ENERGO FORUMS

Survey of the energy industry news, discussions, analysis

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Dear reader,

Autumn has come with current unpleasant news for the Latvian power industry – the EC proposals for fostering competition in the field of electric power industry. Out of all the heap of EC revolutionary initiatives Latvia, like several other EU member states, dislikes most of all the suggestion to ensure complete unbundling of electricity and gas transmission and distribution infrastructure from generation. Already for several years European high officials make not too successful attempts to liberalize the very different and complicated European electricity market at any cost and it is very likely that the most recent attempt would not yield any fruit either. It is strange, but the European Commission seems to have forgotten that what is good for the big old member states with large electric power companies is not good for Latvia with its specific market conditions, namely, the different power system and almost the lowest electricity price in Europe. In Latvia unbundling of the property rights of the transmission system operator will not mean cheaper transmission services to the market players as the EU officials hope for, but it will encumber and complicate its operation, as well as encumber attraction of investments and weaken the leading power sector company *Latvenergo* AS. Consequently, it may lead to more expensive services that can't be considered delightful news for customers and may cause threat to electricity supply safety.

The current EC statements do not clarify in what way, taking into account the specific situation in the power industry of the Baltic States, the new directive might foster competition in the Latvian electric power industry.

If to look at it in greater detail, then, in fact, the EC directive clearly outlines the way for possible *Latvenergo* privatization. If such an option is supported, it means that the state retains the transmission system operator (TSO) under its care and supervision, but all the rest may be offered to free market. It seems a strange requirement, the more so because *Latvenergo* has already established an independent TSO and monitoring over it has been ensured.

Vilnis Kréslîñß
Chairman of Latvian Association
of Energy Construction

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News in the industry

Latvia, the Baltic States, Brussels

Latvenergo Kaubandus starts purchases in Estonia

In September *Latvenergo Kaubandus (LK)*, subsidiary of the Latvian power sector company *Latvenergo*, began purchasing electricity from the wind park of 3 MW capacity, owned by the Estonian company *Eesti Elekter*. Starting with 1 October *LK* purchases electricity from Räpina Vesiveski owned hydroelectric power plant of 0.4 MW capacity. Electricity balancing agreement signed between *LK* and the Estonian transmission system operator OU *Pohivork* entitles *LK* to provide balancing services in the Estonian electricity market and to buy electricity from independent producers.

Gas purchase price will rise for 40 %

In 2008 *Gazprom*, the Russian gas group, will rise the gas price for about 40%, informed AS *Latvijas gåze (LG)*. Taking into account the world heavy fuel oil price *LG* is going to submit to the Public Utilities Commission a new draft for gas tariffs. It is projected to be the last great price rise before the gas purchase price reaches the EU price level.

Swedlink might be installed without EU money

The project to connect Lithuania and Sweden by the underground electric cable in the Baltic Sea is important for the Baltic States; it is commercially viable and no financial support is required from the EU for its implementation, writes the Lithuanian business paper *Verslo Ûinios*. According to the information in the paper the cable field-study has almost been completed. As a result of it the estimate for the installation of 300 km of 700-1000 MW *Swedlink* cable makes about 600 million euros. The forecast for the project implementation is the year 2012.

Piebalgs: EU energy market liberalization package will be favourable to the Baltic States

The new EU energy market liberalization package, presented at the end of September by the European Commission, will be favourable to the Baltic States, said Energy Commissioner Andris Piebalgs. He underlined that the new regulation would promote attracting investments to the joint project of the Baltic States and Poland on building a nuclear power plant and installing interconnection between the Baltic States and Sweden.

Ignalina NPP share distribution still unclear

The distribution of shares among the partners in the new Lithuanian nuclear power plant (NPP) project will become clear after the environmental impact assessment, said Lithuanian Prime Minister Gediminas Kirkilas. At least two blocks are projected for the new NPP, however, the decision on their capacity has not been taken yet. It is calculated to be 1600-3300 MW.

