

Contributions to Public Consultation of Lithuanian Market Reform Plan

AB „Energijos skirstymo operatorius“ (acting DSO in Lithuania) would like to submit some comments due to the announced consultation on electricity market reforms in Lithuania:

- i) “Lithuania seeks to achieve full de-regulation of electricity prices for households by terminating regulation of electricity supply to household customers except for vulnerable consumers that have not chosen independent supplier” (paragraph Current situation, page 1).

Comment: all the consumers (without any exception, i.e. including vulnerable costumers) are going to be entitled to choose an independent electricity supplier. According to the draft of the amendment of the Electricity energy law (access here: <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/b7c21640217211eab86ff95170e24944?positionInSearchResults=4&searchModelUUID=97cc82ec-6292-4efe-bbd3-f18b24c3f7cc>), vulnerable consumers must enter the free market by 1 January 2023. Furthermore, this statement is in contradiction with the claims made later in the text about the stages of deregulation, which stipulate that vulnerable consumers will no longer be regulated.

- ii) “Consumers with warranty supply shall be subject to the supply price, which shall be above costs incurred by the warranty supplier and calculated by applying the coefficient of not less than 1.25 to the average price of the power exchange formed in the Lithuanian price area during the previous reporting month”(paragraph Current situation, page 3).

Comment: according to the draft of the amendment of the Electricity energy law (link above), consumers with guaranteed supply shall be subject to the guarantee supply price, which shall be calculated by applying the coefficient of 1.25 to the average price of the power exchange formed in the Lithuanian price area during the previous reporting month. There are no price cap for the applicable coefficient - coefficient 1.25 is fixed and is no object for the evaluation. Therefore, the statement “the coefficient of not less than 1.25” is misleading.

We hope our comments will be helpful.

Contribution to the EC consultation on the Lithuanian electricity market development and implementation plan. Focus on Demand Side Response.

As an aggregator directly involved in the development of demand response in the Baltic and, our experience is slightly different from the situation described by the consultation document. According to this document, “Currently, DSR services can be provided by consumers in a wholesale market (day ahead and intraday).” However, to our knowledge, it is not possible for demand response to participate in any segment of the Lithuanian market yet.

FuseBox welcomes the new framework on actually allowing the demand response in the market.

The current situation does not allow demand response to participate in the market in any way.

According to our understanding, the rules that will be implemented will also not open the market fully. There is a threat that the aggregator can only aggregate the loads that are in its own balancing portfolio. That is a "show stopper" or at least makes it very hard to bring demand response to the market and try to be also an electricity seller to get the clients to aggregators balancing portfolio. Aggregator does not have to be the BRP.

We hope that the actual rules will be pro demand response in real life, not in the paper only.

Currently, the situation in the paper is way better than in reality.



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COMMENTS REGARDING LITHUANIA'S MARKET REFORM PLAN

On 14-01-2020 European Commission ("**Commission**") initiated a consultation on electricity market reforms in Lithuania. Due to the reason that Commission will have to issue an opinion on the Lithuanian Electricity Market Development and Implementation Plan ("**Market Development Plan**"), we would like to submit our comments and position to the Commission regarding the fundamental reforms that are planned in Lithuania in the upcoming future. Please note that additional information can be provided upon the request of the Commission.

1. Comment regarding the elimination of a market distortion in the form of "regulated retail tariffs"

We welcome the effort and willingness of Lithuanian authorities to fully deregulate national retail electricity market and gradually abandon regulated retail tariffs. We are certain that the elimination of this market distortion should create more competitive market environment and provide better signals for investing into both small-scale as well as large-scale local electricity generation capacities.

At the same time, we would like to bring Commission's attention to the fact that necessary legislation has not been approved by the Lithuanian Parliament yet. There is a chance that it will not be passed until May 1st, 2020. In addition, even if the legislative bill is passed as planned, the complete effect of the deregulation will appear only after some time – in 2023.

Also please bear in mind that although household consumers currently can opt for retail offers at unregulated electricity prices, very few customers are switching since in Lithuania regulated tariffs are usually set at unreasonably low levels. For example, at the end of 2017 National Regulatory Authority ("**NRA**") estimated that the average market price in 2018 should be equal to 36,13 EUR/MWh whereas the real average market price at Nord Pool electricity exchange turned out to be much higher – 49,96 EUR/MWh. Likewise, at the end of 2018 NRA estimated that the average market price in 2019 should be equal to 43,48 EUR/MWh but the real average market price at Nord Pool electricity exchange turned out to be 46,12 EUR/MWh.

Overall, we believe that the only way to get rid of this market distortion is to go ahead with full market deregulation as soon as possible. Scrapping of regulation of retail electricity tariffs for household consumers is also a part of Lithuania's commitments under the Baltic Energy Market Interconnection Plan ("**BEMIP**").

