



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

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National Control Commission for Prices and Energy

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FOREWORD

In 2011–2012 the legal framework of the energy sector was materially modified after the legislator has passed new versions of the laws on Renewable Energy, Energy, Electricity, Energy Resources Market Law on Liquefied Natural Gas Terminal, and amended the Law on Heat Sector.

The new package of energy laws of 2011 has obliged the National Control Commission for Prices and Energy (hereinafter – the NCC) to implement more regulatory and oversight tasks and diversify its functions, reinforced the status of the energy regulator and more specifically defined the status of the regulatory authority among other public administration agencies.

In 2011 many significant changes took place in the electricity sector.

The NCC has approved the strategic investment project of Lithuanian-Swedish electricity interconnection with the total value of 426 million EUR, including the Lithuanian investment share of 205 million EUR.

The legal basis has been developed for NORD POOL SPOT entering Lithuania effective 18 June 2012.

15 independent electricity supply licenses were issued, and there were 65 licensed suppliers at the end 2011. The number of active suppliers has grown from 20 to 27 entities.

The market opening rate was 54% of total national energy consumption level, compared to 35% in 2010.

In 2011 Lithuanian power market trade volume amounted to 8 TWh, i.e. 2% less than in 2010. In 2011 the average price on the BALTPPOOL UAB power market was 156.21 Lt/MWh (3% lower than in 2010).

In 2011 the average electricity end price of independent suppliers increased by 1% and reached 16.92 ct/kWh.


After the Law on Renewable Energy was passed the NCC agreed the related secondary legislation and approved new prices of buying electricity from renewable resources.

On 1 January 2011 “VST” AB and “Rytų Skirstomieji Tinklai” AB merged into a new legal entity LESTO AB, the distribution grid operator, which continues activities of the two predecessors.

On 1 March 2011 the Transmission System Operator LITGRID AB and the company “LITGRID Turta” AB were reorganized by incorporation. As of 4 March 2011 LITGRID AB operates as the Transmission System Operator.

On 20 July 2011 the undertaking “Lietuvos Energija” AB and “Lietuvos Elektrinės” AB were merged into a new legal successor entity “Lietuvos Energija” AB, which keeps operating the hugest national generation capacities, i.e., Kruonis Pumped Storage Hydroelectric Power Plant (hereinafter – Kruonis PSHP), Kaunas Hydroelectric Power Plant, and Lithuanian Power Plant in Elektrėnai.

On 7 February 2012, when the new version of the Law on Electricity came into force, in March and April 2012 the NCC passed resolutions encouraging faster property unbundling of the Transmission System Operator LITGRID AB and the Distribution System Operator LESTO AB compliant with the established requirements. When the Government of the Republic of Lithuania passed the Resolution No. 826 of 4 July 2012 “On Establishing the Limited Liability Company and Investing State-Owned Assets” approving the activity and control unbundling plan for electricity companies up to 1 October 2012, compliant with the Law in Electricity, and after LESTO AB provided information on unbundling from distribution-unrelated and vertically integrated activities of the company, the NCC stated in July that the unbundling of the distribution activity of LESTO AB was compliant with provisions of Art. 54.1 and Art. 54.3 of the Law on Electricity. Up to 1 October 2012 LITGRID AB was obliged to complete all the actions required to ensure the compliance with requirements of the Law



on Electricity on unbundling distribution activities. Once the NCC is supplied with the required company documents, it will notify the European Commission in line with the established requirements.

30 June 2011 marked an important development in the natural gas sector, namely the Law on Amendments to the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas passed by the Seimas of the Republic of Lithuania. Thus the unbundling of assets, which is the first and the main activity model of unbundling of the Gas Transmission System Operator's activities provided for in the EU III Energy Package will be implemented.

On 31 May 2012 the only vertically integrated company submitted an unbundling plan and an activity restructuring plan to the NCC. The plans stipulate that no later than by 31 July 2013 the company must have its natural gas activities unbundled legally, functionally and organizationally, and no later than by 31 October 2014 it must have its activities and controls unbundled.

Having no alternatives of natural gas supply to Lithuania, the Government has planned for diversification of sources of natural gas imports by building a new liquefied natural gas terminal and interconnecting Lithuanian and Polish natural gas systems. In 2011 the NCC approved the investment project for construction of the gas mainline Jurbarkas–Klaipėda, after the Government made a decision to use the European Union funds to co-finance the modernization and development of the natural gas transmission system. The gas mainline is necessary for the future diversification of natural gas supply to the Republic of Lithuania and to ensure operations of the planned liquefied natural gas terminal.

In November 2011 the NCC licensed a Natural Gas Exchange Operator, and in February 2012 approved the Operating Regulations of the Natural Gas Exchange. These decisions *de facto* open the door for operating of the natural gas market and sparking competition development in the natural gas sector. When the Natural Gas Exchange starts operating in real terms, all natural gas customers having yearly supply contracts with importer-suppliers and other entities of the natural gas sector will be able to sell/buy their surplus.

To develop this report the NCC used regular reports and other materials of undertakings operating in the electricity and gas sectors and data supplied by other authorities. The present report overviews the key development stages of the gas and electricity markets and lists significant problems faced by them.

Chair of the Commission



Diana Korsakaitė



2. KEY DEVELOPMENTS IN ELECTRICITY AND NATURAL GAS MARKETS

2.1. ELECTRICITY SECTOR

2.1.1 UNBUNDLING OF VERTICALLY INTEGRATED UNDERTAKINGS

On 17 January, 2012 the Seimas of the Republic of Lithuania passed a new version of the Law on Electricity of the Republic of Lithuania which came into force on 7 February, 2012. The Law on Electricity was drawn to implement 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 (OL 2009 L 211, p. 55), 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 (OL 2009 L 211, p. 15), Council Regulation (EU, Euratom) No 617/2010 of 24 June 2010 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union and repealing Regulation (EC) No 736/96 (OL 2010 L 180, p. 7), and Commission Regulation (EU, Euratom) No 833/2010 of 21 September 2010 implementing Council Regulation (EU, Euratom) No 617/2010 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union (OL 2010 L 248, p. 36).

The Law on Electricity provides for unbundling of the electricity transmission activity from electricity generation and supply activities, by unbundling the transmission system and the operator's property from undertakings engaged in electricity generation and/or supply activities. Under the Law on Electricity, the Government of the Republic of Lithuania passed the Resolution No. 826 of 4 July, 2012 *On Establishing the Limited Liability Company and Investing State-Owned Assets* approving the activity and control unbundling plan for electricity companies up to 1 October 2012, compliant with the Law on Electricity. Under the plan, State-owned shares of the Visagino Atominė Elektrinė UAB as the shares of the company having generation and supply activity functions, currently held by the Ministry of Energy as the trustee, are handed over to the Ministry of Economy, while the electricity Transmission System Operator LITGRID AB remains under the Ministry of Energy's control.

It should be noted that as soon as the new version of the Law on Electricity came into force, the NCC reviewed the implementation of it and passed a Resolution No. O3-68 of 19 March, 2012, stating that the Transmission System Operator LITGRID AB was incompliant with requirements on the transmission activity unbundling stipulated in Article 53.2, 53.3 and 53.6, and obliging LITGRID AB to provide a detailed description of the manner of unbundling activities and controls from transmission-unrelated vertically integrated company activities to the NCC, together with a detailed action plan to be implemented. At the same time the decision was made to inform the Government of the Republic of Lithuania and the Ministry of Energy that under the Article 80.3 of the Law on Electricity there was no procedure approved for the body authorized by the Government on appointing an independent system operator for temporary electricity transmission activities. After the company provided the specified data, the NCC passed a Resolution No. O3-89 of 11 April, 2012 obliging LITGRID AB to condense the action plan timeline and complete all the actions required to ensure compliance with requirements of the Law on Electricity on unbundling transmission activities up to 1 October, 2012, and inform the NCC about it.

An analogous process was related to the unbundling of assets of LESTO AB, the electricity distribution system operator. The NCC passed a Resolution No. O3-67 of 19 March, 2012, stating that



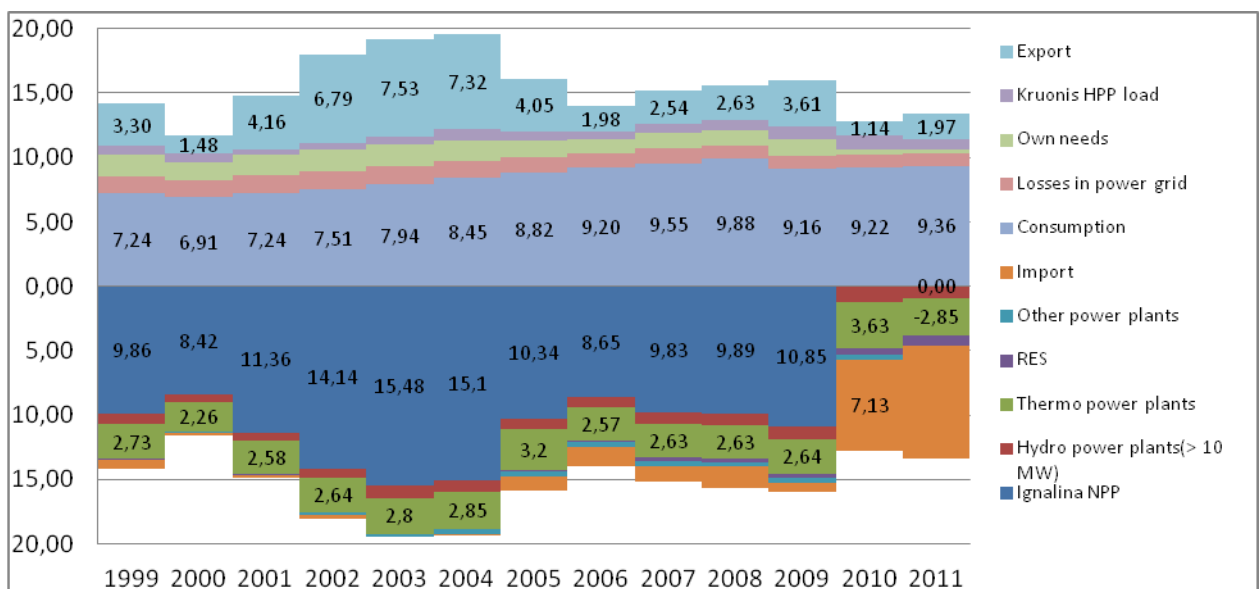
the Distribution System Operator LESTO AB was in compliance with requirements on the distribution activity unbundling stipulated in Article 53.1 and 53.2 of the Law on Electricity, and obliging LESTO AB to provide a detailed description of the manner of unbundling activities and controls from distribution-unrelated vertically integrated company activities, to the NCC, together with a detailed action plan to be implemented, up to 30 March, 2012. The manner of unbundling activities and controls selected by LESTO AB shall ensure that the requirements are met, and the submitted detailed action plan on unbundling selected activities and controls shall transparently disclose the sequence and timeline of specific actions which will ensure the meeting of the requirements. After the company provided the specified data, the NCC passed a Resolution No. O3-88 of 11 April, 2012 obliging LESTO AB to condense the action plan timeline and complete all the actions required to ensure compliance with requirements up to 30 June, 2012, and inform the NCC about it. The NCC stated in July that the unbundling of the distribution activity of LESTO AB was compliant with provisions of Article 54.1 and Art. 54.3 of the Law on Electricity.

The NCC will keep controlling the efficient and fastest possible unbundling activities to ensure the independence of the transmission and distribution activities from commercial interests, and once the NCC is supplied with proper documents, it will notify the European Commission in line with the established requirements.

2.1.2. SUPPLY SECURITY

Upon the decommissioning of the last Unit II of Ignalina Nuclear Power Plant thus having lost the generation capacity meeting approximately 80% of total national electricity demand at the end of 2009, the previous exporter of electricity Lithuania started importing electricity from the third country (the Russian Federation) and became dependent on it. In 2011 the electricity import grew by 22% and represented 59% of the national consumption (Fig. 1).

Figure 1. Electricity balance in 1999 - 2011, TWh



Source: NCC.

The total installed power plant capacity increased by 4% within one year, reaching 4 021 MW, in thermal power plants – by 4%, in power plants using renewable energy sources (hereinafter – RES) – by 14%. In 2011 the installed capacity of company power plants saw the most significant

growth in terms of units in kind, from 96 MW to 164 MW. This demonstrates the strive of industrial companies to have own electricity supply.

In the electricity sector Lithuania has a goal of having interconnections with Sweden and Poland, to build a new nuclear power plant and create a common power market of the Baltic States.

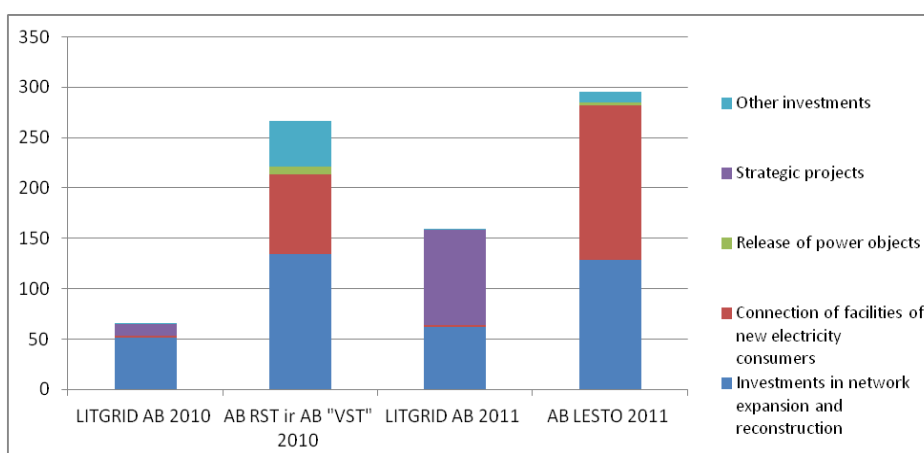
In 2011 the NCC approved the investment project *Interconnection between Sweden and Lithuania* (NordBalt) and approved the project financing model up to 2 016, which will ensure the lowest possible financial burden on Lithuanian consumers. The total project value is EUR 426 million, where Lithuanian cofinancing share of the investment is EUR 205 million.

Based on data provided by the Transmission System Operator LITGRID AB, projects LitPol Link 1 and LitPol Link 2 of interconnections with Poland and a project of connecting the new Visaginas Nuclear Power Plant were submitted to the European Commission for financing in July 2012. Discussions on funding coordination for building this power plant are currently taking place. There are plans to build the power plant together with the partners from the Baltic States and potentially Poland. Once the above projects are implemented, the currently isolated Lithuanian electricity system would be integrated into the common European electricity market, which would contribute to better electricity supply reliability and increase competition on the regional Baltic market.

Total national investment (including the Transmission System Operator and the Distribution System Operators) were LTL 455 million in 2011, including LTL 94.1 million investments into strategic projects. The yearly growth of total investment was 37%.


In the strategic investment trends 2011 of LITGRID AB strategic projects underwent a major change, representing 60% of the total amount of the year. The network development and reconstruction area is notable among other areas, the allocations to which were increased by 21% compared to 2010. Compared to 2010, LESTO AB in 2011 primarily invested into connecting new users: the investments in 2011 were almost doubled compared to the preceding year. An amount similar to the one in 2010 was allocated to reconstruction and modernization of networks and substations, and investments into other areas were considerably reduced.

Figure 2. Investments of the Transmission System Operator and distribution grid operators in 2011, million LTL



Source: NCC, based on information provided by LESTO AB and LITGRID AB.

It should be mentioned that every year by the end of July the State Enterprise Energy Agency under the Ministry of Economy drafts annual supply security (monitoring) reports, covering a balance between supply source capacities and needs, expected capacity needs and source capacity sites planned or under construction.



Under the new version of the Law on Electricity, which came into force on 7 February, 2012, the NCC monitors and evaluates reliability of transmission and distribution grids. Results of reliability monitoring are summed up in annual reports posted on the NCC website. The reports include the following data:

- 1) a balance between electricity needs and supply (actual consumption) of the national electricity system;
- 2) future forecasted level of electricity needs and supply possibilities;
- 3) development of electricity generation capacities;
- 4) measures to meet electricity needs during peak times and system balancing and regulating measures;
- 5) the level and quality of the electricity system maintenance.

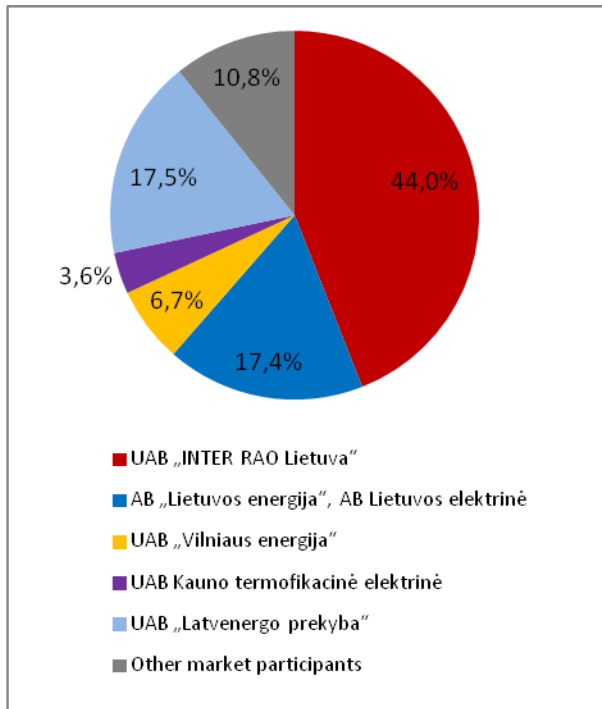
Every year no later than by July 31 the NCC submits annual reports to the Government or its authorized body and the European Commission.

2.1.3. COMPETITION IN ELECTRICITY SUPPLY MARKET AND MARKET SUPERVISION

As no dominating national electricity producer is available since 2010, the power market model has been implemented, which was approved by the Resolution No. 740 on *Lithuanian Power Market Development Plan*, of 8 July, 2009 of the Government of the Republic of Lithuania, which has facilitated access to the power market for more players. The new version of the Law on Electricity has provided that since 2013 the public supplier must conclude agreements on electricity supply based on regulated public prices only with household users, which had not selected an independent electricity supplier. This means that all the commercial users will buy electricity on the power market based on NORD POOL SPOT Exchange prices or bilaterally agreed contractual prices.

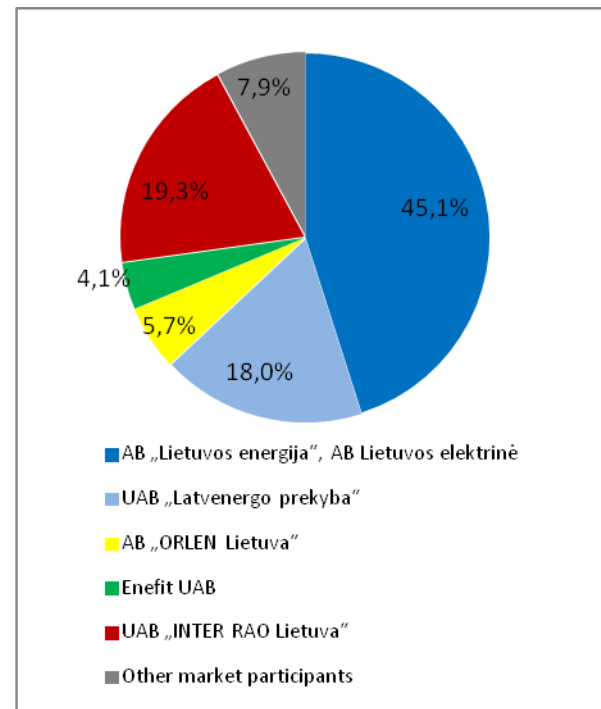
Compared to 2010 data, the yearly power market structure dynamic was different. Changes in the sales market were not very significant in 2010-2011: the market share of Lietuvos Energija AB reduced by 5 %, the one of INTER RAO Lietuva UAB increased by 1 %, the one of Vilniaus Energija UAB – by 1 %, the one of Kaunas Hydroelectric Power Plant UAB – by 2 %. Changes in the sales market were more significant: Lietuvos Energija AB lost 37 % of the market. Due to this reduction the market share of Latvenergo Prekyba UAB grew from 5 to 18 %, and that of INTER RAO Lietuva UAB increased up to 19 %. (Fig. 3–4).

Figure 3. Structure of Exchange sales in 2011, %



Source: NCC, based on information of BALTPPOOL UAB.

Figure 4. Structure of Exchange buys in 2011, %.



Source: NCC, based on information of BALTPPOOL UAB.

Irrespective of the reduced market share of one of the two major players of the electricity wholesale market in 2010, in 2011 one player covering approximately half the market value remained: this was INTER RAO Lietuva UAB in Power Exchange sales, Lietuvos Energija AB in Power Exchange buys.

With increasing market opening in the future and subsequent elimination of public regulated prices, competition may increase among suppliers, however there will be no alternatives due to the small Baltic regional market until the electricity trade will extend to reach the Nordic and the Western European countries.

The new version of the Law on Electricity provides that the NCC shall supervise and monitor the electricity market and publish annual and quarterly electricity market monitoring reports in line with the *Description of the Procedure of the Electricity Market Supervision* approved by the NCC in September 2010. Within their remit the TSO and the Power Exchange Operator inform the NCC on potential violations of activity terms established for license and/or permit holders.

Under the new version of the Law on Electricity the NCC aims to create conditions to ensure effective competition and its development in electricity and to prevent abuse of the market influence. To reach this goal the NCC undertakes market studies of electricity production and independent supply market, the procedure of the studies is compliant with the terms and procedure provided for by *the Electricity Market Study Rules* approved by the NCC in June 2012.

Under the provisions of the above Law the NCC does the following to the entity enjoying major market influence on the electricity market, and providers of electricity transmission, distribution services and/or the public supplier:

1) Establishes obligations to provide services for cost-based prices, with return on investment based on the reasonability criterion taken into account;

2) Establishes obligations related to cost accounting systems aimed for provision of specific service types;

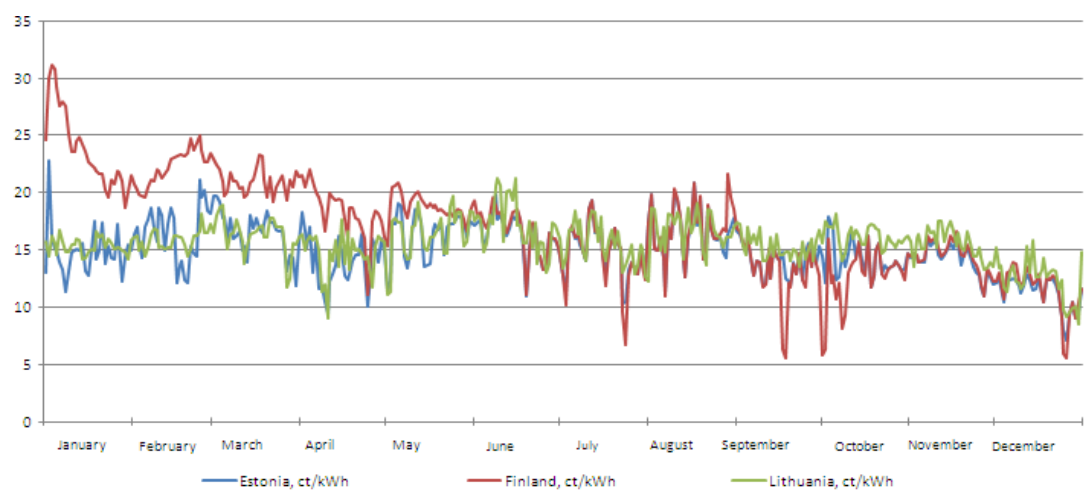
3) Obliges to modify applied service prices or establishes a price cap for regulated prices.

When establishing obligations the NCC duly takes into account the right to get return on investment of the entity enjoying major market influence on the electricity market, and providers of transmission, distribution services and/or the public supplier. Obligations established by the NCC must be clearly defined, transparent, non-discriminating, verifiable and ensuring equal opportunities to provide services to customers.

Under the legal acts in force, the market operator performs advance monitoring of market player behaviour at the Exchange in respect of potential competition violations. During 2011 the market operator did not identify potential violation cases by market players trading on the electricity market. Observing the procedure established in the *Description of Electricity Market Supervision*, the market operator posted 25 urgent market messages on its website in as short time as Quarter IV of 2011.

Dynamics of electricity Exchange prices in 2011 is shown in Fig. 5.

Figure 5. Average daily electricity price on Estonian, Finnish and Lithuanian Exchanges, ct/kWh

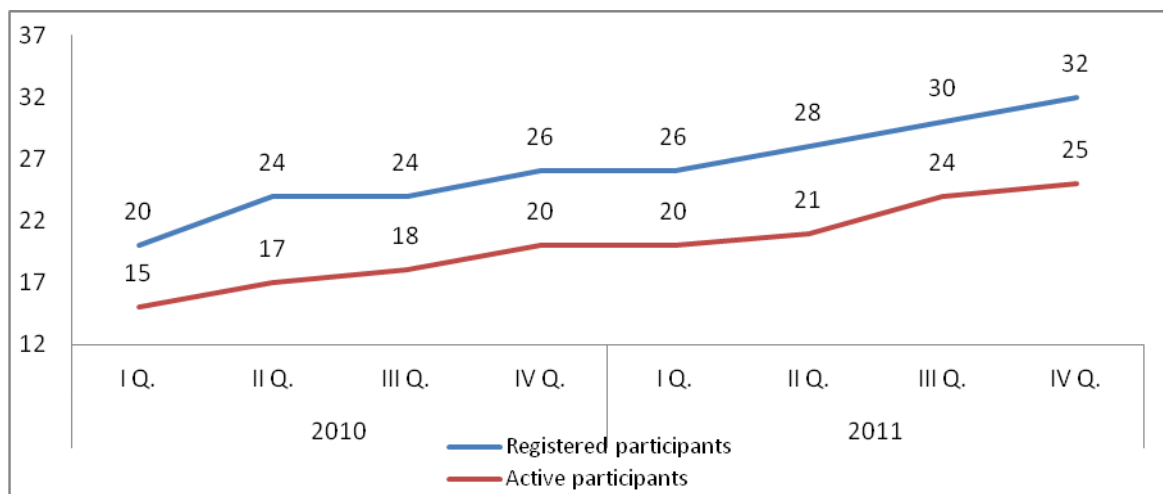


Source: NCC, based on information of BALTPPOOL UAB.

In 2011 the volume of electricity traded on Lithuanian electricity market was 8 TWh, i.e. by 1.9% lower than in 2010. The average price in 2011 was 156.21 LTL/MWh or approximately by 3% lower than in 2010 (160.27 LTL/kWh). The highest and lowest hourly prices were recorded in Quarter II of 2011, 0.28 LTL/MWh (in Quarter IV 2010 – 0.1 LTL/MWh) and 241.9 LTL/MWh (in Quarter III 2010 – 350.01 LTL/MWh) respectively.

At the end of 2011 Lithuanian electricity market had 32 players registered, including 25 active ones. The yearly change of the number of active Power Exchange players was 25%. (Fig. 6).

Figure 6. Change of the number of Lithuanian Power Exchange players in 2010–2011

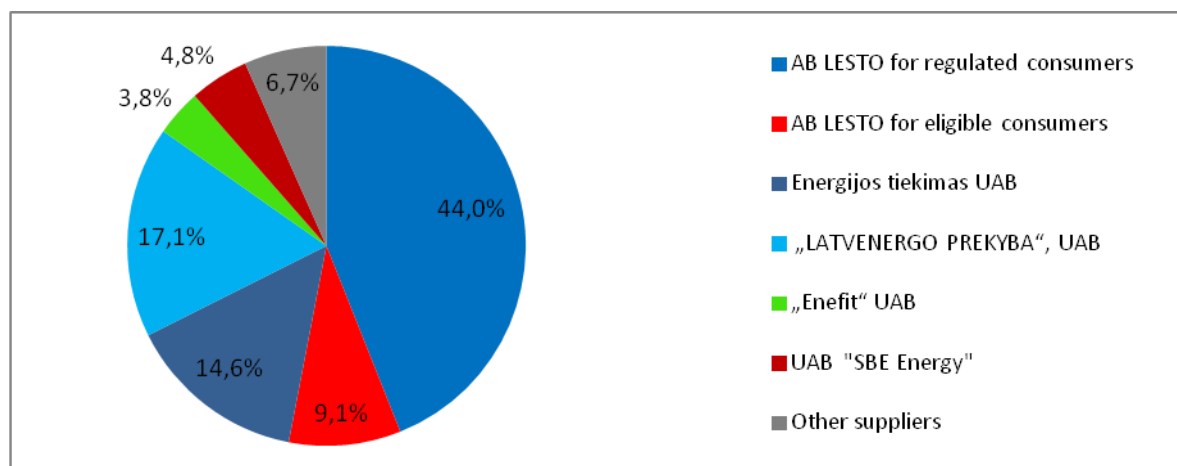


Source: NCC, based on information of BALTPPOOL UAB.

Based on the *Electricity Trading Rules* the retail electricity market consists of the suppliers' trade in electricity with users carried out in line with the terms and procedure established in the Rules of Electricity Supply and Use, when electricity is sold to customers is an independent or public or electricity supplier.


In 2011 the retail electricity market concentration reduced, however LESTO AB remained the main supplier (Fig. 7).

Figure 7. Structure of retail electricity market in 2011, %.



Source: NCC, based on reports provided by LESTO AB and independent suppliers.

In 2010 the average electricity price sold to end users by independent suppliers was 15.12 ct/kWh, and in 2011 it grew by 12% and was 16.92 ct/kWh. In 2011 the actual buying price of the distribution grid operator (AB LESTO) applied to independent electricity users was 18.60 ct/kWh (In 2010 the one of the Distribution System Operator VST AB was 15.59 ct/kWh, the one of Rytų Skirstomieji Tinklai AB – 15.60 ct/kWh).



The main changes of the electricity market monitoring in 2011 compared to 2010 are the following:

- With the higher number of the market players, one of the two dominant players of the electricity wholesale markets of 2010 was retained in 2011: INTER RAO Lietuva UAB in electricity sales market (44%), and Lietuvos Energija AB in electricity purchase market (45%).
- In 2011, 15 independent supply licenses were issued, and there were 65 licensed suppliers at the end of the year. The number of active suppliers engaged in operations grew from 20 entities in Quarter I of 2011 to 27 entities in Quarter IV 2011;
- Independent suppliers supplied approximately 47% of total electricity volume distributed by LESTO AB, to users connected to the distribution grid;
- The retail market share of independent suppliers grew by 12 percentage points;
- The average electricity price sold to end users by independent suppliers increased by 12%, and in 2011 reached 16.92 ct/kWh (in 2010 it was 15.12 ct/kWh);
- The retail market share of the public supplier LESTO AB reduced from 66% in 2010 to 53% in 2011.

Reorganization changes in 2011 were the following:


- On 1 January, 2011 VST AB and Rytų Skirstomieji Tinklai AB merged into a new legal entity LESTO AB, the distribution grid operator, which continues activities of the two predecessors.
- On 1 March, 2011 the Transmission System Operator LITGRID AB and the company LITGRID Turtas AB were reorganized by incorporation, by incorporating LITGRID AB into LITGRID Turtas AB. After the reorganization all the rights, obligations and assets of LITGRID AB were transferred to LITGRID turtas AB. On 4 March, 2011 the company name LITGRID turtas AB was replaced by the name LITGRID AB. LITGRID AB keeps operating as the Transmission System Operator.
- In Quarter III of 2011 Lietuvos Energija AB and Lietuvos Elektrinė AB were merged. On 20 July, 2011 the companies were merged into a new legal successor entity Lietuvos Energija AB, which keeps operating the hugest national generation capacities (Kruonis PSHP, Kaunas Hydroelectric Power Plant, and Lithuanian Power Plant in Elektrėnai).
- The wind farm of 30 MW held by Vėjų Spektras UAB was sold to INTER RAO Lietuva UAB .

2.1.4. DEVELOPMENT OF LEGISLATION IMPLEMENTING THE LAW ON ELECTRICITY

The new version of the Law on Electricity has substantially expanded the functions and obligations of the NCC and has obliged the NCC to develop legislation implementing the Law on Electricity.

In March 2012 the NCC approved the *Description of Terms and Procedure of Submission of Documents of Appointing the Transmission System Operator for the electricity system and Information*, to be followed by the Transmission System Operator to submit certain materials on unbundling the ownership.

The new version of the Law on Electricity has obliged the NCC to develop rules of unbundling the accounting of electricity undertakings. Under the provisions of the above law the NCC shall be entitled to establish the cost accounting system, method and/or model, which is obligatory to an entity enjoying major market influence on the electricity market, and providers of transmission, distribution services and/or the public supplier: in March 2012 the NCC started public consultations with the market players on potential accounting model for the electricity sector. For the public



deliberation specialists of the NCC presented the possibility to implement a model encouraging efficiency of transmission, distribution and public supply markets, long term competition and providing benefits to users (Long run average incremental costs) (hereinafter – LRAIC). By the Resolution No, O3-87 off 11 April, 2011 the NCC made a decision to develop the LRAIC (Long run average incremental costs) accounting model in the electricity sector to be applied to providers of electricity transmission and distribution services up to the new regulatory period.

After the Power Exchange regulations were legalized by the Law on Electricity, in March 2012 the NCC passed respective resolutions on revoking the electricity market operator's license of BALTPPOOL UAB and revoking the setting of the price caps for assignments to purchase and sell electricity at the Exchange. Since NORD POOL SPOT started its operations in Lithuania on 18 June, 2011, the *Electricity Market Price Caps Setting Methodology* was reviewed respectively and the *Description of Supervision Procedure for Regulated Activities of Energy Undertakings*.

To implement the Law on Electricity the NCC drafts and will submit to the Government the *Description of Principles for Setting State Regulated Prices in the Electricity Sector*, which will reflect manners of accounting unbundling and cost accounting. The above document was published for public consultation in June 2012.

In June 2012 the NCC improved the *Requirements for Electricity Supply Reliability and Service Quality*, which should encourage striving for higher reliability of supply and service quality.

During the same month the NCC approved the *Market Research Rules* which already guide a commenced reserve power research. The research will be the basis to set the price of services sold by market players enjoying major influence in the market and recalculate system services for the subsequent year.

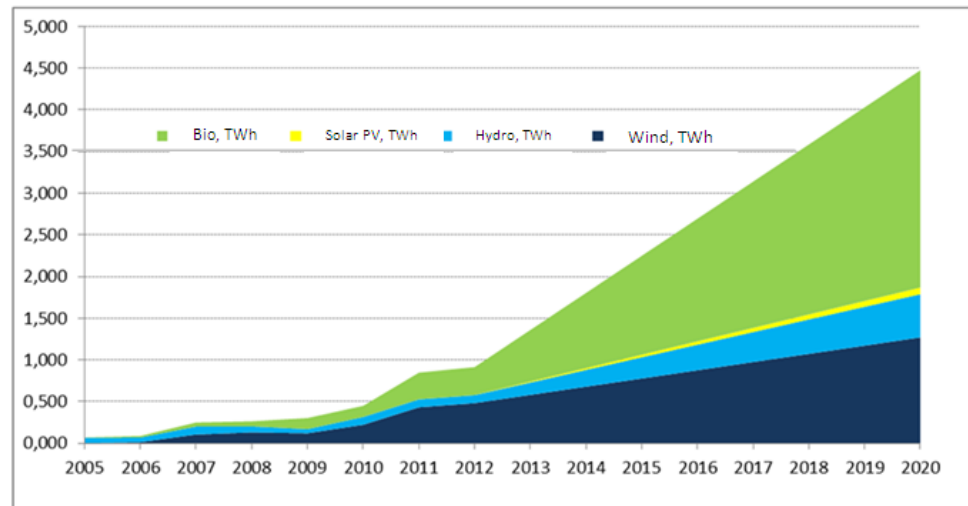
It should be noted that Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October, 2011 on wholesale energy market integrity and transparency (OL 2011 L 326, p. 1) (hereinafter – the Regulation) came into force on 28 December, 2011, which establishes registration of market players. Market participants entering into transactions which are required to be reported under the Regulation shall be registered. After the European Commission adopts respective legislation implementing the Regulation, the NCC will approve the *Procedure of Market Participant Registration* and develop and administer the National Register of Market Participants.

Moreover, the NCC already supervises the implementation of the already adopted regulations of the European Parliament and of the Council, especially regarding the proper publication of the Transmission System Operator's information based on transparency requirements established by 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. The Annex and Commission Regulation (EU) No 838/2010 of 23 September, 2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging.

It should be noted that on 12 May, 2011 the Law on Renewable Energy Sources came into force, which listed the key objective in the use of renewable energy sources (hereinafter - RES): reach the minimum 23% level of RES in the country's overall final energy consumption. Under this law considerable functions of state regulation, surveillance and control of the RES were established for the NCC. With respect to that the NCC passed and amended multiple legal acts. *The Tariff Setting Methodology for Electricity Generated Using Renewable Energy Sources* has a provision that purchasing tariffs and maximum tariffs shall be set in line with the principles of cost-effectiveness,

technological upgrading and generating minimum financial burden for users. *Regulations of Auctions for Distributing Incentive Quotas, the Model Form of the Letter of Intent to Connect Electricity Generation Devices to the Distribution Grid, the Description of Requirements for the Procedure of Electricity Grid Use* and other developed legislation should contribute the transparent and competitive development of RES use (Fig. 8).

Figure 8. Expected volume dynamics of supported electricity, generated from renewable energy sources, excluding producers of up to 30 kW, up to 2020, TWh



Source: NCC.

In 2011 the volume of electricity produced from RES was 0.7 TWh, amounting to 7.4% of the total national electricity consumption needs. The volume of electricity produced from RES in 2012 is forecasted to be 0.82 TWh. In 2020, having reached the objectives established in the Law and the incentivized volumes of installed capacities based on respective technologies, 4.4 TWh of supported electricity is likely to be produced from RES, excluding electricity produced by the smallest producers (up to 30 kW capacity). If the annual growth in electricity consumption is 2%, in 2020 the total volume of supported electricity produced from RES will be no less than 40% in the national electricity consumption structure.

Based on analysis of international market practice in RES sector the NCC established tariffs for electricity and biogas produced from RES, for 2012. The tariffs were differentiated by technological power plant types and capacities.

The amount of direct payments coming from the budget of the Public Service Obligations (hereinafter – PSO) to producers of electricity from RES for 2012 exceeds LTL 115 million and amounts to almost 16% of the total PSO budget (or 1.12 ct/kWh excluding VAT). This amount does not include payments directly related to RES development in the electricity sector, i.e., balancing costs of producers from RES, costs of connecting producers from RES to the networks, needs of making networks ready to connect producers from RES to them (these are insignificant amounts now, however in future this component will increase). The amount of direct payments coming from the budget of PSO to producers of electricity from RES grows annually and in 2020 it may reach LTL 800 million, excluding payments to the minor producers from RES, if the forecasted annual growth of electricity Exchange prices is 0.5 ct/kWh per year. The total market of producers from RES may reach LTL 1.76 billion in 2020, excluding minor producers from RES (up to 30 kW).

2.1.5 PRICING OF THE REGULATED ACTIVITY, SETTING THE TRANSPORTATION PRICES AND CONNECTION

The NCC prepares and approves the methodologies for setting the State-regulated prices, sets (adjusts) the price ceilings of the regulated activities, publicly announces the tariffs of electricity.

Pursuant to the new wording of the Law on Electricity, the NCC sets the price ceilings for electricity transmission and distribution services for a five-year period. The NCC also verifies whether the specific prices of the regulated services set by the electricity companies do not discriminate individual groups of customers.

The price ceilings of the electricity transportation services have been set for the regulated period of 2011–2013. Every year, the price ceilings of the transportation services are revised by taking into account the impact of quantity, unpredicted changes, indexation and adjustment ratios.

The price ceilings of the transportation services for the regulation period of 2011–2013 along with the recalculated prices for the year 2012 are presented in Table 1.

Table 1. The price ceilings of the transportation services for 2011–2013 and the recalculated price ceilings of these services for 2012 (ct/kWh)

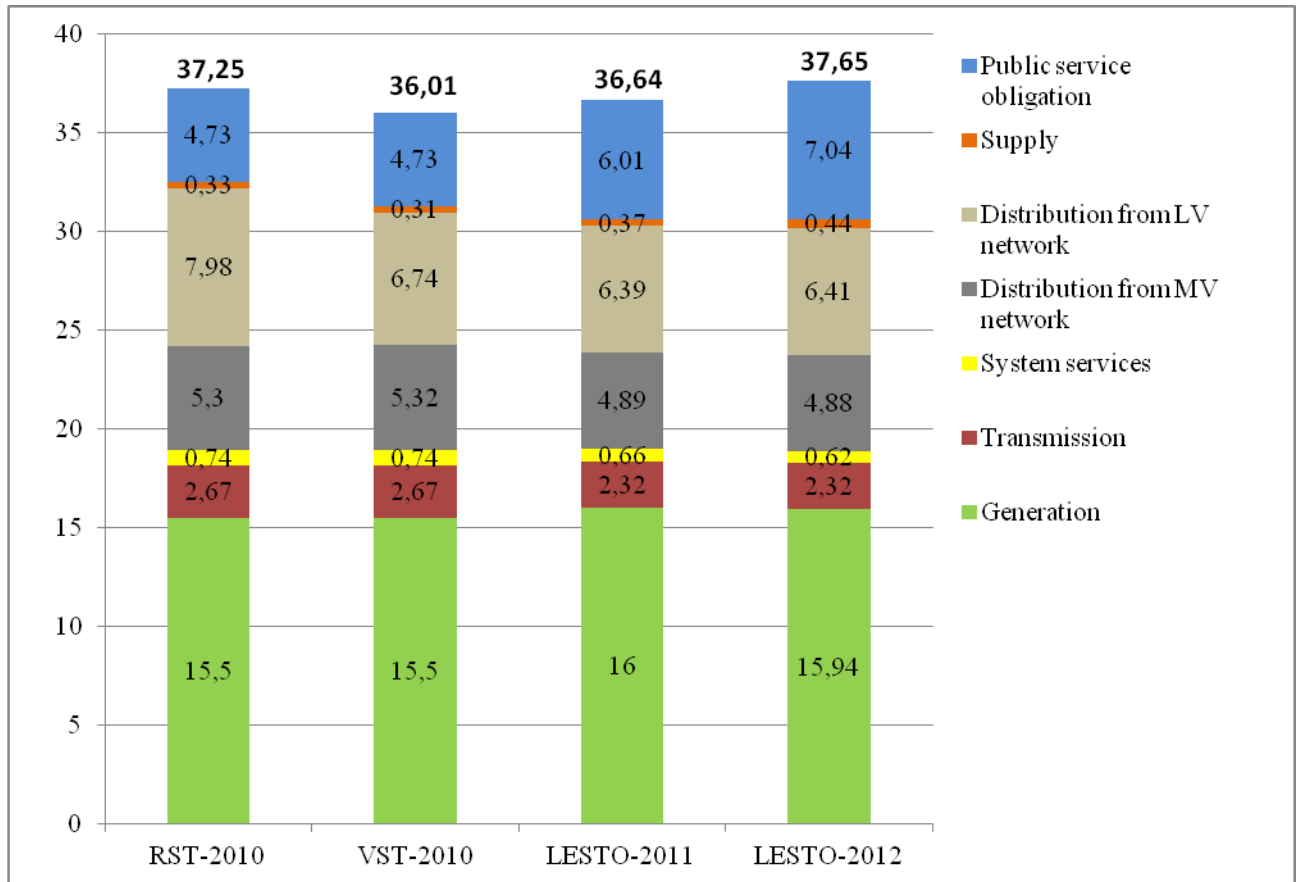
Indicators	LITGRID AB	AB LESTO	
		Medium voltage network	Low voltage network
The set price ceilings of the transportation services for 2011–2013	2,32	4,89	6,39
The recalculated price ceilings of the transportation service for 2012	2,32	4,88	6,41

Source: NCC

While recalculating the price ceilings of electricity transmission via the high voltage network due to the lower actual investments in the year 2010 as compared to those, which had been taken into consideration when setting the initial level of income from the transmission service in 2011–2013, and due to the unrecognized costs of participation in the ENTSO-E transit mechanism which had been projected for the year 2012, the NCC has not recognized LTL 5.7 million of LITGIRD AB costs as the justified costs. While recalculating the price ceilings of the distribution service of LESTO AB, the NCC has not recognized the costs of LTL 2.38 million in the medium voltage network and LTL 2.4 million in the low voltage network as the justified costs on the grounds of the lower investments which had been actually made in 2010.

Whereas the components of infrastructure costs in the electricity prices have not been essentially adjusted, and with regard to the increase of the PSO prices, the average price of electricity (the price ceilings) in 2012, as compared to 2011, has increased by 1.01 ct/kWh (VAT excluded) and equals 37.65 ct/kWh (VAT excluded). In 2011, it was 36.64 ct/kWh (VAT excluded) (Figure 9).

Figure 9. Average price of electricity in 2010-2012, ct/kWh (VAT excluded)



Source: NCC.

In 2012, the adjustment of electricity prices for household customers was predetermined by the following 3 circumstances:

- In 2012 the supported electricity as well as the electricity produced according to the quotas will amount to 3.23 TWh: the supported electricity produced from RES will exceed 0.8 TWh, the electricity produced in the combined heat and power plants – 0.9 TWh and 1.53 TWh – in Lietuvos Power Plant.
- The supported electricity as well as the electricity produced according to the quotas, which has to be obligatory purchased by the Public Supplier, covers the demand of the regulated customers, which for the year 2012 has been projected as 3.2 TWh (in 2011 – 4.6 TWh). Whereas the total demand of the regulated electricity customers is covered by the supported electricity, the imported electricity is not included into the electricity “pie” of this group of electricity customers. The supported electricity as well as the electricity produced according to the quotas is purchased at the uniform day and night prices during all days of the week (this price significantly surpasses the prices set at the Electric Power Exchange).
- The consistent balancing of the distribution service costs between the industrial and small customers has been further continued by reducing this unbalance up to 16 % in 2012 (in 2011 it was 19 %). The consistent balancing is aimed at reducing the barriers for access to the market for alternative suppliers.