Source: news agencies LETA and BNS

cerning this issue. There are problems with Lithuania and, to put it mildly, Lithuania might face a problematic situation. It may start developing when seeking for the national investor for the Ignalina project. The EU attitude towards it is unclear. Definitely I see Estonians as allies, in fact, all the small power sector companies. Except in the case, when another aim is pursued. Namely, if now there were a political wish to privatize *Latvenergo* then this EC directive is the best for it – we unbundle the system operator who is passed over to the state and the rest is privatized. And peace at home!

Maybe it should be offered plainly like that?

It can't be done more plainly! We have the Directive. Whether we want it or don't want it. I have stated earlier that sooner or later the moment of privatization will come. The EC directive offers a model for doing it. But then Lithuanians and Estonians should act in a similar way. If to speak about a common Baltic region market I would sooner say that there should be one common TSO that might be unbundled on the basis of specific property rights and three power industry companies for whom the form of property rights would not be so important. It might be the state property, but then in the Baltic States there should be one common TSO that is not owned by any state, but by some investors. From the point of view of supply safety it might be a vital issue. The Baltic problems are small scale problems; we tend to fragmentate the system, we all struggle with our national features.

Is real competition possible in the Baltic electricity market taking into account its small scale?

It is possible. The Estonian market and the Lithuanian market should be liberated, and then it will work. If we have to wait up to 2012 when the Estonian market is liberated it is difficult to speak about competition. The Baltic market is definitely possible. As concerns the Latvian market – it's hard to judge.

More liberal market, greater competition, unbundled transmission, generation, distribution, lower consumer prices. And simultaneously specific local features of our market.

These all are slogans we have heard about.

Is it really that there is nothing rational in the EC initiative?

It is believed that collective property rights create a problem for free market to be developed. There is a customer who needs free access to the grid. And legislation has adopted the so-called national barriers that encumber it. But there is a reason for it because technically due to safety reasons it can't be that anyone may come, connect to the grid and do what one wishes. That is one of the features. Another one – there exist certain forms of market protection that in one way or another are stipulated by legislative acts. Estonia presents a clear example in relation to oil shale concerning which Estonians openly declare that it is their own problem, it is a social problem, moreover, a very, very difficult problem; in case it is to be solved quickly and the free market is imposed, emission quotas are to be bought, the production unit becomes uncompetitive and a part of the sector vanishes into thin air. The same concerns Ignalina in Lithuania! A whole town, research potential, brains that are still there will become an empty space. These will be researchers – grave-diggers whose activities will be aimed at closing down the plant.

Unbundling of transmission property rights from generation leaves an impact upon the possibilities of potential competitors using the grid for transmission. Avoiding unbundling of property rights is one of the explanations used for arguments that competition might be restricted and other players might not be allowed to freely enter the market.

To solve the problem the Competition Council has been established. If any of the competitors is denied access to the grid, he is entitled to complain about being restricted. Perhaps, it is the best way for development instead of adopting new directives that only restrict and restrict our competitiveness. Competitiveness in Europe. One may only envy the rate Europe drafts various directives and regulations. Latvia has a fairly outspoken skill of being obedient. We mutter under our breath, but we obey. We have always diligently incorporated initiatives from Moscow and Brussels in our legislative acts.

May we say that the unbalanced electricity generation resources are one of the main factors to make the given EC initiative contradictory?

Still it should not be called contradictory. This initiative should not be treated in the way that was popular in the Soviet times that any initiative was condemnable. The good news is that this initiative will provoke discussion. The evil monopolists will start speaking again, they will yield to a certain extent, those who did not unbundle TSO the way the EC stipulated for the second step of energy transformation may get a slight fright. In this way there will be some step forward, and it is good. In case it is a political instrument to drop a hint concerning things not done, then there is a question – how long can it go on like that? What will happen if all implement the Directive, but the market does not function anyway? Will the fourth directive be drafted? Somebody will have to draft it, but I assume it won't be Mr Piebalgs.

