



12th Baltic Electricity Market Mini-Forum
3rd June 2011

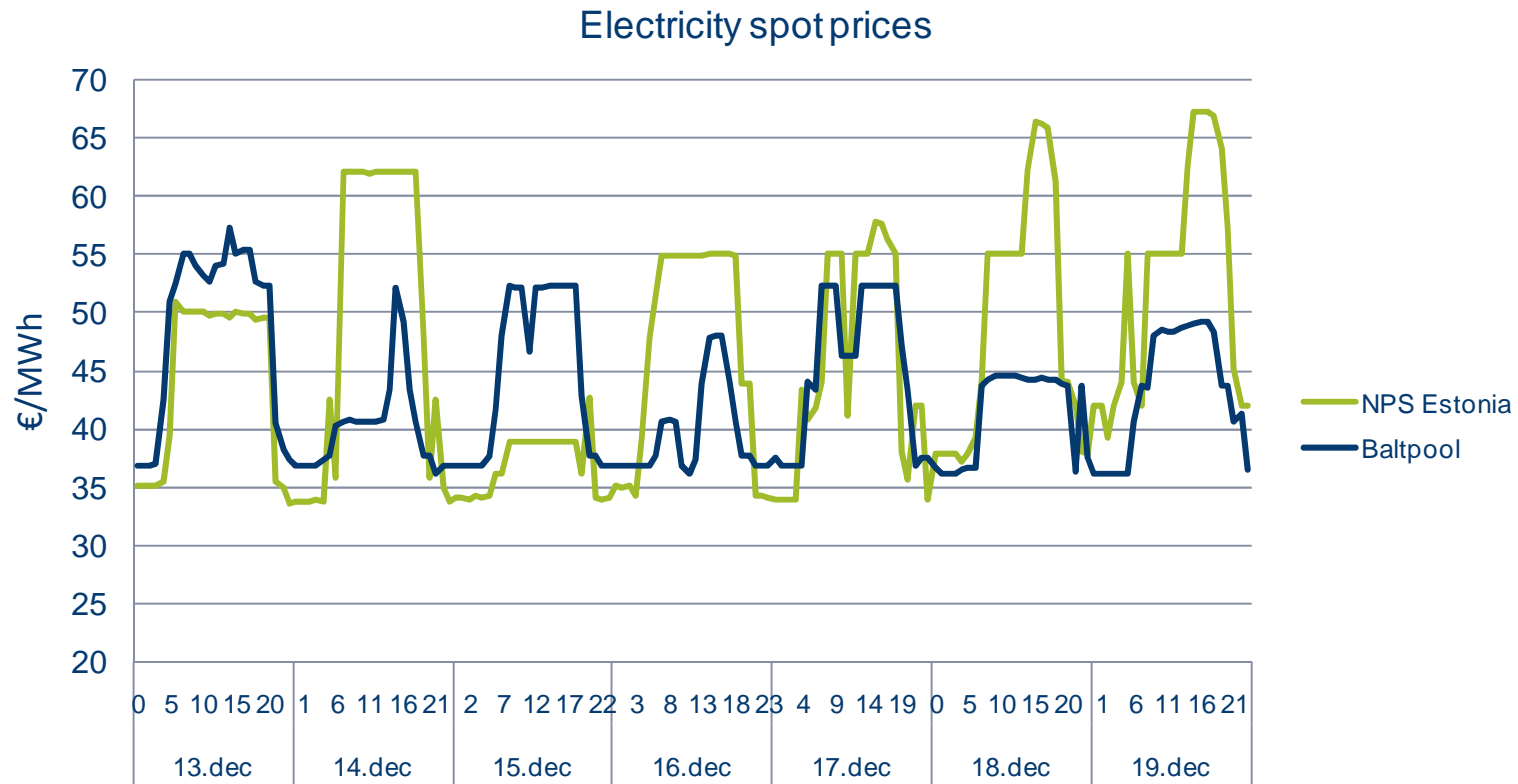
Evaluation of the current Baltic market model

Gatis Junghāns
AS Latvenergo

Electricity supply conditions in Baltics in 2010 Q4

- No tight supply balance in Baltics, import capacities not congested (expect no price spikes)
- Low import, ~90% produced in Baltics and export to Finland, least market concentration level period
- No large power plant disconnections having potential to create tight supply balance (expect no significant price volatility)
- No transmission congestions between Baltic states (expect one price)

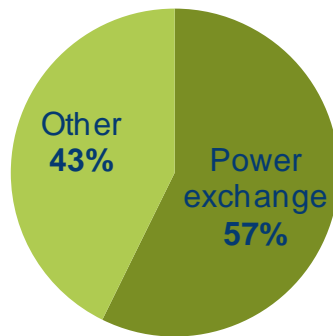
Power exchange prices struggle to reflect fundamental conditions



