



**Publishing date:** 07/12/2019

**Document title:** Agency Report - Analysis of the Consultation Document for Latvia

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## Agency Report

# Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Latvia

NRA: Sabiedrisko pakalpojumu  
regulēšanas komisija  
TSO: AS Conexus Baltic Grid

6 December 2019

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## 1. ACER conclusion

- (1) The Latvian National Regulatory Authority ('NRA'), Sabiedrisko pakalpojumu regulēšanas komisija has carried out the consultation on the reference price methodology ('RPM') for Latvia. The proposed methodology is a postage stamp methodology. However, the proposed tariffs are derived not only by using this postage stamp methodology, but are also based on a broader scheme applicable to the Finish, Estonian and Latvian networks ('FINESTLAT') for the integration of their markets. The complete methodology used to set tariffs for this region includes the following elements:
  - A common entry tariff of 142.77 €/MWh/d/y is set at all external entry IPs of the FINESTLAT zone.
  - Zero tariffs at the IPs within the FINESTLAT zone.
  - An Inter-TSO compensation ('ITC') mechanism agreement applied to the revenue collected from entries. This revenue covers the variable costs of the three FINESTLAT TSOs, while the remaining amount collected by the ITC mechanism is distributed between TSOs, proportionally to the consumption of each country of the FINESTLAT zone.
  - Finally, a postage stamp methodology solely applied to domestic and cross-border exits, applied per Member State ('MS') individually.
- (2) Based on this methodology a share of the TSO revenue is allocated to entries, while the remaining revenue is allocated to domestic and cross-border exits. The split of the revenue between the entries (based on the agreed entry tariff and subject to the ITC mechanism) and the exits (allocated based on the proposed postage stamp) is 22-78%.
- (3) The revenue allocated to entries from all TSOs is gathered and re-assigned to TSOs on the basis of two criteria:
  - First, TSOs are compensated for the 'eligible variable' costs (mostly compression costs) of their whole networks. The expected amount of these variable costs is not clearly mentioned in the consultation document.
  - Second, the remaining part of the revenue recovered from entries is assigned to TSOs, based on the domestic consumption of each involved MS.

As a result of this ITC mechanism and of the setting of an agreed tariff to entries, the Agency understands that the postage stamp methodology is only applied to exits, while tariffs for entries to the FINESTLAT zone are agreed between the different parties and are subject to an ITC mechanism.
- (4) The methodology and the calculations proposed by the Latvian NRA to set tariffs do not fully comply with the Network Code on Harmonised Transmission Tariff Structures for Gas ('NC TAR') as they are based on multiple exceptions that may contradict the basic principles of the NC TAR. The Agency fails to recognise, at this stage, an RPM that is applied consistently to all points of the network in order to allocate the revenue of the TSO on the basis of capacity-based tariffs.
- (5) Indeed, tariffs at domestic points are a commodity charge, calculated using a postage stamp methodology. During bilateral discussions, the Latvian NRA explained to the Agency that the Latvian gas system (both TSO and DSO) was not yet technically ready to implement a capacity charge at domestic exits. This suggests that the underlying implementation of an entry-exit model

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in the Latvian network, as required by Article 13 of Regulation (EC) 715/2009, of the Network Code on Capacity Allocation Mechanisms in Gas Transmission Networks ('NC CAM') and of the Network Code on Gas Balancing of Transmission Networks ('NC BAL'), is still on going. A proper implementation of the entry-exit model and of the standard capacity products is a prerequisite for the development of an RPM compliant with the NC TAR requirements. However, the Latvian NRA informed the Agency that work is underway to implement such a capacity based tariff at domestic points at the beginning of the next regulatory period in 2022, which the Agency welcomes.

- (6) In addition, the NRA proposes to recover a part of the costs associated with storage (UGS) facility via a non-transmission charge. As explained in the consultation document, the UGS facility is used to provide pressure to the network. For this purpose, a minimum quantity of gas is required to be kept in storage between the end of the injection season and 1 March. The Latvian TSO has to use a reverse auction mechanism to remunerate shippers accepting to store gas during this period. The resulting costs are allocated to the Latvian domestic exits. The NRA clarifies that this is a temporary solution. The Latvian law sets this obligation on the Latvian TSO until 2022 and a new compressor will be operational in the network in 2024, which will finally solve the problem.
- (7) While the ITC mechanism was accurately described in the consultation document, the Agency regrets that the settings of the ITC mechanism were decided upfront<sup>1</sup> and that the details made available to the Agency are insufficient fully to assess its impact.
- (8) Pursuant to Article 27(2) of the NC TAR, the Agency has analysed the compliance of the proposed methodology to calculate tariffs, including both the proposed postage stamp methodology and the ITC mechanism, with the provisions of the NC TAR. Based on the available data, the Agency concludes that:
  - The methodology used to calculate tariffs does not fully comply with the requirement of transparency and cost-reflectivity. In particular, the allocation of the compression costs between the three TSOs of the FINESTLAT region should be monitored by the Latvian NRA.
  - The criteria for setting the commodity charge are not applicable. The Agency nevertheless expresses its concern about the application of commodity tariffs at domestic exits, as referred to in paragraph (5) above. Such an approach is incompliant with Article 4(3) of the NC TAR.
- (9) While the Agency favours the regional integration of markets, it regrets that such an integration takes place at the price of incompliance with the NC TAR. Bilateral discussions with the Latvian NRA gave good hope that these inconsistencies with the NC TAR will only be temporary. The Agency provides in this Report several recommendations, to be applied both regionally and nationally in Latvia, to achieve compliance with the NC TAR.
- (10) Regarding the Latvian domestic tariffs being commodity-based, the Agency remarks that the obligation fully to implement the Third Energy Package, including the entry-exit model, precedes

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<sup>1</sup> The NRA and the TSO communicated to the Agency during a bilateral telco that the ITC was discussed between Estonia, Finland, Latvia and Lithuania together with stakeholders in 2017. The TSO agreement was later discussed between the NRAs of Estonia, Finland, Latvia in 2018. The Agency notes that such discussions did not include a public consultation.

