KONKURENTSIAMET

EXTRACT

Business secret omitted, marked with the notation /…./

DRAFT DECISION

No 7-5/24-0093-200-5 of 18.07.2024

on the approval of prices for the gas transmission network service of Elering AS

1. LEGAL BASES, COMMENCEMENT, COURSE AND CIRCUMSTANCES OF ADMINISTRATIVE PROCEEDINGS

1.1. Legal bases and methodology applied

Pursuant to clause 4 of subsection 3 of § 37 of the Natural Gas Act, the Competition Authority approves the prices for network services mentioned in subsection 4 of § 23 of the Natural Gas Act.

Subsection 4 of § 23 of the Natural Gas Act provides that a network operator must submit the prices of network services and the grounds for the setting of such prices to the Competition Authority for approval and, if the Competition Authority requires this, state the reasons for the formation of those prices.

Pursuant to subsection 2 of § 23 of the Natural Gas Act, the prices for network services must ensure a smooth supply of gas to consumers and be justified accordingly on the basis of expenditure required for the operation and development of the network, the reliability of the network and the security of supply, the metering of the gas distributed through the network, the calculation and communication of meter readings and the return of justified profit.

Pursuant to subsection 3 of § 23 of the Natural Gas Act, the price of network services has to be established such that it ensures:

1) coverage of the necessary operating costs;
2) the making of investments to ensure security of supply and to fulfil operational and development obligations;
3) compliance with environmental requirements;
4) compliance with quality and safety requirements;
5) a return of a justified profit on the capital invested by the undertaking;
6) the price of the network service must cover the justified costs of purchasing the gas used to provide that network service.

On the basis of subsection 2^4 of § 16 of the Natural Gas Act the system operator cooperates within the European Network of Transmission System Operators for Gas both at regional and EU level in order to ensure efficient functioning of the market pursuant to the requirements established in Regulation (EC) No 715/2009 of the European Parliament and of the Council; Pursuant to subsection 5 of § 16 of the Natural Gas Act, in providing gas transmission services

and determining the fee charged for those transmission services the system operator adheres to Regulation (EC) No 715/2009 of the European Parliament and of the Council.

With regard to Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks, Commission Regulation (EU) 2017/460 (hereinafter Regulation 2017/460) establishing a network code on harmonised transmission tariff structures for gas has been prepared. The aim of Regulation 2017/460 is that network users should be able to understand the costs underlying transmission tariffs and to reasonably forecast transmission tariffs. Hence, in order to achieve and ensure a reasonable level of cost reflectivity and predictability in such a system, transmission tariffs need to be based on a reference price methodology.

Based on subsection 4^1 of § 23 of the Natural Gas Act, the Competition Authority developed a methodology for calculating the prices of network services, 'Methodology for Calculating the Prices of Gas Transmission Network Services'[1] (hereinafter referred to as the methodology), which adheres to the requirements set out in §§ 23 and 23^2 of the Natural Gas Act and Regulation 2017/460. The methodology will be adhered to when approving the prices of the network services of the gas transmission system operator.

According to subsections 2 and 3 of § 23 of the Natural Gas Act and the methodology, the prices for network services must be expenditure-based. Based on the purpose of the regulation on the approval of prices for network services (subsection 2 of § 1 of the Natural Gas Act), the Competition Authority has the right to assess whether the components included in the prices of network services are necessary and justified to the extent requested.

Pursuant to subsection 5 of § 23 of the Natural Gas Act, the Competition Authority decides on the approval within 30 days following the filing of an application that meets the requirements. Where consideration of an application requires a significant amount of work, the Competition Authority may extend this time limit to 60 days, notifying the extension to the applicant before the lapsing of the initial time limit.

1.2. Applicant's details

Elering AS (registry code 11022625; seat Kadaka tee 42, Mustamäe district, Tallinn, Harju County, 12915; email address info@elering.ee) the main field of activity according to the commercial register is transmission of electricity. Additional fields of activity include trade of electricity; rental and operating of own or leased real estate; transmission and distribution of natural gas through natural gas network; other retail sale not in stores, stalls or markets; renting and operational leasing of other machinery, equipment and tangible assets not classified elsewhere; wholesale of other liquid and gaseous fuels and similar; and wholesale of other general-purpose and special-purpose machinery, apparatus and equipment. The undertaking's financial year starts on 1 January and ends on 31 December, and its share capital is 229,890.000 euros. Elering AS is owned by the Ministry of Climate, the main field of activity of which is activities of executive and legislative bodies.

During the processing of the application, the prices for the gas transmission network service of Elering AS approved by the Competition Authority with decision No 7-3/2023-120 of 01.09.2023 (hereinafter the current prices of the network service) are in effect in accordance with Table 1.

[1] Approved on 29.04.2019 by Director General of the Competition Authority directive No 1-2/2019-010 and published on the Competition Authority's website at http://www.konkurentsiamet.ee.

Table 1. Current network service prices of Elering AS

	Intra-system network use		Cross-system network use	
	Capacity-based entry price, €/MWh/day per period	**Capacity-based exit price, €/MWh/day per period**	**Capacity-based entry price, €/MWh/day per period**	**Capacity-based exit price, €/MWh/day per period**
Gas year (Oct to Sept)	142.77	0.00	142.77	142.77
Year (Jan-Sept) [2]	106.88	0.00	106.88	106.88
First quarter (Oct to Dec) [3]	39.48	0.00	39.48	39.48
Second quarter (Jan to March)	39.05	0.00	39.05	39.05
Third quarter (April to June)	39.05	0.00	39.05	39.05
Fourth quarter (July to Sept)	39.48	0.00	39.48	39.48
October[4]	15.12	0.00	15.12	15.12
November	14.63	0.00	14.63	14.63
December	15.12	0.00	15.12	15.12
January	15.12	0.00	15.12	15.12
February	14.14	0.00	14.14	14.14
March	15.12	0.00	15.12	15.12
April	14.63	0.00	14.63	14.63
May	15.12	0.00	15.12	15.12
June	14.63	0.00	14.63	14.63
July	15.12	0.00	15.12	15.12
August	15.12	0.00	15.12	15.12
September	14.63	0.00	14.63	14.63
Day[5]	0.59	7.56	0.59	0.59
Intraday[6]	0.66	7.56	0.66	0.66

1.3. Course and circumstances of proceedings

On 09.05.2024 and 13.05.2024, Elering AS application No. 1.1-11/2024/338 and the data supplementing the application were registered at the Competition Authority for the approval of capacity-based exit prices for intra-system network use at 0.53 €/MWh/day per day and 0.53 €/MWh/day intradaily. Other network service prices were not changed.

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[2] Capacity-based entry price 142.77 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) x number of calendar days for the period from 01.01.2024 to 30.09.2024 274 days = 106.88 €/MWh/day per gas year.

[3] Capacity-based entry price 142.77 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) x number of calendar days of the first quarter (Oct to Dec) 92 days x quarterly capacity product multiplier 1.1 = 39,48 €/MWh/day per quarter. The capacity-based entry prices for intra-system and cross-system network use for the second, third and fourth quarter have been calculated in the same way.

[4] Capacity-based entry price 142.77 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) x number of calendar days in October 31 days x monthly capacity product multiplier 1.25 = 15.12 €/MWh/day per month. The capacity-based entry prices for intra-system and cross-system network use for the remaining 11 months have been calculated in the same way.

[5] Capacity-based entry price 142.77 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) x daily capacity product multiplier 1.5 = 0.59 €/MWh/day per day. Capacity-based exit price 2,766.87 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) = 7.56 €/MWh/day per day.

[6] Capacity-based entry price 142.77 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) x daily capacity product multiplier 1.7 = 0.66 €/MWh/day per intraday. Capacity-based exit price 2,766.87 €/MWh/day per year / number of calendar days of the tariff period 366 days (year 2024) = 7.56 €/MWh/day per intra-day.

On 10.05.2024 and 31.05.2024, Elering AS sent the Competition Authority an overview of the investments made in 2023 and forecast for 2024 and 2025 for the consistent provision of the network service and the revenue received in the period from 01.05.2023 to 30.04.2024 through the capacity-based entry prices for intra-system network use.

On 10.06.2024, the Competition Authority sent to the undertaking the letter No 7-7/24-0094-243-1, which referred, among other things, the need to change the circumstance affecting the prices of the network service.

On 19.06.2024, the Competition Authority registered the Application of Elering AS for the approval of corrected calculations for intra-system network use capacity-based output prices of €0.50/MWh/day for daily usage[7] and €0.50/MWh/day for intra-day usage[8] (hereinafter: the application). Other network service prices were not changed.

The following are the views of the Competition Authority on the justification of the application submitted by Elering AS.

2. SELECTION OF REFERENCE PRICE METHODOLOGY

2.1. Assessment of the proposed reference price methodology

Reference price methodology means the methodology applied to the part of the transmission services revenue to be recovered from capacity-based transmission tariffs with the aim of deriving reference prices (Article 3(2) of Regulation 2017/460). Article 6(1) of Regulation 2017/460 sets out that the reference price methodology is established by the national regulatory authority (the Competition Authority) by its decision after final consultation. Estonia, Latvia and Finland have decided on the creation of a common gas market (FinEstLat). As a first stage starting from 01.01.2020, the FinEstLat common market area was implemented. The common market area must be as simple to use and comprehensible as possible for market participants. This requires cooperation between national system operators and regulators in the selection of the reference price methodology to be used. For this purpose, the regulators of the Baltic States and Finland carried out an international procurement to commission a study titled ‘Tariff model for the natural gas entry-exit system for the common Baltic-Finnish market’. The winner of the procurement and the body conducting the research was Baringa Partners LLP (United Kingdom). In the first phase of the study, the Postage Stamp, Capacity Weighted Distance (CWD) and Matrix reference price methodologies were compared. The results of the comparison are presented in Table 2.

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[7] 0.50 €/MWh/day per day x volume of network service usage 138,446 MWh/day per year (see clause 2.5 of this draft decision) x 365 days / 1,000 (for converting units to thousand euro) = 25,266.40 thousand euros.

Capacity-based exit price for the 2024 tariff period 7.56 €/MWh/day per day x volume of network service usage 9,070 MWh/day per year x 366 days / 1,000 (for converting units to thousand euro) = 25,096.33 thousand euros.

The difference in revenue is due to the rounding of the network service price of 0.50 €/MWh/day per day to two decimal places.

[8] 0.50 €/MWh/day intradaily x volume of network service usage 138,446 MWh/day per year (see clause 2.5 of this draft decision) x 365 days / 1,000 (for converting units to thousand euro) = 25,266.40 thousand euros.

Capacity-based exit price for the 2024 tariff period 7.56 €/MWh/day per day x volume of network service usage 9,070 MWh/day intradaily x 366 days / 1,000 (for converting units to thousand euro) = 25,096.33 thousand euros.

The difference in revenue is due to the rounding of the network service price of 0.50 €/MWh/day intradaily to two decimal places.

