

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

Latest developments in the Baltic electricity markets

From Problems towards Solutions

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General situation in the Baltic electricity market

- From legal point of view Baltic countries' electricity markets are still functioning like three separate entities;
- EU climate and energy policy objectives and ageing generation capacities require changes in current power generation portfolios and construction of new power generation capacities;
- Large-scale base-load power plants (>400 MW) can be built only if investors believe in creation of truly regional market based on fully harmonised legislation;
- Unprecedented uncertainty in long term energy policy measures on regional level – there are plans but we are missing the action;
- As regards our energy independence there is a widening understanding on political level that we are standing on “burning platform” – measures for avoiding unfair competition from third countries are needed



Plenty of worrisome signals in the air

- Establishment of common Baltic electricity market during 2011 on the basis of NPS (as agreed by Baltic Prime Ministers in Riga last September) has obviously become unachievable;
- There are plans and intentions of certain TSOs in the Baltic area to reduce trading possibilities between the Baltic countries;
- Measures which could mitigate the threat from third countries electricity imports to sustainability of large-scale base-load power plant projects in the Baltic countries (Visaginas nuclear power plant) are not being prepared;
- Emerged problems are not properly addressed as they are of very technical nature and regulatory/political guidance is weak or missing altogether;
- Development of regional electricity market is being undermined as national interests clearly prevail over regional ones;



About intensions of limiting trading possibilities between Baltic countries (1)

- On February 9, 2010 EE sent a Memorandum (on application of the N-x principle in transmission capacity planning in the Baltic countries) to Energy Ministries and Regulators of the Baltic countries;
- The Memorandum served as a response to the initiative of certain Baltic TSOs to implement in the Baltic countries N-1+N-1 principle in transmission capacity planning starting from 2011;
- Reasons why EE has put forward this Memorandum:
 - * currently applied N-1 principle guarantees the requirements of security of supply foreseen by respective legislation;
 - * implementation of N-1+N-1 principle would decrease the transmission capacity on EST-LV border by up to 550 MW (in comparison to N-1);
 - * according to EU legislation the application of the N-x principle is allowed only after the counter-trade measures have been exhausted or in case counter-trade measures can not be applied;
 - * proven costs of counter-trade measures on EST-LV-Pskov cross-section was **10 000 EUR** last year, at the same time Estonian and Latvian TSOs earned from transmission capacity auctions on EST-LV border **433 473 EUR**



About intensions of limiting trading possibilities between Baltic countries (2)

EE agrees that various aspects which were highlighted in EE's Memorandum can be argued but it won't change the conclusions of the Memorandum:

- implementation of N-1+N-1 principle would lower transmission capacities and increase the threat of congestion on interconnections between the Baltic countries and by this endanger the integration of the region;
- the main beneficiaries of this policy step would be Baltic TSOs. By applying N-1+N-1 principle instead of using counter-trade measures Baltic TSOs would artificially increase the congestion on Baltic interconnections and thereby making the auctions for transmission capacities more profitable for themselves;
- implementation of N-1+N-1 principle without sufficient reasoning allows us to claim that this step is in a breach with the EU law. EE is prepared to bring this issue on European level (ACER) if satisfactory compromise can't be found on 3B level.



About intensions of limiting trading possibilities between Baltic countries (3)

- EE sees that TSOs of the Baltic countries need to improve their flexibility and start to use the measures which are being used by TSOs in Northern countries;
- As long as costs related to application of counter-trade measures are not becoming visible in balance sheets of Baltic TSOs, EE will keep claiming that the policies applied by Baltic TSOs in transmission capacity planning are resulting in increased costs for our societies and increased revenues for TSOs;
- Practices of certain TSOs enable us to ask whether we actually need any new interconnections between Latvia and Estonia as long as current capacities are not being fully used;
- We are very much interested to hear substantial views of the Baltic regulators on these very important matters.



About standing on the “burning platform” (1)

- Baltic countries need new power generation capacities but nobody will invest into those capacities unless they are not supported by government subsidies or the threat from third country electricity imports will be mitigated on regional level;
- The probability that Inter RAO will start to burn money and export cheap electricity to the Baltic markets is very low. But they are capable to scare off by their rhetoric any meaningful investor who is planning to invest into Baltic power sector (especially large-scale non-subsidised projects);
- This information is based on discussions with large energy companies which have considered Baltic countries as an investment opportunity;
- EE is currently evaluating whether Visaginas new nuclear project can be qualified as a project which would enhance Estonia's security of supply. This is time critical issue and if we will not get needed assurances EE will not participate in this project
- What we need is the common market, which is well integrated and protected from unfair competition



About standing on the “burning platform” (2)

Creation of the common market, which is well integrated and protected from unfair competition requires first of all the following changes in the mindset and policy steps to be taken:

- The Baltic countries, and especially our TSOs, need to start to think and act in accordance with the context of a common Baltic electricity market. Today national interests clearly prevail over regional ones;
- All Baltic countries need to take over common market platform. Estonia already introduced NPS platform and is hoping that Latvia and Lithuania will follow the same path as soon as possible;
- Baltic TSOs need to start independently (from Russian and Belorussian neighbours) allocate transmission capacities on the borders of the Baltic countries, at the same time operability of North-Western grid system of Russia shall be kept in tact;
- Electricity imports from third countries can be allowed to enter common Baltic electricity market via power exchange only in order to put all market participants on equal footing and eliminating any possible manipulations of the common Baltic electricity market by non-EU countries;



The question of the Day

Since when Lithuania, Latvia and Estonia started to create Common Baltic Electricity Market ?



More than 10 years of disappointing performance

1. Estonia, Latvia and Lithuania decided in February 2000 to create a Common Baltic Electricity Market (Progress report of the EU Commission, November 2000)
2. The Prime Ministers of Lithuania, Latvia and Estonia on 26 June 2002 signed a resolution in Visaginas, Lithuania, emphasizing the importance of the establishment of the Common Baltic Electricity Market
3. On November 4, 2002, the three Baltic Energy Regulators signed a Memorandum concerning creation of the Common Baltic Electricity Market

The purpose of this Memorandum is to harmonise the principles of the electricity sector regulation in the common Baltic electricity market. The Signatories, [Energy Market Inspectorate of the Republic of Estonia](#), [Public Service Regulatory Commission of the Republic of Latvia](#) and [State Control Commission for Prices and Energy of the Republic of Lithuania](#), will seek to harmonise the electricity pricing principles in the market area, to ensure the third party access, to enable the eligible customers to contract with any producer, to make the fair allocation of the cost among the customers, to control the activities of the natural monopolies due to the possible abuses, to encourage the justified investments and to avoid other obstacles for the competition in the market area.



Conclusions: from problems towards solutions

- The overall picture on the Baltic electricity markets has not changed much since our last meeting. Markets remain fragmented. “Good old problems” still persist:
 - spot markets not connected
 - capacity allocation principles not agreed
 - trading rules with non-EU countries not harmonized
- Establishing common Baltic electricity market and especially the measures to mitigate the threat from third countries electricity imports is a time critical issue which needs to be handled urgently. Message to the Regulators:
 - please focus on providing solutions during 2011
 - all decisions beyond 1.1.2012 may occur too late
- The Baltic market participants are preparing the project which is the largest and costliest in our modern history. Precondition for implementation of this project is creation of common Baltic electricity market, please don't let it fail by your inactivity



Thank you for your attention

Any questions?

