

Impact of Lithuanian Natural Gas legislation on development in energy industry

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Government's Lithuania priorities

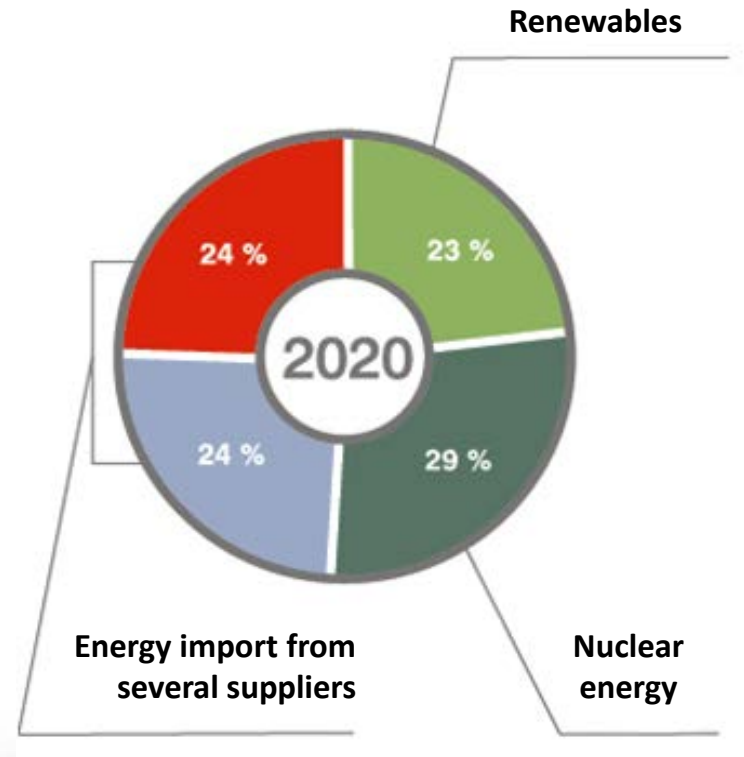
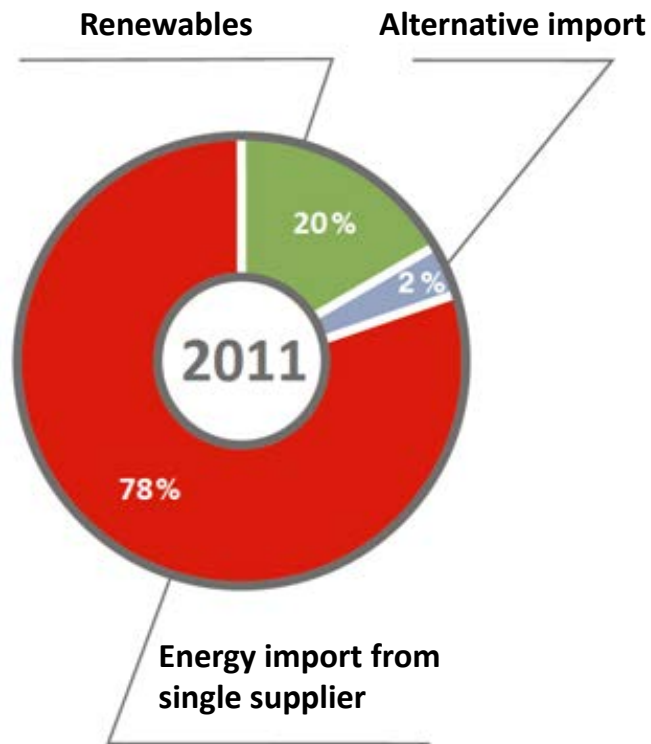
In the Government's programme for 2012-2016 the following core priorities in the energy sector are foreseen:

- Independent provision of energy resources;
- Continuation and completion of strategic energy projects in electric power and gas fields;
- Full synchronization of Lithuania's electric power system with the EU energy system and integration of the gas supply system into the EU member states' market.