Table 2. Comparison of reference price methodologies

Kriteerium	Kaalutlus	Hinne (4 palli süsteemis)		
		Postmark	Võimsusega kaalutud kaugus (CWD)	Maatriks
Majanduslik efektiivsus	Lühikeses perspektiivis postmargil madalaimad kulud tarbijatele (kõige kõrgem tarbijate heaolu), sest odavaim gaas pääseb alati turule.	3	2	2
Pikaajaline tarbijate heaolu	CWD ja maatriks annavad paremaid stiimuleid gaasivõrgu arendamiseks (laiendamiseks). Väheoluline gaasitarbimise kahanemise tingimustes.	2	3	3
Konkurents gaasiturul	Erinevate tarneallikate võrdne kohtlemine soodustab konkurentsi. Sisendtariifide erinevuse võib domineeriv tarnija ära kasutada erinevate gaasihindade kehtestamisega, mis pärsivad konkurentsi. Madala nõudluse paindlikkuse juures väljundtariifide erinevus ei avalda mõju konkurentsile.	3	2	1
Lihtsus ja arusaadavus	Postmark on kõige lihtsam ja arusaadavam meetod tarbijatele. Maatriks on kõige töömahukam ja keerulisem meetod.	3	2	1
Süsteemihaldurite vahelise ragavoogude minimiseerimine	Postmark tekitab suurima rahavoo süsteemihaldurite vahel. Maatriks kõige vähem.	1	2	3
Kokku		**12**	**11**	**10**

Table 2 shows that the Postage Stamp reference price methodology provides the best results for consumers. In its study, Baringa Partners LLP found that the social welfare produced in the region under the Postage Stamp reference price methodology is €39 million higher than under the Capacity Weighted Distance (CWD) and €296 million higher than the Matrix reference price methodology.

The biggest disadvantage of the conventional Postage Stamp reference price methodology (all entries have the same price and all exits have the same price) is the large cash flows between transmission system operators, which have to be compensated through the inter-transmission system operator compensation (ITC) mechanism. In order to minimise ITC, Estonia, Latvia and Finland agreed on the following shared element of the reference price methodology:

- a separate Postage Stamp reference price methodology is used to calculate entry and exit prices for each country;
- interconnection points between countries participating in the common gas market will be removed (including the Inčukalns gas storage facility);
- entry prices for entry points in the common gas market are adjusted by each national regulator to the extent that the average price in the European Union is reached with a standard error (based on Article 6(4)(c) of Regulation 2017/460);
- cash flows (ITCs) between system operators are minimised through different national exit prices;
- countries participating in the common gas market use harmonised capacity product multipliers and seasonal factors (based on Article 13 of Regulation 2017/460).

Assessment of the proposed reference price methodology (Postage Stamp methodology with the shared elements mentioned above) in accordance with Article 7 of Regulation 2017/460:

- the Postage Stamp reference price methodology complies with Article 13 of Regulation (EC) No 715/2009, as the network service tariffs designed by that method are transparent, take into account the need for system integrity and its further development and reflect the actual costs. Tariffs are applied in a non-discriminatory manner.
- the Postage Stamp reference price methodology allows network users to calculate with sufficient precision the estimated reference price using the cost components and estimated capacity quantities published in the consultation;
- the Postage Stamp reference price methodology makes it possible to take into account the actual costs of the transmission service in each country participating in the market area;
- equal regional entry prices and equal exit prices by country ensure equal treatment of network users across countries. As tariffs are not applied at the interconnection points of the market area, there is no undue cross-subsidisation.
- a common equal entry price for the market area avoids unnecessary transnational transmission volumes and minimises volume risk for end-users;
- The Postage Stamp reference price methodology, where entry prices in the market area are harmonised, does not distort cross-border gas trade.

2.2. Comparison of the proposed reference price methodology with the capacity weighted distance reference price methodology

Article 26 of Regulation 2017/460 provides that, during consultation, where the proposed reference price methodology is other than the capacity weighted distance reference price methodology, a comparison of those methods is to be carried out (clause 6 of the methodology). The parameters for the capacity weighted distance reference price methodology shall be as follows (clause 6.1 of the methodology):

a) the part of the transmission services revenue to be recovered from capacity-based transmission tariffs;
b) the forecasted contracted capacity at each entry point or a cluster of entry points and at each exit point or a cluster of exit points;
c) where entry points and exit points can be combined in a relevant flow scenario, the shortest distance of the pipeline routes between an entry point or a cluster of entry points and an exit point or a cluster of exit points;
d) the combinations of entry points and exit points, where some entry points and some exit points can be combined in a relevant flow scenario;
e) The entry-exit revenue split must be 50:50.

Where entry points and exit points cannot be combined in a flow scenario, this combination of entry and exit points shall not be taken into account (clause 6.1 of the methodology).

The Competition Authority, considering the above and the fact that since the beginning of 2023, Elering AS does not have any entry points which generate revenue from transmission services, because trade at the border points of Värska and Narva (network connection points with Russia) has been prohibited from the beginning of 2023 under the Government of the Republic

Regulation No 93 of 29.09.2022[9] and the Paldiski LNG connection is unlikely to be used, therefore Elering AS does not have any entry points to connect to the flow scenario. As a result of the foregoing, it is not possible to carry out a comparison of a reference price methodology designed to be different from the capacity weighted distance reference price methodology with the aforementioned distance-based reference price methodology. Therefore, the Competition Authority does not consider it necessary to provide in this draft decision the formulae set out in Article 8 of Regulation 2017/460, which are the basis for calculating the reference prices based on the Capacity Weighted Distance methodology.

The Competition Authority, having taken into account all of the circumstances presented above, is of the opinion that it is still reasonable to use the postage stamp reference price methodology in Estonia. Considering the above, the Competition Authority considers the postage stamp reference price methodology used in Elering AS's application to be justified.

2.3. Transmission system diagram with technical information

In the tariff period, the system operator Elering AS owns, and operates for the purpose of providing natural gas transmission service, the gas transmission network of Estonia consisting of 976.3 km of gas pipelines, of which 39.0 km is the Balticconnector submarine pipeline, 4 gas metering stations where gas volumes entering the transmission network are measured and gas quality determined, 37 gas distribution stations, where the pressure of the gas leaving the transmission network is reduced, volumes are measured, the gas is scented and the agreed consumption regime is ensured, and 1 gas pressure regulation station (Kiili), which allows parts of the transmission network to be controlled at different operating pressures. The amount of gas coming out of the pipeline of the Balticconnector system is also measured at the Kiili GRJ, but the Kiili GRJ is not directly categorised as a gas metering station. The Paldiski gas metering station allows the Estonian side to measure the amount of gas passing through Balticconnector bidirectionally. Based on the cooperation agreement between the system operators, gas volumes will be measured alternately on the Finnish side at the Inkoo gas metering station and on the Estonian side at the Paldiski gas metering station. At the end of 2022, a network connection was completed to link a potential LNG floating storage and regasification unit (FSRU) to the transmission network (see Figure 1).

[9] Imposed by the Government of the Republic of Estonia under subsection 1 of § 27 of the International Sanctions Act under regulation 'Imposition of a sanction of the Government of the Republic of Estonia to ban the purchase of natural gas and LNG due to the aggression of the Russian Federation in Ukraine, supported by the Republic of Belarus'.

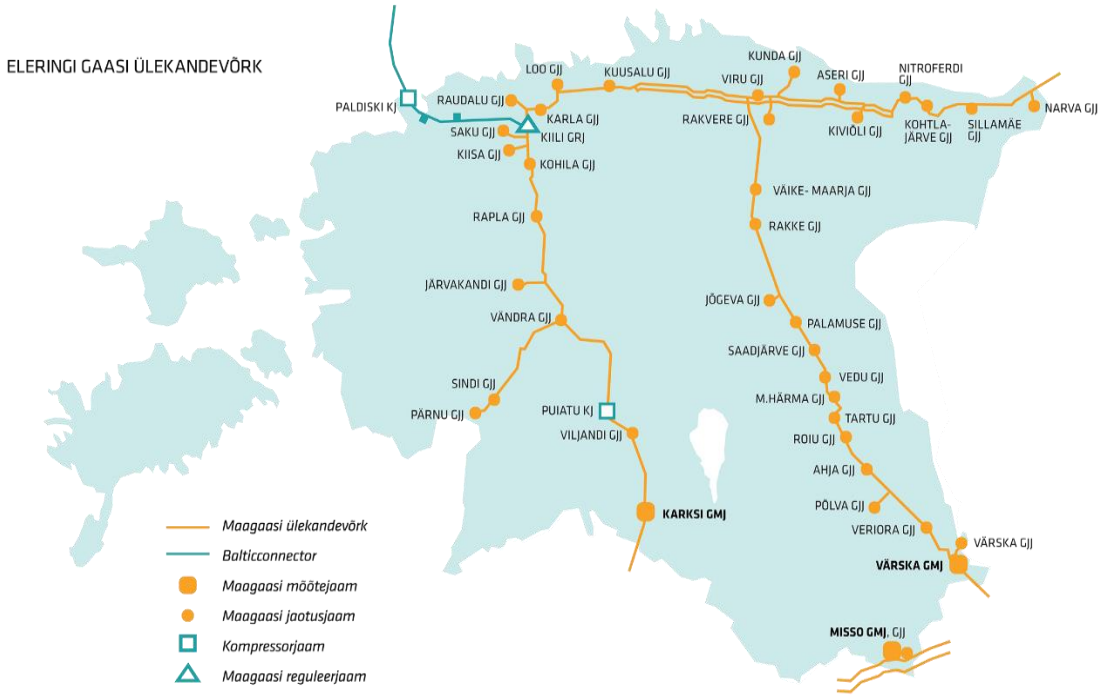

Figure 1. Estonian gas transmission network

A more detailed overview of the gas pipelines is provided in the following Table 3.

Table 3. Elering AS gas pipeline data

Gas pipeline	Year of construction	Length, km	Diameter (DN), mm	Maximum Operating Pressure (MOP), bar
Vireši - Tallinn	1991/92	202.4	700	49.0
Vändra - Pärnu	2005/06	50.2	250	54.0
Tallinn - Jõhvi I	1951/53	97.5	200	≤ 30.0
Tallinn - Jõhvi II	1962/68	149.1	500	≤ 30.0
Kohtla-Järve - Narva	1955	45.1	350/400	≤ 30.0
Irboska - Värska GMJ	1975	10.1	500	48.0
Värska GMJ - Tartu	1975	75.8	500	39.5
Tartu - Rakvere	1979	132.8	500	30.6
Irboska - Inčukalns	1984	21.3	700	50.3
Pihkva - Riia	1972	21.3	700	50.3
Kiili - Paldiski (Balticconnector)	2019	53.7	700	54.0
Balticconnector sea pipeline	2019	39.0	500	80.0
Paldiski LNG connection onshore pipeline	2022	0.7	500	80.0
Paldiski LNG connection offshore pipeline	2022	0.8	500	80.0
Branch pipelines	1951/2013	78.0	–	–
Total		**977.8**		

The data on compressor stations are as follows:

Paldiski compressor station:

- Power consumption of the compressor station approximately 6–10 MW
- Gas transmission capacity of the compressor station 81.2 GWh per day

Puiatu compressor station:

- Power consumption of the compressor station approximately 6–10 MW
- Transmission capacity of the compressor station 105 GWh per day

2.4. Technical transmission capacity of the gas transmission system, capacity under normal conditions, expected usable capacity and gas quantity and gas flow direction at the entry and exit points

The technical capacity of the Estonian gas transmission system, the capacity under normal conditions, the estimated usable capacity and the quantity of gas and the direction of the gas flow are provided in Table 4.

