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National
Commission
for Energy
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Conclusions of the 17th Baltic Electricity Market Forum

6 June 2014, Jurmala, Latvia

1. The 17th Baltic Electricity Market Forum took place in Jurmala, on 6 June 2014. It was organised by the Public Utilities Commission of Latvia.
2. Representatives of the regulatory authorities (NRAs) of the three Baltic States and Finland, ministries, TSOs, DSO, energy companies and power exchanges Nord Pool Spot (NPS), as well as energy experts and European Agency for cooperation of energy regulators (ACER) participated in the Forum.
3. The Forum covered the following issues of special interest:
 - 3.1. Regulatory updates on the latest developments in Estonia, Latvia, Lithuania and Finland;
 - 3.2. TSOs' Report on progress of work of TSOs Working Group on common coordinated cross-border CC&CA;
 - 3.3. Results of consultation with market participants on the implementation of risk hedging financial instruments for cross-border trade within the Baltic States, as well as an overview on PTR-limited results and cooperation with NASDAQ OMX;
 - 3.4. Update on the ongoing infrastructure projects;
 - 3.5. Questions regarding the implementation of REMIT;
 - 3.6. Electricity market update in Latvia from DSO's perspective;
 - 3.7. Update from Nord Pool Spot;
 - 3.8. Traders' views and proposals on the electricity market functioning: use of NASDAQ OMX products and other;
 - 3.9. Baltic TSOs' Working group's presentations on the Baltic common electricity market monitoring rules and market based congestion management rules/capacity allocation mechanism for Estonian/Latvian interconnection.
4. Infrastructure projects aim the integration of the Baltic electricity market with the European electricity market. Therefore, sufficient interconnections to the grids of Finland, Sweden and Poland as well as integration of the regional Baltic market with the Nordic electricity market are essential. The Baltic NRAs have agreed on and sent to ACER the project of common interest (PCI) of Estonia-Latvia 3rd interconnection. This is the most congested transmission corridor within the Baltic States; therefore the new power line of 330 kV is essential increasing the grid capacity by 600 MW and thus removing the congestion on that border at the earliest possible timeline. The interconnection of Lithuanian and Polish transmission grids LitPol Link, implemented jointly by Lithuanian and Polish TSOs, has obtained a status of PCI. The first stage of the project will be followed by building new back-to-back converter station and strengthening internal high

voltage transmission grids in Poland and Lithuania. The commissioning of 500 MW interconnection is foreseen in 2015, and another 500 MW in 2020. Another important strategic infrastructure project is the Lithuanian-Swedish interconnection NordBalt. NordBalt development is proceeding in accordance to plan. The transmission line will be 450 km long with 700 MW transfer capacity and will be in operation by the end of 2015; the NordBalt related internal line of 89 km in Lithuania will be ready for testing in 2014. The reconstruction of existing 110 kV transmission network loop in the Western part of Latvia “Kurzeme Link” will increase transmission capacity and voltage level to 330 kV. The 3rd stage of Kurzeme Link was approved by Latvian NRA as PCI and sent to ACER, the commissioning of the project is planned till the end of 2018. The benefit will be increased power supply reliability in Kurzeme region that will result in removed limitations for power demand, connection of new powerful consumers and producers, providing Latvia – Estonia and Lithuania - Sweden interconnection efficiency in line with extension of power trade between Baltic Sea region countries.

5. The retail electricity market in Latvia indicates a growing interest from customers about new and customized offers. DSO’s main focus is to energy efficiency, synergy of innovative solutions between IT and providing electricity, thus contributing to the safety and energy security of the State.
6. The NPS regular update of Baltic market gave an overview of NPS members (22) and traded Elspot volumes (18,7 TWh) in 2013, which is 84% of consumption. It touched upon price differences vs PTRs on EE-LV as from the 1st January 2014, as well as price comparison and data on congestions on EE-LV interconnection in February 2014. Another issue was the current Nordic-Baltic market setup, which is influenced by Russian Federation trade. It was underlined with regard to the 3rd countries trade that any changes on the setup should be communicated to the market as early as possible. The main conclusion is that the Baltic’s outlook is positive due to progressing infrastructure projects (see point 4, Conclusions), launch of Elbas LT and LV on Dec 10, 2013, planned launch of Baltic EPAD COMBO in 2014 by NASDAQ OMX and Baltic TSOs and other. Challenges in the Baltics represent the current electricity excise tax implementation in Latvia, which doesn’t allow Latvian renewable energy to be traded through power exchange (about 70% of the local generation), 3rd countries border handling mechanism and further harmonization of the rules in line with BEMIP.
7. The Baltic TSOs Working Group on common coordinated cross-border CC&CA, following the request of NRAs, gave an update on the status of CC&CA in the Baltics. Although the security of supply is ensured within the region, a new common cross-border CC&CA agreement should be in place. Currently two different agreements in place (Estonian and Latvian power systems and between Lithuanian and Latvian power systems). However, the Baltic TSOs follow the principles of the previous CC&CA agreement with 3rd countries of March 2013. Baltic TSOs presented different scenarios for Coordinated Net Transmission Capacity Approach as per NC on CACM and further needed steps to find a best solution for the Baltic region and make a common agreement effective from 1 Jan 2015.
8. Baltic TSOs launched a survey on products for the hedging of the cross-border electricity trade risks on the borders within the Baltic countries. Preliminary key findings demonstrate that risk hedging is actively used by Baltic Market participants (MPs) and MPs are interested to increase auctioned capacity. Both –

MPs in their responses to market survey and Baltic traders' representatives at the Forum – underlined their preference to longer period PTR-limited products. They revealed that EPAD and EPAD Combo are expensive for smaller MPs. The challenge is that no MP would consider becoming Market maker for EPAD products, and their implementation date is indefinite. Another remaining challenge is Baltic CC&CA rules.

9. **The Baltic NRAs and TSOs agreed on following next steps:**

- 9.1. The Baltic TSOs will present to the Baltic NRAs **the proposal of the CC&CA in the Baltic region**, agreed between the Baltic TSOs, till the end of September 2014;
 - 9.2. TSOs will give **timely signals on the changes in PTR-limited auction**;
 - 9.3. Detailed **information on the implementation of PCIs in the Baltic region** should be presented **on a regular basis**, including the information on the congestion rent usage and other;
 - 9.4. NRAs will **continue the implementation of REMIT**, going on with the information exchange with NPS, ACER and between NRAs.
10. The next forum will be organized by the Lithuanian NRA in November 2014 (date tbc).