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NATIONAL ENERGY REGULATORY COUNCIL**

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LITGRID AB

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AS Augstsprieguma tīkls
Elering AS

Copy
Public Utilities Commission of Latvia
Estonian Competition Authority

**REGARDING COMMON BALTIC TRANSMISSION SYSTEM OPERATORS' TERMS,
CONDITIONS AND METHODOLOGY ON CROSS-ZONAL CAPACITY CALCULATION,
PROVISION AND ALLOCATION WITH RUSSIA**

On 9th October 2020 National Energy Regulatory Council of the Republic of Lithuania (hereinafter – NERC) received Lithuanian transmission system operator (hereinafter – TSO) LITGRID AB letter No. SD-2797 together with the draft of Common Baltic transmission system operators' Terms, Conditions and Methodology on Cross-Zonal Capacity Calculation, Provision and Allocation with Russia (hereinafter – the Methodology) and the public consultation summary¹.

On 14th October 2020 NERC sent letter No. R2-(RPS)-5491 to LITGRID AB, AS Augstsprieguma tīkls and Elering AS asking to provide simulation results of physical and commercial flows after the start of Belarusian nuclear power plant (NPP) and to organize a public hearings for stakeholders and electricity market participants, during which the Methodology and foreseen changes could be presented and explained.

On 22nd October 2020 NERC received LITGRID AB letter No. 20SD-3023 with preconditions and simulations results of physical and commercial flows after the start of Belarusian NPP and information that on 21st October 2020 LITGRID AB presented these results to market participants. Furthermore, on 22nd October 2020 NERC received AS Augstsprieguma tīkls letter No. 2.5/2020/3824 with performed trading capacity calculations for trades on Russian–Latvian border and information that on 22nd October 2020 Augstsprieguma tīkls organized informative meeting with Latvian market participants.

First of all, NERC would like to thank LITGRID AB, AS Augstsprieguma tīkls for performing these additional calculations of physical and commercial flows after the start of Belarusian NPP and organising hearings with market participants.

¹ <https://www.litgrid.eu/index.php/news-events-/news/regarding-the-terms-conditions-and-methodology-on-cross-zonal-capacity-calculation-provision-and-allocation-with-russia/31312>

NERC would like to express concerns and to submit comments about the technical implementation of the Methodology:

1. The LITGRID AB, AS Augstsprieguma tīkls have explained that the multiplier 0,62² was introduced by the agreement of senior energy policy officials of the Baltic Council of Ministers reached at the meetings on 31st August 2020 and 24th September 2020. Accordingly, Baltic TSOs have considered this agreement, when drafting the Methodology and explained that the idea behind the multiplier 0,62 is to ensure that capacity of Belarus-Lithuania cross-border interconnection shall be excluded from the total trading capacity with the third countries. However, after analysis of possible outcome of the calculated trading capacity amount, NERC conclude that the calculation principle of multiplier 0,62 neither represents the actual physical flows from Russia and Belarus in 2019, nor possible physical and commercial flows after the start of Belarusian NPP.

Moreover NERC considers that estimate the impact of the applied formulas and multiplier on the final result of capacity and commercial flows based on the actual 2019 data is not realistic, as it is assumed that the balance of the Belarusian electricity system would not change after the start of Belarusian NPP, in other word, it is Baltic TSOs' estimation that Belarus will consume all the electricity produced by Belarusian NPP domestically and will not seek to export.

Due to that reasoning and following NERC request, LITGRID AB performed calculations of a more realistic scenario, in which the balance of the Belarusian system will be in surplus of 580 MW (it should be noted that Belarusian NPP is multi-reactor NPP with two reactors planned with a capacity of 1200 MW each), and which could possibly lead to the following results:

- trade capacity with Russia could increase from the total 594 MW of capacity used for trade between mainland Russia (excluding the Kaliningrad region, RU) and Belarus (BY) up to 814 MW after the start of the Belarusian NPP for trade with RU;
- electricity trade with RU would significantly increase. The amount of electricity actually imported from RU and BY in 2019 to the Baltic States was 5.2 TWh while after the start of Belarusian NPP and applying the calculation principles proposed in the Methodology the total amount of electricity to be imported from RU could be 7,1 TWh;
- there is also a significant increase in physical electricity flows through BY – LT electricity transmission connections (in 2019, the actual electricity flow to the Baltic States via Latvia – Estonia and RU connections accounted for 43% (2,2 TWh), via BY – LT 57% (3 TWh), i.e., after the start of Belarusian NPP 28% (2 TWh) of electricity would physically enter through the Latvian-Estonian and RU transmission connections, and 72% (5,1 TWh) through the BY-LT transmission interconnections).