Table 4. Estonian gas transmission system capacities, gas quantity and gas flow direction at entry and exit points

Entry and/or exit point	Border point / interconnection point	Technical transmission capacity[10], GWh/day	Transmission capacity under normal conditions[11], GWh/day	Estimated transmission capacity in use, GWh/day	Gas quantity, GWh per year	The direction of gas flow
Karksi	Interconnection point	105.0	73.5	64.2	3,859.0	From Estonia to Latvia
				82.6	7,998.0	From Latvia to Estonia
Paldiski	Interconnection point	81.2	56.8	69.1	5,307.6	From Estonia to Finland
				69.4	5,113.4	From Finland to Estonia
Paldiski LNG connection	Border point	81.2	81.2	0.0	0.0	From Estonia to Estonia
Narva	Border point	0.0	0.0	0.0	0.0	Closed for trade
Värska	Border point	0.0	0.0	0.0	0.0	Closed for trade
TOTAL		**267.4**	**211.5**	**82.6**	**13,111.4**	**From Estonia, Latvia and Finland to Estonia**
					9,166.6	**Through Estonia to Latvia and Finland**
					3,944.8	**Gas remaining in Estonia**

The Estonian gas transmission system has a total technical capacity of 267.4 GWh/day (provided that a floating terminal with regasification capability is connected to the Paldiski LNG connection). Under normal conditions, the total capacity of the transmission system is

[10] Technical transmission capacity is the calculated capacity of pipelines at the maximum pressures at the entry points that the technical condition of the pipelines allows to be applied.

[11] Transmission capacity under normal conditions is the calculated transmission capacity of pipelines at normal pressures at the entry points.

211.5 GWh/day. Through Balticconnector, the gas can flow from Finland to Estonia or Latvia (passing through Estonia) and vice versa. Since the beginning of 2023, trade at the Värska and Narva border points has been prohibited under Government of the Republic Regulation No 93 of 29.09.2022[12] and therefore the transmission capacity of the Narva and Värska points is 0 GWh/day. For the maximum usable capacity (estimated capacity to be used) from the capacity of the pipelines, the daily capacity calculated on the basis of the capacity actually used in one hour during the period from 01.10.2022 to 30.09.2023 (maximum hourly capacity for the period x 24 hours) is calculated. The last 12-month period before the closure of the Balticconnector undersea pipeline connection due to damage has been selected for the period.

The quantities and directions of movement of gas entering and leaving the Estonian gas transmission network are determined as follows:

a) the quantity of gas remaining in Estonia (3,944.8 GWh per year) is based on the actual quantity of gas in the last 12 months preceding the month of submission of the application (May) of Elering AS, ie the period from 01.05.2023 to 30.04.2024;

b) the quantity of gas going through Estonia to Latvia and Finland (9,166.6 GWh per year), including by the Karksi and Paldiski interconnection points (3,859.0 GWh per year and 5,307.6 GWh per year, respectively), has been calculated as the actual amount of gas in the last 12 months preceding the month of closure of the pipeline connection, ie the period from 01.10.2022 to 30.09.2023;

c) The quantity of gas going from Estonia, Latvia and Finland to Estonia (13,111.4 GWh per year) is formed by adding up the quantity of gas remaining in Estonia (3,944.8 GWh per year) and the quantity of gas flowing through Estonia to Latvia and Finland (9,166.6 GWh per year) (3,944.8 GWh per year + 9,166.6 GWh per year = 13,111.4 GWh per year). The quantities of gas destined for Estonia through the interconnection points of Karksi and Paldiski (7,998.0 GWh per year and 5,113.4 GWh per year, respectively) have been calculated by multiplying said quantity of gas (13,111.4 GWh per year) by the calculated proportions of gas actually entering Estonia at the interconnection points during the period 01.10.2022 to 30.09.2023 (during this period, 12,341.5 GWh of gas entered the Estonian gas transmission network, of which 61%, or 7,527.9 GWh, went to Estonia from the Karksi interconnection point and 39%, or 4,813.6 GWh from the Paldiski interconnection point). Thus, the quantities of gas flowing to Estonia from the interconnection points of Karksi and Paldiski are obtained by the mathematical operation of 13,111.4 GWh per year x 61% = 7,998.0 GWh per year and 13,111.4 GWh per year x 39% = 5,113.4 GWh per year.

2.5. Contracted capacities at the exit points as the basis for the calculation of the capacity-based exit price for intra-system network use

The assessment of contracted network capacity is important as they are generally the basis for calculating reference prices. The reference price is obtained with the sum of the justified costs and profitability necessary to enable the use of the network, ie the provision of the gas transmission service, ie the transmission service revenue, is divided by the forecasted contractual capacity for network use (clause 5.7 of the methodology). However, reference prices may also be formed on the basis of other justified parameters.

[12] Imposed by the Government of the Republic of Estonia under subsection 1 of § 27 of the International Sanctions Act under regulation 'Imposition of a sanction of the Government of the Republic of Estonia to ban the purchase of natural gas and LNG due to the aggression of the Russian Federation in Ukraine, supported by the Republic of Belarus'.

The calculation of the price of a network service are based on the average (arithmetic mean) amount of sales during the last three calendar years. Where necessary, further analysis is conducted in order to determine the amount of sales (subsection 1 of 23^2 of the Natural Gas Act) The Natural Gas Act does not define in which units and how sales quantity (and prices) should be accounted for (capacity-based or commodity-based sales quantity and price). Article 4 of Regulation 2017/460 sets out that, as a general rule, capacity-based transmission tariffs are to be used, as an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered by commodity-based transmission tariffs if the following conditions are met (clause 7.2 of the methodology):

- levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;
- 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.

The methodology allows the use of both the capacity-based sales quantity [MWh/day per year] and the commodity-based sales quantity [MWh per year] (clause 7.3 of the methodology). The sales volume is estimated for the following components (clause 7.4 of the methodology):

- the transmission capacity [MWh/day/year] of intra-system use and/or the commodity-based quantity MWh per year (in the case of a balanced network, the entry quantity is equal to the exit quantity);
- the transmission capacity [MWh/day/year] of cross-system use and/or the commodity-based quantity MWh per year (in the case of a balanced network, the entry quantity is equal to the exit quantity);

Data provided by Elering AS on the contractual capacities of the exit points used as the basis for calculating the capacity-based exit price for intra-system use (total 138,446 MWh/day per year)

Based on the submitted data, Elering AS calculates the contracted capacities of the exit points (hereinafter referred to as network usage capacity) to be 138,446 MWh/day per year for [13] the calculation of the capacity-based exit price for intra-system network use for the tariff period. This capacity is based on the maximum network usage capacities (the overview of which is presented in Table 5) agreed between Elering AS and the users of the network service.

Table 5. Maximum network usage capacities agreed between Elering AS and the users of the network service according to the submitted data

Row No.	User of network services	Metering point (MP)	Maximum network usage capacity, m^3/h per year	Maximum network usage capacity, MWh/h per year	Maximum network usage capacity, MWh/day per year
1	/…./	/…./	/…./	/…./	/…./
2	/…./	/…./	/…./	/…./	/…./
3	/…./	/…./	/…./	/…./	/…./
4	/…./	/…./	/…./	/…./	/…./
5	/…./	/…./	/…./	/…./	/…./

[13] Tariff period means the time period during which a particular level of reference price is applicable, which minimum duration is one year and maximum duration is the duration of the regulatory period (Article 3(23) of Regulation 2017/460). In this draft decision, the Competition Authority considers the year 2025 as the tariff period, for which the approved network service prices may remain in effect until the end of the regulatory period, ie the end of 2029, unless the system operator requests a change in prices earlier. Regulatory period means the time period for which the general rules for the allowed or target revenue are set in accordance with Article 41(6)(a) of Directive 2009/73/EC (Article 3(5) of Regulation 2017/460).

Row No.	User of network services	Metering point (MP)	Maximum network usage capacity, m^3/h per year	Maximum network usage capacity, MWh/h per year	Maximum network usage capacity, MWh/day per year
6	/…./	/…./	/…./	/…./	/…./
7	/…./	/…./	/…./	/…./	/…./
8	/…./	/…./	/…./	/…./	/…./
9	/…./	/…./	/…./	/…./	/…./
10	/…./	/…./	/…./	/…./	/…./
11	/…./	/…./	/…./	/…./	/…./
12	/…./	/…./	/…./	/…./	/…./
13	/…./	/…./	/…./	/…./	/…./
14	/…./	/…./	/…./	/…./	/…./
15	/…./	/…./	/…./	/…./	/…./
16	/…./	/…./	/…./	/…./	/…./
17	/…./	/…./	/…./	/…./	/…./
18	/…./	/…./	/…./	/…./	/…./
19	/…./	/…./	/…./	/…./	/…./
20	/…./	/…./	/…./	/…./	/…./
21	/…./	/…./	/…./	/…./	/…./
22	/…./	/…./	/…./	/…./	/…./
23	/…./	/…./	/…./	/…./	/…./
24	/…./	/…./	/…./	/…./	/…./
25	/…./	/…./	/…./	/…./	/…./
26	/…./	/…./	/…./	/…./	/…./
27	/…./	/…./	/…./	/…./	/…./
28	/…./	/…./	/…./	/…./	/…./
29	/…./	/…./	/…./	/…./	/…./
30	/…./	/…./	/…./	/…./	/…./
31	/…./	/…./	/…./	/…./	/…./
32	/…./	/…./	/…./	/…./	/…./
33	/…./	/…./	/…./	/…./	/…./
34	/…./	/…./	/…./	/…./	/…./
35	/…./	/…./	/…./	/…./	/…./
36	/…./	/…./	/…./	/…./	/…./
37	/…./	/…./	/…./	/…./	/…./
38	/…./	/…./	/…./	/…./	/…./
39	/…./	/…./	/…./	/…./	/…./
40	/…./	/…./	/…./	/…./	/…./
41	/…./	/…./	/…./	/…./	/…./
42	/…./	/…./	/…./	/…./	/…./
43	/…./	/…./	/…./	/…./	/…./
44	/…./	/…./	/…./	/…./	/…./
45	/…./	/…./	/…./	/…./	/…./
46	/…./	/…./	/…./	/…./	/…./
47	/…./	/…./	/…./	/…./	/…./
48	/…./	/…./	/…./	/…./	/…./
Total			**549,390**	**5,768.6**	**138,446.4**

Position of the Competition Authority on network usage capacity

It becomes clear from the submitted data that Elering AS has considered the maximum network usage capacities agreed with the users of the network service as the network usage capacity. In view of the fact that these network usage capacities are the most up-to-date information available at the time of drawing up this draft decision, the Competition Authority does not consider it justified to base the forecasting of network usage capacity on the arithmetic average sales quantities for the last three calendar years as set out in subsection 1 of § 23^2 of the Natural Gas Act. The Competition Authority is of the opinion that it is appropriate to base the calculation of network usage capacities on the latest known actual contractual capacities, as done by the network operator. The European Union Agency for the Cooperation of

Energy Regulators (ACER) has also considered it correct to adhere to the actual contractual capacities in its response of 10.06.2024 to the Competition Authority's inquiry on 07.06.2024. Considering the above, the Competition Authority accepts the network usage capacity of 138,446 MWh/day per year for the tariff period as calculated by Elering AS.

