

**NATIONAL CONTROL COMMISSION FOR PRICES AND ENERGY**

**ANNUAL REPORT OF THE LITHUANIAN ELECTRICITY AND NATURAL  
GAS MARKET TO THE EUROPEAN COMMISSION**

VILNIUS, 2005

## INTRODUCTION

Liberalisation of the electricity sector in Lithuania has started with an implementation of the Law on Electricity in 2002. Vertically integrated monopoly *Lietuvos energija* was split into a separate transmission company, two distribution and two generation companies. Regulated third party access to the grid was allowed and eligibility level defined. The Law on Electricity was amended in 2004, it complies with the EC Directive 2003/54/EC, so all commercial consumers are free to choose a supplier. In practice, only initial steps towards competitive electricity market are done as Ignalina Nuclear Power Plant clearly dominates in the market. Regional, Baltic electricity market should be created, but electricity market liberalisation just only started in Latvia and is postponed in Estonia.

Restructuring of the national gas company was done separating other activities (LPG, gas equipment manufacturing) from the natural gas business. *Lietuvos dujos* functions as a vertically integrated company with unbundled transmission, distribution and supply activities. The Law on Gas was implemented in 2001 introducing the regulated third party access for all consumers with an annual demand exceeding 15 Mm<sup>3</sup>. Though the Government of Lithuania was further opening the gas market number of the eligible consumers leaving the incumbent supplier *Lietuvos dujos* was not increasing as there was only one independent supplier, Dujotekana, selling at higher price. On the other hand, both suppliers were buying gas on the state border from Gazprom, with no other foreign suppliers and routes available.

This report was prepared by the energy regulator, National Control Commission for Prices and Energy, based on the materials and data presented by the Ministry of Economy, electricity transmission and distribution companies (*Lietuvos energija*, VST and RST), and gas company *Lietuvos dujos*.

Chairman

Vidmantas Jankauskas

## 2. SUMMARY

### **Composition and Tasks of the National Control Commission for Prices and Energy**

National Control Commission for Prices and Energy (further – the NCC) was set up in 1997 under the 1995 Law on Energy, which regulated that an independent commission should be in charge of energy pricing. Since amendments were made to the law in July 1997, granting the NCC the right to adjust or unilaterally fix prices for electric power, district heating, hot water and natural gas, the year 1998 was practically the first year of real activities of the NCC.

In 2000 the legal framework for liberalisation of the natural gas and electricity markets was laid by the Seimas of the Republic of Lithuania, which adopted the Law on Electricity and the Law on Natural Gas. In essence, provisions of these laws comply with the EU directives requiring gradual opening of the electricity and natural gas markets, definition of eligible customers, ensuring non-discriminatory third-party access to monopolised systems, and setting tariffs for the systems use. Pursuant to these laws, the NCC was transformed from a Price Commission in charge of pricing and price setting and application into an economic regulator of energy, with the functions similar to most Western (and not only Western) regulators.

In 2000, a new area of activities – licensing and surveillance of licensees operation – was assigned to the NCC. The Law on Electricity and the Law on Natural Gas emphasize that the core activities in these sectors are subject to licences, which became not only a permit for participation in the market, but also the instrument for control of the quality of services, reliability of supply, environmental and other standards. The aforementioned laws foresee that the NCC shall resolve disputes on the right to use networks, impose penalties for law offences, and approve eligible customers. The Licence Division was established for performance of the indicated works.

On 1 July 2002, a considerably updated Law on Energy came into effect. The law explicitly and unambiguously defines the NCC functions and duties, responsibility of individual members, procedure for appointment of members etc. According to the new edition of the Law on Energy, five members of the NCC are appointed by the President of the Republic on proposal of the Prime Minister for a period of five years, and the Commission Regulations are approved by the Government. This law enforced the new role of the NCC as a regulator of the liberalised energy market. The specific tasks of the NCC are formulated in the Regulations approved by the Government. The main task of the NCC is to exercise supervision over the electricity, natural gas, heating and water markets.

Until 1 July 2004, the two European Union Directives, namely, Electricity Directive and Natural Gas Directive, envisaging a speedy opening of the market, the more important role of energy regulators in market surveillance, customer protection, etc., had to be implemented. The new

edition of the Law on Electricity adopted by the Seimas on 1 July 2004 complies substantially with the provisions of the EU Electricity Directive relating to market opening and surveillance. The additional functions foreseen for the NCC cover the supervision of the activities of transmission and distribution system operators (how the rules for distribution and regulation of permeability of interconnecting lines with other systems are followed, how quickly new customers are connected, how efficiently the accounting of different activities is unbundled, etc.), exercising market monitoring and surveillance, and control over supply reliability and quality of services.

In 2004 a discussion on the new edition of the Law on Natural Gas took place; it continued also in 2005 after the election of the new Seimas. The discussion focuses on the issue of whether regulation of natural gas prices for eligible customers is required when there is no evident competition; building of direct pipelines is also a matter of concern.

Thus, currently, the activities in energy are regulated by sectoral laws, establishing the basis of legal regulation, the Government resolutions implementing them and other legal acts, the NCC is being guided in its activities.

### **Functions of the NCC.**

The basic legal act defining the functions of the NCC is the Law on Energy. Part 5 of Article 17 of this law specifies that the NCC shall perform the following functions:

- 1) approve the methodology for setting state regulated prices;
- 2) set state regulated price caps;
- 3) control the application of state regulated prices and tariffs;
- 4) approve charges for connection of energy facilities (networks, systems and equipment);
- 5) have the right to introduce unilaterally state regulated prices where energy enterprises are not in compliance with the requirements for setting of these prices;
- 6) when setting the state regulated prices shall take account of the return on investment and justification for operating expenditure;
- 7) approve the purchase price for electricity generated from renewable energy resources;
- 8) grant, suspend and revoke licences for transmission, distribution, storage and supply of energy, and check the licensed activities of energy enterprises;
- 9) adjust prices of energy enterprises involved in the activities with regulated prices, norms of depreciation of long-term assets used in these activities;
- 10) have the right to submit proposals to the Government, the Ministry of Economy and municipalities in respect of the licensed activities of energy enterprises;

11) have the right to obligate energy enterprises to conclude contracts for transmission, distribution or supply of energy where energy enterprises refuse to a third party to provide services or to supply energy to customers;

12) perform other functions provided for in legal acts.

The functions of the NCC are detailed in the Regulations of the National Control Commission for Prices and Energy, approved by a resolution of the Government. Twenty one functions of the NCC are listed in this legal act, even though this list is also not final.

### **Independence and Accountability.**

Independence of the NCC is ensured due to several conditions:

- The NCC is not bound by any direct subordination relations with other institutions;
- The Chairman of the NCC and four members are appointed by the President of the Republic, on the recommendation of the Prime minister;
- The Chairman of the NCC and members are discharged from office only upon expiry of their term of office; upon their resignation, when a conviction rendered by court against them becomes effective; when it transpires that they have committed a grave breach of the requirements for the position held, and in other cases prescribed by law.
- The NCC is financed with the state budget of Lithuania, allocating assignments by a separate line.

The totality of those provisions of the law ensures an institutional, personal and financial independence of the NCC.

The Law on Energy foresees two forms of accountability: personal and institutional. In Part 6 of Article 17 of the Law on Energy it is provided that the NCC is responsible for the decisions taken. The decisions of the NCC are adopted by a roll-call vote. They may be appealed following the procedure prescribed by law.

The institutional accountability of the NCC activities is reflected in the annual reports. At the close of a calendar year, the NCC shall, within four months, draft its annual report. The report shall be made public and submitted to the President of the Republic of Lithuania, the Seimas and the Government.

### **Competence Sharing with Other State Institutions.**

The Law on Energy defines that State management of energy sector in the Republic of Lithuania shall be carried out by:

- 1) Government or its authorised institution;
- 2) Ministry of Economy;
- 3) Ministry of Environment;
- 4) municipalities.

While carrying out State management of the energy sector, the Government shall formulate and implement State policy in the energy sector, submit the National Energy Strategy to the Seimas for approval, approve the plan and programmes for the implementation of the National Energy Strategy, have the right to regulate the principles of price setting when the prices are subject to state regulation and perform other functions prescribed by laws.

The Ministry of Economy pursues State policy in the energy sector, drafts and approves legal acts regulating supply safety, installation, exploitation, technical safety, efficient employment of energy objects and equipment and other technical issues and performs other functions.

The Ministry of Environment tackles issues pertaining to environmental protection and construction.

Municipalities within the limits of their territories and competence established by laws regulate heat supply to customers, issue permits for trade in liquefied oil gas in the procedure prescribed by the Ministry of Economy and carry out functions attributed to its competence.

The core task of the NCC is to exercise surveillance over electricity, natural gas, heat and water markets.

The NCC within its powers in the preliminary extrajudicial procedure for handling of complaints examines complaints regarding the activity or inactivity of energy undertakings in supplying, distributing, transmitting and storing energy, concerning not granting the right to use networks and systems, the connection, balancing of the energy supply flows, and application of prices and tariffs.

Complaints of natural persons concerning the application of unfair conditions in purchase and sales or service supply agreements are handled by the National Consumer Rights Protection Board under the Ministry of Justice.

The State Energy Inspectorate considers complaints regarding the damages of energy facilities, equipment and accounting devices, violations in operation, energy quality requirements, energy accounting and payment for the energy consumed, accidents, interruption, suspension or restriction of energy supply.

**Development of Electricity and Gas Markets. Main Issues under Consideration of the Commission.**

With the adoption of the new edition of the Law on Electricity as at 1 July 2004, the methodologies for setting prices for public electricity services of public supply and prices for electricity transmission and distribution services as well as their caps were amended. The methodologies also assessed the recommendations contained in the 2003 survey of the legal and regulatory structure in the electricity sector of Lithuania. In accordance with the said legal acts, the NCC in 2004 set the ceilings of prices for electricity transmission, distribution and supply services for a three-year regulatory period. The ceilings of public prices were also approved for the year 2005.

The application of the principles of competition in the electricity generation and supply sectors encourages to seek higher efficiency as well as gives the opportunity to consumers themselves to choose the supplier/producer of electricity. From 1 July 2004, all customers (except for household customers) may negotiate with independent suppliers over electricity generation and supply prices.

In 2004, in the natural gas sector, special attention was focused on amendments to the Law on Natural Gas drafted by the Ministry of Economy. The purpose of amendments was to harmonise the legal norms governing the Lithuanian natural gas sector with the latest principles of organisation and regulation of the European Union natural gas internal market.

The draft law provides for a gradual opening of the gas supply market: primarily, non-household customers will be entitled to select a supplier of their choice, and from 1 July 2007 all customers will become eligible customers. Compared with the law currently in force, additional measures have been foreseen for ensuring security of customers, reliability of gas supply, transparency of the structure of regulated enterprises; for harmonising of regulatory functions with functions of peer institutions in the EU, for ensuring provision of information to the European Commission.

## INTRODUCTION

Before 2002 the structure of the Lithuanian electricity sector could be described as a single vertically integrated monopoly (*Lietuvos Energija AB*) and the State Enterprise Ignalina Nuclear Power Plant as the largest producer.

At present the Lithuanian electricity sector is reformed and transition to a market-based system in line with the requirements of the EU Directives on the electricity market has been made.

The Law on Reorganisation of *Lietuvos Energija* Public Limited Liability Company adopted in 2000 stipulated that this monopoly had to be reorganised by unbundling all minor activities and dividing them into separate technical links of production, transmission and distribution.

In the same year the Law on Electricity was also adopted in line with the provisions of the European Union directives according to which electricity markets must be opened gradually by legalising eligible consumers, non-discriminatory access to monopolistic networks and setting tariffs for using networks.

After adoption of the above legal acts, the NCC established in 1997 is responsible not only for pricing, setting and applying prices but also for licensing and control of licensees, development of market relations, service quality, etc. Also, the NCC settles arguments concerning the right to use networks and imposes fines for various legal infringements. Thus, it is an economic regulation commission performing the same functions as corresponding regulators of many Western (and not only Western) countries.

On 1 January 2002 one vertically integrated monopoly was replaced by two electricity producers (*Lietuvos Elektrinė* and Mažeikiai Thermal Power Plant), one transmission also acting as a market operator (*Lietuvos Energija AB*) and two distribution network companies (*Rytu Skirstomieji Tinklai AB* and *VST AB*). Pursuant to the Law on Electricity, electricity production prices as well as power reserve prices are not regulated but set by the market. However if producers or independent suppliers occupy over 25% of the market, the Commission sets their prices and procedure of regulation with a view to preventing abuse of dominant position. In electricity production and supply a competitive market was started to be realised where prices were set at auctions or coordinated by agreement between parties, and the NCC performed the role of an antimonopoly control institution. Activities of transmission system and distribution network operators are regulated by setting for the period of three years price caps for transmission and distribution services to prevent abuse of dominant position and discrimination against certain market players by not allowing them using networks or setting higher transportation tariffs. The market operator organises sale of electricity in accordance with the Rules of Commerce and is responsible for announcing electricity prices formed according to the Rules and for organising the settlement procedure of market players.

**Since 1 April 2002** eligible consumers can choose the supplier and purchase electricity from the selected producer and additional electricity is sold at auctions.

**In 2003** 77% of shares in the *Vakarų Skirstomieji Tinklai* AB owned by the state by property right were sold to the Lithuanian Company *NDX Energija*.

The new version of the Law on Electricity adopted by the Seimas **on 1 July 2004** is essentially in line with the provisions of the new European Union Directive 2003/54/EC of 26 June 2003 relating to market opening and control. Since the above date all commercial electricity users acquired the right to freely select the supplier and negotiate supply conditions with them, and from 1 July 2007 such a right should also be granted to the remaining consumers – households.

In the third year of existence of the electricity market its opening reached 74% and its advantages have been used by the largest companies of the country constituting 15% of electricity consumption in the country. With domination of Ignalina NPP in production and given the excess of powers, other power plants occupy just a very small part of the market.

Development of market relations and competition between the Baltic States is hindered by the fact that in the neighbouring countries the reform of electricity economy makes its first steps and there is no direct connection with electricity systems of Western Europe and Scandinavia. However Memorandum on the Common Baltic Electricity Market and information exchange were signed as early as in 2002. Planned connections with Polish and Swedish energy systems would make it possible to integrate in electricity markets of Western Europe and Scandinavia and to increase reliability of energy supply.

To summarise recent changes in the Lithuanian electricity system, one can state that:

- after 1 January 2002 the vertically integrated energy company *Lietuvos Energija* AB was divided into five independent companies: two electricity producers, one transmission and two distribution companies. So, activities of electricity production, transmission and distribution are unbundled as required by the European Union legislation.
- the Law of the Republic of Lithuania on Electricity having come into force since 1 January 2002 and by-laws adopted at the end of 2001 as well as the new version of the Law of the Republic of Lithuania on Electricity having come into force since 10 July 2004 created conditions for functioning and development of the electricity market.

therefore, the conditions are essentially created for development of competitive relations in a transparent environment as demanded by the European Union Directive 96/92/EC concerning common rules for the internal market in electricity and Directive 2003/54/EC of 26 June 2003 amending it.

### 3. REGULATION AND PERFORMANCE OF THE ELECTRICITY MARKET

#### 3.1 REGULATION ISSUES

##### 3.1.1 GENERAL

The European Union Directive on electricity providing for rapid opening of the market, a more important role of regulators in controlling market activities and consumer protection was to be implemented by 1 July 2004. On 1 July all commercial electricity consumers had to become eligible, i.e. to acquire the right to freely choose the supplier and negotiate supply conditions and prices with them.

The new version of the law on Electricity adopted by the Seimas on 1 July 2004 is essentially in line with the provisions of the new European Union Directive on electricity relating to market opening and control. Pursuant to Article 40 of the new version of the Law on Electricity, the electricity market in the country is formed in stages by gradually granting the right to regulated participation of the third party and the right to enter into a direct electricity supply agreement with freely selected independent suppliers. From 1 July 2004 such a right was granted to all non-household consumers. They may negotiate prices for electricity production and supply services with independent suppliers. Lithuania has 74% of the market open legally. However in reality this right is exercised by those market players who could do that even before under the version of the Law on Electricity adopted in 2000. Their electricity consumption constitutes 15% of the total electricity consumption in the country. At the same time consumers whose installations are connected to the distribution network in 2004 purchased electricity from public suppliers.

From 1 July 2007 the right to choose the electricity supplier will be granted to the remaining consumers – households.

##### Market Opening

Indicator	2002	2003	Before 1 July 2004	From 1 July 2004	From 1 July 2007
Electricity consumption by eligible consumers of the total electricity consumption by all consumers, %	20	23	25	74	100
Electricity consumption by eligible consumers having chosen independent suppliers of the total electricity consumption by all consumers, %	17	17	15	15	-

Purchased Electricity Market Share Occupied by Suppliers in 2004

Suppliers	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total	%
Independent suppliers (IS)	247,744	247,691	277,736	276,445	1,049,616	12.06
<i>Vakarų Skirstomieji Tinklai</i> VT AB	1,040,606	804,842	807,915	1,011,592	3,664,955	42.12
<i>Rytų Skirstomieji Tinklai</i> VT AB	1,120,609	850,901	848,018	1,106,934	3,926,462	45.12
<i>Visagino Energija</i> VŠĮ	16,045	13,841	13,780	17,151	60,817	0.70
Total	2,425,004	1,917,275	1,947,449	2,412,122	8,701,850	100.00

In comparison to the previous year, the shares of electricity purchased by suppliers remained almost the same because of stable monomial prices applied by public suppliers which were lower than the allowable price cap. However in the future quantities of electricity purchased from independent suppliers may be bigger because of new electricity tariffs of distribution network operators and public suppliers and pricing structures of the distribution service assessing consumption effectiveness and shares of covering actual costs.

### 3.1.2 MANAGEMENT AND ALLOCATION OF INTERCONNECTION CAPACITY AND MECHANISMS TO DEAL WITH CONGESTION

The Lithuanian transmission network is quite well integrated with neighbouring energy systems:

- with the Latvian energy system – four 330 kV and three 110 kV lines;
- with the Belarusian energy system – five 330 kV and seven 110 kV lines;
- with the Kaliningrad energy system – three 330 kV and three 110 kV lines.

The system currently has no connection with the neighbouring Polish energy system.

The maximum possible flows with the neighbouring countries shown in the table will be valid given the normal network layout.

#### Maximum Possible Flows with Neighbouring Countries Valid

Connection	Capacity, MW
Lithuania – Latvia	1,540
Latvia – Lithuania	1,170
Lithuania – Belarus	1,850
Belarus – Lithuania	970
Lithuania – Kaliningrad	680

## Network Capacity Used as of January 2005

Connection	Maximum, %
Lithuania – Latvia	15
Latvia – Lithuania	37
Lithuania – Belarus	14
Belarus – Lithuania	33
Lithuania – Kaliningrad	82

The mini-forum of European regulators held in Riga on 14 February 2005 stated that now and in the nearest future the Baltic countries had no critical problems relating to network transfer capacity. However before the closure of Ignalina NPP transmission system operators of the Baltic countries will have to draft proposals and measures for managing network congestion in the Baltic countries taking account of the state of Russian and Belarusian networks.

At present the transmission system operator calculates the transmission network congestion using the Methodology of Calculating Interconnection Cross-Section Transfer Capacity. This methodology allows assessing maximum flows, dynamic stability, emergency reserves and other parameters of the network state.

## Stages of Planning and Network Congestion Management

Stage	Deadline	Parameters assessed
Pre-planning	More than a week in advance	Import/export Scheduled repairs
Planning	A week in advance	Working plan of the hydro pumped-storage power plant Working plan of the hydro power plant Network state
	A day in advance	Specifications to the working plan of the hydro pumped-storage power plant Specifications to the working plan of the hydro power plant Specifications to the network state
Congestion management	On the day of operation	Work of power plants Reserve activation Network state

### **3.1.3 THE REGULATION OF THE TASKS OF TRANSMISSION AND DISTRIBUTION COMPANIES**

Lithuania has one national network company *Lietuvos Energija* AB performing the function of the transmission system operator. It performs the functions of the owner of the electricity transmission network (voltage – 110-330 kV), the system operator and the market operator. The transmission network operator works under the electricity transmission license.

