



European Union Agency for the Cooperation
of Energy Regulators

Tariff Report

Analysis of the Consultation Document
on the Gas Transmission Tariff Structure
for Lithuania

**NRA: Valstybinė Energetikos Reguliavimo
Taryba**

TSO: AB Amber Grid

14 April 2025

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1. ACER conclusion

- 1 This Report presents the Agency's conclusions of the analysis carried out on the consultation documents on the proposed reference price methodology ('RPM') for the gas transmission system of Lithuania, pursuant to Article 27(2) of the Network Code on Harmonised Transmission Tariff Structures for Gas ('NC TAR').
- 2 The Lithuanian National Regulatory Authority ('NRA'), Valstybinė Energetikos Reguliavimo Taryba ('VERT') proposes a postage stamp methodology with uniform entry and exit capacity tariffs, except for a conditional capacity product at the Šakiai (LT>RU) exit point and the entry tariff discount for renewable production facilities. Moreover, the entry tariffs to Lithuania are pre-set to the common entry value of 142.77€/MW/h as applied in the merged FINESTLAT¹ regional market.
- 3 The proposed tariffs for exit points are calculated based on an allowed revenue split. The allowed revenue split is carried out between the revenues to be recovered through the transport of gas from the Belarus entry point to the exit point towards Kaliningrad and the revenues from the rest of the transmission system. Between Belarus and Russia a conditional product will apply with limited allocability and no discount allowing the transmission of natural gas between those two relevant points. The design reflects the context that Russian imports are legally banned since 2022, and Russian gas is transported via Lithuania with the sole purpose to serve the Russian exclave of Kaliningrad Oblast.
- 4 In line with the Regulation (EU) 2024/1789², the RPM introduces a discount for domestic entry points where biogas producers inject biomethane into the transmission system.
- 5 The entry-exit split varies through the tariff periods and is calculated ex-post, as a result of revenue from the fixed tariff at entry points. The entry-exit split is set at 51/49 ratio for 2026.
- 6 The consultation document states that the equalisation and rescaling adjustments are applied. The equalisation adjustment is not applied to homogeneous points as foreseen by the network code and the rescaling is not applied in the RPM, as confirmed by VERT during its exchange with ACER.
- 7 The Agency's previous recommendation under paragraph 13 of the [2023 Agency Report on the Tariff Consultation for Lithuania](#)³ have been taken into account by the current VERT proposal. The proposal, as it stands, simplifies the structure of the applied tariffs and eliminates the previously applied, complex asset/cost splits (e.g. directly allocating assets to domestic exit points) and sets a compliant uniform capacity tariff instead of a two-tier capacity tariff.
- 8 The commodity charge is set at a uniform level and is in line with the NC TAR.
- 9 A virtual exit point to the Klaipėda LNG terminal will allow reverse flows up to the volume of the LNG injected into the Lithuanian system. This is covered by a conditional interruptible capacity product, another revised element of the RPM.
- 10 The regulatory period for the Lithuanian TSO is five-years long, spanning from 2024 to 2028. The reference price methodology is proposed for three years only, between 2026-2028. The consulted RPM includes indicative reference prices for the three tariff periods. The forecasted allowed revenues that form the basis of the tariffs however are not final and will be established later in accordance with Lithuanian regulatory guidelines.
- 11 The result of the CAA of the proposed RPM is 0% for commodity-based transmission tariffs, as only the uniform flow-based charge is applied. For capacity tariffs, the results both for the proposed RPM

¹ FINESTLAT is the regional market merger of Finland, Estonia and Latvia.

² https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202401789

³ https://www.acer.europa.eu/sites/default/files/documents/Publications/Agency_report-analysis_of_the_consultation_document_for_Lithuania.pdf

and the counterfactual capacity-weighted distance ('CWD') methodologies remain safely below the 10% threshold set by the NC TAR.⁴

12 VERT proposes the continued application of a regulatory account for recording over- or underrecoveries of the allowed revenue.

13 Overall, the Agency welcomes that VERT has taken into account several of the Agency's previous recommendations leading to significant improvements with respect to the simplicity of the applied methodology and consequently increasing tariff predictability and transparency. The Agency also appreciates the discussions held with VERT during its review process.

14 The Agency, after having completed the analysis of the consultation document pursuant to Article 27(2) of the NC TAR concludes that:

- The information referred to in Article 26 (1) of the NC TAR has been published and the consultation document is available in English.
- As the proposed RPM applies two sets of cost drivers for the calculation of tariffs based on separate EU/non-EU allowed revenues, the Agency finds it difficult to conclude that this approach is compliant with Article 6(4) of the NC TAR.
- The RPM is compliant with the requirements on transparency, non-discrimination and volume risk. At the same time, the Agency cannot exhaustively conclude that the proposed RPM is compliant with the requirements on cost-reflectivity, cross-subsidisation, and on cross-border trade due to several design elements explained in the report.
- The criteria for setting the flow-based charge are met, however, the rules for adjusting the level of the charge should be clarified and the reconciliation aligned with NC TAR.
- The criteria for setting non-transmission tariffs are not applicable absent such services.

