



KONKURENTSIAMET
Estonian Competition Authority

Latest developments in Estonia

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Estonian Competition Authority

Baltic Electricity Market Mini-Forum

Tartu 25.09.2008



Market opening

- **Transitional period for opening the electricity market in Estonia**
 - Until 2009 market opening level is 12%. Eligibility level 40 GWh.
 - **From 1.01.2009 35%. Eligibility level will be 2 GWh.**
 - From 2013 100%.
- Some discussions concerning market opening before 2013, but not very seriously taken by the present government. The leading power company is interested for full market opening.
- The price of non-eligible customers is regulated by ECA (price cap). The price cap is on a reasonable level 45,6 Estonian cent/kWh (2,9 eurocent/kWh).
- There is a special clause in the electricity market act, which allows the electricity supplier in special circumstances (rapid price increase) to increase the price without approval of the regulator. The avoidance of the *California Case*.



Market opening (2)

- The eligible consumers have the right to purchase electricity with regulated price. The restriction is, if the eligible customer has selected for regulated price, it can not change the supplier within one year.
- The most of eligible customers will not change the supplier by 1.01.2009 (market opening by 35%).
- The markets in three Baltic states are with high market concentration. In Estonia the wholesale market concentration is close to 100%.
- Preconditions for market functioning are the links to the Nordic or Central European markets
 - Estlink 1 365 MW (in commercial use until 2013)
 - Estlink 2 650 MW (planned in operation by 2013)



Price regulation generation and supply

- The oil-shale, generation and supply price are regulated (until 2013).
- In generation and supply price the justified return is calculated based on regulatory asset base (RAB).
- Its reasonable for generation, but not for supply, because the value of fixed asset for supply, is very limited.
- According to the new methodology the justified return will be calculated based on return. Proposed operating profit is 1,5% to 2,0% from the turnover.



Price regulation generation and supply (2)

- Adjusted generation price by 1.01.2009.
- Price increase 11% approximately. The main reasons:
 - High inflation 10,7% (the cost saving factor for operating cost is 1,5%).
 - Increase of environmental taxes.
 - Rapid Increase of diesel oil, explosion materials and other raw material. Significant share in oil-shale price).



New regulatory period for network tariffs

- The second 3-years RPI-x regulatory period 2008-2010
 - **Based on calculation of x-factor**
 - Annual demand growth 3% ($\frac{1}{2}$ of GDP growth)
 - Cost savings on operational costs 1,5% per annum
 - Power loss reduction in the distribution network 0,5% per annum. Target value is 7,0% by 2011.
 - Investments to the distribution network 250 million Euros and to the transmission network 100 million Euros.



New regulatory period for network tariffs (2)

- The second year of the regulatory period will start by 1.03.2009. According to the electricity market act, the tariffs shall be announced 3 month before. The tariffs will be fixed by the 1.12.2008 at the latest.
- Expected tariff increase 4%.
 - Increased price of electricity (power losses).
 - High inflation.



Issues related to the links, need to be discussed

- Estlink 1 (365 MW).
 - In commercial use until 2013. No TPA. Some plans of the network owners to terminate the special status (partly or fully). Needs the acceptance of the Finnish and Estonian regulator.
 - What will happen when the special status terminates. Whether the asset will be transferred to the RAB of all Baltic TSO-s + Finland or Estonia + Finland.
 - ECA supports the full opening of Estlink 1. Its clear, that the link will be congested, capacity allocation is needed.
- Estlink 2 planned as a part of TSO-s with TPA. The other links in the Baltic region?



Main findings of the EU report (1)

- Extremely high market concentration both in electricity and gas.
- Concentration on single energy source in electricity generation. Oil-shale 95%.
- Independence from imports in electricity generation.
- High dependence on CO₂ emissions.
- Deficit in installed capacity by 1 200 MW, if there will be no new investments or refurbishment of the existing oil-shale generation plants.