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the implementation of the NC TAR. The NC TAR assumes the prior implementation of an entry-exit system for capacity sales, for which the appropriate metering infrastructure should be in place<sup>2</sup>.

- (11) Second, the Agency encourages the NRAs of the FINESTLAT region to consult jointly on the proposed ITC mechanism. While the latter requirement is not laid out in the NC TAR; it can be inferred from a joint reading of Articles 10 and 11 of the NC TAR. The Agency regrets that a consultation on the ITC mechanism was not carried out prior to or in parallel with the national tariff consultations of the FINESTLAT market zone. Such a consultation could take place within a period of one year. This time should allow clarifying among the parties involved in the process what are the realised and expected flow patterns within the FINESTLAT market zone (including those in the Baltic connector). Additionally, and given the role of future infrastructure to come online (such as the GIPL pipeline in 2022-23), a review of the flow patterns should take place again in 2023-24. These consultations should be based on greater coordination between the parties involved, and should aim at harmonising the regulatory and tariff periods to manage the reconciliation mechanisms appropriately.
- (12) Third, regarding the consultation on the ITC mechanism, the Agency remarks that the consultation document:
- Should be compliant with the requirements listed under Article 10(3) of the NC TAR applicable for the ITC mechanism.
  - Should clarify the costs that are subject to the ITC mechanism. Ideally, the consultation should include an assessment of the assets that are used across the market zone along the steps proposed in Chapter 5.
  - Should assess the way in which costs that are subject to the ITC mechanism are redistributed. These costs should be assigned across the market zone to the beneficiaries of the merger along the steps proposed in Chapter 5. Such mechanism should allow better to achieve the principle of avoiding cross-subsidisation between the cross-system and intra-system flows, as required by Article 10(3) of the NC TAR, and between the FINESTLAT networks.
- (13) Fourth, a common tariff set for entries can be compliant with the NC TAR (e.g. by applying benchmarking<sup>3</sup> or by setting an entry-exit split that allocates the required amount of revenue to entry points<sup>4</sup>). However, the approach adopted should maintain the compliance with other requirements of the NC TAR, in particular with the transparency obligations that allow network users to reproduce and forecast tariffs. The recommendations provided in paragraph (14) below aim at ensuring this requirement.
- (14) Fifth, the application of zero tariffs to certain points is compliant with the NC TAR as these points will be no longer bookable. However, such decision should be accompanied by a proper compensation of the missing revenue for the involved TSOs to avoid undue cross-subsidisation

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<sup>2</sup> This can be complemented by profiling of exit point flows based on statistical forecasts of the utilisation of the network.

<sup>3</sup> The Agency provides guidelines for the application of benchmarking in the Agency Report on the Analysis of the Consultation Document for Slovakia ([link](#))

<sup>4</sup> Such option would require the application of an equalisation adjustment to entry points if the network includes more than one entry point.

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between cross-system and intra-system use of the network. Article 10(3)(a)(i) of the NC TAR requires that '*an effective ITC mechanism*' complies with this condition. An assessment for such compensation has not been completed by the NRAs of the FINESLAT market zone.

- (15) Regarding the consultation on the proposed postage stamp methodology, the Agency recommends to the NRA to clarify the simplified model for the calculation of reference prices and to reassess the actual entry-exit split of the Latvian RPM.
  
- (16) On the proposed non-transmission charges applied in relation to the auctions ensuring a sufficient amount of gas in the UGS storage facility, the Agency cannot conclude that the tariffs are compliant with all the requirements laid out in Article 4(4) of the NC TAR. In particular, the Agency cannot conclude that the proposed charges are cost-reflective. The Agency recommends the NRA to monitor the auction procedures and to check that there is sufficient competition. The Agency notes, nonetheless, that this situation is only transitory.

## 2. Introduction

- (18) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas (NC TAR).
- (19) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems<sup>5</sup>. This Report presents the analysis of the Agency for the transmission system of Latvia.
- (20) On 13 August 2019, the Latvian NRA forwarded the consultation documents to the Agency. The consultation was launched on 8 August 2019 and remained open until 9 October 2019. On 14 November, an English translation of the consultation responses and their evaluation by the Latvian NRA were forwarded to the Agency. The Agency has taken these into consideration for this analysis.
- (21) Article 27(4) of the NC TAR provides a deadline of five months following the end of the final consultation, for the NRA to take and publish a motivated decision on all the items set out in Article 26(1) of NC TAR. Following the timeline communicated to the Agency, the NRA took its final decision on 27 November 2019, which preceded the legal deadline (2 months after the end of the public consultation) set by the NC TAR for the Agency to issue its Reports. However, several bilateral discussions, as well as the Agency's reports on the Estonian and Lithuanian transmission tariffs, have enabled the Latvian NRA to anticipate the main conclusions of this Report.
- (22) The Latvian NRA engaged willingly into a number of bilateral exchanges with the Agency to provide additional information. The Agency appreciates the openness of the NRA during this process, as it supported the analysis.

### *Reading guide*

- (23) Chapter 3 presents the analysis on completeness, namely whether all the information referred to in Article 26(1) of the NC TAR has been published. Chapter 4 focusses on compliance, namely whether the RPM complies with the requirements set out in Article 7 of the NC TAR, whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met, and whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met. Chapter 5 includes other comments relating to the regional market integration process. This document contains two annexes, respectively the legal framework and a list of abbreviations.

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<sup>5</sup> With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.

