



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

**Prepared by:**

**National Control Commission for Prices and Energy**

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## 1. FOREWORD

In 2012 the changes related to the development of the domestic and regional markets were far from being scant in Lithuania.

On 18 June 2012, when Nord Pool Spot AS became the operator of the Power Exchange, the license issued to the electricity market operator BALTPPOOL UAB was withdrawn.

Although in 2012, as compared to 2011, the number of the market participants having the independent electricity supply licenses remained the same, the number of the Power Exchange participants registered at the Power Exchange BALTPPOOL UAB increased from 28 to 33. The number of the active participants grew from 21 to 25. The quantity of electricity traded at the Power Exchange went down by 7 percent, from 7963.9 GWh to 7445.4 GWh.

In 2012, as compared to 2011, electricity import in Lithuania increased by approx. 2 percent, export – by 16 percent. The volume of electricity production increased by approx. 1 percent, from 4.8 TWh to 4.83 TWh.


Electricity consumption dropped by approx. 1 percent, from 11.4 TWh to 11.3 TWh, however the energy undertakings succeeded in reducing technological losses in the electricity networks by 9 percent, from 0.97 TWh to 0.88 TWh. Energy demand for auxiliary consumption grew by 22 percent.

Last year, as compared to 2011, the installed capacity was increased by 2.4 percent (from 4021 MW to 4119 MW), and the investments in the network infrastructure grew by 2.5 percent (from LTL 455.25 million to LTL 466.5 million).

After coming into validity of the new Law on Electricity on 7 February 2012, in March 2012 the National Control Commission for Prices and Energy (hereinafter – the NCC) stated that the distribution network operator AB LESTO and the transmission system operator LITGRID AB had not complied with the requirements set forth in the Law on Electricity on unbundling the transmission and distribution activities, and obligated the transmission system and distribution network operators no later than by 30 March 2012 to submit to the Commission the comprehensive description of the method chosen for unbundling the activities and control that were not related to the transmission and distribution activities from the activities of the vertically integrated undertaking, together with the detailed plan for the actions to be taken for this purpose. The plans prepared by the transmission and distribution network operators had to transparently disclose the sequence and deadlines of the specific actions to be taken for assuring the compliance with the requirements. After the operators had submitted the plans, in April 2012 the NCC stated that the deadlines set by the transmission and distribution operators were not justified and obviously unreasonably extended, and obligated the operators to complete all actions deemed necessary to assure the compliance with the requirements during the set period of time.

After the Government of the Republic of Lithuania by Resolution No 826 On the Establishment of a Private Limited Liability Company and Investment of the State-Owned Assets as of 4 July 2012 approved the Plan for Implementing the Unbundling of the Activities and Control of the Electricity Undertakings by 1 October 2012 in Compliance with the Law on Electricity and after submitting the information by AB LESTO on unbundling the types of activities unrelated to distribution from the activities of the vertically integrated undertaking, in July the NCC stated that the unbundling of AB LESTO distribution activities complied with the provisions of Article 54, Paragraphs 1 and 3 of the Law on Electricity.

On 1 October 2012, LITGRID AB informed that the undertaking had finalized all actions necessary to assure the compliance with the requirements of the Law on Electricity on unbundling the transmission activities. After receiving from the undertaking the properly submitted documents



and additional information, on 29 April 2013 the NCC made the preliminary decision that the unbundling of the activities of LITGRID AB was duly implemented, and at the beginning of May informed the European Commission thereof. On 4 July 2013, the European Commission provided its conclusion, and the NCC, by taking into account the comments from the European Commission, will make the final decision regarding the duly performed unbundling and certification of the transmission system operator.

In 2012 the NCC started the Study on the Development of the Long-Run Average Incremental Cost (LRAIC) Model aimed at increasing the efficiency of the networks and the long-term competition and thus benefitting the customers and other participants of the electricity sector, and the Study on the Assessment of the Reliability of the Lithuanian Power System. The Annual Report on the reliability of the electricity transmission and distribution networks in the Lithuanian electricity sector should be finished by August 2013, and it is planned to complete the LRAIC Study in the second half of 2014. In 2012 the preparation of the Study on the Information Collection for Setting the Tariffs of Electricity Produced from Renewable Energy Resources and the Tariffs of Purchasing Biogas, the Selection of the Most Efficient Technology and the Tariff Calculation was completed.

The participants of the natural gas import market in 2012 were the same as in 2011. Natural gas was imported by AB Lietuvos dujos, UAB Dujotekana, AB Achema, Kaunas Combined Heat and Power Plant and UAB Haupas. In 2012 natural gas was imported to Lithuania from the single external supplier – the Russian company OAO Gazprom. UAB Dujotekana purchased gas not directly from OAO Gazprom, but from the intermediate agent LT Gas Stream AG.

In 2012, as compared to 2011, the participants of the natural gas import market imported by 2.5 percent less of natural gas, the import costs went up by 7.5 percent. The augmentation of the prices of the alternative types of fuel (heavy fuel oil with 1 percent sulphur content and 0.1 percent gas oil) and the strengthening of the US dollar against Litas resulted in 21.3 percent higher weighted price of the natural gas import as compared to 2011.

In 2012, as compared to 2011, the volume of the natural gas transit increased by 6.1 percent, transmission to Lithuanian customers decreased by 2.8 percent. These factors predetermined the growth of the total transmission volumes by 0.6 percent.

In 2012 the distributed quantity of natural gas was 7.5 percent below the distributed quantity in 2011. The biggest share of the distribution market – 97.3 percent – was held by AB Lietuvos dujos.

The wholesale natural gas supply market has further remained rather small: in 2012 the sold quantity of natural gas equaled 8.3 million m<sup>3</sup>, i.e. 12.4 percent more than the quantity sold in 2011.


The Natural Gas Exchange has been operating in Lithuania since 1 March 2012; the operator of the Exchange is BALTPPOOL UAB. On 9 November 2012, the NCC issued the license of the natural gas market operator to one more economic operator – UAB GET Baltic.

In 2012 in the retail natural gas market 1614.0 million m<sup>3</sup> of natural gas were supplied, i.e. 12.3 percent below the quantity supplied in 2011. In 2012, as compared to 2011, the quantity supplied to non-household customers dropped by 12.9 percent, to household customers – by 6.6 percent.

In 2012 investments in the transmission market equaled LTL 109.1 million, i.e. 3.3 times as much as in 2011. In 2012 investments in the distribution market reached LTL 46.8 million, i.e. by 44.5 percent more than in 2011. In 2012 LTL 0.31 million were invested in the supply market, i.e. half of the invested amount in 2011. In 2012 the total investments in the sector equaled LTL 156.2 million, i.e. 2.4 times as much as in 2011.

In 2012 the NCC started unbundling the activities of AB Lietuvos dujos and was supervising its progress. The NCC, after analyzing the descriptions of the methods of unbundling the activities and control and the plan of actions to be taken, submitted by AB Lietuvos dujos on 31 May 2012, on 15





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June 2012 passed Resolution No O3-145 On Unbundling of the Transmission and Distribution Activities and Control of AB Lietuvos dujos.

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

Chair of Commission



Diana Korsakaitė



## 2. KEY EVENTS IN THE ELECTRICITY AND GAS MARKETS

### 2.1 Electricity sector

#### 2.1.1 UNBUNDLING OF VERTICALLY INTEGRATED UNDERTAKINGS

The new Law on Electricity passed by the Seimas of the Republic of Lithuania on 17 January 2012 provides for the unbundling of the electricity transmission activity from the activities of electricity production and supply by unbundling the ownership of the transmission system operator from the ownership of the undertakings performing the activities of production and/or supply.

The Government of the Republic of Lithuania, abiding by the provisions of the Law on Electricity, by Resolution No 826 *On the Establishment of a Private Limited Liability Company and Investment of the State-Owned Assets* as of 4 July 2012 approved *the Plan for Implementing the Unbundling of the Activities and Control of Electricity Undertakings by 1 October 2012 in Compliance with the Requirements of the Law on Electricity*. In accordance with the Plan, the shares of the private limited liability company Visagino Atominė Elektrinė UAB, the undertaking performing the activities of production and supply, owned by the proprietary right by the state and managed by the Ministry of Energy by the right of trust were transferred to the Ministry of the Economy, and LITGRID AB, the undertaking of the transmission system operator, remained in the control of the Ministry of Energy. Later the shares of the private limited liability company Visagino Atominė Elektrinė UAB were transferred to the Ministry of Finance.

After the NCC had required the electricity network undertakings to accelerate the implementation of the provisions of the Law on Electricity, AB LESTO by 30 June 2012 and LITGRID AB by 1 October 2012 finalised all actions necessary to assure the compliance with the requirements of the Law on Electricity regarding the unbundling of the transmission and distribution activities, and informed the NCC thereof by submitting all relevant materials.

After analyzing the received information, in July 2012 the NCC stated that the unbundling of the distribution activities by AB LESTO complied with the provisions of Article 54, Paragraphs 1 and 3 of the Law on Electricity. On 29 April 2013, the NCC by a preliminary decision stated that the unbundling of the transmission activity by LITGRID AB complied with the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity and that this undertaking could be certified to as the transmission system operator.

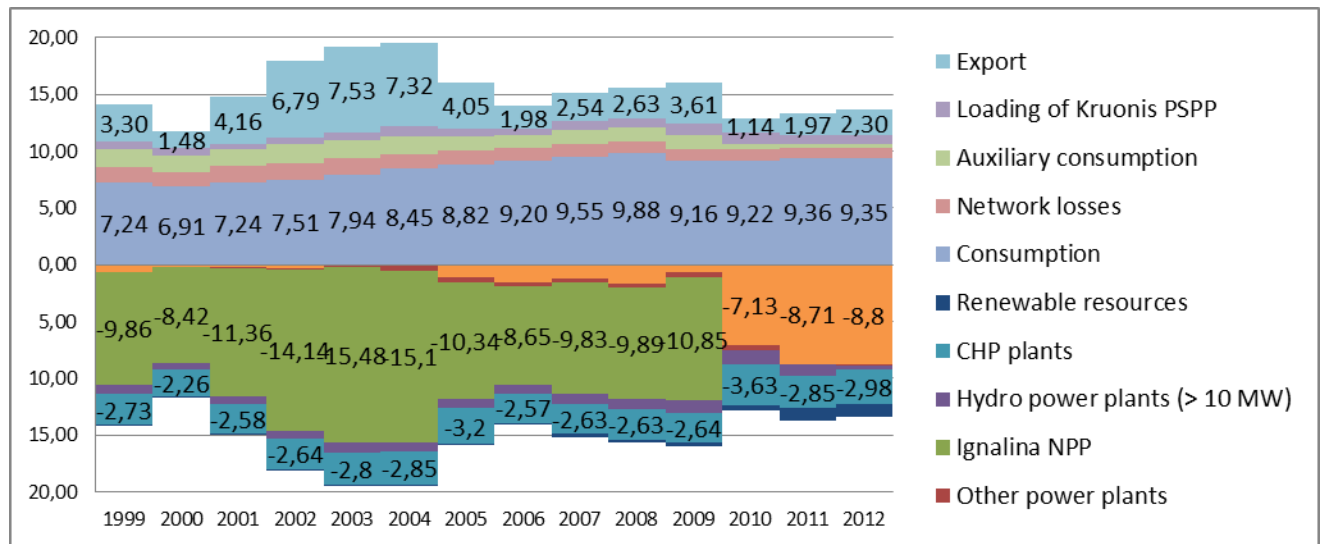
At the beginning of May 2013, the NCC informed the European Commission about the made decision and submitted the documents justifying this decision. On 4 July 2013, the European Commission provided its conclusion with comments. The final decision regarding the appropriate unbundling of the transmission system operator and its certification in accordance with the procedure laid down by Article 25, Paragraphs 6 and 7 of the Law on Electricity and by taking into consideration the comments by the European Commission should be made no later than by 8 September 2013.

The NCC will be further exercising control over the efficient unbundling of the activities by assuring independence of the transmission and distribution activities from the commercial interests, and after receiving the relevant documents will inform the European Commission in accordance with the set requirements.

### 2.1.2 SECURITY OF SUPPLY

Since 2010 the Lithuanian power system from the exporting system has become the importing one and dependent on a single electricity supplier from the third country – the Russian Federation. In 2012 electricity import constituted approximately 77.1 percent of the total electricity consumption in the country (Figure 1).

Figure 1. Electricity balance in 1999–2012, TWh.



Source: NCC

During the year, the total installed capacity of the power plants increased by 2 percent – up to 4119 MW, in the thermal power plants – by 1 percent, up to 2788 MW, in the power plants using renewable energy resources (hereinafter – the RES) – by 19 percent, up to 431.4 MW. The market share of the installed capacity of the RES power plants in 2012 constituted 11 percent.

Lithuania in the electricity sector has set the goals to have interconnection links with Sweden and Poland and to establish a common Baltic electricity market. On 24 May 2013, all permits were obtained for the construction of the link with Sweden. The longest phase of the project NordBalt – spatial planning, designing technical solutions and permits has been completed. In the end of 2011 having finalized the testing of the cable, the production of the cable started in Sweden. The launch of cable lying in the Baltic Sea has been scheduled for March 2014. The start of link operation is planned in December 2015. The principle element of the interconnection line LitPol Link – the permanent current insertion will be built near Alytus city transformer substation. Insert construction works will start in 2014, the works has been scheduled to be completed by December, 2015. The works to be carried out by a global engineering and technology company ABB. At the same time, 400 kV power transmission line from Alytus substation to the Lithuania - Polish border will be build and the 330 kV switchyard of Alytus transformer substation to be expanded.

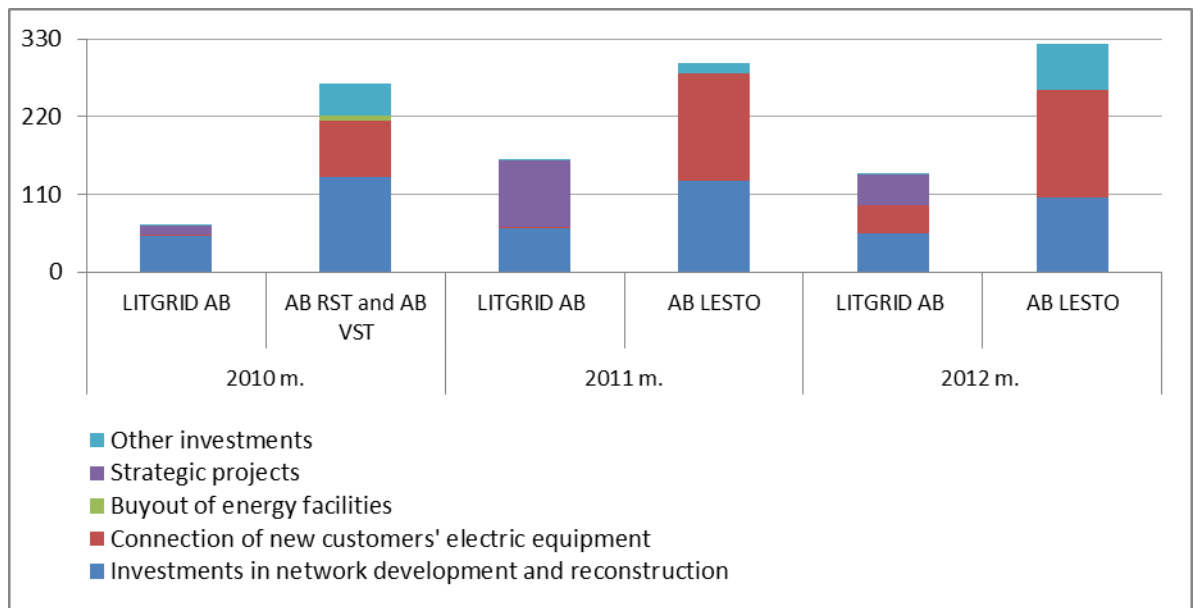
After the implementation of the mentioned projects the up till now isolated Lithuanian power system would be integrated into the single European electricity market, thus contributing to the more reliable electricity supply and enhanced competition in the regional Baltic market.

In 2012 investments of the LITGRID AB to the strategic projects constituted LTL 43.9 million, or approx. 30 percent of the total yearly investment amount. In total to the development and reconstruction of the network was allocated LTL 95.3 million. In 2012, like in 2011, LTL 161.5 million,



or about 50 percent of the investments of AB LESTO were made in connecting new customers. The investments in the reconstruction of the network and substations constituted LTL 148.1 million, as compared to the previous year, were reduced by 23 percent, but the amount allocated for other investments grew 5 times (Figure 2).

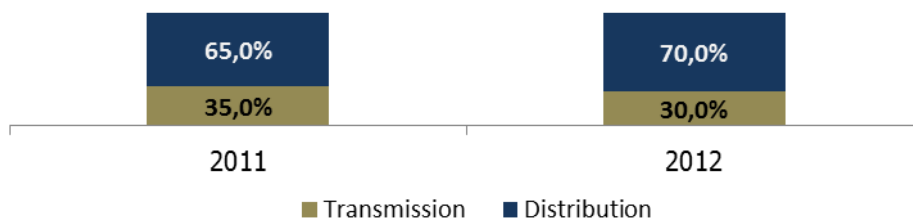
Figure 2. Investments made by the transmission system and distribution network operators in 2010-2012, LTL million



Source: NCC in accordance with the information submitted by AB LESTO and LITGRID AB

In 2012, as compared to 2011, the investments in the network infrastructure increased by 3 percent, from LTL 455.25 million to LTL 466.5 million. In 2012 the market share of the investments in the transmission grid, as compared to 2011, dropped by 5 percent, with the respective growth of the market share of the investments in the distribution network (Figure 3).

Figure 3. Market structure according to infrastructure investments in 2011-2012, percent



Source: NCC

Pursuant to the Law on Electricity, the NCC has to monitor and evaluate the reliability of the transmission and distribution networks. The results of the reliability monitoring are summarized in the Annual Reports posted on the NCC website. Every year, no later than by 31 July, the NCC has to submit the Annual Reports to the Government or its authorized institution, and to the European Commission.

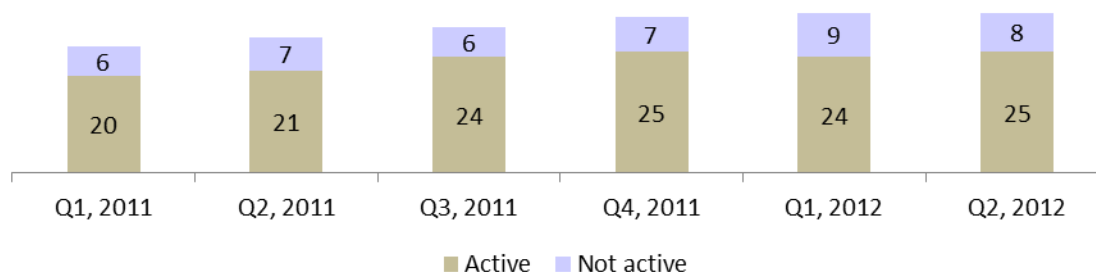
### 2.1.3. COMPETITION IN THE ELECTRICITY SUPPLY MARKET AND MARKET SUPERVISION

On 18 June, 2012 Lithuania launched the Nord Pool Spot Power Exchange that is one of the most important steps in the integration of the electricity market. Power Exchange ensures equal rules and competitive conditions for market participants and formulates transparency in electricity prices. At present, the Power exchange is going on "day-ahead" basis. Further, it is planned to implement the "daily limit" trading power project by the end of 2013.

The year 2012 was the last year when the regulated public electricity prices could be applied to small commercial customers. This and other stages were set forth in the *Plan for the Development of the Electricity Market in Lithuania* approved by Resolution No 740 of the Government of the Republic of Lithuania as of 8 July 2009, and in the new Law on Electricity. Starting from 2013, the Public Supplier has to conclude the agreements on electricity supply at the regulated public prices only with those household customers who have not chosen an independent electricity supplier. In accordance with the mentioned Plan, starting from 2015 all household customers, excluding the socially supported ones, will have to purchase electricity in the market at the prices of NORD POOL SPOT AS, or at the prices agreed by bilateral contracts.

In 2012, as compared to 2011, the number of participants registered at the Power Exchange grew from 28 to 33, the number of active participants of the Power Exchange increased from 21 to 25.

Figure 4. Number of the Power Exchange participants in 2011-2012



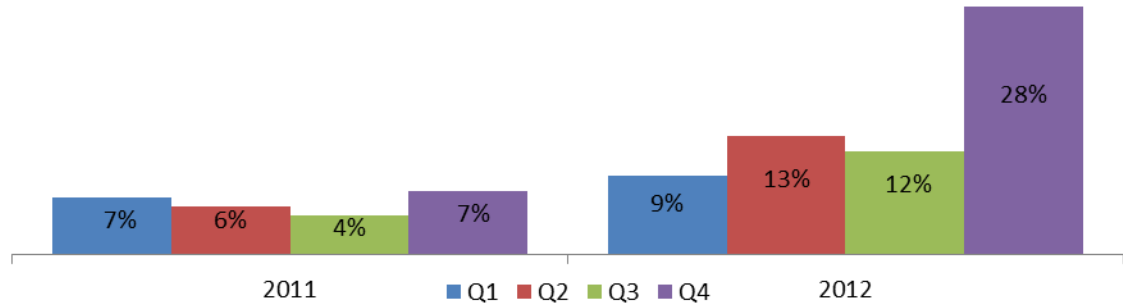
Source: NCC

In 2012, as compared to 2011, the quantity of electricity traded at the Power Exchange dropped by 7 percent, from 7963.9 GWh to 7445.4 GWh.

The electricity quantity traded by the price forming bids in 2012, as compared to the previous year, increased more than twice and constituted 16 percent from the total electricity quantity traded at the Power Exchange (in 2011 – 6 percent).



Figure 5. Price forming quantities traded at the Power Exchange, in percent, 2011-2012, percent



Source: NCC

The price dynamics of the electricity traded at the Power Exchange in July 2011 – June 2013 is shown in Figure 6.

Figure 6. Monthly average electricity prices in the Power Exchanges of Lithuania, Estonia (Latvia), Finland and Norway, EUR/MWh, July 2011 – June 2013.

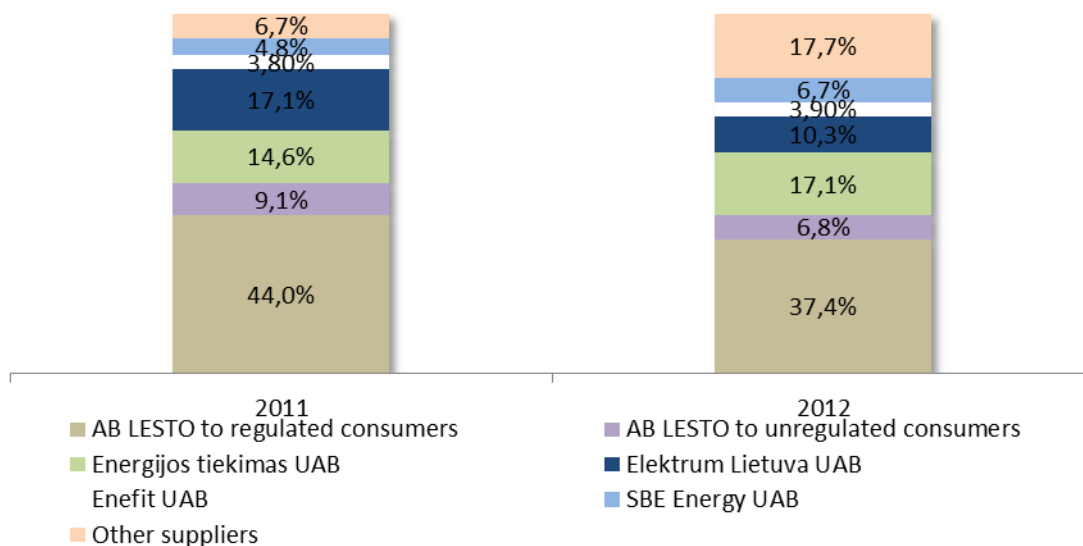


Source: [www.nordpoolspot.com](http://www.nordpoolspot.com)

The main participants in Power Exchange in purchases and sales market in 2012 as well as in 2011 were INTER RAO Lietuva, Lietuvos energija, AB, „Electrum Lietuva“, UAB.

In 2012 the independent suppliers supplied 3592.6 GWh of electricity to the electricity customers; the public supplier AB LESTO supplied 3046.4 GWh of electricity to the regulated electricity customers and 554.3 GWh of electricity – to the eligible customers.

Figure 7. Structure of the retail electricity market, in percent, 2011-2012



Source: NCC

In 2012, as compared to 2011, the share of AB LESTO in the structure of the retail supply market decreased by 9 percent, from 53.1 percent to 44.2 percent. Among the independent electricity suppliers in 2012, as compared to 2011, the market shares held by Energijos tiekimas UAB and UAB SBE Energy respectively increased by 3 percent and 2 percent.

In 2012 no licenses were issued in the electricity sector. Starting from 18 June 2012, when Nord Pool Spot AS, licensed by the Norwegian energy regulator, became the operator of the Power Exchange, the license issued to the electricity market operator BALTPPOOL UAB was withdrawn.

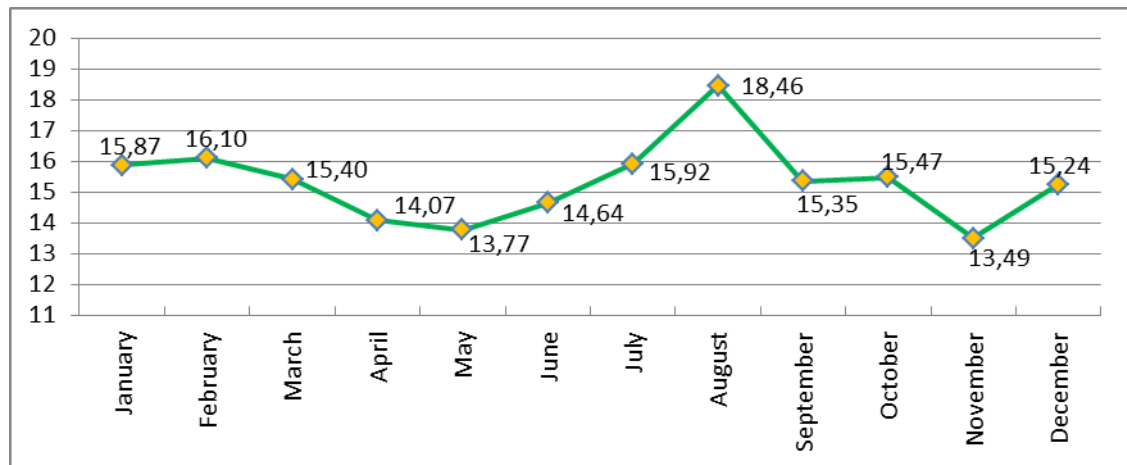
At the end of 2012, 435 market participants were operating in the electricity market. The majority of them were the entities which had the permits for electricity production.

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

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



Figure 8. Dynamics of the electricity market price in 2012, LTLct/kWh (VAT excluded)



Source: NCC

#### 2.1.4. PREPARATION OF THE SECONDARY LEGISLATION IMPLEMENTING THE LAW ON ELECTRICITY


The new Law on Electricity passed on 17 January 2012 has significantly expanded the NCC functions and committed the latter to prepare the secondary legislation implementing the Law on Electricity.

In addition to the documents listed in the Report for the previous year, according to which the NCC approved the *Procedure Regulations and Conditions for Submitting the Documents, Data and Information for the Certification of the Transmission System Operator*, was preparing the *Rules for Unbundling the Accounts of Electricity Undertakings*, revised the *Methodology for Setting the Market Price of Electricity* and the *Procedure Regulations for Supervising the Regulated Activity of Energy Undertakings*, was preparing the *Description of Principles for Setting the State-regulated Prices in the Electricity Sector*, which after reconciliation with the interested stakeholders was submitted to the Government, upgraded the *Requirements for the Reliability of Electricity Transport and the Quality of Services*, approved the *Market Research Rules*.

With regard to the amendments in the Law on Energy of the Republic of Lithuania and in the Law on Electricity of the Republic of Lithuania and also to that fact that the electricity trading system Nord Pool Spot AS started operating in Lithuania, the NCC prepared the *Draft Amendments of the Procedure Regulations for Supervising the Electricity Market*, and presented the document at several public debates. The Draft is aimed at assuring proper supervision and monitoring of trading in electricity in the electricity market, at creating preconditions for fair and efficient competition in the electricity market. Currently the Draft is being revised to reach the compliance with the provisions of Regulation (EU) No **1227/2011** of the European Parliament and of the Council, the Market Conduct Rules of the market operator Nord Pool Spot and other legal acts.

After coming into validity of the new Law on Electricity on 7 February 2012, all electricity customers were grouped into the household and non-household ones. With regard to this grouping, setting the fees for connection to the electricity networks was respectively adjusted as well (before that all customers had to cover 20 percent of the distribution operator's costs in accordance with the connection fee calculated and approved by the NCC). Correspondingly, the NCC revised the *Methodology for Setting the Fees for Connection of Electric Equipment to Electricity Networks* (approved on 14 September 2012, No O3-248).





To establish the transparent, unambiguous and objective principles of setting the price of the electricity system services, the NCC prepared and approved the *Methodology for Setting the Price of the Electricity System Services (approved on 27 July 2012, No O3-200)*.

The NCC prepared the *Methodology for Setting the Prices of Electricity and Maintaining the Reserve Capacity (approved on 14 September 2012, No O3-229)* aimed at establishing the transparent, objective and undiscriminating principles of setting the electricity price and the price of maintaining the reserve capacity. The legal act sets forth the objectives and principles of unbundling of accounts, the requirements for producers or independent suppliers, who by the motivated decision of the NCC were acknowledged as having a significant influence in the electricity market and/or the market of the reserve capacity services.

Striving that the public electricity prices, the public electricity supply prices and their price caps would be set in accordance with the transparent, unambiguous and objective principles, the NCC revised the *Methodology for Setting the Public Electricity Prices, Public Electricity Supply Prices and Their Price Caps (approved on 28 September 2012, No O3-280)*.

With regard to the provisions of the new Law on electricity, the NCC revised the *Methodology for Setting the Prices of the Transmission and Distribution Services and Their Price Caps (approved on 21 September 2012, No O3-255)*.

In addition to that, the NCC prepared and approved the *Procedure Regulations for Differentiating the Prices of Electricity Transmission, Distribution, Public Supply Services and Public Electricity (approved on 19 September 2012, No O3-252)*. With regard to the provisions of the new Law on Electricity providing that the service suppliers have to set the procedure for differentiating the prices the description thereof has to be approved by the NCC, a separate document was prepared regulating the conditions and procedure for differentiating the prices of electricity transmission, distribution and public supply services and the public electricity prices.

In 2012 the legal acts regulating the supply of and payment for the Public Service Obligation (PSO) services were amended 3 times. On 18 July 2012, the Government provided the new wording of the *Procedure Regulations for the Supply of the Public Service Obligations in the Electricity Sector*, and, with regard to Article 6, Paragraph 6 of the Law on Electricity, on 19 September 2012 approved the *Procedure Regulations for the Administration of the Public Service Obligations in the Electricity Sector*, which replaced the *Procedure Regulations for the Administration of the Public Service Obligations in the Electricity Sector* approved by the NCC in 2010. With regard to the amendments in the Law on Electricity and in the aforementioned legal acts, the NCC amended the *Methodology for Setting the PSO Prices (approved on 28 September 2012, No O3-279)*.

Subsequently to the approval of these amendments to PSO application and PSO funds administration by the Government on 19 December 2012 in relation to the newly enforced Law on Electricity; on 21 December 2012 the NCC amended the *Methodology for Setting the PSO Prices (approved on 21 December 2012, No O3-418)*. The principles of calculating the PSO price, applicable only to the network operators, have been set forth in the Methodology.

To assure transparency of the electricity sector and to establish preconditions for fair competition thus implementing the customer's right to choose the supplier or producer, the NCC prepared and approved the *Requirements for Recommendations on the Compliance of Prices in the Electricity Sector with Transparency, Indiscrimination and Other Requirements (approved on 19 September 2012, No O3-251)*. Pursuant to the Law on Energy, the NCC no less than once per year has to issue the recommendations related to the compliance of the prices of the services supplied in the energy sector with the requirements of transparency, indiscrimination and other requirements prescribed by the legal acts, and to submit them to the Competition Council of the Republic of Lithuania.

### 2.1.5. PRICING OF THE REGULATED ACTIVITIES, SETTING THE TRANSPORT PRICES AND CONNECTION FEES

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

As it has been already mentioned, in September 2012 the NCC revised the provisions of the *Methodology for Setting the Prices of the Transmission and Distribution Services and Their Price Caps*, the *Methodology for Setting the Public Electricity Prices, Public Electricity Supply Prices and Their Price Caps* and the *Procedure Regulations for Differentiating the Prices of Electricity Transmission, Distribution, Public Supply Services and Public Electricity* with regard to the provisions of the New Law on Electricity.

Pursuant to the new Law on Electricity, the NCC sets the price caps of the transmission and distribution prices not for a three-year period, but for a five-year period. The NCC also investigates whether the specific prices of the regulated services, which have been set by the electricity undertakings, do not discriminate individual customer groups. The price caps of the transport services have been set for the regulation period of 2011–2013. Every year the price caps of the transport service are adjusted by taking into consideration the coefficients of the impact of quantity, unpredicted changes, indexation and adjustment. In addition to that, the impact of the quality indicators in providing the network services and the principles of the excess sharing calculation are taken into account.

The price caps of the transport services for the regulation period of 2011–2013 and the recalculated prices of the services for the year 2013 are provided in Table 1.

Table 1. Price caps of the transport services for the regulation period of 2011–2013 and recalculated prices of the services for 2013 (LTLct/kWh)

Indicators	LITGRID AB	AB LESTO	
		Medium voltage network	Low voltage network
The price caps of the transport service set for 2011–2013	2.32	4.89	6.39
The price caps of the transport service recalculated for 2013	2.415	4.747	6.219

Source: NCC

The price cap of the electricity transmission service for 2013 has been increased because of:

- The reduced projection of the GDP growth respectively decreased the quantity of the transmitted electricity – 0.4 percent;
- The growth of inflation – 0.8 percent;
- The changed mechanism for calculating the return on investments (WACC) – 3.7 percent;
- The increased depreciation costs, after taking into consideration the implemented investment projects – 0.4 percent.

The additional revenues earned from the service of supplying the balancing electric energy reduced the price cap of the transmission service by 1.2 percent.

During the recalculation of the price caps of the distribution services by AB LESTO in 2013, it was taken into account that the *Procedure Regulations for Supplying the Public Obligation Services in the Electricity Sector* approved by Resolution No 916 of the Government as of 18 July 2012 were amended. Therefore, abiding by the provisions of the mentioned Procedure Regulations, in 2013 AB LESTO for the electricity purchased for covering the technological needs and auxiliary consumption will not pay the prices of the system services and PSO. In addition to that, while calculating the return on investments, the interest costs will be eliminated from the costs.

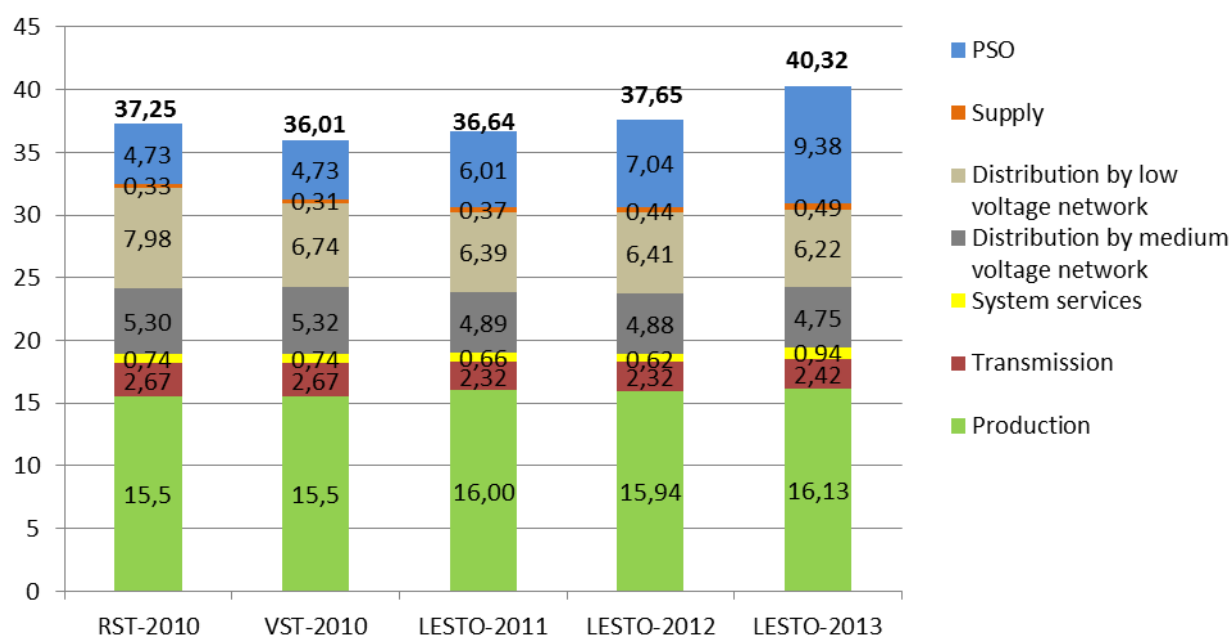
The price caps of AB LESTO distribution service increased due to the following reasons:

- The reduced projection of the GDP growth respectively decreased the quantity of the transmitted electricity – 3 percent;
- The growth of inflation – 3.02 percent;
- The changed mechanism for calculating the return on investments (WACC) – 2.7 percent;
- The increased depreciation costs, after taking into consideration the implemented investment projects – 0.9 percent.

The price caps of AB LESTO distribution service were reduced after eliminating the costs of interest (2.6 percent) and because the prices of the system services and PSO were not applied to the electricity purchased for the technological needs (4.9 percent).

The infrastructural electricity components in the essence remained unadjusted, and after taking into account the growth of the PSO price, the average electricity price in 2013, as compared to 2012, is by 2.67 LTLct/kWh (VAT excluded) higher and equals 40.32 LTLct/kWh (VAT excluded). In 2012 it was 37.65 LTLct/kWh (VAT excluded).

Figure 9. Average price of electricity in 2010–2013, LTLct/kWh (VAT excluded)



Source: NCC

In the recent years the prices of electricity for household customers have been significantly impacted by the adjustment of the PSO price, which in 2010 – 2013 increased nearly twice, i.e. from 4.73 LTLct/kWh to 9.38 LTLct/kWh. Nearly 70 percent of the PSO price are comprised of the cost of supported electricity of Lietuvos elektrinė and combined heat and power plants in accordance with the quotas set by the Government of the Republic of Lithuania and pursuant to the legal acts regulating the PSO list, the procedure of the PSO supply and administration. The main factor, which



has significantly impacted the growth of this part of the PSO, is the gas price which during the last three years grew by 62 percent, i.e. from 849 to 1379 LTL/1000 cm. It should be also mentioned that it is projected that in 2013 the subsidies for REI totaled to 21.4 in the total PSO budget.