The Law on Energy as well as the Law on Electricity prescribe that the NCC has to approve the connection fees of energy facilities (networks, systems, equipment). The NCC, by

following the *Methodology for Calculation of Customers' Equipment Connection Fees* as well as based on the conducted verification, in July 2011 approved the fees for connection of the electricity customer's equipment to the network, which on the average were lower by 10-25 % and came into validity from September 1, 2011 (Table 2).

Table 2. Fees for connection of the electricity customer's equipment to the network (VAT excluded)

Customer group	Fee for installation or increase of 1 kW of available capacity for electric equipment (LTL)	Fee for construction of 1 m of electricity network
Group I	150	75
Group II	595	75
Group III	458	75
Group IV	352	75

Source: NCC.

Pursuant to the new Law on Electricity, the household customers as well as the customers, who in the list approved by the Government or its authorized institution have been categorized as socially vulnerable, have to pay 20 % of the fee calculated and approved by the NCC, and non-household customers – 40 % of the fee calculated and approved by the NCC.

The NCC decisions, which in 2011 were made in the field of costs accounting and supervision of price setting, have enabled the customers to save no less than LTL 307 million, from this amount the savings of the electricity customers will be approx. LTL 237 million. In the electricity sector the NCC exercises regulation over more than 200 economic operators (Table 3). The yearly recalculations of the prices were made in 2011 (the long-term prices had been set in 2010).

Table 3. Indicators in the electricity sector

Indicator	2009	2010	2011	Variation
Number of participants in the sector *	201	202	237	+17,3
Income in the electricity sector per year, LTL million	2.520	2.783	2.839	+ 2,0 %
Sales in the electricity sector, in units in kind,TWh	9,16	9,22	9,38	+1,7 %
Total investments in the electricity sector, LTL million	374,1	332,7	407,1**	+22,4 %

* Number of participants including Independent Suppliers

** Planned investments

Source: NCC.

2.1.5. INTERNATIONAL COOPERATION

On March 3, 2011 the Agency for the Cooperation of Energy Regulators (ACER) officially commenced its activities in Ljubljana (Slovenia). The ACER has been established by following one of the documents of the Third Energy Package – Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009. The NCC representatives took part in the launching



event of the Agency for the Cooperation of Energy Regulators and in the conference *Energy Security in Europe: Challenges and Perspectives*.

The NCC is a member of the *Council of European Energy Regulators (CEER)*. In August 2011, the NCC, with an aim to at least partially balance the limited financial resources and the performance of the functions prescribed by the laws, submitted the request to terminate its membership in the CEER. Moreover, full-fledged membership in the Council necessitates active and consecutive involvement in the working projects at the level of the leading specialists so that benefits would be accomplished from the membership of the regulatory institution in the Council. The financial situation at the NCC in 2011 had not allowed assuring its participation in the international organizations. The Council of European Energy Regulators made a decision to exempt the NCC from the membership fee to be paid for the second half of the year 2011 and to continue cooperation with the Regulator of the energy sector of Lithuania.

The NCC belongs to the Energy Regulators Regional Association ([ERRA](#)). The NCC employees are the members of the Legal Regulation, Licensing/Competition, and Tariffs/Pricing Committees and are active participants of their activities. The ERRA gives a lot of attention to the qualification improvement programs by arranging trainings, courses, seminars as well as the summer school for the energy regulators who are starting their carriers.

On June 2-3, 2011 the NCC arranged the 12th Baltic Electricity Market Mini-forum attended by the representatives of the Baltic and Scandinavian regulators, Ministries and other participants of the relevant sector. The 12th Baltic Electricity Market Mini-forum was designated to discuss the strategic projects of Lithuania and Estonia for interconnection links with Sweden, Poland and Finland and for preparation for synchronous operation with the electricity grids of the continental part of Europe; the possible impacts on the electricity tariffs were discussed as well. At the Mini-forum the report about the existing situation in the monitoring and supervision of the Baltic energy market, the objective to implement the joint allocation of capacities of the transmission grids of the Baltic States and the congestion management mechanism as well as the situation in implementing the plan for interconnection links of the Baltic electricity market and further steps were presented.

Due to the fact that the financial situation in 2011 was especially difficult, the participation of the NCC in the international events of the regulatory institutions was rather limited, with a few rare exceptions when the financing was guaranteed from the funds of the European Commission. In 2011, fourteen employees of the NCC took part in the international working meetings.

Regardless of the mentioned unfavorable situation, the NCC employees made efforts in filling various questionnaires, providing comments to the drafted documents and acquainting themselves with the ongoing processes in the electricity sector. Starting from 2012, the NCC is being financed by the contributions of the market participants, thus the international cooperation will become more active.



2.2 THE NATURAL GAS SECTOR

2.2.1. UNBUNDLING OF VERTICALLY INTEGRATED COMPANIES

On June 30, 2011 the Seimas of the Republic of Lithuania passed a new Law on Natural Gas of the Republic of Lithuania, which came into effect on August 1, 2011.

The Law on Natural Gas has been worked out by implementing Directive 2009/73/EC of the European Parliament and the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (OL 2009 L 211, p. 94) and Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

The Law on Natural Gas provides for separation of the activity of natural gas transmission from the activities of natural gas extraction and supply by unbundling the ownership of the transmission system and its operator from the natural gas companies involved in the extraction and/or supply activities. The Government of the Republic of Lithuania, abiding by the provisions of the Law on Natural Gas, by its Resolution No 1239 as of October 28, 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. In accordance with the mentioned plan, the natural gas companies, which do not comply with the provisions of the Law, had to choose the method of unbundling the natural gas transmission activity and control either by reorganizing control over the natural gas companies or by restructuring (splitting) the 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 Lithuania there is only one natural gas company, which does not comply with the requirements of the Law on Natural Gas – Lietuvos Dujos AB, which is involved in the activities of the natural gas transmission, distribution and supply. On May 31, 2012 the company submitted to the NCC the action plan for unbundling and the action plan for reorganization of the activities performed by the company, which had been approved by the Minutes of the Board Meeting as of May 28, 2012, where it was provided that Lietuvos Dujos AB will legally, functionally and in the organizational aspects will have unbundled its natural gas activities till July 31, 2013 at the latest, and will have implemented the unbundling of activities and control till October 31, 2014 at the latest.

The NCC, upon having analyzed the descriptions of the methods for unbundling the activities and control as well as the action plans to be undertaken, by its Resolution as of June 15, 2012 resolved that Lietuvos Dujos AB has to unbundle the natural gas transmission and distribution activities in line with the methods and deadlines provided in the plans and has to submit the required documents by keeping to the deadlines indicated in the plans, as well as to immediately notify the NCC about the cases of delays in performing the actions indicated in the plans or failure to perform them and about any other circumstances, which are relevant to the accomplishment of the plans.

Pursuant to the valid legal acts, the deadline for completion of the reorganization of Lietuvos Dujos AB is October 31, 2014.



2.2.2. CONSTRUCTION OF THE LIQUEFIED NATURAL GAS TERMINAL IN IMPLEMENTING THE REGULATION ON THE SECURITY OF SUPPLY

By Article 6 Paragraph 1 of Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC the Member States are obligated to assure compliance with the N-1 formula of the natural gas infrastructure till December 3, 2014 at the latest, i.e. to assure the technical capacity of the natural gas facilities, which would satisfy the total natural gas demand of the given state in the event of disruption of the single largest gas infrastructure during a day of the exceptionally high gas demand.

In June 2012, the Law on the Liquefied Natural Gas Terminal was passed, which has laid down the general principles and requirements for construction of the liquefied natural gas terminal in the territory of the Republic of Lithuania, for its activity and operation, and which has defined the legal, financial and organizational conditions for implementing the project of the liquefied natural gas terminal. The liquefied natural gas terminal will create the conditions for the diversification of the supply sources and will increase the security and reliability of the natural gas supply. The Law on the Liquefied Natural Gas Terminal provides that the terminal has to be launched into operation on December 3, 2014 at the latest.


Presently natural gas for consumers in Klaipėda is transported by the single Šiauliai – Klaipėda branch of the main gas pipeline, where, during the verification of the status of this section of the gas pipeline performed by Lietuvos Dujos AB in 2009–2010, the defects decreasing the security and reliability of gas supply were identified. To assure the operation of the liquefied natural gas terminal it is necessary to construct a new main gas pipeline Jurbarkas – Klaipėda. This project has been envisaged in the National Energy Strategy, and in March 2011 it was reconciled with the NCC. The value of the investment project amounts to LTL 168 million.

2.2.3. ESTABLISHING COMPETITION IN THE NATURAL GAS SUPPLY MARKET AND MARKET SUPERVISION

The new Law on Natural Gas does not provide for the regulation of the natural gas supply activities, hence from August 1, 2011 the activity of supply has become unregulated and has been functioning according to the principles of the competitive market. The price of supply can become regulated again if during the conducted market research the NCC finds out that due to the lack of efficient competition an economic operator is charging the prices that are too high or is using the price pressure thus causing damage to other market participants.

On November 23, 2011 the NCC issued the natural gas market operator's licence to BALTPPOOL UAB. The primary function of the market operator BALTPPOOL UAB is to organize trade in natural gas at the Natural Gas Exchange. When the Natural Gas Exchange becomes actually operating, all natural gas consumers, who have concluded yearly agreements with suppliers – gas importers (Lietuvos Dujos AB, Dujotekana UAB, Haupas UAB), as well as other economic operators functioning in the natural gas sector will be able to sell/purchase their yearly surplus/deficient quantities of natural gas at the Natural Gas Exchange, i.e. to balance their natural gas flows.

In February 2012, the NCC revised and approved the *Regulations of Trading at the Natural Gas Exchange*, which had been drawn up by BALTPPOOL UAB; the document defined the rights and responsibilities of the Exchange participants and of the market operator for trading in natural gas,



procuring natural gas with the contract assignment rights, as well as the procedure for settlement of payments for the transactions concluded at the Natural Gas Exchange.

To implement the requirements set forth in Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency and in performing its functions prescribed by the Law on Natural Gas, in March 2012 the NCC approved the *Rules for Supervising Trade in Natural Gas*, which are aimed at establishing pre-conditions for fair and efficient competition in the natural gas market, assuring transparency, reliability, settlement of payments among the participants of the Natural Gas Exchange, their equal treatment, transparency of information, avoiding distortion of prices and supply conditions. Supervision of the natural gas market will be exercised by the market operator and the NCC. The market operator will supervise trade in natural gas at the Exchange, and the NCC – trade in natural gas based on bilateral selling-purchasing agreements.

In May 2012, the Law on Energy Resources Market was passed, which has established a legal framework for organization, administration, regulation, supervision and control of the energy resources market, and which regulates interaction of entities involved in centralized trading in biofuel and oil products stocks, trading in natural gas and in auxiliary instruments for hedging against fluctuation of energy prices. One of the main objectives of the Law – to provide the participants of the energy resources market with a possibility to efficiently compete in the market and to make use of the transparent, clearly regulated and non-discriminating centralized trade in energy resources.

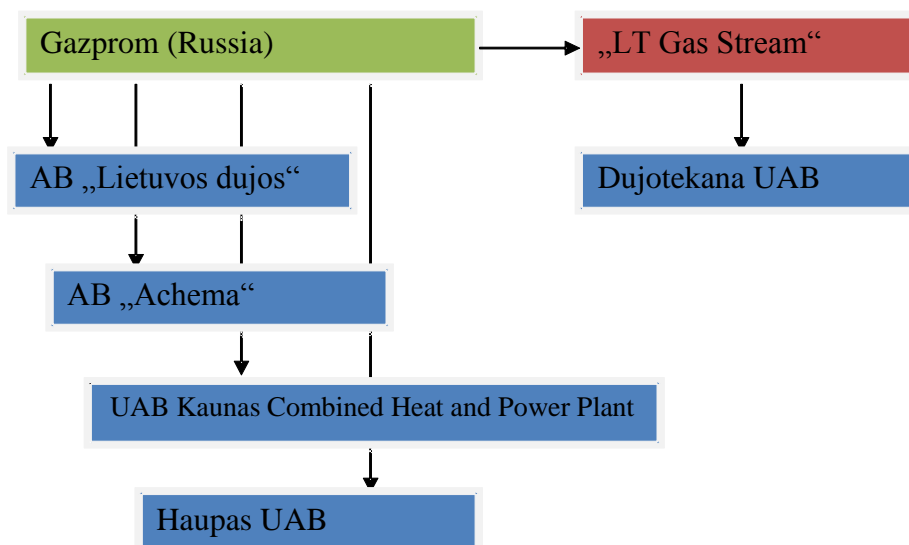
Theoretically these decisions opened the way for functioning of the natural gas market and for initiating competition in the natural gas market, however the actual volumes of trading in natural gas at the Exchange are very insignificant – from the beginning of operation of the Exchange only one transaction was concluded.

The NCC supervises the natural gas market and market opening in the wholesale and in the retail markets. Whereas the gas is being supplied from a single external source, there is no real competition either in the wholesale or in the retail markets, and therefore in 2011 there were no customers, who have changed their gas supplier.

To assure that the market participants would have the disposition of the reliable information, every quarter and after the end of the year the NCC prepares and uploads on the NCC website the market monitoring reports, where they summarize the data about the import of natural gas, its consumption, transportation by the transmission and distribution gas pipelines, the respective market shares held by the market participants, the average prices of the imported gas as well as the investments made in the natural gas transmission and distribution facilities.

In 2011, the participants of the natural gas import market were the same as in 2010, i.e. Lietuvos Dujos AB, Dujotekana UAB, Achema AB, Kaunas Combined Heat and Power Plant (Kaunas CHP), Haupas UAB. Gas was imported to Lithuania from the single external gas supplier – Gazprom (Russia) in accordance with the quotas set for each individual importer. Dujotekana UAB purchased imported gas not directly from the Russian company Gazprom, but through the intermediary – LT Gas Stream (Figure 10).

Figure 10. Chart of the natural gas import to Lithuania



Source: NCC.

The average price of the imported gas (without taking into consideration the price of Achema AB) in 2011, as compared to 2010, averagely increased by 25.4 % – from LTL 862 thousand up to LTL 1081 thousand per 1 thousand m³.

Among the gas importing companies, the participants of the wholesale and the retail gas supply markets are Lietuvos Dujos AB, Dujotekana UAB and Haupas UAB. Lietuvos dujos AB and Dujotekana UAB supplied 99.2 % of the total gas quantity sold to gas consumers in Lithuania. Haupas UAB supplied gas to Druskininkai region and sold 0.8 % of the total gas quantity supplied to consumers.

Achema AB and Kaunas Combined Heat and Power Plant purchased gas for their own consumption and did not participate in the gas supply market.

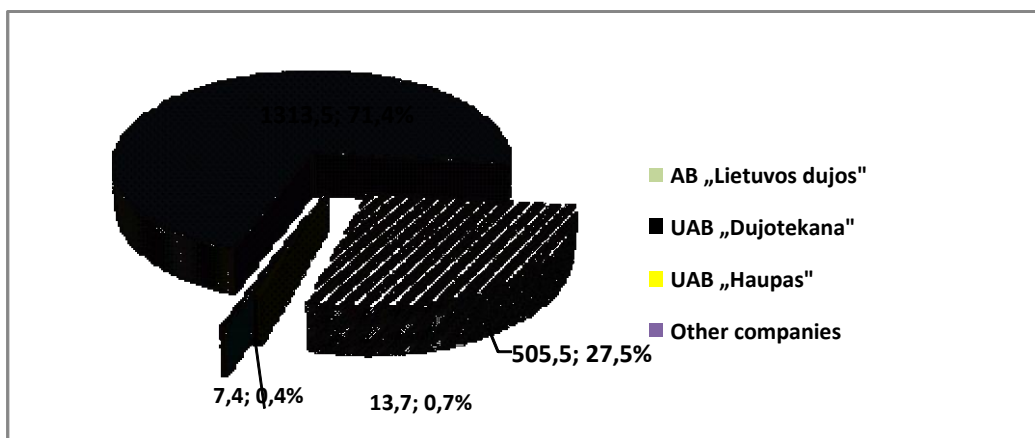
In 2011, 3 407.46 million m³ of natural gas were imported to Lithuania, i.e. by 9.7 % more than in 2010. The import increased exclusively due to the gas quantity imported by Achema AB, which in 2011 was by 81.3 % higher than in 2010. All other gas importing companies decreased the volumes of import. The reduction of import, without taking into consideration the quantities imported by Achema AB, totaled 11.7 %. The sales to gas consumers equaled 1840.1 million m³ of gas; the remaining quantity was consumed by the importing companies for their own demand. Only that quantity of gas, which from the importing company has been purchased by other gas companies performing the transmission and distribution operations in the specific regions of Lithuania, can be categorized as belonging to the wholesale market. There were no trading transactions among the wholesale natural gas consumers. In 2011, 7.35 million m³ of natural gas were sold in the wholesale market, i.e. 0.4 % of the total sold quantity.

In 2011, like in the previous year, 7 supply companies participated in the retail sales. In 2011, the total number of natural gas consumers in Lithuania was 557 thousand; among them 551 thousand were household customers and 6 thousand – non-household customers. In 2011, in the retail natural gas market, 1 840.2 million m³ of gas were sold, or by 12.2 % less than in 2010. In terms of value, in 2011 the income of the supply sector increased from LTL 1 901.5 million up to LTL 2 082.4 million, i.e. by 9.5 %.

In the retail gas supply market, like in the wholesale market, there were the same two dominating suppliers – Lietuvos Dujos AB and Dujotekana UAB, which held 98.8 % of the retail gas supply market. All other gas supplied companies shared among themselves 1.2 % of the market.

The quantities of gas quantities sold by the Lithuanian gas companies participating in the retail market (their respective market shares) are presented in Figure 11.

Figure 11. Market shares held by the Lithuanian gas companies participating in the retail market, in %



Source: NCC.

In the natural gas transmission market there is only one operating gas company – Lietuvos Dujos AB. In 2011, 5 404.9 million m³ of natural gas were transported via the transmission system. As compared to 2010, in 2011 the transported quantities increased by 21.3 %; 37.8 % of the transported quantity was the gas transmitted by transit. The gas transportation to the Lithuanian consumers increased by 9.5 % (due to the bigger quantities transported by Achema AB) – from 3 068.8 million m³ up to 3 360.9 million m³ of gas. The gas transportation by transit increased by 47.3 %. In 2011, the income for transportation earned from the Lithuanian consumers totaled LTL 137.39 million, i.e. by 0.6 % less than in 2010.

In the distribution activity 6 active market participants were operating. The biggest market share was held by Lietuvos Dujos AB – 97.6 %. In 2011, 1 091.9 million m³ of natural gas were distributed, i.e. by 9.3 % less than in 2010. In terms of value, in 2011 the income from distribution activity, as compared to the respective period of the previous year, decreased by 11.0 % – from LTL 200.97 million up to LTL 178.8 million.

In 2011, the investments in the infrastructure of the natural gas sector equaled LTL 65.49 million (in the transmission activity – LTL 33.11 million, in the distribution activity – LTL 32.37 million), i.e. by 46.4 % less than in 2010.

The main changes observed in monitoring the natural gas market in 2011, as compared to the data of 2010:

- The average import price of the natural gas assigned for production of energy increased by 25.4 %;
- The quantity of gas transported via the transmission network increased by 21.3 %; the augmentation was predetermined by the transit and bigger gas quantities purchased by Achema AB;
- The distributed gas quantity decreased by 9.3 %;

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- The total gas quantity imported to Lithuania increased by 9.7 % due to the bigger gas quantities imported by Achema AB;
 - In 2011, like in 2010, the wholesale natural gas market was insignificant and accounted for 0.4 % of the total gas quantity sold to consumers;
 - The volume of the retail trade increased by 12.2 %;
 - The market shares held by the companies operating in the gas market changed insignificantly; in the supply market, like in 2010, Lietuvos Dujos AB and Dujotekana UAB remained the dominating companies.

2.2.4. PREPARATION OF THE SECONDARY LEGISLATION FOR IMPLEMENTING THE LAW ON NATURAL GAS

The new Law on Natural Gas has significantly expanded the functions and responsibilities of the NCC and obligated to draft the secondary legislation for the enforcement of the Law on Natural Gas.

In January 2012, the NCC prepared and publicly announced the Report on the implementation of the conditions set forth by Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (hereinafter – the “Regulation”) by Lietuvos Dujos AB. As of December 30, 2011 Lietuvos Dujos AB has implemented 61 % of the provisions of the Regulation. As far as the unimplemented provisions of the Regulation are concerned, the implementation plan has been worked out according to the information submitted by Lietuvos Dujos AB. It is being planned that during the year 2012 Lietuvos Dujos AB will implement all provisions of the Regulation. The NCC is performing the continuous monitoring of the execution of the drawn up implementation plan.

In March 2012, the NCC approved the *Requirements for the Balancing Rules of the Natural Gas Transmission System*, in accordance with which the natural gas transmission system operator Lietuvos Dujos AB worked out and submitted for revision and approval the *Balancing Rules of the Natural Gas Transmission System of Lietuvos Dujos AB*.

The NCC was obligated to regularly conduct the research of the natural gas supply market in order to avoid the cases of overusing the immense influence in the natural gas market.

In March 2012, the NCC worked out and approved the *Market Research Rules*. The market research in both – the natural gas and the electricity sectors – will be conducted on the basis of the uniform principles.

The Law on Natural Gas provides that the NCC has to set the indicators of the quality (including the reliability) of the services rendered by the natural gas companies and the procedure for their assessment, and has to supervise how the gas companies comply with these requirements. To implement the provisions of the Law on Natural Gas, the NCC worked out the *Procedure Regulations for the Indicators of the Reliability and Quality of the Services Rendered by the Natural Gas Companies and Their Assessment*, which was approved in April 2012.

In June 2012, the NCC worked out and approved the *Requirements for the Compliance Program*, which has to be prepared by the natural gas distribution system operator. The Requirements defined the specific responsibilities of the natural gas distribution system operator in preparing and implementing the Compliance Program, defining the measures applicable by the

operator in order to avoid the discriminating behavior in respect of the users of the natural gas distribution system.

In July 2012, the NCC worked out and approved the *Requirements for Using the Natural Gas Transmission Rules and for Using the Rules of Access to the Distribution System*. The Requirements are binding to both – the transmission system operators and the distribution system operators, which according to the concluded agreements provide access to the natural gas systems for consumers, natural gas companies or economic operators involved in transportation of natural gas.

2.2.5 PRICING OF THE REGULATED ACTIVITY, SETTING THE TRANSPORTATION PRICES AND CONNECTION FEES

The NCC prepares and approves the methodologies for setting the prices of the State-regulated activities, sets (adjusts) and approves the price ceilings of the regulated activities, approves the natural gas tariffs for household customers.

Starting from August 1, 2011, when the new Law on Natural Gas came into force, the NCC has revised the *Price Ceilings Calculation Methodology of the Natural Gas Transmission and Distribution Prices* by introducing the principles of calculation of the reasonable return on investments made by the natural gas companies. The weighted average cost of capital (WACC) has been applied for the calculations of the return on investments, which is defined by applying the optimum structure of financing assuring the least costs of capital.


The NCC sets the transmission and distribution price ceilings for a five-year period, and once per year adjusts the price ceilings for five economic operators in the natural gas sector. The NCC inspects whether the specific prices of natural gas, which have been set by the gas companies, are not discriminating in respect to the individual customer groups, and every six-month period approves the natural gas prices for household customers. Every year in the natural gas sector the NCC sets, adjusts or inspects approx. 100 prices applicable for economic operators or household customers.

The end-user prices of natural gas as well as the transportation prices for consumers according to the differentiation of *Eurostat*, the Statistical Office of the European Union, in the period from July 1, 2011 and from July 1, 2012 are presented in Table 4.

Table 4. The end-user prices of natural gas and transportation prices for consumers, EUR/MWh

Customer group	D3		I1		I4-1	
	2011	2012	2011	2012	2011	2012
Price, EUR/MWh						
Transmission	1,65	1,64	1,55	1,55	1,55	1,55
Distribution	7,19	7,43	7,19	7,43	3,85	4,08
The end-user prices of natural gas (including VAT 21 %)	56,97	69,96	55,43	64,44	51,39	60,40

Source: Eurostat.



The Law on Energy and the Law on Natural Gas provides that the NCC has to approve the connection fees of the energy facilities (networks, systems, equipment). In 2011 the NCC, acting in line with the *Methodology for Calculation of New Customers' Connection Fees*, set the prices for connection of new household customers of natural gas which have been valid since February 1, 2012.

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) 714/2009

On January 17, 2012 the Seimas passed a new Law on Electricity (hereinafter – the „Law“), whereby the unbundling of the electricity networks operators in line with the provisions of the EU Third Energy Package was legitimized. Whereas the distribution system operator by March 3, 2012 failed to implement the requirements on the unbundling the ownership prescribed by the Law, the NCC by its Resolution No 03-89 as of April 11, 2012 obligated the latter than by October 1, 2012 to separate the distribution operations from other activities and from the commercial interests of the vertically integrated company. The NCC will perform the monitoring and assessment of the unbundling of the mentioned activity.

Pursuant to the provisions of the Law, the NCC, no later that within a four-month period from the date of submission of all necessary and properly drawn-up documents and information, will assess the compliance of the implemented requirements on the independence and unbundling the activities of the transmission system operator and will make a decision on certifying the transmission system operator. After the expiration of the set deadline, the NCC will inform the transmission system operator and the European Commission about the made decision and will also submit the documents, data and the information justifying the decision.


The NCC, after receiving the positive opinion or not receiving the negative opinion of the European Commission by the deadlines set forth in Article 3 of Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity and repealing Regulation (EC) 1228/2003, will make a final decision on the certification of the transmission system operator.

Article 26

After the new Law came into effect in the beginning of February 2012 and the distribution system operator by March 3, 2012 failed to implement the requirements on unbundling prescribed by the Law, the NCC by its Resolution No 03-88 as of April 11, 2012 obligated the latter to separate the distribution operations from other activities and commercial interests of the vertically integrated company no later than by June 30, 2012. The NCC has been performing the assessment of the mentioned activity and has stated by its Resolution No 03-202 as of July 27, 2012 that the unbundling of the distribution activity performed by AB LESTO complies with the provisions of Paragraphs 1 and 3 of Article 54 of the Law on Electricity.

3.1.2 TECHNICAL FUNCTIONING

Balancing services (Article 37(6)(b), 37(8), Security and reliability standards (Article 37(8), Quality of service and its supply (Article 37(1)(h))



In 2009 the NCC approved the new *Procedure Regulations for Regulating the Price of the Balancing Energy*, which had been worked out in line with the requirements of the national and the European Union legal frameworks. The quantity of the balancing energy is calculated every hour in accordance with the procedure set forth by the *Rules for Trading in Electricity* approved by the Ministry of Energy. In 2011 no amendments were made in the scheme and principles for trading in the balancing energy.


The NCC representatives have been participating in the working groups of the Baltic Region Initiative and have been monitoring the situation to ensure the compliance of the price setting of the balancing energy with the principles applied in this Region. Currently the method of the transition period is being applied and it is being planned to implement the method of setting the marginal price of the balancing electricity. With the limited resources of the balancing capacity reserve in the country (in the Baltic Region) and the increasing demand for the regulating energy (growth of the increased installed capacities of the wind power plants), this would serve as the means for reducing the unbalance in the system, encouraging the producers to use the installed capacities for the regulation purposes. In addition to that, in the long term this would promote investments in installation of the regulation capacities by ensuring the national generation-consumption balance, and thus would develop the market of the balancing energy suppliers. Moreover, it is important to harmonize the method of the price setting of the balancing energy with the methods applied in the Baltic Sea (Nordic) Region, and in particular by 2014, when the integrated European electricity market is expected to start its functioning.

Pursuant to the *Procedure Regulations for Supplying the Public Obligation Services in the Electricity Sector*, the Ministry of Energy has to conduct the monitoring of the issues related to the security of supply in the electricity market of the country, and every year by July 31 has to publish the report covering the balance of the supply capacities and demand, the expected capacity demand and the planned to be constructed or being constructed sites of the capacity sources along with the scopes of competition in the domestic electricity market.

The provisions related to the security and reliability standards, the quality of service and supply have been set in the *Rules for Access to Electricity Networks* approved by the Minister of Energy of the Republic of Lithuania. The Rules regulate the conditions for providing the users of the networks with the system and transportation services, the operators – with the ancillary services, the issues of long-term development planning, the requirements to network users and the operation of the electricity networks, the requirements for electricity metering and information exchange in the electric power system. The provisions of the Rules are binding to the transmission system and distribution networks operators, electricity producers, consumers and suppliers. These amendments will contribute to the planned interconnection of the electric power systems of the Baltic States and Europe to be accomplished till 2020, when the synchronous operation of the transmission systems of Lithuania, Latvia and Estonia with the grid of the European continental network becomes very important, therefore in the National Energy Strategy this project has been referred to as the strategic objective of the electric power system. This project for Lithuania would cost approx. EUR 50 million.

Pursuant to Article 19 of the Law on Electricity passed in January 2012, the NCC has to monitor and assess the reliability of the transmission and the distribution networks. The results of the reliability monitoring are summarized in the reports posted on the NCC website. The reports contain the following data:

- 1) The balance of electricity demand and supply (actual consumption) in the whole electric power system of the country;

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- 2) The projected level of the future electricity demand and the supply possibilities;
 - 3) The development of the electricity generation capacities;
 - 4) The means for covering the peak electricity demand, the system balancing and regulation;
 - 5) The level and quality of the electric power system maintenance.

Every year, by July 31 at the latest, the NCC submits the reports to the Government or its authorized institution and to the European Commission.

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

The NCC has been supervising the implementation of the requirements on the reliability of electricity transportation and the quality of service since 2005, however till 2007 the unification of the data collection and analysis was performed, and from 2008 the deterioration/ improvement of the END, AIT, SAIDI and SAIFI (only for long-lasting unscheduled interruptions) quality indicators has been assessed in setting the price ceilings of the electricity transmission and distribution services. The assessment of other indicators was only statistical and conducted on demand.


In accordance with the *Requirements on the Reliability of Electricity Transportation and the Quality of Service* approved by the NCC, the data were collected on:

- The duration and number of unscheduled interruptions in electricity lines;
- The time period for connection of the new customer's electric equipment starting from the date of payment of the connection fee (when to connect the customer's equipment it was necessary to install only the outlet with the meter cabinet or instrumentation board, but it was not necessary to prepare the design for these works);
- The time period for connection of the electric equipment of the customer, who has paid his overdue payments, from the date of disconnection because of his failure to pay;
- The time period from giving a notice to the customer till the scheduled interruption of electricity transportation due to the maintenance works in the network;
- The elimination of the identified fault of a metering device or metering scheme;
- The number of the received complaints;
- The time period for examining the complaint;
- Other indicators.

In 2012 the new *Requirements on the Reliability of Electricity Transportation and the Quality of Service* were adopted in accordance with which the NCC will publicly disclose the analysis of all indicators and will not only supervise the compliance with the minimum levels of the set reliability indicators, but will also apply sanctions with respect to all indicators set in the mentioned Requirements.

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 Baltic Regional Initiative, where the updates are presented and the information on the technical cooperation between the Community and third-country transmission system operators is exchanged.



If required, the NCC submits its comments, in particular – concerning electricity prices, on the legal acts drafted by the Ministry of Energy on the mentioned subjects.

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 European continental network. The issues of the technical cooperation between the Baltic States and the Russian Federation as well as the Republic of Belarus regarding operation of the electric power systems and perspectives should move forward. The roles of the ENTSO-E and the transmission system operators of the Baltic States in this process are of the outstanding significance.

When the European Commission started the negotiations with the Russian Federation on the re-adjustment of the Baltic States' electric power systems' management in line with the requirements of the EU Third Energy Package, the Ministry of Energy has drafted the Law on Integration of the Electric Power System into the European Systems, the Feasibility Study has been started to assess how the Lithuanian and European electric power systems could be interconnected. In parallel, the projects of electricity links with Poland and Sweden deemed necessary for the integration of the electric power systems and markets are being implemented and the integration of the Lithuanian electricity market into the common Nordic market and later – into a single European electricity market are being consecutively pursued. In June 2012, the biggest Power Exchange in the world – Nord Pool Spot – started operating in Lithuania.

Abiding by the Strategy of Energy Independence of Lithuania, Lithuania is seeking to be interconnected for the synchronous operation with the grids of European continental network (hereinafter – the “ECN”) by 2020, and to connect the new Visaginas NPP to the electric power system which is synchronously operating with the European continental network.

The main planned tasks:

In 2012:


- Negotiations of the European Commission with Russia with an aim to agree the technical operation conditions of the electric power systems of the Baltic States during the transition period.

In 2013–2018:

- Completion of the Feasibility Study 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 ECN.
- 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 ECN submitted to the ENTSO-E.
- The technical requirements for the synchronous operation with the ECN obtained from the ENTSO-E.
- Reached compliance with the technical and infrastructure requirements.

In 2019–2020:

- The finalized testing of the isolated operation of the Baltic States.

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- Desynchronization from the IPS/UPS.
 - The finalized testing of the synchronous operation of the Baltic States and the ECN.
 - The start-up of the synchronous operation of the Baltic States with the ECN.

At present the Baltic States constitute an energy island in Europe. The Lithuanian electric power system has strong interconnection links with its Eastern neighbors, but the links with the West are needed as well. To physically interconnect the electricity infrastructures, the cross-border electricity lines are being constructed – Nordbalt (Lithuania - Sweden), and LitPol Link (Lithuania - Poland). The next step is the integration of the Lithuanian electricity market into a common Nordic market, and later – into the single European electricity market.

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


To avoid disturbances in the electric power system and to ensure restoration of the system after the accident, the requirements for the operation of the electric power system along with the safeguard measures have been defined in the *Rules for Access to the Electricity Networks, the Rules for Operation of the Power Plants and Electricity Networks* approved by the Minister of Energy of the Republic of Lithuania, and other related legal acts. The transmission system operator is responsible for implementing the accident prevention measures in the system and in the transmission network, drawing-up the emergency plan in the case of the back-out of the system and coordinating the emergency plans of the networks and power plants. To ensure the security and reliability of the transmission networks, the transmission system operator concludes contracts or agreements with other transmission system operators regarding the bilateral (multilateral) measures enabling to ensure the fluent operation of the entire synchronically operating electric power system.

In 2012 the Ministry of Energy revised the *Rules for Access to the Electricity Networks* with regard to the projected synchronous operation of the transmission systems of Lithuania, Latvia and Estonia with the European continental network and the altering situation in the electricity market. The NCC provided its comments and remarks on the document. The provisions of these Rules are detailed in Chapter 3.4.

In addition to that, in the beginning of 2012, *the General Rules for Installation of Electric Equipment* were approved by the Order of the Minister of Energy. The Rules set forth the general requirements for electricity networks, all types of conductors, selection of electric apparatus, electricity metering and electricity measurements, earthing of electricity devices, protection from voltage surges as well as their testing and measurements. The requirements of these Rules are binding to the electricity producers, the transmission and distribution networks operators, electricity consumers who are installing new or reconstructing or performing overhauls of the electric equipment of the direct or alternating current with the voltage up to 400 kV. The Rules are also binding to other persons the activity thereof is regulated by the Law on Construction of the Republic of Lithuania.

As it has been already mentioned, pursuant to the Law on Electricity which came into effect in February 2012, the NCC is monitoring and assessing the reliability of the transmission and distribution networks. The monitoring results are summarized in the annual reports posted on the NCC websites.

The data and information exchange and their compatibility on the regional level are performed at the meetings of the working groups of the mentioned ACER Baltic Electricity Market



Initiative as well as during the mini Forums that a few times per year are arranged for the market participants and the relevant institutions and organizations. All information is available on the websites of the Baltic Energy Regulators and ACER: www.regula.lt and www.acer.europa.eu (www.energy-regulators.eu).

The NCC is monitoring compliance of the information uploaded on the website of the transmission system operator (www.litgrid.eu) with the requirements of the EU Regulations. The use of the terminology, the meanings thereof is defined in the legal acts of the Community, is a pre-condition for reaching compatibility in the data exchange.

3.1.3 TARIFFS FOR 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 new Law on Energy passed at the end of 2011, the NCC approves the price setting methodologies of the state-regulated prices, sets the state-regulated prices and the price ceilings thereof, 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 fees of the energy facilities (network, systems, equipment) by following the general criteria set forth in the laws constituting the legal frameworks of the individual energy sectors. The mentioned Law also provides that NCC unilaterally sets the state-regulated prices if an 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 passed in the beginning of 2012, the prices of the transmission and distribution services are regulated by setting the price ceilings by the NCC. The specific prices and tariffs of the transmission and distribution services are set and adjusted by the supplier of the service.

The price ceilings of the transmission and distribution services are set by the NCC abiding by the Law on Energy, the Law on Electricity and the methodologies for setting the price ceilings, which are prepared by the NCC and agreed with all related parties and then approved at the NCC public meetings that can be attended by all interested persons. The main pricing requirements regarding a five-year regulation period and its adjustment, the main factors impacting the price adjustments of the energy transportation services, setting the prices of the transportation service or recalculation thereof (for transmission service - no later than 90 calendar days, for distribution service – no later than 75 days prior to the beginning of the regulation period or the beginning of a respective year of the regulation period) as well as other requirements are set forth in the Law on Electricity.

Pursuant to Article 69, Paragraph 10 of the mentioned Law, after the expiration of each year of the regulation period, the NCC controls whether the supplier of the service ensured compliance with the price ceilings set by the NCC. In the cases when the difference between the price ceilings set by the NCC and the weighted average of the prices and tariffs that have been actually applied by the supplier of the service is established, the NCC obligates the supplier to respectively adjust the prices and tariffs of the following year of the regulation period.



Article 37(6)(a)

The mentioned new Law on Electricity also specifies the conditions and requirements for connection of the electric equipment of new customers (producers). Pursuant to Article 67, Paragraph 4 of the mentioned Law, the *Methodology for Calculating the Fees of Connection of Electric Equipment of Customers and Producers* is approved, the fees are set and differentiated by the NCC in line with the following general criteria:

- 1) Equal treatment of the network users;
- 2) Reasonableness, justice, fairness, objectivity and the costs' substantiation;
- 3) Efficiency of electricity consumption;
- 4) Evaluation of the circumstances of economic operations of the network users;
- 5) Evaluation of the needs to connect the equipment of the network users;
- 6) Electrification of the remote and sparsely settled regions;
- 7) Evaluation of the development costs of electricity networks;
- 8) Development of the advanced technologies in the electricity networks and/or power generation;
- 9) Evaluation of the possibilities to use the facilities of the electricity undertakings for connection of the equipment of other network users;
- 10) Evaluation of the exemptions and/or other incentives to be applied in connecting the producers' equipment.


The mentioned Law also regulates a part of the fee charged for connection to the electricity networks that is paid by the customers, distribution of costs between the transmission and distribution companies in the cases of joint development, to a producer generating electricity from the renewable energy resources, the procedure and conditions for connection to the electricity networks as well as other provisions.

Article 37(8)

Pursuant to Article 68, Paragraph 5 of the Law on Electricity, which came into effect in February 2012, the NCC has a right to set the cost coverage mechanism and/or the price setting methodology which would promote 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 state projects in the electricity sector that would increase the energy independence of the state along with the security and reliability of electricity supply, and would also increase benefits to the customers. To accomplish this goal, the NCC has the right to take into consideration the costs and prices of the suppliers of the respective services proposed in the comparable markets.

As it has been already mentioned, pursuant to Article 69, Paragraph 4 of the new Law on Electricity, the NCC has to ensure that the appropriate incentives would be granted to the transmission system operator and the distribution network operator to increase the efficiency of electricity consumption in the short-term and long-term periods, to promote the integration of the electricity market and the security of supply and to support the relevant scientific research.

The applied method of setting the ceilings of the transmission and distribution prices, or the incentive regulation by using the price caps principle have ensured that the companies are induced to increase the efficiency.



Moreover, the new legal framework enabled the NCC to draw-up and to submit to the Government the principles of setting the state-regulated prices, to approve the principles of accounting of the regulated activities, the rules for unbundling accounts in the electricity undertakings, to set the costs' accounting system, the method and/or model that is binding to an entity having the outstanding influence in the electricity market as well as to the supplier of the transmission, distribution services and/or to the public supplier. The NCC is obligated to post this accounting system, method and/or model on its website. It should be mentioned that in the spring of 2012 the accounting model of the Long-Run Average Incremental Cost (LRAIC) was started to be used in the electricity sector in the electric utilities.

The NCC is entitled to demand from the entity having the outstanding influence in the electricity market as well as from the supplier of the transmission, distribution services and/or the public supplier to prove the substantiation of the set prices on the basis of the costs allocation. The NCC has the right to set an obligatory reasonable time period for providing such evidence. If the entity having the outstanding influence in the electricity market as well as the supplier of the transmission, distribution services and/or the public supplier fails to prove the substantiation of the cost-based prices, it will be considered that the prices set by entity are not substantiated by the allocated costs.


It should be mentioned that on the NCC initiative the provision concerning the calculation of the normative profit in the new wording of the Law on Electricity has been amended by withdrawing the constraining profit margin and thus providing more incentives to make necessary investment in the electricity networks.

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

The requirements for the Procedure Regulations for Access to the Electricity Networks, which were approved by the NCC in 2011, ensure more transparent access to the grid, and the approved investments and the financing model of the project for the Lithuania-Sweden interconnection link NordBalt by 2016 promote the market integration, security of supply and support the relevant scientific research.

Article 37(10)

Pursuant to Article 69, Paragraph 6 of the new Law on Electricity, after setting the price ceilings by the NCC, the suppliers have the right to differentiate the prices of the service according to the objective indications. In differentiating the prices, the suppliers of the services must keep to the principle of equal treatment and to properly take into consideration the principle of increasing the efficiency of energy consumption. The price of the transmission service may be differentiated by the price components applicable to electricity consumers, producers and importers importing electricity from other countries than the EU Member States. The price of the transmission service, the price of the transportation service, the price of the distribution service in all cases, excluding the part of the price representing the public service obligations, can be differentiated to the capacity component and the electricity energy component. The suppliers of the services have to establish the procedure for the differentiation of the prices; the Procedure Regulations thereof are approved by the NCC.



Within 30 calendar days from the date of receipt of the supplier's application, the prices set by the supplier and the tariffs are announced by the NCC after having verified that the requirements on setting the prices and tariffs had not been breached while setting the prices and the customers are not being discriminated. If it is established that the prices and tariffs submitted by the supplier of the services have been set by breaching the requirements for setting the prices and tariffs or are discriminating the customers, the NCC will point out to the supplier of the services the errors which have to be corrected and will demand to resubmit the corrected prices and tariffs of the services no later than within 10 calendar days from the date of receipt of the remarks. No later than within 30 calendar days from the date of submission of the corrected prices and tariffs of the services, the NCC will announce them, or, if the suppliers has failed to correct the indicated errors during the set time period, the NCC will unilaterally set the prices and tariffs of the services and will announce them.

Currently the provision of the Methodology for Setting the Prices and the Price Ceilings of the Transmission and Distribution Services are being revised in line with the provisions of the mentioned Law, although part of the requirements regarding the discrimination and correction of errors have been already laid down in the valid legal act.

Article 37(12)

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

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

Pursuant to Article 33 of the new Law on Electricity, every year by July 1, the transmission system operator has to submit to the NCC a ten-year plan for the development of the transmission network substantiated by the existing and projected electricity supply and demand in the electric power system. Prior to submitting the plan for the network development to the NCC, by the decision of the transmission system operator, the consultations with the competent state institutions and interested network users are held. The efficient measures aimed at assuring sufficient system capacities and security of supply are indicated in the plan for the network development.


First of all, in the plan for the network development there should be provided:

- 1) The infrastructure of the transmission system, which has to be constructed or modernized during the planned ten-year period;
- 2) All investments regarding which the decision has been already made along with the new investments deemed necessary during the planned ten-year period;
- 3) The planned implementation terms of all investment projects.

In preparing the plan for the network development, the transmission system operator makes justified assumptions on the tendencies in electricity generation, supply, consumption, cross-border electricity flows, with regard to the plans of investments drawn-up on the regional networks as well as the networks of the European Union.

The NCC holds transparent and public consultations with all interested network users regarding the plan for the network development submitted by the transmission system operator. The NCC posts the results of the consultations on its website, first of all – potential needs for investments in the network development.

The NCC evaluates whether all investment needs, which have been identified during the consultations, are taken into consideration in the plan for the development of the network submitted



by the transmission operator and whether the plan does not contradict to the unbinding ten-year network development plan of the European Union indicated in Article 8, Paragraph 3, Item (b) of Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity and repealing Regulation (EC) 1228/2003.

The NCC performs the monitoring of the implementation of the plan for the network development and its assessment. The transmission system operator, who has failed to submit the development plan on the set terms or has submitted the plan by not complying with the requirements set forth in this Article and has not rectified the established violations during the time period indicated by the NCC, is considered as having breached the conditions of the regulated electricity transmission activities.

In the case when the transmission system operator fails to make the investments which pursuant to the plan for the network development were to be made during the next three-year period, the NCC exercises the measures for making the respective investments, if they are necessary according to the latest plan for the network development, namely:

- 1) Obligates the transmission system operator to make the respective investments;

- 2) Obligates the transmission system operator to arrange the Tender in which all interested investors would be able to take part, by taking into account all requirements for the independence of the transmission system operator prescribed by the Law;

- 3) Obligates the transmission system operator to increase the authorized capital of the company with an aim to finance the required investments and to create conditions for independent investors to participate in the capital formation, by taking into account all requirements for the independence of the transmission system operator prescribed by the Law;

In the case when the NCC exercises the powers prescribed by the Law, it can demand the transmission system operator to implement one or more requirements so that:

- 1) The investor who has won the tender would provide the financing;

- 2) The investor who has won the Tender would perform the works of the transmission system infrastructure development and/or modernization indicated in the plan for the network development;

- 3) The transmission system operator would perform the works of the transmission system infrastructure development and/or modernization indicated in the plan for the network development;

- 4) The transmission system operator would operate the respective assets of the transmission system.