NERC is in opinion that the realistic possibility of significant increase in physical electricity flows and commercial trading capacities is not in line with the Law of the Republic of Lithuania on Necessary Measures of Protection Against the Threats Posed by Unsafe Nuclear Power Plants in Third Countries and does not provide necessary effect to eliminate the impact of Belarusian NPP on the calculated trading capacity amount according to the Methodology.

² The Methodology point 8.6 explains that 0,62-multiplier is used to eliminate proportion of Lithuania-Belarus cross-border interconnection TTC from the sum of TTC on border of Lithuania, Latvia and Estonia with Russia (except Kaliningrad area)

Taking that into account, NERC proposes to establish the principle that the Latvian-Russian trading capacity is calculated before working session of day-ahead market by estimating the actual physical flows of the Latvian-Russian interconnection based on the actual hourly physical flows data from the previous day.

This principle reflects the common position of the Baltic States that only electricity generated in Russia will be traded between Latvia and Russia, as trading capacity would be issued only to the extent of the physical flows through the Latvian-Estonian transmission interconnections with Russia, but eliminating physical Belarus-Lithuania electricity flows. As the actual trading capacity can be calculated only before working session of day-ahead market, such principle would not reduce the capacity with Russia in advance but would be dependent on hourly physical flows data from the previous day.

According to the calculations of the LITGRID AB, the average distribution of physical flows of LV-RU and EE-RU cross border connections would be 28 % and on BY-LT interconnection 72 %. Considering that during the capacity allocation process the limiting factor is NTC_{EE-RU} (950 MW) the power trade between Latvia and Russia could be on yearly average 266 MW ($950 \text{ MW} * 28 \%$) and the estimated annual amount of electricity import from Russia would be on average 2,3 TWh. The NTC_{EE-RU} is the maximum possible value of the trade capacity calculations result with LV-RU. The actual values would be calculated every day during the capacity determination process and would be based on actual hourly previous day physical flows. NERC is in opinion that introduction of Latvian-Russian trading capacity calculation principle based on actual hourly physical flows data from the previous day could be considered in line with the Law of the Republic of Lithuania on Necessary Measures of Protection Against the Threats Posed by Unsafe Nuclear Power Plants in Third Countries.

2. Furthermore, NERC is in opinion that the system of certificates should be effective and allow to trace the origin of generated electricity. Baltic TSOs should guarantee that with proposed system of certificates Lithuania's market will be protected from electricity import from third countries where unsafe nuclear power plants operate.

NERC received information from LITGRID AB that the Baltic TSOs were not able to reach common agreement on the effective system of certificates, as LITGRID AB and AS Augstsprieguma tīkls proposed different solutions to this matter. Therefore, NERC would like to enquire how Baltic TSOs are planning to ensure traceability and mechanism of sanction for EU suppliers in case of the breach of prohibition to import electricity produced in Belarus.

3. As the the Methodology is of high priority regional documents, the Methodology provided by LITGRID AB for NERC's approval needs to be approved in LITGRID AB Board meeting before submitting it to NERC in order to ensure that LITGRID AB has legal responsibility that the proposed technical solutions are in line with the Law of the Republic of Lithuania on Necessary Measures of Protection Against the Threats Posed by Unsafe Nuclear Power Plants in Third Countries and ensure that electricity produced in unreliable nuclear power plants must not enter the electricity market of the Republic of Lithuania.

NERC is hoping that the utmost consideration will be given to the NERC's comments as above till 6th November and depending on that will take the reasonable decision in terms of the approval of the Methodology.

Finally, NERC would like to inform that NERC will organise the Methodology's (*Lithuanian translation version*) national public consultation till 5th November 2020, which has to be initiated according to Lithuania's national consultation procedures ensuring that all rules submitted for NERC's approval must be consulted in Lithuanian language beforehand.

NERC assures that is ready for further cooperation aiming that the development of the Methodology would be in line with the Law of the Republic of Lithuania on Necessary Measures of Protection Against the Threats Posed by Unsafe Nuclear Power Plants in Third Countries and will set clear electricity trading rules for market participants.

Chair

Inga Žilienė