is established. The remaining part of *AB Lietuvos dujos* will continue the supply and distribution

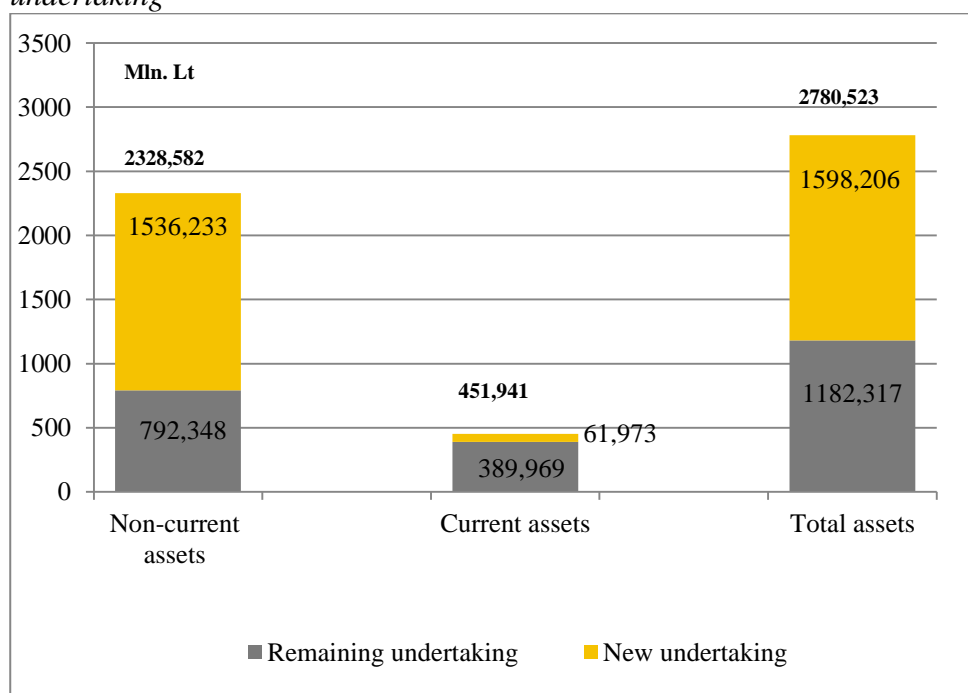
activities. The Company continuing its activities shall transfer to the newly established undertaking the transmission activity as the totality of assets, rights and obligations, at the same time reducing its authorized capital, while in return shareholders shall receive the newly issued shares of the new company in proportion to the held shares of *AB Lietuvos dujos*. Having received the ownership of the transferred assets, the new undertaking shall account for the cost of acquisition of the assets at the value of the cost of acquisition of these assets before the transfer thereof. The newly established undertaking shall also continue calculating depreciation (amortization) of the transferred assets as this was done by the undertaking having transferred the assets. The total number of shares and the amount of authorized capital shall remain unchanged.

The Unbundling Conditions specified the total nominal value of all shares of *AB Lietuvos dujos*, the company's shareholder structure, the amount of authorized capital of the new company as well as the number of shares and their nominal value of the undertaking continuing activities after the unbundling, on the day of conclusion of the Unbundling Conditions. Shares of the new undertaking and the undertaking continuing activities after the unbundling shall be distributed to all shareholders in proportion to the total authorised capital of *AB Lietuvos dujos*.

On 1 January 2002, an initial spin-off balance sheet of the company's activities was prepared in accordance with the Description of the Procedure for the Accounting of *AB Lietuvos dujos* Activities, where assets, obligations and equity of the company were attributed to respective activities for the first time. From the conclusion of the initial spin-off balance sheet up until now the assets, obligation and equity of the undertaking, also its revenue and costs have been accounted by activities, pursuant to the Description of the Procedure for the Accounting of *AB Lietuvos dujos* Activities approved by Resolution No. 03-363 of the NCC *On the Description of the Procedure for the Accounting of AB Lietuvos dujos Activities* of 28 October 2011.

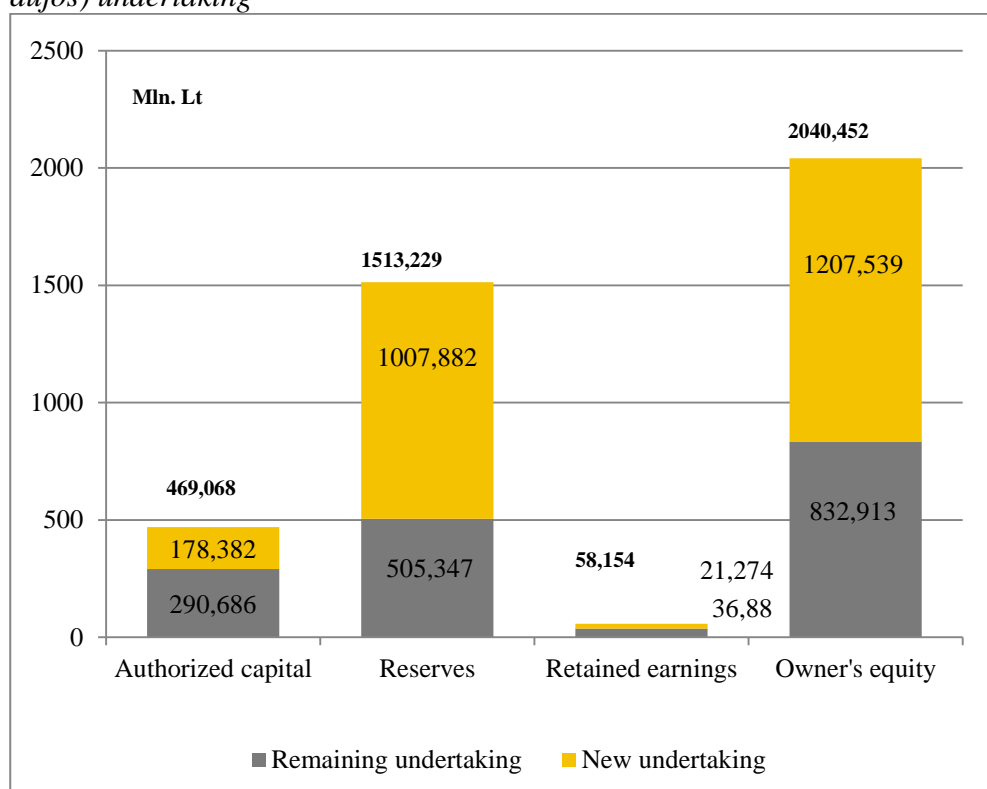
AB Lietuvos dujos presented a spin-off balance sheet drawn up on 31 October 2012 as an Annex to the Unbundling Conditions. It reflected the balance sheet data before the unbundling, i.e. the state of assets, equity and liabilities of *AB Lietuvos dujos* as of 31 October 2012 and a share of assets, equity and liabilities attributed to the new company and the company continuing activities after the unbundling as of 31 October 2012.

Figure 29. Asset allocation between the new (*AB Amber Grid*) and remaining (*AB Lietuvos dujos*) undertaking



Source: NCC

Figure 30. Allocation of equity between the new (AB Amber Grid) and the remaining (AB Lietuvos dujos) undertaking



Source: NCC

In the implementation of the requirements of the Law on Natural Gas and related legislation implementing provisions of the Third Energy Package concerning the unbundling of the ownership and control of natural gas transmission activity from the supply and production activities, the NCC examined the Unbundling Conditions presented by *AB Lietuvos dujos*, and determined by its Resolution No. 03-64 on the Unbundling Conditions of *AB Lietuvos dujos* and Composition of Assets Transferred to the TSO of 28 February 2013 that:

- The unbundling of *AB Lietuvos dujos* transmission activity is performed in line with the deadlines set forth in the Action Plan of the undertaking;
- The Unbundling Conditions of *AB Lietuvos dujos* allow for proper implementation of the unbundling of natural gas transmission activity so that *AB Lietuvos dujos* had legally, functionally and in the organisational aspects unbundled the natural gas transmission activity from the supply activity by 31 July 2013;
- The composition of the assets transferred to the company to be engaged in the natural gas transmission activity has been in line with asset allocation principles stipulated in the Description on Procedure Regulations on Accounting the Activities of *AB Lietuvos dujos* and approved with the NCC on 28 October 2011, as well as the investments approved with the NCC on 9 October 2012.

The newly established undertaking *AB Amber Grid* took over all rights and responsibilities of *AB Lietuvos dujos* related to the natural gas transmission activity. On 1 July 2013, *AB Amber Grid* submitted an application to the NCC to issue a temporary natural gas transmission license as from 1 August 2013.

The NCC has decided:

- By Resolution No 03-311 as of 18 July 2013, from 1 August 2013 to withdraw the license of the natural gas transmission activity issued to *AB Lietuvos dujos* on 17 December 2001;

– By Resolution No 03-292 as of 18 July 2013 to issue a temporary natural gas transmission license to *AB Amber Grid* to be valid till the date of the NCC decision on the certification of the natural gas TSO;

– By Resolution No 03-259 as of 27 June 2013 to apply for *AB Amber Grid* the price cap of the transmission service which had been set to *AB Lietuvos dujos* – LTL 44.26 per thousand m³ (VAT excluded) from the effective date of the license issued to *AB Amber Grid* till 31 December 2013 and the additional and integral component to the natural gas transmission price cap (the supplementary price component of the Liquefied Natural Gas Terminal (hereinafter – the LNG terminal) aimed to compensate the costs of construction of the LNG terminal, its infrastructure and the link – 37.53 LTL/thousand m³ (VAT excluded) in 2013.

As from 1 August 2013, the new undertaking *AB Amber Grid* started to carry out the natural gas transmission activity, i.e. *AB Lietuvos dujos* fulfilled the instruction of the NCC enshrined in its Resolution No 03-145 *on the Action Plans of the Unbundling of AB Lietuvos dujos Transmission and Distribution Activities and Control* of 15 June 2012 to unbundle the natural gas transmission and distribution activities and control in compliance with the methods and deadlines specified in the Transmission Plan, so that *AB Lietuvos dujos* had its natural gas activities legally, functionally and organizationally unbundled no later than by 31 July 2013; and the unbundling of activities and control carried out no later than by 31 October 2014 as well as methods and deadlines indicated in *the Distribution Plan* to have legal, functional and organisational unbundling of the distribution activity completed no later than by 31 October 2014.

By implementing the provisions of the Resolution of 15 June 2012, *AB Lietuvos dujos* presented to the NCC an investment project *Investments in Unbundling the Distribution System Operator (DSO) and Establishment a New Undertaking*. Having looked at the investment project, the NCC approved by its Resolution No 03-446 of 11 October 2013 the investment project submitted by *AB Lietuvos dujos*, which valued LTL 2 240 thousand, and obliged the company to submit to the NCC documents substantiating its actually incurred expenses related to the implementation of this project within 30 days after the implementation of the approved investment project.

By implementing the requirements of the Law on Natural Gas, on 27 March 2014 the Board of Directors of *AB Amber Grid* approved the *Preliminary Plan for Implementing the Unbundling* of the *AB Amber Grid* control, whereby it was envisaged to address to the NCC regarding its consent to the transaction to be made for reorganizing the control.

Article 3, Paragraph 2 of the Law on Natural Gas indicates that before concluding a transaction on attaining the compliance with unbundling requirements enshrined in Chapter 8 of the Law on Natural Gas „Unbundling of Activities and Accounts“, if control established in Article 41 of the Law on Natural Gas changes or can change (emerge, disappear, decrease, increase) as a result of such a transaction, natural gas companies noncompliant with the requirements of Law on Natural Gas shall receive an approval of the NCC.

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 company's shares from *E.ON Ruhrgas International GmbH*. By implementing the requirements of the Law on Securities, *UAB EPSO-G* by 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.

The assessment of the transaction is an interim procedure of proper unbundling of activities, which will affect the decision-making of the NCC on the certification of the transmission system operation, assessing mutual control relations between companies engaged in natural gas and electricity production, supply and transmission activities. The NCC analyzed the submitted information and found out that the concluded transaction will diminish the controls 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 of the Law on Natural Gas

„Unbundling of Activities and Accounts“. The NCC decided by Resolution No O3-125 as of 9 May 2014:

1. Approve the transaction for the transfer of the shares to be concluded between *UAB EPSO-G* and *E.ON Ruhrgas International GmbH*, and the planned acquisition of the shares by its subsequent transactions in the procedure stipulated by the Law on Securities;

2. Establish that the concluded transaction by *UAB EPSO-G* and *E.ON Ruhrgas International GmbH* and the planned subsequent transactions cannot make any impact on the prices of the regulated services;

3. Obligate *AB Amber Grid* in case of a change of transaction conclusion-related circumstances, which would result in the fact that proper implementation the unbundling requirements prescribed by Chapter 8 Unbundling of Activities and Accounts of the Law on Natural Gas would no longer be ensured, to inform the NCC no later than within 5 working days from the change of these circumstances.

By implementing *the Distribution Plan*, on 20 April 2014, *AB Lietuvos dujos* informed the NCC that on 30 October 2013 the Board of Directors of the company made a decision to establish a natural gas distribution system operator (hereinafter - DSO) subsidiary with a minimum capital of LTL 1 million, and instructed the Board of Directors to prepare incorporation documents of the DSO subsidiary and present them to the Board of Directors of the Company by 1 April 2014.

