The Reform of Electricity Companies in Lithuania

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The object of the article is the reorganization and restructuring of Lithuanian electricity monopolies. The authors aimed to analyze whether the restructuring and changes in ownership of energy monopolies in Lithuania contributed to the creation of competitive electricity market. The analysis was not restricted to the procedures of companies' reorganization, it integrated the national energy strategy, legal regulation of electricity sector, actual changes in the ownership of Lithuanian energy companies and subsequent decisions of the courts. This article is the first attempt to systematically analyze the history of the reorganization of Lithuanian electricity companies. The reform of electricity monopolies in Lithuania could be categorized from different perspectives, but there are commonly discussed issues, characterized as: (i) corporatization; (ii) legal separation of heat sector activities from electricity sector activities; and (iii) unbundling of electricity activities; (iv) privatization; (v) establishment of new companies for the implementation of the specific goals of electricity sector. Three main goals of Lithuanian electricity sector reform are identified: (i) the connection of Lithuania's high tension electricity networks with Poland and Sweden; (ii) integration into the electricity market of the Western Europe and the Nordic countries; (iii) construction of a new regional nuclear power plant. The legislative reform of energy sector can be divided into three stages: (i) the adoption of national legal norms after the declaration of independence; (ii) the harmonization of national law with the European Union legal acts and (iii) the creation of preconditions to construct a new nuclear power plant and to integrate Lithuanian electricity market into the Western European and Nordic countries electricity markets. The research showed that the restructuring and changes in ownership of energy companies still have not enhanced the competition in Lithuanian electricity market. Electricity policy goals – to ensure the strategic reliability of electricity supply and integrate Lithuania into the European Union market - have not been accomplished yet. The major supplier of electricity remains Russia and the electricity power system is still not connected to Western Europe and Nordic countries. However, the companies carrying out the interconnection projects, managing Electricity power exchange and coordinating the construction of a new nuclear power plant are established. These changes give rise to thinking, that Lithuania is on the way to liberalization of electricity market. Keywords: electricity market, reorganization, energy companies, energy strategy, energy monopolies.

Introduction

Over the last decade, many countries in the world have chosen not to interfere the electricity sector with excess state regulation and pursued to create the market based on the principles of competition. In nearly all cases, initial market reform has led to unexpected consequences. Thus, the policy issues of electricity market had to be addressed in subsequent “reform of the reforms” (Sioshansi, 2006). Lithuania is not the exception. One of the main preconditions of successful electricity market reform is an unbundling of monopolistic activities from the competitive ones. Therefore, the restructuring of groups of companies in energy sector is indispensable. The danger of liberalization without restructuring is that the incumbents retain the ability to discriminate against entrants and make competition less effective (Al-Sunaidy, Green, 2006). The principal goal of many market reform initiatives all over the world was to break up vertically integrated companies, forcing them to compete when appropriate and removing cross-subsidies that flow from regulated operations to competitive functions. But two decades after the introduction of market reform, many previously unbundled companies have re-bundled, usually by combining generation with retail businesses. Moreover, there is an empirical evidence to suggest that such combinations are efficient, can manage risks and price volatility better than unbundled companies, and therefore may be preferred by investors (Sioshansi, 2006). Additionally, there is evidence, not universally accepted, that vertical integration – despite its obvious shortcomings – might have offered economies of scale after all (Sioshansi, 2006). Faced with this new evidence, scholars are re-examining issues related to vertical integration (Sioshansi, 2006).

The aim of the article is to analyze whether the restructuring and changes in ownership of energy monopolies in Lithuania were successful, and contributed to the creation of competitive electricity market.
The object of the analysis is the reorganization and restructuring of energy monopolies. According to the Lithuanian law companies can be modified by the way of merge or division. Therefore, in this article, when analyzing restructuring by merge or division, the term “reorganization” is applied.

The reform of electricity monopolies in Lithuania could be categorized from different perspectives, but there are commonly discussed issues, characterized as: (i) corporatization; (ii) legal separation of heat sector activities from electricity sector activities and (iii) unbundling of electricity activities; (iv) privatization; (v) establishment of new companies for the implementation of the specific goals of electricity sector.