Project milestones:

- Secured supply of alternative and competitive energy sources
- Development of local production capacities
- Interconnection of energy networks and systems with the EU

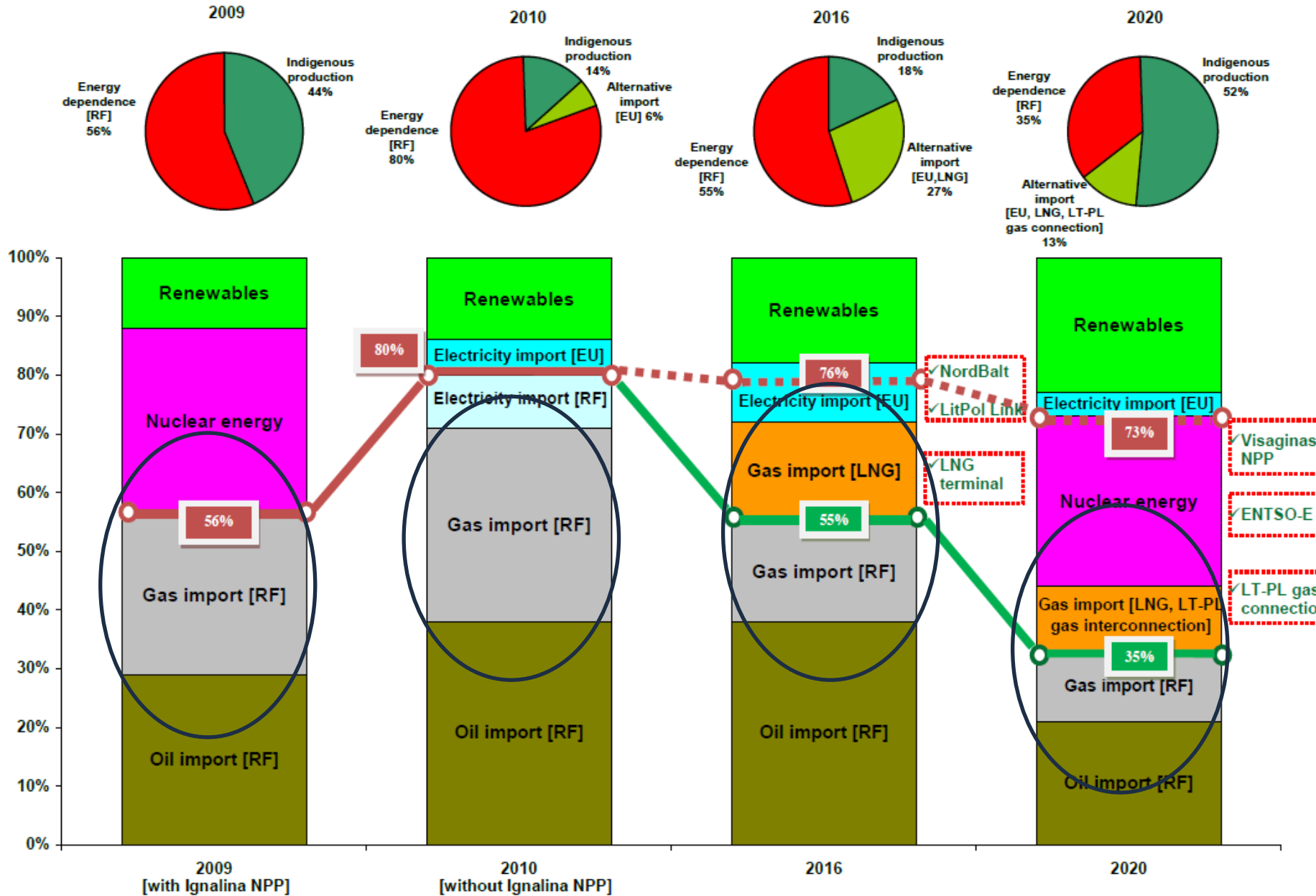
Structure of Lithuania's Energy Sources



What does such dependency mean?