### 3. Completeness

#### 3.1 Has all the information referred to in Article 26(1) been published?

- (24) Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information referred to in Article 26(1) of the NC TAR has been published.
- (25) Overall, most of the information in Article 26(1) of the NC TAR has been properly published. Nonetheless, given the specific situation of Latvia and the ongoing FINESTLAT market integration, greater transparency should be provided on some items, as indicated in Table 1.

Table 1 Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
<b>26(1)(a)</b>	the description of the proposed reference price methodology	Partially (ITC)
<b>26(1)(a)(i)</b> <b>26(1)(a)(i)(1)</b> <b>26(1)(a)(i)(2)</b>	the indicative information set out in Article 30(1)(a), including: <ul style="list-style-type: none"> <li>the justification of the parameters used that are related to the technical characteristics of the system</li> <li>the corresponding information on the respective values of such parameters and the assumptions applied</li> </ul>	Partially (e.g. compression costs are not clearly forecasted)
<b>26(1)(a)(ii)</b>	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	Yes
<b>26(1)(a)(iii)</b>	the indicative reference prices subject to consultation	Yes. Although the duration for which they are applicable is unclear.
<b>26(1)(a)(iv)</b>	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	Yes
<b>26(1)(a)(v)</b>	the assessment of the proposed reference price methodology in accordance with Article 7	Yes
<b>26(1)(a)(vi)</b>	where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	Yes
<b>26(1)(b)</b>	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Yes
<b>26(1)(c)(i)</b> <b>26(1)(c)(i)(1)</b> <b>26(1)(c)(i)(2)</b> <b>26(1)(c)(i)(3)</b>	where commodity-based transmission tariffs referred to in Article 4(3) are proposed <ul style="list-style-type: none"> <li>the manner in which they are set</li> <li>the share of the allowed or target revenue forecasted to be recovered from such tariffs</li> <li>the indicative commodity-based transmission tariffs</li> </ul>	Not applicable
<b>26(1)(c)(ii)</b> <b>26(1)(c)(ii)(1)</b> <b>26(1)(c)(ii)(2)</b> <b>26(1)(c)(ii)(3)</b> <b>26(1)(c)(ii)(4)</b>	where non-transmission services provided to network users are proposed: <ul style="list-style-type: none"> <li>the non-transmission service tariff methodology therefor</li> <li>the share of the allowed or target revenue forecasted to be recovered from such tariffs</li> </ul>	Yes

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	<ul style="list-style-type: none"> <li>the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3)</li> <li>the indicative non-transmission tariffs for non-transmission services provided to network users</li> </ul>	
<b>26(1)(d)</b>	the indicative information set out in Article 30(2);	Yes
<b>26(1)(e)</b> <b>26(1)(e)(i)</b> <b>26(1)(e)(ii)</b> <b>26(1)(e)(iii)</b> <b>26(1)(e)(iv)</b>	<p>where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:</p> <ul style="list-style-type: none"> <li>the proposed index;</li> <li>the proposed calculation and how the revenue derived from the risk premium is used</li> <li>at which interconnection point(s) and for which tariff period(s) such approach is proposed</li> <li>the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed</li> </ul>	Not applicable

## 4. Compliance

### 4.1 Does the RPM comply with the requirements set out in Article 7?

- (26) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed reference price methodology complies with the requirements set out in Article 7 of the NC TAR. This article refers to Article 13 of Regulation (EC) 715/2009 and lists a number of requirements to take into account when setting the RPM: transparency, cost reflectivity, non-discrimination, cross-subsidisation and cross-border trade.
- (27) In the case of Latvia, the tariff setting calculation is partly determined by a market integration process (FINESTLAT) in which the Finish, Estonian and Latvian gas transmission networks are involved. This analysis starts by presenting the scope adopted by the Agency to complete the assessment of the RPM. The remainder of the section assesses the compliance of the proposed tariff setting mechanism with the provisions of the NC TAR. The section concludes with an analysis on the requirements listed in Article 7 of the NC TAR.
- (28) The consultation carried out by the Latvian NRA is based on a market integration scheme that involves the FINESTLAT networks. A description of this setting is provided in the Latvian consultation document and in the Memorandum of Understanding between the three involved NRAs plus the Lithuanian NRA that is included as part of the consultation documentation.
- (29) The market integration scheme includes the following elements relevant for the setting of gas transmission tariffs:
- A common entry tariff of 142.77 €/MWh/d/y set to all external entry IPs of the FINESTLAT zone.
  - Zero tariffs to the IPs within the FINESTLAT zone.

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- An ITC mechanism applied to the revenue collected from entries. This revenue covers the variable costs of the three TSOs, while the remaining amount collected by the ITC mechanism is distributed between TSOs, proportionally to the consumption of each country of the FINESTLAT zone.
- A national methodology applied individually per MS to set the tariff for exit points. Latvia applies a postage stamp methodology to its domestic exits.

### 4.1.1 Preliminary considerations on the analysis of the Agency

- (30) In this context, this Report assesses the compliance of the regional and national tariffication schemes to cover all the applicable tariffs in Latvia.

#### 4.1.1.1 Article 11 does not exempt from full compliance with the NC TAR

- (31) The standard application of the NC TAR is based on Article 6(3) which prescribes that *the same methodology shall be applied to all entry and exit points in a given entry-exit system*. There are two articles covering exceptions to this rule, Article 10 of the NC TAR, applicable to entry-exit system within a MS where more than one TSO is active; and Article 11 of the NC TAR, applicable to entry-exit systems covering more than one MS. In the case of the FINESTLAT market zone, the latter article applies. Article 11 of the NC TAR allows the following options:

- Apply the same RPM jointly by all MSs.
- Apply the same RPM separately by the involved MSs.
- Apply different RPMs separately by the involved MSs.

