

2020 Energy Highlights in Latvia

A summary report on key developments in Latvian

energy sector in 2020

ELECTRICITY PRODUCTION

Electricity production market in Latvia has been experiencing increased public and political attention already over the last decade. In result of several widely discussed cases where energy producers had abused state support for renewable energy production, the Latvian regulatory environment has undergone continued upgrades aimed to increase supervision and limit the misuse of state support. The trend continued in 2020 with a change of government authority that supervises electricity producers, increased regulatory requirements for efficiency of production, reporting and compliance, and new rules for the recovery of unlawfully received state aid.

More specifically year 2020 started with the shift of supervision function over producers using feed-in tariffs and guaranteed capacity payments from the Ministry of Economics to the State Construction Control Bureau. Along with the transfer of authority, the State Construction Control Bureau obtained vast powers to carry out on-site inspections on self-consumption, use of measuring equipment and correctness of reported data and the right to suspend or cancel payment of feed-in tariff or capacity payments in case of violations. Furthermore, in 2020 the Latvian government decided to rewrite the body of regulatory framework dealing with state support for

energy producers. As a result, the government introduced new Cabinet Regulations 560 and 561 that brought new rules for depreciation of fixed assets, energy efficiency and reporting. In cases where the producer has received illegal state aid, the Cabinet Regulations determine rules how such illegally received state aid is recovered.

However, not all was bad for renewable energy producers in 2020. Following the approach already seen in other countries, Latvia is starting to shift away from subsidised electricity production towards generation capacities that operate on market terms. For example, in 2020 the development of new wind energy projects became more accessible due to revised planning requirements. The amendments to Cabinet Regulations 240 now allow the development of wind farms as close as 800 meters to residential buildings in rural areas and denser placement of wind turbines within wind farms. Likewise, several planning restrictions were substituted with the ability to evaluate and possibly mitigate the effect of such restrictions within environmental impact assessment. Another novelty of 2020 was the ability to construct wind farms in forests that will definitely improve the available space for the development of new projects. Finally, in 2020 the rules for access to the grid were revised, giving priority to the projects which have passed the environmental impact assessment.

ELECTRICITY TRANSMISSION

In 2020 the Public Utilities Commission approved new electricity transmission tariffs. The methodology for the calculation of the transmission tariffs shifted towards efficient use of the grid capacity, therefore consumers who have carefully considered their reserved capacities, will experience lower tariffs at least until end of 2022. Concurrently, the new transmission tariffs will increase the cost for energy producers. Following the principle already introduced in 2019 for distribution grid, producers that are connected to the transmission grid will have an obligation to pay a capacity payment in the amount of 0,90 EUR/kW per year, effective from 1 January 2021.

In December 2020 the Latvian TSO launched the new 330 kV interconnection with Estonia. The new interconnection increases the grid capacity on the border with Estonia by at least 600 MW and will have a positive effect on the trading volumes with Estonia. This also marks an important step towards synchronising the electricity grids of the Baltic states with European grids by 2025.

Finally, in 2020 TSO joined the European Energy Certificate system (EECS) enabling the Latvian producers to trade Guarantees of Origin (GOs). As of 1 December 2020, the TSO issues GOs which certify that the electricity has been produced from renewable energy or high-efficiency cogeneration. Until 2020 Latvia had only a national system of guarantees of origin, which limited the possibility to sell GOs outside the country. In result of this change, Latvian electricity producers will obtain access to the European market of guarantees of origin.

NATURAL GAS

In natural gas sector, two major developments marked out 2020 in Latvia: creation of a single gas market between Latvia, Estonia and Finland; and substantial changes in the ownership of AS Conexus Baltic Grid, a unified natural gas transmission and storage system operator (CBG).

On the basis of the Inter-TSO Compensation Mechanism Agreement, a single natural gas transmission entry/exit tariff area has been created for Latvia, Estonia and Finland, with a potential for Lithuania to join the single gas market. Thus, cross-border flow of natural gas between the three participating countries are free of charge now, paving ground for a vibrant natural gas market in the region.

One of the essential elements of the regional gas market is Inčukalns underground natural gas storage, located in Latvia. In 2020, the State of Latvia, acting via AS Augstsprieguma tīkls, an electricity TSO, acquired the majority stake in CBG in July of 2020, by exercising statutory pre-emption rights in relation to shares previously owned by OAO Gazprom.

Earlier in 2020, the Government of Latvia agreed to the change in qualified holding in CBG by allowing MM Capital Infrastructure Fund 1 (managed by MM Capital Partners, formed by Marubeni Corporation, Mizuho Bank and Asset Management One Co.) to acquire 29.06% shares in CBG from the Marguerite Fund. This acquisition marks the first Japanese investment of such a scale in Latvia.

COBALT provided comprehensive legal advice and support to the Marguerite Fund on all Latvian law matters throughout the sales process.

TRANSPORT ENERGY

In 2021, a heated debate is anticipated regarding the draft Transport Energy Law. The draft of the law released in December 2020 is the second iteration prepared by the Ministry of Economics – the first one was met with an overwhelming critique by the stakeholders and has been significantly re-drafted.

The draft law addresses the issue of a long overdue implementation of the RED II Directive in Latvia. Current requirement for a mandatory biofuel admixture falls short of ensuring Latvia's compliance with RES-E and GHG reduction targets in transport sector.

A number of significant changes are envisaged in the draft law by introducing considerably extended renewable energy obligation mechanism, specifically promoting modern biofuels, restricting biofuels with increased ILUC effect, and defining detailed sustainability and GHG emissions saving criteria. Specific provisions concerning development of EV charging points is provided via specific obligations for fuel suppliers (e.g., in case if they construct new or renovate existing petrol stations). Reporting duties and quality control provisions would be significantly extended. In addition, the Renewable Transport Energy Fund would be established to promote the use of renewable transport energy and to improve energy efficiency.

The obligation mechanism, as currently envisaged in the draft law, would be based on the fuel suppliers' obligation to ensure that a certain proportion of the transport energy supplied by them comes from RES. Current every litre admixture requirement would be gradually eliminated, and RES proportion would be gradually increased by 2030. The draft law stipulates that fuel suppliers primarily would have to rely on modern biofuels in achieving the obligation mechanism thresholds, and use of other biofuels would be restricted in the light of ILUC and GHG emissions reduction requirements.

It is expected that the Green Deal, as recently published by the European Commission, would further increase the EU's ambitions in reducing GHG emissions. Accordingly, current targets might be reviewed in the nearest future towards significant increase. Thus, current targets in the draft Transport Energy Law might require revision in the near future, too.

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