



National
Commission
for Energy
Control and
Prices

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

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1. PREAMBLE

The new Lithuania–Sweden interconnection NordBalt and Lithuania–Poland interconnection LitPol Link were launched at the end of 2015. This is the first important step towards the abolishment of Baltic electric energy systems as “energy islands”. Another equally important stage is synchronization with electricity networks of continental Europe. With the start of operation of the Lithuania–Poland interconnection at the end of 2015, 15 million kWh of electricity was exported thereby.

Pursuant to part 1 of Article 4 of the Commission Regulation (EC) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM), Nord Pool Spot AS has started performing functions of a nominated electricity market operator in Lithuania since 15 December 2015 for a four years period (Nord Pool AS – since 20 January 2016). The nominated electricity market operator must ensure transparent platform for trading electricity in pursuit for a single and integrated electricity market in Europe.

Pursuant to part 1 of Article 15 of CACM, on 19 November 2015, within three months after the entry into force of CACM, all transmission system operators (hereinafter – TSOs) of the European Union developed a common proposal regarding the determination of capacity calculation regions and presented it to national regulators, including the National Commission for Energy Control and Prices (hereinafter – the NCC). The proposal covers 11 capacity calculation regions EU-wide, of which there are 6 states forming the Baltic region, including Estonia, Latvia, Lithuania, Poland, Finland and Sweden. After a failure of national energy regulators to take a unanimous decision, on 17 May 2016, the proposal was transferred to the Agency for the Cooperation of Energy Regulators (hereinafter – ACER) for examination.

On 30 October 2015, EU member states approved the Guideline on forward capacity allocation (hereinafter – FCA), the approval of which is expected in the European Parliament and the Council in mid-2016. Once the FCA takes effect, national energy regulators will have to follow its provisions and take a decision on the expediency of application of additional financial measures in the region to hedge against price fluctuations in the market.

According to this legal act, just like CACM and 7 future network codes in the electricity sector, additional functions have been planned for the NCC, which will require significant resources for their implementation in pursuit for an integrated European electricity market.

Pursuant to Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (hereinafter – Regulation (EU) No. 1227/2011), since Half II of 2015, the NCC has been conducting supervision of publications of urgent market messages (hereinafter – UMM) together with the electricity exchange operator Nord Pool AS. During 2015, the NCC identified 13 possible UMM breaches, of which 11 were related to Article 4 of the Regulation (EU) No. 1227/2011, i.e. violation of the obligation to publicly disclose inside information in a timely manner, 1 – with possible non-compliance with national legislation and 1 – with market manipulation. Having evaluated all the identified possible UMM violations, the NCC stated that not a single violation proved to be true. It should be noted that since 1 January 2016, the NCC, just like other national regulatory authorities in the Nord Pool AS trade zone, took over from Nord Pool AS UMM supervision assigned under jurisdiction of each state.

In 2015, 3 new licenses were issued to independent suppliers, but 13 licenses were suspended. At the end of the year, there were 19 active independent suppliers out of 35 licensed independent suppliers. In 2015, 3631 GWh of electricity was traded on the exchange, which is 16.3 percent less than in 2014 (4224 GWh).

Last year, the NCC revised the Methodology for Electricity Transmission, Distribution, Public Supply Service and Public Price Setting according to the Long-Run Average Incremental Cost (hereinafter – LRAIC) accounting model and set electricity transmission service price caps for the new 2016–2020 regulatory period.

In 2015, physical import flows relatively decreased (by about 5 %) due to production in local power plants, which increased by 13 %. Hydroelectric power plants produced less electricity than last year due to extremely dry summer. In 2015, percentage of electricity production from renewable energy sources in the final consumption accounted for 12 % (15 % – in 2014, 16 % – in 2013). Wind power plants produced 27% more than in 2014. Production in biomass-fired power plants was observed to have been increasing every year, especially production of biogas-fired power plants, with the annual growth rate accounting for 29%.

In 2015, final electricity consumption was 10.02 TWh. Residents consumed similar amounts like in 2014, i.e. 2.66 TWh, and their demand increased by 0.2 %. Consumption of industrial consumers increased by 3.2 % and that of the service sector – by 1.8 %. Final electricity demand increased by 171 million kWh, or 1.7%, in 2015; however, it should be noted that in 2014 the increase totalled 199 million kWh, or 2.1 %.

The maximum hourly electricity demand (net) in Lithuania was 1748 MW in 2015, which is 4.7% less than in 2014 (1835 MW; and 1810 MW – in 2013). In 2015, the maximum hourly electricity demand in the distribution network also decreased by 84 MW to 1555 MW (compared to 1639 MW in 2014).

The installed capacity of new sources generating electricity is expected to increase to 4920 MW, or 14 percent, by 2024. Power plants using renewable energy sources would account for about half of this share.

In 2015, UAB Lietuvos Dujų Tiekimas, UAB Dujotekana, UAB Haupas, AB Achema and UAB Kauno Termofikacijos Elektrinė imported natural gas from the Russian AB Gazprom, UAB Dujotekana – from LT GAS Stream AG, and UAB Litgas purchased natural gas from Statoil, thus ensuring the sale of the volume of natural gas necessary for minimum operation of Klaipėda liquefied natural gas (LNG) terminal.

In 2015, Lithuanian natural gas suppliers imported 27 593 GWh (evaluating upper calorific value of natural gas $1\text{m}^3=10.4\text{ kWh}$) of natural gas, which is 2.8 percent more than in 2014, when 26 841 GWh of gas was imported. Despite of increased volume of imported natural gas, gas consumption in Lithuania decreased to 25 187 GWh, which is 5.7 percent less than in 2014, when natural gas consumption totalled 26 702 GWh. The difference between imported and consumed gas formed because of the fact that a part of the purchased gas was exported.

In 2015, TSO transported 47 962 GWh of natural gas, i.e. 0.54 percent less than in 2014. 26 183 GWh, or 54.6 percent of the total volume, was transported to Lithuanian consumers, 21 779 GWh was transported by transit to Russia. Natural gas transmission to Lithuanian consumers in 2015 was 1.7 percent lower than in 2014.

26 864 GWh of natural gas was sold and/or consumed in wholesale natural gas supply market, which is 23.35 percent more than in 2014, when 21 779 GWh of natural gas was sold and/or consumed. These changes were determined by the fact that participants of the wholesale natural gas supply market were reselling natural gas among themselves.

In the retail natural gas supply market, 7 129 GWh of natural gas was sold in 2015, which is 1.85 percent more than in 2014, when 6 999 GWh of natural gas was sold. This was mainly impacted by increased sales: 1.94 percent to non-household and 1.55 percent – to household gas consumers.

In 2015, AB Klaipėdos Nafta regasified 4 559 GWh of natural gas via the LNG terminal.

There was one operator, namely, AB Amber Grid, in the natural gas transmission network in 2015 and 6 distribution system operators in the natural gas distribution market, including AB Lietuvos Dujos, UAB Intergas, UAB Druskininkų Dujos, AB agrofirmos Josvainiai, UAB Fortum Heat Lietuva and AB Achema.

On 27 November 2014, AB Klaipėdos Nafta, which implemented the LNG terminal project, received a natural gas liquefaction license and in 2015, it conducted activities of the LNG terminal operator.

In 2015 and 2016, 4 natural gas supply licenses were issued in the natural gas sector: to AB Klaipėdos Energija, UAB Vokadis, UAB concern Achemos Grupė and

UAB Electrum Lietuva. At the end of 2015, there were 34 companies holding natural gas supply licenses, 12 of whom were engaged in the activities.

UAB GET Baltic was the only company holding a licence of a natural gas market operator in 2015. This company was issued the license back in 2012. Main functions of the market operator include the organization of secondary trading of natural gas on natural gas exchange. The natural gas market operator license of UAB Baltpool was revoked by Resolution No. O3-522 of the NCC of 23 September 2015.

In the performance of unbundling of activities of AB Lietuvos Dujos, on 15 January 2015, AB Amber Grid was appointed as a natural gas TSO by Resolution No. O3-5 of the NCC “On the Unbundling of Natural Gas Transmission Activities and Preliminary Decision on the Appointment of the Transmission System Operator” of 15 January 2015.

By Resolution No. O3-242 of 10 April 2015 of the NCC, AB Amber Grid was issued an indefinite TSO license, obligating AB Amber Grid to ensure the performance of actions in respect of the transfer of shares of UAB Litgas possessed by AB Klaipėdos Nafta and inform the NCC about the course of the performance of this process.

Since 2016, electricity and natural gas distribution and supply companies AB Lesto and AB Lietuvos Dujos have been merged and became a single company AB Energijos Skirstymo Operatorius.

Acting Chair



Viktorija Sankauskaitė

2. MAJOR DEVELOPMENTS IN ELECTRICITY AND NATURAL GAS MARKETS

2.1. Electricity sector

2.1.1. Unbundling of vertically integrated companies

On 26 October 2013, Official Journal of the European Union C 312 published information on the final decision made by the NCC on the appointment of AB Litgrid as a TSO compliant with Article 10 of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (hereinafter – Directive 2009/72/EC). In 2015, there were no changes with regard to the implementation of provisions of the Law on Electricity related to the unbundling of activities and control of AB Litgrid and AB Lesto (since 1 January 2016 – AB Energijos Skirstymo Operatorius; hereinafter – ESO).

2.1.2. Security of supply

With the start of operation of electricity interconnections with Sweden and Poland in 2015, the security of supply of the Lithuanian electric power system (hereinafter – the LEPS) increased and created more favourable conditions for competition in the Baltic market.

Just like in previous years, last year LEPS imported 66 % of the total electricity consumption in the country, and this trend is likely to prevail for as long as there is no competitive local production of electricity in the country.

Over the past year, the total installed capacity in power plants decreased to 4 166 MW, i.e. by 146 MW, due to conserved old units of the Lithuanian power plant, even though having included the other old units, the reduction would account for 754 MW. Investments in electricity networks increased, especially those in the transmission network, and totalled EUR 368 million, of which 90% was allocated for new interconnections LitPol Link and NordBalt. Investments in distribution networks increased by 16 % and amounted to EUR 118 million, of which the major share was allocated for the reconstruction of 0.4-10 kV electricity network (increase of 53 %). 28 504 new

customers were connected, which was 7.8 % more than in 2014, and the permissible power of the connected objects was 386 MW, or 15.2 % more than in 2014.

In 2015, the maximum hourly demand for electricity in transmission networks totalled 1 748 MW compared to 1 834 MW in 2014, meanwhile in distribution networks it was 1 555 MW, however, in January – March of 2016 it totalled 1 695 MW.

In the implementation of provisions of Article 19 of the Law on Electricity, the NCC prepared a LEPS reliability assessment report for 2014 stating that currently LEPS reliability is ensured. These reports are publicly available on the NCC's website at: <http://www.regula.lt/Puslapiai/naujienos/2015-metai/2015-08/komisija-teikia-lietuvos-elektros-energetikos-sistemas-patikimumo-ivertinimo-ataskaita-uz-2014-metus.aspx>.

2.1.3. Competition in electricity supply market and market supervision

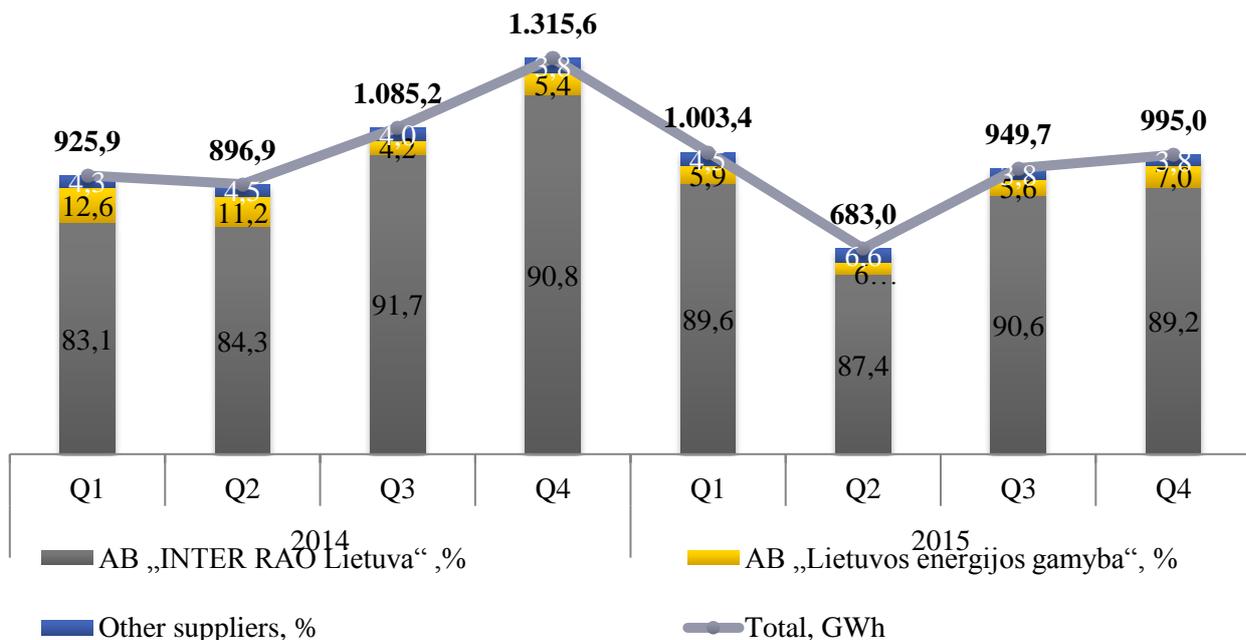
On 15 December 2015, Nord Pool Spot AS (since 20 January 2016 – Nord Pool AS) started performing the functions of a nominated electricity market operator in Lithuania for four years. The nominated electricity market operator must ensure transparent platform for trading electricity in pursuit of a single and integrated electricity market in Europe. This is how the first task according to works planned for national regulators in the CACM, which took effect on 14 August 2015, was implemented.

Pursuant to the Rules for the Issuance of Permits for Operations in the Electricity Sector, 3 new licenses were issued to independent suppliers in 2015, but 13 licenses were suspended. There were 19 active independent suppliers out of 35 licensed independent suppliers at the end of the year.

In 2015, 3 631 GWh of electricity was traded on the electricity exchange, which is 16.3 percent less than in 2014 (4 224 GWh).

In 2015, just like in previous year, there were 2 key players in the wholesale electricity market: AB INTER RAO Lietuva and AB Lietuvos Energijos Gamyba. The volume of electricity sold by AB INTER RAO Lietuva accounted for more than 80 percent of the total sales of electricity on the exchange.

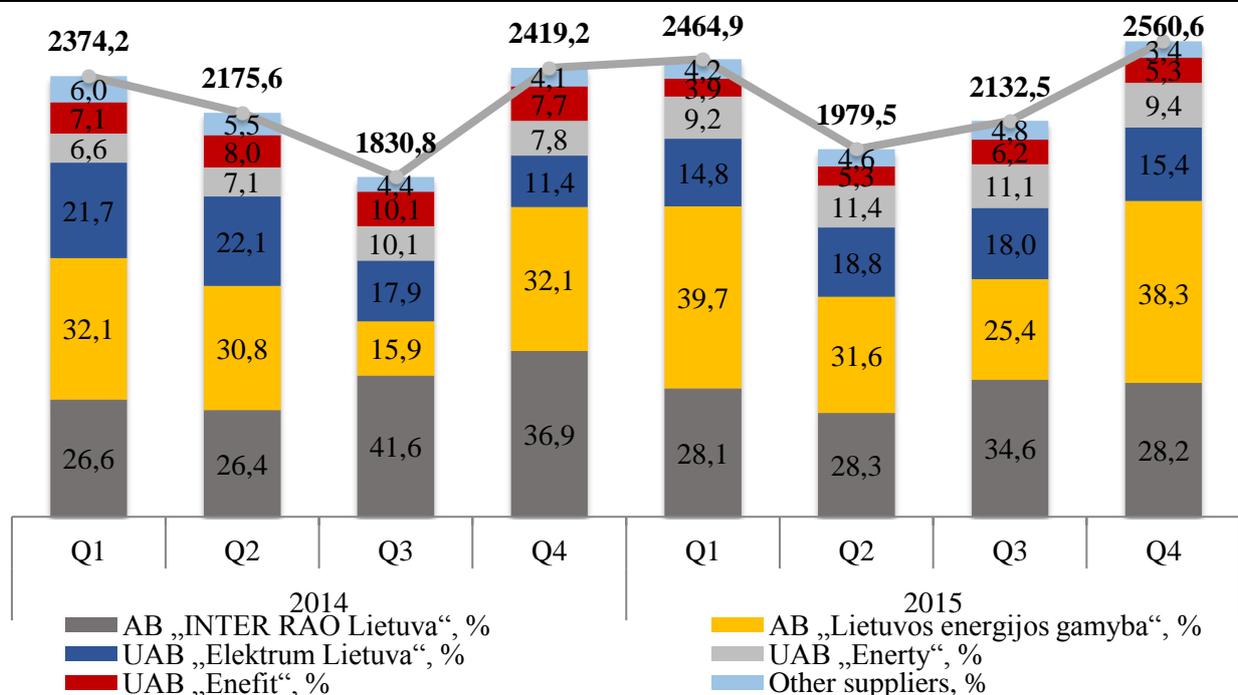
Figure 1. Sales market structure on electricity exchange by companies, in 2014–2015



Source – NCC.

In 2015, just like in 2014, the volume of electricity purchased by AB Lietuvos Energijos Gamyba and AB INTER RAO Lietuva accounted for about two thirds of all electricity purchased on electricity exchange. Market share of other more significant market participants representing Latvian and Estonian energy companies accounted for one tenth of all electricity purchases on the exchange.

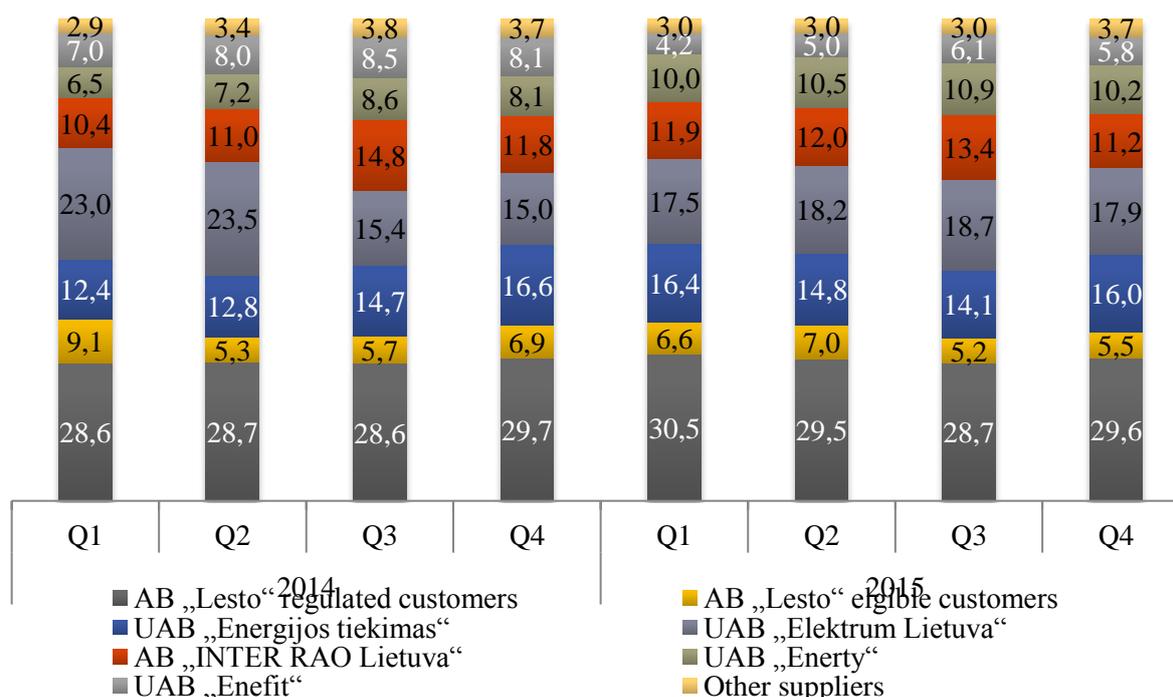
Figure 2. Electricity purchase structure on the exchange by suppliers, in 2014–2015



Source – NCC.

Compared to 2014, market share of AB Lesto in the retail supply market structure continued accounting for about one third of all electricity sales in the market in 2015. Other market participants retained similar market positions as in 2014.

Figure 3. Retail market sales structure by suppliers, percent, in 2014–2015



Source – NCC.

In order to increase the awareness of market participants and ensure that market participants disposed of reliable information, the NCC regularly compiles quarterly and annual electricity market monitoring reports and publishes them on the NCC website at www.regula.lt.

Regulation (EU) No. 1227/2011 and Commission Implementing Regulation (EU) No 1348/2014 of 17 December 2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency, that entered into force on 7 January 2015, established respective requirements for market participants, ACER and national regulators, stating that as from 7 October 2015, market participants have to report to ACER wholesale transactions concluded in organized markets and fundamental data from central transparency platforms of the European Network of Transmission System Operators (hereinafter – ENTSOs) and starting from 7 April 2016, they have to report to ACER all other wholesale transactions (OTC transactions, non-standard supply contracts and transportation contracts) and fundamental data from transmission, liquefaction and storage system operators. ACER in particular was appointed to collect and analyse the said information from market participants and, having conducted initial analysis, to notify national regulators of any suspicious cases for further investigation.

In the implementation of the Regulation (EU) No. 1227/2011 and the above-mentioned Commission implementing regulation, the NCC ensured to the Lithuanian wholesale energy market participants access to the Centralised European Registry of Energy Market Participants (hereinafter – CEREMP). During 2015, the NCC registered in CEREMP platform and conferred 52 individual codes to 52 Lithuanian wholesale energy market participants.

According to provisions of the Regulation (EU) No. 1227/2011, since Half II of 2015, the NCC has carried out the supervision of publication of urgent market messages UMM together with the electricity exchange operator Nord Pool AS. During 2015, the NCC identified 13 possible UMM violations, 11 of which were related to the breach of Article 4 of REMIT, i.e. a duty to publicly disclose inside information in a timely manner, 1 – with possible non-compliance with national legislation and 1 – with market manipulation. Having evaluated all the identified possible UMM violations, the NCC determined that not a single violation proved to be true. It should be noted that since 1 January 2016, the NCC, just like other national regulatory authorities in the Nord Pool AS trade zone, took over from Nord Pool AS UMM supervision assigned under the jurisdiction of each state.

On 8 October 2014, the NCC received a notice from the Norwegian electricity exchange operator Nord Pool AS informing that on 30 June 2014 and 1 July 2014, AB Lietuvos Energijos Gamyba possibly traded using publicly undisclosed inside information, thus breaching Article 3 of Regulation (EU) No. 1227/2011. Considering the notice of Nord Pool AS and pursuant to Regulation (EU) No. 1227/2011 and Article 64 of the Law on Electricity, on 15 October 2014, the NCC started an investigation of a possible breach of Article 3 of the Regulation (EU) No. 1227/2011. Having evaluated all the circumstances, in cooperation with the electricity exchange operator Nord Pool AS, the NCC conducted an extended investigation on possible market manipulation on the part of AB Lietuvos Energijos Gamyba. Having conducted the investigation and considering that the breach did not cause any material damage to interests of other persons and that the breach committed by AB Lietuvos Energijos Gamyba was not continuous, it was terminated at the initiative of the company itself, consequences of the breach were eliminated, a penalty, namely, a warning for the breach of Article 3 of Regulation (EU) No. 1227/2011, was imposed on AB Lietuvos Energijos Gamyba by Resolution No. O3-453 of the NCC of 24 July 2015.

It should be noted that meetings of the National Committee for the Development of a Single Baltic Electricity Market attended by representatives of market participants and related associations have been held at least twice per year. Relevant information has been exchanged and problematic issues have been addressed in the meetings trying to clear up their reasons, also planning for the steps to be undertaken in pursuit for efficient operation and development of the electricity market.

2.1.4. Preparation of legislation implementing the Law on Electricity

In 2015, the NCC prepared, improved and approved the following main legal acts in the electricity sector:

1. **Methodology for Setting Electricity Transmission, Distribution, Public Supply and Public Price Caps** (amended on 21 September 2015, No. O3-509; 29 October 2015, No. O3-572);
2. **Description of Separation of Accounting of Electricity Companies, Cost Allocation and Accounting Separation-related Requirements** (approved on 18 September 2015, No. O3-507);
3. **Methodology for Setting Public Service Prices in Electricity Sector** (amended on 29 October 2015, No. O3-564);
4. **Methodology for Setting Electricity Market Price** (amended on 19 September 2015, No. O3-505).

A more detailed description of other adopted or amended legal acts is available on the NCC's website under the news section or meetings calendar, also, in annual NCC report for 2015, which is published online at www.regula.lt.

2.1.5. Pricing of regulated activities, setting transportation prices and connection fees

As previously mentioned, the Methodology for Setting Electricity Transmission, Distribution, Public Supply and Public Price Caps implementing the LRAIC model aimed at increasing efficiency of operation of electricity networks which meet the demand was approved at the end of 2015.

Transmission and distribution service price caps for the new 5-year regulatory period (2016–2020) were set according to the newly approved methodology (see the Table below).

Table 1. Electricity transmission and distribution service price caps for 2011–2016 (ct/kWh)

Name of the regulated service	Provider of the regulated service	Regulated service price cap (ct/kWh)					Regulated service price cap in 2016 (ct/kWh)	Change compared to 2015, percent
		2011	2012	2013	2014	2015		
Electricity transmission	AB Litgrid	0,672	0,672	0,699	0,639	0,538	0,691	28,44
Electricity distribution in medium voltage networks	AB Energijos Skirstymo Operatorius	1,416	1,413	1,375	1,297	1,178	1,000	-15,1
Electricity distribution in low voltage networks	AB Energijos Skirstymo Operatorius	1,851	1,856	1,801	1,785	1,550	1,766	13,9

Source – NCC.

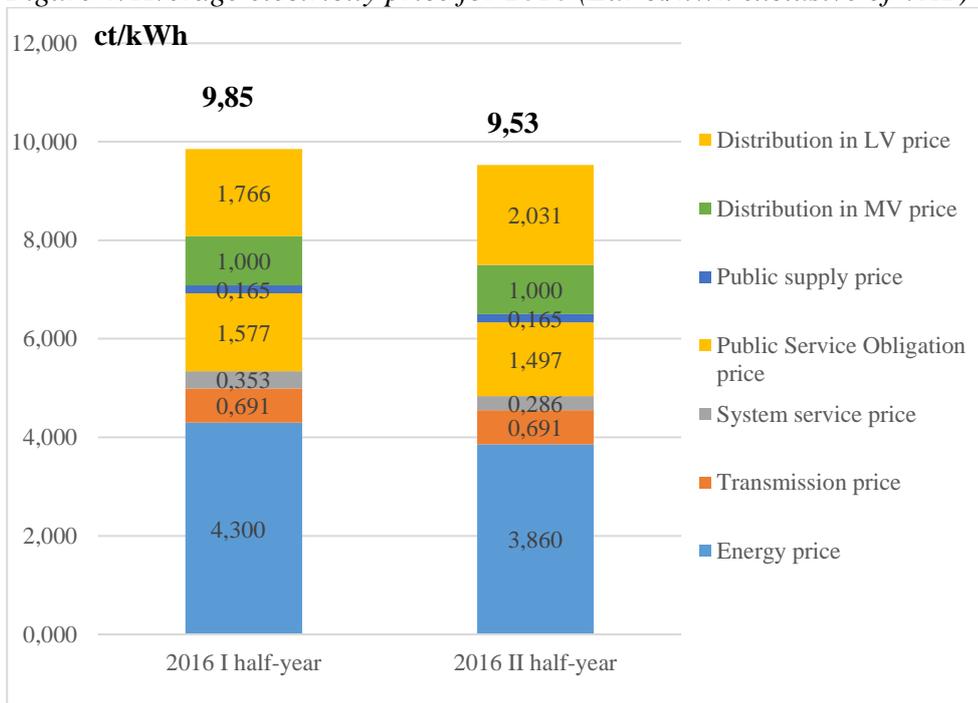
The public supplier AB Energijos Skirstymo Operatorius sells electricity to both regulated consumers according to public tariffs and as a guarantee supplier according to a guarantee supply price set by the Law on Electricity. Thus calculating the public electricity supply price cap, the NCC evaluated the total volume of the sold energy to both consumers paying according to public tariffs and paying according to guarantee supply tariffs. In light of the above, the NCC set the electricity supply service price cap of 0.165 ct/kWh for 2016, which is 14.9% lower compared to operator's provided. In comparison to the price cap set in 2015 (of 0.139 ct/kWh), public electricity supply

service price cap set in 2016 is 18.7 % greater, because the price cap set in 2015 was impacted by income reduction in connection to inspection results.

In 2016, a public electricity price for household consumers purchasing electricity from medium-voltage networks is 8.086 ct/kWh (exclusive of VAT), or 0.530 ct/kWh (6.2 %) lower than in 2015, while price for household consumers purchasing electricity from low-voltage networks is 9.852 ct/kWh (exclusive of VAT), or 0.313 ct/kWh (3.1 %) lower than in 2015.

It should be noted that having assessed the impact of the new interconnections NordBalt and LitPol Link having started operating since the end of 2015 and decreasing electricity acquisition price, also the declining need for public service obligations (PSO) funds resulting from decreased natural gas supply security component, the NCC approved lower electricity tariffs for household consumers, which have been in effect since 1 July 2016. The price of electricity for household consumers purchasing electricity from low-voltage networks is 9.53 ct/kWh (exclusive of VAT), or 0.32 ct/kWh (3.2 %) lower than in Half 1 of 2016.

Figure 4. Average electricity price for 2016 (Eur ct/kWh exclusive of VAT)



Source – NCC.

It should be noted that on 1 July 2016, the application of electricity prices (tariff plan “Smart” with four time zone tariffs) of a pilot project of the installation of smart electricity meters (with the installation of 3000 meters) was started for some consumers. The tariff plan “Smart” encourages consumers to monitor electricity consumption and to use less electricity during peak hours, respectively reducing costs of the electricity system ensuring more balanced electricity consumption during the day. The said pilot project is implemented throughout the entire Lithuania by separate regions, in cities and suburbs as well as multi-apartment and private houses. A decision will be made on further installation of smart electricity meters based on the pilot project results.

In preparation for the development of the regional market, which was affected by new interconnections with Sweden and Poland launched at the end of 2015, the relevance of the issue of intersystem electricity exchange has increased. In light of amendments to the Law on Electricity, which took effect in March of 2014 and having received a corresponding reasoned notification from the Ministry of Energy, the NCC set a price for the use of interconnection lines (hereinafter – ICL)

of 5.27 EUR/MWh for electricity export to third countries by its Resolution No. O3-694 of 30 December 2015. This price has applied since 1 March 2016.

It should be noted that in its reasoned notification the Ministry of Energy presented reasons leading to the need for approving a ICL tariff: (1) the mechanism of Inter-Transmission System Operator Compensation (hereinafter – ITC) does not cover all the costs, which are incurred when operating interconnection lines, (2) therefore, these costs are covered via a transmission tariff, i.e. paid by Lithuanian consumers (3) in 2016, new interconnections NordBalt and LitPol Link create additional possibilities of export to third countries, i.e. there will be more costs related to the export of electricity to third countries, which will not be covered via the ITC mechanism.

Considering the discussions held during public consultations on the calculation procedure of ICL and the setting of price (on 8–15 October 2015 and 6–20 November 2015) with energy regulators of the Baltic, Scandinavian states and Poland, TSOs, independent electricity suppliers and other market participants, also the region-wide relevance and importance of the issue, a protocolled decision was made in the meeting of NCC held on 30 December 2015 (meeting minutes No. O2-59 of 31 December 2015) to recommend AB Litgrid to initiate a discussion with TSOs operating in the Baltic region and national regulatory authorities on the methodology for setting of a single import-export price with third countries.

The issue of common principles for setting the price of import (export) from (to) third countries was also included in the agenda of the 21st Baltic electricity forum held on 2–3 May of 2016. The relevant information on the ICL tariff is published on the NCC's website www.regula.lt (in English), under the section “Regarding price of the service of access to interconnection lines”.

The NCC calculates, approves and publishes on its website connection fees of consumer equipment no later than by 30 April of the current calendar year. The NCC sets new connection fees if new connection fees change by 3 percent or more compared to the currently valid ones. According to the costs of connection of new customers incurred by electricity network operators last year, the NCC recalculated and approved by its Resolution No. O3-104 of 22 April 2016 new tariffs for connecting new customers to electricity networks, which took effect on 1 June 2016.

