

 

**Conclusions of the 16th Baltic Electricity Market Mini-Forum**

**8th of November 2013, Tallinn**

1. The 16th Baltic Electricity Market Mini-Forum took place in Tallinn, on 8th of November 2013. It was organised by the Estonian Competition Authority.
2. Representatives of the regulatory authorities of the three Baltic States and Finland, Baltic ministries, Baltic TSOs and Finland TSO, Nord Pool Spot, Nasdaq OMX and energy companies from Estonia, Latvia and Lithuania participated in the Mini-Forum.
3. The 16th Baltic Mini-Forum covered the following issues of special interest:

* Regulatory updates on latest developments in Estonia, Latvia, Lithuania and Finland;
* Congestion management methods in Nordic countries, lessons learned;
* Congestion management methods in the Baltic States, current situation, future developments;
* WG findings on the cooperation between the Baltic States NRAs and Finland NRA on PCIs;
* Developments on the Baltic electricity market: supplier, traders’ perspective;
* Regional Implementation of pan-European target models - On the way towards the Internal Energy Market;
* Today’s situation and future developments on the Baltic markets.

1. The Estonian regulator pointed out the issues related to Estonia and Latvia interconnection. Estonia and Latvia interconnection has problems with transmission capacity, clear signals on congestion. If Estlink 2 in operation at the latest by January 2014, there is going to be more pressure to the congestion on Estonian-Latvian border. Estonian regulator stressed out that TSOs shall introduce long-term hedging tools for congestion management. Since April 2013 the shares of Eesti Energia AS and Elering AS are under different ministries. Eesti Energia AS is transferred under Ministry of Finance. Elering AS is transferred under Ministry of Economic Affairs and Communications. Estonian regulator received the positive opinion by EU Commission about TSO’s certification, the certification procedure to be completed by January 2014. There is a high market share of Eesti Energia AS on wholesale and supply. Market share of Eesti Energia AS as balance provider represents 70%. All 33 Distribution System Operators are suppliers of Public Service Obligation. There are 15 (10 active) non Public System Operator suppliers. From 01.01.2013 renewable energy charge for consumers is 0,87 €s/kWh, i.e. reduced from 0,97 €s/kWh in 2012. The new subsidy scheme is still under debate at the Parliament - the political target is to reduce the tax burden on customers.
2. In Latvia, from 1st of April 2014, the retail electricity market will be fully opened (removal of accepted tariffs for households). At the moment the retail electricity market is opened by 75%, 25% represent households that have accepted tariffs. The amendments to the Electricity Market Law enable the Latvian regulator to impose sanctions on market players up to 10% from annual turnover. On the 7th November 2013 the Parliament has adopted amendments to the Electricity Market Law that includes changes in the support to electricity produced from renewable energy resources and effective cogeneration as well as last stage of market opening (full removal of accepted tariffs) and to the Law on Taxation of energy subsidies. The related secondary and complementary legislation will be effective by April 2014. The Latvian regulator presented results of preliminary investigation of price spikes in Latvia, Lithuania and Estonia price area on 25th of June - no breach of REMIT rules by market participants in NPS Latvia price area.
3. The Lithuanian Regulator (NCC) presented an overview of foreseen amendments to legislation on electricity, renewables and energy. On 27th August 2013, NCC gave its final decision about Lithuanian TSO ownership unbundling (Litgrid AB is under the Ministry of Energy, and “Lietuvos energija”, UAB – under the Ministry of Finance). In Lithuania, major projects are: synchronous interconnection with the Continental European networks, to be commissioned in 2022, Lithuania part of interconnection between Alytus (LT) and Lithuania/Poland border – 500MW in 2016 (+ 500MW in 2022), capacity increase of hydro-pumped storage in Lithuania – Kruonis – 225 MW (2016) and Lithuania – Sweden interconnection 700MW (2016). In Lithuania renewables are auctioned with different technologies and different installed capacities. In NCC are ongoing studies about Long-Run Average Incremental Cost model for RAB optimization and valuation, report on network and power system reliability and cost audit of the main generator.
4. The Finnish Regulator (EMV) presented latest developments in the EU and Finland. Price Coupling of Regions (PCR) project will go live soon. Intraday project (XBID) is progressing slowly. Certification of Finnish TSO Fingrid is moving ahead. Decision has sent to the EU Commission.
5. The representative of Finnish TSO Fingrid pointed out key elements of congestion management in Nordic countries. No congestion for trade inside a bidding area and implicit auction between Nordic countries bidding areas. Also, TSOs give the cross border capacity to Nord Pool Spot for allocation in Elspot.
6. The representative from Estonian TSO Elering gave a common presentation on behalf of Latvian TSO AST and Lithuanian TSO Litgrid. The presentation analysed options to hedge the price area risks. Baltic TSOs made a proposal regarding the Estonia and Latvia interconnection: Physical Transmission Rights (PTR) partial auction on the border between Estonia and Latvia (EE-LV) with Use-It-or-Sell-It (UIOSI) principle, including an obligation to sell back to NPS. PTR auction conditions include 20% of Net Transmission Capacity (NTC), monthly auction or one auction for the 5 months product. PTRs are temporary solution (from January to May 2014). Available Transmission Capacity (ATC) with 3rd countries should be calculated guaranteeing the competition in Latvia and Lithuania. As an option, PTR partial auction on the border between Lithuania and Belorussia could be introduced ensuring minimum cross-border capacity. Possible effect on the ATC on EE-LV border should be minimized. Future direction is towards virtual bidding area and flow-based solution. The Baltic TSOs also proposed one virtual bidding zone for trading with the 3rd countries, and the allocation is going to be managed in cooperation between TSOs and Nord Pool Spot. Baltic TSOs will order a study about Baltic electricity market setup.
