BALTIC ENERGY MARKET INTERCONNECTION PLAN

- 4th progress report –

June 2011 - May 2012

INTRODUCTION

1. BACKGROUND

In October 2008 European Commission President Barroso, following the agreement of the Member States of the Baltic Sea Region, decided to set up a High Level Group (HLG) chaired by the Commission on Baltic Interconnections. Participating countries are Finland, Estonia, Latvia, Lithuania, Poland, Germany, Denmark, Sweden and, as an observer, Norway. The HLG delivered the Baltic Energy Market Interconnection Plan (BEMIP), a comprehensive Action Plan on energy interconnections and market improvement in the Baltic Sea Region in June 2009, with clear steps to be taken. This plan was endorsed by the eight EU Member State Heads of State and President Barroso on June 17th.

The Commission has been requested to monitor progress of the Plan's implementation and present a report to the High Level Group twice during the first year and yearly during the following years of implementation. The report should be based on verifiable information provided by the implementing parties and other relevant stakeholders. This progress report may also be presented to the Energy Council after discussions with the High Level Group.

2. OBJECTIVES

The main objectives of this progress report – covering the June 2011 – May 2012 period - are to describe the expected and actual status of actions and projects in terms of activities and timeline, to identify issues and difficulties encountered by the projects during implementation and to identify those that need to be further discussed within the HLG. The report touches upon relevant changes in the external environment. It would also point at the fact that further efforts are required in order to:

- meet the European Council Conclusions of February 4th 2011 "No EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections"
- and ensure implementation of the energy market legislation.

I. PROGRESS TO DATE

1. SUMMARY

1.1. Electricity

Connecting the three Baltic States to neighbouring EU countries and the internal market is the main priority of the BEMIP Action Plan. This priority requires the full implementation of the internal market rules in order to enable the three Baltic States to participate into the EU market. The BEMIP priority interconnections identified in Action Plan are progressing according to the plan. Development plans for wind generation in several BEMIP countries are also progressing.

In line with the agreed roadmap for full implementation of internal market rules and the agreement within the BEMIP HLG on reflection paper on "Electricity market and operating Baltic electricity grid" in 2011, the Commission requested negotiating directives from the Council of Ministers for an agreement between the Russian Federation, Republic of Belarus and the European Union on the legal framework to operate the electricity networks of the Baltic Member States. In February 2012 the Council agreed on negotiating directives. The negotiations started, up to date four meetings took place. The negotiations take place in good atmosphere and both sides are committed to find workable solutions. The parties discussed so far the structure of the future agreement and held technical discussions with participations of the TSOs of both sides.

The Commission - through the European Energy Programme for Recovery (EEPR) - provides funding for the construction of two electricity interconnections between the region and the Scandinavian Peninsula (Estlink2 – Finland/Estonia, NordBalt – Lithuania/Sweden). The project aiming at strengthening the internal Latvian transmission grid receives EEPR support as well. Total amount of the EEPR financial support is €231 million.

1.2. Nuclear

The High Level Task Force on "Nuclear Power Generation" (HLTF) was set up in 2010 to further strengthen involved governments' support in order to promote the successful implementation of the Visaginas project in Lithuania as regional Nuclear Power Plant (NPP) project. Following two meetings of the HLTF in 2010, the third meeting was held on 27 September 2011 in Warsaw to address the status of the Visaginas NPP project and to discuss financing possibilities from the EU financial institutions including update on notification under Euratom Treaty. The three Baltic States confirmed their potential interest and engagement of their national energy and electricity companies in the project. The HLTF supported the idea of utilizing existing EU financial instruments and of examining possibilities to introduce new more open and creative financial tools to strengthen viability of Visaginas NPP. The HLTF will continue to follow and to support the dialogue and cooperation between the Regional Partners. The next HLTF meeting is foreseen to take place after the signature of the project agreement by the project partners, by the end of 2012.

The Commission, after assessment of the information and additional clarifications provided by VAE (as main investor) on the Investment Project for Visaginas NPP, in

accordance with the Article 41 of EURATOM Treaty delivered its opinion on 8 June 2012.

1.3. Gas

The BEMIP Action Plan of 2008 and amended in 2010 covered the Western Baltic area as first step, addressing issues of rapid depletion of the Danish gas fields an diversification of routes and sources of supply concerning Poland, Germany, Denmark and Sweden. Implementation of the identified projects, monitored by the West Baltic Task Force, seems to be on good track (for details, see point 3.7).

Several Baltic regional infrastructure projects received EU financial support through the EEPR: the Baltic pipeline (DK/PL), the LNG terminal in Poland, upgrade of gas network at the Germany-Poland border.

In the Eastern Baltic area, the key challenge to meet is to end the isolation of the three Baltic States and Finland, by implementation of new infrastructure projects. To comply with the conclusions of February 2011 of the European Energy Council to eliminate energy island in the European Union, significant investments are needed, like new interconnections (GIPL – Poland-Lithuania, BalticConnector – Finland – Estonia), upgrade and development of the intra-Baltic gas networks and a regional LNG terminal.

Concerning the regional LNG terminal, the Commission – following the request of the BEMIP HLG of 24 October 2011 – launched a study to identify the best location and technical solution for regional LNG supply. It is worth to mention, that – in line with agreement in the BEMIP HLG - the Baltic States committed themselves to comply with the findings of the study, thus facilitating the implementation of required actions, based on the findings and proposals of the study. The findings of the study will be presented to and discussed within the HLG. The challenge to face for HLG is to agree on future steps, considering the findings of the study and political decisions (and also national steps) taken.

2. EXTERNAL ENVIRONMENT OF THE BEMIP

The external environment of the BEMIP covers initiatives and events that take place outside the region. As having significant impact on the progress of BEMIP initiatives and programs, these policies, EU regulation and political declarations have been followed closely.

2.1. Energy policy

- **European Energy Programme for recovery (EEPR)**

Implementation of most of the projects receiving EEPR funding in on good track. For electricity the projects are: EstLink2 (EC contribution up to €100M), NordBalt and strengthening the Latvian network (EC contribution up to €175M). Gas projects in the BEMIP region: strengthening of the Danish gas network (EC contribution up to €100M), strengthening of the Polish gas network (EC contribution up to €50M), Swinoujscie LNG terminal (EC contribution up to €80M), reverse flow between Lithuania and Latvia (EC contribution up to €12.94M), reverse flow in Poland (EC contribution up to €14.4M).

The problems identified during the implementation seem to be effectively handled. For example, the process concerning the DE/DK gas pipeline border capacity seems to be on good track, the problem is dealt with involving all major stakeholders.

