**Decision No. 1/29 of the Board of the Public Utilities Commission**

Adopted 28 November 2016

**Methodology for the Calculation of the Tariffs on the Natural Gas Transmission System Services**

*Issued pursuant to*

*Section 15, Paragraph 1.1 of the Energy Law and Section 9, Paragraph one and Section 26, Paragraph one, Clause 2 of the law On Regulation of Public Utilities*

**1. General Provisions**

1. The methodology for the calculation of the tariffs on the natural gas transmission system services (hereinafter – the Methodology) establishes the procedures for calculating and determining the tariffs on the natural gas transmission system services.

2. The following terms are used in the methodology:

2.1. **interruptible capacity** – the capacity of the natural gas transmission system (hereinafter – the transmission system) which the transmission system operator (hereinafter – the system operator) may interrupt in accordance with the terms of the contract on using the transmission system;

2.2. **interruptible capacity product** – definite interruptible capacity within a specified period of time at a specific point of entry or exit, for which a transmission system user (hereinafter – the user) may apply;

2.3. **consumption of natural gas for technological needs** – natural gas used for ensuring the operation of the transmission system;

2.4. **losses of natural gas** – the difference between the volume of natural gas injected into the transmission system and the volume of natural gas withdrawn from the transmission system within a relevant time period excluding the consumption of natural gas for technological needs;

2.5. **gas day** (hereinafter – the day) – a period which begins every day at 7:00 and ends on the following day at 7:00 (from 5:00 to 5:00 UTC on the following day in the winter period and from 4:00 to 4:00 UTC on the following day in the period when summer time is used);

2.6. **estimated average daily capacity at the entry point** – the average daily capacity used (kWh/d) at the entry point within the three previous calendar years;

2.7. **entry point** – the place at which natural gas is injected into the cross-border transmission system from the transmission system of another country, a natural gas storage facility or a liquefied natural gas terminal and at which the transport of natural gas through the cross-border transmission system starts;

2.8. **estimated average daily capacity at the exit point** – the average daily capacity used (kWh/d) at the exit point within the three previous calendar years;

2.9. **exit point** – the place at which natural gas from a cross-border transmission system is injected into the transmission system of another country, a natural gas storage facility or a liquefied natural gas terminal and at which the transport of natural gas into the cross-border transmission system ends;

2.10. **exit point for the supply of users in Latvia** – a commercial exit point from the transmission system which does not have a definite physical place in the transmission system;

2.11. **costs** – technologically and economically justified costs of the system operator necessary for efficient provision of a transmission system service;

2.12. **short-term standard capacity products** – definite capacity of the transmission system within a specified time period which is shorter than a year at a specific entry or exit point which may be reserved by the system user;

2.13. **adjustment factor** – a coefficient used for the calculation of the seasonal factor;

2.14. **monthly capacity utilisation rate** – a quantity used for the calculation of the seasonal factor;

2.15. **cross-border transmission system**– part of a transmission system from the entry point from the transmission system of another country to the exit point leading to the transmission system of another country or to the entry point of a natural gas storage facility;

2.16. **entry capacity of the transmission system** – the estimated sum of the average daily capacity [kWh/d] at the entry points from the transmission system of another country and the entry point from a natural gas storage facility;

2.17. **exit capacity of a transmission system** – the sum of the estimated average daily capacity of the exit point to the transmission system of another country, the exit point to a natural gas storage facility and the estimated maximum daily capacity [kWh/d] of the exit point envisaged for supplying users in Latvia;

2.18. **transmission system service** – the service of the system operator, ensuring the reservation of the entry or exit point capacity (hereinafter – the capacity reservation service);

2.19. **tariffs on the transmission system service** – tariffs specified in accordance with the costs for the reservation of the capacity of a specific entry or exit point (hereinafter – the tariffs), by which the user pays for the reservation of entry or exit point capacity;

2.20. **regulatory asset base (hereinafter – the RAB)** – assets or part thereof used for providing the capacity reservation service by the system operator;

2.21. **transmission system of regional supply** – part of the transmission system (branches of the cross-border system which are not used for cross-border transmission of natural gas) for the supply of populated areas with natural gas, together with branches and gas regulation stations of the system operator;

