

Memorandum of Understanding on the Baltic Energy Market Interconnection Plan

Sides :

**the Kingdom of Denmark
the Federal Republic of Germany
the Republic of Estonia
the Republic of Latvia
the Republic of Lithuania
the Republic of Poland
the Republic of Finland
the Kingdom of Sweden**

the European Commission

Having regard to the EU's long term Energy and Climate Change strategy with its 20/20/20 targets to be reached by 2020¹ and the corresponding legislative package in December 2008;

Having regard to the evolution of the European Union's Internal Energy Market, and in particular, the establishment within the EU of the Internal Energy Market on the basis of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC (the 'Electricity Directive') and Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC (the 'Gas Directive'), Regulation 1228/2003 of the European Parliament and Council of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity as well as Regulation 1775/2005 of the European Parliament and Council of 28 September 2005 on conditions for access to the natural gas transmission networks, and the political compromise over the Commission's proposals regarding the Third Legislative Package;

Having regard to the agreement of the Member States of the European Community (hereinafter "Member States") in the Baltic Sea Region to set up a High Level Group on the "Baltic Energy Market Interconnection Plan" in which Norway has been invited to participate as an observer and to the achievements by this group since its first meeting on November 20th, 2008;

Recognising:

- The final report of the High Level Group (Action Plan) on the Baltic Energy Market Interconnection Plan together with its attachments that form integral part thereof;
- The need to further develop the electricity and gas markets within the Member States in the Baltic Sea Region and integrate them into the wider EU energy market as well as underpin investments with a firm regulatory perspective clearly favouring market mechanisms while addressing the key energy security interests at the same time;
- The need to implement the EU internal energy market rules in the Member States in the Baltic Sea Region with an aim to ensure the four freedoms and fair competition in the EU energy market;
- The need to ensure EU law conformity of supply contracts and to ensure that intergovernmental agreements as a framework for supply contracts are negotiated in full respect of the EC Treaty;
- The need to better coordinate priorities and energy infrastructure projects on the region's level to allow for better use of resources and attainment of goals;
- The intention to develop energy trade with the neighbouring non-EEA countries on the basis of reciprocal principles;

Having regard to the need to create opportunities for regional trade in energy products and services that may satisfy regional demand and regional supply; and in particular to allow investment security to be enhanced by free flow of goods and services;

Having regard to the Joint Declaration of the Prime Ministers' council of the Baltic Council of Ministers signed on April 27, 2009 in Vilnius;

¹ Reduction in greenhouse gas emissions to 20% below 1990 levels, 30% in the context of a global agreement on climate; 20% contribution of renewables to final energy consumption; reduction in primary energy use to 20% below the baseline projection for 2020.

Recognising that the present document records political intent alone and does not provide for legal commitments with regard to the Sides;

Resolve to devote their best endeavours to work towards achieving the following:

1. AN INTEGRATED BALTIC SEA REGION ENERGY MARKET

The establishment of an open and integrated regional energy market between the EU Member States in the Baltic Sea Region in electricity and gas is aimed at that market becoming fully integrated into as well as compatible with the European Union's Internal Energy Market and taking into consideration the existence of principles of reciprocity in electricity and gas trade with third countries.

This market should be based on the principles and legal obligations set out in the Third Legislative Package and other legislation in force relating to the operation of the European Union's Internal Energy Market.

1.1. ELECTRICITY MARKET DESIGN

The main common objectives of the Market design for the three Baltic States' Electricity market are intended to be the following:

- Equal market conditions (no discrimination among market participants; no obstacles for new entrants);
- Free cross-border trade and market opening;
- Free competition in each country with effective third party access regimes;
- Reciprocal principles in trade with non-EEA third countries;
- Reduced market concentration;
- Sufficiently high market liquidity;
- Fair price-formation (reliable and transparent market price for electricity);
- Transparent capacity allocation, based on implicit auction;
- Transparent market information;
- Efficient market monitoring;

Having regard to the above objectives, the design of the electricity market in the three Baltic States is intended to be implemented as described in the "Market Design" report attached as Annex 2. to the Action Plan.