- **Trans European Energy Networks (TEN-E)**

For the last TEN-E call the Commission has received eight applications from the region. The applications concerns projects in both electricity and gas sector. The evaluation process has been completed; the Commission will submit to the TEN Financial Committee its proposal to award funds in July 2012.

- **Infrastructure package**

The Commission has tabled in October 2011 a comprehensive package to enhance trans-European infrastructure development in the areas of transport, energy and information society. This package includes 5 legislative proposals: the three sectorial guidelines, establishing the sectoral infrastructure policies and the Connecting Europe Facility (CEF), providing financial aid to the three sectors (30bn for transport, 9.1bn for energy and 9.2bn for ICT) along with the project bond pilot proposal as forerunner for a set of financial instruments to be elaborated in the coming year. In this context, the term energy infrastructure covers electricity transmission lines; gas, CO2 and oil pipelines, LNG reception facilities and electricity and gas storage.

The trans-European energy infrastructure guidelines include the following novelties:

1. A radically new way to identify projects of common interest (PCI)
2. Measures to accelerate permit granting
3. Improved regulatory treatment for cross-border projects
4. Rules to grant financial aid under the Connecting Europe Facility

In the past, the (long) list of projects of common interest was fixed in an Annex, becoming outdated over time and modifiable only through ordinary legislative procedure. The new guidelines propose a revolutionarily new approach: projects of common interest shall be identified in Regional Groups, based on 12 priority corridors, where Member States and the Commission are the key drivers. Baltic gas and electricity interconnections – based on the experience from and work delivered by BEMIP – are identified as priority corridors.

The negotiations with the Council and European Parliament are on good track, adoption of the Regulation on guidelines for trans-European energy infrastructures is expected by the end of 2012.

- **Preparation process for identification of PCIs**

Following the Energy Ministers' call at the February Energy Council and considering the advanced negotiations in the Council related to draft infrastructure regulation, the Commission started preparing the identification process of projects of common interest, in close cooperation with Member States, TSOs, NRAs, ENTSOs and ACER. The identification process follows the process proposed in the draft regulation. Up to date, the Baltic regional working groups (electricity and gas) had two meetings. The working groups will identify the potential PCIs, collect the relevant data and after an assessment

based on methodology agreed within the working groups, will identify the Baltic regional project list. The regional PCI list will be discussed by the BEMIP HLG towards the end of the year.

- **Regulation 994/2010 on security of gas supply**

As stipulated in Article 9 of EU Regulation 994/2010, each Member State has to establish a risk assessment taking stock of all threats and hazards that may endanger security of gas supply. Extensive analysis had to be carried out taking into account all relevant national and regional circumstances, in particular market size, network configuration and flows including internal and cross-border bottlenecks. The risk assessments were prepared and communicated to the Commission. Estonia, Latvia and Lithuania established their assessments in a coordinated way, through a working group on regional cooperation, which was steered by the Commission. After finalizing their national assessments, the work of the working group continued in 2011 to develop a joint risk assessment, in accordance with the possibility set out in Regulation 994/2010, addressing the threats and hazards that the Baltic States face as a region. The finalization of the joint risk assessment is in the final stage. Interdependencies between Member States appear in several risk assessments for instance between Denmark and Sweden or Poland and Germany.

The next major step in implementing the Regulation is the preparation of Preventive Action Plans and Emergency Plans, which Member States have to finalize by the end of 2012. Regarding infrastructure standard obligations, the transmission system operators have to examine the possibility of introducing physical reverse flows on those cross-border points where this is not yet available and propose new capacity of request an exemption from the obligation following a market test. The Competent Authorities in the Member States have to decide on the TSO proposals after consulting with neighbouring Member States, by the end of 2012.

As many countries in the region still depend on one single gas source (Baltic States, Finland, Sweden) it is important to examine and encourage the necessary infrastructure developments, which would enhance security of gas supply in the region, contributing to meet N-1 on national or at regional level, and end the isolation of some Member States.

2.2. External aspects

- **EU-Russia Energy Dialogue**

In 2011, the EU-Russia Energy Dialogue continued its intense cooperation activities with more than 20 meetings, seminars and conferences as well as high-level meetings.

On 24 February 2011, the Coordinators of the EU-Russia Energy Dialogue, Russian Energy Minister Shmatko and Commissioner for Energy Oettinger, signed four documents with the aim to further strengthen EU-Russia energy relations in the framework of the Energy Dialogue:

- a Joint Statement on information exchange to improve exchange between the European Commission, DG Energy and the Russian Ministry of Energy on policy initiatives;
- an enhanced Early Warning Mechanism

- a Joint Statement on Creating a Mechanism to assess future Trends in the Gas Markets which establishes a new EU-Russia Gas Advisory Council;

- a Common Understanding on the Preparation of the Roadmap on EU-Russia Energy Cooperation until 2050.

The 6th Permanent Partnership Council on Energy took place on 1 December in Moscow. At the PPC, the 12th progress report of the Dialogue was signed. Both sides agreed on a re-structuring of the Thematic Groups of the Dialogue. From 2012, the Dialogue will include four Thematic Groups: Energy markets and strategies, electricity, energy efficiency and innovation, and nuclear issues. BEMIP Member States are represented in the Thematic working groups.

Director General P. Lowe had several meetings with his Russian counterpart, Deputy Minister A. Yanovsky. Among other subjects, they discussed the application of the EU internal market legislation and its impact on Russian companies, and infrastructure issues.

The Commission assisted the talks between the Lithuanian government and Gazprom on the implementation of the EU internal market rules in Lithuania.

The newly established Gas Advisory Council held its first meeting on 17 October 2011 in Vienna. The Gas Advisory Council consists of industry and academic high-level experts from both sides. The Council agreed on its working rules, a timetable and work program for the next year, including evaluation of possible long-term trends of EU-Russia gas relations.

Further meetings of the Gas Advisory Council took place in January and April 2012, mainly focusing on the long-term gas cooperation between the EU and Russia thus contributing to the on-going work on the EU-Russia Energy roadmap to 2050.

In the framework of the Thematic Group on Energy Markets and Strategies, the work on the joint EU-Russia Energy roadmap 2050 has started. Two expert meetings were organised in May (Moscow) and June (Brussels), to prepare an expert report on the roadmap which will serve as a basis for the final report to be finalised by end 2012.
A conference on alternative uses of natural gas took place in Brussels on 24 June 2011.