2.22. **multiplier** – a coefficient applied to the tariffs on the yearly standard capacity products in order to calculate the tariffs on the short-term standard capacity products;

2.23. **seasonal factor** – a coefficient characterising changes in the demand for natural gas within a year which may be applied together with the relevant multiplier in order to calculate the tariff on short-term standard capacity and the interruptible capacity product;

2.24. **standard capacity product** – definite capacity of the transmission system within a specified time period at a specific entry or exit point which may be reserved by the system user;

2.25. **tariff review cycle** – the time period for which tariffs are specified;

2.26. **virtual countercurren capacity product** – transmission system capacity of the current flowing in the opposite direction to the actual current within a definite time period at a specific entry or exit point, at which it is physically impossible to provide natural gas in the opposite direction and in the opposite direction to the current of the actual technological regime of a natural gas storage facility which may be reserved by a system user.

3. The duration of a tariff review cycle is one year. The regulator may take a decision to extend the tariff review cycle.

4. The system operator shall present all costs in thousands of euros (thousands of EUR) and the entry and exit point capacity in whole numbers of kilowatt hours per day (kWh/d).

**2. Total entry and exit capacity of the transmission system**

5. The entry capacity of the transmission system shall be calculated according to the following formula:



where

Pie – the entry capacity of the transmission system (kWh/d);

nie – the number of entry points from the transmission system of another country;

Pie(i) – the estimated daily average capacity (kWh/d) of the entry point from the transmission system of another country i;

Pie kr. – the estimated daily average capacity (kWh/d) of the entry point from a natural gas storage facility.

6. The exit capacity of the transmission system shall be calculated according to the following formula:



where

Piz – the exit capacity of the transmission system (kWh/d);

niz – the number of exit points to the transmission system of another country;

Piz(i) – the estimated daily average capacity (kWh/d) of the exit point to the transmission system of another country i;

Piz kr – the estimated daily average capacity (kWh/d) of the exit point to a natural gas storage facility;

Piz v – the estimated daily maximum capacity (kWh/d) of the exit point envisaged for supplying users in Latvia.

7. Concurrently with the draft tariff, the system operator shall submit a justification if the estimated daily average entry or exit point capacity is adjusted.

**3. Costs to be Included in the Tariff Calculation**

8. In the calculation of the tariffs, the system operator shall accurately and unambiguously indicate the capacity reservation service costs related to the RAB and the provision of the capacity reservation service.

9. The system operator shall use the cost allocation model whose basic principles and introduction shall be coordinated with the regulator.

10. The costs to be included in tariff calculation shall be covered by the required revenue from the planned capacity reservation service – from the capacity reservation of the cross-border transmission system and the transmission system of regional supply.



where

IPSO – the total costs of the system operator (EUR);

IePSO ST – the required revenue (EUR) from the planned capacity reservation service of the cross-border transmission system;

IePSO reg – the required revenue (EUR) from the planned capacity reservation service of the transmission system of regional supply.

11. The costs to be included in tariff calculation shall be formed of the capital costs of the cross-border transmission system and the transmission system of regional supply, operating costs and taxes, applied to the cross-border transmission system and the transmission system of regional supply, and the costs shall be specified according to the following formula:



where

IPSO – the total costs of the system operator (EUR);

IPSO ST – the costs of the cross-border transmission system (EUR);

IPSO reg – the costs of the transmission system of regional supply (EUR);

Ikor – cost adjustment (EUR).



where

Ikap ST – the capital costs of the cross-border transmission system (EUR);

Iekspl ST – the operating costs of the cross-border transmission system (EUR);

Inod ST – taxes applicable to the cross-border transmission system.



where

Ikap reg – the capital costs of the transmission system of regional supply (EUR);

Iekspl reg – the operating costs of the transmission system of regional supply (EUR);

Inod reg – taxes attributable to the transmission system of regional supply (EUR).

**3.1. Capital Costs**

12. Capital costs consist of return on capital and depreciation (amortisation):



where

Ikap – the capital costs (EUR);

Inol – the depreciation of fixed assets and value of written-off intangible investments (EUR);

PKA – the return on capital (EUR).