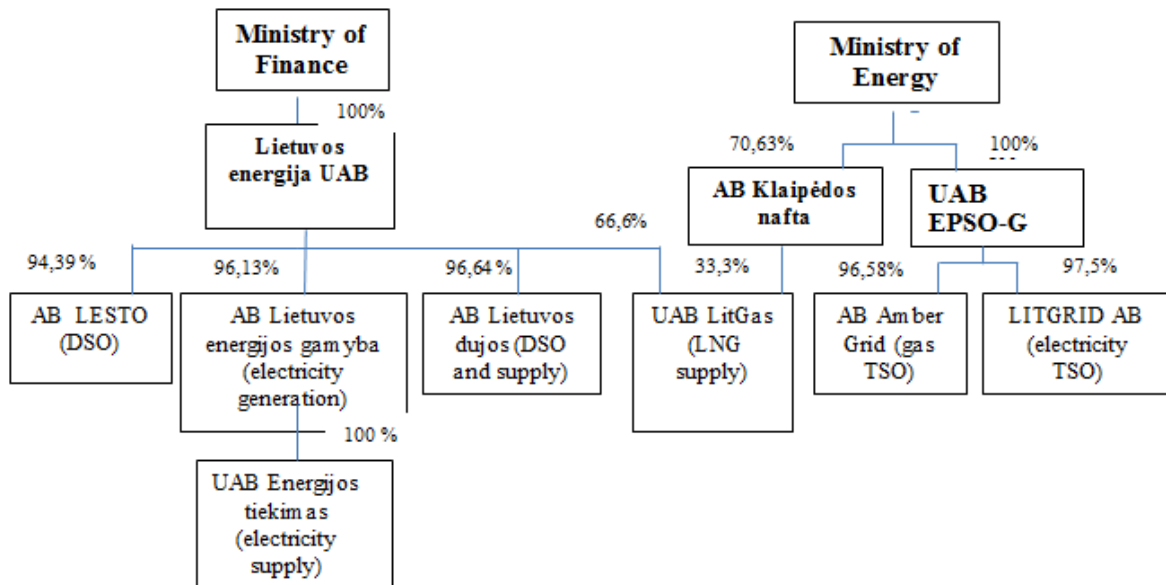
AB Lietuvos dujos by its official letter of 12 May 2014 in writing informed the NCC that *Lietuvos energija UAB*, intends to acquire the shares of *AB Lietuvos dujos* managed by *E.ON Ruhrgas International GmbH*, and requested the NCC to evaluate whether the provision of Article 3, Paragraph 2 of the Law on Implementing the Law on Natural Gas is applicable in the case of *AB Lietuvos dujos* and adopt the respective decision. 100 percent of the shares of *Lietuvos energija UAB* are managed by the Ministry of Finance of the Republic of Lithuania. *AB Lietuvos dujos* and *Lietuvos Energija UAB*, submitted to the NCC the documents and data 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, and will enable to properly to implement the unbundling requirements prescribed by Chapter 8 Unbundling of Activities and Accounts of the Law on Natural Gas. By Resolution No O3-127 of 19 May 2014, the NCC has decided:

1. Approve 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 subsequent transactions pursuant to the procedure set forth in the Law on Securities;

2. Establish that the transaction concluded by *Lietuvos Energija UAB* and *E.ON Ruhrgas International GmbH* 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 *OA O Gazprom* on buying out 37.10 percent of *AB Amber Grid* shares, and *Lietuvos energija UAB* concluded the transaction with *OA O Gazprom* on buying out 37.10 percent of *AB Lietuvos dujos* shares. In such a way the control over the natural gas transmission and supply activities has been actually separated.

Figure 31. Unbundling of activities in electricity and natural gas sectors



Source: NCC

4.1.2. Technical functioning

Balancing services

The legislation regulating balancing activities of the natural gas transmission system is the Law on Natural Gas that defines balancing as equation in the transmission and/or distribution systems of the delivered and received amount of natural gas. The Law on Natural Gas prescribes that transmission system operator shall propose system balancing rules upon approving them with the NCC.

The Rules on Balancing the Natural Gas Transmission System of AB Lietuvos dujos approved by Resolution No 03-250 of the NCC of 14 September 2012 took effect on 1 August 2013.

The said Rules set forth balancing principles of natural gas transmission system, the procedure and conditions in the natural gas transmission system of *AB Lietuvos dujos*.

The Balancing Rules regulate the relationships among the TSO, transmission system users and other market participants trading in natural gas by concluding bilateral sales-purchasing agreements and (or) at exchange, distribution system operators, market operators, their rights and duties in taking part in the balancing of the natural gas transmission system. The following key areas are defined specifically:

- Gas flows determined by market participants and evaluation thereof;
- Potential actions of market participants in balancing natural gas flows;
- Coverage of imbalances and application of imbalance fee;
- Presentation of information on the balancing status;
- Provision of information necessary for balancing the transmission system;
- Acquisition of balancing services in the balancing of the system by the TSO;
- Cooperation with other TSOs.

The Balancing Rules establish that an imbalance fee shall be charged for imbalance gas quantity greater than the margin of tolerance. The fee shall be calculated by multiplying the imbalance gas volume by the balancing price set by Resolution No 03-314 of the NCC of 18 July 2013. The Resolution indicates that the balancing price shall account for 10 percent of the limit gas

purchase (sale) price, i.e. the price of balancing gas, which is purchased by a market participant having caused the shortage of gas in the system after the expiry of the balancing period from the system operator and sold to a market operator by a market participant having caused a surplus thereof. The balancing price set in such a manner was applicable till 31 December 2013.

After the unbundling of the transmission activity from *AB Lietuvos dujos* and the establishment of a new undertaking *AB Amber Grid*, which has been carrying out the functions of the natural gas TSO since 1 August 2013, at first *AB Amber Grid* used the balancing rules of the natural gas transmission system of *AB Lietuvos dujos* for balancing the transmission system. On the basis of these rules, *AB Amber Grid* drew up draft natural gas transmission system balancing rules of *AB Amber Grid* and submitted them for the NCC's approval. The main amendments in the drafted rules were related to a possibility to supply natural gas to natural gas transmission system from the LNG terminal; they provided for the fact that natural gas volume shall be evaluated in cubic meters and energy value of the transmitted gas volume shall be calculated. The natural gas transmission system balancing rules of *AB Amber Grid* were approved by NCC by Resolution No 03-758 of 27 December 2013.

On 13 September 2013, *the Methodology for Setting State-Regulated Prices in the Natural Gas Sector* was approved by Resolution No 03-367 of the NCC, Section II of Chapter III whereof laid down the pricing of the balancing service in the natural gas transmission system. The pricing of the balancing service was drawn up in accordance with the cost and revenue matching principle, i.e. revenue for balancing services must be equal to costs incurred from the balancing service. The balancing price shall account for 10 percent of the limit gas purchase (sale) price. Fixed costs of the balancing service that are independent of the volume of balancing services shall be included into the transmission service price. At the end of the reporting period (regulatory year), difference between revenue and costs of the balancing activity shall be calculated (evaluating fixed and variable balancing costs), and the price cap of the transmission price shall be adjusted by the obtained difference for the upcoming regulatory year.

Article 34, Paragraph 5 of the Law on Natural Gas establishes that the distribution system operator responsible for system balancing shall draw up distribution system balancing rules. By Resolution No 03-293 of 18 July 2013, the NCC approved *Natural Gas Distribution System Balancing Rules of UAB Intergas* prepared by *UAB Intergas*, which are essentially equivalent to the transmission system balancing rules. The balancing price for the imbalance caused in *UAB Intergas* distribution system is calculated in the same manner as in the transmission system.

Security and reliability standards, service and supply quality

The Law on Natural Gas establishes that the NCC shall set the indicators of the quality of services of natural gas companies, including reliability indicators, as well as the procedure for the assessment thereof. Based on *the Description of Indicators of the Reliability and Quality of Services Provided by Natural Gas Companies and Procedure for the Assessment* thereof approved by Resolution No 03-90 of the NCC of 11 April 2012, minimum quality levels for each gas company shall be set individually for a specific price regulatory period.

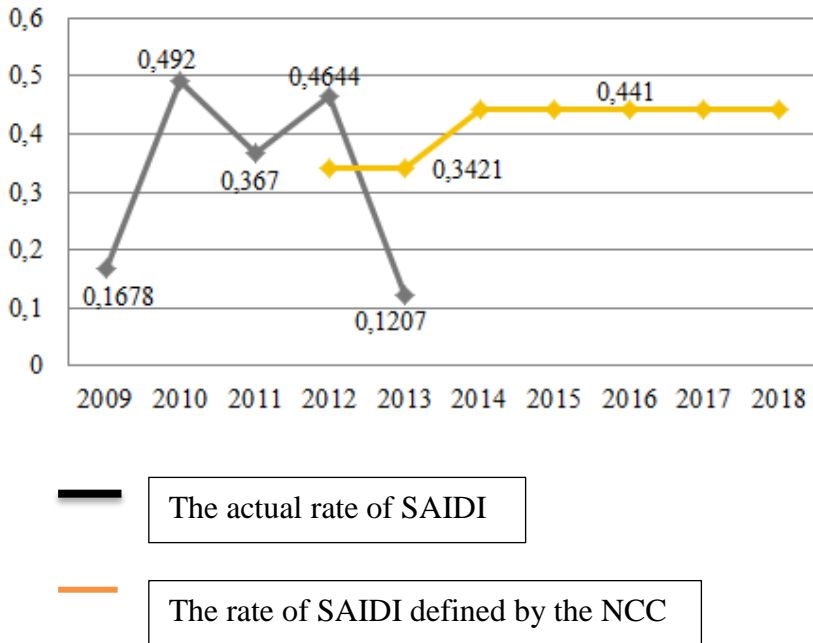
The NCC has been carrying out the monitoring of transmission reliability and service quality indicators since 2009. The main quality indicators of uninterrupted gas supply are SAIDI and SAIFI, i.e. system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) within the reporting period. SAIDI and SAIFI indicators are differentiated by reasons of interruptions.

In 2012, the NCC set individually for each gas company minimum quality indicators for the regulatory period or a part thereof. In 2014, a new five-year price cap regulatory period started for 3 companies: *AB Amber Grid*, *AB Lietuvos dujos*, *AB agrofirma Josvainiai*, therefore, in 2013 the NCC set forth for these companies new minimum service quality indicators till 31 December 2018.

Natural gas companies, which provide services to higher levels than their minimum quality indicators shall be motivated and, on contrary, companies at the lower levels of service quality and reliability indicators will be adapted to the economic sanctions.

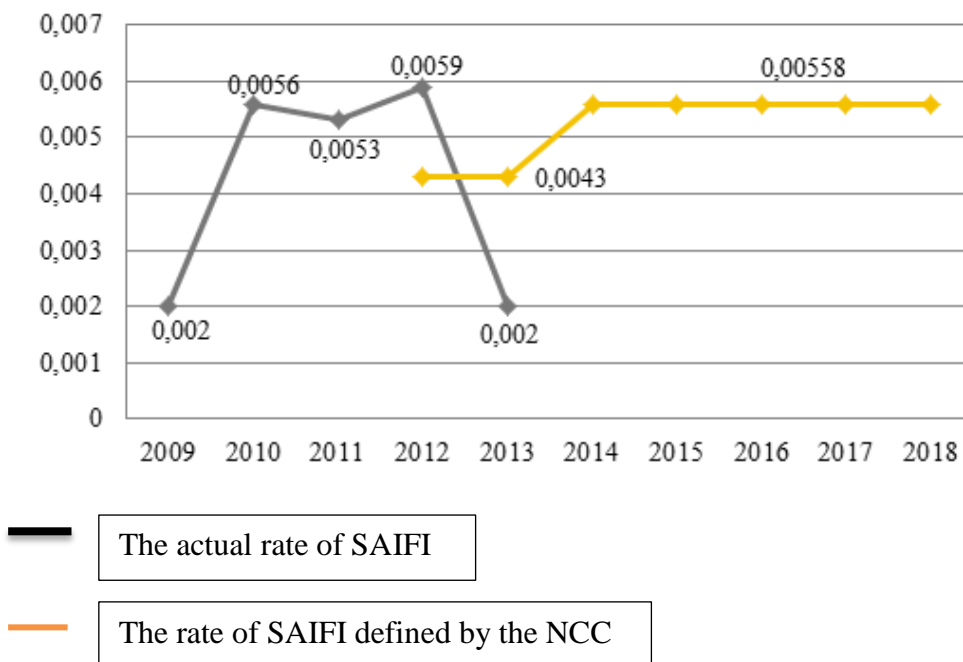
SAIDI and SAIFI indicators of the largest natural gas company *AB Lietuvos dujos* in 2009-2013 periods are presented in Figures below.

Figure 32. *AB Lietuvos dujos* SAIDI of unplanned interruptions under the operator's responsibility



Source: NCC

Figure 33. *AB Lietuvos dujos* average unplanned interruptions per user



Source: NCC

As can be seen from the said figures, in 2013, the indicators of *AB Lietuvos dujos* improved as compared to 2012. The average duration of unplanned interruptions decreased from 0.4644 to 0.1207, while the number of interruptions decreased from 0.0059 to 0.0020. Other natural gas distribution companies did not face any interruptions.

In 2013 the rate of customer applications timely analyzed and responded to by *AB Lietuvos dujos* was 95.91 percent, thus in 2012 – 96.69 percent. The timely examined user application indicator set by the NCC is 95.43 percent till 31 December 2018. Other companies analyzed applications of both household and non-household customers in a timely manner. Emergency services of all companies 100 percent timely arrived to household customers' premises to verify their information about gas leakage.

