

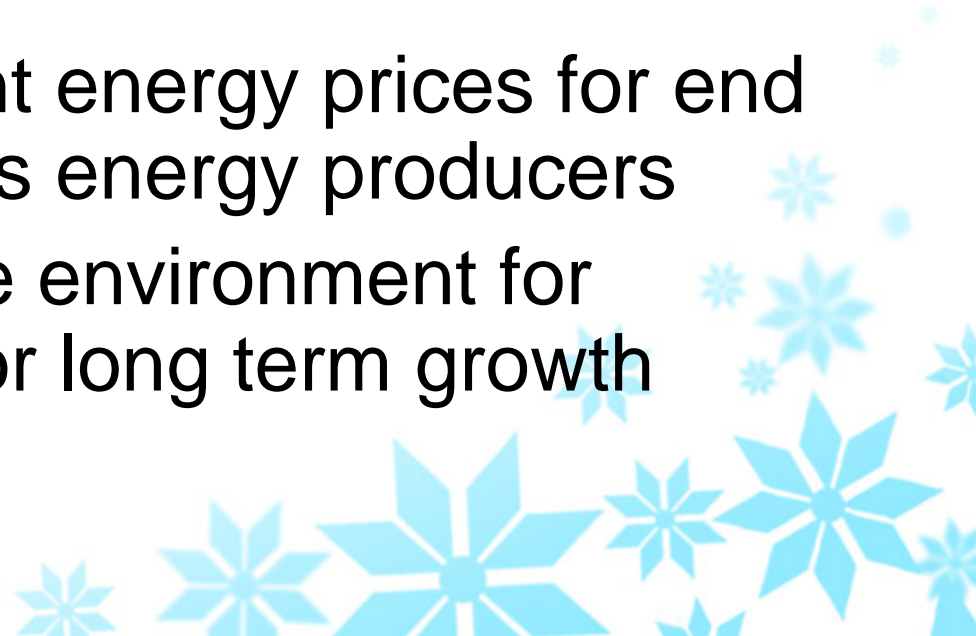
Baltic Energy Market Integration Policy

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Market integration drivers

- More interconnections
- Harmonized market regulations
- Larger market
- Better competition
- Fair, and transparent energy prices for end customers as well as energy producers
- Attractive and stable environment for businesses, basis for long term growth




Electricity and gas markets key parameters

- Electricity market

- Consumption ca. 8 TWh/y
- Production up to 12 TWh/y
- Multiple producers (dominant Eesti Energia) + interconnections to neighboring countries
- Consumption annually increasing

- Gas market

- Consumption ca. 650 mln m³/y
 - One source, one supplier
 - Consumption annually decreasing
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Integration strategy for electricity

Well on track with electricity market integration

- 2007 Estlink I 350 MW
- 2009 30% electricity market opened
- 2013 100% electricity market opened
- 2014 Estlink II 650 MW
- 2020 Third interconnection to Latvia
- Beyond 2025 Full integration with UCTE