3. ANALYSIS OF TRANSMISSION SERVICES REVENUE

Subsection 2 of § 8 of the Natural Gas Act provides that a gas undertaking must, in its internal accounting rules, establish principles which require the accounts for transmission, distribution and sale of gas and for any activity area unrelated to these activities to be kept in the manner that separate undertakings operating in these areas of activity would be obligated to. Pursuant to subsection 2^2 of § 8 of the Natural Gas Act, a gas undertaking must establish accounting rules regarding the classification of assets and liabilities and of items of revenue and expenditure, to be followed in keeping the accounts of the fields of activity mentioned in subsection 2 of § 8 of the Natural Gas Act.

In the price proceedings, the Competition Authority allocates the components of the target revenue related to the transmission service as follows (distinguishing between intra-system and cross-system transmission components) (clause 5.2 of the methodology):

1) variable costs
2) operating costs
3) depreciation of fixed assets;
4) justified profitability.

Variable costs relate to the use of services or goods that are directly related to the sales volume of the gas network service (eg the quantity of gas used to operate the network, the cost of electricity or gas energy consumption required to heat the gas in pressure regulators (lowerers) and the cost of operating compressors, etc) (clause 9.2 of the methodology). Variable costs are determined by multiplying the justified acquisition prices of the necessary services or goods by the purchased quantity of the service or goods (clause 9.3 of the methodology). Variable costs may include non-controlled costs (clause 8.2 of the methodology). Non-controlled prices and costs are not influenced by the economic activity of the undertaking, but are entirely dependent on external factors (eg administratively regulated service charges) (clause 8.1 of the methodology). In cases where non-controlled costs are justified (verified), they are subject to the full prices recognition principle (clause 8.3 of the methodology). Specific costs and revenues are taken into account in the case of system operators, such as the costs and revenues of the inter-transmission system operator compensation (ITC) mechanism and counter-trade cost and revenues. The accounting of such costs and revenues is consistent (clause 8.4 of the methodology).

Operating costs are costs that do not include variable costs, financial charges and the depreciation of fixed assets. Operating costs are not directly related to the quantity of sales and an undertaking can influence these costs through its more efficient economic activities (excluding non-controlled operating costs). Operating costs include the costs of maintenance and repair of the gas network carried out by the undertaking, outsourced works and services, sales costs, transport costs, rental costs, IT costs, office costs, labour costs, non-controlled costs (state duty, land tax, state-established infrastructure toleration fee) (clause 10.2 of the methodology).

The expenses included in the price must be justified, and must be based on cost efficiency and allow the undertaking to carry out the duties prescribed by law. The following principles are observed in assessing justified operational expenses (subsection 3 of § 23^2 of the Natural Gas Act):

1) observation of the dynamic of expenses in time and its comparison with the dynamics of the consumer price index;
2) detailed analysis (including expert assessments) of the justifiability of different expense components;
3) comparison of the undertaking's expenses and of the statistical parameters calculated on their basis with the expenses of other similar undertakings.

Monitoring the dynamics of costs in time means comparing the change in the operating costs of an undertaking by year with the consumer price index[1] (CPI). Generally, the operating costs of a monopoly undertaking may not increase more than the costs of undertakings providing free market services, which are expressed in the growth of the CPI. When applying the CPI in their regulatory activities, the Competition Authority also takes into account the obligation provided in subsection 3 of § 23^2 of the Natural Gas Act that costs included in the price have to be based on cost-effectiveness. The CPI values of previous years are taken from the website of Statistics Estonia www.stat.ee and the CPI of the current year from the economic forecast of the Ministry of Finance, which is published on www.fin.ee (clause 10.3 of the methodology).

To carry out a thorough analysis of cost components, the undertaking has to submit a detailed distribution of the operating costs of the last three financial years, and a forecast for the tariff period. Undertakings also have to justify the need, change and cost-effectiveness of the applied operating costs, primarily based on the following principles (clause 10.4 of the methodology):

- the undertaking must have actually incurred the costs in previous periods (evidenced by invoices, contracts, wages paid, etc.)
- the costs have to be directly related to the provision of network services (if necessary, costs may be distributed between various activities)
- the costs have to be necessary for the provision of network services (evidenced by the undertaking's explanation on how the cost changed the service for the consumer, such as the quality of the network service)
- the costs have been incurred in the most cost-effective manner (evidenced by price quotes and their responses)

When assessing whether operating costs are justified, the Competition Authority has the right to include experts, if necessary (clause 10.4 of the methodology).

It is not possible to compare the costs of an undertaking and the statistical indicators calculated on the basis thereof with the costs of other similar undertakings domestically in the case of a transmission system operator, as there is only one transmission system in Estonia. International comparisons may not be reasonable as transmission system operators from different countries operate in different economic environments (clause 10.5 of the methodology).

The price does not include the following expense items (subsection 2 of § 23^2 of the Natural Gas Act):

1) expenses related to claims unlikely to be collected;
2) sponsorships, gifts and donations;
3) expenses unrelated to principal activities;
4) fines and late interest charged on the basis of legislation;
5) finance expenses;
6) expenses related to income tax charged on dividend payments;
7) other expenses not required for the performance of duties imposed on the undertaking by law.

Depreciation of fixed assets (cost of capital) – costs included in service price related to writing off the depreciable proportion of fixed assets (except land) over their technical useful life (clause 2.16 of the methodology). The purpose of calculating the depreciation of fixed assets is to recover the costs incurred in the acquisition of fixed assets through the price of the network service during the technical useful life of the fixed assets[14] (clause 11.3 of the methodology). The calculation of the depreciation charge for fixed assets is based on the value of the fixed assets required for the provision of network service and the rate of depreciation which corresponds to the technical useful life of the fixed assets (subsection 9 of § 23^2 of the Natural Gas Act) The rate of depreciation is the inverse of the technical useful life of the asset. Different fixed assets may have different technical useful lives and, accordingly, depreciation rates. When justifying the technical useful life of fixed assets, the Competition Authority checks the following (clause 11.4 of the methodology):

a) expected period of use of fixed assets;
b) expected physical wear and tear of fixed assets;
c) technical or moral obsolescence of fixed assets.

The calculation of the depreciation of fixed assets is based on a linear method (clause 11.5 of the methodology). Depreciation of fixed assets is calculated on the basis of the cost of the fixed assets necessary for the provision of the network service and the depreciation rate corresponding to the useful life of the fixed assets (clause 11.6 of the methodology). Fixed assets invested in the current calendar year are included in the depreciation of fixed assets for that year in such a way that the cost of the invested asset is multiplied by a coefficient of 0.5. In subsequent years, when accounting for the depreciation of fixed assets, the total cost is taken into account. Regulated fixed assets (sales, liquidation, write-off) that have been removed from accounting in the current year are included in the depreciation of fixed assets for that year in such a way that the cost of the removed fixed assets is multiplied by a coefficient of 0.5 (clause 11.7 of the methodology).

Return of justified profit – operating profit calculated by multiplying the value of regulated assets and the WACC (clause 2.18 of the methodology). The justified profitability mentioned in clause 3 of subsection 5 of § 23 of the Natural Gas Act is calculated based on the capital invested by the undertaking and the weighted average cost of capital (subsection 3^1 of § 23 of the Natural Gas Act). The calculation of justified profitability is based on the principle according to which the value of the fixed assets required for the provision of network service, plus the amount of working capital, is multiplied by the weighted average cost of capital (subsection 7 of § 23^2 of the Natural Gas Act) The amount of the working capital referred to in subsection 7 of § 23^2 of the Natural Gas Act is five percent of the average (arithmetic mean) turnover of the last three calendar years. If necessary, a further analysis is performed in order to determine the amount of the working capital (subsection 8 of § 23^2 of the Natural Gas Act). In order to determine the weighted average cost of capital, ie *WACC*- the Competition Authority has developed a guideline called 'Guideline for calculating the weighted average cost of capital', which was approved on 19.07.2023 by directive No 1-2/2023-015 of the Director General of the Competition Authority . This guideline, which sets out the weighted average capital prices for electricity, heat, gas, water and universal postal service operators, has been published on the Competition Authority's website at http://www.konkurentsiamet.ee. Table 8 under clause 5 of the guideline has the **weighted average cost of capital (*WACC*) to the gas transmission system operator at 6.25%.**

[14] Useful technical life of fixed assets – a period during which an undertaking is likely to use the assets, which takes into account the expected physical (technical) wear and tear of fixed assets and, in the case of fixed assets related to IT, moral depreciation (clause 2.15 of the methodology).

Target revenue means the sum of expected transmission services revenue and expected non-transmission services revenue earned by the transmission system operator within a one-year regulatory period under a price cap regime. Transmission service revenue comprises revenue from the transmission of capacity and/or commodity of groups of similar interconnection points (intra-system entry points and exit points, cross-system entry and-exit points). Non-transmission service revenues are revenues received by the transmission system operator from the provision of the transmission service and from other non-transmission services provided (possible revenues include, for example, additional revenues from auctions, revenues from under-use charges, revenues from operating the data exchange platform and issuing certificates of origin, etc) (clause 3 of the methodology).

According to Regulation 2017/460, the target revenue of the system operator is calculated using the following formula[15] (clause 5.3 of the methodology):

$$R_S = R_{S-\text{ük}} + R_{ms} = Revenue_{cap}^{intra} + Revenue_{cap}^{cross} + R_{ms}$$

where:

R_S	-	Target revenue of system operator
$R_{S\text{-}ük}$	-	transmission services revenue;
$Revenue_{cap}^{intra}$	-	revenues from capacity tariffs collected for intra-system network use;
$Revenue_{cap}^{cross}$	-	revenues from capacity tariffs collected for cross-system network use;
R_{ms}	-	non-transmission services revenue.

Revenues from transmission services for intra-system and cross-system network use are defined according to the following formulae (clause 5.4 of the methodology):

$$Revenue_{cap}^{intra} = MK_{cap}^{intra} + TK_{cap}^{intra} + PK_{cap}^{intra} + PT_{cap}^{intra}$$

$$Revenue_{cap}^{cross} = MK_{cap}^{cross} + TK_{cap}^{cross} + PK_{cap}^{cross} + PT_{cap}^{cross}$$

where:

MK	-	variable costs of capacity-based (cap) services for intra-system (intra) and cross-system (cross) network uses;
TK	-	operating costs of capacity-based (cap) services for intra-system (intra) and cross-system network uses;
PK	-	depreciation of fixed assets of capacity-based (cap) services for intra-system (intra) and cross-system (cross) network uses;
PT	-	return of justified profit of capacity-based (cap) services for intra-system (intra) and cross-system (cross) network uses;

[15] As Elering AS does not wish to apply commodity-based transmission tariffs, the given formula and all other formulas presented below do not include components related to commodity-based transmission tariffs in order to simplify the formulas.

Therefore, the target revenue is defined as the sum of justified costs and return of justified profit (*ex-ante* regulation), to which are added revenues not related to the transmission service of the previous period (*ex-post* regulation) (clause 3 of the methodology).

From the other side, the system operator's target revenue (R_s) is collected from the sale of services in the following formula (clause 5.6 of the methodology):

$$R_S = R_{sisend}^{intra} + R_{väljund}^{intra} + R_{sisend}^{cross} + R_{väljund}^{cross} + R_{ms}$$

where:

R_S	-	Target revenue of system operator
$R_{sisend}^{intra} = R_{sisend-cap}^{intra} + R_{sisend-comm}^{intra}$	-	the amount of revenue from the transmission of intra-system network use entry point capacity (cap);
$R_{väljund}^{intra} = R_{väljund-cap}^{intra} + R_{väljund-comm}^{intra}$	-	the amount of revenue from the transmission of intra-system network use exit point capacity (cap);
$R_{sisend}^{cross} = R_{sisend-cap}^{cross} + R_{sisend-comm}^{cross}$	-	the amount of revenue from the transmission of cross-system network use entry point capacity (cap);
$R_{väljund}^{cross} = R_{väljund-cap}^{cross} + R_{väljund-comm}^{cross}$	-	the amount of revenue from the transmission of cross-system network use exit point capacity (cap);
R_{ms}	-	non-transmission services revenue.

