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# A SURVEY OF THE LEGAL FRAMEWORK AND CURRENT ISSUES IN THE EUROPEAN ENERGY SECTOR

THE EUROPEAN  
ENERGY HANDBOOK  
2014

**SECTOR SURVEY**  
EIGHTH EDITION



March 2014

### **THIRD ENERGY PACKAGE**

Throughout this publication, we refer to the two directives and three regulations adopted by the European Council and the Parliament on 13 July 2009 as the "Third Energy Package". For ease of reference, the directives and regulations adopted as part of the Third Energy Package: EU Directives 2009/72/EC, 2009/73/EC and Regulations (EC) No 713/2009, No 714/2009 and No 715/2009 are referred to as the "Third Electricity Directive", the Third Gas Directive", the "ACER Regulation", the "Third Electricity Regulation" and the "New Gas Regulation", respectively. Where the context so requires, we refer collectively to the two Directives as the "Third Electricity and Gas Directives" and to the Regulations as the "New Electricity and Gas Regulations", as appropriate.

### **CLIMATE CHANGE PACKAGE**

We refer to the four Directives, one Regulation and one Decision adopted by the European Parliament on 17 December 2008 and the European Council on 6 April 2009 as the "Climate Change Package". For ease of reference, throughout this publication, we refer to EU Directives 2009/29/EC, 2009/28/EC, 2009/31/EC and 2009/30/EC as the "New EU ETS Directive", the "Renewable Energy Directive", the "CCS Directive" and the "Biofuel Directive" respectively. Further, we refer to EU Decision No 406/2009/EC and Regulation (EC) No 443/2009 as the "GHG Reduction Decision" and the "Emissions Standards Regulation", respectively.

Where required, we have referred to the previous internal energy market directives 1996/92/EC and 1998/30/EC as the "First Electricity Directive" and the "First Gas Directive", respectively and to Directives 2003/54/EC and 2003/55/EC as the "Second Electricity Directive" and the "Second Gas Directive", respectively.

Throughout the publication, we refer to Transmission System Operators as "TSO" and to Distribution System Operators as "DSO".

### **LEGAL ADVICE**

Please note that the content of this publication does not constitute legal advice and should not be relied on as such. Specific advice should be sought about your specific circumstances.

# CONTENTS

02	Introduction	275	Former Yugoslav Republic of Macedonia
03	European Union	285	Malta
28	Albania	293	Montenegro
35	Austria	301	The Netherlands
44	Belarus	320	Norway
51	Belgium	329	Poland
63	Bosnia and Herzegovina	339	Portugal
72	Bulgaria	349	Romania
83	Croatia	358	Russia
95	Cyprus	368	Serbia
106	Czech Republic	379	Slovak Republic
114	Denmark	387	Slovenia
132	Estonia	396	Spain
140	Finland	405	Sweden
152	France	414	Switzerland
169	Germany	424	Turkey
183	Greece	436	Ukraine
193	Hungary	447	United Kingdom
203	Iceland	466	Overview of the legal and regulatory framework in 41 jurisdictions
213	Ireland	505	Overview of the renewable energy regime in 41 jurisdictions
224	Italy		
235	Kazakhstan		
244	Latvia		
249	Lithuania		
265	Luxembourg		

# INTRODUCTION

It is with great pleasure that I introduce the 2014 edition of “The European Energy Handbook” which provides an in-depth survey of current issues in the energy sector in 42 European jurisdictions.

The handbook includes a summary of each legal and regulatory energy framework and analyses issues such as industry structure, the design of electricity markets, energy trading regimes, third party access, the framework applying to use of systems both at the transmission and distribution levels, market entry, nuclear power and cross-border interconnection as well as climate change related regulations. Chapters covering those jurisdictions with significant upstream oil and gas activities also include an overview of the main features of the legislative features of the upstream regime.