The transmission system operator provides the investors with all information deemed necessary for making the investments, connects new assets of the transmission system to the transmission network and makes all reasonable efforts to create favorable conditions for the implementation of the investment projects. The respective financing facilities are approved by the NCC.

In the cases when the NCC has exercised its authorizations, the costs of the respective investments are evaluated according to the procedure set forth by the legal acts for the purposes of pricing the transmission service and the related services.



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

Pursuant to Article 8, Paragraph 9, Item 13 of the Law on Electricity, the NCC controls the efficient unbundling of 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. The NCC approves the accounting requirements of the regulated activities and no less than once per year issues the recommendations related to the compliance of the prices of the services provided in the energy sector with the requirements of transparency, equal treatment and other requirements prescribed by legal acts, and submits them to the Competition Council.

Pursuant to Article 9, Paragraph 4, Item 5 of the Law on Electricity, to ensure competition among the electricity market participants, indiscriminate of individual market participants and customers as well as the supply of the services of the required quality to the customers, the NCC supervises if the unbundling of the activities in the electricity sector is efficiently performed by assuring the independence of the electricity transmission and distribution activities from the interests of the production and supply activities and with an aim to avoid cross-subsidizing of these activities.

Pursuant to Article 56 of the mentioned Law, the transmission system operator, the distribution network operator and the public supplier have to keep separate accounts of the electricity transmission, distribution, public supply activities, the supply of the public obligation services and other activities unrelated to the activities in the energy sector. The NCC sets the rules for the unbundling of accounts and the relevant requirements, as well as the requirements for independent audit, which has to be performed by the entities indicated in the Law in regular periods set by the NCC.

It should be mentioned that it is being planned to make the unbundling at the transmission system operator LITGRID AB and at the distribution networks operator AB LESTO in accordance with the requirements on the unbundling of ownership. The NCC is monitoring this process.


The transmission system operator, distribution networks operators, producers and suppliers have to prepare, to submit to the independent auditors and to publish their annual Financial Statements according to the procedure and conditions set forth in the Law on Accounting of the Republic of Lithuania, the Law on Financial Reporting of the Republic of Lithuania, the Law on Consolidated Financial Statements of Enterprises of the Republic of Lithuania. Those entities, which are not legally committed to publish their annual Financial Statements, keep their copies in their head offices where they are available to the general public.

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 respective energy sectors of foreign countries:

- In assuring that the transmission system operator would have one or more transmission capacities integrated on the regional level for ensuring capacity allocation and security of the network, covering one or more member states;

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- In promoting allocation of cross-border capacities and developing the systems for ensuring the electricity network security;
 - In creating conditions for ensuring sufficient cross-border capacities, including new interconnection links, in order to develop the efficient competition and to improve security of supply without discriminating the suppliers of the member states and by coordinating preparation of the congestion management rules.


Pursuant to Article 31, Item 18 of the Law on Electricity, the transmission system operator has to ensure congestion management by the market mechanisms, and to perform distribution of the earned congestion revenues and compensation of the costs incurred due to cross-border electricity flows in accordance with the principles set forth in Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity and repealing Regulation (EC) 1228/2003. In preparing the plan for the network development, the transmission system operator has to make substantiated assumptions on the tendencies in electricity generation, supply, consumption and cross-border electricity flows, with regard to the investment plans drawn up for the regional networks and the networks of the European Union.

With regard to the transparency requirements of the mentioned Regulation, the transmission system operator LITGRID AB uploads the required information on its www.litgrid.eu, including the *Methodology for Calculating the Cross-Border Capacities* between the transmission networks of Lithuanian and Latvian electric power systems and the *Methodological Guidance on Determining Stability in the BRELL Electricity Ring*, which have been agreed with the NCC.

Pursuant to Article 41, Paragraph 2 of the new Law on Electricity, the imported and exported electricity is traded only at the Power Exchange. Moreover, according to Item 20 of the *Rules for Trading in Electricity* approved by the Minister of Energy in June 2012, all electricity energy, which is supplied to Lithuania from other countries or supplied to other countries from Lithuania, is traded only at the Power Exchange. The transmission system operator has the right to constrain the volumes of electricity traded at the Power Exchange, which is supplied to or from Lithuania, when the capacity of the electricity transmission lines is limited in the respective direction of electricity supply to or from Lithuania. No later than one calendar day prior to the operation day, till 10:00 a.m., the transmission system operator has to announce about the transfer capability of the interconnection links 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 in the Power Exchange for trading in the electricity which during one hour in the respective direction of electricity supply to or from Lithuania exceeds the capacity announced by the transmission system operator, the part of the capacity of the selling bids with the highest quoted price and/or of the purchasing bids with the lowest quoted price, which exceed the transfer capability announced by the transmission system operator in the respective direction, is rejected.

The congestion management algorithm steps posted on the website of the transmission system operator LITGRID AB:

1. All trade bids through a respective interconnection are aggregated for each step of the bid price.
2. The aggregated volumes of purchasing and selling bids to each price step are defined.
3. If the aggregated volumes of purchasing or selling bids at a specific price step exceed the defined interconnection capacity:

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- a. The bids of purchase or sale for a specific price step, the volumes thereof exceed the adjusted interconnection capacity, are rejected.
 - b. If the measure *a* is inadequate, then all bids, dependent on the price are proportionally reduced.
 - c. If the measure *b* is inadequate, then all bids, independent from the price are proportionally reduced.
4. Subsequent to the performance of the reduction of bids, all bids for interconnections, fulfilling the defined limits of interconnection capacity, are returned to the system of price calculation system.


In 2011 all important information related to access to the transmission grid and its availability was disseminated by posting the market information notices on BALTPPOOL UAB website www.baltpool.lt, and starting from June 18, 2012 it has become available on NORD POOL SPOT website www.nordpoolspot.com.

On March 7, 2012, the new LITGRID AB *Procedure Regulations on the Use of Revenues Earned from Congestion Management* were approved; they are aimed at establishing the procedure for using the revenues earned by the company from congestion management in line with the requirements set forth in Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity (OL 2009 L 211, p. 15). All previous Procedure Regulations as well as the mentioned one have been agreed with the NCC. Pursuant to Item 10 of the Procedure Regulations, every year by July 10 the company submits to the NCC the report regarding the revenues earned during a twelve-month period (till June 30 of the current year) from congestion management and their use. In the recent years no such revenues were earned, therefore the compliance of their use with the requirements set forth by the mentioned Regulations was not monitored.

Since June 2012, when NORD POOL SPOT started operating in Lithuania, the mechanisms of cross-border capacity allocations and congestion management have been revised and 3 steps have been planned to accomplish bigger integration of the Baltic regional market. At present the previously adopted transfer capability principles are still being applied, with an exception of the transfer capability of Estonia – Latvia interconnection. The capacities of Lithuania's interconnections are allocated by NORD POOL SPOT. According to step 2, the capacities of the Baltic internal interconnections would be allocated by arranging an implicit auction, but for this purpose it is necessary to reach the agreement among the Baltic transmission system operators. According to step 3, it is being planned to additionally draw up the General Capacity Allocation Rules for Trading with Third Countries, but for this purpose the agreement among the Baltic transmission system operators has to be reached as well.

The NCC has been monitoring the situation and discussing the outstanding issues with the Baltic energy regulators and the transmission system operators at the meetings of the working groups arranged a few times per year, and has provided the information to the market participants at the organized mini Forums.

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 transmission system operator LITGRID AB is performed in line with the conditions indicated in Chapter 3.1.3, which have been enforced by the Law on Electricity.

As requested, the transmission system operator LITGRID AB in July 2012 submitted the Network Development Plan of the Lithuanian Electric Power System by 2021, containing the forecasts of electricity demand, capacities of the power plants, the electricity market and the system energy balances along with the information about the transmission grid, its development plan, and planned investments. Currently the public consultation is held, where the general public can get acquainted with the plan and to provide their comments to the NCC.

The Development Plan of 330–110 kV Electricity Transmission Grid of Lithuania (hereinafter – the “Plan”) has been worked out with regard to the requirements of reliability of supply, quality, efficiency, consumption, management, environmental protection and the needs of the transmission network users. The plan is based on the long-term objectives indicated in the draft National Energy (Energy Independence) Strategy (hereinafter – the “National Energy Strategy”), the provisions of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, the Strategy of the Electricity Transmission System Operator of Lithuania LITGRID AB in 2011–2020, the recommendations of European Network of Transmission System Operators for Electricity ENTSO-E and the provisions of other legal acts defining the operations of the transmission system operators and of the electric power system and the principles thereof. By analyzing the development options of the transmission grid, performing calculations of the operation modes and in planning investments the Plan has been drawn by making the assumption that in 2020 the electric power systems of the Baltic States will be operating synchronously with the European continental network (Table 5).

Table 5. The main characteristics of the Lithuanian electric power system

Indicators	Measurement units	2011 (reported)	2021 (projected)
Electricity demand (including network losses)			
Minimum	TWh	10.39	12.01
Most probable	TWh	10.39	12.86
Maximum	TWh	10.39	13.81
Demanded capacity during the peak loads of the system			
Minimum	MW	1715	2080
Most probable	MW	1715	2190
Maximum	MW	1715	2350
Installed capacity of the power plants/ available capacity, total:		4021/3681	5732-6332/5317-5899
Including condensing power plants		1800/1732	1055-1655/1032-1614*
Nuclear power plants		0/0	1350/1303
Combined heat and power plants		794/680	990/865
Hydro power plants		127/116	142/131
Hydro pumped storage power plants		900/760	1150/960
Small power plants of industrial enterprises		164/162	180/176
Power plants using renewable energy resources		236/231	865/850 ¹
Including wind power plants		185/185	500/500 ¹
High voltage lines		6683.2	7583
330–400 kV overhead lines		1671.6	2212
110 kV overhead lines		4967	5112
300 kV DC cable			188
110 kV cable lines		44.6	71
330 kV transformer substations		13*	16
330 kV switch gears		2	2
110 kV transformer substations		218**	233
Compensation equipment			
110 kV condenser batteries		112	112***
400 kV shunt reactors		–	100***
330 kV shunt reactors		180	180***
10 kV shunt reactors		300	300

Notes:

*- depending on the demand for the capacity reserve after the construction of Visaginas NPP;

** - including 330 kV Bitėnai switchyard;

*** - including 110 kV Varduva switchyard;

**** - excluding compensation equipment installed in converters.

Source: LITGRID AB.

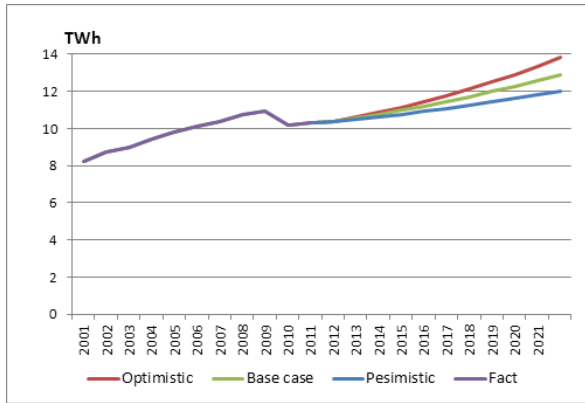
The forecast of electricity demand has been worked out by taking into consideration the tendencies of growth in the gross domestic product and the increasing efficiency of electricity

¹ Pursuant to the Law on Renewable Energy Resources (No XI-1375), the development is presented till the year 2020.



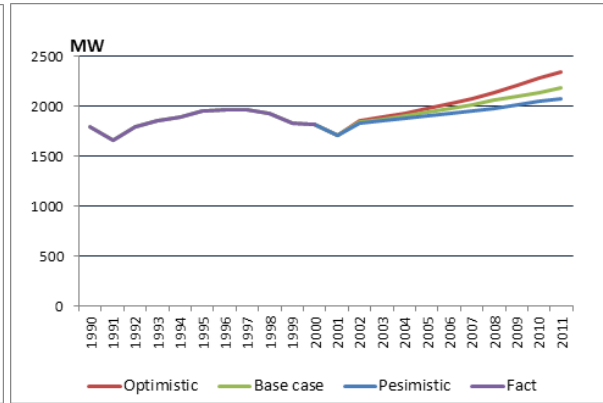
consumption. The forecast of the total electricity demand by 2021 (with network losses) is presented in Figure 12, and the forecasts of the maximum demanded capacity by 2021 – in Figure 13.

Figure 12. Forecast of electricity demand by 2021



Source: LITGRID AB.

Figure 13. Forecast of maximum demanded capacity by 2021



Source: LITGRID AB.

According to the optimistic scenario, in 2021 the electricity demand can be approx. 13.8 TWh (average yearly increase by approx. 2.9 percent), according to the basic scenario (most probable) – 12.9 TWh (average yearly increase by approx. 2.1 percent.), and according to the pessimistic one – 12.0 TWh (average yearly increase by approx. 1.5 percent.). It is projected that in 2021 according to the optimistic scenario the demanded capacity in the electric power system will be approx. 2350 MW.

It is being projected that after interconnection of the transmission systems of Lithuania, Latvia and Estonia by interconnection links with the systems of Europe and of the Nordic countries and after integration of their markets, new flows of electricity exchange will be formed in the region. The main forecasted tendency – the electricity flow going from the Nordic countries through the electric power systems of Estonia, Latvia and Lithuania to the electric power systems of Poland and Germany. Electricity trade with the Russian Federation will also persist, and it should maintain a competitive price of supply.

Up till now Lithuanian electric power system had no interconnection links which would allow integration of the Lithuanian electricity market either with the market of the Nordic countries or with the market of continental Europe. The preparatory works completed in the previous decade enabled to start the ongoing intensive construction of the interconnection links with Sweden and Poland.

It should be mentioned that the NCC, abiding by the national Energy Strategy, the Law on Energy of the Republic of Lithuania, the Plan for Implementing the National Energy Strategy in 2008–2012, and with regard to Resolution No 591 of the Government of the Republic of Lithuania as of 25 May 2011 Re: Submission of the Draft Resolution of the Seimas of the Republic of Lithuania on Approval of the National Energy (Energy Independence) Strategy to the Seimas of the Republic of Lithuania, the NCC Resolution No O3-184 as of 29 October 2009 Re: Lietuvos Energija AB Investment Program for 2010–2014 whereby the consent for implementing the investment project was given, by Resolution No O3-232 as of July 29, 2011 approved the financing model of the investment project for construction of the interconnection link Lithuania – Sweden (NordBalt).

The total value of the NordBalt project equals EUR 426 million (LTL 1 billion 471 million), from this amount EUR 205 million is the part of investments to be financed by Lithuania. The NCC made the decision on the approval of the investment project on the condition that part of the investments (LTL 226.16 million) will be financed from the EU structural funds. The investment project is implemented by LITGRID AB. The interconnection link Lithuania – Sweden is aimed at enhancing energy independence by assuring security and reliability of the system, and it should be constructed in 2016.

The NCC, by consecutively keeping to the principle of the least financial burden, has also set additional conditions related to the implementation of the NordBalt project:

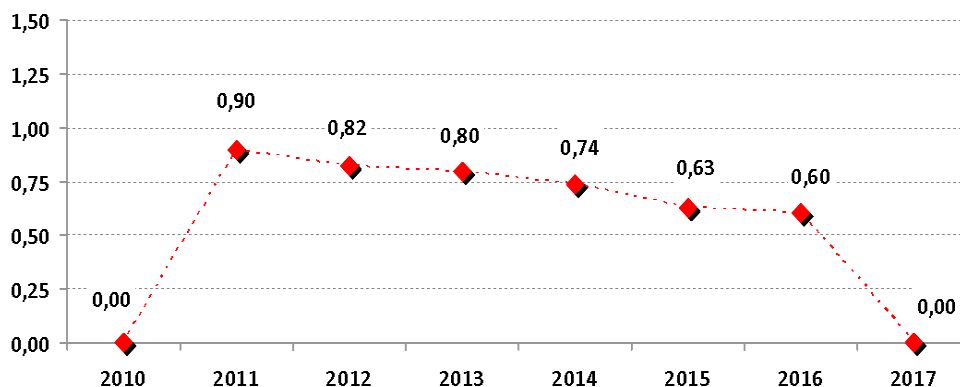
- The NordBalt project, which is financed from the public finance, will not increase the value of the assets used in the licensed activity, and hence it will not increase the depreciation costs and the value of return on investments (normative profit), so therefore it will not increase the tariff of the transmission service;

- The NordBalt project development company will provide quarterly reporting by submitting the copies of the documents on the disbursement of financial resources;

- The NCC will reconsider the financing model of the NordBalt project in the case of:


- Amendment of the national legislation, including the structure of the PSO payers;
- Alteration of the European Commission decision on the allocation of financing;
- Non-compliance of the project development company with the commitment set by the NCC;
- Adjustments in the contracted works processes of the NordBalt project;
- Alteration or occurrence of other important circumstances.

Figure 14. Financing of the NordBalt project from public finances in 2010–2016, ct/kWh



Source: NCC.

It should be mentioned that the joint investments (by the transmission system and distribution network operators) in 2011 equaled LTL 455 million, from this amount LTL 94.1 million were allocated to the strategic projects. The yearly increase of the joint investments is 37 percent. In the trends of investments made by LITGRID AB in 2011 there was a significant change in the part of the strategic projects – these investments accounted for 60 percent of the total yearly amount. Among other areas, the investments in the network development and reconstruction should be



mentioned to which 21 percent of invested funds were assigned, or by LTL 10.5 million more than in the previous year.

Apart of the mentioned NordBalt project, 5 strategic projects were planned for:

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

In July 2012, the first three projects, excluding the lines Vilnius – Neris and Visaginas – Likсна falling under the 3rd project, were submitted to the European Commission to get financing according to the status of the Projects of Common Interest. After completion of the projects of interconnection lines with Poland LitPol Link 1 and LitPol Link 2 and the project for connection of the new Visaginas Nuclear Power Plant, the up-till-now isolated Lithuanian electric power system would be integrated into the single European electricity market, and this would contribute to more reliable electricity supply and stronger competition in the Baltic regional market.


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 in:

- 1) Promoting integration of the national market on the level of the European Union and regions and striving to interconnect the national electric grid with the grids of foreign countries;
- 2) Assuring that the transmission system operator would have one or more transmission capacities integrated on the regional level for ensuring capacity allocation and security of the network, covering one or more member states;
- 3) Preparing operational measures aimed at establishing optimal conditions for control of the electric grid;
- 4) Promoting the development of the common Power Exchange;
- 5) Promoting allocation of cross-border capacities and development of measures for the assurance of security of the electric grid;
- 6) Creating conditions for the assurance of the relevant level of the cross-border capacities, including new interconnection lines, with an aim to develop efficient competition and to improve reliability of supply without discriminating the suppliers of the EU member states;
- 7) Coordinating preparation of all grid codes to the respective transmission system operators and other market participants;
- 8) Coordinating preparation of the congestion management rules;
- 9) Other issues of regulation of the electricity sector.

The NCC can enter into cooperation agreements 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 activities of the Agency for the Cooperation of Energy Regulators functioning in



accordance with 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. The NCC, in cooperation with the Agency for the Cooperation of Energy Regulators and the national energy sector regulatory authorities of foreign countries, is exchanging information which is necessary to perform the NCC tasks prescribed by this Law and other legal acts. The NCC ensures confidentiality of the received information.

The NCC is a member of ACER, CEER and ERA organizations. The NCC representatives take part in the meetings of the working groups, perform 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 Agency, the Commission (Article 37(1)(d)) and with the Guidelines (Article 39)

The NCC is continually receiving information about the ACER and the European Commission's legal acts that are still being drafted or have been passed. Moreover, it reconciles its positions with other state authorities through the shared information system. 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.

After the adoption of the Law on Electricity in the beginning of 2012, the NCC has been supervising the process of unbundling the ownership of the transmission system operator and of the distribution networks operator and is getting ready for completing this in line with the procedures established by the ACER and the European Commission. In addition to that, in compliance with Annex I Guidelines on the Management and Allocation of the Available Transfer Capacity of Interconnections between National Systems and of Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009, the NCC is monitoring the information posted on the website of the transmission system operator (www.litgrid.eu) related to the transparency of cross-border power exchange and its compliance with the provisions set in the Guidelines.

The transmission system operator of Lithuania is a party of the ITC Clearing and Settlement Multi-year Agreement No SUT-84-11, which was signed on March 22, 2011. The NCC, by passing the Resolution, revises and approves and is monitoring the application of this fee. The NCC has been cooperating with ACER in the presently ongoing adjustment of the fund of the clearing mechanism among the transmission system operators.

With an aim to establish the integrated European electricity market by 2014, the NCC implements the regional and inter-regional working plans, related with the day-ahead, intra-day trade, the assignment of long-term physical and financial rights to the transmission system operator and the implementation of the cross-border capacity allocation mechanism. The NCC is getting ready for revision and approval of the investment projects related to the common interests of the region in accordance with the provisions of the forthcoming Regulation on trans-European Energy Infrastructure. Part of the set functions is performed by the Ministry of Energy (www.enmin.lt) and the Energy Agency subordinate to this Ministry (www.ena.lt). After the new Law on Energy was passed at the end of 2011, pursuant to which additional



financing will be given to the NCC, the role of the regulatory authority in performing the functions prescribed by the legal acts will grow up.


***Power to carry out investigations and to impose measures to promote competition, etc.
(Articles 37(4)(b)+35(5)(a))***

Pursuant to Article 8, Paragraph 9, Items 14-16 the Law on Energy passed at the end of 2011, the NCC supervises the level of the market opening and the efficiency of competition in wholesale and retail trade (including Electricity and/or Gas Exchange), the prices applied to household customers (including the pre-payment systems), the percentage of customers who have changed the supplier, the payments for maintenance services and the supply of these services, within its competence – the cases of distortion of competition and constraining the activity in the energy sector, monitors whether there are any cases of concerted practices restricting competition, including conditions of the exclusive rights, which, if applied to big non-household customers, can prevent or limit the possibility to simultaneously conclude agreements with more than one supplier, informs the Competition Council about such practices, and no less than once per year issues recommendations related to compliance of the prices of the services in the energy sector with the requirements of transparency, equal treatment and other requirements prescribed by the legal acts, and submits them to the Competition Council. Pursuant to Item 19, the NCC performs market investigations, which are aimed at ensuring efficient competition in the energy sector and at preventing the misuse of the influence in the market by entities having the outstanding influence in the respective market.

It should be mentioned that pursuant to Article 9, paragraph 3, Items 14-15 of the Law on Electricity passed in the beginning of 2012, the NCC has to approve the Procedure Regulations on the Electricity Market Supervision and Related Requirements and the Rules for Investigating the Electricity Market. The Law also prescribes that the NCC sets the calculation methodology of the fee for entering the electricity market of the Republic of Lithuania. The fee for entering the electricity market of the Republic of Lithuania may be charged in the cases and in accordance with the procedure set by the NCC, and only to the persons who are importing electricity from third countries.

In accordance with Article 9, Paragraph 4 of the mentioned Law, the NCC has to ensure competition among the participants of the electricity market, equal treatment of individual market participants, customers and supply of services of set quality to customers. To accomplish this goal, the NCC exercises control over:

- 1) Compliance with the rules for management of cross-border lines and allocation and regulation of their transfer capacity;
- 2) Compliance with the requirements on reliability of electricity transportation and quality of service;
- 3) Time spent by the network operators to connect customers' equipment to the electricity networks and for the works of restoration of electricity supply;
- 4) Uploading of the relevant information on the websites of the network operators related to the cross-border interconnections, system use and allocation of capacities to interested persons;



5) Efficient unbundling of activities in the electricity sector by ensuring the independence of the electricity transmission and distribution activities from the interests of production and supply activities and with an aim to avoid cross-subsidizing among these types of activities;

6) Objective, transparent and undiscriminating conditions and charges for connection of new electricity producers, with regard to all costs and benefits derived from the development of technologies of renewable energy resources, embedded generation and cogeneration of heat and power during one technological process;

7) Compliance with the requirements of transparency, equal treatment and competition in the energy sector, as prescribed by this Law and other legal acts;

8) Ensuring efficient functioning of the electricity market and prevention of misuse of the dominant position in the market or other actions that would make a negative impact on the efficient competition among the electricity market participants;

9) Compliance with the Rules on Trading in Electricity;

10) Compliance with the conditions and requirements of the licensed activity in the electricity sector or of the activity for which a permit has to be issued, the protection and defense of the customers' rights and legitimate interests including the reliability of information provided to customers;

11) Proper performance of other state regulation, supervision and control functions assigned to the NCC competence and concerning the activities in the electricity sector.

With regard to the above, and with an aim to establish the competitive and economically sound markets of natural gas and electricity, to prevent the misuse of the outstanding influence in these markets, the NCC drew up and in June 2012 approved the Markets Investigation Rules. The main provisions embedded in the Rules have:

- defined the procedure and stages of the market investigation, set the preliminary list of the markets for which the Rules will be applied. Moreover, they have set the criteria on the basis thereof the relevant market will be characterized, the decision-making process and the procedure for protection of the confidential information;


- stipulated that the NCC is also entitled to characterize and investigate other markets as well the parts of the markets indicated in the Rules with regard to the primary services constituting the market, amendments in the legal framework and other objective criteria, and in line with the investigation procedure set forth in the Rules;

- set the assessment criteria on the basis thereof the efficiency of competition in the market is investigated and the related persons are characterized;

- enabled the NCC to determine on the basis of certain criteria that two or more economic operators together are having the dominating position in the respective market, even in the cases when there are no structural or other relationship among them but they are operating in the market where there is no efficient competition;

- empowered the NCC to set commitments to the persons having the outstanding influence in the market and the procedure for setting these commitments;

- enabled the NCC in the exceptional circumstances when, from its point of view, urgent actions are needed in applying shorter terms for conducting the market investigation prescribed by the Rules and/or omitting certain procedures in organizing the market investigation in order to protect competition and the interests of suppliers of services, to immediately undertake the commensurate actions – to define the market share, to identify or not identify the persons having



the outstanding influence in the market and/or to enforce, not to enforce or to revoke one or several measures and commitments defined in the Rules.

Pursuant to Article 9, Paragraph 6 of the Law on Electricity, the NCC, in performing the assigned functions of the state regulation, supervision and control of the electricity sector, is functioning independently of other state institutions, offices and organizations, as well as of the commercial interests in the electricity sector. The NCC presents the results of control exercised abiding by these provisions in its Annual Report.

c) Power to require information from electricity undertakings (Article 37(4)(c))

Article 57, Paragraph 2 of the new Law on Electricity prescribes that the NCC is entitled to receive from the state authorities the information, including that which has been obtained from the EU institutions or is in the disposition of other member states, and from the municipality institutions and offices, the undertakings performing electricity production, transmission, distribution or supply activities, as well as from the Power Exchange and other persons, which is deemed necessary for proper monitoring of the electricity market in performing the regulation and supervision of the electricity sector within the competence assigned to the NCC.

The NCC approved the Rules on Providing Information by Energy Undertakings by its Resolution No O3-80 as of July 25, 2008, and is updating them on the permanent basis in line with the effective provisions and requirements of the legal acts.

d) 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 its legal acts detailed requirements for compliance with the Community legislation and responsibility for non-compliance with these instructions. Compliance with the provisions on cross-border trade has been defined in Chapters 3.1.4 and 3.1.5 of this Report.

The NCC supervises the application of connection fees of the new customers' equipment by the transmission system operator and the distribution networks operator by approving them in the NCC Resolutions. The NCC supervises the time spent for connection of the customers' equipment after interruption of electricity supply, the number of customers, the number of disconnections per customer and other indicators in line with the approved new revision of the Requirements on Reliability of Electricity Supply and Quality of Service.

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 electricity undertakings for non-compliances in performing the regulated activity in the electricity sector. The penalties imposed by the NCC for non-compliance in performing the state-regulated energy activities 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 legal acts, the NBCCPE imposes penalties on the energy undertakings for con-compliances in performing the regulated activity which have not been eliminated during the reasonable time period set by the NCC:

1) for failure to disclose any information the public dissemination thereof is binding about the regulated activity performed by the undertaking, failure to provide the information prescribed by the legal acts to the persons indicated in Article 25 of this Law as well as the provision of



incomplete or erroneous information – from LTL 1 thousand up to 0.5 percent of the yearly income of the energy undertaking earned during the previous financial year from the regulated activity in performing which the infringement was made;

2) for infringement of or non-compliance with other conditions of the licensed activity, failure to perform the commitments (instructions) by the NCC to terminate the illegal activity, failure or delay to remove the identified infringements in the licensed activity conditions, breach of obligations – from LTL 1 thousand up to 1.0 percent of the yearly income of the energy undertaking earned during the previous financial year from the regulated activity in performing which the infringement was made.

3) for infringement of the principles of security and reliability of operations, fair competition, equal treatment of customers (except the below listed cases), reoccurring infringement of the conditions of the regulated activity during the same calendar year – from LTL 2 thousand up to 2.0 percent of the yearly income of the energy undertaking earned during the previous financial year from the regulated activity in performing which the infringement was made;


4) for failure to implement or improper implementation of the requirements of independence of energy transmission or distribution activities and their unbundling, if these non-compliances have not been rectified during the reasonable time period set by the NCC, for the vertically integrated company and/or network operator – 10.0 percent of the yearly income of the energy undertaking earned during the previous financial year from the regulated activity in performing which the infringement was made;

In the cases when the actions of unfair competition or the infringement of the principle of equal treatment of customers are investigated by the Competition Council within the assigned competence, such actions are investigated, binding instructions to the energy undertakings are issued and responsibility 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 are collaborating in order to efficiently identify the scope of the actions of unfair competition or the infringement of the principle of equal treatment of customers in the energy sector and their impact on energy consumers and/or other energy undertakings. The energy undertakings are held responsible for the same infringements either pursuant to this Law or the Law on Competition, with regard to the competence assigned either to the NCC or the Competition Council.

Penalties imposed on the energy undertakings are differentiated with regard to:

- 1) Hazardousness of the infringement;
- 2) Duration of the infringement;
- 3) Consequences of the infringement;
- 4) Circumstances that extenuate or aggravate the responsibility of the energy undertaking.

The events that are considered to be the extenuating circumstances are when the non-complying company has voluntarily prevented hazardous consequences of the infringement, assisted in clarifying the circumstances of the infringement, immediately took measures to eliminate the infringement. The events that are considered to be the aggravating circumstances are when the energy undertaking intervened in clarifying the circumstances of the infringement, was concealing the made infringement, was continuing the infringement regardless of the NCC



instructions to terminate the illegal activity, or made the infringement for which the penalties had been already imposed on the undertaking. The NCC, in defining the value of the penalty, can consider other events as the extenuating circumstances, although they have not been indicated in this Law.


The value of the imposed penalty is established with regard to the circumstances indicated in Items 1, 2 and 3. The set value of the penalty can be reduced in the case of the extenuating circumstances, or increased in the case of the aggravating circumstances. In the case of the extenuating or aggravating circumstances, the value of the penalty is defined by taking into consideration their scope and importance. The top manager of the energy undertaking, which is suspected as having committed the infringement and on which the penalty can be imposed, and/or his authorized representative take part in discussing the issue of the infringement, and they have the right to be heard and to give explanations. In the case of absence of these persons, the issue of imposing the penalty can be resolved only in the cases when there are evidences that they have been timely informed about the time and place of discussing the issue, and no request to postpone the discussion has been received from them. In the cases when the request to postpone the discussion of the issues has been received, this issue can be resolved in the absence of the person, if the NCC, upon having admitted that the reasons for not being present during the discussion of the issue are unimportant, rejects the person's request to postpone the discussion of the issue. The NCC makes the decision on imposing the penalty within six months from the date when the infringement was established. In the case of continuing non-compliance the penalty has to be imposed no later than within six months from the date when the infringement became known. No penalties can be imposed for the infringements when more than five years passed from the date of their occurrence. Only one penalty can be imposed for the same infringement. The imposed penalty does not release from performing the duty, for the failure to perform of which the penalty has been imposed.

The penalty imposed by the NCC has to be paid to the state budget in accordance with the procedure and on the terms set by the NCC. The NCC decision on imposing the penalty can be submitted to the court according to the procedure set forth in the Law on Administrative Litigation of the Republic of Lithuania. The NCC decision on imposing the penalty comes into effect after 30 days from the date when it was made if during this period it has not been appealed in the court. The NCC decision is a binding and enforceable document, the decision is implemented according to the procedure set forth in the Civil Code. The NCC approves the Rules on Imposing Penalties by following the provisions of this Article.

3.1.6 SETTLEMENT OF DISPUTES

a) Articles 37(11), 37(5)(c) and 37(4)(e)

Pursuant to Article 34, Paragraph 3 of the Law on Energy, the NCC examines complaints submitted by customers or energy undertakings on the actions of the energy undertakings or the absence thereof in supplying, distributing, transmitting, storing energy, on denial of the energy undertakings' rights of access to the grid, connection, balancing the flows of energy and energy resources and application of prices and tariffs in accordance with the mandatory extra-judicial procedure. The disputes of other types are examined by the State Energy Inspectorate or the State Consumer Rights Protection Authority.



The mentioned Article of the Law on Energy provides that the complaints and disputes of customers or energy undertakings are examined in accordance with the regulations of the examining authority, in line with the requirements set forth by the laws. The Law on Energy also sets forth the conditions and circumstances in the occurrence of which the authority examining complaints of energy undertakings and customers is entitled to reject the request to examine the dispute or complaint and to terminate or suspend their examination.

The Law also provides that the authority examining complaints and disputes of energy undertakings and customers has to examine the complaint to later than within 30 days from the date of acceptance of their request, or has to make the decision regarding the complaint no later than within four months from the date of its acceptance, excluding the cases when due to the exclusive circumstances (e.g. numerous evidences, complicated circumstances of the dispute) more time is needed for examining the complaint or dispute.

The decision made by the authority examining complaints of energy undertakings and customers becomes public to the extent in which it is not violating the state, official, commercial secrets or the protection of private life of a natural person. The rules approved by the authority examining complaints of energy undertakings and customers set forth the procedure according to which the parties of the dispute or complaint as well as other interested persons involved in the examination of the dispute specify which information contained in the wording of the decision on settlement the dispute should be treated as their confidential information. The rules on the interpretation of the law contained in the wording of the decision of settlement the dispute in all cases are public. The parties of the dispute or the claimant are provided with the comprehensive motivated decision of the authority regarding the complaint or dispute.


Pursuant to the provisions of the Law on Energy and the Law on Conciliatory Mediation of Civil Disputes of the Republic of Lithuania, the persons operating in the energy sector can address the authority examining complaints and disputes with the request to act as a mediator and/or conciliator in order to settle the dispute on their relations regulated by this Law in an amicable way, i.e. without the mandatory settlement of disputes. The authority examining complaints and disputes sets the rules on conciliatory mediation which are applicable when the person chooses this authority to act as a mediator in the dispute settlement.

Article 51, Paragraph 10 of the Law on Electricity provides that the information centre has to be established in accordance with the procedure set by the Government or its authorized institution, which would provide electricity customers with all relevant information about their rights, valid legal acts and the available methods of dispute settlement. The information centre was established by the NCC in March 2012 and the regulatory authority approved the Procedure Regulations on the Requirements on Extrajudicial Settlement of Disputes.

3.2 PROMOTION OF COMPETITION

3.2.1 WHOLESALE MARKET

After the final shut-down of Ignalina Nuclear Power Plant which generated approx. 80 percent of electricity consumed in the country and when the day-ahead electricity market (the Power Exchange) was launched in Lithuania, trading between the market participants was anonymous. The trading strategy of the market participants, when the traded quantities are divided between the Power Exchange and by concluding bilateral direct contracts, depends on the prices quoted at the Exchange and their tendencies.




After the alteration of the generation balance in Lithuania and energy flows in the Baltic Region, regulation of the capacities of the cross-border transmission lines became very important. Therefore from 2010 the implementation of the transfer capacity management system has been started, which is based on trade in capacity and trade in energy, which are synchronized in time. This means that simultaneously with the trade in energy the allocation of transfer capacity is taking place depending on the priority ranking of electricity prices, i.e. first of all the transmission lines transfer capacities are allocated to those market participants who proposed either a lower electricity price for imported electric energy or a higher electricity price for exported electricity. Such method of the transfer capacity management requires selling or buying all imported or exported electricity on one platform, which is the day-ahead market (the Power Exchange) of Lithuania.

In 2011, like in the previous year, the autonomous Power Exchange BALTPPOOL UAB (www.baltpool.lt) was functioning in Lithuania. After the new Law on Electricity was passed in January 2012, the conditions have been established for NORD POOL SPOT AS (hereinafter – the “NPS”) to enter Lithuania since June 18, 2012. In the future, when Latvia will also adopt the relevant legal provisions, the hourly trade in electricity will be jointly performed in the whole market of the Baltic States by seeking to get integrated with the common market of Scandinavia and the Baltic States, which is managed by NPS. These steps are a part of the Baltic Energy Market Interconnection Plan (BEMIP) adopted in 2009, which is meant not only for the integration of the electricity market, but for the interconnection of the transmission grids between the Scandinavian and the Baltic countries as well. Prior to implementing the expansion of the transmission networks integration, one separate price zone is being formed in the Baltic States by constructing the interconnection cables between Lithuania and Sweden, and in addition – a cable line between Estonia and Finland. This is being done because the trading volumes between the Baltic States and Scandinavia are restricted by the existing capacity of the cable line Estonia – Finland, i.e. 350 MW.

There might be such situations when different price zones will be formed in the Baltic States themselves. This will depend on the electricity transmission capacities between Latvia – Lithuania and Estonia – Latvia. In the periods when due to the condition of the transmission lines (maintenance periods or other likely cases of disconnection of the lines) it would be necessary to restrict the trading possibilities between the countries, different price zones would be formed in the Baltic States.

When the flows of electricity have changed, the congestion problems were faced in the Baltic electric power system, in the interconnection Estonia – Latvia, especially during the warm season. No overloading problems were observed on the national level. In April 2010, the Memorandum was signed among the transmission system operators of the Baltic States regarding allocation of the capacities of interconnection lines and congestion management. On the basis of the Memorandum, Estonia and Latvia (Elering and AST) as well as Latvia and Lithuania (AST and Litgrid) have entered into separate agreements on allocation of the capacity of cross-border lines. The capacity of Estonia – Latvia interconnection is allocated: 20 percent at the explicit auction, 80 percent – based on the principle of capacity optimization, which is managed by NPS. The capacity allocation of Latvia – Lithuania interconnection is conducted according to the principle of capacity optimization, and was performed by BALTPPOOL UAB, and since June 2012 – by NPS. It is being planned to start using the principle of the implicit auction in the nearest future, however after the study on the feasibility to apply the method based on the energy flows, there are considerations



to apply the latter method instead. The efficient mechanism of capacity allocation in the Baltic States will be managed by NPS.

Moreover, there is the agreement among the transmission system operators of Belarus, Russian Federation, Estonia, Latvia and Lithuania (BRELL) on the electricity Exchange, systems stability and setting other parameters. The electricity systems of the Baltic States are closely related with the electricity grids of Russian Federation (including the Kaliningrad Region) and Belarus, which make a significant impact on the energy flows in the Baltic States, therefore a joint decision with regard to the third countries is necessary. Recently the mandate has been received for negotiations with the relevant authorities of Russian Federation, and the information is expected from them.

Pursuant to the requirements of the approved Guidelines of Regulation No. 714/2009, the information related to the transparency of the market must be publicly disclosed. The energy flows among the electric power systems, transfer capacity of the interconnection lines, generation, consumption, export/import, impact of disconnection of the transmission network equipment for maintenance on the transfer capacity with neighboring countries can be followed on the website of the transmission network operator www.litgrid.eu.

In accordance with the agreement signed by the Baltic transmission system operators regarding the communication policy, the operators are exchanging the information necessary for cross-border trade. The document sets forth the scheme for coordinating operation among the operators and balancing of electricity suppliers, terms of exchanging the trading schedules two days, one day ahead the trading day or on the trading day, the procedure for their approval or adjustment, etc.

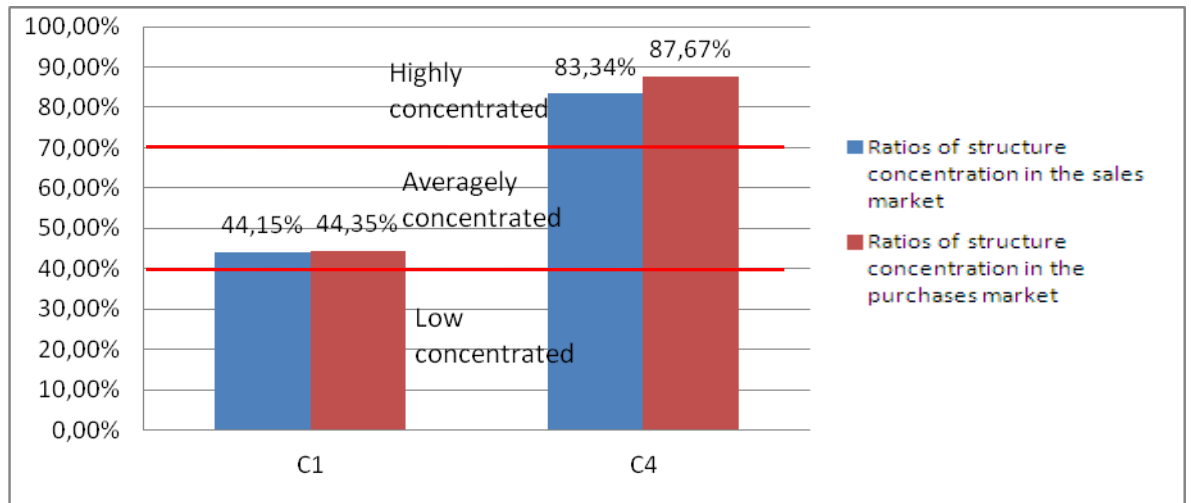
The outstanding problems related to allocation of cross-border capacities and congestion management are discussed at the meetings of the Congestion Management Working Group of the Baltic Electricity Market Regional Initiative. The work is also continued in the ENTSO-E working groups, but the key problem is the evaluation of energy flows from third countries and their legal regulation.

The NCC prepares and publicly announces on its website www.regula.lt the quarterly and yearly market monitoring reports, where, side by side with the analyses of production and consumption, transportation, wholesale and retail market data, the assessment of the intensity of competition in the Power Exchange is reviewed in accordance with the following indicators:

- 1) Market structure (concentration) ratios (C_1 and C_4);
- 2) Hirschman-Herfindahl Index (HHI);
- 3) Pivotal Supplier Index (PSI).

In accordance with the data of IV quarter 2011, in both – the sales and the purchases part there is a market participant holding a dominant position ($C_1 > 40$ percent). In the sales part the market share held by UAB INTER RAO Lietuva is as high as 45 percent. In the purchases part the dominant position is held by Lietuvos Energija AB, its market share is 42 percent. In evaluating the market concentration, it is possible to draw the conclusion that the market is very concentrated – four biggest market participants both in the sales and in the purchases parts are covering more than 82 percent of the market. C_1 in the sales market, as compared with IV quarter 2010, increased by 9.85 percent, meanwhile C_4 dropped by 1.97 percent. In the purchases market C_1 decreased by 44.16 percent and C_4 – by 3.10 percent.

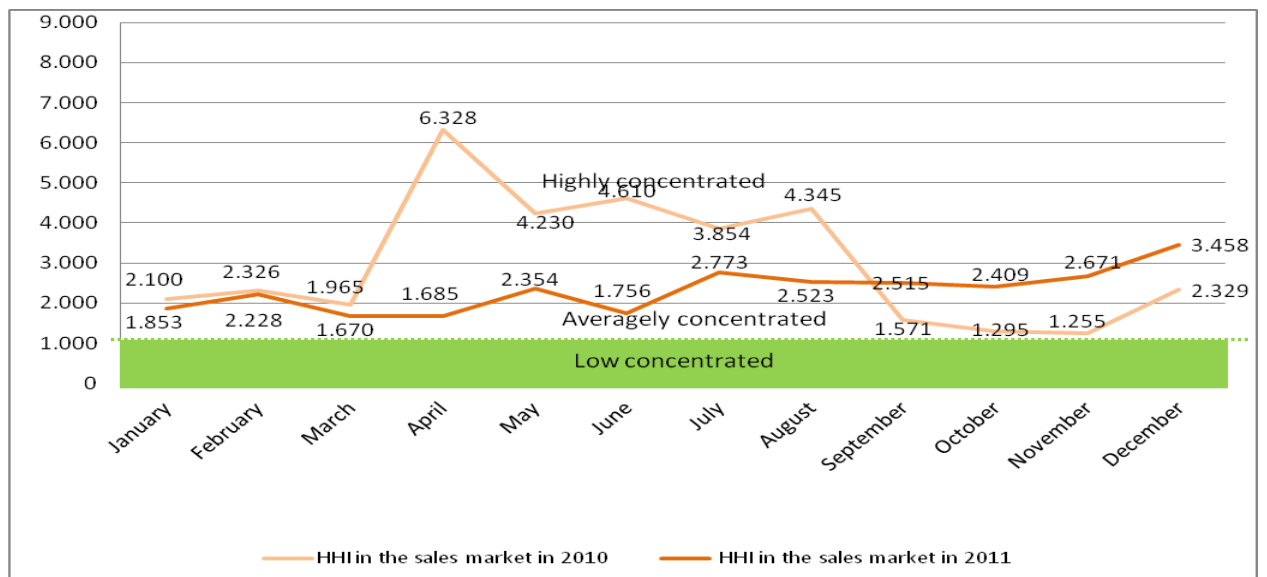
Figure 15. Market structure (concentration) ratios in 2011, in percent



Source: NCC according to BALTPPOOL UAB report.