2. Comment regarding the elimination of a market distortion in the form of "unfair competition with third country imports"

Currently the greatest distortion to Baltic electricity market stems from electricity imports from Russia and Belarus which are not covered by the European Emissions Trading System ("**ETS**"). Since Russian and Belarussian electricity producers do not pay for their CO₂ emissions, they have a substantial inherent competitive advantage over the Baltic electricity producers. Recent study by Sandbag perfectly illustrates the immense magnitude of this problem¹. By depressing the market prices in the Baltic States, cheap electricity

¹ https://sandbag.org.uk/wp-content/uploads/2020/01/2020-SB-Path-of-least-resistance-1.2b_DIGI.pdf

imports from Russia and Belarus prevent local market participants from investing into national electricity generation assets.

Respectively, it is very difficult to understand why Market Development Plan does not touch upon this massive problem. In our opinion, the elimination of this market distortion (for instance by introducing a reasonable "Border carbon adjustment" tax) shall work as a very good catalyst for incentivizing the investments into Baltic electricity generation capacities.

Also, we do not understand why Lithuania applies export tariff (5,87 EUR/MWh) for electricity which is exported from Lithuania to third countries, but at the same time does not apply any import tariff for electricity which is imported from third countries to Lithuania. In this case Lithuania does not adhere to the principle of reciprocity.

Thus, we urge Lithuanian as well as Latvian, Estonian and Finnish authorities (with a help of Commission) to address this issue as soon as possible and create a level playing field for all electricity producers and suppliers that participate in Baltic States electricity market (irrespective whether they are located in European Union ("EU") or non-EU countries).

In addition, we would like to see a clear and official public explanation from responsible authorities regarding the future trading arrangements between Baltic States and Continental Russia, Baltic States and Belarus as well as Baltic States and Kaliningrad region. Right now there is lack of official and reliable information on this topic.

3. Comment regarding the elimination of a market distortion in the form of "insufficient hedging instruments"

Even though Baltic States have very transparent and liquid wholesale spot markets (both Day-Ahead and Intra-Day), however it is obvious that the wholesale forward market is not functioning properly in the Baltic States. The bid-ask spread for EPAD Riga product on Nasdaq OMX Commodities exchange (which usually falls in the range of 5,00-6,00 EUR/MWh) clearly indicates that the forward market is completely illiquid.

Although numerous Baltic States electricity market participants have been trying to emphasize this issue to local transmission system operators ("TSO") as well as NRAs and convince them to introduce financial Long-Term Transmission Rights on SE-LT, PL-LT as well as EE-FI interconnections already for few years, however without any success.

We believe that if Baltic States electricity market participants had more long-term hedging possibilities at their disposal (in accordance with Commission Regulation (EU) 2016/1719 establishing the guidelines on forward capacity allocation) and could effectively hedge their positions at least for several years ahead, they would be more willing to invest into local electricity generation capacities.

Therefore, we urge Baltic TSOs as well as NRAs to introduce additional hedging instruments in the form of financial Long-Term Transmission Rights. Alternatively, a merger of LT, LV and EE bidding areas into a common "Baltic" bidding area coupled with introduction of a single "Baltic" EPAD product could be used as another way of improving forward market liquidity.

4. Comment regarding the future demand for new ancillary services

Since European electricity system is transforming rapidly to integrate more renewables, revenues from various ancillary services are gradually becoming more and more important for different electricity producers (especially to those which are flexible) as well as for other technologies (e.g. demand side response solutions, batteries, etc.). Furthermore, after synchronization with Continental Europe Networks in 2025 Baltic States will be obliged to switch to new ancillary services, which will be standardized in accordance with Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing.

Even though it is obvious that the current system of procurement of ancillary services will change rather significantly in 2025, however it is still not clear how much capacity (MW) of each new balancing product (FCR, mFRR, aFRR, RR) will be bought by each Baltic TSO locally and / or regionally and what will be the timeframes (annual / monthly / weekly / daily) for procurement as well as delivery of those products.

In our opinion current information asymmetry between Baltic TSOs and market participants does not lead to a properly functioning electricity market. We are certain that if Baltic electricity market participants had enough information from local TSOs regarding the future demand for ancillary services, they could plan their investments into new flexible electricity generation capacities with greater confidence. Thus, we urge Lithuanian TSO as well as other Baltic TSOs to provide more official information about the future demand for ancillary services and how those services will be procured as well as delivered.

5. Comment regarding readiness of market participants to invest on market terms

Recent auction for development of renewable electricity generation capacities has shown that in Lithuania there are at least several market players who are willing to develop onshore wind projects without any State support or intervention². It means that market participants are prepared to invest into renewables against the market prices.

