

Eesti Energia AS, an Estonia-based electricity company with subsidiaries in Latvia and Lithuania is delighted to send comments to ERGEG Public Consultation Paper “ERI Convergence and Coherence Report” E07-ERI-05-03

Our comments to the report are:

Reference	Comment
Table 2	Estonia in Baltic market area overlaps with Finland in Northern starting from 4.1.2007 via ESTLINK submarine cable. The capacity of ESTLINK cable is 25% of Estonian peak load.
2.2.1.1	<p>In the Baltic market area there is no common understanding about available cross border capacities.</p> <p>Example: In Baltrel TF-1 draft report, October 2007: According to Estonian TSO the net transfer capacity between Estonia and Latvia is in the range 100-1000 MW; according to Latvian TSO the net transfer capacity between Estonia and Latvia is 1200 MW.</p>
2.2.2.1	<p>Long term capacity allocation mechanism is not explicitly agreed inside the Baltic market area, partly due to the reasons that only Estonia is participating in ETSO ITC mechanism. The allocation of cross-border capacity is dependent on whether there is transit via one of the countries or there is import/export from one country to another. The case of transit has no pre-defined regulation and TSO-s can apply approach they consider most suitable in the particular case.</p> <p>In the case of import/export, the capacity allocation is tightly related to licensing in Lithuania. The process of capacity allocation and licensing is artificially time-consuming and without clear and transparent decision making criterias. Capacity allocation/licence can be declined even there is free cross-border capacity available. Local TSO demands transit agreements with neighbouring TSO-s as precondition, artificially prolonging the application process. The congestion management procedure is used in Lithuania to prohibit export in order to avoid increase of market price inside the country (Lithuanian TSO has informed Eesti Energia that the export from nuclear PP will not be allowed due to security of supply reasons although enough gas-fired power plants were available in Lithuania).</p> <p>Capacity allocation between Estonia and Latvia is part of import licensing process in Estonia (see more about it under reference 146). In the case of export from Estonia no capacity allocation procedures has been published for traders.</p> <p>Suggestions: The explicitly defined and harmonized capacity allocation procedures should be agreed by TSO-s and published for whole market area. Capacity allocation should be separated from import/export licensing, as available cross-border capacity inside Baltic market area is around 70% of country’s peak load and the congestion management is not a real issue.</p> <p>Between Estonia and Finland the physical capacity is allocated to the commercial cable owners who can give over their rights only at explicit</p>

Reference	Comment
	publicly accessible auctions (yearly, monthly, 2 x daily).
2.2.3.1	There is ongoing project lead by Nord Pool to establish ESTLINK price area and use implicit auctions between Estonia and Finland starting from second half of 2008.
Figure 1	Baltic market should be added: explicit auctioning towards Finland, other method towards Russia.
69	Comment: The need for long-term capacity allocation is also related to long-term power purchasing agreements between parties having congestions between purchasing and production points.
72	Estonian and Latvian TSO-s had harmonized gate closure times with Nordic region in order to facilitate intra-regional trade. In the Lithuania a special model is used.
2.2.4.1	Latvia and Estonia had harmonized procedures to the point that intraday trade is available between balance responsible parties. TSO-s are following the capacity usage and they can refuse the intraday trade only in the case there is an actual congestion.
96.	In the Baltic region Latvia and Estonia are working under similar principles and Lithuania has its own balancing regulation. It seems that active balancing from the side of TSO is used seldomly, balancing energy outside EU (Russia) is largely bought instead. In Estonia balance responsible parties (currently three companies) own balancing motivation is increasingly encouraged by the regulator.
2.3.1	Balancing issues should be dealt in wider context and also balancing procedures between TSO and market participants should be taken into consideration and harmonized as much as possible. For instance in the Baltic area the difference in balance management principles between TSO and market participants is heavily blocking market participants possibilities to trade in whole region. Without common balancing procedures the electricity supply from other member state to end customer in another country is hardly possible.
2.4.1	<p>Transparency issues should be considered in its wide meaning in Baltics.</p> <p>1) If import/export licensing is used due to national legislation, the data about relevant applications and decisions should be considered as part of information related to congestion management.</p> <p>2) The information about different subsidies to producers (volume MWh and amount EUR/MWh) and the share of subsidised production compared to consumption should be considered as important market information.</p> <p>3) In order to prevent the use of national schemes of production subsidies to provide incumbent public supplies with energy below the market price (the case of Lithuania and Latvia), the appropriate information of the nature of such a scheme should be made public and analysed in EU-</p>

Reference	Comment
	<p>level.</p> <p>4) The information about special network service requirements (including metering) and tariffs for customers supplied by other supplies than public supplier (the case of Latvia) should be made explicitly public and analysed in EU-level.</p>
4.7.	National market structures implicitly restricting cross-border trade between other EU countries should be considered unacceptable in common market area (the case of Lithuania)
141	See comments to reference 2.2.2.1
142, 143	Here is described the sales of balancing services from one TSO to another and to market participants, not the services to TSO needed for balancing, as in the case of other regions.
146	<p>In the Estonia the import licensing is needed to prohibit import from third countries with less environmental requirements. Licensing can be removed if the common policy toward import from third countries can be put in place.</p> <p>The issue of import is crucial one to define whether Baltic market area is sustainable within EU-rules or whether Estonia should be connected to Northern market area and other Baltic countries will remain close connection to the non-EU countries.</p> <p>Background for the crucial nature of import from non-EU-countries:</p> <p>The Baltic states as the EU member states have implemented high standards in relation to minimizing environmental impact of electricity generation, what is significantly different from examples of countries like Byelorussia and Russia. For example the requirements of the Linking Directive (2004/101/EC), ETS directive (2003/87/EC), Water Framework Directive (2000/60/EC), NEC Directive(2001/81/EC), Landfill Directive(1999/31/EC), IPPC Directive(96/61/EC), LCP Directive(2001/80/EC) are not implemented in these countries. As a result the unrestricted access from these countries to EU market area will motivate production of electricity outside the EU due to lower environmental restrictions, contributing to increase in production of "dirty electricity", thus violating the fundamentals of EU environmental policy.</p> <p>The Baltic States participate in the EU-wide policy measures targeted towards reduction of CO₂. Electricity companies' right to emit CO₂ for free is limited, which is not the case with non-EU countries. Unlimited CO₂ allowances for free will give a substantial advantage to generators using fossil fuels outside the EU. As a result, for example, a standard coal-fired power plant in EU will have approximately 18-20 EUR/MWh higher expenses compared to the same plant outside the EU. This enormous difference will lead to unfair competition and will harm the whole development of electricity sector in the Baltic States currently facing a stage of new investments.</p>

Reference	Comment
	Estonian consideration is based on the fact that there is 3000 MW of effective installed interconnections between the Baltic States and Russia together with Byelorussia, which is more than 50% of peak load in the Baltic States. Via these 3000 MW it is easily possible to supply 100% of base load from non-EU countries to the Baltic States. At the same time there is only 350 MW of effective interconnections between Estonia and Finland, two EU member states. Thus the market distortions resulting from different legal frameworks in and outside the EU can considerably harm the electricity sector in the Baltic States.

If you need further comments or other information, we are happy to contribute also in future.

Sincerely,

Jaanus Arukaevu
Head of Energy Trading Division
Eesti Energia AS