The entry-exit multipliers of the transmission service for intra-system network use are calculated using the following formula (clause 5.6 of the methodology):

$$K_{intra}^{sisend} = \frac{R_{sisend}^{intra}}{R_{sisend}^{intra} + R_{väljund}^{intra}} \quad and \quad K_{intra}^{väljund} = \frac{R_{väljund}^{intra}}{R_{sisend}^{intra} + R_{väljund}^{intra}},$$

where:

K_{intra}^{sisend} and $K_{intra}^{väljund}$	-	factors characterising the ratio of entry revenues and exit revenues to intra-system network revenues. The sum of these factors is 1.

The entry-exit multipliers of the transmission service for cross-system network use are calculated using the following formula (clause 5.6 of the methodology):

$$K_{cross}^{sisend} = \frac{R_{sisend}^{cross}}{R_{sisend}^{cross} + R_{väljund}^{cross}} \quad and \quad K_{cross}^{väljund} = \frac{R_{väljund}^{cross}}{R_{sisend}^{cross} + R_{väljund}^{cross}}$$

where:

K_{cross}^{sisend} *and* $K_{cross}^{väljund}$ - factors characterising the ratio of entry revenues and exit revenues to cross-system network revenues. The sum of these factors is 1.

The ratios of the total system entry and exit revenues allocation are calculated using the following formula (clause 5.6 of the methodology):

$$K_{sisend} = \frac{R_{sisend}^{intra} + R_{sisend}^{cross}}{R_{sisend}^{intra} + R_{väljund}^{intra} + R_{sisend}^{cross} + R_{väljund}^{cross}} \quad and$$

$$K_{väljund} = \frac{R_{väljund}^{intra} + R_{väljund}^{cross}}{R_{sisend}^{intra} + R_{väljund}^{intra} + R_{sisend}^{cross} + R_{väljund}^{cross}}$$

The values of the multiplier K show how different market participants contribute to the revenues of the transmission service (clause 5.6 of the methodology).

The intra-system and cross-system network use cost allocation assessments indicate the degree of cross-subsidisation between intra-system and cross-system network use based on the proposed reference price methodology. The assessment of the allocation of costs of intra-system and cross-system network is based on the regulation set out in Article 5 of Regulation 2017/460 as follows (clause 5.5 of the methodology):

a) the transmission services capacity revenue to be obtained from intra-system network use at both all entry points and all exit points shall be divided by the value of the relevant capacity cost driver for intra-system network use in accordance with the following formulae:

$$Ratio_{cap}^{intra} = \frac{Revenue_{cap}^{intra}}{Driver_{cap}^{intra}}$$

where:

$Driver_{cap}^{intra}$ - is the value of capacity-related cost driver(s) for intra-system network use, such as the sum of the average daily forecasted capacities contracted at each intra-system entry point and intra-system exit point, or cluster of points, and is defined in a measurement unit such as MWh/day.

b) the transmission services capacity revenue to be obtained from cross-system network use at both all entry points and all exit points shall be divided by the value of the relevant capacity cost driver for cross-system network use in accordance with the following formulae:

$$Ratio_{cap}^{cross} = \frac{Revenue_{cap}^{cross}}{Driver_{cap}^{cross}}$$

where:

$Driver_{cap}^{cross}$ - is the value of capacity-related cost driver(s) for cross-system network use, such as the sum of the average daily forecasted capacities contracted at each cross-system entry point and intra-system exit point, or cluster of points, and is defined in a measurement unit such as MWh/day.

c) the cost allocation comparison index between the ratios referred to in points (a) and (b), which is defined in percentage, shall be calculated in accordance with the following formulae:

$$Comp_{cap} = \frac{2 \times |Ratio_{cap}^{intra} - Ratio_{cap}^{cross}|}{Ratio_{cap}^{intra} + Ratio_{cap}^{cross}} \times 100\%$$

If the comparison index ($Comp_{Cap}$) is above 10%, the national regulatory authority provides justification for such result in the decision.

3.1. Formation of target revenue with supervision fee

Elering AS has pointed out in the application that the target revenue with the supervision fee for the tariff period[16] is the amount of target revenue and supervision fee considered justified in Competition Authority's decision No 7-3/2023-120 of 01.09.2023 on the approval of network service prices (hereinafter the Competition Authority's decision) (see Table 6).

Table 6. Formation of Elering AS's target revenue together with the supervision fee according to the data specified in the decision of the Competition Authority[17]

	Unit	Tariff period
Variable costs	Thousand €	4,687.21
Operating costs	Thousand €	9,527.40
Depreciation of fixed assets	Thousand €	7,338.95
Return of justified profit	Thousand €	9,185.82
Transmission services revenue	Thousand €	30,739.39
Non-transmission services revenue	Thousand €	0.00

[16] The supervision fee is calculated based on provisions set out in subsection 2^1 of § 1 of the Natural Gas Act and § 53^1 of the Competition Act. Subsection 2^1 of § 1 of the Natural Gas Act sets out that an undertaking pays a supervision fee on the grounds and in accordance with the rules provided by the Competition Act. Pursuant to subsection 4 of § 53^1 of the Competition Act, undertakings whose prices and fees of services are approved by the Competition Authority shall pay the supervision fee according to the sales revenue indicated in an administrative act issued in respect of each network area or licensed territory at the rate of the supervision fee provided for in § 53^2 of the Competition Act. Under subsection 5 of § 53^1 of the Competition Act, the aforementioned undertaking is considered, inter alia, to be a network operator within the meaning of the Natural Gas Act, and is obliged to obtain approval for the price of the network service. Pursuant to subsection 1 of § 53^2 of the Competition Act, the rate of the supervision fee for an undertaking with the financing obligation specified in subsection 5 of § 53^1 of the Competition Act shall be 0.2 per cent of the sales revenue indicated in the administrative act issued to the undertaking.

[17] Table 6 has been prepared on the basis of the data provided in the MS Excel tables, which contain numbers more accurately than those reflected in this draft decision. Therefore, the result obtained with a calculator may differ slightly from the numbers shown in the table.

	Unit	Tariff period
Target revenue	**Thousand €**	**30,739.39**
Supervision fee	**Thousand €**	**61.48**
Target revenue with supervision fee	**Thousand €**	**30,800.86**
incl. revenues generated by capacity-based entry prices for intra-system network use (intra-system entry revenue)	*Thousand €*	*/..../*
incl. revenues generated by capacity-based exit prices for cross-system network use (cross-system exit revenue)	*Thousand €*	*0.00*
incl. compensation for the purchase costs of electricity necessary for the operation of the Paldiski and Puiatu compressors (compensation for the direct variable cost of compressors), which is paid to Elering AS by the Finland and Latvia transmission system operators on the basis of the contract for the compensation of transit flows between the system operators (ITC contract)	*Thousand €*	*/..../*
incl. revenues generated by capacity-based exit prices for intra-system network use (intra-system exit revenue)	*Thousand €*	*/..../*

The position of the Competition Authority regarding target revenue with supervision fees, including intra-system entry revenue, cross-system exit income, compensation for direct variable costs of compressors and intra-system exit income

In order to verify the justification of the target revenue and supervision fee accepted in the decision of the Competition Authority at the time of drawing up this draft decision, the Competition Authority prepared the following table 7.

Table 7. Formation of the target revenue and supervision fee accepted in the decision of the Competition Authority, as well as the target revenue and supervision fee of the verification calculation of the Competition Authority

	Unit	Decision of the Competition Authority	Verification calculation by the Competition Authority	Difference between the indicators in columns 1 and 2 [(column 1 / column 2 - 1) x 100%]
		1	2	3
Variable costs	Thousand €	4,687.21	3,834.47[18]	-18.2%
Operating costs	Thousand €	9,527.40	9,527.40	0.0%
Depreciation of fixed assets	Thousand €	7,338.95	7,737.52[19]	5.4%
Return of justified profit	Thousand €	9,185.82	9,620.20[20]	4.7%
Transmission services revenue	Thousand €	30,739.39	30,719.59	-0.1%
Non-transmission services revenue	Thousand €	0.00	0.00	0.0%
Target revenue	**Thousand €**	**30,739.39**	**30,719.59**	**-0.1%**

[18] Adjusted due to the decrease in the purchase price of gas and electricity related to the operation of the network..

[19] Adjusted due to taking into account the investments related to the provision of network services made by Elering AS in 2023 and forecast for 2024 and 2025. The investment forecast for 2024 and 2025 has been reduced by half (50%).

[20] Adjusted due to taking into account the investments related to the provision of network services made by Elering AS in 2023 and forecast for 2024 and 2025. The investment forecast for 2024 and 2025 has been reduced by half (50%).

	Unit	Decision of the Competition Authority	Verification calculation by the Competition Authority	Difference between the indicators in columns 1 and 2 [(column 1 / column 2 - 1) x 100%]
		1	2	3
Supervision fee	**Thousand €**	**61.48**	**61.44**	**-0.1%**
Target revenue with supervision fee	**Thousand €**	**30,800.86**	**30,781.03**	**-0.1%**
incl. revenues generated by capacity-based entry prices for intra-system network use (intra-system entry revenue)	*Thousand €*	*/..../*	*/..../*[21]	*7.8%*
incl. revenues generated by capacity-based exit prices for cross-system network use (cross-system exit revenue)	*Thousand €*	*0.00*	*0.00*	*0.0%*
incl. compensation for the purchase costs of electricity necessary for the operation of the Paldiski and Puiatu compressors (compensation for the direct variable cost of compressors), which is paid to Elering AS by the Finland and Latvia transmission system operators on the basis of the contract for the compensation of transit flows between the system operators (ITC contract)	*Thousand €*	*/..../*	*/..../*[22]	*-10.9%*
incl. revenues generated by capacity-based exit prices for intra-system network use (intra-system exit revenue)	*Thousand €*	*/..../*	*/..../*	*0.5%*

Table 7 shows that the target revenue and supervision fee accepted in the decision of the Competition Authority in the amount of 30,800.86 thousand euros does in essence not differ from the amount of target revenue and supervision fee received by the Competition Authority in the verification calculation (30,781.03 thousand euros). At the same time, the target revenue calculation does not take into account the volume of investments estimated by the network operator for 2024 and 2025, but only half (50%) of it. **Considering the above, the Competition Authority is of the opinion that the approval of the price of the network service specified in the application may continue to be based on the target revenue together with the supervision fee in the amount of 30,800.86 thousand euros accepted in the decision of the Competition Authority, including:**

a) **intra-system entry revenue in the amount of /…./ thousand €** – formed under the Agreement on the Implementation of Inter-transmission System Operator Compensation Mechanism (ITC Agreement) (hereinafter: ITC Agreement) concluded on 14.02.2019 between Estonian, Latvian and Finnish transmission system operators Elering AS, AS "Conexus Baltic Grid" and Gasum Oy;

b) **cross-system exit revenue in the amount of 0 thousand euros** – cross-system exit revenue was not forecast and is still not forecast, as Latvia banned the purchase of gas from Russia from the beginning of 2023, which is why gas does not flow from Russia through Estonian to Latvia or vice versa (from Latvia to Russia).