Distribution activities in Lithuania are performed by 3 distribution companies: *Rytų Skirstomieji Tinklai* AB, *VST* AB and *Visagino Energija* VĮ. The companies own electricity distribution networks, i.e. low-voltage (0.4 kV) and medium-voltage (up to 110 kV) electricity networks. All those companies perform the functions of the distribution network operator and the public supplier. The public supplier is obliged to supply electricity to all consumers willing to purchase it within the territory serviced. Costs of those activities are unbundled. Accounting is performed separately for every kind of licensed activity.

*Rytų Skirstomieji Tinklai* AB is responsible for maintenance, reliability and development of low-voltage and medium-voltage electricity networks in the eastern part of Lithuania.

*VST* AB is responsible for maintenance, reliability and development of low-voltage and medium-voltage electricity networks in the western and central parts of Lithuania.

*Visagino Energija* VĮ is responsible for maintenance, reliability and development of low-voltage and medium-voltage electricity networks in Visaginas Town.

Pursuant to the Law of the Republic of Lithuania on Electricity, licensed activities include those of an electricity market operator, electricity transmission, distribution, public and independent supply. Licensing rules are subject to approval by the Government of the Republic of Lithuania. Licenses are issued and licensed activities are controlled by the NCC.

In 2004 in Lithuania licensed activities were performed by one electricity transmission system operator, 3 regional and 4 local electricity distribution network operators listed in the table.

## Data on Network Operators

No.	Name of the company	Kind of license	Local or national network	Major shareholders
1	<i>Lietuvos Energija</i> AB	Electricity transmission	National	State
2	<i>Rytų Skirstomieji Tinklai</i> AB	Electricity distribution and public supply	Regional	State
3	<i>VST</i> AB	Electricity distribution and public supply	Regional	<i>NDX Energija</i> UAB
4	<i>Visagino Energija</i> VĮ	Electricity distribution and public supply	Local	State
5	<i>Achema</i> AB	Electricity distribution and public supply	Local	Private company
6	<i>Akmenės Cementas</i> AB	Electricity distribution and public supply	Local	Private company
7	<i>Ekranas</i> AB	Electricity distribution and public supply	Local	Private company
8	<i>Lifosa</i> AB	Electricity distribution and public supply	Local	Private company

The Law on Electricity stipulates two types of electricity supply licenses – public electricity supplier (PES) and independent electricity supplier (IES). The public electricity supplier is obliged to supply electricity to all consumers located within the territory specified in the license and eligible consumers who have not selected an independent supplier. The independent supplier may supply electricity only to eligible consumers. The number of licensed electricity suppliers is shown in the table.

## Number of Electricity Suppliers by Years

Number of supply licenses issued		Performed licensed activities in 2004		Performed licensed activities in 2003		Performed licensed activities in 2002	
PES	IES	PES	IES	PES	IES	PES	IES
7	17	7	4	7	4	7	3

The new version of the Law on Electricity having come into force in July 2004 grants the right to regulated participation of the third party and the right to enter into a direct electricity supply

agreement with freely selected independent suppliers to all consumers, except for domestic ones. With the Law coming into force the status of eligible electricity consumers was granted to those consumers automatically, which is why the Commission did not further consider applications for receiving the status of an eligible electricity consumer.

Following the Law on Energy, the Law on Electricity and the requirements of the European Union directives, by Resolution No. 03-85 of 30 August 2004 the NCC approved the revised Methodology for Setting Prices and Price Caps of Electricity Transmission and Distribution Services. The document sets out the purpose of electricity prices, calculation, recalculation and setting prices and price caps of electricity transmission and distribution services and describes the key principles of differentiation between prices of electricity transmission and distribution services. It also defines calculation of costs and standard profit of electricity transmission and distribution services performed and presented in accordance with the tables given as annexes to the Methodology.

Setting price caps and the initial income level is based on assessment of the reasonable costs, activity results of the previous regulation period, market development forecasts, changes in the legal environment, etc. When setting state-regulated prices, it is necessary to provide for the required expenses on energy resources output, energy production, purchase, transmission, distribution and supply as well as development of the energy sector and energy effectiveness, use of local and renewable energy resources, fulfilment of public service obligations and the profit margin set.

The incentive based regulation or price caps (a 50/50 combination of price and revenue “caps”) method applied to prices of transmission and distribution services is based on setting the initial income level for three years which is corrected annually using the following 4 coefficients:

- indexing (consumer price index and efficiency);
- unforeseen changes (external factors);
- volume adjustment;
- correction (revenue over/under recovery).

Taking into account the country’s micro- and macroeconomic indicators and methods applied in the world practice, efficiency coefficients are set for the above period of price caps. At the end of the financial year the company profit is corrected at 50% and 100% taking into account electricity supply reliability and the service quality coefficient and the use of investment to ensure conformity to quality requirements where the average profit margin for the previous two years increased by 2 and 6 percentage points respectively is exceeded.

While price caps are set by the NCC, specific prices and tariffs for transmission and distribution services are set and changed by service providers. The weighted average of prices and tariffs set by the service provider every year of the regulation period must not exceed corresponding price caps. Prices and tariffs set by the service provider are announced by the NCC within 30 calendar days following the receipt of the service provider's application having previously checked whether consumers have not been discriminated against when setting prices and tariffs. After the end of every year of the regulation period the NCC controls whether the weighted average of prices and tariffs set by the service provider has not exceeded price caps. Having established that the weighted average of prices and tariffs set by the service provider for the previous year of the regulation period exceeded the corresponding price cap, the NCC is entitled to oblige the service provider to set lower prices and tariffs. Other public authorities perform advisory functions as regards pricing.

According to the set forms of methodologies for calculating electricity price caps every *quarter and annually* the transmission system operator and the distribution network operator are required to present the following information:

1. calculations of prices and price caps of electricity transmission and distribution services;
2. efficiency indicators;
3. electricity balance sheets;
4. electricity tariffs applied by companies, consumption and income data;
5. electricity sales of companies by consumer groups;
6. other data necessary for proper control of the electricity market.

Pursuant to point 45.16 of the Rules of Licensing Activities in the Electricity Sector, the following documents are submitted *on a quarterly basis*:

financial liability of the licensed economic and financial activities;  
market operator's report in a free form;  
report on supply reliability indicators.

Documents additionally submitted *annually*:

1. annual audit report on costs of licensed activities;
2. annual analysis of the use electricity network system;
3. report on development prospects of the electricity network system;
4. annual report on complaint investigation.

The Report on Monitoring of Supply Safety on the Lithuanian Electricity Market is used as a basis for collecting and by 31 July of *every year* summarizing technical and economic data making conclusions concerning reliability of electricity supply and development prospects of the domestic

and regional electricity markets. Information covers forecasts for three coming years and reflects the following data from various viewpoints and as of different periods:

- capacities of electricity generation, transmission and distribution, interconnections with neighbouring energy systems;
- electric capacity balance sheets;
- electricity production, consumption, export and import;
- market concentration;
- electricity purchase and sale volumes;
- level of the market opening;
- market players;
- dynamics of market prices;
- level of activeness of eligible consumers;
- forecasted electricity purchase, sale and export volumes;
- forecasted capacity balance sheets;
- need for new capacities;
- planned development and upgrades of electricity transmission and distribution networks and possible weaknesses thereof.

Following reorganization of the electricity economy, during the last 3 years the above data was specified and collected. However the benchmarking of transmission system operators of the Baltic countries performed during the first year of the reform showed that data was hardly comparable because of different structures of companies and different reorganization stages. At present the benchmarking of distribution network operators of the countries of Central and Eastern Europe (members of the Energy Regulators Regional Association (ERRA)) is being performed.

The NCC has always focused on introduction of regulation of reliability of electricity supply and service quality which would ensure the basic quality level for consumers and responsibility of licensed companies for failure to comply with quality requirements. The new version of the Rules of Licensing Activities in the Electricity Sector approved by the Government and having come into force as early as in May 2003 defined additional functions of the NCC – to control the fulfilment of requirements to the quality of licensed activities set by the Ministry of Economy and coordinated with the NCC.

Implementing the provisions of those Licensing Rules, closely cooperating and consulting with experts from the Italian energy regulator within the Twinning Project on Strengthening the Energy

Market Regulator financed by Phare, the Commission drafted the Requirements to Electricity Supply Reliability and Service Quality which was presented to the Ministry of Economy in May 2004. The project presentation was attended by all licensed energy transmission, distribution and supply companies. After long considerations and discussions with the Ministry of Economy and the largest electricity network companies a compromising version of the document was coordinated in July 2005 which is already approved by Order of the Minister of Economy.

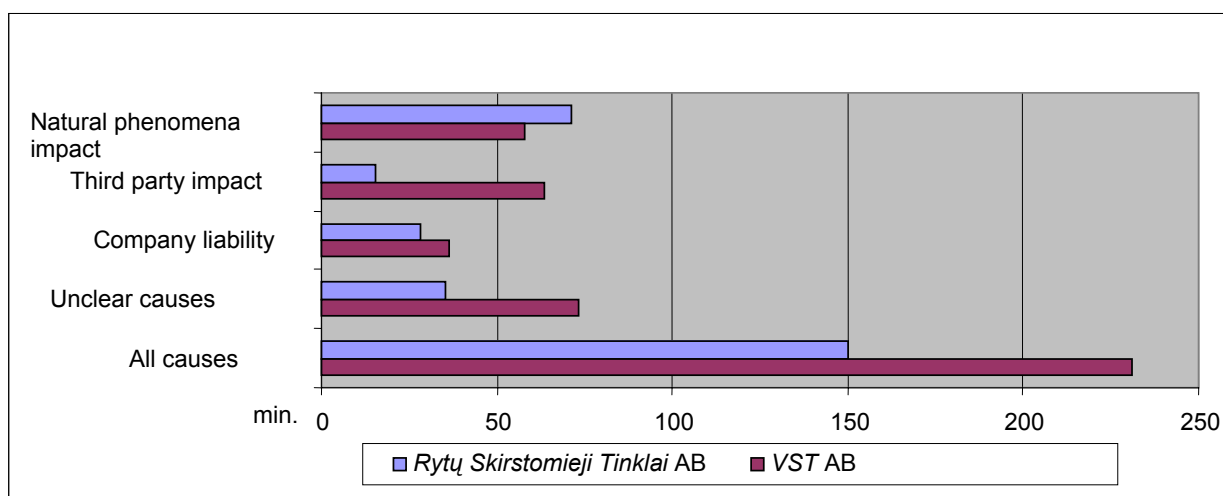
Taking into consideration that certain required data on supply reliability and service quality as such was not registered and collected in electricity distribution and supply companies, computer databases used by companies for registering data had to be modernised. After modernisation of databases for registration of supply interruptions according to the requirements of the NCC, *Rytų Skirstomieji Tinklai* AB started registering the required data from April 2003, and *VST* AB started doing that in 2004. The first comprehensive annual data on electricity supply interruptions differentiated by causes of interruptions and territorial division into urban and rural locations was received from both companies in 2004.

The charts present a comparison of indicators of electricity supply reliability of *Rytų Skirstomieji Tinklai* AB and *VST* AB as of 2004. The average time of unplanned supply interruptions per one consumer of *VST* AB reached 231 minutes, and in *Rytų Skirstomieji Tinklai* AB – 150 minutes. The majority of interruptions were caused by unclear reasons in *VST* AB (73 minutes) and by natural phenomena in *Rytų Skirstomieji Tinklai* AB (71 minutes). The average time of unplanned supply interruptions per one consumer of *Rytų Skirstomieji Tinklai* AB in rural areas was as much as 4.7 times longer than per consumer in urban areas, and in *VST* AB – 2.9 times longer.

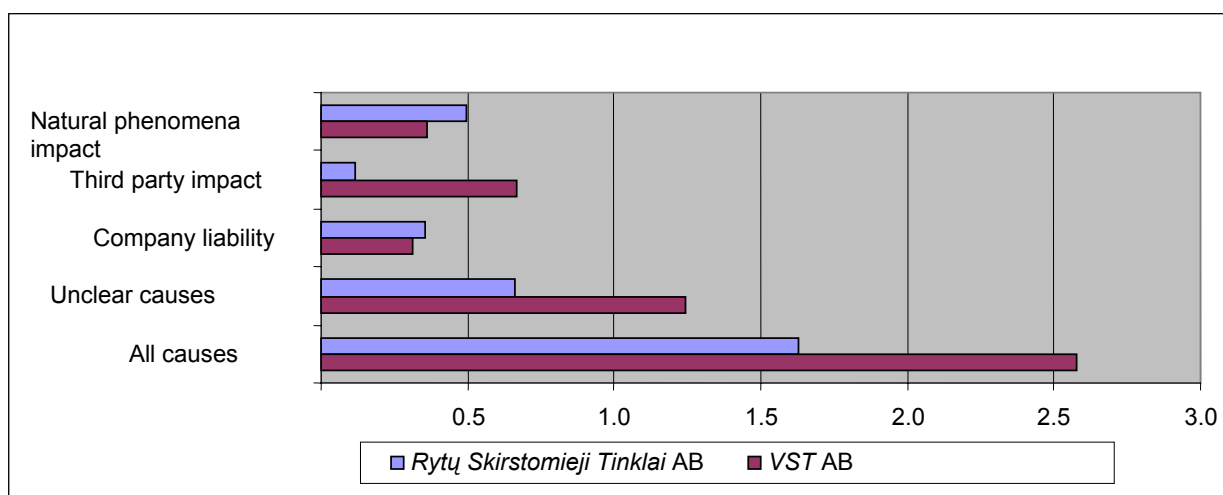
The average number of unplanned supply interruptions per one consumer of *VST* AB was 2.6, and in per consumer of *Rytų Skirstomieji Tinklai* AB – 1.6. When analysing indicators of supply reliability by territorial division into urban and rural areas, we see that in both companies the number of unplanned supply interruptions in rural areas per consumer was about twice as big as that in urban locations.

Having evaluated that a larger part of all unplanned supply interruptions were caused by unclear reasons (in *Rytų Skirstomieji Tinklai* AB – 44%, and in *VST* AB – 46%), both companies had to apply more effort to investigate causes of such supply interruptions.

### Average Time of Unplanned Electricity Supply Interruptions per Consumer by Causes of Interruption as of 2004



### Average Number of Unplanned Electricity Supply Interruptions per Consumer by Causes of Interruption as of 2004



The NCC will further regularly analyse indicators of electricity supply reliability, monitor any changes thereof and perform comprehensive benchmarking. Results of such analysis will be posted on the web-site of the NCC. From 2008 the change in the level of company supply reliability will be evaluated by establishing price caps of electricity transmission and distribution services in accordance with the procedure laid down by the NCC.

The Rules of Electricity Supply and Consumption set out that where electricity supply is interrupted or restricted for a consumer or where electricity quality parameters at the point of purchase-sale of the electricity transmission or distribution service are not in line with those stipulated in the agreement, the operator or supplier must reimburse the consumer for direct losses incurred. The operator or supplier do not reimburse the consumer for any losses incurred when

electricity supply is interrupted or restricted or electricity quality parameters are not in line with those stipulated in the agreement because of natural calamities and in the case of a fire, war, terrorist attacks, force-majeure circumstances, actions of third parties (theft or damage of electric installations, casting foreign objects on cables of overhead electricity lines, etc.), effect of the automated emergency system (in the event of failure or accident in other energy systems), actions by the state as well as in the case where single disconnection time of the consumer does not exceed the longest allowable disconnection time for the category of electricity supply reliability set for the consumer or where automated emergency or security systems disconnect electricity supply to the consumer's electric installations because of the consumer's actions or inaction, improper maintenance of own installations or infringements on the applicable legal acts.

The application for loss reimbursement must be submitted within 10 calendar days following the emergence of such losses. No later than within 10 calendar days following the receipt of such an application it must be considered by the joint commission which must comprise representatives of the operator or supplier and the consumer. The commission formed must analyse causes of electricity supply interruption or restriction and establish the amount of losses.

In the case the parties fail to agree, the amount of losses is to be established by court. Losses incurred because of electricity supply interruption or restriction must be compensated within 15 calendar days following the day of establishing the amount thereof.

In the event of any changes in electricity prices, tariffs and procedure of application thereof by regulated network operators and public suppliers, the new procedure is published in the supplement to the Official Gazette *Informaciniai Pranešimai*. The effective electricity prices, tariffs and the procedure of application thereof are publicised on web-sites of companies. Consumers may also familiarise themselves with any planned changes in electricity prices, tariffs and the procedure of application thereof, find their description and ask questions of concern for the company. Furthermore, companies of the electricity sector are obliged by the Law on Electricity to inform domestic consumers about any increase in prices no later than one month prior to raising prices or tariffs in writing or otherwise. Fees for connection to the functioning electricity networks are set by the NCC. Amounts of fees are publicly announced by the NCC adopting a resolution on their approval. Amounts of currently applicable fees may also always be found on the company's web-site or obtained by dialling help-line telephone numbers given on the web-site.

Players of the company's market are publicly provided with information on:

- electricity tariffs for consumers, changes thereof, new plans, etc.;
- commercial losses and technical costs;
- the company's conditions and procedures of connecting new consumers in accordance with effective legal acts (required documents, applications, etc.);

- conditions and terms of payment for electricity, payment amounts, etc.;
- various promotion campaigns and discounts.

Consumers can obtain information interesting them not only from public and mass media publications and web-sites but also at all customer service branches, by dialling information and general telephone numbers and from information leaflets.

The price of electricity transmission service may differ conditional on the voltage of electricity networks from which consumers receive electricity. Large industrial consumers who consume about 24 GWh of electricity per year and whose maximum allowed capacity reaches 4,000 kW receives electricity from medium- and high-voltage electricity distribution networks, and households consuming about 3,500 kWh per year and business clients whose annual consumption reaches 50 MWh and maximum allowed capacity is about 50 kW usually receive electricity from low-voltage electricity distribution networks. Their respective average electricity transmission prices are shown in the table.

#### Average Prices of Electricity Transmission Services as of 2004

Description	Ig	Ib	Dc
Average prices of electricity transmission services in the country, EUR/MWh*	24.34	42.21	42.21

\* - Including costs of additional services which are shown to consumers as a separate price component of the electricity transmission service and make 4.52 EUR/MWh for Ig consumers and about 3.68 EUR/MWh for Ib and Dc consumers.

Costs relating to municipal charges, public service obligations or other similar costs are not included in prices of electricity transmission services.

Following the Law of the Republic of Lithuania on Electricity, by Resolution No. 135 of 23 December 2002 the NCC approved the Price Regulation Procedure of Balancing Energy. On the grounds of information on electricity purchase-sale regulation outcomes received from the transmission system operator and this Procedure, the market operator calculates balancing energy prices for suppliers (for eligible consumers having supply licenses) and producers.

The mechanism of the balancing energy market may be defined by features described in the table.