- (32) In its consultation document, the Latvian NRA argues that it applies the postage stamp methodology separately (second option above). The Agency notes that while this option can be used for the purpose of integrating the three market zones, such process should maintain compliance with the rules of the NC TAR. Overall, the proposed postage stamp methodology is only applied to domestic exit points while the tariff at the cross-border entry from Lithuania (Kiemanaï) is set by the ITC agreement between the three FINESTLAT TSOs. According to the Latvian consultation document, the same RPM is not applied per MS, as required by Article 6(3) of the NC TAR, since the regulatory and tariff periods, and the revenue reconciliation do not seem to be harmonised across countries. Finally, the structure of domestic tariffs (being based on commodity in the Latvian case until the next regulatory period) is not harmonised across the FINESTLAT market zone. Following these issues, it appears to the Agency that the MSs in the FINESTLAT market zone apply a different RPM in such a way that the proposed approach is not fully compliant with Article 11 of the NC TAR. These aspects are discussed individually in this Report, questioning the compliance of certain aspects with the NC TAR, and warning that the chosen design can potentially lead to market inefficiencies within the integrated market zone. In addition to this, the Agency remarks that the choice to apply different RPMs per MS leads to very different domestic tariffs per network, which can further increase the inefficiencies within the region.

#### 4.1.1.2 No actual consultation has been carried out on the ITC

- (33) The specific application of Article 11 of the NC TAR, particularly in the form proposed in the FINESTLAT zone, leads to the need to apply an ITC mechanism to guarantee revenue recovery for the TSOs. Article 11, however, does not refer explicitly to the option of applying an ITC

mechanism. It is instead Article 10 which describes this option. An ITC mechanism is justified if tariffs might not lead to TSOs recovering their allowed or target revenue. TSOs might not achieve full revenue recovery from the proposed tariffs in the FINESTLAT zone, particularly due to the common tariff proposed for entries and the zero tariff for the intra-zone IPs. For this reason, the Agency considers that the application of an ITC mechanism to the FINESTLAT market zone is justified on the basis of a joint reading of Articles 10 and 11 of the NC TAR, in particular with a view to Article 10(3), which describes relevant principles for '*an effective ITC mechanism*'.

- (34) At the same time, the Agency notes that, according to Article 10(5) of the NC TAR, the establishment of an ITC mechanism requires such a mechanism to be consulted at the same time as the RPM. In addition, Article 10(3) of the NC TAR lays out several requirements that the ITC mechanism should comply with:
- The ITC mechanism should prevent detrimental effects to the revenue recovery of the TSOs.
  - The ITC mechanism should avoid cross-subsidisation between intra-system and cross-system network use.
  - The ITC mechanism should ensure that the costs included in the mechanism correspond to those of an efficient TSO.
- (35) The Agency acknowledges that the ITC mechanism necessary to support the FINESTLAT zone is well described in the Latvian consultation document. However, the Agency regrets that this ITC mechanism has not been properly consulted, as the settings of this mechanism were decided by an agreement between the concerned TSOs before the consultation on the RPM for Latvia. While the requirement to consult is only mentioned in Article 10 of the NC TAR, the same reasons that justify such consultations apply for Article 11 (despite the fact that Article 11 does not repeat the provisions related to the ITC mechanism). In addition, both Article 10 and 11 fall under Chapter II of the NC TAR, on '*Reference Price Methodologies*' which is subject to transparency and consultation requirements<sup>6</sup>.

#### 4.1.1.3 The Agency's analysis looks at both national and regional elements

- (36) The Agency provides an assessment of the methodologies used to calculate tariffs, which include the postage stamp methodology, the ITC mechanism and the tariffs set at entries and intra market zone IPs. All these elements fall under Chapter II of the NC TAR. Article 27(2) requires that the Agency analyse *whether the proposed reference price methodology complies with the requirements set out in Article 7*.

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<sup>6</sup> Recital 2 of the NC TAR states that a crucial step in reaching the objectives of market integration, enhancing security of supply and promoting the interconnection between gas networks, '*is to increase the transparency of transmission tariff structures and procedures towards setting them. Therefore, it is necessary to set out the requirements for publishing the information related to the determination of the revenues of transmission system operators and to the derivation of different transmission and non-transmission tariffs. These requirements should enable network users to understand better the tariffs set for both transmission services and non-transmission services, as well as how such tariffs have changed, are set and may change*'. In addition, Recital 3 of the NC TAR states that '*the obligation to consult on the proposed reference price methodology should be laid down [serves to] achieve and ensure a reasonable level of cost reflectivity and predictability (...) of transmission tariffs*'. The Agency therefore understands that the TAR NC sets requirements to consult on all aspects related to the '*derivation of transmission tariffs*' with the aim of ensuring cost-reflectivity. Such obligations apply to the ITC, as it is a crucial element determining the cost-reflectivity of tariffs and it works in conjunction with the RPM itself.

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### 4.1.2 Proposed tariff setting methodology for Latvia

- (37) The following section assesses the four main components used to set tariffs regionally and for Latvia.