The main topics discussed at the meeting of the Thematic Group on Energy Markets and Strategies in March 2012 in Moscow, were security of supply situation during the cold spell in Europe in February 2012, the EU 2050 roadmap, and Russian Gas Development plan until 2030.

- **Kaliningrad "Baltic" Nuclear Power Plant**

Discussions on the new Kaliningrad nuclear power plant took place in a meeting of the EU-Russia Subgroup on Infrastructure in November 2011 in Moscow. In this meeting the EU underlined its concerns regarding the insufficient information by the Russian authorities to EU Member States on this project. The Russian side confirmed its willingness to follow the principles of international agreements on nuclear and environmental safety. Up to date, the Commission is not aware of any additional information, although according to the mass media the ground works have already been started at the site.

- **EU-Belarus energy relations**

The sixth technical meeting on energy issues between the European Commission and Belarus took place on 15 September 2011. Discussions focused on four main areas: 1) Energy policy of Belarus and of the EU; 2) Memorandum of Understanding on Early Warning Mechanism; 3) Belarus nuclear power plant; and 4) Nuclear safety and risk assessments.

Memorandum of Understanding on Early Warning Mechanism has been under discussion between the two sides since 2010, aiming to establish a non-legally binding cooperation mechanism to address threats of energy supply disruptions. The Mechanism has not yet been concluded.

Following receipt of the environmental impact assessment (EIA) for the Ostrovets nuclear power plant, as transmitted by Belarus authorities to the Commission during the EU-Belarus Energy Dialogue meeting, the Commission has carefully analysed the provided information and has transmitted its observations and additional questions to Belarus authorities in February 2012. Up to date the Commission has not received the answers.

In June 2011 Lithuania has submitted a complaint to the Implementation Committee of the UN Convention on Environmental Impact Assessment in a Transboundary Context (Espoo Convention) regarding the noncompliance of Belarus actions to the Convention while implementing the Ostrovets NPP project. The Implementation Committee heard into Lithuania's claim on the 20-21st of March 2012. Next hearings are scheduled to take place on the 11-13th of September 2012.

3. WORK COMPLETED [VS. PLANNED] AND NEXT STEPS

3.1. Electricity market integration

The roadmap towards an integrated power market between the Baltic Member States and the Nordic Countries consists of a stepwise process accompanying the progressive development of the power market in the Baltic area up to its full integration with the Nordic Power market.

Project	Short description of the Project	Target timescales	Status report	Responsible body
Step 1. Take preliminary political and business decisions on market integration	*Political* • Baltic Prime Ministers decision to start the Baltic electricity market integration on the basis of the indications forwarded by the HLG • Estonian and Lithuanian governments abolish the regulated tariffs for eligible customers at wholesale market (at least 35% of electricity consumption in each of the Baltic countries). *Business* • Decision by Nord Pool Spot to start NPS Baltic preparation for opening of Estlink price area • Decision by Estlink Shareholders to change Capacity Purchase Agreement and Shareholders Agreement for implicit auction by Day 1. In case the owners of Estlink1 cannot agree on opening, regulators will decide about changes in Estlink1 derogation.	Summer / Autumn 2009	The actions indicated in this step are accomplished	Prime Ministers, Three Baltic States' Governments Nord Pool Spot Estlink shareholders Finnish and Estonian regulators

Project	Short description of the Project	Target timescales	Status report	Responsible body
Step 2. What must be completed by Day 1: fulfilment of market opening requirements	• Regulated tariffs have been removed for eligible customers • Subsidized renewable energy can enter the market without losing subsidies • Separation of TSO activities/roles • Basic transparency rules (Nord Pool Spot rules) • Congestion management method between Estonia-Latvia-Lithuania and a common position towards Russian and Belarus TSO's • Common ITC treatment of the perimeter countries for Estonia, Latvia, Lithuania and Finland • Removal of cross-border restrictions, such as license and tariff in three Baltic States • Introduction by Nord Pool Spot of price area Estlink.	Q1 2010	The TSOs unbundling is ongoing. Joining the NordPool spot is done for Estonia and Lithuania and in these respect Transparency rules are are respected. There is a NordPool spot price area for Estlink and	Three Baltic States' and Finnish Regulators and TSOs; Nord Pool Spot; Governments
Step 3. How to continue the process: market functioning fine tuning	• Baltic common day ahead market (based on Nord Pool Spot trading platform) • Stepwise introduction of Intra-day market • Market based congestion management, implicit auction between Baltic countries managed by NPS • Estonia, Latvia, Lithuania and Finland have a common position and trading principles towards non EEA third countries • Transparency according to the ERGEG's North European Electricity Regional Initiative • Common reserves and balancing power market • Harmonized imbalance settlement and imbalance pricing • Common market monitoring and surveillance rules • Development of financial markets (OTC)	2011-2013	The countries have committed to proceed with market coupling by the end of 2013. Same commitment applies for the intraday market. As regards for capacity allocation the countries have opted for implicit auctions by the end of 2013.	Governments, Regulators, TSOs, Nord Pool Spot
Step 4. Actions to finalize the market: Fully functioning market integrated	• Full opening of the retail market • Common power exchange for physical trade in Nordic and Baltic area • Market place for financial products • Network tariff harmonization for generators	2013-2015	Market functioning fine-tuning	Governments, Regulators, TSOs

Step 1 of the electricity roadmap has been implemented.

Bulk of the actions concerning Step 2 is implemented. The fact that the Baltic electricity systems are synchronously interconnected with the power systems of the Republic of Belarus and Russian Federation and operated on the basis of the BRELL agreement, constitute the main obstacle for progressing with other tasks as congestion management and intra-day market developments. There is currently no common understanding of net transmission capacity calculation and allocation methods between the Baltic TSOs, Belarus and Russia. Available capacity is also restricted by the rules applicable to emergency power reserves. Negotiations with Russia and Belarus, based on the negotiating directive adopted by the Council of Ministers in February 2012, addresses all major issues (detailed description of the negotiations in point 3.2).

Implementation of Step 3 actions is in progress. Transposition of the Third package - addressing issues such as unbundling of TSOs, their tasks and obligations, transparency requirements, etc. - is in progress. Until 31 of May 2012 Latvia and Lithuania, Denmark, Germany and Poland[1] have notified to the Commission a full transposition of the Third package provisions in the area of electricity. Estonia, Sweden and Finland have notified partial transposition of the Electricity Directive. Electricity markets of all Baltic States are highly concentrated, with only limited number of traders operating actively. Since the Nord Pool Tallin power exchange started in April 2010, Estonia is relatively well integrated into the Nordic power market via Nord Pool Spot. On 18 June 2012 Nordic power exchange Nord Pool Spot has launched its bidding area Elspot in Lithuania. The Law on Electricity that came into force this February and the agreement with Nord Pool Spot concluded in March were the preconditions enabling the establishment of Lithuanian bidding area. As a result Lithuania now forms a new day-ahead Elspot bidding area in the Nord Pool Spot market, with no direct connections to other existing bidding areas.