Connection fee for the installation or increase of 1 kW of permissible capacity of electrical equipment decreased by almost 20 percent for consumer Group I, and consumers of all groups will have to pay 13–22 percent less for the construction of electricity network. Connection fee for 1 m of constructed electricity network was not calculated for Group I, because pursuant to amendments made on 29 April 2013 to the Methodology for Setting Tariffs for the Connection of Electrical Equipment to Electricity Networks approved by Resolution No. O3-235 of the NCC of 29 July 2011 consumers, the connection of whom does not require the construction of electricity network, are attributed to Group I.

It should be reminded that upon the effective date of amendments to the Methodology for Setting Tariffs for the Connection of Electrical Equipment to Electricity Networks on 1 June 2015, the attribution of consumers to groups changed – 3 groups out of 4 remained, and limits of permissible capacity of groups changed as well:

- Consumers, the permissible capacity of connected electrical equipment of whom or increased permissible capacity of electrical equipment is up to 50 kW, are attributed to Group I;
- consumers with up to 100 kW fall under Group II;
- and consumers with 100 kW – 500 kW (inclusive) are attributed to Group III.

Table 2. Connection fees of consumer electrical equipment to electricity networks (100 percent), EUR exclusive of VAT

Consumer Group	Fee for the installation or increase of permissible capacity of electrical equipment by 1kW	Fee for the construction of 1m of electricity network
Group I	22,87	-

Group II	153,47	17,08
Group III	57,01	19,51

Source – NCC.

*Table 3. Connection fees of consumer electrical equipment to electricity networks for household and socially vulnerable** consumers, EUR exclusive of VAT*

Consumer Group	Fee for the installation or increase of permissible capacity of electrical equipment by 1kW	Fee for the construction of 1m of electricity network
Group I	4,57	-
Group II	30,69	3,42
Group III	11,40	3,90

** indicated in the list approved by the Government or its authorized institution

Source – NCC.

*Table 4. Connection fees of consumer electrical equipment to electricity networks for other consumers ***, EUR exclusive of VAT*

Consumer Group	Fee for the installation or increase of permissible capacity of electrical equipment by 1kW	Fee for the construction of 1m of electricity network
Group I	9,15	-
Group II	61,39	6,83
Group III	22,80	7,80

*** except for household consumers and consumers indicated as vulnerable in the list approved by the Government or its authorized institution.

* Consumer Groups:

Group I– consumers, the permissible capacity of connected electrical equipment of whom or increased permissible capacity of electrical equipment is below 50 kW and the connection of electrical equipment of whom does not require installation, replacement or reconstruction of electrical objects of operator, preparation of a project for connecting consumer electrical equipment to electricity networks, or preparation of such a project is necessary, but it is prepared and approved by consumers in line with paragraph 14 of the Description;
Group II– consumers, the permissible capacity of connected electrical equipment of whom or increased permissible capacity of electrical equipment is below 100 kW (except Group I consumers);
Group III– consumers, the permissible capacity of connected electrical equipment of whom or increased permissible capacity of electrical equipment ranges from 100 to 500 kW (inclusive).

Source – NCC.

According to provisions of the Law on Electricity, just like in previous years, when connecting to the network electrical equipment of household and socially vulnerable consumers, 20 percent of the above-indicated (in Table 2) fees will be paid, while 40 percent of said tariffs will be paid in all other cases.

2.1.6. International cooperation

The goal formulated by the EU Council in 2011 to create internal energy market and to achieve that after 2015 not a single EU state was isolated from the common European gas and electricity networks and there were no more so-called “energy islands” remained a priority goal in the European energy agenda and affected NCC activities in the area of international cooperation in 2015. Klaipėda liquefied natural gas (LNG) terminal launched at the end of 2014 in particular and electricity interconnection projects with Sweden and Poland implemented at the end of 2015 contributed to the implementation of the aforementioned goal in the Baltic region. However, in addition to the implementation of energy infrastructure projects, establishing common rules regulating energy activities and mutual relations of entities operating in the energy sector is necessary for the creation of a common internal EU energy market.

Accordingly, one of the most important areas of operations of national regulators and ACER uniting them is the monitoring of implementation of network codes compiled in recent years and consistent contribution in the coordination and approval of provisions of currently prepared network codes.

Point 14 of part 3 of Article 9 of the Law on Electricity of the Republic of Lithuania assigns the approval of the rules governing the management of transmission networks and interconnection lines, the setting, allocation of their capacity and management of overload presented for approval by TSOs under the competence of the NCC. In light of this fact, the NCC made a decision to approve conditions, provisions and methodologies for calculating, setting and allocating inter-system capacities in the Baltic states and with third countries prepared by Baltic electricity TSOs AB Litgrid, AS Augstsprieguma Tīkls and AS Elering (*approved on 11 December 2015, No. O3-647*), which were also approved by Latvian and Estonian energy regulators. New regulation establishes the conditions of calculation, setting and allocation of inter-system capacities of all Baltic TSOs in the Baltic States and with third countries in greater detail, and it has been applied since the beginning of 2016.

Part 1 of Article 4 of the CACM establishes that each member state connected via electricity lines to the trade zone in another member state must ensure that one or more nominated electricity market operators, who would perform a common coupling of the day ahead markets and/or intra day markets, were appointed within four months from the effective date of this regulation.

Nord Pool Spot AS (since 20 January 2016 – Nord Pool AS) started performing the function of a nominated electricity market operator in Lithuania as from 15 December 2015 (approved on 15 December 2015, No. O3-649). The NCC made this decision having assessed financial and technical indicators of Nord Pool AS conducted activities of the electricity exchange operator as well as its ability to ensure transparency. The nominated electricity market operator must ensure a transparent platform for trading electricity in pursuit of a single and integrated electricity market in Europe. Nord Pool AS will conduct the functions of the nominated electricity market operator for four years in Lithuania, and then the process of the appointment of a nominated electricity market operator will be restarted. Nord Pool AS has also been appointed as nominated electricity market operator in Estonia, Latvia, the United Kingdom, the Netherlands, Denmark and other Northern European countries.

Pursuant to part 1 of Article 15 of the CACM, on 19 November 2015, all EU TSOs prepared a common proposal for the setting of capacity calculation regions within 3 months from the effective date of the Regulation and submitted them to their national regulators, including the NCC. The proposal covers 11 capacity calculation regions EU-wide, 6 countries of which form the Baltic region, namely, Estonia, Latvia, Lithuania, Poland, Finland and Sweden, i.e. the Baltic capacity calculation region has been formed in light of provisions of Regulation No. 714/2009, additionally associating 3 countries (Poland, Finland and Sweden) due to the newly emerged inter-system connections. This means that the majority of decisions will have to be taken region-wide, finding a common agreement of all 6 associated countries. As previously mentioned, the adoption of a unanimous decision led to discussions on the specifics of the Central-West Europe and Central-East Europe regions, and with a

failure of the national energy regulators to reach a unanimous decision, on 17 May 2016, a proposal for examination was transferred to ACER.

Pursuant to part 3 of Article 7 of the CACM, on 14 April 2016, the NCC received from EUROPEX a plan of the performance of functions of a Market Coupling Operator (MCO) (hereinafter – the MCO plan) listing how the MCO functions laid down in the CACM should be commonly implemented and performed, including projects of the mandatory agreements of the nominated electricity market operator and agreements with third countries. The duration of the MCO plan should be no longer than 12 months. MCO will have to create and supervise algorithms, systems and procedures of coupling of day ahead and intraday markets, to manage initial data on inter-zone capacity and distribution restrictions presented by coordinated capacity calculators, to apply price coupling and uninterrupted trade harmonization algorithm, to approve and send to the nominated electricity market operator results on coupling of day ahead and intra day markets, and all this should contribute to the creation of further integrated European electricity market.

Year 2015 in the natural gas sector can be distinguished by the fact that the application of Commission Regulation on Code on Gas Balancing of Transmission Networks and Code on Capacity Allocation Mechanisms in Gas Transmission Systems was started in the fall.

It should be noted that in 2015 the European Commission published initiatives on the creation of the Energy Union. The distributed European Commission communications will contribute to the review of the valid European legislation. National energy regulators also participate in the said review by presenting their proposals to ministry representatives, or via the ACER and the Council of European Energy Regulators (hereinafter – CEER) preparing common positions and opinions (for example: *Joint ACER-CEER response to European Commission's consultation on a new energy market design*).

On 25 February 2015, the European Commission issued a document package for the development of the Energy Union. There are five dimensions identified in the Commission Communication to the European Parliament, the Council, European Economic and Social Committee, the Committee of the Regions and the European Investment Bank “Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy”, i.e.: 1) energy security and solidarity, 2) integrated internal energy market, 3) energy efficiency, 4) decarbonisation of the economy, 5) research, innovation and competitiveness. Communication on achieving a 10% electricity interconnection target in the electricity sector was also published along with the Communication establishing the Energy Union. The Communication from the Commission to the European Parliament and the Council “Achieving the 10% electricity interconnection target” introduces the measures for making it possible to acquire at least 10 percent of the installed electricity production capacity by 2020 and to sell in another EU state, thus ensuring the integration of electricity market, which is an integral part of the Energy Union.

In Half II of 2015, during the Luxembourg Presidency of the Council of the EU, the European Commission held public consultations in July of 2015 in the context of the development of that same Energy Union, at the time of which it sought to collect insights of energy market participants on the new electricity market structure and prospects as well as on the preparation for emergency situations in the electricity sector. To this end, on 15 July 2015, the European Commission published the Communication to the European Parliament, the Council, European Economic and Social Committee and the Committee of the Regions “Launching the public consultation process on a new energy market design”. Having evaluated the proposals received during the public consultation, the European Commission plans to introduce legal proposals on electricity market in late 2016.

During the Luxembourg Presidency of the Council of the EU, a great attention to progress in the development of the Energy Union continued. In November of 2015, the European Commission issued Communications aimed at evaluating the progress made in the development of the Energy Union. The Communication to the European Parliament, the Council, European Economic and Social Committee, the Committee of the Regions and the European Investment Bank “The State of the Energy Union in 2015” reviews the progress in five areas of Energy Union – energy security, integrated internal energy market, energy efficiency, decarbonisation of the economy and research,

innovation and competitiveness, and establishes energy policy issues, which EU will focus on in particular in 2016.

In review of the state of the development of the Energy Union, in November of 2015, the European Commission also approved the second list of projects of common interest. There are 195 projects included in the second list of projects of a common interest – 108 projects in the electricity area, 77 – in gas, 7 – in oil and 3 in the field of intelligent networks. Projects of relevance to Lithuania from BEMIP corridor in the electricity area include LitPol Link, the increase of capacity of Kruonis pumped storage power plant, integration of the Baltic electricity network into the grids of the Continental Europe, including their synchronous performance. Projects of relevance to Lithuania included in the gas area are the increase of capacities of the Lithuanian–Latvian gas interconnection and project of gas interconnection with Poland (GIPL).

The NCC representatives also took an active part in events held by foreign countries and organizations. The NCC is in close cooperation with regulators and TSOs of the neighbouring countries via the periodically held Baltic market mini-forums arranged twice per year in different Baltic States by rotation. On 19 May 2015, the 19th Baltic electricity market mini-forum was held in Estonia. Traditionally, mini-forums are aimed at discussing electricity-related issues, however, on 20 May 2015 the Baltic mini-forum for the discussion of natural-gas related issues was held in Estonia for the first time. The Baltic electricity market mini-forum traditionally introduced major developments of the Baltic and Nordic States in the electricity market and the challenges which they face. Market participants also discussed on relevant issues related to the calculation and allocation of capacities, hedging against price fluctuations and implementation of Regulation (EU) No. 1227/2011. The part of the mini-forum designated for gas questions also introduced major developments and challenges faced in natural gas markets of the Baltic and Nordic States, discussed issues related to the security of supply, energy infrastructure and implementation of Regulation (EU) No. 1227/2011. During the Baltic electricity market mini-forum, which took place in half a year on 3 November 2015 in Latvia, continued discussions were held on capacities in the CACM context, also discussing the issues of electricity balancing, the functioning of retail electricity market, implementation of Regulation (EU) No. 1227/2011 and the connection of electricity markets in the region. Gas-related issues were discussed in the Baltic gas market mini-forum, which took place on 4 November 2015, discussing relevant issues related to changes in the natural gas market of the Baltic and Nordic States, natural gas supply licensing, security of supply, quality of natural gas, trade on gas exchanges and balancing and development of the gas market. In May of 2016, Baltic market mini-forums were held in Vilnius. On 2-3 of May of 2016, energy regulators and market participants from the Baltic States, Finland, Sweden and Poland gathered to discuss district heating, gas and electricity market-related issues. Forum participants were able to get familiar with and compare differences in state district heating regulation of the three Baltic States, the progress of district heating in Scandinavian countries and its possible adaptation in our countries as well as specifics of activities of regional heat supply companies. Also, news relating to gas sector regulation in the states of the region, prospects of the overall regional development, achievements of the latest infrastructure development projects were introduced, a representative from the European Commission presented in detail the so-called “winter package” set released in February, including the project of the regulation on the security of gas supply. In the part designated for electricity issues, expectations with regard to the creation of a regional electricity market, principles of cooperation with third countries and implementation of common network codes were shared. ACER representative introduced the practice of the implementation of Regulation (EU) No. 1227/2011, the works in progress and requirements applicable to market participants; discussions were held on challenges faced in the installation of smart meters for electricity consumers.

NCC also actively participates in the work of the Regional gas market coordination group under BEMIP. The work of the group in 2015 focused on the harmonization of licencing requirements and on the preparatory work for the implementation of regional gas market model, including Frontier conducted Regional gas market study (http://elering.ee/public/Elering/Baltic_gas_market_study_2016.pdf).

2.2. Gas sector

2.2.1. Unbundling of vertically integrated companies

In October of 2014, natural gas transmission activities were completely unbundled from the vertically integrated company AB Lietuvos Dujos. The company engaged in transmission activities AB Amber Grid submitted an application for appointing AB Amber Grid as a TSO and issuing thereto an indefinite natural gas transmission license. In accordance with the procedure laid down in Articles 28(2) and 28(3) of the Law on Natural Gas of the Republic of Lithuania (hereinafter – the NGL) and having assessed that the unbundling of the transmission activity is in line with the requirements of the NGL and its implementing legislation and that AB Amber Grid meets requirements for the licensed activity, the NCC decided by its Resolution No. O3-5 of 15 January 2015 “On a Decision on the Unbundling of Natural Gas Transmission Activities and Preliminary Decision on Appointment of a Transmission System Operator” that AB Amber Grid can be appointed as TSO. The European Commission was informed about the made decision, while on 26 March 2015, the NCC received Opinion C(2015) 2135 final on the unbundling of AB Amber Grid of the European Commission of 23 March 2015 (hereinafter – the Opinion). The main thought laid down in the Opinion was that with the operator of the LNG terminal AB Klaipėdos Nafta owning 33.3 percent of shares of the designated supplier UAB Litgas, the unbundling between two state authorities will be made in part, because indirect rights of the Ministry of Energy to UAB Litgas remain through AB Klaipėdos Nafta. The European Commission was dissatisfied with a failure to perform a comprehensive evaluation of other indirect rights of the Ministry of Energy to UAB Litgas according to Article 9(2) of 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 (hereinafter – Directive 2009/73/EC). The European Commission encouraged the NCC to certify AB Amber Grid only on the condition that all the shares of UAB Litgas owned by AB Klaipėdos Nafta will be transferred. A reasonable transition period of, say, twelve months could be set for the performance of such a process.

Having evaluated the Opinion of the European Commission, the NCC referred to the Ministry of Energy and Ministry of Finance respectively managing natural gas transmission and supply activities, asking for the presentation of information on the possibilities for the implementation of certification conditions of AB Amber Grid expressed in the Opinion, that is on what could the time limit for the transfer of UAB Litgas shares owned by AB Klaipėdos Nafta to the economic entity, who is not under direct or indirect control of the Ministry of Energy, be.

Both the Ministry of Energy and the Ministry of Finance confirmed by letters that they will take the necessary actions for the transfer of the shares.

By its Resolution No. O3-242 of 10 April 2015, the NCC determined that the unbundling of transmission activities of AB Amber Grid meets provisions of Articles 40–42 of the NGL and that AB Amber Grid can be appointed as TSO provided that the Ministry of Energy will take actions on the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta to the economic entity, who is not under direct or indirect control of the Ministry of Energy within the period of time no longer than 12 months from the effective date of the NCC’s Resolution on the appointment of AB Amber Grid. AB Amber Grid was issued an indefinite TSO license under that same resolution and those same conditions, obligating AB Amber Grid to ensure the performance of actions on the transfer of shares and to inform the NCC about the course of execution of this process.

Upon the expiry of the specified 12-month period, when performing the functions assigned thereto, the NCC stated by its Resolution No. O3-107 of 22 April 2016 that AB Amber Grid failed to fulfil the obligation established by the above-mentioned Resolution and stated that AB Amber Grid does not meet the requirements of independence of activities of TSO and the unbundling of activities enshrined in Chapter eight of the NGL. In light of this fact, the NCC obligated AB Amber Grid to eliminate the breach of conditions of regulated activities within 2 months from the effective date of the resolution and to present to NCC information and action plan related to the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta approved with the Ministry of Energy within 10 working

days. In case of a failure of AB Amber Grid to eliminate the breach of regulated conditions indicated by the NCC, a fine of up to 10 percent of annual income generated from regulated natural gas transmission activity over the previous financial years may be imposed on the company according to the Law on Energy.

2.2.2. Substantial changes in the natural gas sector price regulation

With the change of legislative requirements in 2015, the NCC performed essential amendments to the Methodology for **Setting State Regulated Prices in the Natural Gas Sector** (hereinafter – the Methodology).

1. The application of the entry-exit pricing model in the transmission activities.

Since 2015, the price cap in the transmission activities has been set and adjusted per unit of capacities in application of the entry-exit pricing model establishing that the NCC sets price caps and adjusts them at entry and exit points of the transmission system.

Considering the opinion No. 03/2015 of ACER of 15 June 2015 “On the Compliance of the Decision of the National Commission for Energy Control and Prices with Provisions of the Directive No. 2009/73/EC, Guidelines of Regulation (EC) No. 715/2009 and Other Related Provisions of this Directive and the Regulation” and applications of natural gas companies, the NCC approved by its Resolution No. O3-532 of 1 October 2015 the following substantial amendments on the calculation of transmission price caps in application of the pricing of entry-exit points and differentiation of the distribution price cap:

- Costs of those gas pipeline segments, which can be exclusively used by Lithuanian consumers of natural gas, are evaluated separately;
- Annual allowable income is assessed in the calculation of price caps, except for the costs determined by gas pipeline segments, which can exclusively be used by Lithuanian consumers of natural gas;
- Eliminated from the entry-exit point pricing calculation model costs determined by gas pipeline segments, which can exclusively be used by Lithuanian consumers of natural gas, have been attributed to the internal exit;
- Natural gas transmission service price caps at entry and exit points set by the NCC must meet non-discrimination condition of the system users, i.e. the ratio of the average price of a unit of capacities created for cross-border gas transportation with the average price of capacities created for internal system users must be equal to 0.9–1.1.

By that same Resolution, the NCC provided for possibilities to apply for natural gas distribution companies a more flexible differentiation of distribution prices – having presented reasonable reasons therefore to the NCC, a natural gas company can differentiate the distribution price cap to natural gas distribution price groups other than those indicated in the Methodology.

2. Changes in the calculation of a security component

On 17 November 2015, the Parliament of the Republic of Lithuania adopted the Law Amending Articles 2, 5 and 11 of the Law on Liquefied Natural Gas Terminal of the Republic of Lithuania No. XI-2053 establishing that: “Costs of installation of the LNG terminal, its infrastructure and interconnection, which cannot be funded from other sources available to the company, also all the fixed costs of operation of the LNG terminal, its infrastructure and interconnection **and reasonable costs of the supply of the mandatory LNG terminal volume shall be included in the additional natural gas supply security component to the natural gas transmission price in the procedure prescribed by the NCC** <...>. Additional component set by the NCC is applied to natural gas system users and/or natural gas consumers **for natural gas consumption capacities** necessary to ensure their daily maximum natural gas needs in delivery points, where facilities of natural gas system users and/or natural gas consumers are connected to the natural gas transmission system or the natural gas distribution systems <...>. Natural gas TSO collects the additional component, administers and

pays it to the LNG terminal operator or the company, or the designated supplier in the procedure prescribed by the NCC. The deviation of the collected funds administered by TSO having formed as a result of a difference between the forecasted and actual natural gas consumption capacities of the previous year is evaluated when setting the additional component in accordance with the procedure and under conditions established by the NCC”.

In the implementation of Article 4(3) of the Law Amending Articles 2, 5 and 11 of the Law on Liquefied Natural Gas Terminal of the Republic of Lithuania No. XI-2053 obligating the NCC to adopt implementing legislation of this Law by 17 December 2015, the NCC **adjusted the Methodology** by its Resolution No. O3-654 of 17 December 2015:

- It enshrined the regulatory mechanism establishing the calculation of the natural gas supply security additional component to the transmission price (hereinafter – security component) covering the fixed LNG terminal operation costs, costs of supply activities of the designated supplier, costs of the difference between the price of acquisition of the minimum annual gasified natural gas volume (the mandatory volume) for the ensurance of mandatory activities of the LNG terminal and the price of the sale thereof, and costs of administration of the LNG terminal fund administrator;

- A security component is applied to natural gas system users and/or natural gas consumers for natural gas consumption capacities necessary for ensuring their maximum daily needs of natural gas at delivery points (hereinafter – consumption capacities);

- In order to increase the association of the security component pricing with transmission service pricing, a provision that transmission price may be monomial, binomial or trinomial was enshrined;

- Having set the trinomial transmission service price, the fixed transmission price component would be comprised of two parts: a fee for transmission capacities ordered by a system user and consumption capacities at internal exit point set for the system user;

- The NCC sets a specific liquefaction price at the LNG terminal entry point in light of the course of development of the regional natural gas market, possibilities to ensure diversified supply of natural gas to consumers of natural gas of the Republic of Lithuania under efficient market competition conditions.

It was necessary setting the forecasted natural gas market price for calculating a security component, thus the NCC prepared and approved the **Methodology for Setting Forecasted Natural Gas Market Price** (*approved on 15 December 2015, No. O3-650*) describing the main principles of calculation of the forecasted natural gas market price. The natural gas market price was set solely for state regulated energy producers, who were established a duty to acquire the mandatory volume of natural gas from the LNG terminal.

Upon the change of essential conditions of the contract on the designated supplier’s purchase of LNG from Statoil ASA in 2016 (lower volumes of LNG will be purchased in 2016 thus incurring lower costs than those included in the calculation of the natural gas security component), the NCC made the following essential **adjustments to the Methodology** by its Resolution No. O3-70 of 18 March 2016:

1. Security component is adjusted each quarter:
 - due to adjustments of forecasted market price approved by the NCC, if the NCC adjusts the forecasted market price by more than 10 percent, or the set market price differs from the price of sale of surplus of the designated volume by more than 10 percent;
 - if the annual price of import of the designated volume forecasted by the designated supplier changes more than 5 percent compared to the set forecasted import price of the designated volume;
 - in presence of a reasoned decision of the NCC;
2. the designated supplier is obligated to present to the NCC a report on natural gas supply activities every month;
3. simplified calculation of the LNG supply price margin;
4. costs of the fee for LNG liquefaction (regasification) and ordered capacities at the natural gas transmission system connection point with the LNG terminal interconnection in Klaipėda are included in the costs of natural gas supply activities of the designated supplier.

In order to implement provisions of the amendment to the Law on Liquefied Natural Gas Terminal and to allocate costs of operation of the LNG terminal more objectively, the NCC adjusted **the Description of the Procedure for Administration of Funds for the Compensation of all or part of costs for Installation of the Liquefied Natural Gas Terminal, its Infrastructure and Interconnection** by its Resolution No. O3-653 of 17 December 2015:

- It was determined that the recipient of a part of LNG terminal funds is the designated supplier;
- A part of LNG terminal funds collected from payers of these funds are paid to the LNG fund administrator, the LNG terminal operator and the designated supplier in proportion to the amount of payable funds;
- In case where the LNG terminal fund administrator is transferred late fees and/or interest for overdue LNG terminal fund payments by an effective court order, this amount is considered to be LNG terminal funds designated for compensating costs incurred with LNG terminal;
- LNG terminal fund recipients present data on the amount of these costs to the NCC, which will evaluate them setting the natural gas security component of the following year.

In accordance with the above-listed amendments to the Methodology, the NCC adjusted the natural gas transmission price cap for ordered capacities at entry and exit points and set a security component for consumption capacities in the internal exit point for 2016.

2.2.3. Formation of competition in the natural gas supply market, key changes in the monitoring of the gas market of 2015

There was one operator – AB Amber Grid – operating in the natural gas transmission market in 2015 and 6 distribution system operators engaged in activities in the natural gas distribution market, including AB Lietuvos Dujos, UAB Intergas, UAB Druskininkų Dujos, AB agrofirma Josvainiai, UAB Fortum Heat Lietuva and AB Achema.

On 27 November 2014, AB Klaipėdos Nafta, which implemented the LNG terminal project, received a natural gas liquefaction license and in 2015 it was engaged in activities of the liquefied natural gas terminal operator.

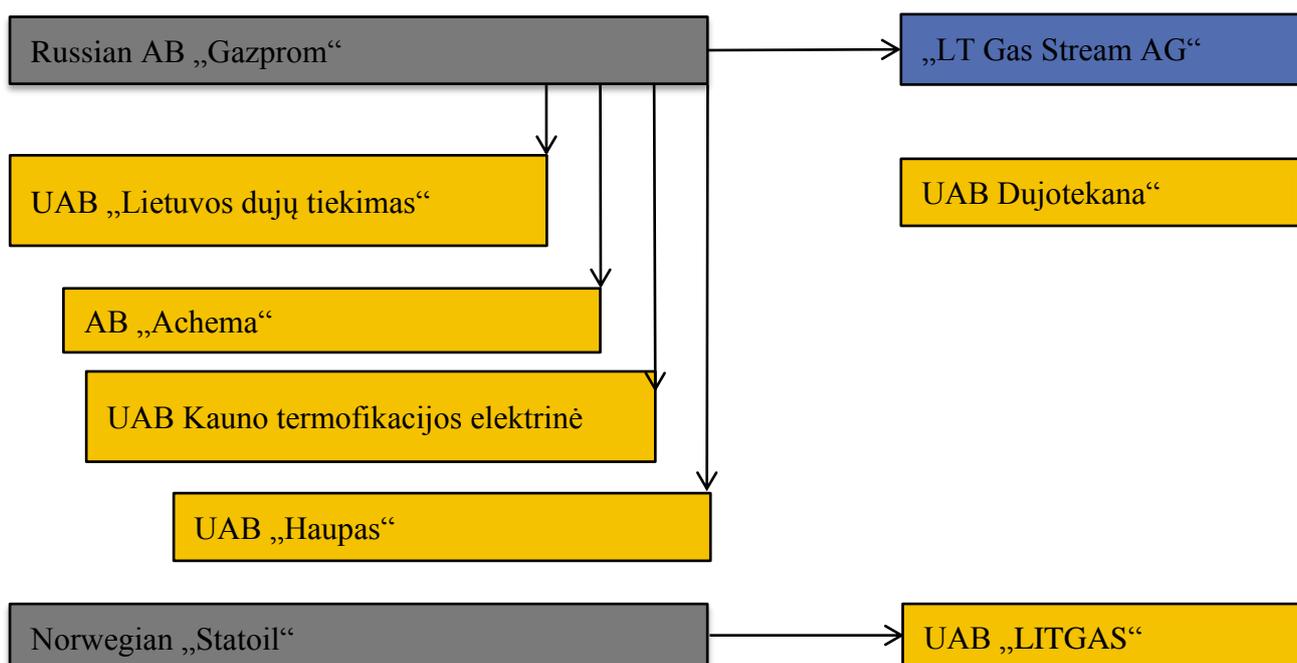
There were 4 natural gas supply licenses issued in the natural gas sector in 2015 and 2016: to AB Klaipėdos Energija, UAB Vokadis, UAB concern Achemos Grupė and UAB Electrum Lietuva. At the end of 2015, there were 34 companies holding natural gas supply licenses, 12 of which conducted activities.

UAB GET Baltic was the only one holding a natural gas market operator's license in 2015. This company was issued the license back in 2012. Main functions of the market operator include the organization of secondary trading of natural gas on natural gas exchange. The natural gas market operator license of UAB Baltpool was revoked by Resolution No. O3-522 of the NCC of 23 September 2015.

Compared to 2014, the number of market participants engaged in transmission, distribution and liquefaction activities remained the same. Meanwhile, the number of economic entities engaged in the natural gas supply activities increased.

In 2015, UAB Lietuvos Dujų Tiekimas, UAB Dujotekana, UAB Haupas, AB Achema and UAB Kauno Termofikacijos Elektrinė imported natural gas from the Russian AB Gazprom, while UAB Dujotekana – from LT GAS Stream AG. Ensuring the sale of the volume of natural gas necessary for the minimum operations of Klaipėda LNG terminal, UAB Litgas purchased natural gas from Statoil.

Figure 5. Participants of natural gas import segment to Lithuania in 2015

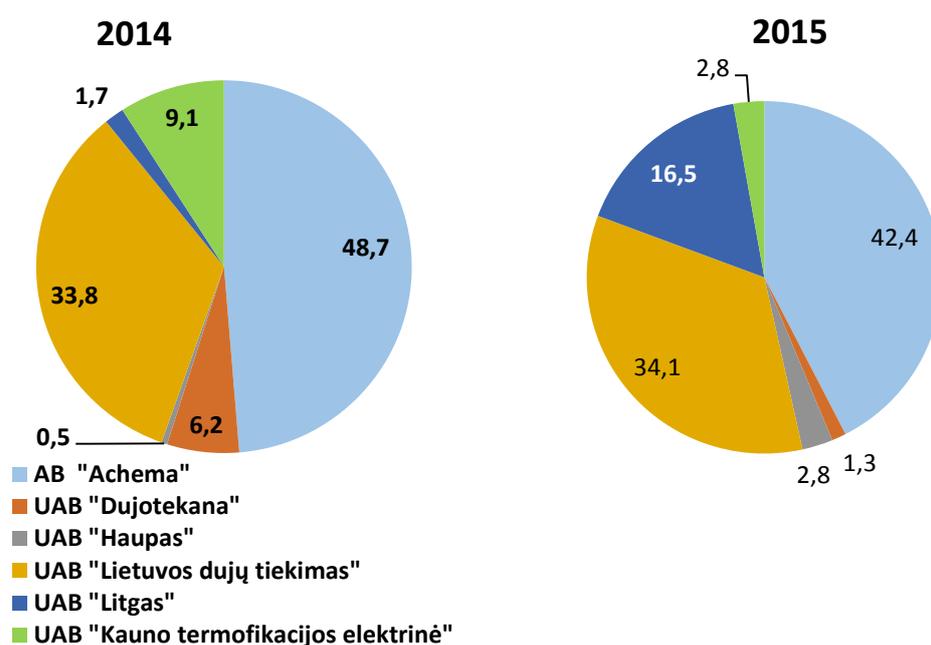


Source – NCC.

In 2015, Lithuanian natural gas suppliers imported 27 593 GWh (evaluating upper calorific value of natural gas $1\text{m}^3=10.4\text{ kWh}$) of natural gas, which is 2.8 percent more than in 2014, when 26 841 GWh of gas was imported. Despite of increased volume of imported natural gas, gas consumption in Lithuania decreased to 25 187 GWh, which is 5.7 percent less than in 2014, when natural gas consumption totalled 26 702 GWh. The difference between imported and consumed gas formed because of the fact that a part of the purchased gas was exported.

Having started importing gas via the LNG terminal in 2015, the import market structure has changed.