## Features of the Balancing Energy Market

No	Feature	Description
1.	Balancing interval	60 minutes
2.	Balancing area	Every separate production or consumption place
3.	Interaction between areas	<p>All market players or persons purchasing and/or selling electricity under agreements as well as in other ways provided for in the Rules of Trading in Electricity must become auction participants and join the auction agreement by signing it. Such participation does not imply the obligation to trade at an auction but obliges the market player to submit information specified in the Rules to the market operator. The format of the bid is simple: limited/unlimited price/quantity bids, minimum quantity – 5MW, information on dynamic properties of power plants not required.</p> <p>Participants of the auction trading in regulated electricity may also be foreign transmission system operators having regulation agreements with the Lithuanian transmission system operator. Auction participation conditions and rights of foreign transmission system operators are the same as those of other participants of the auction trading in regulated electricity.</p>
4.	Gate closure	The session of the regulation auction is closed no later than 2 hours prior to the beginning of regulation realisation or regulation bids may be corrected or revoked 2 hours prior to possible realisation of the bid.
5.	Opportunities for intra-day trading	Market players trading at an hourly auction are given conditions for purchasing the missing electricity and/or selling the excess of electricity, i.e. also balancing energy, from or to other market players in a transparent competitive environment.
6.	Balancing prices	The balancing price is calculated under the pay-as-bid principle. It equals the average weighted price of every hour of the uninterrupted trade session corrected with coefficients relating respectively to purchasing/selling electricity from or to the transmission system operator. The price quoted in up/down regulation proposals must not exceed/be less than the price of balancing energy purchased by/sold to the transmission system operator which is set upon the end of the

		uninterrupted trade session
7.	Presentation of information	<p>After every transaction made during the <i>uninterrupted trade</i> session the market operator calculates and announces through the auction information system the average weighted price of every trade hour of this trade session and prices of balancing energy.</p> <p>No later than within two hours following the trade hour of the <i>regulation auction</i> the transmission system operator using the auction information system informs all participants all realised regulation bids. The results of the successful auction of trading in regulated electricity are published in the auction information system which may be accessed by all the participants of that auction of trading in regulated electricity. In the auction information system every market player whose bids have been realised additionally receives information about the seller from whom they purchased electricity or the purchaser to whom they sold it at the price set in the transaction.</p>
8.	Settlement procedure and timetable	<p>Before introduction of hourly trade for suppliers the transmission system operator trades in balancing energy with producers on an hourly basis and with suppliers – accounting for a calendar month. Procedures and conditions of payment for regulation and balancing electricity are set out in corresponding agreements with the transmission system operator.</p>

Conditions for small and new market players on the electricity market are the same as those for other market players.

With the commencement of hourly trade in electricity with suppliers, the Rules of Auction Trading in Electricity will come into force to ensure the participation of both the supply and demand parties in the spot electricity market. This way will more specifically reflect market regularities in the balancing market and at the same time will ensure comprehensive implementation of the requirements of the Electricity Directive.

#### **3.1.4 EFFECTIVE UNBUNDLING**

The NCC ensures that the electricity market would be characterised by effective competition, that consumers and suppliers would not be discriminated against and that all consumers would receive services of the established quality. The NCC controls that fields of accounting would successfully be unbundled to prevent cross-subsidising of production, transmission, distribution and supply activities.

The Law on Electricity provides that where a distribution network company apart from distribution activities also engages in activities of a public supplier, it must unbundle such activities. Distribution and supply activities are deemed unbundled also in the case where the activities of a public supplier are performed by the sales (electricity supply) department of the distribution network company given that the unbundling of economic operations would also be ensured. Economic transactions of an electricity company relating to electricity transmission, distribution and supply or other activities not related to electricity are registered, grouped and summarised in separate book-keeping accounts and accounting registers.

Before 1 July 2007 public suppliers supplying electricity not only to consumers who may not choose a supplier but also to eligible consumers register, group and summarise information relating to consumers who may not choose a supplier and to eligible consumers in separate book-keeping accounts and accounting registers.

The transmission system operator, the distribution network operator and public suppliers in fulfilment of their public service obligation collect, specify and account data on income and expenses incurred in relation to such an obligation in separate book-keeping accounts and accounting registers.

The Rules of Licensing Activities in the Electricity Sector set out that a separate license must be issued for every kind of licensed activities in the electricity sector. The company must keep separate accounting for every kind of licensed activities. Within four months following the end of the year it is necessary to perform audit of costs of licensed activities of electricity companies and conclusions must be submitted to the NCC.

Pursuant to the Special Law on Reorganisation of *Lietuvos Energija* Public Limited Liability Company, legally unbundled transmission and distribution network companies started functioning in 2002. The previously active integrated state-run company of the electricity sector *Lietuvos Energija* AB was reorganised and its branches were used as a basis for unbundling and establishing electricity production companies and two distribution network operators. The major production companies were unbundled from the vertically integrated system as early as in the middle of 1997.

The number of unbundled companies or participants active in the Lithuanian electricity market is shown in the table.

Number of Prospective and Active Electricity Market Players

No	Market players	Number of approvals/licenses			Number of active market players		
		2002	2003	2004	2002	2003	2004
1.	Eligible consumers	12	25	45 095	6	6	6
2.	Electricity producers	-	-	-	6	8	8
3.	Transmission network operator	1	1	1	1	1	1
4.	Distribution network operator (exclusive of local DN)	2	2	2	2	2	2
5.	Electricity suppliers	20	21	24	4	8	8
5.1	Public suppliers (including local DN)	7	7	7	2*	3*	3*
5.2	Independent suppliers	13	14	17	2	5	5
6.	Total:	35	49	45 122	19	25	25

Note: \* - Public suppliers having electricity supply agreements with independent suppliers or producers.

The major shareholder of *Lietuvos Energija* AB is the state of Lithuania owning 96.62% of shares in the company. The major administrator of the state shares is the Ministry of Economy of the Republic of Lithuania. The remaining 3.38% of shares are owned by small shareholders.

The major shareholder of *Rytų Skirstomieji Tinklai* AB is the state owning 71.35% of shares, *E.ON Energie* AG owning 20.28% of shares and small shareholders owning 8.37% of shares. The major administrator of the state shares is the Ministry of Economy of the Republic of Lithuania.

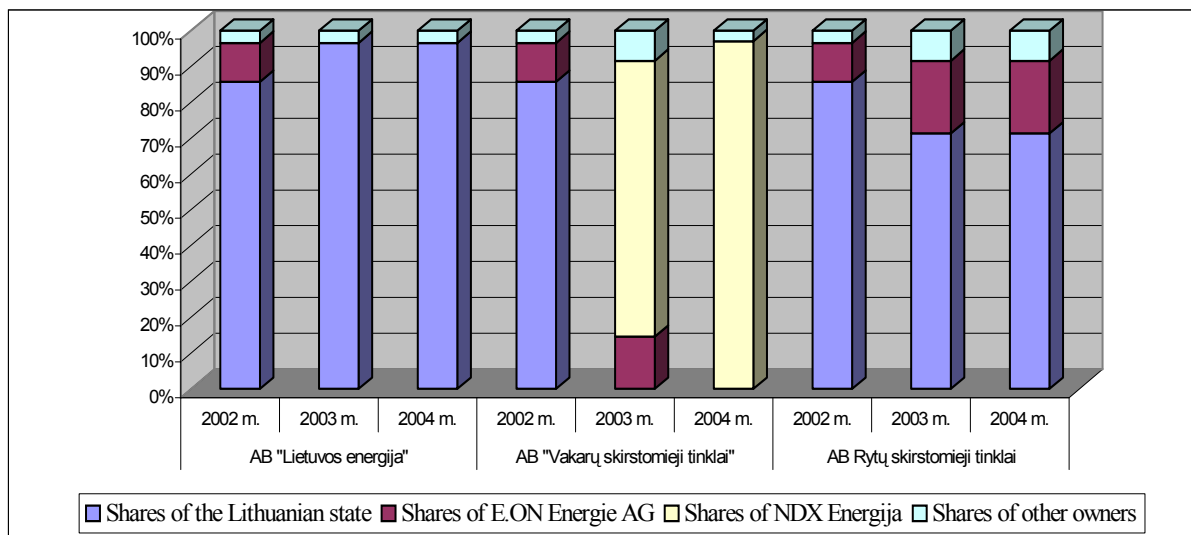
On 23 December 2003 *VST* Public Limited Liability Company was privatised. The largest shareholder of the company is the Lithuanian capital company *NDX Energija* UAB. It owns 97% of shares in *VST*, and small shareholders hold 3% of shares.

*Visagino Energija* VĮ is a state enterprise. The administrator of the state shares is the Ministry of Economy of the Republic of Lithuania.

Other companies are private.

The figure shows distribution of some owners of major companies.

#### Distribution of the Capital Structure in Electricity Network Companies



When the vertically integrated *Lietuvos Energija* SPAB was reorganised by establishing four new legal entities – two distribution network companies and two power plants (the *Lietuvos Elektrinė* and Mažeikiai Power Plant) – it continued comprising two hydro power plants: Kaunas HPP and Kruonis Hydro Pumped-Storage Power Plant used to ensure the national balance. Installations of Kruonis HPSPP are also used as synchronous compensators. This is an important means of regulation voltage levels in 330 kV electricity networks.

The transmission system operator does not engage in supply activities but the company has a branch acting as the market operator responsible for organisation of trade, including, auction, in electricity. 2 production companies act as subsidiaries: Kruonis Hydro Pumped-Storage Power Plant and Kaunas Hydro Power Plant. They ensure the balance of the electricity system and reliability of electricity supply. Account of costs of distribution services and public supply services is unbundled.

Administrative buildings of both the electricity network operator and the distribution network operators are located in areas geographically separated from electricity producers. *Rytų Skirstomieji Tinklai* AB and *VST* AB are also public or “last-resort” suppliers, which is why company departments performing these functions are established along with the departments performing the functions of the distribution network operator.

Since 2002 the transmission system operator and distribution network operators have been functioning as fully unbundled legal entities. The companies have separate names, trademarks, administrative buildings and web-sites:

- *Lietuvos Energija* AB (TSO) – [www.le.lt](http://www.le.lt);
- *Rytų Skirstomieji Tinklai* AB (DNO) – [www.rst.lt](http://www.rst.lt);
- *VST* AB (DNO) – [www.vst.lt](http://www.vst.lt).

Information on company activities, the energy sector, the electricity market, etc. is ensured by the following means: web-sites, leaflets, brochures, annual reports, multimedia presentation, documentaries/information films, events (organised and sponsored), press releases, information articles, etc.

On their web-sites the companies publish annual reports with financial statements, economic and technical indicators.

Shares in *Lietuvos Energija* AB, *Rytų Skirstomieji Tinklai* AB and *VST* AB are traded in at the Central Stock Exchange of Lithuania, quarterly reports of the companies are publicised in accordance with the requirements of the Stock Exchange.

In accordance with the procedure of preparing profit/loss accounts of separate activities set out by *Lietuvos Energija* AB, economic transactions relating to activities of the transmission system operator are registered, grouped and summarised in separate book-keeping accounts and accounting registers. After the end of every financial year regulated electricity network companies undergo independent audit of consolidated financial statements and income and expenses within licensed activities. Financial statements and auditors' conclusions are submitted to the NCC. The report by kinds of activities is presented together with the annual activity report of the company. The companies publicise audited financial statements approved by audit companies.

Prices of producers and suppliers occupying the market share of over 25% and electricity transmission and distribution network operators are regulated by the NCC setting price caps. Price caps are set in accordance with methodologies for setting price caps approved by the NCC. Electricity transmission and distribution activities are licensed and licenses are issued by the NCC. In accordance with methodologies for setting price caps and the Rules of Licensing the Electricity sector, the NCC sets report forms according to which electricity transmission and distribution operators are obliged to submit quarterly reports on costs incurred, quality and reliability indicators of electricity supply, electricity balances, prices and other factual and scheduled indicators to the NCC. Costs of electricity distribution and public supply services are unbundled in accordance with the cost unbundling methodology coordinated with the NCC.

As transmission and distribution activities are legally unbundled, the NCC checks the principles of unbundling costs of distribution and public supply services approved by distribution network companies which are used as a basis for calculating respective prices.

Compulsory independent audit is performed in transmission, distribution network and supply companies. Regulated companies submit financial statements and auditors' conclusions to the NCC.

The NCC sets out detailed requirements to reporting and liability for violation of such directions.

#### Distribution of Costs of Electricity Network Operators by Activities and Companies

Case/Share of costs of the company by activities and other companies, %	<i>Lietuvos Energija AB</i>					<i>Rytų Skirstomieji Tinklai AB</i>			<i>VST AB</i>		
	Transmission system operator	Market operator	Transmission production	Other activities	Other companies	Distribution network operator	Public supplier	Other activities	Distribution network operator	Public supplier	Other activities
1. No legal unbundling; costs are typically distributed between other departments of the company *	27	37'	6	30	-	50.3	49.4''	0.3	46.5	53'''	0.5
2. Legal unbundling; costs are typically distributed between other companies owned**	94				6	-	-	-	-	-	-
3. Legal unbundling; costs are typically distributed under agreements between other companies owned***	97.4				2.6	-	-	-	-	-	-

Notes: \* - Including internal turnover between kinds of activities.

\*\* - Financial statements of *Lietuvos Energija AB* and its subsidiaries were not consolidated in 2004, which is why this figure was calculated by comparing the costs of *Lietuvos Energija AB* (having deducted the internal turnover) with the costs of subsidiaries.

\*\*\* - The share of works performed by subsidiaries of *Lietuvos Energija AB* (including investment projects) in 2004 was calculated in comparison with the costs of *Lietuvos Energija AB* (having deducted its internal turnover).

' – If we decompose the percentage indicated, we will see that the cost share of the market operator makes 0.4%, the share of public service obligations purchased – 22.9% and the share of (regulating and balancing) electricity purchased at an auction is 13.7%.

'' – If we decompose the percentage indicated, we will see that the cost share of the public supplier makes 1.2%, the share of electricity purchased (production) – 32.8% and the share of transmission services is 15.4%.

''' – If we decompose the percentage indicated, we will see that the cost share of the public supplier makes 1.13%, the share of electricity purchased (production) – 37.04% and the share of transmission services is 14.86%.

The NCC scrutinises cases of administrative violation of laws provided for in the Administrative Code and imposes administrative sanctions.

Violation of energy resource or energy transmission, distribution, storage and supply procedures, violation of the procedure of energy resource and energy supply system balancing and connection thereto, violation of application of regulated tariffs and/or prices, undue renewal of mandatory insurance, failure to meet transparency requirements to energy activities set out in the laws and other legal acts, failure to fulfil obligations to provide compulsory services, engaging in energy activities without having a license for such activities or failure to meet the requirements stipulated in the license, refusal to grant the right to use the energy resource or energy transmission or distribution system (networks) constitute grounds for imposing a warning or fine on officials amounting to five hundred through one thousand and five hundred litas.

Unjustified interruption of energy resource or energy supply, violation of supply safety and/or energy quality requirements and the procedure of installation, operation, security and use of equipment, engaging in energy activities without having a permit for such activities or failure to meet the requirements stipulated in the permit, violation of energy accounting rules and submission of erroneous energy accounting data constitute grounds for imposing a warning or fine on citizens amounting to one hundred through five hundred litas and a warning or fine on officials – five hundred through one thousand and five hundred litas.

In accordance with the procedure set out by the NCC, failure of energy resource and energy and cold water suppliers to submit data on the company's economic and financial activities constitutes grounds for imposing a fine on officials amounting to five hundred through one thousand litas.

Wilful submission of erroneous data by energy resource and energy and cold water suppliers to the NCC constitutes grounds for imposing a fine on officials amounting to one thousand through one thousand and five hundred litas.

Failure of companies engaging in energy activities to submit data on the company's economic and financial activities in accordance with the set procedure or wilful submission of erroneous data to public authorities constitute grounds for imposing a fine on officials amounting to five hundred through one thousand and five hundred litas.

Violation of or failure to implement resolutions of the NCC as well as failure to keep to legitimate directions of the NCC concerning pricing in the field of energy and cold water supply constitutes grounds for imposing a fine on officials amounting to two hundred through four hundred litas.

The same actions committed by a person previously penalised with an administrative sanction for any of violations provided for in the first part hereof constitute grounds for imposing a fine in the amount of five hundred through one thousand litas.

## **3.2 COMPETITION ISSUES**

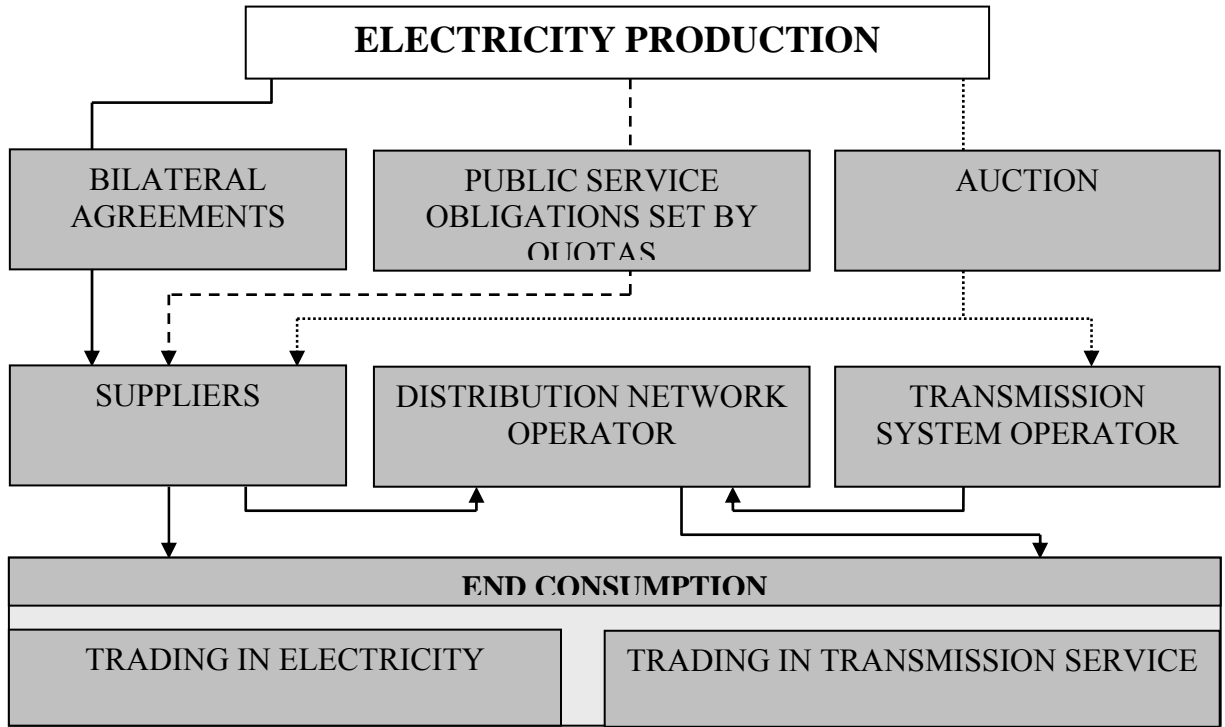
### **3.2.1 WHOLESALE MARKET**

#### **MARKET STRUCTURE**

Following reorganization of the electricity sector, activities on the electricity market are performed in accordance with the following principles:

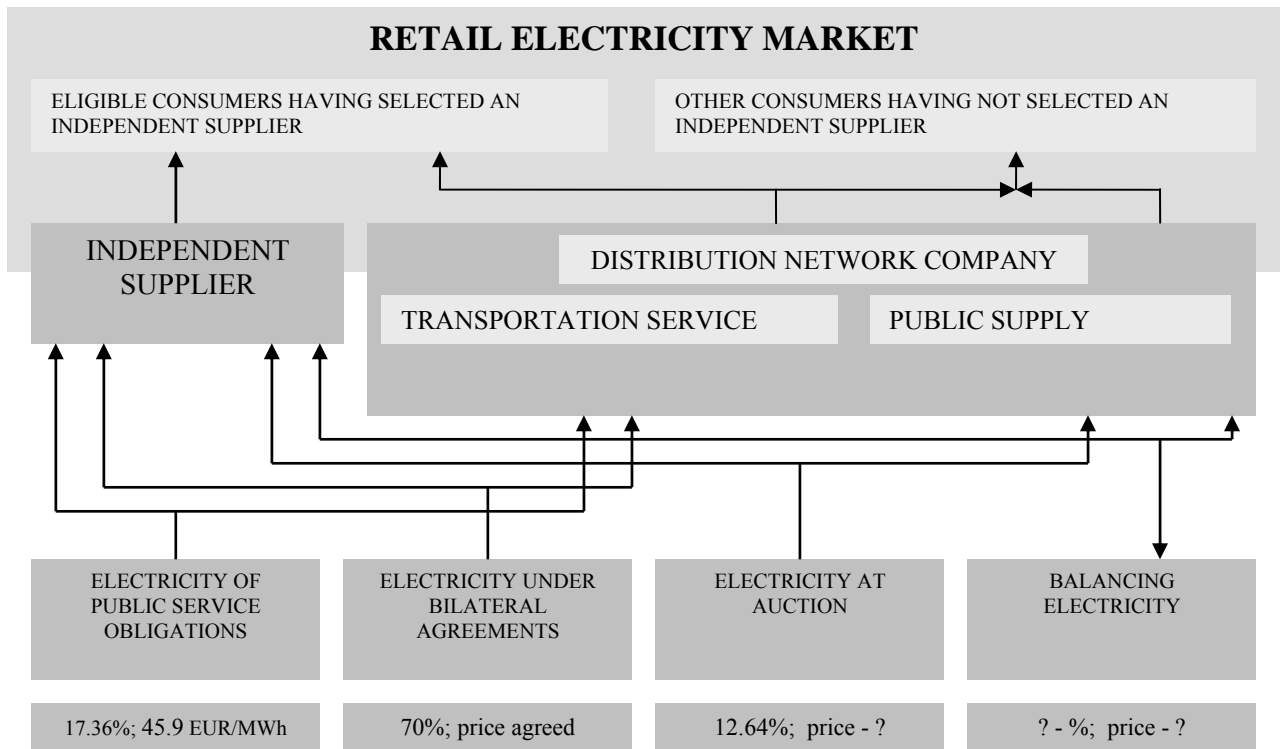
- there are three major activities – electricity production, supply and transportation;
- electricity is produced by power plants selling their product on the common wholesale supplier and producer market in electricity;
- supply (resale) is performed by companies having the supplier's license which purchase electricity on the wholesale market from producers and sell it to consumers;
- electricity is transmitted by companies holding licenses of transmission system and distribution network operators;
- production and supply are performed under conditions of competition and electricity transportation is a monopolistic activity.