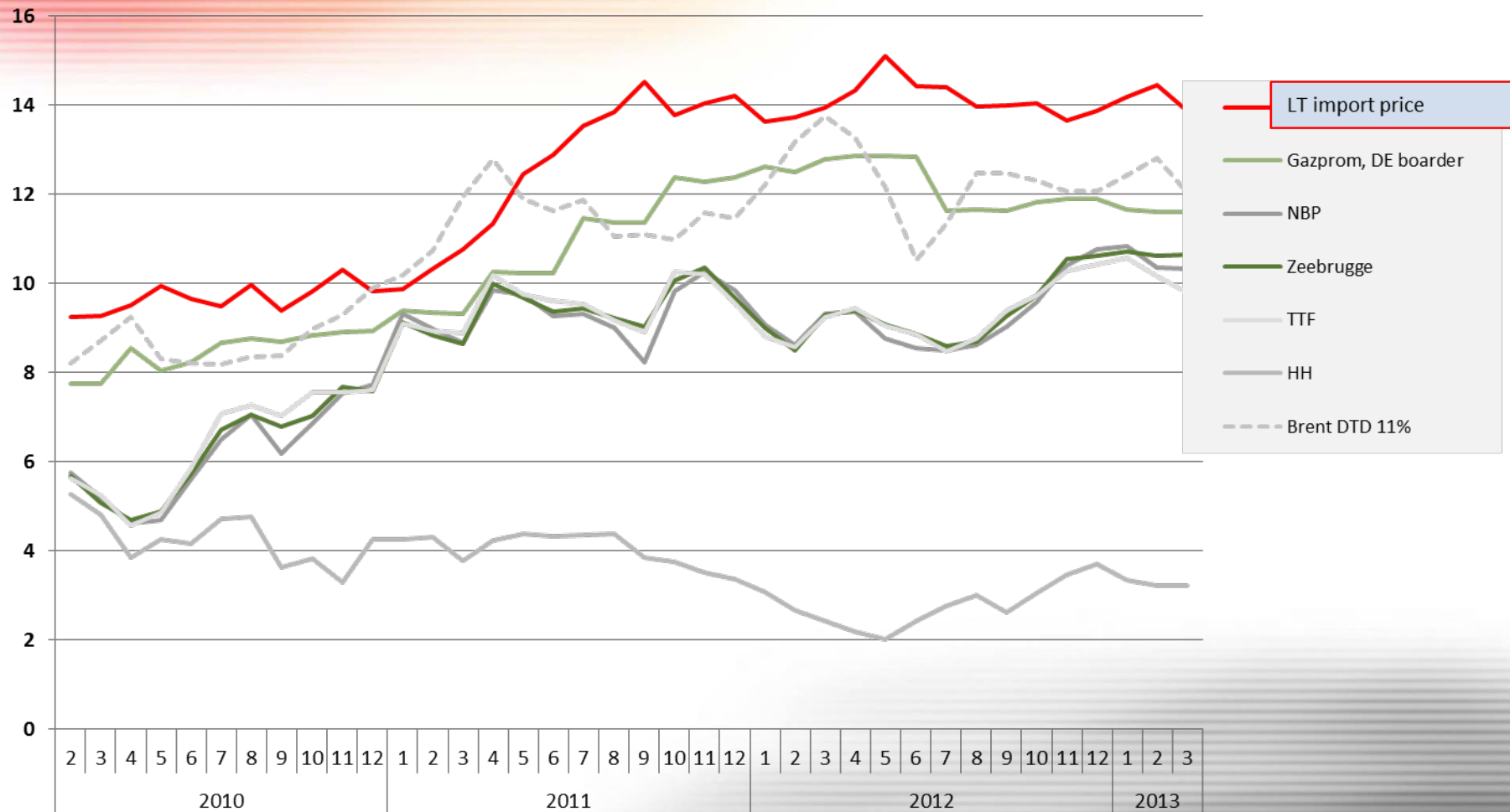
- **Unreliable supply**
- **Monopolistic price**