In addition to contributions for the European Union, France, Germany, Spain, Russia and the United Kingdom from our own offices, this year we have contributions from Schönherr (*Albania, Austria, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Romania, Serbia, Slovakia and Slovenia*), Peterka & Partners (*Belarus*), Stibbe (*Belgium and the Netherlands*), Karanovic-Nikolic (*Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia*), PWC Legal / Landwell (*Cyprus*), Kromann Reumert (*Denmark*), Raidla Leijns & Norcous (*Estonia, Latvia and Lithuania*), Roschier (*Finland*), Kyriakides Georgopoulos & Daniolos Issaias (*Greece*), Arthur Cox (*Ireland*), Studio Legale Legance (*Italy*), Linkage and Mind (*Kazakhstan*), Arendt & Medernach (*Luxembourg*), Buttigieg, Refalo & Zammit Pace Advocates (*Malta*), Arntzen de Besche Advokatfirma AS (*Norway*), WKB Wierciński, Kwieciński, Baehr (*Poland*), Esquivel Advogados (*Portugal*), Mannheimer Swartling (*Sweden*), Homburger (*Switzerland*), Kolcuoğlu Demirkan (*Turkey*), BBA//Legal (*Iceland*) and Sayenko Kharenko (*Ukraine*).

According to the policy aims of the European Union, 2014 is supposed to be the year in which the internal market for energy will be completed. However, not all Member States have transposed the Third Energy Package into national law and the European Commission has referred a number of Member States to the European Court of Justice for either partial or complete failure to implement the same. Whilst the development of a European gas market seems somewhat hesitant, there are there are a number of developments to announce in the electricity market:

In February 2014, transmission system operators and power exchanges from 14 EU Member States (Belgium, Denmark, Estonia, Finland, France, Germany, Austria, UK, Latvia, Lithuania, Luxembourg, the Netherlands, Poland and Sweden) plus Norway

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launched a pilot project for joint electricity trading, so-called day-ahead market coupling. The newly coupled market combines 75% of today's electricity consumption in the EU. In the wake of this pilot project, the Commission has announced plans for an EU Regulation to be published later this year to make market coupling binding across the entire EU.

The internal energy market and will also bring new challenges for the future of the European electricity market, in particular for national policies in relation to national support schemes for renewables and adequate generation capacities to ensure the security of electricity supply. The Commission has recently issued guidance on this. It is likely that 2014 will see the practical implication of these guidelines as many EU Member States are reviewing the design of their electricity markets in light of financial pressures on existing support mechanisms, environmental commitments and concerns regarding the integration of renewable energies into the electricity grid whilst maintaining high supply standards.

In 2014, the European energy sector will also follow with interest the reform of the state aid guidelines which was kicked-off by a Commission consultation on new draft Guidelines on allocating support for energy and environmental projects and a consultation on the Notice on the notion of State aid itself.

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March 2014

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# ENERGY LAW IN LATVIA

## Recent developments in the Latvian energy market

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### LATVIA'S BIDDING AREA WITH THE NORD POOL SPOT

On 3 June 2013, a separate bidding area for Latvia was established with the Nord Pool Spot, the leading power market in Europe. Latvia has previously unbundled transmission system operator, AS Augstsprieguma tīkls, from the vertically integrated and state owned AS Latvenergo in order to ensure Latvia's accession to the Nord Pool Spot. This development is in line with the government's plan to discontinue sale of electricity at a regulated tariff and from April 2014 all end users (including households) will have to buy electricity at a market price.

### HOUSEHOLDS TO JOIN ELECTRICITY MARKET

From 1 April 2014, households in Latvia will join the electricity market. Thus, regulation of electricity tariffs for households will be abolished. It is expected that opening the market for households will have a very limited impact on the position of AS Latvenergo which is currently serving households. The second largest electricity seller in Latvia, SIA Enefit, has announced that it will not sell electricity to households in Latvia due to unreasonably high cross border transmission expenses. At the same time, SIA Baltcom, a cable TV operator, has announced that it will sell electricity to households. However, it is expected that only a limited number of households will switch from AS Latvenergo to other suppliers of electricity.