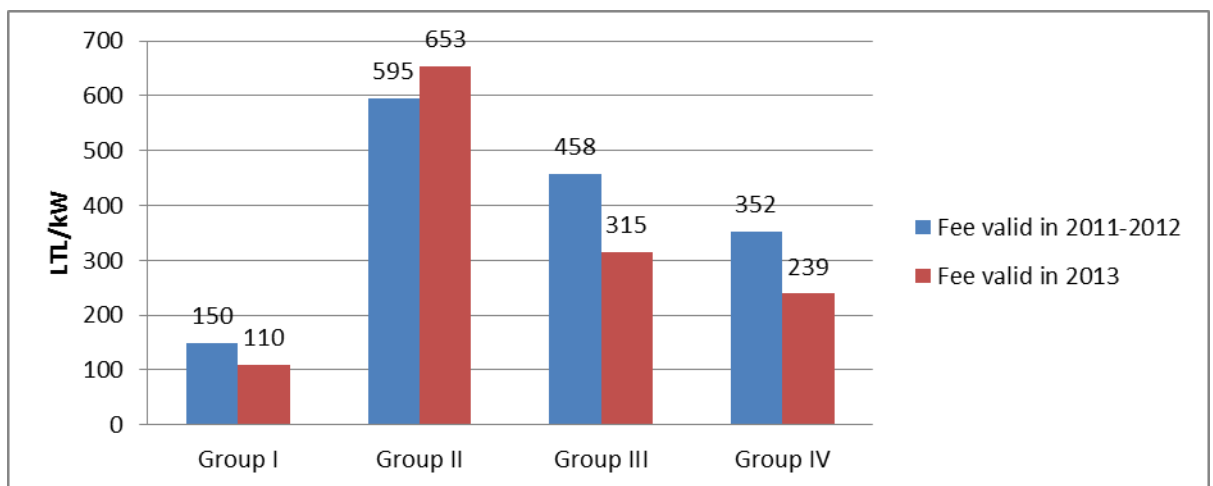
The NCC function to approve the connection fees of energy facilities (networks, systems, equipment) is embedded in the Law on Energy and the Law on Electricity.

After coming into validity of the new Law on Electricity on 7 February 2012, all electricity customers were grouped into the household and non-household ones. Consequently, setting the fees for connection to the electricity networks was adjusted as well (before that all customers had to cover 20 percent of the distribution operator's costs in accordance with the connection fee calculated and approved by the NCC). Respectively, on 13 September 2012 the NCC revised the *Methodology for Setting the Fees for Connection of Electric Equipment to the Network*.

The NCC, by taking into consideration the amendments in the Law on Renewable Resources, which came into validity on 1 February 2013, by Resolution O3-139 as of 29 April 2013 revised the *Methodology for Setting the Fees for Connection of Electric Equipment to the Network*. The main amendments are as follows:

1. The procedure for distributing the costs of connection to the grid between the producer and the operator was set by revoking free connection of the producers with the installed capacity of the power plants up to 30 kW – they will cover 20 percent of costs of connection to the grid;
2. The procedure for calculating the connection fee was changed by revoking free connection within 25 m distance;
3. It was set forth that in setting the fee for installing 1 m of an electric line, the customers assigned to Group I and Group II will be treated as a single group;
4. The period, during which the customer reducing the permissible capacity of the electric equipment has to pay to the operator for the reduction of this capacity the balance amount of the actually incurred costs pro rata to the reduced capacity, was extended up to 2 years.

Figure 10. Fees of connection to the network, which were adjusted by the NCC in 2013



Source: NCC

In 2012, the fees of the customers' connection to the electric networks, which had been set by the NCC and came into validity on 1 September 2011, remained unchanged. The NCC approved new fees of customers' connection to the electric networks by Resolution No O3-140 as of 29 April 2013, and they came into validity on 1 June 2013.

The NCC decisions made in 2012 in the field of costs accounting and pricing supervision allowed the electricity customers to save up to LTL 183 million. In the electricity sector the NCC exercises regulation over more than 200 economic operators (Table 2). In 2012 the yearly price recalculations were made to 22 economic operators.

Table 2. Indicators of the electricity sector

Indicator	2009	2010	2011	2012	Adjustment
<b>Number of participants in the sector*</b>	201	202	237	429	192
<b>Revenues in the electricity sector per year, LTL million</b>	2.520	2.783	2.839	2,946	107
<b>Sales in the electricity sector in TWh</b>	9,16	9,22	9,38	9,58	0,2
<b>Investments in the electricity sector, LTL million</b>	374,1	332,7	328,9	392**	63,1

\* Number of participants, including independent suppliers and producers

\*\* Planned investments

Source: NCC

#### 2.1.6. INTERNATIONAL COOPERATION


The NCC is a member of the Agency for Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators ([CEER](#)) and the Energy Regulators Regional Association ([ERRA](#)).

In 2012 the conditions were created for the NCC, together with the national regulatory authorities of other European Union Member States and in cooperation with the ACER, to contribute to the development of the Codes of the latter and to their conciliation with the European Network of Transmission System Operators (ENTSO), and to the submission of the recommendations to the European Commission on the adoption of the Grid Codes, to the preparation of the general recommendations of the Electricity Balancing Rules, the general recommendations for the third party access, the establishment of the transmission system operators' clearing fund and discussions of other issues.

One more example of the close cooperation among the NCC and the regulatory authorities of the neighbouring countries – the yearly arranged Baltic Common Electricity Market Mini-Fora, which traditionally is attended by the representatives of the energy regulators, ministries and other stakeholders in this sector from the Baltic and Scandinavian countries. The Mini-Foras arranged in Estonia and Latvia in 2012 enabled the participants to more flexibly react to the changing regional regulatory environment and to faster implement the experience of other countries in their activity.

In May 2013, the 15<sup>th</sup> Mini-Fora was arranged in Vilnius where the progress reached in the development of the regional market, wider integration possibilities and the development of infrastructure, the challenges arising to the customers and the issues of the security of supply were discussed with the policy makers, transmission system operators, electricity producers, suppliers, associations uniting energy undertakings from Lithuania and the neighboring countries.

The NCC representatives took part in preparing and conciliating with the regulatory authorities of the neighboring countries the List of Projects of Common Interest in Energy



Infrastructure. The NCC supported shortlisting of the following projects in the List of Projects of Common Interest in Energy Infrastructure:

- Project for expansion of Kruonis Pumped Storage Power Plant;
- High voltage line Kruonis – Ignalina;
- High voltage interconnection line LitPol Link1;
- High voltage interconnection line LitPol Link2.

The entrance of the power exchange Nord Pool Spot into the electricity market of Lithuania in June 2012 promoted the regional market integration. In March 2013, the Baltic Transmission System Operators signed a three-party Agreement on the calculation of the capacities of the cross-border lines and the capacity allocation rules with regard to the trade with third parties. This established preconditions in all Baltic States on the basis of the power exchange Nord Pool Spot to implement the day-ahead trade. It is being planned to implement the current day trade in electricity at the end of 2013, and the financial market – in 2014.

## 2.2. Gas sector

### 2.2.1. UNBUNDLING OF VERTICALLY INTEGRATED UNDERTAKINGS

On 30 June 2011, the Seimas of the Republic of Lithuania passed a new Law on Natural Gas of the Republic of Lithuania (hereinafter – the Law on Natural Gas), which came into validity on 1 August 2011.


The Law on Natural Gas was prepared by implementing 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 (OL 2009 L 211, p. 94) and **Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.**

The Law on Natural Gas provides for unbundling the natural gas transmission activity from the activities of the natural gas extraction and supply by unbundling the ownership of the transmission system and the transmission system operator from the undertakings involved in the activity of the natural gas extraction and/or supply.

The Government of the Republic of Lithuania, by following the provisions of the Law on Natural Gas, by its Resolution No 1239 as of 28 October 2011 approved *the Plan for Unbundling the Activities and Control of the Natural Gas Undertakings Not Complying with the Requirements of the Law on Natural Gas*. Pursuant to this Plan, the natural gas undertakings not complying with the requirements of the Law on Natural Gas had to choose the method of unbundling the natural gas transmission activity and control either by rearranging the control over the natural gas undertakings or by reorganizing (separating) the natural gas undertakings. The NCC was obligated to exercise control over the efficient unbundling of the activities by assuring independence of the transmission and distribution activity from the commercial interests.

In Lithuania there is only one natural gas undertaking not complying with the requirements of the Law on Natural Gas – AB Lietuvos dujos involved in the activities of natural gas transmission, distribution and supply. On 31 May 2012, this undertaking submitted to the NCC *the Action Plan for Unbundling AB Lietuvos dujos Activities* and the *Action Plan for Reorganising the Company's Activities* approved by the Minutes of the meeting of AB Lietuvos dujos Board, which provided that no later than by 31 July 2013 AB Lietuvos dujos would have unbundled its activities in all legal, functional and






organizational aspects, and the unbundling of the activities and control would have been completed no later than by 31 October 2014.

After analyzing the descriptions of the methods of unbundling the activities and control and the plans of actions to be taken, which were submitted by AB Lietuvos dujos, the NCC by Resolution No O3-145 as of 15 June 2012 resolved that AB Lietuvos dujos has to unbundle the natural gas transmission and distribution activities and control in line with the methods and deadlines set forth in the plans, to submit the required documents on the dates indicated in the plans and to immediately inform the NCC about the cases of delay or failure to perform the actions set forth in the plans as well as about any other circumstances that are important for implementing the plans.

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 provides that the transmission system operator shall not use the IT systems or equipment, physical premises and the access protection systems with jointly any of the divisions of the vertically integrated undertaking, and shall not use the services related to the IT systems or equipment, physical premises and the access protection systems of the same consultants or external contractors. In implementing these provisions, AB Lietuvos dujos has to separate the management of the gas transmission system from the activity of supply by establishing a new company with the separate production facilities and administration headquarters. On 7 August 2012, AB Lietuvos dujos addressed the NCC regarding the conciliation of the investment project the *Investments Assigned for the Transmission System Operator's Unbundling and Establishing the New Undertaking*. In the mentioned project the investments necessary to relocate the systems of operational control and other information systems to the new environment by establishing a new data centre and a new dispatch centre, rearranging the telecommunications system and other currently jointly operated systems and divisions were estimated. On 9 October 2012, the NCC approved the mentioned investment project by obligating AB Lietuvos dujos within 30 days from the implementation of the approved investment project the value thereof will not exceed LTL 8475.0 thousand to submit to the NCC the documents justifying the costs actually incurred in relation to the implementation of the project.

Abiding by the NCC Resolution as of 15 June 2012, on 30 January 2013 the undertaking submitted to the NCC the *Unbundling Conditions of AB Lietuvos dujos*. After analyzing these conditions, the NCC by the Resolution as of 28 February 2013 stated that the unbundling of AB Lietuvos dujos transmission activity is performed by keeping to the deadlines set forth in the action plan, the unbundling conditions enable to duly implement the unbundling of the natural gas transmission activity, i.e. so that by 31 July 2013 AB Lietuvos dujos would have legally, functionally and in the organizational aspects unbundled the transmission activity from the distribution and supply activities, and the composition of the assets transferred to the undertaking which will perform the transmission activity would have complied with the principles of the assets distribution of the *Procedure Regulations on Accounting the Activities of AB Lietuvos dujos* and the investments conciliated with the NCC.

By implementing the provisions of the Third Energy Package of the European Union and pursuant to Article 40, Paragraph 1 of the Law on Natural Gas as well as the plan for implementing the unbundling of the activities and control of the two natural gas undertakings the activity thereof does not comply with the requirements of the Law on Natural Gas approved by Part V of Resolution No 1239 of the Government of the Republic of Lithuania as of 1 August 2013, starting from 1 August 2013, the transmission system operator Amber Grid performing the natural gas transmission activity will be unbundled from AB Lietuvos dujos.



By following the provisions of the Law on Natural Gas and the Law on Energy, and by taking into consideration that the NCC, while setting the natural gas transmission price cap to AB Lietuvos dujos, had evaluated the indispensable costs and the value of the assets deemed necessary for performing this activity, and that AB Amber Grid after the reorganization will take over all licensed natural gas transmission activity performed by AB Lietuvos dujos as well as all rights and duties related to this activity, the NCC resolved that the prices set forth by the NCC Resolutions *On the Adjustment of AB Lietuvos dujos Natural Gas Transmission and Distribution Price Caps and Setting the Additional Integral Component (the LNGT surcharge) in the Natural Gas Transmission Price Cap for 2013, On the Natural Gas Transmission and Distribution Prices and Natural Gas Tariffs to Household Customers* will be applied to AB Amber Grid from the date of issuing the fixed-date license for the natural gas transmission activity (the NCC passed a Resolution on issuing the license on 18 July 2013) till 31 December 2013.

Pursuant to the valid legal acts, the deadline of AB Lietuvos dujos reorganisation is 31 October 2014.


### 2.2.2. CONSTRUCTION OF THE LIQUEFIED NATURAL GAS TERMINAL

**Pursuant to Article 6 Paragraph 1 of Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC, the Member States have to ensure that the necessary measures are taken by 3 December 2014 at the latest, so that in the event of disruption of the single largest gas infrastructure, the capacity of the remaining infrastructure, determined according to the N – 1 formula, is able to satisfy total gas demand of the calculated area during a day of the exceptionally high gas demand. In June 2012 the Law on the Liquefied Natural Gas Terminal was passed, which has set forth the general principles and requirements for constructing the liquefied natural gas terminal in the territory of the Republic of Lithuania, its activity and operation, and establishing the legal, financial and organizational conditions for implementing the project of the liquefied natural gas (hereinafter – the LNG) terminal. The LNG terminal will create the conditions for the diversification of the supply sources increasing the security and reliability of the natural gas supply.**

By Resolution No 199 of the Government of the Republic of Lithuania as of 15 February 2012 *On Implementing the Law on the Liquefied Natural Gas Terminal* (the revision of Resolution No 864 of the Government of the Republic of Lithuania as of 11 July 2012), the public limited liability company AB Klaipėdos nafta was authorized to implement the project of the LNG terminal. The company has to finance the construction of the LNG terminal by its own and borrowed funds, however, in the case of shortage of such funds, the company can exercise the right given by the provisions of Article 5, Paragraph 2 of the Law on the Liquefied Natural Gas stipulating that the costs of construction and operation of the LNG terminal or a part thereof in line with the procedure and conditions set by the NCC can be included in the price of the natural gas transmission service in line with the price regulation requirements set forth in the Law on Energy, the Law on Natural Gas and other legal acts. In accordance with the mentioned provision, in September 2012 AB Klaipėdos nafta addressed the NCC regarding the estimation of the funds necessary to finance the costs of construction and operation of the LNG terminal, its infrastructure and the link.

After analyzing the LNG project, its financing needs and possibilities submitted by AB Klaipėdos nafta and the information provided by the Ministry of Finance regarding the financing possibilities, the NCC by its Resolution as of 19 October 2012 stated that AB Klaipėdos nafta submitted the cost estimations of the project of the LNG terminal whereby the company indicated





the preliminary financing needs for the infrastructural part of the project – LTL 453 million. The Resolution also stated that AB Klaipėdos nafta is planning to finance a part of the project value (LTL 200 million in two years) by collections from the payers of the LNG terminal charges through an additional integral component added to the natural gas transmission price cap. The NCC by its Resolution as of 26 October 2012 resolved to set the additional integral component to the natural gas transmission price cap (the LNG terminal surcharge) assigned to compensate the costs of construction of the LNG terminal, its infrastructure and the link in 2013 – LTL 37.53 per thousand cm. (VAT excluded), totally – LTL 114.1 million per year.

On 20 June 2013, the Seimas of the Republic of Lithuania passed the Law Amending Articles 5, 10 and 11 of the Law on the Liquefied Natural Gas Terminal. The following amendments were made by the mentioned Law:

1. Article 5, Paragraph 2 of the revised wording of the Law provides that the costs of construction of the liquefied gas terminal, its infrastructure and the link financing thereof is not possible from other sources available to the company, as well as all fixed operation costs of the liquefied gas terminal, its infrastructure and the link necessary to assure the operation of the liquefied natural gas terminal in accordance with the procedure and conditions set by the NCC will be included in the additional component to the natural gas price – the component of the security of natural gas supply;

2. Paragraph 3 of Article 10, which ensured the priority to Lithuanian customers in using the liquefied natural gas terminal over other states of the Baltic region, was abolished;

3. The Amendment of Article 11 set forth other obligations which will have to ensure the necessary operation of the liquefied natural gas terminal by replacing the “rule of 25 percent mandatory gas purchases”<sup>1</sup> with the provision on the assurance of the priority of the natural gas supply through the LNG terminal for the purposes of the state-regulated production of electric and /or heat energy, which obligated to purchase gas through the terminal side by side with other interconnecting and transmission system pipelines.

The revised Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania provides that the terminal has to be launched into operation no later than by 3 December 2014.

Currently natural gas to the customers in Klaipėda is transported via the single branch of the gas transmission pipeline Šiauliai – Klaipėda, where, during the assessment of the status of this branch performed by AB Lietuvos dujos in 2009–2010, the defects diminishing the reliability and security of gas supply had been identified. To assure the operation of the LNG terminal, it is necessary to construct a new gas transmission pipeline Jurbarkas – Klaipėda. This investment project had been included in the National Energy Strategy and was approved by the NCC in March 2011. The value of the approved investment project is LTL 168 million. Presently the project is in its final stage and it is being planned that the transmission line Jurbarkas – Klaipėda will be finished in Quarter IV 2013.

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<sup>1</sup> To assure the necessary operation of the LNG terminal and to guarantee the technological and economic justification of its operations, the original wording of the Law on the Liquefied Natural Gas Terminal stipulated that the quantity of natural gas imported through the LNG terminal and consumed in the domestic market of the Republic of Lithuania shall constitute no less than 25 percent of the total gas quantity consumed in the Republic of Lithuania per year. In addition to that, the natural gas undertakings importing natural gas to the Republic of Lithuania through the interconnecting or other natural gas transmission system pipelines (in either of the indicated methods) were obligated to purchase no less than 25 percent of the supplied natural gas quantity.



### 2.2.3. DEVELOPMENT OF COMPETITION IN THE GAS SUPPLY MARKET, THE MAIN CHANGES IN THE GAS MARKET MONITORING IN 2012

Pursuant to the provisions of Article 9 of the Law on Natural Gas, the NCC does not regulate the price of the natural gas supply, excluding the cases when during the conducted market research it is identified that due to the lack of the efficient competition an undertaking is either applying the excessively high prices, i.e. the average prices evaluated by the method of the benchmarking analysis, or exerts the price pressure thus causing damage to the market participants. The NCC by Resolution No O3-81 as of 15 March 2013 started the research of the supply market with an aim to ensure the efficient competition in the natural gas sector. It is expected that the research will be completed in November 2013.

The Law on Natural Gas provides that the natural gas undertakings set the tariffs to the household customers once in six months. The natural gas undertakings submit the specific tariffs for the approval by the NCC, which examines these tariffs and makes the relevant decisions. The customers have the right to change the natural gas supply undertaking. In 2012 there were no customers who have changed the supplier.

Currently two market operators are operating in Lithuania: BALTPPOOL UAB, which controls and supervises the first Lithuanian Natural Gas Exchange which has been operating since 1 March 2012, and the second license of the natural gas market operator was issued on 9 November 2012 to UAB GET Baltic. The main function of the natural gas market operator – to organize trade in natural gas at the Natural Gas Exchange where all natural gas consumers who have concluded yearly agreements with suppliers – importers (AB Lietuvos dujos, UAB Dujotekana) and other entities operating in the natural gas sector will be able to buy/sell their yearly surplus or deficient quantities in the secondary market – at the Natural Gas Exchange, i.e. to balance their natural gas flows.

Moreover, the NCC, by implementing the requirements set forth in Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency and by performing the functions assigned by the Law on Natural Gas, in March 2012 approved the *Rules on Supervising Trade in Natural Gas*, the objective thereof is to establish preconditions for the fair and efficient competition in the natural gas market, to assure the transparency, reliability, settlement of payments among the participants of the Natural Gas Exchange, the equal treatment of the natural gas market participants and the transparency of information, to avoid the distortion of the prices and conditions of supply.

The NCC by Resolution No O3-46 as of 28 February 2012 approved the *Regulations of Trade in Natural Gas at the Natural Gas Exchange* prepared by BALTPPOOL UAB, which set forth the rights and responsibilities of the Exchange participants and the market operator in trading in natural gas and the procedure for purchasing natural gas with the right of contracting out and the payment settlements under the transactions concluded at the Natural Gas Exchange.

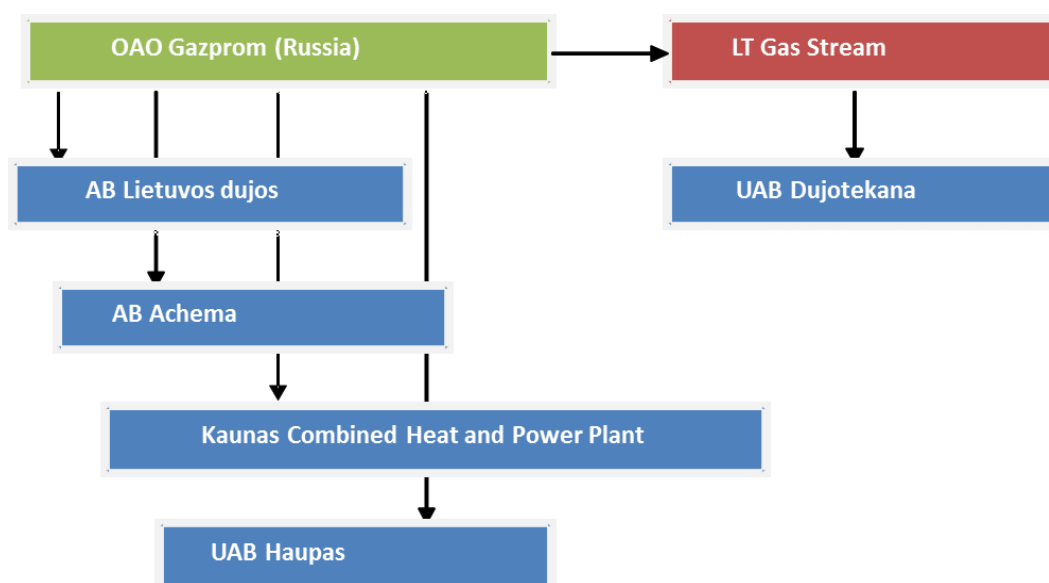
The NCC by Resolution No O3-425 as of 21 December 2012 approved the *Regulations of Trade in Natural Gas at the Natural Gas Exchange* of UAB GET Baltic, whereby the main principles of trading at the Exchange, the essential requirements to the participants of the Natural Gas Exchange wishing to trade in natural gas were set. The procedure for submitting, amending, revoking the bids, concluding the transactions and providing the trading results to the participants of the Natural Gas Exchange and the natural gas transmission system operator, the measures for assuring the fluent settlement of payments among the participants of the Exchange were defined. The rights, duties and responsibilities of the parties were embedded in the Regulations as well.

Theoretically these solutions opened the way for operation of the natural gas market and for the kick-off of the competition in the natural gas sector. In July 2013, four participants were

registered at the Natural Gas Exchange of UAB BALTPOOL, and one transaction was concluded (1 thousand cm.). According to the data as of July 2013, nine participants were registered at the natural Gas Exchange of UAB GET Baltic, which from the beginning of trading at the Exchange concluded 38 transactions (448 thousand cm.).

In 2012 the participants of the natural gas import market were the same as in 2011, i.e. AB Lietuvos dujos, UAB Dujotekana, AB Achema, Kaunas Combined Heat and Power Plant, UAB Haupas. Gas was imported to Lithuania from the single external gas supplier – the Russian company OAO Gazprom in accordance with the quotas set for each importer. UAB Dujotekana purchased the imported gas through the intermediate agent LT Gas Stream (Figure 11).

Figure 11. Scheme of natural gas import to Lithuania



Source: NCC

In 2012, 3320.6 million cm. of natural gas were imported to Lithuania, this was by 2.5 percent less than in 2011, when the imported quantity of natural gas totaled 3407.4 million cm. In 2012, the import of natural gas by AB Achema and UAB Haupas surpassed the quantity imported by them in 2011, the augmentation was 7.1 percent and 1.9 percent respectively. Other participants of the natural gas import market imported less: the decrease of the quantities imported by AB Lietuvos dujos reached 13.7 percent, Kaunas Combined Heat and Power Plant – 8.9 percent, and UAB Dujotekana – 6.7 percent. In 2012 the price of the imported gas was on the average by 21 percent higher than in 2011 and reached LTL 1312.8 per thousand cm. (the average price of the imported gas in 2011 was LTL 1085 per thousand cm).

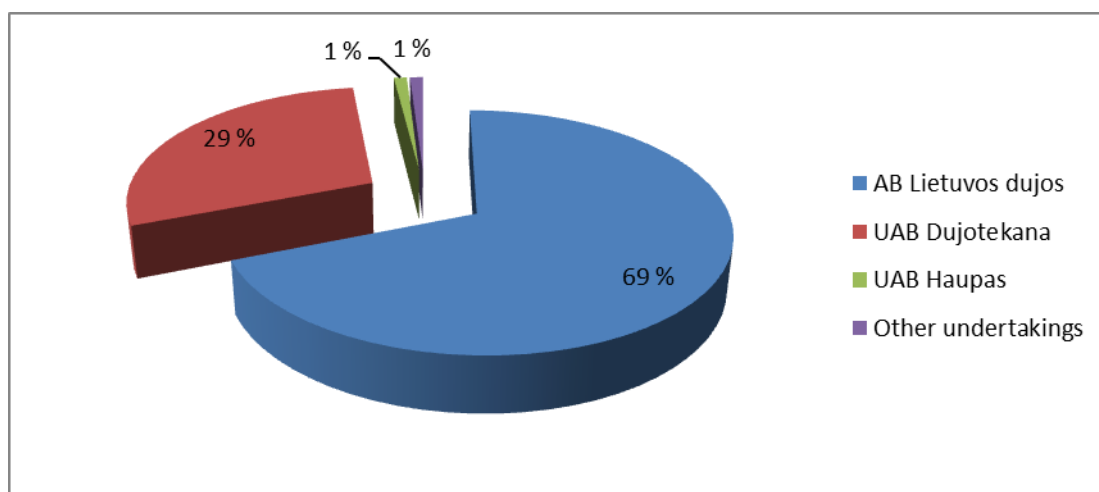
Among the gas importing undertakings AB Lietuvos dujos, UAB Dujotekana and UAB Haupas were the participants of the wholesale and the retail supply market. AB Achema and Kaunas Combined Heat and Power Plant purchased gas to cover their own demand and did not participate in the gas supply market on the commercial basis.

Only that gas quantity which is purchased from the importers by other gas undertakings involved in the transmission and distribution activities in the specific regions of Lithuania is assigned to the wholesale trade. There was no trading among the wholesale natural gas consumers. In 2012, 8.3 mln. cm. of natural gas were sold in the wholesale gas supply market of Lithuania. As compared to 2011, the quantity sold in 2012 was bigger by 0.95 mln. cm.

In 2012, like a year ago, 7 supply undertakings participated in the retail trade. In 2012 the total number of the domestic natural gas customers equaled 559 thousand, among these 553 thousand were the household customers, and 6.2 – the non-household customers.

In the retail natural gas market 1614.0 million cm. of natural gas were sold to the customers. In 2012, as compared to 2011, the sales dropped by 12.3 percent. The sales to the non-household customers decreased by 12.9 percent, to the household customers – by 6.6 percent. In 2012 approx. 98.6 percent of the retail supply market were held by AB Lietuvos dujos and UAB Dujotekana (in 2011 – 98.8 percent), 1.4 percent – by other market participants. The gas quantities sold by the Lithuanian natural gas undertakings participating in the retail market (the respective market shares) are presented in Figure 12.

Figure 12. Market shares of Lithuanian gas undertakings participating in the retail market, percent




Source: NCC

By now natural gas to the household customers was supplied only by the integrated distribution and supply undertakings supplying natural gas in the service area of their distribution activity. The biggest of these is AB Lietuvos dujos, holding 99 percent of the household customers market. It should be noted that the NCC in 14 September 2012 issued a gas supply license to Sky Energy Group, UAB. This undertaking is planning to supply gas to the household customers, therefore it submitted the application to the NCC and the latter on 30 May 2013 approved the natural gas tariffs of Sky Energy Group, UAB to the household customers, which came into validity on 1 July. The undertaking intends to purchase natural gas at the Exchange and to compete with AB Lietuvos dujos covering the biggest share of the household customers market. The approved tariffs (differently from the tariffs applied to the household customers by other integrated suppliers) are the monomial ones, therefore it is expected that the mentioned structure of the tariffs would provide the household customers with the possibility to choose a more beneficial supplier and will create conditions for the development of competition in the household customers supply market.

The main changes in the monitoring of the natural gas market in 2012, as compared to the data of 2011:

1. In 2012, as compared to 2011, the volume of the natural gas transit increased by 6.1 percent, the transmission to the domestic customers dropped by 2.8 percent. These factors predetermined the augmentation of the total transmission volumes by 0.6 percent.



2. The revenues from the activity of the natural gas transmission to the domestic customers equalled LTL 128.3 million, and, as compared to 2011, decreased by 6.5 percent.

3. In 2012 the distributed quantity of natural gas was by 7.5 percent less than in 2011. The biggest share of the gas distribution market – 97.3 percent – was held by AB Lietuvos dujos.

4. The revenues from the distribution activity in 2012 reached LTL 180.7 million, i.e. by 1.5 percent more than in 2011.

5. The wholesale natural gas supply market has further remained rather small: in 2012, 8.3 million cm. of natural gas were sold, i.e. by 12.4 percent more than in 2011.

6. In the retail natural gas market the quantity of natural gas supplied in 2012 totaled 1614.0 million cm., i.e. by 12.3 percent less than in 2011. The supply to the non-household customers in 2012, as compared to 2011, dropped by 12.9 percent, to the household customers – by 6.6 percent.

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

The new Law on Natural Gas has significantly expanded the NCC functions and committed to prepare the secondary legislation for implementing the Law on Natural Gas. The NCC has been consistently implementing this assignment by drafting the relevant legal acts, submitting them for public consultations, and approving them.

In March 2012, the NCC approved the *Requirements for the Balancing Rules of the Natural Gas Transmission System* in accordance with which AB Lietuvos dujos, the natural gas transmission system operator, prepared the *Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos* and submitted them for revision and approval by the NCC. On 14 September 2012, the NCC approved the *Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos* which set forth the principles, procedure and conditions for balancing the natural gas transmission system in the natural gas transmission system of AB Lietuvos dujos.


On 21 December 2012, the NCC passed three Resolutions by which the NCC approved:

1. The *Procedure Regulations for Access to the Natural Gas Extraction Networks*. The Regulations are aimed at assuring that the right of access to the gas extraction networks to the natural gas undertakings and consumers would be granted in the fair and public manner, by promoting the competitive natural gas market and avoiding the misuse of the dominant position, with regard to the reliability of supply and its regularity, the available or reasonably accessible capacities and the environmental protection requirements.

2. The *Requirements on the Use of the Liquefied Natural Gas Terminal*, abiding by which AB Klaipėdos nafta has to prepare the *Rules on the Access to the Liquefied Natural Gas Terminal*. These Rules have to set forth the clear and undiscriminating rights and duties of the liquefied natural gas terminal users, the mechanisms for distributing the liquefaction capacities, the procedure for congestion management and other important issues.

3. The *Description of Criteria for Using the Services of the Natural Gas Storage in the Storage Facilities and Pipelines*. It is aimed at assuring that the natural gas users would have access to the service of the natural gas storage in the storage facilities and pipelines in the transparent and undiscriminating manner. The Description provides that the customers have to directly negotiate the service of the natural gas storage in the pipelines with the undertakings providing such service, and the natural gas storage in the storage facilities is the state-regulated activity.

On 13 May 2013, the NCC passed the Resolutions on the *Procedures and Fees of Connection of the New Household and Non-Household Customers' Systems to the Gas Systems of AB Lietuvos dujos*. These Procedures laid down the procedure of connecting the new household and non-household customers to the gas system of AB Lietuvos dujos, and the connection fees.



In May – July 2013, the NCC approved the *Rules on Access to the Distribution Systems of UAB Intergas, UAB Druskininkų dujos, AB Agrofirma Josvainiai, AB Achema, UAB Fortum Heat Lietuva*. The Rules are aimed at assuring that the services of the distribution system operators would be transparent, would not discriminate the existing and potential users of the natural gas distribution systems, and would provide them with the equal, fair, objective and transparent conditions in using the systems and that all practicable options would be exercised in using the capacities of the natural gas distribution systems in the most efficient way.

On 18 July the NCC passed several important Resolutions:

1. The *Description of the Requirements for Unbundling the Accounts of the Natural Gas Undertakings, Costs Allocation and the Requirements Related to Unbundling the Accounts* was approved. The essential provisions of the Description are as follows:

- Special accounting of the regulated activity has been introduced by setting the specific accounting standards of the regulated activity. The regulated natural gas undertakings will perform their bookkeeping and accounting in accordance with the requirements approved by the NCC by unbundling the revenues, costs, assets and liabilities to the natural gas transmission, distribution, liquefaction, storage, supply, other regulated and unregulated activities. This will create preconditions to clearly distinguish the regulated and unregulated activities.

- Systematic classification of costs that is clear and uniform to all entities: three categories of costs have been distinguished (direct, indirect and general), and the list of costs groups has been drawn up. This will assure the objectivity and benchmarking of the regulation accounting.

- The list of the restricting factors has been set by indicating what costs and in what scope are included in the cost price of the regulated services.

- Assurance of transparency by ensuring that all information (excluding the confidential one) about each business unit and the return on investments will be publicly disseminated by posting it on the websites of the natural gas undertakings and the NCC.

2. The price of the natural gas system balancing was set. From 1 August 2013, the *Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos* approved by the NCC by the Resolution as of 14 September 2012 have come into validity, which provide that the disbalance charge will be calculated on the disbalance gas quantity exceeding the margin of tolerance. The value of this charge will be calculated by multiplying the misbalance gas quantity by the balancing price set by the NCC. Thus, with regard to the analysis of the balancing gas prices applied by the transmission system operators performing their activities in the European Union, the decision was made to approve the price of the balancing service which is equal 10 percent of the marginal prices of the purchased or sold balancing gas.

2. The *Balancing Rules of the Natural Gas Distribution System of UAB Intergas* were approved. These Rules regulate the relationships among the distribution system operator, distribution system users and other market participants trading in natural gas by concluding bilateral sales-purchasing agreements, their rights and duties in taking part in the balancing of the natural gas distribution system.

The *Procedure Regulations for the Economic Evaluation of the Long-Term Costs of the Advanced Metering Systems and their Benefits to the Market* were approved, which defined the unambiguous criteria of the economic evaluation necessary to determine the ratio of the long-term costs of the advanced metering systems to the market benefits, which will facilitate the decision making on the installation of the advanced metering systems that would promote active participation of the customers in the natural gas supply market.

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



The NCC prepares and approves the methodologies for setting the state-regulated prices, sets (adjusts) and approves the transmission and distribution price caps, sets the natural gas tariffs to the household customers.

By implementing the provisions of Article 5, Paragraph 2 of the Law on the Liquefied Natural Gas Terminal, effective till 1 January 2014, which have set forth that the construction and operation costs of the liquefied natural gas (LNG) terminal, its infrastructure and the link, or the part thereof, in accordance with the procedure and conditions set forth by the NCC could be included into the price of the natural gas transmission service, the NCC passed the Amendment of the *Methodology for Calculating the Natural Gas Transmission and Distribution Price Caps (approved on 28 September 2012, No O3-275)*. The Amendment of the Methodology has laid down the procedure and principles for including the amounts assigned to compensate the costs of construction of the liquefied natural gas terminal, its infrastructure and the link, or the part thereof, into the natural gas transmission price cap. The Methodology was supplemented by the new Chapter whereby the procedure has been set for including the amounts assigned to compensate the costs of construction of the liquefied natural gas terminal, its infrastructure and the link, or the part thereof, into the natural gas transmission price cap by the decision of the NCC, by setting the additional specific component of the transmission price cap – the LNGT surcharge.

The NCC sets the transmission and distribution price caps for a five-year period, and once per year adjusts the price caps for five economic operators in the natural gas sector. The NCC also investigates whether the specific prices of the regulated services set by the gas undertakings do not discriminate the individual groups of the customers, and once in six months approves the natural gas tariffs to the household customers. Every year the NCC sets, adjusts and verifies about 100 prices charged in the natural gas sector to the economic operators or household customers.

The end prices of natural gas and its transportation to the customers approved in accordance with the differentiation by Eurostat, the European Union statistics office, and valid from 1 July 2012 and 1 July 2013, are presented in Table 3.


Table 3. End prices of natural gas and transportation prices to customers

Customer group Price, EUR/MWh	D3		I1		I4-1	
	2012	2013	2012	2013	2012	2013
Transmission	1,64	1,89	1,55	1,85	1,55	1,85
Distribution	7,43	7,56	7,43	7,56	4,08	3,78
End-user gas price (including 21 percent VAT)	69,96	66,68	64,44	61,02	60,40	56,43

Source: NCC

The provisions of the Law on Energy of the Republic of Lithuania and of the Law on Natural Gas of the Republic of Lithuania prescribe that the NCC has to approve the fees of connection of energy facilities (networks, systems, equipment).

The NCC by Resolution No O3-156 as of 13 May 2013 approved the *Procedure and Fees of Connection of the New Household Customers' Systems to the Gas Systems of AB Lietuvos dujos*. The



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Resolution sets forth the entire procedure starting from the customer's application, conciliation of the description of the connection conditions with the customer to the final connection of the systems and starting the gas supply to the customer's system. It also provides that the connection fees are calculated in accordance with the Methodology approved by the NCC.

The NCC by Resolution No O3-391 as of 27 November 2012 approved the prices of connection services of AB Lietuvos dujos new natural gas household customers, which came into validity on 1 January 2013.



## 3. ELECTRICITY MARKET

### 3.1. Network regulation

#### 3.1.1. UNBUNDLING

##### ***Article 10 of Directive 2009/72/EC and Article 3 of Regulation (EC) No 714/2009***

Pursuant to Article 9 of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market, the Member State, which has chosen the model of the full ownership unbundling, has to ensure that the transmission activity is separated from the supply and production activities as well as the commercial interests of these activities, including unbundling the ownership of the transmission activity.

In the Law on Electricity, whereby the provisions of Directive 2009/72/EC were transposed and which came into force on 7 February 2012, the following key requirements for unbundling the transmission activity have been embedded:

1. Independence of the transmission system operator. The transmission system operator, in performing the functions assigned to him, shall act independently of the activities of the electricity production, distribution and supply, and the commercial interests of these activities.

2. Unbundling the electricity transmission activity. When the transmission system operator is a part of the vertically integrated undertaking, the transmission system operator in its legal form, organisational structure and in decision making shall be independent of other types of activities of the vertically integrated undertaking, which are not related to the transmission activity. To ensure the independence of the transmission system operator, the detailed requirements set forth in the Law on Electricity shall be complied with (the transmission system operator by the proprietary right shall manage the transmission network, its technological connected facilities, and other assets needed to properly perform the electricity transmission activity; the same person or persons have no right to exercise direct or indirect control over the undertaking involved in the production and /or supply activity, and to exercise direct or indirect control over the transmission system operator or to have any rights with respect to the transmission system operator).