Market integration creates more opportunities

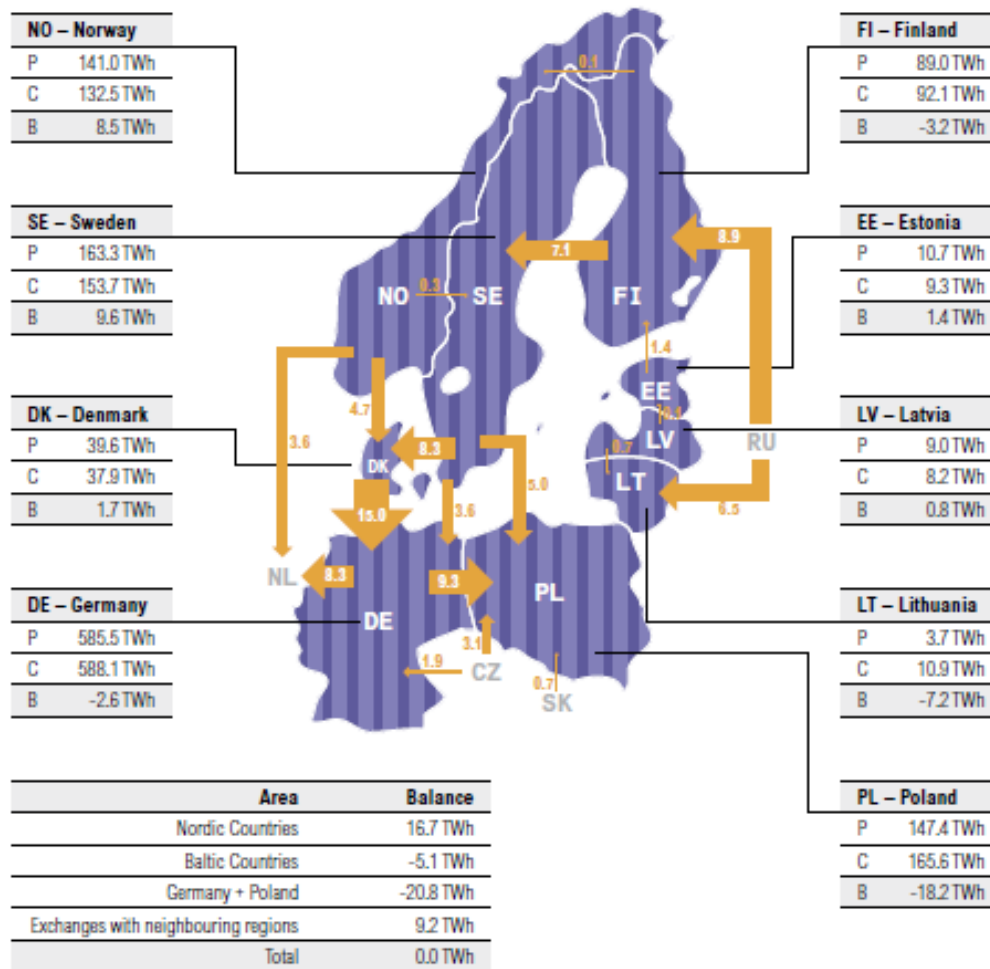


Figure 8.1:
Energy balance and net flows for each country in RGBS in 2015, an average year