Principle of Activity Unbundling in Electricity Production (until 2006)



Trading in electricity on the market is performed according to the following scheme:

Trading on the Electricity Market



The market in system services in Lithuania is inactive.

In 2004 the capacity of power plants located in Lithuania exceeded 6 GW, of which dominant positions were taken by the nuclear power plant (42%) and thermal power stations (41%). The share of hydro power plants makes 15%. The table presents installed capacities of the Lithuanian power plants as of 2005 [MW]. The first unit of the Ignalina NPP was stopped in 2005, and the capacity of the plant decreased to 1,300 MW.

Producer	Capacity as of 1 January 2005		2004	
	Installed capacity, MW	Disposable capacity, MW	Production, million kWh	Supplied to network, million kWh
Ignalina NPP	1,300	1,183	15,101.6	13,917.1
<i>Lietuvos Elektrinė</i>	1,800	1,732	745.4	662.8
Kruonis Hydro Pumped-Storage Power Plant	900	760	522.5	522.5
<i>Vilniaus Energija</i>	384	367	1,210.7	1,082.5
Kaunas Thermal Power Plant	170	161	688.6	599.6
Mažeikiai Power Plant	160	146	178.6	145.1
Kaunas Hydro Power Plant	100.8	90.0	359.0	355.0
Klaipėda Thermal Power Plant	11	9	33.8	24.1
<i>Kauno Energija</i>	8	7	1.5	0.7
Small hydro power plants	18.7	18.7	67.7	67.7
Power plants of other departments	102.7	75.7	334.2	328.2
<b>Total:</b>	<b>4,955</b>	<b>4,552</b>	<b>19,244</b>	<b>17,705</b>

In 2004 Lithuania had four power plants whose capacity was no less than 5% of the installed disposable capacity: Ignalina NPP, *Lietuvos Elektrinė*, Kruonis HPSPP and *Vilniaus Energija* UAB. The most powerful of them is Ignalina NPP producing energy with nuclear fuel. *Lietuvos Elektrinė* is a thermal power plant producing energy mostly with natural gas as well as orimulsion and fuel oil. *Vilniaus Energija* UAB is a thermal power plant whose fuel balance is dominated by natural gas. Kruonis Power Plant is a hydro pumped-storage power plant ensuring the country's operational electricity reserve and managed by the transmission network operator. Kruonis HPSPP does not directly participate in the electricity market and its role for the electricity market will not be considered hereinafter.

The electric capacity ratio of the three largest companies as of 2004 would be as follows: 49.7%/34.4%/7.4% (Ignalina NPP, *Lietuvos Elektrinė* AB, *Vilniaus Energija* UAB).

The maximum required capacity of the Lithuanian energy system (gross figure) in 2004 was 1,952 MW. After evaluation of the required long-term capacity reserve, in 2003 the system was characterized by the need for capacity of 3,252 MW and the capacity excess of 2,875 MW (exclusive of export needs). The country's consumers (exclusive of own production, transmission and distribution needs) in 2004 consumed about 8.11 TWh of electricity.

The table presents summarised information about the electricity sector as of 2004.

Total national consumption, net [TWh]	8.11
Required capacity, gross [GW]	1.95
Installed/disposable producer capacity [GW]	6.13/5.69
Number of companies whose capacity was no less than 5% of the installed disposable capacity (exclusive of Kruonis HPSPP)	3
Ratio of installed disposable capacities of the three largest companies Ignalina NPP/ <i>Lietuvos Elektrinė</i> AB/ <i>Vilniaus Energija</i> UAB (Σ)	49.7%/34.4%/7.4% (91.5%)

In Lithuania the installed excessive electricity capacities in 2004 determined quite a low use coefficient of certain Lithuanian power plants, especially that of *Lietuvos Elektrinė* (0.08%). The use coefficient of co-generation plants is quite high during the heating season (0.66-0.72%). The high use coefficient of Ignalina Nuclear Power Plant (0.94%) is determined by the scope of electricity export.

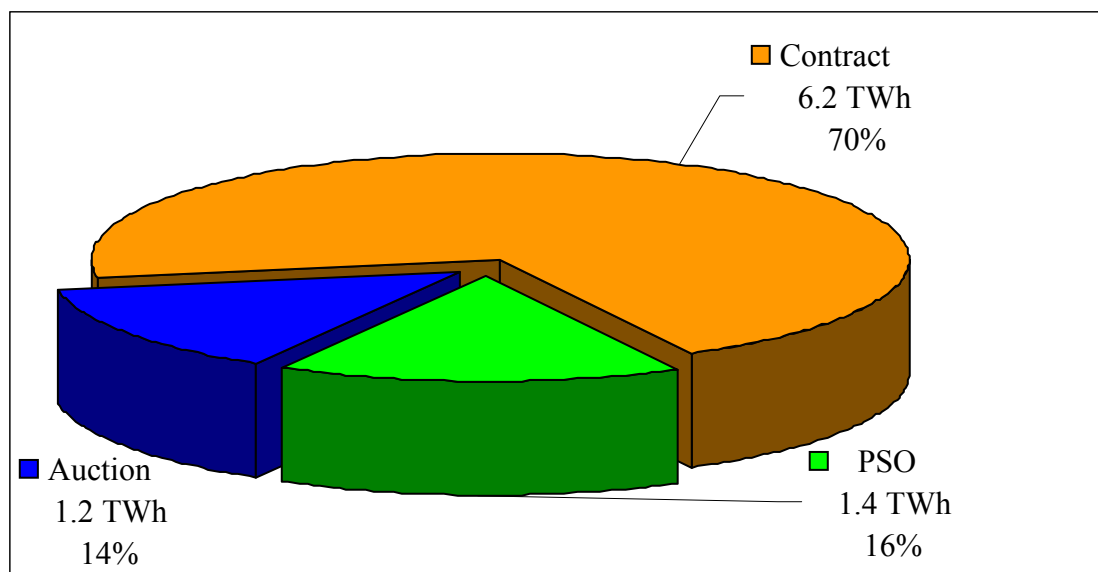
To meet the national need for electricity, the basic energy system load is provided by Ignalina NPP. At the average load of the system electricity is supplied by Ignalina NPP and thermal power stations. At peak electricity consumption, apart from Ignalina NPP and thermal power stations, the system is also supported by Kruonis HPSPP ensuring operational reserve.

#### **Volumes of Trade in Electricity**

Sale of electricity to domestic electricity consumers can be seen in the figure. The largest share of transactions on the electricity market (about 70%) was made under bilateral agreements. The largest quantity of electricity under bilateral agreements and trade at the auction was sold by Ignalina NPP. Thermal power plants mostly supply electricity to the market fulfilling their public service obligations (PSO). The largest quantity of this kind of electricity is supplied to the market by *Lietuvos Elektrinė* AB, *Vilniaus Energija* UAB and *Kauno Termofikacijos Elektrinė* UAB.

*Vilniaus Energija* UAB and *Kauno Termofikacijos Elektrinė* UAB sold the largest quantity of electricity of all thermal power stations under bilateral agreements.

Sold Electricity Structure as of 2004



#### Purchase of Electricity from Lithuanian Power Plants in 2004, million kWh

Producer	Contract electricity*	PSO**	Additional electricity*
<i>Ignalinos Atominė Elektrinė</i> VĮ	5,197.3	0	1,295.0
<i>Lietuvos Elektrinė</i> AB	17.1	610.0	35.5
<i>Vilniaus Energija</i> AB	569.4	540.0	-30.3
<i>Kauno Energija</i> AB	0	12.0	-14.3
<i>Kauno Termofikacijos Elektrinė</i> AB	352.4	265.0	-18.3
<i>Klaipėdos Energija</i> AB	5.8	20.0	0
<i>Mažeikių Elektrinė</i> AB	148.9	0	-4.4
<i>Panevėžio Energija</i> AB	0	7.8	0
<i>Šiaulių Energija</i> AB	0	0	0
Branch of <i>Litekso</i> AB <i>Druskininkų Šiluma</i>	0	0.8	0
<i>Lifosa</i> UAB	0	5.7	0
Total:	6,289.0	1,461.4	1,263.3

NOTES:

\* - contract electricity including export.

\*\* - electricity in fulfilling the public service obligation.

### Volumes of Trade in Contract Electricity between Suppliers and Producers in 2004, MWh

Supplier	Producer						TOTAL
	<i>Ignalinos Atominė Elektrinė VĮ</i>	<i>Vilniaus Energija UAB</i>	<i>Kauno Termofikacijos Elektrinė AB</i>	<i>Mažeikių Elektrinė AB</i>	<i>Panevėžys Reabilitacijos Hospital</i>	<i>Klaipėdos Energija AB</i>	
<i>Rytų Skirstomieji Tinklai VT AB</i>	2,033,470	547,413	200,052				<b>2,780,936</b>
<i>Vakarų Skirstomieji Tinklai VT AB</i>	2,423,910	22,000	152,388		154	5,840	<b>2,604,294</b>
<i>Ekranas NT AB</i>	128,847						<b>128,847</b>
<i>Mažeikių Elektrinė NT AB</i>	329,425			146,869			<b>476,294</b>
<i>Achema NT AB</i>	121,455						<b>121,456</b>
<i>Ignalinos AE NT VĮ</i>	48,828						<b>48,828</b>
<i>Visagino Energija NT VĮ</i>	43,029						<b>43,029</b>
<i>Akmenės Cementas NT UAB</i>	68,283						<b>68,283</b>
<b>Total</b>	<b>5,197,250</b>	<b>569,413</b>	<b>352,441</b>	<b>146,869</b>	<b>154</b>	<b>5,841</b>	<b>6,271,968</b>

### Volumes of Trade of Active Suppliers (Demand Side) in 2004

Supplier	Quantity, MWh
<i>Rytų Skirstomieji Tinklai VT AB</i>	3,903,529
<i>Vakarų Skirstomieji Tinklai VT AB</i>	3,347,030
<i>Mažeikių Elektrinė NT AB</i>	627,506
<i>Ekranas NT AB</i>	182,914
<i>Achema NT AB</i>	163,858
<i>Akmenės Cementas NT AB</i>	132,589
<i>Visagino Energija NT VĮ</i>	97,486
<i>Ignalinos AE NT VĮ</i>	70,040

In 2004 Lithuania had 6 active eligible consumers who consumed 1.07 TWh of electricity.

### System Services

Additional or system services ensuring stability and reliability of the energy system are provided by the transmission system operator (TSO). It performs the function of capacity and electricity reservation.

The cold capacity reserve is purchased from the Lithuanian power plants. The hot capacity reserve is purchased by the TSO from local and foreign power plants. The operational reserve is ensured by one of the national producers – Kruonis HPSPP.

#### Concentration of Companies Providing Capacity Reserve

	2002	2003	2004
	Quantity, MWh		
<i>HHI concentration index of companies providing cold reserve</i>	9,165.5 8	8,946.66	6,871.50
<i>Lietuvos Elektrinė</i>	998	964	894
<i>Mažeikių Elektrinė</i>		1	27
<i>Vilniaus Energija</i>	28	27	34
<i>Kauno Termofikacijos Elektrinė</i>	17	28	25
Foreign			108
<i>HHI concentration index of companies providing hot reserve</i>	2,812.8 5	2,751.59	2,751.59
<i>Lietuvos Elektrinė</i>	87	88	88
Mažeikiai Power Plant	41	38	38
<i>Vilniaus Energija</i>	41	37	37
<i>Kauno Termofikacijos Elektrinė</i>	7	4	4
Foreign	29	59	59
<i>HHI concentration index of companies providing operational reserve</i>	10,000	10,000	10,000
Kruonis Hydro Pumped-Storage Power Plant	600	600	600

The Lithuanian transmission network is quite well integrated with Belarus, Latvia and Kaliningrad County, which allows exporting electricity.

The system currently has no connection with the neighbouring Polish energy system.

### Volumes of Trade in Electricity with Other Countries, million kWh

	Basic	Sale of peak electricity for export	Sale of additional electricity on weekends and holidays for export
Export to			
Poland	210.5		
Estonia	49.6		
Belarus	2,240.3	125.8	145
Kaliningrad	2,781.2		6
Russia	776.3	166.5	162.1
Latvia	524.5		90.9
<b>Total</b>	<b>6,582.4</b>	<b>292.3</b>	<b>404</b>
Import from Latvia	124.7		

Hourly trade in the sphere of export/import was initiated in November 2003.

In 2004 Lithuania did not have any mergers of companies working in the energy sector and no energy companies were privatised that year either.

### 3.2.2 DESCRIPTION OF THE RETAIL MARKET

In the electricity supply sector licenses for engaging in activities of a public supplier are held by 7 companies, only 3 actually work on the market, licenses of an independent supplier are held by 17 companies, of which 5 engage in independent supply activities. Public suppliers supplying energy to all consumers willing to receive it within the territory services are *Rytų Skirstomieji Tinklai* AB, *VST* AB and *Visagino Energija* VĮ. Independent suppliers supplying energy to eligible consumers are *Ignalinos Atominė Elektrinė* VĮ, *Mažeikių Elektrinė* AB, *Ekranas* AB, *Achema* AB and *Akmenės Cementas* AB. In 2004 only 4 eligible consumers chose independent suppliers, and *Ekranas* AB, *Achema* AB and *Akmenės Cementas* AB having the status of eligible consumers obtained independent supply licenses and traded on the market as suppliers.

Public suppliers *Rytų Skirstomieji Tinklai* AB and *VST* AB occupy a major share of the supply market. It makes about 84.4% of the electricity sold to the country's consumers. The independent supplier *Mažeikių Elektrinė* AB holds 5.8% of the market but it mostly sells electricity to one large company. Electricity supply market accommodates only Lithuanian suppliers, and no foreign capital companies engage in such activities here.

One of the largest Lithuanian electricity producers – *Ignalinos AE VI* – also holds a license of an independent supplier and sells electricity to 2 eligible consumers. It makes 1.1% of the total quantity of electricity sold by this producer to the country's market.

Individuals and small commercial companies as well as medium-sized industrial and commercial companies receive almost 30% each while large industrial companies consume about 43% of electricity in the country.

During 2004 and 2005 the electricity supplier was changed only by consumers receiving electricity from the electricity transmission network. Those consumers may be included in the third group of consumers, i.e. they are large and very large industrial consumers consuming over 2 GWh of electricity per year.

In 2004 public supply services provided by *VST* Public Limited Liability Company were refused by 3 consumers who decided to purchase electricity directly from independent suppliers and whose installations are connected to networks of the transmission system operator but who purchased electricity from the public supplier. The total electricity consumption by those consumers per year reaches about 85 GWh.

Eligible consumers may choose and change the electricity supplier free of charge. Distribution network operators also perform functions of the public supplier and must supply electricity to all electricity consumers willing to receive it and having not chosen an electricity supplier at the price of public electricity supply set and announced in advance. Actions and responsibilities of consumers and suppliers when consumers change an electricity supplier are set out in Article 28 of the Law on Electricity on independent electricity supply. The eligible consumer located within the territory specified in the public supplier's license, before making or terminating an electricity supply agreement with an independent supplier, must inform the public supplier thereof in writing 30 calendar days in advance. Also, the independent supplier before making or terminating an electricity supply agreement with an eligible consumer located within the territory specified in the public supplier's license must inform the public supplier thereof in writing 30 calendar days in advance. When purchasing electricity from an independent supplier, eligible consumers whose installations are connected to distribution networks must pay the distribution network operator for transmission of electricity via transmission and distribution networks, for system services and public service obligations. When purchasing electricity from an independent supplier, eligible consumers whose installations are connected to the transmission system must pay the transmission system operator for transmission of electricity via transmission networks and for public service obligations in the electricity sector.

## Electricity Price by Components as of 2004, EUR/MWh

Name/Consumer group	Ig	Ib	Dc
Price of transmission services (duty exclusive)	24.34	42.21	42.21
Duties included in the price of transmission services	-	-	-
Energy and supply price	22.55	27.69	21.14
Taxes (VAT – 18%)	8.45	12.59	11.4
Total (taxes inclusive)	55.34	82.49	74.75

The consumer's electricity installations are connected to the operator's electricity networks in accordance with the procedure and under conditions set out in Order No. 4-388 on the Rules of Connection of Electricity Consumers and Producers' Energy Facilities (Networks, Installations and Systems) to the Functioning Energy Company Facilities (Networks, Installations and Systems) of the Minister of Economy of the Republic of Lithuania of 29 October 2004 (*Official Gazette*, 2004, No. 159-5826). The fee for the connection service is independent from the consumer type (domestic or commercial) and the electricity quantity to be consumed in the future.

The Rules stipulate only the period of connection of the consumer's installations where connection of the consumer's electricity installations requires just installing a port with the accounting cabinet or board and no project is needed for performing those works, and it may not exceed 15 working days following the day of payment of the price of the connection service unless otherwise agreed upon by the parties. The maximum connection period of electricity installations is not set. Every agreement on connection of the consumer's electricity installations to electricity networks signed by and between the operator and the consumer sets the period of connection of the consumer's electricity installations to the operator's electricity networks.

Taking into consideration the consumer's requests and technical capacities when connecting the consumer's electricity installations in accordance with the above Rules, the price of the service provided by the operator may constitute 40% of the estimate value of connection of the consumer's electricity installations to the network or may be calculated on the basis of tariffs approved by the NCC. Currently effective tariffs are approved by Resolution No. 122 on Prices of Connection of New Electricity Consumers' Installations to Networks of the NCC of 11 December 2002.

In 2004 13,393 new consumers (157 MW) to whom electricity was 100% supplied by public suppliers were connected to the distribution network operators' network (new connected and capacity increased). The number of new consumers as compared to 2003 increased by 20.2%, and the average newly installed capacity decreased by 5%.