***Latvenergo* group supports the second version of New Energy Policy for Europe – development of independent transmission system operator permitting for the group to retain the assets of the transmission system entrusting their administration to an independent commercial company. What are the advantages and drawbacks of this version?**

This model is in force in Latvia today. What does independent commercial company mean – there should be a will and fulfilling the responsibilities. If there is a new market player who needs the services of the system operator, there can't be a discriminating attitude towards him, and that's all. The potential market player should be able to turn to some institution – the competition council or the regulator. These institutions should be entitled to have the legislative drafting initiative. If today any potential investor would like to construct a new production unit or a generator, Latvia serves as a good example – we have 150 small hydropower plants that all are connected in one grid. We have several big production units, a combined heat and power plant and a windpark as well. They all are in operation. We have Estonian presence as there is electricity transit. There should be argumentation for any player who is not allowed to enter the market. If it is only a legislative matter, I don't believe that we should immediately start with unbundling the property rights. My colleagues from the association of the electricity industry in Europe Eurelectric have expressed their comment on the EC directive briefly and accurately – "there is much to discuss still". I agree to that.

What is your opinion of the so-called *Gazprom* clause providing that companies from third countries cannot obtain the control package of shares in the EU generating and transmission companies?

It is a kind of response to what is being done in other markets, it is regional protectionism. All the countries are doing it – US, China, Russia – doing it absolutely openly. The European Union has not stated it openly, but everybody interprets the new EC initiative as *Gazprom* clause. I don't believe that it refers only to *Gazprom*. It is a simplified way if we blame that company for all the European problems. Then we can start a discussion about the Norwegian clause as this country is also a big supplier of gas, or find something similar. But the good news is that in the expense basket the expenses for electricity are proportionally low not only in Latvia, but in other European countries as well. I am ready to bet that 70% of people asked in Berlin streets about the electricity price would not be able to answer the question. And in Rîga 50% would not know what the price of 1000 cubic metres of gas or one kilowatt of electricity is. So our life is not so bad at all!

The Goal – to Turn Threats Into Opportunities

Reinis Åboltiñß EF

In a conversation with *Energo Forums* Hans Brask, the new Director of the Baltic Development Forum (BDF) reveals why BDF is a good place for discussing energy issues.

Hans Brask

Please, characterise the role of BDF in the energy debate. How influential is BDF in this respect?

In the field of energy, the role of BDF is the same as in all other areas where BDF chooses to focus its and the region's attention. The advantage of BDF is our very developed network (over 3.000 people) and our cross-sector approach to bringing people together from government, politics, business, organisations, research and the media. BDF has a unique approach and our Summits help setting a future-oriented agenda for the region.

In the field of energy, BASREC and other regional organisations exist, which is very good. We do not intend to copy these activities. If we are to find regional solutions to the challenges of climate changes, energy efficiency and savings, secure energy supplies, energy diversification etc. it is necessary to bring people together from different sectors to address these issues in a clever and cost effective way. I believe that BDF can play a facilitating role in this regard. The new energy objectives and targets that the EU has defined (on renewables, bio fuel, energy efficiency, reduction of Co2 emissions, infrastructure development, energy solidarity etc.) will sooner or later have to involve business and cross border projects in some way or another.

The views on energy and climate change challenge differ among the countries of the Baltic Sea Region. Some emphasise more the first aspect, including energy security and economic growth; others the latter, including energy efficiency and renewables. Our role should be to promote common ground and to highlight the business opportunities that exist.

What would you identify as a success when it comes to BDF activities in the field of energy policy?

At the BDF Helsinki Summit in 2006, energy was also on the agenda as it is this year. Last year, our ambition was to make top decision-makers sensitive to the energy and climate issue in advance of the EU Spring European Council in March this year, where the EU's energy and climate strategy was adopted. Many EU countries, including countries of our Region, were taken by surprise that so ambitious, new binding targets were adopted by the EU. We were right and successful in promoting this discussion and contributing to this development.