LITHUANIAN PRIMARY ENERGY-MIX: REDUCING ENERGY DEPENDENCE ON SINGLE EXTERNAL ENERGY SUPPLIER

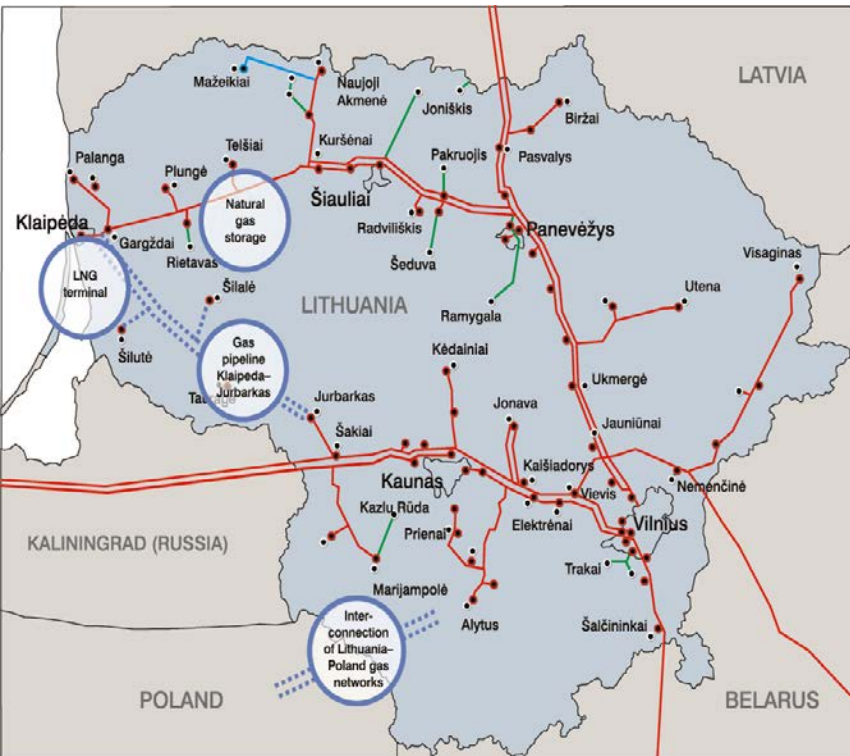


\$/MMbtu

Index of the gas price



GAS SUPPLY INFRASTRUCTURE



GOALS

- Establishment of the market
- Exit strategy from Gazprom pricing policy
- Alternative supply
- Competitive price

APPROACH:

- Implementation of the EU third energy package directive full ownership unbundling by separation of gas supply from gas transmission
- Creating all necessary conditions for the market

PROJECTS:

- LNG terminal as alternative supply
- Interconnection of Lithuania–Poland gas networks
- Underground Natural Gas Storage in Syderiai

The Law on Natural Gas and the Law on Implementation of the Law on Natural Gas, 2011

- To form a competitive, economically sound and reliable market;
- To ensure an opportunity for consumers to freely choose the supplier of natural gas, guarantee effective protection of rights lawful interests of consumers and market players.
- To implement the first and principal model of unbundling natural gas transmission from activities of production and supply;
- To designate authority an application to install a new major natural gas system – equipment which substantially increases the capabilities of a natural gas system or enables the development of new natural gas supply sources, liquefied gas equipment, storage facilities or upstream pipeline.
- To solve the market problems and minimises potential negative consequences arising from isolation of a market and the market might of the only real supplier predetermined by undiversified supply sources;
- To carry out in parallel with other strategic projects – building of the ring system of transmission, connection to West European gas transmission network and construction of a liquefied natural gas terminal.

Stronger powers and independence of National regulators

- **NRA must be legally distinct and functionally independent from any private or public entity.**
- **NRA must have a separate annual budget and adequate human and financial resources.**
- **NRA must have the power:**
 - **to fix or approve the transmission and distribution tariffs or their methodology;**
 - **to enforce the consumer protection provisions;**
 - **to issue binding decisions on electricity undertakings;**
 - **to impose effective, proportionate and dissuasive penalties.**