13. The system operator shall establish such accounting of capital costs which provides an accurate and unambiguous picture of the cross-border transmission system capital costs and the capital costs of the transmission system of regional supply. Concurrently with the draft tariff, the system operator shall submit its own explanation of the capital cost allocation method used.

14. Once a year, by 1 September, the regulator shall prepare the calculation of the return rate on capital and approve the return rate on capital with a decision. The system operator shall apply the return rate on capital defined by the regulator when preparing the draft tariff the entry into effect of which has been planned for the next calendar year after the date when the regulator’s decision on defining the return rate on capital was adopted.

**3.1.1. Regulatory Asset Base**

15. The calculations of the RAB value of the transmission system shall include the residual and the balance sheet value of the fixed assets, the intangible investments and inventories owned and leased by the system operator from the financial statement of the previous year at the end of the year, as well as the payments listed in the assets for participation in international transmission infrastructure projects and commitments arising from decisions on the allocation of investment costs, which have been taken in accordance with Regulation No. 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure and repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009 by excluding financial investments, amounts receivable, securities, participating interest in capital, monetary instruments, the accumulated supplies of gas for sale as well as the value of a part of the fixed assets financed under the financial assistance or financial support of the local government, a foreign state, the European Union, another international organisation and institution. The RAB shall correspond to the value of the capital assigned for the provision of long-term services (equity capital, long-term credits and the relevant part of the leased assets capital).

16. Fixed assets acquired from the assets of users (connection fee) shall not be included in the RAB value; the depreciation of the fixed assets shall not be covered by the tariffs and no return on capital shall be planned for these assets.

17. The balance sheet value of the fixed assets or their parts which are not efficiently used in the provision of capacity reservation services shall not be included in the RAB, and their depreciation shall not be covered with a tariff. The regulator may require the system operator to submit an evaluation of the technical condition and the operating life of the fixed assets.

18. The value of the fixed assets to be included in the RAB shall be defined as the residual balance sheet value of the fixed assets on 1 January 2017, plus the eligible costs related to the acquisition and establishment of the fixed assets after 1 January 2017 and minus the approved depreciation, reduction in value of the fixed assets and the value of excluded fixed assets after 1 January 2017.

**3.1.2. Return on Capital**

19. The RAB and the return rate on capital shall be used for determining the capital costs. The return on capital shall be calculated according to the following formula:



where

PKA – the return on capital (EUR);

RAB – the value of the RAB (EUR);

wacc – the weighted average return rate on capital in percentage [%].

20. The return rate on capital is the weighted average rate determined by the regulator from the return rate determined for the equity capital and the return rate determined for the borrowed capital. The weighted average return rate on capital shall be calculated as follows:



where

re – the return rate on equity capital in percentage [%];

E/(E+D) – the ratio of equity capital to the total (equity and borrowed) capital the value of which is assumed to be 50 %;

rd –the return rate on borrowed capital in percentage (%);

D/(E+D) – the ratio of borrowed capital to the total (equity and borrowed) capital the value of which is assumed to be 50 %;

t – the corporate income tax rate.

21. The return rate on equity capital shall be calculated in the following way:



where

rf – a risk-free rate which has been determined as the average annual interest rate within a period of 5 years [%] on the secondary market of the Latvian government bond securities issued for 10 years and published monthly by the European Central Bank [%];

βe – the sectoral average beta coefficient adjusted in accordance with the structure of equity and borrowed capital pursuant to the following formula:



where

βa – the sectoral average beta coefficient before the adjustment in relation to the use of the borrowed capital;

rm – market risk premium [%];

rn – sectoral risk premium [%];

D/E – average sectoral debt-to-equity ratio. Taking into account the fact that the ratio of equity capital to total capital and the ratio of borrowed capital to total capital are equal, D/E=1.

22. The return rate on borrowed capital rd shall be determined as the average annual interest rate within a period of 5 years on credits in euro currency (with the initial maturity of more than 5 years; residue) granted to non-financial corporations, published monthly by the European Central Bank.

**3.1.3. Depreciation of Fixed Assets and the Write-off of the Value of Intangible Investments**

23. The depreciation of fixed assets and the write-off of the value of intangible investments shall be calculated according to the following formula:



where

Inol – the depreciation of fixed assets and the write-off of the value of intangible investments (EUR);

Inol pam – the depreciation of fixed assets (EUR);

Inol.nem – the write-off of the intangible investment origination costs (EUR).