3. No later than by 3 March 2012, the vertically integrated undertaking and the transmission system operator shall ensure the full unbundling of the transmission system operator from the vertically integrated undertaking, including but not limited to, unbundling the control over the transmission system operator and the electricity transmission activity, including the assignment of the proprietary right to the assets used in the electricity transmission activity to the transmission system operator.

4. In the cases when the transmission system operator is the state institution, office, organisation or other public entity, it shall be considered that the unbundling of the transmission activity has been duly implemented when the transmission system operator and the entities performing the electricity production or supply activity are directly or indirectly controlled by separate state institutions, offices, organisations or other public entities. The state institutions, offices, organisations or other public entities cannot be treated as being separate if they are directly subordinate to the same public entity thus breaching the requirements of the transmission system operator's independence.

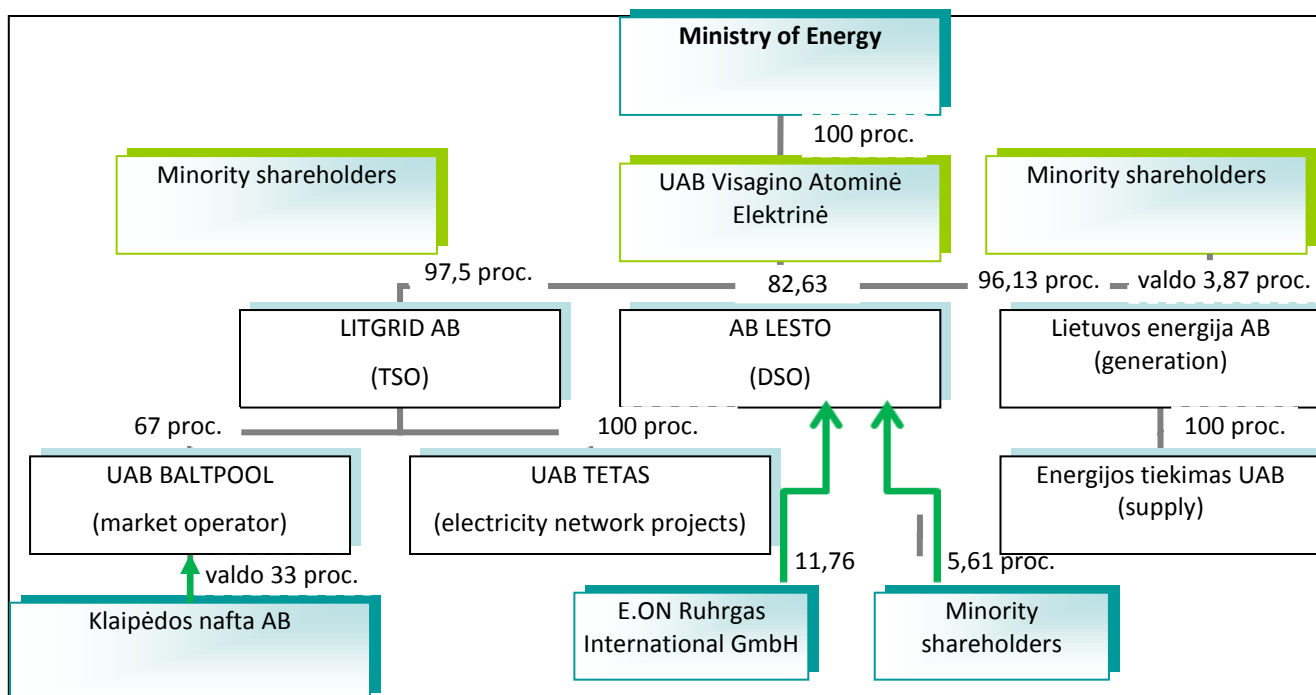
5. If the transmission system operator does not comply with the conditions and requirements set forth in the Law on Electricity on unbundling the activities, the vertically integrated undertaking and the transmission system operator or the entities exercising control over them shall take all necessary measures to fulfil these conditions and requirements, including the reorganisation of the

undertaking, splitting, reimbursable or non-reimbursable transfer of the shares of the transmission system operator or of the undertaking exercising control over the transmission system operator to the state as well as other legitimate measures.

At the meeting held on 15 March 2012 the NCC stated that LITGRID AB had breached the obligation set for in the Law on Electricity transposing the provisions of the Third Energy Package of the European Union to the national legislation on unbundling the transmission activity from other activities and commercial interests of the vertically integrated undertaking related to the electricity production and supply.

The controlling portfolio of AB LITGRID shares and the rights and duties related to the management of and control over this undertaking was held by UAB Visagino atominė elektrinė. Both the Law on Electricity and the Third Energy Package of the European Union strictly demand for unbundling the transmission activity from the production and supply activities and the commercial interests of these activities, including unbundling the ownership of the transmission activity.

Figure 13. Structure of the vertically integrated undertaking until 27 September 2012



Source: NCC

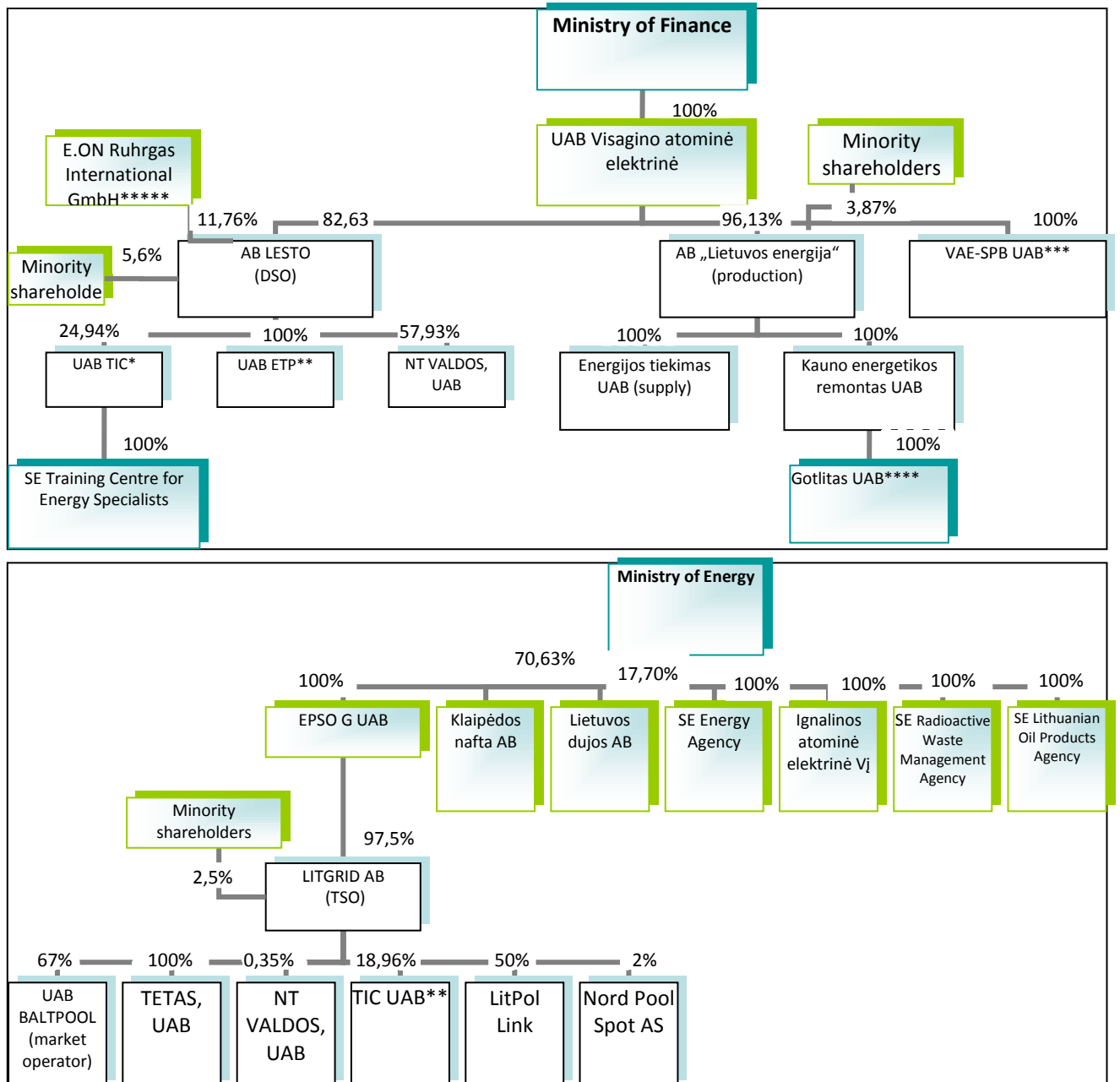
To ensure that all economic entities operating in the market, regardless of the form of their ownership, would implement the requirements set forth by the legislator, the NCC obligated LITGRID AB no later than by 30 March 2012 to submit the following:

- The comprehensive description of the method chosen for unbundling the activities and control over them from the types of the activities of the vertically integrated undertaking which are not related to the transmission activity, together with the detailed plan of the actions to be taken;
- All relevant information which would transparently disclose the specific actions to be taken for implementing the unbundling requirements, their sequence and deadlines.

The NCC, by taking into consideration the deadline by which the unbundling of all activities that are not related to the transmission activity should have been completed as set forth in the Council Directive 2009/72/EC and respectively – in the Law on Electricity, drew the conclusion that all actions have to be implemented as a matter of urgency, and LITGIRD AB in the plan submitted by the

undertaking had failed to use all options provided by the laws to shorten the terms, therefore the NCC by Resolution No O3-89 regarding *the Plan on Unbundling LITGRID AB Transmission Activity* as of 11 April 2012 obligated LITGRID AB to complete all actions deemed necessary to ensure the compliance with the requirements set forth in the Law on Electricity by 1 October 2012, and to inform the NCC about this.

Figure 14. Control over the undertakings since 27 September 2012 after unbundling LITGRID AB from the vertically integrated undertaking (by taking into account the exchange of UAB TETAS shares for UAB Elektros tinklo paslaugos shares between LITGRID AB and AB LESTO)<sup>2</sup>.



Source:NCC

\*Centre of Technologies and Innovations.

\*\*Electricity network maintenance services

\*\*\*The core activity of the undertaking is to perform the functions and liabilities of the national investor in the project for constructing a new nuclear power plant in the Republic of Lithuania (indicated in the Register of Legal Entities).

\*\*\*The core activity of the company is hotels business, rental services, ancillary services and other activities not prohibited by the laws and directly related thereto.

\*\*\*\*The undertaking of electricity, gas, utility services and energy production from renewable energy resources.

By implementing the Resolution of the NCC, on 1 October 2012 LITGRID AB submitted the documents justifying the compliance with the requirements on unbundling the transmission activity set forth in Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity. Respectively, the Commission evaluated whether the unbundling of LITGRID AB complies with the requirements of the Law on Electricity regarding unbundling the transmission activities as well as the LITGRID AB compliance with the requirements of the licensed activity.

In performing the certification (designation) procedure of the transmission system operator, the following significant issues were resolved:

- Whether the situation when the Ministry of Energy indirectly, through UAB EPSO-G exercises control over the transmission system operator LITGRID AB, and at the same time it exercises direct control over the Lithuanian Oil Products Agency, which has been appointed to perform the mandatory supply activity to the liquefied natural gas terminal, and has direct control over AB Klaipėdos nafta, which is implementing the project of the liquefied natural gas terminal and which has established the subsidiary – the gas supply company UAB LitGas, complies with the provisions of Article 9 of the Council Directive 2009/72/EC and Article 53 of the Law on Electricity.

The designation of LITGRID AB is possible on the condition that after the LNG terminal is launched into operation in Lithuania, the Ministry of Energy will have no right to exercise the direct or indirect control over the undertakings involved in the natural gas supply activity, and by taking into consideration that the Commission has no right to issue the license for the supply activity to an undertaking or undertakings which does/do not comply with the requirements on unbundling the transmission activity from the production or supply activities as it has been set forth by the Law on Electricity, the Law on Natural Gas, the Council Directive 2009/73/EC and the Council Directive 2009/72/EB;


- Whether it is compatible with the provisions of Article 9 of the Council Directive 2009/72/EC and Article 53 of the Law on Electricity when certain persons at the same time are the members of the Boards of the transmission system operator and the production and supply undertakings;

By making the preliminary decision it has been determined that at UAB EPSO-G, LITGRID AB there are no physical persons who at the same time would hold the positions of the members of the Boards of UAB Visagino atominė elektrinė, AB Lietuvos energija, UAB Energijos tiekimas or of the managers of the structural divisions of these undertakings;

- Whether the chosen reimbursable form of unbundling the ownership of the transmission system operator would enable to ensure the sufficient financial capacity of the transmission system operator in performing the functions assigned to the undertaking by the laws.

On 8 March 2013, the NCC additionally addressed the Ministry of Energy, LITGRID AB, UAB EPSO-G with the request to submit the information regarding the form in which UAB EPSO-G will perform its contractual obligations (funds to be paid by LITGRID AB, budget allocations or other), and to submit the data of the financial projections of LITGRID AB balance sheets, income (loss) statements and cash flows statements for 2013–2022.

The Ministry of Energy and UAB EPSO-G informed that further decisions on carrying out the Agreement between UAB Visagino atominė elektrinė and UAB EPSO-G will be made only after the Ministry of Energy and the Ministry of Finance, by performing the assignment of the Government of the Republic of Lithuania, will have provided their proposals, and presently no payments are being made. By taking into consideration the explanations of the responsible institutions and the



undertakings and the provided actual data that no payments have been started yet, as well as the financial projections of LITGRID AB for 2013–2022, it has been stated that the performance of the Agreement will make no impact on the financial capacity of LITGRID AB.

However it should be noted that pursuant to Article 15, Paragraph 14 of the Law on Electricity, the NCC performs the supervision of the licensed activity in line with Item 4.6 of the *Procedure Regulations for Evaluating Technological, Financial and Management Capacity of Economic Operators* – conducts the yearly assessment of the financial capacity of the transmission system operator. Should at any time any circumstances be revealed which could make direct impact on the financial operations of LITGRID AB, the evaluation of the financial capacity of the undertaking will be performed and the capability of LITGRID AB to perform the licensed activity of the transmission system operator will be assessed.

Moreover, the designation of LITGRID AB is possible on the condition that after the operation of the LNG terminal is started in Lithuania, the Ministry of Energy will have no right to exercise direct or indirect control over the undertakings involved in the natural gas supply activity, and by taking into consideration that the Commission has no right to issue the license for the supply activity to an undertaking or undertakings which does/do not comply with the requirements on unbundling the transmission activity from the production or supply activities as it has been set forth by the Law on Electricity, the Law on Natural Gas, the Council Directive 2009/73/EC and the Council Directive 2009/72/EB;

Having completed the mentioned actions and having analysed the submitted information, the NCC by its Resolution No O3-138 as of 29 April 2013 made a preliminary decision on unbundling the electricity transmission activity and the designation of the transmission system operator by stating that the unbundling of the LITGRID AB transmission activity complies with the provisions of Article 15, Paragraph 8 and Article 53, Paragraphs 2, 3 and 6 of the Law on Electricity, and on 8 May 2013 the NCC informed the European Commission about the made decision and submitted the documents justifying this decision. On 4 July 2013, the European Commission provided its conclusion with comments. The final decision by the NCC regarding the appropriate unbundling of the transmission system operator and its designation in accordance with the procedure laid down by Article 25, Paragraphs 6 and 7 of the Law on Electricity and by taking into consideration the comments by the European Commission should be made no later than by 8 September 2013.


The NCC, abiding by the requirements of the Law on Electricity, will be further exercising control over the efficient unbundling of the activities by assuring the independence of the transmission and distribution activities from the commercial interests, and after receiving the relevant documents will inform the European Commission in accordance with the set requirements.

#### **Article 26 of Directive 2009/72/EC**

Pursuant to Article 26 of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market, the Member State has to ensure that where the distribution system operator is part of a vertically integrated undertaking, it has to be independent at least in terms of its legal form, organisation and decision making from other activities not relating to distribution. This requirement does not create an obligation to separate the ownership of assets of the distribution system operator from the vertically integrated undertaking.

By the Law on Electricity, which came into validity on 7 February 2012 and whereby the provisions of the Directive have been transposed, the following essential requirements for unbundling the distribution activity were embedded:

1. Independence of the distribution network operator. In performing the assigned functions, the distribution network operator shall perform the electricity distribution activity independently of



the activities of the electricity production, transmission and supply and the commercial interests of these activities.

2. Unbundling the electricity distribution activity. When the distribution network operator is a part of the vertically integrated undertaking, the distribution network operator in its legal form, organisational structure and in decision making shall be independent of other types of activity of the vertically integrated undertaking, which are not related to the distribution activity. To ensure the independence of the distribution network operator, the detailed requirements set forth in the Law on Electricity shall be complied with (the members of the management bodies of the distribution network operator and the managers of the structural divisions of the undertaking shall not be engaged in the supervisory and management bodies of the vertically integrated undertaking which is directly or indirectly responsible for the activity of electricity production, transmission and/or supply).

3. The distribution network operator shall ensure that no later than by 3 March 2012 the commercial interests of the distribution network operator, which is a constituent part of the vertically integrated undertaking, and of other activities, which are not related to the electricity distribution, would have been separated by implementing the requirements set forth in the Law on Electricity.

4. In the cases when the distribution network operator has failed to comply with the unbundling conditions and requirements set forth in the Law on Electricity, the vertically integrated undertaking and the distribution network operator shall take all measures to implement them, including the reorganisation of the undertaking or other legitimate measures.

5. To implement the independence of the legal form of the electricity distribution activity, the organisational structure and decision making, the vertically integrated undertaking and the distribution network operator shall ensure that the distribution network operator would not be involved in the activity of the electricity production and/or independent supply and would operate independently of the commercial interests of these types of activity. This requirement shall not restrict the rights and duties of the distribution network operator in ensuring the public supply of electricity for the purposes laid down in the Law on Electricity, provided that the requirements, unrelated to the electricity distribution, on unbundling the types of distribution activity and unbundling the accounts have been met.


At the meeting held on 15 March 2012, the NCC stated that AB LESTO had breached the obligation under the Law on Electricity, transposing the provision of the Third Energy Package to the national legislation, to unbundle the control over the undertaking from other activities and the commercial interests of the vertically integrated undertaking.

The controlling portfolio of AB LESTO shares and the related rights and duties regarding the management of and control over the undertaking was held by UAB Visagino atominė elektrinė. Both the Law on Electricity and the Third Energy Package of the European Union stipulate that the unbundling of the distribution activity has to ensure the independence of the management of and control over the distribution activity from the transmission, supply and production activities as well as the commercial interests of these activities, but do not demand for unbundling the ownership of the distribution activity.

To ensure that all economic operators operating in the market, regardless of the form of their ownership, would implement the requirements set forth by the legislator, the NCC obligated AB LESTO till 30 March 2012 to submit the following:

- The comprehensive description of the method chosen for unbundling the control from the types of the activities of the vertically integrated undertaking that are not related to distribution, together with the detailed plan of the actions to be taken;



- 
- All information which would transparently reveal the specific actions to be taken to ensure the implementation of the requirements on unbundling the activities, their sequence and the deadlines.

After submitting this data by AB LESTO, the NCC by Resolution No O3-88 as of 11 April 2012 obligated AB LESTO to complete by 30 June 2012 all actions deemed necessary to implement the Law on Electricity in order to unbundle the distribution activity from the group of the vertically integrated undertakings. After the undertaking submitted all relevant documents, the NCC at the meeting held on 26 July 2012 stated that the unbundling of the distribution activity of AB LESTO complies with the provisions of Article 54, Paragraphs 1 and 3 of the Law on Electricity.

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

### 3.1.2. TECHNICAL FUNCTIONING


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

To make arrangements for assigning since 18 June 2012 the functions of administrating the day-ahead trade, which were performed by the Power Exchange Operator BALTPPOOL UAB to the Power Exchange Operator Nord Pool Spot AS, and by taking into account the provisions of the *Law on Renewable Resources of the Republic of Lithuania*, the *Rules of Trading in Electricity* were amended. *The Procedure Regulations for Regulating the Price of the Balancing Energy*, which had been worked out in line with the requirements of the national and the European Union legal frameworks and approved by the NCC in 2009, remained unchanged. The quantity of the balancing energy is calculated every hour in accordance with the procedure set forth by the Rules of Trading in Electricity approved by the Ministry of Energy.

The NCC representatives have been participating in the working groups of the Baltic Region Initiative and have been monitoring the situation to ensure the compliance of the balancing energy pricing with the principles applied in this Region. Currently the method of the transition period is applied and it is being planned to implement in the future the method of setting the marginal price of the balancing electricity. With the limited resources of the balancing capacity reserve in the country (in the Baltic Region) and the increasing demand for the regulating energy (growth of the installed capacities of the wind power plants), this would serve as the means for reducing the unbalance in the system, for encouraging the producers to use the installed capacities for the regulation purposes, and in the long-term perspective would promote investments in the installation of the regulation capacities by ensuring the national generation-consumption balance, and thus would develop the market of the balancing energy suppliers. Moreover, it is important to harmonize the method of setting the price of the balancing energy with the methods applied in the Baltic Sea (Nordic) Region, and in particular by 2015, when the new interconnection lines with the power systems of Poland and Sweden are expected to be launched into operation.

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

Pursuant to the new revision of the *Procedure Regulations for Supplying the Public Obligation Services in the Electricity Sector*, which came into validity in 2013, the Ministry of Energy has to conduct the monitoring of the issues related to the security and reliability of supply in the electricity sector of the country, and every year by July 31 has to post on the website of the Ministry of Energy



the report including the conclusions and proposals. The conducted monitoring has to cover the following issues: the balance of the capacities of the generation sources and the demand, the expected demand of the electric capacity and the planned to be constructed or being constructed electricity generation sources, the progress in implementing the strategic projects related to the enhancement of the energy security – the construction of the interconnection lines Lithuania – Sweden and Lithuania – Poland, interconnection of the power system of Lithuania with the grids of Continental Europe.

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

- 1) The balance of electricity demand and supply (actual consumption) in the electric power system of the country;
- 2) The projected level of the future electricity demand and the supply possibilities;
- 3) The development of the electricity generation capacities;
- 4) The measures for covering the peak electricity demand, the system balancing and regulation measures;
- 5) The level and quality of maintenance of the electric power system.

Every year, by July 31 at the latest, the NCC submits *the Annual Report to the Government* or its authorized institution and to the European Commission. Currently this Report is under preparation and it should be completed by 1 August 2013, however it will be further upgraded by developing the model and the methodology which should be presented in 2014.

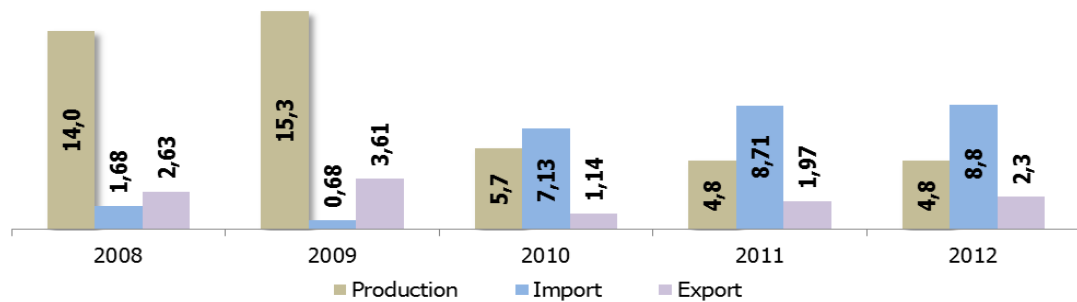
It should be mentioned that the provisions related to the standards of security and reliability, the quality of service and the supply were set forth in the Rules for Access to the Grid approved by the Minister of Energy of the Republic of Lithuania. They regulate the conditions of supply in the system and transportation services to the network users, the supply of the ancillary services to the network operators, the issues of the long-term development, the requirements to the network users and for operation of the electricity network, the requirements for electricity metering and exchange of information in the electric power system. The provisions of the Rules are binding to the transmission system and distribution network operators, electricity producers as well as to the consumers and suppliers.

When in 2010 the electric power system of Lithuania from the exporting system became the importing one, it has become directly dependent on the single importer from the Russian Federation. In 2012, the import of electricity constituted approx. 77.1 percent of the total electricity consumption in the country. In 2008–2012, the volume of import grew 5.3 times, export went down by 13.1 percent. In 2012, the electricity production, as compared to 2011, grew by 0.6 percent, from 4.8 TWh up to 4.83 TWh. In 2008–2012 the volume of production dropped by 65.4 percent.





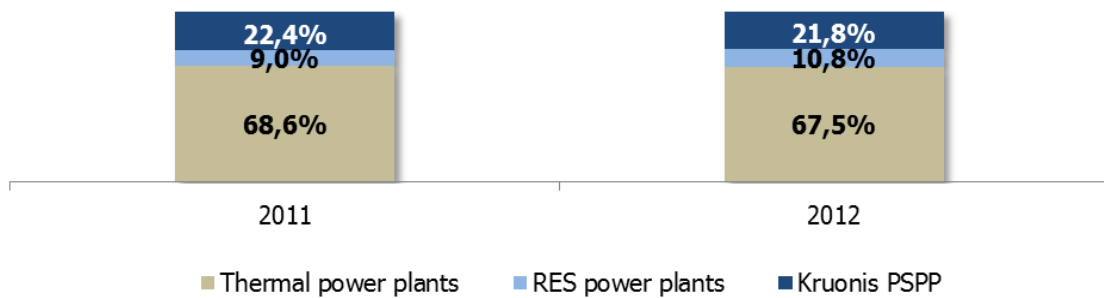
Figure 15. Electricity production, export and import in Lithuania, TWh, in 2008–2012



Source: NCC

The installed capacity in 2012, as compared to 2011, increased by 2.4 percent, from 4021.07 MW up to 4119 MW: in the thermal power plants – by 1.1 percent, from 2757.6 MW up to 2788 MW, in the power plants using renewable energy resources (RES) (including Kaunas HPP) – by 18.7 percent, from 363.5 MW up to 431.4 MW. The part of the installed capacity in the RES power plants in 2012, as compared to 2011, grew by 1.5 percentage points and equalled 10.5 percent.

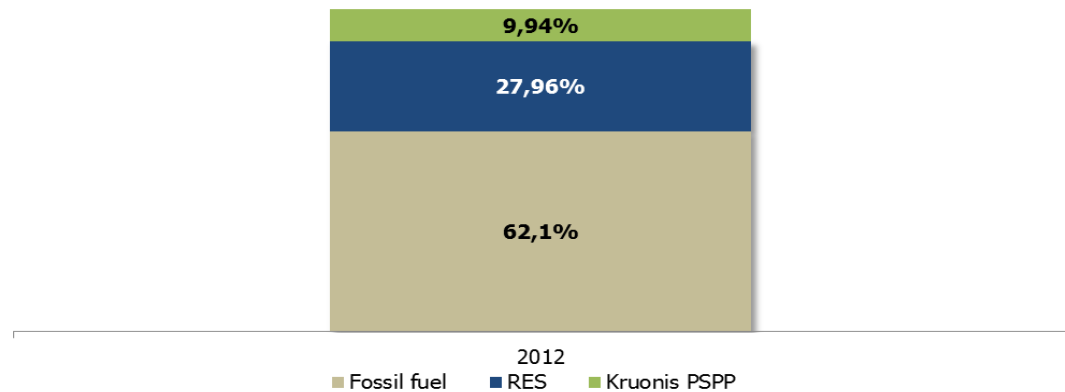
Figure 16. Installed capacity, percent, in 2011–2012



Source: NCC

In 2012, 62 percent of electricity were produced from fossil fuel, and the part of electricity produced from RES constituted nearly 28 percent.

Figure 17. Structure of electricity production in Lithuania by types of fuel, percent, in 2012.

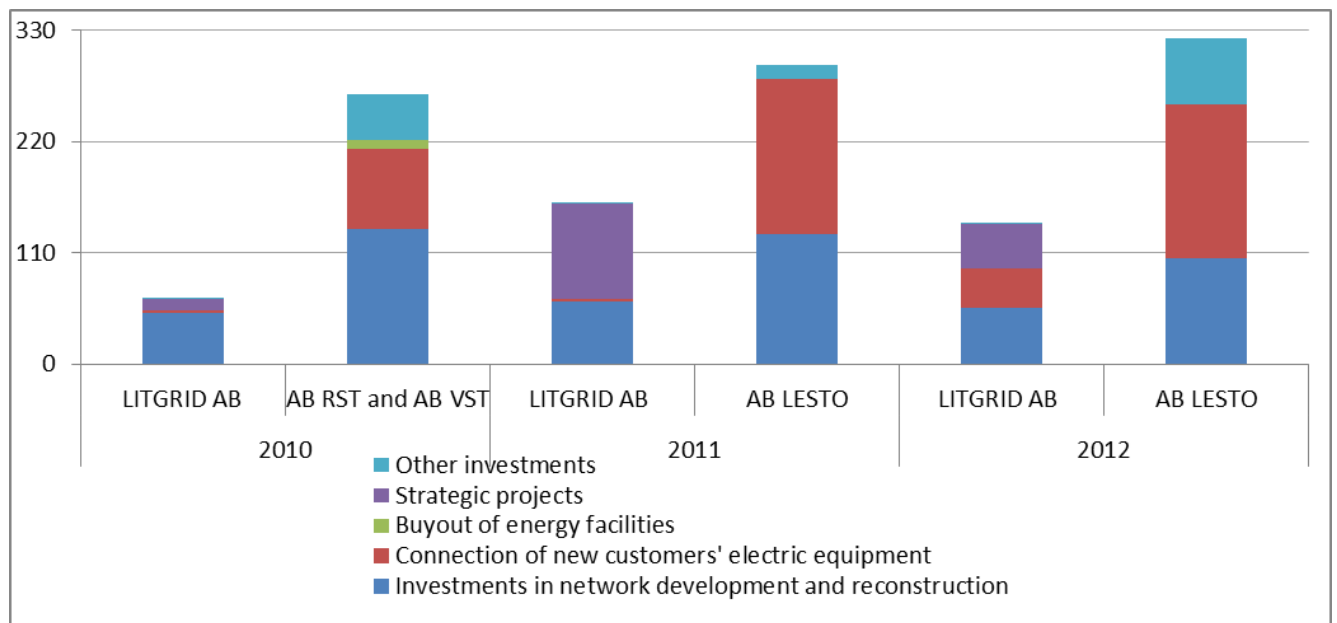


Source: NCC



In 2012, in the investment trends of LITGRID AB, the major part was allocated for investments in the strategic projects – these investments equalled approx. LTL 43.9 million, or 30 percent of the total yearly amount. Totally LTL 95.3 million were spent for the development and reconstruction of the transmission network. In 2012, like in the previous year, approx. 50 percent of AB LESTO investments, or LTL 161.5 million, were spent for connection of new customers. The investment made in the reconstruction and modernisation of the distribution network and substations were LTL 148.1 million, or by 23 percent less than in the previous year, but the amount allocated for other investments was 5 times as much.

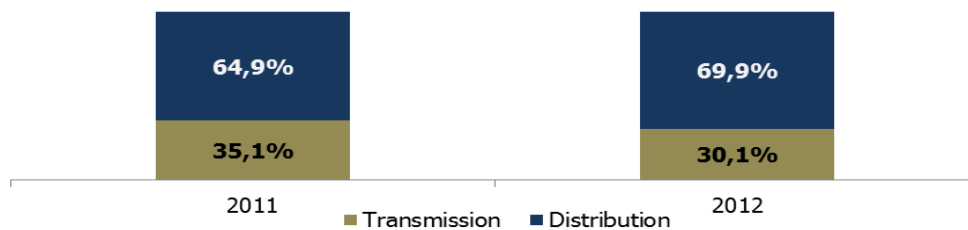
Figure 18. Investments by the transmission system and distribution network operators, LTL million, in 2010-2012



Source: NCC according to the information submitted by AB LESTO and LITGRID AB

In 2012, as compared to 2011, the investments in the network infrastructure increased by 3 percent, from LTL 455.25 million up to LTL 466.5 million. The market share of the investments in the transmission network, as compared to 2011, decreased by 5 percentage points, with the respectively increasing market share of investments in the distribution network.

Figure 19. Market share by investments in infrastructure, in 2011–2012



Source: NCC

The Law on Electricity provides that the NCC has to set the reliability standards of the electricity transportation and the requirements on the quality of services, and has to control how

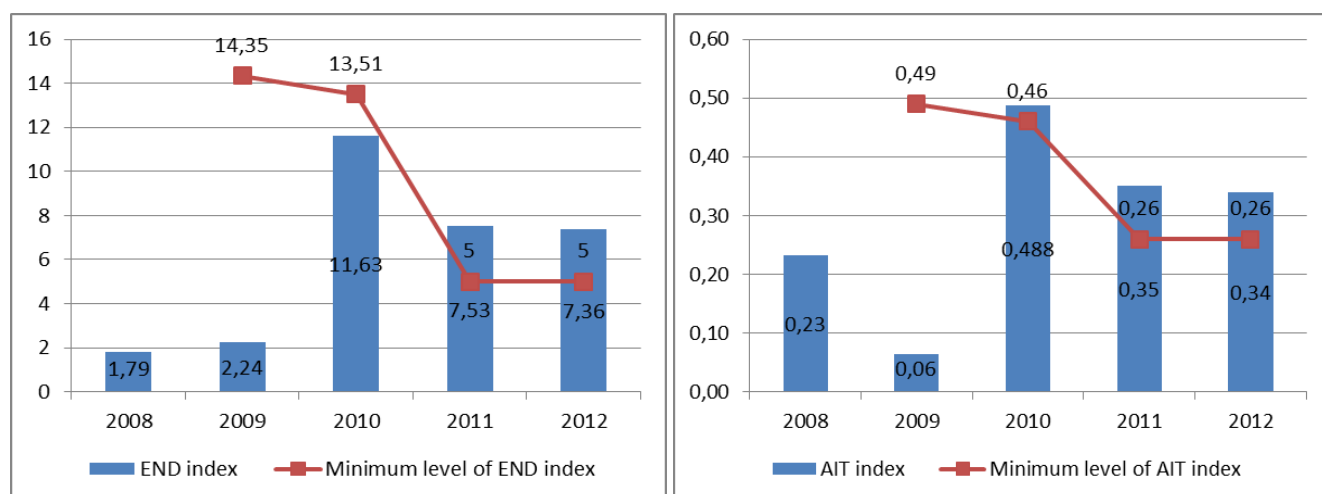
they are complied with. In 2012, *the Requirements on the Reliability of Electricity Transportation and the Quality of Service* were amended. In accordance with the amended Requirements, the NCC, by setting the price caps of the services for a new regulation period, has to approve the minimum reliability levels of the electricity transportation with regard to the average reliability levels of the electricity transportation in the previous regulation period. The minimum reliability levels of the electricity transportation are valid till the expiration of the regulation period, and they cannot be below the minimum reliability levels of the electricity transportation which had been approved for the previous regulation period. In addition to that, the validity of the minimum reliability levels of the electricity transportation, which had been set in 2011, was extended till the expiration of the regulation period.

The quality indicators of the electricity transportation services and their minimum levels are separately calculated for the electricity transmission system and the distribution network. The lower is the value of the indicator, the higher is the reliability level of the electricity transportation. In the calculations only those cases are taken into account when the electricity transportation was interrupted due to the reasons assigned to the responsibility of the system operator or due to the unidentified reasons. The interruptions, which occurred due to the force majeure circumstances or due to the external impact, make no influence on the quality indicators.

The reliability of the electricity transportation in the transmission network is assessed by the following two indexes:

- **END** – the energy not delivered in the transmission grid due to electricity supply interruptions in the transmission system, MWh/per customer;
- **AIT** – the average interruption time, which shows the average duration of supply interruptions in the transmission system, min. /per customer.

Figure 20. Quantity of Electricity Not Delivered in the transmission network due to electricity supply interruptions in the transmission system (END) and the minimum level of this index, MWh/per customer, and Average Interruption Time in the transmission network and the minimum level of this index, min./per customer.



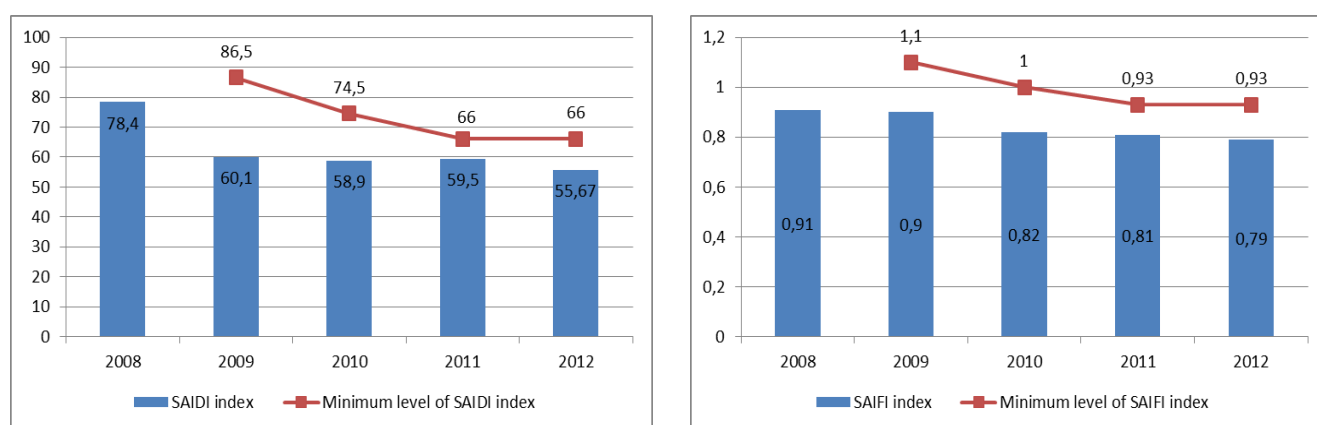
Source: NCC

The set minimum reliability levels of the electricity transportation and the actual reliability indexes of the electricity transportation in the transmission network are shown in Figure 20. The NCC, while recalculating the price caps of the electricity transmission service by high voltage network for the year 2013, evaluated the actual reliability level of the electricity transportation. As compared to

the set minimum level, in 2010 the reliability of the electricity transportation in accordance with the END index deteriorated by 50 percent, in accordance with the AIT index – by 42.3 percent, therefore on the basis of these indexes the price caps were reduced by 0.1 percent for each of these indicators.

The reliability of the electricity transportation by the distribution network is assessed by using the SAIDI (the system average interruption duration index) and the SAIFI (the system average interruption frequency index). The minimum reliability levels of the electricity transportation and the actual reliability indexes of the electricity transportation set to the distribution network operators are shown in Figure 21. As compared to the set minimum level, in 2011 the actually reached SAIDI was higher by 9.8 percent, the SAIFI – by 12.5 proc. By taking into consideration the actual SAIDI augmentation, the price caps of the service were increased by 0.05 percent, and due to the actual SAIFI augmentation – by 0.1 percent. Totally the price caps were increased by 0.15 percent in each voltage level.