Within the EU, it has not yet been decided how much each member country should contribute in reaching the overall EU-target on 20% reduction of green house gas emissions and 20% in renewable energy. Most probably it will cause severe negotiation at the March European Council in 2008, since many hopes to pass on the buck. We believe there will be a huge need and demand for investment in new technologies when it becomes clear to each member country how much they need to reduce the green house gasses. Similarly, there will be a huge business demand for exchange of best practice in energy savings and energy efficiency in the region. That is one of the reasons why we have decided to address how we can “turn threats into opportunities” at this years Summit.

Energy issues are going to be in the centre of attention at the BDF in the future as well. What are BDF's current priorities and how is it possible to influence the course of events?

The Baltic Sea countries pursue very different national energy strategies (different energy-mix), mainly due to different access to natural energy resources. We have very strong players within almost all types of energy production, distribution and use. This diversification can become our advantage. Furthermore, cutting-edge research in new energy solutions takes place in the Region to day, and many companies have developed strong energy expertise. The Baltic Sea Region represents a global frontrunner for innovative energy. With all the different competences, the Baltic Sea Region has the potential of being the first mover and of establishing a world class energy cluster that could play a key role to the economic growth of this Region.

At the same time, we also have potential energy conflicts that could create new divisions and oppositions not least due to the fact that the Region has some of the most important energy exporters and consumers in Europe. The dependence on Russian natural gas causes serious political concern in some countries. The Baltic Sea Region has been successful in abolishing old political and ideological dividing lines since the fall of the Berlin Wall. We should do our utmost to prevent new ones appearing. The *Nord Stream* gas pipeline project has created heated debate. I believe that such a project would have been less controversial, if it had first been presented and discussed in a regional context instead of the top-down approach that took everybody by surprise.

All the mentioned issues deserve an open regional debate. BDF can assist in this process. It goes without saying, that other and bigger regional and European players have to ensure that these issues are followed-up in the proper institutional setting in due course.

What topics related to the Baltic energy sector do you consider being the most important at this moment? Can BDF influence those topics and how?

The Region will be hosting a UN climate summit (COP 15) in 2009 (in Copenhagen) that hopefully will result in new global targets for the reduction of green house gas emissions. It will take place during the Swedish EU-presidency in the second half of 2009. One of the most important players will be the energy Commissioner from Latvia. There is a great chance that our Region will have a big say in the course of global events. I believe that the Baltic Sea Region has a unique chance to illustrate to the World that our Region is also “top of Europe”, when it comes to modern and environmentally friendly energy solutions and innovative competences. The Region has every chance in branding itself as forward-looking which could be interesting to foreign investors. The question is whether all the countries of the Region are ready to use this opportunity and promote regional solutions? It is one of the issues that we hope to test at the up-coming BDF Summit in Tallinn. My hope is that all countries can see an advantage in facing the challenges offensively and proactively. To do it otherwise, will be a loosing strategy.

A common position on many issues is problematic in the EU. Energy relations with non-EU countries is one of such problematic areas. Do you see a solution for this inconsequent approach to EU external energy policy? Do you see a way that BDF could help tackle this problem?

As regards common positions, the EU has come a long way within few years. The new EU Reform Treaty will entail further progress. We believe that this process will continue in the coming years, which also applies to the EU's external energy policy. It is clearly sub-optimal when countries try to solve their energy needs on their own and not in a concerted manner.

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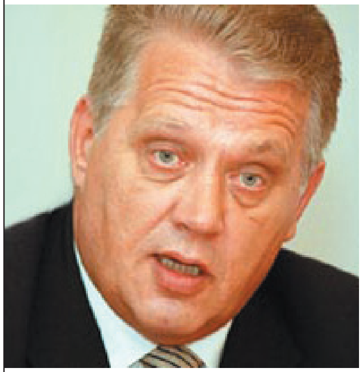
Baltic energy unity is possible and indispensable

Reinis Åbltiñß EF

The Baltic energy strategy comprises issues on national security, energy supply safety, nuclear energy and alternative energy sources. What is needed is a political agreement that the Baltic region develops as a unity in this field. *EnergoForums* asked Andris Bérziñß, Chairperson of Saeima Foreign Affairs Committee, to share his views about the achievements and prospects in the field.