24. Depreciation of fixed assets shall be calculated in accordance with the international accounting standards and the accounting policy adopted by the system operator.

25. If the fixed assets have not been fully used for the provision of a capacity reservation service, the calculated depreciation shall be adjusted in accordance with efficient use of the fixed assets.

26. The write-off of the intangible investment value shall be calculated for the research and development costs of the system operator, the costs arising from concessions, patents, licences, trademarks and other intangible investments (except for the intangible value of the transmission system operator) by taking into account the international accounting standards and the accounting policy adopted by the system operator.

**3.2. Taxes**

27. The immovable property tax shall be calculated only from the assets included in the RAB in accordance with the laws and regulations.

28. The corporate income tax shall be calculated in accordance with the laws and regulations.

**3.3. Operating Costs**

29. The operating costs of the transmission system shall be calculated according to the following formula:



where

Iekspl – the operating costs of the transmission system (EUR);

Itehn proc – the costs of natural gas transmission losses and the costs for the provision of technological processes (EUR);

Ipers – staff and social costs (EUR);

Irem – the costs for the current operating repairs necessary and performed for the maintenance of property (EUR);

Isaimn – other costs of economic activity (EUR).

30. The costs of losses of natural gas transmission and of ensuring the technological processes (Itehn proc) are related to the difference between the volume of natural gas supplied to the transmission system and the natural gas withdrawn from the transmission system within a particular time period which is formed by the losses of natural gas transmission and the consumption of natural gas for technological needs. The costs of the losses of natural gas transmission and of ensuring the technological processes shall be calculated according to the following formula:



where

Izud – the payment for the losses of natural gas in the transmission system (EUR)

Iteh – the payment for the consumption of natural gas for technological needs (EUR)

Ezud – the estimated losses of natural gas in the transmission system (kWh)

Etehn – the estimated consumption of natural gas for technological needs (kWh);

Czud – the estimated average price of the losses of natural gas (EUR/kWh).

31. Staff and social costs (Ipers) shall be calculated in accordance with the Labour Law and the laws and regulations governing the field of social insurance.

32. The costs of the current operating repairs (Irem) necessary and performed for the maintenance of property and the costs of works necessary for the maintenance in working order and preservation of the fixed assets (buildings, structures, equipment, etc.) of the transmission assets and administration assets which are leased by the system operator and are in the accounting balance sheet thereof, and performed by other merchants shall be written off and recorded in the accounting period during which they have arisen. Capitalised repair costs shall not be recorded into this balance item.

33. Other costs of economic activity (Isaimn) are the costs related to the economic activity of the system operator, which are necessary in order to ensure the provision of the capacity reservation service and are not recorded under other balance items of costs.

**3.4. Cost Adjustment**

34. The system operator shall calculate the revenue from the planned capacity reservation service. The required revenue from the planned capacity reservation service should cover the total costs of the capacity reservation service by taking into account the cost adjustment calculated in accordance with the procedures of this Methodology.

35. The actual deviation from the revenue obtained from a capacity reservation service in relation to the permissible deviation from the required revenue obtained from the planned capacity reservation service (hereinafter – the permissible revenue deviation) shall be formed by the excess revenue up to 10 % or non-realisation of revenue up to 10 % of the approved value of return on capital necessary for the planned transmission system capacity reservation. The permissible revenue deviation shall not be transferred to the planned costs of the capacity reservation service of the next tariff review cycle.

36. The planned costs of the capacity reservation service of the next tariff review cycle shall be adjusted in the following cases:

36.1. if the actual amount of transmission system capacity reservation is less than the planned amount of transmission system capacity reservation, or if the actual structure of transmission system capacity reservation differs from the planned structure of transmission system capacity reservation, the system operator shall include the foregone part of the required revenue which exceeds the permissible revenue deviation into the planned costs of the capacity reservation service of the next tariff review cycle. The required recoverable foregone revenue in one tariff review cycle shall not exceed 10 % of the total planned costs of the capacity reservation service of the next tariff review cycle specified in accordance with the procedures laid down in Paragraph 35 of this Methodology;

36.2. if the actual amount of transmission system capacity reservation exceeds the planned amount of transmission system capacity reservation or the actual structure of transmission system capacity reservation differs from the planned structure of transmission system capacity reservation, the system operator for the extra share of the revenue exceeding the permissible revenue deviation shall reduce the costs of the capacity reservation service for the next tariff review cycle.