From January 2011 the three Baltic TSOs decided to use implicit auctions to allocate capacity.

The ongoing feasibility study on interconnection options for the integration of the Baltic States to the EU Internal Electricity Market – being carried out by three Baltic electricity TSOs, with financial support of the TEN-E programme - will give further impetus to the integration process, by identification and assessment of all relevant technical issues. The final report of the study is planned for the second half of 2013.

3.2. Negotiations on technical operation of the Baltic electricity networks

For historical reasons, the networks of Estonia, Latvia and Lithuania are synchronously interconnected with the power systems of the Republic of Belarus and Russian Federation and are operated on the basis of a transmission system operator's agreement (so called BRELL ring agreement). In this agreement the transmission system operators of the Russian Federation hold a strong position. The current operation of the Baltic Member States' networks on the basis of the BRELL agreement jeopardises, on the territory of the Baltic Member States, the full implementation of the EU internal market legislation of the Third energy package.

[1] The Commission has sent a Reasoned Opinion to Poland on 31 May for not having fully transposed the Electricity Directive.

There is currently no common understanding of net transmission capacity calculation and allocation methods between the TSOs of the Baltic Member States, Belarus and Russia. Available capacity is also restricted by the rules applicable to emergency power reserves. Moreover, the existing transit arrangement for electricity that is delivered to/from Kaliningrad puts balancing responsibility only on Baltic TSOs.

Lack of harmonisation of market gate closures and of transfer of system data from Russia and Belarus to the Baltic TSOs cause difficulties in planning capacity allocation because the Baltic TSOs cannot identify in a timely manner how much capacity is free and how much capacity can be offered on the market. These difficulties in combination with cross-border loop flows from and to the Russian Federation, for which the Baltic Member States are used as transit countries, require significant reductions of capacity on the market or taking high network security risks.

These issues can only be addressed by an in-depth modification of the existing rules and replacing the BRELL agreement which would serve as a temporary regime until de-synchronisation from the IPS/UPS eventually takes place.

In February 2012, the Council adopted negotiating directives for the Commission to negotiate an agreement with the Russian Federation and Belarus on electricity system operation of the Baltic States with the aim to facilitate the implementation of the EU internal market rules in the Baltic Member States the power systems if which currently operate in synchronous mode with the UPS/IPS system. First negotiating rounds with the Russian side took place in March and April 2012.

Up to date four meetings took place - two in Brussels (March, May) and others in Moscow (April, June). Next meeting is planned for the end of June. The negotiations take place in good atmosphere and both sides are committed to find workable solutions. The parties discussed so far the structure of the future agreement and hold technical discussions with participations of the TSOs of both sides.

Most debated topics concern management of networks (capacity calculation and allocation) and institutional issues. As regards the first topic, Russian side proposes a flow based calculation model in the near future and puts emphasis on the questions of system stability. The EU side argues that planning of system stability does not exclude that market based calculation and allocation of capacity takes place. System stability measures shall be in principle only used when market measures cannot ensure stability. As regards the governance, it has been recognised that collection of data, detection of congestion and binding decisions to remedy them as regards the volume and the time shall be centralised, but the TSOs shall remain responsible how to implement it, guided by the effect of cost efficiency. A fair mechanism is to be found to share costs of congestion management.

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3.3. BEMIP Action Plan projects – progress report

Based on reports received from the project promoters, implementation of the Action Plan is mainly on track, in some cases with delays linked to market issues or caused by technical problems.

3.3.1. Interconnection projects progress reports

	Project	Short description of the Project	Target timescales	Responsible body	Status
I1	Krajnik (PL) - Vierraden (DE)	conversion of existing 220 kV double circuit line into a 400 kV line together with phase shifting transformers installation on 400 kV lines: Krajnik (PL) - Vierraden (DE) and Mikulowa (PL) - Hagenwerder (DE)	2015	50HzT (DE) & PSE Operator (PL)	Preparatory phase: - public permit for first construction stage of German part received - pre-investment activities for Polish part (permitting procedures for Polish part have been started)
I2	Baczyna/ Plewiska (PL) - Eisenhüttenstadt (DE)	3rd interconnection (400 kV) between Poland and Germany	After 2015	50 HzT (DE) & PSE-Operator (PL)	Preparatory phase: - project development company abandoned, general agreement on project development signed in March 2011 - 50HzT is preparing documents for the spatial planning procedure for the DE part
I3	LitPolLink: Elk (PL) - Alytus (LT)	The interconnection line construction Elk – Alytus (Double circuit 400kV with construction of 2x500MW BtoB converter stations) .	2015 (500MW)	PSE Operator (PL) Litgrid AB (LT) LitPol Link	Preparatory phase: LT side: EIA report approved in Dec. 2010. Territorial planning documents: for Alytus station – approved, technical designs - expected for 02/03 2013; PL side: EIA expected for June 2013. Track study completed. Procurement for acquiring construction permit being finalized

	Project	Short description of the Project	Target timescales	Responsible body	Status
I4	LT grid reinforcement (for LitPol)	Alytus-Kruonis	2015	Litgrid AB	Preliminary phase - contractor for preparation of territory planning documents & IEA selected in Nov. 2011 - preparation of territory planning documents, environmental impact assessment expected in June 2013 - procurement of technical design and construction ("turn key") expected for December 2013
		Visaginas – Kruonis	2020	Litgrid AB	Under consideration - pending on Visaginas NPP decision by strategic investor
I5	**LT grid reinforcement (for NordBalt)**	Klaipeda – Telsiai	2014	Litgrid AB	Preparatory phase: - completed land acquisition or issuing of servitudes – December 2011* - completed tenders for supply of equipment and contracted works - December 2011* **Delayed to 2014 due to litigation processes with landowners** (* litigation with 2 land owners ongoing)**.**
		Musa - Panevezys	2018	Litgrid AB	Not yet started - selection of contractor for preparation of territory planning documents, environmental impact assessment and technical design expected for January 2013