Although it remains to be seen whether upcoming renewable energy auctions (which are planned to be held in May 2020, April 2021 and April 2022) will deliver similar results, but it is clear that one of the conclusions of Market Development Plan stating that “Lithuanian electricity market is suffering from inability to send adequate investment signals” might not be completely accurate when considering investments into renewable energy generation capacities.

In our view in Lithuania onshore wind projects are already competitive at market prices and other electricity generation technologies could become competitive as soon as Russian and Belarussian power plants start paying for their CO₂ emissions and begin competing with Baltic States electricity producers on equal terms.

6. Comment regarding different interpretations of similar adequacy assessments

Firstly, the results of the study performed by Kaunas University of Technology somewhat contradict the results of Baltic Countries’ Power Systems Adequacy Assessment for 2017–2032, which concluded that “Upon synchronisation with the grid of Continental Europe via the existing LitPol Link and upon increase in the system reliability due to a new cross-border link, the Baltic Countries’ system will have sufficient reliably-available capacity and the available power reserve. The power system of the Baltic Countries will be adequate.” The summary of the latter Baltic States power adequacy assessment is available on Lithuanian TSO website³.

Secondly, given that Baltic countries are very well interconnected (especially after the third EE-LV interconnection is put into operation in 2020) and usually have identical electricity prices on their Day-Ahead Markets⁴, it is strange that all Baltic TSOs have different visions and understanding regarding the future adequacy of Baltic States electricity system. For instance:

- a) Elering AS in its “Estonian electricity system security of supply report” which was released in 2019⁵ stated that “Based on the MAF analysis, it can be concluded that in 2025 there will be no security of supply problem arising from generation adequacy in Estonia. [...] The security of supply will be ensured in the case of all the analysed continuity scenarios up to 2029”.
- b) AS Augstsprieguma tīkls in its “Annual statement of Transmission System Operator for the year 2018” which was released in 2019⁶ stated that “In November 2018, the three Baltic TSOs - AS Augstsprieguma tīkls (Latvia), Elering AS (Estonia) and Litgrid AB (Lithuania), in cooperation with the Finnish TSO Fingrid OYJ, started assessment of the operational reliability and power adequacy of the electricity systems in the Baltic States and Finland. Transmission system operators have prepared a power adequacy data exchange report, which is an internal TSOs document. The report investigated the power adequacy of the Baltic States together with Finland, possible imports/exports to/from the region and peak loads assessment. The regional power adequacy assessment was carried out by the TSOs using a deterministic approach, as probabilistic simulations performed in 2018 showed that the Baltic Sea region is not expected serious power adequacy problems until 2030

² <https://enmin.lrv.lt/en/news/investors-are-ready-to-invest-in-renewable-energy-in-lithuania-without-state-support>

³ https://www.litgrid.eu/uploads/files/dir387/dir19/5_0.php

⁴ <https://www.nordpoolgroup.com/Market-data1/#/nordic/map>

⁵ <https://elering.ee/sites/default/files/public/varustuskindluse%20konverentsid/SOS%202019%20ENG.pdf>

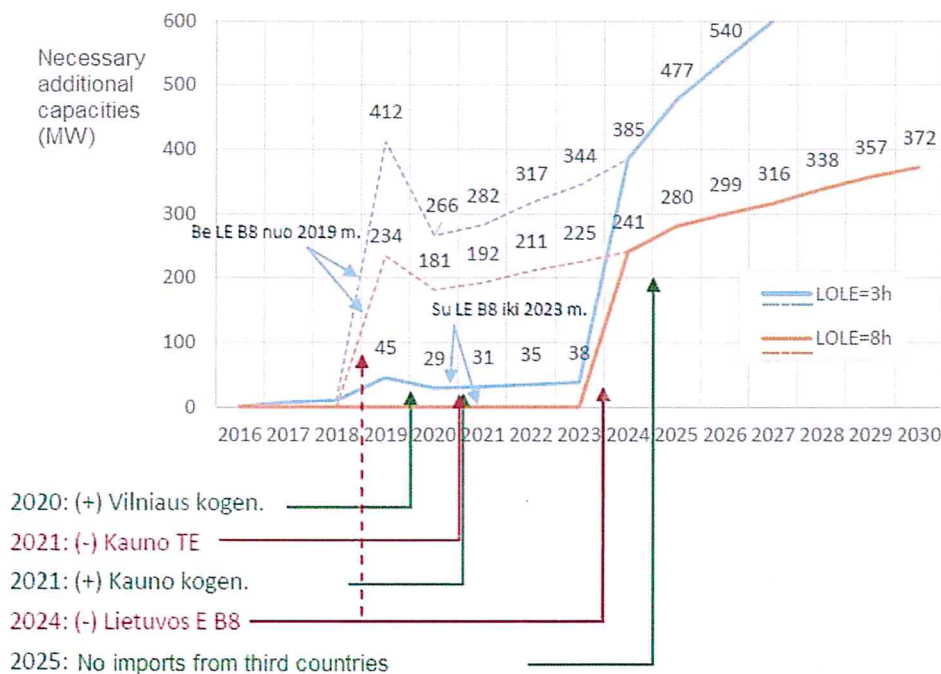
⁶ http://www.ast.lv/sites/default/files/editor/TSO_Annual_Statement_2018.pdf