37. If the actual total costs of the transmission system capacity reservation service of the previous tariff review cycle are less than the approved costs of the capacity reservation service, the system operator shall review the required revenue from the capacity reservation service of the previous tariff review cycle reducing it by the difference between the approved and the actual costs of the capacity reservation service (hereinafter – the reduced required revenue). The planned costs of the capacity reservation service attributable to the users in the next tariff review cycle shall be reduced by the value obtained by subtracting the reduced required revenue from the planned required revenue of the capacity reservation service.

**4. Cost Allocation Principles**

38. The planned total costs of the system operator (IPSO) shall be divided into the costs of the cross-border transmission system (IPSO ST) and the costs of the transmission of regional supply (IPSO reg), which shall be calculated in accordance with the formula laid down in Paragraph 11 of this Methodology.

39. In calculating the costs recoverable from the revenue of capacity reservation of the entry points from other transmission systems and the exit points to other transmission systems, the system operator shall apply the total revenue distribution coefficient 0.50 to the revenue for reserving the entry point capacity and the total revenue distribution coefficient 0.50 for reserving the exit point capacity.

40. The system operator shall specify the cost of the re-distribution coefficient of the entry point from the natural gas storage facility and the exit point to the natural gas storage facility between the transmission system and the exit point for supplying gas users in Latvia (Kreg), as well as the discount applicable to the tariffs for the entry point from the natural gas storage facility and the exit point to the natural gas storage facility (Dk). The system operator may specify the discount applicable to the entry point from the liquefied natural gas terminal. Concurrently with the draft tariff, the system operator shall submit the justification for the defined redistribution coefficient and the amount of the discount.

**5. Calculation of the Tariffs on the Yearly Standard Capacity Products**

41. Tariffs on the yearly standard capacity product for entry points from the transmission system of another country shall be calculated in the following way:



where

Tie – the tariff on the yearly standard capacity product for entry points from the transmission system of another country (EUR/kWh/d/year);

IPSO ST – the costs of the cross-border transmission system (EUR);

Kreg – the cost redistribution coefficient of the entry point from a natural gas storage facility and the exit point to a natural gas storage facility between the transmission system and the exit point for the supply of gas to users in Latvia;

Pie – the entry capacity of the transmission system (kWh/d);

Dkr – the discount applied to the tarrifs on capacity products of the entry point from a natural gas storage facility and the exit point to a natural gas storage facility;

Piz kr – the projected daily average capacity (kWh/d) of the entry point from a natural gas storage.

42. The tariff on the yearly standard capacity product for the entry points from a natural gas storage facility shall be calculated in the following way:



where

Tie.kr – the tariff on the yearly standard capacity product for the entry point from a natural gas storage facility (EUR/kWh/d/year).

43. The tariff on the yearly standard capacity product for exit points to the transmission system of another country shall be calculated in the following way:



where

Tiz – the transmission system tariff on the yearly standard capacity product for the exit points to the transmission system of another country (EUR/kWh/d/year);

Piz – the exit capacity of the transmission system (kWh/d);

Piz kr – the estimated daily average capacity (kWh/d) of the exit point to a natural gas storage facility.

44. The tariff on the yearly standard capacity product for the exit point to a natural gas storage facility shall be calculated in the following way:



where

Tiz.kr – the tariff on the yearly standard capacity product for the exit point to a natural gas storage facility (EUR/kWh/d/year).

45. The payment for the use of the exit point for the supply of gas users in Latvia shall be proportional to the estimated amount of natural gas supplied to the gasified objects which are connected to the transmission and distribution system of natural gas and it shall be calculated in the following way:



where

Kpārv – the payment for the use of the exit point for the supply of gas users in Latvia (EUR/kWh);

Qnod liet – the estimation of the amount of natural gas supplied within a year to the gasified objects which are connected to the transmission and distribution system of natural gas (kWh);

IPSO reg – the costs of the transmission system of regional supply (EUR).