In the academic literature there are various terms used to describe different approaches to changes of the regulatory paradigm or structure of the market (Sioshansi, 2006), but commonly accepted are: restructuring, liberalization, privatization and corporatization. All these terms describe the reform of electricity sector by the rearrangement and changes in ownership of energy companies. The term restructuring refers to an attempt to reorganize the role of the electricity market players. The term liberalization describes the pursuit to introduce competition in the market, the term privatization refers to selling government owned companies to a private sector, and the term corporatization refers to an attempt to make state owned companies act as they were for-profit organizations.

The analysis of this research is not restricted to the procedures of companies’ reorganization. It integrates the national energy strategy, legal regulation of electricity sector, actual changes in the ownership of Lithuanian energy companies and subsequent decisions of the courts. Commonly the influence of court decisions on the electricity market reform is underestimated. However any regulatory system can be seen as a unity of two components: legal rules and the way these rules are interpreted and applied. The first refers to the actions of the legislative body, and the second – to the judiciary and bureaucracy. If tension exists between these two components, the regulatory system – and any efforts to reform it – performs poorly. Problems of legitimacy raise transaction costs and conflicts of interests lead to institutional failure (Ulusoy, Oguz, 2007).

This article is the first attempt to systematically analyze the history of reorganization of Lithuanian electricity companies. The absence of research in this field can be determined by the two main reasons: (i) the reorganization of electricity companies started only ten years ago; (ii) it is a continuous process without clear end.

The gas enterprises also are facing reorganization as the main feature of the third energy package is unbundling of natural gas transmission activities from production or supply activities. It means that the same company cannot produce natural gas or supply it to the consumer, and at the same time by the right of ownership or otherwise control the main gas pipelines for transmission of natural gas. (Kanapinskas, Urmonas 2011).

The first chapter of the article analyzes Lithuanian national energy strategy and the strategic goals of electricity sector.

The second chapter is devoted to the analysis of the course of reorganization and changes in the ownership of energy monopolies. The analysis of this topic is divided into three parts: the first part discusses the restructuring of energy sector after the restitution of Independence of Lithuania; the second part describes the changes in the management of energy enterprises in the period of harmonization of the law with the requirements of the European Union. The third part analyzes the reorganization of energy companies in pursuit to construct a new nuclear power plant and the interconnections with Western and Northern Europe.

The third chapter analyzes the possible future reforms in energy enterprise management.

The goals of electricity market reform

In 2007 Lithuanian Parliament approved the National Energy Strategy (Seimas, 2007), setting the guidelines for the development of energy sector till 2025. The main goals for electricity sector reform have been set as follows: (i) ensuring the strategic reliability of electricity supply and (ii) integrating Lithuanian electricity sector into the European Union market.

The goals of the National Energy Strategy were determined by a specific geopolitical situation of Lithuania. Today Lithuanian electricity sector faces two main challenges: (i) the dependence of Lithuanian electricity systems on Russia, as well as an absence of interconnections with Western European energy systems and (ii) the decommissioning of the Ignalina Nuclear Power Plant in 2009.

In comparison the strategic objective of the Estonian electricity sector development plan until 2018 is to assure the optimal functioning and development of the Estonian power system in the market economy conditions and to assure in the long-term outlook the proper supply of electricity to the consumers at the lowest price possible, at the same time implementing all reliability and environmental conditions (Dementjeva, Siirde, 2010).

Lithuanian electricity networks are connected only to electricity power systems of Russia (Kaliningrad district), Latvia and Belarusia and have no connections with Western European energy systems. Aiming to reduce the dependence on Russia, Lithuania seeks to connect Lithuanian high tension electricity networks with the networks of Scandinavian countries and Poland.