Supervision of duration of the performance of works for user connection to the network and repair works

Based on the description of the reliability and quality indicators of services provided by natural gas companies and the procedure for the assessment thereof, the supervision of the quality of the connection service of new user systems of natural gas companies to the existing transmission and distribution systems are subject to 2 service quality requirements:

- Examination of new user applications for the connection of their systems to the existing transmission system;
- Connection of a new user system to the existing transmission or distribution system in accordance with a connection contract.

The rate of timely, i.e. within 30 calendar days, sent replies to new customers by *AB Amber Grid* was 100 percent in 2013. The rate of *AB Lietuvos dujos* was lower in 2013 than in 2012 and accounted for 99.91 percent (in 2012 – 100 percent).

There were no users, who were not connected to the system during the set period of time by the fault of the TSO *AB Amber Grid*. According to the data of *AB Lietuvos dujos*, in 2013, the share of new users not connected to the system within the set period of time due to the fault of the distribution system operator was 0.55 percent, and in 2012 it accounted for 1.7 percent. Other companies timely connected new customers both in 2012 and in 2013.

In 2013, the NCC set forth for the transmission system operator *AB Amber Grid* minimum quality indicators of services provided thereby, which will be valid till the expiry of price cap regulatory period on 31 December 2018:

1. Unplanned interruptions due to the fault of the operator – 0;
2. Total interruption duration due to the fault of the operator – 0;
3. Rate of responses to applications or complaints sent on time – 100 percent.

Pursuant to Article 49, Paragraph 3 of the Law on Natural Gas, the NCC has prepared *the Requirements for the Use of Rules for Natural Gas Transmission System and for Natural Gas Distribution System*. Distribution system operators keeping to the said requirements have submitted to the NCC the prepared Rules. Having assessed the compliance of the Rules for the Use of Rules for Natural Gas Distribution System presented by natural gas companies with the requirements approved by the NCC, in 2013, the NCC approved the rules of the use of distribution systems of *UAB Intergas* (Resolution No 03-159 of 13 May 2013), *UAB Druskininkų Dujos* (Resolution No. 03-35 of 24 May 2013), *AB Achema* (Resolution No 03-219 of 7 June 2013), *AB agrofirma Josvainiai* (Resolution No. 03-218 of 7 June 2013), *UAB Fortum Heat Lietuva* (Resolution No 03-277 of 4 July 2013), *AB Lietuvos dujos* (Resolution No 03-23 of 28 November 2013). *The rules of the use of AB Amber Grid transmission system* were approved by Resolution No 03-192 of the NCC of 31 January 2014. The approved rules define the procedure and conditions of the use of natural gas systems, rights and obligations of system users, cooperation guidelines, mechanisms for the allocation of system capacities and congestion management, the procedure and principles of the organization of repair works, notification on repairs and their implementation thereof, etc.

The TSO must publish on its website the schedule of repair works, listing construction, reconstruction and repair works of the gas transmission system planned to be carried out in the current year, which can affect system user rights. The repair work schedule must indicate objects and names of works planned to be carried out therein, start and end dates of the planned repair works, disconnection works in objects of certain zones, their impact on the gas supply. The TSO must publicly inform system users about the planned gas system repairs or the start of connection works of other user systems, when gas transmission is interrupted or restricted during them, at least 42 calendar days before the start of the said works. The TSO must warn system users of the time of the interruption or restriction of the gas transmission and of the duration thereof by mail, e-mail, via a courier or by fax at least 5 days before the start of gas system repairs or connection works of other user systems.

DSOs must notify system users of the start and the duration of interruption or restriction of gas distribution at least 5 days before the start of gas system repair works or connection works of other gas systems by one of these means (by mail, e-mail, via a courier or by fax).

Access to storages

The Law on Natural Gas establishes two methods for the right to use natural gas storage facilities owned by companies, and the right to use services of storage of natural gas in the pipelines that are listed below:

1. When the right to use natural gas storage facilities, services of storing natural gas in pipelines, and other additional services is implemented by negotiation, the consumers and system users negotiate for the agreements with a respective operator of the storage system or natural gas companies. Storage system operators and natural gas companies each year shall announce commercial terms for using their storage facilities, services of natural gas storage facility and other additional services. Storage system operators and natural gas companies set forth such terms after consulting with the system users.

2. The NCC shall take necessary measures to ensure the right to natural gas companies and consumers to use storage facilities, services of natural gas storage facility, and other additional services at the tariffs announced in advance and/or under other terms and duties. The NCC shall set forth fees and their calculation methodology after consulting with the system users.

Currently there is no gas storage facility in Lithuania, thus *AB Lietuvos dujos* use the services of natural gas storage facility of Incukalns in the Republic of Latvia. Based on applications submitted, Latvijas Gaze AS distributes capacities of the gas storage facility in the Republic of Latvia.

AB Lietuvos dujos under the agreement with Latvijas Gaze AS stores up at Incukalns the amount of natural gas that is needed to supply the residents for a period of time fixed by the State and non-household consumers, which have signed the agreements for uninterrupted supply of natural gas.

The National Energy Independence Strategy provides that the capacities of natural gas storage facilities must be developed to allow storing the reserves of gas necessary for up to 60 days. For this purpose it is planned to build an underground natural gas storage facility in Lithuania with the minimum useful volume of 500 mln. m³. The potential location for the construction of such an underground facility in Lithuania is nearby Syderiai village (Telšiai district). In case of disruption of natural gas supply through a single pipeline that passes through Belarus, Latvia's underground gas storage of accumulated gas reserves in Lithuania would not be sufficient to supply all consumers. The installed natural gas storage facility would help to:

- contribute to the formation of the natural gas market and the reduction of the monopoly;
- enhance the security of natural gas supply to consumers;
- allow accumulating strategic natural gas reserve;
- meet seasonal shaving peak demand;

- optimize the operations of Klaipeda LNG terminal that is under construction and should start on 3 December 2014 at the latest;

- accumulated reserves would help Lithuania to avoid seasonal shaving peak demands in natural gas prices.

Essential works were carried out in 2013 with the aim to clear up possibilities for the installation of underground natural gas storage in Lithuania (Syderiai):

- four exploratory wells were drilled, all explorations planned therein were conducted, reports on the drilling of the wells and explorations conducted therein were drawn up. The works of well drilling were carried out by Lithuanian, Polish and German contractors having won public tender (the Polish drilling company Exalo Drilling S.A. together with its Lithuanian partner *UAB Minijos Nafta*);

- the German company KBB Underground Technologies GmbH carried out the works of Syderiai geological structure research data processing and preparation of the storage reservoir model. The conclusion is favourable for the installation of the storage. Currently, specialists of *AB Lietuvos energija* are engaged in the performance of a cost-benefit analysis, which will be presented to the Government of the Republic of Lithuania along with conducted research results in the autumn of 2014. Having assessed the research results and economic aspects, the Government will be able to make a decision on the continuation of the project.

Supervision of security measures (Article 41(1) (t))

Provisions of the laws governing the supervision of security measures remained the same in 2013 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). It should be noted that in 2013, 30 million m³ of natural gas were stored for household customers (vulnerable customers of group I). This quantity shall ensure the continuous supply of gas to vulnerable customers for at least 30 days.

4.1.3. Network and LNG tariffs for access and connection

Significant changes to tariff regulation

Regulation of transportation prices

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. The natural gas transmission and distribution prices are calculated on the basis of the post stamp principle, regardless of the transmission or distribution distance. However it is being planned from 1 January 2015, when the LNG terminal is launched into operation, to start using the entry-exit price setting model in the transmission system. Consequently in September 2013 the NCC commenced the works for implementing the entry-exit price setting model in the transmission system of the natural gas sector. During the initial meetings with the participants of the natural gas market of Lithuania the principles of functioning of the model were presented and the procedure of its development was discussed. In January 2014, on the basis of the economic information submitted by *AB Amber Grid*, the economic modelling was started the results thereof will make the direct impact on the implementation of the entry-exit price setting model in Lithuania, by taking into consideration the specifics of the country. It is being planned to start using the entry-exit price setting model in setting the natural gas transmission prices for 2015.

Price caps are set for a 5-year period, and once per year price caps for 7 companies are revised. The NCC also inspects whether specific prices of regulated services set forth by gas companies do not discriminate individual consumer groups and approves natural gas tariffs for household customers twice a year. Each year the NCC sets forth, revises and inspects about 100 prices applicable to economic entities or residents in the natural gas sector.

As the NCC is setting transportation price caps, gas transportation volumes are calculated assessing the actual transportation volumes of gas companies during the last year preceding the regulatory period and their forecasts for the upcoming five years as well as reasons having led to changes in gas volumes. Changes in volumes due to investments planned in the Long-term activity programme of gas companies are indicated separately. The NCC sets annual basic costs for a five-year period based on the costs of the last year before the regulatory period and their forecast for forthcoming five years.

Differentiation principles of specific transportation prices for gas companies are indicated in *the Transportation Methodology*. It stipulates that gas companies can differentiate prices by customer categories or groups, by gas consumption volumes, gas pressure, capacity, duration, consumption purpose, gas supply reliability and other objective features selected by a gas company, enabling it to seek for higher operational efficiency. Customer discrimination and cost subsidizing between customers or their groups are prohibited when setting and differentiating prices. Natural gas price differentiation methodologies prepared by gas companies are submitted to the NCC. Having determined that price differentiation principles established by companies discriminate customers, the NCC points out their errors to gas companies, and the latter have to correct them. If they fail to follow the instruction, the NCC is entitled to unilaterally set gas prices.

The table below presents the comparison of transportation price caps of all natural gas companies in 2013 and 2014.

Table 19. Transportation price caps in 2013 and 2014

Company	Price, EUR/MWh		Change, %
	Year 2013	Year 2014	
AB Amber Grid			
Transmission	1.37	1.55	13.48
AB Lietuvos dujos			
Distribution	5.55	7.10	27.97
UAB Fortum Heat Lietuva			
Distribution	4.66	4.91	5.40
UAB Intergas			
Distribution	2.65	2.54	-4.31
UAB Druskininkų Dujos			
Distribution	44.86	41.26	-8.03
AB agrofirma Josvainiai			
Distribution	1.83	2.18	19.09
AB Achema			
Distribution	1.19	1.19	0.0

Source: NCC

In 2013, the NCC set the natural gas transmission price cap to *AB Amber Grid* for the new 2014–2018 regulation period – LTL 50.30 per thousand m³. As compared with the transmission price cap valid in 2013 (LTL 44.26 per thousand m³), it has been increased by 13.65 percent, but is by 4.99 percent lower than projected by the company (LTL 52.94 per thousand m³). Following the principles of cost causation and proportionality of activities, the NCC declared the basic costs of the gas transmission activity to be LTL 135.847 million in the 2014–2018 regulatory periods. When setting transmission price caps for 2014–2018, it considered the economically feasible value of non-current assets as at 31 December 2013 to be LTL 534.274 million, applicable rate of return (WACC, percent) – 7.09 percent, return on investment set by the NCC – LTL 37.88 million. The NCC declared more than LTL 7 million in costs unreasonable. The biggest impact on the increase of the transmission price cap was made by the decreasing projected quantities of the transmitted natural gas, the investments in the transmission system made in the previous regulation period (2009–2013) and the unbundling of the TSO.

In 2013, the NCC set the natural gas distribution price cap to *AB Lietuvos dujos* for the regulation period of 2014–2018 at LTL 229.78 per thousand m³ which, as compared with the distribution price cap valid in 2013, is higher by 28.1 percent. Following the principles of cost causation and proportionality of activities, the NCC declared the basic costs of the gas distribution activity to be LTL 197.642 million. When setting transmission price caps for 2014–2018, it considered the economically feasible value of non-current assets as at 31 December 2013 to be LTL 421.376 million, applicable rate of return (WACC, percent) - 7.09 percent, return on investment sent by the NCC - LTL 29.876 million. The NCC declared more than LTL 7 million in costs unreasonable. The reasons of the adjustment in the natural gas distribution price cap of *AB Lietuvos dujos* – the decreasing projected quantities of the distributed natural gas and the planned investments.

Regulation of connection prices

The Law on Natural Gas provides for the obligation of transmission and distribution system operators to connect new users to transmission and distribution systems. Transmission and distribution system operators must set and, having received an approval of the NCC, publish on their websites transparent and efficient procedures and tariffs for non-discriminating connection of storage facilities, regasified LNG facilities and customers to transmission and distribution systems.

The TSO has no right to refuse to connect a new storage facility, regasified LNG equipment or a user on the grounds of potential restrictions of available network capacities in the future or additional costs related to the necessary increase of capacities. The TSO must ensure sufficient entry and exit capacity of a new connection.

Following *the Methodology for Setting Connection Tariffs for New Natural Gas Customers, New Natural Gas Systems and Biogas Power Plants* drawn up and approved by the NCC, transmission and distribution system operators set the tariffs for the connection of new household and non-household customer systems and biogas production facilities. The NCC approves connection tariffs of new household customer systems. *The Methodology* provides that a natural gas company shall cover economically justified system development costs and connection costs of new customers connected to the system. Customers connected to the system shall cover costs exceeding the economically justified connection costs.

The costs of connection to the existing natural gas systems cannot be recognised 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 for each meter of the gas pipeline. According to the natural gas quantity consumed per year, the household customers are grouped into two groups, and the

connection rate for these groups is calculated separately. The dynamics of the connection rates in 2010–2014 is shown in Table.

