



# Proposals for improving Baltic electricity market

Gatis Junghāns  
AS Latvenergo

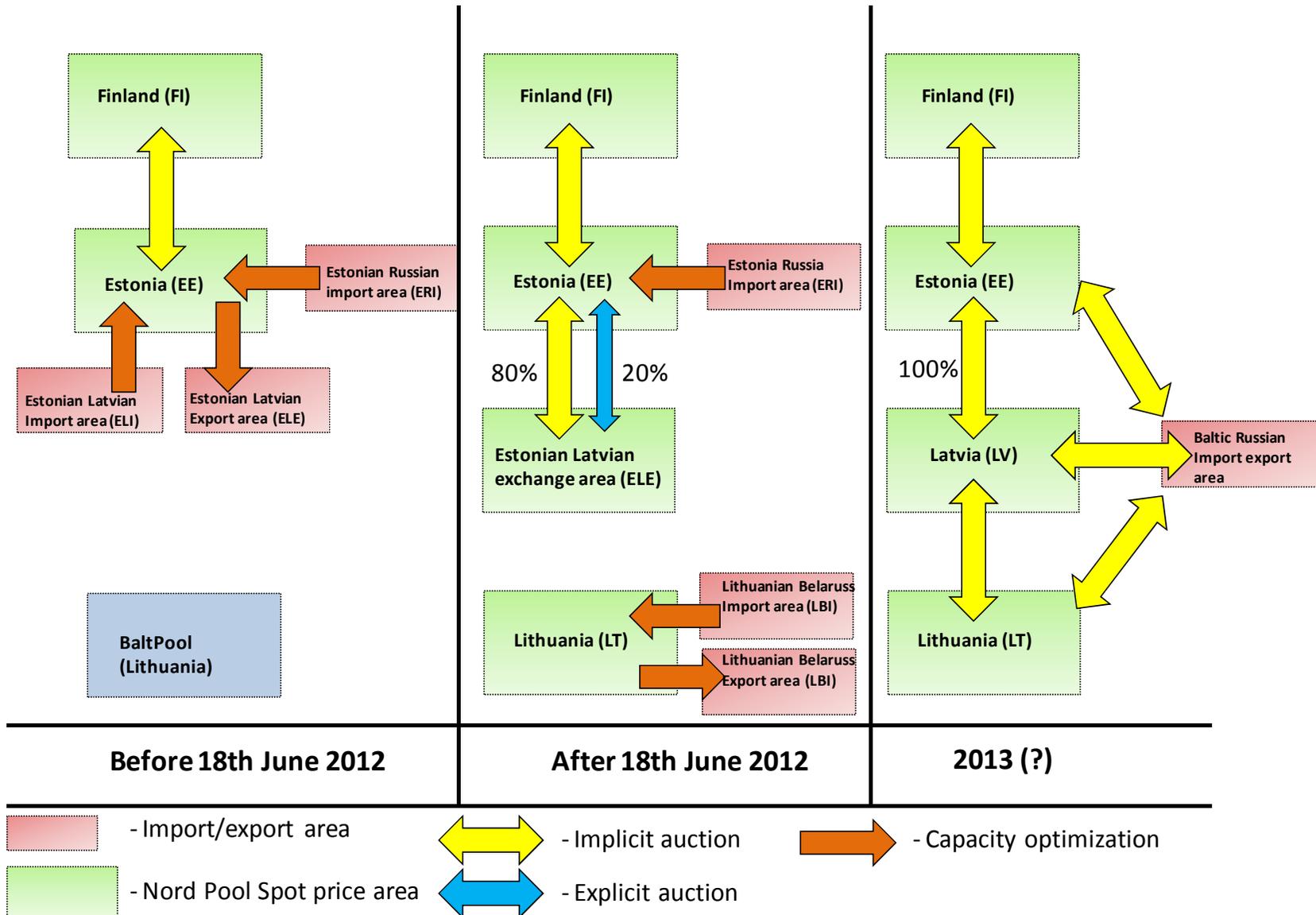