Figure 6. Market structure by volume of imported natural gas in 2014–2015, in percent

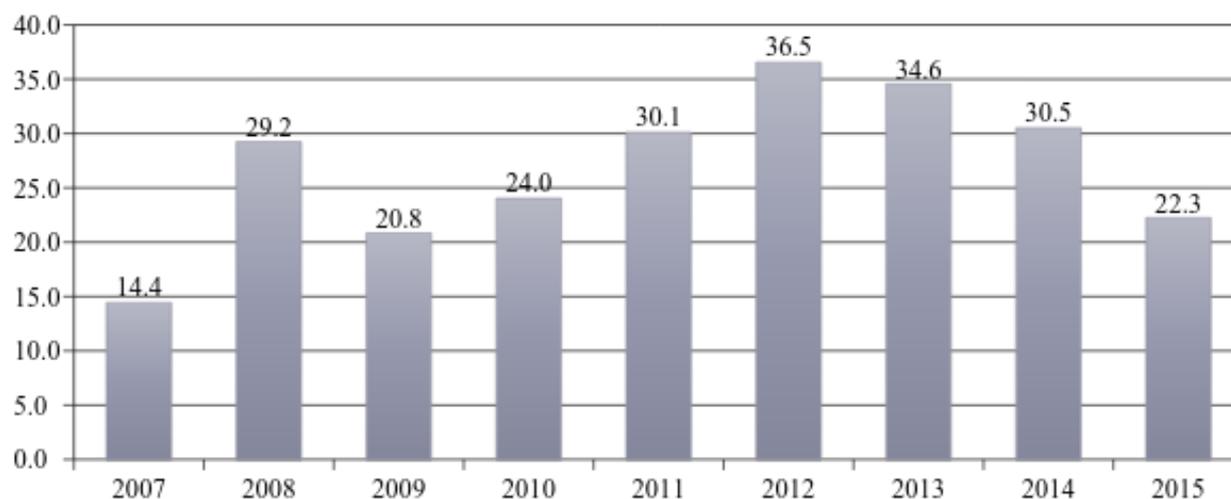


Source – NCC.

The analysis of the occupied market shares has reveal that in terms of the volume of the imported natural gas, during the 2012–2015 period, AB Achema occupied more than 40 percent of the natural gas import market. The market share of UAB Lietuvos Dujų Tiekimas was the largest in 2010 (50.4 percent), but in 2014–2015 it was about 34 percent. Compared to other market participants, market share occupied by UAB Dujotekana in the imports of natural gas decreased the fastest, and in 2015 it accounted for 1.3 percent (in 2008–2013 it was about 14–17 percent). The market share of UAB Haupas was 0.6–0.4 percent in 2008–2014, while in 2015 it increased, because the company also started selling natural gas outside Druskininkai municipality. The market share taken by UAB Litgas was 16.5 percent in 2015.

The average weighted price of imported natural gas decreased by 26.9 percent in 2015.

Figure 7. Average import price of natural gas in 2007–2015, EUR/MWh



Source – NCC.

In 2014, AB Lietuvos Dujos reached an agreement with the Russian OAO Gazprom on the reduction of the natural gas import price. The discount provided for under the said agreement consisted of two components: discounts for retrospectively consumed gas since 1 January 2013 till 30 April 2014 and for gas, which was sold in 2015.

On 23 December 2014, the Government of the Republic of Lithuania passed a resolution No. 1451 establishing that conditions must be created for revising (reducing) natural gas prices of upcoming periods of natural gas suppliers having received a discount for non-household consumers purchasing natural gas for consumption purposes in the Republic of Lithuania (rather than for sale or resale), system operators using natural gas for technological needs and vertically integrated natural gas companies operating in the territory of the Republic of Lithuania (or its part) and supplying natural gas to consumers connected to its natural gas system, who purchase natural gas for consumption in the Republic of Lithuanian (rather than for sale or resale). Having taken over the natural gas supply activity from AB Lietuvos Dujos as from 1 November 2014, UAB Lietuvos Dujų Tiekimas drew up the procedure of natural gas pricing for non-household consumers and system operators applicable in 2015–2016 (approved by Resolution No. O3-964 of the NCC of 30 December 2014), which provided for the return of a discount to consumers listed in the said resolution of the Government during 2015–2016. This additional discount led to additional decrease of the gas sales price of UAB Lietuvos Dujų Tiekimas by about 20 percent. Other companies importing gas (UAB Dujotekana, UAB Haupas, UAB Kauno Termofikacijos Elektrinė) also reached an agreement on import price discounts in negotiations with OAO Gazprom and started applying those discounts to consumers in 2015.

Compared to the data of 2014, key gas market monitoring changes in 2015 include the following:

– In 2015, TSO transported 47 962 GWh of natural gas, or 0.54 percent less than in 2014. 26 183 GWh, or 54.6 percent of the total volume, was transported to Lithuanian consumers, and 21 779 GWh was transported by transit to Russia. In 2015, natural gas transmission to Lithuanian consumers was 1.7 percent lower than in 2014.

– the share of transit in the transmission structure increased from 28.22 percent in 2008 to 45.4 percent in 2015.

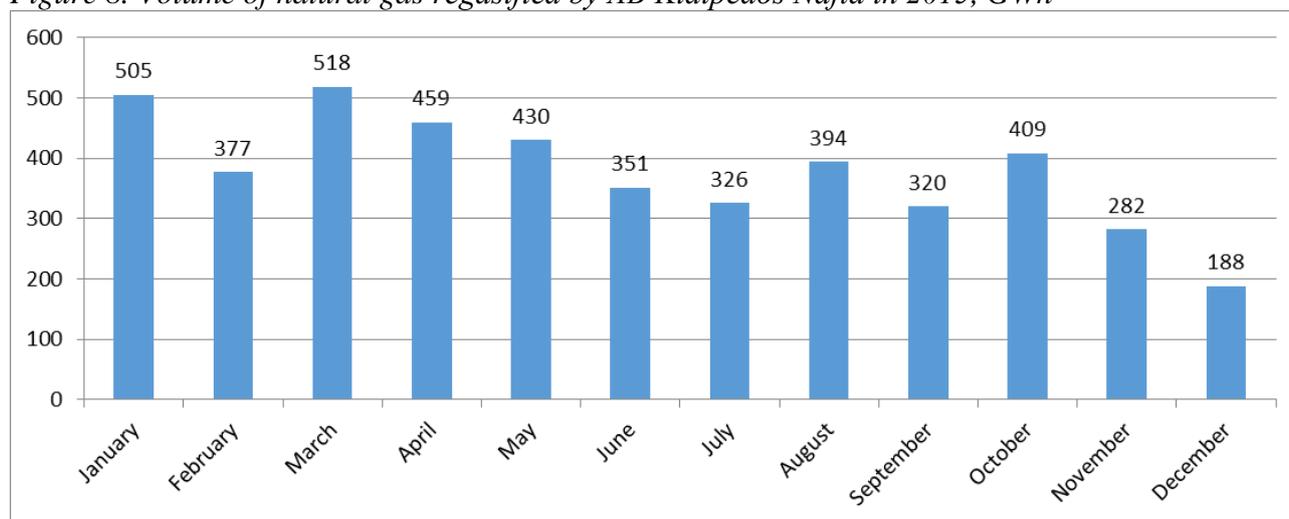
– compared to 2014, natural gas sector income increased by 9.85 percent in 2015, which was determined by increasing revenues in transmission and distribution activities and the fact that liquefaction system operator started its activities in 2014.

– 26 864 GWh of natural gas was sold and/or consumed in the wholesale natural gas supply market, which is 23.35 percent more than in 2014, when 21 779 GWh of natural gas was sold and/or consumed. These changes were determined by the fact that participants of the wholesale natural gas market were reselling natural gas among themselves.

– 7 129 GWh of natural gas was sold in the retail natural gas supply market, which is 1.85 percent more than in 2014, when 6 999 GWh of natural gas was sold. This was mainly impacted by increased sales: 1.94 percent to non-household and 1.55 percent – to household natural gas consumers.

– In 2015, AB Klaipėdos Nafta regasified 4 559 GWh of natural gas via the LNG terminal. During 2015, the Company generated EUR 69.9 million in revenues, the amount whereof did not depend on the regasified natural gas volume, because revenues were received for the supply security component.

Figure 8. Volume of natural gas regasified by AB Klaipėdos Nafta in 2015, GWh



Source – AB Klaipėdos Nafta.

2.2.4. Monitoring of the natural gas market

On 19 December 2014, by its Resolution No. O3-952 the NCC made a decision to start a natural gas supply market investigation in order to examine the effectiveness of competition in the natural gas supply market in 2013–2014, to identify participants in the market having dominating influence and, if any were identified, to determine if they did not abuse their influence. During the study, territories of Druskininkai municipality and wholesale and retail markets of the remaining Lithuanian part were distinguished separately. The Druskininkai municipality market was distinguished because of the fact that natural gas system of this territory was not connected to the natural gas system of the remaining part of Lithuania. During the examined period, there were 10 persons conducting natural gas supply activities in the wholesale and retail natural gas supply markets, and there were 2 persons engaged in natural gas supply activities in Druskinininkai

wholesale and retail natural gas supply markets: UAB Druskininkų Dujos and UAB Haupas. The investigation revealed that there was a high degree of market concentration and a barrier to enter the market, because the historically formed infrastructural advantage created a respective advantage in natural gas supply activities (in case of the economic entity UAB Lietuvos Dujų Tiekimas). UAB Haupas had an absolute advantage of an economic entity – access to the operational area. Competition in the market was limited by the absence of acquisition alternatives of sufficient gas supply or a greater number of wholesale suppliers. The NCC declared UAB Lietuvos Dujų Tiekimas as a person having dominating influence in the Lithuanian wholesale and retail natural gas supply markets in 2013–2014, however, it did not determine that UAB Lietuvos Dujų Tiekimas applied excessive prices or price pressure due to the lack of efficient competition, thus causing damage to market participants.

The NCC declared UAB Haupas as a person having dominating influence in Druskininkai wholesale and retail natural gas supply markets in 2013–2014, which applied excessive prices in 2014 thus causing damage to market participants.

By its Resolution No. O3-55 of 19 February 2016, the NCC obligated UAB Haupas to supply natural gas in Druskininkai wholesale and retail natural gas supply markets at prices substantiated with costs, including a supply margin meeting a reasonability criterion, to separate costs and prepare and present to the NCC a free-form description of the regulation accounting system within no more than 2 months from the effective date of the Resolution and to present data for setting the supply price cap in the territory of Druskininkai municipality pursuant to the requirements of the Methodology no later than within 1 month from the effective date of the Resolution.

In execution of the Resolution of the NCC, UAB Haupas presented to the NCC data for setting natural gas supply price cap in the territory of Druskininkai municipality by its letter No. S-935 of 21 March 2016. Having evaluated the costs presented by UAB Haupas, the NCC set for UAB Haupas a supply price cap of 5.14 EUR/MWh in the territory of Druskininkai municipality valid as from 1 July 2016 (Resolution No. O3-142 of 25 May 2016). UAB Haupas appealed this resolution of the NCC to court.

3. ELECTRICITY MARKET

3.1. Network regulation

3.1.1. Unbundling

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

Information on the final decision made by NCC with regard to the designation of AB Litgrid as TSO as meeting requirements of Article 10 of the Directive 2009/72/EC was published in the Official Journal of the European Union C 312 of 26 October 2013. This action formally completed the entire TSO certification procedure enshrined in EU legislation and the Law on Electricity.

In 2015, there were no changes in the implementation of provisions of the Law on Electricity related to the unbundling of AB Litgrid operations and control. Pursuant to provisions of Article 26 of the Law on Electricity, the NCC continues constantly monitoring and controlling the assurance of the implementation of requirements of independence and unbundling of activities enshrined in the Law on Electricity by electricity transmission and distribution undertakings in the performance of their activities.

Article 26 of Directive 2009/72/EC

According to the Law on Electricity transposing respective provisions of Directive 2009/72/EC, which took effect on 7 February 2012, upon the electricity distribution network company's presentation of the necessary documents, the NCC determined in its meeting of 26 July 2012 that the unbundling of distribution activities of AB Lesto (AB Energijos Skirstymo Operatorius since 1 January 2016) meets provisions of parts 1 and 3 of Article 54 of the Law on Electricity.

Upon the change of circumstances, which would not allow ensuring the implementation of requirements of unbundling of types of activities and accounting established in parts 1 and 3 of Article 54 of the Law on Electricity, AB Energijos Skirstymo Operatorius undertakes to inform the NCC no later than within 5 working days from the change of these circumstances. There were no changes of circumstances observed in 2015.

3.1.2. Technical functioning

Balancing services (Articles 37(6)(b) and 37(8))

In wholesale trade in electricity in the territory of the Republic of Lithuania, mutual relations of electricity market participants are governed by Rules Governing Trade in Electricity approved by Order of the Minister of Energy. Balancing energy prices are calculated according to the Description of Procedure of Regulation of the Balancing Energy Price (hereinafter – the Description) drawn up according to requirements of national and EU legislation. The scheme and principles of trading in balancing electricity were not changed in 2015.

In 2015, a public consultation was held on possible amendments to the Description. Having received comments of market participants and considered the need to harmonize balancing principles in the region, the preparation of the Baltic's balance management model study and harmonisation plan towards EU energy markets model (including Nordic–Baltic balancing cooperation), which should be presented for a public consultation of Baltic TSOs to be held in June–August of 2016, was started. Having summarized results in the autumn of 2016, the implementation stage would be held in 2017 in order to have the new model to take effect as from 2018. Amendments to the Description would be made accordingly.

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

The Law on Electricity establishes that the NCC sets electricity transmission reliability and service quality requirements and controls the compliance therewith. Requirements for Electricity Transmission Reliability and Service Quality (hereinafter – the Requirements), based on which electricity transmission reliability and service quality requirements for a new regulatory period, i.e. for 2016–2020, are set before April 15 of the calendar year of the new regulatory period considering the average of actual transmission reliability indicators of five years, i.e. 2011–2015, were amended in March of 2016.

Electricity transmission reliability and service quality indicators and their minimum levels are separately calculated for the electricity transmission system and distribution network (see Figures below). The lower the indicator value, the better is the reliability level of electricity transmission. The calculations take into account only those cases, when interruption in electricity transmission occurred for reasons attributed to responsibility of the system operator or for unidentified reasons. Interruptions that occurred as a result of *force majeure* or external impact have no effect on reliability indicators. The reliability of electricity transmission via transmission networks is assessed using two indicators:

- Energy not supplied (hereinafter – ENS);
- Average interruption time (hereinafter – AIT).

Figure 9. ENS and minimum indicator level, MWh

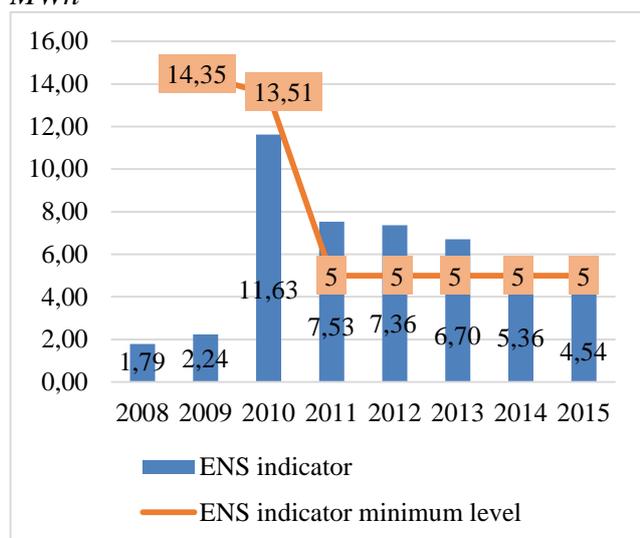
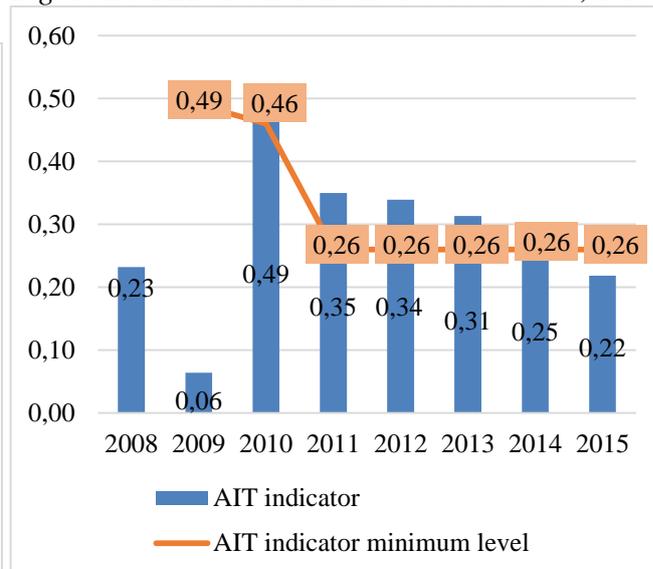


Figure 10. AIT and minimum indicator level, min.



Source – NCC.

Reliability indicators set by the NCC for 2015 oblige TSO to ensure that technical service quality will be better or equal to the minimum requirements: average electricity interruption time for consumers should not be greater than 0.26 min., and the amount of untransmitted electricity should be no greater than 5 MWh. The NCC assessed the actual transmission reliability level for 2015 and determined that compared to the set minimum level, the reliability of transmission according to the ENS indicator improved by 9.2 percent and according to the AIT indicator it improved by 15.38 percent.

The reliability of electricity transmission via distribution network is measured using two indicators:

- system average interruption duration index (hereinafter – SAIDI);
- system average interruption frequency index (hereinafter – SAIFI) .

Reliability indicators set by the NCC for 2015 oblige distribution system operators to ensure that technical service quality will be better or equal to the minimum requirements: the system average interruption duration index (SAIDI) for consumers should be no longer than 66 min per year, while the system average interruption frequency index (SAIFI) at the fault of distribution system operator should be no greater than 0.93 times.

The NCC measured the actual quality reliability level for 2015 and determined that, compared to the set minimum level, the reliability of transmission according to SAIDI improved by 32.45 percent and according to SAIFI it improved by 35.48 percent.

Figure 11. SAIDI and minimum indicator level, min. per consumer

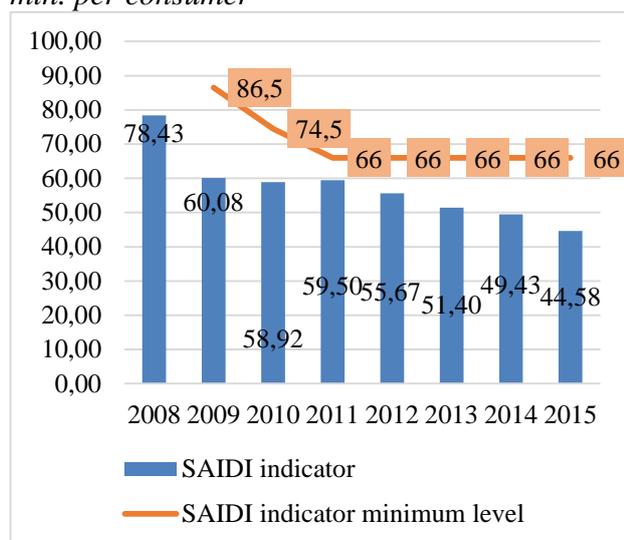
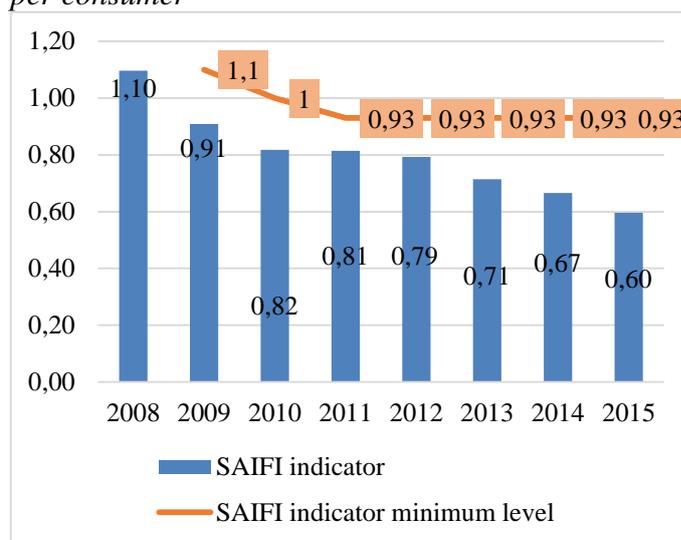


Figure 12. SAIFI and minimum indicator level, times per consumer



Source – NCC.

Since 2008 AB Energijos Skirstymo Operatorius has not exceeded the minimum transmission reliability levels, and indices have consistently decreased each year. This means that the quality of transmission services has been improving, interruption time per consumer per year has decreased and the number of interruptions per 1 consumer has reduced.

Upon the adoption of a new version of Requirements by the NCC in 2012, each year activity reports of the NCC assessed the quality of services provided by suppliers and operators providing transmission services. However, it should be noted that upon the NCC's adoption of amendments to the Requirements in March of 2016, independent and public electricity suppliers are no longer subject to the Requirements.

Distribution service providers are subject to the following indicators:

- percentage share of new customers connected on time (within 20 days from the day of payment of their connection fee);
- restoration of interrupted electricity supply according to the set time limits;
- percentage share of consumers informed about the planned interruption in a timely manner (10 calendar days in advance);
- percentage share of failures eliminated for consumers in a timely manner (within 5 working days);
- percentage share of consumers for whom electricity transmission was restored after unplanned interruption;
- percentage share of claims of consumers and network users examined in a timely manner.

There is only one service quality indicator planned for TSO – percentage share of claims examined in a timely manner.

Table 5. Performance of AB Energijos Skirstymo Operatorius transmission reliability quality indicators in 2015

Reliability category of the supply with electricity	Unit of measure	Set indicator of the provision of the service to consumer	Average indicator of the provision of the service to consumer	Indicator of the provision of the service to consumer in due time (percent)
I	hour	0	0,00	100

II	hour	2,5	1,30	100
III	hour	24	3,32	100

Source – NCC.

Pursuant to Article 19 of the Law on Electricity, the third LEPS reliability assessment report for 2014 was prepared in 2015, which stated that currently LEPS reliability is ensured. The said report is also published on the NCC website at www.regula.lt.

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

TSO AB Litgrid is responsible for the assurance of state electricity balance. The necessary secondary and tertiary reserve volumes are planned for the assurance of reliability of supply, which are ensured by contracts with power plants functioning in the Lithuanian electricity system and contracts with neighbouring operators on jointly maintained secondary reserve.

TSO orders a tertiary power reserve to ensure electricity supply to consumers, which may be activated during the maximum electricity consumption period in presence of a lack of supply in the electricity market.

Last year there were no physical LEPS interconnection congestions. AB Energijos Skirstymo Operatorius had not disconnected or limited consumers due to the lack of network capacity.

RES regulatory structure: report on RES connection, use and dispatch control, especially with regard to priority problems. Report on responsibility for RES balancing (Article 11 of Regulation (EC) No. 713/2009)

Considering the Law No. XII-1534 Amending Articles 2, 9 and 67 of the Law on Electricity No. VIII-1881 of 2 March 2015 and Law No. XII-1389 Amending Article 20 of the Law on Renewable Resources No. XI-1375 and in order to determine a clear procedure for the calculation of the price of services of the use of electricity networks by consumers producing electricity, the NCC approved the **Methodology for Calculating the Price of Services of the Use of Electricity Networks by Consumers Producing Electricity** (approved by Order No. 03-435 of 17 July 2015). Major provisions:

- it is foreseen that the price of the services of the use of electricity networks shall cover all reasonable costs of the distribution system operator;
- in cases where a consumer producing electricity takes from the network the quantity of electricity which is lower than that which it has supplied to the network, the difference is captured for the benefit of the distribution system operator, reducing the price of service of the use of electricity networks for the upcoming year;
- the price of service of the use of electricity networks by consumers producing electricity is differentiated by voltage of electricity networks that the consumer producing electricity connects to;
- the price of services is set for one calendar year and its validity terms match the term of validity of prices of transmission service of the distribution system operator.

In light of the general criteria for setting tariffs established in laws governing legal framework of energy sectors and in order to establish the procedure and requirements for setting fees for the connection of facilities for consumers producing electricity, the NCC amended the **Methodology for Setting Fees for Connecting Electricity Facilities to Electricity Networks** (approved on 17 July 2015, No. 03-436), indicating that consumers generating electricity are subject to the procedure and requirements for setting fees for connecting consumer electricity equipment to electricity networks.

Having assessed the problems occurring in practice due to documents necessary when planning to build a power plant or signing a letter of intent for producers, who are not subject to incentives, and in order to provide clarity for economic undertakings, the NCC revised a **Sample Form of the Letter of Intent for Connecting Electricity Generation Facilities to Electricity Networks** (approved on 21 August 2015, No. 03-479).

In order to enshrine fair, transparent and objective methodology for calculating the quantity of biogas supplied to natural gas systems, the NCC adjusted the **Methodology for Setting Tariffs for Purchase of Biogas to Natural Gas Systems** (*approved on 1 October 2015, No. O3-528*). Major amendments:

- coefficient used to calculate methane content in biogas was enshrined;
- capacities of biogas power plants must be indicated in units of energy kWh/h, and purchase tariffs in EUR/kWh;
- changed deadline for setting purchase tariffs – no later than by 30 November of the current year.

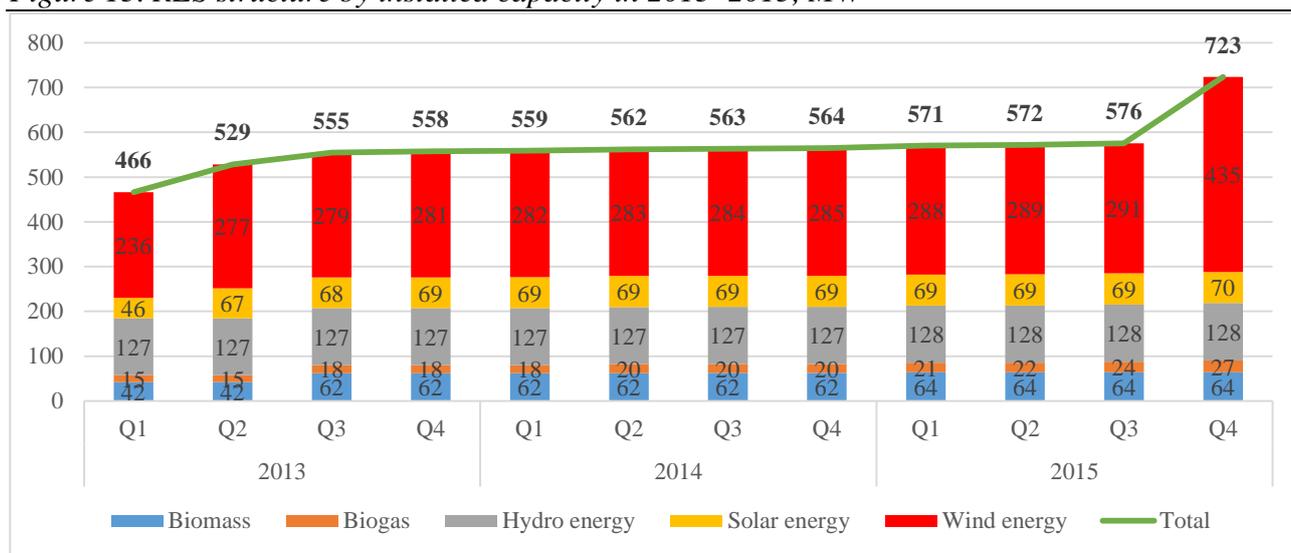
Considering the problems arising when holding auctions for the allocation of incentive quotas and the situation in the market, when the arranged auctions for the allocation of incentive quotas were suspended and resumed, the NCC approved a recast of **Regulations of Auctions for Allocation of Incentive Quotas** (*approved on 1 October 2015, No. O3-537*), which enshrines the procedure for holding auctions for the allocation of incentive quotas for market participants for clarity purposes, also, revises lists of presented documents and procedure for the submission of offers for a fixed tariff. Major amendments:

- procedures for holding suspended and resumed auctions for the allocation of incentive quotas were established;
- procedure for refusing to take part in the auction for the allocation of incentive quotas and condition of return of envelopes containing documents of the auction for the allocation of incentive quotas and an offer for a fixed tariff was revised;
- the condition that bidders in the auction for the allocation of incentive quotas make offers for the fixed tariff at the accuracy of 0.1 euro cent was established, calculating of the maximum possible tariff amount set in the Description of Conditions of Auction for the Allocation of Incentive Quotas for a specific auction for the allocation of incentive quotas, while offers that do not meet this requirement are rejected;
- procedure and deadline for the refusal of the allocated incentive quotas for potential winners of the auction for the allocation of incentive quotas, for whom the auction committee has allocated incentive quotas proportionately, was enshrined – potential winners must present their consent for the proposed quota share within 3 working days;
- a possibility was enshrined for bidders in the auction for the allocation of incentive quotas to present an offer on the fixed tariff if procedures of the auction for the allocation of incentive quotas were suspended and resumed later on;
 - a list of documents which bidders in the auction for the allocation of incentive quotas must present to substantiate an unreasonably low price;
 - the right for the NCC to assess at any time the emerged new circumstances that could have affected auction results was provided for.

Responsibilities for balancing renewable energy sources (RES) remained unchanged compared to the previous year, just like any other allowances provided for in the Law on Renewable Resources.

In 2015, wind power plants accounted for the largest share in the overall market structure of installed capacity of renewable sources with 60.2 percent, hydro power plants accounted for 22.6 percent, solar plants – 12.3 percent, biomass – 11.1 percent and biogas – 3.5 percent. In 2014, wind power plants totalled 50.9 percent in the total installed capacity market structure, hydro power plants – 24.3 percent, biomass – 9.8 percent, biogas – 3.2 percent and solar – 11.8 percent.

Figure 13. RES structure by installed capacity in 2013–2015, MW



Source – NCC.

In 2014, the share of installed capacity of RES power plants in the overall installed capacity balance accounted for 12.9 percent and in 2015 – for 16.9 percent.

3.1.3. Network tariffs for connection and access

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)

The related information is presented in Chapter 2.1.5 of this report (also, for more information see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2014).

Article 37(6)(a)

Pursuant to provisions of the Law on Energy, energy companies engaged in activities the prices whereof are subject to regulation must approve with the NCC the planned investment projects related to the construction of new energy objects, restoration, modernization or reconstruction of the existing energy objects or the development of the operating energy objects in energy production, transmission, distribution and supply activities. If investments have not been approved with the NCC, they cannot be declared reasonable and are not included in price caps.

In 2015, the total sum of investments in the transmission network was EUR 367.8 million, of which EUR 105.28 million were investments in LitPol Link and EUR 223.12 million in NordBalt. Investments in the distribution network totalled EUR 118 million.

Return on investments is determined in application of the weighted average cost of capital (WACC) method, which was 5.35 % for a production company, 5.23 % – for a transmission system operator and 5.24 % – for a distribution system operator. The said and more detailed information is published on NCC's website at www.regula.lt.

Article 37(8)

The Methodology for Setting Price Caps of Electricity Transmission, Distribution and Public Supply Services as well as Public Price Cap implementing the Long-Run Average Incremental Cost Model (LRAIC) aimed at increasing efficiency of operation of electricity networks which meet

demand was approved in late 2015. Electricity transmission and distribution service price caps for a five-year 2016–2020 regulatory period were set according to the new model.

Rights and obligations of the NCC related to prices and tariffs of transmission and distribution service providers, as established by Article 37 (8) of Directive 2009/72/EC, remained unchanged (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2014).

Article 37(10)

Rights and obligations of the NCC related to prices and tariffs of transmission and distribution service providers, as established by Article 37 (10) of Directive 2009/72/EC, remained unchanged (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012, 2013 and 2014).

Article 37(12)

Resolutions of the NCC may be appealed in the procedure prescribed by the Law on Administrative Proceedings of the Republic of Lithuania.

Article 37(3)(c) and (d)

According to Article 33 of the Law on Electricity, rights and obligations related to the preparation, evaluation and monitoring of a 10-year transmission network development plan established for TSO and NCC remained unchanged last year (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2014). A 2015–2024 plan for the development of the Lithuanian electricity system 330–110 kV networks for the upcoming decade was received on 1 July 2015. The NCC announced a public consultation for the said plan and, having evaluated the received comments, on 10 December 2015, it confirmed that investments provided for in the investment plan for 2015–2024 drawn up by AB Litgrid will ensure reasonable development of the electricity sector, which would meet the needs of market participants, as well as reliable and efficient functioning of the transmission system ensuring quality services for consumers.

Having successfully implemented NordBalt and LitPol Link projects at the end of 2015, electricity interconnections with Sweden and Poland made Lithuania a crossroad of electricity flows – Lithuania became a country best integrated with neighbouring markets in the region. Up until then, Baltic electricity systems did not have any interconnection links with the Western Europe and were strongly dependent on electricity imports from third countries.

In 2015, ministers of the Baltic Sea Region countries in charge for energy area signed an updated agreement on interconnection of the Baltic Sea Region Energy market whereby European-level working groups for solving regional issues were established. The working group set up for implementing the synchronization project of the Baltic States with the network of continental Europe solves project implementation-related issues. The Joint Research Centre (JRC) of the European Commission is conducting a comparative study “Integration of the Baltic States into the European Union Electric Energy System: Cost-Benefit and Geopolitical Analysis of Energy Security”, where it will examine possible scenarios of connecting the Baltic States to the EU electric energy system. This project has also been included in the list of key European projects – a list of projects of common interest (PCI). In 2016–2017, further decisions on the implementation of synchronization project at the European Commission level will be adopted.