Table 20. Dynamics of the connection rates of household customers in 2010–2014

Indicator	2010–2011	2012	2013	2014	Adjustment in 2014, as compared with 2013, in percent
Household customers consuming up to 500 m ³ of gas per year*					
Fixed component of the rate, LTL	2205.60	3323.9	3323.19	3323.19	0
Rate per one meter of gas pipeline, LTL/m	63.09	142.16	142.16	142.16	0
Household customers consuming more than 500 m ³ of gas per year					
Fixed component of the rate, LTL	1402.56	1249.05	915.54	719.36	-21.4
Rate per one meter of gas pipeline, LTL/m	94.48	50.26	57.05	55.77	-2.2

*The connection rate is set for the lead-in to a staircase landing of the block of apartments. In connecting the household customers, the indicated rate has to be divided by the number of the potential customers.

Source: NCC

Setting a supplementary component of natural gas security of supply to the natural gas transmission price

Article 1 of the Law Amending Articles 5, 10 and 11 of the Law on the Liquefied Natural Gas Terminal provides that all fixed operation costs of the LNG terminal, its infrastructure and link necessary for the assurance of the LNG terminal operations shall be included according to the procedures prescribed by the NCC in the additional natural gas supply security component in the natural gas transmission price (hereinafter - the security component). The TSO shall collect, administer and pay the component of the security of the natural gas supply to the LNG terminal operator or company in accordance to the procedures established by the NCC.

The NCC by the Resolution No 03-367 of 13 September 2013 approved *the Methodology for Setting State-Regulated Prices in the Natural Gas Sector*, formula 22 of Paragraph 35 whereof provides for the calculation of the security component.

Article 14 Paragraph 1 of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania establishes that the operation of the LNG terminal shall be started no later than by 3 December 2014, thus a security component in the natural gas transmission price had to be set in December 2014. In September 2013, *AB Klaipėdos Nafta* as a company carrying out the LNG terminal project submitted to the NCC the data necessary for setting a security component for 2014.

AB Klaipėdos Nafta indicated that the majority of data necessary for calculating the security component are preliminary, thus only the data, which were precise and based on long-term contracts, i.e. lease costs of the floating storage with a regasification unit along with operating and servicing costs, which were provided for in the contract on the lease of LNG vessel - storage facility signed by *AB Klaipėdos Nafta* and *Hoegh LNG* on 2 March 2012. *AB Klaipėdos Nafta* plans to incur LTL 11 680 448 in costs of the lease of the vessel-storage in 2014, while the transportation of 305 047 thousand m³ of natural gas is planned via *AB Amber Grid* transmission networks during December of 2014. Security component costs also include LTL 326 700 of costs of the collection of a security component and costs of administration of the collected funds incurred by the TSO. Having assessed the data presented by *AB Klaipėdos Nafta* and *AB Amber Grid*, the NCC set by its Resolution No 03-445 of 11 October 2013 a security component of LTL 39.36 per thousand m³ to be valid from 3 December 2014 till 31 December 2014.

Ensuring the avoidance of cross subsidizing

In the implementation of the function of the NCC provided for in the Law on Natural Gas to supervise the unbundling of accounting in order to avoid cross subsidizing of activities, the NCC approved the *Description of Requirements for the Unbundling of Accounting of Natural Gas Companies, Allocation of Costs and Accounting Unbundling-Related Requirements*. The said Description establishes:

- Rules for the unbundling of accounting, which provide that natural gas companies shall carry out the unbundling of accounting by allocating revenues, costs, assets and liabilities of the reporting period by business units of natural gas transmission, distribution, liquefaction, storage, supply activities, other regulated activities and unregulated activities;
- Rules for the allocation of costs, which define specific groups of costs and principles for cost allocation;
- A set of accounting unbundling-related requirements and cost allocation-related requirements, which defines annual statements of regulated activities of a natural gas company.

Within 6 months of the effective date of the Description on 1 January 2014 natural gas companies must prepare descriptions of the regulation accounting system on the basis of the Description requirements and present them to the NCC.

Moreover, the NCC has to maintain the absence of cross subsidizing of transmission, distribution, storage, liquefaction and supply activities and cross subsidizing of different customer groups. Article 9 Paragraph 14 of the Law on Natural Gas establishes that in order to avoid cross subsidizing of different consumer groups, regulated prices and the rules for the differentiation thereof shall be published on websites of natural gas companies, while the principles for setting thereof shall be reasonable, objective, transparent and undiscriminating. The NCC ensures this by setting price caps of regulated natural gas transmission.

4.1.4. Cross-border issues

Access to cross-border infrastructure objects, capacity allocation mechanisms and congestion management procedure in cross-border points

Currently, there are 3 cross-border points operating in Lithuania: Kotlovka gas metering station (GMS), through which all natural gas is imported to Lithuania; moreover, this international point is used for transit via the Republic of Lithuania to Kaliningrad region; Sakiai GMS, which is 100 percent used for natural gas transit to Kaliningrad region, and Lithuania-Latvia gas interconnection (Kiemėnai GMS), which is currently used for security of supply purposes in order to use Incukalns natural gas storage facility located in Latvia, where gas for vulnerable customers of Lithuania is stored thus aiming to ensure security of supply in case of emergencies.

Currently, capacities of Kotlovka GMS are allocated for the national consumption based on the “first come, first serve” principle, because capacities at this cross-border point are not fully used and neither contractual nor physical congestion forms there: the technical capacity of Kotlovka GMS Q_{max} is 31200 tncm/a day, while the following was monthly use of capacities per day in 2013:

In January – 24 000 192 m³/a day;
 In February – 20 445 662 m³/a day;
 In March – 20 141 583 m³/a day;
 In April – 18 685 100 m³/a day;
 In May – 11 040 918 m³/a day;
 In June – 13 017 440 m³/a day;
 In July – 11 286 238 m³/a day;
 In August – 10 501 783 m³/a day;
 In September – 12 293 701 m³/a day;
 In October – 14 507 801 m³/a day;
 In November – 16 818 512 m³/a day;
 In December – 17 297 730 m³/a day.

When evaluating the access to Kotlovka GMS, it should be noted that currently a part of capacities at this cross-border point is reserved for transit operations (Sakiai GMS capacities – 10500 thousand m³ /a day), and the remaining part of capacities is freely accessible to national consumers, however, it should be emphasized that the Law on Natural Gas establishes that in case of a gas supply interruption, the volume of gas transported by transit shall be limited in proportion to gas volumes limited for national consumers.

All the infrastructure in Lithuania related to the said cross-border points is controlled by the Lithuanian TSO, which prepared *the Rules for the Use of Transmission System* following *the Requirements for the Use of Natural Gas Transmission System* drawn up by the NCC, which, given the said NCC requirements, are focused on future perspectives, when the entry-exit point pricing model will be implemented in the Lithuanian transmission system and when the operations of the LNG terminal will be started in Klaipeda. Upon the implementation of the change of the pricing model and with the start of operations of an alternative source of import, an actual need for defining more stringent capacity allocation mechanisms non-discriminatory to system users as well as procedures for congestion control will emerge.

Moreover, it should be mentioned that in order to ensure transparent and non-discriminatory conditions to the entities intending to use the LNG terminal, the NCC approved *the Rules for the Use of the LNG Terminal* which have been drafted by *AB Klaipedos Nafta*. The said rules establish that the access to the LNG terminal shall be free, and all market participants shall be able to make use of the LNG terminal capacities. A clear and consistent procedure as well as conditions for market participants intending to use the LNG terminal have been set forth therein. The set mechanism for the use of the LNG terminal has to ensure the maximum efficiency of the use of the LNG terminal capacities.

Cooperation (Article 41(1)(c))

Besides the participation and cooperation at a multilateral level in ACER, CEER, ERRA and the coordination on PCIs related issues at multilateral and bilateral levels, employees of Gas Division of the Gas and Electricity Department at the NCC were constantly providing the necessary information for technical and economic characteristics of the PCI projects, holding continuous consultations with the European Commission and ACER representatives.

In June 2013, a new initiative was launched in the Baltic region - the first meeting of the regulatory working group of the natural gas market of Eastern Baltic countries was held in Tallinn. The goal of this working group is to purposefully seek to create a competitive, liquid and transparent natural gas market of the Baltic countries (Lithuania, Latvia, Estonia, and Finland). Representatives from the Gas Division of the NCC joined this initiative, introduced the operating

principles of the Lithuanian natural gas market, and shared with neighbouring national regulatory bodies the NCCs experience as well as the laws governing natural gas market operating principles drawn up by the NCC.

Monitoring of investment plans and the evaluation of their compliance with the EU's Ten-Year Network Development Plan

Article 31, Paragraph 1 of the Law on Natural Gas stipulates that having consulted stakeholders, each year the TSO shall submit to the NCC a ten-year network development plan. On 24 October 2013, the NCC evaluated the ten-year network development plan presented by the natural gas TSO (Resolution No 03-656 of the NCC of 24 October 2013). In accordance with Article 31, Paragraph 1, 2 and 3 of the Law on Natural Gas, this plan shall present the key transmission system infrastructure, which must be developed or renovated during the upcoming ten years, all investments which have already been decided upon, and planned new investments, which will have to be performed in the upcoming three years, as well as deadlines for the performance thereof. The NCC evaluated the compatibility of the said plan with the *National Energy Independence Strategy of Lithuania, the Ten-Year Network Development Plan of the European Network of Transmission system operators for Gas (ENTSO-G) for 2013-2020, the BEMIP plan*, and assessed the impact of the planned projects on the transmission price cap. Having conducted the evaluation, the NCC determined that the presented plan was compliant with the requirements of Article 31, Paragraph 1, 2 and 3 of the Law on Natural Gas.

Liquefied natural gas (LNG) terminal

AB Klaipėdos Nafta, a company, which owns Klaipėda oil terminal, was granted powers to implement the LNG terminal project by Resolution No 199 of the Government of the Republic of Lithuania On the Implementation of the Law on Liquefied Natural Gas Terminal of 15 February 2012 (version of the Resolution No 864 of the Government of the Republic of Lithuania of 11 July 2012).

On 20 June 2013, the Seimas of the Republic of Lithuania adopted the Law Amending Articles 5, 10 and 11 of the Law on the Liquefied Natural Gas Terminal. Several essentials amendments were introduced by the said law:

1. Paragraph 2 of Article 5 of the new version of the law provided for that costs of construction of the LNG terminal, its infrastructure and the link financing thereof is not possible from other sources available to *AB Klaipėdos nafta*, as well as all fixed operating costs of the LNG terminal, its infrastructure and the link necessary for the assurance of the operation of the LNG terminal in accordance with the procedure and conditions set by the NCC will be included in the additional component of the natural gas price – the component of the security of the natural gas supply;

2. Article 10, Paragraph 3, which had ensured the priority of the use of the LNG terminal for Lithuanian consumers over other Baltic countries, was declared void;

3. Amendment to Article 11 established the obligations to the state-regulated electricity and/or heat energy production undertakings, which should assure that the natural gas by the order of priority would be purchased through the LNG terminal with an aim to ensure the mandatory operation of the LNG terminal, were set. The Government shall approve the minimum annual natural gas volume required for the assurance of the necessary operations of the LNG terminal. The designated supplier shall ensure the supply of the necessary LNG terminal gas quantity. The designated supplier will be selected by the Ministry of Energy by arranging the tender in line with the procedure and conditions set forth by the Government.

On 27 December 2013, the NCC issued a natural gas supply license to the designated supplier *UAB Litgas*.

With an aim to ensure that the fair and undiscriminating conditions would be applied to the energy producers purchasing gas through the LNG terminal, on 29 April 2014, the NCC approved the terms and conditions of the Natural Gas Selling-Purchasing Agreement to be concluded between

the designated supplier and the energy producers, which had been drafted by the designated supplier *UAB Litgas* and the essential provisions whereof are the following:

- Prescribe that energy producers shall first of all purchase the natural gas quantity imported via the LNG terminal correspondent to the necessary quantity of the LNG terminal;
- Establish the rights and obligations of the parties, the procedure and conditions for allocation of the necessary gas quantity of the LNG terminal for the energy producers;
- Enshrine the procedure for price setting and settlement for the gas supplied.

It has been projected that in the territory of Lithuania the LNG terminal and the natural gas infrastructure for ensuring its efficient operation has to be constructed by December 2014.

With an aim to ensure the transparent and undiscriminating conditions to the entities intending to use the LNG terminal, in April 2014, the NCC approved the *Rules on Using the Liquefied Natural Gas Terminal*, which had been drafted by *AB Klaipėdos nafta*. The essential provisions of these Rules are as follows:

- Access to the terminal is free, and all market participants will be able to use the capacities of the LNG terminal;
- The clear and consistent procedure and conditions to the market participants intending to use the LNG terminal have been defined;
- The set mechanism for using the LNG terminal has to ensure the maximum efficiency in the use of the terminal capacities.

In June 2014, *AB Klaipėdos nafta* as the company implementing the project of the LNG terminal submitted the project of the LNG terminal for the revision and approval by the NCC.

