



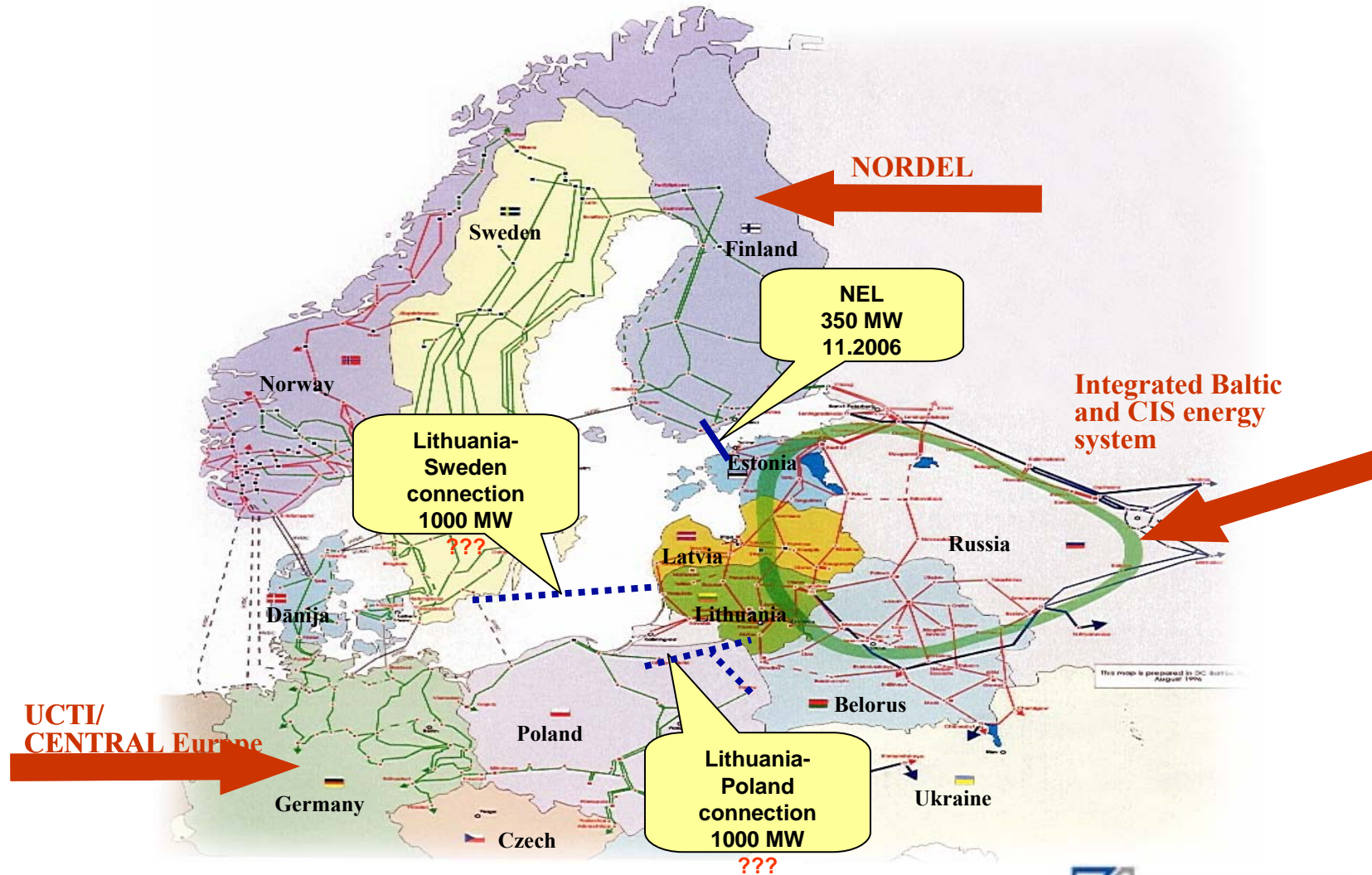
**Estlink (Nordic Energy Link) –
the first common Baltic
electricity market project
(status)**