### INTRODUCTION OF SMART METERING

The necessary amendments to the Electricity Market Law introducing smart metering have been adopted. According to the government's plan, households will be allowed to pass the excess energy from their micro-generation units to the grid. The system came into operation on 1 January 2014.

### REFORMS IN THE RES-E SECTOR

As of 1 April 2014, a new tax will be imposed to undertakings benefitting from feed-in tariff system operating in Latvia. It has been concluded by the Ministry of Economics that current support schemes for RES-E producers are inefficient and could eventually have an overwhelming impact on electricity prices in the mid term future. The Ministry of Economics has proposed, and the parliament (*Saeima*) has approved the Subsidised Energy Tax Law which will apply to all undertakings receiving feed-in tariff.

### LIBERALISATION OF THE NATURAL GAS MARKET

In the course of 2014, Latvia will take the necessary steps to finally implement the New Gas Directive.

The Cabinet of Ministers has approved the draft amendments to the Energy Law. According to the amendments, third party access to the gas transportation, distribution and storage systems will be introduced as of 1 January 2015. Additional provisions facilitating the regional LNG market shall be introduced. AS Latvijas Gaze, a

vertically integrated undertaking, is expected to be required to legally unbundle its distribution system.

Though it is not clear yet which of the TSO unbundling regimes will be adapted in Latvia, recent public announcements by the government officials suggest that the unbundling is unavoidable and the natural gas market will be put in line with the requirements of the Third Gas Directive.

# OVERVIEW OF THE LEGAL AND REGULATORY FRAMEWORK IN LATVIA

## A. ELECTRICITY

### A.1 Industry structure

The key market player in the electricity market in Latvia is AS Latvenergo, a fully state owned joint stock company. According to the Energy Law, a framework law for the Latvian energy sector, AS Latvenergo must remain the property of the state and its privatisation, as well as any other form of alienation, is prohibited. Furthermore, the power plants and the electricity transmission and distribution networks may not be used as collateral or transferred to any entities other than those fully owned by the state or AS Latvenergo.

AS Latvenergo has two fully owned subsidiaries that are joint stock companies. They are AS Sadales tīkls, distribution system operator and AS Latvijas elektriskie tīkli, transmission system owner. The independent transmission system operator, AS Augstsprieguma tīkls, is owned by the state directly in order to comply with the ownership unbundling provisions under the EU law, as well as to ensure compliance with requirements for creating Latvia's bidding area with the Nord Pool Spot, the leading power market in Europe.

Since 2006, SIA Enefit, a limited liability company owned by AS Eesti Energia, an Estonian electricity producer, is operating in the Latvian market by offering electricity to corporate clients. According to the information provided by SIA Enefit, it has continuously increased its market share, which has now reached approximately 15% of the electricity market in Latvia. At the beginning of 2012, SIA Inter RAO Latvia commenced active operation in a local energy market, offering its services to corporate clients. SIA Inter RAO Latvia is a part of Inter RAO UES, a Russian energy company. Market share of SIA Inter RAO Latvia is still very small, but is expected to grow gradually according to information provided by the company itself.

The overall supervision of the electricity industry is performed by the Ministry of Economics. The tariffs for households and market conditions in the electricity industry are regulated by the Public Utilities Commission (*Sabiedrisko pakalpojumu regulēšanas komisija*), which is in charge of the licensing of generation, transmission, distribution of and trading in electricity. A licence for each of these is necessary where the volume of the relevant activity exceeds thresholds stipulated by the Cabinet of Ministers Regulations on Types of Regulated Public Services. Licences for generation, transmission and distribution of electricity are issued for a period of twenty years, and licences for trading in electricity for a period of five years. The Public Utilities Commission is also in charge of the gas market where similar licences (ie for transportation, storage and distribution of and trading in the natural gas) should be obtained prior to commencement of the respective activity.