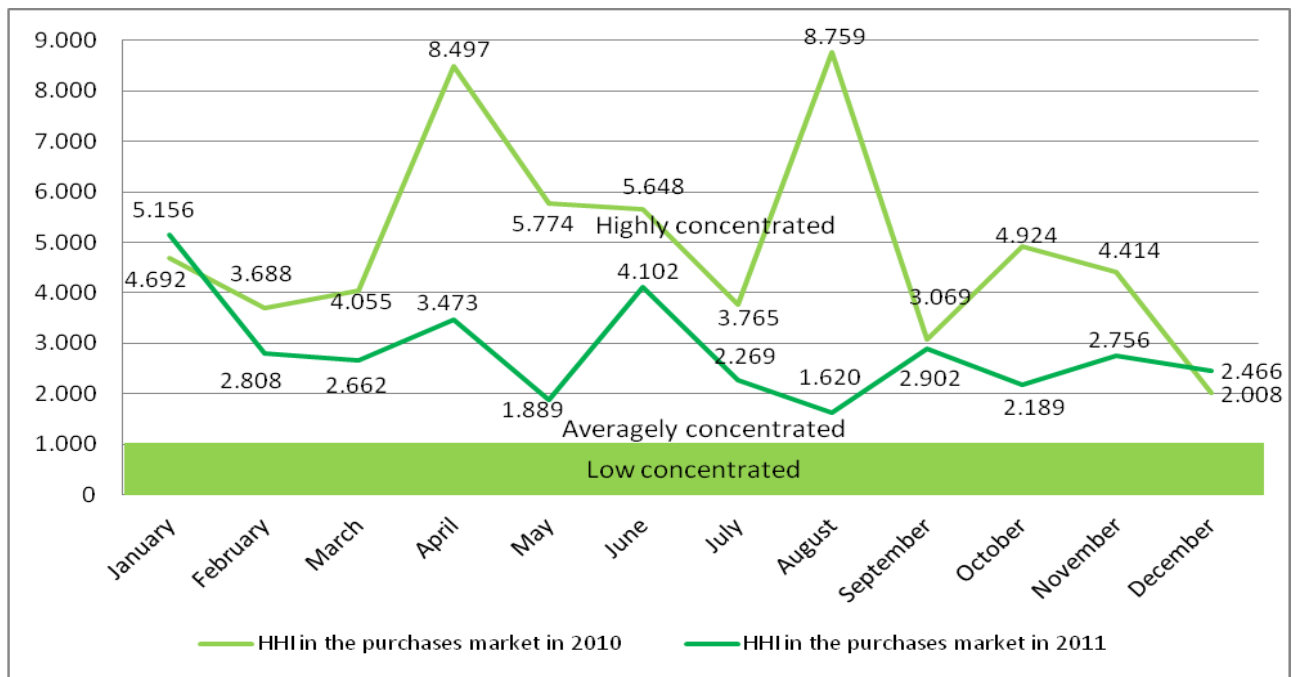
In 2011 the HHI twice dropped below the average value. In August 2011, the sales HHI (according to the results that are forming the price) also reached the value corresponding to the average concentration. The market concentration is not static, it is continuously fluctuating and since 2011 it has been slowly decreasing.

Figure 16. HHI dynamics in the sales market according to the trading results forming the price at the Power Exchange, 2010–2011



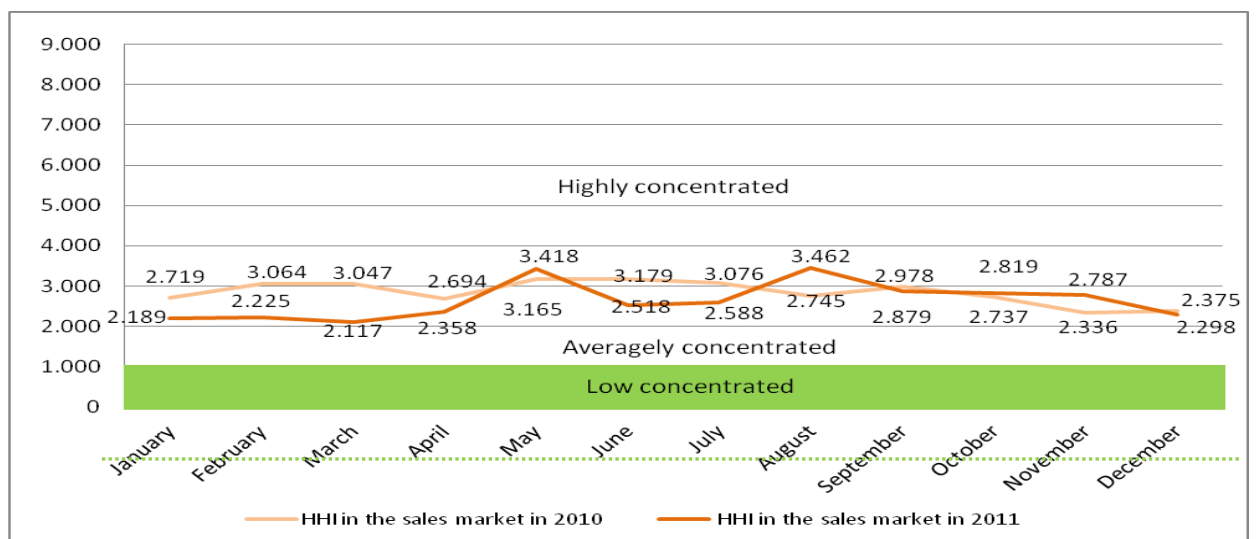
Source : NCC according to BALTPPOOL UAB report.

Figure 17. HHI dynamics in the purchases market according to the trading results forming the price at the Power Exchange, 2010–2011



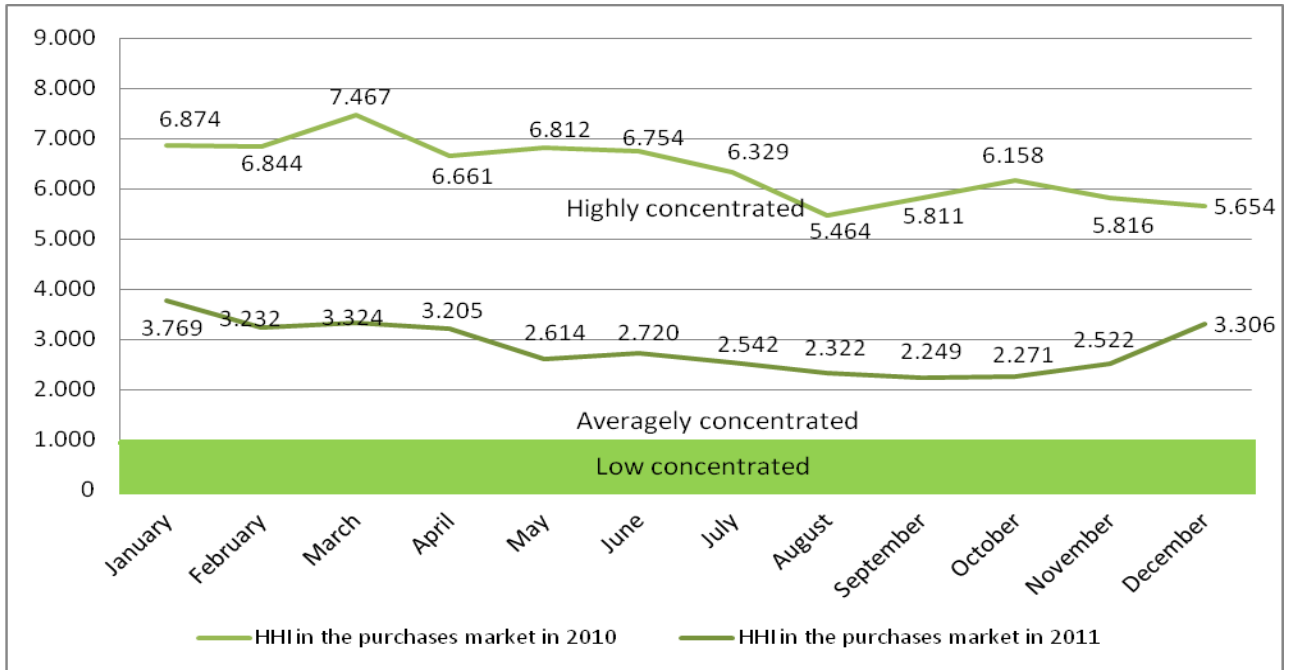
Source : NCC according to BALTPPOOL UAB report

Figure 18. HHI dynamics in the sales market according to the total trading results, 2010–2011



Source : NCC according to BALTPPOOL UAB report.

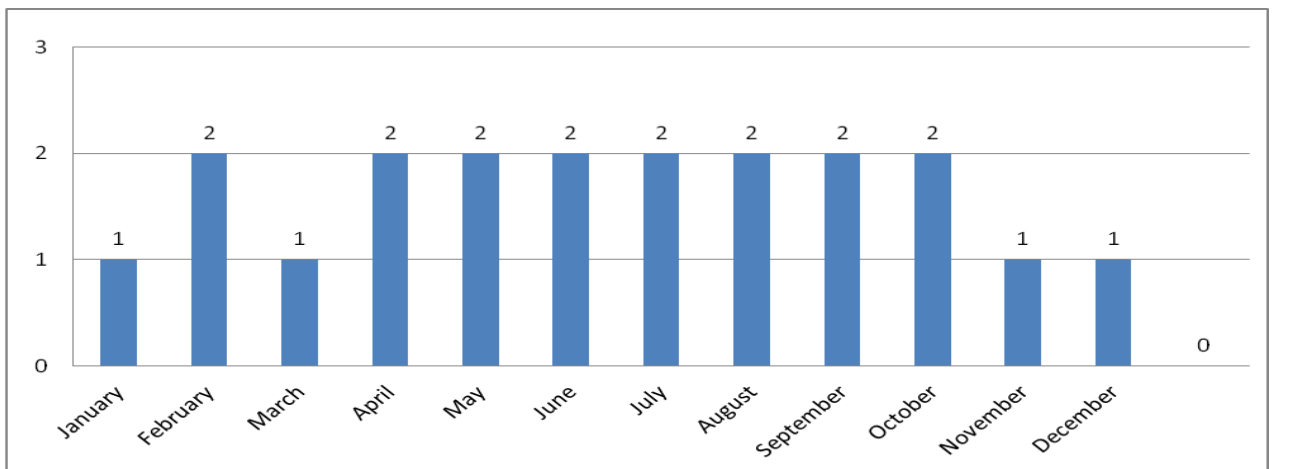
Figure 19. HHI dynamics in the purchases market according to the total trading results in 2010–2011



Source: NCC according to BALTPPOOL UAB report.

The evaluation of the Pivotal Supplier Index – the market participant is the main (pivotal) in ensuring the demand coverage and may have a decisive impact on the price if PSI=1. The PSI indicator confirmed the market concentration in IV quarter 2011 and dependence on 2 pivotal suppliers (market participants). The results presented in the report have been obtained from the PSI calculations by taking into consideration the total monthly potential of trading at the Power Exchange by each market participant to cover the demand at the Exchange by the volumes of the specific month of the current year.

Figure 20. PSI variation in 2011 (according to the total results of trading at the Power Exchange and by concluding bilateral agreements)



Source: NCC according to BALTPPOOL UAB report.

Pursuant to the effective legal acts, the market operator conducts the pre-emptive monitoring of the market participants’ behavior in the market in terms of possible distortion of the competition. In IV quarter 2011 the market operator did not identify any possible non-compliance

of the market participants in trading in electricity. In IV quarter 2011, the market operator, according to the procedure set forth in the Procedure Regulations on Market Supervision, posted on its website 25 urgent market information notices.

Pursuant to the Market Investigation Rules approved in 2012, the NCC has a right to perform the investigation and to take the relevant actions. For this purpose, the Law on Electricity provides for various measures and conditions, among these – the NCC capacity to set to a person having big influence in the electricity market, as well as the suppliers of electricity transmission, distribution service and/or the public supplier:

- 1) Obligations to provide services at the cost-based prices, including reasonable return on investments;
- 2) Obligations related to the cost-accounting systems in supplying services of the specific types;
- 3) Obligations to adjust the prices of the applied services or the price ceilings of the regulated services are set by the NCC.

The mentioned Law provides that the NCC has to cooperate with the Competition Council and the national energy regulatory authorities of foreign states in setting conditions to ensure the sufficient level of cross-border capacities, including new interconnection lines, to develop efficient competition and to improve reliability of supply without discriminating suppliers from the member states.

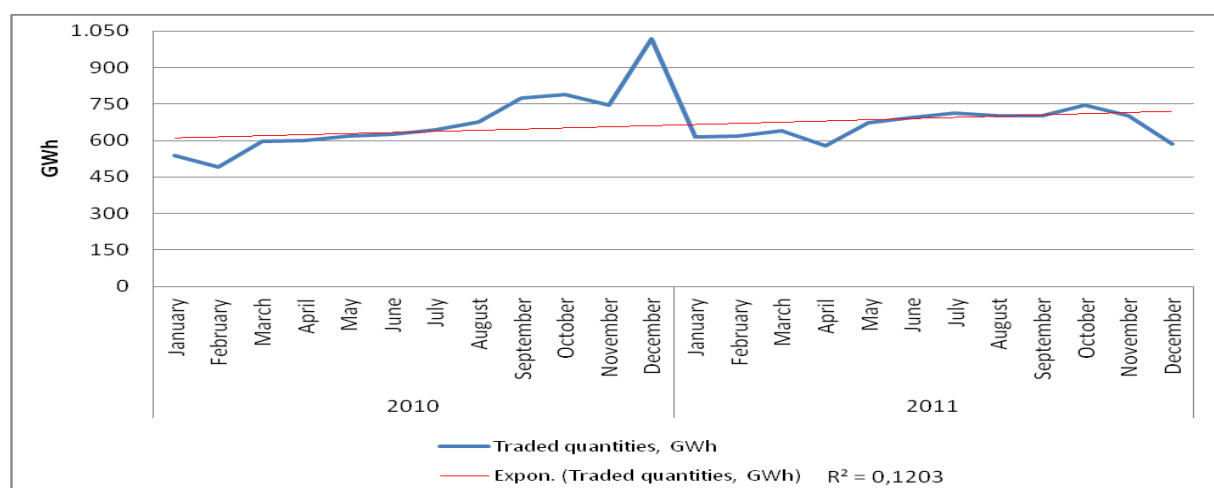
Price monitoring

Articles 37(1)(i) and 37(1)(j)

Monitoring of electricity prices is conducted according to the Procedure Regulations on Electricity Market Supervision, approved by the NCC, i.e. the Reports of the Electricity Market Supervision are issued every quarter.

The dynamics of electricity quantities traded at the Power Exchange in 2010–2011 is shown in Figure 21.

Figure 21. Quantities of electricity traded at the Power Exchange of Lithuania in 2010–2011, MWh

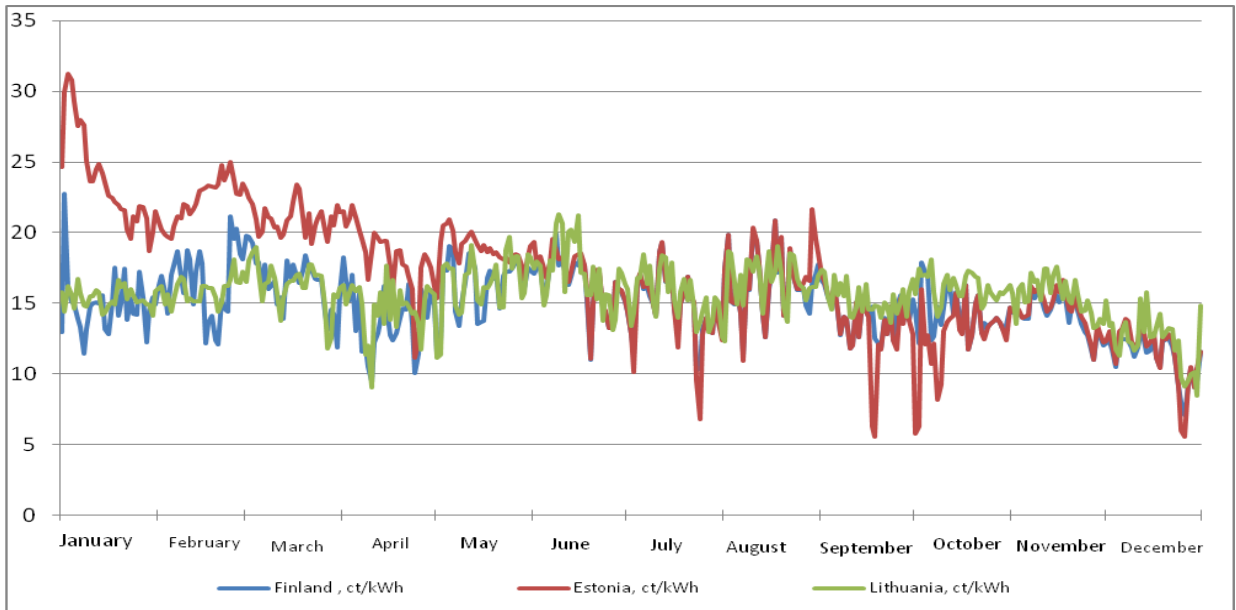


Source: NCC based on the publicly available data from www.baltpool.lt.

In 2011 the quantity of electricity traded at the Power Exchange of Lithuania totaled 8 TWh, i.e. by 2 percent less than in 2010.



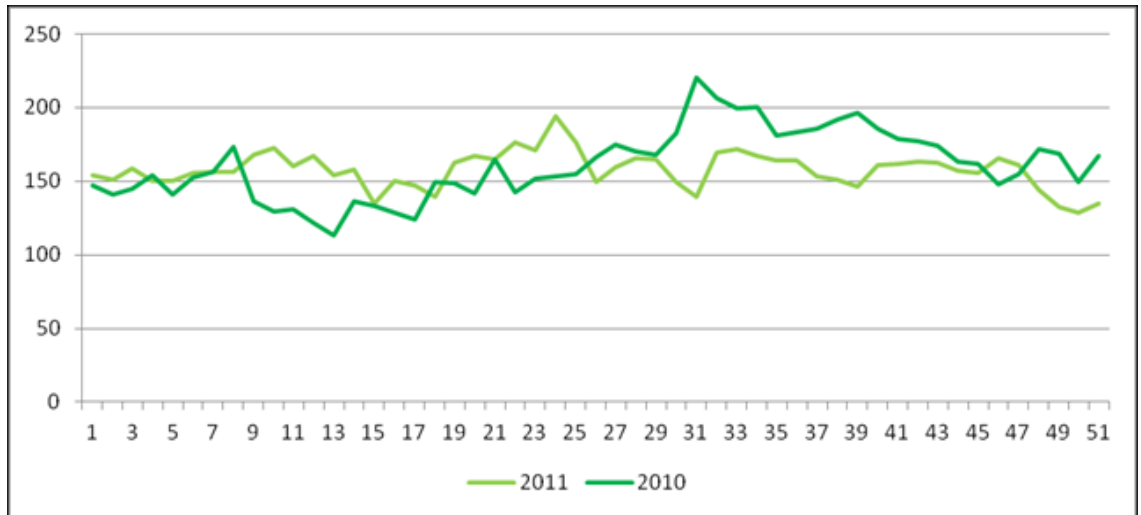
Figure 22. Average 24 hrs. price of electricity in 2011 at the Power Exchanges of Estonia, Finland and Lithuania, ct/kWh



Source: NCC according to BALTPPOOL UAB information.

In 2011 the average price was 156.21 LTL/MWh, or by 2.5 percent lower than in 2010 (160.27 ct/kWh). The lowest and the highest hourly price was recorded in II quarter 2011 – respectively 0.28 LTL/MWh (IV quarter 2010 – 0.1 LTL/MWh), and 241.9 Lt/MWh (III quarter 2010 – 350.01 LTL/MWh).

Figure 23. Average electricity price at the Power Exchange of Lithuania by weeks in 2010–2011, LTL/MWh

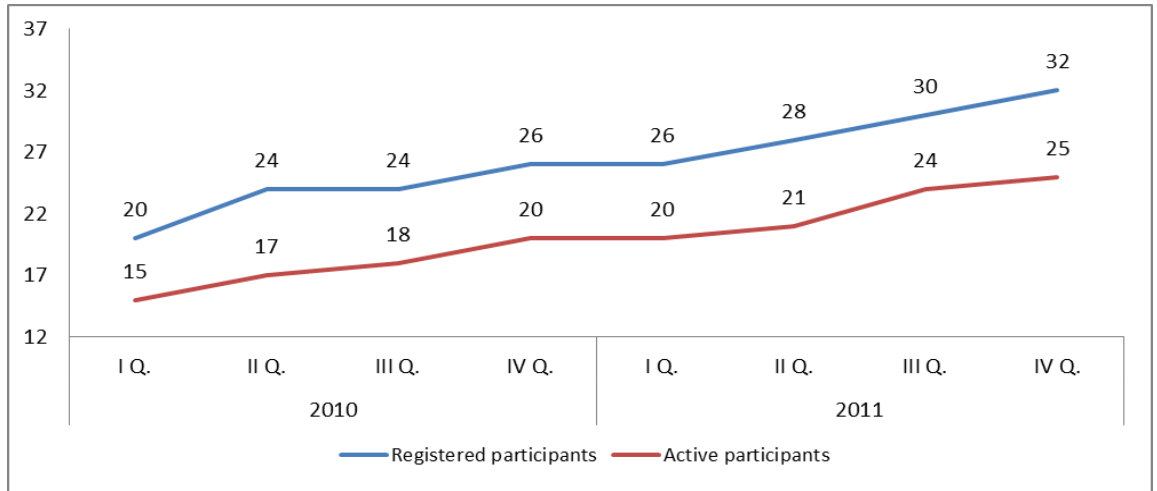


Source: NCC according to BALTPPOOL UAB information.

At the end of 2011, 32 market participants were registered in the Power Exchange of Lithuania, among them 25 – active. Yearly variation in the number of market participants – 25 percent (Figure 24).



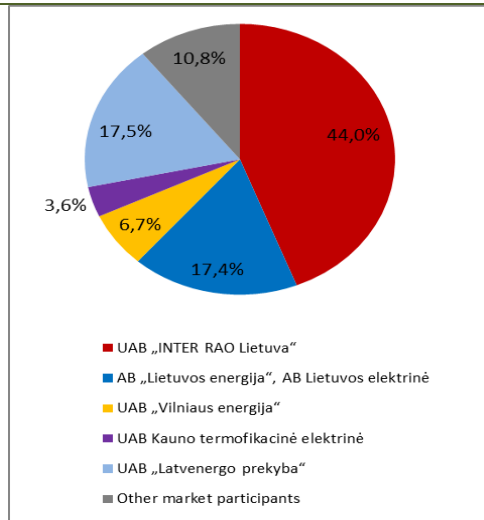
Figure 24. Variation in the number of market participants at the Power Exchange of Lithuania in 2010–2011



Source: NCC according to BALTPPOOL UAB information.

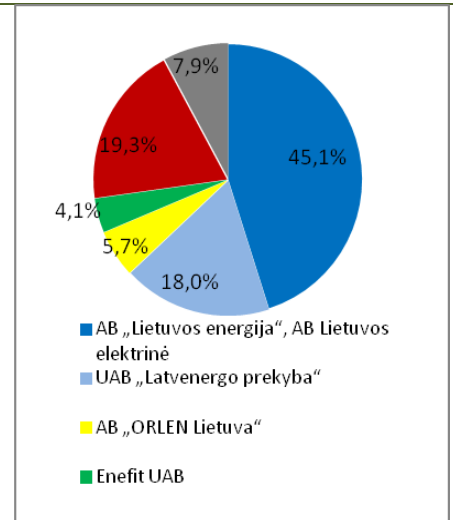
The yearly alteration of the market structure was different. Changes in the sales market in 2010–2011 were not significant – in the common structure the share held by Lietuvos Energija AB dropped by 4.8 percent, by UAB INTER RAO Lietuva went up by 0.8 percent, by UAB Vilniaus energija – 0.9, Kaunas Combined Heat and Power Plant – 2.3 percent. Alterations in the structure of the purchases market were more prominent – Lietuvos Energija AB lost 36.6 percent of the market share and on the account of this reduction UAB Latvenergo prekyba increased its market share from 5.1 to 18 percent, and the market share of UAB INTER RAO Lietuva grew up till 19.3 percent.

Figure 25. Structure of sales in the Power Exchange in 2011, in percent



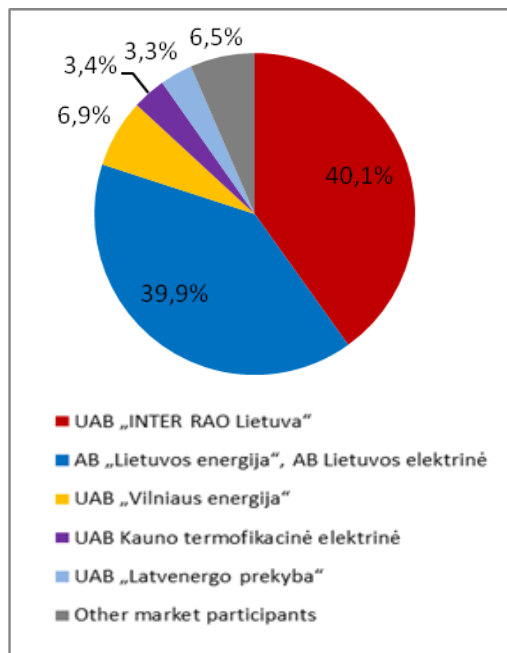
Source : NCC according to BALTPPOOL UAB information.

Figure 26 .Structure of purchases in the Power Exchange in 2011, in percent



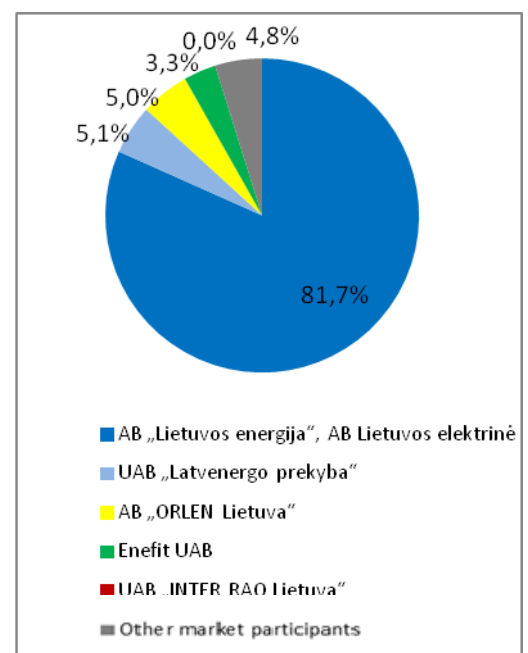
Source : NCC according to BALTPPOOL UAB information.

Figure 27. Structure of sales in the Power Exchange in 2010, in percent



Source : NCC according to BALTPPOOL UAB information.

Figure 28. Structure of purchases in the Power Exchange in 2011, in percent



Source : NCC according to BALTPPOOL UAB information.


In the future, with an even bigger level of market opening and further elimination of the regulated prices, competition among the suppliers may grow, but as the market of the Baltic Region is rather small, there will be no alternatives until trade in electricity is not expanded to the Nordic countries and continental Europe after having constructed interconnection links with Sweden and Poland and the new Visaginas Nuclear Power Plant.

The NCC takes part in various trans-regional events, meetings of the working groups, fills in numerous questionnaires and provides information by different communication means. It regularly arranges the meetings of the working groups of the Baltic Region Initiative and mini Forums of the Baltic electricity market attended by the representatives of various authorities, market participants other interested persons where they solve the important issues of the electricity market in order to have the integrated European electricity market till 2014.

Monitoring the level of transparency, including compliance with transparency obligations, the efficiency of market opening and competition

Article 37(1)(i), Article 40(3) and Article 37(1)(u)

As it has been already mentioned, the NCC prepares the quarterly and annual electricity market monitoring reports, where the situation in the wholesale market, prices, number of market participants, the level of competition according to the set ratios and other relevant information, which has been presented in Chapter 3.2.1.1, is reviewed.



To assure transparency, the NCC supervises whether the information is properly disclosed in accordance with the transparency requirements of Chapter 5 of the Guidelines of Regulation No 714/2009 and the provisions of Regulation No 838/2010.

In addition to that, the NCC uploads on its website all information related to its activities: news, various explanations, statistics, arranged meetings, materials of the meetings, etc.

According to the Regulations of the NCC Activities, dissemination of information to the general public is the responsibility of the Common Affairs Division, which, when necessary, prepares press releases and disseminates the official information about the NCC activities and its meetings, organizes press conferences, organizes publishing of the NCC reports, continuously updates the NCC website. The information in response to the inquiries from the public is provided in accordance with the Law on the Right to Receive Information from the State and Municipal Authorities and Offices as well as in accordance with the procedure set forth by other legal acts.

The Law on Energy provides that according to the procedure set forth in the legal acts the NCC within its competence has the right to review the information provided by the energy undertakings to the state authorities and/or customers, to verify its reliability without violating the requirements on the protection of information which is considered to be a commercial (industrial) or professional secret. The NCC ensures a possibility to each customer without disclosing the personal data of the customer to get access to the data about the energy consumed by him, summarized energy consumption data, which are presented on the national level in the easily understandable form set by the NCC, as well as the possibility for all customers to have access to the summarized data of this type. According to the Law on Electricity, the NCC has to ensure the confidentiality of the information provided by the transmission system operator or other entities which is considered to be the commercial (industrial) or professional secret.

Article 76 of the Law on Electricity provides that the NCC, in cooperation with the Agency for Cooperation of the Energy Regulators and national regulatory authorities of energy sector of foreign countries, exchanges information, which is needed to perform the NCC tasks according to this Law and other legal acts. The NCC ensures the confidentiality of the received information.

Article 37(1)(j)

Pursuant to the Law on Energy, the NCC monitors opening of the market in the electricity sector, the scope of competition in the wholesale trade and its efficiency, performs monitoring of the concerted practices restricting competition.

To promote the processes of competition in the electricity sector, the NCC revised the Rules on Providing Information by Energy Undertakings. In the Rules the distinct segments have been distinguished, according to which the information provided by the companies operating in the electricity sector will be grouped. These segments correspond to the segments of the electricity sector where the competition can be developed (production, supply), and the segments where the Law provides for the operating possibilities by the single market participant (transmission, distribution). The market participants have to provide more detailed information about the auxiliary electricity consumption as well as the consumption for technological processes, the information about trade by concluding bilateral agreements, trade in balancing energy with the transmission system operator or the supplier of the balancing energy. To facilitate preparation by the market participants to the essentially new requirements, the NCC set a six-month transitional period, however, starting from I quarter 2012, the market participants have been

providing information in line with the new requirements. On the basis of this information the NCC every quarter will prepare the comprehensive statistical surveys of the electricity sector by each segment of the sector.

By amending the Procedure Regulations on the Electricity Market Supervision, an additional obligation was set for the suppliers of the balancing electricity – they were obligated every quarter to submit information to the NCC about the performed operations related to the supply of the balancing electricity. This information enables to monitor a more comprehensive situation of the electricity market and to draw more objective conclusions regarding the emerging tendencies.

The level of the electricity market opening and competition in the wholesale and retail market, as well as its efficiency, including the Power Exchange, have been monitored since 2011, when the preparation of the quarterly and annual reports was started by the NCC, as described in Chapter 3.2.1. The NCC seeks to accomplish that all market participants would have in their disposition the reliable and important information. Better awareness of the market participants creates preconditions for the development of the sound competitive relations and possibilities to the customers to enhance their negotiating capacities.


Figure 29. Reports of the electricity market monitoring



Source: NCC.

In the electricity market monitoring reports posted on the NCC website www.regula.lt the summarized data about electricity demand and supply in the country are presented, the quantities of transported electricity as well as the investments in the electricity networks are reviewed. In the reports one can find the data about the market shares held by the market participants, average prices in the wholesale and retail electricity markets, intensiveness of competition and concentration in the sector.

The procedures related to the electricity market distortions and restrictions, including the submission of the relevant information, as well as of submission of the investigations of the respective cases to the Competition Council are performed according to the procedure established by the laws. Pursuant to the new Law on Electricity, which came into effect on February 7, 2012, the NCC has to perform the market investigations aimed at ensuring efficient competition in the energy sector and preventing the misuse of their position by the persons having big influence in the respective market.



In April 2012, the NCC approved the Rules on Market Investigation. The market investigations will be performed in accordance with the uniform principles both in the electricity and the natural gas sectors. The objective of the market investigations – to create competitive, economically sound and reliable electricity and natural gas markets in the respective sectors and to prevent the misuse of big influence by the dominating entities in the mentioned markets.

Article 37(1)(k)

After the final shut-down Ignalina Nuclear Power Plant, which had generated approx. 80 percent of the total electricity output, at the end of 2009, it was practically replaced by the electricity import from the third countries. As it has been mentioned in Chapter 3.2.1, presently the biggest market share is held by UAB INTER RAO Lietuva. The NCC is monitoring the situation, and if necessary, can impose on the market participants the measures prescribed by Article 68 of the Law on Electricity:

- 1) Set the obligations to provide services at the cost-based prices, including reasonable return on investments;
- 2) Set the obligations related to the cost accounting systems in supplying services of the specific types;
- 3) Set the obligations to adjust the prices of the applied services or set the price ceilings of the regulated services.

The Power Exchange NORD POOL SPOT, which has started operating from the middle of 2012, will enable to objectively benchmark the prices in the electricity market. In 2011, no violations in concluding the electricity supply agreements were identified.

Article 37(1)(l)

In 2011, to promote the efficient competition in the electricity market, the NCC did apply any constraints on concluding the electricity supply agreements or on any conditions set therein, including the condition of the uninterruptible supply. As yet, no contradiction of these conditions to the set provisions of the legal acts has been identified, especially as far as the long-term electricity supply agreements are concerned.

3.2.2 RETAIL MARKET

The Law on Electricity provides all customers with a possibility to choose an independent supplier. The initiative of choice belongs to the customer, excluding the cases when the customer's facilities correspond to a certain category of capacity. The Market Development Plan, approved by the Government, sets forth that in 2010-2015 electricity customers in certain stages will choose independent electricity suppliers. From January 1, 2010, the electricity customers, whose permissible capacity for connecting their facilities to the distribution network exceeded the capacity of 400 kW, had to choose the independent supplier. From January 1, 2012 the customers whose permissible capacity exceeded 30 kW, had to choose independent suppliers.

Table 6. Stages of market opening

Date	Group of customers choosing independent suppliers
January 1, 2010	Customers with the maximum allowed capacity of facilities exceeding 400 kW
January 1, 2011	Customers with the maximum allowed capacity of facilities exceeding 100 kW
January 1, 2012	Customers with the maximum allowed capacity of facilities exceeding 30 kW
January 1, 2013	All non-household customers
January 1, 2015	All household customers

Source: NCC according to AB LESTO data.

In 2011 all customers with the available capacity of their facilities equal or above 100 kW had to migrate to the market serviced by the independent suppliers. The number of facilities with the capacity of 100 kW and above was 8 609, the independent suppliers were chosen by 5128 of such customers, i.e. 60 percent.

The number of facilities, which had no obligation to choose the independent supplier in 2011 and the capacity thereof was 100 kW, equaled 89 807, from this number 9 419 chose the independent supplier in 2011, i.e. 11 percent.

Table 7. Number of commercial customers who chose independent suppliers by December 31, 2011

Indicator	Number of customers
Total number of customers (≥ 100 kW)	8 609
Number of customers who chose independent suppliers (≥ 100 kW)	5 128
Total number of customers (< 100 kW)	89.807
Number of customers who chose independent suppliers (<100 kW)	9.419

Source: NCC according to LESTO AB report.

The number of the independent electricity suppliers has been further growing. A full effective list of the independent suppliers is posted on the NCC website www.regula.lt

Table 8. Participants of the retail electricity market in 2010–2011

Indicator	2010				2011			
	I quarter	II quarter	III quarter	IV quarter	I quarter	II quarter	III quarter	IV quarter
Number of independent suppliers	42	46	52	55	60	62	67	65
Active independent suppliers	12	14	15	15	20	18	25	27

Source: NCC.

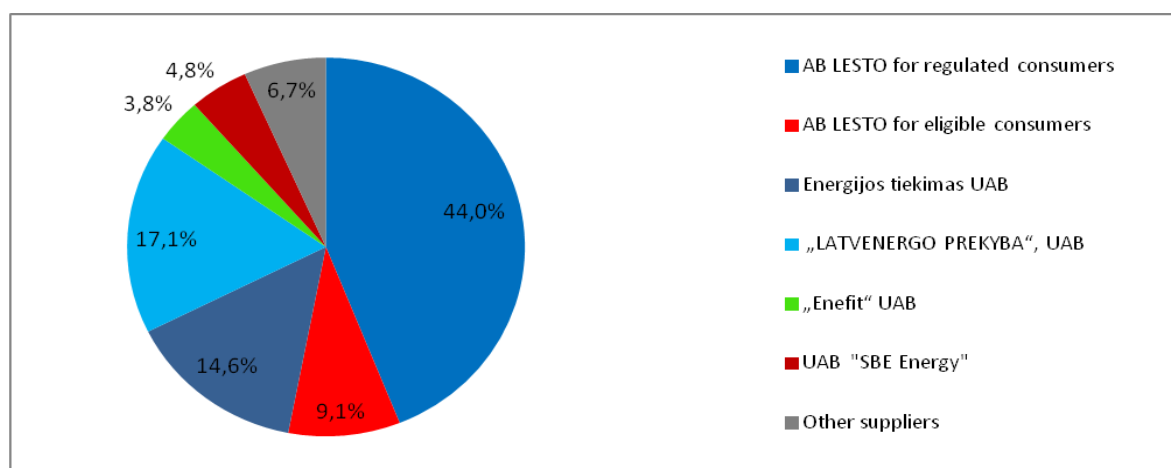
In 2011 the covered market share most of all was increased by Energijos tiekimas UAB – from 10 percent in I quarter 2011 up to 10 percent in IV quarter 2011. The market share held by

UAB Latvenergo prekyba during the year was reduced from 20 percent in I quarter 2011 up to 14 percent in IV quarter 2011.

In 2011 the independent suppliers supplied to the customers 3.7 TWh of electricity energy. The public supplier (LESTO AB) in 2011 supplied 3.5 TWh to the regulated electricity customers and 0.7 TWh to the unregulated customers.

The total yearly adjustment in the structure is related to reallocation of the market share, which was lost by the public supplier – 12.1 percent (the part of the regulated customers during the year decreased by 6.9 percent, of the eligible customers – by 5.2 percent); in 2011 the public supplier's market share was 53.1 percent (in 2010 – 65.2 percent). Among those who have increased the market share, UAB Latvenergo prekyba is worth mentioning, which during the year expanded the market share by 10.3 percent – from 6.8 percent in 2010 to 17.1 percent in 2011.

Figure 30. Structure of the retail market in 2011, in percent



Source: NCC according to the reports of AB LESTO and independent electricity suppliers.

In 2010 the average price of electricity sold by the independent suppliers to eligible customers was 15.12 ct/kWh, its augmentation in 2011 was 11.9 percent and it reached 16.92 ct/kWh.

In 2011 the actual purchasing price by the distribution network operator (AB LESTO), charged to eligible electricity customers, was 18.60 ct/kWh (in 2010 by the distribution network operator AB VST – 15.59 ct/kWh, AB Rytų skirstomieji tinklai – 15.60 ct/kWh).

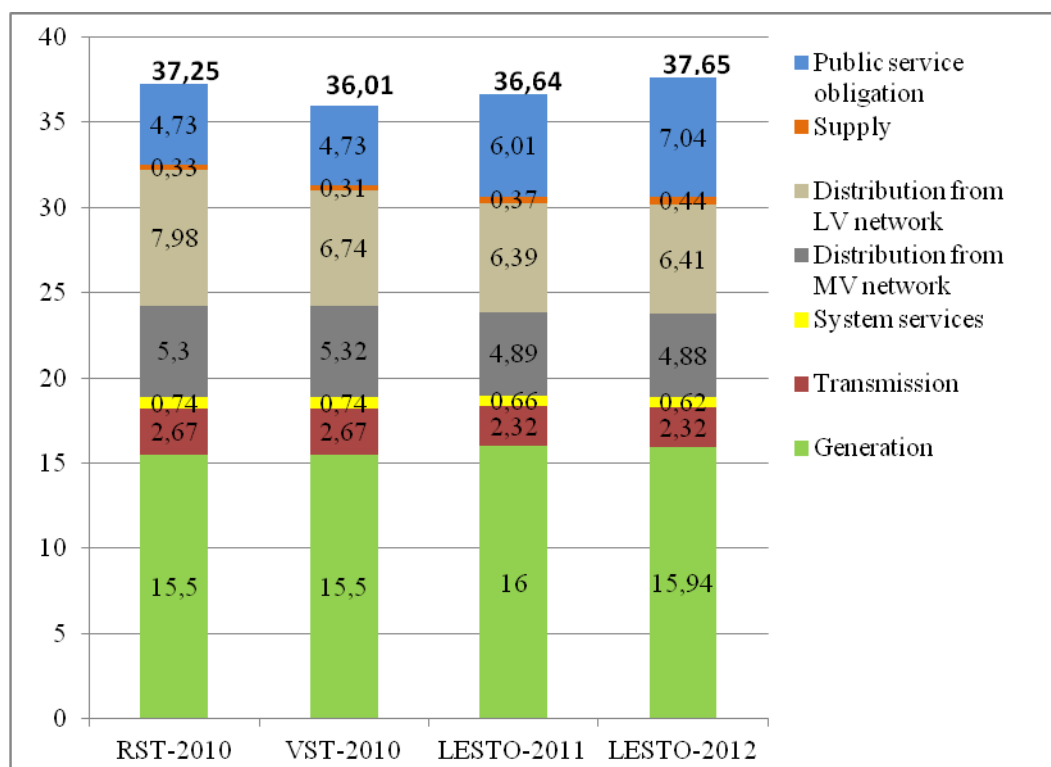
Monitoring of prices

a) Articles 37(1)(i) and 37(1)(j)

Prices charged to household customers are regularly benchmarked against the information of the database of Eurostat, the EU Office of Statistics, and are posted on the website and published in the NCC Annual Report.

In 2012 the infrastructural price components in essence remained unchanged, and, taking into account the increase of the PSO price, as compared with 2011, the average price of electricity (the price ceilings) is by 1.01 ct/kWh (VAT excluded) higher and equals 37.65 ct/kWh (VAT excluded)(in 2011 it was 36.64 ct/kWh, VAT excluded).


Figure 31. Average price of electricity in 2010–2012, ct/kWh, VAT excluded



Source: NCC.

The adjustments of electricity prices charged to household customers in 2012 were determined by 3 main circumstances:

- Supported electricity and electricity produced in accordance with the set quotas in 2012 will amount to 3.23 TWh: the supported electricity produced from renewable resources will exceed 0.8 TWh, produced in combined heat and power plants – 0.9 TWh and 1.53 TWh – in Lithuanian Power Plant.
- Supported electricity and electricity produced in accordance with the set quotas, which is bindingly purchased by the public supplier, covers the demand of the regulated customers, which in 2012 is projected to be 3.2 TWh (in 2011 – 4.6 TWh). Whereas the total demand of the regulated customers is covered by the supported electricity, the imported electricity is not included in the consumed electricity volumes of this customer group. Supported electricity and electricity produced in accordance with the set quotas is purchased at the same day and night prices, and at night during all week days (this price significantly surpasses the prices formed at the Power Exchange).
- Further balancing of the costs of the distribution service among business and small customers has been continued by reducing this unbalance by 16 percent in 2012 (in 2011 it was 19 percent). The consecutive balancing is aimed at reducing the barriers for entrance to the market by alternative suppliers.



The NCC notified the Ministry of Energy that in accordance with the valid legal acts all supported electricity (generated in CHP plants) and promoted electricity (from producers using renewable energy resources) is purchased by the public supplier and is delivered to the electricity customers who are charged at the public (regulated) electricity price.

In 2010 the actual demand of the customers who are charged at the public (regulated) price was 4525 GWh, in 2011 – 3450 GWh, and the forecasted demand of the customers who are charged at the public (regulated) price in 2012 is 3207 GWh. In 2010 the generated output of the supported electricity was 3328 GWh, in 2011 – 2744 GWh, and the forecasted generated output of the supported electricity in 2012 is be 3250 GWh. Hence in 2012 the quantity of the supported electricity and the electricity produced in accordance with the set quotas approximately corresponds to the customers' demand which is covered by the public supplier.


However it is forecasted that starting from 2013 the demand of the regulated electricity customers will be gradually decreasing even more, at the same time the purchased quantities of the supported electricity and the electricity produced in accordance with set quotas will be consecutively growing. The public supplier will have difficulties when he will be obliged to purchase the supported electricity and the electricity produced in accordance with the set quotas, but there will be no demand by the public (regulated) customers.

The pre-payment systems for household customers are not applied in Lithuania. Starting from 2011 the service of direct debit is provided to all customers who are wishing for the service. When at the beginning of rendering this service the disputes arose and claims were submitted, the NCC examined them and conducted investigations. The NCC within its competence also examines other complaints of the household customers. Article 78, Paragraph 4 of the Law on Electricity provides that the NCC within its competence examines the complaints on the actions of the electricity undertakings or the absence thereof in supplying, distributing, transmitting electricity, on denial of the electricity undertakings' rights of access to the grid, use of the systems, connection to the electricity network, balancing the flows of electricity, application of prices and tariffs as well as the complaints and disputes of customers and natural persons related to the services in the electricity sector and/or selling – purchasing electricity.

In Lithuania no fees are charged for switching the supplier.

The NCC, by following the provisions of the Rules on Electricity Supply and its Use, approved by the Minister of Energy, as well as on request of the electricity undertakings, by the Resolution has approved the charges and conditions for electricity transportation and/or termination of supply, restoring the supply, reading electricity metering devices. The charges for ancillary services are applied in accordance with the following procedure:

- 1) Charges for restriction of electricity supply or its termination are applied to the customers to whom electricity supply is limited or terminated because of their arrears for consumed electricity or in order to prevent illegal actions of the customer;
- 2) If so requested by the customer, the charges for restriction of electricity supply or its termination are not applied when the customer himself has requested to limit or terminate the supply of electricity;
- 3) Charges for restoration of electricity supply are charged when the customer submits an application to restore the service;
- 4) A meter reading charge is applied to the customer in the cases when by the deadline set in the supply agreement the customer has failed to declare the readings of his metering device.