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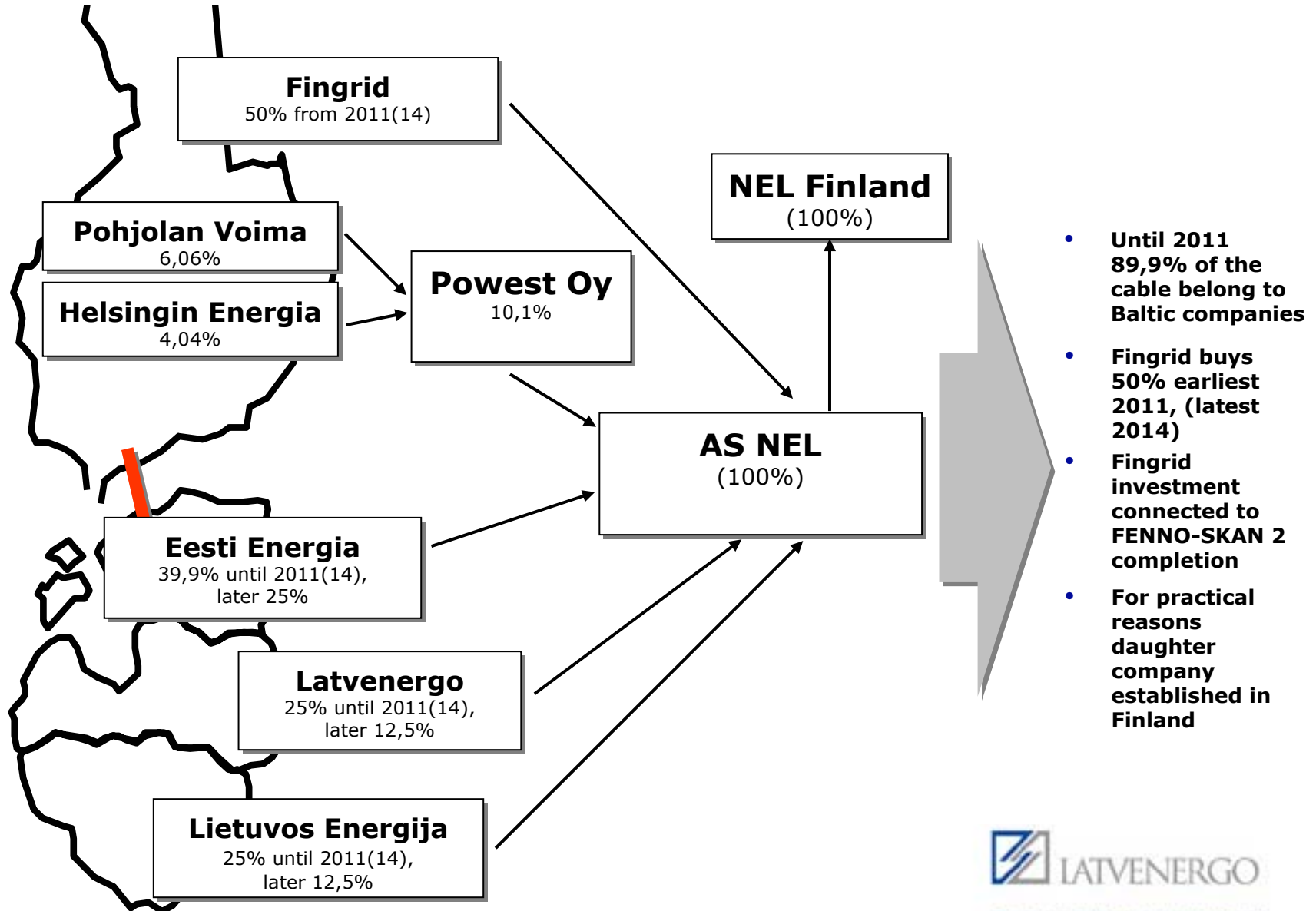


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NEL could become the first connection between Baltic and EU energy systems

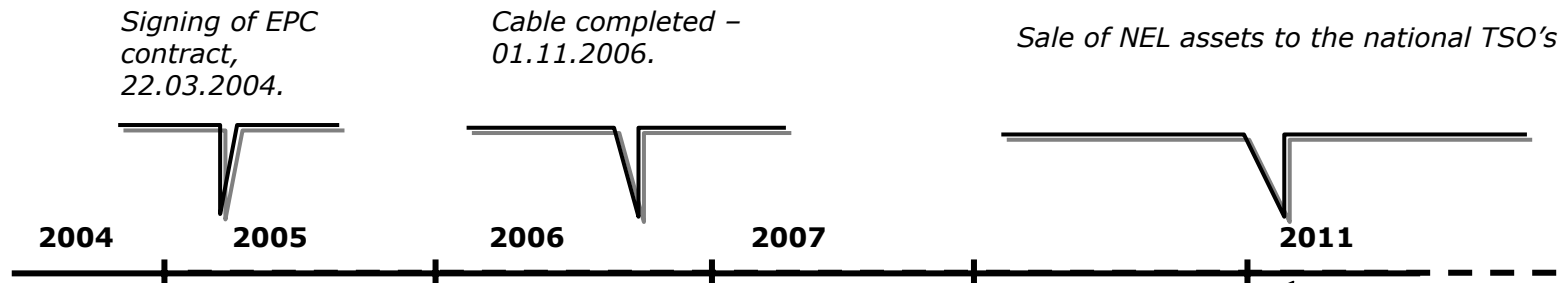


Nordic Energy Link - ownership structure



- Until 2011 89,9% of the cable belong to Baltic companies
- Fingrid buys 50% earliest 2011, (latest 2014)
- Fingrid investment connected to FENNO-SKAN 2 completion
- For practical reasons daughter company established in Finland

NEL operation is planned in two steps



Commercial project 2006-2011 (2014?)