15 The Agency provides the following recommendations to VERT when publishing its motivated decision pursuant to Article 27(4) of the NC TAR:

- First, ensuring compliance with the rules of the NC TAR for the points Kotlovka and Šakiai by considering for example the application of a uniform postage stamp methodology.
- Second, focusing on the parts of the transmission system that were in the previous RPM categorised as secondary networks VERT should assess regional networks in line with the definitions in Article 2(17) and (19) of Directive (EU) 2024/1788. If such an assessment confirms that regional networks are in place, their costs should be allocated using the RPM, should the proposed methodology prove capable of allocating the costs related to regional networks only to domestic users in a compliant manner. Should the allocation of the costs of regional networks to domestic end users not be possible under the proposed RPM, the Agency recommends to place regional networks into distribution networks and allocating their costs outside the RPM. The Agency acknowledges VERT's arguments on the barriers posed by Lithuanian domestic law, and recommends VERT to initiate the necessary steps required to amend the law.
- Third, VERT should clarify how the reconciliation of volume-based allowed revenue is carried out. The Agency suggests considering the use of sub-accounts.
- Fourth, develop and publish the timeline for the completion of the market merger with the FINESTLAT zone. In case the market merger is hampered for an extended period, the

⁴ The split between revenues to be recovered through capacity tariffs and commodity charges is approximately 89%-11% in line with the usual practices of RPMs that apply flow-based tariffs.

Agency recommends the re-evaluation of the equalisation of entry tariffs with the neighbouring FINESTLAT zone.

- Fifth, clarify the conditions for adjusting the level of the flow-based charge and amending the rules to cover all cases of cost (over)recovery, or as an alternative, recalculate the flow-based charge annually, taking into account updated costs and flow forecasts.
- Sixth, provide a more detailed breakdown of the length and corresponding diameter/pressure of the segments of the transmission system to help better understanding the characteristics of the former regional network and the rest of the transmission network.
- Seventh, reevaluate the current assumptions about the level of forecasted capacity bookings for the new virtual exit point to the LNG terminal (currently set to 0), and offer CWD calculations with a non-zero value as well.

2. Introduction

- 16 Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas (NC TAR).
- 17 Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies (RPM) for all entry-exit systems⁵. This Report presents the analysis of the Agency for the transmission system of Lithuania.
- 18 On December 16, 2024, the Lithuanian NRA, Valstybinė Energetikos Reguliavimo Taryba (VERT), forwarded the consultation documents to the Agency. The consultation was launched on 16 December 2024 and remained open until 14 February 2025. Only one response was submitted to the consultation by stakeholders. The response, submitted in English, was published fully on VERT's website and the Agency has taken it into consideration for this analysis. Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, VERT shall take and publish a motivated decision on all the items set out in Article 26(1).

Reading guide

- 19 Chapter 3 of this document first presents an analysis on the completeness, namely if all the information in Article 26(1) has been published. Chapter 4 assesses the proposed reference price methodology ('RPM') for Lithuania. Chapter 5 focuses on the compliance, namely if the RPM complies with the requirements set out in Article 7 of the code, if the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met and if the criteria for setting non-transmission tariffs as set out in Article 4(4) are met. Chapter 6 includes other comments. This document contains two annexes, respectively the legal framework and a list of abbreviations.

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

3. Completeness

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

- 20 Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information referred to in Article 26(1) of the NC TAR has been published.
- 21 Article 26(1) of the NC TAR requires that the consultation document should be published in the English language, to the extent possible. The Agency remarks that the consultation document has been fully published in English, next to Lithuanian. The consultation was launched on 16 December 2024 and remained open until 14 February 2025, and the consultation was two days shorter than foreseen by the legal requirement⁶.
- 22 Overall, most of the information in Article 26(1) of the NC TAR has been properly published. The Agency recommends that VERT adjust in the motivated decision the elements referred to in Table 1 below. The Agency appreciates that the consultation document included an overview of the changes compared to the previous methodology and considers this a good practice.

Table 1: Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
26(1)(a)	the description of the proposed reference price methodology	Yes
26(1)(a)(i) 26(1)(a)(i)(1) 26(1)(a)(i)(2)	the indicative information set out in Article 30(1)(a), including: <ul style="list-style-type: none"> the justification of the parameters used that are related to the technical characteristics of the system, the corresponding information on the respective values of such parameters and the assumptions applied 	Yes
26(1)(a)(ii)	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	The equalized entry tariffs are published. Increase clarity about the applied equalisation, and review the information about rescaling, as no rescaling is applied.
26(1)(a)(iii)	the indicative reference prices subject to consultation	Yes
26(1)(a)(iv)	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	Yes The published CAA shall be replaced by the one VERT

⁶ For the rules for the calculation of periods and time limits for the purposes of application of EU acts, check Regulation (EEC, Euratom) No 1182/71: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A01971R1182-19710608>

		submitted to the Agency.
26(1)(a)(v)	the assessment of the proposed reference price methodology in accordance with Article 7	Yes
26(1)(a)(vi)	where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	Yes
26(1)(b)	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Yes
26(1)(c)(i) 26(1)(c)(i)(1) 26(1)(c)(i)(2) 26(1)(c)(i)(3)	where commodity-based transmission tariffs referred to in Article 4(3) are proposed <ul style="list-style-type: none"> • the manner in which they are set • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the indicative commodity-based transmission tariffs 	Yes
26(1)(c)(ii) 26(1)(c)(ii)(1) 26(1)(c)(ii)(2) 26(1)(c)(ii)(3) 26(1)(c)(ii)(4)	where non-transmission services provided to network users are proposed: <ul style="list-style-type: none"> • the non-transmission service tariff methodology therefor • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3) • the indicative non-transmission tariffs for non-transmission services provided to network users 	Not applicable
26(1)(d)	the indicative information set out in Article 30(2);	Yes
26(1)(e) 26(1)(e)(i) 26(1)(e)(ii) 26(1)(e)(iii) 26(1)(e)(iv)	where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity: <ul style="list-style-type: none"> • the proposed index; • the proposed calculation and how the revenue derived from the risk premium is used • at which interconnection point(s) and for which tariff period(s) such approach is proposed • the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed 	Not applicable

4. Assessment of the proposed reference price methodology

- 23 The following chapter assesses the proposed RPM taking into account the input parameters of the methodology and the cost allocation assessment.