This charge is applied to every site of the customer where the meter reading service was provided, irrespective of the number of metering devices installed in the site.

The new Law on Electricity obligated the NCC to prepare the rules on unbundling of accounts of electricity undertakings. The Law on Electricity also provides that the NCC is entitled to set the system, method and/or model of costs accounting which is binding to the entity having significant influence in the electricity market as well as the supplier of the transmission, distribution services and/or the public supplier.

In March 2012, the NCC started public consultations with the market participants on the possible accounting model in the electricity sector. The NCC specialists presented for public debate the possibility to implement in the electricity sector the Long Run Average Incremental Costs (LRAIC) model, which would promote the efficiency of the transmission, distribution and public supplier's markets, long-term competition and would be beneficial for the customers.


The NCC by its Resolution No O3-87 as of April 11, 2011 made a decision on the formation of Long Run Average Incremental Costs (LRAIC) accounting model in the electricity sector, which would be applied to the suppliers of electricity transmission and distribution services from the new regulation period.

By implementing the Law on Electricity, the NCC is drafting and will submit to the Government the Procedure Regulations on Setting the State-regulated Prices in the Energy Sector, where the methods of unbundling the accounts and costs accounting will be represented.

To improve the principles of pricing, to efficiently implement them and to ensure competition in certain segments of the electricity sector, in 2011 the NCC performed the systematic analysis of the valid legal framework and made the decisions regarding its amendment or enforcement of certain provisions:

- **The price setting methodology for purchasing electricity energy generated in the combined heat and power plants operating in thermal regime** was approved: the transparent, objective and undiscriminating principles for producers, whose generated electricity is categorized as the PSO, were embedded.
- With regard to the amendments in the Procedure Regulations on Providing Public Service Obligations approved by Order No 1-291 of the Minister of Energy of the Republic of Lithuania as of November 11, 2011, the NCC amended **the price setting methodology for public service obligations in the electricity sector and the Procedure Regulations on administration of the public service obligations' payments**: The list of the payees of the PSO revenues (PSO suppliers) was revised along with the procedure for defining the PSO revenues to the PSO suppliers; In 2012 the procedure for paying the PSO payments was amended, the procedure of the PSO price differentiation was set, the accounting of the PSO revenues and submission of reports were revised.

With regard to the amendments in the Procedure Regulations on Supplying the Services under the Public Service Obligations, approved by Order No 1-291 of the Minister of Energy of the Republic of Lithuania as of November 11, 2011, the biggest burden of the PSO payments is born by electricity customers and the biggest discount in the PSO payment is applied to producers who produce electricity in the combined heat and power plants operating in thermal regime.



Since 2012, the differentiation of the PSO price and the burden of the PSO payment have been distributed as follows:

- Customers connected to the distribution networks have to pay for the following PSO services: support of the electricity production by using renewable energy resources, electricity production in the cogeneration power plants and Lithuanian Power Plant, as well as the strategic projects in the electricity sector, decommissioning of the nuclear power plant, fixed costs of Lithuanian Power Plant, connection of producers using renewable energy resources to the grid and their balancing;
- Customers connected to the transmission networks have to pay for the following PSO services: support of the electricity production by using renewable energy resources, electricity production in the cogeneration power plants and Lithuanian Power Plant, as well as the strategic projects in the electricity sector, decommissioning of the nuclear power plant, fixed costs of Lithuanian Power Plant, connection of producers using renewable energy resources to the grid and their balancing;
- Customers connected by the direct lice to the electricity producer have to pay for the following PSO services: support of the electricity production by using renewable energy resources, electricity production in the cogeneration power plants and Lithuanian Power Plant, as well as the strategic projects in the electricity sector, decommissioning of the nuclear power plant, fixed costs of Lithuanian Power Plant, connection of producers using renewable energy resources to the grid and their balancing;
- Producers, excluding the cogeneration power plants, which themselves are producing electricity and consuming it for their economic activities, and which are connected to the transmission network, have to pay for the following PSO services: support of the electricity production by using renewable energy resources, electricity production in the cogeneration power plants and Lithuanian power plant, as well as the strategic projects in the electricity sector, decommissioning of the nuclear power plant, fixed costs of Lithuanian Power Plant, connection of producers using renewable energy resources to the grid and their balancing;
- Producers, excluding the cogeneration power plants, which themselves are producing electricity and consuming it for their economic activities, and which are connected to the transmission or distribution network, have to pay for the following PSO services: support of the electricity production by using renewable energy resources, the strategic projects in the electricity sector, decommissioning of the nuclear power plant, fixed costs of Lithuanian Power Plant, connection of producers using renewable energy resources to the grid and their balancing;
- Producers producing electricity from renewable energy resources, including those, which themselves are producing electricity and consuming it for their economic activities, are exempt from the payment of the PSO price.

The augmentation of the PSO price is impacted by the increasing electricity production from renewable energy resources, the maintained significant quote for ensuring the security and reliability of supply of Lietuvos Energija AB (Lithuanian Power Plant), growing prices of natural gas

(the price increase is not compensating the reduction of production quotas in the cases of Lietuvos Energija AB and CHP plants).

Monitoring the level of transparency, including compliance with transparency obligations, the efficiency of market opening and competition

To assure transparency in forming the PSO fund in the electricity sector, the NCC approves and announces the lists of electricity producers using renewable energy resources to be supported by the PSO payments.

The list of producers posted on the NCC website www.regula.lt is divided by grouping the producers to those, whom the permit to produce electricity from renewable energy resources was issued before the date of coming into effect of the Law on Renewable Energy Resources, and those, whom the permit to produce electricity from renewable energy resources was issued after the date of coming into effect of the Law on Renewable Energy Resources. The list of producers, who will take part in the auctions to be arranged by the NCC and who will win the quotas and fixed tariffs, will be posed when the auctions will be organized.

Figure 32. List of producers posted by the NCC



Source: NCC.

In the Law on Renewable Energy Resources the provisions on the moment since when the permanent incentive measures are to be applied have been ambiguously formulated. To avoid inconsistent enforcement of the Law, the NCC supplemented the list of producers using renewable energy resources by indicating their incentive period.

Figure 33. List of producers using renewable energy resources

> Elektra

- > Svarbesni sprendimai
- > Licencijavimas
- > **Gamintojų sąrašas**
- > Tarifai
- > Viešuosius interesus atitinkančios paslaugos
- > Prijungimo į kainiai
- > Laisvų galių skelbimas
- > Elektros rinkos apžvalga
- > Ataskaitos

> Dujos

> Šiluma

> Vanduo

> Atsinaujinantys ištekliai

Valstybinė kainų ir energetikos kontrolės komisija

Valstybės biudžetinė įstaiga,
Algirdo g. 27, LT-03219 Vilnius
Tel. 8 5 2135166,
e. paštas: komisija@kce.lt

Gamintojai, naudojantys atsinaujinančius energijos išteklius spausdinti

Eil.Nr.	Įmonės (savininko) pavadinimas	Naudojamų atsinaujinančių energijos išteklių rūšis	Instaliuota galia, KW	Leidimo gaminti išdavimo data	Leidimo gaminti panaikinimo pagrindas
1.	IĮ D. Lukošūnienės	Hidroenergija	15	2002-03-04	
2.	UAB „Motiejūnų Hidroelektrinė“	Hidroenergija	240	2002-03-04	
3.	UAB „Makarika“	Hidroenergija	100	2002-03-04	
4.	UAB „Pajaras“	Hidroenergija	820	2002-03-04	
5.	UAB „Pajaras“	Hidroenergija	360	2002-03-04	
6.	UAB „Pajaras“	Hidroenergija	350	2002-03-04	
7.	UAB „Pajaras“	Hidroenergija	300	2002-03-04	
8.	UAB „Hidrojėgainė“	Hidroenergija	450	2002-03-12	
9.	Birutės Masėnienės ekologinis ūkis	Hidroenergija	45	2002-03-12	
10.	IĮ Vido Karlo	Hidroenergija	50	2002-03-12	
11.	UAB „Vandens jėgainės“	Hidroenergija	450	2002-03-12	
12.	UAB „Upsala“	Hidroenergija	200	2002-03-12	
13.	UAB „Upsala“	Hidroenergija	140	2002-03-12	
14.	M. Krakausko firma	Hidroenergija	60	2002-03-25	

Source: NCC.


To ensure transparent use of the PSO funds allocated to pay for electricity produced by using renewable energy resources and abiding by the provision of the Law on Renewable Energy Resources prohibiting double financing of the projects, the NCC announces the list of producers, who intend to use or have already used the program for financing the development of renewable energy resources after the date of coming into effect of the Law on Renewable Energy Resources, as well as the list of producers, who intend to use of have already used the program for financing the development of renewable energy resources prior to the date of coming into effect of the Law on Renewable Energy Resources.

The information, which is publicly disseminated by the NCC to the general public and the interested market participants, increases the transparency of the electricity sector and general awareness, and facilitates the formation of equal, competitive business relations.

Abiding by the provisions of the Law on Renewable Energy resources and by striving to set the comprehensive requirements to the network operators, ensuring that the worked-out procedure for access to the network will enable the producers using renewable energy resources for production of electricity to get access to the operators' networks in line with the principles of transparency, objectivity and equal treatment, the NCC prepared and approved the Requirements for the Procedure Regulations on Access to the Networks.

The Requirements for the Procedure Regulations on Access to the Networks provide that the electricity network operator has to comprehensively and in advance disclose all information, which is relevant to the decision to be made on the connection and/or the already ongoing connection of electricity producers using renewable energy resources to the network. Therefore the content of the proposal made by the network operators to connect these producers to the network has to comply with the provisions of the Requirements for the Procedure Regulations on Access to the Networks approved by the NCC.

The NCC, by implementing the provisions of the Law on Renewable Energy Resources and seeking to ensure legal certainty and comprehensiveness to the parties intending to conclude the



agreement on the service of connection to the electricity network, approved the sample form of the Protocol of Intent for connecting electricity production facilities to the grid. The sample form of the Protocol contains the subject matter of the protocol, obligations of the parties and the terms of their execution, representations and warranties of the parties, the confidentiality obligation, responsibilities, and other conditions. The sample form of the Protocol of Intent reserves the parties' right to freely agree on additional conditions, which do not contradict to the Law on Renewable Energy Resources and other legal acts.

The NCC prepared and approved the Methodology on Setting the Fees for Connection to Electricity Networks, which sets forth the unambiguous procedure for calculating the fee for connecting the producer's facilities to the electricity networks and distribution of the fee when the transmission network has to be reconstructed or constructed in order to connect the producer to the distribution network.

It is worth mentioning that the public supplier LESTO AB is implementing the Compliance Program of LESTO AB (hereinafter - the "Compliance Program") approved by Order No 48 of General Director as of February 29, 2012, where the respective measures and obligations of employees have been set in order to create pre-conditions for publicity of the company's activities and information dissemination as well as other principles of the licensed activity, namely:

1) Application of substantiated and comprehensive pricing of electricity energy services and tariffs. The company's employees preparing the prices, tariffs of the public electricity and the electricity transportation service rendered by the company as well as the procedure of their application have to ensure that the criteria and conditions of assigning users to the respective groups would be comprehensive and understandable and would not discriminate the users, the price and tariffs of electricity transportation service would correspond to the respective components in the prices and tariffs of public electricity, and the principles of application of the electricity transportation and public electricity prices would be comprehensive and understandable to all users; The company's employees applying the prices, tariffs of the public electricity and the electricity transportation service have to ensure undiscriminating and equal application of prices and tariffs to all network users.


2) Provision of timely and adequate information to network users about projected adjustments in the prices or supply conditions of the services. The company's employees responsible for public relations as well as the company's employees to whose competence the application of the prices, tariffs of the public electricity and the electricity transportation service has been assigned, have to inform the network users about the adjustments in the prices of the public electricity and the electricity transportation service and to provide all other relevant information in accordance with the procedure set forth by the legal acts.

Article 37(1)(i), Article 40(3) and Article 37(1)(u)

The NCC prepares the quarterly and annual electricity market monitoring reports, where the situation in the retail market, prices, number of market participants, the level of competition according to the set indicators and other relevant information, which has been presented in Chapter 3.2.2, is reviewed.

To assure transparency, the NCC uploads on its website all information related to its activities, various explanations, statistics, arranged meetings, materials of the meetings, etc.

According to the Regulations of the NCC Activities, dissemination of information to the general public is the responsibility of the Common Affairs Division, which, when necessary,



prepares press releases and disseminates the official information about the NCC activities and its meetings, organizes press conferences, organizes publishing of the NCC reports, continuously updates the NCC website. The information in response to the inquiries from the public is provided in accordance with the Law on the Right to Receive Information from the State and Municipal Authorities and Offices as well as in accordance with the procedure set forth by other legal acts.

The Law on Energy provides that, according to the procedure set forth in the legal acts, the NCC within its competence has the right to review the information provided by the energy undertakings to the state authorities and/or customers, to verify its reliability without violating the requirements on the protection of information which is considered to be a commercial (industrial) or professional secret. The NCC ensures a possibility to each customer without disclosing the personal data of the customer to get access to the data about the energy consumed by him, summarized energy consumption data, which are presented on the national level in the easily understandable form set by the NCC as well as the possibility to all customers to have access to the summarized data of this type. According to the Law on Electricity, the NCC has to ensure the confidentiality of the information provided by the transmission system operator or other entities which is considered to be a commercial (industrial) or professional secret.


As it has been already mentioned, Article 76 of the Law on Electricity provides that the NCC, in cooperation with the Agency for Cooperation of the Energy Regulators and national regulatory authorities of energy sector of foreign countries, exchanges information, which is needed to perform the NCC tasks according to this Law and other legal acts. The NCC ensures confidentiality of the received information.

The NCC takes part in various trans-regional events, meetings of the working groups, fills in numerous questionnaires and provides information by different communication means. It regularly arranges the meetings of the working groups of the Baltic Region Initiative and mini Forums of the Baltic electricity market attended by the representatives of various authorities, market participants, and other interested persons where they solve the important issues of the electricity market in order to have the integrated European electricity market by 2014.

Article 37(1)(j)

Pursuant to the Law on Energy, the NCC monitors opening of the market in the electricity sector, the scope of competition in the retail market and its efficiency, performs monitoring of the concerted practices restricting competition.

To promote the processes of competition in the electricity sector, the NCC revised the Rules on Providing Information by Energy Undertakings. In the rules the distinct segments have been distinguished according to which the information by the companies operating in the electricity sector will be grouped. These segments correspond to the segments of the electricity sector where the competition can be developed (production, supply), and the segments where the Law provides for the operating possibilities by the single market participant (transmission, distribution). The market participants have to provide more detailed information about the auxiliary electricity consumption as well as the consumption for technological processes, the information about trade by concluding bilateral agreements, trade in balancing energy with the transmission system operator or the supplier of the balancing energy. To facilitate readiness of the market participants to the essentially new requirements, the NCC set a six-month transitional period, however starting from I quarter 2012 the market participants have been providing information in line with the new requirements. On the basis of this information the NCC every



quarter will prepare the comprehensive statistical surveys of the electricity sector by each segment of the sector.

By amending the Procedure Regulations on the Electricity Market Supervision, an additional obligation was set for the suppliers of the balancing electricity – they were obligated every quarter to submit information to the NCC about the performed operations related to the supply of the balancing electricity. This information enables to monitor a more comprehensive situation of the electricity market and to draw more objective conclusions regarding the appearing tendencies.

The level of the electricity market opening and competition in the retail market, as well as its efficiency, have been monitored since 2011, when the preparation of the quarterly and annual reports was started, as described in Chapter 3.2.2. The NCC seeks to accomplish that all market participants would have in their disposition the reliable and important information. Better awareness of the market participants creates preconditions for the development of the sound competitive relations and possibilities to the customers to enhance their negotiating capacities.

In the electricity market monitoring reports posted on the NCC website www.regula.it the summarized data about electricity demand and supply in the country are presented, the quantities of transported electricity as well as the investments in the electricity networks are reviewed. In the reports one can find the data about the market shares held by the market participants, average prices in the retail electricity market, intensiveness of competition and concentration in the sector.

The procedures related to the electricity market distortions and restrictions, including the submission of the relevant information, as well as of submission of the investigations of the respective cases to the Competition Council are performed according to the procedure established by the laws. According to the new Law on Electricity, which came into effect on February 7, 2012, the NCC has to perform the market investigations aimed at ensuring efficient competition in the energy sector and preventing the misuse of the dominant position by the persons having big influence in the respective market.


As it has been already mentioned, in April 2012, the NCC approved the Rules on Market Investigation. The market investigations will be performed in accordance with the uniform principles both in the electricity and the natural gas sectors. The objective of the market investigations – to create competitive, economically sound and reliable electricity and natural gas markets in the respective sectors and to prevent the misuse of big influence by the dominating entities in the mentioned markets.

Article 37(1)(k)

Pursuant to the Rules on Trading in Electricity, the retail electricity market consists of trade in electricity by producers with customers according to the conditions and procedure set forth in the Rules on Electricity Supply and Consumption, when the seller of electricity to the customers is either an independent or a public electricity supplier.

As mentioned in Chapter 3.2.2, at present the biggest market share is held by AB LESTO (44 percent), however the concentration in the retail market in 2011 was decreasing.

The NCC has been monitoring the situation, and if necessary, can impose on the dominant market participants the measures set forth in Article 68 of the Law on Electricity, as it has been



already mentioned in Chapter 3.2.1.2. In 2011 no violations in concluding electricity supply agreements in the retail market were identified.

Article 37(1)(l)

In 2011, to promote efficient competition in the electricity market, the NNCPE did not apply any restrictions on entering into electricity supply agreements or the conditions thereof, including the uninterruptible supply. Up till now it has not been established that they contradict to the provisions of the legal acts, especially with regard to long-term electricity supply agreements.

3.2.3 RECOMMENDATIONS ON THE SUPPLY PRICES

Article 37(1)(o)

Article 8, Paragraph 9, Items 15 and 16 of the new Law on Energy passed in December 2011 prescribes that the NCC has to monitor whether the concerted practices that would restrict competition have not occurred, including the conditions of the exclusive rights, by exercising which 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.

In spring 2012, the Requirements on 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, which have defined the main procedural rules for preparing the Recommendations, the main principles and the content thereof, were drawn up. The defined requirements are applied to the Recommendations that are being prepared by the NCC and related to the compliance of the prices in the energy sector with transparency, indiscriminate and other requirements. The objective of the mentioned document – to set the requirements on the procedure and conditions for drawing up the Recommendations and to strive for the accessibility to the data of the agreements and bigger transparency in order to ensure that the wholesale energy market would generate important price signals, making a significant impact on the producers or customers' choice, would represent real conditions in the energy supply and demand coverage, reduce the risks of market manipulation and distortion of the price signals, as well as on the decisions on investment in production and transportation facilities. At present the process of reconciling this document with the related entities is going on, and it should be approved in the nearest future. In accordance with the mentioned document, the NCC within 3 business days from the date of approval of the Recommendations will submit them to the Competition Council and will publicly announce the Recommendations. The NCC will be committed to cooperate with the Competition Council in exercising control over the implementation of the Recommendations.

3.2.4 MARKET INVESTIGATION AND IMPOSING MEASURES TO PROMOTE EFFICIENT COMPETITION

Article 37(4)(b)


Pursuant to Article 8, Paragraph 9, Item 15 of the Law on Energy passed in December 2011, the NCC supervises the level of the market opening and the efficiency of competition in the wholesale and retail trade (including The Power and/or Natural Gas Exchange), the prices applied to household customers (including the pre-payment systems), the percentage of customers who have changed the supplier, the percentage of customers disconnected from the electricity or gas supply networks, the fees charged for maintenance services and the supply of these services, within its competence – the cases of distortion of competition and constraining the activity in the energy sector, and pursuant to Paragraph 19, the NCC performs the market investigations which are aimed at assuring efficient competition in the energy sector and at preventing the misuse of the influence in the market by entities having the outstanding influence in the respective market.

With an aim to establish the competitive and economically sound markets of natural gas and electricity, to prevent the misuse of the outstanding influence in these markets, the NCC drew up and in June 2012 approved the Rules on the Markets Investigation (hereinafter – the “Rules”). The main provisions embedded in the Rules have:

- defined the procedure and stages of the market investigation, set the preliminary list of the markets for which the Rules will be applied. Moreover, defined the criteria on the basis thereof the relevant market will be characterized, the decision-making procedure and the procedure for protecting the confidential information;
- stipulated that the NCC is entitled to characterize and investigate other markets as well the parts of the markets indicated in the Rules with regard to the primary services constituting the market, amendments in the legal framework and other objective criteria, and in line with the investigation procedure set forth in the Rules;
- set the assessment criteria on the basis thereof the efficiency of competition in the market is investigated and the related persons are defined;
- enabled the NCC to determine on the basis of certain criteria that two or more economic operators together are having the dominating position in the respective market, even in the cases when there are no structural or other relationship among them but they are operating in the market where there is no efficient competition;
- empowered the NCC to set commitments to the persons having the outstanding influence in the market and the procedure for setting these commitments;
- enabled the NCC, in the exceptional circumstances when, from its point of view, urgent actions are needed in applying shorter terms for conducting the market investigation prescribed by the Rules and/or omitting certain procedures in organizing the market investigation in order to protect competition and interests of suppliers of services, to immediately undertake the relevant actions – to define the market share, to identify or not identify the persons having the outstanding influence in the market and/or to enforce, not to enforce or to revoke one or several measures and commitments defined in the Rules.

In 2012 the investigation of the reserve capacity market and the amendment of the methodology, applied to the persons having the outstanding influence in the respective markets, were started.

In concluding electricity sales-purchase agreements with producers, the Civil Code of the Republic of Lithuania, the Laws on Electricity and on Renewable Energy Resources, the Rules on Trading in Electricity, the Procedure Regulations on Supplying Public Obligation Services, and the



Administration of the PSO Revenues have to be complied with. Usually the public supplier AB LESTO concludes the electricity sales-purchase agreements with the producers or suppliers for the period of one calendar year with the possibility of their automatic renewal in the cases when the conditions of the agreement have remain unchanged and the parties have not expressed a wish to terminate the agreement. The electricity sales-purchase agreements with new producers are concluded till the end of the calendar year with the same possibility of their automatic renewal for the following year.

3.3 PROTECTION OF CONSUMER RIGHTS

Enforcement of Annex 1 (Article 37(1)(n))

Pursuant to the new Law on Electricity, the following measures for protecting the consumer rights are provided:

1. The state has to ensure the customers' right to the accessibility and adequacy of the electricity energy and, according to the procedure established by the laws, to protect the customers' rights and legitimate interests in their relations with the electricity producers, network operators and the suppliers and to assure that the customers would not be discriminated in terms of the costs, efforts and the time.

2. To protect the consumers' rights and legitimate interests, it is set forth that:

1) The customers have a right to freely choose an independent electricity supplier as well as to enter into agreements with several suppliers in order to satisfy their electricity demand;


2) The customers have a right to change the supplier, by taking into account the terms for giving a notice prescribed in the Law and /or in the agreement with the supplier, and other conditions. When the customer is wishing to change the supplier by keeping to the terms for giving a notice prescribed in the Law and /or in the agreement with the supplier, and other conditions, the respective operator has to take the relevant measures to create conditions for switching the supplier within the time period not exceeding 3 weeks;

3) To the customers who have not chosen the independent electricity supplier or if the independent supplier chosen by them has failed to perform the assumed obligations, the guaranteed supply is ensured according to the procedure set forth in Article 44 of this Law, provided that electricity to such customers is not supplied at the public electricity price;

4) The services of electricity transportation and public or guaranteed supply are provided to the customers at the justified, easily and clearly comparable prices and by ensuring the customers' right to receive electricity energy of the set quality.

5) Public electricity supply for an unlimited time period has to be ensured for the socially vulnerable customers or their groups the list thereof is drawn up by the Government;

6) The Government or its authorized institution have to take the respective measures in order to solve the issues of the electricity shortage, to draw up the relevant national action plans in the energy sector, according to the procedure set forth by the laws to provide exemptions under the social security system in order to ensure adequate electricity supply to the socially vulnerable customers or their groups, as well as to provide support in enhancing the efficiency of electricity consumption;



3. The state supervision and control of the rights of the electricity consumers and their legitimate interests within their competence is exercised by the NCC and the State Consumer Rights Protection Authority.

The State Consumer Rights Protection Authority:

1) Performs the state supervision and control of the protection of the rights and legitimate interests of the household electricity customers;

2) Examines the complaints and disputes of the household customers regarding unfair application of the conditions of electricity sales-purchasing agreements or agreements for connection of electric facilities of new household customers;

3) Examines the complaints and disputes of the household customers regarding unfair commercial activity of the electricity suppliers;

4) Performs other functions prescribed by the laws of the Republic of Lithuania and other legal acts.

Pursuant to Article 50 of the mentioned Law, the transmission system and distribution network operators have to ensure secure, reliable and uninterrupted electricity transportation up to the border of ownership of the customer's site. Interruption or restriction of electricity supply is possible only according to the procedure and conditions set forth in the Law and the relevant secondary legislation. The transmission system and distribution network operators have to meet the set requirements on the reliability of electricity transportation and the quality of the service. The persons who have failed to comply with the requirements will be liable according to the procedure set forth in the laws.

Pursuant to Article 51 of the new Law on Electricity, the customers have a right to:


1) To receive from the NCC, transmission system and distribution network operators, public and independent suppliers as well as from the persons performing the function of the guaranteed supply the clear and comprehensible information about their rights related to electricity consumption and supplied services;

2) To have access to the electricity consumption data, including the consumed electricity quantity, and, by concluding the unambiguous agreement, to provide free access to his meter readings by any supplier;

3) To receive information about the applied prices, tariffs and all conditions related to the services in the electricity sector.

The mentioned Law also provides that the conditions of the electricity sales-purchasing agreements or the contracts for the supply of services, concluded with the electricity customers according to the procedure set forth in the laws, must be fair and known in advance. These agreements, with regard to the subject matter of each particular agreement, among other things should contain:

1) name of the party to the agreement, code of the legal person, other organization or the division of the legal person of other member state registered in the Republic of Lithuania, registered address and mailing address, name and family name of the natural person – the party to the agreement, personal code, address, phone number and e-mail address (if these are available);



2) Obligations of the parties, their type and scope, the proposed level of quality of the services, deadline for primary connection, date of coming into validity of the agreement and the commencement date of supplying the respective services;

3) Types of the proposed maintenance services;

4) Means to obtain the most recent information about all applicable prices tariffs and fees;

5) Contact information of the electricity undertaking, contact persons or information centers and their opening hours during which the customer would be able to get the information which is of interest to him about the performance of the agreement;

6) The term of validity of the agreement, conditions of renewal, termination or extension of the agreement along with the information whether it is intended to terminate the agreement free of charge;

7) Compensation of losses in the cases when the quality of the services is not up to the level defined in the agreement and/or if the electricity undertaking has failed to perform or unduly performed the obligations assumed by the agreement, including erroneous or delayed payment bills;

8) The procedure for settlement of disputes arising from contractual relations;

9) Information about the consumer rights.

The customers have to be informed in writing and/or by electronic communication means about the intention of the electricity undertaking to amend the conditions of the agreement. By providing information about such intention, the customer has to be informed about his right not to accept the amendment of the conditions of the agreement and/or to terminate the agreement. The Law on Electricity also provides that the suppliers have to establish proper and adequate conditions for the customers' access to the information and data about payments for electricity supplied to them. The proper and adequate access conditions are considered to be submission of the payment bill or online access to the customer's payment data or other justified means. By providing the online access at the customer's request and in the form acceptable to him, the suppliers will present:


1) The existing actual electricity prices and actual energy consumption at least once per calendar year;

2) The comparison between the quantities of electricity consumed by the customer in the current period and consumed during the respective period of the previous year;

3) When possible, the comparison with the electricity consumption of the average consumer in the same customer group.

Pursuant to the provisions of the Law on Electricity, the suppliers have to post on their website, or that of the association to which the respective supplier belongs and/or the Power Exchange website and at the customer's request provide:

1) comprehensive information regarding the share of the primary energy resources, including the renewable ones, which last year was used for producing the electricity energy supplied by the supplier, constituted by each type of energy resources, if such information is available;



2) Links to the information sources where the comprehensive information about impact on the environment, including greenhouse gasses and radioactive waste, last year produced in generating electricity is presented;

3) Contact information of the consumer organizations, associations, agencies and similar offices, including their website addresses, where it would be possible to find information about the potential means for increasing energy efficiency, benchmarking characteristics of end-users and/or objective technical specifications of equipment consuming energy.

When the customers are supplied with electricity which is traded at the Power Exchange or imported from the entities located outside the member state, in providing such information the summarized data of the Power Exchange or entities located outside the member state can be used. When the customer has changed his electricity supplier, the previous supplier no later than within 6 weeks (if the shorter deadline was not set in the agreement) submits to the customer the final (closing) payment bill for the consumed electricity and/or supplied services.

The new Law on Electricity provides that NCC will take necessary measures to ensure the reliability of the information provided to the customers, and that such information would be provided on the national level in the easily comparable form. The NCC has to prepare, post on its website and periodically update the clear and brief list of questions and answers intended to the customers, where the practical information and the customers' rights would be provided.

In preparing the information on the issues of the rights of household customers, the NCC cooperates with the Authority. Moreover, the NCC has to post on its website the list of questions and answers intended to the customers and prepared by the European Commission, and to ensure that the suppliers of the distribution network operators in cooperation with the NCC would take the relevant actions to upload the respective list of questions and answers on the websites or the suppliers and/or distribution network operators, by informing the customers about this by electronic communications means, and when this is not possible, by sending to the customer the copy of the list of questions and answers.


The NCC continuously publicly announces the news in its activities, various clarifications and the list of the frequently asked questions (FAQ). In investigating the complaints, within the limits of the set competencies it cooperates with the Authority. When the European Commission prepares the list of questions and answers designed to the customers, the NCC will upload it on its website.

The mentioned Law provides that in accordance with the procedure set by the Government or its authorized institution the General Information Centre has to be established to provide electricity customers with all relevant information about their rights, effective legal acts and the available methods of settlement the disputes. The NCC established the General Information Centre in April 2012.

Pursuant to Article 52 of the Law on Electricity, side by side with the above indicated means of protection of consumer rights, a household customer is entitled:

1) to unilaterally and free of charge terminate the agreement on the electricity transportation service and/or the electricity sales-purchasing agreement by giving a written notice to the network operator and/or supplier no later than 3 weeks prior to the planned termination date of the agreement;

2) to enter into open-ended sales-purchasing agreements with the public supplier in the cases when the household consumer has not chosen an independent electricity supplier, or when



the independent supplier chosen by him has failed to perform the assumed obligations and the household customer intends to purchase electricity from the public supplier, as well as the open-ended electricity sales-purchasing agreement with the independent supplier and the agreement on the electricity transportation service with the distribution network operator.


It is obligatory to indicate the rights of the household customers related to the settlement of disputes in the agreements concluded with household customers, as it is set forth in Article 78 of the Law. Pursuant to this Article, the complaints and disputes are examined according to the procedure set forth by this Law and the Law on Energy. The complaints of the household customers are examined according to the procedure prescribed by the Law on Protection of Consumer Rights of the Republic of Lithuania and the Law on Prohibition of *Unfair Business-to-Consumer Commercial Practices* of the Republic of Lithuania. The electricity undertakings have to examine the received requests, proposals or complaints regarding the supplied or planned to be supplied services within 30 calendar days from the date of their receipt.

The State Energy Inspectorate examines the complaints and disputes of the customers and energy undertakings regarding faulty operation of electricity facilities, equipment, metering devices, operation, electricity quality requirements, accidents, interruption, suspension or restriction of electricity supply in accordance with the mandatory extra-judicial procedure for examining the disputes and complaints outside the court. The State Energy Inspectorate examines the complaints of the customers and energy undertakings regarding infringements in electricity metering and payment for consumed electricity in accordance with the mandatory extra-judicial procedure.

The NCC within its competence and in accordance with the mandatory extra-judicial procedure examines the complaints regarding actions of the electricity undertakings or the absence thereof in distributing, transporting or supplying electricity, denial of access to the grid to the electricity undertakings, connection to the electricity networks, balancing electricity supply flows, application of prices and tariffs, complaints and disputes of electricity customers and natural persons related to the services in the electricity sector and/or selling-purchasing of electricity.

The complaints of the household electricity customers regarding application of unfair conditions of the electricity selling-purchasing agreements or the agreements on connection of electric equipment of new household customers as well as the complaints of household customers on unfair commercial activities of electricity suppliers are examined by the State Consumer Rights Protection Authority.

If the customer, who had not addressed the subject matter of his request to the supplier, addressed it to the authority examining complaints and disputes, the latter has to take measures for the reconciliation of the parties. The dispute will not be examined if the supplier during the time period established by the authority has proposed the amicable settlement of the dispute and the customer has accepted it or during the set time period has not informed that he does not accept this method of dispute settlement. The supplier, in submitting to the supplier the proposal on the amicable method of settlement the dispute, has to inform the customer in writing about the submitted proposal, to provide all relevant information about the proposed amicable way to settle the dispute and to clearly indicate to the customer that if does not inform the supplier during the set time period that he has not accepted the amicable method of dispute settlement, the dispute will not be examined.



Every day the NCC receives a batch of correspondence with questions, requests and complaints of customers regarding the activity of electricity undertakings, disturbances in electricity supply, connection of new customers, faulty operation of metering devices, justification of the service prices and tariffs, etc. Expedient response to the problems pointed out by the customers, shorter examination of requests (claims) and more efficient protection of the legitimate interests of the consumers are the priorities in the NCC activity.

The NCC provides services to the persons and examines their requests in accordance with the Rules for Examining Requests of Persons and their Servicing in Public Administration Institutions, Offices and other Entities of Public Administration approved by Resolution No 875 of the Government of the Republic of Lithuania as of August 22, 2007.

Pursuant to Article 52, Paragraph 3 of the Law on Electricity passed on January 2012, the supplier, if requested to do so by the customer, has to inform the customer about the supplied services, applied tariffs and the price free of charge.

It should be mentioned that in February 2010 the Standard Conditions of Electricity Selling-Purchasing Agreements with Household Customers were approved by the Order of the Minister of Energy. The document regulates the procedure for concluding, coming into validity, terminating the sales-purchasing agreements with household customers, the procedure and conditions of electricity supply, the procedure of setting the electricity price, the procedure of payment for consumed electricity by the household customer, rights and obligations of the parties and their responsibility for failure to perform obligations, the procedure for examining claims or requests and settlement of disputes, the term of validity of the agreement, the conditions and procedure for amending or terminating the agreement. The Standard Conditions are binding to all public and independent electricity suppliers and household electricity customers. The supplier has to prepare the electricity purchasing-selling agreement in line with the Standard Conditions containing all terms and conditions set forth therein.

In October 2010, the Standard Conditions for Connecting Electric Equipment of New Household Customers to the Grid were approved by the Order of the Minister of Energy, which regulate the procedure for concluding, coming into validity and termination of the agreements with household customers on the services of connection of electric equipment to electricity networks, the procedure and conditions for providing the service of connection of electric equipment to electricity networks, payment for the service, rights and obligations of the parties and their liability for failure to perform obligations, the procedure for examining claims or requests and settlement of disputes, the term of validity of the agreement, conditions and procedure for amending or terminating the agreement.

The Rules on Supply and Use of Electricity approved by the Minister of Energy in 2010 regulate the relations of electricity customers with the suppliers, distribution networks operators and the transmission system operator.

The customers of the transmission system operator LITGRID AB, i.e. big industrial customers, pay for electricity consumed by them by the payment order.

The public supplier and the distribution networks operator AB LESTO proposes to the customers the following methods of payment for electricity:

Table 9. Methods of payment for electricity

Customers	Methods of payment
Natural persons	By using the paybook
	<ul style="list-style-type: none"> - In cash or by payment cards by using the printed paybook in the payment collection divisions. - Payment order of the established form by using the electronic paybook in the online banking systems by debiting the customer's bank account
	According to VAT Invoice
Natural persons	<ul style="list-style-type: none"> - In cash or by payment cards by using the printed VAT Invoice in the payment collection divisions. - Payment order of the established form in the online banking systems by debiting the customer's bank account. - Direct debit: automatic debiting of the customer's account in the bank chosen by him according to the payment schedule agreed in advance
	According to VAT Invoice
Legal persons	<ul style="list-style-type: none"> - In cash or by payment cards by using the printed VAT Invoice in the payment collection divisions - Payment order of the established form in the online banking systems by debiting the customer's bank account. - Payment order in the free form to the LESTO bank account indicated in the VAT invoices issued to the customers. - Direct debit: automatic debiting of the customer's account in the bank chosen by him according to the payment schedule agreed in advance.

Source: AB LESTO.

The project for the development of smart grids was started in 2009 by the initiative of the Ministry of Energy when the working group for the development of smart grids and a separate company for implementing the solutions – UAB Technologijų ir inovacijų centras (TIC) were established. The project is aimed at accomplishing the EU 20-20-20 targets, which provide that 20 percent of energy consumed in the EU have to be produced from renewable energy resources, the actually consumed quantities of energy have to be by 20 percent below the forecasted ones, and the efficiency of electricity consumption has to be increased and the emissions of CO₂ gases have to be reduced by 20 percent as compared to the levels of 1990. The plan for implementing the smart grids' project was approved in 2010, according to which it has been planned to draw up the development trends, to form the tasks to the electricity undertakings, to analyze the possibilities to use the EU funds and to implement the pilot project. It is being planned to complete the costs/benefits analysis of implementing the smart accounting in Lithuania. Then the pilot project of the smart grid will be performed the objective thereof – the electricity bill of 0 EUR.



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

In 2011, after the merger of two companies, which had separately serviced the western and the eastern regions of the country, into one – AB LESTO, and after the completion of the installation of the information systems and the data transfer, the residents of Lithuania got a possibility to use a wider scope of services than up till now. All customers of AB LESTO have a possibility to order the service of direct debit, to use the self-service website Mano Elektra (www.manoelektra.lt) and to call the 24-hours-operating contact center by phone 1802. In the self-service website and by phone 1802 the customers can order paybooks, get information about tariffs, inspections of metering devices, verify the payments. After the migration of the information data, the customers, wishing to conclude the agreement or to order the service, can apply to any AB LESTO customer service center regardless of their place of residence.

On the self-service website *Mano Elektra* the customers can:

- Order a paybook and the company will deliver it at the address indicated by the customer free of charge;
- Order notices about planned electricity disconnections because of the performed repair works;
- View the information about consumed electricity and made payments;
- View the information about payments for the common needs' electricity. This information can be used only by the household customers to whom the bills for consumed electricity are issued by AB LESTO;
- View the date of the meter installation, the initial meter readings, the dates of meter inspections and the meter readings recorded during these inspections;
- Check the prices of the applied tariffs;
- Receive the notices about electricity supply, rendered services, customer service, price adjustments;
- Subscribe to the notices posted on the self-service website into an e-mail box;
- Submit an inquiry if there are uncertainties regarding electricity consumption, payments, etc;
- Inform the company about temporary suspension of electricity consumption;
- Update their contact data.

Household customers' actions with the data of their electricity consumption:

1. They can declare them themselves by:
 - Paying according to the paybook in cash or by filling in the document equivalent to the paybook or by making the bank transfer;
 - Calling the customer service number 1802 or using the self-service website Mano Elektra.
2. By concluding the direct debit agreements or by choosing the payment plans Namai or Namai Plius they can pay according to their average consumption or, by declaring the meter readings after the 20th calendar day of the month, pay for their actual consumption. Every month to such customers a VAT invoice is issued together with the detailed breakdown of its calculations.
3. In the self-service website Mano Elektra the customers can view the thirteen months' historic data of their consumption.



Commercial customers' actions with the data of their electricity consumption:

1. If the electricity metering device is not connected to the automated meter reading system:
 - The customer himself takes the meter readings;
 - The customer can view the taken and declared meter readings in the self-service website Mano Elektra and in the VAT invoice.
2. If the electricity metering device is connected to the automated meter reading system:
 - AB LESTO automatically reads the electricity consumption data;
 - The customer can view the automatically taken meter readings in the declaration form in the self-service website Mano Elektra and in the VAT invoice.

The monthly and hourly consumed quantities of the customers supplied with electricity by an independent supplier are presented to the independent suppliers by the 5th business day of every month. These data to independent suppliers are presented in the self-service website and sent by e-mail. The independent suppliers can view the monthly electricity consumptions by their customers as well as hourly consumptions of the customers who are connected to the automated meter reading system. Moreover, the suppliers, who have concluded separate agreements with AB LESTO, can receive the data via the WEB Service.

Article 69 of the Law on Electricity provides that, within 30 days from the date of receipt of the request of the service provider, the set prices and tariffs have to be announced by the NCC upon having verified that the requirements on setting the prices and tariffs have not been breached during their setting, and the customers are not being discriminated. The information about the electricity tariffs and prices is announced in the NCC website www.regula.lt and in the Official Gazette Valstybės žinios www.valstybes-zinios.lt .


The prices and tariff plans of AB LESTO are also posted on the website www.lesto.lt, are disseminated by the company's customer service centers, the customers are individually informed about the new prices and tariff plans via the self-service website www.manoelektra.lt, and those who have indicated their contact information – by SMS or e-mail messages. The company's customers about the applicable tariff plans and their conditions are informed by the customer service number 1802. The customers' personal information can be viewed only by the registered user of the website [Mano Elektra](http://ManoElektra).

In 2011 there were 4 261 cases of disconnection of private customers and 345 cases of disconnection of commercial customers because of the overdue payments.

Electricity is not disconnected when the maximum outdoor temperature falls below – 15 (fifteen) or rises above + 30 (thirty) degrees of Celsius as well as on Fridays and the days before the national holidays.

Public service obligations

Pursuant to the Law on Electricity which came into effect in February 2012, the public service obligations in the electricity sector – the activity or its absence in the energy sector, which is directly or indirectly related to the state energy and /or public security, the security of operation and reliability of the electric power system, reduction of the negative impact of the electricity sector on the environment, diversification of energy resources and other objectives of sustainable development of the electricity sector. The PSO – the services supplied by the



undertakings, the list, suppliers and the procedure of supply thereof is approved by the Government of the Republic of Lithuania or its authorized institution abiding by the general requirements prescribed in Article 74 of this Law and in line with the public interests in the electricity sector.

Pursuant to the mentioned Article of the Law, in order to implement the strategic energy, economic and the environmental protection goals of the state policy in the electricity sector and to assure the accomplishment of the public interests, the Government, by following the provisions of this Law and other Laws of the legal framework regulating the energy sector, can resolve that in the electricity sector the following activities are assigned to the PSO:

- 1) Production of electricity by using renewable energy resources;
- 2) Production of electricity in combined heat and power plants operating in the thermal regime, when these power plants are supplying heat to the heat supply systems and the saved quantity of primary energy is such that the combined heat and power production can be considered to be efficient;
- 3) Production of electricity in the power plants where electricity production is necessary to ensure security of electricity supply;
- 4) Assurance of the electric power system's reserves in the power plants the operation thereof is necessary to ensure energy security of the state;
- 5) Development of electricity generating capacities, which are of strategic importance for security and reliability of operation of the electric power system or for energy independence of the state;
- 6) Implementation of strategic projects in the electricity sector which are related to the increase of energy security, by constructing interconnection lines with the electric power systems of other states and/or by integrating the electric power systems of the Republic of Lithuania with the electric power systems of other member states;
- 7) Ensuring safety of operation of energy facilities, management of radioactive waste.

The mentioned Law also prescribes that the Government has to approve the list of the PSO in the electricity sector and to establish the procedure for supplying these services. The Government appoints the administrator of the PSO funds by following the procedure for appointing the administrator of the PSO funds set by the Government. The Government or its authorized institution, in line with the public interests in the energy sector and upon having evaluated the activity performed by the market participants, its type, scope and impact on the whole electric power system of the state, can obligate the market participants to supply the set PSO in the electricity sector without discriminating these market participants with regard to their rights or obligations.

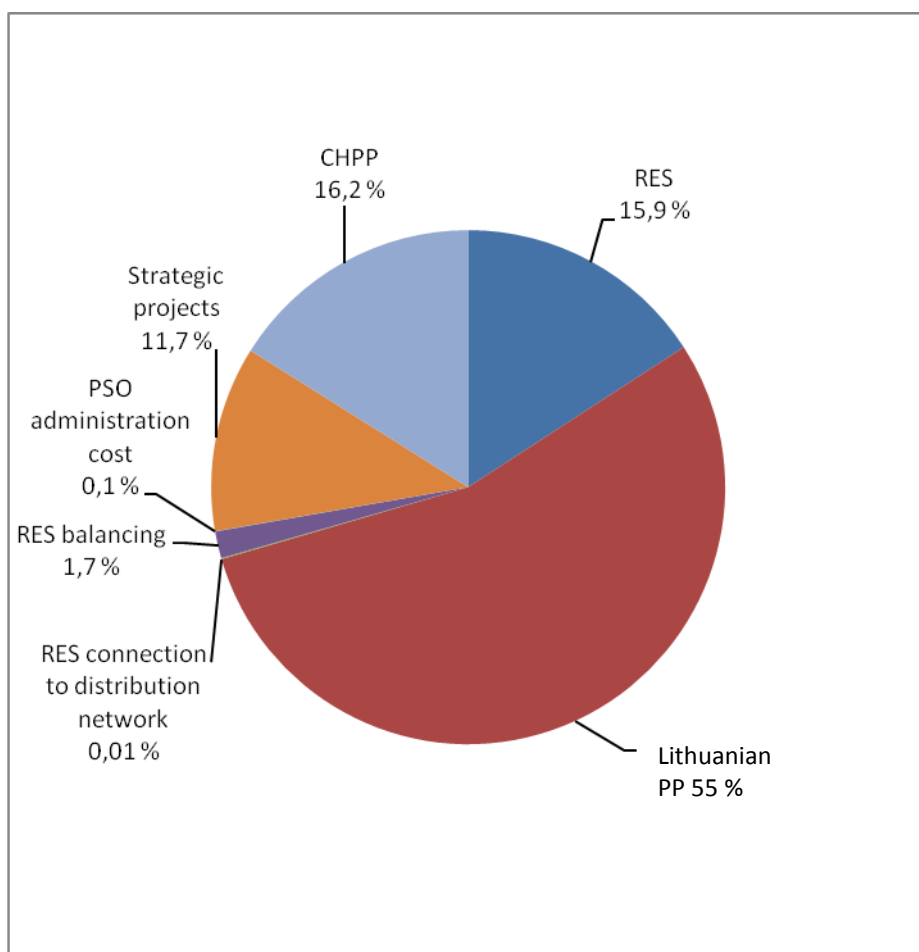
The Law on Electricity provides that in approving the list of the PSO in the electricity sector and in setting the obligation to supply PSO, the criteria of the economic justification, the least cost and the impact on the end users' electricity prices have to be followed. The market participants have to keep separate accounts of the costs of supplying the PSO in line with the Rules on Unbundling the Accounts, approved by the NCC.