1.2. GAS MARKET ASPECTS

The main common objectives of the Market design for the three Baltic States' and Finland' gas markets are intended to be based on the following:

Efforts to find the most economic solution to connect Finland and the three Baltic States to the integrated European gas network and new supply sources and to accelerate market opening in the Member States benefiting from derogations should continue.

For the Western Baltic Sea States, the objective is to continue the efforts to find the most economic solution to strengthen security of supply by further increasing integration and diversifying of sources where required.

Taking into consideration the above objectives, a detailed plan is intended to be defined on how this should work, what steps need to be performed in the short term, that is, within the next two years and in the medium term. It is understood, in particular, that the current action plan for the gas sector is subject to change.

The undersigned Member States intend to follow up the work they started and look after the developments in the sector especially if new initiatives are to be signalled.

2. FUNCTIONING OF THE MARKET

2.1. ELECTRICITY MARKET ROADMAP

The Sides envisage implementing the actions described in the electricity market roadmap detailed in chapter 2.1 of the Action Plan. This approach is aiming at achieving the main common objectives for the future design of the electricity market.

2.2. GAS MARKET ROADMAP

The Sides envisage implementing the actions described in the gas market roadmap detailed in chapter 3.1 of the Action Plan. This approach is aiming at achieving the main common objectives for the future design of the gas market.

3. INFRASTRUCTURE PROJECTS TO SUPPORT MARKET INTEGRATION

The Sides recognise the need for infrastructure development both in the electricity as well as in the gas sector, in order to achieve the ambitious objectives of market opening and integration in the Baltic Sea Region.

Recognising the important role of energy efficiency in enhancing security of supply and combating climate change, the Sides envisage to support and to ensure the implementation of the projects and actions listed and described in the Action Plan in the fields of electricity generation, including renewable energy, electricity interconnections, gas interconnections, underground gas storages and Liquefied Natural Gas facilities, as well as other infrastructural solutions.

4. ORGANISATION OF IMPLEMENTATION AND MONITORING

In terms of organisational aspects of the Baltic Energy Market Interconnection Plan, the Sides envisage to maintain the High Level Group in its current composition. The European Commission intends to monitor the implementation of the Action, to report on it regularly to the Council and to take measures pertaining to risk management. The tasks and responsibilities as well as the frequency of reporting are envisaged to be performed in accordance with to the proposed methods described in the Action Plan.

5. DEFINITIONS

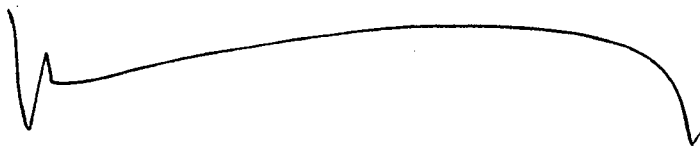
Unless otherwise stated, technical terms within this document have the meaning ascribed to it based on Community energy legislation in force.

6. STATUS OF THE MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding does not constitute an agreement that is binding under international law, but reflects political intent only. The Sides do not intend to create legal commitments.

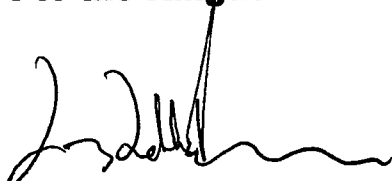
Signed in Brussels on June 17 , 2009 in 9 originals in English language.

For the European Commission



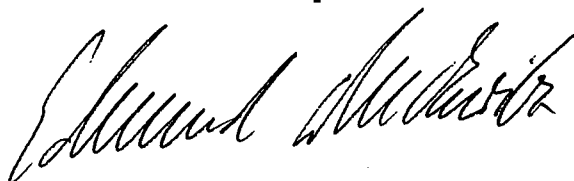
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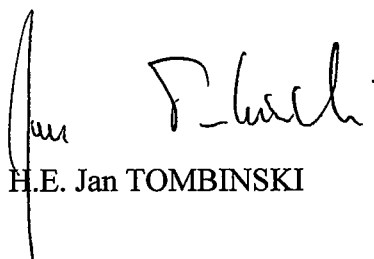
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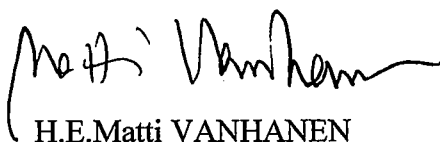
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