Andris Bérziñß

Was any progress achieved concerning the energy unity of the Baltic States at the meeting of the Foreign Affairs Committees of Parliaments of the Baltic States?

Irrespective how much united and similar the Baltic States are, any of them has its own interests. For example, Latvia enjoys an absolute leadership as concerns renewable energy resources. The other Baltic States are even envious about our hydro resources. It was not in vain when acceding to the EU there were attempts to merge our power sector companies so that it might be declared that the whole territory is managed by one company and the Baltic States have reached the required ratio of renewable energy resources. However, Latvia has almost exhausted its resources in the field of renewables. What is still available is generation of biogas from waste that cannot bring any noticeable improvement in the Latvian power sector. If we want to erect windmills in the continental shelf, to create a windpark, its ratio in the total energy balance will be insignificant. Consequently, a careful judgement is important concerning the impact upon birds' nesting places and man. I believe that the Latvian power industry structure is optimal. We meet all the European standards and sometimes we even exceed them that cannot be said about our neighbours who have their own interests.

However, all the Baltic States are united on one issue – diversification of the energy market is important so that there are many more energy suppliers than we have today. Another important matter is about our becoming more independent when jointly considering the issue about generating capacities. Construction of the Ignalina NPP is good news. But I have inquired with our Lithuanian colleagues about their discussions with Poland and its impact upon our agreement, as well as the protocol of intent signed by all the three Baltic States about our proportional participation in the construction of the new nuclear power plant. I have told them that the information travels about Poland being eager to participate in the project if having a greater amount of shares than the other parties involved and to triple the power plant capacity up to 3400 MW. Till now neither the Lithuanian nor the Estonian colleagues have given a clear answer about it. At the same time there is information about renewal of negotiations on interconnections between Lithuania and Poland so that we are supplied with electricity also from Western Europe, not only by Russia. If to consider the matter from the point of view of power industry and regional grids we still are in the Soviet Union, we are a part of the USSR power industry system and we live within the frequency band of this system. It is interesting to note that the Head of Russia's largest national power company Anatoly Chubais, as well as the company *Russian Electric Power Grid* have spoken about their wish to change to European frequencies.

What is your opinion about Poland's participation in the Ignalina project?

I understand the Polish wish to have considerably cheap electricity generated in the territory of the Baltic States that afterwards can be sold to the West at a profit. From the point of view of common security it's good, if it were so. However, as I have already mentioned, everybody has one's own interests. A question arises who will provide reserve capacities for the new projected megawatts. Today Lithuania has the *Elektrena* power plant that might be used after the *Ignalina NPP* is closed down. However, then the price will be completely different. It will have an impact upon the Lithuanian budget, and they are conscious of it. Therefore everything is on the boil there. Not all the information we get is accurate, and we have to listen carefully and act adequately. There are countries that suggest focusing on interconnections with Sweden or Finland instead of supporting the idea of the *Ignalina NPP*.

Finland is actively constructing the *Olkiluoto* third generation reactor. Estlink 2 cable is on the way.

But we could cooperate with Sweden as well.

Only Swedes are very reserved.

Anyway, the field study is going on. Lithuanians do it jointly with Swedes, Latvians do it as well.

Theoretically, if Poland and the Baltic States come to an agreement about Ignalina will the interconnection between Sweden and Lithuania or Sweden and Latvia become more attractive to Swedes themselves?

If to speak about the liberalization of electric power market, Europe, especially the old EU member states, is not an active supporter of the market liberalization. They, except Britain, are fairly conservative, to put it mildly. Liberalization is inevitable. If we want to increase security, the market is to be liberalized in the whole EU. The greatest problem and contradiction in the situation of full liberalization of the market is the fact that everybody is interested to sell and no one is responsible for generation. I would like to see that generation is made somebody's responsibility and the capacities should be proportionate to electricity consumption. The dependence upon capacities should not be too great as then it starts affecting security.