It is assumed, that construction of interconnections with the electricity power systems of Poland and Sweden will increase the reliability of energy supply and enable integration into the Western European electricity market. For Lithuania it is also very important to develop the cooperation with other Baltic countries by creating a common electricity market. Having connected the Lithuanian, Polish and Swedish power systems, there won’t be essential obstacles for Lithuania to integrate into the electricity markets of the Western Europe and the Nordic countries.
In 2009 Ignalina Nuclear Power Plan – the biggest electricity producer of 70 percent of consumed electricity in Lithuania – was closed. Thus, Lithuania faced the objective to ensure the continuity and production of safe nuclear energy. The decision was made to put into the operation a new regional nuclear power plant not later than in 2018-2020 in order to satisfy domestic needs and the needs of the neighbouring countries. It is assumed that a new nuclear power plant will help to avoid heavy dependence on the imports of fossil fuel, the prices which are difficult to forecast, will reduce pollutant emissions into the atmosphere and mitigate unwanted economic effects.

To sum up, it can be concluded, that there are three main tasks for Lithuanian electricity sector: (i) the connection of Lithuania’s high tension electricity networks with Poland and Sweden; (ii) integration into the electricity market of the Western Europe and the Nordic countries and (iii) putting into the operation a new regional nuclear power plant.

The rearrangement of electricity sector companies

Worldwide growing ideological and political dissatisfaction about vertically integrated monopolies and the liberalization successes in other network industries have led the electricity industry to liberalization initiatives. Vertically integrated utilities are being legally separated or unbundled and barriers to entry in generation and supply businesses are being removed in order to increase the competitiveness of the electricity industry (Meeus, Purchala, Belmans, 2005).

In Lithuania the legislative reform of energy sector started shortly after the reestablishment of independence of Lithuania. The legislative reform of energy sector can be divided into three separate stages: (i) the adoption of national legal norms after the declaration of independence; (ii) the harmonization of national law with the law of the European Union and (iii) the creation of preconditions for construction of a new nuclear power plant and integration of Lithuanian electricity market into the Western Europe and the Nordic countries.

The corporatization of electricity enterprises

After declaring the Independence in 1990 the new government of Republic of Lithuania took over the control of energy sector. At this moment the aim of Lithuanian government was to adopt national law in order to ensure an operation of electricity sector independent from Russian electricity power system.

In 1990, before the reestablishment of independence of the State of Lithuania the energy sector activities were concentrated in the Industrial Association of Energy and Electrification Lietuvos energetika and state owned enterprise Ignalina Nuclear Power Plant. Industrial Association of Energy and Electrification exercised all activities in electricity generation, transmission, distribution and supply as well as all activities in a heat sector. Ignalina Nuclear Power Plant was the biggest electricity producer in Lithuania.

Industrial Association of Energy and Electrification has been gradually reorganized, by legally separating different energy sector activities. However the restructuring was very slow. During 1990-1996 the restructuring of Industrial Association of Energy and Electrification was carried out only by changing the legal form of the company – from Industrial Association to a special purpose public limited liability company, without actually unbundling the activities.

The organizational form – Industrial Association – had been a peculiarity of the Soviet Union law, thought after the reestablishment of the Independence such form ceased to exist and was substituted by a new organizational form – a state owned enterprise. Though, in 1991 Industrial Association of Energy and Electrification was reorganized into a state owned enterprise.

In 1995 a state owned enterprise was reorganized into the special purpose public limited liability company Lietuvos Energija (LE). On 15 February of 1995, the Law On Special Purpose Enterprises and Areas of Their Activities was adopted. The Law established an authorized degree of privatization of Lithuanian energy system enterprises up to 15 percent of their share capital.

Later on, in 1997, the electricity sector activities were separated from the heat sector activities. LE was divided into several regional heat companies and one national electricity company (Seimas, 1997). LE remained the monopolistic enterprise in electricity sector. In the heat sector regional heat companies were established and Vilnius and Kaunas power stations have been legally separated.

From 1997 to 2002 electricity sector was dominated by two major monopolies: (i) LE, engaging in generation, transmission, distribution and supply of electricity and (ii) Ignalina Nuclear Power Plant.

Unbundling and privatization of electricity sector

It is a common practice in most of the OECD countries that early stage reforms start with the separation of the vertically integrated activities of generation and transmission to ensure that the transmission operator has no particular incentive to discriminate between generators (Al-Sunaidy, Green, 2006). Lithuanian way of energy sector reformation followed the common pattern.