[21] Revenue forecasted for the tariff period based on the actual revenue received in the period from 01.05.2023 to 30.04.2024.

[22] Adjusted due to the decrease in the purchase price of electricity.

c) **compensation for the direct variable cost of compressors in the amount of /…./ thousand euros** – compressors are mainly necessary for the cross-border trade of neighbouring countries (Finland and Latvia) (to enable gas flows between neighbouring countries). Considering the above, Elering AS will be compensated for the purchase of electricity necessary for the operation of the Paldiski and Puiatu compressors on the basis of an ITC contract concluded between the transmission system operators (Gasum Oy – Finland system operator and AS "Conexus Baltic Grid" – Latvia system operator) of neigbouring countries and the system operators (incl. Elering AS). This means that all the aforementioned costs will be fully compensated to Elering AS according to the amount of the actual costs and therefore the mentioned costs will not be included in the prices of the undertaking's network service;

d) **intra-system exit revenue in the amount of /…./ thousand euros** – formed by subtracting the forecasted intra-system entry revenue in the amount of /…./ thousand €, the forecasted cross-system exit revenue in the amount of 0 thousand € and the forecasted compensation of the direct variable cost of compressors in the amount of /…./ thousand € from the forecasted target revenue together with the supervision fee in the amount of 30,800.86 thousand €.

3.2. Cost allocation assessments

According to Article 5(2) of Regulation 2017/460, the cost allocation assessments indicate the degree of cross-subsidisation between intra-system and cross-system network use based on the proposed reference price methodology.

Elering AS's costs for intra-system and cross-system network use (without the costs of purchasing electricity necessary for the operation of compressors, which are not included in the prices of the network service of the undertaking) are divided according to Table 8.

Table 8. Division of the costs of intra-system and cross-system network use (without the costs of purchasing electricity necessary for the operation of compressors) according to the data provided

	Unit	Tariff period
$Revenue_{cap}^{intra}$	Thousand €	27,687.27
$Driver_{cap}^{intra}$	MWh/day	138,446
$Ratio_{cap}^{intra}$	€/MWh/day	199.99
$Revenue_{cap}^{cross}$	Thousand €	0.00
$Driver_{cap}^{cross}$	MWh/day	0.00
$Ratio_{cap}^{cross}$	€/MWh/day	x[23]
$Comp_{cap}$	%	x

Article 5(6) of Regulation 2017/460 sets out that where the results of the capacity index ($Comp_{Cap}$) exceeds 10%, the national regulatory authority must provide the justification for such results.

Table 8 shows that during the tariff period, all revenue is derived from intra-system network use according to the forecast. Elering AS does no forecast the use of cross-system network use, as Latvia banned the purchase of gas from Russia from the beginning of 2023, which is why gas does not flow from Russia through Estonian to Latvia or vice versa (from Latvia to Russia).

[23] It is not possible to calculate the indicators marked 'x', since there is no cross-system network use according to the forecast.

Considering the above, the Competition Authority is of the opinion that the allocation of Elering AS's costs for intra-system network use and cross-system network use during the tariff period at 27,687.27 thousand euros and 0 thousand euros respectively for the costs of intra-system network use and cross-system network use can be considered justified.

3.3. Revenue allocation assessments

Pursuant to the combined effect of Articles 27(4) and 26(1) of Regulation 2017/460, the decision of the national regulatory authority (the Competition Authority) to approve the prices of the gas transmission network service must contain, inter alia, the following information:

a) capacity-commodity split, meaning the breakdown between the revenue from capacity-based transmission tariffs and the revenue from commodity-based transmission tariffs;

b) entry-exit split, meaning the breakdown between the revenue from capacity-based transmission tariffs at all entry points and the revenue from capacity-based transmission tariffs at all exit points;

c) intra-system/cross-system split, meaning the breakdown between the revenue from intra-system network use at both entry points and exit points and the revenue from cross-system network use at both entry points and exit points calculated as set out in Article 5.

Capacity-commodity revenue split – Table 1 and the application indicate that Elering AS does not apply commodity-based tariffs during the tariff period. All revenues related to the transmission service are derived from capacity-based tariffs. **Considering the above, the transmission service revenue share derived by Elering AS from capacity-based tariffs during the tariff period is 100%, which the Competition Authority considers justified, since, pursuant to Article 4(3) of Regulation 2017/460, transmission services revenue is recovered by capacity-based transmission tariffs.**

The entry-exit revenue split – the shares of revenues from the capacity-based transmission tariffs for the entry points and exit points will be respectively 9% [revenue from capacity-based transmission tariffs for the entry points /…./ thousand € / (revenue from capacity-based transmission tariffs for the entry points /…./ thousand € + revenue from capacity-based transmission tariffs for the exit points /…./ thousand €) x 100% = 9%] and 91% [revenue from capacity-based transmission tariffs for the exit points /…./ thousand € / (revenue from capacity-based transmission tariffs for entry points /…./ thousand € + revenue from capacity-based transmission tariffs for exit points /…./ thousand €) x 100% = 91%].

The low share of revenue from capacity-based transmission tariffs for entry points is due to the joint decision of Finland, Estonian and Latvia regulators to implement an entry price for the supply of gas to the system, which would not be significantly higher than the entry prices used in other EU countries. Consequently, the average entry price of the annual capacity product of the European Union countries (excluding the Baltic States and Finland) according to the benchmarking study was taken as the basis, corrected for statistical inaccuracy (added standard error)[24]. The reasons for the conclusion are as follows:

- the entry reference price was designed to take into account the broader objective of accession to the European Union's single gas market;

[24] Article 6(4)(a) of Regulation 2017/460 sets out that adjustments to the application of the reference price methodology to all entry and exit points may be made, inter alia, by benchmarking by the national regulatory authority, whereby reference prices at a given entry or exit point are adjusted so that the resulting values meet the competitive level of reference prices.

- gives a price signal to suppliers that ensures the compatibility of the competitive environment even after the end of the isolated market position;
- enables trade relations with the continental European market via forward swaps;
- the low entry reference price gives third parties the incentive to participate in the FinEstLat gas market.

The average entry price of an annual European Union capacity product in 2018 was 128.44 €/MWh/day per year and the standard error for this average calculation was 14.33 €/MWh/day per year – ie a total of 142.77 €/MWh/day per year. **Considering the above, the Competition Authority is of the opinion that Elering AS's entry-exit revenue split shares of 9% and 91%, respectively, can still be considered justified during the tariff period.**

Intra-system/cross-system revenue split – the shares of revenue generated by intra-system and cross-system network use at both the entry and exit points will be respectively 100% [revenue from intra-system network use at both entry and exit points 27,687.27 thousand € / (revenue from intra-system network use at both entry and exit points 27,687.27 thousand € + revenue from cross-system network use at both entry and exit points 0 thousand €) x 100% = 100%] and 0% [revenue from cross-system network use at both entry and exit points 0 thousand € / (revenue from intra-system network use at both entry and exit points 27,687.27 thousand € + revenue from cross-system network use at both entry and exit points 0 thousand €) x 100% = 0%].

Considering that Estonian, Latvia and Finland are operating as a common market area (FinEstLat) since 2020, where there are no interstate tariffs and gas does not flow from Latvia through Estonian to Russia as of the beginning of 2023, as Latvia banned the purchase of gas from Russia, which is why gas does not flow the other way either (from Latvia to Russia), no revenue is generated at entry or exit points in the cross-system use of the network. **Considering the above, the Competition Authority is of the opinion that Elering AS's intra-system/cross-system revenue split shares of 100% and 0%, respectively, can be considered justified.**

4. NETWORK SERVICE PRICES, MULTIPLIERS AND SEASONAL FACTORS

According to Regulation 2017/460, transmission network prices are based on the reference price, which is the price for a capacity product for firm capacity with a duration of one year, which is applicable at entry and exit points and which is used to set other capacity-based transmission tariffs (quarterly, monthly, daily and intraday transmission tariffs). According to Article 4 of Regulation 2017/460, transmission service revenues are collected from capacity-dependent transmission tariffs, exceptionally, with the approval of the national regulatory authority, a share of the revenues from transmission services may be collected in the form of commodity-based transmission tariffs (clause 3 of the methodology).

Pursuant to subsection 4 of § 23 of the Natural Gas Act and Regulation 2017/460, a price cap regime is applied in Estonia in which the transmission system operator's target revenue and the expected available capacity/flows are used to calculate the prices of network services of the transmission system (clause 1 and 3 of the methodology).

Reference prices (T) are formed according to the following formulas[25] (section 5.7 of the methodology):

[25] As Elering AS does not wish to apply commodity-based transmission tariffs, the formulas for the formation of commodity-based reference prices are not set out in this draft decision.

$$T^{intra}_{sisend-cap} = \frac{R^{intra}_{sisend-cap}}{CAP^{intra}_{sisend}} \left[\frac{€}{MWh}\ per\ year\right]$$

$$T^{intra}_{väljund-cap} = \frac{R^{intra}_{väljund-cap}}{CAP^{intra}_{väljund}} \left[\frac{€}{MWh}\ per\ year\right]$$

$$T^{cross}_{sisend-cap} = \frac{R^{cross}_{sisend-cap}}{CAP^{cross}_{sisend}} \left[\frac{€}{MWh}\ per\ year\right]$$

$$T^{cross}_{väljund-cap} = \frac{R^{cross}_{väljund-cap}}{CAP^{cross}_{väljund}} \left[\frac{€}{MWh}\ per\ year\right]$$

where:

CAP^{intra}_{sisend}	-	the forecasted contracted capacity of intra-system network use at a specific entry point or a cluster of entry points;
$CAP^{intra}_{väljund}$	-	the forecasted contracted capacity of intra-system network use at a specific exit point or a cluster of exit points;
CAP^{cross}_{sisend}	-	the forecasted contracted capacity of cross-system network use at a specific entry point or a cluster of entry points;
$CAP^{cross}_{väljund}$	-	the forecasted contracted capacity of cross-system network use at a specific exit point or a cluster of exit points;

The reserve price of the annual capacity product is equal to the reference price. The calculation of the reserve price for capacity products for a non-annual period is carried out using the following formula (section 5.8 of the methodology):

$$RP^x_y = \frac{T^x_y}{DY} \times D \times M \times H \quad [\frac{€}{MWh} per\ period],$$

where:

RP^x_y	-	the reserve price of the service (intra-system or cross-system (x) and entry and exit service (y)) for the period (quarter, month, day). The reserve price of the annual capacity product is equal to the reference price;
T^x_y	-	the reference price of the service (intra-system or cross-system (x) and entry and exit service (y));
DY	-	the number of days in a year (normally 365, excluding leap years with 366);
D	-	the duration of the period (quarter, month, day) in gas days;
M	-	capacity product multiplier. For quarterly standard capacity products and for monthly standard capacity products, the level of the multiplier shall be no less than 1 and no more than 1.5. For daily standard capacity products, the level of the multiplier shall be no less than 1 and no more than 3.
H	-	seasonal factor. Seasonal factors are calculated in accordance with the principles set out in Article 15 of Regulation 2017/460.