Source:
Entso-E scenario
outlook & adequacy
forecast 2011-2015

Estlink II becoming a reality

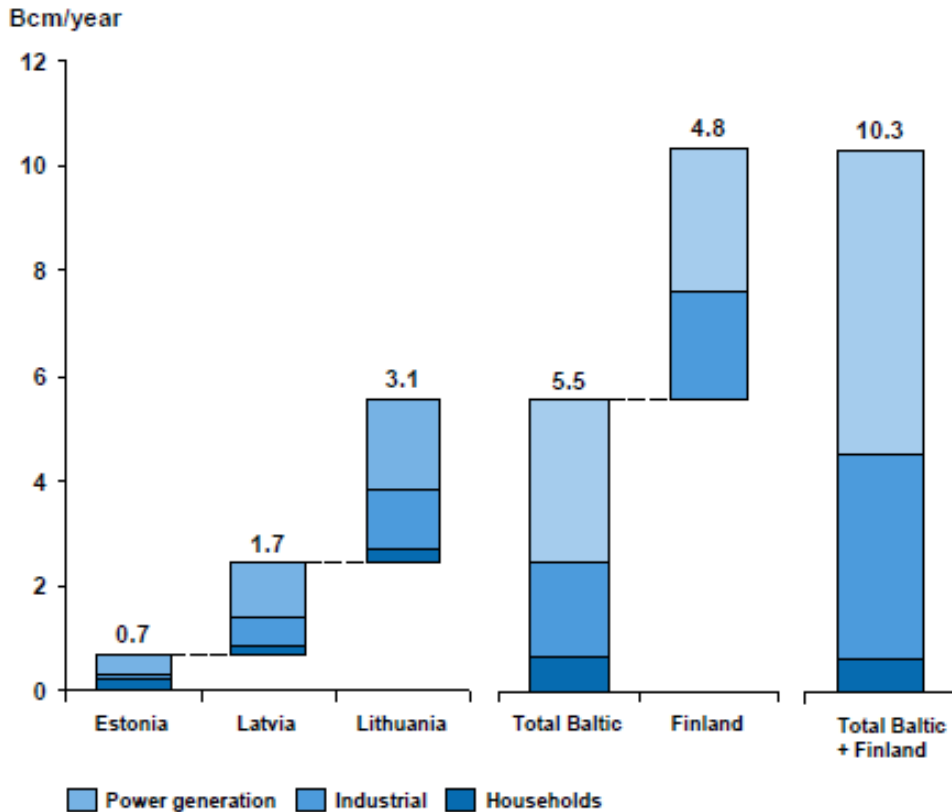


Laying of EstLink 2 submarine cable in Aseri, Estonia on October 15th, 2012.



Estonia: at center of 10 bcm gas market

Baltic Market Demand
Bcm, 2010



Baltic Gas Transmission Network
Border Point Capacity (Bcm/year), 2011



Note: 1. Technical Operating Capacity (Mcm/day * 365);

Source: Estonian Electricity and Gas Market Report 2010, Annual Report to the European Commission – Finland (2011); Annual Report; Latvia Public Utilities Commission (2010); Annual Report on Electricity and Natural Gas Markets of Republic of Lithuania to the European Commission

Starting point with gas

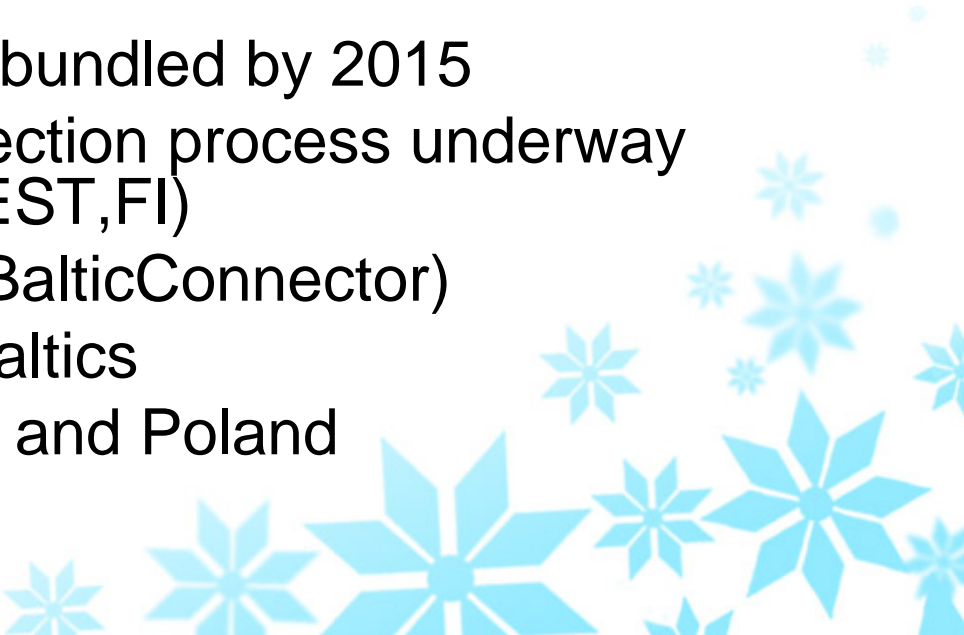
- Single supplier (Gazprom)
- Lack of competition
- Security of supply issues
- Long term supply contracts not available
- Political risks
- Small fragmented markets (LT, LV, EE, FI) instead of more attractive regional market



Market integration strategy for gas

- **Aim is to create attractive regional market**
- **Market volume combined Finland and Baltics 10 bcm**
- **New entry points (LNG,PL-LT), physical connections, harmonized regulations**

Long way to go, first steps taken

- Estonian gas TSO to be unbundled by 2015
 - Regional LNG terminal selection process underway (selection between LT,LV,EST,FI)
 - Pipeline between EST-FI (BalticConnector)
 - Pipeline enforcements in Baltics
 - Pipeline between Lithuania and Poland
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Thank You!