(potential annual generation loss for load coverage being less than 3 hours for each country), which eliminates the need to repeat the simulation”.

- c) LITGRID AB in its latest edition of „Network Development Plan for 2019-2028“ which was released in 2019⁷ stated that “In order to reach a recommended LOLE which will not exceed 8 hours per year, Lithuania needs to develop 450 MW of reliable local power generating capacities before 2025”.

Thirdly, the results of the study performed by Kaunas University of Technology are not fully comprehensible. For example, it is not clear why:

- a) Net transfer capacity between Poland and Lithuania is modelled only at 500 MW level, even though it is clear that LitPol Link Expansion Project, which will increase the capacity of current interconnector from 500 MW to 1000 MW⁸ in 2021, as well as a new 700 MW interconnection between Poland and Lithuania called “Harmony Link”, which will be built until 2025⁹, should increase the total capacity between Lithuania and Poland up to 1700 MW.
- b) No transfer capacity between Kaliningrad region and Lithuania is considered after 2025. Even if Baltic States and Kaliningrad operate asynchronously after 2025, it still should be technically possible to exchange electricity between those electricity systems. Currently the official explanation regarding the future trading arrangements between Baltic States and Kaliningrad region is missing.
- c) Although the study shows that LOLE might exceed 60 hours per year in 2024 and 120 hours per year in 2025, but the amount of “necessary additional capacity” required to ensure that LOLE is below 8 hours per year is rather small (especially by regional standards) and amounts only to 241-280 MW in 2024-2025. Furthermore, the study shows that the major increase in the estimate for “necessary additional capacity” in 2024 comes right after decommissioning of 300 MW block in Lithuanian Power Plant in 2023. However, no assessment regarding possible refurbishment of this electricity generator as well as other similar Lithuanian power plants was performed.



7. General comment regarding cost benefit analysis on the capacity remuneration mechanism as well as the type of capacity market which is planned to be introduced in Lithuania

Firstly, capacity mechanisms are considered problematic because they risk distorting the internal European electricity market. That is why those mechanisms should only be introduced to address residual adequacy problems that cannot be solved by removing market distortions. Commission Regulation (EU)

⁷ <https://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-3850>

⁸ <https://docstore.entsoe.eu/Documents/TYNDP%20documents/TYNDP%202016/projects/P0123.pdf>

⁹ <https://www.litgrid.eu/index.php?act=js/synchronization&item=137>

2019/943 on the internal market for electricity clearly indicates that capacity remuneration mechanism is a "temporary" as well as "last resort" measure aimed at solving electricity generation adequacy concerns. In our view introduction of capacity mechanism in Lithuania prior to elimination of major market distortions (i.e. regulated retail tariffs, unreasonably cheap electricity imports from third countries) might lead to suboptimal results. It is likely that after elimination of most significant market distortions the supposed need to introduce a new capacity market might disappear.

Secondly, as briefing material on capacity mechanisms for electricity prepared for European Parliament shows¹⁰ "Many Member States have often introduced capacity mechanisms without having made an adequate assessment of the need for them, and that cost benefit assessments and evaluation of capacity mechanisms are the exception rather than the rule". In our understanding the presentation prepared by Compass Lexecon is obviously useful but cannot be regarded as a proper cost-benefit analysis ("CBA") on the introduction of capacity market in Lithuania¹¹. Therefore, a detailed CBA with relevant public consultations shall be performed before introduction of capacity market in Lithuania.

Thirdly, according to Commission Regulation (EU) 2019/943 Member States shall assess whether a capacity mechanism in the form of strategic reserve can address the resource adequacy concerns. Only where this is not the case, Member States may implement a different type of capacity mechanism. However, in Lithuania the option of strategic reserve was not properly analysed. Thus, a decent evaluation of strategic reserve alternative shall be carried out. Also please bear in mind that the draft law, which was already approved by the Lithuanian Government at the very end of 2019 and which should be discussed in the upcoming Parliamentary session (that will start on 10 March 2020 and should end on 30 June 2020) is explicitly designed to accommodate only market-wide capacity remuneration mechanism instead of leaving several options for different capacity market forms (including strategic reserve alternative).