Pursuant to the Law on Electricity, in Lithuania prices of producers, auctions and independent suppliers are not regulated. Prices of transmission and distribution network operators and public suppliers are regulated by setting price caps. Specific prices and tariffs are set by energy companies proper. Prices and tariffs regulated by the state and specific prices and tariffs are announced and controlled by the NCC.

### **3.2.3 MEASURES TO AVOID ABUSES OF DOMINANCE**

The Law on Electricity stipulates that prices of electricity sold by producers and independent suppliers and reserve capacity are not regulated, except for the cases where the producer or independent supplier occupy over 25% of the market. The procedure of regulation of prices of electricity sold by producers and independent suppliers occupying over 25% of the market and reserve capacity as well as the procedure of regulation of the balancing energy price are set out by the NCC.

Mutual relations of energy companies as well as relations with energy resource or energy consumers are based on agreements. Energy supply, transmission and distribution agreements are public. Energy is supplied, transmitted and distributed to regulated consumers and natural persons upon entering into an agreement under mandatory standard conditions. The Government or institutions authorised by it which perform public management of the energy sector approve mandatory standard conditions of energy transmission, distribution and supply to regulated consumers and natural persons. At suppliers' request standard conditions of electricity purchase-sale agreements with domestic consumers are approved by an institution authorised by the Government in coordination with the National Consumer Rights Protection Council under the Ministry of Justice.

Agreements with domestic consumers are made for an unlimited period of time unless otherwise provided for therein. Agreements also stipulate quality parameters, liability for their observance and other conditions.

According to the Rules of Trading in Electricity adopted by Order No. 380 of the Minister of Economy of 18 December 2001, the market operator provides information on the quantity of electricity consumed and/or supplied by every market player by hours within a trading day as well as data on import, export and regulatory directions given by the control centre of the transmission

network operator on the trading day, establishes the results of trade in balancing and regulation electricity and provides an opportunity for every market player to familiarise themselves with information concerning them, establishes the results of every day of the month and issues corresponding certificates to all market players for presenting bills for balancing and regulation electricity.

***Legal Documents Regulating Trade in Electricity:***

1. *Procedure of Regulation of the Price of Electricity and Reserve Capacity for Producers and Independent Suppliers Occupying Over 25% of the Market* approved by Resolution No. 112 of the National Control Commission for Prices and Energy of 19 November 2001.

2. *Methodology for Setting Public Electricity Prices, the Price of the Public Supply Service and Price Caps* approved by Resolution No. 03-85 of the National Control Commission for Prices and Energy of 30 August 2004;

3. *Procedure of Regulation of the Balancing Energy Price* approved by Resolution No. 135 of the National Control Commission for Prices and Energy of 23 December 2002;

4. Resolution No. 03-99 *on the Price Caps of Services of Lietuvos Energija AB* of the National Control Commission for Prices and Energy of 11 October 2004;

5. *Procedure of Promotion of Production and Purchase of Electricity Produced Using Renewable and Recycled Energy Sources* approved by Resolution No. 1474 of the Government of the Republic of Lithuania of 5 December 2001;

6. *Rules of Trading in Electricity* adopted by Order No. 380 of the Minister of Economy of 18 December 2001;

7. *Public Service Obligations in the Electricity Sector* approved by Resolution No. 1474 of the Government of 5 December 2001;

8. *Rules of Licensing Activities in the Electricity Sector* approved by Resolution No. 1474 of the Government of 5 December 2001;

9. *Rules of Imposing Obligations to Provide Public Service Obligations* adopted by Order No. 380 of the Minister of Economy of 18 December 2001.

Distribution networks operators are also public electricity suppliers. At present there are no such eligible electricity consumers who would use the electricity distribution service provided but would receive electricity from an independent electricity supplier. The price of services provided by the public electricity supplier and the price of public electricity are regulated by the NCC. Public suppliers are allowed to cater for up to 70% of the electricity demand by bilateral electricity purchase agreements with electricity producers, and the remaining part of the electricity demand is satisfied by purchasing electricity under public service obligations and at electricity auctions organised by the transmission system operator.

Every quarter distribution network companies must submit to the Ministry of Economy electricity balance sheets where they specify the quantity of contract electricity purchased, quantity of electricity supplied as public service obligations, quantity of additional electricity, quantity of electricity purchased from small hydro power stations, etc. Companies also submit other necessary reports on sold electricity quantities and tariffs not only to the Ministry of Economy but also to the Department of Statistics.

Any natural or legal person belonging to a certain group of consumers according to the procedure and criteria set out by the operator and/or the supplier, having electricity-consuming installations or networks complying with set technical requirements and having fulfilled technical conditions of connection, also having a point of connection to the operator's electricity network established and installed electricity metering devices must make an electricity purchase-sale agreement with the supplier (either a public supplier or an independent supplier) under non-discriminatory conditions before electricity supply commences. For eligible consumers in agreements with distribution network operators the electricity transmission service must be assessed. If consumers (also eligible consumers) receive electricity from the public supplier, no separate distribution service agreement with the distribution network operator is needed. In such cases specific features of the agreement, duties, rights and liabilities of parties to the agreement must be set out in electricity purchase-sale agreements entered into with the public supplier. Agreements, except for those with domestic consumers, are made for a limited period of time. Unless before the expiry of the term any party to the agreement expresses its willingness to terminate or amend the agreement or to make a new agreement, this agreement is deemed renewed for the same period of time and under the same conditions. If before the expiry of the term of the agreement one of the parties to the agreement suggests making a new agreement, relations between the parties are subject to the conditions of the previous agreement before the new one is made. The consumer is entitled to terminate agreements unilaterally by giving a 30-calendar-days' written notice thereof to the corresponding operators and/or the supplier only having fully paid all due amounts. The operator or the supplier is entitled to terminate agreements by court decisions or unilaterally by giving a 30-calendar-days' written notice thereof to the consumer (except for domestic consumers) if the consumer (including eligible consumers) fails to or improperly fulfils the duties stipulated in the agreement. Agreements may also provide for other grounds for termination.

## 4. REGULATION AND PERFORMANCE OF THE NATURAL GAS MARKET

### 4.1. REGULATORY ISSUES

#### 4.1.1. GENERAL

“Lietuvos Dujos” AB is the sole holder of the license to engage in gas marketing in Lithuania. This undertaking owns gas transmission network, which is 1600 km long. In 2004, the amount of gas transported via the main gas pipelines totaled 3517m<sup>3</sup> million, i.e. by 2 per cent more than in 2003. Transit transportation via the territory of Lithuania to Kaliningrad region constituted 637 m<sup>3</sup> million of gas (in 2003 – 570 m<sup>3</sup> million).

The license to engage in gas distribution activity in Lithuania is held by 6 gas distribution companies. The largest share of the market is occupied by AB “Lietuvos Dujos” maintaining about 6600 km of distribution network and distributing 98 per cent of natural gas. The remaining gas distribution companies distribute 2 per cent of gas in total. In 2004, the distribution networks transported 1088 m<sup>3</sup> million of natural gas. The operators of natural gas transmission and distribution systems are listed in Table.

Seq. No.	Undertaking	Type of licence	Local or national network	Main shareholders
1	AB “Lietuvos Dujos“	Transmission of natural gas Distribution of natural gas	National	State property Fund, AAB “Gazprom”, “E.ON Ruhrgas International AG”.
2	AB “Achema“	Distribution of natural gas	Local	Private undertaking
3	UAB “Druskininkų Dujos“	Distribution of natural gas	Local	Private undertaking
4	UAB “Intergas“	Distribution of natural gas	Local	Private undertaking
5	UAB “Joniškio Energija“	Distribution of natural gas	Local	Private undertaking

6	AB agrofirma “Josvainiai“	Distribution of natural gas	Local	Private undertaking
7	AB “Kauno energija“	Distribution of natural gas	Local	Private undertaking

Pursuant to the law of the Republic of Lithuania on natural gas, supply of natural gas is subject to licensing. From June 2002, the licence for supply of natural gas (SNG) must be held by companies supplying gas only to eligible customers as well. The NCC has issued 14 licences for engaging in natural gas supply activity. In 2004, gas was being supplied to the customers by 7 supply companies having such a right. The number of the licensed natural gas supply companies is shown in Table.

Number of issued licences		Engaged in licensed activities in 2004	
SNG	SNG (to eligible customers only)	SNG	SNG (to eligible customers only)
6	8	5	2

#### Natural gas market in 2004

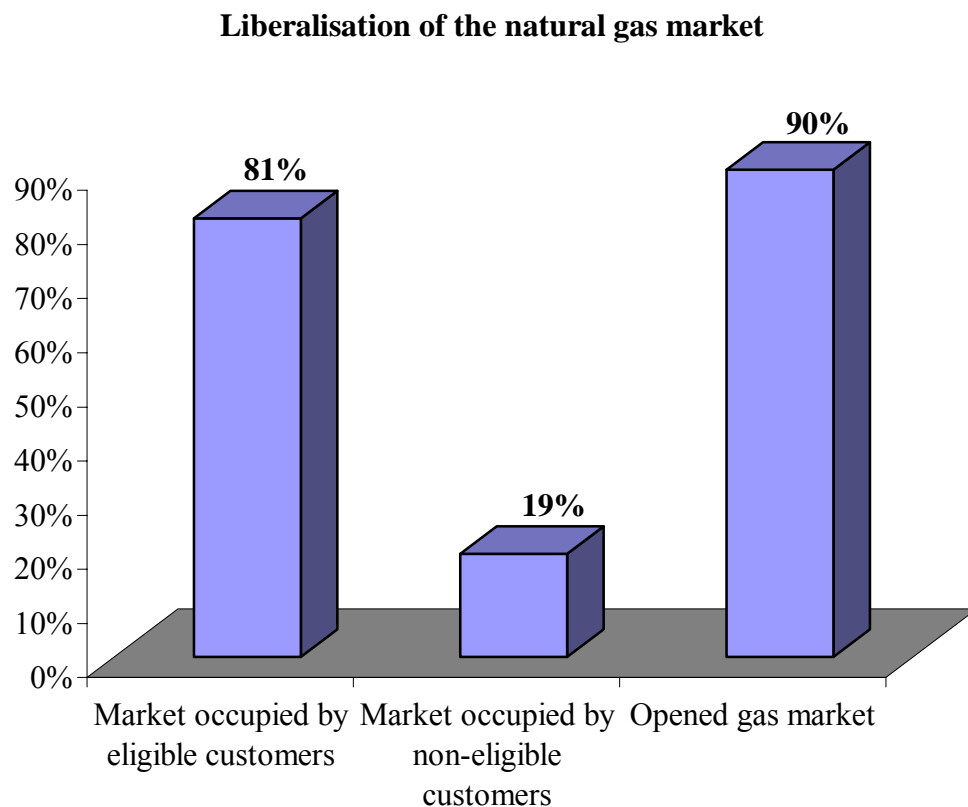
Upon coming into force of the law on natural gas in 2001, the natural gas market was opened in Lithuania. The customers that were recognised to be eligible were able to buy natural gas from the chosen supplier. The customers willing to become eligible must meet the criteria approved by the Order the Minister of Economy. From 1 January 2004, the following customers are recognised to be eligible:

1. customers that consume more than 1 million cubic meters of gas per year,
2. power stations,
3. customers directly connected to the main gas pipeline,
4. gas distribution companies directly connected to the main gas pipeline.

The customers that are willing to become eligible must submit an application to the NCC, which, having examined whether a customer meets the above-mentioned criteria, recognises the customer to be eligible and publishes in the supplement “Communications” of the “Official Gazette”. There are 27 natural gas customers in Lithuania that have been recognised to be eligible.

Over 2004, these customers consumed 81 per cent of gas. 82 more customers had the right to become eligible, however they did not exercise this right. Opening of the Lithuanian gas market last year constituted 90 per cent. In 2004, three customers were recognised to be eligible. Adverse effect on the process of liberalisation of the natural gas market was made by the situation of competition in the non-regulated gas market – the eligible customers could chose only among two suppliers – AB “Lietuvos Dujos” and UAB “Dujotekana”, which were buying gas from the sole external supplier – AAB “Gazprom” and each had pre-set gas quota. Therefore, currently Lithuania faces the situation where eligible customers pay for the gas more than the non-eligible ones.

The likely further opening of the market will mainly depend on the market situation, sources and conditions of natural gas supply.



In 2004, a new law on natural gas was drafted, the purpose of which is to approximate the legal rules regulating the natural gas sector of Lithuania to the principles of arrangement and regulation of the domestic natural gas markets set in the Directive 2003/EC/55. After long discussions conclusion has been made that there are no conditions established for full opening of the market, therefore adoption of the law has been postponed. The European Commission has been informed about the real opportunities of full opening of the gas market. It is expected that this draft law will be re-considered at the end of 2005.

#### **4.1.2. MANAGEMENT AND ALLOCATION OF INTERCONNECTION CAPACITY AND MECHANISMS TO DEAL WITH CONGESTION**

The capacities of the international connections with the Russian Federation, Republics of Byelorussia and Latvia are regulated by agreements. The capacities of international connections are limited by setting the marginal overloads for each individual month +/- 5 per cent variation from the average consumption for each 24 hours.

The capacity of the transmission pipelines is provided for in contracts. Three different system-balancing methods (types of contracts) are applied to different groups of customers of the system. Only part of the customers of this system (eligible customers occupying 81 per cent of the market) take an active part in balancing the system. The non-eligible customers consuming up to 20 000 m<sup>3</sup> of gas per year (5,6 per cent of the market) do not take part in balancing the gas system at all. The remaining customers of the system, i.e. 13,4 per cent of the customers of the system, take a passive part in balancing the system. The customers of the system that take an active part in balancing the gas system must buy (reserve) the 24 hours' capacity for the period of one year.

Currently there is no secondary market of gas capacity in Lithuania as the international connections and the national main gas pipelines (except for a small part thereof) have much higher outputs than currently used, therefore almost all the customers, both the old and the new ones, that are increasing their outputs may easily buy the capacities required to them.

Natural gas is being transited through the territory of Lithuania to Kaliningrad region (Russian Federation) in accordance with the long-term agreement entered into in 1999 (valid until 2015) between the Russian company AAB "Gazprom" and AB "Lietuvos Dujos". The capacities reserved in the contract for 2006-2015 amount to 1050m<sup>3</sup> million per year, i.e. 18 per cent of the total gas amount transported via the transmission system.

#### **4.1.3. THE REGULATION OF THE TRANSMISSION AND DISTRIBUTION COMPANIES**

##### Network tariffs

The methodology for computing the prices of natural gas transportation (transmission and distribution) is set by the methodology for computing price caps of natural gas approved by the NCC in 2005. Pursuant to the law on natural gas, the price caps for natural gas transportation must

be set by the NCC for the period of three years. These price limits are adjusted every year to the inflation, performance rates, change in the gas consumption volumes and the dynamics of other factors beyond operations of an undertaking. Gas undertakings set specific gas transportation prices that may not exceed the caps set by the Commission.

Gas transmission and distribution prices are applied in accordance with the “post stamp” principle, irrespective of the distance of transmission or distribution. When setting the price caps of transportation, the amounts of gas transportation and costs are established by assessing the actual volumes and the forecasts for the coming three years of the costs of gas transportation of a gas undertaking. For this purpose information on performance of gas companies is being collected and analysed on a constant basis (once a quarter) based on their financial statements and accounting of gas transportation. In addition to this information, information about the amounts, areas, funding sources of investments by the gas companies, the number of connected customers, dynamics of staff numbers, status of long-term assets and gas losses in the gas pipelines is collected.

The profit from gas transportation activities is computed from the value of long-term assets of the gas companies. The profit margin is computed taking into consideration the interest rate of the Government Securities and the risk level of investments. Depending on the degree of dynamics of reliability of gas supply by a gas undertaking computed on the basis of monitoring data of the undertaking’s performance the profit margin may be increased or reduced by 1 percentage point.

When computing the price caps of gas transportation the benchmarks of companies performance efficiency are set. The NCC has determined that the annual performance efficiency of the companies may not be lower than the annual change of customer price index. The performance efficiency of the companies is assessed on the basis of the relative performance indicators by comparing them with the indicators of similar companies.

Specific gas transportation prices may be differentiated by customer categories or groups, amount of gas consumption, gas pressure, purpose of consumption, reliability of gas supply, as well as other objective features chosen by a gas undertaking that enable to pursue higher performance efficiency. Gas transmission and distribution price may be either monomial or binomial. Binomial price of gas transportation includes a fixed component and a variable component. The fixed component is computed on the basis of 24 hours capacity declared (ordered) by the customer, while the variable component – on the basis of the transported gas amount.

The main procedures for setting the gas transportation prices are as follows:

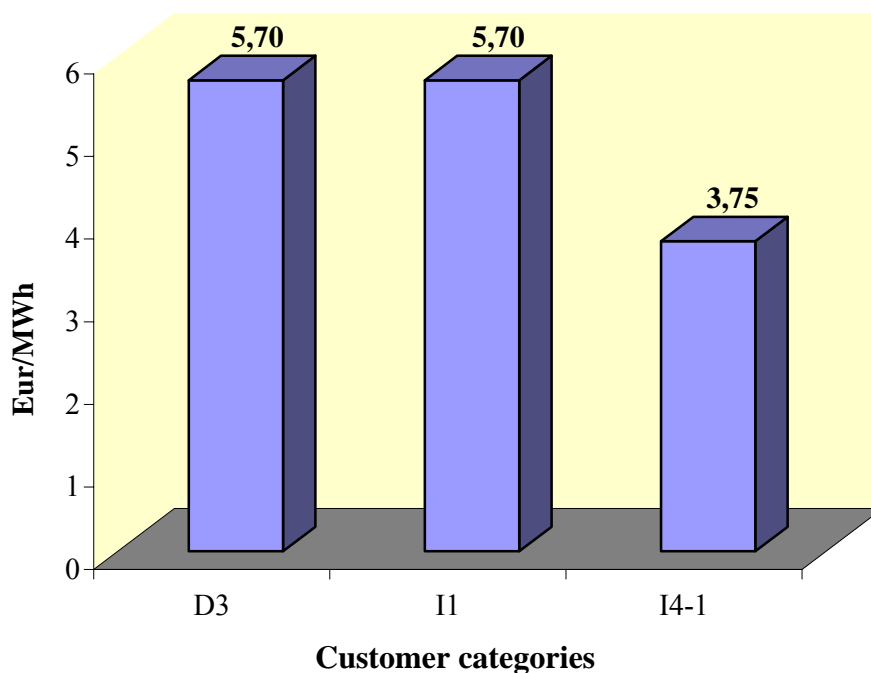
- Gas companies submit the data to the NCC 3 months in advance (for the purpose of computing of the price cap) or 2 months in advance (for the purpose of adjustment of the price cap) to the coming into force of the new prices.

- The NCC sets or adjusts the transportation price caps within 30 days.
- Gas undertaking submits draft specific transportation prices. The Commission checks whether these prices do not exceed the set price caps.
- If the prices are computed correctly the NCC endorses the prices of the gas undertaking. If this is the case, the gas undertaking then publishes the prices. The new prices come into force not earlier than 30 days after publicising thereof.
- If calculation of the gas transportation prices is wrong, the NCC indicates the mistakes to the gas undertaking that have to be corrected within 30 days.
- If the companies fail to meet the NCC's requirement the NCC gains the right to set the gas transportation prices unilaterally. If this is the case, the specific gas transportation prices are published by the NCC. The new prices come into force not earlier than 30 days after publicising thereof.

In 2005, the NCC has set the transportation price caps for the largest transmission and distribution operator – AB “Lietuvos Dujos” – for the period of three years (from 01/07/2005 to 30/06/2008).

Figure illustrates the prices of AB “Lietuvos Dujos” of natural gas transportation service valid from 1 July 2005 in accordance with the Eurostat categories.