To accomplish transparency in the field of the PSO, at the end of 2010 the NCC approved the Procedure Regulations on Administration of the Public Service Obligations Payments aimed at establishing comprehensive and transparent procedure of the PSO payments' collection and

disbursement, and setting the requirements on the accounting of and reporting on the use of the PSO funds. By this document the detailed and transparent procedure for the PSO revenues were set to the PSO suppliers, the requirements on the PSO payments accounting were laid down, which will enable the NCC to ascertain the reasonableness and fairness of usage of the PSO funds. In addition to that, the requirements on the information, which has to be accessible to every electricity consumer paying for the PSO, so that he would be aware for the supply of which particular PSO service and what amounts have been spent, were approved.

The NCC has also approved the *Methodology for Setting the Public Service Obligation Prices in the Electricity Sector*, the objective thereof is to define the comprehensive and transparent procedure for compiling the yearly PSO cost estimates and setting the PSO price for a calendar year. The Methodology regulates the procedure for defining the PSO payments, the procedure for setting the PSO price and the additional requirements related to the PSO payments and setting the PSO price. This Methodology is followed by the NCC and by the market participants supplying and administrating the PSO in the electricity sector. As mentioned in Chapter 3.2.2.2, the data concerning the PSO prices and their dynamics are posted on the NCC website www.regula.lt. The cash flows forecasts, including those which are allocated by the types of renewable energy resources, disbursed PSO funds, collected PSO payments and other reports are posted on the website of the transmission system operator www.litgrid.eu. The PSO price structure is shown in Figure 34.

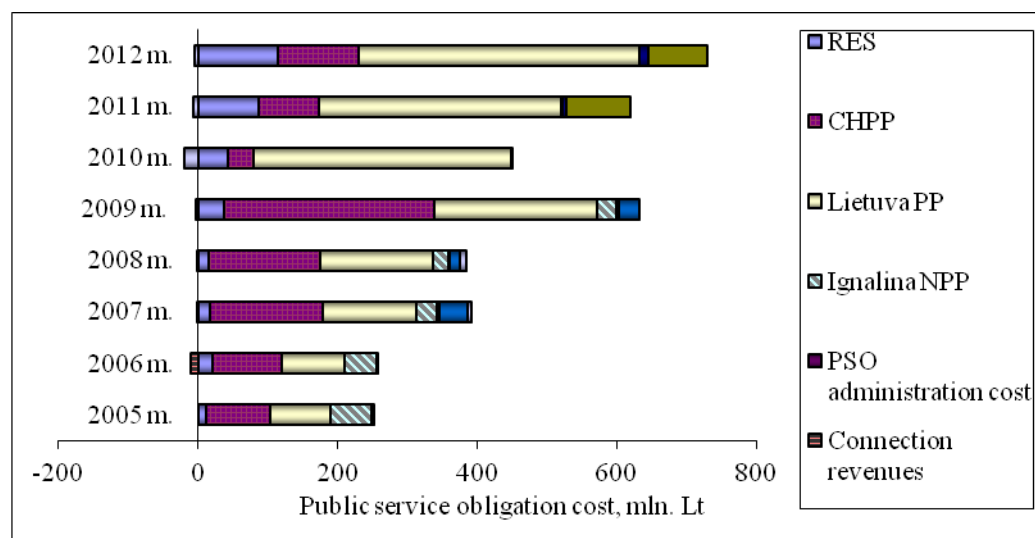
Figure 34. Share of PSO payments by PSO types in 2012, in percent



Source: NCC.

In 2012 the PSO budget was reduced by LTL 5.1 thousand, total PSO funds disbursed to the electricity undertakings supplying the PSO amounted to LTL 207.2 million. The PSO price structure in 2005–2012 is shown in Figure 35.

Figure 35. Dynamics of the PSO price structure in 2005–2012




Source: NCC.

Definition of vulnerable customers

According to Article 43, Paragraph 2 of the Law on Electricity which came into effect in February 2012, starting from January 1, 2013, the public supplier has to conclude agreements with and supply electricity at the public electricity price to all household customers located in the service area defined in the license issued to him, which had not chosen an independent electricity supplier, socially vulnerable customers and their groups. The persons to whom according to the procedure established by the Laws of the Republic of Lithuania social support is granted and/or social services are provided can be defined as socially vulnerable customers. The list of socially vulnerable customers and the groups thereof and/or additional social guarantees, related to supply of electricity, which are applied to such customers or their groups, are set by the Government or its authorized institution. At present the precise definition of the socially vulnerable customers is not provided in the list.

Pursuant to Article 49, Paragraph 2, Item 5 of the mentioned Law, the public supply of electricity to socially vulnerable customers or their groups, the list thereof is set by the Government or its authorized institution, is provided for an unlimited period of time, and, pursuant to Item 6, the Government or its authorized institution have to take the relevant measures for solving the issues of electricity shortage, to prepare the related national action plans in the energy sector, provide social privileges under the systems of social security according to the procedure set forth by the laws, aimed at ensuring adequate electricity supply to vulnerable customers or the groups thereof and support in enhancing the efficiency of electricity consumption.

The goal embedded in Article 3 of the Law – to set a high level protection of consumer rights and legitimate interests by ensuring electricity availability and adequacy, protection of socially vulnerable customers and the groups thereof, implementation of their rights of access to



information and efficient measures for protection of these rights. Pursuant to Article 6, the Government or its authorized institution has to set the list of vulnerable customers or the groups thereof and /or additional guarantees applicable to such customers with regard to supply of electricity.

3.4 RELIABILITY OF SUPPLY (IF AND TO THE EXTENT IN WHICH THE REGULATOR IS A COMPETENT AUTHORITY)

Taking the safeguard measures (Article 42)

Abiding by Article 58, Paragraph 3 of the Law on Electricity of the Republic of Lithuania passed in January 2012, the Rules for Access to the Grid were approved in June 2012 by the Order of the Minister of Energy, which regulate the supply conditions of the system and transportation services to the networks' users and the ancillary services to the network operators, the issues of planning the long-term development, the requirements for the networks users and network operation, the requirements for electricity metering and information exchange in the electric power system.

Chapter IV of the Rules prescribes that the system services for prevention and liquidation of accidents, failures consist of the preparation and updating of the emergency plan, setting and implementing the measures for accident prevention and liquidation, liquidation of accidents and failures. The mentioned Chapter sets the requirements applicable to the accident prevention and liquidation plan along with the relevant actions and measures in the case of:

1. Overloading of the transmission network components;
2. Rise (or drop) of voltage or frequency in the transmission network;
3. Occurrence of capacity fluctuations;
4. Shortage of active power or energy to secure the balance of the controlled region;
5. Partial or full outage of the system after the black-out of the electric power system.

The black start of the system after its black-out is coordinated by the transmission system operator. No less than once per year the transmission system operator must propose to the distribution network operators and network users the electric equipment thereof is connected to the medium voltage network the trainings of the operating and technical staff, simulating the accidents and performance of their liquidation plan, to arrange and coordinate these trainings.

The plan of preparedness for the emergency situation in the electric power system consists of the instructions prepared by the transmission system operator, the procedure regulations and other documents. The constituent parts of the plan are as follows:

1. Procedure regulations on disseminating information about the extraordinary or emergency events, their examination and accounting;
2. Black start plan of the Lithuanian electric power system after the black-out;
3. Instructions for liquidation of accidents and technological failures;
4. Instructions for liquidation of accidents and technological failures for the dispatch control group of the eastern region;
5. Instructions for liquidation of accidents and technological failures for the dispatch control group of the western region;
6. Procedure of customers' disconnection or restriction of supply;
7. Instructions for providing information about customer's disconnection or restriction of supply.

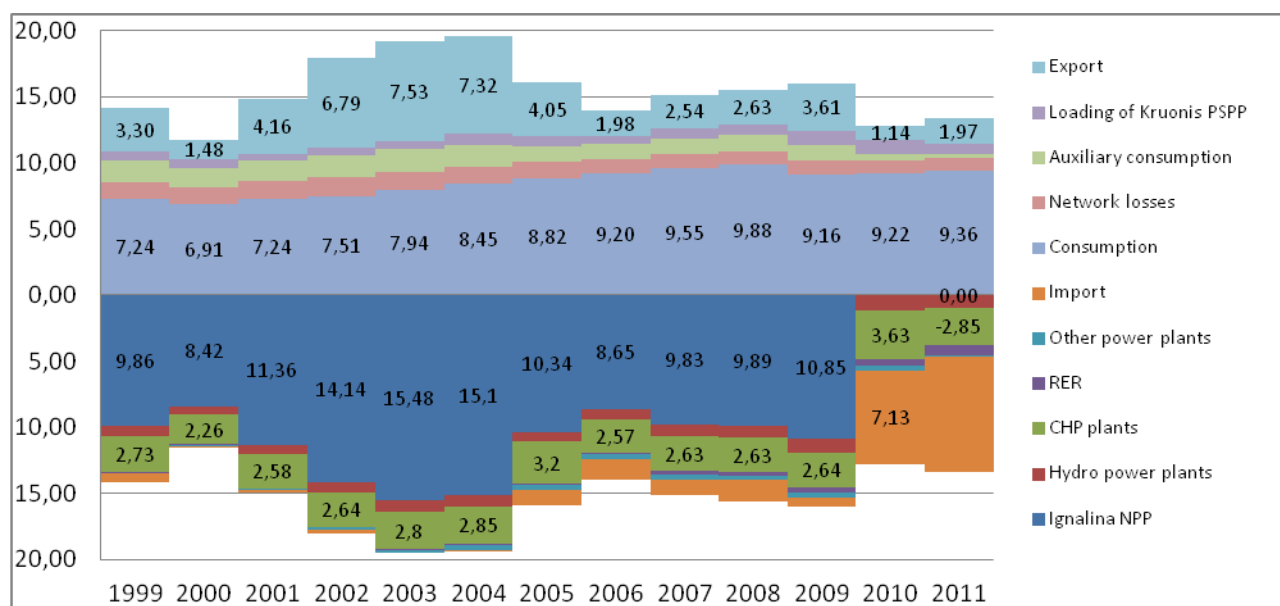
Pursuant to the *Procedure Regulations on Supply of Public Service Obligations in the Electricity Sector*, the Ministry of Energy performs monitoring of the issues related to the security and reliability of electricity supply in the electricity sector of the country. Every year by July 31, the monitoring report together with conclusions and proposals is posted on the website of the Ministry of Energy. The monitoring has to cover the following issues: the balance of capacity of the generation sources and the demand, the expected demand of electric capacities and planned to be constructed or being constructed generation sources, progress in implementing the strategic projects related to the increase of energy security by constructing the interconnection links Lithuania – Sweden and Lithuania – Poland for interconnecting the Lithuanian electric power system with the European continental networks. The mentioned monitoring report for the year 2010, to the extent in which it is related to the level of competition and prices, was prepared on the basis of the electricity market supervision reports drawn up by the NCC and the data of the Annual Reports.

3.4.1 MONITORING THE SUPPLY AND DEMAND BALANCE

Article 4

When the operation of the last Unit 2 of Ignalina Nuclear Power Plant was terminated at the end of 2009 and the generation source, which had supplied approx. 80 percent of electricity demand in the country, was lost, the Lithuanian electric power system from the exporting system became the importing one and dependant on the single electricity supplier from the third country (Russian Federation). In 2001 the electricity export went up by 22 percent and accounted for 59 percent of domestic consumption (Figure 36).

Figure 36. Electricity balance in 1999–2011, TWh



Source: NCC.

During the year, the installed capacity of the power plants increased by 4 percent – up to 4021 MW, of the thermal power plants – by 4 percent, the power plants using RER – by 14 percent. In 2011 the biggest increase was in the capacity of the power plants of industrial enterprises – from 96 MW to 164 MW. This revealed that the industrial enterprises are striving to cover their demand themselves.



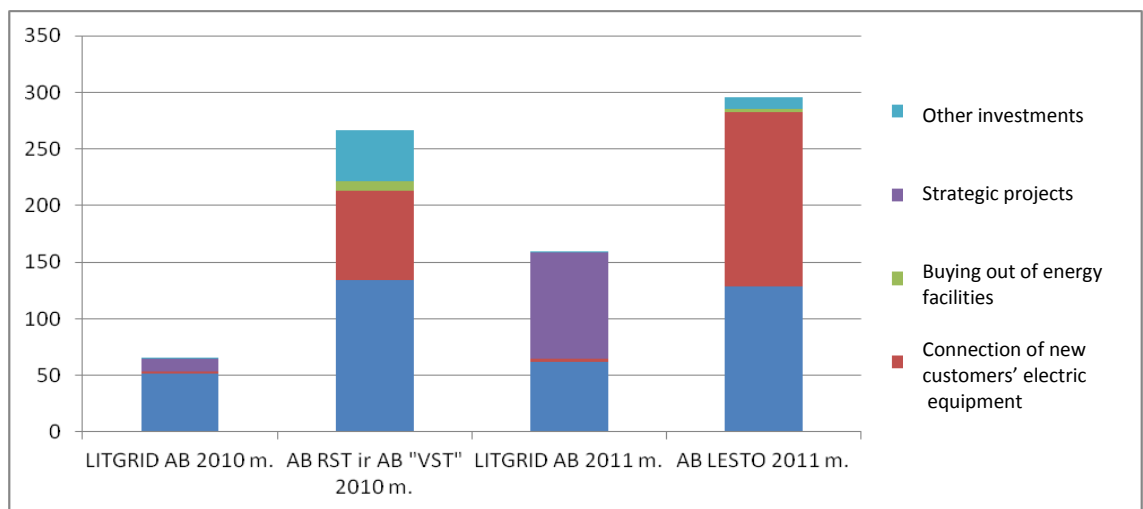
It should be mentioned that in 2011 the NCC approved the investment project of the interconnection line Lithuania – Sweden (NordBalt) along with the model of financing the project till 2016, which will ensure the least possible financial burden to Lithuanian customers. The project is valued at EUR 426 million, the part of investments to be covered by Lithuania – EUR 205 million.

In July 2012, the projects of the interconnection links with Poland – LitPol Link 1 and LitPol Link 2, as well as the project for connection of the new Visaginas Nuclear Power Plant were presented to the European Commission to get their financing. At present discussions regarding raising finance for this power plant, which is planned to be constructed together with the partners from the Baltic States and possibly – with Poland, are still going on. When these projects are implemented, the up-till-now-isolated Lithuanian electric power system would be integrated into the single European Electricity market, and this would contribute to the more reliable electricity supply and stronger competition in the Baltic regional market.

In 2011, the joint countrywide investments (made by the transmission system and distribution networks operators) equaled LTL 455 million, from this amount LTL 94.1 million were assigned to the strategic projects. The yearly augmentation of the total investments was 37 percent.


In the trends of investments made by LITGRID AB in 2011, the biggest adjustment was made in the part of the strategic projects – these investments constituted 60 percent of the total yearly invested amount. Among other trends, the part of the network development and reconstruction is worth mentioning, where the allocated amount was by 21 higher than in the previous year. In 2011, as compared to 2010, AB LESTO made the biggest investments in connecting new customers – the yearly adjustment in these investments nearly twice exceeded that which was in the previous year. The amount, which was allocated for reconstruction and modernization of the network and substations, was similar to that of the previous year. Investments in all other areas were significantly reduced (Figure 37).

Figure 37. Investments of the transmission system and distribution network operators in 2011, LTL million



Source: NCC according to information provided by AB LESTO and LITGRID AB.

It should be mentioned that every year, by the end of July, the Energy Agency under the Ministry of Energy prepares the yearly Reports on Monitoring the Security of Supply, covering the



balance of the capacity of the generation sources and the demand, the expected capacity demand and planned to be constructed or being constructed capacities.

Pursuant to the new Law on Electricity which came into effect on February 7, 2012, the NCC also monitors and assesses the reliability of the transmission and distribution networks. The results of the reliability monitoring are summarized in the Annual Reports posted on the NCC website. The following data have to be provided in these reports:

- 1) Balance of electricity demand and supply (actual consumption) on the level of the electric power system of the state;
- 2) Expected level of electricity demand in the future and possibilities of its supply;
- 3) Development of electricity generation capacities;
- 4) Measures to satisfy peak electricity demand and for system balancing and regulation;
- 5) Level and quality of monitoring of the electric power system.

Every year, no later than by July 31, the NCC submits Annual Reports to the Government or its authorized institution and to the European Commission.

The NCC also prepares the annual and quarterly market supervision reports, worked out in line with the Procedure Regulations on Supervising the Electricity Market approved by the NCC, where the mentioned data and information are presented. According to the information, in 2011, as compared to 2010, the quantity of electricity supplied to the customers increased by 1.5 percent. In 2011 electricity export, as compared to 2010, grew by 73 percent (up to 1.97 TWh), import went up by 22 percent (up to 8.71 TWh). The imported quantities covered 59 percent of domestic consumption (yearly adjustment - 8 percent). In 2011 the quantity of electricity produced in combined heat and power plants was 22 percent less than in 2010.

Table 10. Electricity balance in 2010–2011, TWh

Electricity balance		2010	2011	Adjustment	
		TWh	TWh	TWh	percent
Supplied to customers		9.22	9.36	0.14	1.5
Network losses and own needs		1.43	1.26	-0.17	-11.9
Loading of Kruonis HPSPP		1.04	0.80	-0.24	-23.1
Domestic consumption		11.69	11.42	-0.27	-2.3
Export		1.14	1.97	0.83	72.8
Consumption + export = production + import		12.83	13.39	0.56	4.3
Production	Kruonis HPSPP	0.76	0.57	-0.19	-25,0
	CHP plants	3.63	2.85	-0.78	-21,5
	Renewable energy resources	0.9	1.19	0.29	32,2
	Other power plants	0.4	0.07	-0.33	-82,5
Import		7.13	8.71	1.58	22.2

Source: NCC.

During the year the total installed capacity of the power plants increased by 3.9 percent – up to 4021 MW, of the thermal power plants – by 4 percent, of the power plants using RER – by 14 percent. In 2011 the relatively biggest change occurred in the installed capacity of the solar power plants – from 0.02 MW to 1.002 MW, however the biggest actual augmentation was in the installed capacity of the power plants of the industrial enterprises – from 96 MW to 164 MW, to some extent the installed capacity of the biofuel power plants increased as well – from 33 MW up to 50 MW, of the wind power plants – from 161 MW up to 185 MW. The installed capacity in the power plants using RER per year totally increased by 43 MW.

Table 11. Generation sources in 2010–2011

Power plants	Installed capacity,	Installed capacity,	Adjustment
	MW*	MW**	
	2010.12.31	2011.12.31	percent
Lithuanian Power Plant	1800	1800	0.0
AB ORLEN Lietuva	160	210	31.3
Vilnius CHPP	372	360	-3.2
Kaunas CHPP	170	170	0.0
AB Kauno Energija	8	8	0.0
AB Klaipėdos Energija	11	11	0.0
Panevėžys CHPP	35	35	0.0
Power plants of industrial enterprises	96	163.6	70.4
Total in thermal power plants:	2652	2757.6	4.0
Kruonis HPSPP	900	900	0.0
Kaunas HPP	101	101	0.0
Small hydro power plants	25	26	4.0
Biofuel power plants	33	50.27	52.3
Wind power plants	161	185.235	15.1
Solar energy power plants	0.02	1.002	4910.0
Total in power plants using RER:	320.02	363.507	13.6
Total:	3872.02	4021.107	3.9

* Source: NCC according to LITGRID AB information

** Source: NCC according to the information of the Ministry of Energy about the issued production permits

Table 12. Capacity balance in the electric power system during peak demand in 2011, MW

Item No	Indicator	2011
1.	Available capacity of power plants	3681
2.	Unutilized capacity of power plants	889
3.	Obligatory reserve for ensuring adequacy of the system	350
4.	Surplus capacity	2443
5.	Maximum demanded capacity in the system	1737
6.	Capacity balance of the system	706

Source: LITGRID AB.

At the end of 2011 LITGRID AB was operating:

- 110 kV overhead lines – 4968 km (calculated in circuits) and 218 transformer substations and switchgears;
- 110 kV cable lines – 44.6 km;
- 330 kV lines – 1671 km (calculated in circuits) and 15 transformer substations and switchgears.

The forecasts of the indicators of the Lithuanian electric power system are provided in Chapter 3.1.4.

Other relevant issues are elaborated in the Report on Monitoring the Security of Supply which recently is being prepared by the Energy Agency under the Ministry of Energy and is uploaded on the website of the Ministry of Energy www.enmin.lt.

3.4.2 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 more than 80 percent of energy from the single supplier of energy resources.

Lithuania has set the goal to have the interconnection lines with Sweden and Poland, to construct a new nuclear power plant and to establish the common Baltic electricity market. It is being planned to construct the new nuclear power plant with the capacity of 1350 MW with the advanced boiling water reactors (ABWR) in Visaginas.

The project for the construction of the new NPP is implemented by Lithuania, Latvia, Estonia and the strategic investor – the company Hitachi from Japan. On May 9, 2012 the Government approved the draft Concession Agreement.

Security of the operating network

Article 7 of Directive 2005/89/EC



As it has been mentioned above, the projects of interconnection links with the electric power systems of Sweden and Poland are being planned. In implementing NordBalt (earlier known as SwedLit project) it is being planned to install the submarine and underground cables between Klaipėda in Lithuania and Nybro in Sweden and the converter stations in Sweden and Lithuania.

The aim of NordBalt project is to construct the interconnection link between Lithuanian and Swedish electric power systems. This will enable to integrate the Lithuanian electricity market with the common market of the countries of the Baltic Sea Region. The scheduled beginning of the operation of the interconnection – December 2015. After the start-up of operation of the interconnection, Lithuania will have a possibility to trade in electricity with North Europe. The interconnection will consist of the high voltage direct-current submarine and underground cables as well as the converter stations in Klaipėda and Nybro.

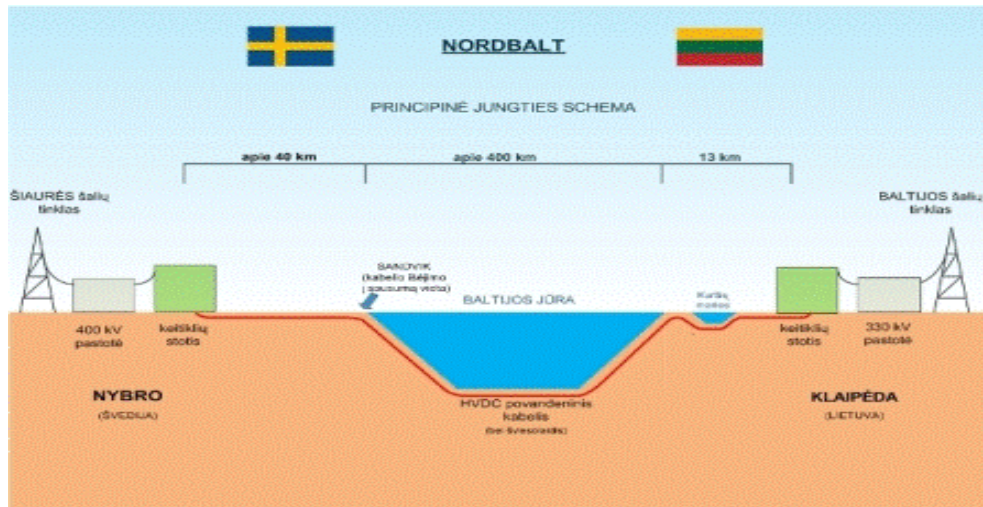
Key parameters of the interconnection

- High voltage direct-current (HVDC) submarine cable. Cable's length: approx. 400 km
- High voltage direct-current (HVDC) underground cable (on the Lithuanian side). Cable's length: 13 km
- High voltage direct-current (HVDC) underground cable (on the Swedish side). Cable's length: 40 km
- Capacity: 700 MW
- Technology: VSC
- Designed lifetime: 30 years
- Preliminary project costs: LTL 1.9 billion
- Connection point in Lithuania – Klaipėda 330 kV substation. Connection point in Sweden – Nybro 400 kV substation

On March 18, 2010 Lietuvos Energija AB and Affärsverket Svenska Kraftnät signed a cooperation agreement regarding NordBalt project implementation. The agreement provides that the cooperation of the parties will include the interconnection's planning and construction work, while the infrastructure, created in the course of the construction, will be owned separately by the parties – Lietuvos Energija will own the converter station at Klaipėda substation, the cable from Klaipėda substation to the sea and 50 per cent of the submarine cable. A respective part of the cable and the interconnection's infrastructure on the Swedish side will be owned by Svenska Kraftnät. The agreement sets forth the conditions regarding funding of the interconnection and the conditions and procedure of using the EU support of EUR 131 million (EUR 452.3 million), allocated to the construction of the interconnection.

After the completion of the testing of the cable for NordBalt cross-border interconnection, the manufacturing of the cable will be started in Sweden. The cable of 900 km length will be manufactured in 15 months; it is projected to start its installation on the Baltic Sea bed in March 2014.


Figure 38. Circuit diagram of NordBalt interconnection



Source: LITGRID AB.

Schedule of works:

1. On March 18, 2010 Lietuvos Energija AB and Affärsverket Svenska Kraftnät signed a cooperation agreement regarding NordBalt project implementation.
2. On March 31, 2010 the technical specifications of NordBalt interconnection and converter stations as well as other procurement documents were sent to the eligible bidders who passed the pre-qualification procedure.
3. On August 5, 2010 the European Commission confirmed the support of EUR 131 million for the construction of NordBalt interconnection between Sweden and Baltic States.
4. On September 6, 2010 the tender bids were received from potential contractors for the construction of NordBalt converter stations and cable. It is scheduled that by December 21, 2010 the bids will be analyzed and assessed, negotiations with contractors will be held, contracts regarding the delivery and installation of the cable and converter stations will be signed.
5. On December 17, 2010 in Vilnius, Swedish and Lithuanian electricity transmission system operators Svenska Kraftnät and Litgrid signed a contract with Swedish energy and automation technologies company ABB, which will manufacture and install the 300 kV HVDC cable for the NordBalt electricity link. The construction contract is valued at EUR 270 million (LTL 932 million).
6. On December 20, 2010, a contract for construction of converter stations for the electricity interconnection NordBalt was signed in Stockholm. The winner of the international public procurement tender was ABB which will manufacture and install the AC/DC converter stations in Nybro (Sweden) and Klaipėda. The contract is valued at EUR 147 million (LTL 507 million).
7. The international public procurement tenders, in which Swedish, German and French companies took part, were held by the Lithuanian and Swedish transmission system operators Litgrid and Svenska Kraftnät following the Law on Public Procurement of Sweden. The resolution to conduct the tender in Sweden was adopted with regard to the extent of experience in organizing international tenders of such scope. Swedish law and public procurement experience are considered to be the most transparent in the world.

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8. By 2011 the document of territory planning (special plan) was drafted and the technical design of the cable and converter stations were in progress. It is expected that permits for construction in Lithuania will be received by 2012, the construction of the converter stations on Lithuanian and Swedish territory will be commenced in the 2nd half of 2013, and the cable construction will be launched in the 1st half of 2014.
 9. Vattenfall Power Consultant and the Swedish transmission system operator Svenska Kraftnät have drafted the technical specifications for NordBalt interconnection's converter stations and the cable procurement tenders.
 10. A Baltic Sea bed survey for the NordBalt interconnection was carried out by Marin Mätteknik AB company. The final report was presented on December 18, 2009. STRI AB performed the measurements of harmonics at Klaipėda substation and carried out the calculation of harmonics resistance.
 11. Sweco Lietuva UAB is drafting the document of territory planning on the territory of the Republic of Lithuania.

Progress in implementing the Project in 2011:

- June 20, 2011 – the testing submarine cable was manufactured, the mechanical tests of the cable were started;
- July 2011 – the design works of the converter stations were started. The designing contractors – UAB Sweco Lietuva together with UAB Varikonta;
- October 2011 – the design works for cable installation in Lithuania were started. The subcontractor – UAB Elektros tinklų institutas;
- December 15, 2011 – manufacturing of the sea cable was started.

In 2012–2013 it is being planned to:

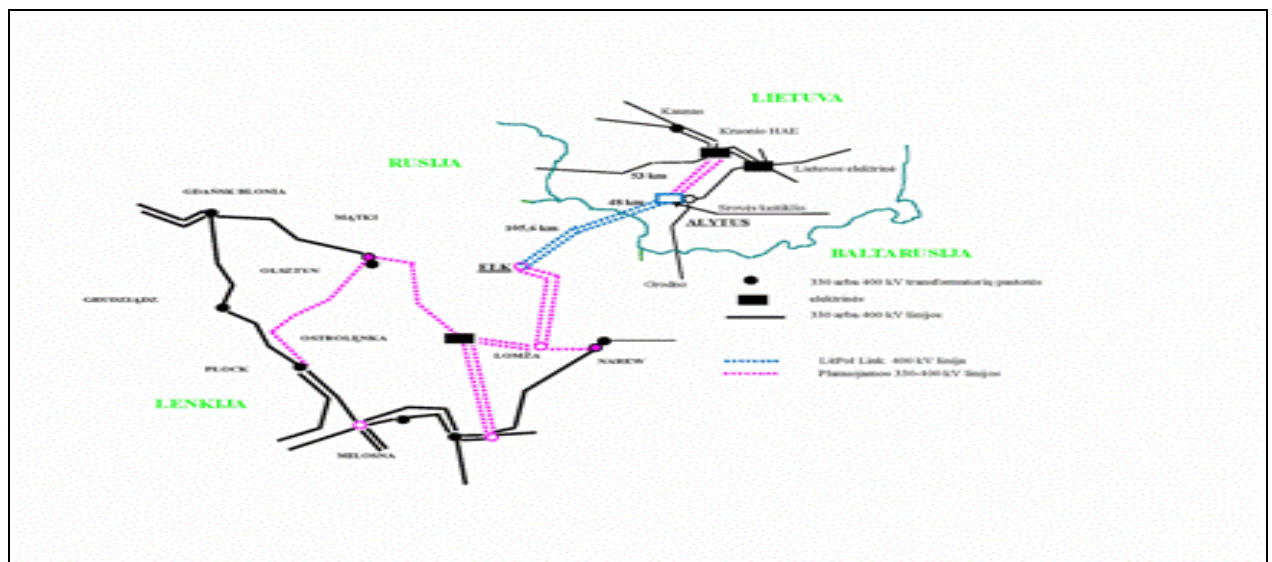
- Set the servitudes in the whole route of the overhead line;
- Prepare the technical designs of the cable line and converted substation necessary for obtaining the construction permits, and to obtain these permits.
- To perform the construction works of 330 kV Klaipėda TS and 330 kV OL Klaipėda–Telšiai;
- Select the contractor for designing and construction of Nybro TP, and to start these works.

LitPol Link, established in May, 2008, is the coordinator of the preparatory works for the construction of Lithuania-Poland power interconnection. 50 per cent of LitPol Link's shares belong to Litgrid AB and the remaining 50 per cent to PSE Operator S.A., both the national transmission system operators. The aim of LitPol Link is to prepare the technical design for the power interconnection between Lithuania and Poland, set the route line, prepare the Environmental Impact Assessment (EIA), deal with the land ownership issues, obtain the necessary permits and carry out other preparatory works, which are fundamental for the investment project. LitPol Link will prepare the Tender Documents for selecting the contractor which will construct the double-circuit 400 kV overhead line Alytus – Elk with a modern substation in Alytus. The interconnection link LitPolLink between Lithuania and Poland will connect the electric power systems of the Baltic States with the electric power systems of West Europe and will contribute to the development of the common European electricity market and will increase the reliability of energy supply. The scheduled beginning of operation of 500MW Lithuania-Poland interconnection – 2015.

Key parameters of the interconnection:

- High-voltage double-circuit 400 kV overhead line from Elk to Alytus. Line's length: approx. 150 km. Approx. 100 km of the route will stretch through Poland's territory, across Podlaskie and Warmińsko-mazurskie voivodships, approx. 50 km will stretch in Lithuania, in Alytus and Lazdijai districts, Alytus County.
- High voltage back-to-back converter station with 400 kV switchyard in Alytus. After the Lithuanian electricity transmission system is prepared for synchronous operation with the European continental network, the same direct current insert will be used for the non-synchronous operation of the Lithuanian and Belarusian energy systems.
- Capacity: 500 MW operated from 2015 and 1000 MW from 2020).
- Technology: CSC
- Designed lifetime – 50 years.
- Preliminary project costs: LTL 1.28 billion (Lithuania's contribution – approx. LTL600 million).


Figure 39. Circuit diagram of LitPol Link interconnection



Source: LITGRID AB.

Schedule of works:

1. At the end of 2009 - beginning of 2010, the company EPC S.A. drafted a study of line's route on Poland's territory.
2. On January 25, 2010 the documents regarding 400 kV overhead transmission line from Alytus transformer substation to the border of Poland were drafted: the concept of construction's special plan, document for evaluating the scope of the strategic environmental assessment (SEA) and the environmental impact assessment (EIA) program.
3. On February 3, 2010 a contract for preparation of the interconnection's funding and operation models was signed.
4. In April 2010, the strategic environmental assessment of the special plan was carried out and the SEA report was drafted.

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5. In June 2010, the preparatory work was started for drafting the environmental impact assessment report.
 6. On August 7, 2010 international consultation was completed regarding the environmental impact assessment of the interconnection link between Lithuania and Poland.
 7. On December 31, 2010 the consent to the EIA conclusions of Alytus Regional Environmental Protection Department was given, which enabled to prepare detailed solutions for the special plan of 400kV overhead line and to complete detailed planning of reconstruction of Alytus TS.
 8. In 2011, the overhead line's territorial planning documents for Lithuania were drafted, part of the agreements with land owners in Lithuania were made, also territorial planning documents for Alytus TS and back-to-back station were drafted and the consultations regarding the environmental impact assessment report in Poland were completed, the technical design for reconstruction of Alytus TS was finalized and the permit for construction of 400kV overhead line in Lithuania was issued based on the approved technical design.
 9. In January 2012, an international public procurement for the installation of the back-to-back station and a 400 kV switchyard in Alytus was announced. The procurement will include technical design, obtaining the construction permits, equipment manufacturing, construction and installation works. After the Lithuanian electricity transmission system is prepared for synchronous operation with the European continental network, the same back-to-back current insert will be used for the non-synchronous operation of the Lithuanian and Belarusian energy systems.
 10. The environmental impact assessment has been completed in Poland, the approval of the EIA Report is soon expected, and the agreements with private land owners are being signed. In the beginning of May, the agreement for the design and construction works with the contractor of Ekl switchyard was signed. In parallel, the transmission lines and switchyards are being designed and constructed in the route Warsaw-Elk.
 11. By the end of 2012 it is scheduled to complete consultation regarding the territorial planning documents of Poland, to reach agreements with land owners in Poland and receive a permit for construction of 400 kV electricity line (together with the technical design) on Polish territory. At the end of the year the contractors for back-to-back station in Alytus substation will be selected, he will design and install the equipment.
 12. By 2014 it is planned to receive a permit for the construction of 400 kV line (together with the technical project) in the territory of Poland.
 13. It is scheduled that by end of 2015 the construction of 400 kV line and reconstruction of Alytus transformer substation will be completed. In December 2015, 500 MW Lithuanian-Polish interconnection will be launched into operation.
 14. By December 2020 the operation of the second 500 MW line will be started as well.

Progress in implementing the Project in 2011:

- The financial and operation models were worked out and approved in March 2011;
- The detailed plan for reconstruction of Alytus substation and its upgrading with back-to-back station was worked out and approved in June 2011;



- The preparation of the feasibility study for reconstruction of 330 kV Alytus substation and its upgrading with back-to-back station and the technical specification were completed in June 2011;
- The special plan of 400kV transmission line Alytus–Polish border was prepared and in August 2001 it was approved by the Minister of Energy;
- Till January 2012 the agreements on defining the servitude rights were signed with 80 percent of the land owners located within the route of the line. For the remaining owners the servitudes were set in February - March 2012 by the administrative acts of the National Land Authorities. The set compensations have been already paid to most of the land owners.

In 2012–2013 it is being planned to:

- Change the landed property of the forests and to adjust the schemes of the state-owned forests;
- Prepare the technical designs for the reconstruction of 400 kV OHL and Alytus 330 kV switchyard and to obtain the construction permits;
- Start the procedures for selecting the contractors for 400 kV OHL and Alytus 330 kV switchyard reconstruction works;
- Chose the designing and construction contractors for back-to-back station and 400 kV switchyard.

The status of the EU priority project was assigned to the project of Lithuania–Poland interconnection link.

Project partners:

- Polskie Sieci Elektroenergetyczne Operator S.A.
- Sweco Lietuva UAB performing the strategic environmental assessment (SEA), environmental impact assessment (EIA) and preparatory works of the special plan
- Ernst & Young Business Advisory are preparing the interconnection’s funding and activity models.

In addition to that, the internal grid has been strengthened as well. The main projects are presented below:

Construction of 330 kV line Kruonis HPSPP – Alytus

- On April 4, 2011 LITGRID AB posted a procurement notice for procurement of the services of preparation of the special plan, environmental impact assessment, and setting the land servitudes;
- On October 5, 2011 the agreement on the supply of the services of preparation of the special plan, environmental impact assessment, and setting the land servitudes was signed;
- In October 28 – November 3, 2011 the procedures of dissemination of information about the beginning of the territorial planning were completed;
- In December 27, 2011 LITGRID AB posted a procurement notice for procurement the services of design proposals, preparation of the technical design and supervision of the project implementation (designing).



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 – for 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 of the project

Project value – approx. LTL 117 million

Route's length – 89 km

Transmission capacity – 900 MW (1650 A)

Completed works:

- 2008-05-27–2009-08-27 – preparation and approval of the Environmental Impact Assessment Report.
- 2008-05-27–2010-06-19 – preparation and approval of the special plan.
- 2010-06-01 – 2011-03-16 – preparation and approval of the technical design.
- 2011-05-24 – a construction permit was obtained (at Telšiai District Municipality).
- 2011-07-28 – a construction permit was obtained (at Plungė District Municipality).
- 2010-12-14 – 2011-12-29 – procurement procedures of construction works.
- 2011-12-30 – the Contract Agreement was signed.

Progress in 2011:


- March 16, 2011 - LITGRID AB approved the technical design.
- April 15, 2011 – LITGRID AB posted a procurement notice for procurement of the constructions works.
- May 24, 2011 – a construction permit was obtained (at Telšiai District Municipality).
- August 8, 2011 – a construction permit was obtained (at Plungė District Municipality).
- December 30, 2011 – the Contract Agreement was signed.

Reconstruction of 330/110/10 kV Klaipėda transformer substation

Reconstruction of 330/110/10 kV Klaipėda transformer substation is necessary in order to increase the reliability of the Lithuanian electricity system, which is one of the conditions for Lithuania in the constructing the electricity transmission lines to Sweden and Poland. After the reconstruction of the substation it will be ready for connection of the currently being constructed electricity transmission lines Klaipėda–Telšiai and Lithuania–Sweden. Moreover, reconstruction of the substation will improve the electricity supply reliability 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.

By the beginning of 2014 it is planned to replace all equipment of the substation with the new ones.

Completed works:

- 
- 2008-05-13–2011-01-24 – preparation and approval of technical design.
 - 2011-06-06 – a construction permit obtained.
 - 2011-04-08 – LITGRID AB posted a procurement notice for procurement of the constructions works.
 - 2012-01-31 – the Contract Agreement was signed.

Reconstruction of 330/110/10 kV Panevėžys transformer substation

Reconstruction of 330/110/10 kV Panevėžys transformer substation is necessary in order to increase the reliability of the Lithuanian electricity system, which is one of the conditions for Lithuania in the constructing the electricity transmission lines to Sweden and Poland.

After 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 being planned to replace all equipment of the substation by the new ones.

Completed works:

- 2010-02-26–2011-03-07 – preparation and approval of the technical design.
- 2011-03-30 – a construction permit obtained.
- 2010-02-26 – the Contract Agreement was signed.

Progress in 2011:

- Working design was prepared.
- Dismantling works completed in the 330 kV part of the switchyard equipment.
- In 330 kV part of the switchyard equipment the drainage system was installed, the earthing circuit was installed, the foundations, metal structures, part of the equipment were mounted, the control panel was installed and the installation of control and power cables was started.

Reconstruction of 330/110 kV Šiauliai transformer substation

- May 2011 – the amendment of the technical design was revised and approved.
- September 2011 – 110KV control panel was installed in the building.
- October 2011 – 110kV switchgear was installed.
- November 2011 - 10 kV switchgear equipment, cable channels and cables were installed.
- December 2011 – working design completed in 80 percent.

The equipment of the energy facilities that have been operated for more than 15 years was manufactured in accordance with the GOST standards and it is operated by keeping to the routine maintenance system. When during the reconstruction of the substations this equipment is replaced by the new one, manufactured in accordance with the IEC standards, the combined model of operation is applied to the equipment, when the scope of routine maintenance and repairs is adjusted depending on the results of diagnostic measurements and inspections. In planning maintenance works, attention is focused of the insulation parameters of the high voltage side of the equipment, characteristics of the commutation apparatus and the analysis of the thermovision inspection results. To assure the sufficient level of reliability of the old generation equipment, the contemporary diagnostic instruments are applied, regular inspections of the equipment are conducted, and the statistics of failures is recorded. The repairs of the overhead

lines are in a complex way performed every 6 years. The adequate level of quality of the network maintenance is evidenced by the network reliability indicators - END (energy not delivered) and AIT (average interruption time), as well as by the tendency of unchanging percentage of invalid activation of relay protection and automation equipment.

Table 13. Repair works in the transmission network in 2008–2011

Type of repairs	Measurement unit	Year			
		2008	2009	2010	2011
Repaired old lines	km	1086	1078	1342	873
Repaired transformer substations	pcs.	22	28	16	50

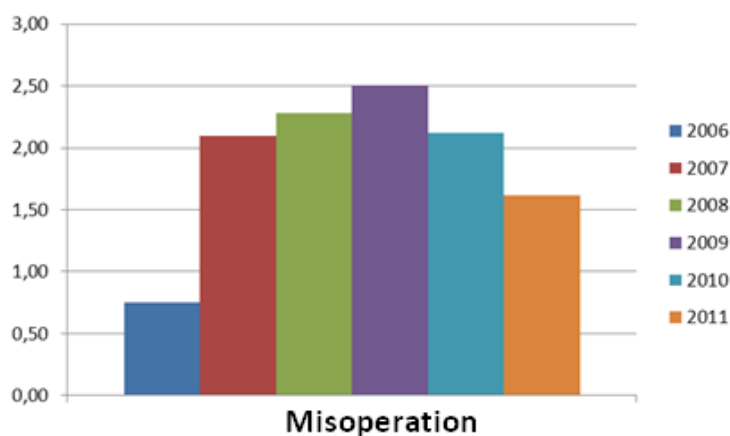
Source: LITGRID AB.

Table 14. END (MWh) and AIT (min.) reliability indicators by interruption causes in 2005–2011

Reliability indicators of electricity transmission	Interruption cause	Year						
		2005	2006	2007	2008	2009	2010	2011
END, MWh	Force Majeure	70.83	9.92	26.31	39.68	1.47	79.15	21.21
	External impact	44.97	152.8	97.39	13.6	24.08	41.33	43.65
	Operator's responsibility	6.95	2.85	36	1.45	2.23	11.63	7.53
	Unidentified	5.12	1.9	0.5	0.34	0	0	0
	Total:	127.87	167.47	160.19	55.07	27.78	132.11	72.39
AIT, min	Force Majeure	2.01	0.32	0.78	1.19	0.04	3.32	0.97
	External impact	1.27	4.96	2.9	0.41	0.71	1.74	2
	Operator's responsibility	0.2	0.09	1.07	0.04	0.07	0.49	0.35
	Unidentified	0.15	0.06	0.01	0.01	0	0	0
	Total:	3.62	5.44	4.78	1.65	0.82	5.55	3.32

Source: LITGRID AB.

Figure 40. Invalid activation of relay protection and automation equipment, percent



Source: LITGRID AB.

The operation time of about 40 percent of commutation apparatus at 330–110 kV substations (circuit breakers, disconnectors and separators) has exceeded the lifetime set by the manufacturer. With ageing of the equipment not only the number of faults is increasing, but at the same time total costs for rectifying the faults are growing as well. In 2011 the system average interruption duration index (SAIDI) of the distribution system operator AB LESTO per customer was 302.6 min. The system average interruption frequency index (SAIFI) per customer in 2011 – 2.19. Without taking into account the impact of natural disasters (*force majeure*), the system average interruption duration index (SAIDI) in 2011 per customer was 84.68 minutes; the system average interruption frequency index (SAIFI) in 2011 was 1.12.