The plan is to have the total value of investments into transmission network projects equal to EUR 870.4 million in 2015–2024, of which the said project of synchronization of the Baltic States with networks of continental Europe makes up the largest share.

Pursuant to the approved Description of the Procedure of the Assessment and Approval of Investments of Energy Companies with the National Commission for Energy Control and Prices approved by the NCC, a distribution system operator prepares a long-term investment programme of regulated activities (hereinafter – the Programme) for a regulatory period and presents it to the NCC.

According to the investment programme for 2016-2020 submitted to the NCC, investments for 2016-2018 total EUR 413 million.

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

The functions set forth to the NCC pursuant to point 13 of Article 8(9) of the Law on Energy and point 5 of Article 9(4) of the Law on Electricity to control the efficient unbundling of activities in the energy sector in order to ensure the independence of transmission and distribution activities from the commercial interests in the energy activities and to avoid cross-subsidies, as compared with the last year, remained unchanged (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012, 2013 and 2014).

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))

On 10 December 2015, the NCC approved conditions, regulations and methodologies for calculating, setting and allocating cross-border capacities in the Baltic States and with third countries, which were also approved by Latvian and Estonian energy regulators. New regulation establishes more precise conditions for calculating, setting and allocating cross-border capacities in the Baltic States and third countries, and has applied since the beginning of 2016. The following are main changes compared to previously valid procedure:

- it was determined that capacities of interconnection lines upon the launch of new cross-border links with Sweden (NordBalt) and Poland (LitPol Link) will be calculated having evaluated technical and security parameters of the interconnection links;
- legal integrity is ensured with CACM and provisions enshrined in documents prepared by ENTSO-E.

By resolution of the NCC, the following works were laid down for TSO:

- a) an obligation to conduct analysis and hold consultations with market participants on the installation of streaming method;
- b) to evaluate a possibility to create a virtual price zone with third parties;
- c) to publish relevant information on its website;
- d) to present new rules and the related information to the NCC 6 months before their effective date.

Situation on access to cross-border infrastructure changed since 2016, when interconnection lines with Sweden and Poland were launched. NordBalt link operating since February has significantly reduced electricity price in the market. It should be mentioned that in 2015, cross-border links Lithuania–Russia were used the most out of all 15 cross-border links, and their exploitation accounted for 68 % of time per year. The exploitation of the Lithuanian–Polish interconnection link accounted for 59%, even though it operated for only 403 hours last year.

The changed infrastructural situation, when Lithuania turned up at the crossroads of electricity flows between Sweden, Latvia, Belarus, Poland and Russia (Kaliningrad), has demanded new decisions associated with new countries and markets as well as their specifics. Regional cooperation has become of particular importance in pursuit for efficient solutions and implementation of connection of electricity markets: cost sharing between countries and market participants, implementation of financial tools, efficient use of capacities, implementation of intra-day trading in new interconnection links, etc. The said decisions are related to 9 codes of electricity networks that were adopted or are planned to be adopted, while the implementation of tasks provided for therein at the European level has become increasingly relevant for the adoption of decisions at the regional and national level.

It should be emphasized that having built new interconnections to the West, Lithuania, just like other states, still remain an isolated energy island in the EU. Thus integration into European electricity systems in terms of management and operative work is the top priority, i.e. synchronous operation of the Lithuanian electricity system with networks of the continental Europe would be the ultimate goal.

In 2015, Lithuanian electricity TSO generated EUR 915 936 in congestion income (EUR 37 384.53 in 2014) and EUR 701 783 in January of 2016 alone. The plan is to use all these funds for the implementation of strategic projects. It should be noted that in 2015 there were no physical congestions in LEPS interconnection links.

In 2015, annual hourly electricity demand peak (net) was 1 748 MW (1 835 MW in 2014, 1 810 MW in 2013). The total installed capacity of LEPS power plants totalled 3 558 MW.

All the relevant information related to access to and the use of the transmission network is published on the website of AB Litgrid at www.litgrid.eu and the Nord Pool Spot AS website at www.nordpoolspot.com.

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

In 2015, NCC representatives continued participating in meetings of working groups of the ACER Baltic Regional Initiative, where outstanding issues are presented and information on technical cooperation between the Community and TSOs of third countries is exchanged. If required, the NCC adopts relevant decisions, makes comments on draft legal acts on the said issues, especially when this is related to electricity prices.

As mentioned in Chapter 2.1.5, when preparing for the development of regional market, which was determined by the newly launched interconnection links with Sweden and Poland, considering amendments to the Law on Electricity which took effect in March of 2014 and having respectfully received a reasoned notice of the Ministry of Energy, the NCC set the price of EUR 5.27/MWh for electricity export to third countries by its Resolution No. O3-694 of 30 December 2015. This price has applied since 1 March 2016. Discussions on the said issue continue, and the plan is to set pricing principles at the regional level in the future.

In the refocus of electricity systems of the Baltic States for work with Western European networks and in preparation for work in disconnection from other electricity systems in an “island mode”, respective decision will be needed. Mutual coordination increases the overall system management efficiency and reduces the likelihood of total failures. Moreover, domestic electricity transmission network must also be enhanced for synchronization, which will serve as renovation of depreciating infrastructure and as a method to efficiently exploit LitPol Link and NordBalt interconnection links.

The ministers of energy of Lithuania, Latvia and Estonia signed a joint declaration in 2015 in accordance with which synchronous work with the Western Europe is planned in 2025.

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

Monitoring of investment plans of AB Litgrid is performed in line with the conditions indicated in Chapter 3.1.3 enshrined in the Law on Electricity, i.e. a 10-year plan for the development of transmission networks presented by the 1st of July of each year is evaluated by the NCC.

In 2015, the length of high-voltage electricity transmission lines was 7 029 kilometres and there were 236 high-voltage transformer substations. The total electricity demand was 11.8 TWh. Electricity consumption increased by 1.4 %. Electricity system was connected by 12 inter-system interconnections with synchronous zones and 3 – with asynchronous zones. The planned investment amount into the transmission network in 2015–2024 is about EUR 870.4 million.

The NCC also participates in PCI implementation process together with TSO and cooperates with energy regulators of other countries in pursuit for successful completion of construction of strategic interconnection links according to a 10-year transmission network development plan.

Cooperation (Article 37(1)(c))

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

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

It has also been established that under its competence the NCC represents the Republic of Lithuania in the ACER, acting 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. In cooperation with the ACER and foreign national energy sector regulatory authorities, the NCC is exchanging information which is necessary to perform the NCC functions set forth by this Law and other legal acts. The NCC ensures confidentiality of the received information.

The NCC is also a member of the CEER and Energy Regulators Regional Association (ERRA). NCC representatives take part in various meetings of working groups, perform joint benchmarking analyses of energy undertakings, answer various questionnaires, provide the required information and monitor the course of the drafting of documents.

3.1.5. Compliance with legal acts

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

The NCC has been continuously receiving information about the ACER and the European Commission's legal acts that are being drafted or have already been adopted. Moreover, by means of joint information system, the NCC conciliates its positions with other state authorities. Provisions of relevant legal acts of the European Union have been transposed to provisions of the national legal framework or are applied directly, and are complied with under the competence in the NCC's adoption of resolutions on the setting of components of transmission service price, setting and allocation of capacity of connection lines, rules on the management of congestion and others.

Ensuring compliance of transmission and distribution undertakings, 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))

Unless otherwise provided for in other legislation, the NCC prepares and sets forth in its legal acts detailed requirements on compliance with the Community legal framework and liability in case of non-compliance with their provisions. Compliance with provisions of legal acts on cross-border trade has been described in Chapters 2.1.3 and 3.1.4 of this Report.

According to Article 9(7) of the Law on Electricity, the NCC imposes efficient, commensurate and dissuasive sanctions on electricity undertakings for non-compliances in performing state-regulated energy activities in the electricity sector in accordance with the procedure and conditions prescribed by laws. Penalties imposed by the NCC for non-compliance in performing the state-regulated energy activities and the procedure for imposing them are set forth in the Law on Energy.

Article 36 of the Law on Energy establishes that in order to ensure compliance with conditions of regulated activities set forth in laws, the NCC imposes penalties on energy undertakings for violations in the performance of regulated activities, which have not been removed within a reasonable period of time set by the NCC.

In cases where the Competition Council investigates actions of unfair competition or infringement of the principle of non-discrimination of customers in the energy sector under its competence, such actions are investigated, binding instructions to energy undertakings are issued and

liability for the infringements, including sanctions imposed on energy undertakings, is defined according to the procedure and conditions prescribed by the Law on Competition. To this end, the NCC and the Competition Council collaborate between themselves in order to efficiently identify the scope of actions of unfair competition or infringement of the principle of non-discrimination of customers in the energy sector, and their scope and impact on energy consumers and/or other energy undertakings. Energy undertakings are held liable for the same infringement either pursuant to the Law on Energy or the Law on Competition, depending on the competence assigned either to the NCC or to the Competition Council.

3.2. Promoting competition

3.2.1. Wholesale market

The new interconnection links with Sweden (700 MW) and Poland (500 MW) launched in 2015 opened up new possibilities for the development of the Lithuanian electricity market. During first months, the price of electricity in the price zone of Lithuania, just like in that of Latvia and Estonia, decreased compared to the similar period of last year. Electricity market prices are affected by the volume of electricity offered by producer, the price of imported electricity and the volume of electricity which can be transferred to cross-border links. One of the upcoming tasks is the aim to calculate capacity of cross-border links jointly not only with the Baltic States, as it is done now, but also with all TSOs of the Nordic countries. Coordination of the capacity of links at the regional level is the task of the entire Europe enshrined in the CACM.

Pursuant to European rules, the plan is to expand the electricity market in the direction of balancing and system services as well. When calculating balancing costs and maintaining reserves jointly in Nordic and Baltic states, cross-border interconnection links will be better exploited and products of local electricity producers will be used more efficiently. By connecting states of the region, a greater balancing and reserves market will allow optimally choosing suppliers of such services and reducing the burden of system service costs on consumers.

In 2015, the electricity price in the Lithuanian market was EUR 42 /MWh. 66 % of electricity was imported. 3 new licenses to independent suppliers were issued in 2015, but 13 licenses were suspended. At the end of the year, there were 19 active independent suppliers out of 35 licensed independent suppliers. There were 2 main electricity suppliers in the wholesale market last year. There were 17 participants in the day-ahead trade and 6 in the intraday trade of electricity exchange. For more information, see www.nordpoolspot.com.

The NCC published the average electricity market price for the last month on its website each month till the 5th day of the month. In light of amendments to the Law on Renewable Resources providing that the electricity market price of the current calendar year set by the NCC shall be used for setting PSO funds payable to producers of electricity from renewable energy sources, which took effect on 1 March 2016, the NCC is no longer obligated to set the electricity market price of the previous month.

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

The electricity price monitoring is conducted according to the approved Description of Procedure of Electricity Market Monitoring, and results are published in NCC's annual reports and annex thereto Review of the Development of Energy Sector as well as annual and quarterly reports of monitoring of the electricity market, which are published on the NCC's website www.regula.lt (also see section 2.1.3).

It should be mentioned that meetings of the National Committee for the Development of a Single Baltic Electricity Market are held at least once per half a year and they are attended by representatives of state authorities, market participants and related associations. Here relevant

information is exchanged and issues of concern are solved, clearing up their reasons, and plans for steps to be taken in pursuit for an efficient operation and development of electricity market are drawn up.

In order to ensure transparency, the NCC monitors if information according to 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, transparency requirements of Chapter 5 of the Guidelines and provisions of Commission Regulation (EU) No. 838/2010 of 23 September 2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging is published properly. The NCC also publishes on its website the entire information related to its activities: news, various explanations, statistics, held meetings, material of public meetings, etc.

3.2.2. Retail market

Since 2013, all commercial consumers have been paying for electricity at market prices, and, in case of necessity, a six-month guaranteed electricity supply is secured to these customers. Household consumers also have the right to choose an independent electricity supplier and purchase electricity in the market or according to bilateral agreements.

Last year, the average annual electricity consumption by household consumers decreased from 1 644 kWh to 1 634 kWh. In 2015, the retail market share held by historic public supplier AB Energijos Skirstymo Operatorius stayed the same – about one third of the total consumption, including guarantee supply. 46 806 consumers used the services of guarantee supplier. The three biggest independent electricity suppliers in the retail market were UAB Energijos Tiekimas, UAB Elektrum Lietuva and UAB Enerty. Their share in the retail market accounted for 60.4 % in terms of the volume of electricity. Compared to 2013 and 2014, the market share occupied by UAB Elektrum Lietuva increased the most out of the largest independent electricity suppliers in 2015.

The number of consumers in the country increased from 1 655 991 to 1 673 801 consumers, of which 132 943 were non-household consumers. During 2015, consumption by non-household consumers purchasing electricity at public prices decreased from 0.12 TWh to 0.11 TWh. Consumption by household consumers purchasing electricity at public prices remained almost the same during 2015 and totalled 2.51 TWh. The number of household consumers having purchased electricity in the market under negotiated prices decreased from 21 to 11.

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

In 2015, electricity price in the market was EUR 42/MWh. The average annual retail price to a typical household consumer of the historic public supplier was EUR 52/MWh (acquisition of electricity and margin of public supply), while the price of the use of electricity networks and transmission service was EUR 29/MWh.

Year 2016 is the first year of the new 5-year regulatory period. Permissible income calculated in each other year will be adjusted according to the requirements of the Methodology for Setting Electricity Transmission, Distribution and Public Supply Service Price Caps and the Public Price Cap approved by Resolution No. O3-3 of the NCC *On the Approval of the Methodology for Setting Electricity Transmission, Distribution and Public Supply Service Price Caps and the Public Price Cap* of 15 January 2015.

In 2016, the price cap of the transmission service of AB Litgrid was 0.691 ct/kWh, or 0.153 ct/kWh (28 percent) greater compared to the transmission price cap set for the company for 2015, because in 2016 the price increased as a result of increased costs of interconnection links, CACM

implementation costs and growing salary. In light of price caps of reserve capacity assurance services and TSO forecasted amount of services in 2016, the system service price of 0.353 ct/kWh was set for 2016, which, compared to 2015, increased almost three times due to increased reserve demand (435 MW) in order to ensure the adequacy of electricity system having started operating the NordBalt and LitPol Link interconnections.

The distribution price cap of AB Energijos Skirstymo Operatorius at medium voltage was 1.000 ct/kWh in 2016, or -0.178 ct/kWh (15.1 percent) lower compared to 2015, at low voltage – 1.766 ct/kWh, or 0.216 ct/kWh (13.9 percent) greater compared to the price cap set for the company in 2015. The decrease in price caps at medium and increase at low voltage was mainly determined by reallocation of proportions of assets used by the company for regulated activities between the said voltages.

Considering point 3 of Resolution No. 1083 *On the Identification of Suppliers Providing Public Services and the Setting of the Scope of Supply of Services of Public Interest for 2016* of the Government of 7 October 2015, which establishes that the scope of subsidized electricity production in cogeneration mode in combined electricity and heat generation cycle power plants should not be set for 2016, the NCC did not determine the need for PSO funds for this service for 2016.

Considering the Resolution No. 1083 of the Government of 7 October 2015 whereby a decision was made not to set subsidized electricity production scope for producers having ensured the security of electricity supply for 2016, but obligating them to provide the service of assurance of electricity system reserves, the NCC set for this service the need for PSO funds for 2016, which was equal to EUR 28.5 million. It should be noted that PSO funds allocated for this Lithuanian power plant of AB Lietuvos Energijos Gamyba have consistently decreased, i.e. this amount decreased by almost 4 times during the period from 2010 till 2016.

Also, the total amount of PSO subsidies to be received by AB Lietuvos Energijos Gamyba was reduced by the amount of profit forecasted in 2016, in excess of the regulated profit, from electricity generation activities in Kaunas A. Brazauskas Hydroelectric Power Plant (KHPP) and Kruonis pumped storage plant (KPSP), based on the Lithuanian electricity generation market research results and respective decisions of the NCC.

The PSO budget set for 2016 decreased from EUR 158 million to EUR 144 million, or by about 9%. The price of PSO decreased from 1.642 to 1.577 ct/kWh.

In 2016, the public electricity price for household consumers purchasing electricity from medium voltage networks was 8.086 ct/kWh (exclusive of VAT), or 0.530 ct/kWh (6.2 percent) lower than in 2015. The price for household consumers purchasing electricity from low voltage networks was 9.852 ct/kWh (exclusive of VAT, or 0.313 ct/kWh (3.1 percent) lower than in 2015.

It should be noted that having evaluated the impact of new electricity interconnections NordBalt and LitPol Link launched at the end of 2015 and the decreasing price of acquisition of electricity, also a decreasing need for PSO funds due to a decreased natural gas supply security component, the NCC approved lower electricity tariffs for household consumers, which are valid as from 1 July 2016. The price for household consumers purchasing electricity from low voltage networks is 9.53 ct/kWh (exclusive of VAT), or 0.32 ct/kWh (3.2 %) lower than in Half 1 of 2016.

Electricity prices, their application, comparison with prices applicable in other countries and other related information is published on the website of the NCC at www.regula.lt or website of AB Energijos Skirstymo Operatorius at www.eso.lt. Consumers are informed about new prices and tariff plans individually on the self-service portal www.manogile.lt, while those having presented their contact data – by SMS messages or e-mails. The Company also informs customers about the applicable tariff plans and their application conditions by customer service line 1802.

Market opening and efficiency questions are discussed in Chapters 3.2.1 and 3.2.2, and more data are available in the CEER database.

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

Article 37(1)(o)

Points 15 and 16 of Article 8(9) of the Law on Energy establishes that the NCC monitors whether the concerted practices that would restrict competition have not occurred, including conditions of exclusive rights, whereby big non-household customers may be prevented from or their possibilities may be limited to simultaneously conclude agreements with more than one supplier, and informs the Competition Council about such practices, issues recommendations related to the compliance of the prices of services supplied in the energy sector with the requirements of transparency, non-discrimination and other requirements prescribed by laws at least once per year and submits them to the Competition Council.

Procedures of the submission of information about market distortions or restrictions to the Competition Council, including the submission of appropriate information and the presentation of investigation of respective occurrences in the market, are carried out in accordance with the requirements established by laws. Pursuant to point 16 of Article 8(9) of the Law on Energy and point 7 of Article 9(4) of the Law on Electricity, the NCC issues recommendations on the compliance of the prices of the services rendered in the electricity sector with the transparency, non-discrimination and other requirements set forth in the laws at least once per year and submits them to the Competition Council.

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

Article 37(4)(b)

In 2015, the NCC started assessing costs of repair, maintenance and operation, personnel, administration, etc. of main electricity transmission and distribution system operators (AB Litgrid and AB Energijos Skirstymo Operatorius), small distribution system operators (AB Achema, AB Akmenės Cementas, AB Lifosa, UAB Dirbtinis Pluoštas and UAB E Tinklas) and public suppliers (AB Energijos Skirstymo Operatorius and UAB Dirbtinis Pluoštas) and AB Lietuvos Energijos Gamyba according to submitted quarterly reports.

This allows the NCC to be continuously informed about the costs incurred by regulated electricity transmission and distribution operators and to provide consultations on issues related to attribution of the costs incurred to regulated activities within the shortest possible time. The amended concept of the monitoring of costs allows the NCC to capture possible infringements in attribution of costs more operatively and to ensure the compliance with the requirements of regulatory activities enshrined by legislation and principles of cost allocation established in practice.

Having assessed the presented data of quarterly income and cost statements of electricity companies, the NCC provides inquiries to economic undertakings on issues emerged during cost analysis. More active analysis of quarterly operating costs of the said electricity sector companies is aimed at evading situations having occurred in the past, when having conducted routine inspections of costs of electricity sector energy transmission and distribution operators and of the public supplier, significant violations of cost accounting of companies conducting regulated activities were recorded, while consumer overpayments are set out in future periods over the course of a few years due to their scope.

Since 2016, economic undertakings have submitted data via the Data Collection and Analysis Information System ([DSAIS](#)).

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

Implementation of safeguard measures (Article 42)

The process of update of the Lithuanian Energy Strategy was started in 2015 and continued in 2016 with the aim to assess the changed situation after the launch of new interconnection links with Poland and Sweden. The maximum development of local competitive energy generation sources, focus on energy consumption efficiency increasing competitiveness of the country and focus on a wider use of renewable energy sources are among strategic directions. Also the plan was to set up the Energy Centre of Excellence.

Other strategic directions include the maintenance of installed capacities prepared for operation to ensure security of supply with electricity, synchronization of electricity system with networks of continental Europe, implementation of transparent competitive relations in the generation of district heating, assurance of flexibility of natural gas supply at most acceptable conditions and pursuit of rules of trade with third countries uniform EU-wide.

The following questions are among issues under discussion: the level of local electricity (uncompetitive in the market) production and installed capacities necessary to ensure energy security and the type of technologies chosen to achieve this goal. Also attempts are made to clear up what would be the losses incurred by possible interruption in energy supply in the country and what should be the priority: competitiveness of the country's industry or export of energy. During discussions the expectation is to receive an answer to the question on Lithuania's contribution in pursuit for goals of the use of renewable energy sources in the EU. Great focus is placed on the transport sector, which should contribute to the reduction of emissions.

3.3.1. Monitoring the supply and demand balance

Article 4

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

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

Article 37(1)(r)

In accordance with the provisions of the Law on Electricity, the NCC monitors the implementation of the network development plan and performs its evaluation. Each year AB Litgrid prepares ten-year network development investment plans which evaluate development scenarios of the planned new generation sources.

In the plan submitted in 2015 forecasts are made that the installed capacity of new electricity generation sources will increase to 4 920 MW, or by 14 percent. Power plants using RES would account for about a half of this share.

It should be noted that LEPS has strong enough interconnection links with neighbouring countries, while the launched new interconnection links LitPol and NordBalt with Poland and Sweden contribute to the increase of security of supply. Under these conditions, in any case, technical possibilities to cover electricity generation capacity deficiency (if any) by imported electricity are available.

Security of the operating network

Article 7 of Directive 2005/89/EC

About two-thirds of electricity is imported due to uncompetitive production capacities. The volume of electricity possible for import depends on repairs carried out in the transmission network. The electricity volume available for import increased from 7 789 to 10 804 GWh, or by

39 %, in 2015. Available import is planned to total 19 482 GWh in 2016, which is an increase of 80 %, as a result of the emergence of new interconnections with Sweden and Poland.

Investments in cross-border capacities 5 and more years ahead

Article 7 of Directive 2005/89/EC

The integration of the LEPS with the Continental European Network (CEN) covers 3 projects: NordBalt (700 MW), LitPol Link (500 MW) and the synchronisation with CEN (500 MW). The first 2 have been operating since the end of 2015.

A second 400 kV cross-border interconnection link between Lithuania and Poland and a number of projects related to enhancement of the domestic market are planned for synchronisation with CEN. In transition to synchronous operation of energy system of the Baltic states with the European energy system, the Baltic IPS/UPS systems will be connected by asynchronous links, i.e. by installing DC converters.

According to the Description of the Procedure of Evaluation of Energy Company investments and their Approval with the NCC, TSO approves separate investments, the scope whereof is equal or greater than EUR 3.5 million. The value of transmission network strategic projects should total EUR 580 million in 2015–2024 because of interconnection links, it should be EUR 803 million along with the development and restoration of transmission networks and EUR 830 million – along with IT and other projects.

The expected future demand and planned capacities for 5 and 5–15 years ahead

Article 7 of Directive 2005/89/EC

In Lithuania, the maximum hourly electricity demand (net) was 1 748 MW in 2015, i.e. 4.7 percent lower than in 2014 (1 835 MW, 2013 – 1 810 MW). In 2015, the maximum hourly electricity demand in distribution network was 1 555 MW (in 2014 – 1 639 MW).

Electricity demand is mostly affected by changes in the country's economic level, which are best defined by gross domestic product (hereinafter – GDP). However, there also are other factors that significantly affect future electricity demand, thus the following was assessed in this forecast:

- GDP growth;
- electricity efficiency;
- number of electric cars and their electricity consumption;
- number of heat pumps and their electricity consumption;
- technology costs and their change having assessed converters to interconnection links under construction.

The forecast is that in case of the base scenario, Lithuania's electricity demand will increase to 13.3 TWh by 2024 (an annual growth of an average of 2.2 percent), in case of lower economy growth – 12.73 TWh (an annual growth of an average of 1.7 percent), while in case of an optimistic scenario – to 13.9 TWh (an annual growth of an average of 2.6 percent).

During 2015, AB Energijos Skirstymo Operatorius transmitted to its customers 9.15 million kWh of electricity (including technological losses and own needs). The volume of electricity planned to be transmitted in 2016–2018 is forecasted pursuant to provisions of the Methodology for Setting Price Caps of Electricity Transmission, Distribution and Public Supply Services and the Public Price Cap approved by the NCC, i.e. the plan is to have electricity consumption increase by an amount equal to ½ of GDP change. According to March 2016 forecasts of economic indicators of Lithuania drawn up by the Ministry of Finance of the Republic of Lithuania, the forecasted growth of Lithuania's GDP in 2016–2018 is 2.5 %, 3.2 % and 3.1 %, respectively (½ of GDP accounts for 1.25 %, 1.6 % and 1.55 %, respectively).

In 2015, electricity supply of AB Energijos Skirstymo Operatorius totalled 3.12 million kWh, of which 2.63 million kWh was public electricity supply and 0.49 mln. kWh – guarantee supply. The Company forecasts that the volume of electricity planned to be supplied to public consumers in 2016–2018 will increase by 0.5 % each year.

3.3.3. Measures to cover peak demand or shortage of suppliers

Article 4

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

Pursuant to the Description of Conditions of Temporary Interruption of Electricity Transportation to Assure Public Interests and Procedure of Calculation and Compensation of Related Losses approved by Order No 1-121 of the Minister of Energy of 19 April 2010 and provisions of other legal acts, the Procedure for Drawing up the Schedules and Performing Termination of Electricity Transportation to Customers and Capacity Limitations was approved by Order No 176 of the General Director of AB Energijos Skirstymo Operatorius of 11 May 2011. Each year AB Energijos Skirstymo Operatorius draws up schedules of limitation of capacity and electricity as well as of emergency disconnection, which are presented to TSO every year. Limitation schedules (drawn up for a one-year period) are drawn up having summarised and analysed system demand, network parameters and the available information of network users, therefore the scopes of limitations may change each year. Network users included in the limitation schedule are informed about the planned limitation tasks and arising duties in writing in advance. The distribution network is capable of satisfying peak electricity demand because the installed capacity significantly surpasses the existing peak demands. In 2015, AB Energijos Skirstymo Operatorius did not terminate or limit supply to any customers due to a shortage of network capacities.

4. GAS MARKET

4.1. Network regulation

4.1.1. Unbundling of the vertically integrated undertakings

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

On 20 October 2014, AB Amber Grid submitted to the NCC information about complete unbundling of the undertaking from the vertically integrated company AB Lietuvos Dujos, and submitted the application to designate AB Amber Grid as the transmission system operator (TSO) and to issue an open-end licence of the natural gas transmission activity. The NCC evaluated whether *de facto* the unbundling of AB Amber Grid complies with the requirements of the Law on Natural Gas (NGL) and its implementing legislation on unbundling of the transmission activity (hereinafter – the Requirements) and whether AB Amber Grid complies with the requirements set for licensed activities.

Having evaluated the documents presented by the TSO, data and information about the performance of requirements enshrined in Articles 40–42 of the NGL, the NCC decided by its Resolution No. O3-5 *On the Unbundling of Natural Gas Transmission Activities and a Preliminary Decision on Designation of the Transmission System Operator* of 15 January 2015:

- to state that the unbundling of AB Amber Grid transmission activity complies with the provisions of Articles 40–42 of the NGL and AB Amber Grid can be designated as the TSO.

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

- to adopt the final decision on the designation of TSO according to the procedure set forth in paragraphs 2 and 3 of Article 28 of the NGL.

- to obligate AB Amber Grid to inform the NCC about any changed circumstances due to which it is not possible to ensure the implementation of the requirements on unbundling the transmission activities set forth in Articles 40–42 of the NGL no later than within 5 working days when these circumstances have become known to AB Amber Grid.

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

- conception of ownership rights of AB Klaipėdos Nafta and UAB Litgas accepted by the Government of the Republic of Lithuania is not identical to the method proposed during the certification of Litgrid AB, i.e. the unbundling between the two state institutions will be performed only partially, but not completely.

- Although the European Commission agrees that the adopted structure of unbundling to a large extent is efficient in seeking to avoid the risk of TSO control and development not being carried out independently, the European Commission is not satisfied with the fact that an in-depth assessment of indirect rights of the Ministry of Energy in UAB Litgas was not performed in accordance with Article 9(2) of Directive 2009/73/EC.

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

Due to the above-mentioned reasons, the European Commission encouraged the NCC to certify AB Amber Grid only on condition that all shares of UAB Litgas, which are held by AB Klaipėdos Nafta, will be transferred. If in the implementation of this process the transfer of employees will also be necessary, a reasonable transitional period of, say, twelve months, can be set.

Having evaluated the Opinion provided by the European Commission, on 27 March 2015, the NCC addressed the Ministry of Energy and the Ministry of Finance, respectively having control over the natural gas transmission and supply activities for the submission of information on possibilities of the implementation of certification condition of AB Amber Grid laid down in the said Opinion of the European Commission, i.e. what is the period of time not exceeding the maximum twelve-month transitional period proposed by the European Commission for the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta to an economic undertaking, which is neither directly nor indirectly controlled by the Ministry of Energy.

The Ministry of Energy and the Ministry of Finance responded to the said question. The Ministry of Energy, which indirectly controls AB Amber Grid and owns up to 1/3 of shares of UAB Litgas, confirmed that it will carry out the necessary actions for the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta to an economic undertaking, which is neither directly nor indirectly controlled by the Ministry of Energy. The Ministry of Finance informed that it will make every effort and search for appropriate measures in order to ensure proper implementation of the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta during the period of time no longer than 12 months.

By its Resolution No. O3-242 of 10 April 2015, the NCC resolved as follows:

1. To state that the unbundling of AB Amber Grid transmission activity complies with provisions of Articles 40–42 of the NGL and that AB Amber Grid can be designated a TSO, on condition that that the Ministry of Energy of the Republic of Lithuania will conduct actions for the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta to an entity, which is neither directly nor indirectly controlled by the Ministry of Energy, as indicated in the Opinion by the European Commission no later than within 12 months from the effective date of the NCC Resolution regarding the designation of AB Amber Grid.

2. To repeal Resolution No. O3-292 of the NCC *On the Issuance of a Fixed Term Natural Gas Transmission License of AB Amber Grid* of 18 July 2013.

3. To issue to AB Amber Grid an open-end TSO licence provided that that the Ministry of Energy of the Republic of Lithuania will perform actions for the transfer of UAB Litgas shares owned

by AB Klaipėdos Nafta, to an economic undertaking, which is neither directly nor indirectly controlled by the Ministry of Energy of the Republic of Lithuania, as it has been indicated in the Opinion by the European Commission no later than within 12 months from the effective date of the NCC Resolution regarding AB Amber Grid designation.

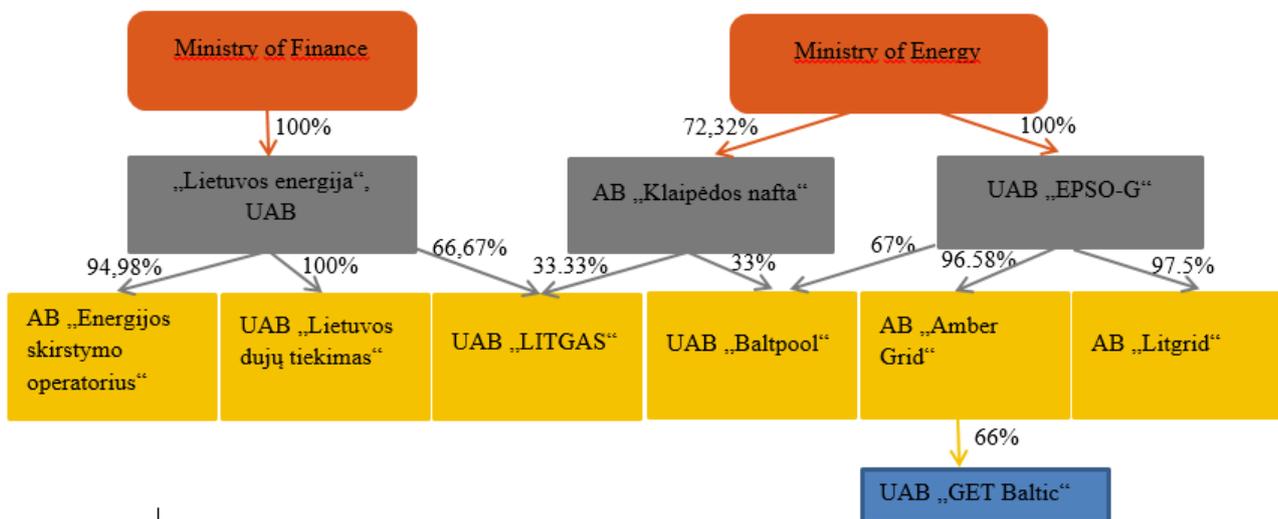
4. To obligate AB Amber Grid:

4.1. to ensure that actions for the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta to an economic undertaking, which is neither directly nor indirectly controlled by the Ministry of Energy, as it has been indicated in the Opinion by the European Commission, are carried out during the period no longer than 12 months, and to inform about the progress in performing this process within 10 calendar days from the end of the reporting quarter;

4.2. in case of a change of circumstances other than those laid down in paragraph 4.1, which do not allow ensuring the implementation of requirements for the unbundling of transmission activities set forth in Articles 40–42 of the NGL to inform the NCC thereof no later than within 5 working days when these circumstances became known to AB Amber Grid.