4.1. Timeline for the application of tariffs

- 24 The regulatory period does not coincide with the application of the RPM. The current regulatory period spans from 01/01/2024 to 31/12/2028. The tariff periods coincide with the calendar years. The proposed RPM would be applicable for the determination of the tariffs for the tariff periods 2026, 2027, and 2028.

4.2. Description of the network

- 25 Amber Grid is the single TSO operating the 2280 km long Lithuanian gas transmission system. The assets of the transmission system include 64 gas regulation stations, 4 gas metering stations, and 2 gas compressor stations.
- 26 The Lithuanian gas system is interconnected with both of its neighbouring member states, Latvia and Poland, and is connected to two non-EU member countries, considered by the EU legislation as third countries. The system has an entry point from Belarus, and an exit point to the Russian exclave of Kaliningrad Oblast. As the connections with third countries are solely used to supply natural gas of Russian origin through Belarus and Lithuania to Kaliningrad Oblast, they are unidirectional, while all the interconnectors with EU member states are bi-directional. The network points with non-EU countries are currently only used for transit between the two points due to a legal ban on the use of Russian gas. The system has an entry point from the Klaipeda LNG terminal: the consumption of Lithuanian users is mainly supplied by gas injected at this point. The proposed RPM introduces plans to offer conditional, interruptible backhaul capacity to the LNG terminal. Lithuania has no domestic natural gas production, but since 2023-24 domestic biomethane producers have connected to the transmission network. There are no storage facilities connected to the system.
- 27 The transmission network is a meshed network forming a circular structure. Several segments of the network were formerly categorized as regional (or local/secondary) networks. These assets, consisting of 806 km of pipelines, are no longer handled differently from the rest of the transmission network as opposed to the previous RPM, where they were considered as secondary network based on separate tariffs built on an asset cost split.

28 Figure 1 provides a map of the Lithuanian gas network to allow the reader to better understand the structure and use of the system.

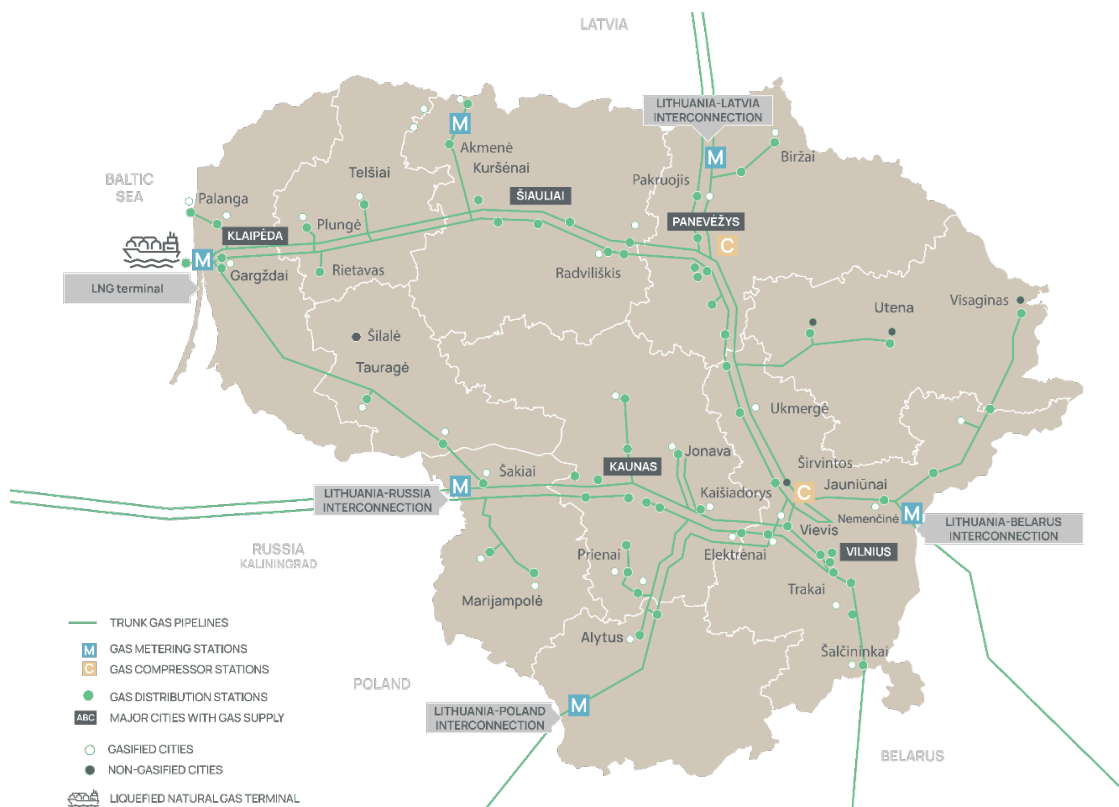


Figure 1: Map of the Lithuanian transmission system

4.3. Proposed RPM

29 The following chapter assesses the proposed Lithuanian methodology.

30 The consultation document presents the tariff structure for the remaining (yearly) tariff periods of the current regulatory period (2024-2028). Lithuania applies a revenue cap regime. The TSO’s allowed revenue is recovered through capacity tariffs, and a flow-based charge applied at exit points. Non-transmission services are not proposed. The proposed RPM is a postage stamp with some limiting features, namely:

- The tariffs of all entry points are equalised in order to reach the same level as the entry tariffs within the FINESTLAT zone.
- A 100% discount is applied to domestic entry points allowing the injection of renewable biomethane to the system.
- Only the tariffs for exit points are directly calculated by the application of the RPM for the allocation of allowed revenue to network points.
- Capacities at the BY>LT entry and the LT>RU exit points can only be booked as conditional capacities that can only be used for the purposes of point-to-point transmission between Belarus and Russia, and their tariffs are derived from an allowed revenue distinct from the allowed revenue for standard exit tariffs.