The NCC sets the minimum reliability levels for electricity transportation via the transmission and distribution networks, and every year, on the basis of the deterioration/improvement of the certain actual indicators, the NCC respectively increases/decreases the price ceilings of the transmission and distribution prices in accordance with the mechanism prescribed by the Methodology.

Investments in cross-border capacities in five and more years ahead

Article 7 of Directive 2005/89/EC

Pursuant to the Law on Energy, the NCC was delegated the task to assess the justification of the investments to be made by the electricity undertakings. If the investments of the electricity undertakings have not been conciliated with the NCC, they cannot be recognized as the justified ones and are not incalculated in the price ceilings of the prices.

Pursuant to the NCC Procedure Regulations on Assessment and Approval of Investments, the transmission system operator has to conciliate individual investments the scope thereof is equal or above LTL 12 million, the distribution network operator has to conciliate individual investments the scope thereof is equal or above LTL 5 million.

In 2011 the NCC approved 4 investment projects (see Table 16).

The most important of these in terms of the scope of works and financing resources is the interconnection link Lithuania – Sweden, NordBalt. The total value of the investment project equals EUR 426 million (LTL 1 billion 471 million), from this amount the part of investments allocated to Lithuania – EUR 205 million). The NCC made a decision to approve the project on the condition that a part of the invested amount (LTL 226.16 million) will be financed from the EU structural funds.


LITGRID AB, which is implementing the investment project, submitted three different alternatives of the project financing. According to the submitted data, the amounts of the national financing contribution is varying from LTL 453 million to LTL 553 million, and the required scope of borrowings –from LTL 97 million to LTL 400 million with the respective interest costs varying from LTL 4 million to LTL 89 million.

The NCC performed the analysis of the three alternatives of the investment project financing by the national funds submitted by LITGRID AB, and identified, that one of these (In Table 15 indicated as Alternative 1) is based on the inaccurate data and therefore is not subject to the assessment, and drew up the additional alternative of the investment project financing by the national funds (In Table 15 indicated as Additional alternative). The data of all three alternatives of the investment project financing by the national funds are as follows:

Table 15. Financing sources of the construction of Lithuania – Sweden interconnection (VAT excluded)

Financing sources of the construction of Lithuania – Sweden interconnection		LITGRID AB	LITGRID AB	LITGRID AB	VKEKK
		Alternative I*	Alternative II**	Alternative III***	Additional alternative****
1.	EU support (EEPR), LTL thousand	226 158	226 158	226 158	226 158
2.	PSO funds (customers subsidy),LTL thousand	453 124	479 663	553 030	493 030
3.	Taken loans (customers subsidies to cover the shortage of cash flows), LTL thousand	399 552	97 403	306 027	217 204
4.	Interest costs, LTL thousand	88 671	3 894	79 138	14 205
5.	Interest revenues , LTL thousand	0	10 156	4 070	5 896
6.	LITGRID AB funds, LTL thousand	31 885	0	0	0
7.	Total value of the investment project (1+2+4-5+6), LTL thousand	767 956	699 559	854 256	727 497
8.	Period of financial liabilities, years	2010-2026	2010-2016	2010-2027	2010-2020

Source: NCC.



*Conditions of Alternative I: To finance the investment project it is planned to borrow up to LTL 400 million. It is planned to take the loan in parts during a four-year period. The disbursement of the loan would be started from the beginning of 2012. The reimbursement period of the loan – from 2016 till 2026. The interest amount (an additional financial burden) – LTL 88.7 million. The EU support would be used in accordance with the schedule agreed in advance with the European Commission.

** Conditions of Alternative II: To finance the investment project it is being planned to borrow approx. LTL 97.4 million in 2015. The loan would be reimbursed till 2016. The interest amount (an additional financial burden) – LTL 3.9 million. The EU support would be used in accordance with the schedule agreed in advance with the European Commission.

*** Conditions of Alternative III: To finance the investment project it is being planned to borrow approx. LTL 306 million in 2015. The loan would be reimbursed till 2027. The interest amount (an additional financial burden) – LTL 79.1 million. The EU support would be used in accordance with the schedule agreed in advance with the European Commission.

****Conditions of the Additional alternative: To finance the investment project it is necessary to borrow LTL 217 million in 2015. The loan would be reimbursed till 2020. The interest amount (an additional financial burden) – LTL 14.2 million. The EU support would be used in accordance with the schedule agreed in advance with the European Commission.

The NCC, based on the data of comparison of the three alternatives of the investment project financing by the national funds, identified that Alternative II is the cheapest in terms of the nominal value, the part of the project to be financed from the EU structural funds is the biggest and the amount of interest on loans (as the additional costs) is the smallest.

The NCC, by ensuring the customers' interest to be supplied with reliable and high quality energy services at least costs, approved the financing model of the investment project Lithuania – Sweden Interconnection provided in Alternative II as the smallest financial burden – the cheapest alternative to Lithuanian customers in implementing this investment project.

The NCC, by following the principle of the smallest financial burden, has set additional conditions related to implementing the investment project:

- The investment project, financed from the public finance, will not increase the value of the assets used in the licensed activity, and hence it will not increase the depreciation costs, the value of return on investments (normative profit), so therefore it will not increase the tariff of the transmission service;
- The project development company will provide quarterly reporting by submitting the documents on the movement of financial resources;

The NCC will reconsider the financing model of the NordBalt project in the case of:

- Amendment of the national legal framework, including the structure of the PSO payers;
- Alteration of the European Commission decision on the allocation of financing;
- Non-compliance of the project development company with the commitment set by the NCC;
- Adjustments in the contracted works processes of the investment project;
- Alteration or occurrence of other important circumstances.

Table 16. Investment projects in the electricity sector approved by the NCC in 2011

Item No	Project title	Value, LTL million	Part financed by the EU, LTL million	Objective
1.	Interconnection line Lithuania - Sweden	1 471	226 .2	To increase energy independence, ensure security and reliability of the system
2.	AB LESTO investment project in 110/10 kV Lypkiai transformer substation	11 .37	2 .27	To ensure electricity supply to production facilities and residential houses that are being constructed in Klaipėda free economic zone
3.	AB LESTO investment project for reconstruction of 110/35/10 kV Rietavas transformer substation	9 .49	1 .66	To ensure higher quality of provided services
4.	AB Achema investment project in upgrading the electricity distribution system	7 .88	3 .15	To ensure reliable and secure electricity supply to customers in the case of the equipment fault, enable to disconnect equipment in the shortest possible time and at the same time to assure fault-free operation of other equipment
Total investments approved in 2011:		1499 .74	233 .28	-

Source: NCC.

LITGRID AB investments in the next three-year period are shown in Table 17.

Table 17. Investments by the transmission system operator in 2012–2014

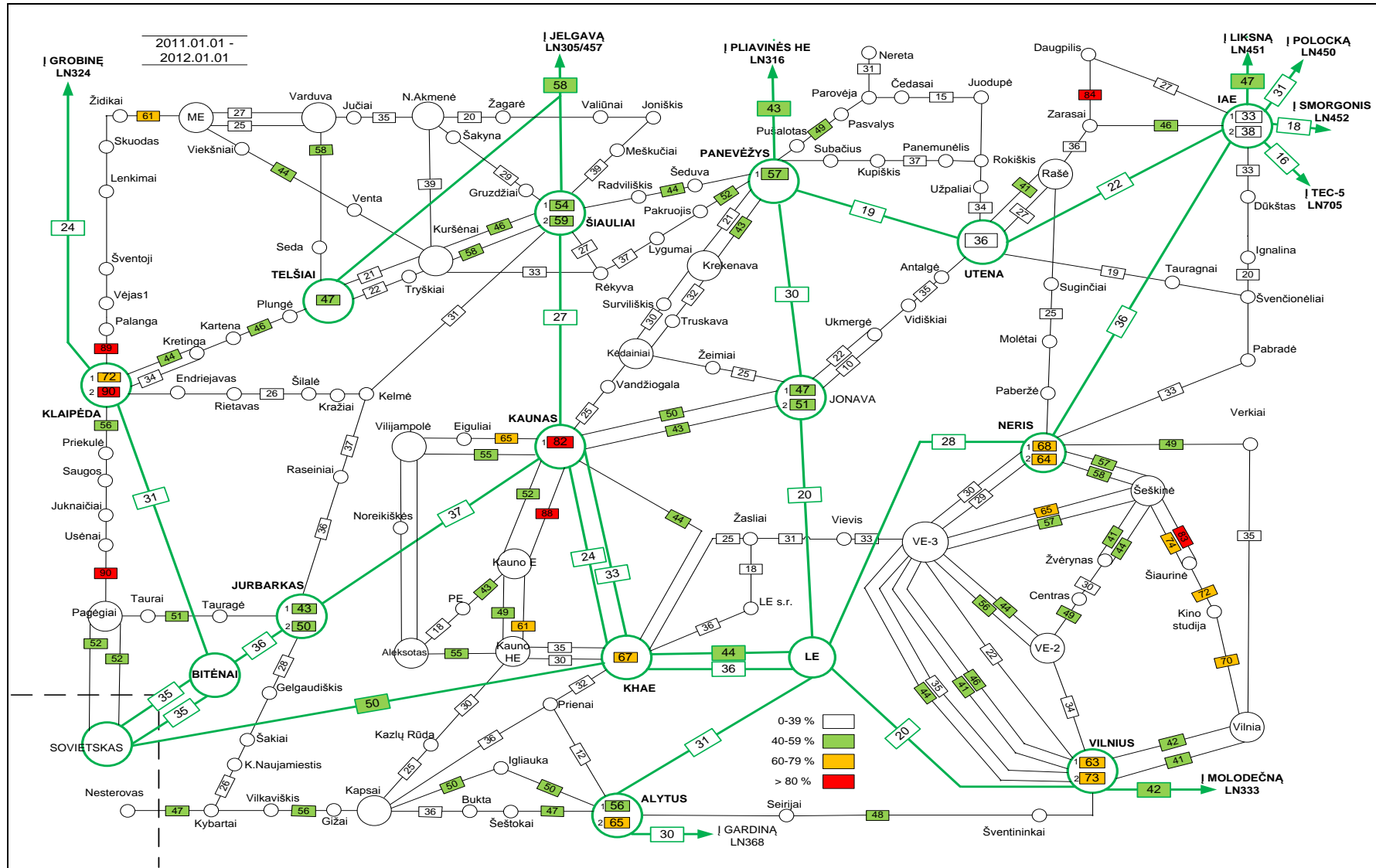
Indicator	2012	2013	2014
Investments, LTL million	175 .3	315 .8	310 .8

Source: LITGRID AB.

AB LESTO, by following the Procedure Regulations on Assessment and Approval of Investments at the National Control Commission for Prices and Energy, prepares the long-term investment program in the regulated activities (hereinafter – the “Program”) for a regulation period. In line with the mentioned Procedure Regulations, the company has worked out the Investment Program for the regulation period of 2011–2013. The amount of investments approved for 2012, equals LTL 297.2 million, the value of investments planned for 2013 – LTL 302.5 million.

Maximum load of the Lithuanian electric power system in 2011 is presented in Figure 41, the average maximum load – in Table 18.

Figure 41. Maximum load of the Lithuanian electric power system in 2011



Source: LITGRID AB.

Actual use of cross-border interconnections with Latvia, Belarus and the Kaliningrad Region is presented in Table 19.

Table 18. Duration of the network loading above 8760 hours in 2011

Loading, percent	Total TS	330 kV OHL	AT	110 kV OHL
0-40	53 .1	78 .6	14 .3	54 .0
40-60	34 .9	21 .4	42 .9	36 .5
60-80	8 .0	0 .0	33 .3	5 .6
>80	4 .0	0 .0	9 .5	4 .0

Source: LITGRID AB.

Table 19. Duration of loading the Lithuanian electric power system's interconnection lines above 8760 hours in 2011, percent

Indicator	LV-LT	BY-LT	LT-Kaliningrad
Loading <50 percent	86.3	90.3	44.8
Loading 50-90 percent	12.7	9.7	40.0
Loading 90-100 percent	0.8	0	13.0
Loading >100 percent	0.2	0	2.2

Source: LITGRID AB.


In 2011 there were no cases when access to the Lithuanian electric power system was denied due to insufficient capacity. Moreover, last year there were no cases when the customers were denied access to the AB LESTO distribution network, excluding 10 cases when the producers were denied connection to the distribution network due to the transmission system restrictions for the reason of possible reverse generation to the transmission grid. The transmission system operator had to possibility to accept the surplus generating capacity, thus AB LESTO had no possibility to connect producers to the distribution network. The total generating capacity requested by the producers who due to the mentioned restriction were not allowed to access the distribution network was 1.5 MW.

The transfer capacities of electricity transmission interconnections are presented in Table 20.

Table 20. Transfer capacities of the Lithuanian electric power system's cross-border interconnections in 2011

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

Source: LITGRID AB.



Maximum electricity consumption (brutto) in 2011 was 1847 MW, i.e. by 7 percent less than in 2010 (1990 MW). In 2011 the quantity of electricity, which had to be imported, was 8.8 TWh.

In 2011 the maximum hourly demand at AB LESTO was 1470 MW, in January-May 2012 – 1618 MW.

AB LESTO gives a lot of attention to the development and modernization of the electricity network. This brings social and economic benefits to the society, enhances the quality and reliability of electricity supply, creates conditions for more rational use of electricity and contributes to the environmental protection activity performed by the company. In 2011 AB LESTO investments in the development and modernization of the electricity network were as high as LTL 295.4 million.

The following investment projects should be mentioned:

In 2011 AB LESTO completed reconstruction of eleven transformer substations (TS), constructed five 10 kV distribution stations, modernized thirteen transformer substations and eighteen distribution stations. In 2011 AB LESTO constructed 958 new 10/0.4 kV transformer substations.

In 2011, 3 533 new sites were connected to the automated electricity metering system (AEEAS), at the end of the year the total number of the sites connected to the system reached 6 472.

Since the beginning of 2003, AB LESTO (till the year 2011 – VST and RST) have been buying out of electricity networks of the gardeners' partnerships in order to satisfy the growing electricity demand of the gardeners and the maintenance needs of the electric facilities, as well as to ensure reliable, safe electricity supply and modernization of the network. By March 31, 2012 AB LESTO bought out 894 (92.6 percent) of electricity networks of the gardeners' partnerships. In buying out the networks AB LESTO has totally invested LTL 10.2 million. On March 29, 2012 the LR Ministry of the Economy, Business Support Agency of Lithuania and AB LESTO signed the financing and administration agreement on modernization and development of AB LESTO distribution network in the gardeners' partnerships by upgrading electricity networks in 76 gardeners' partnerships. LTL 12 460 321 were allocated from the EU structural funds to finance the project.

In implementing the financing and administration agreement on the development of AB LESTO distribution network for electrification of households in Eastern Lithuania, which had no electricity supply, in 2011 the technical works were completed for connecting 50 households envisaged in the project to the electricity network. On March 29, 2012 the LR Ministry of the Economy, Business Support Agency of Lithuania and AB LESTO signed the financing and administration agreement on the development of AB LESTO distribution network for electrification of 31 rural households in the Western part of Lithuania, which had no electricity supply. LTL 933 211 were allocated from the EU structural funds to finance the project.

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

Article 7 of Directive 2005/89/EC 7

The currently transported level of electricity, along with that one which is projected to be transmitted in the next three-year period and the ten-year perspective (2011–2021), is represented in Table 21.

Table 21. Forecast of electricity demand for the next ten-year period

Year	Electricity demand (with network losses) by scenarios, TWh		
	Actual/Basic	Optimistic	Pessimistic
2011	10.40	-	-
2012	10.57	10.62	10.52
2013	10.77	10.88	10.65
2014	10.98	11.13	10.78
2015	11.22	11.43	10.93
2016	11.46	11.75	11.09
2017	11.70	12.12	11.24
2018	11.98	12.49	11.43
2019	12.26	12.91	11.62
2020	12.56	13.34	11.82
2021	12.86	13.81	12.01

Source: LITGRID AB.

In 2011 AB LESTO transported 85.6 million kWh of electricity energy (including technological losses and auxiliary consumption). The quantity of electricity energy, which is expected to be transported in 2012–2014, has been forecasted according to the provisions of the Methodology for Setting the Prices and the Price Ceilings of the Transmission and Distribution Services approved by the NCC, i.e. it is being planned that electricity consumption will grow by ½ of the GDP adjustment value. According to the projections of the economic ratios of Lithuania issued by the LR Ministry of Finance in April 2012, in 2012–2014 the forecasted growth of Lithuania’s GDP will be 2.5 percent, 3.7 percent and 3.4 percent respectively (i.e. ½ GDP – 1.25 percent 1.85 percent and 1.7 percent).

In 2011 electricity supply by AB LESTO totaled 4.17 million kWh, from this quantity 3.45 million kWh was the public electricity supply and 0.72 million kWh – the guaranteed supply.

The electricity quantity, which is being planned to be supplied to public consumers in 2012–2014, has been forecasted on the basis of the above assumptions.

The forecast of changes in the installed and available capacity in 2012 – 2014 are presented in Table 22.

Table 22. Forecasted adjustments in the installed/available capacity of Lithuanian power plants in 2012–2014, MW

Power plants	2012	2013	2014
Condensing power plants	1800/1732	1955/1866	1655/1580
Nuclear power plants	0/0	0/0	0/0
Combined heat and power plants	794/676	794/676	794/676
Hydro power plants	127/116	129/119	130/120
Pumped storage power plants	900/760	900/760	900/760
Small power plants of industrial enterprises	164/162	164/162	164/162
Power plants using renewable energy resources	322/317	399/390	458/449
among them – wind power plants	260	300	350
Totally:	4107/3763	4341/3973	4101/3747

Source: LITGRID AB.

The projected capacity balance of the Lithuanian electric power system during the periods of peak demand in 2012–2014 is presented in Table 23.


Table 23. Capacity balance in the electric power system in 2012–2014, MW

Item No.	Indicators	2012	2013	2014
1.	Available capacity of the power plants	3763	3973	3747
2.	Unutilized capacity of the power plants	950	1574 ²	1622
3.	Mandatory reserve for ensuring the system adequacy	380	530	540
4.	Surplus capacity	2433	1869	1585
5.	Maximum demanded capacity in the system	1840	1870	1900
6.	Capacity balance in the system	593	-1	-315

Source: LITGRID AB.

The capacity balance of the Lithuanian electric power system is not guaranteed in 2013–2014. However, taking into consideration that Lithuania has sufficiently strong cross-border interconnections with the neighboring countries and is implementing the projects for construction of the new interconnection links (LitPol Link and NordBalt), there will be technical possibilities to cover the projected shortage of capacities by imported electricity.

² By taking into consideration 5 and 6 units of Lithuanian Power Plant (2x300 MW capacity) the conservation thereof is planned by AB Lietuvos Energija.



At the end of 2011, new generation capacities of wind power totaling about 185 MW were installed. By the end of 2012 it is being planned to additionally install about 75 MW of wind power generating capacities and at the end of 2012 to increase their total installed capacity up to 260 MW. It is being planned in 2012–2014 to connect to the Lithuanian electric power system a new unit of Lithuanian Power Plant with the capacity of 455 MW and bio fuel power plants with the capacity totaling approx. 56 MW.

The summarized indicators of the Lithuanian electric power system are presented in Chapter 3.1.4.

3.4.3 MEASURES TO COVER PEAK DEMAND OR SHORTAGE OF SUPPLIERS

Article 4

To ensure electricity supply to customers, the transmission system operator has to order the thermal reserve, which can be activated during the period of maximum electricity consumption when in the electricity market there is a shortage of supply.

Pursuant to the Procedure Regulations on the Conditions for Temporary Interruption of Electricity Transportation in Order to Assure the Public Interests and Calculation and Compensation of the Related Losses (hereinafter – the “Procedure Regulations”) approved by Order No 1-121 of the LR Minister of Energy as of April 19, 2010, in Lithuania the restriction schedules are drawn up as indicate below.

Pursuant to Item 13 of the Procedure Regulations, to avoid an extreme 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 compile the following schedules and to inform thereof the customers included into the schedules of interruption or restriction of electricity transportation:

1. Schedules of emergency disconnection of customers, which are drawn up to prevent or liquidate the accident in the electricity transmission system or in the distribution network (Item 13.1);
2. Schedules for restriction of the customers’ utilized capacity, which are drawn up to avoid the emergency situation when in the Lithuanian electric power system there is a shortage of generation capacities, and there are no possibilities to use the capacity reserves of other power systems (Item 13.2);
3. Schedules for restriction of electricity supply to 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).

The schedules indicated in Item 13 of the Procedure Regulations are drawn up for a year (from November 1 of the current year till October 31 of the next year) in accordance with the assignments issued by the transmission system operator to draw up the schedules for restrictions of electricity supply to customers and capacity restrictions and emergency disconnections to the transmission system operators and the customers directly connected to the transmission grid. The Procedure for Customers’ Disconnection and Restriction of Supply, regulating performance of these restrictions and provision of information to the customers, has been signed between the transmission system and distribution networks operators.



4. GAS MARKET

4.1. NETWORK REGULATION

4.1.1. UNBUNDLING OF VERTICALLY INTEGRATED COMPANIES

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 and the Law on Implementation of the Amendment of the Law on Natural Gas of the Republic of Lithuania. The above laws came into effect on 1 August, 2011.

The Law on Natural Gas has been worked out by implementing the 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 (OJ 2009 L 211, p. 94) (hereinafter – “Gas Directive”) and Regulation (EU) No. 994/2010 of the European Parliament and of the Council of 20 October, 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

The Law on Natural Gas provides for separation of the activity of natural gas transmission from the activities of natural gas extraction and supply by unbundling the ownership of the transmission system and its operator from the natural gas companies involved in the extraction and/or supply activities. Decisions regarding the use of assets needed for maintenance, supervision or development of the system shall be carried out independently by transmission, storage and distribution of SDG 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 October 28, 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 (Official Gazette, 2011, No. 130-6170). In accordance with the mentioned plan, the natural gas companies, which do not comply with the provisions of the Law, had to choose the method of unbundling the natural gas transmission activity and control either by reorganizing control over the natural gas companies or by restructuring (splitting) the 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.

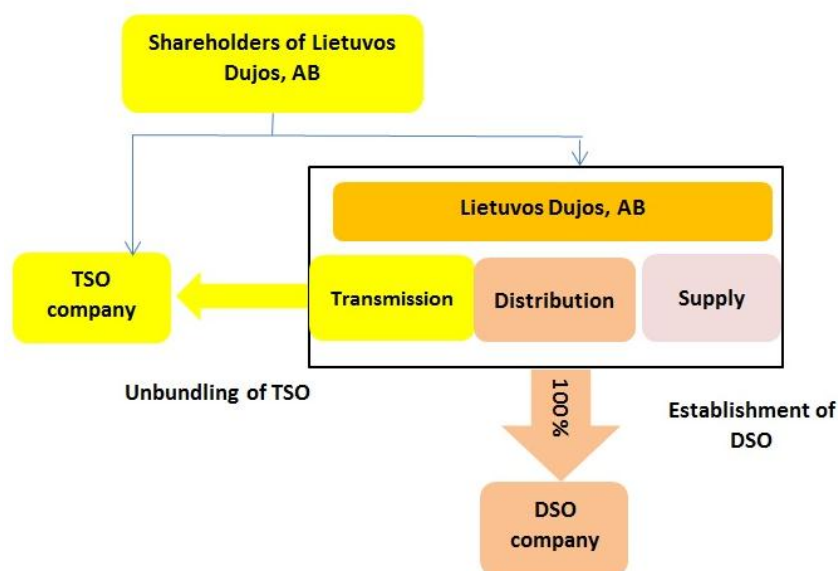
In Lithuania there is only one natural gas company, which does not comply with the requirements of the Law on Natural Gas – Lietuvos Dujos AB, which is involved in the activities of the natural gas transmission, distribution and supply. The company is the only one in Lithuania providing services to more than 100 000 customers. The company is a vertically integrated undertaking that has implemented internal unbundling of activities. On its website the company is presented as a single integrated company, Lietuvos Dujos AB having one logo, address and website. The company operates the total length of all natural gas transmission systems (1.9 thous. km), including 8.1 thous.km of total distribution grid length (92 %) and 71.6 % of supply market. On May 31, 2012 the company submitted to the NCC the action plan for unbundling and the action plan for reorganization of the activities performed by the company, which had been approved by the Minutes of the Board Meeting as of May 28, 2012, where it was provided that Lietuvos Dujos AB will legally, functionally and in the

organizational aspects will have unbundled its natural gas activities till July 31, 2013 at the latest, and will have implemented the unbundling of activities and control till October 31, 2014 at the latest.

The NCC, upon having analyzed the descriptions of the methods for unbundling the activities and control as well as the action plans to be undertaken, by its Resolution as of June 15, 2012 resolved that Lietuvos Dujos AB has to unbundle the natural gas transmission and distribution activities in line with the methods and deadlines provided in the plans and has to submit the required documents by keeping to the deadlines indicated in the plans, as well as to immediately notify the NCC about the cases of delays in performing the actions indicated in the plans or failure to perform them and about any other circumstances, which are relevant to the accomplishment of the plans. Pursuant to the valid legal acts, the deadline for completion of the reorganization of Lietuvos Dujos AB is October 31, 2014.

The unbundling method selected by the company presented in Figure 42.

Figure 42. Scheme of unbundling of Lietuvos Dujos, AB activities




Source: Lietuvos Dujos, AB.

Technical functioning

Balancing services

The key 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. This Law prescribes that transmission system operator shall propose system balancing rules upon approving them with the NCC.

In March 2012, the NCC approved the *Requirements for the Balancing Rules of the Natural Gas Transmission System*, in accordance with which the natural gas transmission system operator Lietuvos Dujos, AB worked out and submitted for revision and approval the *Balancing Rules of the Natural Gas Transmission System of Lietuvos Dujos, AB* (hereinafter - “Balancing Rules”). The said



Rules by the method of public consultations are under coordination with market participants and system users. The balancing rules shall follow the key principles:

- Non-discrimination;
- Proportion of offered balancing services;
- Transparency and publicity;
- Encouraging and enabling to balance the flows of natural gas within the balancing period without creating barriers for market players participating in the balancing of transmission system, seeking the balance of natural gas using the means of balancing, including trading in the wholesale market of natural gas;
- Justification of costs – application of the smallest financial load.

The transmission system operator must disclose the following essential information in *Balancing Rules of the Natural Gas Transmission System*:

- Rights and obligations of market players participating in transmission system balancing and the transmission system operator in performing the balancing;
- The procedure and conditions of trading the balancing trade and ordering balancing services;
- The procedure of announcing the information of transmission system operator to market players participating in transmission system balancing;
- The guidelines for cooperation of transmission system operators.

The Balancing Rules for Natural Gas Transmission System are essential for successful trading in natural gas in the market.

Market players participating in transmission system balancing must observe the requirements of the Rules and enter into agreements with the transmission system operator stipulating the conditions of balancing.

The Law on Natural Gas provides for the NCC the right to set forth the system balancing rules, if the draft rules prepared by the transmission system operator do not meet the requirements set by the Law on Natural Gas and other legislation. Moreover, the NCC shall handle the complaints regarding system balancing in the initial out-of-court complaint handling procedure.

Prior to the Balancing Rules come into effect, issues on natural gas balancing shall be stipulated with the consumers by natural gas transmission/distribution agreements. Volumes obligatory for system balance shall be defined by transmission/distribution system operator according to planned demand and the capacities ordered by the consumers, which are stipulated in natural gas supply agreements, and the current reserves in gas mainline or gas storage.

Safety and reliability standards, the quality of services and supply

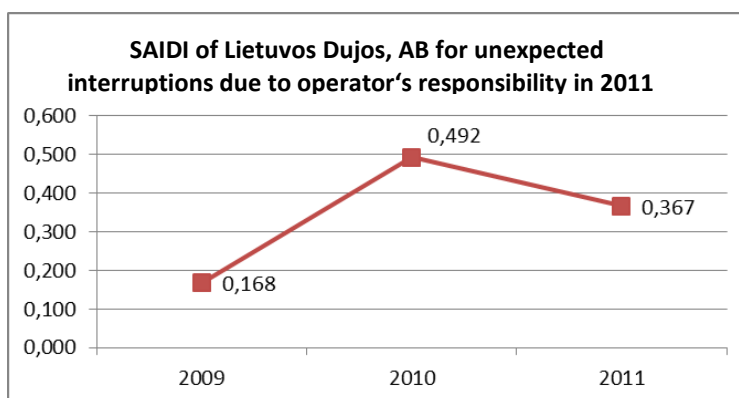
In Lithuania, natural gas system is developed according to market principles observing the provisions of EU Directives and other legislation as well as actual possibilities to implement such provisions and the obligations of Lithuania to EU. To ensure reliable and high-quality operation of gas market and system objects, sufficient quality of the services of gas companies must be constantly maintained. Therefore, the Law on Natural Gas provides that the NCC sets the indicators of the quality of gas companies services, including reliability, as well as the procedure of their assessment, and supervises the observation of these requirements by gas companies. To implement the provisions of the Law on Natural Gas, the NCC worked out the Procedure Regulations for the

Indicators of the Reliability and Quality of the Services Rendered by the Natural Gas Companies and Their Assessment. In 2012, revising the price ceilings of transmission and distribution prices, the NCC will set forth minimum quality requirements for each gas company individually for the monitoring period or part of it. 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.

The NCC performs the monitoring of transmission and distribution reliability and service quality indicators from year 2009. System average interruption duration index (SAIDI) and System average interruption frequency index (SAIFI) are the key quality indicators of uninterruptible natural gas supply within the reporting period. SAIDI and SAIFI indicators are differentiated according to the causes of interruption. The minimum level of SAIDI and SAIFI quality indicators shall be defined only to causes due to operator's responsibility.

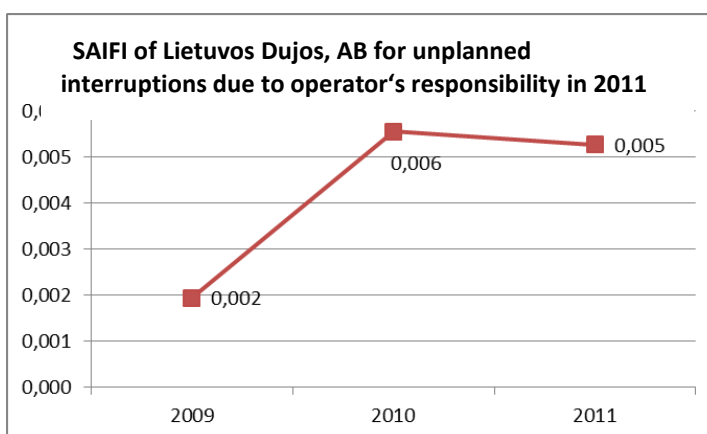
SAIDI and SAIFI indicators of the major natural gas company Lietuvos Dujos, AB in 2009-2011 are presented in Figures 43 and 44. Both indicators in 2011 have improved in comparison with year 2010. The average duration of unplanned interruptions has decreased from 0,0492 to 0,0367, the number of interruptions – from 0,006 to 0,005. Other distribution and supply companies did not face any interruption.

Figure 43. Average duration of unplanned interruption per customer of Lietuvos Dujos, AB in 2011




Source: NCC.

Figure 44. Average number of unplanned interruptions per customer of Lietuvos Dujos AB in 2011



Source: NCC.



In 2011 the rate of customer applications timely analyzed and responded to by Lietuvos Dujos AB was 96.3% thus in 2010 – 93.3%. Other companies timely analyzed 100% applications (including household and non-household customers). Emergency services of all companies 100% timely arrived to household customers' premises to verify their information about gas leakage.

The transmission and distribution system operators provide the services of connecting new consumer systems to operating transmission or distribution systems. The following quality requirements are applicable to such services:

- Consideration of a new customer applications to connect their systems to the operating transmission or distribution system;
- Connection of the new customer systems to the operating transmission or distribution system under a connection contract.

The rate of timely (i.e., within 45 calendar days) sent replies to new customers for Lietuvos Dujos AB was 100% in 2011 as in 2010. For Lietuvos Dujos AB, the share of new customers with delayed connection due to the operator's fault was 2.8% in 2011 whereas 1.8% in 2010. Other companies timely connected new customers both in 2011 and in 2010.

Access to natural gas storage facilities

The Law on Natural Gas establishes the implementation mechanism for the right access to natural gas storage facilities. The NCC shall grant the right to the consumers to use natural gas storage facilities owned by companies, and the right to use services of natural gas pipeline, when it is necessary due to technical and/or economical reasons. One or both of the following methods shall be used:

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 services of natural gas storage facility of Inčukalnis in Latvia are used. Based on applications submitted, Latvijas Gaze AS distributes capacities of the gas storage facility in the Republic of Latvia.

Lietuvos Dujos, AB under the agreement with Latvijas Gaze, AS stores up 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 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. Therefore, it is planned to build an underground natural gas storage facility in Lithuania with the minimum useful volume of 500 mln. m³. A potential Lithuanian location to install such underground storage facility is close to Syderiai settlement (Telšiai District). Currently a study is conducted regarding construction of this



underground natural gas storage facility. The European Commission allocated EUR 2 million for survey works of the underground natural gas storage facility in Lithuania.

Seeking to assess whether the Syderiai geological structure is suitable for the construction of a gas storage facility, in February 2011 seismic investigations by the applications of 2D/3D method were conducted. The results of investigations allowed to determine the composition and characteristics of the geological structure of Syderiai location and to project the requirement and scope of further works.

In May 2011 the final technical implementation report, financial certificate and other documents related to the project implementation were developed.


Currently survey works of Phase 2 of Syderiai location geological structure have been started (drilling and drilling investigations) as well as public procurement procedures for “Drilling works and investigations in Syderiai” are being implemented:

- In January 2012, service agreements for purchasing the services of designing the drill sites and access roads signed;
- On 14 February, 2012 international procurement of drilling works and investigations announced;
- On 4 May, 2012, qualification assessment phase was completed and on 4 June, 2012, financial offers were received from the participants, with which the negotiations are being conducted;
- On 11 May, 2012, the procurement of construction work of temporary drill sites and temporary access roads was announced and on 30 May, 2012, qualification and financial offers of the participants were received.

The contractor selected by international procurement will have to prepare technical designs of drilling works, to drill two vertical holes and two additional curved branches, to perform complex geophysical and laboratory tests, liquidate the bores, and prepare the reports of performed tests within one year. The tests will allow specifying the limits of the geological structure of Syderiai and will help to find out the characteristics of the reservoir for gas storage and protective layer in order to assess the possibilities of building an underground gas storage facility in Syderiai.

Supervision of safety measures

The Procedure of Customer Supply with Energy and/or Energy Resources In Emergency Energy Situation approved by the Government of the Republic of Lithuania regulates customer supply with energy and energy resources in emergency energy situation and preparation for and management of an emergency situation. Emergency situation shall be managed by the Government, Governmental Commission for Emergency Situations, and Ministry of Energy within their competence. Energy companies shall be responsible for the preparedness to the emergency situation. Under emergency situation, energy companies must be prepared to follow the instructions of the Government of the Republic of Lithuania and the Governmental Commission on Emergency Situations of the Republic of Lithuania in relation with energy resources or energy supply, restrictions of use and freezing (setting) of prices. Energy companies shall prepare and present the Emergency Situation Preparedness Plan to local municipalities according to the place of their establishment, including the following measures:

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- Ensuring the continuity of activities of companies under emergency situation;
 - The best possible supply of energy resources and energy to the consumers;
 - The use of alternative energy sources;
 - Reduction of energy resources and energy consumption in the company;
 - Restriction of energy resources and energy supply to the consumers.

Under emergency situation, energy resources and energy are supplied according to a restricted supply mode, taking into account all circumstances and the situation in individual energy sectors. The restrictions are applied in the whole territory of the State or in a certain part of it. Under emergency situation, energy companies may start using fuel reserves after coordinating it with the Ministry of Energy.

The Law on Energy of the Republic of Lithuania and the Law on State Stocks of Petroleum Products and Crude Oil regulate the obligatory requirements for storing reserve fuel in the country.

Pursuant to Article 22 of the Law on Energy (Article 29 of the new version of the Law, which came into effect on 1 January, 2012), energy undertakings having heat or electricity facilities with the heating power of more than 5MW and producing heat and electricity for sale must maintain reserve energy stocks. Energy reserve stocks must be at a level corresponding to at least one month's consumption.

Reserve energy stocks shall be built, maintained and renewed with the funds of energy enterprises and other funds.

Facilities with the heating power of more than 5MW and producing heat and electricity use fuel: natural gas, orimulsion, heavy fuel oil, biofuel, sulphur, peat moss, shale oil. Most often bio fuel, heavy fuel oil, shale oil, diesel fuel are stocked as reserve fuel.


In the end of 2011 the volume of the stocked reserve fuel was 281 186 tonnes exceeding the one required by the Law.

Energy companies are entitled to temporarily suspend or restrict energy supply to consumers at their own initiative, when accidents have to be localised, there is a threat to human life, health or property. In such cases, energy companies must notify the consumers within 24 hours about the reasons and time of supply restriction or suspension. In case of a sudden interruption of energy or energy resources supply, energy companies must immediately take necessary actions and notify the Ministry of Energy and the Governmental Commission for Emergency Situations of the Republic of Lithuania.

4.1.2 NETWORK AND LNG FEES FOR ACCESS AND CONNECTION

Access to the networks

Pursuant to Article 49 of the Law on Natural Gas the NCC and system operators shall ensure the access to the transmission and distribution system, and LNG is published and applied to all consumers at prices that are calculated in accordance with the NCC developed and published methodology. System operators grant the right to use the system under the agreement to consumers, natural gas companies and persons transporting natural gas by transit. System operators prepare the terms for using natural gas system (hereinafter - "Terms of Use"). The Terms of Use must



be published on the websites of the NCC and system operators at least one month prior to their entry into force.

In order to ensure that the Terms of Use prepared by natural gas transmission and distribution systems operators do not discriminate against existing and potential system users and would set equal, fair, objective and transparent possibilities and conditions, the NCC approved the Requirements for the terms of use of natural gas transmission system and natural gas distribution system by the Resolution of 5 July, 2012.

The following key requirements are set for the Terms of Use:

- The rights and obligations of system users and the rights and obligations of system operators when permitting to use the systems must be indicated;
- The procedure and conditions of submitting the application for the use of the system;
- The procedure of setting and application of the prices and rates for the use of the system;
- The procedure of announcing the information to system users;
- The liability of system users and operators for the failure to observe the requirements for the terms.

The Terms of Use of the transmission system must be prepared and their stipulated requirements must be implemented based on the principle of entry-exit system model.

Transmission system operators must additionally regulate the following areas by the Terms of Use:


- The procedure and principles of transmission system overload management;
- The mechanisms and conditions of distribution of capacities;
- The procedure and conditions of trading the capacities in secondary market;
- Guidelines for the cooperation of transmission system operator and distribution system operators.

System operators following the requirements announced by the NCC must approve of the terms of system use. The right to use the system must be granted objectively and without discriminating against system users.

The NCC is entitled to demand that the system operator amends the approved Terms of Use of the system so that they meet the requirements announced by the NCC.

System operators and users are entitled to enter into long-term agreements for access to the system, provided they do not contravene with competition regulations of the European Union.

In order to create equal and non-discriminating conditions of access and use of natural gas transmission system to the users of natural gas transmission system and to implement the principles of efficiency and transparency of activities of natural gas distribution system operator, the NCC worked out and approved the *Requirements for the Compliance Program* which has to be prepared by the natural gas distribution system operator, by the Resolution of 18 June, 2012. The requirements provide for general and special requirements for compliance programme. According to general requirements, the following must be established in the compliance programme prepared by system operators:

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- The measures applied by the operator to avoid discrimination against the users of natural gas transmission system;
 - The obligations of the employees of the particular system operator in implementing the measures set by the compliance programme;
 - The procedure and conditions of handling confidential information held by system operator.

Special requirements for the compliance programme specify and explain each clause of general requirements.


Transportation tariffs

The NCC regulates the natural gas transportation prices (transmission and distribution) by setting price ceilings in accordance with the Natural Gas Price Ceiling Calculation Methodology (hereinafter - “Transportation Methodology”) prepared and approved by the NCC. Gas transmission and distribution prices are calculated based on the “postage stamp” principle regardless of the distance of transmission and distribution (in the future, it is intended to use entry-exit system principles for establishing the prices of transportation). When setting transportation price ceilings, gas transportation volumes are calculated by taking into consideration the actual transportation volumes of the gas undertaking during the last year preceding the regulation time period, as well as forecasts for the forthcoming five years and causes having determined changes in gas volumes. Changes in volumes due to investments planned in the Long-Term Activity Program of the gas undertaking shall be specified separately.

The NCC sets annual basic costs for a five-year period based on the costs of the last year before the regulation period and their forecasts for the forthcoming five years.

Specific transmission price differentiation principles for gas companies are included in the *Transmission Price-Setting Methodology*. It prescribes that gas companies may differentiate gas prices by customer categories or groups, gas consumption volumes, gas pressure, capacity, duration, consumption purpose, gas consumption purpose, gas supply reliability and other objective features chosen by a gas company enabling to strive for higher operational effectiveness. Customer discrimination and cross subsidizing between customer groups is prohibited when setting and differentiating prices. Natural gas price differentiation methodologies developed by gas companies are supplied to the NCC. Having established that price differentiation principles established by gas 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.

In 2011 natural gas transportation price ceilings have been revised from all natural gas companies as well as the *Transportation Methodology* was also adjusted so that the calculation of the rate of return (return on investment) met the provision of Paragraph 1 of Item 4 of Article 9 of the Law on Natural Gas to provide the services at the prices based on costs, including the reasonable return on investment. The rate of return (return on investment) set by the Transportation Methodology is calculated according to the weighted average cost of capital (WACC), which is established using the optimum financing structure that ensures the lowest cost of capital. When setting the natural gas transmission price ceiling of Lietuvos Dujos, AB for the period of 2009-2013,



The NCC calculated weighted average cost of capital of the company in transmission activities – 8.05 percent. Since the above regulation period is not over, the return on investment for 2012 was calculated based on economically justified value of long-term assets using the rate of return of 8.05 percent and higher return was calculated than in 2011, when the rate of return of 5 percent was used. However, the transmission price ceiling of Lietuvos Dujos, AB in total decreased by 3.1 percent – it was reduced due to excess profit received in 2009-2010.

The distribution price ceiling of Lietuvos Dujos, AB increased by 5.1 percent due to smaller amount of transported gas, higher costs of technological needs, calculated higher return on investment, and inflation.

The distribution price ceiling of Fortum Heat Lietuva, UAB increased by 9.9 percent. The growth of price was determined by the assessment of inflation factor, increased depreciation costs due to investments, higher costs of technological needs due to higher import prices of gas, and calculation of the return on investment according to weighted average cost of capital (WACC).

The distribution price ceiling of Intergas, UAB increased by 2.0 percent due to smaller amount of transported gas, inflation, higher costs of technological needs, calculated higher depreciation costs, and higher return of investment (7.12 percent).

The distribution price ceiling of Druskininkų Dujos, UAB increased by 4.6 percent. This was determined by the inflation, higher costs of technological needs, higher depreciation costs included in the costs, and calculated higher return on investment. When setting the distribution price ceiling for 2010-2014 according to the legislation in effect at the time, the rate of return of 5 percent of economically justified value of assets was calculated for the company. The return on investment for 2012 was calculated according to WACC (7.12 percent).

The distribution price ceiling of Josvainiai, AB agrofirma increased due to lower amount of distributed gas. The price increased because of the adjustment due to lower-than-base amount of distributed gas in 2011, the inflation, costs of technological needs, and the return on investment calculated according to weighted average cost of capital. When setting the distribution price ceiling Josvainiai, AB agrofirma for 2009-2013 the NCC calculated the weighted average cost of capital (WACC) in distribution activities at 8.079 percent. Since the above regulation period is not over, the return on investment for 2012 was calculated based on economically justified value of long-term assets using the rate of return of 8.079.

Table 24. presents the comparison of price ceilings of transportation prices of all gas companies in 2011 and 2012.

Table 24. Price ceilings of transportation prices in 2011 and 2012

Company	Price, EUR/MWh		Change, percent
	2011	2012	
Lietuvos Dujos, AB			
Transmission	1.29	1.26	-2.3
Distribution	4.93	5.18	5.1
Fortum Heat Lietuva, UAB			
Distribution	4.26	4.68	9.9
Intergas, UAB			
Distribution	2.61	2.66	2.0
Druskininkų Dujos, UAB			
Distribution	43.03	45.00	4.6
Josvainiai, AB agrofirma			
Distribution	1.69	1.84	8.9
Achema, AB			
Distribution	0.42	0.42	0

Source: NCC.

Natural gas transportation prices of the major transportation operator Lietuvos Dujos, AB for separate groups of consumers are presented in Table 25.

Table 25. Average transportation prices for separate groups of consumers in 2012

Group of consumers	Transportation price, EUR/MWh		
	Transmission	Distribution	In total
D3 (83.7 GJ)	1.64	7.43	9.07
I1 (418.6 GJ)	1.55	7.43	8.98
I4-1 (418.6 TJ)	1.55	4.08	5.63

Source: NCC.

Connection fees

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 shall set the transparent and efficient procedures and fees for non-discriminating connection to storage facilities, regasification of LNG equipment and users to

transmission and distribution systems and, having received the approval of the NCC, publish this information on their websites.

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

Following the *Methodology for Setting the Connection Fees for New Natural Gas Users and Biogas Production Equipment* prepared and approved by the NCC, the transmission and distribution system operators set the fees for the connection of the systems and biogas production equipment of new household and non-household consumers. The NCC approves the fees of connection of new household consumers' systems. The Methodology provides that a natural gas company must cover economically justified system development and connection costs of new consumers connected to the system. The consumers connected to the system must cover the costs exceeding the economically justified connection costs.

The costs of connection to existing natural gas systems cannot be recognized as justified if they would cause the increase of price for existing system users and natural gas consumers. For the return on investment period of newly gasified areas the price of natural gas transmission and distribution may be set so that it would cover the investment.