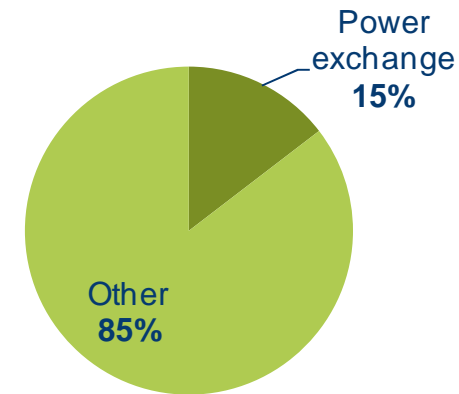
Quality of current market model is not encouraging new market entrants, competition, creation of financial market.

Real market share of power exchanges in Baltics is much smaller than declared (2010 Q4)

Declared turnover in Baltpool and NPS EE (2010 Q4)



Real turnover of Baltpool and NPS EE *

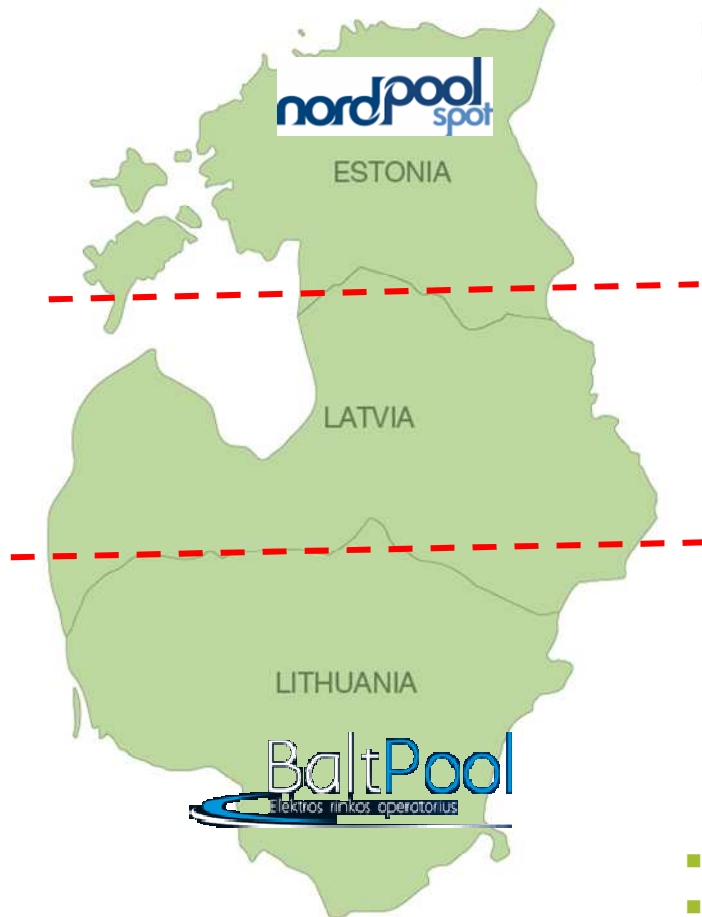


* For Baltpool only price forming bids are considered. For NPS EE volume traded via Estlink is excluded.

Why turnover in Baltic power exchanges is not growing?

- The two PX market model divide liquidity;
- Cross-border trade restrictions within Baltics;
- Cross-border deliveries between Baltic states can be supplied avoiding trading in power exchange;
- Import from non-EU countries can be made without trading the electricity in power exchange;

Baltic electricity market is FRAGMENTED



- 17 registered PX participants
- 1 dominant player (Eesti Energia);

Cross-border trade between Baltic states is hindered:

- Estonian and Lithuanian power exchanges not coupled;
- Different capacity allocation methods on different borders;
- Unequal access to (EE-LV) transmission capacity
- Restrictive scheduling conditions (imbalance risk)
- No intra-day market in Lithuania;
- Physical congestion on EE-LV border;

Latvian market players can trade in both Baltpool and NPS EE via special order.

- 26 registered participants;
- 2 dominant players (80% of turnover) – Lietuvos Energija and Inter RAO Lietuva;

Two power exchange model has not brought necessary market efficiency.

Latvenergo's position about urgent steps forward

- Establish Latvian and Lithuanian NPS price areas
 - asap
 - Simultaneously
- Cross-border deliveries within non-EU countries as well as between Baltic countries should be traded in PX only.