31 The main changes in the proposed methodology assessed in this report, compared to the previously applied, are listed below, and several were carried out to accommodate the Agency's recommendations from 2023.

- The applied methodology has been simplified and the previous asset cost splits affecting some domestic points, and the transit service were phased out.
- Instead of the previously applied asset cost splits, an allowed revenue split affecting the transit service has been introduced with regard to transmission to Kaliningrad Oblast.
- The level of the capacity tariff is the same for all domestic points, the previous two-tier tariff system affecting domestic points was phased out.
- The proposed RPM introduces a 100% discount for the domestic entry tariff, where biogas plants inject biomethane into the transmission system. This discount is applied in order to fulfil the provisions set forth in Article 18(1) of Regulation (EU) 2024/1789.
- All other discounts for firm products are phased out, including the LNG entry discount.
- The discount for the conditional (restricted) transit product was phased out both at the entry and exit points.

32 The following elements in the proposed methodology have not changed compared to the previous consultation, although they are part of the analysis made in this report.

- The NRA proposes to continue applying the common FINESTLAT zone entry tariff at all entry points.
- The pipelines formerly categorised as secondary networks continue to be included into the TSO's regulated asset base (RAB).
- The commodity-based tariff is applied in a uniform manner, at the same level for all exit points.

4.3.1. Cost drivers

33 For the calculation of the reference prices of exit capacities VERT uses forecasted contracted capacities as an input.

34 As the entry tariffs are set at a level equalised with the entry tariffs of the FINESTLAT zone, they are not calculated using a cost driver.

35 VERT applies two separate sets of forecasted exit capacities as cost drivers. For the tariff of the conditional capacity product allowing transit to Kaliningrad Oblast the forecasted capacity bookings of the affected Sakiai exit points are used. For the rest of the exit tariffs, the cost driver is the sum of forecasted capacity booking at all exit points excluding Sakiai.

36 While the use of forecasted contracted capacities as the sole cost driver can be justified taking into account the meshed and ring structure of the Lithuanian gas network, using two sets of cost drivers raises the question whether this approach is compliant with the requirement set forth in Article 6(3) of the NC TAR of having one single reference price methodology in an entry-exit zone.

4.3.2. Entry-exit split

37 The entry-exit split is not determined ex ante, instead it is calculated as the function of the share of the allowed revenue recovered through the fixed entry tariffs. As the exit tariffs differ for within-EU exit points and for the exit point to Russia, the entry-exit splits are also different for the standard transmission service and for the transit service. The forecasted entry-exit splits for the remainder of the regulatory period are 51%-49%, 52%-48% and 50%-50% for the within-EU transmission. For non-EU transit, the entry-exit splits are 51%-49%, 53%-47% and 52%-48%. As all of the forecasted values are approximately in line with the 50%-50% entry-exit split foreseen for the CWD methodology by the network code, the Agency does not consider the level of the proposed entry-exit split to have any negative or distortive effects on the cross-border gas flows.

4.3.3. Secondary adjustments

38 The reference price methodology states that two secondary adjustments are applied to the reference prices: equalisation on entry points, resulting in a tariff level equivalent to the level of entry tariffs in the FINESTLAT zone, and rescaling on exit points due to the application of a discount for renewable producers at domestic entry points.

39 Equalisation is defined by Article 6(4)(b) of the network code as the application of the same reference price to some or all points within a homogenous group of points. The Agency notes that the network points affected by the equalisation include: entry interconnection points, domestic entry points⁷, entry points from liquefied natural gas facilities, and entry points from third countries, therefore does not comply with the definition for homogenous group of points provided by Article 3(10) of NC TAR.

40 The Agency supports the creation of a regional entry-exit zone as it improves liquidity, security of supply, decreases administrative burdens and prevents the unjustified addition of tariffs. The Agency however does not consider it as a good practice to use entry tariffs linked to the neighbouring merged entry-exit zone for an unidentified period without concluding the market merger or at least progressing towards it.

41 The published reference price methodology does not provide details on the rescaling applied at the exit points. During the discussions with VERT the Agency found out that rescaling was not actually applied in the methodology.

4.4. Cost allocation assessment

42 VERT provided the results of the cost allocation assessment (CAA), both for the proposed RPM and for the proposed commodity-based tariffs. The initial calculations published in the consultation document were not carried out in line with the methodology detailed in the NC TAR with regards to the calculation of the intra-system/cross-system split of entry capacities. At the Agency's request VERT resubmitted the amended calculations, and the Agency also carried out its own assessment. The two assessments had minor divergencies, as VERT allocated all domestic entries to intra-system capacities, while the Agency split them between intra-system and cross-system use on a proportional basis. Nonetheless, all resulting values were within the acceptable threshold. For the tariff period of 2026, the result for the RPM is 3.40% or 1.72% depending on the allocation of

⁷ For the entry points of renewable producers a 100% discount is proposed in line with Article 18(1)(a) of Regulation (EU) 2024/1789

domestic production and for the flow-based tariffs 0%. Since the CAA value for the proposed RPM is below the 10% threshold laid out in Article 5(6) of the NC TAR it does not need further justification.