#### 4.1.2.1 Common entry tariff of 142.77 €/MWh/d/y for the FINESTLAT zone

- (38) The consultation proposes a tariff of 142.77 €/MWh/d/y to be applied at entries to the FINESTLAT zone, that is, to IPs with Russia and Lithuania. The consultation argues that the tariff is set at the proposed level to match the average EU gas transmission tariff for firm entry capacity at cross-border IPs<sup>7</sup>.
- (39) Once the tariff at entries is set, based on forecasted flows, it is possible to calculate the revenue to be recovered from entries. The remainder of the allowed or target revenue per TSO is allocated to exits using a tariff that is calculated using the postage stamp RPM. In the consultation document, the Latvian NRA proposes tariffs resulting in an entry-exit split of 22-78%, which corresponds, on the first hand, to the amount of revenue forecasted to be recovered using the common entry tariff (22%), and, on the other hand, to the revenue forecasted to be recovered at domestic exits using the RPM (78%). The Agency notes that the consultation document mentions a theoretical 50-50 split that would have been applicable if Latvia were not part of the FINESTLAT zone. However, the consultation document does not explicitly provide the actual entry-exit split resulting from the implementation of the FINESTLAT regional integration (with the application of the ITC mechanism and the equalisation of all external entry IPs).
- (40) The Agency remarks the NC TAR foresees several tools to arrive to a common entry tariff, such as the adjustment of the entry-exit split, the application of benchmarking<sup>8</sup>, or the application of equalisation when applying the same RPM to different entry-exit zones jointly. In all cases, the revenue that is not allocated to entry points is allocated to exit points. Such instruments, however, require the application of the RPM to all points of the networks, and the fulfilment of transparency provision, to allow network users to reproduce and forecast tariffs on the basis of well-defined tariff and regulatory periods.
- (41) In the case of the FINESTLAT zone, setting a single entry tariff to the market zone would be possible. However, the Agency understands that the features that were described in the consultation document lead to the RPM being applied only to domestic points and that tariffs at entries are set outside this RPM. The Agency recommends the NRA to review the compliance of the proposed calculation for deriving tariffs with the provisions of the NC TAR, so that the agreed entry tariff for the FINESTLAT market zone is accompanied by clear and well described steps explaining how the RPM is applied to all points and how different adjustments are applied to arrive at a common entry tariff.

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<sup>7</sup> Page 27 of the consultation document states that: Across 'EU Member States the average yearly entry capacity product tariff is EUR 128.44 MWh/day/year and standard error — 14.33 (calculations in Annex 11). Consequently, the indicative reference price at all FinEstLat single natural gas transmission entry-exit system entry points is EUR 142.77 MWh/day/year'. This information is consistent with the analysis of the Agency provided in the Market Monitoring Report 2018 (see page 45): [link](#).

<sup>8</sup> The Agency provides guidelines for the application of benchmarking in the Agency Report on the Analysis of the Consultation Document for Slovakia ([link](#))

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### 4.1.2.2 Zero tariffs to the IPs within the FINESTLAT zone

- (42) With the purpose of promoting cross-border trade across the FINESTLAT zone, the tariffs at IPs within the zone are removed. While the consultation document refers to this measure, it does not fully assess its impact. The removal of tariffs at specific points implies that the revenue associated to these points is not recovered by the users of these points. This revenue will therefore be recovered from other points, potentially leading to undue cross-subsidisation between network users. The Agency provides a conclusion on these effects in the next section.

### 4.1.2.3 ITC mechanism

- (43) The consultation document refers to an ITC mechanism that is applied to all the revenue recovered from the common entry tariffs of 142.77 €/MWh/d/y set for the FINESTLAT zone.
- (44) The revenue from entries is gathered and later allocated to TSOs according to two criteria.
- First, each TSO is compensated fully for its 'eligible variable' costs (mostly compression costs necessary to flow gas at a regional level). The figures provided to the Agency by the Latvian NRA do not allow to estimate how much these variable costs should amount to.
  - Second, the remaining revenue collected at the entries of the FINESTLAT region is allocated to each TSO in proportion to the share of consumption associated to its network compared to the total consumption of the FINESTLAT region.
- (45) The revenue corresponding to the 142.77 €/MWh/d/y tariff set at entries is not calculated on the basis of costs of specific assets. As explained in the previous paragraph, a first part of this revenue is used to recover the compression costs of each TSO, while the remaining 86.2% is allocated to each TSO in proportion to its share of consumption. Finally, the remainder of the costs of each TSO that are not subject to the ITC mechanism are recovered from their respective domestic exit points.
- (46) The Agency regrets that the ITC mechanism has not been consulted. As part of the consultation document, the NRA included a Memorandum of understanding dated November 2017, which does not provide the details of the ITC mechanism<sup>9</sup>. To the Agency's knowledge, there is no NRA Decision on this mechanism. The Agency recommends the NRAs participating in the market integration process to launch a consultation on the proposed ITC mechanism with the aim of providing a joint NRA Decision. Such consultation should address the following points:
- (47) First, the costs that are subject to the ITC mechanism. The current proposal applies to variable costs and to other unspecified costs without providing a justification for how such amounts have been set. The Agency understands that such figures result from setting the tariff to entry points to 142.77 €/MWh/d/y. However, the Agency understands from its discussions with the TSOs and the NRAs of the FINESTLAT region that an assessment has not been performed to evaluate the share of costs that should be included in the ITC mechanism. The cost benefit analysis described in Chapter 5 provides guidance for a joint assessment of transmission assets used within the regional market zone. This assessment should allow identifying the costs that should be logged into the ITC mechanism and should take into account the gas flows within the FINESTLAT market zone. The

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<sup>9</sup> See footnote 3.

allocation of these costs should be distributed to the beneficiaries of the integration to ensure cost-reflectivity of the mechanism as described in the next point.

- (48) Second, the calculation to redistribute the costs that are subject to the ITC mechanism. The proposed ITC mechanism is designed in such a way that it provides compensation in cases even where a TSO bears no costs<sup>10</sup>. This is because the TSOs' costs are mostly related to the cost drivers of capacity and distance, while the criteria for distributing the revenue logged into the ITC mechanism is based on the gas consumption. Both aspects, the costs drivers of capacity and distance on the one side, and domestic consumption on the other, are not necessarily correlated, and are particularly not correlated in cases where a network is used to transport gas to neighbouring networks (cross-system use of the network). The Agency recommends that the redistribution of the revenues that are subject to the ITC mechanism be assessed against Article 10(3)(a) of the NC TAR and is in line with Chapter 5. Such an assessment should provide clarity on the potential cross-subsidisation resulting from the ITC mechanism.
- (49) Third, the joint consultation should aim at the harmonisation of the tariff and regulatory periods and should touch upon the regulatory accounts of the TSOs involved to ensure that reconciliations are performed under similar conditions across TSOs.