4.1.5. Compliance with legislation

The Law Amending Articles 2, 8, 26, 34, 36 and the Annex of the Law on Energy of the Republic of Lithuania (hereinafter – the Law on Energy) came into force on 23 November 2013. The reason which induced the preparation of this Law is to enable the national regulatory authority to properly exercise the rights set forth in Article 13 of Regulation (EC) No 1227/2011 and to provide the latter with the adequate, efficient means to speedily react to and to efficiently prevent possible non-compliances in order to ensure the compliance with the provisions of Regulation (EC) No 1227/2011. In line with Article 13 of Regulation (EC) No 1227/2011, the Law on Energy set forth that the NCC should have adequate and efficient means to speedily react to and to efficiently prevent possible non-compliances in order to ensure the compliance with the provisions of Regulation (EC) No 1227/2011, i.e. stipulated the sanctioning of the NCC actions prescribed in Regulation (EC) 1227/2011 in the administrative courts of the Republic of Lithuania. After coming into force of the provisions of the Law on Energy, the efficient mechanism for supervising the wholesale energy market has been ensured by enabling the national regulatory authority to practically exercise the powers laid down in Regulation (EC) No 1227/2011, by validating the efficient and deterrent sanctions to the wholesale energy market participants for the non-compliances with the provision of Regulation (EC) No 1227/2011. Thus the probability that the entities would distort the transparency and integrity of the wholesale energy market has been diminished and the value of the fines as a deterrent measure would to the maximum restrain the entities from illegal actions.

To ensure the clear, consistent and transparent pricing in setting the state-regulated prices in the energy sector, the NCC prepared and submitted to the Ministry of Energy the *Draft Description of the Principles of Setting the State-Regulated Prices in the Natural Gas Sector*. The Description of the Principles defined the following principles of setting the state-regulated prices in the natural gas sector:

- The main principles of setting the state-regulated prices in the natural gas sector, which would create preconditions for ensuring the legal certainty, economic development, transparency of the regulation criteria and their non-discriminatory application;

– The principles of evaluating the value of the assets used in the regulated activity. In the essence, these are the same principles of the value of the regulated assets, which had been approved by the Government's Resolution No 1276 of 7 October 2009, i.e. the adjustment in the value of the assets, which has not been coordinated with the NCC, the results of the revaluation of the non-current assets (including the assets used to transport gas by transit), the unused, kept in stocks, temporary unused assets, as well as the assets acquired for the received subsidies, grants, the part of the investments made by using the European Union structural funds, and, with regard to the provisions of the Law on Natural Gas, the revenues from connection of new system users and/or natural gas consumers, and the amount of unjustifiably used investments are not included in the value of the regulated assets;

– The return on investments by the suppliers of the regulated services is defined on the basis of the economic factors, with regard to the optimum structure of capital of the economic entity, and the price of the debt and equity capital. Moreover, by implementing the provisions 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 (hereinafter – Regulation (EU) No 347/2013), it has been stipulated that the additional return on investments can be set to the strategically important investments aimed at accomplishing the goals of the national and European energy policy.

In 2013, by performing the assigned obligations, the NCC was further preparing the draft legal acts enforcing the Law on Natural Gas and the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania, presented them for public hearings, assessed the comments of the customers, gas undertakings and other interested persons and approved the prepared legal acts by the NCC Resolutions.

In order to set the clear and transparent rules for the unbundling of accounting and the cost allocation of natural gas companies, the NCC prepared and approved the *Description of the Requirements for the Unbundling of Accounting of Natural Gas Companies, the Cost Allocation and of Accounting Unbundling-Related Requirements (approved by Resolution No 03-316 of 18 July 2013)*, the key provisions whereof include the following:

– Certain accounting of the regulatory activity is introduced, planning for certain accounting standards for the accounting of the regulated activity. Regulated natural gas companies shall have to manage accounting in accordance with the requirements approved by the NCC, discerning revenue, costs, assets and liabilities for the natural gas transmission, distribution, liquefaction, storage, supply and other regulated and unregulated activities, which will allow to clearly distinguish regulated and non-regulated activities;

– Clear and uniform systematic classification of costs: three categories of costs have been distinguished (direct, indirect and general), and a list of cost groups has been drawn up. This will ensure the objectivity and comparability of the regulatory accounting;

– A list of restrictive factors has been provided for, indicating which costs and to what extent shall be included into the cost of regulated services. A list of restrictions shall act as an additional threshold to cost groups having passed the filter of principles, especially that of causality and objectivity;

– Ensurance of transparency planning for all the information about each business unit and return on investments (except for confidential) to be published on websites of natural gas companies as well as the website of the NCC www.regula.lt.

Pursuant to requirements of the Description, natural gas companies must prepare descriptions of regulatory accounting within 6 months after the effective date of the Description on 1 January 2014, and present them to the NCC.

Formation of a coherent pricing system in the natural gas sector is coming to an end. The NCC approved the *Methodology for Setting the State-Regulated Prices in the Natural Gas Sector (approved by Resolution No 03-367 of 13 September 2013)*, which regulates the price setting of all regulated prices in the natural gas sector:

– Pricing of the services of a natural gas transmission business unit, which consists of two parts: the pricing of the natural gas transmission service via gas transmission pipeline and pricing of the newly governed balancing service in the natural gas transmission system. The balancing service pricing establishes the calculation of the imbalance price and revenue from balancing activity and the calculation of the amount whereby the transmission price cap will have to be corrected in the upcoming year due to the difference between revenues and costs of the balancing activity;

– Pricing of the services of a natural gas liquefaction business unit, which includes the calculation of a security component to a natural gas transmission price and the calculation of a natural gas liquefaction service prices. Security component is calculated after the evaluation of funds necessary for compensating installation costs of the LNG terminal, its infrastructure or interconnection or a part thereof and all fixed operation costs necessary for the assurance of operations of the LNG terminal, its infrastructure and interconnection. The need for funds for the construction of the LNG terminal is determined having considered financial sources necessary for the implementation of the LNG terminal investment project and assessed the documents presented, proving that the company implementing the LNG terminal project is not able to make use of other possible project funding sources or other measures allowing to ensure project funding. The natural gas liquefaction price cap is calculated taking into account all variable costs of the liquefaction activity;

– Pricing of the services of a natural gas distribution business unit, which consists of three parts: pricing of the service of natural gas distribution via gas distribution pipelines, pricing of the newly governed balancing in the natural gas distribution system and pricing of the service of guaranteed natural gas supply. Guaranteed supply to users consuming up to 20 thousand m³ annually shall be ensured by a distribution system operator operating in that territory, if a supply company does not fulfil its assumed obligations to supply natural gas. The pricing of the guaranteed supply service provides for the calculation of a guaranteed supply price cap and the revision thereof having assessed the set annual guaranteed supply limit costs and guaranteed supply risk premium coefficient;

– Pricing of the services of a natural gas supply business unit, which consists of two parts: natural gas supply service pricing and natural gas tariffs for household consumers. Supply service pricing provides for the calculation of the supply price cap in cases where during the market research carried out by the NCC it was determined that due to the lack of efficient competition a natural gas supply company was applying excessive prices exceeding the prices of natural gas and natural gas supply, or was using price pressure, thus causing damage to market participants. The validity period of the natural gas supply price cap is determined by a reasoned decision of the NCC after the performance of a market research. Supply service pricing must also provide for the calculation of a natural gas tariff for household customers, taking into consideration all components of this tariff;

– Pricing of the services of natural gas storage business unit, which establishes that the natural gas storage price cap shall be calculated applying transmission service pricing provisions *mutatis mutandis*.

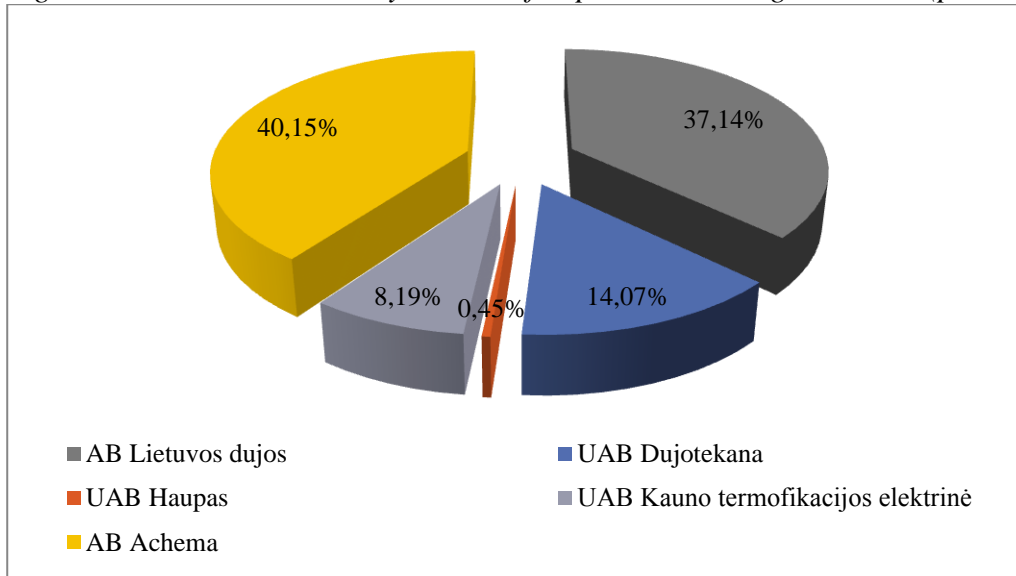
4.2. Promotion of competition

4.2.1. Wholesale market

There were 5 companies importing natural gas in 2013. Compared to 2012, the volume of imported natural gas decreased by 18.7 percent and accounted for 2 701.5 million m³, meanwhile 3 407.4 million m³ were imported in 2012. This reduction was caused by the decreased volume of natural gas imported by *AB Lietuvos dujos*, *UAB Dujotekana*, *UAB Haupas* and *AB Achema*. As compared to 2012, imported gas volume increased in *UAB Kauno termofikacijos elektrinė* (Kaunas CHP) only, where growth accounted for 1.2 percent.

As compared to 2012, the market share occupied by *AB Achema* decreased the most - by 25.1 percent, followed by *UAB Dujotekana* – 19.8 percent and *UAB Haupas* – 14.8 percent. The growth was observed in *UAB Kaunas termofikacijos elektrinė* (Kaunas CHP) only, which accounted for 1.2 percent as compared to 2012.

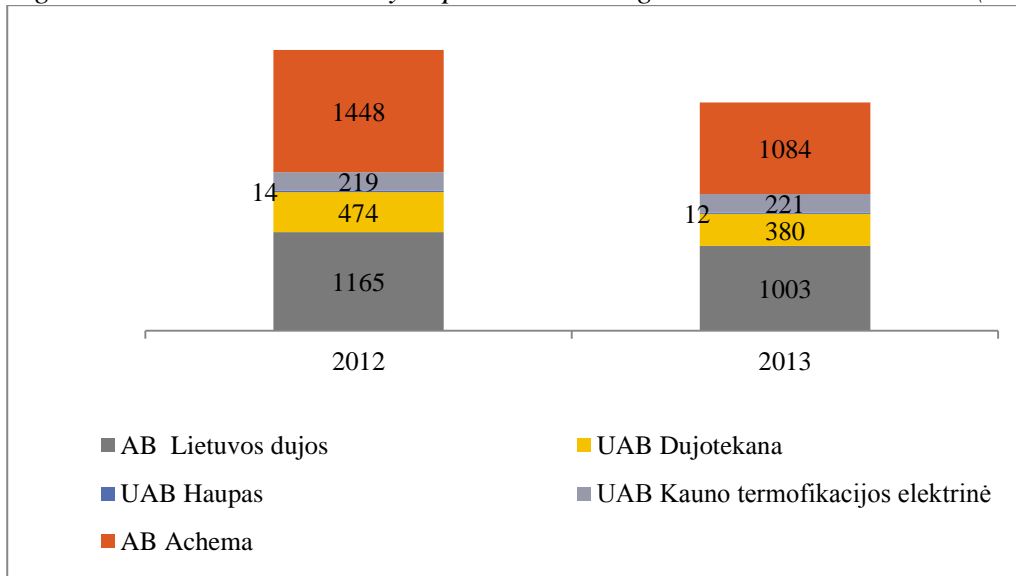
Figure 34. Market structure by volume of imported natural gas in 2013 (percent)



Source: NCC

In quantitative terms, imported volumes of all companies decreased in 2013 compared to 2012, except for *UAB Kauno termofikacijos elektrinė* (Kaunas CHP). Natural gas quantity imported by *AB Achema* decreased the most - by 364 thousand m³.

Figure 35. Market structure by imported natural gas volume in 2012–2013 (million m³)



Source: NCC

The Law on Natural Gas stipulates that natural gas shall be supplied to consumers by licensed natural gas supply companies. A supply license shall grant the right to a supply company to supply natural gas to consumers and natural gas companies. A supply company can trade natural gas on the exchange and/or under bilateral agreements.

Upon the decision of the NCC, in 2013, a natural gas supply license was issued to twelve companies: *UAB Grata Group*, *UAB Dolaurus*, *AB Panevėžio Energija*, *UAB SBE Energy*, *UAB*

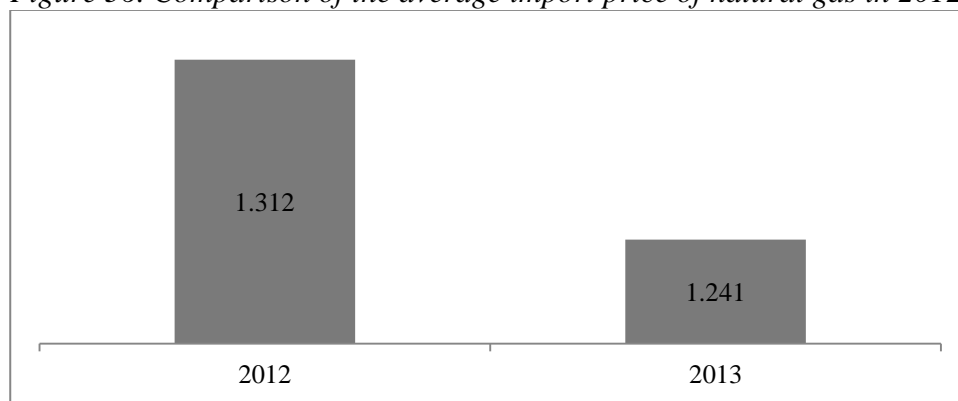
SOGA Baltic Oil, Energijos Tiekimas UAB, UAB Energijos Kodas, UAB Energijos Tiekimo Centras, AB Šiaulių Energija, UAB ELDU, UAB Elsona and UAB Litgas. There were 27 natural gas supply companies holding natural gas supply licenses in 2013, however, 16 of them did not carry out the natural gas supply activity.