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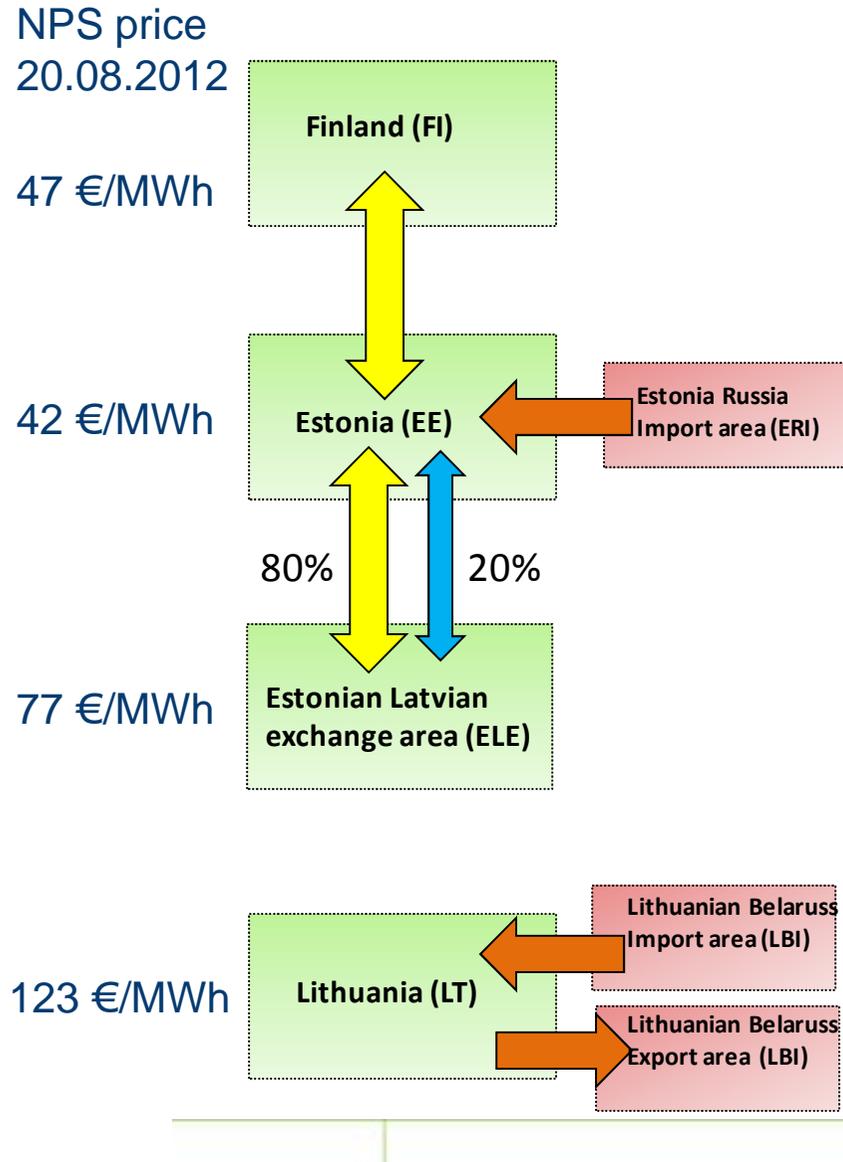
## Topics