#### 4.1.2.4 Proposed postage stamp RPM

- (50) Following the market integration set up, the NRA proposes to apply a postage stamp methodology. This RPM is applied only to domestic exits and allocates the revenue that is not recovered at entry points. In the case of Latvia this amounts to 78% of the TSO revenue. Since entry tariffs are set outside the RPM and tariffs at intra-zone IPs are removed, there is no other option but to apply the postage stamp methodology, as the relevant revenue is allocated to a single tariff applicable to domestic exits<sup>11</sup>. The Agency has several remarks regarding the assessment of the proposed RPM provided in the consultation document.
- (51) First, the proposed tariffs for domestic points are commodity based. The calculation provided<sup>12</sup> shows that the forecasted domestic consumption is used to derive the domestic exit tariff. In bilateral discussions, the NRA indicated to the Agency that the Latvian gas system is not yet technically ready to use a capacity charge at domestic exits, and that this solution will only be implemented at the beginning of the next regulatory periods. The Agency recommends the NRA to provide clarity

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<sup>10</sup> The Agency provides the following examples of cases:

- Should the Latvian exit to and entry from storage be discounted, it is not clear whether such discount is born only by Latvian users or by users of the FINESLAT market zone. In the former case, Latvian users would cross-subsidise neighbouring users if these were to use the Latvian storage.
- Should users of the Russian system access the Latvian storage, the Finish TSO could receive a compensation even if not bearing any costs for the service.
- Should users in the Lithuanian network access the Latvian storage, the Finish and Estonian TSOs would receive some compensation even if not bearing any costs for the service.

<sup>11</sup> Such conclusion is achieved assuming that there is a policy objective of having an equalised tariff for domestic exits. Should this not be a requirement of the methodology, tariffs for domestic points could be differentiated according to cost drivers, for example by using a CWD methodology.

<sup>12</sup> See page 6 of the consultation document.

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on the calculation used to set the current commodity charge and welcomes the objective to implement a fully capacity based transmission tariff at the beginning of the next regulatory period.

- (52) Second, the consultation document provides several version of the CAA, considering different scenarios, allowing to compare the Postage Stamp and the CWD RPM, with or without the creation of the FINESTLAT zone, and with or without the share of security of supply costs covered by the TSO (see Section 4.1.1.3). These calculations are done with booked capacity as the only cost driver (which does not allow properly to compare the Postage Stamp and CWD RPM). Nonetheless, the Agency welcomes the level of details provided which allows to assess the specificities of the Latvian transmission tariff. The result of the CAA taking into account the FINESTLAT zone is 159%, well above the 10% recommended by the NC TAR, but appears to be a logical result of the market integration (as most tariffs at cross-border IPs are cancelled).
- (53) Third, the comparison with the CWD methodology provided in the consultation document also takes into account several scenarios (without FINESTLAT, FINESTLAT without an equalised entry tariff, FINESTLAT with an equalised entry tariff). It allows deriving some conclusions about the impact of the ITC mechanism and the equalisation of entry tariffs in the FINESTLAT zone. Some entries would be almost twice as expensive as others if the CWD methodology was applied.

### 4.1.2.5 Discount for the connections with storage facilities

- (54) In addition, the Latvian NRA proposes to apply a 100% discount to entry points from and exit points to the Latvian storage facility, in line with Article 9 of the NC TAR.

### 4.1.3 Compliance with the requirements set out in Article 7

- (55) The information received on the ITC mechanism is only partial; therefore the analysis on the compliance of the proposed tariffs with Article 7 of the NC TAR cannot conclude that the requirements on cost reflectivity, non-discrimination, cross-subsidisation and cross-border trade are totally fulfilled.

#### 4.1.3.1 Transparency

- (56) **Article 7(a)** of the NC TAR requires that the RPM aim at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast. In the context of the Latvian consultation, the tariffs are determined by the postage stamp methodology and by the additional market integration setting, including the ITC mechanism. The relative lack of clarity regarding the links between these elements do not perfectly comply with the transparency requirements.
- (57) In particular, the consultation document does not provide clear explanations, about the calculation of the revenue split between entries and exits. According to the consultation document, this split would be 50-50, while the figures provided in Table 7 of the same document demonstrates that 78% of the Latvian TSO's allowed revenue will be recovered at exit points. The Agency recommends the NRA to clarify the parameters of the tariff model allowing to calculate tariffs. Such model should include the required steps related to the ITC mechanism and to the split of revenues between all entries and all exits. In the Latvian case, the revenues from the ITC mechanism should be considered as coming from an entry.

#### 4.1.3.2 Cost-reflectivity

- (58) **Article 7(b)** of the NC TAR requires the RPM to take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network.
- (59) Due to the partial information made available on the ITC mechanism, the Agency cannot fully assess the compliance of the proposed tariffs with the principle of cost-reflectivity. The Agency looks forward to completing this analysis once the full ITC mechanism is consulted by the NRAs involved in the FINESLAT market integration. The allocation of the compression costs between the three TSOs of the FINESLAT region should in particular be monitored.

#### 4.1.3.3 Cross-subsidisation and non-discrimination

- (60) **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.
- (61) One instrument to evaluate the compliance with the principle of avoiding cross-subsidisation is the cost allocation assessment (CAA, Article 5 of the NC TAR). The result for the capacity cost allocation comparison index is provided in the consultation document shows that the FINESLAT market integration will induce significant cross-subsidies between intra-system and cross-system users, which seems only logic for such a project. The expected benefits in terms of cheaper access to alternative source of gas, market liquidity and competition will likely easily compensate this downside.
- (62) Regarding the requirement of ensuring non-discrimination, the Agency has not identified any form of discrimination related to the proposed RPM. For this analysis, the Agency defines 'discrimination' as 'charging different prices to different network users for the identical gas transmission service'.