The wholesale natural gas market in Lithuania is insignificant, because in fact gas import quotas were allocated to *AB Lietuvos dujos* and *UAB Dujotekana*. Trade in the wholesale natural gas supply market takes place only between natural gas companies engaged in distribution and supply activities in different regions of Lithuania. In 2008-2013, the volume of natural gas sold in the wholesale supply market decreased by 20.5 percent - from 8.7 to 6.9 million m³.

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

Natural gas import price is directly dependent on alternative fuels, namely 1 percent sulphur content of fuel oil and diesel fuel (0.1) world market prices and the EUR/USD exchange rate. 1 percent sulphur fuel oil prices in 2013, as compared to 2012, decreased by 7.9 percent, and that of diesel fuel (0.1) - by 2.7 percent. The exchange rate decreased by 3.5 percent. These factors led to the fact that, as compared to 2012, the average import price of natural gas in 2013 decreased by an average of 5.4 percent - from LTL 1 311.7 to LTL 1 241.3 per thousand m³.

Figure 36. Comparison of the average import price of natural gas in 2012-2013(LTL/thousand m³)



Source: NCC

In order to increase awareness of market participants, each quarter the NCC prepares and publishes on its website the natural gas market monitoring reports. The reports examine natural gas import, transmission, distribution and supply markets.

Competition is practically non-existent in the wholesale natural gas supply market due to a single external source of import. Upon the launch of the LNG terminal, the major natural gas importers will be able to acquire natural gas not only from Russia, but also from other active global regions, which have a possibility to export liquefied natural gas, which will encourage competition among wholesalers. Natural gas import prices are published on the NCC's website at <http://www.regula.lt/Puslapiai/baneriai/kuro-kainos-pasaulinese-birzose.aspx>.

In 2013, the licenses of the natural gas market operator were held by the same 2 companies as in 2012 – *BALTPOOL UAB* and *UAB GET Baltic*. These companies were issued the licenses in 2011 and 2012, respectively. The main functions of these market operators are to arrange secondary trade in natural gas on the natural gas exchange.

The NCC approved *BALTPOOL UAB* and *UAB GET Baltic* natural gas exchange service fees.

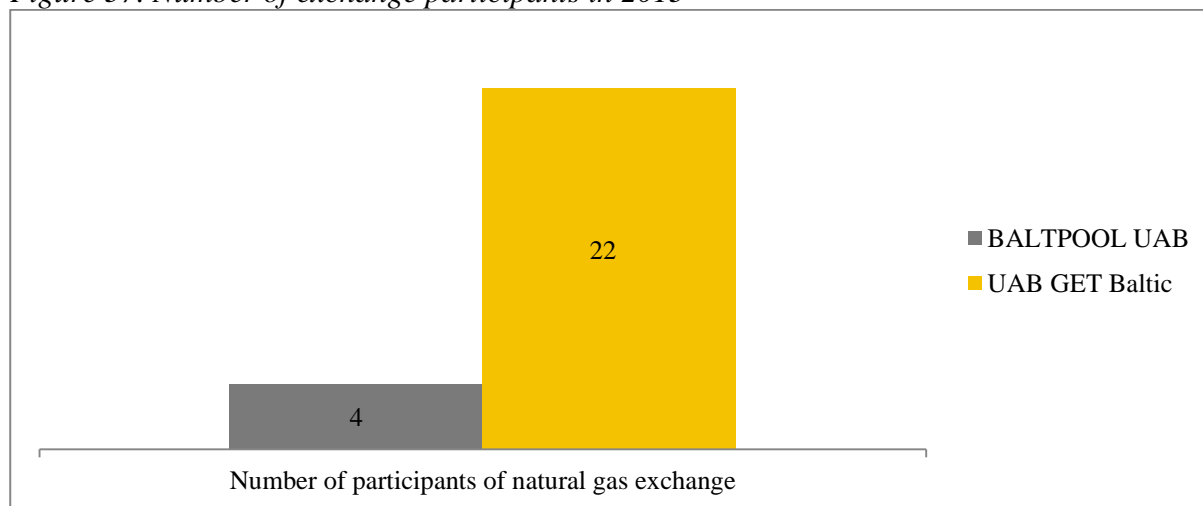
Table 21. Fees applied by natural gas exchange operators

Fee title	BALTPOOL UAB		UAB GET Baltic	
	Fee	Fee in 2014	Fee	Fee in 2014
Fixed annual participation fees				
Initial registration fee, LTL	—	—	5 000	0
Annual membership fee, LTL/year	20 000	0	10 000	0
For each additional trading account, LTL/year	1 500	0	—	—
Variable turnover fees				
Trade fee, LTL per thousand m ³	1.2	2	3	3
Settlement fee, LTL per thousand m ³	0.6	1	—	—

Source: NCC

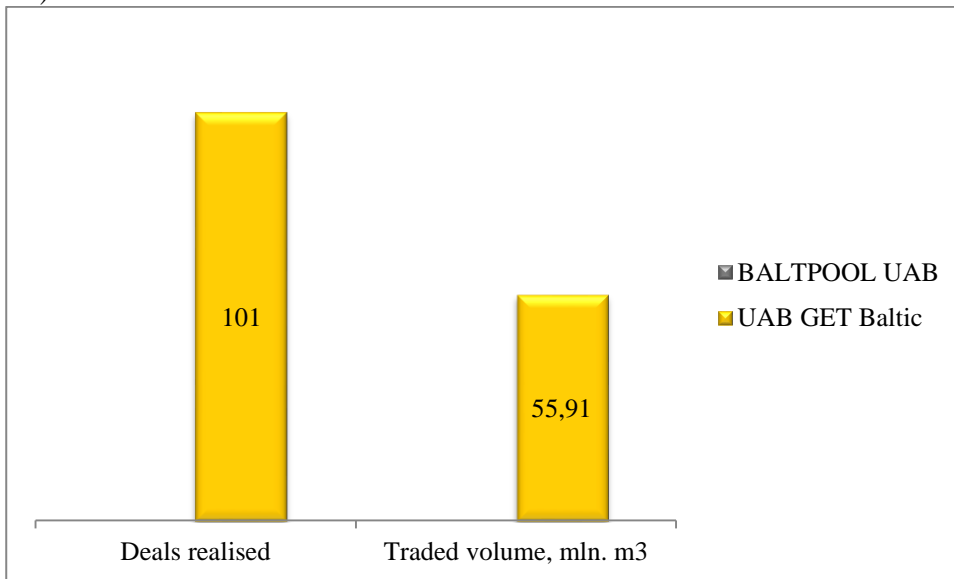
The companies holding the licenses of the natural gas market operator decided to apply a 100 percent discount on the primary registration and yearly membership fees. The companies indicated that the discount will encourage a bigger number of the natural gas market participants to take a try and to get used to the Natural Gas Exchange as one of the instruments for trading in natural gas, and in the future this will enable to actively trade in natural gas. In 2013, like in 2012, four participants were registered at the Natural Gas Exchange operated by *BALTPOOL UAB*, and the number of participants of the Natural Gas Exchange operated by *UAB GET Baltic* was consistently growing – at the end of 2013 there were 22 registered participants. During 2013, 101 transactions were concluded in exchanges - 55 911.1 thousand m³ of natural gas was traded there.

Figure 37. Number of exchange participants in 2013



Source: NCC

Figure 38. Number of concluded transactions and traded natural gas volume during 2013 (million m³)



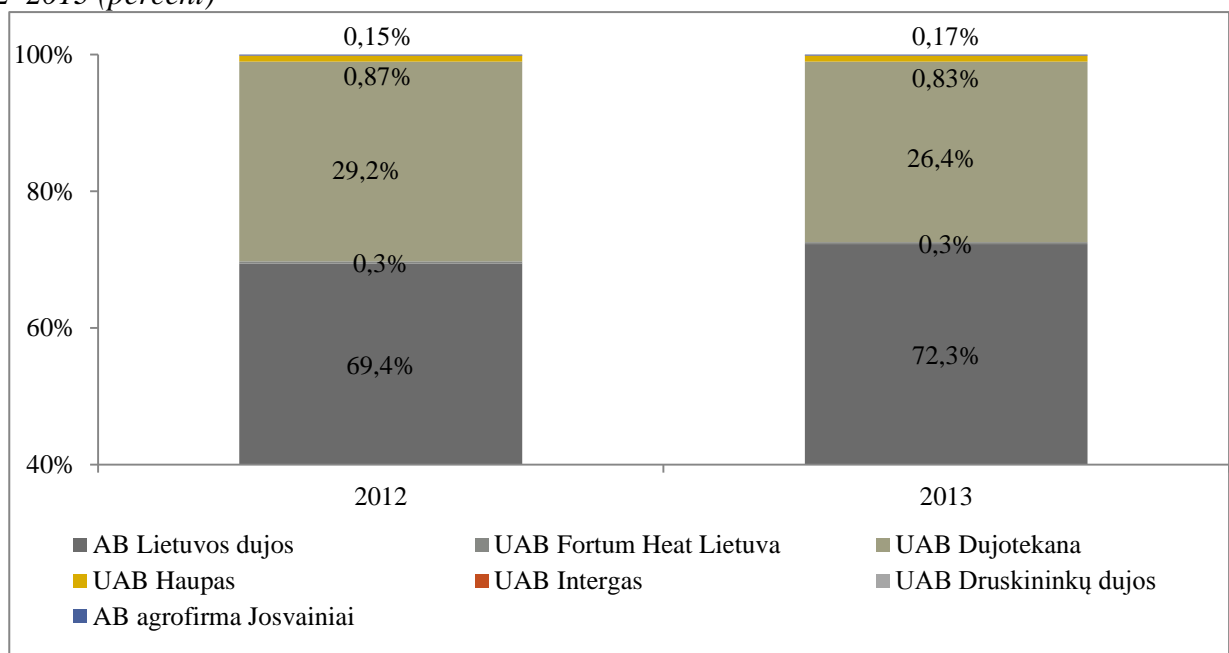
Source: NCC

4.2.2. Retail natural gas supply market

There were 561.7 thousand natural gas customers in Lithuania in 2013, 555.2 of whom were household customers and 6.5 thousand non-household customers. Natural gas was supplied to customers by 7 supply companies: *AB Lietuvos dujos*, *UAB Dujotekana*, *UAB Haupas*, *UAB Fortum Heat Lietuva*, *UAB Druskininkų Dujos*, *AB agrofirma Josvainiai* and *UAB Intergas*.

In 2012-2013, the market share of the largest retail supply market participant *AB Lietuvos dujos* increased by 2.83 percent, from 69.42 percent to 72.3 percent, while the market share of *UAB Dujotekana* decreased by 2.76 percent, from 29.2 percent to 26.4 percent; market shares of other supply companies changed within 0.1 percentage point threshold.

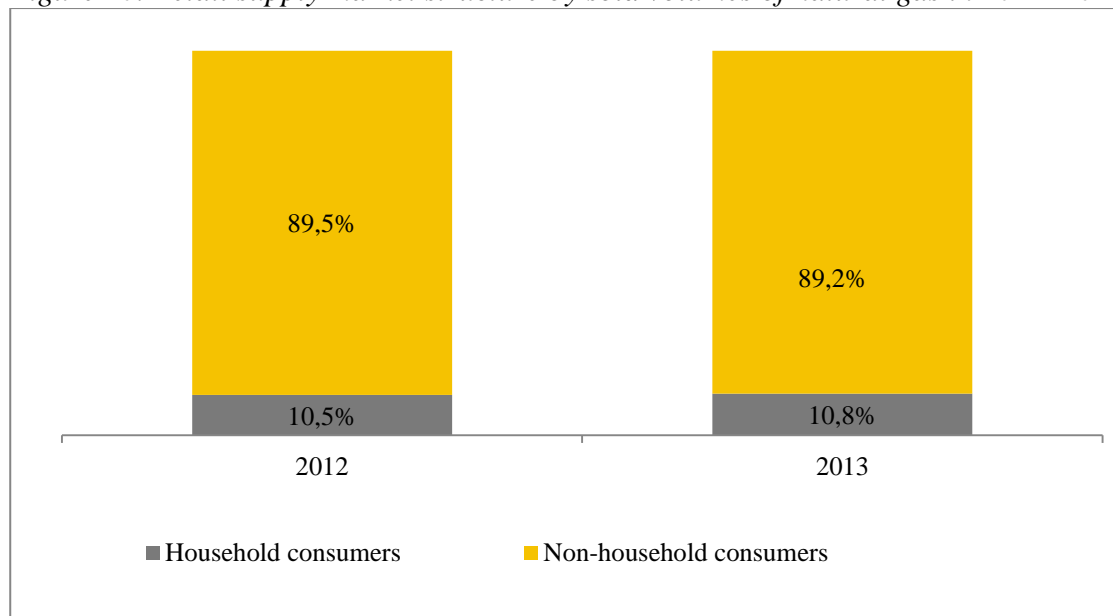
Figure 39. Retail supply market structure by volumes of natural gas supplied to market participants in 2012–2013 (percent)



Source: NCC

In 2013, as compared to 2012, retail supply market structural changes by the volume of natural gas sold were insignificant: the market share of natural gas supplied to household customers in the overall market structure increased by 0.3 percent- from 10.5 percent to 10.8 percent with the decrease in the market share of non-household customers from 89.5 percent to 89.2 percent.