4.5. Comparison with the CWD methodology

- 43 VERT provides a comparison between the proposed postage stamp methodology and the standard CWD methodology as laid out in Article 8 of the NC TAR. The provided counterfactual CWD methodology applied the input values and assumptions set out in Article 8. In the CWD calculation the domestic exit points are clustered and handled as a single point, and so are the domestic entry points. No tariff is calculated by the CWD methodology to the virtual exit point for the LNG terminal. The Agency recommends VERT to reevaluate its assumptions about the level of forecasted capacity bookings for this new point, which is currently set to 0, and recalculate the CWD calculations with a more realistic (non-zero) value or a non-zero hypothetical number.
- 44 The comparisons of the resulting tariffs support the choice of a postage stamp RPM as proposed by VERT.

5. Compliance

5.1. Does the RPM comply with the requirements set out in Article 7?

- 45 Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed reference price methodology complies with the requirements set out in Article 7 of the NC TAR. This article refers to Article 17 of Regulation (EC) 2024/1789 and lists a number of requirements to take into account when setting the RPM. As these overlap, in the remainder of this chapter, the Agency will take a closer look at the five elements listed in Article 7 of the NC TAR.
- 46 As the concepts of transparency, cost reflectivity, non-discrimination, cross-subsidisation and cross border trade are closely related the Agency concludes with an overall assessment.

5.1.1. Transparency

- 47 **Article 7(a)** of the NC TAR requires that the RPM aims at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast. The consultation document satisfies the requirements foreseen by NC TAR. It has been published in English and Lithuanian language. The Agency regrets though that the legal requirement set forth in Article 26(2) requiring the final consultation to be open for at least two months were lightly missed and the consultation lasted from 16/12/2024-14/02/2025. The consultation had limited stakeholder response. One stakeholder responded, whose answer was submitted in English and published on VERT's homepage.
- 48 The Agency finds the simplified tariff model, as required by Article 30(2)(b) of the NC TAR, useful as it includes the necessary elements for the calculation of the relevant tariffs. The Agency considers that network users would be able to reproduce the calculation of reference prices. The Agency further considers that network users would be able to forecast the reference prices. The Agency notes that as the entry capacity tariffs are fixed at the same level as the FINESTLAT entry tariffs, they are handled as an input with a constant value in the tariff model. As the level of the flow-based charge is constant during the whole period of application of the RPM, in this regard the simplified tariff model is only relevant for the first tariff period.
- 49 The Agency also notes that the allowed revenue is used as a single aggregated value in the simplified tariff model, therefore the users of the model have no insight into the composition and the evolution of the underlying costs that are allocated to the tariffs of the network points.
- 50 As the proposed RPM applies a simple postage stamp methodology, the complexity of the methodology does not hinder the model's transparency.
- 51 Based on the above-detailed aspects, that Agency concludes that the proposed RPM is broadly compliant with the requirement of transparency.

5.1.2. Cost-reflectivity

- 52 **Article 7(b)** of the NC TAR requires the RPM to take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network. With regards to its technical characteristics, the gas transmission system network in Lithuania can be considered a meshed network, with a ring structure. This is well reflected in the choice of the cost drivers, as distance is not used as a cost-driver in the selected tariff methodology.

53 The Agency notes that while in general a postage stamp methodology is a suitable choice, fitting the physical topology of the Lithuanian system, there are some elements of the RPM that might decrease its cost-reflectivity.

- The application of uniformly equalised fixed tariffs pegged to tariffs outside Lithuania (FINESTLAT tariffs) for entry points does not ensure a link between the underlying costs related to the use of these points and the tariffs paid after their use. Arbitrarily choosing an entry tariff from a neighbouring entry-exit zone, without actually undertaking a merger of entry-exit zones, does not guarantee cost-reflectivity, as it does not ensure on the level of the methodology that the costs and cost drivers that led to the given level of the applied entry tariff reflect the costs and cost drivers of the Lithuanian gas transmission system. With regards to these points, the Agency cannot conclude that the methodology guarantees the cost-reflectivity of the tariffs. The Agency also remarks that the application of equalisation does not create an exemption from the requirement of cost-reflectivity.
- The TSO's assets include pipelines used for the purpose of supplying domestic consumers. Article 2(17) of the Directive (EU) 2024/1788 excludes "the part of high-pressure pipelines primarily used in the context of local distribution of natural gas, with a view to its delivery to customers" from the scope of transmission. The inclusion of regional networks into the transmission service's RAB also decreases the cost-reflectivity of postage stamp RPM. In addition, the per capacity unit costs of lower diameter and lower pressure pipelines are higher compared to those pipelines with higher pressure, as demonstrated by DNV GL in a detailed study of the German transmission system⁸. The uniform handling of pipelines with different cost characteristics and separate user groups decreases cost-reflectivity and increases the potential of cross-subsidisation. (During the discussions facilitating the preparation of this report, VERT was of the view that the provisions of domestic laws prevent them from separating high-pressure pipelines used mainly in the context of local distribution from the TSO's regulated asset base.) The Agency has in its previous report made several recommendations regarding these pipelines. As there are no material changes regarding the functioning of these infrastructure elements, the Agency reiterates its previous recommendation published under paragraph 15 of the 2023 Agency Report on the Tariff Consultation for Lithuania.
- The proposed RPM includes a 100% discount applicable to domestic entry points (biomethane producers). The application of this discount is in line with Article 18 of Regulation (EU) 2024/1789. While no explicit rescaling is applied, the structure of the tariff calculation ensures that the underrecovery of allowed revenues due to the application of this discount is recovered through the exit tariffs.
- The proposed RPM includes a conditional product. Paragraph (17) of the preamble of Regulation (EU) 2024/1789 states that "Conditional capacity should be offered only where network operators are not able to offer firm capacity." The Agency understands that Article 46 of the Lithuanian Natural Gas Law forbids the TSO from granting access to its systems for the use of supplying gas to the territory of the Republic of Lithuania from countries which pose a threat to Lithuania's national security, therefore it can be argued to use a conditional product with limited allocability.
- The tariff for the use of the Šakiai exit point doubles from 2025 to 2026 due to the eradication of the conditional product's discount. During the discussions with the Lithuanian regulator VERT argued that the previous level of tariffs represented a significant discount compared to the rest of the transmission tariffs, and the currently proposed tariff level ensures a non-discriminatory handling of all system users. VERT also argued that the previous application of the discount was a consequence of a long-term transit contract, which will expire at the end of 2025. Regarding the level of tariffs for conditional products, Article 4(2) of NC TAR states that