- Investors are traders
- Project investments recovered from special tariff. EU regulation 1228/2003 exemption required
- Owners have privileged capacity rights, unused capacity sold in auction
- Example.: transmission of 1 MWh Tallinn (Riga)-Helsinki costs EUR 6,00

Infrastructure project - 2011 (2014 ?)

- Investors – national TSO's
- Part of domestic regulated asset base, i.e. Included in the domestic tariff
- Free access to any market player
- Example.: transmission of 1 MWh Tallinn (Riga)-Helsinki costs EUR 1,00

NEL's importance for project parties

- **Geo-political:**

- **First interconnector between Baltic and EU power systems**
- **Improves the security of supply in Baltics and Finland**
- **Increases the number of potential electricity suppliers in the single electricity market**
- **This is the first large investment project where all Baltic countries jointly cooperate!**

- **Economic:**

- **New export possibilities of excess Ignalina, Narva and Daugava flood time electricity**
- **New import possibilities in Finland and in Baltics**

NEL description and main assumptions

- **Total Capacity:** 350 Mw
- **Utilisation:** 6500 h p.a.
- **Total Investments:** ~110 MEUR
- **Technology:** ABB “light” – environmentally friendly

- **Depreciation:** 25 years
- **Financing:** 20% Equity / 80% Loans
- **WACC:** 6% p.a.
 - ROE = 6%
 - Average Interest Rate = 6%

- **Commercial Tariff:** 5,02 EUR / Mwh
 - ⇒ Fixed = 4,06 EUR / Mwh
 - ⇒ Variable = 0,96 EUR / Mwh

Criteria for granting Exemption within EU Regulation 1228/2003

- **The investment must enhance competition in electricity supply**
 - Today Baltic is a power enclave within EU
 - All unused capacity will be sold on auction
- **The level of risk attached to the investment is such that the investment would not take place unless an exemption is granted**
 - This investment constitutes to a “major” >10 EUR/customer investment for Baltic TSO’s and cannot be found in the priorities for the nearest future
- **The interconnector must be owned by a natural or legal person which is separate, at least in terms of its legal form, from the system operators in whose systems that interconnector will be built**
 - This criterion is met: NEL is a special purpose company

Criteria for granting Exemption within EU Regulation 1228/2003 (cont.)

- **Charges are levied on users of that interconnector**
 - This criterion is met: Foreseen in the Capacity Purchase Agreement
- **Since the partial market opening referred to in Article 19 of Directive 96/92/EC, no part of the capital or operating costs of the interconnector has been recovered from any component of charges made for the use of transmission or distribution systems linked by the interconnector**
 - This criterion is met: No such charges included in the domestic tariff
- **The exemption is not to the detriment of competition or the effective functioning of the internal electricity market, or the efficient functioning of the regulated system to which the interconnector is linked**
 - All unused capacity is sold on daily, monthly and yearly auctions
 - Third party access even further improved based on Estonian and Finnish Regulators suggestions

NEL milestones - completed

- **Investment decisions made by all parties' boards and councils**
- **Shareholders agreement signed**
- **AS Nordic Energy Link in Estonia established**
- **Asset sales agreement with Fingrid signed**
- **Power Purchasing Agreement (100 MW) between Eesti Energia and PVO signed – to guarantee initial revenues for 3 years**
- **Capacity Purchase Agreement, Notification Rules, Auctioning Principles and Flood-time Swap Agreements initialised**
- **Open tender for EPC Contractor selection completed – ABB selected as winner in competition with Areva and Siemens**
- **Estonian and Finnish Regulators have drafted and signed Exemption decisions**
- **Financing tender announced, offers received from banks**

NEL – main issues to be resolved

- **Estonian and Finnish Regulators Exemption decisions are sent to EU for approval – promised decision time - two weeks. Why is this extremely important for NEL?**
 - 1) **EPC tender proposal validity – 22 March 2005**
 - 2) **Share Subscription Agreement to be signed before**
 - 3) **Several smaller agreements to be signed before**
 - 4) **Financier to be selected and equity to be raised**
 - 5) **EPC contract to be signed before**
 - 6) **As the construction time is 20 months, starting day delay by 1 month means completion delay by at least 6 months, because cable can't be laid in sea during the winter**
 - 7) **In this case Finnish investors' commercial interests are no longer justified, they step out of consortium and project as such will be under question**

CONCLUSION:

If no EU approval to the Estonian and Finnish Regulators Exemption decisions is received by 22 March 2005, the completion of Nordic Energy Link is highly questionable!



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**Thank you very much for the
great support so far and look
forward to your help in this
critical moment for the project!**