Ownership unbundling

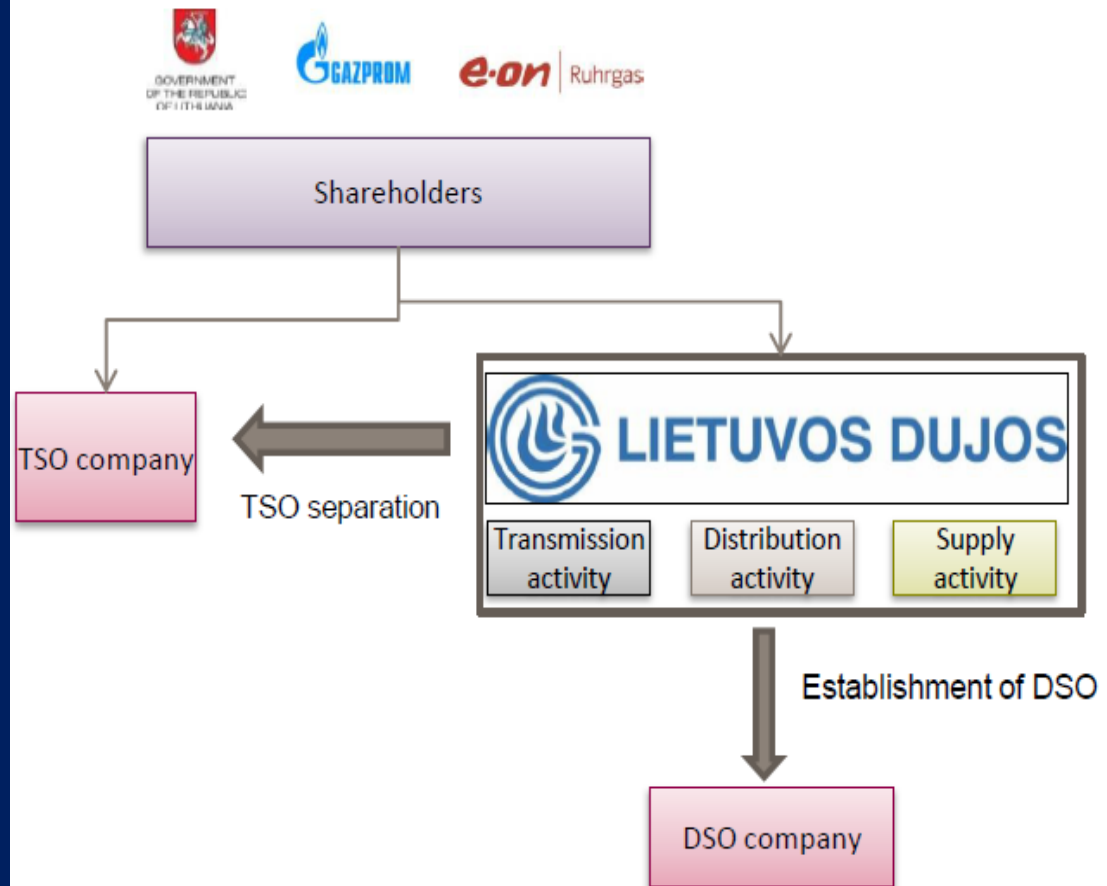
Supplier

1. No control
2. Only minority shareholding
3. Dividends allowed
4. No voting rights
5. No appointment of administrators

TSO
Owns network
Manages network

Reorganization plan of AB Lietuvos dujos

- The plan of implementation presented in May 2012
- The Terms of Reorganization approved in January 2013
- **31 July, 2013 The legal and functional separation of TSO completed**
- Before 31 October, 2014
 - Ownership unbundling must be finally completed
 - Control of the TSO must be transferred to complying entities



Government's negotiations with Gazprom

- **Gazprom sells gas to German, the UK, Latvian and Estonian markets at much cheaper prices.**
- **Technical and the commercial type of consultations with the aim to find a common interest of the mutual solutions.**
- **Lithuanian side proposed its way of the solutions including new proposals for the new gas price formula and supply volumes.**
- **Despite all our efforts, the gas price for Lithuania is significantly higher compared with our neighbors or market prices. We extremely overpay for the gas every day.**
- **„Lietuvos dujos“, which is losing its customers because of such prices and gas consumption is being significantly reduced.**

European Commission's investigation into Gazprom's potentially anti – competitive practice



We fully respect Lithuania's decision on the unbundling method, and we are ready to support Lithuania in ownership unbundling,"

J. M. Barroso,

According to Brussels, Lithuania might be an example for the rest of Europe on how to change energy situation for the benefit of consumers.

We appreciate your choice and efforts in implementing the most effective model for unbundling the property of the transmission system operator.

G. Oettinger

The investigation that should ultimately lead to a significant improvement in the conditions of competition in the European gas sector by appropriately curbing Gazprom's anticompetitive practices for the benefit of millions of European consumers.

A. Butkevicius

European Commission's investigation into Gazprom's potentially anti – competitive practice

- Article 9 commitments procedure should be undertaken only following a balanced and careful consideration.
- Commission be certain that settlement is adequate means to deal with Gazprom's abusive practices,
- Fair pricing.
- Alternative suppliers' access to the respective Member States', including Lithuania's, market is gas swap transactions

Energy island! How long ?

- No gas interconnections with EU
- No gas market

itsog

network
transmission system operators



Key tendencies in the Baltic natural gas market

- **Strategic projects of the infrastructure developments – LNG terminals, pipelines, storages;**
- **Diversification of supply resources – reliable long term suppliers ;**
- **Security of supply – national or regional gas traders;**
- **Creation of the competitive market- stable consumption with the long terms vision.**

Thank you for your attention !



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