⁸ DNV-GL: *Expert Opinion on the Economic Suitability of the REGENT Regulations and the Possibility of Cost-Orientated Reference Price Methods*, 2019. https://www.bundesnetzagentur.de/DE/Beschlusskammern/1_GZ/BK9-GZ/2019/2019_bis0999/BK9-19-607_BK9-19-610_BK9-19-612/download/expert_opinion_REGENT_Gascade_GRTgazD_EN_Download_BA.pdf

“transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products.”

54 The Agency recommends VERT to ensure compliance with the rules of the NC TAR for the points Kotlovka and Šakiai by considering for example the application of a uniform postage stamp methodology. Based on the above-detailed aspects, that Agency cannot conclude that the proposed RPM is cost-reflective.

5.1.3. Cross-subsidisation

55 **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.

56 The proposed RPM applies a uniform tariff with all entry points, except for the application of the legally mandated discount for renewable production, and a uniform tariff for all exit points for standard capacity products with no differentiation between the users using the services. The only differentiated tariff is for the conditional product with different characteristics. Therefore, the Agency concludes that the proposed RPM fulfils the criteria of non-discrimination.

57 One instrument to evaluate cross-subsidisation is the cost allocation assessment (CAA, Article 5 of the NC TAR). For capacity tariffs the results – depending on whether domestic production is allocated to intra-system use or shared between intra- and cross-system use on a proportional basis – are 3.40% or 1.72% for capacity tariffs for the year 2026. The commodity CAA index was 0% as only a uniform flow-based tariff is applied. Since these values are below the 10% threshold, they do not require further justification. The Agency notes that these results do not indicate significant cross-subsidisation.

58 The CAA only assesses cross-subsidisation between intra-system and cross-system network use. The Agency also took steps to assess if there is undue cross-subsidisation between other groups of users. Carrying out a CAA analysis for within-EU/non-EU services resulted in a CAA index of 1.45% for 2026 and indices of 8.62% and 6.63% for the subsequent years. As according to the simplified tariff model the reconciliation of the balance of the regulatory account is only carried out through the exit tariffs with the exemption of the exit tariff towards Russia, the Agency notes that there might be a risk of cross-subsidisation between EU and non-EU users, depending on the detailed operational rules of the regulatory account which are not included in the consultation document.

59 The Agency notes that the previously applied two-tier capacity tariffs for domestic exits, the different tariff for certain domestic consumers and the non-uniform flow-based charges were phased out therefore significantly improving the RPM and decreasing the possibility of discrimination.

60 Another subtype of cross-subsidisation that also shall be minimised is temporal cross-subsidisation between network users using the system under different tariff periods. As the consulted methodology does not contain detailed rules for the reconciliation of the regulatory account, nor information on the evolution of its balance, the Agency could not ascertain the non-existence of temporal cross-subsidisation.

61 The consultation document does not detail how the reconciliation of volume-based transmission tariffs is carried out. Due to the fixed level of commodity charges and the methodology of calculations presented in the simplified tariff model, it is clear however, that the over- or underrecovery of volume-based allowed revenues can only be carried out through the level of the capacity tariffs. Therefore, the Agency remarks that the reconciliation methodology of the regulatory account creates a possibility for cross-subsidisation between capacity-based and volume-based transmission services.

5.1.4. Volume risk

- 62 **Article 7(d)** of the NC TAR requires that the RPM ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.
- 63 In Lithuania significantly more gas is transported than used for consumption. Only 26% of gas volumes flowing into the entry-exit system are transported to domestic exit points, while 39% of volumes are transported outside the EU, to Russia, and another 34% are to other EU member states (Latvia and Poland). The large share of cross-system flows proves the potential of a significant volume risk. While the forecasted capacity bookings/volumes assume a constant level of system use and no increase of underutilisation is assumed, the war in Ukraine and its potential effects to gas supply create such a risk to the volatility of gas flows in the region that needs to be addressed.
- 64 As a tool to mitigate volume risk, VERT separates the allowed revenue allocated to the non-EU transit from the rest of the allowed revenue of the gas network. The rationale of this approach is the assumption that the revenue split would shield domestic consumers from any volatility of gas flows and bookings related to the transit between Belarus and Russia. This approach, while not necessarily compliant with the rule set forth in Article 6 of the NC TAR requiring the application of a single RPM in an entry-exit zone, could provide a safe solution to protect the domestic consumers.
- 65 The Agency however notes that as the rules of the regulatory account are not included in the RPM, it cannot be assessed how the effects of any potential volatility of gas flows and bookings related to transit between Belarus and Russia are handled.
- 66 The Agency also notes that the measure applied by VERT is only relevant with regards to the risk posed by the change of transit volumes between Belarus and Russia (third, non-EU countries). Nearly the same volumes are transported to within-EU interconnection exits in the direction of Latvia and Poland. With regards to these volumes and any possible risks related to them no risk mitigation measure is applied. VERT supports this design choice with the argument that they have not identified clear patterns in the inner transit between member states.
- 67 Based on the above, the Agency concludes that the proposed RPM mitigates volume risks with best efforts.