**6. Amount of the Multiplier and the Seasonal Factor**

46. For calculating the tariff on the short-term standard capacity products the multipliers (K) fitting in the following range shall be used:

46.1. for quarterly standard capacity products: 1 ≤ Kc ≤ 1.5;

46.2. for monthly standard capacity products: 1 ≤ Km ≤ 1.5;

46.3. for daily standard capacity products: 1 ≤ Kd ≤ 3 and in duly justified cases 0 ≤ Kd ≤ 1;

46.4. for within-day standard capacity products: 1 ≤ Kdl ≤ 3 and in duly justified cases 0 ≤ Kd ≤ 1;

46.5. for interruptible capacity products for a virtual countercurrent service: 0 < Kvirt < 1.

47. The maximum value of the multipliers used to calculate the seasonal factor shall be the following:

47.1. for quarterly and monthly standard capacity products: 1.5;

47.2. for daily standard capacity products and within-day standard capacity products: 4.

48. Concurrently with the draft tariff, the system operator shall submit the economic justification for the amount of multipliers used in the draft tariff by taking into account the system operator’s obligation to ensure efficient use of the transmission system for the provision of the reservation service and for covering the total costs of the capacity reservation service.

49. For the calculation of seasonal factor, the estimation of the daily maximum load for each month and for each chosen entry and exit point of the transmission system shall be used.

50. The seasonal factor for the monthly standard capacity products (Sm) shall be calculated in the following way:

50.1. the monthly capacity utilisation rate for the entry or exit point shall be determined by dividing the estimated monthly load by the estimated yearly total load of the entry or exit point;

50.2. the monthly capacity utilisation rate shall be multiplied by 12; if the multiplication result is 0, the value of 0.1 shall be used for further calculation; if the multiplication result is greater than 0, the actual multiplication value shall be used for further calculation;

50.3. the initial value of the seasonal factor for the entry or exit point shall be determined in accordance with the result for the relevant entry or exit point obtained pursuant to the requirements laid down in Sub-paragraph 50.2. of this Methodology by squaring it;

50.4. the value of the initial seasonal factor for the entry or exit point shall be multiplied by the multiplier laid down in Sub-paragraph 46.2. of this Methodology and the arithmetic mean of the multiplication result shall be determined;

50.5. the result of the entry or exit point obtained in accordance with the requirements laid down in Sub-paragraph 50.4. of this methodology, shall be compared with the maximum value of the multiplier determined in Sub-paragraph 47.1. of this Methodology;

50.5.1. if the result is equal to the maximum value of the multiplier determined in Sub-paragraph 47.1., the initial seasonal factor shall be applied in calculating the tariff on the monthly standard capacity product of the entry or exit point;

50.5.2. if the result is greater than 1.5, the adjusted seasonal factor shall be applied in calculating the tariff on the monthly standard capacity product of the entry or exit point which has been determined by multiplying the value of the initial seasonal factor by the adjustment factor which in its turn is determined by dividing 1.5 by the result obtained in accordance with the requirements laid down in Sub-paragraph 50.4. of this Methodology;

50.5.3. if the result is less than 1, the adjusted seasonal factor shall be applied in calculating the tariff on the monthly standard capacity product of the entry or exit point, which has been determined by multiplying the value of the initial seasonal factor by the adjustment factor. The adjustment factor shall be determined by dividing 1 by the result obtained in accordance with the requirements laid down in Sub-paragraph 50.4. of this Methodology.

51. The seasonal factor of daily standard capacity products (Sd) and within-day standard capacity products (Sdl) shall be calculated in accordance with Sub-paragraphs 50.4. and 50.5. of this Methodology by introducing relevant changes.

52. The seasonal factor for the quarterly standard capacity products (Sc) shall be calculated as follows:

52.1. the initial value of the seasonal factor at the entry or exit point shall be determined which is equal to the arithmetic mean of the seasonal factors applied within the three relevant months;

52.2. the seasonal factor shall be calculated in accordance with Sub-paragraphs 50.4. and 50.5 of this Methodology by using the initial value of the seasonal factor at the entry or exit point calculated in accordance with Sub-paragraph 52.1.