7. The representative of Nasdaq OMX gave an overview about instrument of electricity price area differential (EPAD), which is launched in the Nordic market, and new hedging tool for the Baltic market called EPAD Combo. EPAD Combos can be used as FTRs (obligations) between two different price areas. The EPAD Combo obligation will be settled against the price difference regardless of the flow in the right or wrong direction. By selling an EPAD Combo in one bidding area and buying an EPAD Combo in another bidding area, a hedging tool called Financial Transmission Right (FTR) is created. The amounts of contracts are not limited to the physical transmission capacity.
8. The representative from Latvian regulator gave a common presentation on behalf of Estonian regulator and Lithuanian regulator about the Projects of Common Interest (PCIs). The Latvian regulator gave an overview of the Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure (Article 12). The electricity PCIs in the Baltic States were listed. Also, the Baltic regulators chose and agreed on coordinating NRA for each PCI.
9. Eesti Energia AS representative pointed out that TSOs should use an adequate methodology for measuring congestion on Estonian-Latvian border. Also, Eesti Energia AS stressed the lack of liquid financial electricity market instruments in the Baltic States. Eesti Energia AS stated that future participation in the Baltic electricity market is fully dependent from the structure and liquidity of hedging instruments, which will be offered to the market participants.
10. AS Latvenergo representative gave comments regarding the transmission auction design in the Baltics. Transmission capacity should be auctioned 2 years ahead. Most of consumers prefer fixed price contracts with 6-24 months term. Most of NTC should be auctioned with quarterly EPAD Combos (or FTRs). Monthly products could be used to sell residual NTC. Auctions should be held continuously as a minimum each month. Continuous auctions would improve liquidity and would correspond to retail market needs (consumers are being contracted throughout the year). From December 2013, TSOs should start auctioning Q1, Q2, Q3, Q4 PTRs for 2014. AS Latvenergo pointed out that auctioning PTRs of only 5 months is ineffective, because most of consumer contracts are 6 to 12 months long.
11. ACER representative gave an overview of the implementation of the EU target models in the Baltic States. ACER pointed out the lack of long-term hedging opportunities in the Baltic States. According to the Cross-Regional Roadmaps NRAs should have been made a decision on long-term products before the market coupling. Also, ACER underlined that an absence of NRAs decision on long-term tools is not in line with Point 2.8 of Annex I to Regulation (EC) No 714/2009. ACER explained that the implementation of transmission rights has to be in line with the on-going harmonization process and the draft Network Code on Forward Capacity Allocation (FCA NC).
12. Representative of Nord Pool Spot AS (NPS) gave an overview of 2013 market development in Baltics. In 2013 key milestones in Baltics is the launch of new UMM platform in May, Latvia Elspot price area opening in June and Latvia/Lithuania Elbas market opening in December 2013. It was pointed out that further challenges related to the opening of markets and harmonizing of rules should continue as agreed in BEMIP. It was mentioned that the current set-up of Latvian electricity excise tax doesn't allow Latvian renewable energy to be traded through power exchange. Other issues of particular attention are 3rd countries border handling mechanism principles, common balancing energy price calculation. NPS also gave information about Price Coupling of Regions (PCR) project.
13. The representative of Ministry of Economic Affairs and Communication of the Republic of Estonia informed about the main conclusions of the BEMIP High Level Group final report, which were electricity market integration, electricity interconnections and generation and gas internal market and infrastructure.
14. Closing the meeting, the forum participants identified several priorities and made proposals for further work:

* Baltic TSO’s made a common proposal about the transmission rights on Estonian and Latvian border and introduction of set transmission capacity on Lithuania–Belorussia border;
* Baltic traders stressed out the lack of financial hedging instruments in the Baltic States;
* NPS indicated further challenges regarding 3rd countries border handling mechanism principles, harmonized trading rules in the Baltics according to BEMIP and Latvian electricity excise tax;
* The Ministry of Economic Affairs and Communication of the Republic of Estonia pointed out the fulfilment the BEMIP plan towards the integrated electricity market in the Baltic Sea region;
* Baltic NRAs will continue close cooperation presenting PCIs to ACER; lead NRAs were defined for each PCI;
* Baltic NRAs´ will address Baltic TSOs with a common letter and common proposal about the congestion management opportunities in the Baltics.

1. The next Electricity Market Mini-Forum will be organised by the Latvian regulator in May 2014.

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