5.1.5. Cross-border trade

- 68 **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.
- 69 The proposed RPM has several elements that could have a distortive effect on cross-border trade. The Agency understands that the rationale behind changing the entry tariffs to the same level of FINESTLAT entry tariffs was intended as a step towards harmonizing access conditions in the Baltic region with a view towards a market merger. However, without concluding the unification of the markets and without having a zero tariff between Lithuania and Latvia, this measure cannot achieve the positive effects of a market merger, such as the increase of liquidity, the decrease of administrative burdens and preventing the addition of tariffs. Instead, this measure lessens the scope of the application of the RPM by de facto excluding entry points from it, weakens cost-reflectivity, and it also might distort gas flows in the region by eliminating the locational signals usually provided by cost-based entry tariffs. The Agency remarks that the 2019 Tariff Report on

Lithuania⁹ already emphasised before the introduction of this unified tariff that it should be a temporary solution used as a stepping stone toward a market merger.

70 With regard to the entry tariff from the LNG terminal, the application of the secondary adjustment of benchmarking would deliver the desired alignment of the Lithuanian LNG terminal putting it on the same pricing level and footing as other terminals in the region while ensuring substantiation with regards to the effects on the regional markets and competition.

The Agency however also notes that despite the abovementioned elements, neither the results of the cost allocation comparison, nor the level of the entry/exit split indicate the presence of significant cross-subsidisation or distortion of flows. Therefore, the Agency cannot conclude on the proposed RPM’s compliance with the principle of not distorting cross-border trade. The Agency recommends VERT to develop and publish the timeline for the completion of the market merger with the FINESTLAT zone to pave the way towards the finalisation of the integration. In case the market merger is hampered for an extended period, the Agency recommends the re-evaluation of the equalisation of entry tariffs with the neighbouring FINESTLAT zone.

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

71 Article 27(2)(b)(2) of the NC TAR requires the Agency to analyse whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met.

72 The use of commodity-based transmission tariffs is an exception. Only part of the transmission services revenue may be recovered by commodity-based transmission tariffs. Lithuania proposes to apply commodity-based transmission tariffs. The commodity-based transmission tariffs form a variable share of 11-12% of the transmission services revenue. The Agency considers this an appropriate use of the commodity charge.

73 The NC TAR allows for two types of commodity-based transmission tariffs: a flow-based charge and a complementary revenue charge. Lithuania proposes to apply a flow-based charge only.

74 The proposed flow-based charge does mostly meet the criteria set in Article 4(3).

Table 2: Criteria Article 4(3)(a) of the NC TAR.

Criteria	Y/N
levied for the purpose of covering the costs mainly driven by the quantity of the gas flow	Yes, however the cost-reflectivity decreases in the years after 2026
calculated on the basis of forecasted or historical flows, or both.	Yes
set in such a way that it is the same at all entry points and the same at all exit points.	Yes
expressed in monetary terms or in kind	Yes

⁹

[https://www.acer.europa.eu/sites/default/files/documents/en/Gas/Framework%20guidelines_and_network%20codes/Document s/Agency_report-analysis_of_the_consultation_document_for_Lithuania.pdf](https://www.acer.europa.eu/sites/default/files/documents/en/Gas/Framework%20guidelines_and_network%20codes/Document%20s/Agency_report-analysis_of_the_consultation_document_for_Lithuania.pdf)

- 75 VERT, in line with the Agency's recommendation in paragraph 118 of the 2023 Agency Report on the Tariff Consultation for Lithuania, proposes a uniform flow-based charge.
- 76 The level of the flow-based charge for 2026 is determined by dividing the costs directly related to gas flows (mainly compressor fuel costs) with the forecasted total exit flows¹⁰. For the subsequent years of the regulatory period, the level of the flow-based charge is set to remain the same. VERT's rationale for fixing the level of the flow-based charge is that they consider flow-based costs to be relatively stable. The Agency notes that in the past years European gas prices experienced unforeseen volatility. As a safeguard against significant changes of gas prices or gas flows that would render the flow-based charge insufficient to cover costs, VERT states that in such cases it would adjust the level of the flow-based charge. As it is not detailed in the reference price methodology what would be considered a significant change, this safeguard introduces uncertainty to the calculation of the tariffs and limits the ability of network users to accurately forecast all transmission tariffs. As this safeguard would only apply when the flow-based charge would be insufficient to cover costs, but not in case of overrecovery, it also harmfully affects the cost-reflectivity of the flow-based charge.
- 77 Fixing the level of the flow-based charge decouples it from the related costs, thus gradually decreasing the level of cost-reflectivity. In the proposed RPM the logic of setting the commodity charge is turned backwards: starting from the second year, the part of the allowed revenue that is to be recovered from volume-based tariffs is a function of the forecasted volume-based revenues. Essentially, instead of completely fulfilling the criteria of applying cost-reflective tariffs, VERT proposes the idea of revenue-reflective costs.
- 78 The flow-based charge is applied at exit points only. The level of the flow-based charge is the same at all exit points. The flow-based charge is expressed in monetary terms.
- 79 Based on the above methodology, the Agency concludes that while the flow-based charge is set in a way that is compliant with the provisions of the NC TAR, the methodology lacks appropriate reconciliation to make the flow-based charge compliant with NC TAR.
- 80 The Agency recommends the reconciliation of the flow-based charge through a sub-account of the regulatory account. The Agency also recommends the clarification of the conditions for adjusting the level of the flow-based charge and the amendment of the rules on its adjustment to broaden it for cases of cost overrecovery or, as a preferable alternative solution, to recalculate the flow-based charge annually, instead of fixing its level for multiple years. This latter approach would help maintain the cost-reflectivity of the flow-based charge through the regulatory period, and would mitigate its issues with cross-subsidisation.