Fourthly, before introducing capacity mechanisms, the Member States concerned shall conduct a comprehensive study of the possible effects of such mechanisms on the neighbouring Member States by consulting at least its neighbouring Member States to which they have a direct network connection and the stakeholders of those Member States. Therefore, Lithuania must arrange additional cross-border consultation on this topic.

Fifthly, Member States shall not introduce capacity mechanisms where both the European resource adequacy assessment and the national resource adequacy assessment, or in the absence of a national resource adequacy assessment, the European resource adequacy assessment have not identified a resource adequacy concern. Since European resource adequacy assessment has not been performed yet and Lithuania relies primarily on the domestic resource adequacy assessment, it would be wise to wait for the final results of European resource adequacy assessment and, only if it shows a real adequacy problem, phase in a capacity market in Lithuania.

Finally, it is not clear how Lithuanian authorities are planning to ensure a "level playing field" for domestic as well as foreign gas-fired power plants, because in Lithuania all gas-fired power plants are obliged to pay "LNG supplement" which puts Lithuanian gas-fired power plants in a position of apparent competitive disadvantage. Therefore, this issue must be also addressed before moving ahead with a capacity market.

Overall, we would like to point out that fundamentally we are not against the introduction of a capacity mechanism in Lithuania and / or Baltic States. We merely see a lot of value in having more high-quality discussions on this topic before any final decisions are made.

¹⁰ [http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603949/EPRS_BRI\(2017\)603949_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603949/EPRS_BRI(2017)603949_EN.pdf)

¹¹ http://enmin.lrv.lt/uploads/enmin/documents/files/lqalaikio_galiu_mechanizmo_koncepcija_20190205.pdf

January 2020

Contribution to the EC consultation on the Lithuanian electricity market development and implementation plan

Focus on Demand Side Response

As an aggregator involved in the development of demand response in the Baltic and Nordic markets, our experience is slightly different from the situation described by the consultation document.

According to this document, *“Currently, DSR services can be provided by consumers in a wholesale market (day ahead and intraday).”*

However, to our knowledge, **it is not possible for demand response to participate in any segment of the Lithuanian market yet.**

It may be possible for consumers to bid in Nord Pool ‘flexi-orders’ whereby their actual purchase will depend on the wholesale market price. However, this is limited to very large consumers, and, indeed, it is only implicit demand response – not real explicit participation of demand response in the market.

According to the planned measures (item ‘e’ mentioned on the last page of the document) a new framework should be in place so as to, from 1st January 2021, allow actual participation of demand response, including via independent aggregators. **This is most welcome.**

For the time being, it seems the efforts are focusing on actually allowing the participation of DR in the balancing and ancillary services to the TSO. To our knowledge, the terms and conditions to qualify for such services are not yet fully defined, and for instance the test procedures are yet to be made available to potential DR aggregators. This should be further described in a contribution from Fusebox, which position we support in principle with the **same goal: to ensure that DR can actually participate in the Lithuanian electricity markets.** Although competitors, being both DR aggregators, we are both interested in the development of the Baltic markets.

Comments to Lithuanian Electricity Market Development and Implementation Plan

1. Entire document: Structure

The document is poorly structured. Only two sections are given: *Current situation* (p.1) and *Planned measures to improve the electricity market functioning in Lithuania* (p.9). No Introduction is given.

Recommendation: Restructure the document, insert the section *Introduction*.

2. Entire document: Timeframe

The Plan's implementation period not specified. 5years? 10years?

Recommendation: Point out the period of Plan's implementation.

3. Entire document: Quality of text

It is difficult to understand the text. It is fragmented. A lot of ambiguities. The document is not written in good institutional and technical language. There is a lot of grammar inconsistencies and drawbacks in sentence formulation. Similarly, a number of provisions of the Plan are vague. Specifically, the article "the" is frequently missing in the document.

Recommendation: Carefully reedit the document.

4. Entire document: Incomplete understanding of European Energy Policy documents

There is a number of statements which are not in conformity with the accurate understanding of ENTSO-E network Codes and other EU policy documents.

Recommendation: Carefully reedit the document.

5. Entire document: Baltic dimension

The Plan weakly associates with Baltic States.

Recommendation: Indicate, where appropriate, how Lithuanian actions will be linked with Latvian and Estonian actions.

6. Entire document: Relation to National strategy

The Plan seems not to be related to *National Energy Independence Strategy*. It has no reference to *Implementation Plan of National Energy Independence Strategy of the Republic of Lithuania (2018-2022)*.

Recommendation: Make references, where appropriate, to both *Strategy* and its *Implementation Plan*.