The government has carefully considered the construction of the combined coal and biomass power plant in the Kurzeme region that would offer a solution for providing with base loads. The gas companies have put forth the idea that we should construct one high-powered gas plant instead of a coal fired plant. Can we depend only upon one source resources, like gas?

Of course, Estonia, differing from Latvia, may say that it is does not depend upon gas, as gas is used only in households there. Undoubtedly, the influence that can be exerted upon us due to gas supply is important. Today Latvia definitely has gas reserves, and, even when theoretically, the gas valve is turned off we have enough time and enough gas for finding a solution. The more so, if we are ready to pay for the gas an adequate price, that Latvia has been doing all the time. On the other hand, the issue about gas fuelled generating capacities is to be directly linked with gas security in the whole EU. In fact, there is no gas security system in the European Union. There are no legislative acts as there are about fuel, stipulating that there should be a reserve for three months. There are EU member states that have their own underground gas storage, others have a reserve of liquefied gas, some have different supply sources with a possibility to modify their ratio. At the same time there are countries without any reserves. The EU should tackle the issue providing requirements for creating a gas reserve for at least a three or four month period. Then there won't be any need to worry about the gas generating capacities. Of course, if there is no security of this type, the issue about a possible dependence is to be considered. I am carefully optimistic as concerns the use of gas in electric power industry.

One of the main ideas in the European Commission's third package on energy market liberalization is to ensure greater competition and lower prices for consumers. Due to historical reasons it does not quite work in the Baltic market as here the price is lower than in Europe anyway. Do you see any solution for that?

Latvia is a part of Russia's North-West power grid and I believe that Russia, more than Latvia, is interested in maintaining that grid even due to technical reasons. We should not fully lose links with Russia and the possibility to buy electricity from Russia. The Baltic States should develop their own electric power systems to diversify supply opportunities and thus reducing risks. I believe that Russia might be interested in retaining that link and not cutting it. We ourselves should focus more on interconnections, additional generating capacities, converting plants to be able to change frequencies. The issue is whether Latvia changes to the EU frequencies simultaneously with other countries or does it alone. Politicians should be aware of it, but basically it is a matter to be solved by experts when and in what way it is to be done.

Lately more than once Russia has used the energy issue for regulating relations with other countries. Is the common EU external energy policy, embracing the so-called *Gazprom* clause, essential and what are the real possibilities of having it?

When considering from the market point of view, of course, this is restriction and lowering competition and as such should be evaluated negatively. On the other hand, there exists national security that dictates other provisions. Consequently, it requires very careful and exhaustive political evaluation. I admit it to be a reasonable defence of the EU market and national interests. The market is fairly big – 490 million people and competition might be large, especially, if the market is liberalized and barriers withdrawn, which still are, for example, in Spain, France, Germany.

At the same time the North European gas pipeline or *Nord Stream* has had a fairly negative impact upon what might be believed to be the common EU external energy policy in relation to third countries.

I have had a chance to visit Norway and speak about Nord Stream in its electric power plants. They are people who have constructed and put into operation several underwater gas pipelines in the North Sea and they believe that optimism in relation to this very pipeline is slightly exaggerated. Moreover, even if such a pipeline is constructed from where will resources be taken for using it? According to the Norwegian estimate the Shtokmanovskaya gas field would not be technically equipped for at least ten years. Of course, Putin-Schroeder gas deal is a signal that the EU bilateral interests are evaluated fairly high, that the EU needs an energy policy and everybody, irrespective of bilateral interests, should speak with one voice and adhere to common principles and guidelines. I asked the Norwegians to what an extent Nord Stream could be an alternative for exerting pressure in the South by using the *Druzhba* pipeline. For the time being the *Druzhba* pipeline might be only partly used as a political instrument for exerting pressure upon Ukraine or Belarus, for example. Russia is not shy of doing it. On the other hand, raising prices in Ukraine and Belarus was not a reasonable step as there has not been any long-term reasonable price policy in these countries and no regulator has been operating. In any case it is clear that manipulating with the valve must not become a political instrument. It seems that Nord Stream might diversify ways of using *Druzhba* as an instrument for exerting pressure. It is absolutely clear that today energy is definitely linked with geopolitics.