Figure 21. System Average Interruption Duration Index (SAIDI) in the distribution network and its minimum level, min. /per customer, and System Average Interruption Frequency Index (SAIFI) in the distribution network and its minimum level, number/per customer



Source: NCC

As seen from the Figures, the transportation reliability indexes of AB LESTO have been consistently getting lower. This means that the quality of the electricity transportation service has been improving, the duration of interruptions per customer per year and the number of interruptions per customer has been decreasing.


Since 2012, when the *Requirements on the Reliability of the Electricity Transportation and the Quality of Service* were passed by the NCC, the quality of the services rendered by the operators and the suppliers of the transportation services have been yearly assessed in the NCC Annual Reports.

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

- The percentage of the timely connected new customers (within 20 days from the date of payment of the connection fee);
- The restoration of the interrupted electricity supply in accordance with the set deadlines;
- The percentage of the timely analysed claims of the customers and network users.

To the transmission system operator and the independent electricity suppliers only one indicator of the quality of services has been set – the percentage of the timely analysed claims.

In 2012, the maximum electricity demand (net) in the electricity transmission system was 1859 MW, i.e. by 0.6% more than in 2011 (1847 MW). In 2011 the maximum hourly electricity demand in the AB LESTO distribution network equalled 1470 MW, in 2012 – 1618 MW.



The distribution network operator AB LESTO focuses its attention on the development and modernisation of the network. In 2012, the investments made by AB LESTO reached LTL 322.8 million. In 2012, AB LESTO connected 18 130 new customers' facilities. The available capacity provided to the new customers equalled 236.8 MW.

In 2012, AB LESTO has been further buying out the electricity networks of the gardeners' partnerships. In 2012, the company bought out the electricity networks of 33 gardeners' partnerships. From the beginning of the buying out process in 2003, AB LESTO bought out 915, or 94.8% of the total electricity networks of the gardeners' partnerships in Lithuania.

In 2012, AB LESTO transported 8.8 million kWh of electricity (including the technological losses and auxiliary consumption). The quantity planned to be transported in 2013 – 2015 is projected in line with the provisions of the Methodology for Setting the Prices of the Electricity Transmission and Distribution Prices and the Price Caps, i.e. it is being projected that the electricity consumption will grow by ½ of the GDP adjustment value. In accordance with the Projections of Economic Indicators by the LR Ministry of Finance as of April 2013, the projected GDP growth in Lithuania in 2013 – 2015 will be 3%, 3.4% and 4.3% respectively (½ of the GDP adjustment will be 1.5%, 1.7% and 2.15% respectively).


In 2012, the quantity of electricity supplied by AB LESTO totalled 3.61 million kWh, including 3.06 million kWh of the public supply of electricity, and 0.55 million kWh – the supply of electricity to non-eligible customers. In 2013 – 2015 it is being planned to supply approx. 3 million kWh of electricity per year.

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

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

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

Pursuant to the provisions of the *Procedure Regulations for Connection of the Producers and Consumers' Electric Equipment to the Electricity Network* approved by the Order of the Minister of Energy, the consumers' electric equipment has to be connected to the electricity network during the time period indicated in the *Connection Services Agreement*, which, if the parties have not agreed otherwise, cannot be longer than 25 days from the date of paying the connection fee, when for connection of the household and non-household customer's equipment it is necessary to install only a lead-in with a metering cabinet or panel and the design is not required to perform these works. If the design is required to connect the customer's equipment:



1. To the household customers – 85 calendar days from the date of paying the fee for the connection service or the respective part thereof, when it is necessary to design and to install only the lead-in metering panel and the electric line up to 25 m length;

2. To the non-household customers – 60 calendar days from the date of paying the connection fee, when the costs of the connection service in accordance with the cost estimates indicated in the design do not exceed LTL 30 000 (VAT excluded) and the contractor has been selected to perform these works, or 90 calendar days from the date of signing the contract agreement with the contractor who has won the tender, when the costs of the connection service in accordance with the cost estimates indicated in the design exceed LTL 30 000 (VAT excluded). Twelve months from the date of signing the contract agreement with the contractor who has won the tender, when the operator organises the public procurement procedure for procuring the connection works, and when to ensure and/or to improve the technical parameters of the connected electric equipment, distribution and/or transmission network it is necessary to install and/or reconstruct 330 kV, 110 kV, 35 kV overhead or cable lines, 330/110/10 kV, 110/35/10(6), 110/10(6) kV, 35/10 kV transformer substations or distribution centres, excluding the cases when at the moment of signing the agreement the design for connecting the customer's electric equipment to the electricity network has not been prepared yet and there is no possibility to indicate the specific time period for connecting the customer's electric equipment to the electricity network, and also when the longer time period for completing the works is predetermined by the seasonality of the works, the specifics and scope of the implemented project and by other objective reasons which are not controlled by the operator.


In 2012, the new revision of the *Requirements on the Reliability of Electricity Transportation and the Quality of Service* was passed. In accordance with these Requirements the NCC publicly announces the analysis of all indicators, and supervises not only the compliance with the set minimum levels of the reliability indexes, but also can impose sanctions under all indicators set forth in the mentioned Requirements.

It should be also mentioned that pursuant to Article 78, Paragraph 4 of the Law on Electricity the NCC within its competence and in accordance with mandatory pre-trial procedure for resolving the disputes and claims examines the complaints on the actions of the electricity undertakings or the absence thereof in supplying, distributing, transmitting electricity, on denial of the electricity undertakings' rights of access to the grid, use of the systems, connection to the electricity network, balancing the electricity flows, application of the prices and tariffs, as well as the complaints and disputes of the customers and natural persons related to the services in the electricity sector and/or selling – purchasing electricity.

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

The assurance of the national electric energy balance is the responsibility of the transmission system operator LITGRID AB. To ensure the reliability of supply, the plan of preparedness for the emergency situation in the electric power system by the transmission system operator and the national emergency measures have been set, which consist of the instructions prepared by the transmission system operator, procedure regulations and other documents. The constituent parts of the plan are as follows:

1. The procedure regulations for disseminating information about the extraordinary or emergency events, their examination and accounting;
2. The black start plan of the Lithuanian electric power system after the black-out;
3. The instructions on liquidation of accidents and technological failures;

- 
4. The instructions on liquidation of accidents and technological failures for the dispatch control group of the Eastern region;
  5. The instructions on liquidation of accidents and technological failures for the dispatch control group of the Western region;
  6. The procedure of the customers' disconnection or limitation of supply;
  7. The instructions for providing information about the customers' disconnection or limitation of supply.

To satisfy the peak demand of electricity consumption or to cover the electricity shortage or to ensure the supply of electricity to the customers, the transmission system operator orders to maintain the tertiary capacity reserve which can be activated in the period of the maximum electricity consumption, in the case of the shortage of supply in the electricity market.

Pursuant to the *Procedure Regulations on the Conditions of Temporary Interruption of Electricity Transportation to Ensure the Public Interests and Calculation and Compensation of the Related Losses* approved by Order No 1-121 of the Minister of Energy as of 19 April 2010 and the provisions of other legal acts, the *Procedure for Drawing up the Schedules and Performing the Interruption of Electricity Transportation to Customers and Capacity Limitations* was approved by Order No 176 of the General Director of the distribution network operator AB LESTO as of 11 May 2011. The limitation schedules (for one year period) are drawn up after summarising and analysing the system demands, network parameters and the available information of the network users, therefore in the particular year the scopes of the limitations can be altered. The network users included in the limitation schedules are in advance in writing informed about the planned limitations and the arising responsibilities.


The terms of validity of electricity selling-purchasing agreements are not regulated by the legal acts of Lithuania. Usually the electricity selling-purchasing agreements with producers are concluded for the period of one calendar year with a possibility of automatic extension of their validity in the cases when the conditions of the agreement have not been amended and the parties have not expressed a wish to terminate the agreement. With new producers the electricity selling-purchasing agreements are concluded for the validity period till the expiration of a calendar year with the analogous possibility of automatic extension of their validity for the coming year.

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

In 2012, the Ministry of Energy amended the *Rules for Access to the Network* with regard to the planned synchronous operation of the electricity transmission systems of Estonia, Latvia and Lithuania with the network of Continental Europe and with regard to the changing situation in the electricity market.

At the beginning of 2012, the *General Rules of Installation of Electric Equipment* were approved by the order of the Minister of Energy. The requirements of these Rules are binding to the





electricity producers, the transmission system and distribution network operators, electricity consumers installing new electric equipment, reconstructing or performing overhauls of the electric equipment of the direct or alternating current up to 400 kV voltage. The rules are also binding to other entities whose activity is regulated by the Law on Construction of the Republic of Lithuania.

The data and information exchange and their conciliation on the regional level is performed at the meetings of the working groups of the mentioned ACER Baltic Electricity Market Initiative and the Baltic Electricity Market Mini-Forums arranged several times per year to the market participants and the related institutions or organisations. Full information is posted on the websites of the Baltic Energy Regulators and the ACER: [www.regula.lt](http://www.regula.lt) and [www.acer.europa.eu](http://www.acer.europa.eu) ([www.energy-regulators.eu](http://www.energy-regulators.eu)).

The NCC supervises the compliance of the information posted on the website of the transmission system operator [www.litgrid.eu](http://www.litgrid.eu) with the requirements set forth by the EU Regulations. The concepts defined in the EU Regulations are one of the key factors for reaching compatibility in the data exchange.

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

Due to the fast growth of the electricity production by using the RES, Lithuania, like other countries, is facing the problems of the security of supply (maintaining the frequency in the system). In 2011, by adopting the *Law on Renewable Energy Resources*, quite favourable development conditions were established for the RES producers: there is no responsibility for balancing, the discount of the fees for connection of the electric equipment is applied, the priority is given in access to the electricity network and its use, etc. Recently the measures have been taken to balance the development of the electricity production by using the RES by reducing the tariff of purchasing electricity, revising the procedure for issuing permits, etc.

In 2012, like in the previous year, the NCC actively participated in the preparation of the legal acts regulating the RES. The NCC publicly announced and approved 3 *Procedure Regulations for Access to the Network*. The fundamental requirement for the Procedure Regulation – the electricity network operator has to explicitly and in advance disclose all information which is relevant for making a decision by the electricity producer wishing to get access to the operator's network or already performing the connection works.

The NCC also made amendments in the *Methodology for Setting the Tariffs of Electricity Produced by Using Renewable Energy Resources (approved on 25 June 2012, No O3-174)*, which came into validity on 26 June 2012. The essential amendments were related to grouping the biogas power plants producing electricity by their technological types into the biogas power plants producing electricity from biogas by waste recycling, and the biogas power plants producing electricity from biogas produced by means of anaerobic digestion or by any other means of processing biodegradable materials or substratum, as well as to their differentiation depending on the installed capacity of the power plants, setting the technological capacity ratios and more precise definition of the concepts of the building-integrated and not integrated photovoltaics.

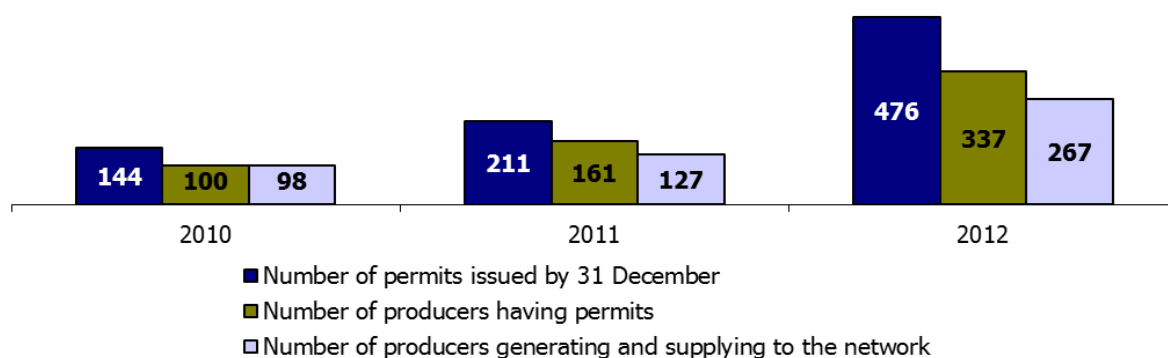
With regard to the amendments in the *Law on Renewable Energy Resources*, which came into validity on 1 February 2013, the NCC approved the *Amendments in the Methodology for Setting the Tariffs of Electricity Produced by Using Renewable Energy Resources (approved on 22 February 2013, No O3-41)*. The essential amendments were as follows:

- The tariffs will be recalculated 4 times per year. Before these amendments, the tariffs of electricity produced by using renewable energy resources were set for the full year;

- The definition of a small power plant was changed: the installed capacity of a small power plant is limited up to 10 kW;
- The tariffs of surplus electricity will be applied to small power plants, and they will not be approved more often than 4 times per year. Before the amendments, the fixed tariffs were applied;
- The installed capacity of the connected facilities has been changed;
- With regard to the fast improving technologies, the increase of their efficiency was replaced by the technological capacity ratios.

By the end of 2012, 476 permits for electricity production were issued to 337 electricity producers producing electricity from renewable energy resources – 2.3 times as much as it had been issued by the end of 2011. In 2011, 265 permits were issued. At the end of 2012, 267 natural and legal persons (79 percent of the permit holders) were producing electricity from renewable energy resources and supplying it to the network – 2.1 times as much as at the end of 2011.

Figure 22. Number of issued RES production permits and RES producers, in 2010–2012



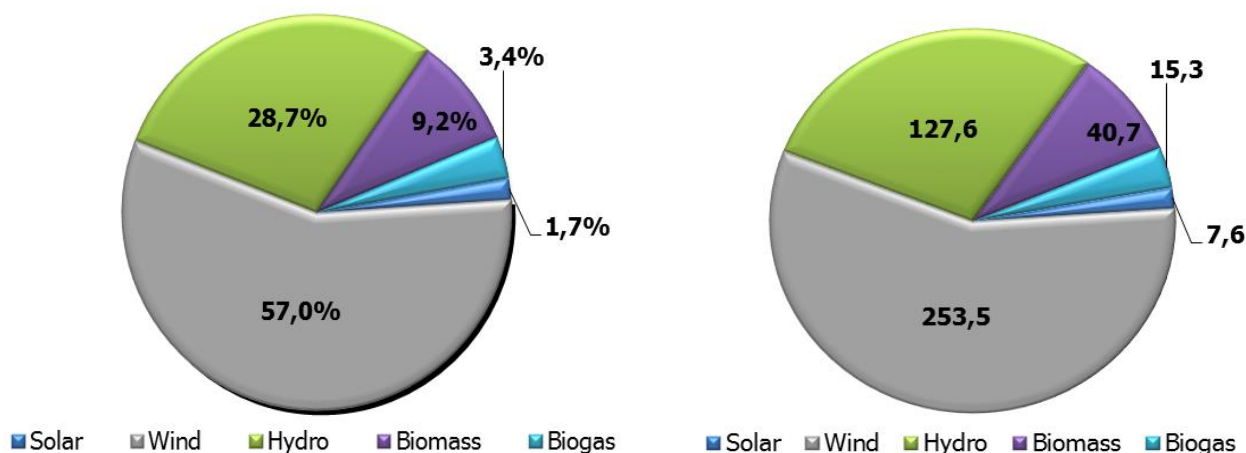
Source: NCC

The part of the permits issued to natural persons<sup>3</sup> producing electricity from the RES has been increasing: at the end of 2012 in the market structure by the number of issued permits, the permits for electricity production issued to natural persons represented 28.2 percent of all issued permits (134 of 476), at the end of 2011 – 11.8 percent (25 of 211).

At the end of 2012, the installed capacity of electricity producers producing electricity by using the RES and supplying it to the network equalled 444.7 MW.

<sup>3</sup> Pursuant to the provisions of Article 2 of Law of the Republic of Lithuania on the Farmer's Farm (Official Gazette, 1999, No.43-1358, 2002, No 123-5537), the farmers are categorised as legal persons.

Figure 23. Market structure by installed capacity, percent and MW, in 2012



Source: NCC

In accordance with the NCC data, in 2012 the quantity of electricity produced by using the RES equalled 1192 GWh: the biggest quantity was produced in wind power plants – 46 percent, in hydro power plants – 37 percent. In the overall market structure the share of electricity produced from biomass was 14 percent, biogas – 3 percent, solar – 0.2 percent.

In accordance with the NCC data, in 2012 the investments in the RES sector totalled LTL 531.7 million. The bulk of the investments – 90 percent were made in the electricity generation facilities. In analysing the market structure by the investment sources, 35 percent were borrowings, 64 percent – equity, 1 percent – support from the EU and other funds, subsidies by the state and municipalities.

In 2012, the tariffs of purchasing electricity produced in wind power plants were 28–37 LTLct/kWh (VAT excluded), in hydro power plants – 22-28 LTLct/kWh (VAT excluded), in biomass power plants – 37-50 LTLct/kWh (VAT excluded), in biogas power plants – 48-64 LTLct/kWh (VAT excluded), in solar power plants – 104-180 LTLct/kWh (VAT excluded).

### 3.1.3. TARIFFS FOR CONNECTION AND ACCESS TO THE NETWORK

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

#### **Article 37(1)(a)**

Pursuant to Article 8, Paragraph 9 of the new Law on Energy passed at the end of 2011, the NCC approves the price setting methodologies of the state-regulated prices, sets the state-regulated prices and the price caps thereof, and, if necessary, prepares and submits to the Government the principles of setting the state-regulated prices and supervises how the state-regulated prices and tariffs are being applied. The NCC approves the connection fees of the energy facilities (network, systems, equipment) by following the general criteria for setting the fees laid down by the laws constituting the legal frameworks of the individual energy sectors. The mentioned Law also provides that NCC unilaterally sets the state-regulated prices if the energy undertakings do not comply with the requirements for setting these prices, and that in setting the state-regulated prices, evaluates the costs of the supplied services by taking into account the reasonable return on investments.

Pursuant to Article 67, paragraph 2 of the new Law on Electricity passed at the beginning of 2012, the prices of the transmission and distribution services are regulated by setting the price caps by the NCC.

With regard to the provisions of the new Law on Electricity, the NCC revised the Methodology for Setting the Prices of the Transmission and Distribution Services and Their Price Caps (*approved on 21 September 2012, No O3-255*):

- The operator whose activity is regulated was committed to manage the accounts of the activity unrelated to the regulated activity separately from the accounts of the regulated activity. This amendment will enable to ensure that the operator’s financial-investment activity, which is not related to the regulated transmission/distribution activity, would not impact the results of the regulated activity;
- The mechanism for calculating the return on investments in accordance with the WACC was defined, and the principle of the incentive regulation was introduced;
- It was embedded that the depreciation funds from the regulated activity have to be used only for the needs related to the regulated activity;
- The regulation period was extended from 3 to 5 years.

In addition to that, the NCC prepared and approved the Procedure Regulations for Differentiating the Prices of Electricity Transmission, Distribution, Public Supply Services and Public Electricity (*approved on 19 September 2012, No O3-252*). With regard to the provisions of the new Law on Electricity providing that the service suppliers have to set the procedure for differentiating the prices the description thereof has to be approved by the NCC, a separate document was prepared regulating the conditions and the procedure for differentiating the prices of the electricity transmission, distribution, the public supply services and the public electricity prices.

The initial level of the revenues from the electricity transportation service was set in 2010, and every year the price caps of the transportation service are revised by taking into account the coefficients of the impact of quantity, unforecasted changes, indexation and adjustment. In addition to that, the impact of the quality indicators in supplying the network services and the principles of calculating the excess profit are assessed. The price caps of the transportation services in the regulation period of 2011–2013 and the recalculated prices of the services in 2013 are provided in the Table.

Table 4 . Price caps of the transportation services in the regulation period of 2011–2013 and recalculated prices of the services in 2013, LTLct/kWh

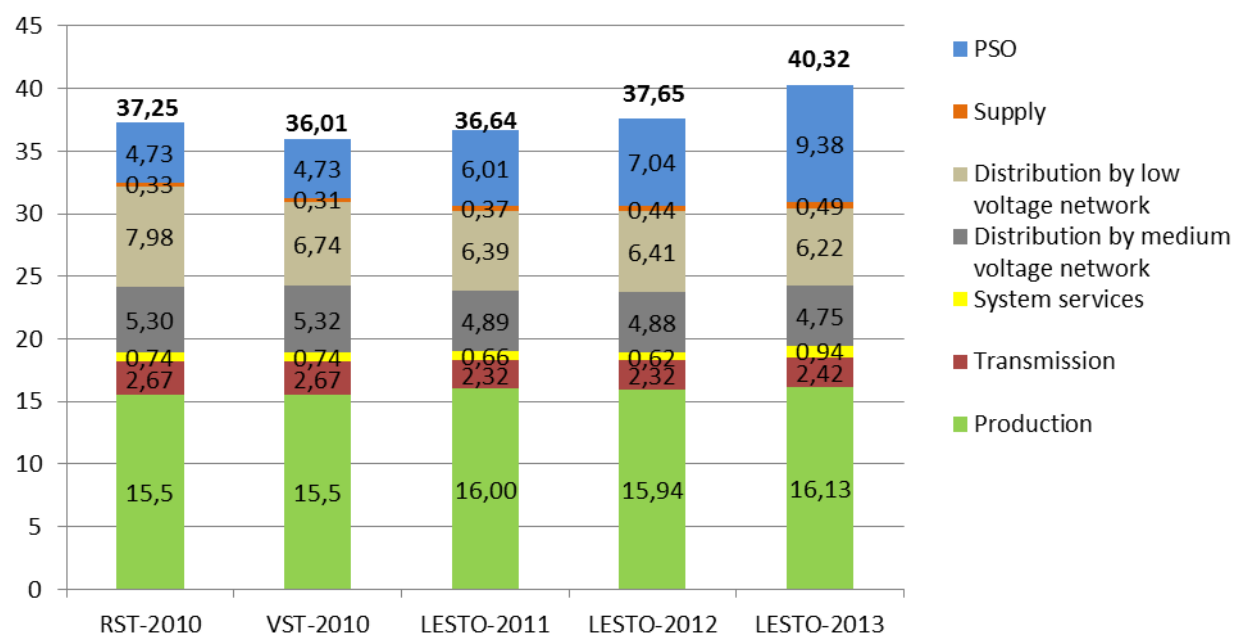
Indicators	LITGRID AB	AB LESTO	
		Medium voltage network	Low voltage network
The price caps of the transportation services set for the regulation period of 2011–2013	2.32	4.89	6.39
The price caps of the transportation services recalculated for 2013	2.5	4.747	6.219

Source: NCC

Whereas the infrastructural electricity components essentially have not been changed and by taking into account the augmentation of the PSO price, the average price of electricity in 2013, as

compared to 2012, is by 2.67 LTLct/kWh (VAT excluded) higher and equals 40.32 LTLct/kWh (VAT excluded). In 2012 it was 37.65 LTLct/kWh (VAT excluded).

Figure 24. Average price of electricity in 2010–2013, LTLct/kWh, VAT excluded



Source:NCC


In the recent years the prices of electricity of the household customers have been significantly impacted by the adjustment of the PSO price, which in 2010 – 2013 increased nearly twice, i.e. from 4.73 LTLct/kWh to 9.38 LTLct/kWh. Nearly 70 percent of the PSO price are the costs of supported electricity of the power plant Lietuvos elektrinė and the combined heat and power plants in accordance with the quotas set by the Government of the Republic of Lithuania and pursuant to the legal acts regulating the PSO list, the procedure of the PSO supply and administration. The main factor, which has significantly impacted the growth of this part of the PSO, is the natural gas price which during the recent three years grew by 62 percent, i.e. from 849 up to 1379 LTL/1000 cm. It should be also mentioned that in 2013 in the PSO subsidies account for 21.4 percent in the total budget of the PSO funds.

In 2012, the NCC decisions in the field of the costs accounting and pricing supervision enabled the electricity consumers to save no less than LTL 183 million. In the electricity sector the NCC exercises regulation over more than 200 economic operators. In 2012, the yearly price recalculations were conducted to 22 economic operators.

### **Article 37(6)(a)**

The conditions and requirements for connection of the electric equipment of the new customers (producers) are specified in the new Law on Electricity (and in the Law on RES as well). Pursuant to Article 67, Paragraph 4 of the mentioned Law, the Methodology for calculating the fees of connection of the electric equipment of the new customers and producers to the network is approved, the fees are set and differentiated by the NCC.

In the mentioned Law there are also defined the part of the fees for connection to the electric network which has to be paid by the customers, the costs allocation between the transmission and



distribution undertakings in the cases of their joint development, the procedure and conditions for connection of the electric equipment of the producer producing electricity from renewable energy resources to the electricity network, and other provisions.

After coming into validity of the new Law on Electricity, all electricity customers were grouped into the household customers and the non-household ones. With regard to this grouping, setting the fees for connection to the electricity network has been respectively adjusted as well (before that all customers had to cover 20 percent of the distribution operator's costs in accordance with the connection fee calculated and approved by the NCC). Correspondingly, on 13 September 2012 the NCC revised the Methodology for Setting the Fees of Connection of the Electric Equipment to the Electricity Network and by Resolution No O3-140 as of 29 April 2013 approved the new fees of connection of the customers to the electricity network, which came into validity on 1 June 2013.

### ***Article 37(8)***

Pursuant to Article 68, Paragraph 5 of the Law on Electricity, which came into effect in February 2012, the NCC has the right to set the costs coverage mechanism and/or the price setting methodology promoting the efficiency, and, in as much as it is possible, the long-term competition in the electricity production and independent supply markets, the implementation of the strategic projects of the state in the electricity sector enhancing the energy independence of the state, the security and reliability of electricity supply, and increasing benefits to the customers. To accomplish this goal, the NCC has the right to take into consideration the costs and the prices of the respective suppliers proposed in the comparative markets.


Pursuant to Article 69, Paragraph 4 of the Law on Electricity, the NCC has to ensure that the transmission system and distribution network operators would be given the relevant incentives in the long term and in the short term to increase the efficiency of energy consumption, to promote the integration of the electricity market and the reliability of supply, and to support the relevant scientific research. The respective provisions have been transposed to the Procedure Regulations for Differentiating the Prices of Electricity Transmission, Distribution, Public Supply Services and Public Electricity, approved by the NCC by Resolution No O3-252 as of 19 September 2012.

It should be mentioned that in 2012 the decisions were made to separate the costs related to the categories of the reliability of electricity supply, and, starting from 2013, to set separate components of the tariff of the electricity transportation service in order to generate signals to the customers about the origin of the costs in restoring the supply of electricity.

The new legal framework authorised the NCC to draw-up and to submit to the Government the principles of setting the state-regulated prices, to approve the principles of accounting the regulated activities, the rules for unbundling the accounts of the electricity undertakings, to set the costs' accounting system, the method and/or the model that is binding to an entity having the outstanding influence in the electricity market as well as to the supplier of the transmission, distribution services and/or to the public supplier. The NCC is obligated to post this accounting system, the method and/or the model on its website. It should be mentioned that in the spring of 2012 the accounting model of the Long-Run Average Incremental Cost (LRAIC) was launched in the electricity sector in the electric utilities, which will promote the efficiency of the network and the long-term competition and thus will be of benefit to the customers and other participants of the electricity sector. The preparation of the model related to the undertakings LITGRID AB and AB LESTO should be completed in the autumn of 2014, and its results should be reflected in the price caps of the transmission and distribution services to be set for 2015-2019.

The NCC is entitled to demand from the entity having the outstanding influence in the electricity market as well as from the supplier of the transmission, distribution services and/or the





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

It should be mentioned that on the NCC initiative the provision concerning the calculation of the shared profit in the new wording of the Law on Electricity has been amended by withdrawing the constraining profit margin and thus providing more incentives to make necessary investment in the electricity network. In 2012, the respective provisions were transposed to the methodologies approved by the NCC and were reflected in the price of the electricity transmission service set for 2013.

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

In 2012, the NCC together with LITGRID AB and AB LESTO were several times revising the Procedure Regulations for Access to the Electricity Network, which ensure more transparent access to the grid, and the approved investments and the financing model of the project for the Lithuania-Sweden interconnection NordBalt till the year 2016 promote the market integration, security of supply and support the relevant scientific research.


Moreover, it should be mentioned that in March 2013 the transmission system operators of the Baltic States signed the Agreement whereby they approved the rules for setting the transmission capability of the interconnection lines and the capacity allocation, also including the third parties. This should also contribute to the coordinated and more efficient use of the electric power systems in the region.

#### **Article 37(10)**

Pursuant to Article 69, Paragraph 6 of the new Law on Electricity, which came into validity in February 2012, after setting the price caps by the NCC, the suppliers have the right to differentiate the prices of the service according to the objective indications. In differentiating the prices, the suppliers of the services must keep to the principle of equal treatment and to duly take into consideration the principle of increasing the efficiency of energy consumption. The price of the transmission service may be differentiated by the price components applicable to the electricity consumers, producers and the importers importing electricity from other countries than the EU Member States. The price of the transmission service, the price of the transportation service, the price of the distribution service in all cases, excluding the part of the price representing the public service obligations, can be differentiated to the capacity component and the electricity energy component. The suppliers of the services have to establish the price differentiation procedure the Procedure Regulations thereof are approved by the NCC.

Within 30 calendar days from the date of receipt of the supplier's application, the prices set by the supplier and the tariffs are announced by the NCC after having verified whether the requirements on setting the prices and tariffs had not been breached while setting these prices, and the customers are not being discriminated. If it is found out that the prices and tariffs submitted by the supplier of the services have been set by breaching the requirements for setting the prices and tariffs or are discriminating the customers, the NCC will point out to the supplier of the services the errors which have to be corrected and will demand to resubmit the corrected prices and tariffs of the services no later than within 10 calendar days from the date of receiving the notice. No later than





within 30 calendar days from the date of submission of the corrected prices and tariffs of the services, the NCC will announce them, or, if the suppliers has failed to correct the indicated errors during the set time period, the NCC will unilaterally set the prices and tariffs of the services and will announce them.

In the autumn of 2012, the provisions of the Methodology for Setting the Prices and the Price Caps of the Transmission and Distribution Services were revised in line with the provisions of the mentioned Law, although part of the requirements regarding the discrimination and the correction of errors had been already embedded in the then valid legal act.

**Article 37(12)**

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

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

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

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


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

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

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

The NCC evaluates whether all investment needs, which have been identified during the consultations, are taken into consideration in the plan of the network development submitted by the transmission system operator and whether the plan does not contradict to the unbinding ten-year network development plan of the European Union indicated in Article 8, Paragraph 3, Item (b) of Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity and repealing Regulation (EC) 1228/2003.

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



In the case when the transmission system operator fails to make the investments, which pursuant to the plan of the network development were to be made during the coming three-year period, the NCC imposes the relevant measures so that the respective investments would be made, if they are necessary according to the latest plan of the network development, namely:

- 1) Obligates the transmission system operator to make the respective investments;
- 2) Obligates the transmission system operator to arrange the Tender in which all interested investors would be able to take part, by taking into account all requirements for the independence of the transmission system operator prescribed by the Law;
- 3) Obligates the transmission system operator to increase the authorized capital of the company with an aim to finance the required investments and to create the conditions for independent investors to participate in the capital formation, by taking into account all requirements on the independence of the transmission system operator prescribed by the Law;

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

- 1) The investor who has won the tender would provide the financing;
- 2) The investor who has won the Tender would perform the works of the transmission system infrastructure development and/or modernization indicated in the plan of the network development;
- 3) The transmission system operator would perform the works of the transmission system infrastructure development and/or modernization indicated in the plan of the network development;
- 4) The transmission system operator would operate the relevant assets of the transmission system.

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


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

In accordance with these provisions, the transmission system operator LITGRID AB in July 2012 submitted to the regulatory authority a ten-year plan of the development of the transmission system. By Resolution No O3-52 as of 22 February 2013 the NCC stated that the ten-year Development Plan of the 330-110 Transmission Grid of the Electric Power System of Lithuania in 2012–2021 (hereinafter – the Plan) complies with the requirements of Article 33, Paragraphs 2, 3 and 5 of the Law on Electricity.

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

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

Pursuant to Article 9, Paragraph 4, Item 5 of the Law on Electricity, to ensure competition among the electricity market participants, indiscrimination of the individual market participants and customers as well as the supply of the services of the required quality to the customers, the NCC



supervises whether the activities in the electricity sector are efficiently unbundled by assuring the independence of the electricity transmission and distribution activities from the interests of the production and supply activities, and with an aim to avoid cross-subsidizing of these activities.

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

To avoid the occurrence of conditions for cross-subsidies, the electricity undertakings submit to the NCC the compliance programmes.

#### 3.1.4. PROBLEMS OF CROSS-BORDER TRADE

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


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

- In assuring that the transmission system operator would have one or more transmission capacities integrated on the regional level for ensuring the capacity allocation and the security of the network, covering one or more Member States;
- In promoting the allocation of the cross-border capacities and developing the systems for ensuring the electricity network security;
- In creating the conditions for ensuring sufficient cross-border capacities, including new interconnection links, in order to develop the efficient competition and to improve the security of supply without discriminating the suppliers of the Member States and by coordinating the preparation of the congestion management rules.

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

With regard to the transparency requirements of the mentioned Regulation, the transmission system operator LITGRID AB uploads the required information on its website [www.litgrid.eu](http://www.litgrid.eu), including the Methodology for Calculating the Cross-Border Capacities Between the Transmission Network of the Lithuanian and Latvian Electric Power Systems and the Methodological Guidance on Determining the Stability in the BRELL Electricity Ring, which have been agreed with the NCC.

Pursuant to Article 41, Paragraph 2 of the new Law on Electricity and Item 20 of the Rules on Trading in Electricity, the imported and exported electricity is traded only at the Power Exchange. The



transmission system operator has the right to constrain the volumes of the electricity traded at the Power Exchange, which is supplied to or from Lithuania, when the capacity of the electricity transmission lines is limited in the respective direction of the electricity supply to or from Lithuania. No later than one calendar day prior to the operation day, till 10:00 a.m., the transmission system operator has to announce the transmission capability of the interconnection links in all directions of supply to or from Lithuania during each particular hour of the given operation day. If the aggregated capacity of all bids at the Power Exchange for trading in the electricity which during one hour in the respective direction of electricity supply to or from Lithuania exceeds the capacity announced by the transmission system operator, the part of the capacity of the selling bids with the highest quoted price and/or of the purchasing bids with the lowest quoted price, which exceed the transmission capability announced by the transmission system operator in the respective direction, is rejected.

Till 18 June 2012, all important information related to access to the transmission grid and its availability was disseminated by posting the market information notices on BALTPOOL UAB website [www.baltpool.lt](http://www.baltpool.lt), and after this date it has become available on NORD POOL SPOT website [www.nordpoolspot.com](http://www.nordpoolspot.com).

Since June 2012, when NORD POOL SPOT started operating in Lithuania, the mechanisms of the cross-border capacity allocations and congestion management have been revised and 3 steps have been planned to accomplish the bigger integration of the Baltic regional market. In accordance with Agreement No SUT-64-13 on 15 March 2013 signed among AS Augstsprieguma tikls, Elering AS and LITGRID AB, three rules were approved concerning:


1. The capacity calculations of the Baltic States internal interconnection links and the capacity calculations of Lithuania's cross-border links;
2. The capacity calculations of the cross-border links with the third countries;
3. The allocation of the interconnection capacities among the Baltic States and with the third countries.

Since 3 June 2013, when NORD POOL SPOT AS started operating in the Latvian electricity market, the second step has been implemented, i.e. the capacities of the Baltic internal interconnection links are allocated by arranging an implicit auction. To implement the third step it is being planned to draw up the General Capacity Allocation Rules for Trading with Third Countries, but for this purpose the agreement among the Baltic transmission system operators has to be reached as well.

The NCC, together with the regulatory authorities from Latvia and Estonia, has revised the mentioned documents of the Baltic States transmission system operators and has been monitoring the situation in cooperation with the independent electricity suppliers of the Baltic States and discussing the outstanding issues with the Baltic energy regulators and the transmission system operators at the meetings of the working groups arranged a few times per year, and has provided the information to the market participants at the organized Mini-Forums.

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

The NCC representatives take part in the meetings of the working groups of the Baltic Regional Initiative, where the outstanding issues are presented and the information on the technical cooperation between the Community and the third countries' transmission system operators is exchanged. If required, the NCC submits its comments on the draft legal acts drawn up by the Ministry of Energy on these issues, in particular – concerning the electricity prices.



In February 2012, on the initiative of the Baltic States, the European Commission got the mandate to enter into negotiations with the relevant institutions of the third countries regarding the synchronous operation of the electricity transmission systems of Lithuania, Latvia and Estonia with the European continental network. The issues of the technical cooperation between the Baltic States and the Russian Federation as well as the Republic of Belarus regarding the operation of the electric power systems and the perspectives should move forward. The role of the ENTSO-E and the transmission system operators of the Baltic States in this process is of the outstanding significance.

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

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

The main planned tasks:

**In 2012:**

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


**In 2013–2018:**

- The completed Feasibility Study on constructing the potential links for integration of the Baltic States into the EU internal electricity market.
- The list of the BEMIP projects supplemented with the project for synchronous interconnection to the ECN.
- Reached agreement among the European Commission, Russia and Belarus regarding desynchronisation of the Baltic States' electric power systems from the IPS/UPS.
- The official application for interconnection of the Baltic States electric power systems with the ECN submitted to the ENTSO-E.
- The technical requirements for the synchronous operation with the ECN obtained from the ENTSO-E.
- Reached compliance with the technical and infrastructural requirements.

**In 2019–2020:**

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

At present the Baltic States are like an energy island in Europe. The Lithuanian electric power system has strong interconnection links with its Eastern neighbours, but the links with the West are



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necessary as well. The interconnection of the Lithuanian electric power system with the European electric power system involves the following activities:

- The completion of the interconnection link Lithuania–Poland (LitPol Link);
- The completion of the interconnection link Lithuania–Sweden (NordBalt);
- Integration with the European electricity market.

In April 2012, the Government of the Republic of Lithuania by its Resolution obligated LITGRID AB to implement the actions for synchronisation of the Lithuanian electric power system with the electricity network of Continental Europe. In the same month the transmission system operators of the Baltic States – LITGRID AB, AS Augstsprieguma Tikls, Elering AS and the Swedish company Gothia Power AB signed the Agreement on the Feasibility Study on Interconnection of the Baltic States with the European Electricity Network. In the study, which is planned to be completed by the end of 2013, the technical conditions and possibilities of interconnection of the Baltic States with the European electricity network will be analysed. In June 2012, the Seimas of the Republic of Lithuania passed the Law on Integration of the Electric Power System into the European Systems.

The presently implemented international projects for constructing the interconnection links LitPol Link and NordBalt will for the first time interconnect the electric power systems of Lithuania, Poland and Sweden and will enable to integrate the electric power systems of the Baltic States with the electricity infrastructure of West Europe. It is being planned to launch the interconnection links into operation at the end of 2015. The following step will be the integration of the Lithuanian electricity market with the common Nordic market and later – with the single European electricity market.