When verifying the target revenue, the target revenue defined in section 5.3 of the methodology must correspond to the target revenue received according to the following formula (section 5.9 of the methodology):

$$R_S = Revenue_{cap}^{intra} + Revenue_{cap}^{cross} + R_{ms} = T_{sisend-cap}^{intra} \times CAP_{sisend}^{intra} + T_{väljund-cap}^{intra} \times CAP_{väljund}^{intra} + T_{sisend-cap}^{cross} \times CAP_{sisend}^{cross} + T_{väljund-cap}^{cross} \times CAP_{väljund}^{cross} + R_{ms}$$

Multiplier means the factor applied to the respective proportion of the reference price in order to calculate the reserve price for a non-yearly standard capacity product (Article 3(16) of Regulation 2017/460). The level of multipliers shall fall within the following ranges (Article 13(1) of Regulation 2017/460):

a) for quarterly standard capacity products and for monthly standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 1,5;

b) for daily standard capacity products and for within-day standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.

Seasonal factor means the factor reflecting the variation of demand within the year which may be applied in combination with the relevant multiplier (Article 3(21) of Regulation 2017/460). Where seasonal factors are applied, the arithmetic mean over the gas year of the product of the multiplier applicable for the respective standard capacity product and the relevant seasonal factors shall be within the same range as for the level of the respective multipliers set out in paragraph 1 (Article 13(2) of Regulation 2017/460).

Application of Elering AS on the prices for network services, multipliers and seasonal factors

According to the application, Elering AS wishes for the capacity-based exit prices for intra-system network use of 0.50 €/MWh/day per day and 0.50 €/MWh/day intradaily to be approved. Other prices and multipliers of the network service will not be changed, and the use of seasonal factors are still not applied for.

The position of the Competition Authority on the prices, multipliers and seasonal factor of the network service

In clause 3.1 of this draft decision, the Competition Authority has considered the forecast of intra-system exit revenue of Elering AS for the tariff period in the amount of /…./ thousand € to be justified. In clause 2.5 of this draft decision, the Competition Authority has considered Elering AS's network usage capacity of 138,446 MWh/day per year for the tariff period to be justified. Dividing said income in the amount of /…./ thousand € with network usage capacity 138,446 MWh/day per year, the Competition Authority gets a reference price of the company's capacity-based exit prices for intra-system network use for the tariff period at 181.26 €/MWh/day per year (/…./ thousand € / 138,446 MWh/day per year = 181.26 €/MWh/day per year). Bt dividing the indicated reference price (181.26 €/MWh/day per year) by the number of days (365 days) for the tariff period (2025), the capacity-based exit prices for intra-system network use will be 0.50 €/MWh/day per day and 0.50 €/MWh/day intradaily, corresponding to the aforementioned exit prices calculated by the undertaking. **Considering the above and the provisions of Article 4(3) of Regulation 2017/460 (transmission service revenue is collected from transmission tariffs dependent on capacity), the Competition Authority is of the opinion that the reference price of the capacity-based exit prices for intra-system network use as requested by Elering AS of**

181.26 €/MWh/day per year and the capacity-based exit prices for intra-system network use of 0.50 €/MWh/day per day and 0.50 €/MWh/day intradaily are justified and in compliance with the provisions of Article 4(3) of Regulation 2017/460.

The Competition Authority is also of the opinion that the Elering AS's reference price of capacity-based entry prices for intra-system network use of 142.77 €/MWh/day per year is justified, as this corresponds to the common conclusion of Finland, Estonian and Latvia regulators that the competitive reference price of incoming gas is the average entry price of the annual capacity product of the European Union countries (excluding the Baltic States and Finland), as determined by benchmarking, corrected for statistical inaccuracy (added standard error)[26] (the average entry price for an annual Union capacity product in 2018 was 128.44 €/MWh/day per year and the standard error for this average calculation was 14.33 €/MWh/day per year – ie a total of 142.77 €/MWh/day per year).

With regard to the use of **capacity product multipliers**, Estonian, Latvia and Finland transmission system operators have agreed that in Estonia, Latvia and Finland, the multipliers for the capacity products as specified in Table 9 are used.

Table 9. Multipliers for capacity products agreed between Estonian, Latvia and Finland transmission system operators

Capacity product	Capacity product multiplier
Annual	1
Quarterly	1.1
Monthly	1.25
Daily	1.5
Intradaily	1.7

The multipliers for capacity products are designed to provide the fairest and most balanced cost allocation between the different network users, ie between network users with a homogeneous consumption profile and an uneven consumption profile. The purpose of the capacity product multipliers is to give cost-based signals by incentivising consistent consumption and long-term capacity booking, which corresponds more closely to the actual costs of the transmission network. Capacity product multipliers have an impact on the operational planning of the gas system by system operators and contribute to the emergence of a more predictable operational environment for system operators, which was particularly necessary for the launch of the single gas market area.

The system operators do not apply seasonal factors (the value of the seasonal factor is 1).

Considering the above and the provisions set out in Article 13(1) of Regulation 2017/460 (for quarterly standard capacity products and for monthly standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 1,5, and for daily standard capacity products and for within-day standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 3), the Competition Authority is of the opinion that the multipliers of Elering AS's capacity products specified in Table 9 continue to be justified and comply with the provisions set out in Article 13(1) of Regulation 2017/460.

[26] The reasons for the conclusion are set out in clause 3.3 of this draft decision.

The Competition Authority, having taken Elering AS's reference price of the capacity-based entry prices for intra-system network use and capacity product multipliers, that have been deemed previously as justified, as a basis, considers that Elering AS's capacity-based quarterly, monthly, daily, intradaily entry prices of intra-system network use, and the capacity-based quarterly, monthly, daily, intradaily entry and exit prices of cross-system network use, can still be considered as justified in accordance with the prices approved with the decision of the Competition Authority.

5. DIFFERENCE BETWEEN THE TRANSMISSION TARIFFS TO BE APPROVED AND THE TRANSMISSION TARIFFS CURRENTLY IN EFFECT AND THE ONES ESTIMATED FOR SUBSEQUENT TARIFF PERIODS

Pursuant to the combined effect of Articles 27(4) and 26(1) of Regulation 2017/460, the decision of the national regulatory authority (the Competition Authority) to approve the prices of the gas transmission network service must contain, inter alia, the following information:

a) the difference in the level of transmission tariffs for the same type of transmission service applicable for the prevailing tariff period and for the tariff period for which the information is published;

b) the estimated difference in the level of transmission tariffs for the same type of transmission service applicable for the tariff period for which the information is published and for each tariff period within the remainder of the regulatory period.

c) at least a simplified tariff model, updated regularly, accompanied by the explanation of how to use it, enabling network users to calculate the transmission tariffs applicable for the prevailing tariff period and to estimate their possible evolution beyond such tariff period.

the difference in the level of transmission tariffs for the same type of transmission service applicable for the prevailing tariff period and for the tariff period for which the information is published is shown in tables 10, 10a and 10b below.

Table 10. Difference between Elering AS's capacity-based entry prices for intra-system network use in the current tariff period and the tariff period for which the information is published

	Intra-system network use		
	Capacity-based entry price in the current tariff period, €/MWh/day per period	**Capacity-based entry price in the tariff period for which the information is published, €/MWh/day per period**	**Change of capacity-based entry price**
Annual reserve price	142.77	142.77	0.0%
quarter (Oct to Dec)	39.48	39.48	0.0%
quarter (Jan to March)	39.05	39.05	0.0%
quarter (April to June)	39.05	39.05	0.0%
quarter (July to Sept)	39.48	39.48	0.0%
October	15.12	15.12	0.0%
November	14.63	14.63	0.0%
December	15.12	15.12	0.0%
January	15.12	15.12	0.0%
February	14.14	14.14	0.0%
March	15.12	15.12	0.0%
April	14.63	14.63	0.0%

	Intra-system network use		
	Capacity-based entry price in the current tariff period, €/MWh/day per period	**Capacity-based entry price in the tariff period for which the information is published, €/MWh/day per period**	**Change of capacity-based entry price**
May	15.12	15.12	0.0%
June	14.63	14.63	0.0%
July	15.12	15.12	0.0%
August	15.12	15.12	0.0%
September	14.63	14.63	0.0%
Day	0.59	0.59	0.0%
Intradaily	0.66	0.66	0.0%

Table 10a. Difference between Elering AS's capacity-based exit prices for intra-system network use in the current tariff period and the tariff period for which the information is published

	Intra-system network use		
	Capacity-based exit price in the current tariff period, €/MWh/day per period	**Capacity-based exit price in the tariff period for which the information is published, €/MWh/day per period**	**Change of capacity-based exit price**
Annual reserve price	0.00	0.00	0.0%
quarter (Oct to Dec)	0.00	0.00	0.0%
quarter (Jan to March)	0.00	0.00	0.0%
quarter (April to June)	0.00	0.00	0.0%
quarter (July to Sept)	0.00	0.00	0.0%
October	0.00	0.00	0.0%
November	0.00	0.00	0.0%
December	0.00	0.00	0.0%
January	0.00	0.00	0.0%
February	0.00	0.00	0.0%
March	0.00	0.00	0.0%
April	0.00	0.00	0.0%
May	0.00	0.00	0.0%
June	0.00	0.00	0.0%
July	0.00	0.00	0.0%
August	0.00	0.00	0.0%
September	0.00	0.00	0.0%
Day	7.56	0.50	-93.4%
Intradaily	7.56	0.50	-93.4%

Table 10b. Difference between Elering AS's capacity-based entry and exit prices for cross-system network use in the current tariff period and the tariff period for which the information is published

	Cross-system network use		
	Capacity-based entry and exit price in the current tariff period, €/MWh/day per period	**Capacity-based entry and exit price in the tariff period for which the information is published, €/MWh/day per period**	**Change of capacity-based entry and exit price**
Annual reserve price	142.77	142.77	0.0%
quarter (Oct to Dec)	39.48	39.48	0.0%
quarter (Jan to March)	39.05	39.05	0.0%
quarter (April to June)	39.05	39.05	0.0%
quarter (July to Sept)	39.48	39.48	0.0%
October	15.12	15.12	0.0%
November	14.63	14.63	0.0%
December	15.12	15.12	0.0%
January	15.12	15.12	0.0%
February	14.14	14.14	0.0%
March	15.12	15.12	0.0%
April	14.63	14.63	0.0%
May	15.12	15.12	0.0%
June	14.63	14.63	0.0%
July	15.12	15.12	0.0%
August	15.12	15.12	0.0%
September	14.63	14.63	0.0%
Day	0.59	0.59	0.0%
Intradaily	0.66	0.66	0.0%

The estimated differences in the level of transmission tariffs for the same type of transmission service applicable for the tariff period for which the information is published and for each tariff period within the remainder of the regulatory period are as follows (see Tables 11, 11a and 11b):

Table 11. Estimated difference between Elering AS's capacity-based entry prices of intra-system network use during the tariff period for which information has been published and for each tariff period within the remainder of the regulatory period

	Intra-system network use during the regulatory period (five years)*								
	Capacity-based entry price in the tariff period for which the information is published (366 days), €/MWh/day per period	**Capacity-based entry price for tariff period II (365 days), €/MWh/day per period**	**Change of capacity-based entry price**	**Capacity-based entry price in the tariff period III (365 days), €/MWh/day per period**	**Change of capacity-based entry price**	**Capacity-based entry price in the tariff period IV (365 days), €/MWh/day per period**	**Change of capacity-based entry price**	**Capacity-based entry price for tariff period V (366 days), €/MWh/day per period**	**Change of capacity-based entry price**
Annual reserve price	142.77	142.77	0.0%	142.77	0.0%	142.77	0.0%	142.77	0.0%
quarter (Oct to Dec)	39.48	39.58	0.3%	39.58	0.0%	39.58	0.0%	39.48	-0.3%
quarter (Jan to March)	39.05	38.72	-0.8%	38.72	0.0%	38.72	0.0%	39.05	0.9%
quarter (April to June)	39.05	39.15	0.3%	39.15	0.0%	39.15	0.0%	39.05	-0.3%
quarter (July to Sept)	39.48	39.58	0.3%	39.58	0.0%	39.58	0.0%	39.48	-0.3%
October	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
November	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
December	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
January	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
February	14.14	13.69	-3.2%	13.69	0.0%	13.69	0.0%	14.14	3.3%
March	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
April	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
May	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
June	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
July	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
August	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
September	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
Day	0.59	0.59	0.0%	0.59	0.0%	0.59	0.0%	0.59	0.0%
Intradaily	0.66	0.66	0.0%	0.66	0.0%	0.66	0.0%	0.66	0.0%

* The network service prices above apply provided that Elering AS does not need to change the prices of the network service in the case set out in Article 12(3)(b) of Regulation 2017/460 (pursuant to Article 12(3)(b) of Regulation 2017/460, the reference price is recalculated within the tariff period due to exceptional circumstances under which the non-adjustment of tariff levels would jeopardise the operation of the transmission system operator).