#### 4.1.3.4 Volume risk

- (63) **Article 7(d)** of the NC TAR requires that the RPM ensure that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.
- (64) Given the characteristics of the Latvian transmission system, such a risk seems unlikely. Nevertheless, as expressed in Section 4.1.3.2 on cost reflectivity, the Agency considers that the allocation of the compression costs, which are proportional to the amount of gas flowed, between the three TSOs of the FINESLAT region is unclear.

#### 4.1.3.5 Cross-border trade

- (65) **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.

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- (66) The Agency considers that the FINESTLAT market integration should favour cross-border trade within the region and that the proposed RPM comply with this requirement.

### 4.2 Are the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) met?

- (67) Article 27(2)(b)(2) of the NC TAR requires the Agency to analyse whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met.
- (68) The use of commodity-based transmission tariffs is an exception. Only part of the transmission services revenue may be recovered by commodity-based transmission tariffs. Latvia proposes to apply commodity-based transmission tariffs at its domestic exits for technical reasons. As already explained in this document, the Agency welcomes the objective to implement a fully capacity-based transmission tariff at the beginning of the next regulatory period.

### 4.3 Are the criteria for setting non-transmission tariffs as set out in Article 4(4) met?

- (69) Article 27(2)(b)(3) of the NC TAR requires the Agency to analyse whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.
- (70) The NRA clarifies that the security of supply of the Latvian network partly relies on the pressure provided by the UGS storage facility. To provide this pressure, the UGS requires a sufficient inventory level. Based on technical analysis, the Latvian law<sup>13</sup> has set a minimum level of 3,160 GWh in the storage facility from the end of the injection season to 1<sup>st</sup> March to guarantee the necessary pressure for the network.
- (71) Once the minimum level of gas required to be stored is set, the TSO together with the Ministry have determined an auction mechanism<sup>14</sup> as the most appropriate model for fulfilling the obligation of guaranteeing these levels. Network users can participate in this auction to store the gas in the UGS for a period of 5 months to guarantee the required level of pressure in the network.
- (72) This procedure leads to a cost element that is expected to represent 4.9 M€ out of the total 33.8 M€ allowed revenue of the TSO during the next tariff period. The total costs are influenced by different aspects such as the price of gas.
- (73) The NRA proposes to recover these costs as a non-transmission charge that is applied to domestic exit points. In the simplified model made available as part of the consultation, the NRA provides the commodity tariff that is applicable to domestic points. This tariff includes the non-transmission charge related to the auctions for the UGS. While the overall amount to recover is provided by the NRA, the resulting charge applied at domestic exits is not provided separately in the file.

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<sup>13</sup> Regulation of the Cabinet of Ministers N°312

<sup>14</sup> In this auction mechanism, shippers bid for the compensation they want to receive in order to accept to store gas in the UGS facility for the winter.

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- (74) The NRA clarifies that the use of the UGS facility for the purpose of providing pressure to the network is transitory. The Latvian law sets this obligation for the Latvian TSO until 2022 and a new compressor will be operational in the network in 2024, which will finally solve the problem.
- (75) Article 4(4) of the NC TAR requires the non-transmission services revenue to be recovered by non-transmission tariffs applicable for a given non-transmission service. Such tariffs shall be:
- cost-reflective, non-discriminatory, objective and transparent;
  - charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a MS.
- (76) The Agency acknowledges that Latvia needs to use the UGS facility with a sufficient pressure to ensure its security of supply. This relates to the design of the Latvian gas infrastructure that is over-dimensioned in comparison with the current consumption of the country. The NRA proposes to allocate these costs to the Latvian domestic points, which the Agency considers sensible. Indeed, the UGS facility provides a service to the transmission network that is necessary to ensure the security of supply of the Latvian consumers. The consultation document refers to these circumstances but does not provide sufficient information to assess the amount of gas needed<sup>15</sup>. The Agency can therefore not assess if the costs supported by the Latvian domestic consumers to use the UGS facility for the purpose of provided pressure to the transmission network is proportionate.
- (77) Regarding the requirement on cost-reflectivity, the Agency remarks that the overall cost-reflectivity of the mechanism depends on the conditions under which the auctions for storing gas in the UGS facility are carried out. The Agency has not had access to the specific details of this procedure and cannot therefore verify that the proposed non-transmission charge is compliant with this requirement. The Agency recommends that the NRA monitor the auctions and to verify a sufficient degree of competition in the bids. Should the auctions occur in the absence of competition, the resulting costs to be allocated to domestic users might become incompliant with the principle of cost-reflectivity. Therefore the Agency considers that the compliance with the requirement of cost-reflectivity is directly related to the existence of a sufficient degree of competition in the auction mechanisms.
- (78) In addition, the Agency understands that the mechanisms proposed to carry out the auctions relies on the summer-winter spreads of the market. Users bidding to store their gas in storage will do it assessing the level of spreads in the market. For this reason, the Agency understands that such an allocation of costs can potentially affect the market dynamics. The Agency recommends that the NRA assess the impact of the storage auctions on the market dynamics to ensure that the potential benefits provided by the UGS are not outweighed by the potential market distortions.
- (79) Finally, the Agency recommends that the NRA assess the ownership status of the UGS facility to ensure a separation between the users bidding to store gas and the UGS facility.

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<sup>15</sup> Joint research centre of European Commission. Joint Risk Assessment of the system of Estonia, Finland, Latvia and Lithuania, 2016.