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

The review of the investment plans of the transmission system operator LITGRID AB is performed in line with the conditions indicated in Chapter 3.1.3, are embedded by the Law on Electricity.

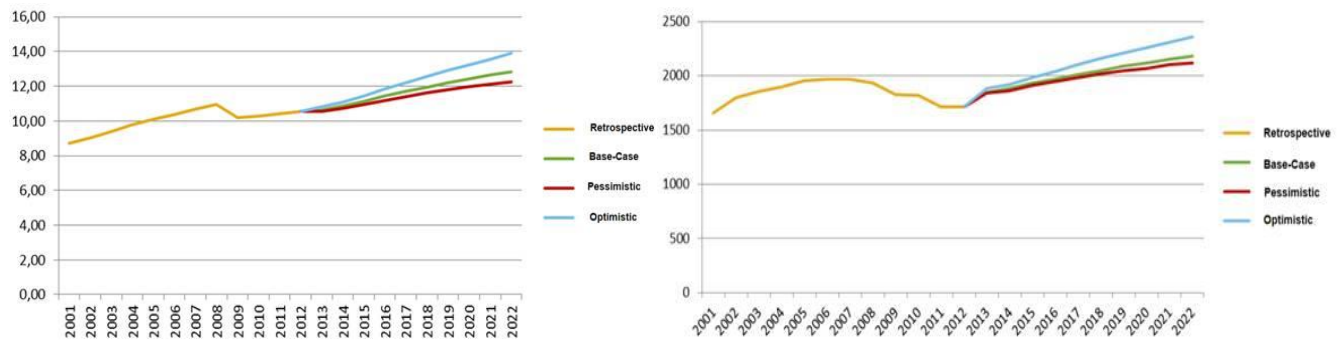
In July 2013, LITGRID AB submitted the Development Plan of 330–110 kV Electricity Transmission Grid of the Lithuanian Electric Power System, prepared by the undertaking, and the NCC on its website called for the public consultation on the plan, which contains the main transmission infrastructure that has to be constructed or renovated in the nearest decade, the investments on which the decisions have been already made along with the new investments to be made in the coming ten-year period, as well as the deadlines for implementing the investment projects.

The forecast of the electricity demand has been worked out by taking into consideration the tendencies of growth of the gross domestic product and the increasing efficiency of electricity consumption. The forecast of the total electricity demand (with network losses) and the forecasts of the maximum demanded capacity till the year 2022 are presented in Figure.





Figure 25. Forecast of electricity demand by 2022, TWh and forecast of the maximum demanded capacity by 2022, MW



Source: LITGRID AB

Up till now the Lithuanian electric power system had no interconnection links which would enable to integrate the Lithuanian electricity market either with the market of the Nordic countries or with the market of continental Europe. The preparatory works completed in the previous decade enabled to start the on-going intensive construction of the interconnection links with Sweden and Poland. On the national level 6 strategic projects are planned to be implemented, namely:

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

Table 5. Key indicators of the electric power system in Lithuania

		2012 (actual)	2022 (planned)
<b>Electricity demand (including network losses)</b>			
Pessimistic	TWh	10.61	12.25
Basic	TWh	10.61	12.84
Optimistic	TWh	10.61	13.88
<b>Maximum demanded capacity during peak loads of the system</b>			
Pessimistic	MW	1715	2120
Basic	MW	1715	2180
Optimistic	MW	1715	2360
<b>Installed/available capacity of the power plants, total:</b>	<b>MW</b>	<b>4253/3324 (3903)*</b>	<b>5976/5556</b>





Condensation power plants	MW	1955/1304 (1884)*	1055/1020
Nuclear	MW	0/0	1350/1303
Thermal power plants	MW	803/678	1002/864
Hydro power plants	MW	128/117	142/131
Hydro pumped storage power plants	MW	900/760	1125/950
Other power plants	MW	129/129	129/129
Power plants using renewable energy resources:	MW	339/336	1173/1159
Including wind power plants:	MW	274/274	800/800
<b>High voltage lines</b>		<b>6683</b>	<b>7821</b>
400 – 330 kV overhead lines	km	1671.6	2212
110 kV overhead lines	km	4966,7	5112
300 kV DC cable	km	-	2x213
110 kV cable lines	km	44.6	71
<b>400 – 330 kV transformer substations</b>	<b>pcs.</b>	<b>13</b>	<b>17</b>
<b>330 kV switchgears</b>	<b>pcs.</b>	<b>2</b>	<b>2</b>
<b>110 kV transformer substations</b>	<b>pcs.</b>	<b>218**</b>	<b>229</b>
<b>Compensation equipment</b>			
110 kV condenser batteries	MVAr	112	112***
400 kV shunt reactors	MVAr	-	100***
330 kV shunt reactors	MVAr	180	180***
10 kV shunt reactors	MVAr	300	300

Source: LITGRID AB

### ***Cooperation (Article 37(1)(c))***

As it has been mentioned in Chapter 3.1.4, the Law on Electricity provides that the NCC has to cooperate with the national regulatory authorities of the energy sector of foreign countries.

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

It is also provided that the NCC, within its competence, represents the Republic of Lithuania in the activities of the Agency for the Cooperation of Energy Regulators functioning in accordance with Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the cooperation of Energy Regulators. The NCC, in cooperation with the Agency for the Cooperation of Energy Regulators and the national energy sector regulatory authorities of foreign countries, is exchanging information which is necessary to perform the NCC functions prescribed by this Law and other legal acts. The NCC ensures confidentiality of the received information.

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

### 3.1.5. COMPLIANCE WITH LEGAL ACTS

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

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

In accordance with the provisions of Annex I Guidelines on the Management and Allocation of the Available Transmission Capacity of Interconnections between National Systems of Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009, the NCC monitors the information posted on the website of the transmission system operator ([www.litgrid.eu](http://www.litgrid.eu)) related to the transparency of cross-border power exchange and its compliance with the provisions set forth in the Guidelines. To establish the transparent conditions for the regional trade in electricity, at the meetings with the market participants it is ascertained what data is missing and what inaccuracies have occurred.


The transmission system operator of Lithuania is a party of the ITC Clearing and Settlement Multi-Year Agreement No SUT-84-11, which was signed on 22 March 2011. The NCC, by passing the relevant Resolution, revises and approves and monitors the application of this fee. In 2013, this fee will equal 0.276 LTLct/kWh (VATE excluded) or 0.8 EUR/MWh, i.e. by 0.1 EUR/MWh less than in 2012. The NCC has been cooperating with ACER regarding the adjustment of the fund of the clearing mechanism among the transmission system operators.

With an aim to establish the integrated European electricity market by 2014, the NCC implements the regional and inter-regional working plans, related with the day-ahead, intra-day trade in electricity, the assignment of long-term physical and financial rights to the transmission system operator and the implementation of the cross-border capacity allocation mechanism. The NCC is making preparations for the revision and approval of the investment projects related to the common interests of the region in accordance with the provisions of the forthcoming Regulation on the Trans-European Energy Infrastructure. Part of the set functions is performed by the Ministry of Energy ([www.enmin.lt](http://www.enmin.lt)) and the Energy Agency ([www.ena.lt](http://www.ena.lt)) subordinate to this Ministry. Since 2012, with the better financing of the NCC, the role of the regulatory authority in performing the functions prescribed by the legal acts has been growing.

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

If not provided otherwise in other legal acts, the NCC prepares and sets forth in its legal acts the detailed requirements on the compliance with the Community legislation and the responsibility for non-compliance with their provisions. The compliance with the provisions of the legal acts on cross-border trade has been described in Chapters 3.1.4 and 3.1.5 of this Report.

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



regulated energy activities and the procedure for imposing these penalties have been set forth in the Law on Energy.

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

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

On the regional level the issues, and especially – concerning the methods of the cross-border capacity allocation and the financial risk management, are solved by the official letters of the energy regulators of the Baltic States. On these issues the comments were provided in the process of reconciling the Grid Code. In addition to that, the solutions of the issues of the unusually high electricity prices at Nord Pool Spot AS are agreed by e-mail and official letters.

## **3.2 PROMOTION OF COMPETITION**

### **3.2.1. WHOLESale MARKET**

Since 18 June 2012, when NORD POOL SPOT AS started operating in Lithuania, and since 3 June 2013, when Latvia joined the mentioned system, the hourly trade in electricity has been jointly performed in the common market of the Baltic States with the aim to integrate with the common Scandinavian market. These steps are part of the Baltic Energy Market Interconnection Plan (BEMIP) adopted in 2009, under which not only the integration of the market is projected, but the interconnection of the transmission grids of the Scandinavian countries and the Baltic States as well. Before the integration of the transmission grids is implemented, by constructing the cable lines between Sweden and Lithuania and the additional cable line between Estonia and Finland, a single separate price zone is formed in the Baltic States. This is due to the fact that till 2014, when the construction of the second cable line to Finland has to be completed, the trading volumes between the Baltic States and Scandinavia are restricted by the capacity of the existing cable line Estonia – Finland, i.e. 350 MW.

It should be mentioned that after the final closure of Ignalina Nuclear Power Plant, the biggest generation source in the Baltic States, due to the altered electricity flows in the Baltic electric power system, in the interconnection line Estonia – Latvia the congestion problems occurred, especially during the warm season. No congestion problems were observed on the national level. In March 2013 the compromise was reached among the transmission system operators of the Baltic States, and the Agreement was signed on the calculations of the transmission capability and allocation of the capacities of the interconnection lines, thus the capacity allocation in the Baltic

States is conducted by NPS according to the principle of implicit auction. However after completing the study on the feasibility to apply the method based on the energy flows, the latter method may be applied instead.

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

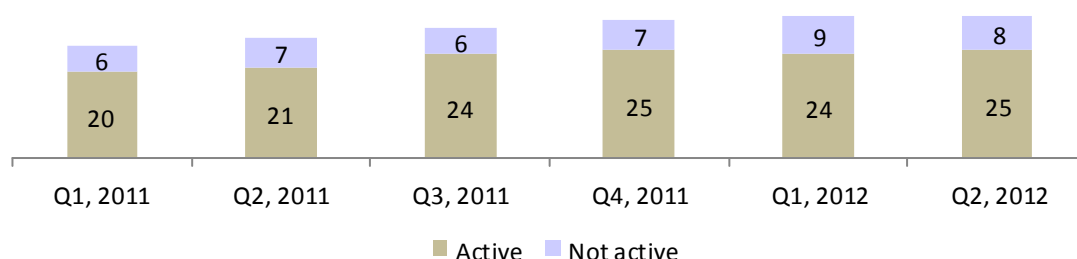
The year 2012 was the last year when the regulated public electricity prices could be applied to small commercial customers. This and other stages of the market opening were set forth in the Plan of the Development of the Electricity Market in Lithuania approved by Resolution No 740 of the Government of the Republic of Lithuania as of 8 July 2009, and in the new Law on Electricity. Starting from 2013, the public supplier will conclude the agreements on electricity supply at the regulated public prices only with those household customers who have not chosen an independent electricity supplier. In accordance with the mentioned Plan, starting from 2015 all household customers, excluding the socially supported ones, will have to purchase electricity in the market at the prices of NORD POOL SPOT AS or at the prices agreed by bilateral contracts.

### 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)

Monitoring of the electricity prices is conducted according to the Procedure Regulations on Electricity Market Supervision approved by the NCC, and the results are published in the Annual Reports, which are posted on [www.regula.lt](http://www.regula.lt).

In 2012, as compared to 2011, the number of market participants increased from 28 to 33, the number of active market participants grew from 21 to 25.

Figure 26. Number of market participants in 2011-2012



Source: NCC

In 2012, as compared to 2011, the quantity of electricity traded at the Power Exchange dropped by 7 percent, from 7963.9 GWh to 7445.4 GWh.

The dynamics of electricity prices at the Power Exchange in July 2011 – June 2013 is shown in Figure 27.



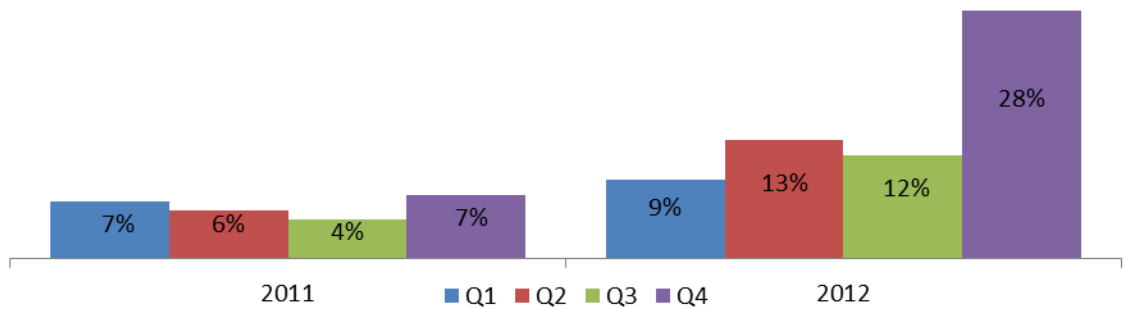
Figure 27. Average monthly price of electricity in the Power Exchanges of Lithuania, Estonia (Latvia), Finland and Norway, EUR/MWh, in July 2011 – June 2013.



Source: www.nordpoolspot.com

The electricity quantity traded by the price forming bids in 2012, as compared to the previous year, increased more than twice and constituted 16 percent from the total electricity quantity traded at the Power Exchange (in 2011 – 6 percent).

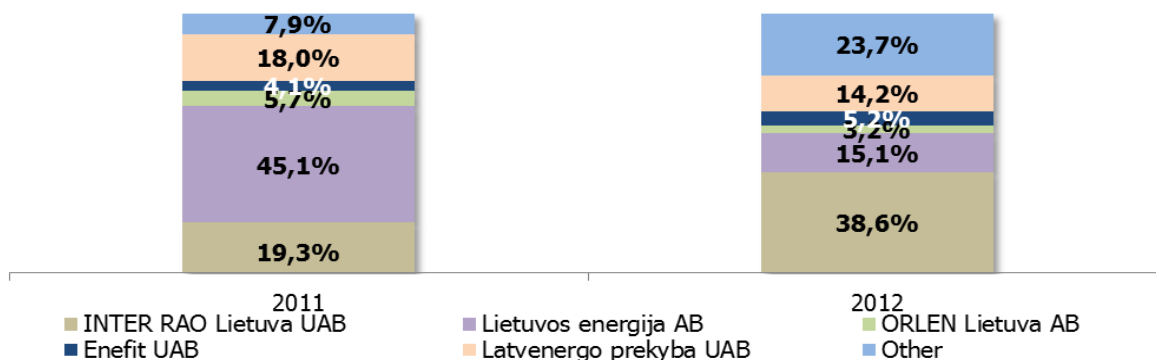
Figure 28. Price-forming trading quantities at the Power Exchange, percent, in 2011–2012



Source: NCC

In 2012, like in 2011, the main participants of the purchases and sales market at the Power Exchange were AB INTER RAO Lietuva, Lietuvos energija, AB, Electrum Lietuva, UAB.

Figure 29. Structure of the purchases market at the Power Exchange, percent, in 2011–2012

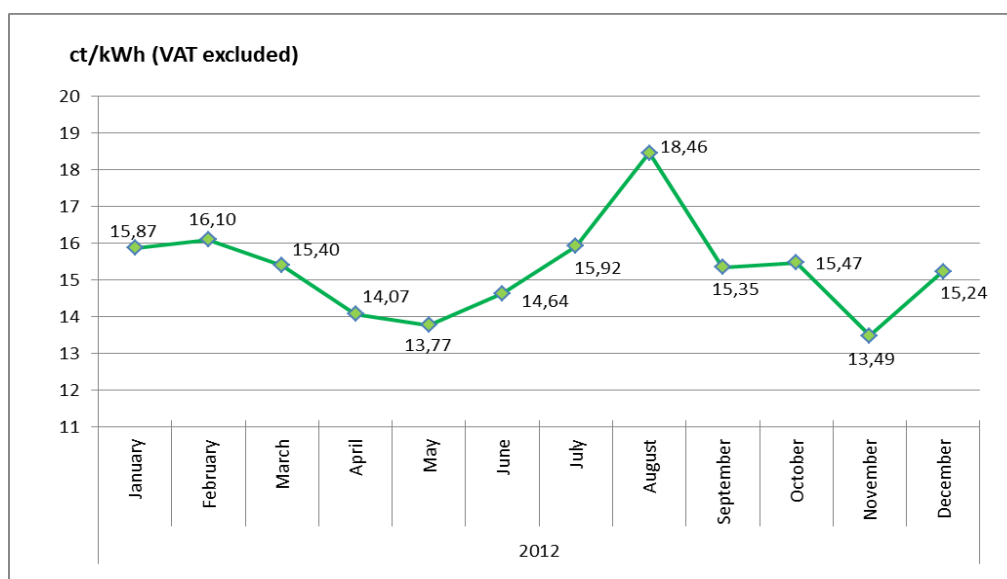


Source: NCC

In 2012, no licences were issued in the electricity sector. From 18 June 2012, when Nord Pool Spot AS, licensed by the Norwegian energy regulator, became the operator of the Power Exchange, the license issued to the electricity market operator BALTPPOOL UAB was withdrawn.

At the end of 2012, 435 market participants were operating in the electricity market. The major part of them were the entities having permits for electricity production.

Figure 30. Dynamics of the electricity market price, LTLct/kWh, VAT excluded, in 2012



Source: NCC

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

To ensure transparency, the NCC monitors whether the information is disclosed in compliance with the transparency requirements set forth in Chapter 5 of the Guidelines of Regulation No 714/2009 and with the provisions of Regulation No 838/2010. In addition to that, the NCC uploads on its website all information related to its activities: news, various explanations, statistics, convened meetings, materials of the meetings, etc.

### 3.2.2. RETAIL MARKET

The year 2012 was the last year when the regulated public electricity prices could be applied to small commercial customers. Starting from 2015, all household customers, excluding the socially supported ones, will have to purchase electricity in the market at the prices of NORD POOL SPOT AS, or at the prices agreed by bilateral contracts.

Last year, 65 independent electricity suppliers had the permits (were licensed), among them 27 were active in the market. Two independent suppliers supplied electricity to the household customers at the unregulated price. The average yearly consumption by the household customers equalled 1657 kWh.

In 2012, the share held by the historic public supplier AB LESTO in the retail market decreased and constituted 44 percent. Three biggest independent electricity suppliers in the retail market were Energijos tiekimas UAB, UAB Elektrum Lietuva and UAB SBE Energy.

In the country there were 1 619 530 electricity customers, among them 123 752 – the non-household ones. 73 percent of the non-household customers were still purchasing electricity at the public prices, and their consumption totalled 0.57 TWh. The household customers purchasing electricity at the public prices consumed 2.48 TWh or 27 percent of the end-use electricity consumption in the country.

#### 3.2.2.1. MONITORING THE LEVEL OF PRICES, TRANSPARENCY, EFFICIENCY OF MARKET OPENING AND COMPETITION, ARTICLES 37(1)(I), (J), (K), (L), (U) AND 40 (3)

The Law on Electricity provides an option to all customers to choose an independent supplier. The initiative of the choice belongs to the customer, excluding the cases when the customer's facility corresponds to a certain category of capacity. The Market Development Plan, approved by the Government of the Republic of Lithuania, provides that in 2010 – 2015 the electricity customers will choose independent electricity suppliers in certain stages. Starting from 1 January 2012, the independent suppliers had to be chosen by the electricity customers whose permissible capacity exceeded 30 kW.

Table 6. Stages of the market opening

Data	Customer group choosing independent electricity suppliers
<b>1 January 2010</b>	Customers with permissible capacity exceeding 400 kW
<b>1 January 2011</b>	Customers with permissible capacity of facilities exceeding 100 kW
<b>1 January 2012</b>	Customers with permissible capacity of facilities exceeding 30 kW
<b>1 January 2013</b>	All non-household customers
<b>1 January 2015</b>	All household customers

Source: NCC



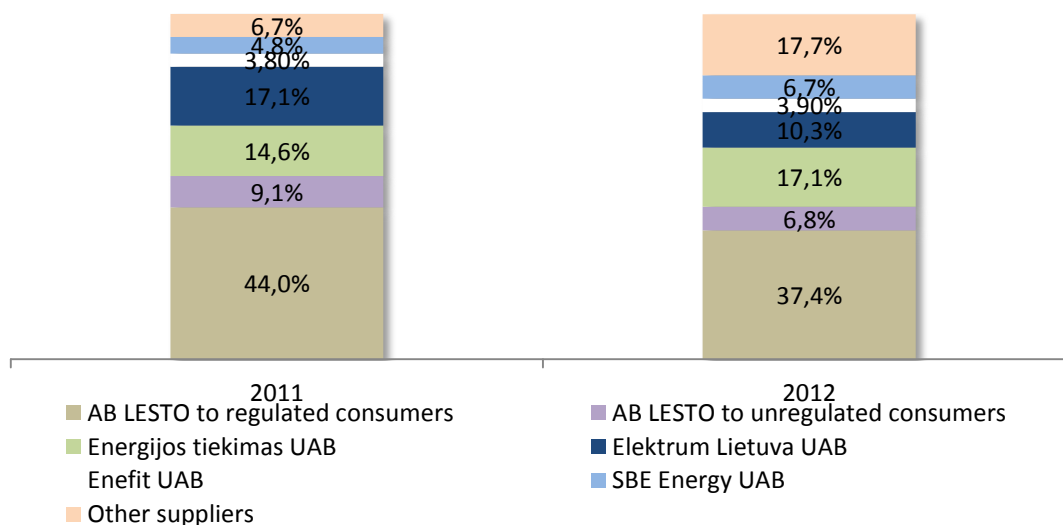


The number of the independent electricity suppliers has been further increasing. The complete official list of the independent suppliers is posted on the NCC website [www.regula.lt](http://www.regula.lt)

In 2012, the independent suppliers supplied to the electricity customers 3592.6 GWh of electricity, the public supplier AB LESTO supplied 3046.4 GWh of electricity to the regulated electricity customers, to the unregulated ones – 554.3 GWh of electricity.

In 2012, as compared to 2011, the share held by AB LESTO in the structure of the retail supply market decreased by 9 percentage points, from 53.1 percent to 44.2 percent. Among the independent electricity suppliers in 2012, as compared to the previous year, the market shares of Energijos tiekimas, UAB and UAB SBE Energy increased by 3 and 2 percentage points, respectively.

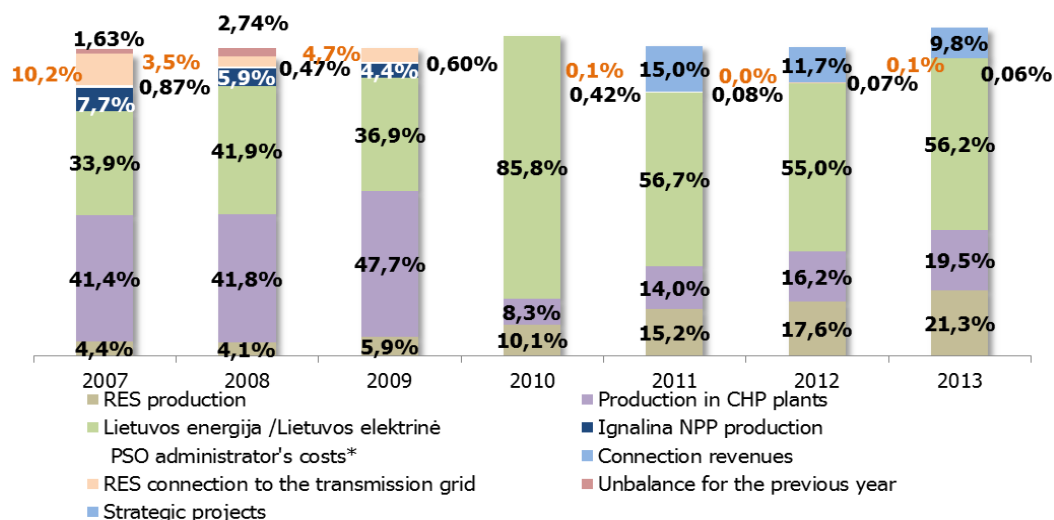
Figure 31. Structure of the retail market, percent, in 2011–2012



Source:NCC

In 2012 to the customers who have chosen an independent supplier, the average price of electricity sold by the independent producers to the end-users equalled 17.51 LTLct/kWh and was by 3.5 percent higher than in 2011.

Figure 32. Structure of the PSO budget, percent, in 2007–2013



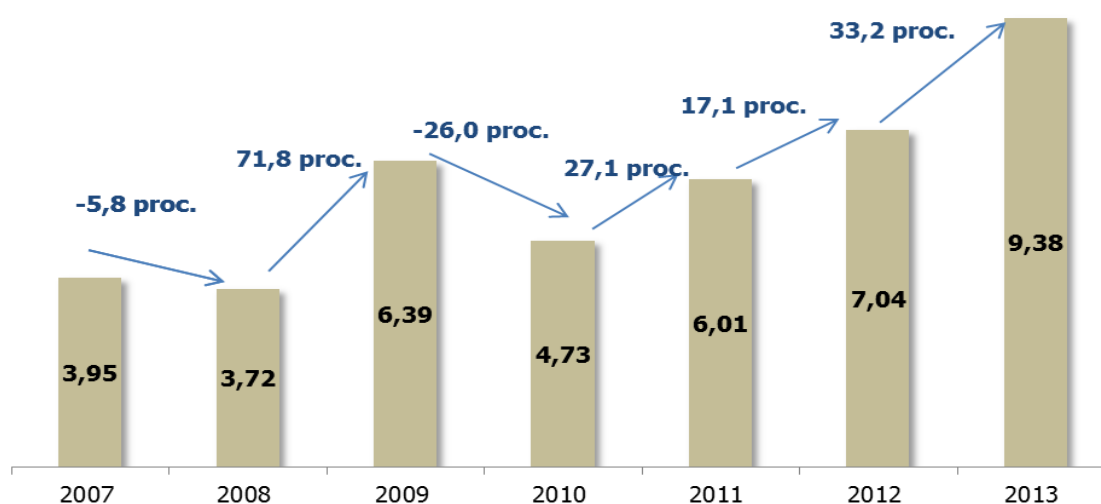
\* till 2011 – the market operator’s costs

Source: NCC

In terms of the quantitative assessment, in 2013, as compared to 2007, there is the biggest growth (10.6 times) of the PSO funds allocated to the power plants using the RES – from LTL 17.3 million to LTL 184.2 million. The PSO allocations to the power plant Lietuvos elektrinė grew 3.7 times, from LTL 133 million up to LTL 485.5 million, and the PSO allocated to the combined heat and power plant grew by 3.6 percent, from LTL 162.4 million to LTL 168.2 million.

In 2007–2013, the PSO price increased 2.4 times, from 3.95 LTLct/kWh up to 9.38 LTL ct/kWh. The biggest decrease (by 26 percent) of the PSO price was in 2010, as compared to 2009, and the biggest increase (by 71.8 percent) was in 2009, as compared to 2008.

Figure 33. PSO price, LTL ct/kWh, in 2007-2012

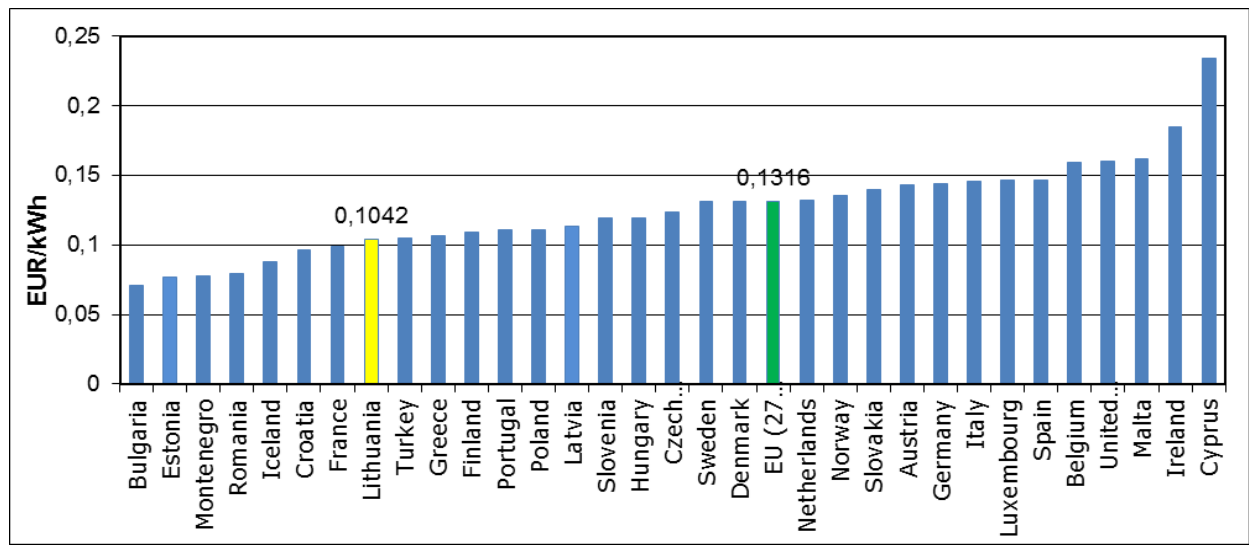


Source: NCC

As compared to the electricity prices applied to the household customers of other EU Member States, the price in Lithuania was one of the lowest – 36.00 LTL ct/kWh, i.e. by 20.8 percent lower than the average electricity price in the European Union



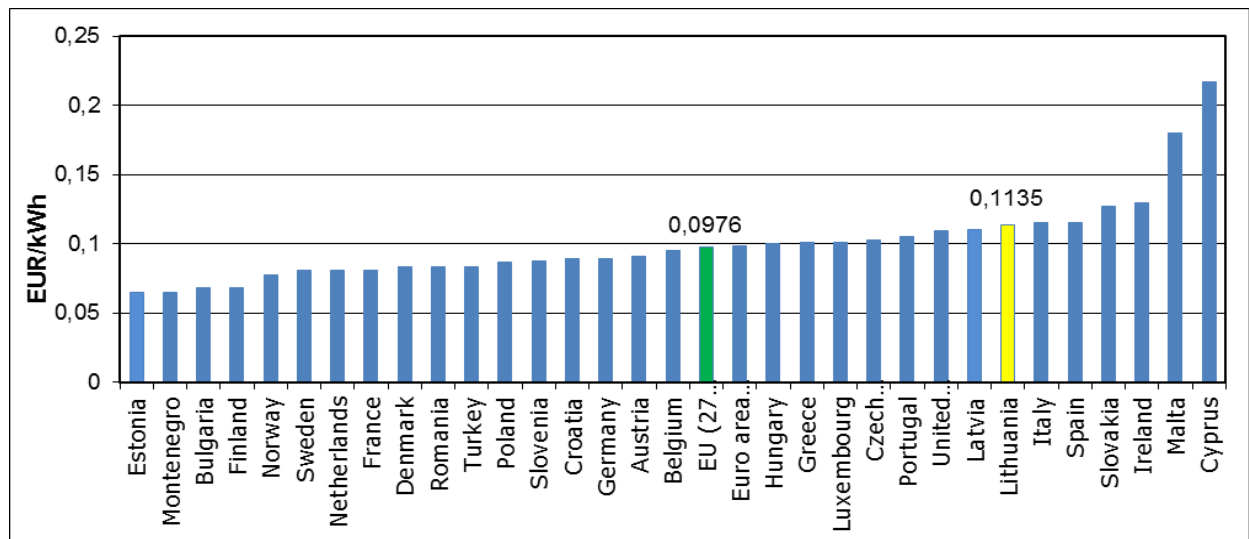
Figure 34. Electricity prices to household customers in the European Union in 2012, EUR/kWh, VAT excluded



Source: Eurostat

In accordance with the Eurostat data, in 2012 the electricity prices applied to commercial customers in Lithuania were by 16.1 percent higher than the average price in the European Union.


Figure 35. Electricity prices to commercial customers in the European Union in 2012, EUR/kWh, VAT excluded



Source: Eurostat

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

The prices and tariff plans of AB LESTO are announced on the website [www.lesto.lt](http://www.lesto.lt), circulated through the company's customer service centres, the customers are individually informed



about the new prices and the tariff plans on the self-service website [www.manoelektra.lt](http://www.manoelektra.lt), and those who have provided their contact information – by SMS messages or e-mail. The company informs the customers about the tariff plans and the conditions of their application by the Contact Centre telephone number 1802.

#### 3.2.2.2. RECOMMENDATIONS ON SUPPLY PRICES, MARKET RESEARCH AND APPLICATION OF MEASURES FOR PROMOTING EFFICIENT COMPETITION

##### **Article 37(1)(o)**

Article 8, Paragraph 9, Items 15 and 16 of the new Law on Energy passed in December 2011 prescribes that the NCC has to monitor whether the concerted practices that would restrict competition have not occurred, including the conditions of the exclusive rights, 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 pursuant to which the NCC has to inform the Competition Council about such practices, and no less than once a year has to issue the recommendations related to the compliance of the prices of the services supplied in the energy sector with the requirements of transparency, equal treatment and other requirements prescribed by the laws, and to submit them to the Competition Council.


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

##### **Article 37(4)(b)**

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

With an aim to create the competitive and economically sound markets of natural gas and electricity, to prevent the misuse of the outstanding influence in these markets, the NCC drew up and in June 2012 approved the Rules of the Market Research (hereinafter – the Rules).

In June 2012, the investigation of the reserve capacity market was started by the decision of the NCC, and on 28 September 2012 the results of the mentioned investigation were approved by the NCC Resolution No O3-274 as of 28 September 2012. It was stated that in 2009-2012 the services of the reserve capacity were provided by 3 undertakings – AB ORLEN Lietuva, Kaunas Combined Heat and Power Plant, Lietuvos energija, AB, therefore the level of concentration of the reserve capacity market was high. The biggest share of the reserve capacity market was held by Lietuvos energija, AB.



The market share of the reserve capacity market held by Lietuvos energija, AB in 2010-2012 was as no less than 95 percent, and there was no potential competition in the reserve capacity market, thus Lietuvos energija, AB was able to set unjustified (too high or too low) prices, and therefore Lietuvos energija AB was recognised as the entity having the outstanding influence in the reserve capacity market. By the mentioned Resolution Lietuvos energija, AB as the entity having the outstanding influence in the reserve capacity market was obligated to unbundle the accounts and to supply the service at the cost-based prices. Moreover, it was resolved to set the price caps of the reserve capacity services to Lietuvos energija, AB as to the entity having the outstanding influence in the reserve capacity market.

In 2013, the NCC is planning to conduct the investigation of the electricity production market. The NCC has been further monitoring and assessing the situation, and, if necessary, can impose the measures set forth in Article 68 of the Law on Electricity to the dominating market participants:

- 1) To set the commitments to supply the services at the cost-based prices by taking into consideration the reasonable return on investments;
- 2) To set the commitments related to the costs accounting systems designated to supply the specific types of the services;
- 3) To commit to adjust the applied prices of the services or to set the price caps of the regulated services.

By performing the functions of supervision of the economic operators, in 2012 the NCC conducted the unplanned inspection of the activity of LITGRID AB as the administrator of the PSO funds, the inspection of the activity of UAB Anvilis regarding the adequacy of the management capacity to perform the licensed activity, the planned inspection of UAB Elektros energijos prekyba and the unplanned inspection of SKY ENERGY GROUP, UAB regarding the adequacy of the financial capacity to perform the activity of the independent supply. In addition to that, the NCC performed the evaluation of Lietuvos energija, AB costs incurred in constructing Unit 9 of the power plant Lietuvos elektrinė and the final estimation of the indispensable costs of this investment which for the year 2013 has been included in PSO.

Article 76 of the Law on Electricity provides that the NCC, in cooperation with the Agency for the Cooperation of Energy Regulators and the national regulatory authorities of foreign countries, exchanges information deemed necessary to perform the NCC assignments in accordance with this Law and other legal acts. The NCC ensures the confidentiality of the received information. In the cases of the pending issues or the necessity to make joint decisions, the NCC closely cooperates with the energy regulators of the Baltic region by participating in the meetings, communicating by e-mail or by preparing joint official letters to present their positions to the market participants.

### **3.3. RELIABILITY OF SUPPLY (IF AND TO THE EXTENT IN WHICH THE REGULATOR IS A COMPETENT AUTHORITY)**

#### ***Taking the safeguard measures (Article 42)***

Pursuant to the Law on Electricity of the Republic of Lithuania the Rules for Access to the Grid were approved in 2012 by the Order of the Minister of Energy, whereby the supply conditions of the system and transportation services to the network users and the ancillary services to the network operators, the issues of planning the long-term development, the requirements to the network users and on the network operation, the requirements on the electricity metering and information exchange in the electric power system are regulated. The provisions of the Rules are binding to the transmission system and distribution network operators, electricity producers, consumers and suppliers. Chapter IV of the Rules prescribes that the system services of prevention and liquidation of accidents and failures cover the preparation and revision of the emergency plan, setting and

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

The plan on preparedness for the emergency situation in the electric power system consists of the instructions prepared by the transmission system operator, procedure regulations and other documents.

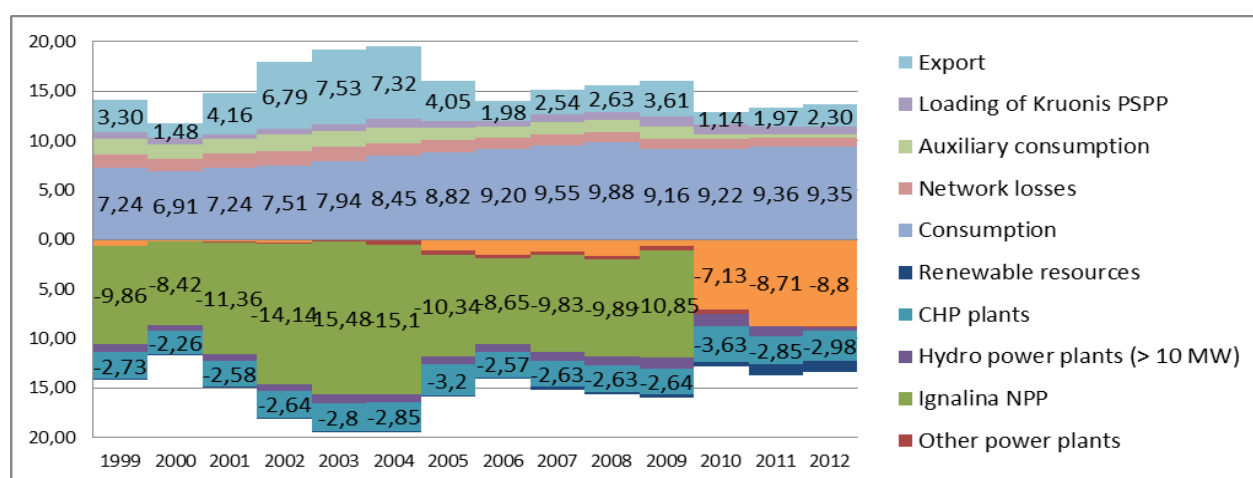
Pursuant to the Procedure Regulations for the Supply of Public Service Obligations in the Electricity Sector approved by the Minister of Energy, the Ministry of Energy performs the monitoring of the issues related to the security and reliability of electricity supply in the electricity sector of the country. Every year by July 31, the monitoring report together with conclusions and proposals is posted on the website of the Ministry of Energy. The monitoring has to cover the following issues: the balance of capacity and demand of the generation sources, the expected demand of electric capacities and planned to be constructed or being constructed generation sources, progress in implementing the strategic projects related to the increase of energy security by constructing the interconnection links Lithuania – Sweden and Lithuania – Poland, the interconnection of the Lithuanian electric power system with the European continental network.