7. Entire document: Acronyms

There is a number of acronyms (ACE, DSR, FCR, etc) not explained. It frequently makes the text unintelligible.

Recommendation: Disclose the acronyms, for instance in brackets.

8. Entire document: Definitions

The most relevant terms (in particular those with acronyms) need definitions, otherwise the text is rather unintelligible.

Recommendation: Give definitions of major terms, at the best in footnotes. Some terms could be provided with references to the European documents, where definitions could be found.

9. Page 1, Introduction

The beginning of implicit introduction (p.1) refers to Study of Kaunas University of Technology. It is irrelevant for the purposes of the Plan.

Recommendation: Insert the objectives of the Plan. Replace the sentences about Study with relevant introductory sentences.

10. Section *Current situation*

The section tackles both current situation and future planning measures.

Recommendation: Rename the section or restructure the document so as to separate the current matters from planned matters.

11. Page 9, Section *Planned measures to improve the electricity market functioning in Lithuania*

The section wrongly indicates that "electricity market related measures implementation in Lithuania" is in the view of "improving the investment signals".

Actually, no one listed measure relates to investment signals.

Recommendation: reformulate the respective sentence eliminating the “investment signals”.

12. Page 4, Subsection *Policies and plans regarding self-consumption*:

1. The section does not envisage to bring prosumers closer to competitive market.
2. No reference to electricity storage is made in the subsection.
3. No reference to energy community and peer-to-peer trading is given.
4. Microgrids and electrical vehicles are not seen in the context of self consumption.

Recommendation: Insert the aforementioned realities into this or other sections (if appropriate).

13. Page 6, Subsection *DSR participation in electricity market*

The section wrongly indicates that DSR services can be provided in wholesale energy markets.

Recommendation: Revise carefully the subsection.

14. Entire document: Editing comments

We made several tens of comments and corrections throughout the document.

Recommendation: Revise our comments and corrections as much as appropriate.

EESTI ENERGIA'S COMMENTS REGARDING LITHUANIA'S ELECTRICITY MARKET DEVELOPMENT AND IMPLEMENTATION PLAN (ISSUED BY 27.12.2019):

1. Lithuanian electricity market will face substantial mothballing and phasing-out of old inefficient power units by 2025. The study results showed that, in order to maintain reliable electricity system's operation and security of supply, it is necessary to make sure that, in addition to the existing capacities, by 2025 new reliable electricity sources will appear in Lithuania (page 1 of development plan).

EE comment: Over the last years, Baltic TSOs and Finnish TSO have conducted joint annual capacity adequacy assessments, but each TSO has individually interpreted the results of these assessments regarding their own country. Although the situation in Estonia is going to be similar to Lithuania by 2025 (ca 2/3 of older power units will be phased-out), Estonian TSO, with reference to cross-border interconnections and the possibility to import electricity from neighbouring systems (of EU origin), holds currently an opinion that operations of Estonian electricity system are secured by 2025 and most probably by 2029. Given the fact that congestions between the Baltic bidding areas are small and lessening (due to construction of new interconnections and strengthening the existing ones), it is surprising that the views of Lithuania and Estonia are differing to such a great extent in terms of reliable system operations and security of supply by 2025.

2. Lithuanian electricity system's adequacy concerns are unlikely to be solved by the market only. The Lithuanian electricity market is fully operational – all commercial consumers pay for electricity at market prices and household consumers have the right to choose an independent electricity supplier and purchase electricity in the market, there are necessary conditions in place for ability to provide DSR services in the market, there are no unreasonable price limitations or barriers in the market. However, still Lithuanian electricity market is suffering from inability to send adequate investment signals (page 1 of development plan).

EE comments:

- Last RES auctioning which was held in November 2019 produced results according to which at least several market participants made bids against the reference price (45,07 €/MWh)¹ without asking any premium. Given the fact that reference price was lower than the average market price in Lithuanian bidding area in 2019 and 2018 (46,12 €/MWh and 50,00 €/MWh respectively) then it could be claimed that market participants are actually prepared to invest against the market prices.

- We disagree that Lithuanian electricity market is fully operational. There are very few household clients (altogether ca 200 clients) which are buying electricity for market prices from independent suppliers as the regulated price has been stable and somewhat lower than the market price. Full deregulation of household market is expected only in 2023. Moreover, currently there are more than 9000 companies (mostly SME's) and 16000 non-household clients (farmers, public companies and organisations etc) attached to guaranteed supply scheme and DSO has done nothing to steer them to the market.

- Regarding unreasonable price limitations, Lithuanian TSO has an active peak load reserve in amount of 50 MW, which will be activated at a fixed price of 203 €/MWh in case of a curtailment situation in Lithuania. We consider such interventions as unreasonable price limitations which would undermine providing adequate investment signals to market participants.