53. After the seasonal factor has been calculated, the equalisation of the acquired values shall be performed in order to eliminate unjustified short-term standard product tariff fluctuations uncharacteristic of the relevant season in subsequent calculations.

54. The overload multiplier (hereinafter – the overload multiplier) of the transmission system entry and exit points, the entry point from a natural gas storage facility and the exit point to a natural gas storage facility shall be calculated as follows:



where

Kpārsl – the overload multiplier of the transmission system entry and exit points, the entry point from a natural gas storage facility and the exit point to a natural gas storage facility;

P – the overload probability of the transmission system entry and exit points, the entry point from a natural gas storage facility and the exit point to a natural gas storage facility;



where

n – the estimated number of standard capacity products replaced with the capacity products to be interrupted;

La – the estimated average duration of the replacement of one standard capacity product [h];

L – the total duration of the replacement of the relevant standard capacity product by the capacity product to be interrupted [h];

Na – the estimated average amount [kWh/d] of the capacity replaced at one standard capacity product replacement;

N – the total capacity [kWh/d] of the replacement of the relevant standard capacity product with the capacity product to be interrupted.

If the calculated overload multiplier equals to 0, the overload multiplier which is equal to 0.05 shall be used for the calculation of tariffs.

**7. Calculation of the Tariffs on the Short-term Standard Capacity Products**

55. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for the entry points from the transmission system of another country shall be calculated as follows:



where

Tie(c,m,d,dl) – the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for entry points from the transmission system of another country;

S(c,m,d,dl) – the seasonal factor for the quarterly, monthly, daily and within-day standard capacity products;

d – the number of days in the period when the short-term standard capacity product is used;

G – the number of days in the year when the tariff is applied.

56. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for exit points to the transmission system of another country shall be calculated as follows:



where

Tiz(c,m,d,dl) – the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for exit points to the transmission system of another country.

57. Tariffs on the quarterly, monthly, daily and within-day standard capacity productsfor the entry point from a natural gas storage facility shall be calculated as follows:



where

Tie(c,m,d,dl) – the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for the entry point from a natural gas storage facility.

58. Tariffs on the quarterly, monthly, daily and within-day standard capacity products for the exit point to a natural gas storage facility shall be calculated as follows:



where

Tiz kr(c,m,d,dl) – the tariff on the quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) standard capacity product for the exit point to a natural gas storage facility.

59. The tariff on the short-term standard capacity product for the entry point from a natural gas storage facility during natural gas injection and for the exit point to a natural gas storage facility during natural gas withdrawal shall be equalled to the tariffs on the entry or exit points of the interrupted capacity products for the virtual countercurrent service, and shall be calculated in accordance with the formula laid down in Paragraph 63 of this Methodology.

**8. Calculation of the Tariffs on the Interrupted Capacity Product for the Entry and Exit Points**

60. Tarrifs on the yearly, quarterly, monthly, daily and within-day interrupted capacity products for entry points from the transmission system of another country shall be calculated in the following way:



where

Tat ie,(g,c,m,d,dl) – the tariff on the yearly (EUR/kWh/d/year), quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) interrupted capacity product for entry points from the transmission system of another country.

61. Tarrifs on the yearly, quarterly, monthly, daily and within-day interrupted capacity products for exit points to the transmission system of another country shall be calculated in the following way:



where

Tat iz,(g,c,m,d,dl) – the tariff on the yearly (EUR/kWh/d/year), quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) interrupted capacity product for exit points to the transmission system of another country.

**9. Calculation of the Tarrifs on the Products of the Virtual Countercurrent Capacity to be Interrupted**

62. Tariffs on the yearly, monthly, daily and within-day products of the virtual countercurrent capacity to be interrupted shall be calculated for the following entry and exit points at which the physical flow of natural gas is not possible:

62.1. for the entry point from the transmission system of Estonia (through the Karksi gas metering station);

62.2. for entry points from a natural gas storage facility and the exit points to a natural gas storage facility contrary to the actual technological flow of natural gas.