The so-called *Gazprom* clause was not created just for nothing, sooner it was a reaction for protecting its own market the way it is done in other continents and states, and as it is successfully applied in Russia itself for letting some international power industry companies know where their place is. In that region which is very rich in natural resources market protectionism and monopolization is to be observed clearly. What's your opinion about it?

I believe that Russia is very much aware of the influence and impact of electric power and therefore no liberalization and privatization of this sector does not take place. Even the reverse process can be observed – some power industry companies are being bought back. The big monopolies are not unbundled and do not become more competitive, but they turn into greater and stronger monopolies. Consequently, there is certain worry that it might serve as a political instrument. Anyway, this situation increases the credibility of energy be used as a political instrument.

Energy policy

The Goal – to Turn Threats Into Opportunities

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At the same time, we have to respect the principles of a free energy market which is the best way of ensuring rational use of energy resources. We need to strike the right balance. At the same time we could demand third countries to respect the laws of a free energy market. It must be a two way street. BDF and other regional players should promote these basic principles. We have the advantage of having regular contacts with Russia, where such view should be promoted. We need to speak with one single voice. And it should be a steady voice which not all seem to understand or respect.

What is your opinion about the future of nuclear energy and its proportion in base-load energy production?

It is a difficult question. It is obvious that Finland's decision to build a new and third generation nuclear power plant is showing to the world that nuclear power has a future in Europe. Lithuania wants to follow suit. As I mentioned, the countries in the Baltic Sea Region pursue very different national strategies, and we simply have to respect the different and sovereign choices. At the same time, nuclear safety is matter that concern most people. Nuclear safety is rightly part of the Northern Dimension Environmental Partnership.

BDF Summit in Tallinn in November will have energy panel. Do you have a special message for it?

At this year's Summit, it will be discussed how important a global commitment to the new UN climate protocol is, and how investment in sustainable energy may become a competitive advantage. With the good track record of the Region's experience of balancing increasing environmental demands with growing energy needs, the session will discuss how ambiguous objectives in other regions can create new business potentials for the Baltic Sea Region. We foresee an interesting debate and the possibility to define the most important issue for the Region to follow-up on.

Please, tell a little bit about yourself, about your previous work.

My back ground is 17 years of diplomatic service in the Danish Ministry of Foreign Affairs. I have mainly been working with European affairs through two postings to Brussels (EU-representation) and Paris. I have always followed developments in the Baltic Sea Region closely. Working as EU-advisor in Tallinn and Riga for 1,5 years has contributed to my insights as well as previous responsibilities of relations two Russia and the other CIS-countries. I am very pleased to head the BDF secretariat where we have a true international environment. 5 different nationalities, including one very competent Latvian colleague, contribute to this environment.

TEC-2 reconstruction: eight months more to finish

Reinis Åbltiñß, Dace Plato EF

On 13 September a year passed since in Acone civil parish, Rîga district, there was laid the foundation stone to start the execution of the most notable industrial investment project since Latvia regained its independence – the reconstruction of *Latvenergo* TEC-2 (CHPP). Aigars Me-ko, member of Management Board of *Latvenergo* AS, tells *EnergoForums* what has been done during the year and the prospects for the new unit to be put into operation next summer.