The basic legislative framework in the electricity industry consists of the Energy Law, the Electricity Market Law, the Law on Regulators of Public Services, as well as several subordinated regulations issued by the Cabinet of Ministers and the Public Utilities Commission.

### A.2 Third party access regime

The Electricity Market Law generally provides for the right of market participants to use the transmission and distribution systems at the tariffs approved by the Public Utilities Commission. Access to the transmission and distribution systems is subject to the market participants complying with the technical requirements of the system operator. The system operator may refuse such access where it lacks the necessary capacity, giving duly substantiated reasons to the market participant within 30 days of receipt of its application.

It has been established that access to the grid by the developers of RES-produced electricity projects is limited due to excessive connection costs and bureaucratic requirements imposed on those willing to acquire connection to the grid. However, the same could be said in respect of potential customers of AS Latvenergo. Connection costs for newly built production units, for example, are significant thereby substantially increasing the amount of necessary investment.

### A.3 Market design

Electricity generation, transmission, distribution and supply are all subject to obtaining a licence issued by the Public Utilities Commission unless the applicable thresholds are not exceeded. The issuance of the licence is normally decided within one month. However, that period may, in exceptional cases, be extended to four months.

Where the entrant intends to use the existing transmission and/or distribution system for transmission of electricity, an agreement needs to be entered into with the operator of the relevant system(s).

In addition, entities intending to engage in electricity supply are subject to requirements relating to the relationship with the electricity end users, as stipulated by the Electricity Trade and Usage Regulations issued by the Cabinet of Ministers.

### A.4 Public service obligations and smart metering

The Electricity Market Law imposes certain obligations on the 'public trader' which is to be established by the entity as having the distribution licence with the largest area of operation and the largest number of users switched to its networks. Among other things, the public trader is under an obligation to supply electricity to all captive customers in all of Latvia, as well as to purchase

electricity generated in the cogeneration process and from renewable energy resources.

Since 1 January 2014, smart metering for households using renewable energy sources for primarily their own consumption has been introduced in Latvia. A monthly offset will take place between the respective household and the distribution system operator, and final settlement between the involved parties will take place at the end of each calendar year.

## A.5 Cross-border interconnectors

Within the boundaries of the EU, Latvia is interconnected with Lithuania and Estonia via long established grids, as well as with Finland via the Estlink (an undersea cable between Finland and Estonia). In addition, Latvia is interconnected with the Russian/CIS electricity network via interconnectors constructed prior to 1990.

According to information from the European Commission, additional interconnectors are planned with Finland via Estlink-2 (testing of the interconnection has been carried out since October 2013 and it is expected to come into operation in early 2014), as well as with Sweden via NordBalt (an undersea cable between Sweden and Lithuania). The NordBalt project would also involve electricity network improvement in the Baltic States. It is expected that the NordBalt interconnector will be launched in December 2015.

## B. GAS

### B.1 Industry structure

Latvia is a natural gas importer and the only supplier of natural gas is OAO Gazprom, a Russian state owned company. Together with Lithuania and Estonia, Latvia forms the so called Baltic energy island. Though natural gas transportation systems of the Baltic States are mutually interconnected, they lack interconnection with the rest of the EU. Therefore, Latvia and the other Baltic States are fully dependant on natural gas deliveries from OAO Gazprom.

Although Latvia does not produce natural gas, it benefits from the geological advantage of possessing one of the largest underground facilities in Eastern Europe situated in Incukalna, Latvia. This storage facility is intensely exploited by OAO Gazprom which stores its natural gas reserves intended for distribution in Latvia, Estonia, North-West Russia, and to a lesser extent Lithuania. Thus, Latvia is also exporting natural gas.

The Latvian natural gas market has so far been monopolistic. The only entity licensed to transport, distribute, store and supply natural gas is AS Latvijas Gaze, a vertically integrated undertaking owned by E.ON Ruhrgas International AG (47.23%), AAS Gazprom (34%), SIA Itera-Latvija (16%), and several minority shareholders (2.77%).