	Project	Short description of the Project	Target timescales	Responsible body	Status
I6	**LV grid reinforcement** **(Kurzeme ring for NordBalt)**	Reinforcement of Kurzeme Ring connection point Riga in the central part of Latvia (construction of RigaCHP1-Imanta 330kV cable line) Construction of four new 330kV transmission lines in the Western part of Latvia: Grobina-Ventspils, Ventspils-Dundaga -Tume, Tume-Imanta	2012-2018	Augstsprieguma tikls	Preliminary phase - preparation of the technical project **- delays occurred related to financing**
I7	Polish grid reinforcement Elk-Alytus	Internal PL transmission grid reinforcements (2010-2015) to make possible power import capacity of 600MW from Lithuania to Poland. Additional PL transmission grid reinforcements (2016-2020) to make possible power transfer capacity of 1000MW.	2015 2020	PSE Operator	Preparatory phase - agreements with contractors for design and construction signed - design work and territory planning activity started
I8	Polish grid reinforcement Czeczot or Skawina (PL) - Varin (SK)	New 400kV interconnection between Poland and Slovakia with reinforcement of Polish internal grid.	After 2018	SEPS (SK) and PSE-Operator (PL)	Under consideration - prefeasibility studies of the interconnector corridor – final date to be established by the decision of SEPS and PSE Operator - new technical conditions in PL system resulted in redefinition of the boarder substations on Polish side
I9	Polish grid reinforcement Rzeszow (PL)-Khmelnitskaya (UA)	Modernisation and resumption of existing 750 kV interconnection between Poland and Ukraine.	2017	PSE Operator (PL) & NPC Ukrenergo (UA)	Study phase - feasibility study on the renewal of the operation of the 750 kV Khmelnytska NPP-Rzeszów overhead line planned for end of 2012
I11	Estonia–Latvia third interconnector	3rd interconnection between Estonia and Latvia	2020	Augstsprieguma tikls Elering	Preparatory phase: - Study, prepared by working group of AST and Elering members completed in 2011 - MoU between AST, Elering and LET signed – Feb 2012

	Project	Short description of the Project	Target timescales	Responsible body	Status
I12	Estlink2	2nd HVDC interconnection with undersea cable of 650 MW capacity between Estonia (Püssi) and Finland (Anttila SS)	2014	Fingrid Elering	In progress: - surveys, route selection, environmental studies, permitting process completed - contracts for cable and converters signed - implementation is progressing according to the schedule
I13	NordBalt	HVDC submarine cable of 700MW capacity between Nybro (SE) and Klaipeda (LT).	2015	Svenska Kraftnat (SE) Litgrid (LT)	In progress: - territory planning documents approved– April 2012 - permit for construction of the converter (LT) – expected August 2012 - permit for installation of the cable (LT) – expected August 2012
I14	Kriegers Flak combined solution	Regionally combined solution to connect 1600 MW offshore wind power in the Baltic Sea to Germany, Sweden and Denmark, as well as to provide additional transmission capacity between these countries	2018/2020	Energinet.dk (DK), 50HzT (DE)	Under consideration - pre-feasibility study completed in May 2009 - Swenska Krafnät withdrew from the project - March 2012 - the Danish parliament decided Kriegers Flak DK (former KF III) - to be commissioned in 2017-2020 - Energinet.dk to present a suggested grid solution - Dec 2012
I15	**FennoSkan II**	HVDC submarine/overhead link between Finnböle (SE) and Rauma (FI)	12/2011	Svenska Kraftnät (SE), Fingrid (FI)	**Completed - start of commercial operation Dec 2011**

	Project	Short description of the Project	Target timescales	Responsible body	Status
I16	**Great Belt** **(Storebælt)**	HVDC submarine link between West and East Denmark.	08/2010	Energinet.dk (DK)	**Completed** **started commercial operations in August 2010**
I17	Skagerrak IV	HVDC submarine link between Norway and Denmark.	2014	Energinet.dk, Statnett (common project organization)	Preliminary phase: EIA in DK & NW Capacity of link increased to 700MW Contracts signed for the cables and converters. (no update received)
I18	South Link (SE-SE) and South Western link (SE-NO)	Combination of two interconnectors between Hörnby (SE) and Jönköping / Oslo (SE / NO)	2015 2019	Svenska Kraftnät (SE), Statnett (NO)	Preparatory phase: Feasibility study completed Start of site activities foreseen in June 2011 in the North part and in Nov 2011 in the South part.. On schedule (no update received)

3.3.2. Generation projects progress report

	Project	Short description of the Project	Target timescales	Responsible body	Status
G1	Oil-shale CFB-s in Estonia	Up to 600 MW new CFB units on oil-shale	2016		Design and foundation works are in progress by main contractor (Alstom). Net available capacity of the unit is planned 270 MW
G3	Visaginas NPP	New nuclear power plant in Visaginas	2020/2022	UAB "Visagino atomine elektrine"	Preparatory phase: - investor selection completed, exclusivity arrangements with strategic investor - nuclear energy and regulatory reform carried our: package of 12 nuclear field related laws and their amendments adopted and majority of further implementing legal acts approved - package of Visaginas NPP project related laws allowing to further development of the Project and providing required investment environment adopted by Parliament (including: Law on the Nuclear Power Plant and Law on Granting the concession and assuming the essential property obligations of the Republic of Lithuania in Visaginas NPP) - concession and other Visaginas NPP project related agreements are expected to be signed by the end of 2012

	Project	Short description of the Project	Target timescales	Responsible body	Status
G4	Nuclear development in PL	Nuclear energy development in Poland, based on Energy Policy of Poland until 2030	2020	Ministry of Economy	Atomic law and law on preparation and realisation on investments in nuclear power to be adopted mid 2011. 2016-2020: Construction of the first block (no update received)

3.3.3. Wind development progress report

	Project	Short description of the Project	Target timescales	Responsible body	Status
W2	Finnish wind development	2500 MW of wind power, most of which will be located along the western coast of Finland	2020		- new feed-in tariff system in force since 2011, which provides a guaranteed target price for electricity produced by wind power
W3	Estonian wind development	Fastest growth is expected in wind power generation, electricity sector development plan foresees up to 900 MW of wind power by 2018	2020		- installed capacity of wind power is 194 MW - increase of 100 MW expected in 2012 - largest units: Paldiski 53 MW and Narva 39 MW.
W4	Latvian wind development	By 2020, 550 MW of wind generation can be connected to the grid	2020		TSO has received around 2000MW Wind PP applications mainly on-shore and off-shore in Western region of Latvia. Coordination with 3rd EE-LV interconnection (no update received)