### 3.3.1. MONITORING THE SUPPLY AND DEMAND BALANCE

#### Article 4

After the shut-down of the last Unit 2 of Ignalina Nuclear Power Plant at the end of 2009, the generation source, which had supplied approx. 80 percent of electricity demand in the country, was lost, the Lithuanian power plant from the exporting system became the importing one and dependant on the single electricity supplier from the third country (the Russian Federation). In 2012, the electricity export accounted for 80 percent of the total domestic consumption.

Figure 36. Electricity balance in 1999–2012, TWh



Source: NCC

During the year, the total installed capacity of the power plants increased by 2 percent – up to 4119 MW, in the thermal power plants – by 1 percent, up to 2788 MW, in the power plants using renewable energy resources (RES) – by 19 percent, up to 431.4 MW. In 2012, the market share of the installed capacity of the RES power plants equalled 11 percent.

Pursuant to the Law on Electricity, the NCC is committed to monitor and to assess the reliability of the transmission and distribution networks. The results of the reliability monitoring will be summarised in the Annual Reports posted on the NCC website. Every year, no later than by 31 July, the NCC has to submit the Annual Report to the Government or its authorised institution, and to the European Commission.

With regard to this commitment, the NCC ordered the Study for the Assessment of the Reliability of the Lithuanian Electric Power System from the external service providers. One of the outputs of this Study is the Annual Report on the Reliability of the Transmission and Distribution Networks of the Lithuanian Electric Power System in 2012, which has to be completed by August and will be publicly accessible on the NCC website [www.regula.lt](http://www.regula.lt).

### 3.3.2. MONITORING INVESTMENTS IN GENERATION CAPACITIES RELATED TO SECURITY OF SUPPLY

#### **Article 37(1)(r)**

After the final closure of Ignalina Nuclear Power Plant at the end of 2009, Lithuania has been importing more than 80 percent of energy from the single supplier of energy resources – the Russian Federation.

Table 7. Capacity balance of the electric power system during the maximum system demand in 2012, MW

Item No	Indicator	2012
1.	Available capacity of the power plants	4022
2.	Unutilised capacity of the power plants	1524
3.	Mandatory reserve to ensure the system adequacy	535
4.	Surplus capacity	1963
5.	Maximum demanded capacity in the system	1859
6.	Capacity balance in the system	104

Source: LITGRID AB.

It should be mentioned that from 2014 the capacity balance of the Lithuanian electric power system becomes negative and is not ensured. However, by taking into consideration that the Lithuanian electric power system has sufficiently strong interconnection links with the neighbouring countries and is implementing the projects for constructing the new interconnection lines (LitPol Link and NordBalt), there will be technical possibilities to cover the projected capacity shortage by the imported electricity. The quantity of electricity imported in 2012 equalled 10.49 TWh.



## **Security of the operating network**

### **Article 7 of Directive 2005/89/EC**

The Lithuanian electric power system, which for the fourth consecutive year has been importing up to 77 percent of electricity from the third countries, is not safe, and this impacts not only the technical situation, but the economic situation as well.

Like other countries, Lithuania is facing the problem of the growing impact of electricity production by using the renewable energy resources. In the country very favourable conditions for the development of this type of generation were set, but, as it has been mentioned in Chapter 3.1.2, recently the measures are being taken to restrict this impact.

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

- Balancing the unforecastable energy resources (wind, solar, biomass/biogas);
- Significant flows of surplus electricity in the Nordic countries till 2020 will have to be transported by the network of continental Europe;
- The network development projects may be delayed, and if the goals of supporting the renewable energy resources will be implemented as planned, the transmission capability of the internal network might be insufficient;
- Uncertainties regarding the market development at the border between the European Union and the Russian Federation;
- Big uncertainty regarding the investments in the generation capacities is a challenge to the network development;
- Energy flows in the North-East direction in all Baltic States;
- In the short term perspective, the altering balance in Germany is important.

### **Investments in cross-border capacities 5 and more years ahead**

#### **Article 7 of Directive 2005/89/EC**

Table 8. Duration of the network loading above 8784 hours in 2012, %

Loading, %	Total, TS PT	330 kV OHL	AT	110 kV OHL
0-40	50.8	75.0	17.4	51.6
40-60	31.1	25.0	17.4	34.9
60-80	12.4	0.0	34.8	11.1
>80	5.6	0.0	30.4	2.4

Source: NCC

Table 9. Duration of loading the Lithuanian electric power system's interconnection lines above 8784 hours in 2012, %

Loading, %	Total, TS PT	330 kV OHL	AT	110 kV OHL
0-40	50.8	75.0	17.4	51.6
40-60	31.1	25.0	17.4	34.9
60-80	12.4	0.0	34.8	11.1
>80	5.6	0.0	30.4	2.4

Source: NCC

The actual use of the interconnection lines with Latvia, Belarus and the Kaliningrad Region is provided in the Table.

In 2012, there were no cases when access to the transmission system and distribution network was denied because of the capacity shortage.

The integration of the Lithuanian electric power system with the Continental Europe Network covers 3 projects: NordBalt, LitPol Link and the synchronisation with CEN.

#### The interconnection line with Sweden – NordBalt

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

The Cooperation Agreement for implementing the NordBalt project signed in 2010 between Lithuanian and Swedish transmission system operators provides that the cooperation between the parties will cover the designing and construction stages, and the infrastructure created in constructing the link will be separately owned by the parties – the transmission system operator of Lithuania will own the converter station in Klaipėda TS, the cable from Klaipėda TS to the seashore and 50% of the submarine cable. The respective part of the cable and the infrastructure of the interconnector on the side of Sweden will be owned by the Swedish TSO. The European Union allocated EUR 131 million (LTL 452.3 million) to finance the NordBalt project.

Figure 37. Diagram of NordBalt interconnection link



Source: NCC

Works completed in 2012:

- The special plan of the link in the land territory and in the territorial waters of Lithuania in the Baltic Sea was approved;
- The technical designs of the cable line and converted station were completed;
- The archaeological research in the cable route on the Lithuanian side was completed;
- The manufacturing of the submarine cable is in progress (some 100 km of the cable have been already manufactured);
- The designing and construction works in reconstructing Nybro substation in Sweden were started.

The Interconnection link with Poland – LitPol Link

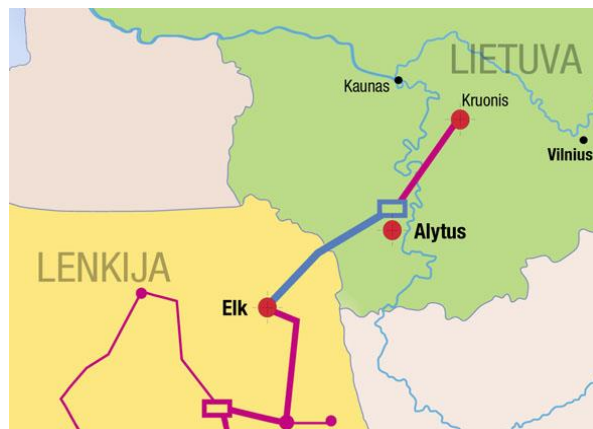
The cross-border electricity transmission line LitPol Link is the high voltage 400 kV double circuit electricity transmission line from Alytus to Elk (Poland), the back-to-back station in Alytus as well as the reconstruction and upgrading of the transformer substations in Alytus and Elk. The link will interconnect the electric power systems of Lithuania and Poland, and at the same time – the electric power systems of the Baltic States and Continental Europe, will create preconditions for trade in electricity, and will enhance the security of electricity supply in Lithuania. This is the first stage of the project for synchronous connection to the network of Continental Europe.

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


It is being planned to complete the first stage of the project (the double circuit line with the transmission capability of no less than 1000 MW and the 500 MW back-to-back station) in 2015, and the second stage (the development of the internal network in Poland by assuring the transmission capability of no less than 1000 MW and the second 500 MW back-to-back station) – in 2020. The 500 MW back-to-back station, which is planned to be constructed in 2016, would be readjusted for radial operation to the Grodno (Belarus) 330 kV line. The preliminary price of the project – LTL 1280 million (Lithuania's contribution – approx. LTL 600 million).

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

Figure 38. Diagram of the interconnection link Lithuania – Poland



Source: NCC



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

The works completed in 2012:

- The technical design for upgrading the 330 kV Alytus switch yard was completed (November 2012), the preparation of the technical design for the 400 kV OHL Alytus – Polish border is in progress, the topographic photos were made, the geological and other surveys were completed, the connection conditions were collected, the main drawings were prepared and the reconciliation with the relevant authorities was started (December 2012);
- The agreements on defining the servitude rights were signed with 80 percent of land owners. For the remaining owners the servitudes were set by the administrative acts (February 2012);
- The agreement with the contractor for designing and construction Elk substation was signed.

#### Construction of the 330 kV line Kruonis PSPP – Alytus

The works completed in 2012:

- The preparation of the territorial planning documents (the special plan) and the environmental impact assessment was started;
- In July 2012, the Strategic Environmental Assessment (SEA) Report and the Environmental Impact Assessment (EIA) Programme were approved;
- In October 2012, the public presentation of the EIA Report was started.

#### The 330 kV OHL line Klaipėda–Telšiai

This project is important for the integration of the Lithuanian electric power system with European electricity systems and the electricity market – for the interconnection link with the electric power system of Sweden. For this purpose it is necessary to substantially strengthen the electricity transmission network in Klaipėda region. The line Klaipėda–Telšiai will also enhance the security of the Lithuanian electric power system. It is planned to commission the line into operation in 2014.

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

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

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

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

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

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

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

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

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

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

The investments of LITGRID AB in the previous year and in the coming three-year period are shown in the Table.

Table 10. Investments by the transmission system operator in 2012–2014

Indicator	2012	2013	2014	2015
Planned investments, LTL million	175.3	230.6	273.7	741.6

Source: LITGRID AB

AB LESTO, by following the Procedure Regulations for the Assessment and Approval of Investments at the National Control Commission for Prices and Energy, prepares the long-term programme of investments in the regulated activities (hereinafter – the “Programme” ) for the relevant regulation period. In line with the mentioned Procedure Regulations, the company has worked out the investment Programme for the regulation period of 2011–2013. The value of the investments to be made in 2013 – LTL 300.8 million.

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

***Article 7 of Directive 2005/89/EC***

The currently transported level of electricity, along with the level which is projected to be transmitted in the coming three-year period and the ten-year perspective (2011–2021) are shown in the Table.

Table 11. Forecast of electricity demand for the next 10 years

Year	Electricity demand (including network losses) by scenarios, TWh		
	Actual/Basic	Optimistic	Pessimistic
2012	10.55		
2013	10.65	10.80	10.56
2014	10.85	11.08	10.71
2015	11.14	11.47	10.96
2016	11.43	11.84	11.19
2017	11.70	12.21	11.41
2018	11.96	12.91	11.61
2019	12.20	13.24	11.79
2020	12.43	13.57	11.96
2021	12.64	13.88	12.11
2022	12.84	14.19	12.25

Source: LITGRID AB.

### 3.3.3. MEASURES TO COVER PEAK DEMAND OR SHORTAGE OF SUPPLIERS

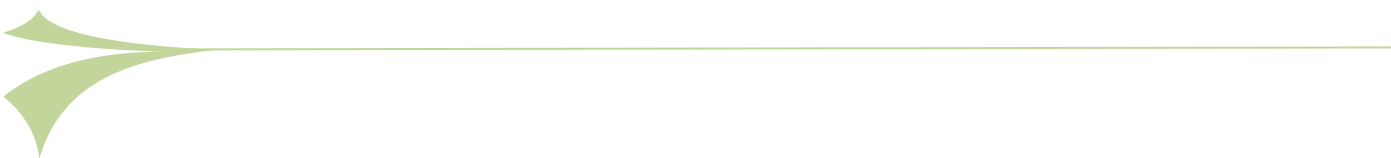
#### **Article 4**

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

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

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

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



The schedules indicated in Item 13 of the Procedure Regulations are drawn up for one year (from November 1 of the current year till October 31 of the following year) in accordance with the assignments issued by the transmission system operator to draw up the schedules of the limitations of electricity supply to the customers and the capacity restrictions and emergency disconnections to the transmission system operators and the customers directly connected to the transmission grid. The Procedure for the Customers' Disconnection and Limitation of Supply, regulating the enforcement of these regulations and dissemination of information to the customers, was signed between the transmission system and distribution network operators.





## 4. Gas market

### 4.1. Network regulation

#### 4.1.1. UNBUNDLING OF VERTICALLY INTEGRATED COMPANIES

On 30 June, 2011, the Seimas of the Republic of Lithuania adopted the Law amending the Law on Natural Gas of the Republic of Lithuania (further- the Law on Natural Gas) and the Law on Implementation of the Amendment of the Law on Natural Gas of the Republic of Lithuania (further – the Law on Implementation). The above laws came into effect on 1 August 2011.

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

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

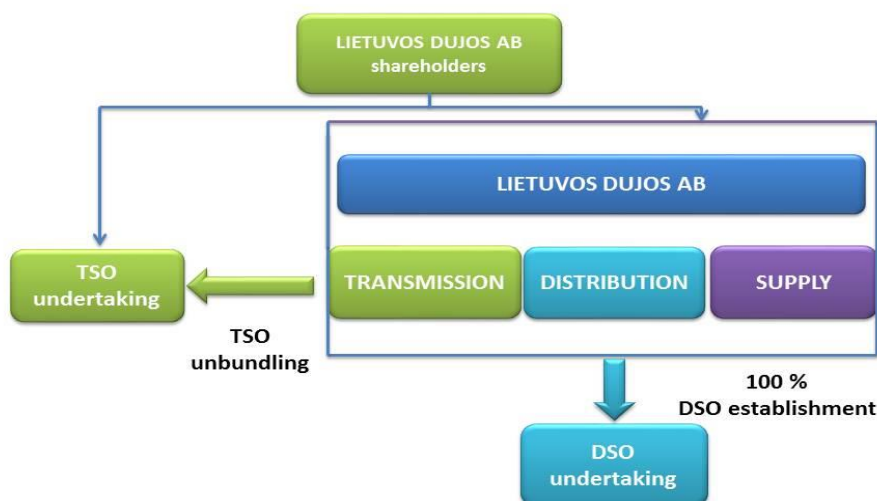
The Government of the Republic of Lithuania, abiding by the provisions of the Law on Natural Gas, by its Resolution No 1239 as of 28 October 2011 approved the plan for implementing the unbundling of the activities of the natural gas companies, which do not comply with the requirements of the Law, and for control over them (Official Gazette, 2011, No. 130-6170). In accordance with the mentioned plan, the natural gas companies, which do not comply with the provisions of the Law on Natural Gas, had to choose the method of unbundling of the natural gas transmission activity and control either by reorganizing control over the natural gas companies or by restructuring (splitting) the natural gas companies. The NCC was obligated to supervise the efficient unbundling of the relevant activities by assuring independence of the transmission and distribution activities from the commercial interests.

In Lithuania there is only one natural gas company, which does not comply with the requirements of the Law on Natural Gas – AB Lietuvos dujos (further – the undertaking), which is involved in the activities of the natural gas transmission, distribution and supply. The company is the only one in Lithuania providing services to more than 100 000 customers. The company is a vertically integrated undertaking that has implemented internal unbundling of activities. The company operates the total length of all natural gas transmission systems (1.9 thous. km), including 8.1 thous.km of total distribution grid length (92 %) and 71.6 % of supply market. On 31 May 2012, the undertaking submitted to the NCC the *Action Plan for Unbundling AB Lietuvos dujos Activities and the Action Plan for Reorganizing the Company’s Activities* approved by the Minutes of the Board Meeting as of 28 May 2012, which provided that no later than by 31 July 2013 AB Lietuvos dujos would have unbundled its activities in all legal, functional and organizational aspects, and the unbundling of the activities and control would have been completed no later than by 31 October 2014.

After analysing the descriptions of the methods of unbundling the activities and control and the plans of actions to be taken, which were submitted by AB Lietuvos dujos, the NCC by Resolution No O3-145 as of 15 June 2012 resolved that AB Lietuvos dujos has to unbundle the natural gas transmission and distribution activities and control in line with the methods and deadlines set forth in the plans, to submit the required documents on the dates indicated in the plans and to immediately inform the NCC about the cases of delay or failure to perform the actions set forth in the plans as well as about any other circumstances that are important for implementing the plans

The unbundling method selected by the company is presented in Figure 39.


Figure 39. Scheme of unbundling of Lietuvos dujos AB activities



Source: NCC

Abiding legal actions provided in the *Transmission Plan* and keeping to the deadlines set forth in the *Action Plan*, on 30 January 2013, AB Lietuvos dujos submitted to the NCC the *Unbundling Conditions of AB Lietuvos dujos* collectively with annexes. The undertaking has also submitted *Evaluation Report of the Unbundling Conditions* prepared by the audit company UAB Grand Thornton Rimess and the Decision by the company Board as of 30 January 2013 *Regarding the Approval of the Unbundling Conditions of AB Lietuvos dujos*. Following the *Description of Procedure of Unbundling of Activities and Control of Natural Gas Undertakings Not Compliant with Requirements of the Law on Natural Gas* approved by the Decision No. 1417 of 7 December 2011, the NCC has analysed the unbundling conditions and annexes submitted therewith by the Company: the short-form financial statement for 10 months ending on 31 October 2012 of *AB Lietuvos dujos*; the spin-off balance sheet concluded for 31 October 2012; lists of fixed assets, unfinished construction objects, low value inventory, stock, contracts, administrative acts, positions of employees assigned to the separated part, draft articles of association of the company that is continuing its activities and of the new company.

Taking into consideration the NCC provided comments, the undertaking has submitted the supplementary information and explanations. On 28 February 2013, the NCC by Resolution No. O3-64 has acknowledged that:



– AB Lietuvos dujos submitted unbundling conditions by keeping to the deadlines set forth in the *Company's Unbundling Action Plan* approved by the Minutes No.5 of the Board of AB Lietuvos dujos as of 28 May 2012;

– AB Lietuvos dujos unbundling conditions approved by Minutes No 1 of the Board of AB Lietuvos dujos as of 30 January 2013 enable to duly implement the unbundling of the natural gas transmission activity respectively to Paragraph 8.1 of *the Plan for Unbundling the Activities and Control of the Natural Gas Undertakings Not Compliant with the Requirements of the Law on Natural Gas* so that by 31 July 2013 AB Lietuvos dujos would have legally, functionally and in the organizational aspects unbundled the transmission activity from the distribution and supply activities;

– Composition of the assets transferred to the undertaking which will perform the transmission activity complies with the principles of the assets distribution of the *Procedure Regulations on Accounting the Activities of AB Lietuvos dujos* conciliated with the NCC by Resolution No. O3-363 *Regarding the Description on Procedure Regulations on Accounting the Activities of AB Lietuvos dujos* as of 28 October 2011, and the investments coordinated with the NCC by Resolution No.O3-293 *Regarding AB Lietuvos dujos investment project on Investments dedicated for the unbundling of TSO and establishment of a new undertaking* as of 9 October 2012;

By implementing the provisions of the Third Energy Package of the European Union and pursuant to Article 40, Paragraph 1 of the Law on Natural Gas as well as the plan for implementing the unbundling of the activities and control of the two natural gas undertakings the activity thereof does not comply with the requirements of the Law on Natural Gas approved by Part V of Resolution No. 1239 of the Government of the Republic of Lithuania as of 28 October 2011, starting from 1 August 2013, the transmission system operator AB Amber Grid, performing the natural gas transmission activity, will be unbundled from AB Lietuvos dujos.

By following the provisions of Paragraph 1 of Article 3 of the Law on Natural Gas and the Law on Energy, and by taking into consideration that the NCC, while setting the natural gas transmission price cap to AB Lietuvos dujos, had evaluated the indispensable costs and the value of the assets deemed necessary for performing this activity, and that AB Amber Grid after the reorganisation will take over all licensed natural gas transmission activity performed by AB Lietuvos dujos as well as all rights and duties related to this activity, the NCC resolved that the prices set forth by the NCC resolutions *On the Adjustment of AB Lietuvos dujos Natural Gas Transmission and Distribution Price Caps and Setting the Additional Integral Component (the LNGT surcharge) in the Natural Gas Transmission Price Cap for 2013* and *On the Natural Gas Transmission and Distribution Prices and Natural Gas Tariffs to Household Customers* will be applied to AB Amber Grid from the date of issuing the fixed-date license for the natural gas transmission activity (the NCC passed a Resolution on issuing the license on 18 July 2013) till 31 December 2013.


The NCC, having analyzed the application by AB Amber Grid as of 1 July 2013, on 18 July 2013 took a decision to issue a transmission system operator licence for AB Amber Grid.

#### 4.1.2. TECHNICAL FUNCTIONING

##### **Balancing services**

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

In March 2012, the NCC approved the *Requirements for the Balancing Rules of the Natural Gas Transmission System*, in accordance with which the natural gas transmission system operator AB



Lietuvos dujos worked out and submitted to the NCC for revision and approval the *Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos* (hereinafter - Balancing Rules).

On 14 September 2012, the NCC approved the *Balancing Rules*. The said Rules set forth balancing principles of natural gas transmission system, the procedure and conditions of AB Lietuvos dujos in natural gas transmission system.

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

- Gas flows and their setting conditioned by the market participants;
- Potential actions of market participants in balancing natural gas flows;
- Cover of imbalances and application of imbalance fee;
- Information provision on the status in terms of balancing;
- The information necessary for the provision of balancing the transmission system;
- Acquisition of balancing services, while TSO is balancing the system;
- Cooperation with other transmission system operators.

Balancing of natural gas transmission and (or) distribution systems is an integral part of the transmission and (or) distribution activities and compliant with the presently applicable *Price Caps Calculation Methodology of the Natural Gas Transmission and Distribution Prices* approved by the NCC by the Resolution No.O3-106 as of 8 August 2008, the system balancing costs are included into the transmission and (or) distribution service prices set forth for year 2013 respectively. Since 2014, upon the beginning of a new regulatory period, balancing costs will be excluded from the transmission and(or) distribution operating costs by establishing a separate price for balancing services.

From 1 August 2013, the *Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos* approved by the NCC by the Resolution No.O3-250 as of 14 September 2012 have come into validity, which provide that the disbalance charge will be calculated on the disbalance gas quantity exceeding the margin of tolerance. The value of this charge will be calculated by multiplying the disbalance gas quantity by the balancing price set by the NCC on 18 July 2013.

#### ***Safety and reliability standards, the quality of services and supply***

The Law on Natural Gas provides that the NCC sets the indicators of the quality of gas companies services, including reliability, as well as the procedure of their assessment, and supervises the observation of these requirements by gas companies.

To implement the provisions of the Law on Natural Gas, the NCC worked out the Procedure Regulations for the *Indicators of the Reliability and Quality of the Services Rendered by the Natural Gas Companies and Their Assessment* that was approved by the Resolution No. O3-90 as of 11 April 2012.

In 2012, the NCC set forth minimum quality requirements for each gas company individually for the monitoring period or part of it. Natural gas companies, which provide services to higher levels than their minimum quality indicators shall be motivated and, on contrary, companies at the lower levels of service quality and reliability indicators will be adapted to the economic sanctions.

The NCC performs the monitoring of transmission and distribution reliability and service quality indicators from year 2009. System average interruption duration index (SAIDI) and System average interruption frequency index (SAIFI) are the key quality indicators of uninterruptible natural

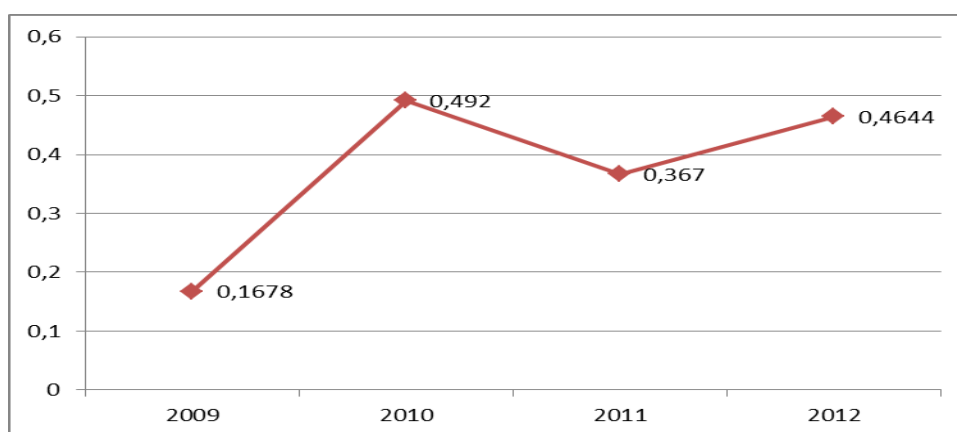


gas supply within the reporting period. SAIDI and SAIFI indicators are differentiated according to the causes of interruption. The minimum level of SAIDI and SAIFI quality indicators shall be defined only to causes due to operator's responsibility.

SAIDI and SAIFI indicators of the major natural gas company Lietuvos dujos, AB in 2009-2012 are presented in Figures 41 and 40. The average duration of unplanned interruptions in 2012 in comparison with year 2011 has changed from 0.0367 to 0.4644, the number of interruptions – from 0.053 to 0.0059. Other distribution and supply companies did not face any interruption.

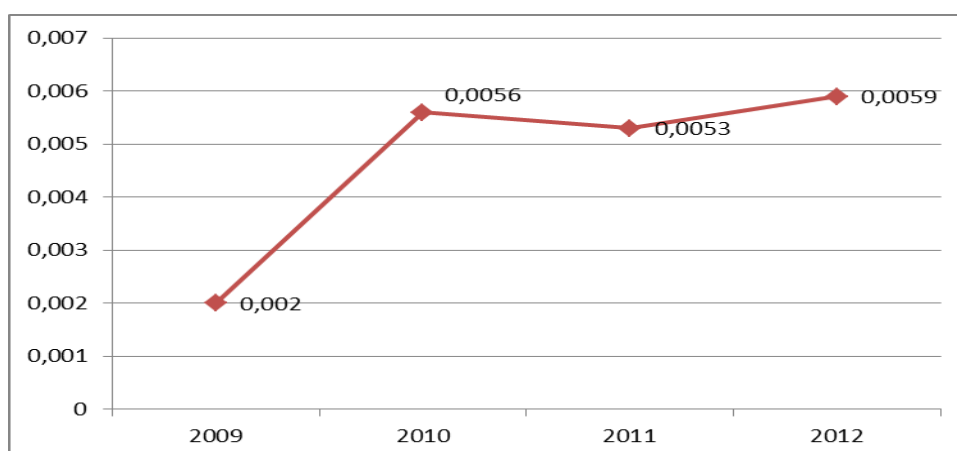
In 2012 the rate of customer applications timely analyzed and responded to by AB Lietuvos dujos was 96.69%, thus in 2011 – 96.3%. Other companies (UAB Druskininkų dujos, UAB Fortum Heat Lietuva, AB agrofirma Josvainiai, UAB Intergas) timely analyzed 100% applications (including household and non-household customers). Emergency services of all companies 100% timely arrived to household customers' premises to verify their information about gas leakage.

Figure 40. Average duration of unplanned interruption per customer of AB Lietuvos dujos in 2009-2012




Source: NCC

Figure 41. Average number of unplanned interruptions per customer of AB Lietuvos dujos in 2009-2012



Source: NCC



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

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

The rate of timely (i.e., within 45 calendar days) sent replies to new customers in all natural gas companies was 100% in 2012 as in 2011. For AB Lietuvos dujos, the share of new customers with delayed connection due to the operator's fault was 1.7% in 2012 as in 2011 (according to the data provided by AB Lietuvos dujos). Other companies (UAB Druskininkų dujos, UAB Fortum Heat Lietuva, AB agrofirma Josvainiai, UAB Intergas) timely connected new customers both in 2012 and in 2011.

### ***Monitoring the time periods set for pipe connection and repairs***

The NCC in accordance with the Paragraph 3 of Article 49 of the Law on Natural Gas has drafted the *Requirements for the Use of Rules for Natural Gas Transmission System and for Natural Gas Distribution System*. Distribution system operators keeping to the said requirements have submitted to the NCC the ready *Rules* which were agreed in May-July 2013. The above mentioned *Rules* establish principles and procedure of arrangement of repair works, notification on repairs and their implementation.

In addition, pursuant to the *Procedure Description on Regulations on Assessment and Approval of Investments* approved by the NCC, the natural gas companies are obligated to prepare and submit for consolidation of individual investment projects when the project value of the company serving 100 thous. and more consumers amounts to LTL 1 million or more, and when the company investments make 5 percent or more from the total investments planned but not less than LTL 0.5 million. Thus, when the new pipeline construction project or pipeline connection project meets the above conditions, the gas company must reconcile the investment project with the NCC. When these projects are compatible, the NCC shall perform supervision over the project implementation, and after the completion of the agreed project, the gas company shall provide the NCC with the project actual economic and technical performance results.


### ***Access to natural gas storage facilities***

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

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

2. The NCC shall take necessary measures to ensure the right to natural gas companies and consumers to use storage facilities, services of natural gas storage facility, and other additional





services at the tariffs announced in advance and/or under other terms and duties. The NCC shall set forth fees and their calculation methodology after consulting with the system users.

The NCC in compliance with Article 5, Paragraph 2 of the the Law on Natural Gas passed the Resolution as of 21 December 2012 which approved the description of criterion for the use of natural gas storage and use of natural gas services in pipelines. The description enables the provisions that consumers shall directly negotiated with the companies providing natural gas storage service, but the service prices are set on competitive basis. Natural gas storage service is a state-regulated activity and price of this service is subject to state control.

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

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

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

- contribute to the formation of the natural gas market and the reduction of the monopoly;
- enhance the security of natural gas supply to consumers;
- allow to accumulate strategic natural gas reserve;
- meet seasonal shaving peak demand;
- optimize the operations of Klaipėda terminal that is under construction and should start at 3 December 2014 at the latest;
- accumulated reserves would help Lithuania to avoid seasonal shaving peak demands in natural gas prices.

Key events related to the implementation of underground natural gas storage project:


- In 2010-2011 the 2D/3D seismic surveys at Syderiai geological structure were carried out. The studies evaluated the composition of Syderiai geological structure, its evolution and confinement. The main focus is on the layer of the Cambrian strata that is located in the depth of average of 1450 meters. The sandstone (porous rock), the upper part of the layer, is suitable for storage of natural gas.

- In order to evaluate the geological tightness of the restrictive Syderiai fracture and to specify the size of the geological structure and the cumulative volume of gas of Syderiai, the second stage of the geological structure research drilling was initiated in 2012.

- on 3 August 2012 AB Lietuvos energija and the Ministry of Energy signed a construction contract with a Lithuanian-Danish company UAB Minijos nafta, UAB LL Investicijos and Polish Poszukiwania Naftowe Diament (consortium), that by the contract have been obligated to perform further explorations of the geological structure at Syderiai.

- in September 2012-April 2013 drilling (two vertical and two curved) of exploration boreholes was conducted and investigations of geological structure performed. All these investigations will allow to verify the data of seismic investigations and the research program will answer whether





Syderiai geological structure can be adopted to store natural gas: whether the protective ordovician layer of reservoir is impervious to natural gas in storage and will be able to ensure a stable state of stored natural gas, or if reservoir sandstones (Cambrian layer) is suitable for natural gas storage and to what extent (how much gas can be stored in the reservoir, or if the structure of the regional fracture of Telsiai is sealed, and the natural gas will not spread to other layers of the structure. With the positive results, the investigation results will also allow for proper preparation for further work program.

### ***Supervision of safety measures (Article 41(1)(t))***

National legal acts governing the reliability of natural gas supply are the Law on Natural Gas, the *Description of the Measures for Ensuring the Reliability of Natural Gas Supply*, and the *National Plan for Managing Extreme Situations of Natural Gas Supply* (hereinafter – the Extreme Situation Management Plan) approved by the Minister of Energy, Order No. 1-241 of 28 November 2012 (Official Gazette, 2012, No. 139-7138) and the *National Preventive Action Plan for Ensuring the Safety of Natural Gas Supply* (hereinafter – the Preventive Action Plan) which implements the requirements of Articles 45-48 of the Law on Natural Gas and the Regulation (EU) No 994/2010.


The aim of the *Preventive Action Plan* is to ensure the safety of natural gas supply in Lithuania. *The Preventive Action Plan* states that Lithuania fully implements the requirements for the natural gas supply standard provided by the Regulation (EU) No 994/2010.

*The Extreme Situation Management Plan* determines:

- the criteria indicated in Article 10 Section 3 of the Regulation (EU) No 994/2010) by setting three levels of a crisis: the level of an advance notice (advance notice), the level of danger (danger) and the extreme level (extreme situation);
- the main functions of state institutions, gas undertakings, non-household customers in implementing the *Extreme Situation Management Plan*;
- the measures and actions which have to be undertaken in order to reduce the possible effect of gas supply disruptions to non-household customers which use the gas for the production of electricity and heat;
- the detailed procedures and measures which should be observed in each case of crisis level, as well as information transmission schemes;
- a gas undertaking which is responsible for coordination of actions in case of an extreme situation in the gas sector (the extreme level);
- a list of anticipated actions which have to be undertaken in order to ensure the supply of gas in case of an extreme situation.

On 26 September 2012, representatives of the responsible institutions of Lithuania, Latvia and Estonia signed an agreement whereby they approved the general gas supply safety risk evaluation of 2012, and undertook to prepare preventive action and extreme situation management plans on a regional level (Lithuania undertook to prepare a draft preventive action plan on a regional level by the end of 2013).

Pursuant to the provisions of Article 45 Part 1 of the Law on Natural Gas, natural gas undertakings, non-household customers, the Government, the Ministry of Energy, and the NCC are generally responsible for ensuring the safety of natural gas supply according to their competence, by performing tasks related with the implementation of measures ensuring the safety of natural gas supply. Part 2 of this Article stipulates that the Government determines specific measures for ensuring the safety, the implementation of which is obligatory for the NCC, natural gas undertakings and consumers.



Article 45 of the Law on Natural Gas governs measures ensuring the safety of natural gas supply, including the following:

- every year, by 1<sup>st</sup> May gas undertakings shall prepare security reports and submit them to the Ministry of Energy;
- the Ministry of Energy shall prepare preventive and extreme situation management plans and publicly announce them on the Ministry's website;
- the Ministry of Energy shall inform the European Commission of the prepared preventive and extreme situation management plans;
- in case of gas supply disruptions, or where the natural gas supply is reduced, an emergency happens, etc., gas undertakings have to implement the national extreme situation management plan;
- in case of gas supply disruptions or interruption, gas supply to customers is ensured by the company which was supplying the natural gas before the limitation or interruption of its supply.


The aforesaid Description has been prepared pursuant to Article 5, Paragraphs 12, 14, and Article 45 Part 2 of the Law on Natural Gas, and is intended to ensure the reliability of natural gas supply. The Description determines a priority order of supplying gas to customers, requirements of gas supply reliability which are applied in case of gas supply disruptions or interruption because of emergencies or other external factors.

The main provisions of the Description are as follows:

- 1) customers are divided into two groups: those of continuous gas supply and interrupted gas supply. The group to which a consumer is attributed is indicated in the gas supply agreement;
- 2) a group of vulnerable customers is determined, to which household customers as well as non-household customers that consume up to 20,000 cm. of gas per year are attributed;
- 3) gas supply undertakings are responsible for continuous gas supply to vulnerable customers. Every year, by 1 September at the latest, gas supply undertakings have to accumulate and store such a quantity of gas reserves which would be enough for meeting the needs of these customers in cases provided for in Article 8 Section 1 of the Regulation (EU No 994/2010);
- 4) non-household customers that consume more than 20,000 cm. of gas per year choose the variant of accumulation of reserves themselves: a) to conclude agreements on gas reserve storage with a natural gas repository; b) to negotiate with a gas supply undertaking on gas reserve formation; c) to accumulate another type of energy reserve stock; d) to be interrupted supply customers.
- 5) a sequence is determined according to which the supply of gas would be disconnected or limited to customers in case of a partial gas supply disruption or gas supply interruption. In case of a gas supply disruption, when the gas is supplied from a repository, the supply of gas is limited taking into account the quantity of gas contained in the repository and supplied from the repository.

According to the data of the NCC, AB Lietuvos dujos which takes the biggest part of the supply market, has concluded an agreement with a gas undertaking of the Republic of Latvia Latvijas gaze, so that continuous gas supply to household and non-household customers in case of a gas supply interruption is ensured. According to the new version of the Description of the measures for ensuring the reliability of natural gas supply approved by the Decision No. 325 of 28 March 2012 of the Government of the Republic of Lithuania, the reserves of gas necessary for ensuring continuous natural gas supply are calculated according to the Regulation of the European Parliament and Council No. 994/2010 of 20 October 2010. For the year 2012, 30 M cm. of gas were stored for household customers (vulnerable customers of group I), and 5.6 M cm. of gas for non-household customers (vulnerable customers of group II). This quantity ensures the continuous supply of gas to vulnerable customers for at least 30 days.

The Law on Natural Gas regulates the guaranteed supply. It is provided for in cases when the supply undertaking fails to carry out its obligations to supply the natural gas according to the



conditions agreed upon with the customers or when the validity of the licence issued to the supply undertaking is suspended or terminated, in which case guaranteed supply is ensured for household customers and non-household customers that consume up to 20,000 solid meters of natural gas. The guaranteed supply has to be ensured by the distribution system operator which has a distribution license in the territory, and the price of the guaranteed gas supply is calculated according to the marginal cost method, having evaluated the price of natural gas acquisition and the price of the guaranteed supply service. The guaranteed supply is ensured for the maximum period of 6 months. A consumer has the right to conclude an agreement with another supply undertaking and to terminate the agreement with the company that carries out the guaranteed supply.

#### 4.1.3. NETWORK AND LNG FEES ACCESS AND CONNECTION

##### ***Significant changes to tariff regulation***

##### ***Regulation of transportation prices:***

The NCC regulates the natural gas transportation prices (transmission and distribution) by setting price caps in accordance with the *Natural Gas Price Cap Calculation Methodology* (hereinafter - "Transportation Methodology") prepared and approved by the NCC. Gas transmission and distribution prices are calculated based on the "postage stamp" principle regardless of the distance of transmission and distribution therefore on January 1st, 2015 as the liquified natural gas to be in operation, it is intended to use entry-exit system principles for establishing the prices of transportation. These days the NCC has initiated a procurement procedure for the purchase of consulting services related to the installation of entry-exit pricing model in Lithuania.

As the NCC is setting transportation price caps, gas transportation volumes are calculated by taking into consideration the actual transportation volumes of the gas undertaking during the last year preceding the regulation time period, as well as forecasts for the forthcoming five years and causes having determined changes in gas volumes. Changes in volumes due to investments planned in the Long-Term Activity Program of the gas undertaking shall be specified separately. The NCC sets annual basic costs for a five-year period based on the costs of the last year before the regulation period and their forecasts for the forthcoming five years.