In the performance of the functions attributed thereto by Resolution No. O3-107 of 22 April 2016, the NCC stated that AB Amber Grid failed to perform the obligation set in subparagraph 4.1 of Resolution No. O3-242 of 10 April 2015 and stated that AB Amber Grid does not meet requirements for independence of TSO activities and the unbundling of activities enshrined in Chapter eight of the NGL. In light of this fact, the NCC obliged AB Amber Grid to rectify the infringement of conditions of regulated activities within 2 months from the effective date of the resolution and to present to the NCC information and an action plan approved with the Ministry of Energy related to the transfer of shares of UAB Litgas owned by AB Klaipėdos Nafta within 10 working days. In case of a failure of AB Amber Grid to rectify the infringement of conditions of the regulated activity specified by the NCC, according to the Law on Energy the company may be imposed a fine of up to 10 percent of its annual income generated in the previous financial year from the regulated natural gas transmission activities.

Figure 14. State-owned enterprises, April 2016



Source – NCC.

4.1.2. Technical functioning

Rules on the use of the system

The approved Rules on the Use of Natural Gas Systems define the procedure and conditions for the use of the systems, rights and obligations of system operators, system users, cooperation guidelines, mechanisms for allocation of system capacities and congestion management, procedure and principles for arranging repair works, announcing about them and conducting them, etc.

One of the most important objects ensuring national energy security Klaipėda LNG terminal started operating on 27 November 2014. It allowed the formation of the natural gas market in Lithuania. Upon the launch of the LNG terminal a need to revise the **Rules for the Use of Liquefied Natural Gas Terminal** (approved on 8 June 2015, No. O3-358) occurred. The amendment to the rules drafted by AB Klaipėdos Nafta waived the distinguishing of capacities to main and seasonal ones, flexible ordering of capacities according to a specific need of a terminal user was permitted and a possibility was provided for allocating LNG terminal capacities not only in the current gas year, but also after the end of the annual LNG terminal capacity allocation procedure when there are free LNG terminal capacities. Also, the procedure of the use of LNG congestion and LNG regasification capacities was itemized by enshrining the concept of a designated supplier and granting to him a priority to allocate LNG terminal capacities within the scope of supply of the mandatory volume, to adjust procedures of service provision and drafting of schedules, etc. In 2015, solely the designated supplier UAB Litgas imported LNG via the terminal. In 2016 another two suppliers started using the LNG terminal, thus the Rules on the Use of the Liquefied Natural Gas Terminal were revised once again. In order to increase the competitiveness of Klaipėda LNG terminal, creating more favourable conditions to provide low-scale LNG services, use the available capacities more efficiently by attracting new customers in the regional Baltic Sea LNG and natural gas markets, by its Resolution of No. O3-169 of 3 June 2016, the NCC approved a recast of the Rules on the Use of the Liquefied Natural Gas Terminal drafted by AB Klaipėdos Nafta.

Major amendments:

- A longer period of time for temporary LNG storage in the terminal was provided for LNG terminal users, which is up to one year from the unloading of the load (a period of time of 2 months was applicable up until now); actual technological losses generated in the LNG terminal will be allocated for system users in proportion to the volume of gas stored for them in the terminal, i.e. depending on the volume of LNG stored by the user he will be allocated a respective share of technological losses.
- The procedure for drafting an annual schedule was itemized, providing for a possibility to divide it to time intervals, which the operator will apply when terminal users fail to agree on and coordinate draft annual schedules among themselves.
- The designated supplier was provided with a possibility not to regasify the mandatory terminal volume, having agreed thereon with the terminal operator, if there are technical possibilities to temporarily ensure the necessary technical condition of the LNG terminal without regasification.

A recast of the Description of the Procedure of Natural Gas Accounting was approved by Order No. 1-255 of the Minister of Energy of the Republic of Lithuania of 14 October 2014, which established that since 1 January 2015 the volume of gas shall be accounted for by units of energy (kWh) for the settlement for gas and natural gas transmission and distribution services with system users (consumers), using upper calorific value of gas. In light of the changed requirements for the accounting of natural gas, natural gas companies have accordingly revised the rules on the use of natural gas systems and submitted them for NCC's approval.

In 2015, the NCC approved amended rules for the use of the system drafted by transmission and distribution system operators:

1. **Rules on the Use of the Natural Gas Transmission System of AB Amber Grid** (approved on 30 December 2015, No. O3-699). Provisions related to designation of a forecasting party were revised in the rules, the period of a gas year was changed, also provisions related to the setting and application of natural gas consumption capacities were supplemented.

2. **Rules on the Use of the Natural Gas Distribution System of UAB Intergas** (*approved on 19 January 2015, No. O3-13*). The concepts of a gas year, gas quarter and gas month were adjusted, provisions on energy accounting units were amended replacing cubic meters with megawatt hours, rights and obligations of system users and the operator were reviewed. Also, a mechanism of congestion management by proportionate allocation of capacities for system users was enshrined. In light of the fact that after the approval of the rules provisions of legal acts changed, UAB Intergas presented revised rules for the NCC's approval (*approved on 30 November 2015, No. O3-623*). The revised rules establish conditions of the use of UAB Intergas distribution system, when system users purchase transmission services directly from TSO rather than via the distribution system operator.

3. **Rules on the Use of the Natural Gas Distribution System of AB Druskininkų Dujos** (*approved on 3 April 2015, No. O3-234*). The rules define the concepts of a gas year, gas quarter and gas month, amend provisions on units of energy accounting, replacing cubic meters with megawatt hours.

4. **Rules on the Use of the Natural Gas Distribution System of AB Lietuvos Dujos**¹ (*approved on 30 November 2015, No. O3-631*). The rules govern the procedure on forecasting natural gas volume in the distribution system of AB Lietuvos Dujos, which is measured at a frequency other than every day, i.e. market participants, who do not have instant meters, will have to inform about volumes of natural gas which they plan to distribute according to the applicable uniform requirements.

Balancing of natural gas systems

In 2015, natural gas companies revised system balancing rules. Pursuant to Article 23(2) of the NGL, the NCC approved the amended **Rules on Balancing Natural Gas Transmission System of AB Amber Grid** drafted by TSO (*approved on 30 December 2015, No. O3-698*). The rules enshrine that a distribution system operator designated by the NCC shall be a forecasting party and establish that the minimum sum of a performance guarantee shall be at least 20 percent of the value of natural gas, which the market participant transports. The average weighted natural gas price in UAB GET Baltic natural gas exchange of the previous reporting period is used for calculating the sum of a performance guarantee.

Article 34(5) of the NGL establishes that a distribution system operator, if it is responsible for balancing the distribution system, shall adopt the rules for this purpose, which must be objective, transparent and non-discriminatory. In Lithuania, the distribution system operator UAB Intergas is responsible for balancing of distribution systems owned thereby. By its Resolution No O3-12 of 19 January 2015, the NCC approved the **Rules on Balancing Natural Gas Distribution System of UAB Intergas**. The distribution system balancing rules, applicable tolerance limit and imbalance fee are the same as those in the transmission system. Concepts of a reporting period and balancing period were revised in the balancing rules, the term "Imbalance tolerance limit" was introduced, provisions on units of energy accounting were amended replacing cubic meters with megawatt hours.

The NCC monitors the balancing service activity, evaluates costs and income of the balancing service. The Rules on the Provision of Information of Energy Companies, the recast whereof was approved by Resolution No. O3-209 of 6 March 2015, establish that an economic undertaking holding a natural gas TSO license must present to the NCC within 20 calendar days after the end of the reporting month information on quantities of balancing gas purchased and sold by persons laid down by days, the quantity of gas placed to and taken from gas storage or the transmission system for balancing purpose during the reporting period, indicating the price of gas for balancing, also information on the volume of gas stored for balancing purposes. The pricing of the balancing service in the transmission activity is based on the principle that revenues from the balancing service must correspond to costs of the balancing activity. The formed difference between revenues and costs of the balancing activity is evaluated each year by adjusting the transmission price cap.

¹ AB Energijos Skirstymo Operatorius started operating on 1 January 2016 after the merger of AB Lesto and AB Lietuvos Dujos, thus reference will be made to AB Energijos Skirstymo Operatorius rather than AB Lietuvos Dujos in this report.

Indicators of service quality and reliability

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

The NCC has been monitoring the indicators of reliability of transmission and distribution as well as the quality of services since 2009; it analyses this data each year and presents them to the European Commission in reports. The key indicators of the quality of uninterrupted natural gas supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI) during the reporting period. The SAIDI and SAIFI are differentiated by reasons of interruption of supply.

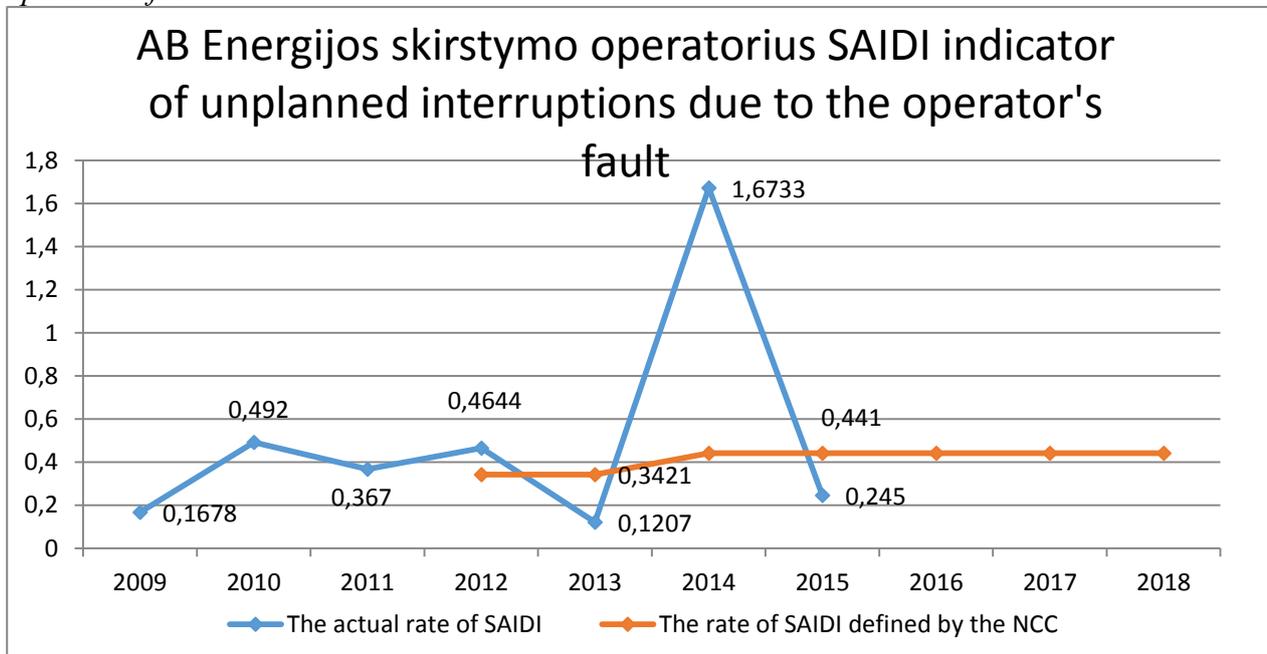
The NCC has set the minimum quality levels for regulatory period for each gas company individually.

Gas undertakings, which will provide services of lower parameters than the minimum quality indicator levels set for them, will be imposed economic sanctions.

By its Resolution No. O3-73 of 24 March 2016, the NCC determined that the services provided by AB Amber Grid, AB Energijos Skirstymo Operatorius, AB Achema, UAB Intergas, UAB Druskininkų Dujos, UAB Fortum Heat Lietuva and AB agrofirma Josvainiai meet the minimum quality levels set for a respective gas undertaking.

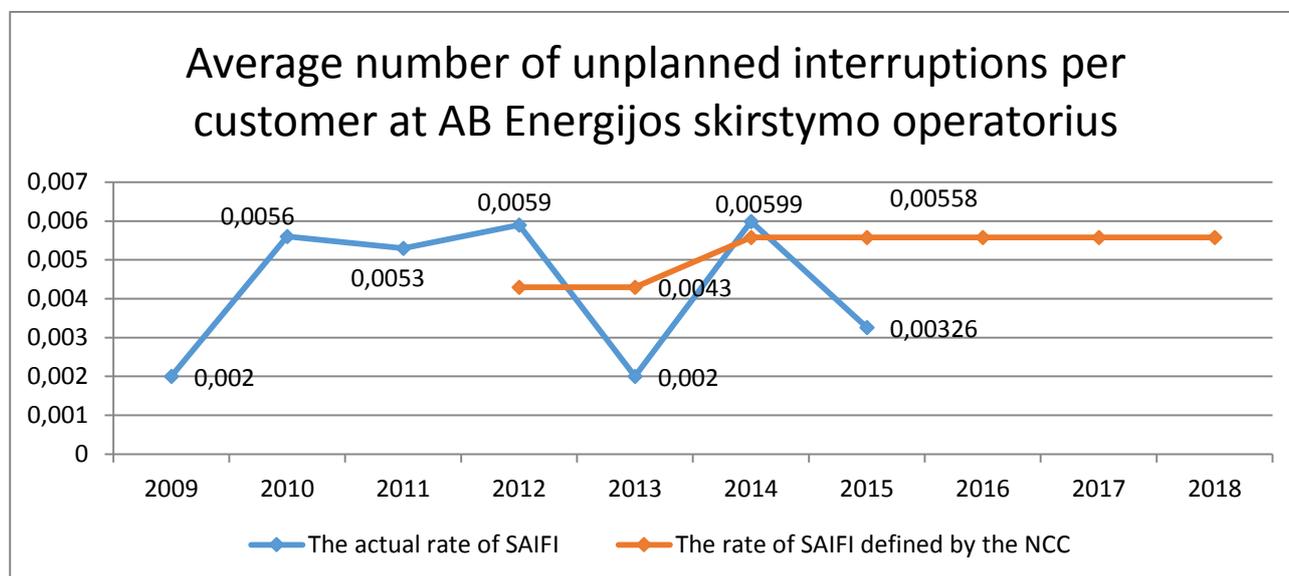
The SAIDI and SAIFI of the natural gas distribution system operator AB Energijos Skirstymo Operatorius for 2009–2015 are illustrated in Figures below.

Figure 15. SAIDI of AB Energijos Skirstymo Operatorius for unplanned interruptions at the operator's fault



Source – NCC.

Figure 16. Average number of unplanned interruptions per customer at AB Energijos Skirstymo Operatorius



Source – NCC.

As seen from the Figures, in 2015, as compared to 2014, indicators of AB Energijos Skirstymo Operatorius improved. The average duration of unplanned interruptions decreased from 1.673 to 0.245, and the number of interruptions – from 0.00599 to 0.00326. There were no interruptions in other natural gas distribution undertakings.

Monitoring the duration of customers' connection to the network and performance of repair works

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

- Examination of new customers' applications to connect their systems to the operating transmission system;
- Connection of a new customer's system to the operating transmission or distribution system in accordance with a connection contract.

There were no customers, which had not been connected to the transmission system due to the fault of the TSO AB Amber Grid. Percentage share of responses to a new customer sent on time, within 30 calendar days, accounted for 100% in AB Amber Grid in 2015. In 2014, this indicator also was 100%.

The indicator of timely examination of customer applications in the distribution system operator AB Energijos Skirstymo Operatorius was 99.36 % in 2014 and 97.84% in 2015. The indicator of the timely examination of consumer applications set by the NCC till 31 December 2018 is 95.43%. Other companies examined applications of both household and non-household customers on time. Arrival of emergency services to the premises of household customers in response to the received reports on gas leaks was 100% on time in all undertakings.

The TSO must publish on its website the schedule of repair works, listing the construction, reconstruction and repair works of the gas transmission system scheduled in the current year, which can affect rights of system users. The schedule of repair works must indicate the sites and the names of works to be carried out therein, the commencement and completion dates of the planned repair

works and disconnection works in the sites of certain zones and their impact on gas supply. The TSO has to publicly inform system users about the planned gas system repairs or the beginning of the connection works of other user systems, when gas transmission is interrupted or restricted, at least 42 calendar days before the start of the said works. The TSO has to notify system users of the time of interruption or restriction of the gas transmission and of the duration thereof by mail, e-mail, via a courier or by fax at least 5 days before the start of the gas system repairs or the connection works of other user systems.

The distribution system operator has to notify system users about the start and the duration of interruption or restriction of gas distribution at least 5 days before the commencement of repair works of the gas system or connection works of other gas systems by one of the following – by mail, e-mail, via a courier or by fax.

The localization of accidents and failures is performed in accordance with the Plan of Actions of the Personnel for Localization of Accidents and Failures in the Natural Gas Systems, approved by Order No 1-69 of the Chief Executive Officer of AB Lietuvos Dujos² of 30 June 2014.

Access to storage facilities

Article 50 of the NGL establishes two possible methods for the services of using underground natural gas storage facilities of natural gas undertakings and for storing natural gas in pipelines:

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

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

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

UAB Lietuvos Dujų Tiekimas stores in the Inčukalns storage facility the quantity of natural gas that is needed to supply with gas residents and those non-household consumers, which have signed agreements on uninterruptible supply of natural gas, for the time period set by the state according to the agreement signed with Latvijas Gaze AS.

Monitoring safeguard measures (Article 41(1)(t))

The Description of Measures to Safeguard Reliability of Natural Gas Supply approved by Resolution No. 163 of 26 February 2008 was amended and recast by Resolution No. 163 of the Government of the Republic of Lithuania of 9 March 2016. It provides for priority order of gas supply in case of termination of gas supply, a major interruption in the supply of gas or a partial disruption of gas supply in light of the volume of gas kept in pipelines, gas storages and technical gas system capacities. Supply companies are liable for uninterrupted natural gas supply to vulnerable consumers, for whom they must accumulate and store gas reserves. Supply companies must accumulate and store for vulnerable consumers to whom they supply gas such a quantity of gas reserves, which would be sufficient to meet gas demand of vulnerable consumers in cases laid down in Article 8(1) of the

² AB Energijos Skirstymo Operatorius started operating on 1 January 2016 after the merger of AB Lesto and AB Lietuvos Dujos, thus reference will be made to AB Energijos Skirstymo Operatorius rather than AB Lietuvos Dujos in this report.

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 (hereinafter – Regulation (EU) No. 994/2010). In light of this fact, supply undertakings must do the following no later than by 1 September of each year:

- to determine and accumulate the quantity of natural gas necessary for vulnerable consumers in accordance with conditions laid down in Article 8(1) of the Regulation (EU) No. 994/2010 and to maintain it till gas reserves for vulnerable consumers are determined and accumulated for the following year;
- to present to the NCC in writing data on volumes of gas accumulated for vulnerable consumers.

4.1.3. Network and LNG tariffs for access and connection

Unbundling the accounts and ensuring the avoidance of cross subsidies

In order to establish clear and transparent rules for unbundling the accounts and allocating costs by natural gas undertakings, the NCC prepared and approved the Description of the Requirements to Natural Gas Undertakings for Unbundling the Accounts, Allocating the Costs and the Requirements Related to Unbundling the Accounts, which took effect on 1 January 2014. The natural gas undertakings which were operating on the effective date of the Description had to submit to the NCC a free-form description of regulatory accounting system within six months, which had to disclose the principles, methods and procedures used in regulatory (unbundling the accounts and allocating the costs) accounting of a natural gas undertaking in the performance of the unbundling of accounts and cost allocation. Each year natural gas undertakings will present to the NCC the annual financial statements of regulated activities based on the presented descriptions of regulatory accounting.

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

Price caps are set for a 5-year period, and are revised for 8 economic undertakings once per year. The NCC also inspects whether the specific prices of regulated services set by gas undertakings do not discriminate individual consumer groups, and approves natural gas tariffs for household customers every half year. The NCC sets, revises and checks about 100 prices in the natural gas sector each year.

Since 2015, price caps and the specific prices of natural gas undertakings are set by using the quantity of natural gas expressed in energy units (kWh), because since 1 January 2015, the quantity of natural gas in the transmission and distribution systems must be accounted for either in units of volume (m³) and/or units of energy (kWh), by using the upper calorific value of natural gas. These changes are necessary for ensuring efficient operation of the LNG terminal, because quality parameters of natural gas supplied to Lithuania significantly differ from those of natural gas, which has up until now been supplied from the Russian Federation, therefore measuring energy value of natural gas rather than its volume is reasonable for the purposes of accounting and settlements.

Important changes in tariff regulation

Adjustment of the price cap of the transmission system operator AB Amber Grid in the implementation of the pricing model of entry-exit points

Paragraph 19 of the Preamble of Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks (hereinafter – Regulation (EC) No. 715/2009) establishes that in order to enhance competition through the creation of liquid wholesale gas markets, it is vital that gas could be traded independently of its location in the system. The only way to accomplish this goal is to grant the right to network

users to freely book gas entry and exit capacities thus ensuring gas transportation through zones rather than via the routes defined in agreements.

Based on the Methodology for Setting State-Regulated Prices in the Natural Gas Sector approved by Resolution No. O3-367 of the NCC of 13 September 2013 (hereinafter – the Methodology), **since 2015 price cap in the transmission activities has been set and adjusted per capacity unit and the application of the pricing model of entry-exit points was started**, which establishes that the NCC shall set price caps and adjust them at entry and exit points of the transmission system, which are set:

1. at entry points in the natural gas transmission system of Lithuania:

1.1. the interconnection point between the transmission system of Lithuania and the link of the LNG Terminal in Klaipėda (hereinafter – the LNGT entry point);

1.2. The interconnection point between transmission system of Lithuania and natural gas transmission system of Latvia, natural gas transmitted whereby to the natural gas transmission system of Lithuania is accounted for at Kiemėnai gas metering station (hereinafter – Kiemėnai entry point);

1.3. The interconnection point between the transmission systems of Lithuania and Belarus, natural gas transmitted whereby to the natural gas transmission system of Lithuania is accounted for at Kotlovka gas metering station (hereinafter – Kotlovka entry point).

2. at exit points of the natural gas transmission system of Lithuania:

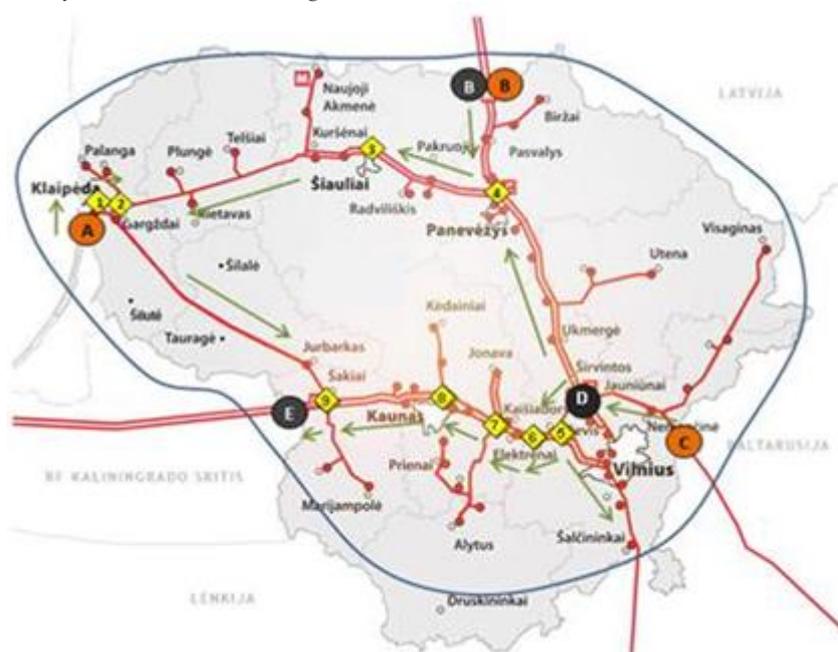
2.1. cross-border exit points:

2.1.1. the interconnection point between transmission system of Lithuania and natural gas transmission system of Latvia, natural gas transmitted whereby from the natural gas transmission system of Lithuania is accounted for at Kiemėnai gas metering station (hereinafter – Kiemėnai exit point);

2.1.2. interconnection point between the transmission systems of Lithuania and the Kaliningrad Region of the Russian Federation natural gas transmitted whereby from the natural gas transmission system of Lithuania is accounted for at Šakiai gas metering station (hereinafter – Šakiai exit point).

2.2. at domestic exit point – at interconnection points of natural gas transmission system of Lithuania with Lithuanian natural gas distribution systems and consumer systems, which are directly connected to Lithuanian natural gas transmission system corresponding to one exit point for all transmission system users of the country.

Figure 17. Topological map of the Lithuanian natural gas transmission system according to the Entry-Exit Point Pricing Model



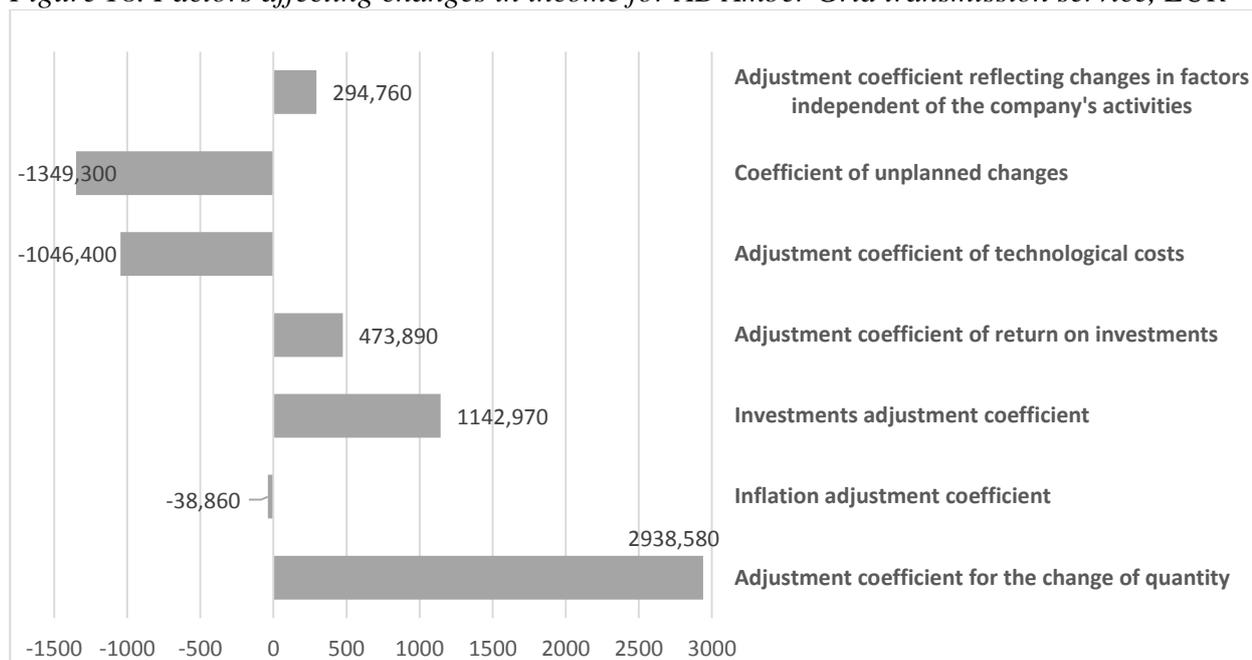
Source – NCC.

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

In the implementation of the pricing model of entry and exit points and the Opinion of the ACER No. 03/2015 of 15 June 2015 *On the Compliance of the Decision of the National Commission for Energy Control and Prices with Guidelines of Directive 2009/73/EC, Regulation (EC) No. 715/2009 and other Related Provisions of this Directive and Regulation* (hereinafter – ACER Opinion), the NCC set adjusted price caps at entry and exit points for 2016 (*Resolution No. 03-591 of 9 November 2015*).

The NCC adjusted price caps at entry and exit points by setting the overall income level necessary for the TSO AB Amber Grid. According to the data presented by the TSO, the NCC calculated adjustment coefficients, which were used to adjust the TSO income level necessary for the performance of transmission services to domestic users of the system, i.e. excluding income received for transportation service from a third country to a third country. The income level which the NCC set after the adjustment was EUR 45 189.36 thousand for 2016.

Figure 18. Factors affecting changes in income for AB Amber Grid transmission service, EUR



Source – NCC.

In light of the fact that since 2015, according to the pricing model of entry and exit points a separate price has been set for each gas entry point to the transmission system and gas exit point from the transmission system, while the activity of natural gas transmission to a third country also is an integrated part of the pricing model of entry and exit points reflecting costs incurred by TSO in the performance of this activity. Paragraph 19 of the Preamble of the Regulation (EC) No. 715/2009 and its Article 13(1) define the general principles for tariff setting for the use of the networks at the same time creating an obligation for all member states to ensure that the transmission system in their territory operated according to the requirements set in Regulation (EC) No. 715/2009. For this reason, the activity of gas transmission to a third country was determined to be equivalent to the transmission activity for purposes of application of the pricing model of entry and exit points. Having evaluated the costs of EUR 8 644 thousand indicated by the TSO for natural gas transmission from a third country to a third country via the territory of the Republic of Lithuania, the NCC set the overall income level of EUR 53 833.36 thousand for 2016.

Pursuant to the Opinion of the ACER No. 03/2015 of 15 June 2015 *On the Compliance of the Decision of the National Commission for Energy Control and Prices with Guidelines of Directive 2009/73/EC, Regulation (EC) No. 715/2009 and other Related Provisions of this Directive and Regulation*, the Methodology and the data presented by the TSO, the NCC separated costs of the main network and the regional network. The main network is such a network which may be used by both natural gas consumers of the Republic of Lithuania and persons ordering the transportation service from a third country to a third country, while the regional network is intended solely for natural gas consumers of the Republic of Lithuania.

The NCC made calculations according to the principles of the pricing model of entry and exit points and set price caps of transmission prices at entry and exit points, evaluating costs attributed to the main gas pipeline network. The final transmission price caps are calculated having assessed costs attributed to the regional gas network, which are attributed to the domestic point.

In order to create preconditions for the development of the natural gas market, efficient use of alternative natural gas supply sources, emergence of new suppliers and formation of competitive conditions, the capacity price cap at the LNG terminal entry point was set as equal to 0 for 2015. The NCC applies a transitional period for the price calculated at the LNG terminal entry point for 2016 and sets a price growth in equal shares within a period of three years till the expiry of the 2014–2018 regulatory period of AB Amber Grid:

- 2016 – 1/3 of the amount of capacity price cap at the LNG terminal entry point;
 2017 – 2/3 of the amount of capacity price cap at the LNG terminal entry point;
 2018 – the price equal to the amount of capacity price cap at the LNG terminal entry point.

Table 6. Comparison of AB Amber Grid transmission service price caps in 2015 and 2016, EUR/MWh/day/year

<i>At the entry points of the natural gas transmission system of Lithuania:</i>			
	2015	2016	Difference, in percent
The interconnection point of the transmission system of Lithuania with the link of the Liquefied Natural Gas (LNG) Terminal in Klaipėda	0	10.05	-
The interconnection point of the transmission system of Lithuania with the natural gas transmission system of Latvia, natural gas transmitted whereby to the natural gas transmission system of Lithuania is accounted for in Kiemėnai Gas Metering Station	49.58	32.32	-34.8
The interconnection point of the transmission system of Lithuania with the natural gas transmission system of Belarus, natural gas transmitted whereby to the natural gas transmission system of Lithuania is accounted for in Kotlovka Gas Metering Station;	49.58	32.32	-34.8
<i>At the exit points of the natural gas transmission system of Lithuania:</i>			
At external exit points:			
- The interconnection point of the transmission system of Lithuania with the natural gas transmission system of Latvia, natural gas transmitted whereby from the natural gas transmission system of Lithuania is accounted for in Kiemėnai Gas Metering Station;	49.58	38.05	-23.3
- The interconnection point of the transmission system of Lithuania with the natural gas transmission system of the Kaliningrad Region of the Russian Federation, natural gas transmitted whereby from the natural gas transmission system of Lithuania is accounted for in Šakiai Gas Metering Station;	54.02	58.82	8.9
At domestic exit point	300.68	428.82	42.6

Source – NCC.