The connection fee for household consumers consists of the fixed part, which does not depend on the length and capacities of the built pipeline, and the connection price part, which is set for each metre of the pipeline. Household consumers are divided into two groups according to the amount of natural gas consumed per year. The connection rates for such groups are calculated separately. The change of connection fees in 2009-2012 is presented in Table 26.


Table 26. The change of connection fees for household consumers in 2009-2012

Indicator	2009	2010–2011	2012	Change in 2012 compared to 2011, percent
Household consumers consuming up to 500 cubic m of gas per year*				
Fixed part of the price, LTL	4116.91	2205.60	3323.19	50.7
Fee per one meter of the pipeline, LTL/m	160.55	63.09	142.16	125.3
Household consumers consuming up to 500 cubic m of gas per year				
Fixed part of the price, LTL	1569.66	1402.56	1249.05	-10.9
Fee per one meter of the pipeline, LTL/m	89.26	94.48	50.26	-46.8

*Connection fee is set for the lead-in to a staircase of a block of flats. When connecting household consumers, the set fee must be divided by the number of potential consumers.

Source: NCC.

Liquefied natural gas (LNG) terminal



According to Part 1 of Article 6 of the Regulation (EU) No. 994/2010 of the European Parliament and of the Council of 20 October, 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC (OJ 2010 L 295, p. 1), Member States are obligated to secure the natural gas infrastructure standard (N-1) by 3 December 2014, i.e. to ensure such technical capacity of natural gas infrastructure, which would satisfy total gas demand of the state area during a day of exceptionally high gas demand in the event of disruption of the single largest gas infrastructure.

On 13 July, 2011, the Government of the Republic of Lithuania recognized the project of liquefied natural gas terminal as an economical project relevant to the state by the Resolution No. 871. On 28 December, 2011 control authorities approved of the draft plan of LNG terminal development and its strategic environmental impact assessment report.

On 2 March, 2012, Klaipėdos Nafta, AB signed the 10-year lease agreement for a floating storage regasification unit (hereinafter - "FSRU") with Hoegh LNG, the supplier of FSRU, providing that the deadline for FSRU delivery to Klaipėda Seaport is 1 September, 2014 – 1 December, 2014. On 9 May, 2012, the business plan of LNG terminal was prepared and announced. On 1 June, 2012, the LNG terminal environmental impact assessment report was prepared and presented to target entities for coordination.

On 12 June, 2012 the Seimas of the Republic of Lithuania adopted the Law on Liquefied Natural Gas Terminal, which ensures necessary legal grounds for installation of LNG terminal in Lithuania and creates financial and organisational conditions for technologically and economically justified operation of LNG terminal and its infrastructure. This Law recognizes the LNG terminal project as the economical project of special national significance. In order to ensure the required activities and efficient competition of LNG terminal in Lithuanian natural gas market, the Law sets the principle that 25 percent of natural gas consumed in Lithuania per year shall be natural gas imported via LNG terminal, 25 percent – gas imported via interconnectors and other pipelines of natural gas transmission system, and the remaining part of demand will be shaped under the conditions of free market.


It is estimated that LNG terminal in Lithuania and natural gas infrastructure ensuring its efficient operation will be installed by December 2014.

In 2011, the NCC coordinated the investment project of Lietuvos Dujos, AB for the construction of the main pipeline Jurbarkas – Klaipėda provided by National Energy Strategy. This pipeline is necessary to ensure the operation of planned liquefied natural gas terminal in order to maintain the diversification of natural gas supply to the Republic of Lithuania in the future. The value of the coordinated investment project is LTL 168.5 million. The project will be co-funded by EU structural assistance.

4.1.3. CROSS-BORDER ISSUES

Baltic Energy Market Interconnection Plan (BEMIP)

Natural gas transmission system of Lithuania is connected to the natural gas transmission system of only one EU Member State – Latvia. Since there is no interconnection with the common EU gas transmission system, Lithuania, Latvia, Estonia, and Finland are isolated from the common EU gas market



According to Article 12 of the Regulation (EC) No. 715/2009 of the European Parliament and of the Council, gas transmission system operators (TSO) must publish a 10-year regional investment plan every two years. Implementing this requirement of the Regulation, in March 2012, the TSOs of the region covered by the Baltic Energy Market Interconnection Plan (BEMIP) prepared the first Regional Investment Plan. The aim of the Plan is to present the prospects of regional gas market and infrastructure and the analysis of challenges and barriers interfering with the development of gas infrastructure in the Baltic Sea Region.

Lietuvos Dujos, AB included the construction projects of interconnections with neighbouring countries (Latvia and Poland), which would allow connecting the pipelines of Lithuania and other Baltic States with the gas system of the EU.

Lithuanian-Latvian gas connection

At the end of 2009, following the Regulation (EC) No. 663/2009 of the European Parliament and of the Council of 13 July, 2009 establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy, the European Commission made the decision to assist four projects of Lithuanian and Latvian gas companies intended to improve the permeability of gas transmission system between the countries to both directions. According to this programme, the modernisation of Panevėžys gas compressor station, increasing the permeability of transmission networks between Lithuania and Latvia up to 6 million m³ per day, and network modernisation will be performed in Lithuania. The total investment sum is EUR 5.88 million, out of which EUR 2.94 million are from EU assistance.

If there is a connection to Poland, the developed Lithuanian-Latvian connection would not only allow Lithuanian consumers to use the Inčukalns natural gas storage facility in Latvia, but would also make it available to the consumers of Poland.


Connection of Lithuanian and Polish pipeline systems

The construction of Lithuanian and Polish pipeline connection with strategic importance for European Union gas market integrity was started by the heads of the States of Lithuania and Poland and is supported by the European Commission.

In 2011, Lietuvos Dujos, AB and Polish gas transmission system operator GAZ-SYSTEM S.A. carried out the analysis of business environment of gas connection between Poland and Lithuania. The results of business environment analysis revealed that Lithuanian-Polish pipeline connection would be very beneficial to regional gas markets due to increase of supply reliability and expanding market opportunities. It also presented the issues to be solved. According to preliminary calculations, the length of Lithuanian-Polish pipeline connection would be 562 km. The capacities of the connection would be sufficient for transporting up to 2.3 billion m³ of gas per year to the Baltic States. Preliminary price of construction is EUR 471 million; the major part of investment would be in the territory of Poland. If some additional investment is allocated, the capacities of this pipeline connection could be increased to 4.5 billion m³ of gas per year.

4.1.4 COMPLIANCE WITH LEGISLATION

The new version of the Law on Natural Gas that came into effect on 1 August 2011 has significantly extended the functions and duties of the NCC.



When implementing the obligations under the Natural Gas Law, the NCC prepares draft legislation implementing the Law on Natural Gas, present them for public consulting, assess the comments of the consumers, gas companies, and other stakeholders, and approve them by resolutions.

The Third Energy Package adopted in 2009 obligated EU Member States to eliminate the barriers that interfere with transportation of gas via the transmission system under equal conditions and without discrimination, to create equal possibilities to use the networks to all natural gas companies. Following Paragraph 30 of the Preamble of the Regulation, the NCC must ensure the compliance with the terms set by the Regulation and provided guidelines. Implementing this paragraph, in January 2012, the NCC prepared a report assessing the compliance of transmission system operator Lietuvos Dujos, AB with the terms and guidelines set by the Regulation.


The provisions of the Regulation demand that transmission system operator would set non-discriminating terms regulating the conditions of the right to use natural gas transmission system, creation of the harmonised principles of distributions of capacities and overload management, setting the balancing rules and imbalance charges, the possibility to trade in capacities, and increase of the volume and transparency of provided information.

After the Regulation is implemented in Lithuania, according to the requirements approved by the NCC, Lietuvos Dujos, AB must prepare:

- Balancing Rules based on market principles and would ensure that the mechanisms of the balancing system are applied in non-discriminating and transparent manner meeting the conditions of the right to use the network. After assessing the comments presented during public consulting, prepared Balancing Rules will be approved by the NCC. Taking into account the approved Balancing Rules, the NCC will prepare and approve the Methodology for calculation of balancing service prices;
- Terms of use of the transmission system, which would establish the terms of trading in capacities in primary and secondary transmission market, set transparent and non-discriminating mechanisms of distribution of capacities, the procedure of overload management, and other technical information of the transmission system, allowing the users of the system to assess the possibility of efficient use of natural gas transmission system.

On 30 December, 2011, Lietuvos Dujos, AB had implemented 61 percent of the Regulation provisions. According to the information presented by Lietuvos Dujos, AB, there is an implementation plan created for the provisions of the Regulation not yet implemented. It is estimated that Lietuvos Dujos, AB will implement all provisions of the Regulation in 2012. The NCC is constantly monitoring the implementation plan.

In order to create the conditions for natural gas market players to trade in natural gas, in February 2012 the NCC harmonised the *Regulation on Trading in Natural Gas in the Market* prepared by BALTPPOOL, UAB, which establishes the rights and obligations of market players and market operator when trading in natural gas and the right to transfer the purchase of natural gas as well as the procedure of payment for the transactions made in natural gas market. When implementing the requirements provided by the Regulation No. 1227/2011 of the European Parliament and of the Council regarding the integrity and transparency of wholesale energy market and implementing the functions assigned by the Law on Natural Gas, in March 2012, the NCC approved the *Rules of Supervision of Trading in Natural Gas*, the aim of which is to create the preconditions for fair and efficient competition in the natural gas market, to ensure transparency, reliability, settlement between natural gas market players, equality of natural gas market players, transparency of information, and avoiding the distortion of the prices and supply conditions. The supervision of



natural gas market will be implemented by market operator and the NCC. Market operator will supervise the trading in natural gas in the market and the NCC will supervise the trading in natural gas under bilateral agreements for sale and purchase.

In March 2012, the NCC approved the *Requirements for the Balancing Rules of Natural Gas Transmission System*, based on which, natural gas transmission network operator Lietuvos Dujos, AB prepared and in July 2012 presented for coordination the Rules of balancing the natural gas transmission system of Lietuvos Dujos, AB (Paragraph 4.1.2.1 of the Report).

According to the Law on Natural Gas, the NCC sets the indicators of the quality of services of natural gas companies, including reliability, and supervise the compliance with these requirements by gas companies. When implementing the provisions of the Law on Natural Gas, the NCC prepared the Description of the indicators of reliability and quality of the services provided by natural gas companies and the procedure of their assessment, which was approved in April 2012 (Paragraph 4.1.2.2 of the Report).

In June 2012, the NCC prepared and approved of the Requirements for the compliance programme prepared by natural gas distribution system operator. The requirements provide for general and special requirements for compliance programme to ensure the creation of equal and non-discriminating conditions of access and use of natural gas transmission system to the users of natural gas transmission system and to implement the principles of efficiency and publicity of activities of natural gas distribution system operator (Paragraph 4.1.3.1 of the Report).

It was assigned for the NCC to carry out periodic studies of natural gas supply market and thus ensure that the cases of abuse of high influence in the natural gas market are avoided. In June 2012, the NCC prepared and approved of Rules for market research. The research of both natural gas and electric power sectors will be carried out according to the same principles (Paragraph 4.2.3 of the Report).

In July 2012, the NCC prepared and approved the Requirements for the terms of use of natural gas transmission and distribution systems. The requirements are applicable for transmission system operators and distribution system operators, which grant the right to companies or persons transporting natural gas to use the natural gas systems (Paragraph 4.1.3.1 of the Report).

4.1.5. SETTLEMENT OF DISPUTES

After entry into force of amendments to the Law on Energy, the NCC analyses the complaints and disputes of the consumers and energy companies regarding the actions and failure to act of energy companies in supply, distribution, transmission and storage of energy, refusal to grant the right to energy companies to use the networks and systems, the connection, the balancing of flows of supply of energy resources, application of prices and fees in the preliminary extra-judicial complaint handling procedure according to the rules of analysis of complaints and disputes set by the NCC. In accordance with the requirements of the Law on Energy, the Description of preliminary extra-judicial complaint analysis procedure was approved, which:

- Creates the conditions for consumers, energy companies and providers of potable water and wastewater management services to settle the disputes regarding the actions or failure to act of energy companies and providers of potable water and wastewater management services in a transparent and effective manner;
- Regulates in detail the dispute settlement procedure, establishes the rights and obligations of dispute parties and the NCC, the requirements for contents and form of

presenting the request to solve a dispute and provides the possibility to settle the dispute peacefully, if the defendant satisfies the claim of the claimant prior to analyzing the dispute.

The NCC decision on the complaint or dispute is public to the extent it does not violate state, official, commercial secrets or individual privacy. The NCC analyses the complaint or dispute in written procedure, unless upon the request of any of the parties of the dispute or complaint or other stakeholders or on its own initiative the NCC decides that a complaint or dispute would be better analyzed at a hearing by verbal procedure. Procedural decisions made when analyzing a complaint or dispute, including the decision to refuse a request to analyze a complaint or dispute, to leave a request without analysis, to terminate or suspend the analysis of any complaint or dispute, to prevent any further analysis of a complaint or dispute may be appealed against in Vilnius Regional Court within 7 days of notification of the decision to the person concerned. Parties of the dispute within 30 days from the decision that resolves the dispute in principle or terminates the analysis, are entitled to apply to Vilnius District Court and ask for the consideration of the dispute.

In natural gas sectors, most relevant to the consumers were the issues of calculation of bill for connection to gas system and purchase of local common systems. The consumers most often complained about unclear and, in their opinion, unjustified amount of bill and asked to verify whether the bill was calculated according to the provisions of the Law on Natural Gas. The consumers were also interested in the grounds of the amount of purchasing fee of common systems – they asked to verify whether the gas company has calculated the above fee correctly.

Household consumers most often asked about the prices of natural gas, amount of payments, use of the system, suspension of supply for debts during winter. Although the gas company suspending the supply of natural gas for household consumers in winter did not formally violate the applicable legislation, the disconnection of gas supply during the cold season without alternative means of heating may have critical consequences and therefore, in the opinion of the NCC, should be more flexible and with regard to particular situation. Having assessed the above, the NCC proposed to the Ministry of Energy to supplement the Rules of transmission, distribution, storage and supply of natural gas with the provision prohibiting the suspension of natural gas supply to household consumers during the cold season. Gas companies should assess the debts of the consumers and collect the debts before the start of the heating season. In the event the consumer fails to pay the debt by the set deadline, the gas could be disconnected leaving enough time for the consumer to find other means of heating.

Complaints, enquiries and requests related to the services of natural gas companies analyzed by the NCC are presented in Table 27.

Table 27. Consumer complaints, requests and enquiries received in 2011

Subject	Number of complaints, requests and enquiries received
Regarding the prices of natural gas	10
Regarding connection rates	5
Other (regarding the common system, VAT, etc.)	9
In total:	24

Source: NCC.



4.2 PROMOTION OF COMPETITION

4.2.1 WHOLESALE MARKET

Market participants in natural gas import market

The new version of the Law on Natural Gas did not provide for the regulation of the supply of natural gas and therefore, supply activities have not been regulated since 1 August 2011 and were operating under the principles of competitive market. Natural gas prices may once again be regulated, if during market research, the NCC determines that due to the lack of effective competition, a person applies excessive prices or imposes price pressure to the detriment of market players.

On November 23, 2011 the NCC issued the natural gas market operator's licence to BALTPPOOL UAB. The primary function of the market operator BALTPPOOL UAB is to organize trade in natural gas at the Natural Gas Exchange. When the Natural Gas Exchange becomes actually operating, all natural gas consumers, who have concluded yearly agreements with suppliers – gas importers (Lietuvos Dujos AB, Dujotekana UAB, Haupas UAB), as well as other economic operators functioning in the natural gas sector will be able to sell/purchase their yearly surplus/deficient quantities of natural gas at the Natural Gas Exchange, i.e. to balance their natural gas flows.

In February 2012, the NCC revised and approved the Regulations of Trading at the Natural Gas Exchange, which had been drawn up by BALTPPOOL UAB; the document defined the rights and responsibilities of the Exchange participants and of the market operator for trading in natural gas, procuring natural gas with the contract assignment rights, as well as the procedure for settlement of payments for the transactions concluded at the Natural Gas Exchange.

To implement the requirements set forth in Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency and in performing its functions prescribed by the Law on Natural Gas, in March 2012 the NCC approved the Rules for Supervising Trade in Natural Gas, which are aimed at establishing pre-conditions for fair and efficient competition in the natural gas market, assuring transparency, reliability, settlement of payments among the participants of the Natural Gas Exchange, their equal treatment, transparency of information, avoiding distortion of prices and supply conditions. Supervision of the natural gas market will be exercised by the market operator and the NCC. The market operator will supervise trade in natural gas at the Exchange, and the NCC – trade in natural gas based on bilateral selling-purchasing agreements.

In May 2012, the Law on Energy Resources Market was passed, which has established a legal framework for organization, administration, regulation, supervision and control of the energy resources market, and which regulates interaction of entities involved in centralized trading in biofuel and oil products stocks, trading in natural gas and in auxiliary instruments for hedging against fluctuation of energy prices. One of the main objectives of the Law – to provide the participants of the energy resources market with a possibility to efficiently compete in the market and to make use of the transparent, clearly regulated and non-discriminating centralized trade in energy resources.

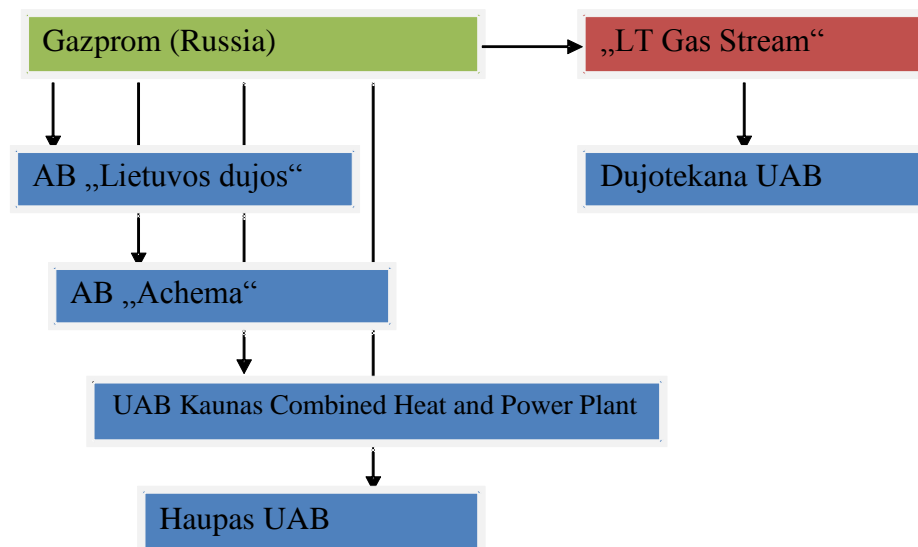
Theoretically these decisions opened the way for functioning of the natural gas market and for initiating competition in the natural gas market, however the actual volumes of trading in natural gas at the Exchange are very insignificant – from the beginning of operation of the Exchange only one transaction was concluded.

The NCC supervises the natural gas market and market opening in the wholesale and in the retail markets. Whereas the gas is being supplied from a single external source, there is no real competition either in the wholesale or in the retail markets, and therefore in 2011 there were no customers, who have changed their gas supplier.

To assure that the market participants would have the disposition of the reliable information, every quarter and after the end of the year the NCC prepares and uploads on the NCC website the market monitoring reports, where they summarize the data about the import of natural gas, its consumption, transportation by the transmission and distribution gas pipelines, the respective market shares held by the market participants, the average prices of the imported gas as well as the investments made in the natural gas transmission and distribution facilities.

In 2011, the participants of the natural gas import market were the same as in 2010, i.e. Lietuvos Dujos AB, Dujotekana UAB, Achema AB, Kaunas Combined Heat and Power Plant (Kaunas CHP), Haupas UAB. Gas was imported to Lithuania from the single external gas supplier – Gazprom (Russia) in accordance with the quotas set for each individual importer. Dujotekana UAB purchased imported gas not directly from the Russian company Gazprom, but through the intermediary – LT Gas Stream (Figure 45).

Figure 45. Market players of natural gas import to Lithuania



Source: NCC.

In 2011, 3 407.46 million m³ of natural gas were imported to Lithuania, i.e. by 9.7 % more than in 2010. The import increased exclusively due to the gas quantity imported by Achema AB, which in 2011 was by 81.3 % higher than in 2010. All other gas importing companies decreased the volumes of import.

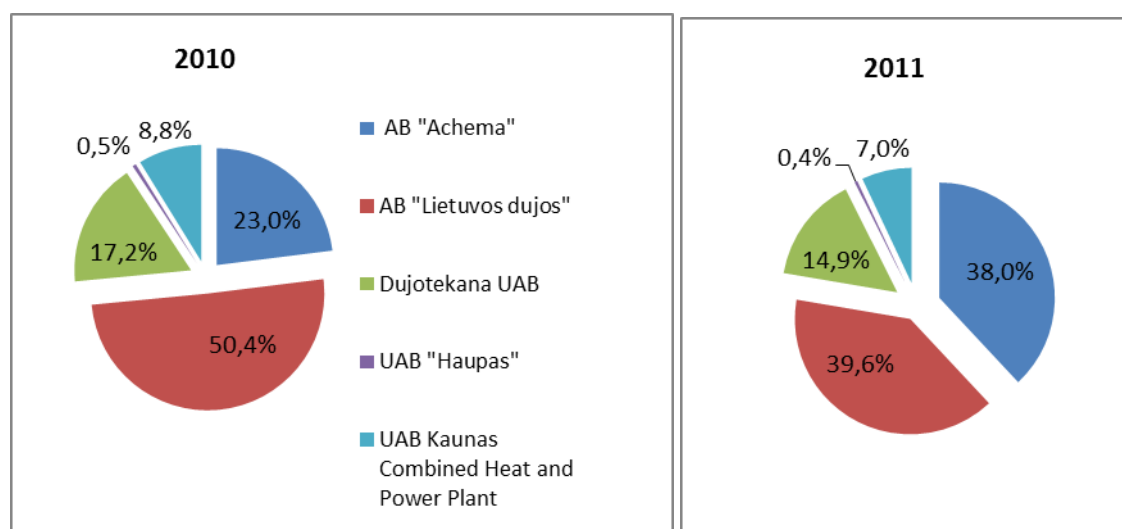
Table 28. Amount of natural gas imported in Lithuania in 2011, thousand m³

Importer	2011	2010	Change, percent
Lietuvos Dujos, AB	1 350 325	1 566 560	-13.8
Dujotekana, UAB	508 386	535 682	-5.1
Haupas, UAB	13 958	16 687	-16.3
Kauno termofikacijos elektrinė, UAB	240 057	273 099	-12.1
Achema, AB	1 294 733	713 959	81.3
In total:	3 407 459	3 105 987	9.7

Source: NCC.

Structurally, the largest share of natural gas import market in Lithuania was occupied by Lietuvos Dujos, AB (Fig. 46).

Figure 46. Market shares occupied by natural gas importers in 2011 and 2010, %

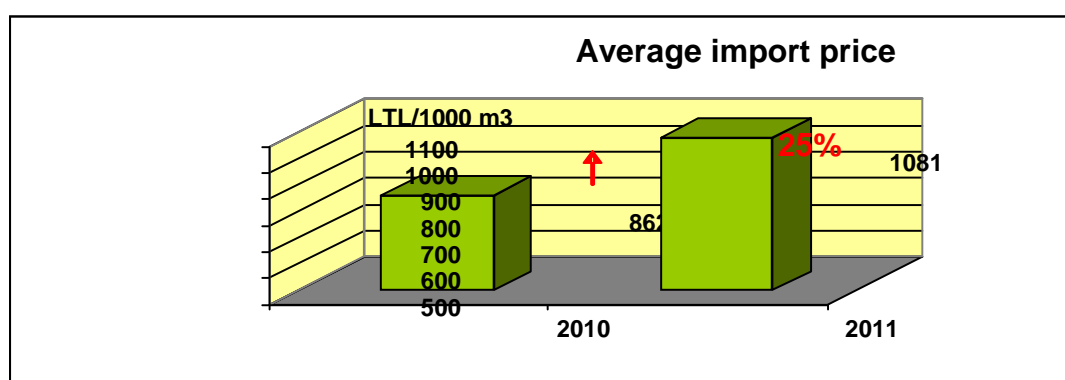


Source: NCC.

Compared to 2010, the market shares occupied by market players have changed in 2011. Since Achema, AB in 2011 imported 580.77 million m³ more gas than in 2010, its market share increased by 15 percent - from 23 percent to 38 percent. Market shares of all other market players decreased accordingly: the share of Lietuvos Dujos, AB decreased by 10.8 percent from 50.4 percent to 39.6 percent, the share of Dujotekana, UAB – by 2.3 percent from 17.2 percent to 14.9 percent, market share of Kauno Termofikacijos Elektrinė decreased from 8.8 percent to 7.0. Market share of Haupas, UAB changed very little - down from 0.5 percent to 0.4 percent.

The increase of prices of alternative fuels (fuel oil and diesel) in global markets determined the increase of average price of imported gas by 25.4 percent in 2011 compared to 2010: from 862 to LTL 1081 per thousand m³ (Fig. 47).

Figure 47. Comparison of average natural gas import prices in 2011 and 2010, LTL per thousand m³



Source: NCC.

The Law on Natural Gas provides that natural gas is to consumers by natural gas supply companies that have a supply license. The supply license entitles the supply company to supply natural gas to consumers and natural gas companies. Supply company may trade in natural gas market and/or under bilateral agreements.

According to the decision of the NCC, in 2011 natural gas supply license was issued to one company – Lietuvos Energija AB. In total, in 2011, 14 natural gas companies had natural gas supply licences, however 6 of them did not perform the activities of natural gas supply (Table 29). The remaining market players supplied natural gas to consumers and gas companies in wholesale and/or retail natural gas supply markets.

Table 29. Licences natural gas supply companies

No.	Name of the company	Information on performance of activities in the 4 th quarter of 2011
1.	Lietuvos Dujos, AB	Performed
2.	Josvainiai, AB agrofirma	Performed
3.	Prekybos namai Giro, UAB	Did not perform
4.	Dujotekana, UAB	Performed
5.	Common Lithuanian and Russian company Stella Vitae, UAB	Did not perform
6.	Achema, AB	Performed
7.	Intergas, UAB	Performed
8.	Lithuanian and USA company Iteralit, UAB	Did not perform
9.	Haupas, UAB	Performed
10.	Druskininkų Dujos, UAB	Performed
11.	Kauno termofikacijos elektrinė, UAB	Did not perform
12.	Fortum Heat Lietuva, UAB	Performed
13.	Imlitex, UAB	Did not perform
14.	Lietuvos Energija, AB	Did not perform

Source: NCC.

Natural gas wholesale market in Lithuania is relatively small since actual gas import quotas were allocated to Lietuvos Dujos, AB and Dujotekana, UAB.

Only the amount of gas purchased from importers by other gas companies engaged in distribution and supply activities in particular regions of Lithuania is attributed to wholesale trade. There was no trading among wholesale natural gas consumers. In 2011, in wholesale market 7.35 million m³ of natural gas was sold, i.e. 17 percent or 1,52 million m³ less than in 2010 (Fig. 48). In terms of value it would be LTL 0.353 million, i.e. 3.75 percent more than in 2010.

Figure 48. Natural gas wholesale market players and amount of gas sold in wholesale market, thousand m³



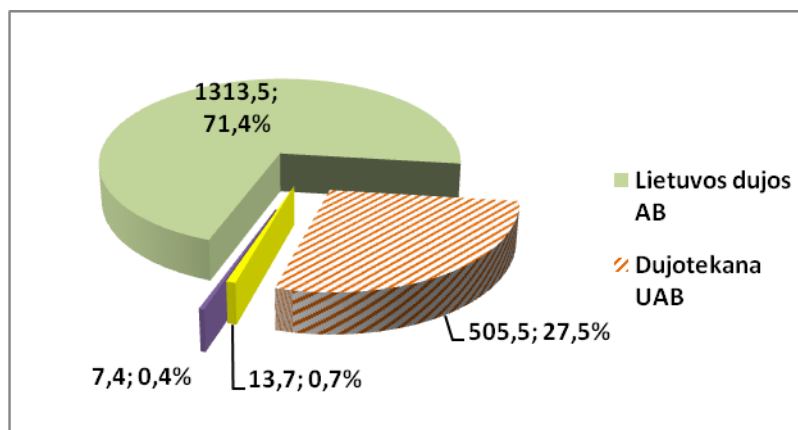
Source: NCC.

4.2.2. RETAIL NATURAL GAS SUPPLY MARKET

In Lithuania in 2011 there were 557 thousand natural gas consumers, 551 thousand of which were household consumers and 6 thousand were non-household consumers. Natural gas was supplied to consumers by 7 supply companies: Lietuvos Dujos, AB, Dujotekana, UAB, Haupas, UAB, Fortum Joniškio Energija, UAB, Druskininkų Dujos, UAB, Josvainiai, AB agrofirma, and Intergas, UAB.

In 2011, in the retail natural gas market, 1 840.2 million m³ of gas were sold, or by 12.2 % less than in 2010. Retail gas supply market as well as the wholesale market is dominated by two suppliers, which hold over 5 percent of gas supply market. It is Lietuvos Dujos, AB and Dujotekana, UAB. All other gas supply companies represent only 1.2 percent. of total gas sales. The amounts of natural gas sold by Lithuanian gas companies in the retail market (market share) are provided in Figure 49.

Figure 49. Market shares of Lithuanian gas companies in retail market



Source: NCC.

The share of household consumers in retail natural gas supply market was 9.8 percent in 2011 and remained similar to that in 2010 (9.4 percent). Accordingly, the segment of non-household consumers in the retail gas supply market in 2011 amounted to 90.2 percent (in 2010 it was 90.6 percent).

Natural gas was supplied to household consumers in retail supply market by 5 gas companies. In 2011 there were 551 thousand household consumers and in comparison with 2010, the number increased by 0.18 percent.


Household consumers consumed 181.53 million m³ of gas in 2011, i.e. 8.4 percent less than in 2010. In terms of value, household consumers paid LTL 18.27 million in 2011 or 9.8 percent more than in 2010. The increase in income from household consumers determined by the increase in natural gas prices.

Just like in 2010, the main share of the household consumers segment in 2011 was occupied by Lietuvos Dujos, AB, which supply 99.84 percent of all gas sold in the retail market.

4.2.3. MARKET RESEARCH AND APPLICATION OF MEASURES TO PROMOTE EFFICIENT COMPETITION

The Law on Energy stipulates that at least once a year the NCC shall publish recommendations related to the compliance of the prices of services in energy sector with the requirements of transparency, non-discrimination, and other legal requirements, and submit them to the Competition Council.

Since 1 August 2011, the Law on Natural Gas does not provide for regulation of natural gas price and natural gas companies have been operating freely in the market and setting the price of supply themselves from the fourth quarter of 2011. The Law on Natural Gas provides that natural gas prices may once again be regulated, if during market research, the NCC determines that due to the lack of effective competition, a person applies excessive prices, i.e. in comparison to average prices assessed by comparative analysis, or is using price pressure to the detriment of market players.



In accordance with the provisions of the Law on Natural Gas regarding market research on energy resources, the NCC in 2012 approved the Rules for Market Research that shall establish preconditions for effective competition in the natural gas market and to prevent the persons from abusing considerable influence in these markets.

Market research can be carried out upon a logical request of state or municipal authorities, rational request of stakeholders or on the initiative of the NCC. Market research shall be carried out within 4 months since the decision of the NCC. This period may be extended by a sound decision of the NCC for no more than 3 times, each time extending the time limit for market research for no more than 3 months.

Market research procedure involves the following steps:

- Market definition;
- Research of effectiveness of competition in the market;
- Identifying the persons with significant influence in the market;
- Imposition, amendment and/or elimination of obligations to persons with significant influence in the market.

While performing market research, the NCC shall assess obstacles to enter the market and/or to develop the competition in the market, determine whether the market is considered by emergence of efficient competition trends and the sufficiency of competition rights in order to reduce or eliminate the barriers for competition development. When analysing whether the competition in the market is efficient, the NCC shall evaluate the following:


- Market structure and concentration;
- Barriers for entry to the market;
- Potential competition (consumer incentives and opportunities to change the service provider, economic and technical feasibility of emergence of a new service provider);
- Ability to set unreasonable (too high) prices and apply price pressure.

The persons having significant impact in the natural gas market are identified in accordance with the provisions of Article 12 of the Law on Natural Gas:

- The person alone or in conjunction with other related persons occupies a position that is considered to be dominant;
- A person has a significant impact on the natural gas supply market or in one segment of natural gas supply market, if the relation between the markets allows using the influence of one natural gas market in another natural gas supply market thus strengthening its influence in the related natural gas supply market.

Having established that the competition in the market is not efficient, the NCC may apply one or more measures to the persons having significant influence in the market:

- To provide the services at prices based reasonable costs, including a reasonable return on investments;
- To prove the validity of price based on costs within a reasonable time;



- To implement the requirements set by the NCC for cost accounting systems, techniques, and/or models for specific types of services provided. This cost system, method, and/or model is publicly announced by the NCC on its website;

- To follow the cost recovery mechanism for promoting efficiency set by the NCC and maximizing the long-term benefit of consumers. The NCC, when determining cost recovery mechanism takes into account the price indices applicable in comparable markets.

The NCC, having made a reasoned decision after market research that the above measures may not ensure efficient market competition, may impose reasonable and proportionate obligations for the person having significant influence in the market:

- The obligation not create entry barriers to the market to other market players;
- The obligation not to restrict competition by setting unreasonable prices;
- The obligation not to create better conditions for individual consumers or to refuse to provide the services without a reason;
- The obligation to ensure the quality of services set by the NCC;
- In order to protect the interests of consumers and to promote effective competition, the NCC is entitled to impose individual price control measures and the obligations to base the price on the costs or prices set in comparable markets to the persons having significant influence in the market.

4.3. DEFENDING CONSUMER RIGHTS


The main goal of the NCC Strategic Action Plan for 2012-2014 is the establishment of reliable, independent system of economical regulation of the energy sector, which would ensure the quality and availability of energy services to the consumers.

On 1 March, 2012, a new administrative division was established in NCC, namely General Information Centre that aims at providing all necessary information to consumers about their rights, applicable legislation, and available methods of dispute settlement. Every year General Information Centre will convey undisclosed surveys of interested parties, which will allow identifying the altering needs of users and making relevant decisions for service quality improvement.

The NCC is actively involved in the implementation of the State Consumer Rights Protection Strategy 2011-2014. In order to create an effective consumer protection monitoring system, NCC, taking into account the feasibility study of creating consumer rights information system carried out by the State Consumer Rights Protection Authority and having analysed the requirements of the Commission Recommendation No. SEC (2010) 572 of 12 May, 2010 on the use of a harmonised methodology for classifying and reporting consumer complaints and enquiries, intends to introduce the procedure of classification of consumer complaints and enquiries. Having introduced the above procedure, NCC will be capable to easier identify problems and set up preventive measures.

The consumers who want to use natural gas have to conclude an agreement for connection to the company gas system and the agreement for the purchase and sale of natural gas.

Standard agreement for connection and the agreement terms are prepared by the gas company and harmonised with the State Consumer Rights Protection Authority. The agreement for



connection provides for the time of connection, price of connection, procedure of payment for the provided services, terms of agreement termination, property relations and the liability of the parties. The standard agreement for connection is presented on company website.

In 2012, the Ministry of Energy approved the Description on standard terms of agreements on natural gas supply, transmission and distribution to household consumers (hereinafter - "Description") harmonised with the State Consumer Rights Protection Authority. The Description provides that the agreement must specify the parties to the agreement and their information, i.e. name of the supply company, company registration number, legal address, number and date of licences issued by the NCC for respective activities, contact information (mail address of the supply company or its branch, contact telephone number, fax number, e-mail address, website, etc.), the representative of the company to conclude the agreement and the documents confirming the representation. The agreement must provide for the requirements for gas quality that the gas supplied to the household consumer must comply with, the procedure and terms of gas supply, obligations, rights and liabilities of the parties to the agreement, the procedure of payment for provided services, the terms of agreement termination, consideration of complaints and requests, and the settlement of disputes. Natural gas supply companies must publish sample agreement for sale and purchase of natural gas on their websites. The consumption of gas by household consumers is recorded by the readings of a meter in the property of the household consumer or at the border of the property. Household consumers may pay for consumed gas using the payment books for natural gas, online or by direct debit.

The users of the system managed by Lietuvos Dujos, AB declare the amount of gas accepted in the previous 24 hours every business day as well as the readings of the gas metering system on the website www.dujos.lt, by phone, fax or e-mail. At the end of the reporting period, Lietuvos Dujos, AB and the user of the system sign a Certificate of Consumption. System users having concluded the agreements for online declaration can see the consumption information on the website of Lietuvos Dujos, AB.

The amount of gas consumed by non-household consumers within the reporting period is calculated by transmission and distribution system operators according to the readings of gas metering systems and metering devices and indicated in the VAT invoice for the reporting period.


The Law on Natural Gas provides that consumers are entitled to change a supplier free of charge. Natural gas companies shall implement this adjustment within three weeks from submitting the request to change the supplier. The last invoice from the supplier must be received no later than within six weeks from changing the supplier of natural gas. No consumers have changed their suppliers in 2010 and 2011.

The Law on Natural Gas that was in effect until 1 August 2011, the following obligations for consumer protection were provided:

- a) Regulation of the natural gas supply price to all consumers by setting the price caps limit;
- b) The requirement for supply companies to implement assigned supply to household consumers.

After the new version of the Law on Natural Gas was adopted on 30 June 2011, regulation of supply price was abolished, but it provides that natural gas supply price may be regulated, if during market research, NCC determines that due to the lack of effective competition, a person is applying excessive prices to the detriment of market players.

The new Law on Natural Gas regulates guaranteed supply. It is applied when a supply company is not fulfilling the obligations to supply natural gas under the terms agreed with the



consumers or in the event of suspension or termination of the licence issued to the company and in such case, the supply is guaranteed to household and non-household consumers, which consume up to 20 thousand m³ of natural gas per year. Guaranteed supply must be ensured by distribution system operator that has a licence in the area and the price of guaranteed gas supply is calculated using the method of marginal cost, having assessed the price of purchasing the gas and the price of the service of guaranteed supply. Guaranteed supply is ensured for no longer than 6 months. The consumer is entitled to sign an agreement with another supply company at any time and to terminate the agreement with the company providing guaranteed supply.

The Law on Natural Gas includes no obligations to gas companies regarding provision of PSO. Such obligations are provided for in Article 30.1 of the Renewable Energy Law of the Republic of Lithuania passed on May , which specifies that biogas production is a PSO, and gas system operators shall buy biogas. Art. 41.1 of the Law establishes that the use of renewable energy sources shall be encouraged by developing a National Financing Programme for the Development of Renewable Energy Sources (hereinafter – the Programme) and municipal financing programmes for the development of renewable energy sources shall be approved by the Government. According to Paragraph a of Part 1 of Article 2 of the Regulation (EU) No. 994/2010, priority uninterrupted supply of gas must be ensured for vulnerable consumers. Implementing the requirements of the Regulation and the requirements of the Law on Natural Gas, in March 2012, the Government of the Republic of Lithuania approved of the new version of the Description of the measures for ensuring the reliability of natural gas supply. The Description established the group of vulnerable consumers, which includes household consumers and non-household consumers, which consume up to 20 thousand m³ of gas per year. Priority gas supply is provided for the vulnerable consumers group in the event of partial or severe disruption of natural gas supply. Uninterrupted gas supply to vulnerable consumers is the responsibility of gas supply companies and therefore, every year, no later than by 1 September, they must accumulate and store the amount of gas, which would be sufficient for satisfying the needs of such consumers in the cases provided by Part 1 of Article 8 of the Regulation (EU) No. 994/2010.

Non-household consumers that use gas for producing energy, which is sold or used for satisfying public or residential needs, must have the reserve of energy for one month. The type of reserve of energy resources is selected by the consumer itself. Non-household consumers, which consume up to 20 thousand m³ of gas per year, may select the option of accumulating the stocks themselves:

- a) Conclude the agreements for accumulation of gas stocks with a storage facility of natural gas;
- b) To negotiate with a gas supply company for accumulation of gas stocks;
- c) To accumulate a different type of reserve of energy resources;
- d) Be the consumers of interrupted supply.

In the event of partial disruption or interruption of gas supply, gas supply to consumers is restricted or completely suspended. The Description provides for the sequence of such measures. Vulnerable consumers are the last to have gas supply restricted or suspended. In the event of disruption of gas supply when the gas is supplied directly from the storage facility, gas supply is restricted taking into account the amount of gas stored in the facility and supplied from it.

The Law on Natural Gas Supply provides that in the event of disruption of gas supply, the amount of gas transported by transit is restricted in proportion to the amount of gas restricted for the consumers of the country. In the event of termination of gas supply, gas transportation by transit is immediately suspended.

In order to ensure uninterrupted gas supply to household consumers, Lietuvos Dujos, AB has concluded an agreement with Latvian gas storage system operator Latvijas Gaze, AS for storage of stocks of natural gas in the underground storage facility of Inčukalns. Lietuvos Dujos, AB, being the main supplier of natural gas to household consumers, stored the required stocks of 40 days of natural gas in Inčukalns gas storage facility in 2011.

4.4 SUPPLY SECURITY

4.4.1 SUPERVISION OF SUPPLY AND DEMAND

Natural gas is supplied to Lithuania from Russian gas fields through Belarus using Minsk–Vilnius gas mainline. Kotlovka gas metering station capacity at the border of Lithuania and Belarus is 31 200 thousand m³ per day. Maximum use of this capacity in 2011 was 71.7 percent. It means that capacities located at the Lithuanian-Belarusian border ensure full capacities required by Lithuanian customers, for transit to the Russian Federation (Kaliningrad Region) and to Latvia. In 2011, natural gas supply in Lithuania met the needs and there were no restrictions of supply. Technical capacities of Kotlovka station allow importing 13.286 billion m³ of natural gas to Lithuania per year. In reality, the imported amount in 2011 totalled to 5.45 billion m³ (including transit).

One of the most important elements of ensuring the security and reliability of supply is long-term gas supply agreements. Lietuvos Dujos, AB has signed an agreement for gas supply with the Russian company Gazprom until 2015 (inclusive). The agreement was signed in 1999. Dujotekana, UAB has signed a long-term agreement until 2012 (inclusive), and Haupas, UAB – until 2013.

4.4.2 ESTIMATED DEMAND, NECESSARY CAPACITIES AND SUPPLY

The consumption of natural gas in Lithuania in 2011 and estimated gas demand until 2015 are presented in Table 30.


Table 30. Current and expected consumption of natural gas in Lithuania

Year	2011	2012	2013	2014	2015
Natural gas consumption, billion m ³	3.37	2.95	2.80	2.72	2.58

Source: NCC.

Lietuvos Dujos AB transmission system includes 1864.87 km gas lines, 275 gas tap sites, 65 gas distribution stations (GDS), 3 gas metering stations, and 2 gas compressor stations

The natural gas transmission system is operated in line with the Gas Mainlines Operation Rules approved on 15 May 2003 by the Minister of Economy of the Republic of Lithuania. The company ensures the transmission system maintenance quality by drafting and implementing annual gas line equipment technical maintenance schedules, annual repair and reconstruction works programs, and, if needed, by outsourcing technical maintenance and repair works to other companies. The company has a security strategy providing for measures to ensure gas mainline security and reliability, as well as urgent and efficient response to emergencies. The technical maintenance system ensures a reliable system functioning level. Defects found are immediately



eliminated or included into a gas system repair or reconstruction programme. Depending on the characteristics of the fast mainline, its technological arrangement, and the results of technical maintenance, additional attention is given to the highest-risk gas mainlines. Internal diagnostics of the pipelines is periodically carried out. Currently, 373 km of the pipeline is suitable for internal diagnostics. It is intended to adapt around 50 percent of gas mainlines for internal diagnostics by 2015. 55 out of 65 gas distribution stations are new or essentially refurbished. The reconstruction of the remaining GDS should be completed by 2015.

No accidents or disruptions were registered in main pipelines of the country in 2011.

Although current technical capacities allow full supply of natural gas to the residents of Lithuania, gas supply from one source does not ensure the security of gas supply. In the event gas supply via Kotlovka is disrupted, the supply to all residents of Lithuania (except for Druskininkai) would be affected. In the event of disruption of natural gas supply, gas would be supplied to the residents of Lithuania from Inčukalns gas storage facility in Latvia.

The maximum gas flow of Kiemenai gas metering station is 5200 thousand m³ per day from Lithuania to Latvia and 2400 thousand m³ per day from Latvia to Lithuania due to technical restrictions of the system on the side of Latvia. In order to increase the permeability of cross-border pipeline connection between Lithuania and Latvia, Lietuvos Dujos, AB and Latvijas Gaze, AS are implementing a common project "Increasing the permeability of gas connection between Latvia and Lithuania". In 2011, the work according to the schedule was implemented. The work will continue in 2012 and 2013. 50 percent of the project is funded by the European Energy Programme for Recovery (EEPR) of the European Commission.

In order to ensure stable operation of the Lithuanian gas transmission system and the reliability of transmission of gas to most distant locations (Klaipėda), main pipeline Jurbarkas-Klaipėda is being built as well as a pipeline branch to Klaipėda Second Gas Distribution Station and Klaipėda Second Gas Distribution Station itself.

4.4.3 MEASURES FOR COMPENSATION OF PEAK DEMAND OR LACK OF SUPPLIERS

Natural gas transmission system operator Lietuvos Dujos, AB encourages system users to plan needed capacities more accurately and evenly by setting a transmission price - 70 percent of which is the fixed part for the capacities ordered by the consumer.

Free capacities are offered on the market with the possibility to conclude agreements for interrupted capacities. Having concluded an agreement for natural gas transmission and distribution services, system user may order (correct) the capacities every week and/or every day. System user may order the capacities (correct the order) online or in writing according to the terms of the agreement. When ordering the capacities for a respective period, system user must have a purchased amount of gas. According to the terms of the agreement for sale and purchase, the supply mode must be coordinated with the supply company.