Specific transmission price differentiation principles for gas companies are included in the *Transmission Price-Setting Methodology*. It prescribes that gas companies may differentiate gas prices by customer categories or groups, gas consumption volumes, gas pressure, capacity, duration, consumption purpose, gas consumption purpose, gas supply reliability and other objective features chosen by a gas company enabling to strive for higher operational effectiveness. Customer discrimination and cross subsidizing between customer groups is prohibited when setting and differentiating prices. Natural gas price differentiation methodologies developed by gas companies are supplied to the NCC. Having established that price differentiation principles established by gas companies discriminate customers, the NCC points out their errors to gas companies, and the latter have to correct them. If they fail to follow the instruction, the NCC is entitled to unilaterally set gas prices.

Table 12. presents the comparison of price caps of transportation prices of all gas companies in 2012 and 2013.

Table 12. Price caps of transportation prices in 2012 and 2013

Company	Price, EUR/MWh		Change, %
	Year 2012	Year 2013	
<b>AB Lietuvos dujos</b>			
Transmission	1.26	1.37	<b>8.7</b>
Distribution	5.18	5.55	<b>7.1</b>
<b>UAB Fortum Heat Lietuva</b>			
Distribution	4.68	4.66	<b>-0.4</b>
<b>UAB Intergas</b>			
Distribution	2.66	2.65	<b>-0.3</b>
<b>UAB Druskininkų dujos</b>			
Distribution	45.00	44.86	<b>-0.3</b>
<b>AB agrofirma „Josvainiai“</b>			
Distribution	1.84	1.83	<b>-0.5</b>
<b>AB Achema</b>			
Distribution	0.42	1.19	<b>183.3</b>

Source: NCC

### ***Regulation of connection prices:***

The Law on Natural Gas provides for the obligation of transmission and distribution system operators to connect new users to transmission and distribution systems. Transmission and distribution system operators shall set the transparent and efficient procedures and fees for non-discriminating connection to storage facilities, regasification of LNG equipment and users to transmission and distribution systems and, having received the approval of the NCC, publish this information on their websites.

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

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

The costs of connection to existing natural gas systems cannot be recognized as justified if they would cause the increase of price for existing system users and natural gas consumers. For the

return on investment period of newly gasified areas the price of natural gas transmission and distribution may be set so that it would cover the investment.

The connection fee for household consumers consists of the fixed part, which does not depend on the length and capacities of the built pipeline, and the connection price part, which is set for each metre of the pipeline. Household consumers are divided into two groups according to the amount of natural gas consumed per year, and the connection rates for such groups are calculated separately. The change of connection fees in 2010-2013 is presented in Table 13.

Table 13 . The change of connection fees for household consumers in 2010-2013

Indicator	2010-2011	Year 2012	Year 2013	Change in 2013 compared to 2012, percent
Household consumers consuming up to 500 cubic m of natural gas per year *				
Fixed part of the price, LTL	2205.60	3323.9	3323.19	0
Fee per one meter of the pipeline, LTL/m	63.09	142.16	142.16	0
Household consumers consuming more than 500 cubic m of natural gas per year				
Fixed part of the price, LTL	1402.56	1249.05	915.54	-26.7
Fee per one meter of the pipeline, LTL/m	94.48	50.26	57.05	13.5

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

Source: NCC

### ***Setting the transmission price supplement for the liquefied natural gas terminal:***

Article 5 Section 2 (in force until 20 June 2013) of the *Law on the Liquefied Natural Gas Terminal* provided that costs of installation and operation of the infrastructure and the connection of the LNG terminal or their part thereof could be included in the price of natural gas transmission services in accordance with the procedure and conditions set out by the NCC and in line with the regulatory requirements for energy pricing provided for in the Law on Energy, Law on Natural Gas as well as other legislation. By the Resolution No. 199 of 15 February 2012 of the Government of the Republic of Lithuania *On the Implementation of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania* (wording of the Resolution No. 864 of 11 July 2012 of the Government of the Republic of Lithuania), AB Klaipėdos nafta managing Klaipėda Oil Terminal (hereinafter referred to as the Company) was empowered to implement the project of the LNG terminal (hereinafter referred to as the Project).

The company has prepared a preliminary project of LNG terminal infrastructure part and in accordance with the above listed legislation, on 14 September, 2012 submitted an application to the NCC regarding the establishment of the funds for the installation of LNG terminal facilities and connection (further – the Project), as well as funds to cover maintenance costs. The preliminary values of the project submitted by the Company totals LTL 453 million. The company planned to receive a loan of LTL 256 million from international financial institutions (the European Investment Bank, the Nordic Investment Bank and (or) the European Bank for Reconstruction and Development) and for the rest amount of LTL 200 million the company asked the NCC to take a decision, ensuring

the project financing by the means of natural gas consumers, namely income from complementary and inseparable component part to the natural gas transmission price cap – LNGT supplement.

The NCC having investigated the Project financing possibilities, on 19 October 2012 by the Resolution No. O3-317 regarding the establishment in 2013 of the funds dedicated for fixed operating costs of the LNG Terminal, its infrastructure and connection necessary for the ensurance of operations of the LNG Terminal, established the funds dedicated for fixed operating costs of the LNG Terminal, its infrastructure and connection necessary for the ensurance of operations of the LNG Terminal in 2013:

Table 14. Funds allocated to cover or partially compensate costs incurred for the installation of LNG terminal, facilities and connection necessary to ensure operations of the LNG Terminal in 2013

Purpose of funds	Amount in thous Litas
Compensate installation costs or part of them of LNG terminal, its facilities and a link.	<b>113.798</b>
Compensate maintenance costs or part of them of LNG terminal, its facilities and a link.	<b>0</b>
Cover administrative costs of LNG terminal	<b>302</b>
<b>In total:</b>	<b>114.100</b>

Source: NCC

The NCC has provided the ability to adjust the fixed LNGT financing amount due to principle changes in circumstances that has a significant influence on the financing of the Project and its implementation. Taking this into consideratiuon, the NCC has defined a complimentary and integral component to the natural gas transmission price cap (supplement to LNGT) dedicated to compensate the costs for the installation of the LNG terminal, its infrastructure and a link in 2013 equivalent to LTL 37.53 for thousand cm.

### ***Ensuring the avoidance of cross subsidizing***


One of the functions of the NCC provided for in the Law on Natural Gas is to supervise the unbundling of accounting seeking to avoid cross subsidizing of activities. Taking this into account, following Article 7 Part 2 Paragraph 14 of the Law on Natural Gas, the NCC has approved the *Description of Natural Gas Undertaking Accounting, Distribution of Costs and Requirements* related with the unbundling of the accounting. The above-mentioned description determines:

- rules for unbundling the accounting, which provide that accounting unbundling of natural gas undertakings is performed by allocating the reporting period revenues, costs, assets and obligations according to business units of natural gas transmission, distribution, liquefaction, storage, supply activities, other regulated activities, unregulated activities;

- rules for the distribution of costs, which define specific groups of costs, principles of attribution of costs;

- a set of requirements related with accounting unbundling and distribution of costs, which defines the annual responsibility of regulated activities of a natural gas undertaking.





Moreover, the NCC has to maintain the absence of cross subsidizing of transmission, distribution, storage, liquefaction, and supply activities and cross subsidizing of different consumer groups. Article 9 Part 14 of the Law on Natural Gas stipulates that for the purposes of avoiding cross subsidizing of different consumer groups, the regulated prices and the rules of their differentiation have to be publicly announced on Internet websites of natural gas undertakings, and the principles of their determination have to be reasonable, objective, transparent and undiscriminating. The NCC ensures this by determining price caps of regulated natural gas transportation, following the *Price Caps Calculation Methodology of the Natural Gas Transmission and Distribution*, approved by the Resolution of the NCC as of 8 August 2008.

#### 4.1.4. CROSS-BORDER ISSUES

##### ***Access to cross-border infrastructure, capacity allocation mechanisms and congestion management procedures in cross-border points***

Currently, Lithuania has 3 operating cross-border points: Kotlovka GSM through which all natural gas is imported to Lithuania besides this international point is used for a transit via the Republic of Lithuania to Kaliningrad region; Sakiai GSM, that is 100 percent used for natural gas transit to Kaliningrad region, as well as a link between Lithuania and Latvia (Kiemenu GSM) that is for the security of supply purposes aiming to use natural gas storage facility of Inčukalns wherein natural gas has been stored for Lithuanian vulnerable consumers thus aiming to assure security of supply in case of emergency.


Currently capacity of Kotlovka GSM for the national consumption are classified according to the principle „first come, first serve“ basis as the cross-border capacity at this point is not fully used and there is neither contractual nor physical congestion : Kotlovka Gas Metering Station (further - GSM) technical capacity  $Q_{\max}$  – 31200 thous. cm/a day, while in 2012 the monthly use of capacity per day totalled to:

in January	– 26 720 772 cm/a day;
in February	– 25 680 844 cm/a day;
in March	– 21 214 998 cm/a day;
in April	– 18 139 023 cm/a day;
in May	– 12 225 341 cm/a day;
in June	– 13 303 305 cm/a day;
in July	– 12 565 667 cm/a day;
in August	– 15 190 147 cm/a day;
in September	– 14 658 198 cm/a day;
in October	– 19 518 250 cm/a day;
in November	– 18 635 926 cm/a day;
in December	– 23 494 234 cm/a day.

Evaluating the access to Kotlovka GSM , it should be noted that at present this part of the point of the cross-border capacity is reserved for transit operations (Sakia GSM capacity amounts to 10500 thous. m<sup>3</sup> per day), the rest of the capacity is freely available to customers in the country, however it should be emphasized that the Law on Natural Gas provides that in case of gas supply disruption, gas transit volumes to be limited in proportion to the natural gas volumes limited for national consumers.

AB Lietuvos dujos together with Latvijas Gaze AS have carried out a joint project between the countries „Enhancement of Latvia – Lithuania Interconnection“. In 2012 further project works were





carried out according to the schedule in order to increase the capacity of Latvia-Lithuania gas transmission system between the countries. Having implemented all the works, the project was successfully finalized in early 2013. In accordance with mutually agreed data after the implementation of the project cross-border capacity increased to more than 6 million cm<sup>3</sup>/a day in both directions. The said capacity to transport natural gas to Latvia Inčukalns underground natural gas storage for safety reasons enough, but looking ahead, when Lithuania will operate Liquefied Natural Gas Terminal or a pipeline with Poland will be constructed that will integrate Baltic state to a common EU natural gas system. It is projected that this capacity will not be sufficient to transport the natural gas to the rest of the Baltic region.

Assessing capacity allocation mechanisms at this point, it should be noted that capacity is used only to transport natural gas to and from the Inčukalns underground storage. Physical natural gas trade between Lithuania and Latvia does not occur, so the capacity is booked on a "first come, first served" basis, and the contractual or physical congestion is avoided.

The whole infrastructure in Lithuanian side, associated with these cross-border-points, are controlled by Lithuania transmission system operator, which, in accordance with the NCC availability requirements of the use of natural gas transmission rules and the use of the distribution system rules currently in use preparing a communication system, which, according to the above requirements of the NCC, must be oriented to the future, will be installed at entry-exit pricing model Lithuania, and when the launch of liquefied natural gas terminal in Klaipėda. The implementation of the pricing model change and the launch of an alternative source of imports there is a real need to define more stringent system users and non-discriminatory capacity allocation mechanisms, congestion management procedures.


In addition, it should be noted AB Klaipėdos Nafta, an LNG terminal operator, use the rules to be drawn up in accordance with the requirements adopted by the NCC. These rules are set by third-party access to the LNG terminal principles on capacity allocation mechanisms, congestion management procedures and other important areas.

### ***Cooperation (Article 41(1)(c))***

The aspiration for the establishment of common EU market and the Third Energy Package that became effective since 2011, has a very strong influence on the NCC as an independent National Energy Regulator of Lithuania and international activities. The Third Energy Package has defined not only higher consumer protection requirements, obligated to implement structural unbundling of transmission activities from supply in vertically integrated company, gave more powers and independence to energy regulators at the national level. The changes in the EU regulatory environment led to the emergence of new tools in the market and network management rules harmonized at the European level and adjusted the previously established cross-border cooperation in the energy field of the institutional framework.

Employees of Gas and Electricity Departments of the NCC were actively involved in the meetings arranged by the European Commission, the Agency for the Cooperation of Energy Regulators, Baltic Energy Market and Joint Plan Working Group on issues related to European countries planned infrastructure development projects, and strategic recognition on their projects of common interest status (giving the opportunity to apply for EU funds), integration of natural gas transmission systems of the European countries into a common EU transmission system, its balancing, tariff harmonization, the transmission system capacity allocation, cooperation between national regulatory authorities.

The NCC consistently provided the necessary information on projects of common interest of technical, economic characteristics, provided the completed questionnaires on Lithuanian natural gas



transmission infrastructure development projects, which aspire to be recognized as the projects of common interest. In addition, Gas and Electricity Department employees participated in the EU legislative process when developing network codes for the above-mentioned problems, and guidelines for the drafting process continuously provided comments to the European Commission's legislative interpreters.

In addition, a new initiative was born in the Baltic region, namely on June 14, 2013 in the meeting in Tallinn between national energy regulators of Lithuania, Latvia, Estonia, Finland and representatives of the relevant ministries decided to aspire to establish a Baltic natural gas market regulation working group whose main objectives - to remove all possible barriers to the development of common Baltic gas market and to develop appropriate economic and regulatory environment in preparation for integration into a single EU gas market.

### ***Monitoring of Investment plan and evaluation of their compliance with the EU's ten-year network development plan***

The transmission system operator in accordance with the Law on Natural Gas, shall prepare a ten-year network development plan that is submitted to the NCC. The NCC examines whether the ten-year network development plan covers all investment needs identified during the consultation process, and whether the plan is compatible with the European Union's ten-year network development plan and then carry out monitoring of ten-year network development plan, its assessment and make public the received results. The transmission system operator that fails to fulfill the ten-year network development plan the NCC shall obligate to fulfill the said network development plan and may impose sanctions in accordance with the procedure and conditions as defined in the Law on Energy.

On 31 December 2012 AB Lietuvos dujos submitted to the NCC a draft project of ten-year network development plan for natural gas transmission system operator (year 2013-2022). The NCC, after the initial assessment of the project, presented to AB Lietuvos dujos initial comments, and the company taking into account the said comments on 26 February, 2013 filed a supplemented plan.


The NCC presented a draft project of ten-year network development plan for natural gas transmission system operator for a public consultation that lasted from March 1, 2013 up to April 2, 2013. After the said consultation on 3 April, 2013 the NCC applied to AB Lietuvos dujos regarding the assessment of the received comments.

On 24 April, 2013 AB Lietuvos dujos submitted to the NCC an improved 10-year network development plan for natural gas transmission system operator (2013-2022). Taking into account that interested persons during the public consultation presented a number of comments the NCC took a decision to arrange a public hearing on the said draft project.

On 14 May, 2013 during the public hearing of the project it has been agreed that the transmission system operator shall divide the indicated investments project into two parts: the projects that to be implemented in line with the National Energy Strategy and other well-grounded projects, shall identify preliminary financing needs for every investment project, shall carry out investment project sensitivity analysis in accordance with market participants agreed guidelines.

AB Lietuvos dujos submitted to the NCC a revised draft project on 17 July. In accordance with Paragraph 5 of Article 31 of the Law on Natural Gas the NCC will examine whether the ten-year network development plan covers all investment needs identified during the consultation process, and whether the plan is compatible with the European Union's ten-year network development plan.

### ***Liquefied natural gas (LNG) terminal***



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


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

By Resolution No 199 of the Government of the Republic of Lithuania as of 15 February 2012 *On Implementing the Law on the Liquefied Natural Gas Terminal* (the revision of Resolution No 864 of the Government of the Republic of Lithuania as of 11 July 2012), the public limited liability company AB Klaipėdos nafta was authorized to implement the project of the LNG terminal. On 2 March 2012, AB Klaipėdos nafta has signed a contract on lease, operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit (hereinafter, the FSRU) for 10 years providing that the term of delivery of the FSRU to Klaipėda Port shall be from 1 September 2014 to 1 December 2014. LNG terminal business plan was drafted and announced on May 9, 2012. LNG terminal environmental impact assessment report was drafted and submitted for harmonization for targeted audience on June 1, 2012.

The company has to finance the construction of the LNG terminal by its own and borrowed funds, however, in the case of shortage of such funds, the company can exercise the right given by the provisions of Article 5, Paragraph 2 of the Law on the Liquefied Natural Gas stipulating that the costs of construction and operation of the LNG terminal or a part thereof in line with the procedure and conditions set by the NCC can be included in the price of the natural gas transmission service in line with the price regulation requirements set forth in the Law on Energy, the Law on Natural Gas and other legal acts. In accordance with the mentioned provision, in September 2012 AB Klaipėdos nafta addressed the NCC regarding the estimation of the funds necessary to finance the costs of construction and operation of the LNG terminal, its infrastructure and the link.

On 20 June 2013, the Seimas of the Republic of Lithuania passed the Law Amending Articles 5, 10 and 11 of the Law on the Liquefied Natural Gas Terminal. The following amendments were made by the mentioned Law:

1. Article 5, Paragraph 2 of the revised wording of the Law provides that the costs of construction of the liquefied gas terminal, its infrastructure and the link financing thereof is not possible from other sources available to the company, as well as all fixed operation costs of the liquefied gas terminal, its infrastructure and the link necessary to assure the operation of the liquefied natural gas terminal in accordance with the procedure and conditions set by the NCC will be included in the additional component to the natural gas price – the component of the security of natural gas supply;



2. Part 3 of Article 10, which ensured the priority to Lithuanian customers in using the liquefied natural gas terminal over other states of the Baltic region, was abolished;

3. The Amendment of Article 11 set forth other obligations which will have to ensure the necessary operation of the liquefied natural gas terminal by replacing the “rule of 25 percent mandatory gas purchases”<sup>4</sup> with the provision on the assurance of the priority of the natural gas supply through the LNG terminal for the purposes of the state-regulated production of electric and /or heat energy, which obligated to purchase gas through the terminal side by side with other interconnecting and transmission system pipelines.

It is forecasted that LNG terminal in Lithuanian territory and infrastructure that to assure effective operation of the terminal has to be launched into operation by December 2014

In 2011 the Commission approved the investment project to construct a new gas transmission pipeline Jurbarkas – Klaipėda that had been included in the National Energy Strategy. The pipeline is needed to assure the diversification of natural gas supply to the Republic of Lithuania and to assure the operation of the LNG terminal. The value of the approved investment project is LTL 168.5 million. The project will be partially financed by EU structural funds.

#### 4.1.5. COMPLIANCE WITH LEGISLATION

The new version of the Law on Natural Gas that came into effect on 1 August 2011 has significantly extended the functions and duties of the NCC.


When implementing the obligations under the Natural Gas Law, the NCC prepares draft legislation implementing the Law on Natural Gas, present them for public consulting, assess the comments of the consumers, gas companies, and other stakeholders, and approve them by resolutions.

The Third Energy Package adopted in 2009 obligated EU Member States to eliminate the barriers that interfere with transportation of gas via the transmission system under equal conditions and without discrimination, to create equal possibilities to use the networks to all natural gas companies. Following Paragraph 30 of the Preamble of the Regulation, the NCC must ensure the compliance with the terms set by the Regulation and provided guidelines. The provisions of the Regulation demand that transmission system operator would set non-discriminating terms regulating the conditions of the right to use natural gas transmission system, creation of the harmonised principles of distributions of capacities and congestion management, setting the balancing rules and imbalance charges, the possibility to trade in capacities, and increase of the volume and transparency of provided information.

Upon the implementation of the Regulation in Lithuania, AB Lietuvos dujos has prepared the rules, procedure and conditions of balancing the natural gas transmission system according to the requirements approved by the NCC, and harmonized them with the NCC. The above-mentioned rules determine the principles, procedure and conditions of balancing the natural gas system in the natural gas transmission system of AB Lietuvos dujos. They came into force on 1 August 2013, and provide that an imbalance charge is calculated for an imbalance gas quantity exceeding the tolerance limit.

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<sup>4</sup> To assure the necessary operation of the LNG terminal and to guarantee the technological and economic justification of its operations, the original wording of the Law on the Liquefied Natural Gas Terminal stipulated that the quantity of natural gas imported through the LNG terminal and consumed in the domestic market of the Republic of Lithuania shall constitute no less than 25 percent of the total gas quantity consumed in the Republic of Lithuania per year. In addition to that, the natural gas undertakings importing natural gas to the Republic of Lithuania through the interconnecting or other natural gas transmission system pipelines (in either of the indicated methods) were obligated to purchase no less than 25 percent of the supplied natural gas quantity.



The amount of this charge is determined by multiplying the imbalance gas quantity by the balancing price determined by the NCC which was determined by the NCC on 18 July 2013.

AB Lietuvos dujos has also submitted to the NCC Draft *Rules on Natural Gas Transmission System Use and Draft Rules on Natural Gas Distribution System Use* which have been prepared pursuant to the requirements approved by the NCC. The aforesaid draft rules have been prepared after the evaluation of liquefied natural gas terminal which is going to start its operations in the near future and introduction of entry-exit marketing model, therefore now AB Lietuvos dujos are preparing interim draft rules which would be valid until the above-mentioned amendments in the sector of natural gas of the Republic of Lithuania are implemented.

On 30 December 2011, AB Lietuvos dujos had 61 percent of provisions of the Regulation implemented. On 6 February 2013, the Company informed the NCC that AB Lietuvos dujos had implemented all the provisions of the Regulation except for the requirements related with the *Rules on Natural Gas Transmission System Use* (capacity allocation mechanisms, congestion management procedures, and secondary market of capacity) and the Ten-Year Network development Plan. The NCC is performing continuous monitoring of the concluded implementation plan.


Seeking to allow the participants of the natural gas market to trade in natural gas at the exchange, in February 2012 the NCC has harmonized a *Regulation on the Trade in the Natural Gas Exchange* prepared by the *BALTPPOOL UAB* that stipulates the rights and obligations of the exchange participants, and of the market operator in natural gas trade as well as the procedure of natural gas acquisition by the transmission right, and payment for transactions concluded on the natural gas exchange.

On 9 November 2012, the NCC adopted a decision to issue the second natural gas market operator license for *UAB GET Baltic*. The main function of the natural gas market operator is to organize secondary trade in natural gas at the natural gas exchange. By Resolution No. O3-425 (Official Gazette, 2012, No. 154-7964) of 21 December 2012, the NCC approved the regulation of trade in the natural gas exchange of *UAB GET Baltic*. The regulation stipulates the main principles of trade on the exchange, the fundamental requirements for natural gas exchange participants that wish to trade in natural gas. It determines the procedure of submitting, adjusting and revoking orders, the procedure of transaction conclusion and submission of trade results to natural gas exchange participants as well as to natural gas transmission system operator, measures intended for ensuring fluent settlement among exchange participants. It determines rights, obligations and responsibility of the parties.

In March 2012, the NCC approved the *Requirements for Balancing Rules of the Natural Gas Transmission System*, according to which the natural gas network operator – AB Lietuvos dujos prepared and, in July 2012, submitted for coordination the Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos. The NCC approved the Balancing Rules on 14 September 2012. These rules determine the principles, procedure and conditions of balancing the natural gas transmission system in the transmission system of AB Lietuvos dujos.

In June 2012, the NCC, following Article 43 Part 2 Paragraph 4 of the Law on Natural Gas, prepared the Requirements for the Compliance Programme prepared by the natural gas distribution system operator. According to these requirements, a distribution system operator that supplies natural gas to more than 100 thousand customers has to prepare a compliance programme aimed at creating equal non-discriminatory conditions of access and use of natural gas distribution system for natural gas distribution system users, and to implement the principles of efficiency, publicity, information and other licensed activity principles of the activities of a distribution system operator. On 20 March 2013, AB Lietuvos dujos, as the only distribution system operator which complies with the above-mentioned conditions, submitted to the NCC a compliance programme of natural gas





distribution system which was amended by AB Lietuvos dujos in view of the remarks made by the NCC.

The NCC was assigned with a task to carry out periodic studies of natural gas supply market and thus ensure that the instances of abuse of high influence in the natural gas market are avoided. In June 2012, the NCC prepared and approved *Market Research Rules*. The research of both natural gas and electric power sectors will be carried out according to the same principles. By Resolution No. O3-81 as of 15 March 2013, the NCC started the study of supply market seeking to ensure the effective competition in the natural gas supply sector.

In July 2012, the NCC prepared and approved the Requirements for the *Terms of Use of Natural Gas Transmission and Distribution Systems*. The requirements apply to transmission system operators and distribution system operators, which grant the right to companies or persons transporting natural gas to use the natural gas systems. In May/July 2013, the NCC harmonized the rules of distribution system use of UAB Intergas, UAB Druskininkų dujos, AB agrofirma Josvainiai, AB Achema, UAB Fortum Heat Lietuva. These regulations seek to ensure that the services provided by distribution system operators are transparent, that they would not discriminate among the existing and potential natural gas distribution system users and grant them equal, fair, objective and transparent conditions to use the systems, and all the possible options to use natural gas distribution system capacities as efficiently as possible were created.

On 21 December 2012, the NCC adopted three resolutions whereby it approved:

1. Description of the procedure of use of natural gas extraction networks. The description seeks to ensure that the right to use extraction networks would be provided to natural gas undertakings and customers in good faith and publicly, promoting the competitive natural gas market and avoiding the abuse of a dominant position, taking into account safety and regularity of supply, the existing or reasonably available capacities and environmental requirements;

2. Requirements for the rules on use of the liquefied natural gas terminal, following which AB Klaipėdos Nafta has to prepare the rules for the use of the liquefied natural gas terminal. These rules are to stipulate clear and non-discriminating rights and obligations of liquefied natural gas terminal users, mechanisms of liquefaction capacity allocation, congestion management procedure as well as govern other important spheres;

3. The description of criteria for the use of services of natural gas storage in repositories and natural gas storage in pipelines. The description seeks to ensure the possibility for natural gas customers to use the services of natural gas storage in repositories and natural gas storage in pipelines in a transparent and non-discriminatory way. The description sets forth that customers directly negotiate with undertakings that provide the services regarding the storage of natural gas in pipelines, and prices regulated by the state are applicable for the service of natural gas storage in repositories.

On 13 May 2013, the NCC adopted Resolutions regarding the connection of systems of new household customers and non-household customers to the procedures and tariffs of *Lietuvos AB Lietuvos dujos* gas system. These procedures determine the course and connection tariffs of the new household customers and non-household customers to AB *Lietuvos dujos* gas system.

On 18 July, the NCC passed several important Resolutions:

1. *The Description of the Unbundling of Natural Gas Undertakings' Accounting, Distribution of Costs, and Requirements Related with the Accounting Unbundling* was approved. The regulated natural gas undertakings will have to keep accounts according to the criteria approved by the Commission, by unbundling the revenues, costs, assets and obligations for the activities of natural gas transmission, distribution, liquefaction, storage, supply, and other regulated and unregulated

activities. The appropriate implementation of account unbundling will ensure the maximum transparency and non-discrimination.

2. The balancing price for the natural gas system was determined. As of 1 August 2013, the *Balancing Rules of the Natural Gas Transmission System of AB Lietuvos dujos*, harmonized with the NCC by the Decision of 14 September 2012 come into force and are to provide that an imbalance charge will be calculated for the imbalance gas quantity exceeding the limit of tolerance. The amount of this charge is determined by multiplying the imbalance gas quantity by the balancing price determined by the NCC. Thus, taking into account the analysis of balancing gas prices of transmission system operators operating in the European Union, a decision was made to approve the price of the balancing service which consists of 10 percent of the marginal price of the purchased or sold balancing gas.

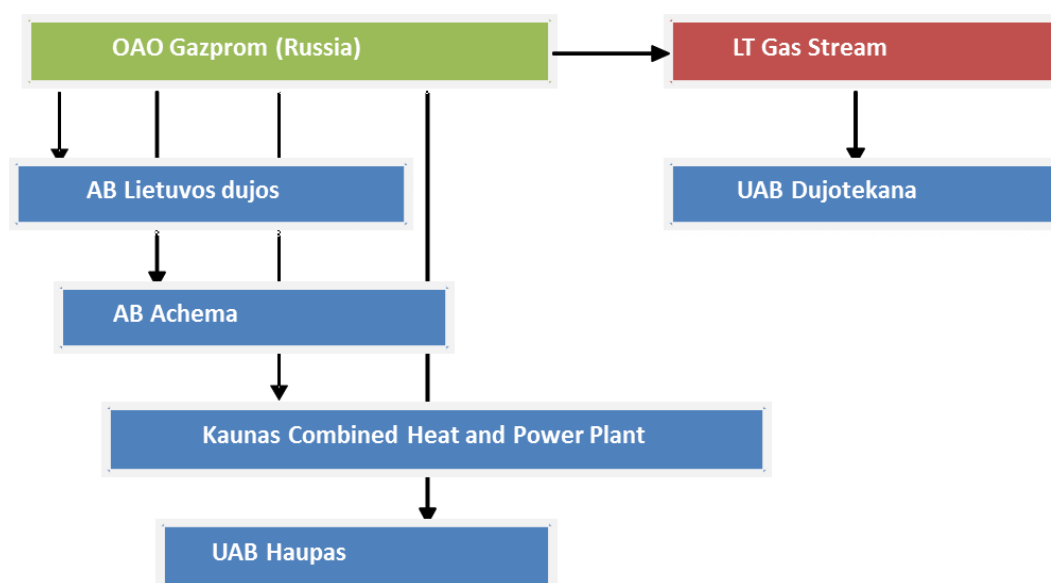
3. The *Balancing Rules of the Natural Gas Distribution System of UAB Intergas* were approved. These rules regulate interrelations, rights and duties of the distribution system operator, distribution system users and other market participants which trade in natural gas, in their participation in the balancing of natural gas distribution system.

4. The *Description of the Procedure of Evaluation of Long-Term Expenses of Advanced Natural Gas Measurement Systems and Economic Use for the Market* which defines clear economic evaluation criteria necessary for determining the ratio of long-term expenses and use of advanced natural gas measurement systems which will help adopting decisions regarding the agenda of introduction of advanced measurement systems which would help the customers to actively participate in the market of natural gas supply was approved.

## 4.2. Promotion of competition

### 4.2.1. WHOLESALE MARKET

Figure 42. Market players of natural gas import to Lithuania



Source: NCC

In 2012, the participants of the natural gas import market were the same as in 2011, i.e. AB Lietuvos dujos, UAB Dujotekana, AB Achema, Kaunas Combined Heat and Power Plant (Kaunas CHP),



UAB Haupas . Gas was imported to Lithuania from the single external gas supplier – Gazprom (Russia) in accordance with the quotas set for each individual importer. UAB Dujotekana purchased imported gas not directly from the Russian company Gazprom, but through the intermediary – LT Gas Stream (Figure 42).

Table 15. Amount of natural gas imported in Lithuania in 2011-2012, thousand cm.

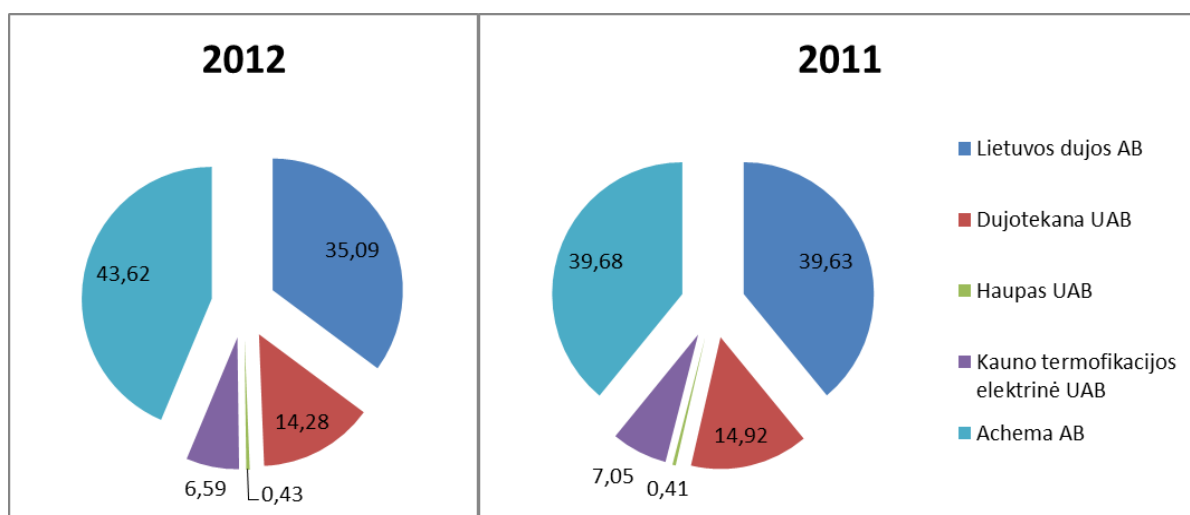
Importer	Year 2011	Year 2012	Change, percent
AB „Lietuvos dujos“	1 350 325	1 165 132	-13,7
UAB „Dujotekana“	508 386	474 181	-6,7
UAB „Haupas“	13 958	14 223	1,9
UAB Kauno termofikacijos elektrinė	240 057	218 690	-8,9
AB „Achema“	1 351 972	1 448 419	7,1
<b>In total:</b>	<b>3 407 459</b>	<b>3 320 645</b>	<b>-2,5</b>

Source: NCC

In 2012, 3 320.6 million cm. of natural gas were imported to Lithuania. In comparison with 2011, volume of imported natural gas decreased by 2.5 % ( Table 15) . As could be seen from Table 4, the decrease of imported natural gas was mostly impacted by AB Lietuvos dujos whose imported volume of gas in 2012 faced decrease of 185.193 mln. cm., i.e. by 13.7 percent.

Structurally, the largest share of natural gas import market in Lithuania was occupied by AB Lietuvos dujos (Fig. 43).

Figure 43. Market shares occupied by natural gas importers in 2012 and 2011



Source: NCC

Compared to 2011, the market shares occupied by market players have changed in 2012. Since AB Achema in 2012 imported 94.477 million cm. more gas than in 2011, its market share increased by 4 percent - from 39.6 percent to 43.6 percent. Market shares of all other market players decreased accordingly: the share of AB Lietuvos dujos decreased by 4.6 percent from 39.6 percent to 35 percent, the share of UAB Dujotekana – by 0.64 percent from 14.92 percent to 14.28 percent, market share of Kauno Termofikacijos Elektrinė decreased from 7.05 percent to 6.59. Market share of UAB Haupas increased from 0.41 percent to 0.43 percent.

The Law on Natural Gas provides that natural gas supplied to consumers by natural gas supply companies that have a supply license. The supply license entitles the supply company to supply natural gas to consumers and natural gas companies. Supply company may trade in natural gas market and/or under bilateral agreements.

According to the decision of the NCC, in 2012 natural gas supply license was issued to three companies – UAB Baltic Energy Services, UAB Enefit, UAB SKY ENERGY GROUP. In total, in 2012, 17 natural gas companies had natural gas supply licences, however 9 of them did not perform the activities of natural gas supply (Table 16). The remaining market players supplied natural gas to consumers and gas companies in wholesale and/or retail natural gas supply markets.

Table 16. Licensed natural gas supply companies in 2012

No.	Company	Information on implementation of activities in Quarter IV in 2012
1.	AB Lietuvos dujos	Operated
2.	AB agrofirma Josvainiai	Operated
3.	UAB Prekybos namai Giro	Not operated
4.	UAB Dujotekana	Operated
5.	Joint Lithuanian and Russian company UAB Stella Vitae	Not operated
6.	AB Achema	Operated
7.	UAB Intergas	Operated
8.	Lietuvos ir JAV UAB „Iternalit“	Not operated
9.	UAB „Haupas“	Operated
10.	UAB „Druskininkų dujos“	Operated
11.	UAB Kauno termofikacijos elektrinė	Not operated
12.	UAB „Fortum Heat Lietuva“	Operated
13.	UAB „Imlitex“	Not operated
14.	Lietuvos energija, AB	Not operated
15.	Baltic Energy Services, UAB	Not operated
16.	Enefit UAB	Not operated
17.	SKY ENERGY GROUP, UAB	Not operated

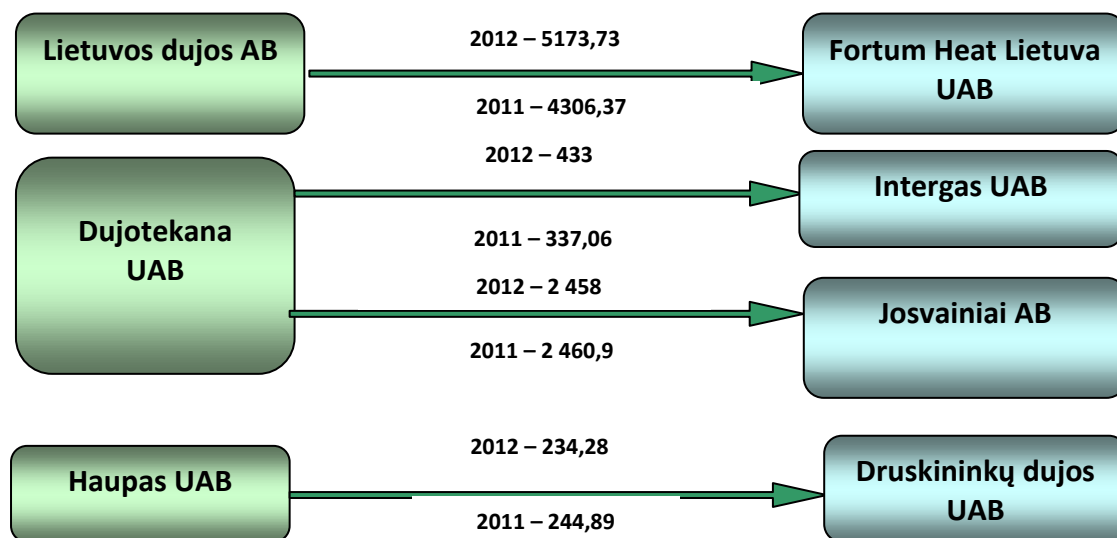
Source: NCC

Natural gas wholesale market in Lithuania is relatively small since actual gas import quotas were allocated to AB Lietuvos dujos and UAB Dujotekana.

Only the amount of gas purchased from importers by other gas companies engaged in distribution and supply activities in particular regions of Lithuania is attributed to wholesale trade.

There was no trading among wholesale natural gas consumers. In 2012, in wholesale market 8.3 million cm. of natural gas was sold, i.e. 12.9 percent more than in 2011 (Fig. 44).