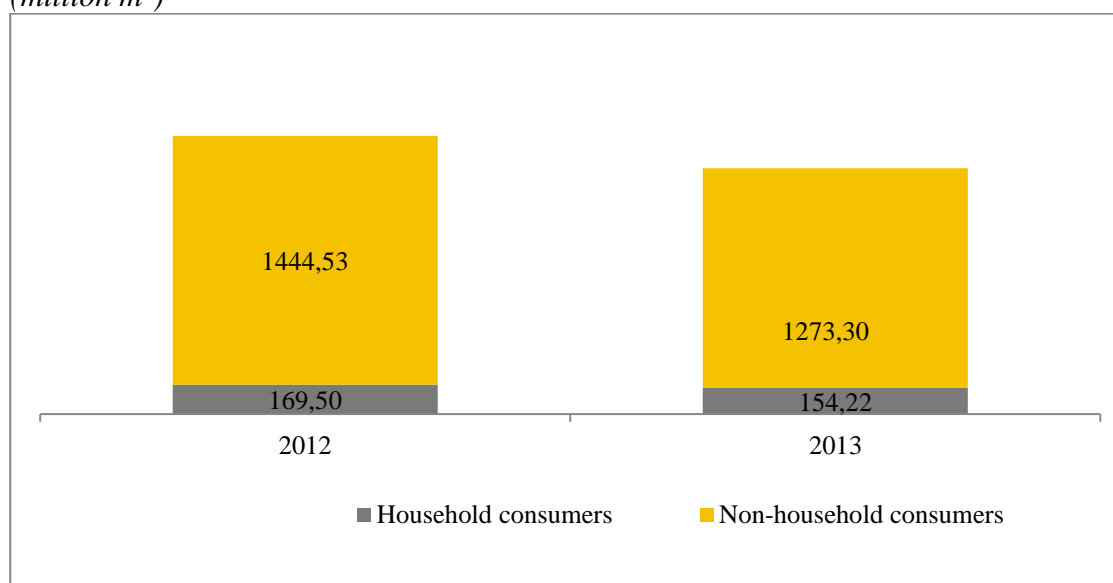
Figure 40. Retail supply market structure by sold volumes of natural gas in 2012–2013 (percent)



Source: NCC

In quantitative terms, in 2012-2013, the volume of natural gas supply to household customers decreased by 9 percent from 169 500 to 154 215 thousand cubic meters, while the quantity of natural gas supplied to non-household customers decreased by 11.85 percent from 1 444 531 to 1 273 300 thousand cubic meters.

Figure 41. Retail supply market structure by quantities of natural gas sold in 2012-2013 (million m³)



Source: NCC

Natural gas to household customers was mainly supplied by integrated distribution and supply companies supplying natural gas in their distribution activity territory. The largest of them was *AB Lietuvos dujos* occupying 99 percent of household customer market.

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

Pursuant to Paragraph 16 of Article 9 of the Law on Natural Gas, the NCC verifies whether specific natural gas transmission and distribution prices presented by natural gas companies do not discriminate separate 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 six months. In 2013, the NCC approved tariffs for natural gas customers for 5 gas companies twice per year, differentiating them by groups.

Natural gas tariff for household customers consists of the amount of forecasted prices of natural gas (product), 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. Gas import price for the upcoming six months is forecasted based on a forecast of changing import price components (1 percent sulphur fuel oil, diesel fuel (0.1), USD/EUR exchange rate and calorific value of gas). The difference in revenue, which occurs due to the difference between the forecasted and actual import price, is evaluated by setting natural gas tariffs for household customers for the following six months.

Article 9 of the Law on Natural Gas provides that the natural gas supply price shall not be regulated, except for cases when during a market research the NCC determines that an entity applies excessive prices or uses price pressure due to the lack of efficient competition, thus causing damage to market participants.

Pursuant to provisions of the Law on Natural Gas concerning the market research of energy resources, in 2012, the NCC approved by resolution *the Market Research Rules* aimed at creating preconditions for the formation of efficient competition in natural gas markets and preventing entities from abusing high influence in these markets. Provisions of the Market Research Rules remained the same in 2013 (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012).

In March 2013, the NCC on its own initiative started the survey of the natural gas supply market thus seeking to investigate the efficiency of the competition in the natural gas supply market and to identify the market participants having the dominating influence in the market. During the survey it has not been ascertained that the economic entity *AB Lietuvos dujos* was applying the unduly high prices due to the lack of the efficient competition or was using the price pressure thus causing damage to the market participants, however, taking into account the rapidly growing number of the market participants planning to get involved in the natural gas supply activities in 2013–2014, along with the circumstances of the initial development stage of the Natural Gas Exchanges in Lithuania, which presuppose the probability of the development of the natural gas supply market and the potential emergence of the competition in the natural gas supply market, and also taking into consideration the fact that the natural gas supply price caps had been set to the natural gas suppliers until August 2011, i.e. the processes of competition in the natural gas supply market could be assessed only since 2012, the NCC is planning to conduct the next survey of the natural gas supply market in 2015.

A public consultation on the natural gas supply market research results was being conducted from 28 February 2014 till 31 March 2014. By its Resolution No. O3-114 of 29 April 2014, the NCC approved results of the survey performed.

4.3. Security of supply

4.3.1. Monitoring of supply and demand

Natural gas is supplied to Lithuania from Russian gas fields through Belarus via the gas transmission pipeline Minsk–Vilnius. Technical capacities of Kotlovka gas metering station located at the border of Lithuania and Belarus are 31 200 thousand m³ per day. The maximum use of these capacities in 2013 was 64.1 percent, which means that import capacities physically meet all needs of Lithuanian consumers and the necessary capacities of transit to the Russian federation (Kaliningrad region) and to Latvia. In 2013, gas supply in Lithuania met the demand thereof; there were no restrictions of supply. Kotlovka GMS technical capacities allowed importing 13,286 billion cubic meters of natural gas to Lithuania per year. The actually imported amount of natural gas accounted for 4,820 billion cubic meters of natural gas per year (including transit) in 2013.

4.3.2. Estimated demand, necessary capacities and supply

The consumption of natural gas in Lithuania in 2013 and estimated gas demand until 2017 is presented in Table 22.

Table 22. Current and expected natural gas consumption in Lithuania in 2013–2017

Year	2013	2014	2015	2016	2017
Natural gas consumption, billion cubic meters	2,67	2,5	2,5	2,5	2,5

Source: NCC

The launch of the LNG terminal in Klaipėda is planned before 3 December 2014, the emergence whereof can encourage the occurrence of the actual supply competition between two future external sources and internal supply companies. Currently, the Lithuanian natural gas sector completely depends on one external supplier, which interferes with the development of internal supply competition. Upon the launch of the LNG terminal, the existing part of transmission system infrastructure in Klaipėda region would be insufficient to be able to use the LNG terminal at its full power for both domestic needs of the country and gas transportation to neighbouring countries. Thus in order to solve the said problems, the construction of the second line of Klaipėda–Kuršėnai gas transmission pipeline, renovation of the gas transmission pipeline Šiauliai–Klaipėda and expansion of Kiemėnai GMS capacities are planned.

In order to integrate gas markets of the Baltic countries and Finland into the common European Union market, diversify gas supply sources and increase gas security of supply, the aim is to construct a gas interconnection between Poland and Lithuania. Upon the implementation of this project, an access would be created for Lithuania and other Baltic countries to the European Union transmission system and the LNG market (via the Polish LNG terminal in Swinoujście).

4.3.3. Measures for covering peak demand or lack of suppliers

The natural gas TSO (till 31 July 2013 - *AB Lietuvos dujos*, starting from 1 August 2013 - *AB Amber Grid*) encourages system users to more precisely and gradually plan the necessary capacities by setting a transmission price, 70 percent whereof is made up of a fixed component for capacities ordered by the user.

Unused (free) capacities are offered on the market with a possibility to conclude contracts for interrupted capacities. Having concluded a natural gas transmission, distribution service

contract, a system user shall have a possibility to order (adjust) capacities each week and (or) day. A system user may order capacities (adjust the order) online or in writing according to the terms and conditions of the contract. When ordering capacities for a respective period of time, a system user shall have the purchased quantity of gas. According to the terms and conditions of the purchase - sale contract, supply mode shall be agreed upon with a supply company.

In presence of usual conditions of operation and supply of the transmission system to Lithuania, peak gas consumptions are fully met. In case of disruption in gas transportation, the following measures would be used:

- System users having signed a contract on uninterrupted gas supply with a supply company shall have gas reserves in Incukalns underground gas storage;

- Natural gas transmission contracts with system users directly connected to the transmission system establish the natural gas supply and transportation priorities and indicate the order of gas supply limitation and gradual termination thereof in case of an emergency or disruption in gas supply;

- DSOs must carry out instructions given by a TSO in case of an emergency or a disruption in gas supply, as provided for in *the National Natural Gas Supply Emergency Plan*.

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 2013 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).

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 Part 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 implementation of a pilot smart grid project was 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 2015.

Consumers willing to use natural gas shall conclude a contract on the connection to a company's gas system and a natural gas purchase-sale agreement.

A standard form of the connection contract and description of terms and conditions must be prepared by the natural gas company, which it must have approved with the State Consumer Rights Protection Authority. The connection contract shall indicate the connection time, connection fees, and settlement procedure for the services rendered, conditions for contract termination, property relations and liability of parties. A standard form of the connection contract shall be published on the natural gas company's website.

In 2012, the Ministry of Energy prepared *the Description of Standard Terms and Conditions of Contracts with Household Consumers on Natural Gas Supply, Transmission and Distribution (hereinafter - the Description)* which were approved with the State Consumer Rights Protection Authority. Provisions of the Description remained the same in 2013 (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012).

AB Lietuvos dujos system users every work day declare the quantity of natural gas accepted during the previous day as well as natural gas metering system readings on *AB Lietuvos dujos* website www.dujos.lt, by phone, fax or e-mail. Upon the end of the reporting period, *AB Lietuvos dujos* and a system user sign a deed on consumption. System users having signed a contract on online declaration of quantities can see their consumption data on *AB Lietuvos dujos* website.

Transmission and distribution system operators calculate the quantity of natural gas consumed by non-household consumers based on natural gas metering system and metering instrument readings, and indicate them in a VAT invoice for the reporting period.

The Law on Natural Gas establishes that consumers shall have the right to change a supplier free of charge. Upon the change of a natural gas supplier, it shall receive a final invoice no later than within six weeks from the change of the supplier. The number of users having changed a supplier in 2013 amounted to 0.07 percent of the total number of household consumers.

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

In order to ensure that users receive their consumption data, while a supply company uses meter readings, *LITGRID AB*, customers can see (take down) their meter readings or ask to send their data (if a customer has an installed automated meter reading system). At the end of the month, a customer receives all information about hourly rates of consumed electricity within 1-3 working days. A supply company can ask a customer to send the data (if a customer has an installed automated metering system). At the end of the month, a company receives complete information about hourly quantities of consumed electricity of each consumer, who has an automated metering, and the sum of hourly quantities of all consumers of the company within 7-8 working days. *LITGRID AB*, customers can make a payment for electricity transmission (balancing) by a bank transfer.

AB LESTO commercial customers, if their electricity metering devices are not connected to the Company's automated data reading system, can do the following with their electricity consumption data:

- Write down and declare the data themselves on the Company's self-service website www.manoelektra.lt, by e-mail info@lesto.lt and in the customer service centre;
- The quantity of electricity consumed can be calculated based on electricity consumption average;
- Electricity meter readings can be taken down by the Company or its authorized persons.

If an electricity metering device is connected to the Company's automated data reading system, the Company takes down electricity meter readings automatically (remotely).

Readings taken down and declared by a user himself, readings taken down by the Company, readings calculated based on average consumption and data taken down automatically can be viewed by commercial customers in the declaration form on the Company's self-service website www.manoelektra.lt and in a VAT invoice, in the extended invoice calculator.

Commercial customers can do the following on the self-service website www.manoelektra.lt:

- view and get familiar with customer invoices and payments for a period of up to 36 months or a period from the day of conclusion of the contract (if this period is shorter than 36 months);
- View invoice and payment history with detailed consumption of each object listed in the contract.

Household customers can declare their electricity consumption data in the following ways:

- by filling in their paybooks or their equivalents, making payments in service places of companies accepting payments (hereinafter - payment collectors) or online;
- if a payment method based on an average consumption or by direct debit was selected, they can declare actual electricity consumption data on the Company's self-service website www.manoelektra.lt, receive a VAT invoice, the consumption whereof is based on the actual customer electricity consumption;
- by calling the Company's customer service line 1802;
- if his electricity metering device is connected to *AB LESTO* automated data reading system, a household customer receives an invoice based on data automatically written down, his electricity consumption is based on his actual electricity consumption.

Household customers can on the Company's self-service website www.manoelektra.lt:

- View paybook history;
- Track paid readings and readings calculated by the company;
- View invoices presented to a customer and payments for the period of up to 36 months or a period from the day of contract conclusion (if this period is shorter than 36 months).

