

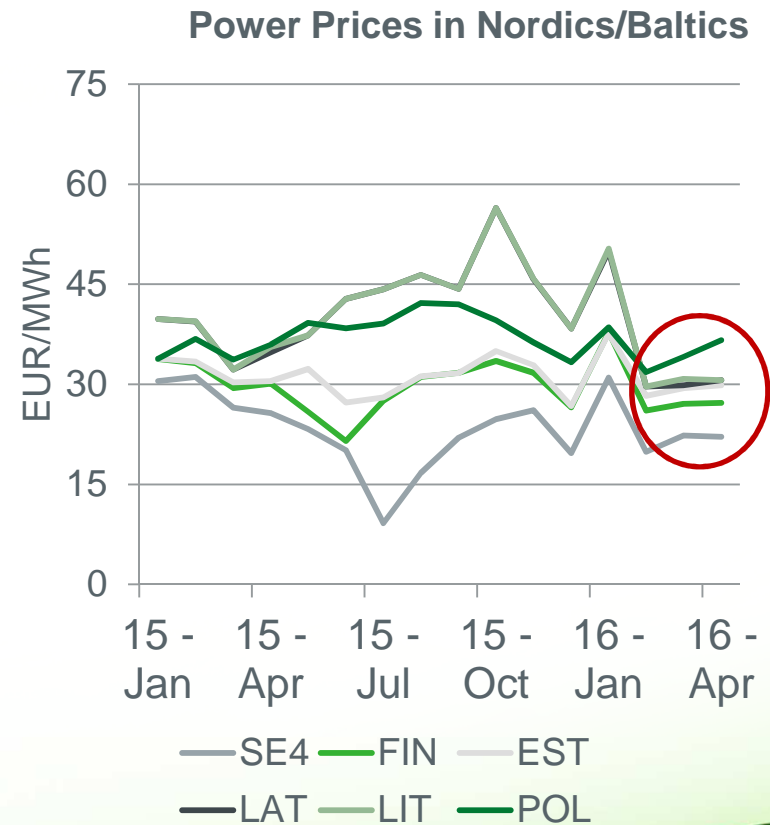
# Key Themes for the Baltic Power Market

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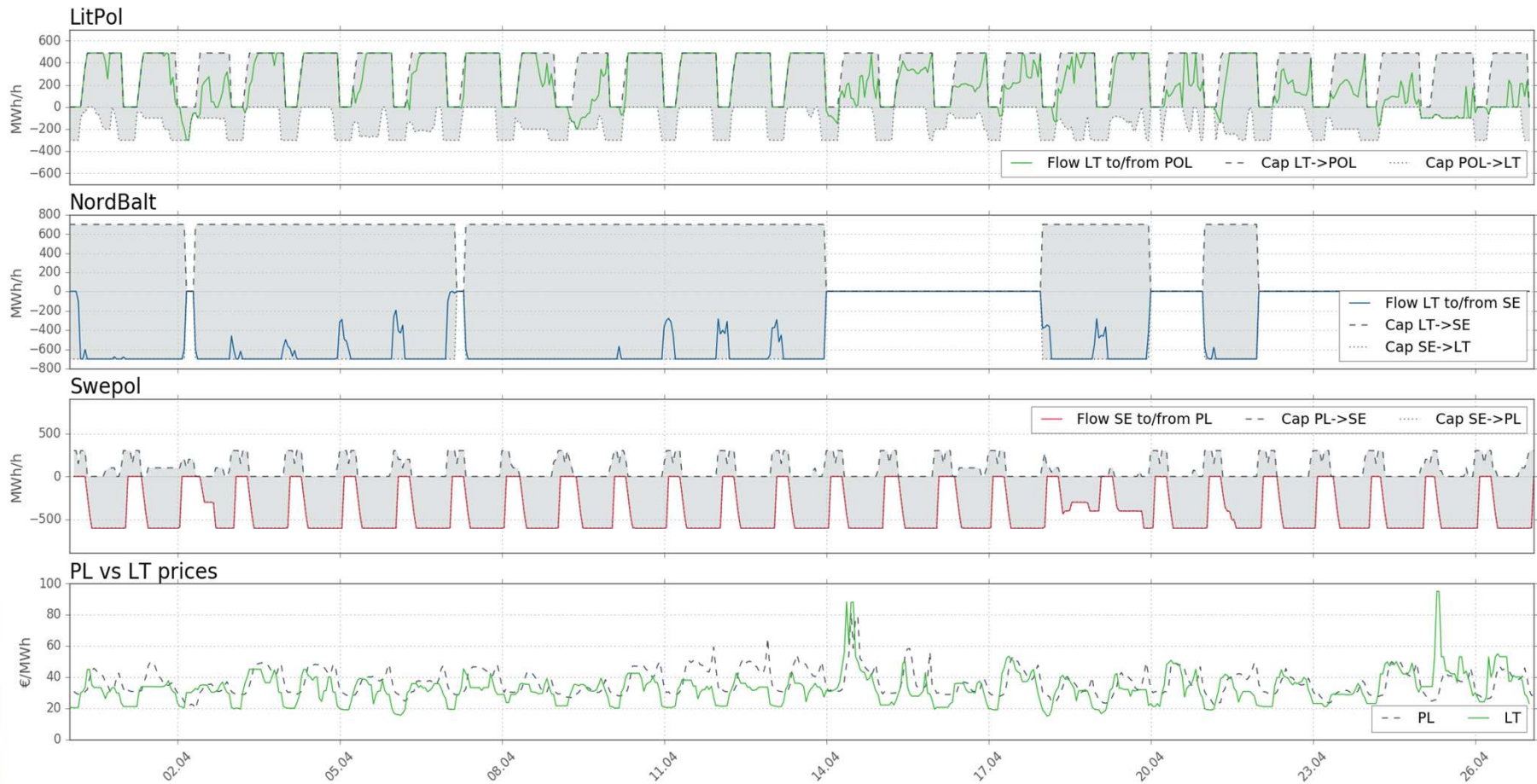
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# Post NordBalt Attention Needed on Border Capacity Allocation