## 5. Other comments: the regional ITC mechanism

- (80) The Agency acknowledges that an ITC agreement is necessary to enable the FINESTLAT member countries to make progress towards a truly integrated regional gas market, especially if greater focus is put on keeping stable and predictable revenues, while implementing zero tariffs between their respective networks. It also acknowledges that developing a regional ITC mechanism is a complex task.
- (81) As explained in its Report on the Lithuanian transmission tariff, the Agency considers that the current ITC mechanism is not sufficient to prevent cross-subsidies on the long run, as it is not based on an assessment of the costs that are caused by cross-border users. Therefore, the current design can only be transitory towards a more established ITC setting. In this context, the Agency would consider it meaningful the following steps for creating a sustainable ITC mechanism in the future.
- (82) First, the transmission assets jointly used within the regional market zone and their associated costs should be identified to ensure an acceptable level of cost-reflectivity at a regional level. Such an assessment should be based on a forecast of the flows across the FINESTLAT market zone, and these costs should be logged into the ITC mechanism.
- (83) Second, the ITC mechanism should ideally aim at allocating these costs in a manner that is in line with the distribution of the benefits of the market integration. In this way, the ITC mechanism would be sustainable as it could be used both for the costs of the existing infrastructure and for new investments. In addition, the cost-reflectivity principle promoted by the NC TAR would be safeguarded, since this kind of mechanism would allow to allocate efficient costs (and exclude sunk costs of over-dimensioned infrastructures) to their beneficiaries.
- (84) The last step in this process would be to adjust the domestic exits of each TSOs within the regional market, to allow them to recover their allowed or target revenue from domestic users after the contribution of cross-border users to the ITC mechanism has been established.

## Annex 1: Legal framework

Article 27 of the NC TAR reads:

1. *Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.*

2. *The Agency shall analyse the following aspects of the consultation document:*

*(a) whether all the information referred to in Article 26(1) has been published;*

*(b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:*

*(1) whether the proposed reference price methodology complies with the requirements set out in Article 7;*

*(2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;*

*(3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.*

3. *Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.*

*The Agency shall preserve the confidentiality of any commercially sensitive information.*

4. *Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.*

5. *The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.*

Article 26(1) of the NC TAR reads:

1. *One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:*

*(a) the description of the proposed reference price methodology as well as the following items:*

*(i) the indicative information set out in Article 30(1)(a), including:*

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- (1) *the justification of the parameters used that are related to the technical characteristics of the system;*
  - (2) *the corresponding information on the respective values of such parameters and the assumptions applied.*
- (ii) *the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;*
- (iii) *the indicative reference prices subject to consultation;*
- (iv) *the results, the components and the details of these components for the cost allocation assessments set out in Article 5;*
- (v) *the assessment of the proposed reference price methodology in accordance with Article 7;*
- (vi) *where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);*
- (b) *the indicative information set out in Article 30(1)(b)(i), (iv), (v);*
- (c) *the following information on transmission and non-transmission tariffs:*
  - (i) *where commodity-based transmission tariffs referred to in Article 4(3) are proposed:*
    - (1) *the manner in which they are set;*
    - (2) *the share of the allowed or target revenue forecasted to be recovered from such tariffs;*
    - (3) *the indicative commodity-based transmission tariffs;*
  - (ii) *where non-transmission services provided to network users are proposed:*
    - (1) *the non-transmission service tariff methodology therefor;*
    - (2) *the share of the allowed or target revenue forecasted to be recovered from such tariffs;*
    - (3) *the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);*
    - (4) *the indicative non-transmission tariffs for non-transmission services provided to network users;*
- (d) *the indicative information set out in Article 30(2);*
- (e) *where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:*
  - (i) *the proposed index;*
  - (ii) *the proposed calculation and how the revenue derived from the risk premium is used;*
  - (iii) *at which interconnection point(s) and for which tariff period(s) such approach is proposed;*
  - (iv) *the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.*

Article 7 of the NC TAR reads:

*The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:*

- a) *enabling network users to reproduce the calculation of reference prices and their accurate forecast;*
- (b) *taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*
- (c) *ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;*

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- (d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
- (e) ensuring that the resulting reference prices do not distort cross-border trade.

Article 13 of Regulation (EC) No 715/2009 reads:

1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a nondiscriminatory manner.

Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.

Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.

Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.

2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.

Article 4(3) of the NC TAR reads:

3. The transmission services revenue shall be recovered by capacity-based transmission tariffs. As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:

(a) a flow-based charge, which shall comply with all of the following criteria:

- (i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;
- (ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;
- (iii) expressed in monetary terms or in kind.

(b) a complementary revenue recovery charge, which shall comply with all of the following criteria:

- (i) levied for the purpose of managing revenue under- and over-recovery;
- (ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;

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*(iii) applied at points other than interconnection points;*

*(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.*

Article 4(4) of the NC TAR reads:

*4. The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given nontransmission service. Such tariffs shall be as follows:*

*(a) cost-reflective, non-discriminatory, objective and transparent;*

*(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.*

*Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.*

## Annex 2: List of abbreviations

Acronym	Definition
<b>ACER</b>	Agency for the Cooperation of Energy Regulators
<b>CAA</b>	Cost Allocation Assessment
<b>CAPEX</b>	Capital Expenditures
<b>CBCA</b>	
<b>CWD</b>	Capacity Weighted Distance
<b>EC</b>	European Commission
<b>ENTSOG</b>	European Network of Transmission System Operators for Gas
<b>EU</b>	European Union
<b>FINESLAT</b>	Market integration zone involving Finland, Estonia and Latvia.
<b>IP</b>	Interconnection Point
<b>MS</b>	Member State
<b>NC BAL</b>	Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a network code on gas balancing of transmission networks
<b>NC CAM</b>	Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission networks
<b>NC TAR</b>	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas transmission networks
<b>NRA</b>	National Regulatory Authority
<b>OPEX</b>	Operational Expenditures
<b>RAB</b>	Regulated Asset Base
<b>RPM</b>	Reference Price Methodology
<b>TSO</b>	Transmission System Operator
<b>VIP</b>	Virtual Interconnection Point



**Publishing date:** 07/12/2019

**Document title:** Agency Report - Analysis of the Consultation Document for Latvia

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