



Weekly Briefing

**Lithuania Economy briefing:
The Baltic countries are on the way to desynchronize the national
power grids from Russia in 2025**

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The Baltic countries are on the way to desynchronize the national power grids from Russia in 2025

Although the Baltic countries re-gained their independence almost three decades ago, the independence of their power grids from the integrated power systems and the primary power reserves provided by Russia have not been secured yet. Now it has become known when such power grid independence will be realized.

In September this year, after 27 years of the political independence, the energy independence is within the grasps: a final approval was given by the European Commission to the technical project that would take Estonia, Latvia and Lithuania out of the synchronization with the Integrated Power System/Unified Power System Of Russia (IPS/UPS) grid area, which started back in 1956 and now is spanning the power grids of the greater part of the former Soviet Union, including the national power grids of the Russian Federation, Belarus, Ukraine, Moldova, Kazakhstan, Kyrgyzstan, Azerbaijan, Tajikistan, Georgia and also Mongolia.

As it is now, the Baltic grids are fully synchronized with the Russian and Belarusian power systems using the Russian primary power reserves for the frequency regulation and the secure system operation through the alternating current 330V interconnectors within the BRELL ring linking the Baltic grids to Russia and Belarusia.

The technical project to be implemented over the next few years with support of the European Union envisions the delinking of the Baltic grids from IPS/UPS and synchronization with the Continental European Network (CEN) via the existing and a newly planned interconnector between Lithuania and Poland. The Political Roadmap for synchronizing with CEN was signed between the Baltic Heads of States and the President of the European Commission on 28 June, 2018. It put to an end the political planning process which started with the

first Memorandum of Understanding (MoU) on the Baltic Energy Market Interconnection Plan (BEMIP) signed by Denmark, Germany, Estonia, Latvia, Lithuania, Poland, Finland, Sweden and Norway (as an observing party) in 2009. A BEMIP was renewed with the second MoU signed in 2015 extending the initiative's scope to security of supply, energy efficiency, renewable energy and the integration of the Baltic countries' electricity network into the continental European network, including their synchronous operation. The 2018 Political Roadmap completed this process by fixing the target date of 2025 for the Baltic national grid synchronization with the rest of the EU.

Other former countries of the Eastern Bloc countries which are now members of the EU (Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia) synchronised their systems with CEN between 1995 and 2004. Why it took so long to arrive at this stage of political development in the case of the Baltic countries?

Two major factors played an important role in making the issue of the integration of the Baltic power grids in the European power system a priority not only for the Baltic countries but, more importantly, for the whole of the EU during the recent years, namely: the energy security and the energy market liberalization.

As concerning the energy policies, initially the energy policy planning was the sole prerogative of the national governments of the EU Member States. The change came with the 2007 EU Treaty of Lisbon which extended the principle of solidarity of the European Community also to the matters related to energy supply which led to the changes in the energy policy within the EU. The matter of the pan-European energy policy making was further exacerbated by the gas crisis between Russia and Ukraine between 2006 and 2009 which during the winter of 2008-2009 jeopardized the gas supplies to the EU via Ukraine. The issue was of a grave concern due to the fact that the EU receives almost 80 percent of its Russian gas, a fifth of its total needs, via the system of the pipelines which go via Ukraine and are operated by Ukrtransgaz for the

Government of Ukraine. During the Ukrainian-Russian gas crisis the gas supplies to 18 countries in Europe were disrupted. As of then, the energy security has been high on the EU's agenda.

As concerning the impact of market liberalization on the energy policies, the stagnation of the European economies in the aftermath of the global financial and economic crisis of 2008-2009 led the European Commission to search for the policy-driven solutions on how to rejuvenate the economy and ensure the reindustrialization of Europe. The high level of energy source dependency and the dominant bargaining position of the major gas and oil supplier to Europe (Russian Federation) led to the search for diversification of the energy markets and exploring the opportunities to decrease the bargaining power of the key supplier.

In February 2015 the new European Commission under the leadership of Jean-Claude Juncker (who was elected to lead the Commission by the European Parliament on 15 July 2014) introduced the Energy Union Strategy project to coordinate the transformation of European energy supply and contribute to the more competitive prices of energy which were required for the renewal of Europe's fledgling processing industry highly dependent on energy and raw material imports. The strategy set out the target of a minimum 10% electricity interconnection target for all member states by 2020 anticipating that this could create a favourable downward pressure onto energy prices, reducing the need to build new power plants, reducing the risk of black-outs or other forms of electrical grid instability and improving the reliability of renewable energy supply, and encourage market integration.