- Current Nord Pool Spot market setup in Baltics – is it optimal?
- RU–LV cross-border transmission capacity allocation – is it fair?
- EE–LV cross-border transmission costs risk mitigation instruments – are there any in place?
- Joint billing of electricity and network services in Estonia – only for incumbent supplier?

# Nord Pool Spot market setup in Baltics



## Current Nord Pool Spot market setup in Baltics



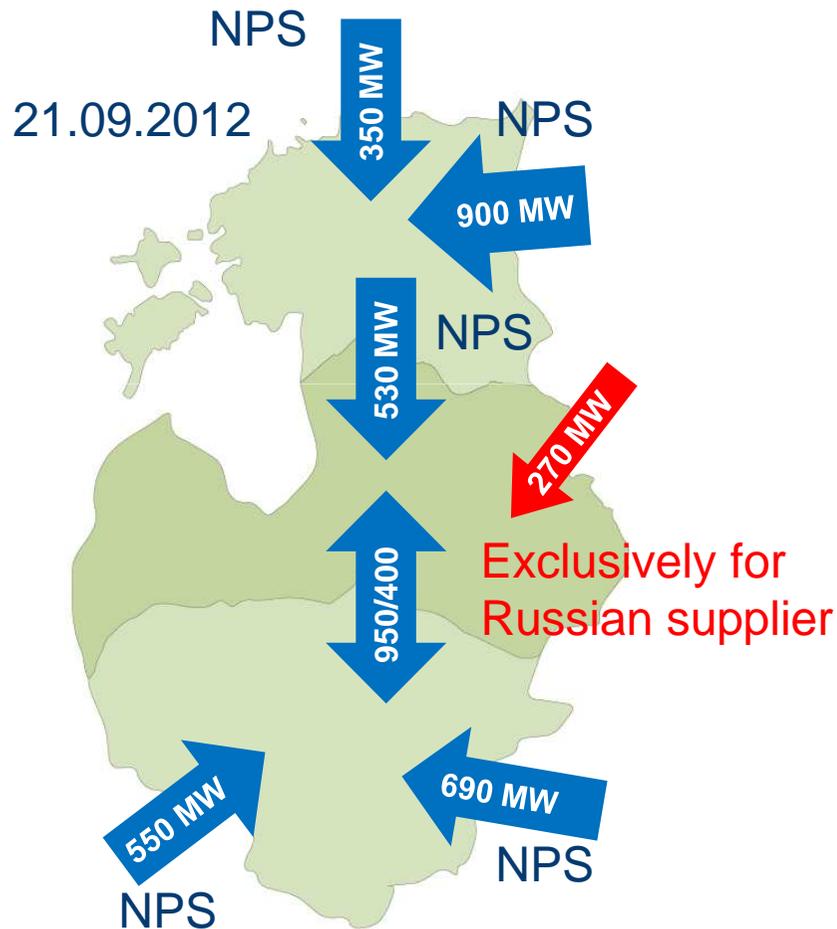
- Problem 1: Liquidity very limited in ELE and LT areas (most of the volume in LT area is in the form of “price-independent” bids. There is no any consumption and generation in ELE area)
- Problem 2: NPS ELE and LT price predictability is difficult (this creates high financial risks in trading and increase costs to end-users)
- Problem 3: NPS price levels confusing in ELE and LT (so far ELE and LT prices have been different 99,5% of the time)
- Problem 4: Price difference between ELE and LT indicates the inefficiencies and losses to consumers.

## Current Nord Pool Spot market setup in Baltics

### Proposal for improvement

- Introduce Price Coupling between ELE and LT bidding areas from 1st of January 2013 in order to ensure effective and reasonably predictable operations of the Baltic electricity market and consequently lower risks and costs of electricity supply.

## RU-LV capacity allocation



- In Baltic market all cross-border transmission capacities are allocated via auctions, except RU-LV
- Option to use free-of-charge RU-LV capacity is exclusively available only to Russian market participant without any auctioning
- Problem 1: increased uncertainty about available EE-LV capacity
- Problems 2: increased EE-LV transmission bottleneck costs
- Problem 3: discrimination between market participants

## RU-LV capacity allocation

### Proposal for improvement

- In order to facilitate efficient and non-discriminating cross-border trade, all cross-border capacities should be allocated only by means of **auctions** for **all** market players
- Until Latvian Nord Pool Spot price area is implemented EE-LV and RU-LV lines together should form one single cross-border capacity between Estonia and Latvia

## EE-LV cross-border transmission costs risk mitigation instruments

- Currently EE-LV transmission capacity is allocated via weekly explicitly auction (20%) and daily implicit auction (80%)
- TSO's argument for 20% weekly explicit auction: provide transmission cost risk mitigation instrument until forward financial electricity market is well developed
- Problem 1: weekly auctions are too short-term for risk mitigation (typical fixed-price end-user contract is 0,5-2 years long)
- Problem 2: 20% of capacity for explicit auction is too small for market needs (there are no risk mitigation instruments for the rest 80% of EE-LV capacity)