Pursuant to the Methodology requirements, the NCC checked whether the set natural gas transmission service price caps at entry and exit points meet the condition for non-discrimination of system users laid down in the ACER conclusions, i.e. the ratio between the average gas unit price of capacities created for cross-border transportation with the average unit price of capacities created for domestic system users must be equal to 0.9 – 1.1.

Condition of non-discrimination of system users is checked evaluating costs of capacities created for the main gas pipeline network, which are used for both cross-border and domestic transportation, i.e. revenues from domestic users of the system are calculated exclusive of costs of the Regional network. The calculation of the ratio of unit prices of respective capacities is presented in Table 7.

Table 7. Calculation of a price ratio of unit of capacities at cross-border and domestic point

Exit points	Maximum daily flows, MWh/day	Revenues, EUR	Capacity unit price, EUR/MWh	Ratio between price of cross-border and domestic point capacities
Domestic	204 260	18 359 271	89.88	1.004
Cross-border	118 560*	10 611 578	89.50	

Source – NCC.

*Capacities of Šakiai and Kiemėnai exit points are evaluated.

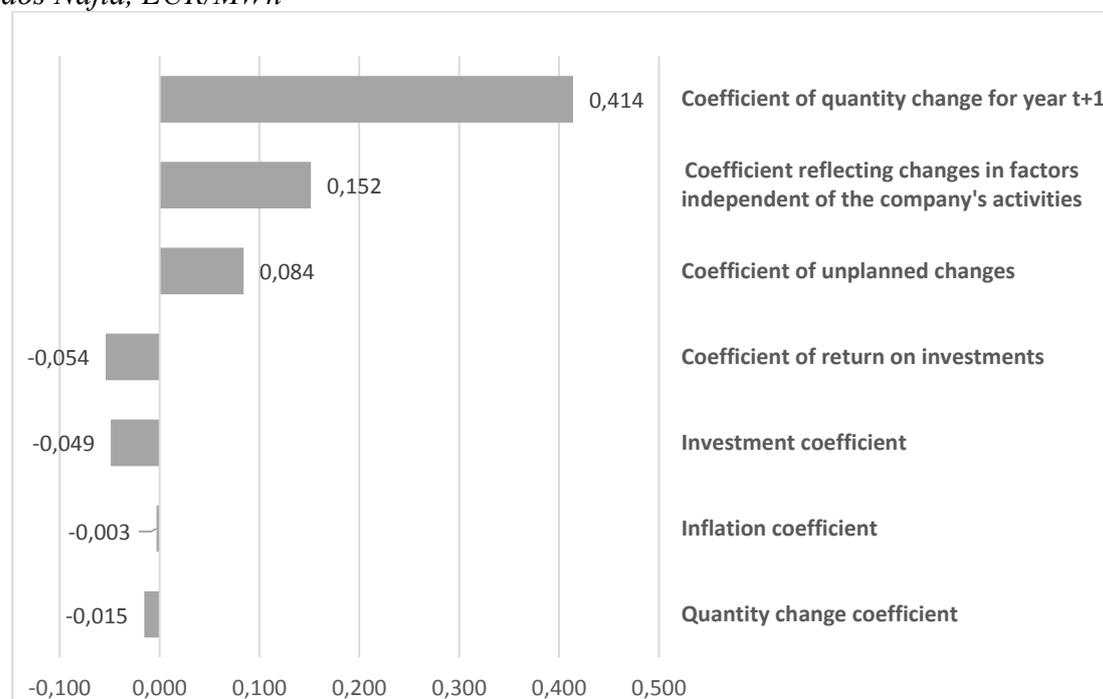
The average price per capacity unit for Lithuanian transmission system domestic point users increases by 32.42 percent in 2016. The main reason for the increase of this price was capacities planned to be ordered in 2016, which are by 23.16 percent lower than in 2015. In the evaluation of the income level attributed to domestic system users for 2016 (EUR 43 524 thousand) and maintaining the level of capacities ordered for 2015 (124 286 MWh/day/year), transmission price limits for capacities would be EUR 350.19 /MWh/day/year, i.e. it would increase by a mere 1.76 percent.

Adjustment of the liquefaction price cap

Having analysed the data presented by the LNG terminal operator AB Klaipėdos Nafta, the NCC adjusted the liquefied natural gas price cap for 2016.

The NCC evaluated the size of the adjustment coefficient and adjusted the income level mandatory for operating the LNG terminal for 2016. Just like in 2015, the variable component remained equal to zero.

Figure 19. Factors affecting the changes of fixed component of the liquefaction price cap of AB Klaipėdos Nafta, EUR/MWh



Source – NCC.

The NCC calculated the adjustment coefficient of 1.04198 and set the income level from liquefaction activities of EUR 70 361 442.5 for 2016. The fixed component of the liquefaction price

cap of EUR 3.26 /MWh was calculated for 2016, having assessed the quantity of gas corresponding to 21 579 571 MWh planned to be transported in 2016.

The main reasons for the increase of the fixed component of the liquefaction price cap is exchange rate fluctuations (US dollar appreciation against the euro and decrease of the quantity of gas planned to be transported in 2016 by 14.5 percent compared to the amount of gas planned to be transported in 2015).

When calculating the fixed component of the liquefaction price cap, paragraph 1 of Resolution No. O3-895 *On the Setting of the Natural Gas Liquefaction Price Cap (additional component of natural gas supply security to the natural gas transmission price) for 2015–2019* was assessed, which stated that:

- *the unused sum of funds paid and payable (collectable) of LNG terminal of the Republic of Lithuania payers to be reimbursed (hereinafter – reimbursable amount) totals EUR 28 945 488,4;*
- *reimbursable amount totals EUR 14 472 744.2 in 2015;*
- *the share of amount remaining from 2015 and the remaining and receivable reimbursable amount interest comprise the reimbursable amount in 2016.*

Having assessed the reimbursable amount of EUR 14 472 744,2 in 2016, the liquefaction price cap is calculated **taking into account the collected income level of EUR 55 888 698,3**, and is EUR 2.59 /MWh (*Resolution No. O3-632 of 30 November 2015*).

The liquefaction price cap set by Resolution No. O3-632 of the NCC of 30 November 2015 *On the Adjustment of the Natural Gas Liquefaction Price Cap (additional component of the natural gas supply security to the natural gas transmission price) for 2016* was approved as an additional component of the natural gas supply security to the natural gas transmission price (hereinafter – the security component).

Having adopted amendment to the Law on Liquefied Natural Gas Terminal on the calculation of security component on 17 November 2015, the NCC respectively adjusted the Methodology by its Resolution No. O3-654 of 17 December 2015 and determined that liquefaction price cap shall be calculated per consumption capacity unit and constitute only a part of the security component. By its Resolution No. O3-684 of 23 December 2015 *On the Amendment of the Resolution No. O3-632 of the National Commission for Energy Control and Prices of 30 November 2015 “On the Adjustment of the Natural Gas Liquefaction Price Cap (additional component of the natural gas supply security to the natural gas transmission price) for 2016”*, the NCC set a liquefaction price cap of **EUR 259.84 /(MWh/day/year)**.

The setting of a specific liquefaction (regasification) price

The Methodology establishes that the NCC sets a specific liquefaction (regasification) price at the interconnection point of the Lithuanian transmission system with the LNG terminal link in Klaipėda considering the course of development of the regional natural gas market, possibilities to ensure diversified natural gas supply to natural gas consumers of the Republic of Lithuania under conditions of efficient competition in the market. Assessing a possibility of natural gas transportation to other Baltic states, the NCC evaluated gas transportation price differences when transporting gas via the Kotlovka and LNG terminal natural gas transmission system entry points. In order to create uniform competition conditions for all system users transporting gas via Kotlovka and LNG terminal entry points, the NCC set the liquefaction price of EUR 0.10 /MWh (*Resolution No. O3-700 of 30 December 2015*).

The setting of a security component to the natural gas transmission price

The Law Amending Articles 2, 5 and 11 of the Law on Liquefied Natural Gas Terminal of the Republic of Lithuania No. XI-2053 of 17 November 2015 establishes that costs of the LNG terminal, its infrastructure and installation of the link, which cannot be funded from other sources accessible to the company implementing the LNG terminal project, also all fixed costs of operation of the LNG terminal, its infrastructure and the link and **reasonable costs of the supply of mandatory**

Distribution	4.69	4.42	4.64	5.00	6.40	7.47	7.92	5.99
UAB Fortum Heat Lietuva								
Distribution	3.74	3.81	4.19	4.19	4.43	6.14	6.47	5.33
UAB Intergas, Druskininkai mun.								
Distribution	2.58	2.34	2.39	2.30	2.29	2.64	7.61	188.75
UAB Intergas Mažeikiai mun.								
Distribution	2.58	2.34	2.39	2.30	2.29	2.64	7.61	188.75
UAB Druskininkų Dujos								
Distribution	33.80	38.53	40.30	40.38	37.18	35.09	37.75	7.57
AB agrofirma Josvainiai								
Distribution	1.46	1.52	1.65	1.81	1.96	2.05	1.68	-18.14

Source – NCC.

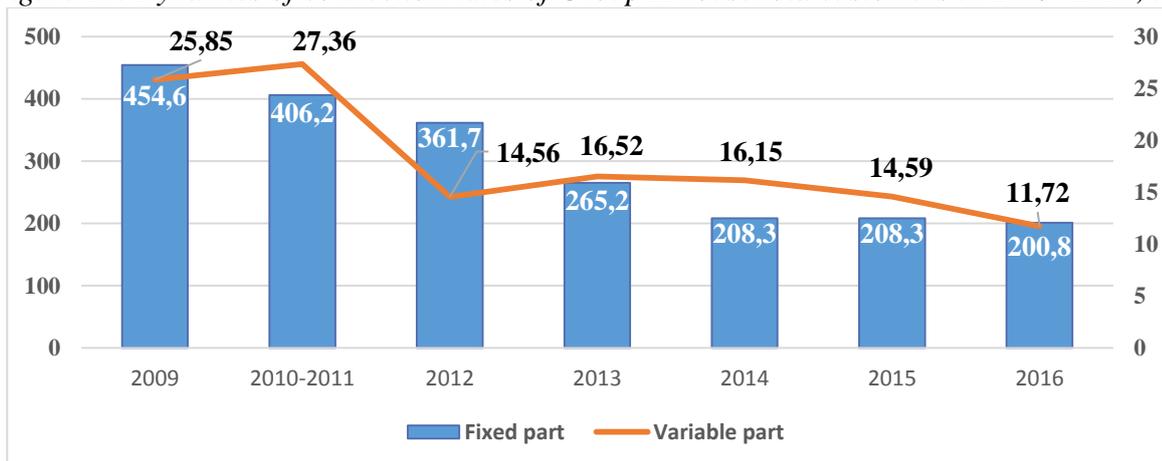
Connection of new customers

Pursuant to Article 9(2) and Article 37(5) of the NGL, the NCC sets the rates for connecting natural gas systems of new household customers. Pursuant to the *Methodology for Setting the Rates of Connection of New Natural Gas Customers, New Natural Gas Systems and Biogas Power Plants* (hereinafter – the Connection Methodology) approved by the NCC Resolution No. O3-187 of 17 November 2008, the NCC sets the rates of connection services of systems of new household customers, and the natural gas undertakings calculate the rates of connection of new non-household customers. The rates of connecting household customers may be adjusted no more than once per year. The connection rate consists of two components: the fixed component, which does not depend on distance, and the variable component, i.e. the price of connection per each meter of the installed gas pipeline.

Only one natural gas undertaking, namely, AB Energijos Skirstymo Operatorius, addressed the NCC regarding new connection rates in 2015. The undertaking submitted the data only for the recalculation of the connection rates of Group II customers, because during the last four quarters (QIV of 2014 – QIII of 2014) the data whereof were used for setting the new connection rate, there were no newly connected Group I customers. During the last four quarters, AB Energijos Skirstymo Operatorius connected 3 472 household Group II customers. To connect the customers, 43.089 km of distribution pipelines were constructed, and the investments assigned therefore totalled EUR 3 221.52 thousand (of which EUR 1 299.02 thousand were customer funds). The average connection rate is calculated by evaluating the pay-back of investments in 20 years and the impact on the distribution price cap, i.e. the planned investments cannot increase the distribution price cap. The average rate according to coefficients set by the undertaking is differentiated into the fixed and variable components.

According to the Connection Methodology, the NCC set natural gas connection rates for Group II natural gas household customers for 2016, and the approved rates decreased compared to 2015: the connection rate independent of the distance decreased by 3.6 percent, while the rate for the constructed meter of a gas pipeline – by 19.7 percent. Connection rates for the 2009–2016 period are illustrated in Figure 20.

Figure 20. Dynamics of connection rates of Group II household customers in 2009–2016, in EUR



Source – NCC.

The average connection rate calculated on a 30 m-long connection gas pipeline is illustrated in Table 9.

Table 9. Comparison of an average connection rate for Group II household customers

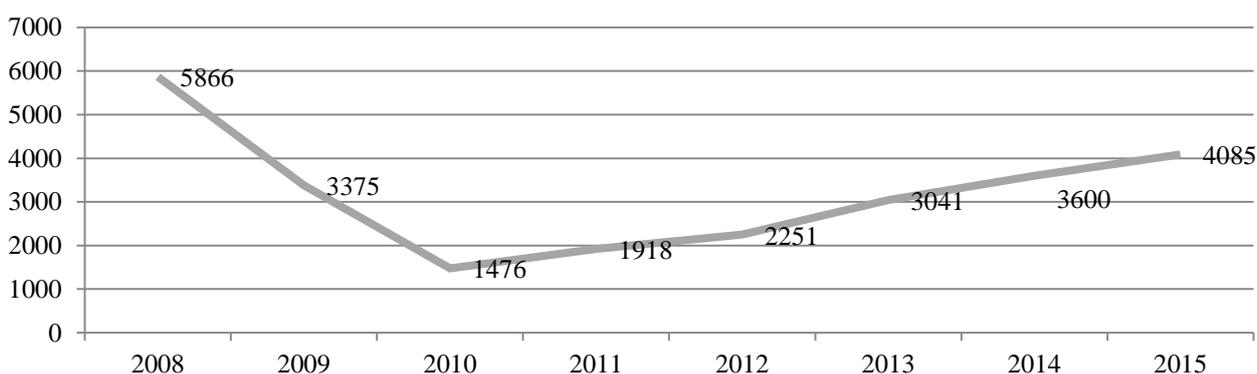
	2015	2016	Change, %
Average rate (30 m), EUR	646.01	552.26	-14.5

Source – NCC

Connection rate for Group I household customers has remain unchanged, i.e. with fixed component being EUR 962.46 and variable component – EUR 41.17 /m.

In 2015, distribution operators connected 4 085 new customers. During the 2008–2015 period, an average of 3 202 new customers were connected per year.

Figure 21. Number of new customers connected to the distribution system of AB Energijos Skirstymo Operatorius in 2008–2015



Source – NCC.

4.1.4. Cross-border issues

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

In 2014, the Lithuanian natural gas transmission system was interconnected with the LNG terminal. At present, the transmission system of AB Amber Grid is interconnected with the natural gas transmission systems of the Republic of Latvia, the Republic of Belarus and the Kaliningrad Region of the Russian Federation, Klaipėda LNG terminal and the distribution systems of Lithuanian

distribution system operators. Natural gas from the Russian Federation is imported to Lithuania through Kotlovka Gas Metering Station (GMS); moreover, this cross-border point is used for transit via the Republic of Lithuania to the Kaliningrad Region. Šakiai GMS is 100 percent used for natural gas transit to the Kaliningrad Region, and the Lithuania–Latvia gas interconnection (Kiemėnai GMS) is currently used for the purposes of the security of supply in order to use the Inčukalns natural gas storage facility located in Latvia, where gas for vulnerable customers of Lithuania is stored thus aiming to ensure the security of supply in case of emergencies. At present the capacities of Kotlovka GMS are allocated for domestic consumption based on the first come, first served principle, because the capacities at this cross-border point are not fully used, and neither contractual nor physical congestions are forming there: the technical capacity of Kotlovka GMS Q_{max} is 31 200 thousand m^3 / day. When evaluating access to Kotlovka GMS, it should be noted that in 2015 a part of capacities at this cross-border point was reserved for transit operations (Šakiai GMS capacities – 10 500 thousand m^3 / day), and the remaining part of the capacities is freely accessible to domestic consumers, however, it should be emphasized that the Law on Natural Gas provides that in the case of gas supply interruption, the quantity of gas transported by transit shall be limited pro rata to the gas quantities limited for domestic consumers.

The technical capacities and their use at important points of the transmission system are shown in the Table 10.

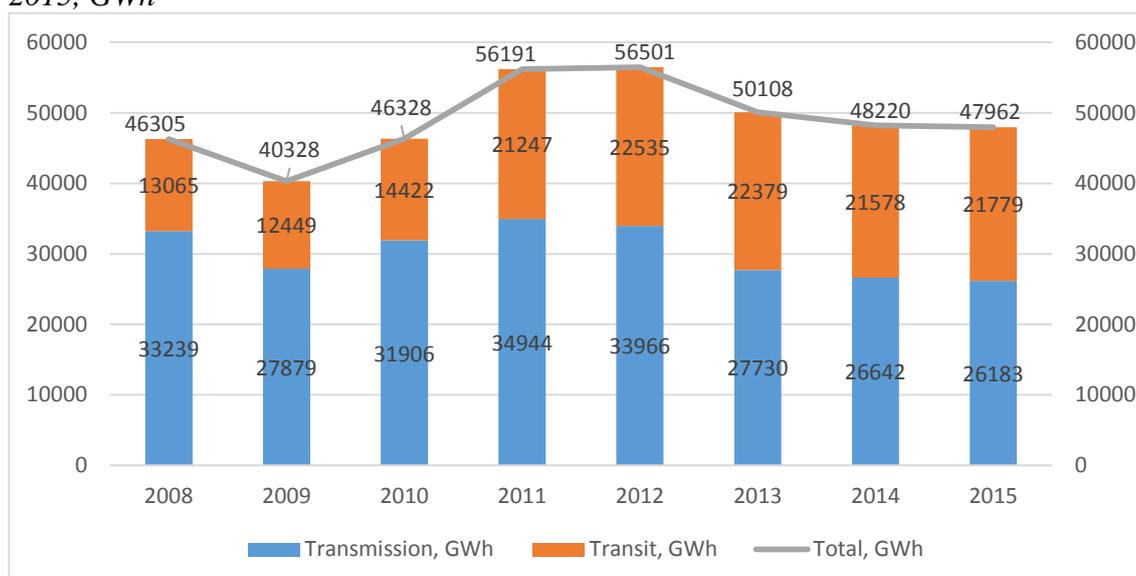
Table 10. Technical capacities and their use at cross-border points

Gas metering station	Technical capacities, MWh/day	Maximum permanent and interruptible capacities booked in Q1 of 2016, MWh/day	Use of capacities, percent
Kotlovka	325 433.47	194 741	59.8
Kiemėnai:			
to Latvia	67 590.03	2 559	3.8
to Lithuania	65 086.69	0	0
Šakiai (to Kaliningrad)	109 520.88	109 200	99.7
Klaipėda (to Lithuania)	122 350.00	101 068	82.6

Source – AB Amber Grid.

In 2015, the TSO transported 47 962 GWh of natural gas, of which 26 183 GWh (54.6 %) was delivered to Lithuanian consumers and 21 779 GWh (45.6 %) was transported to Russia. Compared to 2014, 0.54 percent less of natural gas was transported in total in 2015. Transmission of natural gas to Lithuanian consumers in 2015 was 1.7 percent lower than in 2014, and 0.93 percent more of natural gas was transported by transit compared to 2014.

Figure 22. Transmission market structure in terms of quantity of transported natural gas in 2008–2015, GWh



Source – NCC.

Approval of investments

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

In 2015, the NCC amended the *Description of the Procedure of the Evaluation and Approval of Investments at the National Commission for Energy Control and Prices* establishing that the NCC shall approve investment projects of gas undertakings the value whereof is above EUR 2 million. Natural gas undertakings shall approve investment projects the value whereof is below EUR 2 million by a common list (*Resolution No. O3-252 of 17 April 2015*).

Evaluation criteria of investment projects depend on investment purpose.

In evaluating the investments aimed at the development of systems and connection of new customers, the NCC calculates pay-back of the investment during the pre-defined period and evaluates the impact of the investment on the regulated prices. Pursuant to the provisions of the Law on Natural Gas, investments in the connection of new customers cannot increase the price for the existing customers.

In evaluating investments assigned to ensure the security of systems and the reliability of supply, restoration and reconstruction of the existing system, the NCC evaluates the social, system security and supply reliability benefits and calculates and, in approving an investment project, indicates the impact of investments on the regulated prices.

Investment projects of liquefaction activity

Investments approved by a common list

In 2015, the NCC approved a list of commonly approved investments of AB Klaipėdos Nafta, as an LNG terminal operator, which covered investments related exclusively to operation activities of the LNG terminal, but unrelated to the LNG terminal implementation project, i.e. the list laid down the investments, which were implemented or are planned to be implemented after the launch of the LNG terminal (*Resolution No. O3-535 of 1 October 2015*).

Acquisition of new assets comprised the investments (EUR 859 476) approved by a common list: LNG sampling systems, the fencing of protection zone, LNG terminal coast ventilation system, computer equipment, natural gas metering systems, other software and assets.

Installation of LNG sampling system necessary for determining LNG quality accounted for the major share (EUR 526 200) of investments.

The LNG terminal operator will fund all investments from income designated for covering depreciation costs. Increase of costs of liquefaction service in 2016 as a result of investments implemented in 2015 approved by the list totalled EUR 226 479. Investments of 2015 approved by the list increase a cap of the fixed component of the liquefaction price by EUR 0.009/MWh, or 0.34 percent.

Investment projects of the transmission system

Ten-year transmission network development plan 2014–2023.

In 2015, the NCC assessed the Ten Year (2014–2023) Network Development Plan of the Natural Gas Transmission System Operator presented by AB Amber Grid.

The plan was prepared in light of the needs of gas market participants (was provided for a public consultation), assurance of security of supply and efficient operation of the transmission system, the company's environmental policy and legislative requirements. The plan provides for the implementation of investment projects for diversification of sources of gas supply, assurance of security of gas supply for Lithuanian consumers and gasification of new territories. Also the plan is to integrate the transmission system of Lithuania (and the entire Baltic region) into the gas system of the entire EU by constructing a transmission system gas pipeline between Lithuania and Poland. In pursuit for a greater internal and external integration of the Baltic states and development of the domestic market competition, the plan is to enhance cross-border link between Lithuania and Latvia (in presence of a commercial need).

Also, the plan is to build the second line of the main gas transmission pipeline Kuršėnai–Klaipėda in order to ensure efficient work of the LNG terminal in Klaipėda completely exploiting terminal capacities and ensuring reliable gas transportation to consumers of Lithuania and the Baltic region. This project was completed at the end of 2015.

AB Amber Grid indicated the changes of the 2014–2023 plan compared to the plan for 2013–2022: here quantities of natural gas planned to be transported via transmission network and the need for long-term capacities decreased, completion time of the construction of gas pipeline link between Poland and Lithuania changed (instead of the planned completion in 2018 now it is planned in 2019). The company specified the need and schemes of funding of main planned projects. The following are the main planned projects: gas pipeline link between Poland and Lithuania, enhancement of Klaipėda–Kiemėnai gas pipeline capacities (construction of the main gas transmission pipeline Klaipėda–Kuršėnai), enhancement of capacities of the gas pipeline link between Lithuania and Latvia, link (second line) of the main gas transmission pipeline Vilnius–Kaunas and Kaunas–Šakiai.

By its Resolution No. O3-222 of 20 March 2015, the NCC stated that the Ten Year (2014–2023) Network Development Plan of the Natural Gas Transmission System Operator presented by AB Amber Grid meets the requirements of points 1, 2, 3 and 5 of Article 31 of the NGL and obligated the company to approve the projects indicated in the plan with the NCC in the procedure prescribed by laws and to inform the NCC about changes in the plan.

The main gas transmission pipeline Klaipėda–Kuršėnai was completed at the end of 2015, and the project value was EUR 42 044 thousand.

The transmission system operator's investment projects approved separately

In 2015, the TSO presented for NCC's approval 5 separately coordinated investment projects, which are aimed at ensuring the security and reliability of the natural gas system and which were included in the National Implementation Plan of Electricity and Natural Gas Transmission Infrastructure Projects approved by Resolution No. 746 of the Government of the Republic of Lithuania of 22 July 2014, which is aimed at the achievement of goals in electricity and natural gas transmission areas laid down in the National Energy Independence Strategy. The TSO sought to receive EU Structural Fund support to fund a 50 percent share of investment project value according to the 06.3.1-LVPA-V-104 measure "Modernization and Development of the Natural Gas

Transmission System” of the 6th priority axis “Development of Infrastructure of Sustainable Transport and Main Networks”, funding another part of investment project value from own funds of the TSO. Provided that the support from the European Regional Development Fund will account for 50 percent of all eligible costs of a respective project in the funding structure of each project, the NCC approved 5 investment projects of AB Amber Grid:

1. “Installation of the controller’s actuator and input chambers as well as implementation of operative technologic management” (*Resolution No. O3-659 of 17 December 2015*). Upon the implementation of the project (with a support of 50 percent), the transmission price cap would increase by EUR 6.09/MWh/day/year, or 1.8 percent. The plan is to complete modernization works by the end of 2018.

2. “Modernization of Elektrėnai natural gas distribution station” (*Resolution No. O3-657 of 17 December 2015*). Upon the implementation of the project (with a support of 50 percent), the transmission price cap would increase by EUR 1.78 /MWh/day/year, or 0.5 percent. The plan is to implement the project by the end of 2017.

3. “Modernization of Jonava natural gas distribution station” (*Resolution No. O3-660 of 17 December 2015*). Upon the implementation of the project (with a support of 50 percent), the transmission price cap would increase by EUR 1.64/MWh/day/year, or 0.5 percent. The plan is to implement the project by the end of 2018.

4. “Modernization of Alytus natural gas distribution station” (*Resolution No. O3-658 of 17 December 2015*). Upon the implementation of the project (with a support of 50 percent), the transmission price cap would increase by EUR 0.96/MWh/day/year, or 0.3 percent. The plan is to implement the project by the end of 2018.

5. “Modernization of Panevėžys gas compressor station” (*Resolution No. O3-661 of 17 December 2015*). Upon the implementation of the project (with a support of 50 percent), the transmission price cap would increase by EUR 3.13/MWh/day/year, or 0.9 percent. The plan is to implement the project by the end of 2018.

Investments approved by a common list. In 2015, the NCC approved the list of commonly approved investments of the TSO AB Amber Grid (*Resolution No. O3-533 and No. O3-534 of 1 October 2015*).

In the presented list the TSO indicated investment projects intended for the entire natural gas transmission system, i.e. for the provision of transmission services both domestically and to a person using third country-to-third country gas transportation. The list contains such projects as the replacement of gas pipeline tap nodes, installation of the input chamber of control actuator of the gas transmission pipeline Riga–Panevėžys–Vilnius at the Lithuanian–Latvian border, modernization of Panevėžys compressor station filters and reconstruction of boiler house No. 1, reconstruction of Paneriai–1 DSS technological equipment, installation and repair of anti-corrosion systems, installation of control measuring stations, increasing security of data transmission and storage network infrastructure, reconstruction of yard buildings, increasing capacity of distribution board and other investment projects.

In the common list the company also presented for approval those investment projects, with which it plans to apply for support from the European Union Structural Funds and which have been included in the National Implementation Plan of Electricity and Natural Gas Transmission Infrastructure Projects approved by Resolution No. 1298 of the Government of the Republic of Lithuania *On Amending the Resolution No. 746 of the Government of the Republic of Lithuania of 22 July 22 “On the Approval of the National Implementation Plan of Electricity and Natural Gas Transmission Infrastructure Projects”*:

- Installation of software for the assurance of efficient gas flow management and interactive exchange of information of the transmission system operator and system users;
- Installation of software and a model for ensuring gas pipeline security and integrity;
- Installation of software for the detection and localization of gas leaks;
- Installation of gas chromatographs, analysers of oxygen content in gas and gas moisture analysers with a laser converter;

– Automation of maintenance of cathodic protection of gas transmission pipelines by installing remote monitoring and management system.

The total sum of investments approved by the list amounts to EUR 14 820 thousand, of which EUR 12 710.5 thousand are funded from depreciation costs, while the TSO plans to fund EUR 2 109.5 thousand from the European Union Structural Fund. In 2015, the TSO plans to implement investments for EUR 6 258 thousand, of which capital costs of the transmission service increase by EUR 973.2 thousand in 2016 and the average transmission price cap – by EUR 4.17/(MWh / day/year), i.e. 1.8 percent.

Investment projects included in the National implementation Plan of Electricity and Natural Gas Transmission Infrastructure Projects planned to be implemented in 2016–2018 total EUR 4 219 thousand. The plan is to receive up to 50 percent of funds for their implementation from the EU Structural Funds. Upon the implementation of these projects, transmission costs will increase by EUR 738.2 thousand, while the average transmission capacity price cap will increase by EUR 3.16/MWh per day per year, i.e. by 1.4 percent.

Table 11. Impact of investment projects approved in 2015 on the transmission price

Seq. No.	Project name	Impact on the price cap	
		EUR/MWh/day/year	%
1.	Installation of the controller's actuator and input chambers as well as implementation of operative technologic management	6.09	1.8
2.	Modernization of Elektrėnai natural gas distribution station	1.78	0.5
3.	Modernization of Jonava natural gas distribution station	1.64	0.5
4.	Modernization of Alytus natural gas distribution station	0.96	0.3
5.	Modernization of Panevėžys gas compressor station	3.13	0.9
6.	Investments approved by a common list	3.16	1.4
	Total in the transmission activity:	16.76	5.4

Source – NCC

Investment projects in the distribution activity

In distribution activity, the NCC approved two separately presented investment projects of AB Lietuvos Dujos³ in 2015:

1. “Looping of Šiauliai natural gas distribution system for assuring security and reliability of gas distribution, by building a gas distribution pipeline Šiauliai – Kairiai” (*Resolution No. O3-15 of 19 January 2015*). The investment project increases costs of operation by EUR 6.10 thousand, costs of capital – by EUR 62.16 thousand and distribution price cap – by EUR 0.0092/MWh, i.e. 0.12 percent.

2. “Gasification of the territory of Tauragė district municipality”. On 2 September 2014, AB Vilkyškių Pieninė submitted to the NCC an application to connect a new territory – Tauragė district municipality (hereinafter – the territory of Tauragė) – to gas networks.

The NCC held a tender for gasifying the territory of Tauragė pursuant to the Description of Procedure for Installing New Transmission and Distribution Systems in Non-Gasified Territory, Connecting Natural Gas Systems of New Customers to Transmission or Distribution Systems and Installation of Natural Gas Systems of Consumers approved by Order No. 1-261 of the Ministry of Energy of the Republic of Lithuania of 11 December 2012. There was only one company having submitted an application to take part in the tender, namely, AB Energijos Skirstymo Operatorius. The NCC referred to the natural gas TSO with regard to the preparation of conditions for connection to the transmission networks. Upon the TSO's presentation of preliminary connection conditions of Tauragė district municipality, a Description of Conditions of the Tender for the Gasification of

³ AB Energijos Skirstymo Operatorius started operating on 1 January 2016 after the merger of AB Lesto and AB Lietuvos Dujos, thus reference will be made to AB Energijos Skirstymo Operatorius rather than AB Lietuvos Dujos in this report.

Tauragė District for Preparation of Investment Projects (hereinafter – Description of Gasification of Tauragė) establishing the requirements for investment projects of tenderers in the tender for gasification of the territory of Tauragė was prepared (*approved by Resolution No. O3-220 of 17 March 2015*).