Hence, a new impetus came from Brussels to bring the Baltic countries into the emerging EU energy market and remove them from an "energy island" and the integration with the Russian and Belarussian power energy systems. The preparations for the de-synchronization have been going on for almost a decade. Between 2010 and 2013 the Baltic countries became connected to the NordPool, an automated electric power trading system run by the national grid operators of

Norway, Denmark, Sweden, Finland, Estonia, Latvia, Lithuania. The newly established interconnectors between Estonia and Finland (Estlink 1 and 2 with 350 MW and 650 MW capacities) and between Lithuania and Sweden (NordBalt link with a 700 MW capacity) together the upgraded and additionally developed power network infrastructure across three countries have ensured that sufficient quantities of energy could be imported from the Nordic countries. An energy corridor was further created through the 500 MW Litpol Link which connects Lithuania to Poland with the second interconnector of 500MW capacity being planned for 2025 to ensure the enough capacity for the synchronization with CEN.

The energy independence of the Baltic countries as planned for 2025 will be further strengthened by solving the issue with the diversification of the gas suppliers into the region. Major gas projects in the Baltic region include the Gas Interconnector Poland – Lithuania (GIPL), the Balticconnector project, and the development of infrastructure between the Baltic states. The GIPL aims to connect the Baltic and Finnish gas networks with the continental European gas network by the end of 2021 and the Balticconnector will provide an important gas link between Finland and Estonia.

The plans to diversify the gas imports in Europe are well under way, as confirmed by the EU European Commission Vice President Maroš Šefčovič in charge of energy policies in Europe at a policy forum held in Vilnius in September. The underlying principle supported by the Commission is that each Member State has to have an access to at least three different sources of gas. In this context the EU held initial talks with the United States for organizing the imports of the liquified natural gas (LNG), including the imports via Lithuania. The Klaipeda LNG floating storage and regasification unit (FSRU) terminal (built by Hyundai Heavy Industries and leased from Höegh LNG for 10 years with an option of buyout) has become the strategic infrastructure asset not only for Lithuania but also the EU because it can ensure the access to the LNG imports from diverse sources overseas. The floating LNG terminal at Klaipeda

(which has been in operation since 2014 when it was built under the name “FSRU Independence” chosen to symbolize the importance of the occasion) has a capacity of handling of almost 4 billion cubic metres per annum of natural gas (2.2 million tonnes of LNG).

The LNG terminal has been already receiving the gas supplies from Norway, the United States, Trinidad and Tobago, and Nigeria. Since 2017 the terminal has been used for LNG reloads for re-export to small-scale LNG import terminals in Sweden, Finland and Norway. Lithuania has become the 12th country in the world that re-exports LNG and the fifth country in the world to use FSRU technology for storing liquefied natural gas.

However, the diversification of the energy sources created a new challenge for Lithuania. The 2240 MWe nuclear power plant with two reactors which is being built across the border from Lithuania at Astravets for 9 billion USD by Russia’s state-owned enterprise Rosatom (commissed by the Government of Belarus) and planned to be made operational in 2019-2020 has been considered by Lithuania as a major risk factor. From the start of the construction of the plant Lithuania was raising concerns and in 2017 filed a complaint with the Implementation Committee of the Espoo convention (Convention on Environmental Impact Assessment in a Transboundary Context) requesting to stop the building of the nuclear power plant on safety grounds.

Meanwhile, the Belarus government has started the talks with the neighboring countries about the sale of electricity from the nuclear plant which might create new dependencies. In September the Government of Lithuania confirmed that Lithuania would not be holding any talks with Belarus about the purchasing of electricity from this nuclear plant in accordance with the Law on Necessary Measures against the Threats Posed by Unsafe Nuclear Power Plants in Third Countries adopted by the Parliament of Lithuania in 2017 as a pre-emptive measure precluding possibilities of electricity sales from the Belarusian nuclear power plant.

Both the diversification of power and gas supplies and the consolidation of the electricity market creates a unique situation in the Baltic region and Lithuania in particular (being the key country at the crossroads of the energy corridors), where a formerly fully energy dependent country might become a country on which the region and indeed part of the EU might depend for ensuring the liberalization of Europe's energy market.