Article 69 of the Law on Electricity establishes that the NCC shall publish the set prices and tariffs within 30 calendar days from the day of receipt of a request of the service provider, having

inspected whether requirements for price and tariff setting were not breached when determining prices and tariffs, and whether consumers are not discriminated.

Electricity prices, tariffs and tariff plans are published on the websites of the NCC and *AB LESTO*, distributed by the Company's customer service centres, also customers are informed of new prices and tariff plans individually via a self-service website www.manoelektra.lt, while those, who have indicated their contact information, - by SMS or e-mails. The Company informs customers about the applicable tariff plans and conditions for the application thereof by customer service line 1802. It should be noted that small DSO also publish electricity tariff-related information on their websites.

In 2013, there were 2 179 instances of termination of electricity transmission (of which 271 for businesses and 1 908 for private customers) because of outstanding debts. Electricity disconnections are not carried out when the maximum daily air temperature falls below -15 (fifteen) or rises above +30 (thirty) degrees Celsius, as well as on Fridays and days before national holidays.

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.

Data related to PSO price and the dynamics thereof are published on the NCC's website www.regula.lt. For more information on PSO, see 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.

5.2. Dispute resolution

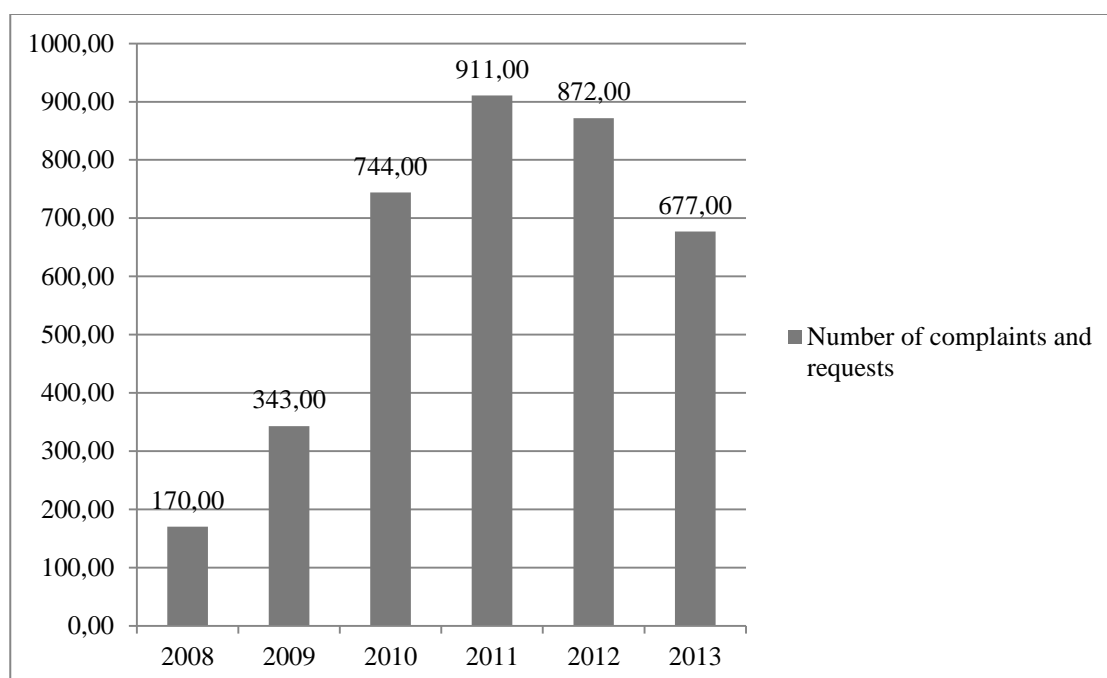
For more information on procedures carried out by the NCC in compliance with the requirements provided for in the Law on Energy and conditions prescribed in *the Description on the Procedure of Advance Mandatory Complaint and Dispute Resolution in an Out-of-Court Procedure*, see the Annual Report on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

In 2013, the NCC *prepared the first Review of Practice of Alternative Dispute Resolution in Energy Sector*, which presents methodical information on the competence of the NCC and applicable alternative dispute resolution methods - advance mandatory complaint and dispute resolution in an out-of-court procedure and conciliatory mediation, and reviews alternative dispute resolution practice formed by the NCC.

Taking into consideration the competence in the area of protection of consumer rights conferred to it by laws and the specifics of received requests for information and of complaints, the NCC participates in the establishment process of consumer rights protection monitoring system in Lithuania. In order to increase the consistency of monitoring of protection rights of energy service consumers, to search for answers to problems of areas raising most questions to consumers more promptly, in 2013, the NCC classified enquiries and complaints submitted by consumers in accordance with provisions of Commission Recommendation No. SEC (2010) 572 on the use of a harmonised methodology for classifying and reporting consumer complaints and enquiries of 12 May 2010 (hereinafter - *the Recommendation*) and other related international documents.

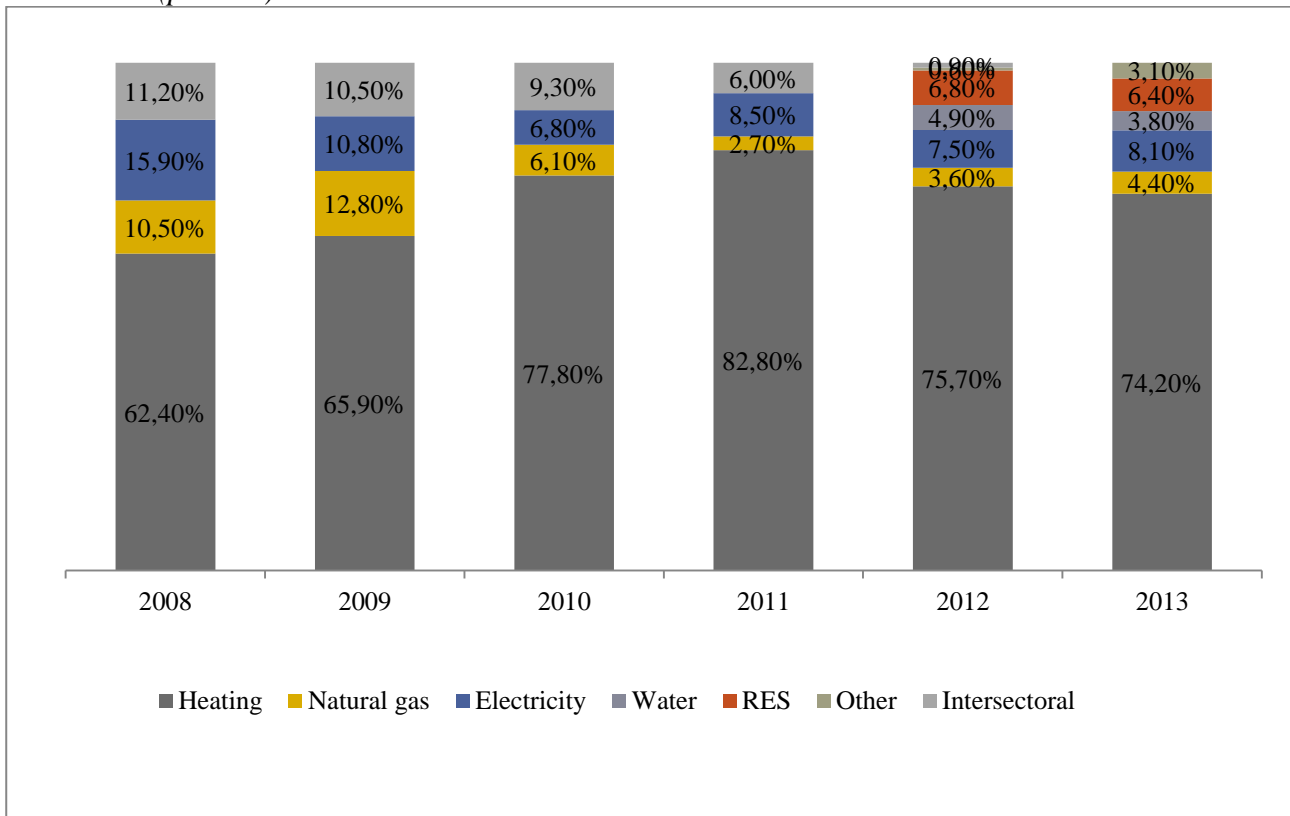
The application of the Recommendation's provisions in daily work allows for the classification of consumer complaints and enquires received by the NCC based on the principles used nation and European Union-wide, enables to collect, process and systematically present information provided in enquires and complaints, to easier identify consumer problems and promptly resolve them, also, to organize additional public awareness and educational measures.

Figure 42. Dynamics of consumer complaints and requests received by the NCC in 2008–2013 (pcs.)



Source: NCC

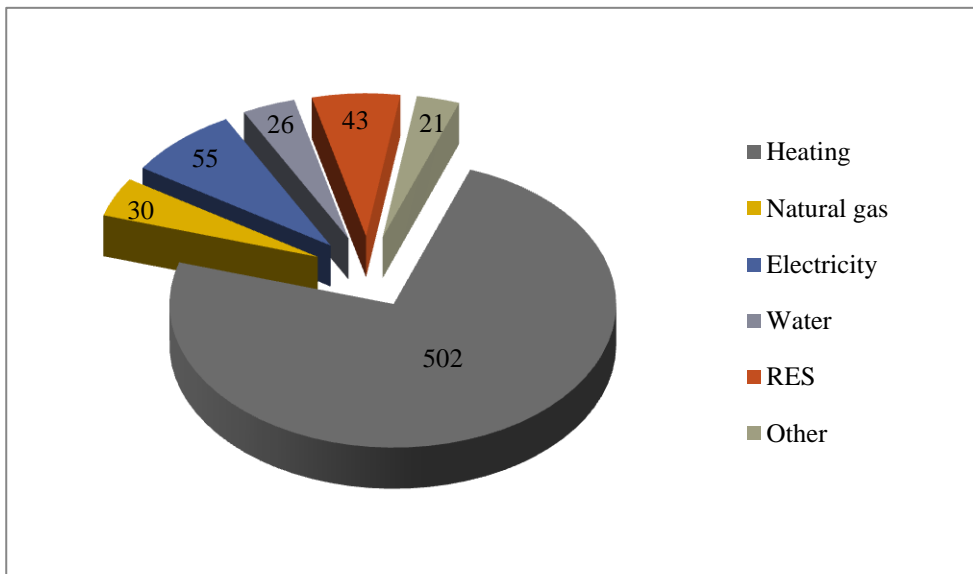
Figure 43. Distribution of consumer complaints and enquires received by the NCC by sectors in 2008–2013 (percent)



Source: NCC

Even though the total number of consumer complaints and enquires received by the NCC significantly decreased in 2013, it is obvious from the above figures that just like in previous years the greatest number of consumer complaints and enquires was received regarding the activities of companies in the heat sector. Distribution by sectors remained quite similar as in 2012. Besides heat sector problems, consumers showed greatest interest in electricity and RES issues.

Figure 44. Distribution of consumer complaints and enquires received by the NCC by sectors in 2013 (pcs.)



Source: NCC

Renewable energy sources sector

Consumers found most relevant issues in the renewable source sector to be the issues of application and setting of fixed tariffs for electricity from renewable sources. Also, consumers showed interest in auctions for the allocation of incentive quotas and preferential tariffs of electricity used to operate heat pumps (with installed metering system of electricity getting into their compressors).

Table 23. Consumer complaints and requests in the renewable sources sector (pcs.)

Subject	Complaints and requests received
Regarding the tariff application and setting	33
Regarding auctions for the allocation of incentive quotas	4
Regarding preferential tariffs for heat pumps	3
Other (regarding solar light energy power plant development-related costs, buy-up of surplus electricity, and regarding a questionnaire sent to producers)	3
Total:	43

Source: NCC

Electricity sector

In the electricity sector, most relevant consumer questions were related to conditions of the connection of electric devices to electricity networks and legitimacy of fees, application of

electricity prices and tariffs. Consumers also complained about unclear, unreasonable and inaccurate invoices and relations between subscribers and sub-subscribers.

Table 24. Consumer complaints and requests in the electricity sector (pcs.)

Subject	Complaints and requests received
Regarding the connection of consumer's electricity devices	18
Regarding electricity prices and tariffs	15
Regarding unclear, unreasonable and inaccurate invoices	5
Regarding relations between subscribers and sub-subscribers	3
Regarding the conclusion of a contract on the purchase - sale of electricity	3
Other (regarding the calculation of consumed electricity for general house needs, the selection of an independent electricity supplier, application of laws, etc.)	11
Total:	55

Source: NCC

Natural gas sector

In the natural gas sector, most relevant consumer questions were related to the validity of natural gas price amount, fixed tariff component for natural gas, fees for the connection to the natural gas network and reasonability of debts formed for natural gas. Of the entire number of submitted complaints and requests, 5 were received from non-household consumers, and 11 consumer complaints were received regarding liquefied oil gas prices.

Table 25. Consumer complaints and requests in the natural gas sector (pcs.)

Subject	Complaints and requests received
Regarding liquefied oil gas prices	11
Regarding natural gas price amount	8
Regarding the connection fee	3
Regarding the validity of a fixed component	4
Regarding the application of laws	4
Regarding debts for natural gas	3

Regarding the change of a natural gas supplier	2
Other (regarding the natural gas connection and disconnection fee, prices of gas meter installation works, metering device checks, etc.)	11
Total:	46

Source: NCC