<https://www.nordpoolgroup.com/message-center-container/newsroom/tso-news/2013/q2/No-292013---Peak-load-production-in-Lithuania-to-be-made-available-for-Elspot-from-1-June-2013/>

- Regarding market barriers, Lithuania is discriminating the market participants of EU origin by applying export tariff (5,87 €/MWh) to electricity exports from Lithuania to third countries. At the same time no similar import tariff is being applied on imports of electricity from third countries. This export tariff is not cost based because not a single MWh of electricity has been exported from Lithuania to third countries after this tariff was introduced in

¹ The reference price is calculated according to the calculation rules. And it is production costs for 1MWh of electricity, using most effective technologies. From the past 3 years high voltage connection costs are used. Then investment costs and WACC. Calculation is based on NPV 0 calculation

2016. That was actually the aim of setting this export tariff (keeping the prices as low as possible in Lithuania and hampering any potential exports).

<https://www.regula.lt/Puslapiai/naujienos/2019-metai/2019-spalis/2019-10-31/nustatyta-naudojimosi-jungiamuju-liniju-paslaugomis-kaina-2020-metams.aspx>

- In terms of availability of Long Term Transmission Rights (hedging instruments), we should say that there are no liquid LTTRs available in Lithuania although transfer capacities are allocated to the market by implicit auctioning only. During the last review, which was held in 2017, TSOs proposal (and NRAs decision) was not to issue LTTRs on Lithuania-Latvia, Lithuania-Poland and Lithuania-Sweden (SE4) borders. Instead of that, it was suggested that transmission capacity between Estonia-Latvia should be strengthened so that Lithuanian and Latvian market participants would have access to Helsinki EPAD (Finland) which is liquid instrument.

However, rapid increase of CO2 price in the EU ETS system, which left large amount of Estonia's oil shale based generation capacity out of the market, has changed the situation significantly. Namely previously experienced structural congestion between Estonia and Latvia almost disappeared in 2019 and significant congestion emerged between Finland and Estonia. Hence, strengthening of transfer capacity on Estonian-Latvian border no longer helps to get better access to liquid Finnish EPAD's.

Although EPAD's are also notified in Riga and Tallinn, they can not be considered by any means (traded volumes, bid-ask spread, open interest) as liquid. As Baltic electricity markets are small, highly concentrated and the share of competitive dispatchable generation is decreasing in a foreseeable future then there is also no immediate prospect that these EPADs could become liquid any time soon. Therefore, on 14.08.2019 12 Baltic market participants sent a joint letter to Finnish and Estonian NRAs regarding the necessity to introduce LTTRs on Finnish-Estonian border as soon as possible.

For the time being, we have learned from Estonian NRA that Finnish and Swedish NRAs are prepared to analyse the situation regarding LTTRs in 2020 but only in case all respective NRAs (Baltic, Finnish and Swedish) will participate. Given the fact that interconnector between Sweden and Lithuania is probably one of the most congested interconnector in the EU (please see the price differences between Lithuania and Sweden (SE4) bidding areas since commissioning of the interconnector between Lithuania and Sweden) then Lithuanian NRA should consider the situation in terms of introduction of SE4-LT LTTR once again.

	LT	SE4	Dif
	(EUR/MWh)	(EUR/MWh)	(EUR/MWh)
2016	36,54	29,53	7,01
2017	35,13	32,18	2,95
2018	50,00	46,36	3,64
2019	46,12	39,82	6,30

- Regarding market distortions, we would like to underline that price formation in Lithuanian wholesale electricity market and in the Baltic states in general is significantly distorted by imports of electricity from the third countries (Russia, Belarus). In spite of this fact, Lithuanian market development plan is completely silent of this issue. The source of distortion stems from the fact that Russia/Belarus have no climate policy and carbon emissions of power generation are free of any charge in these countries. Such situation provides to third countries imports significant competitive advantage and enables them to profit from the mentioned disparity in regulatory base.

We would specifically like to underline that imports from the third countries have significantly increased since 2018 when the CO2 price in EU ETS system tripled. In 2019 the imports increased already to 7,8 TWh which makes ca 31% of annual electricity consumption in the Baltic states (please see table below). Most part of the electricity is imported via Belarus interconnection (BY-LT) and the rest from Kaliningrad region (KAL-LT). Although Baltic Energy Market Interconnection Plan contains provision according to which Baltic states and Finland should agree on a common position and trading principles towards non-EEA third countries by 2013 at the latest, it has not happened so far. It's important to stress that Lithuanian party has been particularly passive in respect of this issue.