Pursuant to the Description of Gasification of Tauragė, AB Energijos Skirstymo Operatorius submitted for the tender an investment project “Gasification of the territory of Tauragė district municipality”. The territory of Tauragė has not yet been gasified, even though there is a constructed transmission system pipeline of AB Amber Grid going through its territory. The largest potential gas consumer AB Vilkyškių Pieninė plans to start using natural gas in QIV of 2016. Having examined the presented alternatives, the optimal option of gasification of the territory of Tauragė was selected. The following are the main investment project parameters:

- the total length of the constructed distribution system is 5.9 km, pressure – 5 bar;
- a new non-household consumer AB Vilkyškių Pieninė is connected, the distributed quantity of natural gas for the needs of which will be up to 31 191 MWh per year; moreover, conditions will be created to connect other non-household and household consumers in the territory of Tauragė district municipality, if needed;
- end of implementation of the investment project – no later than QIV of 2016;
- financial indicators: financial net present value (FNPV) – EUR 167.3 thousand, financial internal rate of return (FIRR) – 8.4 %;
- the implementation of the investment project does not increase the applicable gas distribution price cap of AB Energijos Skirstymo Operatorius for the existing natural gas distribution system users and gas consumers;
- the investment project is absolutely in line with strategic goals of AB Energijos Skirstymo Operatorius – to connect new customers and to securely and reliably distribute natural gas to Lithuanian consumers.

By its Resolution No. O3-388 of 26 June 2015, the NCC allowed installing a new gas system in the territory of Tauragė district municipality.

Investments of AB Energijos Skirstymo Operatorius approved by a common list

In 2015, the NCC approved a list of commonly approved investments of AB Lietuvos Dujos⁴ (*Resolution No. O3-565 of 29 October 2015*).

The sum of investments approved by a common list presented by the company totals EUR 6 445 thousand, of which EUR 5 769 thousand will be funded from revenues for covering costs of depreciation and EUR 676 thousand will be funded from consumer funds for relocation of gas pipelines. Investments are allocated for acquisition of new assets, restoration of the existing assets and buy-out of common use systems. The company plans to allocate EUR 1 389 thousand for acquisition of new assets, i.e. 22 percent of the sum of investments presented in the list, EUR 4 911 thousand – for renovation and restoration of assets, which is 76 percent of all the investments, and EUR 145 thousand - for the buy-out of common use systems, which is 2 percent of all the investments.

In 2015, EUR 1.8 million is planned for the reconstruction of gas pipelines, relocation of gas pipelines at the expense of other investors and acquisition of rights of ownership to gas pipelines that are not owned by the Company.

In the performance of reconstruction works of steel gas pipelines, the plan is to shove therein about 2.6 km of polythene pipes. Other works performed include: the installation of new closing devices and replacement of old and worn-out gas pipeline closing devices with new closing devices installed in the ground (the plan is to replace 156 pcs.); reconstruction of gas pressure regulators, reconstruction of anti-corrosion systems, improvement of telemetry and communication system, replacement of meters. Since 2015, a decision has been adopted in the company with regard to

⁴ AB Energijos Skirstymo Operatorius started operating on 1 January 2016 after the merger of AB Lesto and AB Lietuvos Dujos, thus reference will be made to AB Energijos Skirstymo Operatorius rather than AB Lietuvos Dujos in this report.

reclassification of certain groups of costs to investments. Since 2015, gas pipeline closing devices and gas metering systems have been attributed to non-current assets. The company indicates that in 2015 the change (reduction) of costs total EUR 1 556.2 thousand after the change of the investment policy in the Company.

Investments approved by a list lead to cost increase of EUR 1 089.9 thousand in 2016, while having assessed the reduction of costs of EUR 1 556.2 thousand due to reclassification of investments, the total reduction of costs totals EUR 466.3 thousand. Having evaluated the reduction of costs due to reclassification of costs to investments, investments approved by a list of 2015 reduce the distribution price cap by EUR 0.06/MWh, i.e. 0.8 percent.

Table 12. Investment projects in the distribution activity approved in 2015

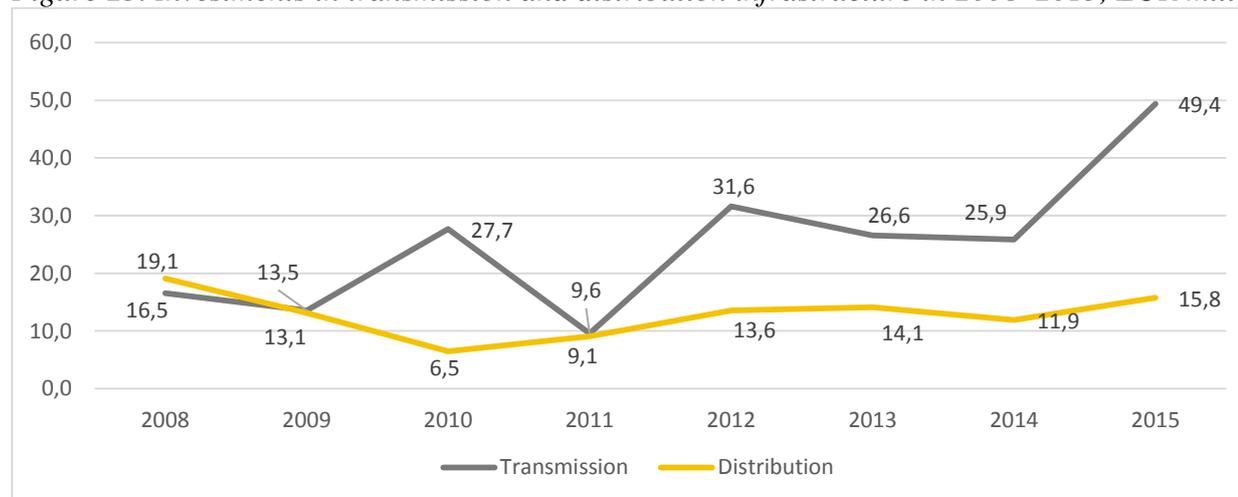
Seq. No.	Project name	Value, thousand EUR	Impact on price cap	
			EUR/MWh	%
1.	Looping of Šiauliai natural gas distribution system for assuring security and reliability of gas distribution, by building a gas distribution pipeline Šiauliai – Kairiai	653.76	0.0092	0.12
2.	Gasification of the territory of Tauragė district municipality	1891	-	-
3.	Investments approved by a common list	6445.0	-0.06	-0.8
	Total in the distribution activity:	8989.76	-0.0508	-0.68

Source – NCC.

The approved investment projects reduce the distribution price cap by EUR 0.0508 /MWh, i.e. 0.68 %. Other gas companies did not submit any new investment projects for approval.

In 2015, companies invested a total of EUR 65.1 million in the natural gas sector, which is 72.6 percent more than in 2014 (EUR 37.7 million). Investments in the natural gas transmission and distribution sectors totalled EUR 49.4 million and EUR 15.77 million, respectively. Compared to 2014, investments in the supply activity decreased significantly in 2015, i.e. from EUR 36.2 thousand to EUR 1 thousand.

Figure 23. Investments in transmission and distribution infrastructure in 2008–2015, EUR million



Source – NCC.

4.1.5. Compliance with legal acts

Evaluation of information published by economic entities operating in the natural gas sector

Pursuant to Article 8(1) of the Law on Energy of the Republic of Lithuania, the NCC regulates the activities of entities operating in the energy sector. Entities performing the activities requiring a licence or a permit and/or which are subject to application of state-regulated prices must publish information about their regulated activities set forth in legal acts. The requirements for publishing public information for natural gas undertakings are set forth in the Law on Energy, Law on Natural Gas, Description of the Procedure of Publishing Information approved by Resolution No O3-761 of the NCC of 27 December 2013 *On the Approval of Description of the Procedure of Publishing Information, the Rules on Providing Information Related to Energy Activities to the State, Municipality Institutions, Offices and/or other Entities* approved by Order No 1-145 of 19 May 2010 of the Minister of Energy of the Republic of Lithuania *On the Approval of the Rules on Providing Information Related to Energy Activities to the State, Municipality Institutions, Offices and/or other Entities*.

By its Resolution No. O3-373 of 19 June 2015, the NCC adopted Recommendations for the Compliance of Service Prices in the Energy Sector with Transparency, Non-Discrimination and Other Legislative Requirements. Entities obliged to publish information must ensure that only relevant and correct information was published on their websites. Entities that do not have their website must publish information on websites of municipalities in the territories of which they conduct regulated activities or present information for publication to the NCC, which publishes the information received on its website.

In order to ensure transparency and publicity of activities of economic undertakings operating in the natural gas sector and regulated by licenses or permits, also, proper information for customers on the provided services, their prices and provision conditions as well as resolution of disputes, the NCC conducted analysis of information subject to mandatory publication in 2016. The NCC determined that information published on the website of AB Achema does not provide prices of the provided services, costs of regulated activities, investments, auditor's opinion on the compliance of accounting with cost accounting system prepared by the distribution system operator and/or approved by the NCC, etc. AB Achema must also publish an annual regulated activity report. The NCC obligated the company to rectify the infringements within 20 calendar days and to inform the NCC about the actions taken, and warned that in case of a failure to rectify the specified infringements, a fine ranging from two hundred eighty nine euros to 0.5 percent of annual income of the energy company generated in the previous financial year from the specific regulated activity in the performance of which the infringement was done will be imposed pursuant to point 1 of Article 36(1) of the Law on Energy (*Resolution No. O3-211 of 1 July 2016*).

Regulation (EU) No. 1227/2011

Regulation (EU) No. 1227/2011 provides for a constant European Union-wide monitoring of wholesale market products, which:

- defines market abuse, which may be treated as market manipulation, an attempt to manipulate the market or trade using publicly undisclosed inside information;
- prohibits market abuse;
- requests to publish publicly undisclosed inside information in an efficient and timely manner;
- obligates persons professionally managing wholesale energy products-related transactions and reasonably suspecting that market may be abused in the performance of transactions to immediately report that to the national regulatory authority.

In light of the fact that the monitoring system of the Regulation (EU) No. 1227/2011 is closely related not only to physical but also to financial wholesale market products, seeking to monitor respective markets as efficiently as possible, the NCC, as a national energy sector supervisory and regulatory authority, signed **a cooperation agreement with the Bank of Lithuania**. This agreement

will allow both authorities – the NCC and the Bank of Lithuania – to ensure a more efficient control of respective markets according to the Regulation (EU) No. 1227/2011 and Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

Registration of market participants. In order to have the planned monitoring system operate smoothly, the Regulation (EU) No. 1227/2011 obligates national regulatory authorities to register wholesale market participants who, when concluding any wholesale energy market transaction, will have to report it to ACER according to an individual participant code granted in registration. National regulatory authorities must provide a possibility for wholesale energy market participants to start registering within three months from the adoption of implementing legislation of Regulation (EU) No. 1227/2011.

In light of the fact that the European Commission adopted the said implementing legislation on 17 December 2014, on 2 March 2015, the NCC ensured for Lithuanian wholesale energy market participants an access to the platform of the Centralised European Register of Energy Market Participants (hereinafter – CEREMP platform). During 2015, the NCC registered in the CEREMP platform and conferred individual codes to 52 Lithuanian wholesale energy market participants.

In order to inform market participants both about the Regulation (EU) No. 1227/2011 and new duties arising out of this legal act as well as about the registration process in the CEREMP platform itself, on 2 March 2015, the NCC held a public presentation to market participants. The NCC website was updated along with the presentation. Here the interested market participants can find information about the Regulation (EU) No. 1227/2011, registration of market participants (including the registration manual and documents to start the registration), registration of reporting entities, the process of information disclosure and frequently asked questions (FAQs).

On 16 March 2016, the NCC held a seminar for market participants conducting wholesale energy market trade on binding obligation to provide data and other information to ACER according to Regulation (EU) No. 1227/2011.

4.2. Promotion of competition

4.2.1. Wholesale market

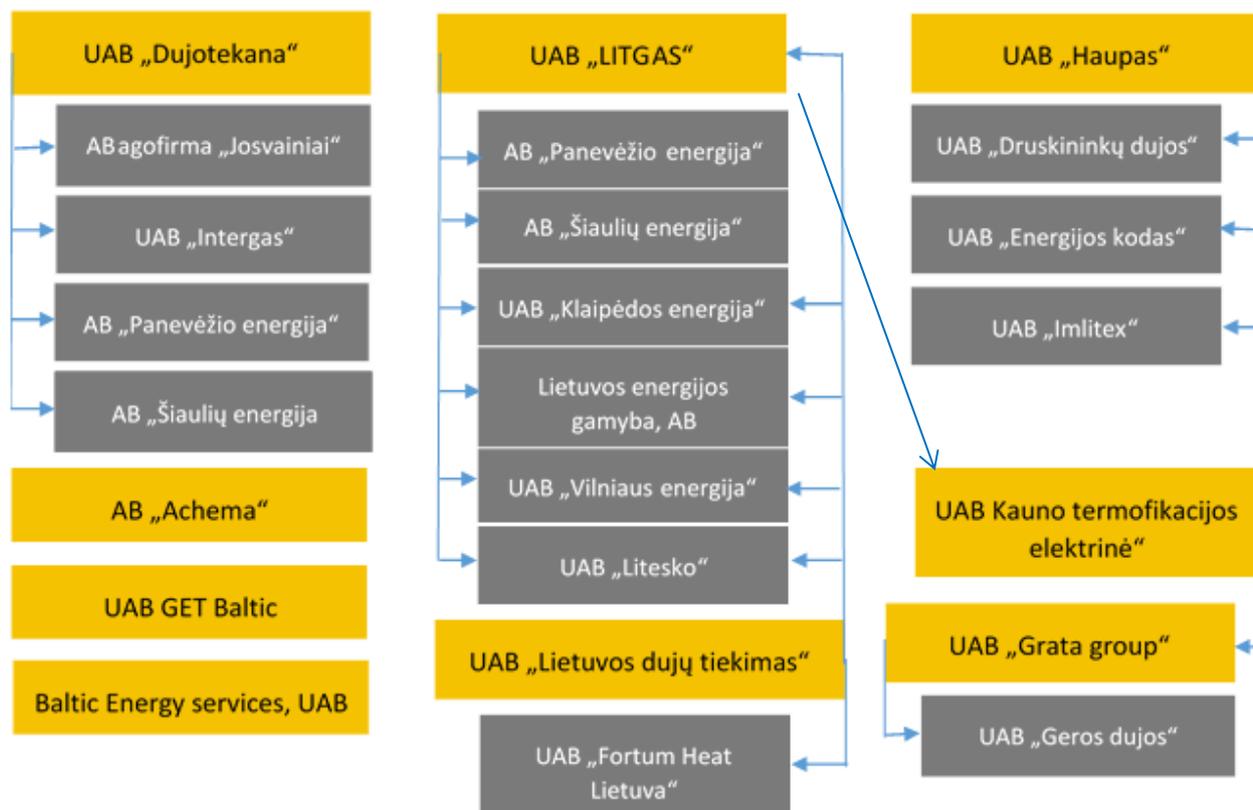
4.2.1.1. Monitoring the natural gas price level, transparency, open market and competition efficiency in the wholesale market

Wholesale market participants and structure

Pursuant to points 4–8 of Article 2 of Regulation (EU) No 1227/2011, market participants (natural and legal persons) concluding transactions in one or more wholesale energy markets where wholesale energy products are traded, including natural gas supply contracts, and the consumption whereof is above 600 GWh, are attributed to the wholesale energy market. According to the NCC data, there were 8 legal persons whose actual natural gas consumption exceeded 600 GWh in the natural gas sector: AB Klaipėdos Energija, UAB Vilniaus Energija, UAB Kauno Termofikacijos Elektrinė, AB Lietuvos Energijos Gamyba, AB Achema, AB Šiaulių Energija, AB Panevėžio Energija and UAB Litesko. Transactions concluded by these companies in the Lithuanian gas market are attributed to the wholesale natural gas supply market. In 2015, UAB Lietuvos Dujų Tiekimas, UAB Dujotekana and UAB Grata Group sold imported natural gas or gas acquired from other suppliers not only to end users, but also to other suppliers, who resold the acquired natural gas to end users.

Figure 24 illustrates wholesale natural gas consumers purchasing natural gas for resale and using it for own needs.

Figure 24. Structure of the wholesale energy market in 2015



Source – NCC.

In 2015, 26 864 GWh of natural gas were sold /or consumed in the wholesale natural gas market, which is 23.35 percent more than in 2014, when 21 779 GWh of natural gas were sold and/or consumed. These changes were determined by the fact that wholesale natural gas supply market participants were reselling natural gas to each other.

Table 13. Structure of the wholesale natural gas supply market in 2012–2015, GWh

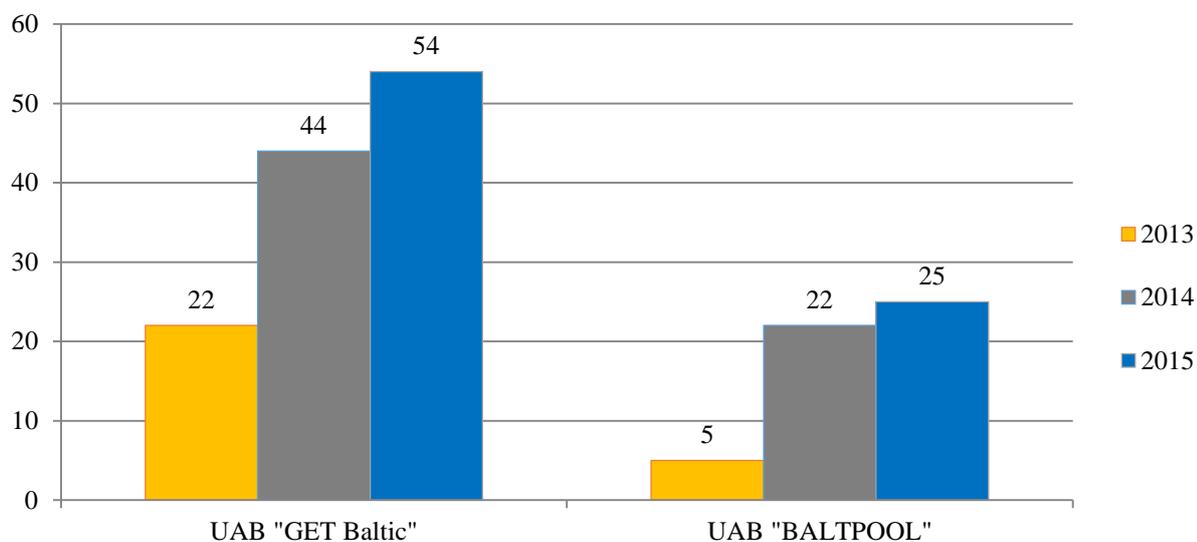
Structure of the wholesale natural gas supply market	2012	2013	2014	2015
According to bilateral agreements	26282	21106	20646	25255
On the exchange	0	599	1133	652
Export	0	0	0	957
Total	26282	21705	21779	26864

Source – NCC.

Trade on natural gas exchanges

In 2015, there were 54 participants registered on UAB GET Baltic natural gas exchange, and their number was the greatest since 2013. The consistently increasing number of exchange participants shows that it has been recognized by market participants and illustrates its possible demand. The natural gas market operator license of UAB Baltpool was revoked by Resolution No. O3-522 of the NCC of 23 September 2015, therefore information till the moment when the activities of natural gas market operator still were conducted is presented in the report.

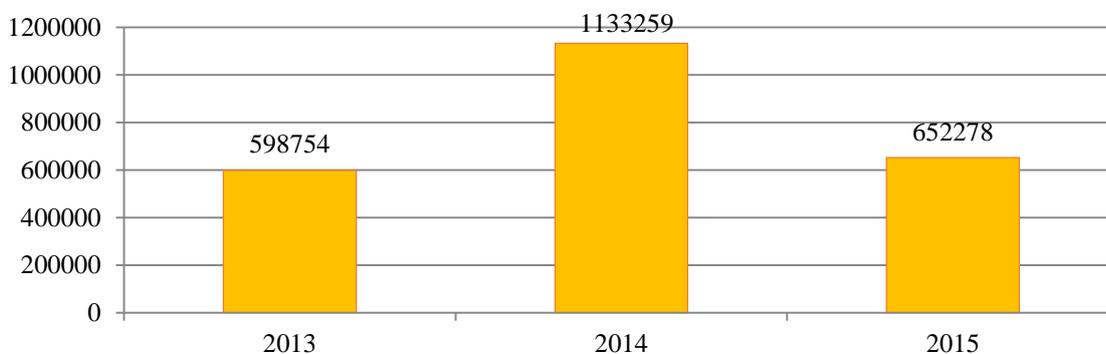
Figure 25. Number of participants on the natural gas exchange in 2013–2015



Source – NCC.

During 9 months of 2015, not a single MWh of natural gas was traded on UAB Baltpool natural gas exchange. 652 278 MWh of natural gas were traded on UAB GET Baltic natural gas exchange in 2015. Compared to 2014, the quantity of natural gas sold on UAB GET Baltic natural gas exchange was 42.44 percent lower.

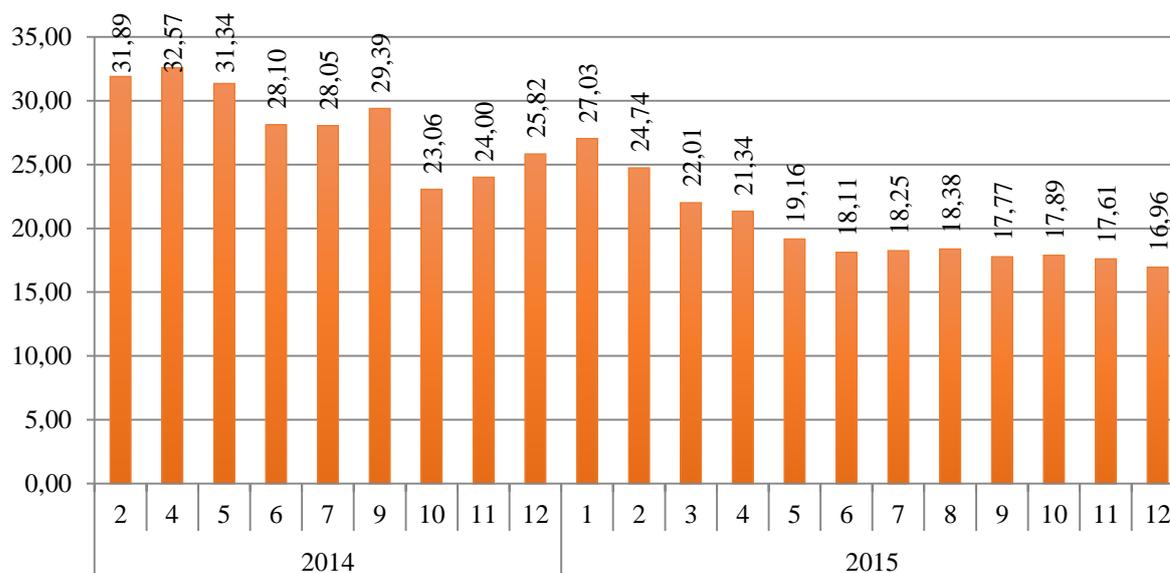
Figure 26. Quantity of natural gas sold on natural gas exchanges in 2013–2015, MWh



Source – NCC.

The average price of natural gas on UAB GET Baltic exchange was EUR 23.98/MWh in 2015, or 10.5 percent lower than in 2014, when it amounted to EUR 26.80/MWh. In 2015, trade turnover on the exchange was EUR 15.6 million.

Figure 27. Average natural gas price on UAB Get Baltic natural gas exchange in 2015, EUR/MWh



Source – NCC.

4.2.2. Retail natural gas supply market

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

Natural gas supply companies, which sell natural gas to end users (natural and/or legal persons), who consume less than 600 GWh, are attributed to retail natural gas supply market.

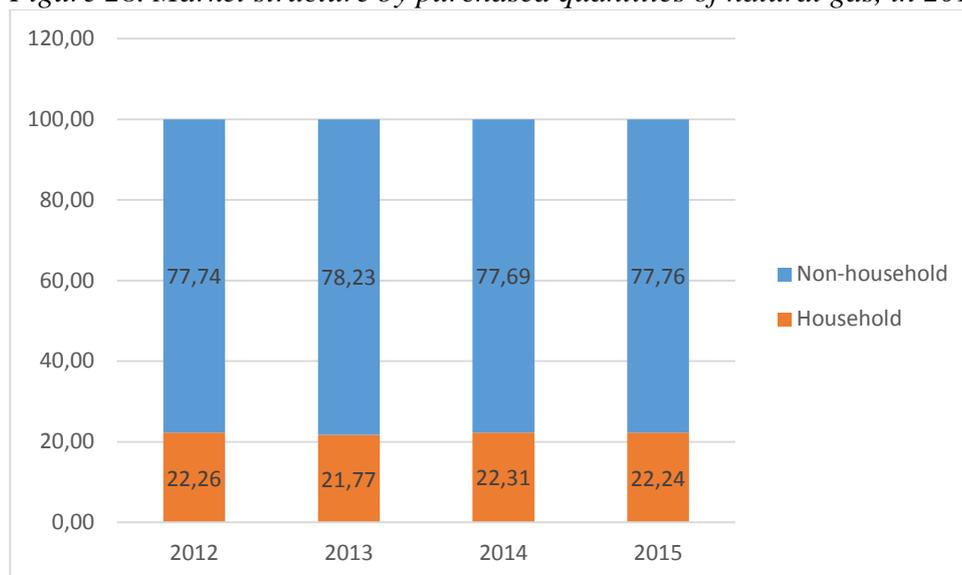
The following companies were engaged in natural gas supply in retail market in 2015: UAB Lietuvos Dujų Tiekimas, UAB Dujotekana, UAB Haupas, UAB Fortum Heat Lietuva, UAB Druskininkų Dujos, AB agrofirma Josvainiai, UAB Grata Group, UAB Geros Dujos, UAB Intergas, UAB Litgas, UAB Imlitex and AB Achema.

In 2015, 7 129 GWh of natural gas were sold in the retail natural gas supply market, which is 1.85 percent more than in 2014, when 6 999 GWh of natural gas were sold. This was mainly affected by increased sales: 1.94 percent to non-household and 1.55 percent to household natural gas consumers.

Compared to 2014, sales concentration changed in the retail market – UAB Litgas reduced the market shares occupied by UAB Dujotekana and UAB Grata Group and occupied 96.24 percent of retail natural gas market together with UAB Lietuvos Dujų Tiekimas in 2015. The remaining 3.76 percent were shared by other market participants.

In 2015, in terms of the purchased quantities of natural gas, the share of household consumers accounted for 22.24 percent in the retail natural gas supply market and, compared to 2014, it decreased by 0.07 percentage point. The share of non-household consumer segment was 77.76 percent in 2015.

Figure 28. Market structure by purchased quantities of natural gas, in 2012–2015, in percent



Source – NCC.

In 2015, there were 569.4 thousand natural gas consumers, of which 562.4 thousand were household and 6.9 thousand – non-household consumers. In 2014, there were 558.6 thousand household and 6.7 thousand non-household consumers.

Household consumers, who occupy 98.77 percent of the total retail consumer market in terms of the number of consumers, consumed only 22.24 percent of natural gas, which was supplied in the retail natural gas supply market. Non-household consumers purchased 77.76 percent of quantity of natural gas supplied in the retail natural gas supply market, even though compared to the number of household customers, their number as consumers was very low – a mere 1.23 percent.

Household consumer segment

Like in 2014, there were 6 companies supplying gas in the retail market to household consumers in 2015. In 2015, household consumers consumed 1 586 GWh of natural gas, i.e. 1.55 percent more than in 2014. Household consumers paid EUR 63.7 million, i.e. 5.3 percent more than in 2014. UAB Lietuvos Dujų Tiekimas has remained the main natural gas supplier to household consumers: in 2014, the market share occupied by this company accounted for 99.8 percent of sales.

Natural gas tariffs for household consumers

Pursuant to point 17 of Article 9 of the NGL, the NCC approves tariffs for household consumers every half a year. In 2015, the NCC approved the tariffs for household consumers of 5 gas companies twice per year, by differentiating these consumers by groups. UAB Geros Dujos supplied natural gas to household consumers for only half a year since 1 March 2016. Later, this company terminated the supply of gas to household consumers, and in 2016 it supplies gas to non-household consumers alone.

Natural gas tariff for household customers consists of forecasted natural gas (product), specific transmission, distribution, liquefaction and supply prices and the difference between natural gas (product) prices forecasted during the previous validity period of tariffs and actual prices. Gas import price for the upcoming half-year is forecasted according to price calculation formulas and specific prices indicated in natural gas purchase-sale contracts. The difference between income, which forms as a result of a difference between the forecasted and actual import price, is assessed when setting natural gas price for the following half-year. Tariffs for 2014–2016 separately show the share of tax repayable to household customers, which formed as a result of amendments to gas import agreement. Natural gas supply companies set a binomial tariff, which consists of a variable

component paid for the quantity of consumed gas, and a fixed component, paying a fixed tax component per month.

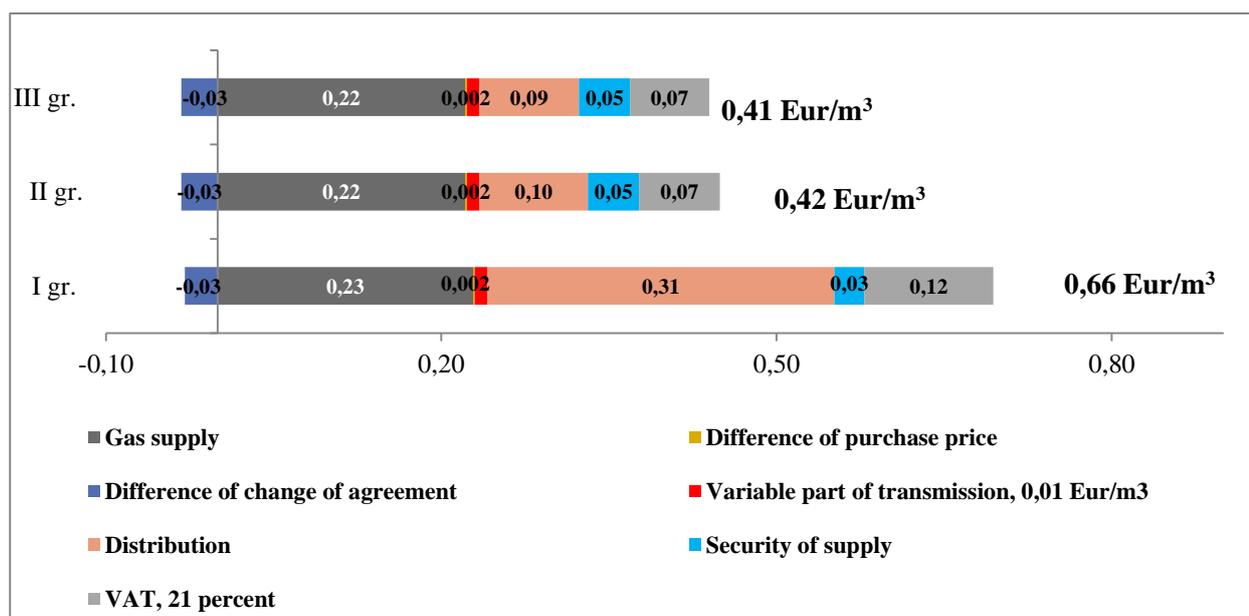
Table 14. Natural gas tariffs for household consumers (inclusive of VAT), EUR

Company	Group	Half II of 2015, EUR		Half I of 2016, EUR		Change, EUR	
		Fixed tariff component	Variable tariff component	Fixed tariff component	Variable tariff component	Fixed tariff component	Variable tariff component
UAB Lietuvos Duju Tiekimas	Group I	0.56	0.66	0.56	0.66	0.00	0.00
	Group II	3.99	0.42	3.99	0.42	0.00	0.00
	Group III	3.99	0.41	3.99	0.41	0.00	0.00
UAB Druskininku Dujos	Group I	0.58	1.16	0.58	1.13	0.00	-0.03
	Group II	4.05	1.00	4.05	1.03	0.00	0.03
UAB Fortum Heat Lietuva	Group II	2.64	0.51	2.64	0.36	0.00	-0.15
AB agrofirma Josvainiai	Group I	0.63	0.42	0.63	0.28	0.00	-0.14
	Group II	3.99	0.35	3.99	0.21	0.00	-0.14
UAB Intergas	Group I	1.45	0.46	1.45	0.42	0.00	-0.04
	Group II	1.45	0.44	1.45	0.36	0.00	-0.08
UAB Geros Dujos	Group I	-	0.83	-	-		
	Group II	-	0.57	-	-		

Source – NCC.

The variable tariff component includes the gas (product) price, variable component of transmission price, distribution price, difference between the forecasted and the actual gas price, price difference because of amendment to the agreement and the price of supply security.