63. Tariffs on the yearly, monthly, daily and within-day products of the virtual countercurrent capacity to be interrupted at the entry and exit points referred to in Paragraph 62 of this Methodology shall be calculated in the following way:



where:

Tp.virt(ie.,iz,)(g,c,m,d,dl) ––the tariff on the yearly (EUR/kWh/d/year), quarterly (EUR/kWh/d/qt), monthly (EUR/kWh/d/month), daily or within-day (EUR/kWh/d) product of the virtual countercurrent capacity to be interrupted at the entry or exit point.

**10. Tariff Setting Procedure**

**10.1. Development and Submission of a Draft Tariff**

64. The system operator shall develop a draft tariff pursuant to this Methodology by specifying the revenue necessary for covering the costs of the capacity reservation service.

65. The system operator shall calculate the tariffs in such a way that the total required revenue from the capacity reservation service does not exceed the justified costs of the system operator attributed to the capacity reservation service.

66. Each year, by 1 February, the system operator shall submit to the regulator the following items for evaluation:

66.1. a draft tariff with relevant costs for a period of 12 months, beginning from the day on which the application of the calculated tariffs has been planned together with the justification of the relevant costs;

66.2. information on the required revenue for the capacity reservation service planned for the relevant tariff review cycle and the permissible deviation of the revenue or reduced required revenue;

66.3. information on the revenue of the previous calendar year for the capacity reservation service and the total costs of the actual transmission system capacity reservation service.

67. The system operator may submit a request to the regulator to allow to set its own tariffs pursuant to this Methodology.

**10.2. Evaluation of the Draft Tariff**

68. The regulator shall evaluate the draft tariff within the deadlines specified in the law On Regulators of Public Utilities.

69. The regulator shall approve or reject the tariffs by evaluating the justification of the costs on which they are based.

70. During the evaluation of the draft tariff, the system operator may submit adjustments and additions to the draft tariff.

71. If the regulator has granted authorisation, the system operator shall, pursuant to Section 15, Paragraph 1.1 of the Energy Law, determine the tariffs himself or herself in accordance with this Methodology by taking into account the following procedures:

71.1. if the system operator takes a decision on new tariffs within the tariff review cycle, then the tariffs shall be published in the official gazette *Latvijas Vēstnesis* not later than two months before the new tariffs enter into effect. Concurrently, the system operator shall submit to the regulator the tariff, the tariff justification and information on the actual costs of the previous tariff review cycle, the estimated data of the new tariffs, as well as comparison tables which indicate changes in the user structure and other documents justifying the need for the new tariffs.

71.2. Within 21 days after the receipt of the tariffs, the regulator shall evaluate the compliance of the submitted tariffs with this Methodology and their economic justification.

71.3. If within 21 days after the receipt of the tariffs the regulator has not taken a decision on the non-conformity with this Methodology or has not rejected the economic justification of the tariffs, they enter into effect at a time specified by the system operator.

71.4. If within 21 days after the receipt of the tariffs the regulator takes a decision on the non-conformity of the submitted tariffs with this Methodology or rejects the economic justification of the tariffs, they do not enter into effect at a time specified by the system operator. Within 7 days after the regulator has taken the decision, he or she shall send it to the system operator and publish a notification in the official gazette “Latvijas Vēstnesis” about the decision in which he or she cancels its entry into effect.

**11. Closing Provisions**

72. By 30 December 2016, the regulator shall specify the return rate on capital which the transmission system operator has to apply in developing the draft tariff the date of entry into effect of which has been planned for in 2017.

73. Until 2019 the statistical data on the period starting with 1 January 2014 published by the European Central Bank shall be used for specifying the rf of the risk-free rate and the rd of the borrowed capital return rate.

74. The system operator shall submit the information specified in Paragraph 66 of this Methodology to the regulator in 2017 by 15 January 2017.

75. Paragraphs 47., 49., 50, 51, 52, and 53 of this Methodology shall come into force on 1 January 2019.

76. Decision No. 1/23 of the Public Utilities Commission of 27 September 2013, Methodology for the Calculation of Natural Gas Transmission Service Tariffs (*Latvijas Vēstnesis*, 2013, No. 193), shall be repealed.

77. This Methodology shall enter into effect on the day following the publication thereof in the official gazette *Latvijas Vēstnesis*.

Chair of the Board of the Public Utilities Commission R. Irklis