- Introduction of NordBalt and LitPol in 2015/16
- Welcome upcoming new connections between EST/LAT and LIT/POL by 2020
  - Baltic market integration increasing but also more sizeable electricity transit to Poland
- Predictable capacity allocation on the borders of paramount importance for modelling the power market
  - LitPol off-peak capacity allocation
  - NordBalt intraday capacity allocation (example 20.04.16)
- Regulators' vigilance required to guarantee transparent and effective marketplace

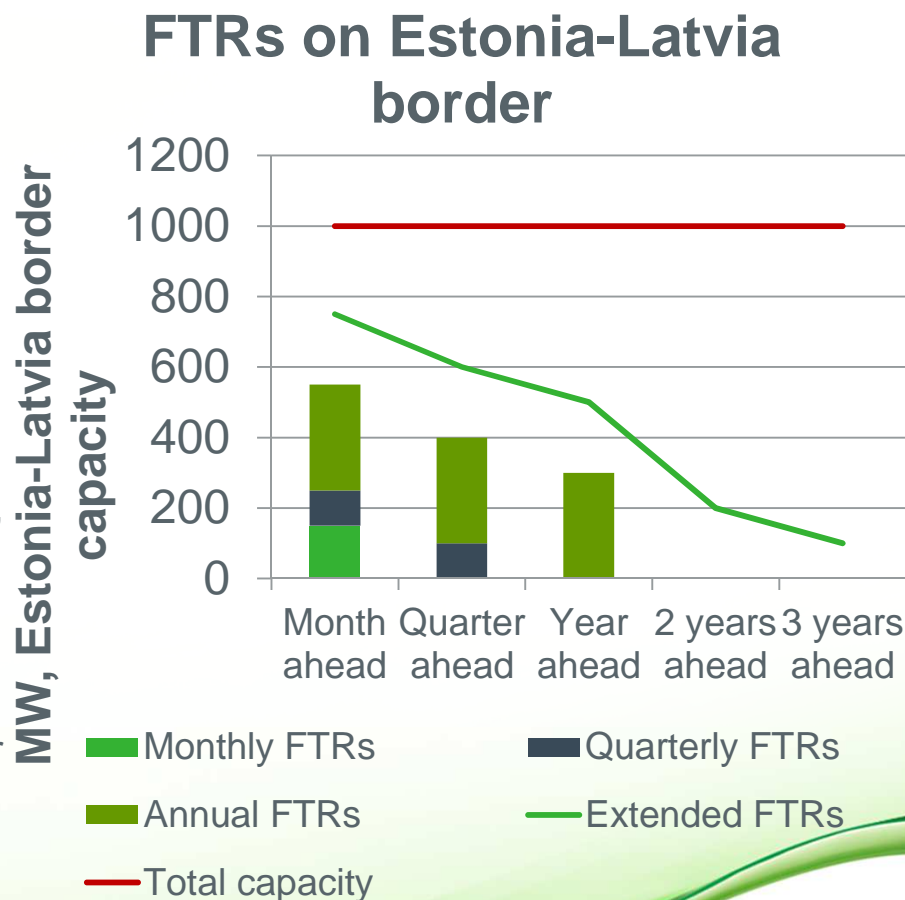


# LIT-POL and SE4-POL Off-peak Capacity Limitations



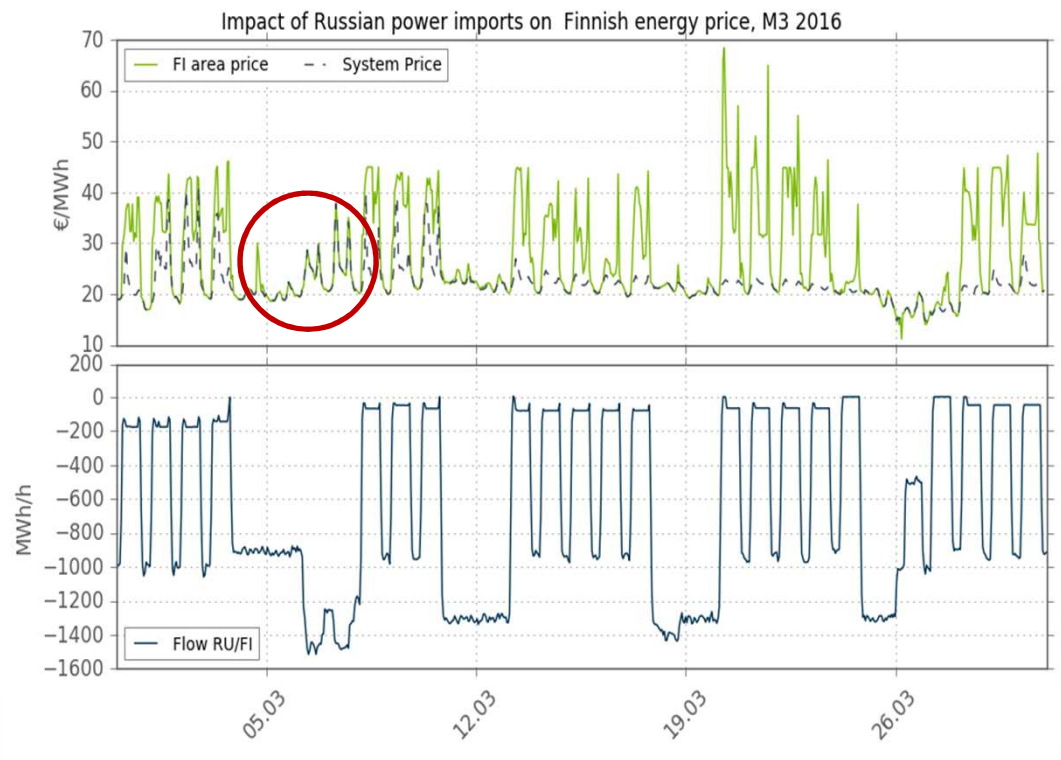
# Extended Family of FTRs Needed

- Baltic market EPADs limited to allow for meaningful hedging
- Retail market customers interested in fixed prices for term longer than a year
- Extended introduction of FTRs/PTRs would allow more competition in retail market
  - EST-LAT FTRs in principle work well, increased size and longer duration needed (say 200 MW for 2-3 years)
  - Introduction of NordBalt and LitPol FTRs urgently needed
  - In longer term bottleneck may appear on FIN-EST border
- TSOs constant attention needed on the evolving topic



# Non-EU Imports' Impact on Finnish and Baltic Power Prices

- Clash of power market models between Russia and EU
- Cheaper power in Russian off-peak (sometimes also within the week, e.g. March 8) influences Finland and the Baltics
- Instead of Lithuanian export tariff introduced in 2016, dynamic Baltic (and perhaps Baltic/Finnish) export-import tariff needed to address current limitations



# Conclusion

- Regional power market facing new bottlenecks and increased interdependence after NordBalt and LitPol
- Important that regulators take a close eye on application of transparency rules and conditions, which are applied on cross-border electricity trading
- Given the increasing fluctuation of prices and persisting client preferences, further development of financial electricity market instruments should remain a priority for TSOs
- Right time for a comprehensive review on the EU/Non-EU border mechanism, including an introduction of dynamic export-import tariff taking into account Baltic and Finnish experience