Shortage of workforce felt

As provided by the agreement the reconstructed TEC-2 is to be put into operation on 1 July 2008. Mr. Me¬˚o informs that the reconstruction is going on basically according to the schedule. Almost all the buildings have been erected and interior work is going on. All the main equipment of the unit has been received and it is being assembled, except the steam turbine generator that is to arrive in Acone at the end of November. The shipment was delayed because when tested at the factory a defect was traced that is being remedied now. The necessary infrastructure – gas, heating, water pipes and high voltage cables are being installed. Regulation and testing of the equipment will start soon. "The time schedule is very tense, as TEC-2, like many other facilities under construction in Latvia, experiences a shortage of working hands," admits Me-ko.
At present the most up-to-date power plant in the Baltics is TEC-1 with its electric capacity of 144 MW. After the reconstruction TEC-2 will be ranking first. The new TEC-2 with its capacity of more than 407 MW in the cogeneration regime and 437 MW in the condensation regime will be the leading new generation power plant in the Baltic States, considerably increasing the electricity independence of Latvia. In winter the plant will work in the cogeneration regime, generating heat and electricity, but in summer in the condensation regime, mainly supplying with electricity.

Equipment will be regulated and the staff trained

The next important stage following the assembling is regulating the equipment and starting the testing. At first it is tested without any load, but at the beginning of the next year when the gas turbine is put into operation it will be tested under load.
Simultaneously the staff undergoes training according to a specially developed programme. The training was started in spring this year. At present it is theory that is being mastered, but practical skills will be acquired when starting the regulation and testing as the staff will be involved in the process.
Training of the staff is provided as a part of provisions of the agreement with the company *Iberdrola* on TEC-2 reconstruction. The training will be going on up to the moment the plant is put into operation. Me-ko underlines that in the new TEC-2 a part of the old TEC-1 staff will be employed alongside with new employees.
When the new unit is put into operation, the existing one will be used as well as in the heating season there still will be a need for its two turbine sets. The old unit might also function for "reserve capacities", in case the electric power infrastructure in the Baltic States develops in a way that the total capacity is reduced due to closing down the Ignalina second unit or the electricity market develops so that to generate electricity in TEC-2 is as profitable as to buy electricity, for example, from Russia. Me-ko illustrates it with the situation this summer when due to repairs at the *Ignalina NPP* its operation was suspended for two months and to ensure the required electricity volume all the capacities were needed.

Investments constitute LVL 140 million

140 million Lats are invested in the TEC-2 reconstruction project, LVL 123.9 million constituting the contract value with the main contractor, the Spanish company *Iberdrola*. The remaining sum is projected for various related work. A twelve-year contract is signed for the maintenance of the unit. The project costs will be regained from the unit operation revenue. The project is financed within the framework of the total *Latvenergo* investment programme, using the company resources and taking loans from the European Investment Bank and the Council of Europe Development Bank.

Hoping for the government backing for the construction of TEC-2 second unit

The year 2009 will bring closing down of the *Ignalina NPP* and base load capacity shortage in the Baltic region and when thinking of it *Latvenergo* hopes to receive the government backing for the construction of TEC-2 second unit. "We hope very much to receive the government support. If the decision is taken in the next six months, the second TEC-2 unit might be put into operation by the start of the heating season of 2011-2012," underlines Me¬ko. The issue about the feasible construction of another unit has been discussed with the present contractor *Iberdrola*, however, the Spanish company has not given a clear answer yet. Construction of this type of power plants is very much in demand at present and manufacturers of equipment and builders have an opportunity to dictate their provisions, implying higher prices and more extended time schedule for the client.
There are no exact calculations as to the projected costs of such a unit. The construction costs of power plants and their equipment have risen drastically in the world over the last two years. It has been due to the quick economic growth of China and other factors as well. "We know that it will be more expensive, but it is difficult to say now how great the price rise will be. The advisors' calculations reveal that costs for TEC-2 analogous units have risen for 30% and it is a considerable increase," says Me-ko. Financing of the second TEC-2 unit is planned along the same lines as the first one, using both the *Latvenergo* resources and taking loans. Me-ko disperses the worry that construction of such a big gas-fuelled plant might increase Latvia's dependence on Russia by stating: "Technically the unit is constructed so that it can operate with gas from other suppliers as well, not only Russia. If in the future there are alternative gas suppliers to Latvia, for example, we have a liquefied gas terminal, then this gas might be used as fuel as well. Today it is not profitable to use liquefied gas due to the market situation; moreover, using liquefied gas will require additional investments in a new infrastructure.""