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

- 81 Article 27(2)(b)(3) of the NC TAR requires the Agency to analyse whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.
- 82 In the consultation document Lithuania proposed not to make use of non-transmission tariffs.

¹⁰ In the simplified tariff model the formulas for calculating the flow-based charge consist of multiplying the allowed revenue not inclusive of the reconciliation from the regulatory account with the share of the allowed revenue to be recovered from commodity charges and dividing the product with the forecasted gas flows. While differently expressed, the two methods can be mathematically equivalent with the properly set value of the capacity-commodity split.

6. Annex 1: Legal framework

Article 27 of the NC TAR reads:

1. *Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.*
2. *The Agency shall analyse the following aspects of the consultation document:*
 - (a) *whether all the information referred to in Article 26(1) has been published;*
 - (b) *whether the elements consulted on in accordance with Article 26 comply with the following requirements:*
 - (1) *whether the proposed reference price methodology complies with the requirements set out in Article 7;*
 - (2) *whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;*
 - (3) *whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.*
3. *Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.*
The Agency shall preserve the confidentiality of any commercially sensitive information.
4. *Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.*
5. *The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.*

83 Article 26(1) of the NC TAR reads:

1. *One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:*
 - (a) *the description of the proposed reference price methodology as well as the following items:*
 - (i) *the indicative information set out in Article 30(1)(a), including:*
 - (1) *the justification of the parameters used that are related to the technical characteristics of the system;*
 - (2) *the corresponding information on the respective values of such parameters and the assumptions applied.*

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

84 Article 7 of the NC TAR reads:

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

- (a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;*
- (b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*
- (c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;*
- (d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;*
- (e) ensuring that the resulting reference prices do not distort cross-border trade.*

85 Article 17 of Regulation (EU) 2024/1789 reads:

- 86 *1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 78(7) of Directive (EU) 2024/1788, as well as tariffs published pursuant to Article 31(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on*

investments. Tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner.

87 Tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenue arising therefrom are approved by the regulatory authority.

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

89 Tariffs for network users shall be non-discriminatory and shall be set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the regulatory authorities. Regulatory authorities shall ensure that network tariffs shall not be calculated on the basis of contract paths.

90 2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where, notwithstanding Article 78(7) of Directive (EU) 2024/1788, differences in tariff structures would hamper trade across transmission systems, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles.

91 3. Until 31 December 2025, the regulatory authority may apply a discount of up to 100 % to capacity-based transmission and distribution tariffs at entry points from, and exit points to, underground natural gas storage facilities and at entry points from LNG facilities, unless and to the extent that such a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point.

92 From 1 January 2026, the regulatory authority may apply a discount of up to 100 % to capacity-based transmission and distribution tariffs at entry points from, and exit points to, underground natural gas storage facilities and at entry points from LNG facilities for the purpose of increasing security of supply. The regulatory authority shall re-examine that tariff discount and its contribution to the security of supply during every regulatory period, in the framework of the periodic consultation carried out pursuant to the network code adopted pursuant to Article 71(2), first subparagraph, point (d).

93 4. Regulatory authorities may merge adjacent entry-exit systems with a view to enabling full or partial regional integration where tariffs may be abolished at the interconnection points between the entry-exit systems concerned. Following the public consultations conducted by the regulatory authorities or by the transmission system operators, the regulatory authorities may approve a common tariff and an effective compensation mechanism between transmission system operators for the redistribution of costs arising from the abolition of interconnection points.

94 5. Member States with more than one interconnected entry-exit system, or more than one network operator within one entry-exit system, may implement a uniform network tariff with the aim of creating a level playing field for network users, provided that a network plan has been approved and a compensation mechanism between the network operators is implemented.

95 Article 4(3) of the NC TAR reads:

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

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

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

- (b) a complementary revenue recovery charge, which shall comply with all of the following criteria:*
- (i) levied for the purpose of managing revenue under- and over-recovery;*
 - (ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;*
 - (iii) applied at points other than interconnection points;*
 - (iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.*

96 Article 4(4) of the NC TAR reads:

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

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

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

7. Annex 2: List of abbreviations

Acronym	Definition
ACER	Agency for the Cooperation of Energy Regulators
ENTSOG	European Network of Transmission System Operators for Gas
NRA	National Regulatory Authority
TSO	Transmission System Operator
EC	European Commission
EU	European Union
MS	Member State
NC TAR	Network code on harmonised transmission tariff structures for gas
IP	Interconnection Point
VIP	Virtual Interconnection Point
RPM	Reference Price Methodology
CWD	Capacity Weighted Distance
CAA	Cost Allocation Assessment
RAB	Regulated Asset Base
OPEX	Operational Expenditures
CAPEX	Capital Expenditures
FINESTLAT	the regional market merger of Finland, Estonia and Latvia
VERT	Valstybinė Energetikos Reguliavimo Taryba, the Lithuanian NRA