	Project	Short description of the Project	Target timescales	Responsible body	Status
W5	Lithuanian wind development	The target for 2020 is to increase this capacity 500 MW.	2020		161.83 MW in operation - 61.8 MW (e) of wind farms could start operation by the end 2012/first quarter of 2013 - for 714 MW (e) TSO have issued design requirements
W6	Polish wind development	High scale development of wind farms are presumed in Western and Eastern Pomerania (coastal regions), Mazury (lake land) and Wielkopolska (central west PL). Significant measures are planned as PL is obliged to reach 15% share of RES by 2020.	2020		Current installed capacity: 1968 MW Future development: 2012/2020: 500 MW pa Offshore: 2020: 500- 1000 MW
W7	Wind development plans in Germany	Onshore wind power generation is expected to reach up to 37000 MW in 2020. In addition, Germany aims to have a capacity of 20000 to 25000 MW offshore wind power installed by 2030 (combined North and Baltic Sea)	2020/2030		25 000 MW installed Successful installation of turbines in deep water (alpha ventus) (no update received)

3.4. Nuclear

The High Level Task Force on "Nuclear Power Generation" (HLTF) was set up in 2010 to further strengthen involved governments' support in order to promote the successful implementation of the Visaginas project in Lithuania as regional Nuclear Power Plant (NPP) project, by coordinating their close cooperation, exchanging relevant information, discussing outstanding issues as well as adopting necessary measures. The HLTF also examines ways to contribute to the financing of the project through joint efforts with international financial institutions and European Union financial instruments.

Following two meetings of the HLTF in 2010, the third meeting was held on 27 September 2011 in Warsaw to address the status of the Visaginas NPP project and to discuss financing possibilities from the EU financial institutions including update on notification under Euratom Treaty.

In this context, and despite the Fukushima accident in March 2011:

- The three Baltic States confirmed their potential interest and engagement of their national utilities (energy and electricity companies) in the project.

- Regional Partners (EE, LV, PL) supported the idea that utilizing of existing EU financial instruments and examining possibilities to introduce new more open and creative financial tools could be an important element to strengthen viability of Visaginas NPP and other nuclear new build projects in Europe.
- To secure timely debt financing arrangements a two-step approach had been identified:
    - To address EIB regarding direct and indirect financing of the Visaginas NPP project;
    - To address the European Commission regarding Article 41 notification and review of a Euratom loan application;

In October 2011 the Investment Project for Visaginas NPP was officially notified by VAE, as main investor to the Commission. On 8 June 2012 - after analysing all aspects of the investment related to the objectives of the Euratom Treaty, the Commission issued its opinion, according to the Articles 41 to 44[2]. The review of the notification has been carried out by an internal Commission working group and through discussions between the Commission and the investor, the national regulator VATESI and the Lithuanian government.

Concerning the future Project Company, a business model is being developed that will have to be submitted to the competent European Commission services to address competition and state aid matters. It is foreseen that the Project Company should be established and all project agreements to be finalised by the end of 2012. The financial package is being assessed by the Regional Partners.

The HLTF will continue to follow and to support the dialogue and cooperation between the Regional Partners. The next HLTF meeting is foreseen to take place after the signature of the project agreement by the project partners.

3.5. Gas - market issues

Until 31 of May 2012 Latvia, Lithuania, Denmark, Germany and Poland[3] have notified to the Commission a full transposition of the Third package provisions in the area of gas. Finland and Sweden have notified partial transposition. Estonia has not yet notified transposition of the Gas Directive.[4] The Commission continues to offer to the EU Member States of the EU assistance in implementing the package and issued interpretative notes regarding certain provisions of the package.

As a result of Lithuania's choice of the ownership unbundling model in its Gas Law negotiations with the shareholders of current gas transmission system operator AB "Lietuvos Dujos" have started in 2011 but these have not yet been completed to date. On 31 May 2012 AB "Lietuvos Dujos" submitted the Description on the selected methods

2 These articles state that any new investment related to nuclear activities – above a certain threshold – has to be communicated to the Commission, which transmits its opinion on the project to the Member State concerned in the form of a legally non-binding point of view.

3 The Commission has sent a Reasoned Opinion to Poland on 31 May for not having fully transposed the Gas Directive.

4 That said, the Commission is aware that Estonia has adopted its Gas Law transposing the Gas Directive – setting out ownership unbundling as the only choice – its derogation notwithstanding.

for the unbundling to National Regulatory Authority. The Description of the selected methods for the unbundling along with the action plan provides:

a) the legal, functional and organizational unbundling of gas transmission activity by 31 July 2013;
b) implementation of the unbundling of control of the transmission activity by 31 October 2014;
c) the legal, functional and organizational unbundling of gas distribution activity by 31 October 2014.

Estonia has in its draft Gas Law adopted by the Government in January 2012 and submitted to Parliament also proposed the ownership unbundling model as the only unbundling variant.

3.6. Gas – approach and objectives

As the BEMIP HLG agreed in September 2009, the work on gas is focused on the following main **objectives**:

(1) Identify the most economical, minimum infrastructure necessary to diversify gas supplies in Finland and the three Baltic States and to end isolation and, consequently, derogations in Eastern Baltic Sea region.

(2) Launch a taskforce to identify a regional LNG in the Eastern Baltic Sea

(3) Find ways to additional gas sources to compensate for depletion of Danish fields and diversify sources and routes for Poland, Germany, Denmark and Sweden

The Polish–Lithuanian gas interconnection (GIPL), BalticConnector between Estonia and Finland and a regional LNG terminal were identified as important infrastructure projects in the Eastern Baltic Sea region (Objective 1).

Concerning the LNG terminal, a taskforce was established to agree on a common approach to construct one LNG-terminal that is at the benefit of all Member States in the region (Objective 2).As the work of the taskforce did not lead to a decision on the regional LNG terminal, in its meeting on 24 October 2011, BEMIP High Level Group (HLG) agreed that the Commission shall conclude an independent, regional study, identifying the optimal location and technical solution for regional LNG supply. Following the request for services for the Baltic LNG study in December 2011, on 26 January 2012, the evaluation committee has carried out the evaluation of the tenders received. The contract has been awarded to Booz&Co, the contract has been signed in March 2012. The consultant started its work and presented the preliminary findings to the BEMIP HLG on 19 June 2012.

It is understood that the consultant will carry on the study taking in consideration the available documents, studies, project plans and considering as well the three agreed criteria based on the fulfilment of which sees potential scope for EU Institutions to support part in that project:

1. The LNG project must be dimensioned to the size of the market that it has to serve and should therefore have a regional scope.
2. The initiators and owners of the project must be independent of the existing dominant supplier in all aspects.