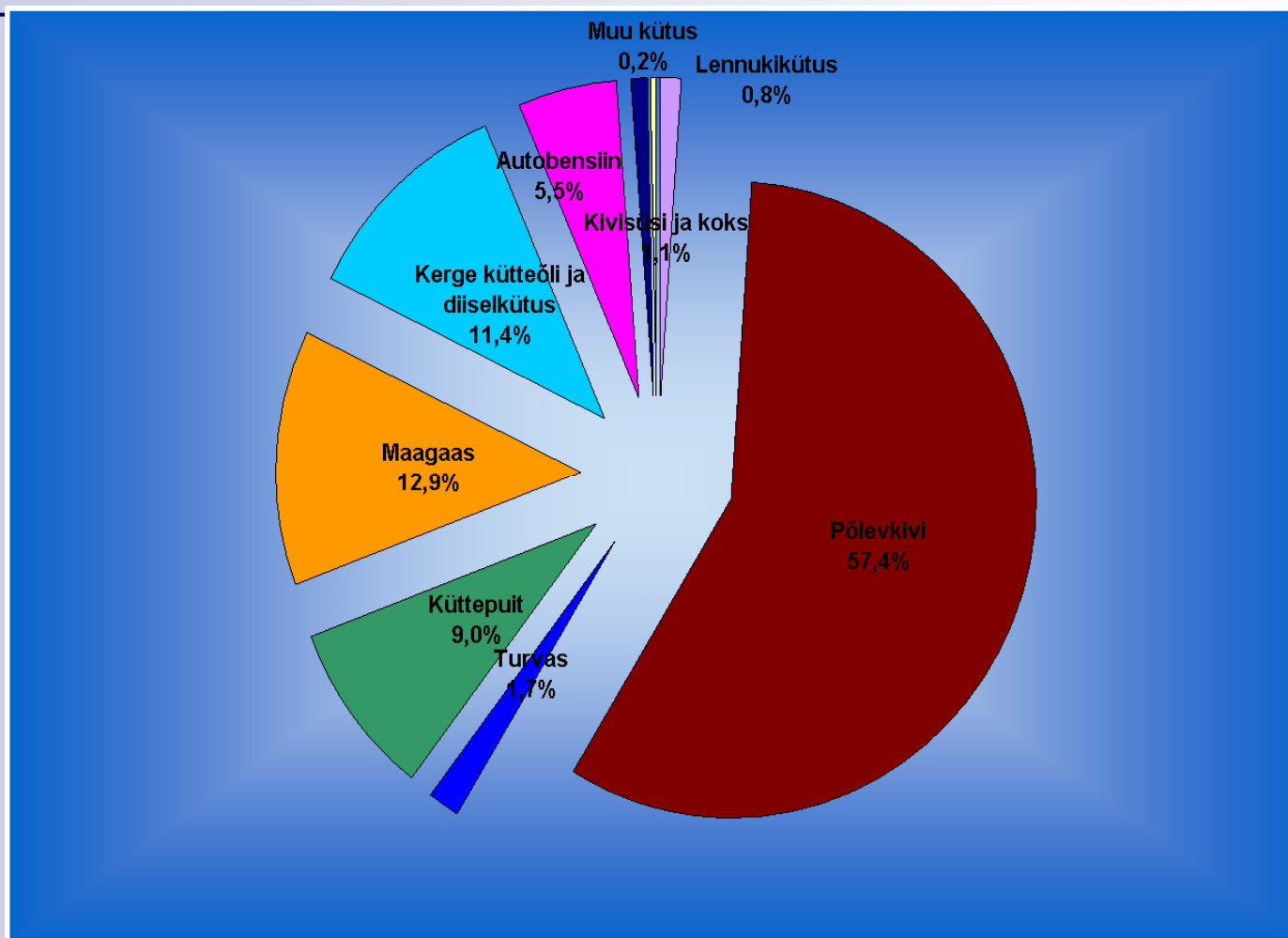


Main findings of the EU report (2)

- The share of natural gas is not significant in primary energy balance 13%
- But rather high in heat supply 46%
- The power consumption is still growing 4% in 2007.