## **EE-LV cross-border transmission costs risk mitigation instruments**

### **Proposal for improvement**

- Auctioning of 100% of EE-LV transmission capacity by Nord Pool Spot as from 1st of January 2013
- Long term Financial Transmission Rights auctioning by TSOs should be introduced TSOs latest by 1st of January 2013
  - Monthly auctioning
  - Quarterly auctioning
  - Yearly auctioning
- Financial Contrast for Difference (CfD) in LT area should be introduced as well. But, since CfDs market is not liquid in the Nordic market, CfDs might not be liquid in Baltic market as well

## FTR Financial Transmission Right – how does it work?

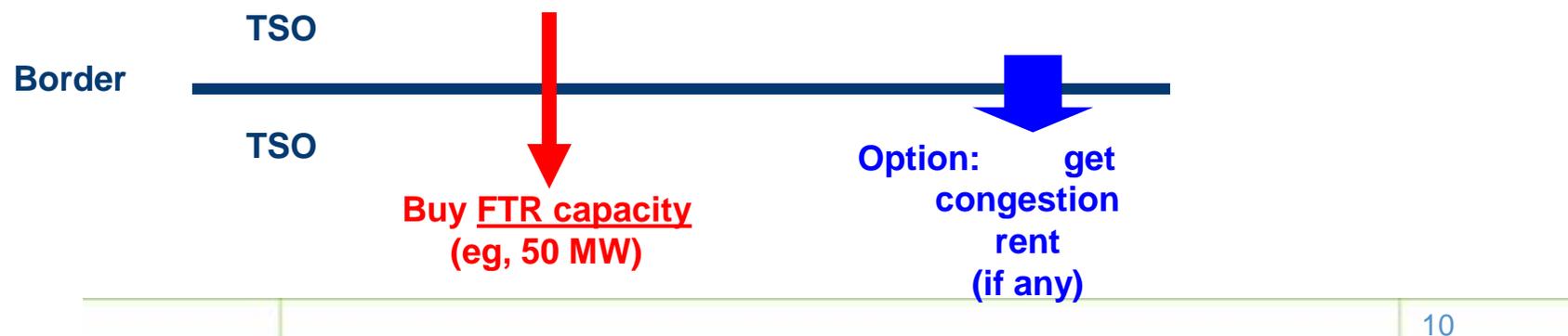
Example (EE-LV border):

At the TSOs' FTR auction, a supplier buys 50 MW FTR capacity in direction from EE to LV.

With a FTR auction system, the supplier is obliged to give the capacity to the market splitting.

In return, the player gets the congestion rent for the capacity (if any).

Therefore the name financial transmission rights.



## Joint billing of electricity and network services in Estonia

- Estonia is opening its entire end-user market as from 01.01.2013
- Latvenergo is entering Estonia's household market as from 01.01.2013
- All Eesti Energia's clients receive joint bill for electricity and network services. This is possible because Estonia's largest distribution company Elektrilevi (100% owned by Eesti Energia) has concluded respective agreement with Eesti Energia
- In August Latvenergo turned to Elektrilevi with request to sign agreement on joint billing on the same conditions as with Eesti Energia
- Elektrilevi's response was that it is *“unrealistic currently and in the near future”*

## Joint billing of electricity and network services in Estonia [2]

- Problem 1: network company which is natural monopoly discriminates between market participants
- Problem 2: especially in the beginning of market opening household consumers have rather low awareness about switching process and any additional complications like requirement to conclude network service agreement will motivate to stay with incumbent supplier and joint bill rather than choose the best offer in the market

## **Joint billing of electricity and network services in Estonia**

### **Proposal for improvement**

- Ensure that network companies do not discriminate between market participants and ensure equal cooperation terms for joint billing for electricity and network services

OR

- If network company can not offer equal cooperation terms for joint billing to all suppliers, network company should invoice all clients for network services itself

**Thank you!**