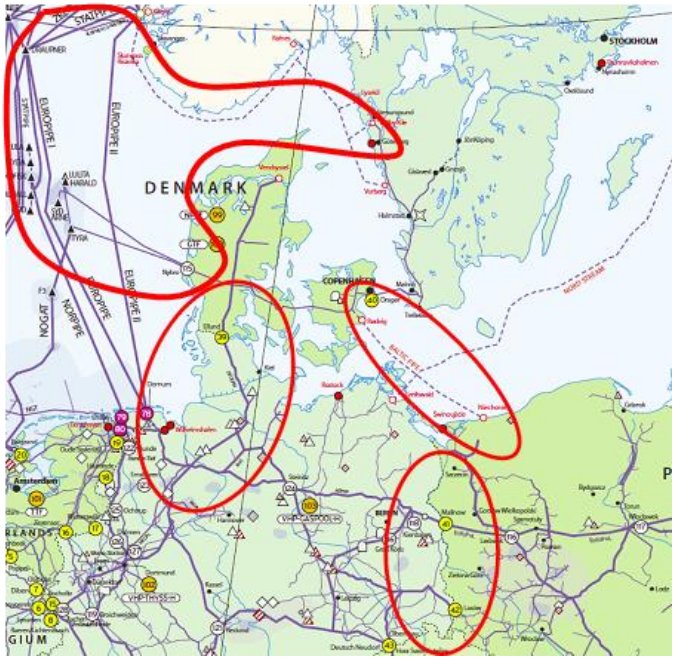
3. The prerequisite for potential EU support is that there is only one single LNG project supported by at least the governments of Lithuania, Latvia and Estonia.

The repeated commitment of the Baltic States to comply with the findings of the study will facilitate the implementation of the required actions, based on the findings and proposals of the study.

A West-Baltic taskforce (WBTF) has been set up to handle the issues concerning the diversification and security of supply issues in the Western Baltic Sea region (Objective 3).

3.7. West Baltic Taskforce

Main objective of the WBTF is to enhance security of supply in the West-Baltic region and compensate for depletion of Danish gas fields through the assessment of the possible options including infrastructure development (and their impact on regulatory requirements) compensating for depletion of Danish gas fields and increasing security of supply of gas to the West-Baltic Sea region, including Poland, Sweden and Denmark through diversification of routes and sources of supply as well as taking account of further Norwegian developments. The Task Force also addresses the assessment of markets, their functioning and potential, assessment of regulatory barriers on existing infrastructure (including contract clauses) and need for regulatory development.



The WBTF was setup early in 2010 and delivered an Action Plan agreed upon by all parties in early March 2011.

The work within the WBTF has been focused on the four priority axis identified earlier:

- Axis Germany - Denmark: The combination of the realisation of the integrated open season in the Netherlands and Germany including investments on the German side of the German/Danish border together with the planned grid extension in Denmark will form this interconnection at the border point Ellund.

- Axis Germany - Poland: This solution comprises the physical and contractual reversing of the existing Yamal pipeline and the enhancement of interconnection capacity between Germany and Poland.
- Axis Norway - Denmark and/or Sweden: Capacity between Norwegian gas sources and Denmark via the existing entry point in Nybro can be realized by means of the extension of the Norwegian offshore grid and its connection with and the usage of the existing Danish offshore and onshore infrastructure. As an option, this may be supported by the additional connection between the Norwegian offshore system and the existing Swedish onshore system.
- Axis Poland - Denmark: This interconnection can be realized by means of the Baltic Pipe and has to be seen in the context of the LNG-Terminal in Świnoujście in the vicinity of the southern endpoint of the Baltic Pipe, and realisation of the axis Germany-Poland

3.7.1. WBTF progress report - Status

Objective	Activity – Responsibilities	Status May 2012	Target dates
I. Interconnection between Germany and Denmark	1.a. German regulator BNetzA and GuD are to enter into the final phase of their dialogue on the subject of the integrated open season in order to provide for the desired new transport capacities at the cross border interconnection point in Ellund. Bundesnetzagentur and Gas Unie Deutschland are responsible for this action.	The investment on the Danish side is being build and will be operational in 2014 (first compressor in fall 2013). GuD has decided to invest in a first phase providing less than half of the capacity, that the investment on the Danish side provides. Currently GuD is conducting planning and permitting processes for second phase, but no final investment decision has been taken yet. The second phase has been submitted in the PCI procedure	
II. Interconnection between Germany and Poland	2.a. Yamal Pipeline Operators will cooperate on introduction of virtual reverse flow in 2011. GAZ SYSTEM and Gascade are responsible for this action.	The Network Code (NC) on the Polish section of the Yamal-Europe Pipeline was approved by the Poland's Energy Regulatory Authority on 31 August 2011. Virtual reverse flow was introduced on 1 November 2011.	2011
	2.b. GAZ-SYSTEM, Gascade Transport and EUROPOLGAZ should make all arrangements in order to introduce physical reverse flow on the Yamal-Europe-pipeline	GAZ-SYSTEM is in the process of negotiating the introduction of physical reverse flow with Gascade. A discussion has been	2013

	in 2013, in line with the provisions of Regulation on security of gas supply. GAZ SYSTEM, Gascade, EUROPOLGAZ are responsible for this action.	initiated regarding the possible technical solutions which could be applied at Mallnow metering station. Relevant site visit to Mallnow and dialogue have taken place. Negotiations are ongoing.	
	2.c. The commercial parties involved in the construction of new interconnectors should clarify the legal and permitting barriers in Germany and Poland in more detail. Commercial parties involved in the interconnectors project are responsible are responsible for this action.	GAZ-SYSTEM carried out the Additional Capacity Allocation Procedure at the Lasów entry point in mid-2011. The allocation of the additional volumes of gas have been available from January 2012.	2011
	2.d. The market interest for the project between Germany and Poland should be evaluated. Commercial parties and TSO's involved in the projects are responsible for this action.	Project parties are engaged in dialogue on the possible evaluation of market interest for an interconnection between Börnicke and Police.	2011
III. Interconnection from Norway to Denmark and/or Sweden	3.a. Gassco will continue to analyse a connection to Denmark in the ongoing Gas Infrastructure Reinforcement (GIR) project. Study results will be presented to the sponsor group in spring 2011. The sponsor group will decide whether to pursue the project further. Gassco is responsible for this action	Gassco has in May 2011 finished the feasibility study, which showed that a connection to the Dutch/Danish systems will be costly and will not provide significant new export capacity for the Norwegian producers. Gassco plans no further activities, but other players are wellcome to propose a mature business case if such can be identified. Maersk Oil and Gas is investigating a potential project, but no final investment decision has been taken yet.	Report: Spring 2011
	3.b. Energinet.dk will participate in these analyses and will ensure dialogue between all the potential stakeholders in a Norwegian/Danish interconnection. Energinet.dk is responsible for this action.	Energinet.dk is engaged in the dialogue between all stakeholders	2011