In a similar structure to that of the electricity market, the overall supervision of the gas industry is performed by the Ministry of Economics. The Public Utilities Commission is in charge of the issuance of licences for the provision of public services in the gas industry (please refer to Section A.1 above for a more detailed description).

The basic legislative framework of the gas industry consists of the Energy Law, the Law on Regulators of Public Services, and a series of subordinated regulations of the Cabinet of Ministers and the Public Utilities Commission. The Energy Law implements the Second Gas Directive. No decision has yet been made as regards

the unbundling regime of the transportation system to be implemented in Latvia. Neighbouring countries, Lithuania and Estonia, have opted for the full ownership unbundling in their respective regulatory enactments.

To date, Latvia has been exercising its rights of derogation under Article 49(2) of the Third Gas Directive which allows Member States qualifying as emerging markets (which are those which would experience substantial problems because of the implementation of the Third Gas Directive,) to derogate from a series of articles of the Third Gas Directive until the relevant Member State no longer qualifies as an emerging market. According to the transitional provisions of the Latvian Energy Law, it was decided that the natural gas market will remain closed until 4 April 2014. The respective date has been determined based on the fact that Latvia received the first commercial supply of natural gas on 5 April 2004 under its first long term natural gas supply contract entered on 18 July 2003. However, it is expected that in 2014 the parliament (*Saeima*) will make the necessary amendments to the Energy Law in order to partially implement the New Gas Directive primarily including those concerning third party access to the gas transportation, distribution and storage systems. Additionally AS Latvijas Gaze is expected to legally unbundle the distribution system and the introduction of additional provisions facilitating the regional LNG market is expected. Currently, it is proposed that the respective provisions shall come into effect on 1 January 2015.

The transportation, distribution, storage and supply of natural gas as well as the supply, distribution, storage and refilling of liquid natural gas are regulated activities and are therefore subject to obtaining a licence, which is issued by the Public Utilities Commission. The transportation, distribution and storage licences are issued for a period of twenty years, while supply licences are issued for a period of five years.

Since the Latvian natural gas market is monopolistic, no product sharing regime exists for the time being.

On 7 July 2010, the parliament of Latvia passed amendments to the Energy Law which implemented Council Directive 2009/119/EC of 14 September 2009, imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products. The Ministry of Economics has been appointed the central stockholding entity for the purposes of acquisition, maintenance and sale of the oil stocks. The oil stocks are purchased from economic operators (1) authorised to engage in commercial activities with oil products in Latvia or a Member State of the EEA or (2) which import oil products into Latvia for their own consumption, in each case selected as a result of an open tender procedure.

### B.2 Third party access regime to gas transportation networks

The natural gas transportation and distribution networks are operated by AS Latvijas Gaze. Due to the monopolistic character of the Latvian natural gas market, currently no third party access to the gas transportation and distribution networks is guaranteed by Latvian law.

### B.3 LNG and gas storage

Currently, there are no LNG terminals in Latvia. However, it is expected that a regional LNG terminal will be construed for all Baltic States and Finland in the nearest future, co-financed by the

EU. It is very likely that the regional LNG terminal will be situated in Estonia or Finland. In addition, a LNG terminal in Klaipeda, Lithuania, should come into operation in 2015, providing an opportunity to import LNG to Latvia.

With regard to gas storage, Latvia has substantial advantages (see also Section B.1 above). It already operates one underground natural gas storage facility at Incukalna, (which recent studies by the European Commission suggest could benefit from a significantly increased capacity) and an additional large scale underground storage facility could be eventually constructed in Dobeles. Studies also suggest that in future, storage facilities in Latvia could serve as the facilities of regional importance, serving not only the Baltic States, but also Finland, Poland, and even Norway (for natural gas eventually extracted in the Barents Sea).