	KAL-LT	BY-LT	RU-Baltic
2013	1 879 313	1 769 079	3 648 392
2014	1 999 528	1 714 466	3 713 994
2015	1 840 542	1 401 697	3 242 239
2016	2 033 982	1 146 522	3 180 504
2017	2 516 031	776 391	3 292 422
2018	2 943 752	2 557 213	5 500 966
2019	2 622 579	5 200 595	7 823 174

If before 2016 such passiveness was understandable because Lithuania needed these imports for security of supply reason, then starting from December 2015, when LitPol Link with Poland and NordBalt cable with Sweden were commissioned, supply security is no longer an issue. The issue is rather related to market price.

Currently there is an ongoing debate between the Baltic states regarding introducing cost based infrastructural tariff on third countries electricity imports in order to balance at least partly third countries imports competitive edge. According to our information, Estonia and Latvia have proposed to Lithuania to introduce such tariff on the borders with third countries but Lithuania has refused to cooperate.

3. In Baltic Energy Market Interconnection Plan (BEMIP) Action Plan (approved in 2015) it is set that there should be a gradual phase-out of regulated prices for households and set target-deadline – national electricity price regulations mechanisms abolished by 2020 (page 1 of development plan).

EE comment: according to initial BEMIP (adopted in 2009), full opening of retail markets were foreseen by 2015. Lithuania was the only party which did not fulfil agreed commitment.

4. Stages of de-regulation of the retail electricity supply market for households have been selected according to the least vulnerable groups of electricity consumers, taking into account that certain amount of time is necessary for the market mechanisms to evolve with regard to the pricing, effective consumers and suppliers interaction, etc. The first and second phase of de-regulation shall cover only those electricity consumers with the highest annual electricity consumption, who should be most interested and capable in finding an alternative electricity supplier that is able to offer the most competitive electricity price to such a consumer because of their high annual electricity consumption. It is expected that at the third stage when electricity supply for regulated price will be terminated to all the rest of the consumers, the market will be developed and supply prices will be already settled (page 3 of development plan).

EE comment: we agree that certain amount of time is necessary for the market mechanisms to evolve with regard to the pricing, consumers and suppliers interaction etc. As it is expected that only at the third stage of deregulation of household electricity market the supply prices will be settled, then one might ask whether it is too soon to consider introduction of capacity market mechanism prior that time (01.01.2023).

EU REGULATION 2019/943:

Article 20 Resource adequacy in the internal market for electricity

2. Where the European resource adequacy assessment referred to in Article 23 or national resource adequacy assessment referred to in Article 24 identifies a resource adequacy concern, the **Member State concerned shall identify any regulatory distortions or market failures that caused or contributed to the emergence of the concern.**

3. Member States with identified resource adequacy concerns **shall develop and publish an implementation plan with a timeline for adopting measures to eliminate any identified regulatory distortions or market failures as a part of the State aid process.** When addressing resource adequacy concerns, the Member States shall in particular take into account the principles set out in Article 3 and shall consider:

(a) **removing regulatory distortions;**

(b) **removing price caps;**

(c) introducing a shortage pricing function for balancing energy;

(d) increasing interconnection and internal grid capacity;

(e) enabling self-generation, energy storage, demand side measures and energy efficiency by adopting measures to eliminate any identified regulatory distortions;

(f) ensuring cost-efficient and market-based procurement of balancing and ancillary services;

(g) **removing regulated prices** where required by Article 5 of Directive (EU) 2019/944.

4. The Member States concerned shall submit their implementation plans to the Commission for review.

5. **Within four months of receipt of the implementation plan, the Commission shall issue an opinion on whether the measures are sufficient to eliminate the regulatory distortions or market failures** that were identified pursuant to paragraph 2, and may invite the Member States to amend their implementation plans accordingly.

Article 21 General principles for capacity mechanisms

1. To eliminate residual resource adequacy concerns, Member States may, as a last resort while implementing the measures referred to in Article 20(3) of this Regulation in accordance with Article 107, 108 and 109 of the TFEU, **introduce capacity mechanisms.**

2. Before introducing capacity mechanisms, the **Member States concerned shall conduct a comprehensive study of the possible effects of such mechanisms on the neighbouring Member States by consulting at least its neighbouring Member States to which they have a direct network connection** and the stakeholders of those Member States.

3. Member States shall assess whether a capacity mechanism in the form of strategic reserve is capable of addressing the resource adequacy concerns. Where this is not the case, Member States may implement a different type of capacity mechanism.

Article 22 Design principles for capacity mechanisms

1. Any capacity mechanism shall:

(a) be temporary;

(b) **not create undue market distortions** and not limit cross-zonal trade;

(c) **not go beyond what is necessary** to address the adequacy concerns; ...