	3.c. The Danish Energy Regulator should in the currently conducted analysis of the offshore pipeline tariffs together with the Danish Energy Agency analyse access rules and include analyses of all parts of the Danish offshore system. The Danish Energy Regulatory Authority and the Danish Energy Agency are responsible for this action.	The analysis of offshore pipeline tariffs has been presented and the DERA board has recommended a major decrease of the tariffs. The operator has accepted to introduce a decrease which does not fully meet the recommendations of the DERA. Discussions are still ongoing. Energinet.dk will increase cooperation with the shippers in order to increase the transparency and flexibility in the gas market.	2011-6/2014
	3.d. Operators of offshore infrastructure should be encouraged to analyse the potential impacts on future tariffs of increased volumes through their assets and share these analyses with the potential investors at the relevant point in time. The owners of this infrastructure (Dong Energy, Shell and Mærsk) are responsible for this action.	The operators of offshore infrastructure await the publication of the DERA analysis of offshore tariffs before any further action.	2011
	3.e. Baltic Gas will analyse the specific needs for transparency on conditions and tariffs for using existing infrastructure. Baltic Gas is responsible for this action.	Baltic Gas postponed the work until the tariff work described above is concluded.	2011-6/2012
	3.f. A regional TYNDP should focus on the need for connecting Norwegian Gas sources with the region (Denmark, Sweden, Poland) and implications for regional security of supply. The conclusion should be discussed between TSOs, regulators and stakeholders ENTSOG, Baltic Gas and ACER are responsible for this action.	The BEMIP GRIP presented a SWOT analysis of the different investment options in the subregion. A connection to Norway is one of several options – and still relevant to enhance security of supply.	2011-6/ 2012
	3.g. The business case for a connection via eastern Norway to Sweden is currently being analysed by Norwegian and Swedish gas consumers and Swedish TSOs. The willingness to invest should be	After the suspension of Skanled in 2009, alternatives to secure supply and to allow market development have been evaluated, among them a revised reduced version of	Mid-2011

	clarified. Norwegian and Swedish gas consumers and Swedish TSOs are responsible for this action.	Skanled with a scope within the original Skanled scope. Despite approval by the responsible authority, the Energy Market Inspectorate, mid 2010 the government recently (2011-12-01) decides not to grant the concession necessary to realize the project. Stakeholders are evaluating consequences of this decision.	
IV. Interconnection between Denmark and Poland	4.a. The gas demand and the outlook of the level of security of supply in Denmark and Sweden with regard to the possible supply from LNG terminal in Świnoujście in combination with Baltic Pipe should be assessed by competent authorities in the framework of the new SoS Regulation (risk assessment, action plans), and the development in the axis Germany-Poland. The "Competent authorities" as pointed out in the new SoS Regulation are responsible for this action.	The process is still ongoing.	12/2012
	4.b. The issue appropriate allocation of tariffs when transporting gas through a series of systems could be addressed by ACER and ENTSOG in the work with Framework Guidelines for Tariff Harmonisation and the subsequent network codes. The National competent authorities, ACER and ENTSOG are responsible for this action.	Work with the Tariff Network Code is expected to start in 2012 in ENTSOG.	6/2014
	4.c. When implementing the third package provision on tariffing the issue of risk sharing between TSOs and shippers in the light of long-term infrastructure investments and short-/medium-term capacity bookings could be analysed by ACER and ENTSOG, likewise the European Commission could pay	Implementation is on going	12/2011

	attention to this aspect in the work with the Energy Infrastructure package. ACER, ENTSOG, European Commission are responsible for this action.		
	4.d The commercial parties should re-investigate the market potential of Baltic pipe. If no strong commercial interest confirmed, its contribution to the regional security of supplies and market integration should be fully assessed by the European Commission. The results should be discussed by competent authorities with the aim to see which further measures are needed. The potential role of the Energy Infrastructure Package in this respect is noted. The commercial parties are responsible for this action.	GAZ-SYSTEM is conducting the preparatory works regarding Baltic Pipe project. A dialogue with Energinet.dk is taking place with regard to the future development of the project.	2013

3.7.2. Next steps

The WBTF is monitoring the implementation of the Action Plan. BEMIP HLG will intervene only if necessary to ensure that issues are addressed as they arise.

II. UPDATES TO THE ACTION PLAN

After the incorporation of the West Baltic Task Force Action Plan, there were no amendments made to BEMIP Action Plan.

III. OVERALL ASSESSMENT

For electricity, implementation of BEMIP Action Plan seems to be on track and according to schedule. Direct negotiations with Russia and Belarus on Baltic system operation would lead to an agreement by the end of 2012.

Concerning the gas sector, the work in the West Baltic area should continue on the basis of cooperation of all stakeholders. In the East Baltic area further effort and cooperation is required to achieve tangible progress, especially concerning new supply routes (interconnectors, regional LNG project and related infrastructures).

In meeting some of the objectives defined for gas, there are certain challenges to meet.

Implementation of the Action Plan in the Western Baltic Sea region (Objective 3) is on good track and closely monitored by the West Baltic Task Force. The preparation of PL-LT interconnection (Objective 1) seems to achieve some progress. The Business Case Analysis has been completed. As the results are satisfactory, the Parties procured the

Feasibility Study, results of which should be delivered in 2013. The process of identification of the East-Baltic regional LNG faces significant difficulties. The Commission has awarded a study on the location and technical aspects of the LNG solutions; the final study is to be delivered by autumn 2012.

Considering the target dates set by the European Council for completion of the internal energy market by 2014 and end of energy islands by 2015, the urge for implementing the BEMIP Action Plan is of major importance.

Having in mind the delays in certain areas of implementation of the BEMIP Action Plan, there should be increased efforts and enhanced regional cooperation towards:

- full transposition of internal market legislation across the region
- timely implementation of the Action Plan in the Western Baltic area
- taking decisions on critical infrastructure developments in the Eastern Baltic area.

To ensure the progress to achieve the objectives, a closer monitoring of the BEMIP Action Plan by the High Level Group seems necessary.