#### **B.4 Market entry**

Since the transitional provisions of the Energy Law provide for the Latvian natural gas market to remain closed until 4 April 2014, entry to the Latvian natural gas market is not possible until that time.

#### **B.5 Public service obligations and smart metering**

This section is not applicable in Latvia.

#### **B.6 Cross-border interconnectors**

Please refer to Section B.1 above for the information on cross border interconnectors.

For further integration of Latvia into a common European natural gas network system, a number of conditions have to be met. Firstly, it is essential that the Baltic States have interconnectors with the rest of the EU, eg via Poland - Lithuania or Estonia - Finland interconnectors. Secondly, interconnection capacity among the Baltic States has to be increased. The respective infrastructure projects are envisaged in the Baltic Energy Market Interconnection Plan.

### **C. ENERGY TRADING**

#### **C.1 Electricity trading**

Electricity trading is regulated in Latvia by the Electricity Market Law and the Grid Code as approved by the Public Utilities Commission, which provides for various trading mechanisms including pooling. Electricity trading is, however, considerably encumbered in Latvia by the inadequate availability of generation capacities and the insufficient number of market participants.

Ensuring the system balance is the responsibility of the TSO. The TSO provides balancing services to the users, electricity generators and DSOs connected directly to the transmission system. The users, electricity generators and other DSOs connected to the distribution system receive the balancing service from the DSO.

Generally, electricity can be traded in the balancing market. As an exception from the general prohibition on engaging in electricity trading, the TSO is entitled to engage in electricity trading for the purpose of balancing.

The supply of electricity to customers is regulated by the Electricity Trade and Usage Regulations issued by the Cabinet of Ministers, which provides detailed regulations regarding the

relationship between electricity suppliers and customers. The supply of electricity to captive customers (ie those electricity users which have not exercised their right to freely select the electricity supplier) is subject to the tariffs approved by the Public Utilities Commission. These tariffs are calculated in accordance with methodologies also approved by the Public Utilities Commission. However, the regulated tariff regime will be revoked as of 1 April 2014 when all end users (including households) will have to buy electricity at a market price.

Since 3 June 2013, the Latvian bidding area with the Nord Pool Spot, the leading power market in Europe, has been opened. Since then, electricity market players from Latvia have been actively involved in electricity trading in the Estonian bidding area. In addition, AS Latvenergo offered to purchase electricity for the bourse price, although the significant cautiousness of potential purchasers has been noticed due to the price risks involved in such electricity trading.

#### **C.2 Gas trading**

Natural gas is supplied to customers only by AS Latvijas Gaze. Supply of natural gas to customers is regulated by the Gas Supply and Usage Regulations issued by the Cabinet of Ministers, which provides detailed regulations concerning the relationship between the gas supplier and customers. Supply tariffs of natural gas are established by the Public Utilities Commission and are calculated in accordance with the methodologies approved by the Public Utilities Commission.

#### **C.3 Introduction of EMIR and REMIT**

Currently, introduction of EMIR and REMIT has no direct effect in Latvia. Necessary changes following introduction of EMIR and REMIT, if any, shall be proposed by the Financial Capital and Market Commission.

### **D. CLIMATE CHANGE AND SUSTAINABILITY**

#### **D.1 Climate change initiatives**

In most respects, implementation of the EU Climate Change Package is still pending in Latvia. While the New EU ETS Directive has been implemented in Latvia in order to comply with those requirements which were to be implemented by 31 December 2009, the legislative acts necessary to implement the Renewable Energy Directive and the Biofuel Directive have not yet been finally adopted.

#### **D.2 Emission trading**

The legislative framework for emission trading is provided by the Law on Pollution and the Regulations on Activities with Emission Allowances and Organisation of Pools of Installations issued by the Cabinet of Ministers, which implements the relevant provisions of Directive 2003/87/EC. Until recently, the emission allowances were allocated by the Ministry of Environment, while the Latvian Environment, Geology and Meteorology Agency operated and maintained the issuance and the register of allowances. However, in order to comply with the relevant EU legislation, allowances will be auctioned as of 1 January 2013. With the exception of the EU ETS, there are no other national emission trading schemes available in Latvia.