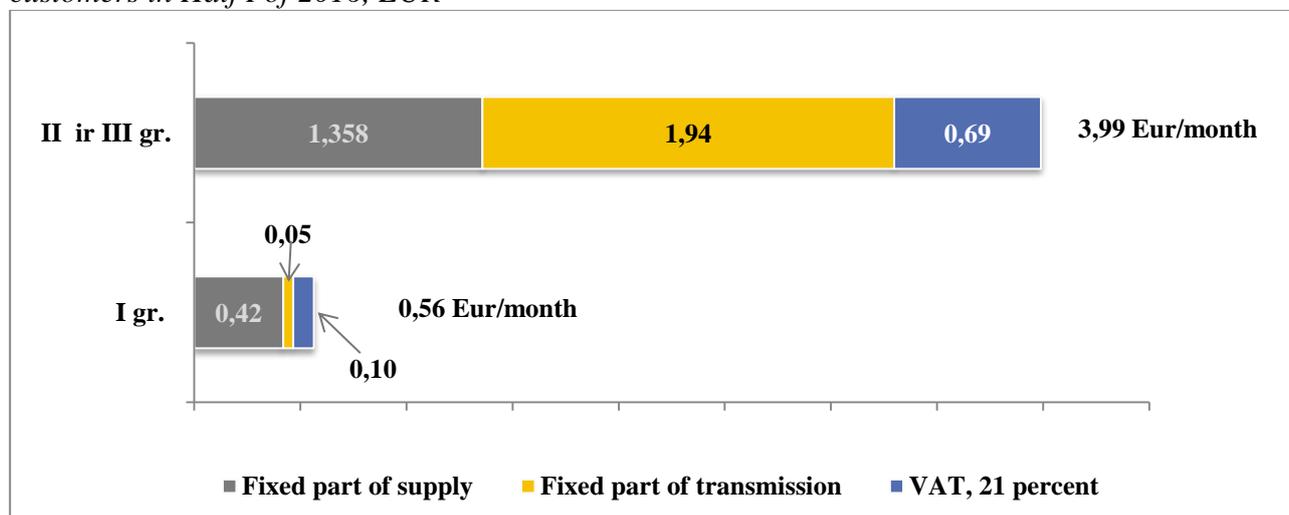
Figure 29. Structure of the variable component of the tariff of AB Lietuvos Duju Tiekimas for household customers in Half I of 2016, EUR



Source – NCC.

A fixed rate per month is paid to maintain “functional capacity” of the gas system and to reserve power (ensure capacity) in gas transmission pipelines, because each consumer must have a guarantee of being able to receive a quality service at any time. Also a fixed rate includes accounting and contract conclusion expenses (supply price).

Figure 30. Structure of the fixed component of AB Lietuvos Dujų Tiekimas tariff for household customers in Half I of 2016, EUR



Source – NCC.

Monitoring of natural gas market

The NCC monitors the scope and efficiency of the opening of natural gas market and competition in wholesale and retail markets. In order to increase awareness of market participants for the market participants to dispose of reliable information, each quarter the NCC prepares and publishes on the website of the NCC at www.regula.lt reports on monitoring of the natural gas market. The reports examine natural gas import, transmission, distribution and supply (wholesale and retail) markets.

In light of the circumstances determined during a market research, the NCC may impose certain accounting and pricing-related obligations on a person having a significant impact in the market. A person having a significant impact in the market may be subject to individual price control measures and obligations to substantiate prices with costs or prices set in comparative markets.

By Resolution No. O3-952 of 19 December 2014 of the NCC a decision was made to start natural gas supply market research in order to examine the efficiency of competition in the natural gas supply market, to identify participants having a significant impact in this market, if any, and to assess if participants having a significant impact in the market did not abuse the market. The research of the natural gas supply market was completed in February of 2016 stating (approved by Resolution No. O3-55 of 19 February 2016) that:

- the market examined during the natural gas supply market research is defined as a wholesale natural gas supply market in the territory of the Republic of Lithuania, except for the territory of Druskininkai municipality, retail natural gas supply market in the territory of the Republic of Lithuania, except for the territory of Druskininkai municipality, wholesale natural gas supply market in the territory of Druskininkai municipality and retail natural gas supply market in the territory of Druskininkai municipality;

- during the examined 2013–2014 period, there were 10 entities conducting natural gas supply activity in wholesale and retail natural gas supply markets of Lithuania and 2 entities conducting natural gas supply activity in Druskininkai wholesale and/or retail natural gas supply markets: UAB Druskininkų Dujos and UAB Haupas;

- large degree of concentration;
- there was a barrier of entrance into the market - experience in the natural gas supply activity and the historically formed infrastructural advantage created a respective advantage in natural gas supply activity (in case of the economic undertaking UAB Lietuvos Dujų Tiekimas). UAB Haupas had an absolute advantage of an economic entity – access to the territory of operations, also, competition on the market was limited by the absence of sufficient alternatives of acquisition of natural gas supply and of a larger number of wholesale suppliers;
- the economic undertaking UAB Lietuvos Dujų Tiekimas had a possibility to set unreasonable (excessive) prices or use price pressure, but during the 2013–2014 period under examination, the economic undertaking UAB Lietuvos Dujų Tiekimas (disregarding prices of the designated supplier UAB Litgas), being the largest wholesale and retail natural gas supply market participant of Lithuania, was determined to have not applied excessive prices or price pressure due to the lack of efficient competition thus causing damage to market participants;
- UAB Haupas has a possibility to set unreasonable (excessive) prices or use price pressure. During the analysed year 2014, UAB Haupas, being the largest wholesale and retail natural gas supply market participant of Druskininkai, was determined to have applied excessive prices due to the lack of efficient competition, thus causing damage to market participants;
- the economic undertaking UAB Lietuvos Dujų Tiekimas had a significant impact in the wholesale natural gas supply market of Lithuania and retail natural gas supply market of Lithuania, while UAB Haupas had a significant impact in Druskininkai wholesale natural gas supply market and Druskininkai retail natural gas supply market.

The NCC recognized the economic undertaking UAB Lietuvos Dujų Tiekimas as a person having a significant impact in the wholesale natural gas supply market of Lithuania in 2013–2014 and a person having a significant impact in the retail natural gas supply market of Lithuania in 2013–2014.

UAB Haupas was recognized as an entity having a significant impact in the wholesale natural gas supply market of Druskininkai in 2013–2014, which applied excessive supply prices in 2014; UAB Haupas was also recognized as an entity having a significant impact in the retail natural gas supply market of Druskininkai in 2013–2014, which applied excessive supply prices in 2014.

UAB Haupas was obligated:

- to supply natural gas in Druskininkai wholesale and retail natural gas supply markets at cost-based prices, including supply margin compliant with reasonability criterion;
- to distinguish costs and to draw up a free form description of the regulatory accounting system in accordance with the requirements laid down in the Description of the Unbundling of Accounting of Natural Gas Undertakings, Cost Allocation and Accounting Unbundling-Related Requirements approved by Resolution No. O3-316 of the NCC of 18 July 2013 *On the Approval of the Description of the Unbundling of Accounting of Natural Gas Undertakings, Cost Allocation and Accounting Unbundling-Related Requirements* no later than within 2 months from the effective date of this resolution, and to present it to the NCC;
- to present data for setting supply price cap in the territory of Druskininkai municipality no later than within 1 month from the effective date of the resolution, pursuant to the Methodology for Setting State-Regulated Prices in the Natural Gas Sector approved by Resolution No. O3-367 of the NCC of 13 September 2013 *On the Approval of the Methodology for Setting State-Regulated Prices in the Natural Gas Sector*.

In the implementation of the resolution of the NCC, UAB Haupas presented to the NCC data for setting natural gas supply price cap in the territory of Druskininkai municipality by its letter No. S-935 of 21 March 2016. Having evaluated the costs presented by UAB Haupas, the NCC set the supply price cap of UAB Haupas of EUR 5.14/MWh in the territory of Druskininkai municipality valid as from 1 July 2016 (Resolution No. O3-142 of 25 May 2016). UAB Haupas appealed this resolution of the NCC to court.

4.3. Security of supply

4.3.1. Gas supply and consumption

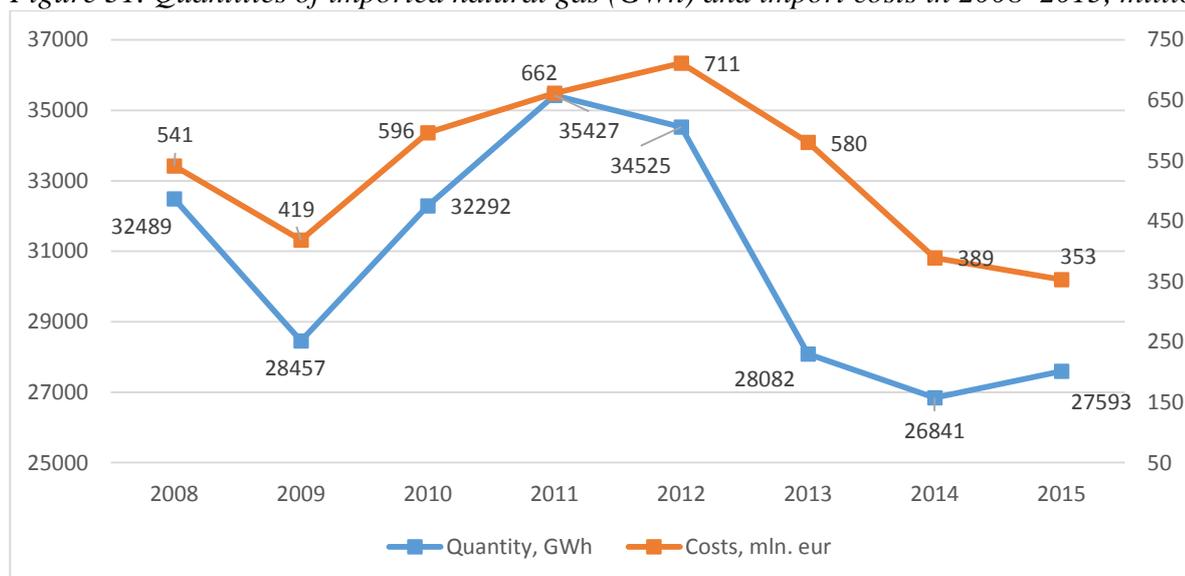
Having built the LNG terminal in Klaipėda, natural gas supply has become diversified, and the country is no longer dependent on the sole gas supplier. In that way the requirement, laid down in Article 6(1) of the Regulation (EU) 994/2010 establishing that in the event of a disruption of the single largest gas infrastructure, the capacity of the remaining infrastructure, determined according to the N – 1 formula is able satisfy total gas demand of the calculated area during a day of exceptionally high gas demand occurring with a statistical probability of once in 20 years, was implemented.

In 2015, UAB Lietuvos Dujų Tiekimas, UAB Dujotekana, UAB Haupas, AB Achema and UAB Kauno Termofikacijos Elektrinė imported natural gas from the Russian AB Gazprom, and UAB Dujotekana – from LT GAS Stream AG. Ensuring the sale of the necessary natural gas quantity for minimum activities of Klaipėdos LNG terminal, UAB Litgas purchased natural gas from Statoil.

In 2015, the volume of imported natural gas totalled 27 593 GWh and was 2.8 percent greater compared to 2014, while natural gas import costs (disregarding import costs of AB Achema) amounted to EUR 353 million and were 9.3 percent lower than in 2014 .

Quantities of gas imported by natural gas undertakings in 2008–2015 are illustrated in Figure 31.

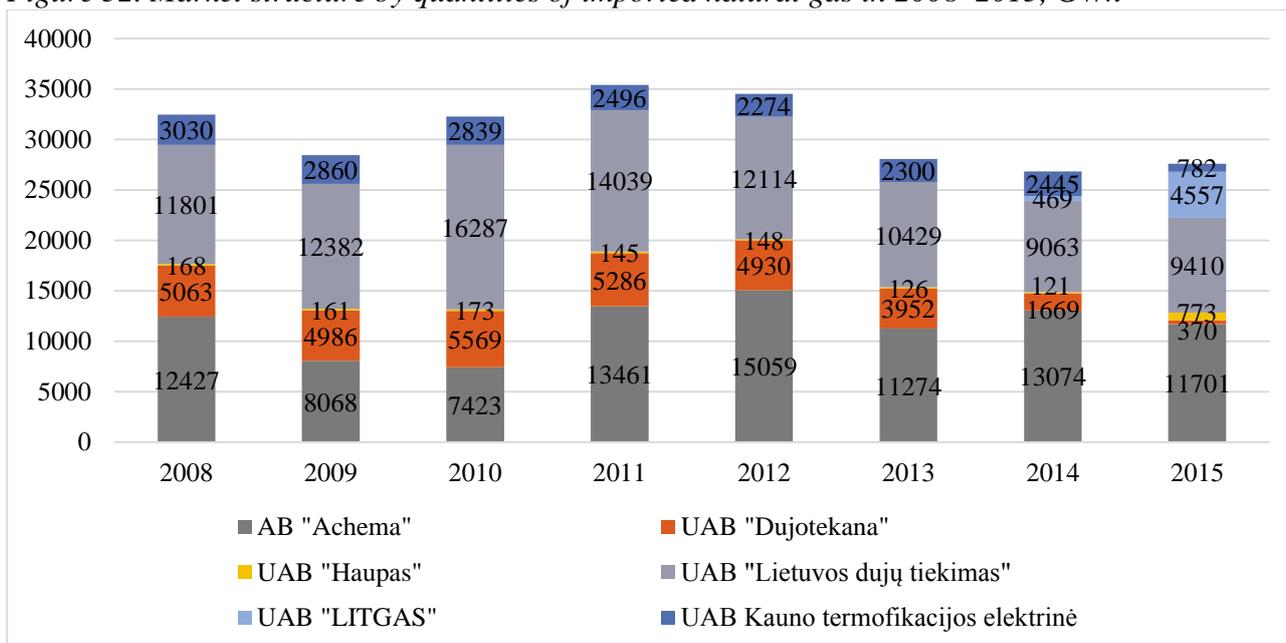
Figure 31. Quantities of imported natural gas (GWh) and import costs in 2008–2015, million EUR



Source – NCC.

Compared to 2014, quantities of natural gas imported by UAB Dujotekana, AB Achema and UAB Kauno Termofikacijos Elektrinė decreased by 77.8, 10.5 and 68 percent, respectively. Quantities of natural gas imported by UAB Lietuvos Dujų Tiekimas increased by 3.8 percent, and those imported by UAB Haupas and UAB Litgas – 6.3 and 9.7 times, respectively.

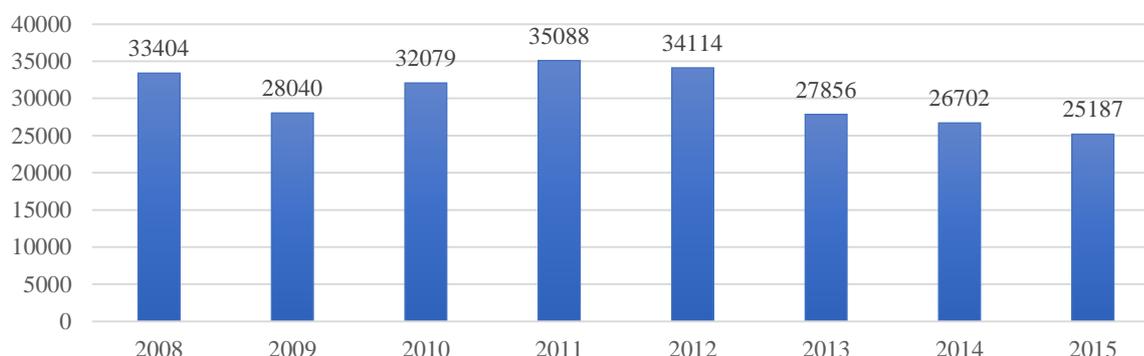
Figure 32. Market structure by quantities of imported natural gas in 2008–2015, GWh



Source – NCC.

The quantity of consumed gas has constantly decreased since 2011. Compared to 2014, the quantity of consumed natural gas decreased by 5.7 percent in 2015. Figure 33 illustrates the changes in consumed gas quantities in 2008–2015.

Figure 33. Quantities of consumed natural gas in 2008–2015, GWh



Source – NCC.

The main reason of lower consumption of gas is the construction of biofuel boilers and biofuel consumption in heat supply companies. In 2015 natural gas consumption was 5.7 percent lower than in 2014, and this was the lowest quantity of consumed natural gas during the 2008–2015 period.

4.3.2. Projected future natural gas consumption

According to the data provided by undertakings operating in the natural gas sector, quantities of consumed gas should decrease from 25.2 TWh in 2015 to 21.6 TWh in 2016. The projected quantity of gas transmitted in upcoming years accounts for an average of 22.5 TWh per year. The plan is to transmit about 21.8 TWh of gas to the Kaliningrad Region each year in the future.

4.3.3. Measures to cover peak demand or shortage of suppliers

The natural gas TSO AB Amber Grid encourages system users to more accurately and steadily plan the necessary capacities by setting the transmission price, 70 percent whereof is made up of a fixed component for capacities booked by the user.

The unused (free) capacities are offered on the market with a possibility to conclude agreements for interruptible capacities. Having concluded an agreement for natural gas transmission and distribution services, a system user has a possibility to book (adjust) the capacities each week and/or day. The system user may book the capacities (adjust the order) online or in writing according to the terms and conditions of the agreement. When booking capacities for a respective period of time, the system user must have the already purchased quantity of gas. The supply schedule has to be agreed upon with a supply undertaking according to the terms and conditions of the purchase-sale agreement.

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

- system users who have signed an agreement with a supply company on uninterruptible gas supply shall have gas reserves in Inčukalns underground gas storage facility;
- natural gas supply and transportation priorities and the sequence of gas supply limitation and gradual termination thereof in case of an emergency or disruption in gas supply are set forth in natural gas transmission agreements with system users directly connected to the transmission system;
- distribution system operators have to carry out the instructions issued by the TSO in case of an emergency or disruption in gas supply, as it is set forth in the National Plan of the Management of Emergency Situation in the Natural Gas Supply.

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

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

5.1. Consumer protection

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

Electricity consumer protection measures remained unchanged in 2015 compared to the previous year (for more information, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012, 2013 and 2014).

In the implementation of the goal laid down in the Directive 2009/72/EC to promote competition in the electricity supply area, consumer right to receive transparent information on applicable prices, tariffs and all conditions related to electricity services enshrined in Article 51 of the Law on Electricity and in the performance of the function to take all the necessary measures to ensure reliability of information provided to consumers and the provision thereof in easily comparable way at the national level specified in Article 51 of this law, the NCC implemented the project of the development of the system for comparing electricity prices, which was launched on 29 April 2015. [The system for comparing electricity prices](#) should help electricity consumers choose tariff plans best meeting their needs and educate consumers about their rights and obligations changing electricity supplier or choosing an independent electricity supplier. Electricity consumers have the right to change the supplier free of charge.

Consumers may receive from the NCC and the State Consumer Rights Protection Authority the entire necessary information about their rights, methods of dispute resolution and applicable legislation governing the energy sector.

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

In 2015, conditions of consumer data access remained essentially the same compared to 2014 (for more details, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012, 2013 and 2014). It should be mentioned that in 2016, electricity and natural gas distribution and supply companies AB Lesto and AB Lietuvos Dujos were merged into a single company AB Energijos Skirstymo Operatorius. Now electricity and gas consumers receive services and are served in one location and the same self-service portal www.manogile.lt.

In 2015, electricity supply was terminated for a similar number of consumers, i.e. 3 218 (3 243 in 2014 and 2 179 in 2013) customers due to outstanding debts, of which 366 were business and 2 852 private customers (in 2014 – 461 and 2782 and in 2013 – 271 and 1908, respectively). Termination of electricity transmission is not implemented in case of the maximum daily air temperature being lower than 15 (fifteen) degrees below zero or higher than 30 (thirty) degrees Celsius above zero, also on Fridays and on holiday eves.

Consumer protection measures are provided for in Article 57 of the NGL. Consumers have the right to receive regular and appropriate information on the factual gas consumption and natural gas prices from natural gas undertakings at no extra charge. Natural gas undertakings publish on their websites the prices of natural gas and provided services, indicate possibilities for payment for consumed gas and received services in cash, using online banking services or by concluding a direct debit agreement. Consumers have the right to change the supplier free of charge. Natural gas undertakings must perform such a change within three weeks from the day of the submission of an application for the change of supplier.

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

Public services

For more information on the PSO list and the procedure for the provision of these services, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012, 2013 and 2014.

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

Definition of vulnerable customers

For more information on the definition of vulnerable customers, see the Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission for 2012, 2013 and 2014.

It should be mentioned that by its Resolution No. 527 of 27 May 2015, the Government of the Republic of Lithuania approved the Description of the Procedure of Applying Additional Guarantees to Socially Vulnerable Electricity Consumers. According to the document, vulnerable consumers are household consumers and/or their household members who receive monetary social support according to the procedure stipulated in the Law on Monetary Social Support for the Deprived of

Republic of Lithuania. Vulnerable consumers receive additional guarantees when supplying them with electricity:

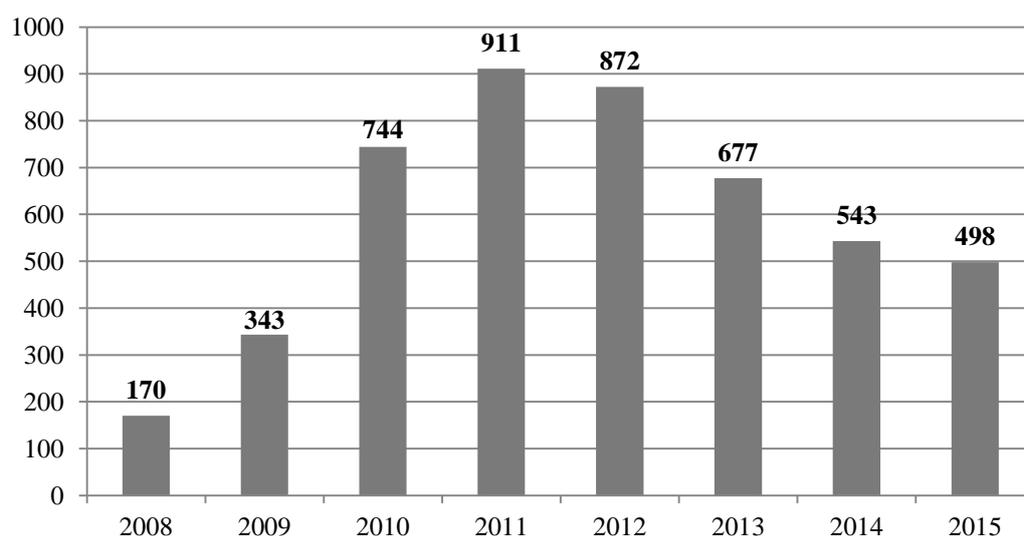
1. Electricity supply and/or transmission cannot be restricted and/or terminated, if the debt to the distribution system operator or public supplier does not or did not exceed 3 base social benefits;
2. In all cases, electricity supply and/or transmission cannot be terminated on Fridays, Saturdays, Sundays, on holidays or holiday eves, or in emergencies (when the highest daily air temperature is lower than 15 °C below zero or higher than 30 °C above zero);
3. They have the right to pay the distribution system operator or the public supplier by the last day of the month;
4. When connecting electrical equipment to electricity networks managed by the distribution system operator, partial (60 percent and remaining) connection fees which exceed EUR 600 apply;
5. Interest will not be charged 3 months after the payment deadline;
6. A paper payment document will be compensated.

The application of additional guarantees to vulnerable consumers begins and (or) stops as soon as respective data are received from the information system of Social Support for Families.

5.2. Examination of enquiries

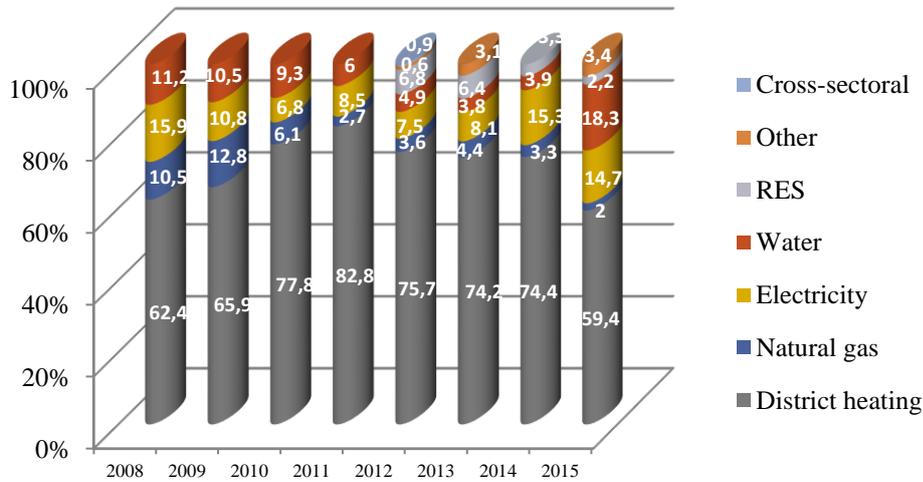
The NCC classified enquiries submitted by consumers according to the provisions of Recommendation No. SEC (2010) 572 *On the Use of a Harmonised Methodology for Classifying and Reporting Consumer Complaints and Enquiries* of the European Commission of 12 May 2010 and other related international documents. In 2015, analysis of consumer enquiries was conducted pursuant to the Classification of Consumer Applications and Complaints approved by Order No. O1-38 of the Chairman of the NCC of 20 April 2015.

Figure 34. Dynamics of consumer complaints and applications received by the NCC in 2008–2015 (pcs.)



Source – NCC.

Figure 35. Distribution of consumer complaints and applications received by the NCC by sector in 2008–2015 (percent)



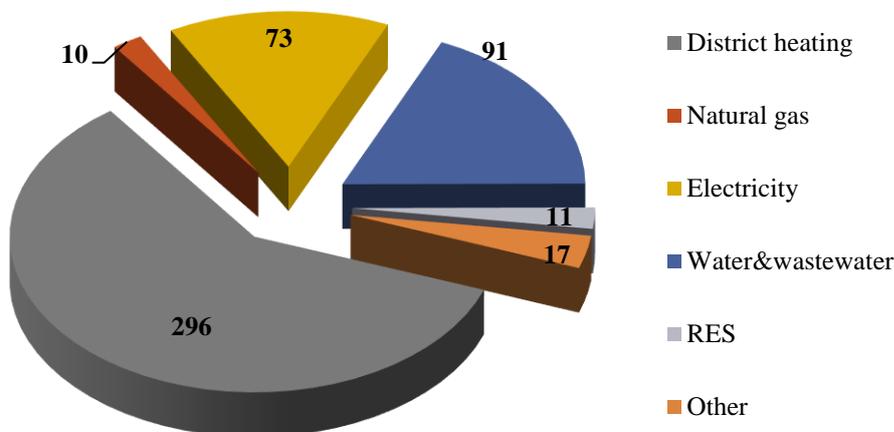
Source – NCC.

The most frequent reason for applying to the NCC was related to the heat sector, however, in terms of the percentage distribution of consumer enquiries among sectors, the number of enquiries regarding the heat sector decreased to 59 percent in 2015.

In 2015, the number of enquiries in the sector of drinking water and wastewater management increased, and this was due to price conversion from litas to the euro. With the NCC setting prices exclusive of VAT, consumers addressed the NCC with the aim to clear up if prices of drinking water were converted in compliance with legislative requirements. Enquiries of such nature accounted for almost all the number of consumer requirements with regard to the supply of drinking water and wastewater management received in QI of 2015.

Compared to 2014, the number of enquiries in other sectors remained practically the same.

Figure 36. Distribution of consumer complaints and applications received by the NCC by sector in 2015 (pcs.)

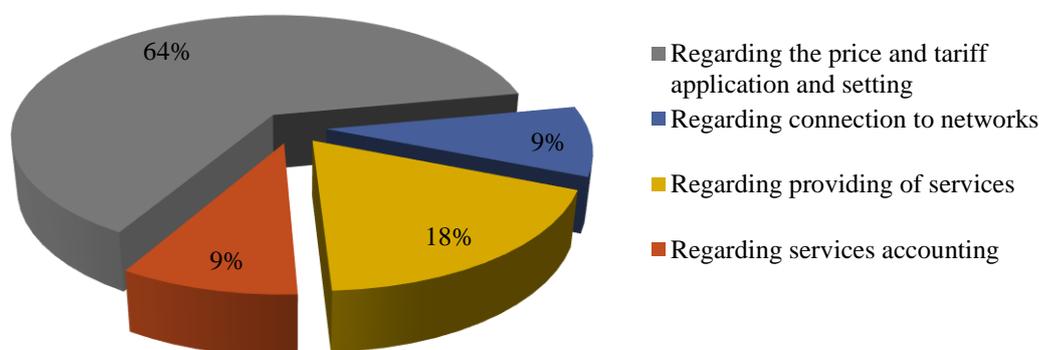


Source – NCC.

Renewable energy sources

In 2015, the NCC received 11 enquiries regarding the RES sector, of which 9 were applications and 2 were complaints.

Figure 37. Consumer complaints and applications in the renewable energy sources sector (percent)

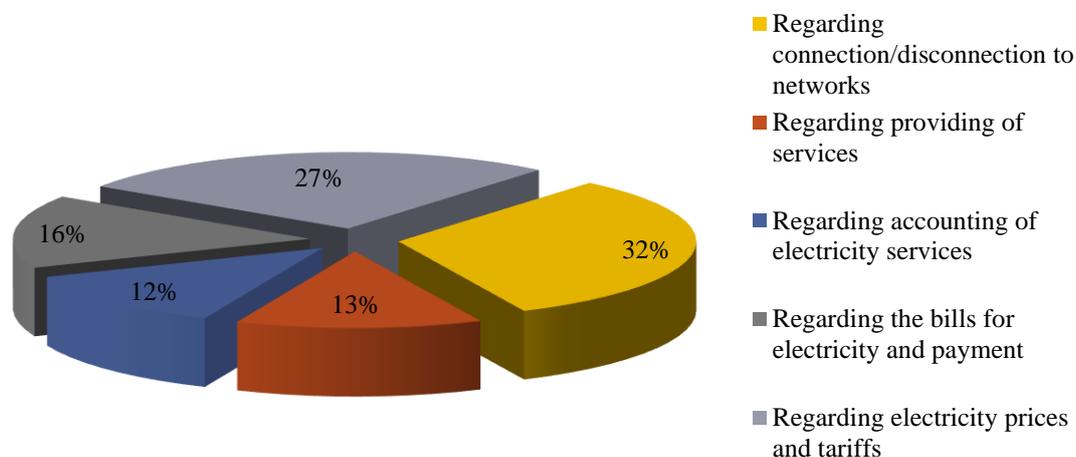


Source – NCC.

Electricity sector

In 2015, there were 73 enquiries regarding the electricity sector, of which 35 were applications and 38 were complaints. Most often consumers applied with regard to issues regarding connection to (and/ or disconnection from) electricity networks.

Figure 38. Consumers' written enquiries in the electricity sector by enquiry type (percent)



Source – NCC.

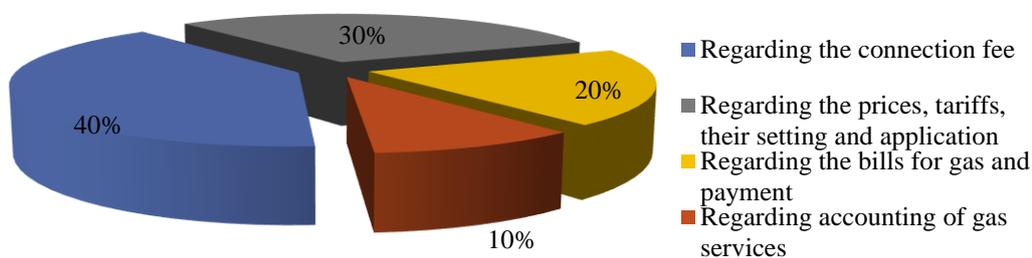
Natural gas sector

In 2015, there were 10 enquires received regarding the gas sector, of which 5 were applications and 5 were complaints. 7 enquiries were received regarding natural gas and 3 – regarding liquefied natural gas. Most often consumers applied with regard to issues related to natural gas prices, application of a fee for disconnection from the natural gas network and reasonability of debts for natural gas.

After the introduction of the euro in Lithuania on 1 January 2015, since 1 July 2014 all natural gas prices and tariffs were published in two currencies: the litas and the euro. During the period from

1 January 2015 till 1 July 2015, prices and tariffs were published in litas and the euro. The price could not increase as a result of change of currency. A part of complaints were related to the rounding of prices after the calculation of the value added tax.

Figure 39. Consumers' complaints and applications in the natural gas sector (percent)



Source – NCC.