The price of natural gas transportation service valid from 1 July 2005, Eur/MWh



*Quality of services rendered by transmission and distribution companies*

Pursuant to the licensing regulations for the transmission, distribution, storage and supply of natural gas approved by Government of the Republic of Lithuania the Ministry of Economy sets the quality requirements for the activity subject to licensing, while the NCC controls implementation thereof by the licensed companies. The draft quality requirements are currently under preparation.

In 2004, the largest operator of the transmission and distribution system revised the principles for collection and classification of the data on planned and unplanned terminations of gas supply, adjusted accounting thereof. The data about unplanned terminations of natural gas supply demonstrates that the terminations are often due to the fault of the third parties, for instance, negligent implementation of digging works.

Data about the unplanned terminations of natural gas supply is presented in Table 3. In 2004, average number of the unplanned terminations per one customer of the system amounted to 0,005 termination case. Average duration of the unplanned terminations per one customer of the system amounted to 0,064 minute.

Data about the unplanned terminations of natural gas supply by AB „Lietuvos Dujos“ in 2004

Number of unplanned terminations	Number of disconnected customers	Duration of unplanned terminations (min.)	Average number of unplanned terminations per customer of the system	Average duration of the unplanned terminations per customer of the system (min.)
279	1164	33789	0,005	0,064

The supply of natural gas to 99,8 per cent of the customers of AB „Lietuvos Dujos“ has been restored less than in 8 hours, to the remaining customers – less than in 24 hours. In the course of the planned terminations of supply the supply of the natural gas to the customers had been restored before the scheduled deadlines.

In 2004, 64 per cent of all customers' applications received by AB „Lietuvos Dujos“ on connection to the distribution gas pipelines were considered less than within 30 days. 69 per cent of all the applications were satisfied. 70 per cent of all the contracts on connection of customers to the system were implemented by the deadlines set in the connection contracts. 7.5 per cent of the connection contracts were not implemented due to the fault of the customers themselves.

The NCC may impose penalties for the violations of the licensed activities, suspend or cancel the validity of the licence.

The persons in charge of performance of an activity subject to licensing having committed the violations are subject to administrative liability in accordance with the procedure set in the code of administrative law violations. The code of administrative law violations envisages liability for violations of the procedure for transmission, distribution, storage and consumption of energy resources or energy, failure to present data on economic financial status of an undertaking and presenting of knowingly incorrect data, violation of or failure to implement NCC's resolutions, failure to implement its instructions.

It should be noted that legal persons are not subject to administrative liability – it is the officers, individuals in charge that penalties are imposed on.

The code of administrative law violations provides for two main types of penalties – warning and financial penalty the size of which varies depending on the nature of the violation.

### Balancing

The operator of the transmission system AB “Lietuvos Dujos” once a year prepares forecast of consumption by small customers (consuming up to 20m<sup>3</sup> thousand per year). It is adjusted each quarter 50 days in advance to the start of a quarter of a year. Small customers have the possibility to consume the amount of gas which is specifically required to them. The consumption forecast with regard to the new small customers is based on the assumption that the consumption will increase by 2 per cent. The gas consumption by these customers (5,6 per cent of the total consumption) makes minor influence to the balancing of the systems.

The above mentioned new law on natural gas envisages preparation of balancing rules and methodology for computing of balancing charge rates. However, so far this law has not been passed, therefore currently a separate charge on balancing or maintenance of balancing has not been set. The customers of the system that take an active part in balancing the gas system (eligible customers) pay charge on excess capacity. Depending on the season of the year (warm, medium, cold) there are three different types of charges on excess capacity applied. These charges are set by the operator of the transmission and distribution system in the contract with the customer. They have not been agreed with any institution. The contracts with other customers set limits of gas consumption, however, they are not subject to balancing charges.

A customer of the system may not exceed the capacity set in the contract (maximum consumption per 24 hours), however there are no limits to a lesser consumption of gas per 24 hours set in the contract.

The operator of the transmission system applies balancing incentives to the customers of the system: economic exemptions on excess capacity are envisaged in the contracts with the customers of the system gas supply whereto is subject to termination (a gas undertaking may at any time terminate the gas supply).

The interval for balancing of the gas system covers 24 hours in Lithuania. The current technologies do not allow comprehensive hourly balancing of the system. The balancing with regard to all active participants of the system is performed from one centralised point.

The following imbalance charges are applied to the customers of the system:

- charge on excess capacity not agreed;
- charge on excess capacity agreed with the system operator;
- charge on unused capacity.

The charge on excess capacity not agreed is payable when a customer of the system exceeds the capacity set in the contract without prior agreement with the system operator. The size of the charge is 6,6 times larger than the rate set in the marketing system. The charge does not depend on the season (of the year).

The charge on agreed excess capacity is payable when a customer of the system exceeds the capacity set in the contract with prior agreement with the system operator. This charge during the cold period of a year is 2,2 times and in the medium season 1,1 times higher than the average charge set within the transmission system. During the warm season of a year this charge amounts to 0,4 average rate set within the transmission system.

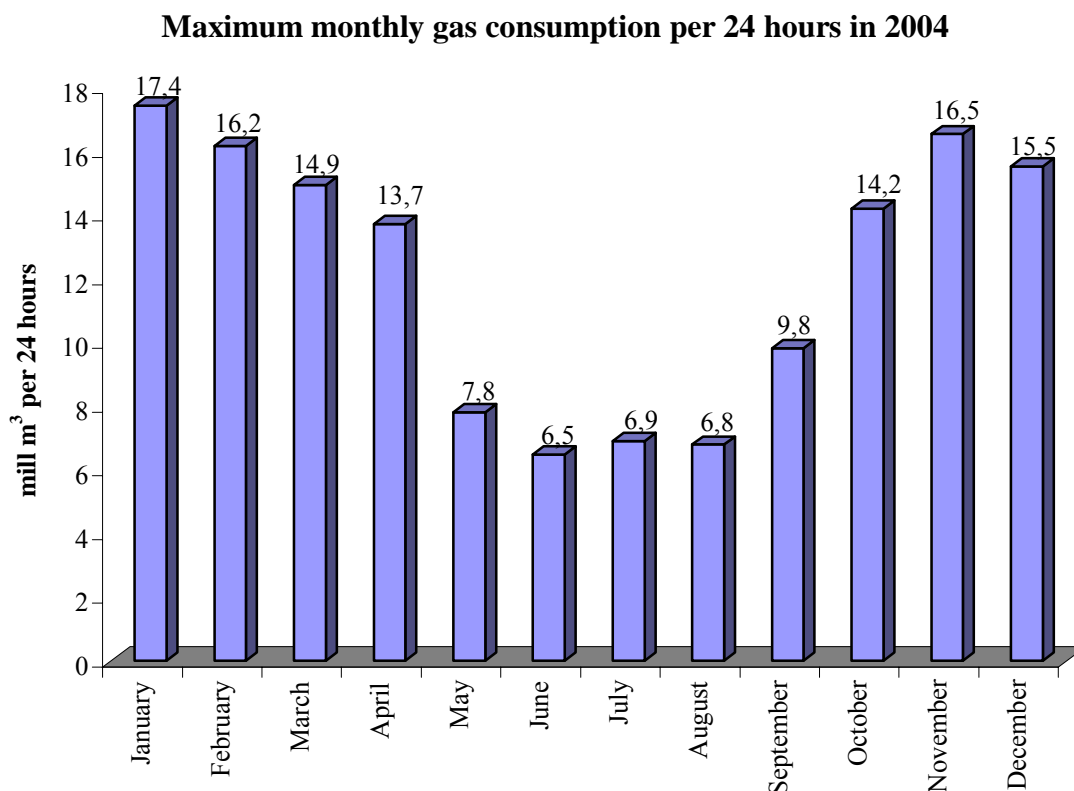
The charge on unused capacity is payable when a customer of the system does not employ full capacity set in the contract. The charge amounts to 0,1 average rate set within the transmission system.

The fees are applicable only with regard to the exceeded or unused amount of gas.

When setting the imbalance charge the gas consumption per 24 hours is fixed. In the event of a imbalance, the gas transportation invoice gives the calculation of the imbalance charge. Invoice is issued once or twice a month.

The procedure for provision of information related to balancing mechanism is set in the contract. Each Thursday, upon submitting by the customer of the system information about the amounts of natural gas needed for transmission and distribution, the system operator approves or rejects them in writing. If the system operator is not able to transmit and distribute the amount of natural gas required by the customer of the system it adjusts the amount and approves the amounts of gas that it will be able to transmit and distribute. Such information is provided to the customer of the system each Friday.

Further we present the maximum consumption monthly rates for the year 2004.



#### **4.1.4. ACCESS TO STORAGE, LINEPACK AND OTHER ANCILLIARY SERVICES**

Currently Lithuania has no underground gas storage. The suitable underground structure for establishment of the gas storage has not been yet found and fully examined in Lithuania. Former studies, in spite of substantial investments, did not lead to positive results.

The service of gas storage in pipelines, taking into consideration the structure of the gas system in Lithuania, is not being provided.

#### **4.1.5. EFFECTIVE UNBUNDLING**

The law of the Republic of Lithuania on natural gas stipulates that vertically integrated gas companies have to maintain separate accounting of natural gas transmission, distribution, storage and supply. For the purpose of accounting, balance sheets, profit (loss) accounts are being prepared for each type of activity. Whereas horizontally integrated companies additionally have to maintain a consolidated accounting of activities other than gas activities. The accounting of different types of activities is maintained in a way which would be applied if these types of activities were undertaken by different companies.

The largest gas undertaking of the country, AB “Lietuvos Dujos”, following the provisions of the law on natural gas and having considered the requirements set in the European Parliament and Council Directive 2003/55/EC of 26 June 2003, maintains separate accounting of transmission, distribution, supply to non-eligible customers, supply to eligible customers and non-core activities. The undertaking draws separate balance sheets and profit (loss) accounts for the above activities. These statements are not made public. AB “Lietuvos Dujos” has not implemented legal separation of activities.

Pursuant to the energy law and the licensing regulations for the transmission, distribution, storage and supply of natural gas, AB “Lietuvos Dujos” has operating costs audits being carried out.

The Undertaking has the procedure for accounting of operating costs in place, which specifies the principles for allocation of assets, equity, liabilities, income and costs by activities. The audited operating costs of different activities undertaken by AB “Lietuvos Dujos” in 2004 are presented in Table.

Indicators	Transmission	Distribution	Supply to eligible customers	Regulated activities	Other activities	Total
1	2	3	4	5 (2+3+4)	6	7
Percentage of costs of different activities to the total costs	15,4	21,3	34,1	70,8	29,2	100

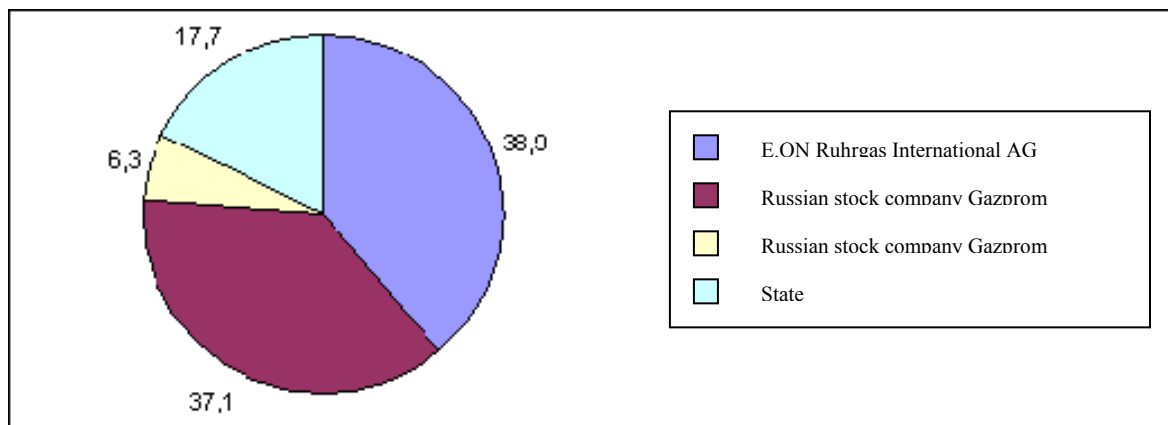
Small gas distribution companies separate the costs of supply and distribution activities from the costs of other activities.

## **4.2. COMPETITION ISSUES**

### **4.2.1., 4.2.2. DESCRIPTION OF THE WHOLESALE AND RETAIL MARKETS**

The Republic of Lithuania has no gas resources of its own. The gas supply system in Lithuania is connected only with the gas supply system of the Russian Federation, therefore the Russian Federation is the only source of gas import.

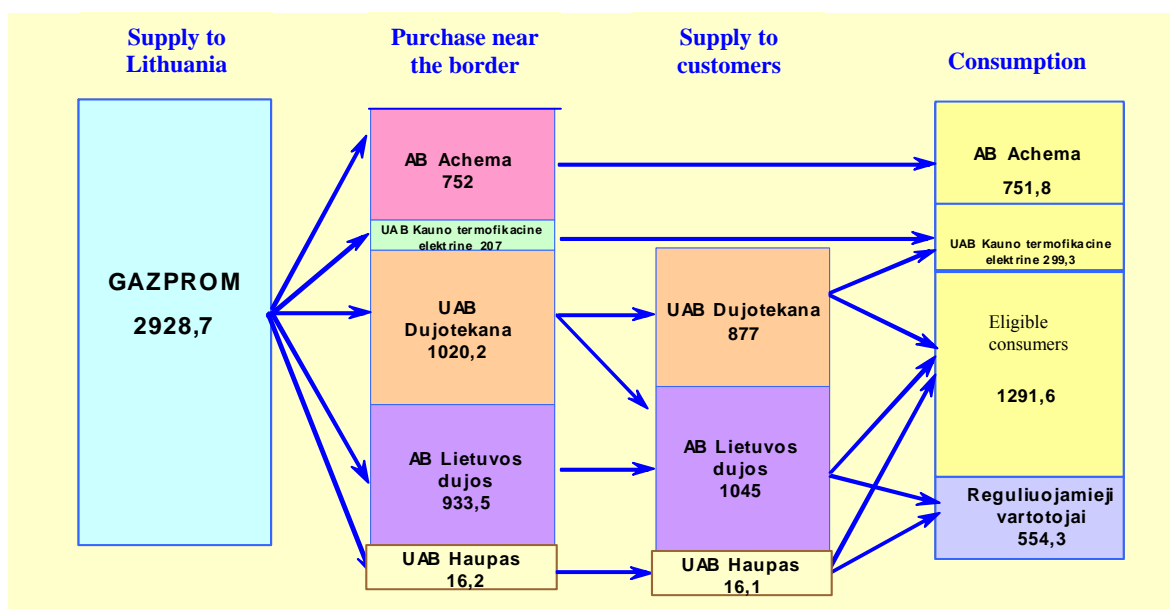
In 2004, the programme for privatisation of AB “Lietuvos Dujos“ was implemented. The shareholding structure of the main gas operator AB “Lietuvos Dujos” is provided bellow.



#### Allocation of shares of the stock undertaking "Lietuvos Dujos"

Upon privatisation of AB "Lietuvos Dujos" there was a long-term gas supply contract entered into with AAB "Gazprom" valid until 2015, where under AAB "Gazprom" undertook to ensure long-term supply of gas to Lithuania on the basis of the agreed price formula.

In 2004, 2,93 m<sup>3</sup> billion of natural gas were imported to Lithuania. The Lithuanian customers consumed 2.90m<sup>3</sup> billion of natural gas. Figure illustrates gas supply structure in 2004.

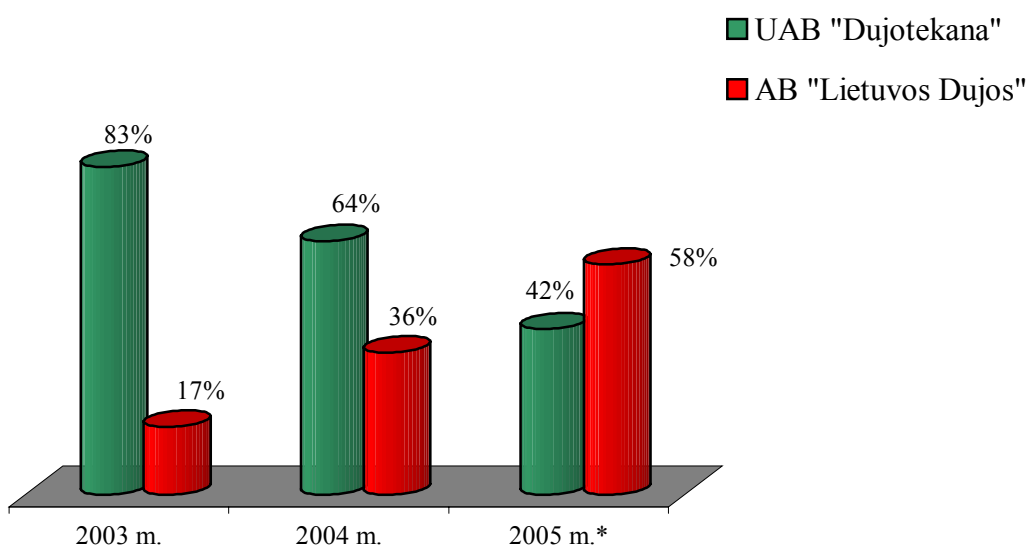


The NCC regulates the activities of gas supply companies by issuing licenses for supply and by controlling how the conditions of the licensed activities are adhered to. The mandatory conditions of licensed activities are set in the Licensing Regulations for Transmission, Distribution, Storage and Supply of Natural Gas approved by the Government in 2001:

1. to ensure secure, reliable and efficient supply of gas in the agreed volume and of the agreed quality to customers or gas undertakings;
2. within 30 days of the end of each accounting quarter, to submit to the NCC information on the activity subject to licensing and its accounts;
3. to make an analysis (of the gas market) of the supply of gas to customers and to submit to the Ministry of Economy and NCC data on the perspectives with regard to the development of the gas systems;
4. to co-operate with the operator of the gas system and carry out the operator's instructions to ensure balanced activities of the gas system;
5. to develop the activities consistently and contribute to the coordinated and effective planning of the energy supply;
6. to keep separate accounts for the gas supply activities;
7. to provide information to the NCC on the concluded natural gas sales-purchase contracts;
8. to enter into agreement on gas transmission to the eligible customers with the gas transmission undertaking or the gas transmission undertaking and the eligible customer;
9. upon expiry of a year, to audit costs of activities subject to licensing and to notify the results thereof to the NCC.

In 2004, there were 5 suppliers of gas to Lithuania. AB "Achema" and UAB "Kauno Termofikacijos Elektrinė" were purchasing gas directly from AAB "Gazprom" and were using the gas for their own needs. The remaining 3 suppliers were supplying gas to the customers and smaller gas distribution undertakings. The main gas suppliers in 2004 were UAB "Dujotekana" and AB "Lietuvos Dujos". UAB "Haupas" held a very small share of the gas supply market, UAB "Dujotekana" was supplying gas to eligible customers only, while AB "Lietuvos Dujos" was supplying gas to eligible and non-eligible customers.

In 2003, the major part of gas supply to the eligible customers was performed through UAB "Dujotekana" – 83 per cent, while AB "Lietuvos Dujos" occupied 17 per cent of the total market of supply to eligible customers. Upon signature of the privatisation agreement with AAB "Gazprom", the situation in the gas supply market changed significantly – the Russian gas supply undertaking undertook to supply 70 per cent of gas through AB "Lietuvos Dujos", (in addition to direct purchases of gas by AB "Achema" and UAB "Kauno Termofikacijos Elektrinė") thereby significantly reducing the share of supply of gas to eligible customers by UAB "Dujotekana".