Table 11a. Estimated difference between Elering AS's capacity-based exit prices of intra-system network use during the tariff period for which information has been published and for each tariff period within the remainder of the regulatory period.

	Intra-system network use during the regulatory period (five years)*								
	Capacity-based exit price in the tariff period for which the information is published (366 days), €/MWh/day per period	**Capacity-based exit price for tariff period II (365 days), €/MWh/day per period**	**Change of capacity-based exit price**	**Capacity-based exit price for tariff period III (365 days), €/MWh/day per period**	**Change of capacity-based exit price**	**Capacity-based exit price for tariff period IV (365 days), €/MWh/day per period**	**Change of capacity-based exit price**	**Capacity-based exit price for tariff period V (366 days), €/MWh/day per period**	**Change of capacity-based exit price**
Annual reserve price	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
quarter (Oct to Dec)	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
quarter (Jan to March)	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
quarter (April to June)	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
quarter (July to Sept)	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
October	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
November	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
December	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
January	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
February	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
March	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
April	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
May	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
June	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
July	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
August	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
September	0.00	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Day	0.50	0.50	0.0%	0.50	0.0%	0.50	0.0%	0.50	0.0%
Intradaily	0.50	0.50	0.0%	0.50	0.0%	0.50	0.0%	0.50	0.0%

* The network service prices above apply provided that Elering AS does not need to change the prices of the network service in the case set out in Article 12(3)(b) of Regulation 2017/460 (pursuant to Article 12(3)(b) of Regulation 2017/460, the reference price is recalculated within the tariff period due to exceptional circumstances under which the non-adjustment of tariff levels would jeopardise the operation of the transmission system operator).

Table 11b. Estimated difference between Elering AS's capacity-based entry and exit prices of cross-system network use during the tariff period for which information has been published and for each tariff period within the remainder of the regulatory period.

	Cross-system network use during the regulatory period (five years)*								
	Capacity-based entry and exit price in the tariff period for which the information is published (366 days), €/MWh/day per period	**Capacity-based entry and exit price for tariff period II (365 days), €/MWh/day per period**	**Change of capacity-based entry and exit price**	**Capacity-based entry and exit price for tariff period III (365 days), €/MWh/day per period**	**Change of capacity-based entry and exit price**	**Capacity-based entry and exit price for tariff period IV (365 days), €/MWh/day per period**	**Change of capacity-based entry and exit price**	**Capacity-based entry and exit price for tariff period V (366 days), €/MWh/day per period**	**Change of capacity-based entry and exit price**
Annual reserve price	142.77	142.77	0.0%	142.77	0.0%	142.77	0.0%	142.77	0.0%
quarter (Oct to Dec)	39.48	39.58	0.3%	39.58	0.0%	39.58	0.0%	39.48	-0.3%
quarter (Jan to March)	39.05	38.72	-0.8%	38.72	0.0%	38.72	0.0%	39.05	0.9%
quarter (April to June)	39.05	39.15	0.3%	39.15	0.0%	39.15	0.0%	39.05	-0.3%
quarter (July to Sept)	39.48	39.58	0.3%	39.58	0.0%	39.58	0.0%	39.48	-0.3%
October	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
November	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
December	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
January	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
February	14.14	13.69	-3.2%	13.69	0.0%	13.69	0.0%	14.14	3.3%
March	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
April	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
May	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
June	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
July	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
August	15.12	15.16	0.3%	15.16	0.0%	15.16	0.0%	15.12	-0.3%
September	14.63	14.67	0.3%	14.67	0.0%	14.67	0.0%	14.63	-0.3%
Day	0.59	0.59	0.0%	0.59	0.0%	0.59	0.0%	0.59	0.0%
Intradaily	0.66	0.66	0.0%	0.66	0.0%	0.66	0.0%	0.66	0.0%

* The comparison of the network service prices provided does not really matter, as it can be assumed that in the next five years gas will not be transmitted from Latvia through Estonia to Russia (from the beginning of 2023, Latvia banned the purchase of gas from Russia, which is why gas does also not flow the other way, ie from Russia to Latvia).

The Competition Authority does not consider it necessary to indicate a simplified tariff formation model, according to which network users could calculate the transmission tariffs applicable during the current tariff period and assess the change in transmission tariffs after the end of such a tariff period, as Elering AS does not plan to change the prices of the network service during the regulatory period, ie for five years, after the end of each tariff period or during the tariff period, except in the case set out in Article 12(3)(b) of Regulation 2017/460 (pursuant to Article 12(3)(b) of Regulation 2017/460, the reference price is recalculated within the tariff period due to exceptional circumstances under which the non-adjustment of tariff levels would jeopardise the operation of the transmission system operator).

6. CONSULTATION REQUIREMENTS

Under the combined effect of Articles 26(1) and 27(5) of Regulation 2017/460 that, one or more consultations with regard to the reference price methodology must be carried out by the national regulatory authority or the transmission system operator, as decided by the national regulatory authority[27], in accordance with Article 26. 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 (ACER)[28] (Article 27(1) of Regulation 2017/460). Within two months following the end of the consultation referred to in Article 27(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 Article 27(2) in English (Article 27(3) of Regulation 2017/460).

Considering the above, the Competition Authority will forward this draft decision to ACER for consultation no later than 31.08.2024.

7. SUMMARY

Subsection 3 of § 23 of the Natural Gas Act sets out that the price of network services has to be established such that it ensures:

1) coverage of the necessary operating costs;
2) the making of investments to ensure security of supply and to fulfil operational and development obligations;
3) compliance with environmental requirements;
4) compliance with quality and safety requirements;
5) a return of a justified profit on the capital invested by the undertaking;
6) the price of the network service must cover the justified costs of purchasing the gas used to provide that network service.

Pursuant to subsection 3 of § 23^2 of the Natural Gas Act, the expenses included in the price must be justified, and must be based on cost efficiency and allow the undertaking to carry out the duties prescribed by law.

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[27] Pursuant to Article 3(2) of Regulation 2017/460, 'reference price methodology' means the methodology applied to the part of the transmission services revenue to be recovered from capacity-based transmission tariffs with the aim of deriving reference prices;

[28] Agency for the Cooperation of Energy Regulators

Pursuant to the combined effect of Articles 27(4) and 26(1) of Regulation 2017/460, the decision of the national regulatory authority (the Competition Authority) must 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.

The Competition Authority, having analysed the costs and profitability underlying the calculation of the prices of the network service of Elering AS, considers that they are not in conflict with the principles set out in subsection 3 of § 23 and subsection 3 of § 23^2 of the Natural Gas Act. This draft decision also includes information arising from the combined effect of Articles 27(4) and 26(1) of Regulation 2017/460 as follows:

a) the description of the proposed reference price methodology (see clauses 2.1 of this draft decision);
b) the indicative information set out in Article 30(1)(a) (see clauses 2.3, 2.4 and 2.5 of this draft decision);
c) there are no proposed adjustments for capacity-based transmission tariffs pursuant to Article 9 since Elering AS does not adjust the transmission tariffs;
d) the indicative reference prices subject to consultation; (see clause 4, p 27 of this draft decision);
e) the results and details of the components for the cost allocation assessments set out in Article 5 (see clause 3.2 of this draft decision);
f) the assessment of the proposed reference price methodology in accordance with Article 7 (see clauses 2.1 of this draft decision);
g) 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) (see clauses 2.2 of this draft decision);
h) the indicative information set out in Article 30(1)(b)(i), (iv), (v) (see clauses 3.1 and 3.3 of this draft decision);
i) information on commodity-based transmission tariffs is not applicable as Elering AS does not apply such transmission tariffs;
j) information on non-transmission services is not applicable as Elering AS does not plan to apply non-transmission services to network users;
k) the indicative information set out in Article 30(2) (see clause 5 of this draft decision);
l) information if the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity is not applicable as Elering AS is not considering to offer a fixed payable price approach under a price cap regime for existing capacity.

Article 30(1) of Regulation 2017/460 sets out that the information provided in paragraphs 1 to 3 of Article 30 shall be published before the tariff period in accordance with the requirements set out in Articles 31 and 32 by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority.

In view of the above and adhering to subsections 2 to 5 of § 23 and clause 4 of subsection 3 of § 37 of the Natural Gas Act, Regulation 2017/460 and the methodology, the Competition Authority considers the prices of the network service of Elering AS and the multipliers for calculating the reserve price to be justified as follows:

1) Network service prices of Elering AS

	Intra-system network use		Cross-system network use	
	Capacity-based entry price, €/MWh/ day/per period	**Capacity-based exit price, €/MWh/ day/per period**	**Capacity-based entry price, €/MWh/ day/per period**	**Capacity-based exit price, €/MWh/ day/per period**
Gas year (Oct to Sept)	142.77	0.00	142.77	142.77
Year (Jan–Sept)	106.88	0.00	106.88	106.88
First quarter (Oct to Dec)	39.48	0.00	39.48	39.48
Second quarter (Jan to March)	39.05	0.00	39.05	39.05
Third quarter (April to June)	39.05	0.00	39.05	39.05
Fourth quarter (July to Sept)	39.48	0.00	39.48	39.48
October	15.12	0.00	15.12	15.12
November	14.63	0.00	14.63	14.63
December	15.12	0.00	15.12	15.12
January	15.12	0.00	15.12	15.12
February	14.14	0.00	14.14	14.14
March	15.12	0.00	15.12	15.12
April	14.63	0.00	14.63	14.63
May	15.12	0.00	15.12	15.12
June	14.63	0.00	14.63	14.63
July	15.12	0.00	15.12	15.12
August	15.12	0.00	15.12	15.12
September	14.63	0.00	14.63	14.63
Day	0.59	0.50	0.59	0.59
Intradaily	0.66	0.50	0.66	0.66

2) Elering AS reserve price calculation multipliers

Capacity product	**Capacity product multiplier**
Annual	1
Quarterly	1.1
Monthly	1.25
Daily	1.5
Intradaily	1.7