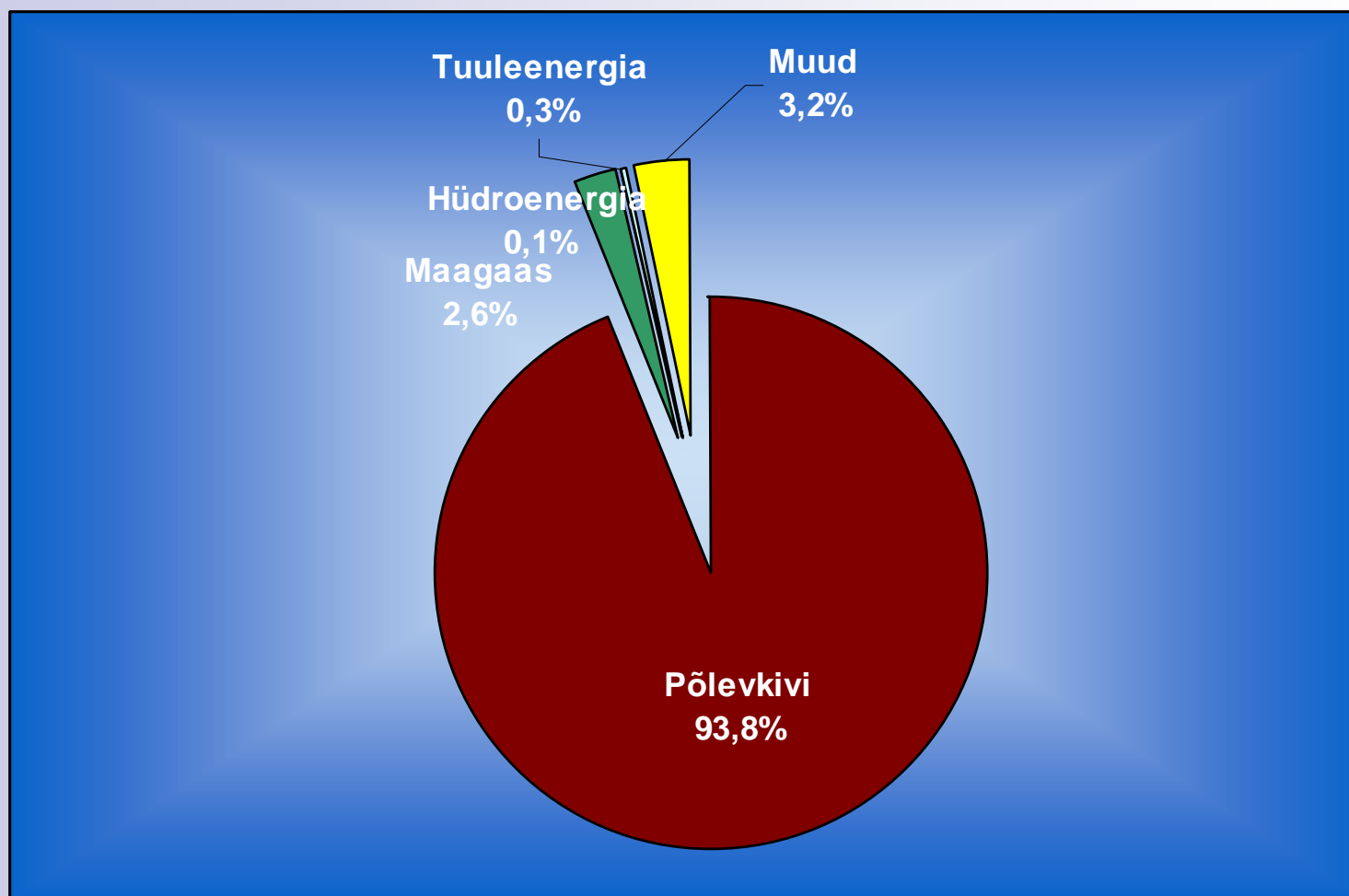


Primary energy balance



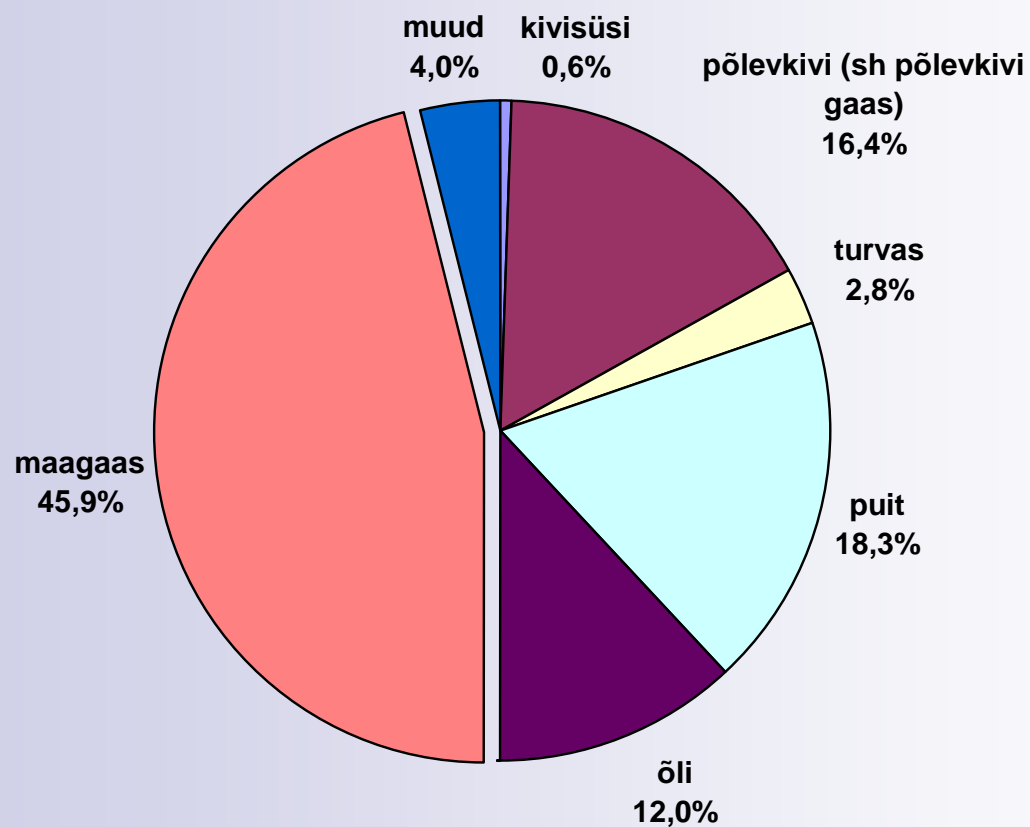


Energy sources used for power generation



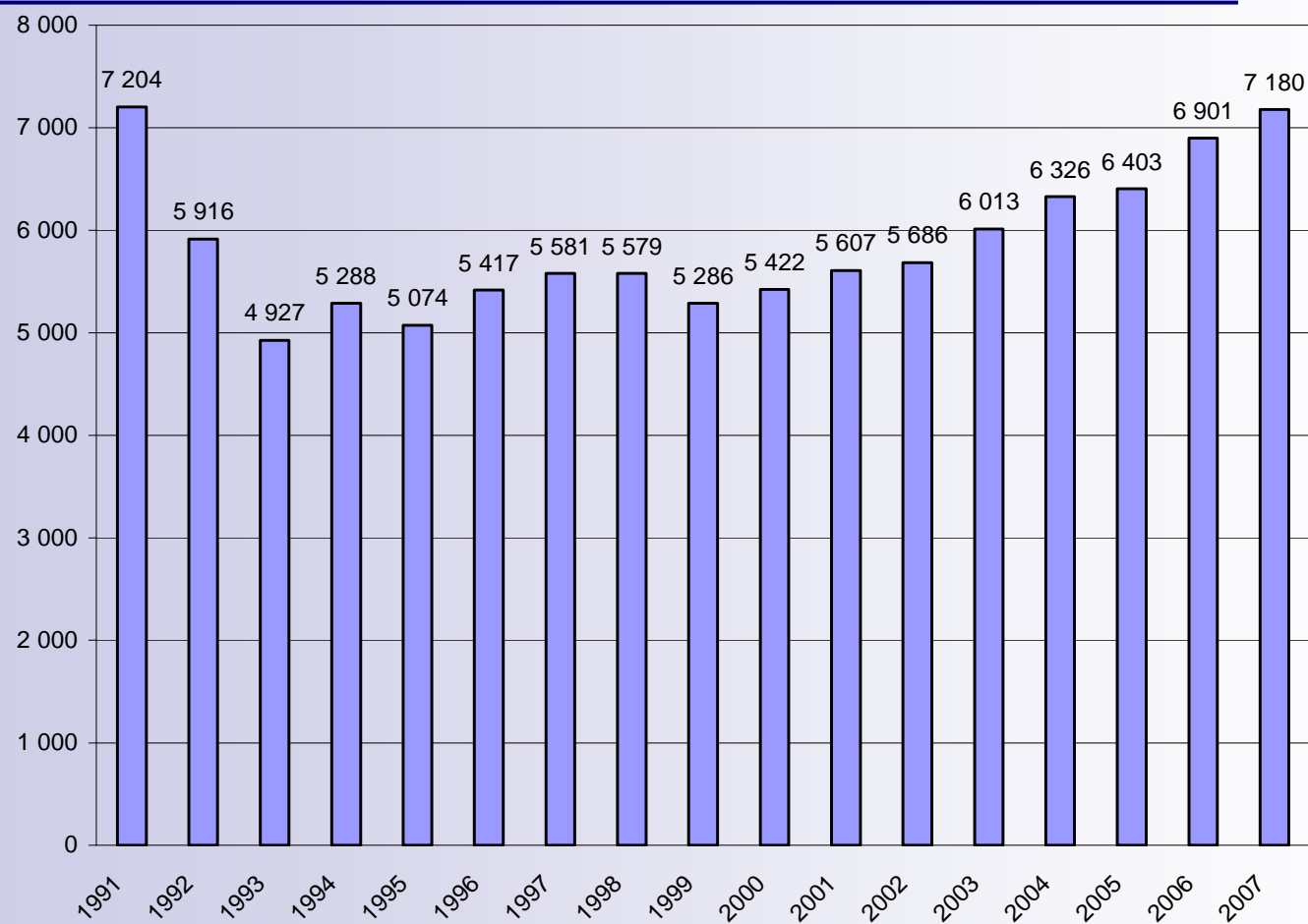


Fuels used for heat supply





Power consumption (GWh)





Impact of CO₂ allowances

- The electricity generation is CO₂ intensive
 - 1 MWh electricity = 1 ton of CO₂
 - The price of CO₂ 20 €/ton = electricity price +20 €/MWh
- The scheme imposed by the European Commission for the period of 2008-2012 reduced dramatically the amount of CO₂ emission allowances
- The proposed amount for 2008-2012 is more or less sufficient to cover the domestic consumption.
- Uncertainty for the next CO₂ emission allowances period starting from 2013
- The investment decision of the oil-shale generation capacity is not made.



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Thank You for Your Attention!

Further information

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