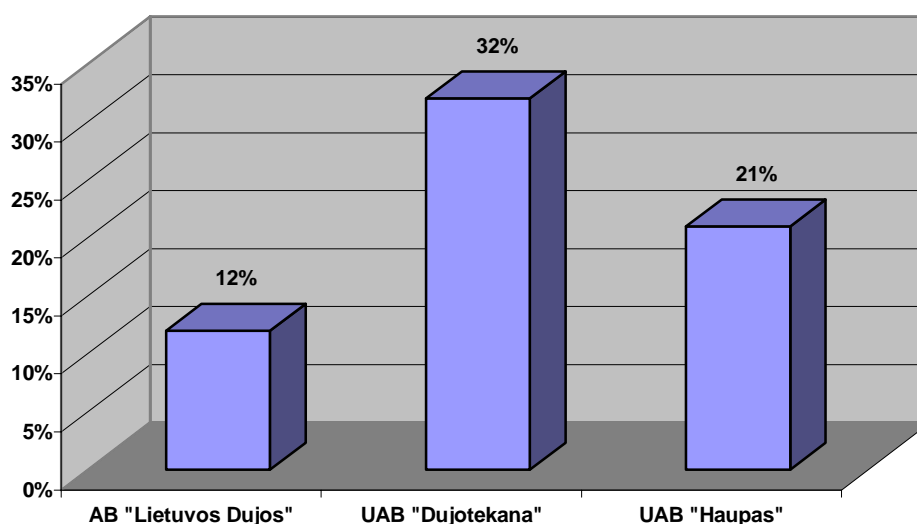


**The market for supply of gas to eligible consumers share occupied by AB "Lietuvos Dujos" and UAB "Dujotekana"**

\*- contractual amounts.

The price of gas supply to non-eligible customers is not regulated, therefore gas suppliers apply different price margin when supplying gas.

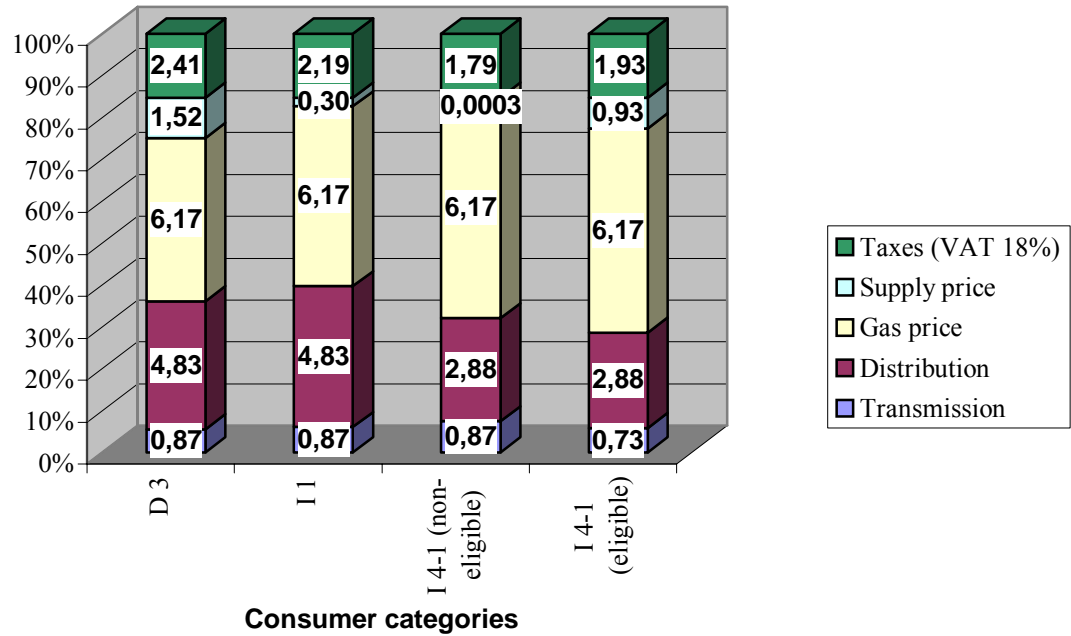
**Price margin of gas supply to non-eligible customers in 2004**



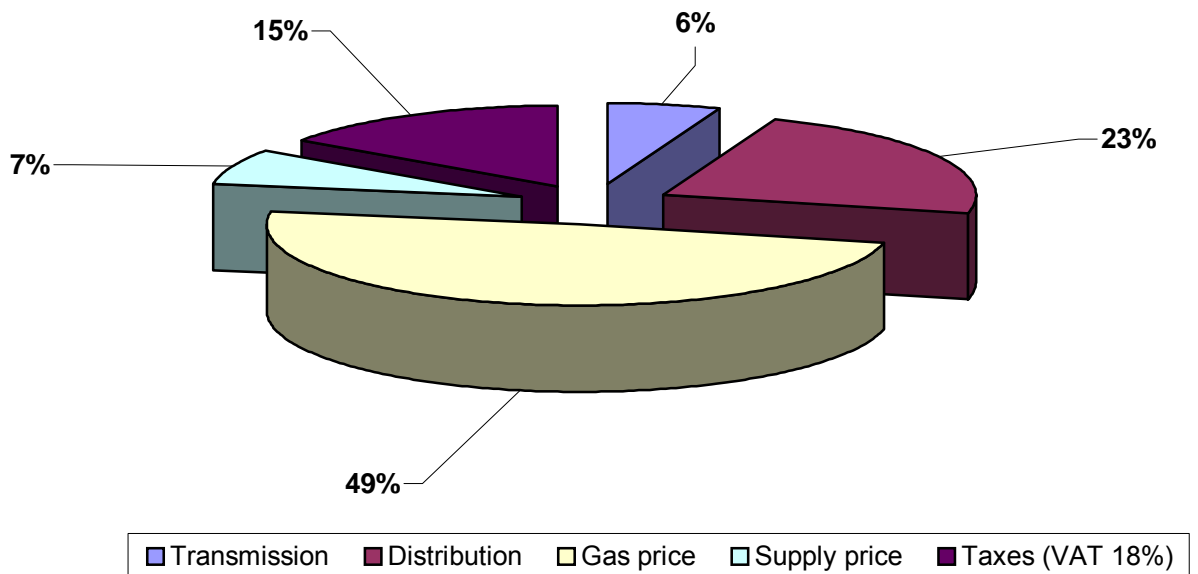
The eligible customers have a binomial transmission price applied to them on the basis of applied capacity, i.e. maximum consumption of gas per 24 hours for the period of one year and gas consumption. Currently 70 per cent of the price constituent consists of the fixed price component. The non-eligible customers have monomial transmission price applied to them.

The structure of gas price to Lithuanian customers is illustrated in Figures accordance with the Eurostat categories.

**The structure of natural gas price by the Eurostat categories  
Eur/MWh**

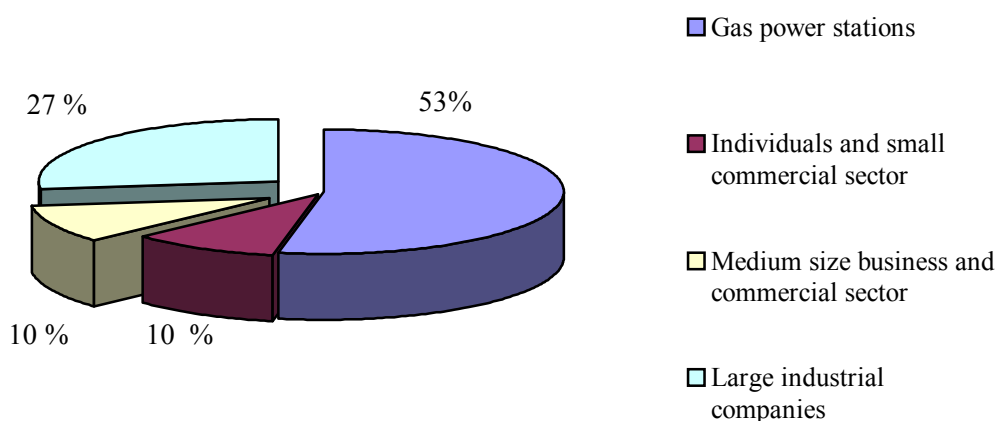


**Natural gas price structure for an eligible customer of category I4-1**



In terms of consumption purpose, the largest amount of gas in 2004 was consumed by gas power stations – 53 per cent of the gas amount supplied to customers. There were 27 such customers. Individuals and small commercial sector (528 108 customers) occupy 10 per cent of the market, medium size business (75 customers) – 10 per cent of the market, while large industrial companies occupy 27 per cent of the market.

**Consumption of natural gas in Lithuania  
by purpose of use in 2004 (%)**



Competition policy related activities within the gas supply market are regulated by the competition law of the Republic of Lithuania. The law identifies activities of state government, municipal institutions and economic entities which restrict or may restrict competition as well as acts of unfair competition, sets the rights, obligations and liability of these institutions and establishes the legal base for effecting control over restriction of competition and unfair competition in the Republic of Lithuania. The Competition Council of the Republic of Lithuania controls how economic entities, state government and municipal institutions adhere to the requirements set by the competition law of the Republic of Lithuania.

However, for the time being, as long as gas is being supplied to Lithuania by the sole external gas supplier AAB “Gazprom”, real competition within the gas supply market is only theoretical.

### *Supply of information*

Article 19 of the energy law and the order of the Minister of Economy of 2004 concerning approval of the rules on supply of information related to energy activity to state institutions and the

third parties stipulate that state institutions and establishments are entitled to receive the information from energy undertakings that is required for discharging of their obligations.

Information is being supplied not only to state institutions but to energy customers as well: energy undertakings within the limits of their competence supply information to energy customers within the territory of their operation on efficient consumption of energy resources, secure and efficient use of energy objects and facilities, energy objects and facilities under construction, reconstruction, energy prices and services rendered to energy customers.

## 5. SECURITY OF SUPPLY

### 5.1. ELECTRICITY

In 2005 through 2007 Lithuania will still have an excess of electricity-generating capacity (also taking account of possible electricity export).

Taking into consideration the scheduled decommissioning of Ignalina Nuclear Power Plant and the obligation of Lithuania to the European Union to increase electricity production using renewable energy sources, it is planned to construct a cogeneration plant of 25 MW in Panevėžys and additionally provide for about 100 MW of electricity-generating capacity using renewable energy sources, mainly wind power.

Forecasts of Changes in Installed/Disposable Capacities of Lithuanian Power Plants, MW

	2005	2006	2007
Ignalina NPP	<b>1,300/1,183</b>	<b>1,300/1,183</b>	<b>1,300/1,183</b>
<i>Lietuvos Elektrinė</i>	1,800/1,732	1,800/1,732	1,800/1,732
Mažeikių Elektrinė	160/148	160/148	160/148
<i>Vilniaus Energija</i>	384/367	384/367	384/367
<i>Kauno Termofikacijos Elektrinė</i>	170/161	170/161	170/161
<i>Kauno Energija</i>	8	-	-
<i>Klaipėdos Energija</i>	10.8/9	10.8/9	10.8/9
<i>Panevėžio Energija</i>	-	-	25/23
Total at thermal power stations:	<b>2,532.8/2,425</b>	<b>2,524/2,417</b>	<b>2,549/2,440</b>
Kaunas Hydro Power Plant	100.8/90	100.8/90	100.8/90
Kruonis Hydro Pumped-Storage Power Plant	900/760	900/760	900/760
Small private hydro power plants	20.1	25	28
Total at hydro plants:	<b>1,020.9/850</b>	<b>1,025.8/850</b>	<b>1,028.8/850</b>
<b>Power plants of industrial companies and other departments</b>			
of them:			
biomass	2.9	7.9	20.9
wind	0.85	31	82
Total:	<b>4,929.4/4,503</b>	<b>4,960.7/4,496</b>	<b>5,052.7/4,519</b>

## Maximum Capacity Demand in 2003-2007, MW

Year	Maximum demand (net)
2003	1,770
2004	1,700
2005	1,920
2006	2,010
2007	2,090

Forecasted balances of the Lithuanian energy system capacity at the time of maximum demand in 2005-2007 are given in the table.

## Forecasted Balances of the Lithuanian Energy System Capacity at the Time of Maximum Demand in 2005-2007, MW

	2005	2006	2007
Installed/disposable capacity of power plants (exclusive of wind power stations, biomass power plants and small hydro power plants)	4,503	4,496	4,519
Maximum system capacity demand given the maximum demand increase	1,920	2,010	2,090
Export	~500	~500	~500
Long-term reserve required	1,300	1,300	1,300
<b>Capacity balance (excess)</b>	<b>783</b>	<b>686</b>	<b>629</b>

Current electricity production capacities may be expanded or new production capacities at a new location may be created only having obtained a permit to expand electricity production capacities. Permits are issued to all persons having submitted an application and guaranteeing that their activities would meet the following conditions:

- 1) electricity installations and associated equipment will be safe and reliable;
- 2) not harmful for health;
- 3) will meet environmental requirements;
- 4) will meet requirements to land use and selection of a construction site;
- 5) will meet effective energy consumption requirements;

- 6) will match technical, economic and financial capacities;
- 7) services will meet public interests;
- 8) will meet fuel selection requirements.

Permits to expand electricity production capacities are issued in accordance with the Rules of Issuing Permits for Activities in the Electricity Sector approved by the Minister of Economy. The number of issued permits to expand electricity production capacities is as follows:

- Until 2006 – 10 (58 MW);
- Until 2007 – 22 (124 MW);
- Until 2008 – 19 (82 MW).

In 2004 16 permits to expand electricity production capacities were issued:

	Number of permits	Capacity
New capacities using coal/fuel oil, total (GW)	0	0
New capacities using natural gas, total (GW)	1	0,0001
New capacities using renewable energy sources, total (GW)	13	0,111148
New thermal capacities (GW)	1	0,0031
Other new capacities (GW)	1	0,1

In 2004 electricity was produced using several kinds of fuel. Ignalina NPP uses nuclear fuel. Fuel balance of energy production at thermal power plants is dominated by natural gas. Such producers also use fuel oil and orimulsion for producing energy. A small share of electricity was produced using renewable energy sources (small hydro power plants). As regards the national energy production fuel balance, in 2004 it could be as follows:

- 67% of electricity was produced using nuclear fuel;
- 27% of electricity was produced using fossil fuel, mainly natural gas (of it 4.4% – using orimulsion, and about 1.3% – using fuel oil);
- 5% of electricity produced at hydro power plants.

### **Long-Term Planning and System Development**

Long-term electricity system development taking account of supply reliability, quality, effectiveness, consumption, management and environmental requirements listed in the National

Energy Strategy and improving the conditions of using the system is planned by the transmission system operator in coordination with the institution authorised by the Government and distribution network operators. Long-term electricity system development planning must be based on scientific research. Electricity networks within the territories specified in licenses for transmission and distribution activities may be installed or developed only by licensees. In the case where no one is willing to install new production capacity facilities, the institution authorised by the Government announces a competition to install new production capacities and is responsible for organising the competition and setting non-discriminatory conditions for the competition participants.

Permits to expand electricity production capacities are issued in accordance with the Rules of Issuing Permits for Activities in the Electricity Sector approved by the Minister of Economy. A permit to expand the electricity production capacity is to be obtained by every company willing to construct a power plant on a new site or increase the generating capacity of its power plant by reconstructing (replacing) current or building additional technical electricity production installations. An application for obtaining a permit for electricity production capacity development must be submitted by the company together with documents reflecting that the following requirements are met:

- safety and reliability of electricity installations and associated equipment;
- environment;
- land use and selection of a construction site;
- fuel used.

The company whose technical electricity production capacity exceeds the consolidated (electric and thermal) capacity of 10 MW must submit a document showing the company's capacity to collect and store fuel reserve.

The Ministry of Economy must issue a permit to the applicant company within 30 days following the receipt of the required documents or provide grounded written refusal to do so. Construction works of the new energy production capacity development unit must be performed in such a manner that during the initial period of construction which is no longer than 3 years the construction would be started and completed by at least 25% of the estimated construction and assembly value.

Conditions and requirements to production and purchase promotion of electricity produced in the Republic of Lithuania using renewable and waste energy resources are set out in the Procedure of Promotion of Production and Purchase of Electricity Produced Using Renewable and Waste Energy Resources approved by the Government.

Pursuant to this Procedure, energy production at wind, biomass and sun power plants as well as at hydro power plants not exceeding the capacity of 10 MW and purchase thereof are promoted. Such power plants are connected to active energy company networks in accordance with the procedure laid down in legal acts applying a 40% discount of the connection fee to the producers which is deemed purchase of public service obligations and compensated in the following year to the operators having connected the power plants. The procedure and conditions of purchase promotion of electricity produced by geothermal power plants, hydro power plants of the capacity exceeding 10 MW and power plants using waste energy resources and connection of those plants to networks may be set out by the Government of the Republic of Lithuania.

Wind power plants of the capacity exceeding 250 kW are constructed in new areas without exceeding the capacity set for each zone and the total capacity of 170 MW for all zones. Permits to producers intending to construct such power plants are issued on the grounds of a competition.

Reliable functioning of the electricity system will be greatly influenced by the technical condition of the key elements of the transmission system. Maintenance of the required technical condition is a priority. Taking into account that a larger part of the transmission system is constructed in the seventh and eighth decades of the last century and that the service life of the key network elements is about 30 to 40 years, significant investments will be required in the nearest future in technical renovation of the network.

Transmission system operators of Lithuania, Latvia and Estonia prepared a study entitled *Baltic Grid 2012*. The purpose of the study was to establish possible development prospects of the transmission networks of the Baltic States until 2012 ensuring safety and reliability of functioning of the transmission systems, proper quality of electricity supply to consumers and evaluating possibilities of electricity transmission by integrating with the neighbouring energy systems UCTE and NORDEL. The study assesses the impact of the decommissioning of Ignalina NPP in 2009, renovation possibilities of available power plants and possibilities of constructing new power plants and lines. Conclusions of the study present the main guidelines of the transmission network development in the Baltic States and provide for essential changes in the electricity transmission systems of Lithuania, Latvia and Estonia.

The Lithuanian transmission network was assessed as sufficient for capacity flows of various market scenarios but it was noticed that with the decommissioning of Ignalina NPP the eastern part of the transmission network would face problems with regulating voltage within the network, which is why the node of Ignalina NPP must be equipped with a regulated shunt reactor of the capacity of 180 Mvar and reactors of 30 and 60 Mvar in Utena and Neris 330/110/10 kV transforming substations.

The study also states that with disconnection of the lines Sovetskask – Klaipėda or Jelgava (Viskai) – Broceni in the Lithuanian electricity system for summer repairs, the most dangerous one is Klaipėda node as the current 110 kV network after 2010 will not be able to transmit the required quantity of electricity. This problem needs to be tackled by constructing a 330 kV line Klaipėda – Telšiai.

A merger of the Lithuanian and the Polish energy systems is planned via the direct current spot of 1,000 MW in Alytus. Investment of the Lithuanian side in Lithuania – Poland intersystem connection may amount to about 143 million euros (or 494 million litas). If an agreement with the Polish energy system concerning construction is reached, it will be necessary to build 154 km of a 400 kV line Alytus – Elkas (of them from Alytus to the border – 48 km) and at the same time a double-circuit 330 kV line of about 53 km from Kruonis to Alytus.

On the Polish side this project will require constructing two additional 400 kV lines: Elkas – Narewas (about 134 km) and Elkas – Małki (about 169 km). The total investment in the interconnection will make about 434 million euros.

Connection with the Polish electricity networks is necessary in order to ensure reliable energy supply after the decommissioning of the second unit of Ignalina NPP. After connecting the Lithuanian electricity networks with the Polish electricity networks, the electricity networks of the Baltic States would become connected to the electricity networks of the European Union, the small electricity market of the Baltic States would expand and favourable conditions for competition in the field of electricity production would be created to ensure effectiveness of the market functioning.