#### **D.3 Carbon capture and storage**

Currently there are no existing carbon capture and storage projects in Latvia. Taking into account the costs and complexity of

this new technology, the private sector needs economic incentives to apply it. If the cost of this technology is not reduced, it is most unlikely that these kinds of projects will be used in Latvia in the near future.

#### D.4 Renewable energy

The Energy Law generally defines renewable energy resources as wind, solar, geothermal, tidal, and hydro energy, waste landfill site and sewage treatment plant gas, biogas and biomass (ie, biologically degradable fraction in products, industrial and household waste, agricultural, as well as forestry and similar section residual materials). In practice, two of the most exploited renewable energy resources are wood pulp and hydro resources, with wind energy and biogas also being used but in considerably smaller volumes.

The share of energy from renewable sources has always been high in relation to the gross final consumption of energy in Latvia and constituted 34.3% in 2009 and 32.6% in 2010. The target of using 40% energy from renewable sources by 2020, as provided by the Renewable Energy Directive is, however, considered to be ambitious and not easy to achieve.

The Electricity Market Law provides that a certain percentage of the total energy consumption by end users shall be electricity produced from renewable energy sources. The Electricity Market Law requires that the percentage of electricity produced from renewable energy resources is gradually increased so that by 31 December 2010, it is not less than 49.3% of the total electricity consumption. Latest figures from 2010 show that 48.5% of the gross energy consumption in Latvia was the RES-produced electricity. Most of it came from big hydropower plants owned by AS Latvenergo. Other producers of electricity from RES – small hydropower plants, biomass cogeneration stations, onshore wind energy plants – provide considerably smaller amount of RES-produced electricity, though current legislative framework is aimed at facilitating further growth of electricity production from RES (eg via feed-in tariffs and allocation of EU Structural Funds).

The Electricity Market Law also requires the public trader (as defined in section A.5 above) to purchase a certain amount of electricity generated from renewable energy sources. The price of such electricity and the amount to be purchased by the public trader are determined by the Cabinet of Ministers each year. Entities producing electricity by using renewable energy sources may acquire the right to sell the produced electricity to the public trader, provided that they have received a special permit from the Ministry of Economy. Such a permit also confirms that the electricity has been produced by using renewable energy sources.

As of 1 April 2014, an additional tax will be imposed to all producers of electricity generated from renewable energy sources. The aim of this tax is to prevent further adverse effect of the feed-in tariff on electricity prices.

#### D.5 Biofuel

Production and sale of biofuel is regulated by the Biofuel Law which sets the responsibilities of the government in relation to the production and sale of biofuel, as well as the requirements applicable to economic operators engaged in the biofuel industry. The Ministry of Economics annually assigns a financial aid quota for the minimum amount of biofuel that must be produced during the respective year.

#### D.6 Energy efficiency

In the field of energy efficiency, the government of Latvia is concentrating on the heat insulation of buildings, as well as on the enhancement of district heating grids. For this purpose, the government is offering various incentives such as the Climate Change Financial Instrument, state aid schemes for heat insulation of apartment houses and the allocation of the EU Structural Funds for improvement of energy efficiency.

#### E. NUCLEAR ENERGY

No nuclear energy is generated in Latvia. The only Latvian research reactor, a pool-type IRT-2000 research reactor with a 5000kVt capacity, was shut down in 1998.

The Visagina nuclear power plant project, which is a joint effort of Lithuania, Latvia, Estonia and Poland, is progressing. The government of Lithuania has attracted a joint venture, Hitachi GE Nuclear Energy, as the strategic investor in the Visagina nuclear power plant project. However, this project is an object of political debate in Lithuania, and recent developments there suggest that the Lithuanian government could eventually bring the project to a stop.

#### F. UPSTREAM

The section does not apply to Latvia.



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