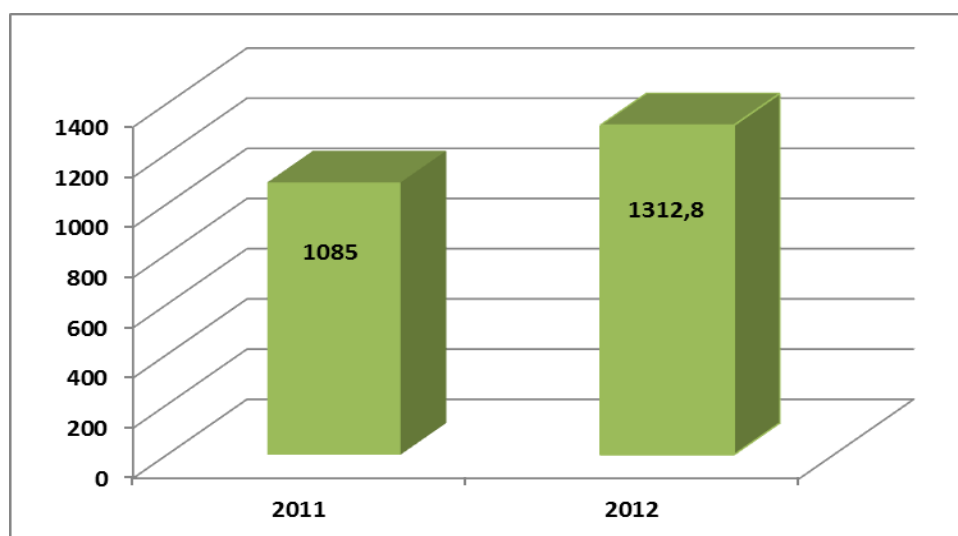
Figure 44. Natural gas wholesale market players and amount of gas sold in wholesale market, thousand cm.



Source: NCC

#### 4.2.1.1. MONITORING OF NATURAL GAS PRICES LEVEL, TRANSPARENCY, OPEN MARKET AND COMPETITION EFFICIENCY

Figure 45. Comparison of average natural gas import prices in 2011 and 2010, LTL per thousand cm.



Source:NCC

Natural gas import price is directly dependent on alternative fuels, namely. 1 percent. sulfur content of fuel oil and diesel fuel (0,1) world market prices and the euro-dollar exchange rate. 1 percent. sulfur fuel oil prices in 2012 compared to 2011, increased by 14.6 percent., diesel fuel (0.1) - 10.1 percent. Exchange rate ratio increased by 8.5 percent. These factors have led that the average

import price of natural gas in 2012, compared to 2011 price increased by 21.0 percent. - from LTL 1085.0 to 1312.8 thousand. cm.:

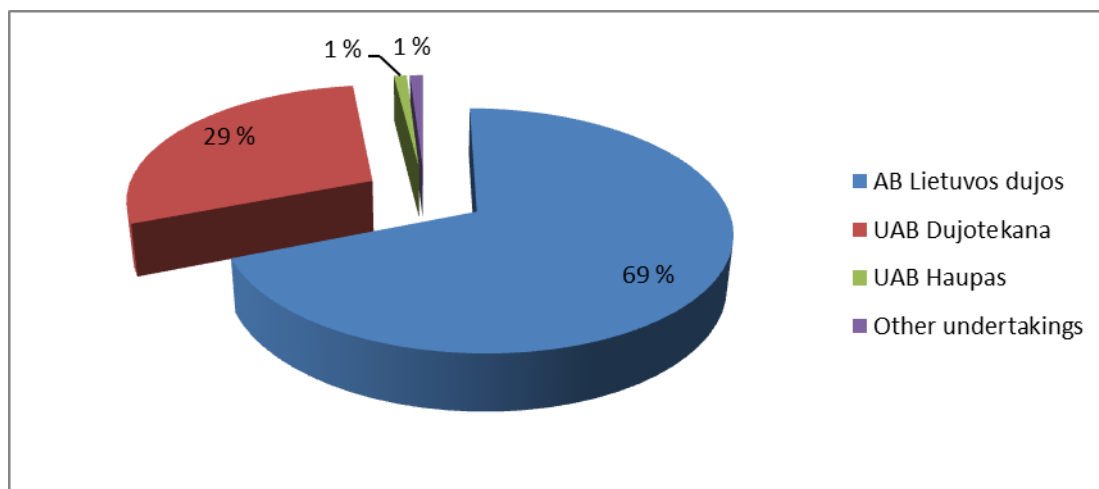
To assure that the market participants would have the disposition of the reliable information, every quarter the NCC prepares and uploads on the NCC website the market monitoring reports. The Reports summarize the markets of the import of natural gas, transmission, distribution and supply.

Wholesale natural gas market competition does not occur in practice due to a single external source of imports. The launch of a liquefied natural gas terminal, large importers of natural gas will provide an opportunity to purchase natural gas not only from Russia but also from other active regions in the world, with the ability to export liquefied natural gas, which will encourage competition among wholesalers. Natural gas import prices are available on the NCC website at <http://www.regula.lt/lt/dujos/duju-kainos>.

On 9 November 2012, the NCC issued a second natural gas market operator's license - UAB GET Baltic. In the first half year of 2013 the turnover of UAB Get Baltic at natural gas exchange amounted to 448 thousand. cm., the most active trade took place in June, when it was at least 33 trades per 363 thousand. cm. This is a significant real trading natural gas market indicator since 2013 as start of the Lithuanian natural gas natural gas trading platforms exchange did not take place in practice.

#### 4.2.2. RETAIL NATURAL GAS SUPPLY MARKET


Figure 46. Market shares of Lithuanian gas companies in retail market in 2012



Source: NCC

In Lithuania in 2012 there were 559 498 thousand natural gas customers, 553 234 thousand of which were household customers and 6264 thousand were non-household customers. Natural gas was supplied to customers by 7 supply companies: AB Lietuvos dujos, UAB Dujotekana, UAB Haupas, UAB Fortum Joniškio Energija, UAB Druskininkų Dujos, AB Josvainiai agrofirma, and UAB Intergas.

In the retail natural gas market, 1614.0 million cm. of gas were sold. As compared with 2011, the sales of natural gas decreased by 12.3 percent. Retail gas supply market as well as the wholesale market is dominated by two suppliers, which hold over 98 percent of natural gas supply market. They are AB Lietuvos dujos and UAB Dujotekana. All other natural gas supply companies represent only 2 percent of total natural gas sales. The amounts of natural gas sold by Lithuanian gas companies in the retail market (market share) are provided in Figure 46.



The share of household customers in retail natural gas supply market was 10.5 percent in 2012, and remained similar to that in 2011 (9.9 percent). Accordingly, the segment of non-household customers in the retail gas supply market in 2012 amounted to 89.5 percent (in 2011 it was 90.1 percent).

Up to now the natural gas to household customers was supplied only by integrated distribution and supply companies that supply natural gas within their distribution territory. The leading of them is AB Lietuvos dujos which supply 99 percent of all gas sold in the retail market.

It should be noted that on 14 September 2012, the NCC issued natural gas supply license to Sky Energy Group, UAB. The company plans to supply natural gas to household customers, thus the company filed an application to the NCC, and on 30 May 2013 the NCC approved natural gas tariffs for household customers supplied by Sky Energy Group, UAB that to be valid from July 1<sup>st</sup>.

It should be emphasized that this is the first initiative of the competitive supply market for household customers. The company intends to buy natural gas at Power Exchange and compete for the household customers with AB Lietuvos dujos that has the highest share of household customer market.

The approved tariffs (unlike the tariffs applicable by other integrated suppliers for household customers) are a one-component, so it is expected that this tariff structure will allow domestic customers to choose more favorable supplier and will facilitate the development of competition in the household supply market.

The year 2012 saw 553.2 thousand household customers, and in comparison with 2011, the number increased by 0.39 percent. Household customers during the year 2012 consumed 169.5 million cm. of natural gas, i.e. 6.63 percent less than in 2011. Just like in 2011, the main share of the household customers segment in 2012 was occupied by AB Lietuvos dujos, which supply over 99 percent of all gas sold in the retail market.


#### 4.2.2.1. MONITORING OF NATURAL GAS PRICE LEVEL, TRANSPARENCY, OPEN MARKET AND EFFICIENCY OF COMPETITION IN THE RETAIL MARKET

Pursuant to Article 9 Part 16 of the Law on Natural Gas, the NCC checks whether the specific prices of natural gas transmission and distribution submitted by gas undertakings not discriminate among separate consumer groups or exceed the price cap fixed.

Pursuant to Article 9 Part 17 of the Law on Natural Gas, the NCC approves tariff for household customers once every six months. In 2012, the NCC approved tariffs for household customers for 5 gas undertakings twice a year, by differentiating them according to groups.

The natural gas tariff for household customers consists of the sum of predicted prices of natural gas (product), specific prices of transmission, distribution, storage, liquefaction, supply and the margin between the natural gas (product) prices predicted during the previous period of tariff validity and the factual natural gas (product) prices. Gas import price for the upcoming six months is predicted according to a prognosis of changing components of import price (1 percent sulphur fuel oil, diesel fuel (0.1), ratio of US dollar and Euro and the calorific value of gas). The margin of income which accumulates due to the difference of the forecasted and factual import price is evaluated by determining natural gas tariffs for household customers for the following six months.

Article 9 of the Law on Natural Gas provides that the natural gas supply price is not regulated, except for cases when the NCC during a market study determines that a body is applying prices too high or uses price pressing because of the lack of effective competition, thus causing prejudice to market participants.



Pursuant to provisions of the Natural Gas Law concerning the study of the market of energy resources, by its Decision of 2012, the NCC approved the Rules of Market Study which seek to create preconditions for the formation of effective competition in the markets of natural gas and prevent persons from abusing high influence in these markets.

A market study can be performed by a motivated request of the state or municipal institutions, by a request of interested persons, or by the initiative of the NCC. A market study is performed within 4 months from the date of the NCC's decision to start the market study. This term can be extended by a motivated decision of the NCC not more than 3 times, extending the term of the market study for the maximum term of 3 months each time.

The market study procedure consists of the following stages:

- determination of the market;
- competition efficiency study in the market;
- determination of entities having high influence in the market;
- determination, amendment and (or) elimination of obligations for the entities having high influence in the market.

In performing market studies, the NCC evaluates obstacles which prevent the beginning of activities in the market and (or) development of competition in the market, determines whether the market is characterized by tendencies of effective competition emergence, and adequacy of the competition appropriate for the reduction or elimination of obstacles for competition development. In analyzing the effectiveness of competition, the NCC evaluates:

- the market structure and concentration;
- barriers for entering into the market;
- the potential competition (incentives for customers and their possibilities to replace the service provider; economic and technical possibilities for the appearance of a new service provider);
- possibilities of the entity to apply unreasonable (too high) prices, price pressing.

The entities which have high influence in a respective natural gas supply market are determined pursuant to the provisions of Article 12 of the Law on Natural Gas:

- an entity alone or with other related entities occupies a position which can be comparable to a dominant position;
- an entity has a high influence in one natural gas supply market or part of natural gas supply market, if links between these two markets allow using the influence exercised in one natural gas market in another natural gas market thus increasing one's influence in the related natural gas supply market.

Having found that competition in the market is not effective, the NCC determines one or more measures for the entities that have high influence in the market:

- to provide services for prices based on costs, including the return on investment complying with the criterion of reasonability;
- to prove reasonableness of prices by costs within a period complying with the criterion of reasonability;
- to implement the requirements determined by the NCC for cost accounting systems, methods and (or) models intended for the provision of specific types of services. The NCC publicly announces such system, method and (or) model of costs on its Internet website;
- to follow the mechanism of cost recovery determined by the NCC which promotes effectiveness and, as much as possible, increases the long-term use for customers. In determining the cost recovery mechanism, the NCC takes into account price indexes applied in comparative markets.

Should the NCC make a motivated decision in a market study that the above-mentioned measures can fail ensuring the effective competition in the market, reasonable and proportional obligations may be fixed for the entity with high influence in the market:

- the obligation not to make barriers for entrance into the market to other market participants;
- the obligation not to limit the competition by fixing unreasonable prices;
- the obligation not to create better conditions for separate customers or unreasonably refuse to provide services;
- the obligation to ensure the quality of services determined by the NCC;
- in order to secure interests of customers and promote the effective competition, the NCC has the right to apply individual price control measures for the entity which has high influence in the market and to oblige it to base its prices by costs or by the prices fixed in comparative markets.

By Resolution No. O3-81 of 15 March 2013, the NCC started a study of the supply market seeking to ensure the effective competition in the natural gas sector.

### 4.3 Security of supply

#### 4.3.1. REVIEW OF SUPPLY AND DEMAND

Natural gas is supplied to Lithuania from Russian gas fields through Belarus using Minsk–Vilnius gas mainline. Kotlovka gas metering station capacity at the border of Lithuania and Belarus is 31,200 thousand cm. per day. Maximum use of this capacity in 2012 was 85.6 percent. It means that import capacities physically meet all needs of the Lithuanian customers as well as transit capacities to the Russian Federation (Kaliningrad Region) and to Latvia. In 2012, natural gas supply in Lithuania met the needs and there were no restrictions of supply. Technical capacities of Kotlovka station allow importing 13,286 billion cm. of natural gas to Lithuania per year. In reality, the imported amount in 2012 totaled to 5,434 billion cm. (including transit).

One of the most important elements of ensuring the security and reliability of supply is long-term gas supply agreements. AB Lietuvos dujos has signed an agreement for gas supply with the Russian company RAB *Gazprom* until 2015 (inclusive). The agreement was signed in 1999. UAB *Dujotekana* has signed a long-term agreement until 2020 (inclusive), and UAB *Haupas*– until 2015 (inclusive).

#### 4.3.2 ESTIMATED DEMAND, NECESSARY CAPACITIES AND SUPPLY

The consumption of natural gas in Lithuania in 2012 and estimated gas demand until 2016 is presented in Table 17.


Table 17 . Current and forecasted natural gas consumption volume in Lithuania in 2012 – 2016

	2012	2013-	2014	2015	2016
Natural gas consumption, mlrd. cm.	3.26	2.76	2.7	2.56	2.5

Source: NCC

AB Lietuvos dujos transmission system includes 1,904.4 km of gas lines, 65 gas distribution stations (GDS), 3 gas metering stations and 2 gas compressor stations.





The natural gas transmission system is operated in line with the Natural Gas Transmission System Operation Rules approved on 5 July 2012 by the Minister of Energy of the Republic of Lithuania. The transmission system operator ensures the transmission system maintenance quality by drafting and implementing annual gas line equipment technical maintenance schedules, annual and perspective repair and reconstruction work programmes, and, if needed, by outsourcing technical maintenance and repair operations to other companies. The transmission system operator has a security strategy providing for measures to ensure gas mainline security and reliability, as well as urgent and efficient response to emergencies. The technical maintenance system ensures a reliable system functioning level. Defects found are immediately eliminated or included into a gas system repair or reconstruction programme. Depending on the characteristics of the gas mainline, its technological arrangement, and the results of technical maintenance, additional attention is given to the maximum-risk gas mainlines. Internal diagnostics of the pipelines is periodically carried out. Currently, 482 km of the pipeline is suitable for internal diagnostics. By 2017, it is intended to adapt around 982 km of gas mainlines for internal diagnostics.

No accidents or disruptions were registered in the country's main pipelines in 2012.

Although current technical capacities enable full supply of natural gas to the vulnerable customers of Lithuania, gas supply from one source does not ensure the security of gas supply. Should gas supply via Kotlovka be disrupted, the supply to all customers of Lithuania (except for Druskininkai) would be affected. In the event of disruption of natural gas supply, gas would be supplied to the customers of Lithuania from Inčukalns gas storage facility in Latvia.

According to the data harmonized by both countries after the completion of a project at the beginning of 2013, the possible maximum gas flow of Kiemenai gas metering station and interstate connection capacities increased up to more than 6 M cm./day in both directions.


By 3 December 2014, a liquefied natural gas terminal in Klaipėda has to start its operations; the emergence of this terminal may promote the beginning of a substantive supply competition between two external sources and internal supply undertakings. At present, Lithuania's natural gas market depends solely on a single external supplier, and this disturbs the development of the internal supply competition. Upon the beginning of operations of the liquefied natural gas terminal, the current part of transmission system infrastructure in Klaipėda Region would not be sufficient for using the LNG terminal in full capacity for both internal needs of the country and gas transportation to the neighboring countries. Therefore, in order to resolve the aforesaid problems, it is planned to build the second thread of the gas mainline Klaipėda–Kuršėnai, to renew the gas mainline Šiauliai–Klaipėda, and to extend capacities of Kiemenai GMS.

In order to ensure stable operation of the Lithuanian gas transmission system and the reliability of transmission of gas to most distant locations (Klaipėda), the main pipeline Jurbarkas–Klaipėda is being built as well as a pipeline branch to Klaipėda Second Gas Distribution Station and Klaipėda Second Gas Distribution Station itself.

#### 4.3.3. MEASURES FOR COMPENSATION OF PEAK DEMAND OR LACK OF SUPPLIERS

Natural gas transmission system operator (by 31 July 2013 - AB Lietuvos dujos, and as of 1 August 2013 – UAB *Amber Grid*) encourages system users to plan needed capacities more accurately and evenly by setting a transmission price - 70 percent of which is the fixed share for the capacities ordered by the consumer.

Free capacities are offered on the market with the possibility to conclude agreements for interrupted capacities. Having concluded an agreement for natural gas transmission and distribution services a system user may order (adjust) the capacities on a weekly and/or daily basis. The system



user may order the capacities (adjust the order) online or in writing according to the terms and conditions of the agreement. When ordering the capacities for a respective period, the system user must have a purchased amount of gas. According to the terms and conditions of the sale and purchase agreement, the supply mode must be harmonized with the supply company.

## 5. Protection of consumers and resolution of disputes in electricity and gas sectors

### 5.1. Protection of consumers

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

Pursuant to Article 49 of the new Law on Electricity, the following measures for protecting consumer rights are provided for:

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

2. In order to protect the customers' rights and legitimate interests, it is set forth that:

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

2) The customers have a right to replace the supplier, by taking into account the terms of notice provided for in the Law and/or the agreement with the supplier as well as other conditions. When the customer wishes to replace the supplier in line with the terms of notice provided for in the Law and/or the agreement with the supplier as well as other conditions, the respective operator has to take the relevant measures to create conditions for switching the supplier within the time period not exceeding 3 weeks;

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

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


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

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

3. State supervision and control of the rights and legitimate interests of the electricity customers is exercised by the NCC and the State Consumer Rights Protection Authority (hereinafter – the Authority) within their competence.

The Authority:

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



2) examines complaints and disputes of the household customers regarding unfair application of the conditions of electricity sale and purchase agreements or agreements for the connection of electric facilities of new household customers;

3) examines complaints and disputes of the household customers regarding unfair commercial activities of the electricity suppliers;

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

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

1) receive from the NCC, transmission system and distribution network operators, public and independent suppliers as well as from persons ensuring the guaranteed supply a clear and understandable information about their rights related to electricity consumption and services provided;

2) access the electricity consumption data, including the amount of electricity consumed, and, upon concluding an unambiguous agreement, to provide any supplier with free access to their meter readings;

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

The aforesaid Law moreover provides that the conditions of the electricity sale and purchase agreements or service agreements concluded with the electricity customers according to the procedure set forth in the laws must be fair and revealed in advance. Given the subject matter of each particular agreement, these agreements, among other things, should include:

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

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

3) types of the proposed maintenance services;


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

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

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

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

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



9) information about the consumer rights.

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


- 1) The existing actual electricity prices and actual energy consumption at least once per calendar year;
- 2) The comparison of the quantities of electricity consumed by the customer over the current period and consumed over the respective period of the previous year;
- 3) When possible, the comparison with the electricity consumption of the average consumer in the same customer group.

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

- 1) Comprehensive information regarding the share of each type of energy resources in the primary energy resources, including the renewable ones, used during the previous year to produce electricity energy supplied by the supplier, where such information is available;
- 2) Links to the information sources providing comprehensive information about the impact of the production of electricity over the previous year on the environment, including greenhouse gasses and radioactive waste;
- 3) Contact information of the consumer organizations, associations, agencies and similar offices, including their website addresses, where it would be possible to find information about the potential means for increasing energy efficiency, benchmarking characteristics of end-users and/or objective technical specifications of equipment that consumes energy.

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

The new Law on Electricity provides that NCC will take necessary measures to ensure the reliability of the information provided to the customers and provision of such information on the national level in the easily comparable form. The NCC has to prepare, post on its website and periodically update clear and brief list of questions and answers for the customers, where the practical information and the customers' rights would be provided. When preparing the information on the issues of the rights of household customers, the NCC cooperates with the Service. Moreover, the NCC has to post on its website the list of questions and answers intended to the customers and prepared by the European Commission, and to ensure that the suppliers of the distribution network operators in cooperation with the NCC PE would take the relevant actions to upload the respective list of questions and answers on the websites or the suppliers and/or distribution network operators,



by informing the customers about this by electronic means, and when this is not possible, by sending to the customer a copy of the list of questions and answers.

The NCC continuously publicly announces the news on its activities, various clarifications and the list of the frequently asked questions (FAQ). When examining customer complaints, within the limits of the established competence, the NCC cooperates with the Service. When the European Commission prepares the list of questions and answers designed to the customers, the NCC will upload it on its website.

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

Pursuant to Article 52 of the Law on Electricity, in addition to the above means of protection of consumer rights, a household customer is entitled:

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


2) to enter into open-ended sale and purchase agreements with a public supplier in cases when the household consumer has not chosen an independent electricity supplier, or when the independent supplier chosen by him has failed to perform the obligations assumed and the household customer intends to purchase electricity from the public supplier, as well as the open-ended electricity sale and purchase agreement with an independent supplier and the agreement on the electricity transportation service with a distribution network operator.

Agreements concluded with household customers must specify the rights of household customers associated with the settlement of disputes as provided for in Article 78 of the Law. Pursuant to this Article, complaints and disputes are examined according to the procedure set forth by this Law and the Law on Energy. Complaints of household customers are examined according to the procedure provided for in the Law on Protection of Consumer Rights of the Republic of Lithuania and the Law on Prohibition of Unfair Business-to-Consumer Commercial Practices of the Republic of Lithuania. Electricity undertakings have to examine requests, proposals or complaints regarding the supplied or to-be-supplied services within 30 calendar days from the date of their receipt.

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

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

Complaints of household electricity customers regarding application of unfair conditions of electricity sale and purchase agreements or the agreements on connection of electric equipment of



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new household customers as well as complaints of household customers regarding unfair commercial activities of electricity suppliers are examined by the State Consumer Rights Protection Authority.

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


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

The NCC has approved the *Rules for Investigation of Persons' Applications and Their Service in the National Control Commission for Prices and Energy* (hereinafter – the Rules) which regulate the investigation of applications of natural persons and legal entities and their service in the National Control Commission for Prices and Energy (hereinafter – the Commission). Moreover, applications involving the applicant's position on a certain matter, notices of the improvement or defects of the NCC's activities or suggestions regarding their improve, information about the abuse or unlawful actions on the part of officers, state officials and employees who work under employment agreements and receive salary from state and municipal budgets as well as state monetary funds, where such actions are not associated with violation of legitimate interests and rights of a particular person, and where attention is drawn to specific situation as well as other applications of persons to the NCC are also examined in accordance with the procedure provided for in the aforesaid Rules. In accordance with the principle of a "single window", the Department of General Affairs of the NCC provides service to persons in the NCC. Complaints and notices of violations of rights or legitimate interests are investigated and administrative procedural decisions are sent according to the provisions of these Rules as well.

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

It should be noted that in February 2010 *the Standard Conditions of Electricity Sale and Purchase Agreements with Household Customers* were approved by the Order of the Minister of Energy. The document governs the procedure for concluding, entry into force, termination of sale and purchase agreements with household customers, the procedure and conditions of electricity supply, the procedure of setting the electricity price, the procedure of payment for electricity consumed by the household customer, rights and obligations of the parties and their responsibility for failure to perform obligations, the procedure for examining claims or requests and settlement of disputes, the duration of the agreement, conditions and procedure for amending or terminating the agreement. The Standard Conditions are binding upon all public and independent electricity suppliers





and household electricity customers. The supplier has to prepare the electricity sale and purchase agreement in line with the Standard Conditions containing all terms and conditions set forth therein.

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

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

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


The project for the development of smart grids was started in 2009 by the initiative of the Ministry of Energy when the working group for the development of smart grids and a separate company for implementing the solutions – *UAB Technologiju ir inovaciju centras* (Centre of Technologies and Innovations) was established. The project is aimed at accomplishing the EU 20-20-20 targets, which provide that 20 percent of energy consumed in the EU have to be produced from renewable energy resources, actually consumed quantities of energy have to be 20 percent below the predicted ones, and the efficiency of electricity consumption has to be increased and the emissions of CO<sub>2</sub> gases have to be reduced by 20 percent as compared to the levels of 1990. The plan for implementing the smart grids' project was approved in 2010, according to which it has been planned to draw up the development trends, formulate tasks for electricity undertakings, analyse the possibilities to use the EU funds and to implement the pilot project. It is planned to complete the costs/benefits analysis of implementing the smart accounting in Lithuania. Then the pilot project of the smart grid will be performed with its primary objective being – the electricity bill of 0 EUR.

Customers who wish to use natural gas have to conclude an agreement of joining the undertaking's gas system and a natural gas sale and purchase agreement.

The standard template of connection agreement and specification of conditions is prepared by the gas undertaking which has to pre-coordinate it with the State Consumer Rights Protection Authority. The connection agreement should indicate the time of connection, connection tariffs, procedure of payment for the services provided, agreement termination conditions, ownership relations and responsibility of the parties. The standard template of connection agreement is presented on a website of gas undertakings.

In 2012, the Ministry of Energy approved the Description of Standard Terms of Agreements on Natural Gas Supply, Transmission and Distribution to Household Customers (hereinafter – the Description), harmonized with the State Consumer Rights Protection Authority. The Description provides that an agreement must specify parties to the agreement and their information, i.e., the name of the supply company, company code, legal address, number and date of licences issued by the NCC for the respective activities, contact information (mail address of the supply company or its branch, contact telephone number, fax number, e-mail address, website, etc.), its authorized representative for the conclusion of the agreement and documents confirming the authorizations. Natural gas undertakings publish sample agreement for sale and purchase of natural gas on their websites. The consumption of gas by household customers is recorded by the readings of a meter installed in the property of the household consumer or at the border of the property. Household





customers may pay for the gas consumed using the payment books for natural gas, online or by direct debit. The Description moreover establishes gas quality requirements with which gas supplied to a household customer needs to comply, gas supply procedure and conditions, obligations, rights and responsibilities of the parties to the agreement, the procedure of payment for the services provided, agreement termination conditions, examination of complaints and requests and dispute resolution.

Users of the system managed by AB Lietuvos dujos declare the amount of gas accepted over the previous 24 hours as well as the readings of the gas metering system on the website [www.dujos.lt](http://www.dujos.lt), by phone, fax or e-mail every business day. At the end of the reporting period, AB Lietuvos dujos and the user of the system sign a Certificate of Consumption. System users having concluded the agreements for online declaration can see the consumption-related information on the website of AB Lietuvos dujos.

The amount of gas consumed by non-household customers within the reporting period is calculated by transmission and distribution system operators according to the readings of gas metering systems and metering devices and is indicated in the VAT invoice for the reporting period.


The Law on Natural Gas provides that customers are entitled to switch between suppliers free of charge. Natural gas companies shall implement this adjustment within three weeks from submitting the request to switch the supplier. The last invoice from the supplier must be received no later than within six weeks from switching the natural gas supplier. There were no customers who switched their suppliers in 2010 and 2011.

Article 25 of the Description stipulates that in the event of termination of gas supply under circumstances provided for in the Law on Natural Gas as well as Article 24 of the Description of Standard Terms of Agreements on Natural Gas Supply, Transmission and Distribution to Household Customers, gas supply is restored when the household customer covers the debt for gas and services provided and pays the expenses of gas supply interruption and renewal (customer's gas system disconnection, connection) and other related expenses according to the approved tariffs harmonized by the distribution system operator with the NCC. On 21 December 2012, having evaluated the costs incurred by distribution system operators, the NCC harmonized natural gas disconnection and connection tariffs of UAB Fortum Heat Lietuva, UAB Druskininkų dujos, AB agrofirimos Josvainiai, UAB Intergas, and on 31 January 2013 – natural gas disconnection and connection tariffs of AB Lietuvos dujos.

On 1 March 2012, a new administrative division was established in the NCC, namely General Information Centre that aims at providing all necessary information to customers about their rights, applicable legislation and available dispute resolution methods. Every year, the General Information Centre conveys anonymous surveys of the interested parties, which allow identifying the altering needs of users and making relevant decisions for service quality improvement.

The NCC is actively involved in the implementation of the State Consumer Rights Protection Strategy 2011-2014. In order to create an effective consumer protection monitoring system, the NCC, taking into account the feasibility study on the development of consumer rights information system carried out by the State Consumer Rights Protection Authority and having analysed the requirements of the Commission Recommendation No SEC (2010) 572 of 12 May 2010 on the use of a harmonized methodology for classifying and reporting consumer complaints and inquiries, intends to introduce the procedure of classification of consumer complaints and inquiries. Having introduced the above procedure, the NCC will be able to identify problems and set up preventive measures more easily.

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



As of 2011, following the completion of implementation of information systems and data transfer as well as after the merger of two companies, which had separately serviced the western and eastern regions of the country, into a single company AB LESTO, the residents of Lithuania are able to use a wider scope of services than before. All customers of AB LESTO have a possibility to order the service of direct debit, to use the self-service website Mano Elektra ([www.manoelektra.lt](http://www.manoelektra.lt)) and to call the 24-hours-operating contact centre by phone 1802. In the self-service website and by phone 1802 the customers can order paybooks, get information about tariffs, inspections of metering devices, verify the payments. After the migration of the information data, the customers who wish to conclude the agreement or to order the service can apply to any AB LESTO customer service centre regardless of their place of residence.

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


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

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

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

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

1. If the electricity metering device is not connected to the automated meter reading system:
  - The customer takes the meter readings himself;



• The customer can view the taken and declared meter readings on the self-service website Mano Elektra and in the VAT invoice.

2. If the electricity metering device is connected to the automated meter reading system:

- AB LESTO automatically reads the electricity consumption data;
- The customer can view the automatically taken meter readings in the declaration form on the self-service website Mano Elektra and in the VAT invoice.

The quantities consumed on a monthly and hourly basis by the customers supplied with electricity by an independent supplier are presented to the independent supplier by the 5<sup>th</sup> business day of every month. These data are presented to independent suppliers on their self-service websites and sent by e-mail. Independent suppliers can view the monthly electricity consumption of their customers as well as hourly consumption of the customers who are connected to the automated meter reading system. Moreover, the suppliers, who have concluded individual agreements with AB LESTO, can receive the data via the WEB Service.

Article 69 of the Law on Electricity provides that, within 30 days from the date of receipt of the request of the service provider, the established prices and tariffs have to be announced by the NCC upon having verified that the requirements on pricing and establishment of tariffs have not been violated in the process, and the customers are not being discriminated against. Information about the electricity tariffs and prices is published on the NCC website [www.regula.lt](http://www.regula.lt) and in the Official Gazette *Valstybės žinios* [www.valstybes-zinios.lt](http://www.valstybes-zinios.lt).

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

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

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

### ***Public service obligations***

Pursuant to the Law on Electricity which came into effect in February 2012, the public service obligations in the electricity sector are as follows: the activity or its absence in the energy sector, which is directly or indirectly related to the state energy and/or public security, the security of operation and reliability of the electric power system, reduction of the negative impact of the electricity sector on the environment, diversification of energy resources and other objectives of sustainable development of the electricity sector. The PSO – the services supplied by the undertakings, the list, suppliers and the procedure of supply thereof is approved by the Government of the Republic of Lithuania or its authorized institution abiding by the general requirements prescribed in Article 74 of this Law and in line with the public interests in the electricity sector.

Pursuant to the aforesaid Article of the Law, in order to implement the strategic energy, economic and the environmental protection goals of the state policy in the electricity sector and to ensure the accomplishment of the public interests as well as in accordance with the provisions of this Law and other Laws of the legal framework governing the energy sector, the Government may provide that in the electricity sector the following activities are assigned to the PSO:




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

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

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

To accomplish transparency in the area of the PSO, at the end of 2010 the NCC approved the Procedure Regulations on Administration of the Public Service Obligations Payments aimed at establishing comprehensive and transparent procedure of the PSO payments' collection and disbursement, and setting the requirements on the accounting of and reporting on the use of the PSO funds. By this document the detailed and transparent procedure for the PSO revenues was established for the PSO suppliers, the requirements on the PSO payments accounting were laid down, which will enable the NCC to ascertain the reasonableness and fairness of the use of the PSO funds. In addition, the requirements on the information, which has to be accessible to every electricity consumer paying for the PSO, so that he would be aware for the supply of which particular PSO service and what amounts have been spent, were approved.

The NCC has also approved the Methodology for Setting the Public Service Obligation Prices in the Electricity Sector, the objective thereof is to define the comprehensive and transparent procedure for compiling the yearly PSO cost estimates and setting the PSO price for a calendar year. The Methodology governs the procedure for defining the PSO payments, the procedure for setting the PSO price and the additional requirements related to the PSO payments and setting the PSO price. This Methodology is followed by the NCC and by market participants supplying and



administering the PSO in the electricity sector. As mentioned in Chapter 3.2.2.2, the data concerning the PSO prices and their dynamics are posted on the NCC website [www.regula.lt](http://www.regula.lt). The cash flows prognoses, including those grouped by the types of renewable energy resources, disbursed PSO funds, collected PSO payments and other reports are posted on the website of the transmission system operator [www.litgrid.eu](http://www.litgrid.eu).

### ***Definition of vulnerable customers***

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

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

The goal embedded in Article 3 of the Law – to set a high level protection of consumer rights and legitimate interests by ensuring electricity availability and adequacy, protection of socially vulnerable customers and the groups thereof, implementation of their rights of access to information and efficient measures for protection of these rights. Pursuant to Article 6, the Government or its authorized institution has to set the list of vulnerable customers or the groups thereof and (or) additional guarantees applicable to such customers with regard to supply of electricity.

Issues concerning the extent of gas price, connection fees, and disconnection of natural gas because of debts, free use of the local common use system were the most actual for gas sector customers. Customers were also interested in the reasonability of the constant part of the price for natural gas.

Having received complaints regarding the free use of the gas undertaking of the local common use system, the NCC submitted a proposal to the NCC on specification of the Rules on the Usage of Local Common Use System. Having evaluated the situation that arises in practice when companies carrying out natural gas distribution activities which are actually connected to the local natural gas common use system fail to conclude an agreement on the provision of distribution services with the owners of the aforesaid systems as legal acts do not fix the procedure according to which an agreement on the provision of distribution services is concluded by the initiative of the owner of the system, the NCC proposed the rules to determine that an agreement on the provision of distribution services would be concluded by the initiative of the gas undertaking.



## 5.2. Dispute settlement

After entry into force of amendments to the Law on Energy, the NCC analyses the complaints and disputes of the consumers and energy companies regarding the actions and failure to act of energy companies in supply, distribution, transmission and storage of energy, refusal to grant the right to energy companies to use the networks and systems, the connection, the balancing of flows of supply of energy resources, application of prices and fees in the preliminary extra-judicial complaint handling procedure according to the rules of analysis of complaints and disputes set by the NCC. In accordance with the requirements of the Law on Energy, the Description of preliminary extra-judicial complaint analysis procedure was approved, which:

- Creates the conditions for consumers, energy companies and providers of potable water and wastewater management services to settle the disputes regarding the actions or failure to act of energy companies and providers of potable water and wastewater management services in a transparent and effective manner;
- Regulates in detail the dispute settlement procedure, establishes the rights and obligations of dispute parties and the NCC, the requirements for contents and form of presenting the request to solve a dispute and provides the possibility to settle the dispute peacefully, if the defendant satisfies the claim of the claimant prior to analyzing the dispute.

The NCC decision on the complaint or dispute is public to the extent it does not violate state, official, commercial secrets or individual privacy. The NCC analyses the complaint or dispute in written procedure, unless upon the request of any of the parties of the dispute or complaint or other stakeholders or on its own initiative the NCC decides that a complaint or dispute would be better analyzed at a hearing by verbal procedure. Procedural decisions made when analyzing a complaint or dispute, including the decision to refuse a request to analyze a complaint or dispute, to leave a request without analysis, to terminate or suspend the analysis of any complaint or dispute, to prevent any further analysis of a complaint or dispute may be appealed against in Vilnius Regional Court within 7 days of notification of the decision to the person concerned. Parties of the dispute within 30 days from the decision that resolves the dispute in principle or terminates the analysis, are entitled to apply to Vilnius District Court and ask for the consideration of the dispute.

In the gas sector, the most relevant were the issues regarding gas prices, connection fees, natural gas cut-off due to debts and free-of-charge use of the local common-use system. Consumers were moreover interested in the validity of the fixed share of price for natural gas.

Having received complaints regarding the free-of-charge use of the local common-use system, the NCC submitted to the Ministry of Energy a proposal to clarify the *Rules for the Use of the Local Common-Use System*. Having assessed the situation that has developed in practice, where companies engaged in the distribution of natural gas, which are actually connected to the local common-use natural gas system, do not conclude agreements on the provision of distribution services with the owners of the aforesaid systems, because legislative acts have established a procedure whereby agreements on the provision of distribution services are concluded on the initiative of the system's owner, the NCC suggested that the Rules should provide that agreements on the provision of distribution services should be concluded on the initiative of a gas company.

Complaints, inquiries and requests related to the services provided by natural gas companies and heard by the NCC are presented in Table 18.



Table 18. Consumer complaints, requests and enquiries received in 2012

Subject	Complaints, requests, applications and enquiries received
Regarding the natural gas price	10
Regarding connection fees	6
Regarding the disconnection due to debts	3
Regarding the local system use for common interests	3
Regarding the reasoning of fixed part of the price	2
Regarding the price of liquefied gas	2
Other (regarding consumer groups, regulatory principles of gas companies , etc.)	5
In total:	31

Source: NCC

Having examined a consumer's complaint regarding his/her attribution to a specific subgroup of household consumers, the NCC proposed to clarify one of the provisions of the Standard Terms of Agreements with Household Consumers on Natural Gas Supply, Transmission and Distribution, by establishing that the group (subgroup) of a household consumer shall be restated for the period from the date of connection until the end of a calendar year, following the assessment of consumption volume for the full calendar year.

Moreover on 21 December 2012, having received complaints from consumers and municipal authorities regarding the increase of prices of liquefied petroleum gas, the NCC addressed in writing the Competition Council of the Republic of Lithuania with a request to adopt a resolution regarding the need to assess the actions of companies selling liquefied petroleum gas to household consumers. On 28 January 2013, along with the Ministry of Energy, the State Consumer Rights Protection Authority, the Competition Council and representatives of municipal authorities, the NCC discussed the issue regarding an increase of liquefied petroleum gas price. In this context, an amendment of the Law on Energy, providing for an adjustment mechanism of the liquefied petroleum gas price, was drawn up.

This amendment to the Law provides that prices of liquefied petroleum gas subject to centralized supply are regulated by the state, whereas prices of liquefied petroleum gas subject to centralized supply fixed by the energy companies shall remain valid until 1 December 2013. Therefore, the NCC was entrusted with the task of drawing up a calculation methodology for prices of liquefied petroleum gas subject to centralized supply as well as setting up prices to be applied as of 2 December 2013.