On 29 April 2005 in Tallinn construction agreements of the value of about 110 million euros (380 million litas) concerning construction of the electricity line (350 MW) between Estonia and Finland were signed. The Lithuanian transmission system operator *Lietuvos Energija* AB invested in the project 5.5 million euros (19 million litas) with the total share of its investment in this project amounting to about 27 million euros (93 million litas). Partners in Estlink Project are such public limited liability companies as *Lietuvos Energija* AB and *Latvenergo* (Latvia) which will hold 25% of shares in the joint company each, *Eesti Energia* (Estonia) which will hold 39.9% of shares and Finnish companies *Pohjolan Voima* and *Helsingin Energija* which will share 10.1% of shares.

The joint company *Nordic Energy Link* incorporated by five energy companies signed agreements with the winner of Estlink Project construction competition the Swedish Concern ABB and the banks Nordic Investment Bank and SEB Eesti Ühispank. The European Commission did not object that this underwater cable would be treated as an exception, thus granting the project partners a priority right to use the new cable and allowed excluding project expenses in the electricity transmission tariffs of the countries. The total length of the cable line is about 100 km of

which about 70 km will be laid on the sea floor. The project is to be completed at the end of 2006. The project is economically and politically important first of all because electricity supply reliability will increase in the Baltic States, dependence on the Russian energy system will decrease and more favourable conditions for competition in the field of electricity production will be created. It will create a connection between the energy systems of the Baltic States and Scandinavia and an opportunity to participate in the electricity market of the region.

With support of the Swedish Government and the Ministry of Economy of the Republic of Lithuania, possibilities of connecting the Lithuanian and the Swedish electricity networks are currently considered (SwindLit Project). A preliminary feasibility study has already been completed and a feasibility study entitled SwindLit is to be commenced in the nearest future to evaluate possibilities of connecting the Swedish and the Lithuanian energy systems using a direct current cable line for electricity exchange between the energy systems. As one of possible project proposals, sea wind electricity parks may be constructed at the seacoast of Sweden and Lithuania.

In 2005 *Lietuvos Energija* AB prepared a study entitled **330-110 kV Network Plan of the Lithuanian Energy System until 2014**. The purpose of the study is to assess the current electricity system of *Lietuvos Energija* AB, to provide for possible changes in connections of 110 kV transforming substations in 2005-2014, to perform electric calculations of the 110-330 kV network modes and to provide conclusions and recommendations on the network development, to foresee and plan large investment projects and to provide for necessary investment in the network development and renovation.

At the end of 2005 the **System Development Plan** summarising the current Lithuanian energy system (generation, consumption, line flows, system reliability) and prospects – the system development plans until 2014 will be drafted in accordance with the requirements of the Law on Electricity. The System Development Plan will be coordinated with the Ministry of Economy, *Rytų Skirstomieji Tinklai* and *Vakarų Skirstomieji Tinklai*.

Investment planning is performed in accordance with the procedures approved by the administration of *Lietuvos Energija* AB:

**Investment Planning Procedure:**

sets out the procedure of planning investment projects or fixed assets purchases for drafting, selecting and implementing investment projects.

**Procedure of Investment Project Implementation and Control:**

- sets out the procedure of investment project implementation, management and control from the project beginning to its completion;

- defines key functions and responsibilities of the investment project manager, responsible representative of the customer and other persons participating in the project implementation.
- Investment is planned by drafting decade and five-year investment plans drafted in cycles, i.e. every two years;
- Annual investment plans are drafted for investment realisation.

Works are performed taking into account the completed stages of which the following are worth mentioning:

- Identifying static and dynamic properties of the electricity system (2002);
- Analysis of failures of the transmission network installations and assessment of the reliability condition (2003);
- Analysis of energy supply scenarios and energy supply reliability in the Baltic States (2004);
- Management of reactive power and voltage in the transmission network in the cases of frequency trouble where the automated emergency system is activated (2004);
- Analysis of energy supply scenarios and energy supply reliability in the Baltic States (2004);
- Research into stability of the transmission network for 2005 after the decommissioning of the first unit of Ignalina NPP, optimisation of the normal network status, changes in automated emergency systems, methodology for calculating static stability, data and application using programme complexes PSS/E and Mustang (2004);
- Methodologies for assessing reliability of the electricity transmission network (2004);
- Investigation of accidents in the energy system and drafting recommendations for accident prevention (2005);
- Analysis of accidents and equipment failures in 2004 (2005);
- Methodology for identifying parameters of dynamic properties of devices and certifying dynamic properties of generation devices (2005).
- Research into technical conditions for the formation of the electricity market in Lithuania (2002);
- Assessment of additional costs for the Lithuanian electricity system after connection of wind power plant (2003);
- Drafting layout schemes of construction of wind power plants in Lithuania taking into account the potential of the wind power, technical possibilities and environmental requirements of connecting to the transmission networks identifying economically feasible consolidated capacity quotas of wind power plants for every zone (2003);
- Assessment of the organisational structure of the operational management of the transmission network (2005).

## 5.2. GAS

The gas system of Lithuania has sufficient capacity and no problems in relation to pipeline capacity are likely to be faced within the coming few years. It is planned that in 2006 gas import will amount to 3.09m<sup>3</sup> billion, in 2007 – 3140m<sup>3</sup> billion, while in 2008 gas import to Lithuania should increase to 3.56m<sup>3</sup> billion, i.e. by approximately 21,5 per cent, if compared to 2004.

The supervision of the safety of gas supply is being effected through monitoring of the undertakings' performance, observing the demand and supply and supervision by the NCC of how the undertakings adhere to the terms of the activity subject to licensing. Gas supply undertakings when supplying gas to the customers must adhere to the licensing regulations for the transmission, distribution, storage and supply of natural gas which regulate in details the issues of termination of natural gas supply, settlement of accounts and other issues.

Pursuant to Article 19 of the energy law, the start of construction and exploitation of an energy object of state importance must be notified by the energy undertakings owning or running such objects on other grounds to the Ministry of Economy.

In order to increase the gas import capacities, Article 14 of the law on natural gas stipulates that the territories that the gas is newly supplied to may have the gas transmission price set for the period up to 10 years that would enable to cover the costs of investments. The European Parliament and Council Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply must be implemented by 19 May 2006. Currently the provisions of the Directive are being transposed to the national law of Lithuania.

In order to increase security and reliability of gas supply, in 2004, there was a gas accounting station connecting the Lithuanian and Latvian gas networks into a single system and providing access to the underground gas storage of Inchukalns, Latvia, completed on the main cross-border gas pipeline at the Lithuanian-Latvian border. In order to be able to use this connection there have to be agreements signed between the Lithuanian and Latvian gas undertakings that are operating transmission networks. So far the agreements have not been signed, however there is a possibility to use the connection in the event of energy emergency. It should be noted that the supply via this connection is not possible because the gas supply contracts with AAB "Gazprom" prohibit reselling of the natural gas to the third parties to all gas suppliers of Lithuania.

For the time being no real projects or studies on connection of the Lithuanian gas network with the trans-European networks have been prepared. TEN guidelines provide for the connections. Referring to the letter by the Prime Ministers of Poland, Lithuania, Latvia to the European Commission and initiative of Poland it is planned to prepare a study (so called Amber Project),

which should answer the question what possibilities Lithuania would have to connect to the trans-European gas networks. Application on financing of this project has been submitted to the European Commission. Currently the project is being elaborated. The study has to be co-financed by Lithuania and Latvia. This question is currently under consideration.

The most important projects of the Lithuanian gas sector's infrastructure in 2004 were as follows:

1. Gas accounting station has been completed and commissioned at the Lithuanian-Latvian border. By construction of this station the gas pipelines of AB "Lietuvos Dujos" and AB "Latvijas Gaze" have been connected.
2. Construction of the main gas pipeline to the Kaliningrad region of the Russian Federation, whereby the transit capacities will be increased, has started.
3. Construction of the gas pipeline to Visaginas and Ignalina NPP has started.

In 2005-2008 it is planned to increase the capacities of the transmission system by constructing the second gas pipeline Šiauliai-Klaipėda.

## **6. PUBLIC SERVICE ISSUES**

### **6.1. ELECTRICITY**

The Law on Electricity defines public interests in the electricity sector: any act or omission in the electricity sector, directly or indirectly related to the public security, environmental protection, and to electricity generation from renewable energy sources, waste or combined heat and power generation.

The list of public service obligations in the electricity sector, suppliers and procedure of provision are set by the Government or an institution authorised thereby. Market players include costs of services indicated in the activity costs.

The transmission system operator, the distribution network operator and public suppliers in fulfilment of their public service obligation collect, specify and account data on income and expenses incurred in relation to such an obligation in separate book-keeping accounts and accounting registers.

Current electricity production capacities may be expanded or new capacities at a new location may be created only having obtained a permit to expand electricity production capacities. Permits are issued to all persons having submitted an application and guaranteeing that their activities would meet certain conditions, one of them being the requirement that their services would be in line with public interests.

The Government of the Republic of Lithuania approved the list of public service obligations in the electricity sector:

1. For public and independent electricity suppliers and eligible consumers importing electricity:

1.1. to purchase and sell electricity produced using renewable and waste energy resources;

1.2. to purchase and sell electricity produced at combined heat and power plants where such plants supply heat to centralised urban heat supply networks;

1.3. to purchase and sell electricity produced at power plants listed where electricity production is necessary to ensure the energy system reserves;

1.4. to pay the costs of assuring safety of nuclear energy, waste storage and burial.

2. For transmission network and distribution network operators:

2.1. to guarantee connection of all consumers complying with the relevant technical requirements to the electricity transmission or distribution networks and to ensure regular (reliable) electricity supply to them;

2.2. to ensure high quality of electricity supplier – to set relevant quality standards and to regulate compensation of associated expenses or losses;

2.3. to expand the national energy system infrastructure and intersystem connections in order to satisfy the increasing national electricity needs, to clearly and transparently regulate associated expenses and compensation thereof.

Provision of public service obligations listed here is regulated in the Rules of Imposing Public Service Obligations approved by the Ministry of Economy.

**Performing their activities**, companies of the electricity sector must inform consumers about effective consumption of electricity, services provided by the company, conditions of service provision, prices and tariffs of services and electricity, fees for and conditions of connection of consumers' installations to the networks and planned changes in conditions of agreements. Companies of the electricity sector are obliged to inform domestic consumers about any increase in prices no later than one month prior to raising prices or tariffs in writing or otherwise. Public suppliers must not discriminate against consumers or consumer categories. The consumer receiving electricity from a public supplier must duly pay the public supplier for electricity and its transmission. The consumer is entitled to terminate the agreement with the public supplier unilaterally without compensation by giving a 30-calendar-days' written notice thereof and having fully paid all due amounts for electricity supplied and its transmission services.

Household consumers have the right:

1) to freely choose a supplier free of charge;

- 2) to receive from suppliers information about the supplier's name, address, company code and legal status, services provided and conditions of their provision, prices and tariffs of services and electricity, ways of presenting notifications of prices, terms of agreements, conditions of making and terminating them, procedure of settling arguments;
- 3) to terminate agreements unilaterally without compensation in case conditions of agreements are changed and become no longer acceptable for domestic consumers;
- 4) to receive proposals from companies of the electricity sector concerning ways of payment and to select the way of payment.

According to the approved Rules of Electricity Supply and Consumption, supply may be interrupted or restricted in the case of any default of the consumer. The operator or the supplier having warned the consumer no later than 15 calendar days in advance is entitled to interrupt or restrict electricity supply at the time indicated in the warning notice where the consumer fails to make due payment or makes a partial payment for electricity consumed.

In the calendar year of 2004 *VST* Public Limited Liability Company temporarily interrupted electricity supply to 12,042 consumers for services provided but not paid for. In 2004 *Rytų Skirstomieji Tinklai* AB disconnected 7,280 insolvent consumers.

As in Lithuania independent suppliers were chosen by a very small share of eligible consumers which since 1 July 2004 may be any non-household consumers, the majority of electricity consumers purchase electricity from 2 major public suppliers at regulated public tariffs. Regulated public tariffs cover all consumer categories – individuals, small, medium-sized and large businesses.

Price Caps of Public Tariffs of *Rytų Skirstomieji Tinklai* AB and *VST* AB (EUR/MWh)

<i>Rytų Skirstomieji Tinklai</i>	2004	2005
>110 kV	35.45	36.00
Medium voltage	48.51	54.65
Low voltage 0.4 kV	74.49	85.15
<b><i>VST</i></b>		
>110 kV	35.51	35.97
Medium voltage	48.86	58.04
Low voltage 0.4 kV	72.06	85.32

Price caps of public tariffs are set every year for a specific public supplier. Services of transmission via high-voltage networks and distribution services as well as income level of public

supply services are set for a period of three years and annually recalculated according to indexing, volume adjustment and unforeseen change coefficients, and price caps of distribution and supply services are calculated for the planned quantity of electricity transmitted, distributed or sold that year. The price cap of public tariffs comprises the production price, the price of the transmission service and prices of the distribution service by medium- and low-voltage networks and the supply service. The level of public tariffs depends on fluctuations of the production price. As in Lithuania the price of the major producer occupying 80% of the market is regulated and other producers sell the major part of electricity by providing public service obligations, the NCC provides for a production price included in calculations of the price caps of public tariffs.

The numbers of consumers using public tariffs in 2004 was distributed (%) among segments as follows:

Households	Industry	Commerce
96.54	0.14	3.33

Electricity supplied to electricity consumers is a good. Consumption of electricity is allowed only upon entering into an agreement between the consumer (including eligible consumers) and the public electricity supplier, transmission or distribution network operators. The key principles of making agreements are set out in the Civil Code. Arguments are settled by mutual agreement between the parties or in court. Observance of mandatory requirements is specified in licenses issued to energy companies.

Complaints of natural persons concerning application of unfair conditions of energy purchase-sale or service agreements are dealt with by the National Consumer Rights Protection Council under the Ministry of Justice according to the non-judicial preliminary procedure of complaint examination.

Complaints concerning failures and operation of energy units, installations and metering devices, violations of energy quality requirements, energy accounting and payment for energy consumed, accidents, interruptions, suspension or restrictions of energy supply are dealt with by the National Energy Inspectorate under the Ministry of Economy according to the non-judicial preliminary procedure of complaint examination.

Complaints concerning actions or inaction of energy companies in supplying, distributing, transmitting and storing energy, refusal to grant the right to use networks and systems, connection, balancing energy supply flows and application of prices and tariffs are dealt with by the NCC according to the non-judicial preliminary procedure of complaint examination.

## 6.2. GAS

The energy law stipulates that energy undertakings have to perform their activities in the way that ensures secure, efficient, environment friendly energy production, supply, transmission, distribution to the site of connection of the supplied energy accounting device with the customer's system, not exceeding the prices regulated by the state.

The undertakings that engage in transmission, distribution, storage or supply of natural gas must have license issued with regard to the listed types of activities. The terms of issued gas supply licenses pursuant to the applicable legal acts usually set the following requirements:

1. The license holders must ensure secure, reliable and efficient supply of gas in the agreed volume and of the agreed quality to all customers concerned, the systems of which are duly connected to the license holder's gas distribution system, within the territory defined in the license;
2. The licence holder must cooperate with the operator of the gas system and carry out its instructions to ensure balanced functioning of the gas system; consistently develop the activity and contribute to coordinated and effective planning of energy supply;
3. The licence holder must inform the customers on how they may receive or provide information to the supplier, receive consultations on safe exploitation of the gas system, efficient consumption and other issues related to functioning of the gas distribution system;
4. The licence holder must have in place the procedure for recording customer complaints or applications and decision making. The licence holder has to ensure that the customers are not discriminated in the course of gas supply.
5. The license holder that is planning to terminate the activity provided for in the license must inform the NCC about that not later than 6 months in advance.
6. The license holder must submit the information to public institutions that is required for implementation of statutory duties.

The NCC must inspect how the undertaking adheres to the terms of the activity subject to licensing at least once a year as well as upon receipt of a complaint.

Pursuant to Article 5 of the energy law the Government or its authorised institutions effecting governmental control over energy are entitled to impose obligations in line with the public interests to the undertakings that engage in energy activities.

In addition to gas transportation prices, the gas prices to the non-eligible customers are also regulated in Lithuania. Currently there are 529 000 non-eligible customers in Lithuania. The gas to 99,7 per cent of the non-eligible customers is being supplied by AB "Lietuvos Dujos".

Pursuant to the law on natural gas the customers that have no right to choose their supplier are considered to be non-eligible. As it has been already mentioned the eligible customers in

Lithuania are the customers that consume more than 1m<sup>3</sup> million of gas, however, having the option to not exercise this right. Therefore, currently the non-eligible customers – individuals, small commercial sector, also include medium size commercial sector and industrial customers that have not exercised their right to become eligible. There are 82 such customers that consume 47,8 per cent of the total gas amount sold to the non-eligible customers. The major part of the non-eligible customers consists of individuals (99,8 per cent.), commercial customers account for 0,18 per cent, industrial companies – 0,02 per cent.

The natural gas price caps to non-eligible customers are set for the period of three years. The gas price cap to the non-eligible customers consists of the of gas transmission, distribution price cap and gas supply and gas price. Natural gas is being purchased from AAB “Gazprom” in USD. Therefore, the price cap to non-eligible customers is being revised once a year due to inflation, dynamics of gas consumption amounts and other factors beyond the operation of the undertaking and every half year, depending on the change of prices of gas purchased from Russia. From 1 July 2005 the NCC has set the price cap of AB “Lietuvos Dujos” to non-eligible customers for the period of 2005-2008, which is 381,70 LTL /th. m<sup>3</sup> (10,45 EUR/MWh).

The mutual relations between energy undertakings as well as the relations with the customers of energy resources or energy are contract-based. Energy is being supplied, transmitted, and distributed upon entering into a contract based on standard terms. The Government or its authorised institution sets standard terms of contracts on supply of gas to customers and gas transmission and distribution contracts which are mandatory to gas undertakings and customers. The standard (sample) contracts on natural gas supply also set the following conditions:

1. Supply (purchase-sales) contract with a household customer and customer consuming up to 20m<sup>3</sup> thousand, inclusive, of gas per year is concluded for an unlimited period, except if otherwise required by the customer.

2. The conditions of supply (purchase-sales) must be equal with regard to all customers within the same group. The draft contracts with non-eligible customers including the standard terms are prepared by the supply undertaking. The draft contracts with non-eligible customers including the standard terms must be agreed with the National Consumer Rights Protection Service under the Ministry of Justice. Draft contracts with the eligible customers including the standard terms are set by mutual agreement of the contractual parties.

3. Supply (purchase-sales) contract with non-eligible customers constitutes a public contract. Supply (purchase-sales) contract must specify: contractual parties and their properties, the term of validity of the contract, gas amount, pressure, quality, price, place of delivery, terms of settlement of accounts, either constant gas supply or gas supply subject to termination, the group the customer is assigned to in the case of emergency or extreme situation, whether the gas is odoured or

not, rights, obligations and liability of the parties, the procedure for checking readings of meter devices, the terms of contract termination and amendment, the procedure for settlement of disputes.

The NCC has the right to get familiar with the contracts entered between the gas undertakings and the customers.

Gas supply contracts are usually concluded for the period of one year with rare exceptions. The period during which a gas undertaking must sign the contract and start supplying gas upon request of the customer is 14 days. There are no restrictions or additional fees applied to the customers willing to change the gas supplying undertaking.

Legal acts specify the allocation of responsibility between the Government, NCC and other state institutions in ensuring transparent and non-discriminating terms of the supply contracts:

1. The Government or its authorised institution sets standard (sample) terms of contracts on gas supply to customers that are mandatory to gas undertakings and customers. The terms of activities subject to licensing are currently specified in the licensing regulations for the transmission, distribution, storage and supply of natural gas.
2. The NCC is considering complains concerning acts or omissions by gas undertakings in supplying, distributing, transmitting and storing natural gas, refusal to provide access to the system, etc. In addition to that, Article 22 of the law on natural gas stipulates that the NCC is entitled to get familiar with the contracts entered into between gas undertakings and customers.
3. The National Consumer Rights Protection Council is performing control over unfair conditions of the customer agreements.