In February of 2000 Lithuania officially started negotiations of the accession to the European Union and in May 2004 became a member of the European Union. The accession to the European Union strongly influenced the development of the electricity sector. Lithuania had had not only to harmonize its energy law with the European Union but also in the Accession Treaty undertook “to close the Unit 1 of the Ignalina Nuclear Power Plant before 2005 and the Unit 2 of this Plant by 31 December 2009”. Every Member State of the European Union must comply with the provisions of primary and secondary EU law (Vaitkeviciute, 2011). Thus December 31, year 2009, the major electricity supplier, producing 70 percent electricity, was shut down.

In 2000, the Law on Electricity (Seimas, 2000) was adopted. The law established basic principles regulating the generation, transmission, distribution and supply of electricity in the Republic of Lithuania according to the
requirements of the European Union law. Furthermore, it regulated the relations between suppliers of electricity and their customers, and the conditions for enhancing the competition in the electricity sector.

In 2002-2006 the second stage of Lithuanian electricity sector reform started. In the year 2002 vertically integrated monopoly LE was reorganized aiming to unbundle electricity sector activities and create the legal background for the competition in the electricity sector. During that period several energy companies were privatized.

Before that time Lithuanian electricity sector could be described as a single vertically integrated monopoly, comprising of two legal entities – LE and Ignalina Nuclear Power Plant as the largest electricity producer, both owned by the state (The National Control Commission for Prices and Energy, 2005).

As it was already mentioned above, on the 1st of January of 2002 vertically integrated monopoly LE (Seimas, 2001) was formally unbundled and divided into: (i) two electricity producing companies Lietuvos Elektrine and Mazeikiai Thermal Power Plant, (ii) one transmission system operator also acting as a market operator LE and (iii) two distribution companies: Vytais Skirstomienei Tinklai (RST) and Vakaru Skirstomienei Tinklai (VST) (The National Control Commission for Prices and Energy, 2005). In this way the electricity transmission activities were legally separated from major electricity production, distribution and supply activities. However, transmission activities remain legally integrated with generation activities, as two generation companies are still operating as LE subsidiaries, i.e. Kruonis Pumped Storage Plant and Kaunas Hydro-Power Plant, but this integration is necessitated by the requirements of sustainable electricity system, as well as constant electricity supply.

The energy sector reform in Lithuania was carried out relatively successfully, whereas judiciary supported legislative initiatives. This was not the case in some other countries, where legislative intent was distorted by subsequent rulings of the courts. For example, in Turkey the Constitutional court repeatedly held that the laws reforming electricity sector contradict the Constitution (Cetin, Oguz, 2007).

When the question of the compliance of the Law on Reorganization of the Special Purpose Company LE with the Constitution was brought before the Constitutional Court, contrary to Turkish court, it supported legislative demonopolization initiative (The Constitutional Court, 2005). Formally Constitutional Court ruled that the provision of the law that the special purpose company LE is reorganized according to the method of division of companies didn’t contradict the Constitution. In addition, the Constitutional Court said, that the provision of the law that the shares of companies established on the basis of property of affiliated units of LE, which are engaged in activity other than the principal activity, must be transferred to the shareholders of newly established companies in proportion of the shares previously owned by them in the parent company, didn’t contradict the Constitution.

Currently Lithuanian State remains the controlling shareholder in LE, RST and Lietuvos Elektrine (The National Control Commission for Prices and Energy, 2004). VST was privatized on the 23rd of December 2003. The major shareholder of this company became private Lithuanian company NDX Energija (The National Control Commission for Prices and Energy, 2004). There were no legal disputes on constitutionality of privatization of electricity enterprises brought to courts in Lithuania.

The second electricity producing company, Mazeikiai Elektrine was privatized by Mazeikiu nafta in 2005. In 2006 Mazeikiai Elektrine merged with Mazeikiu Nafta and ceased to exist as a separate legal entity.

Despite rather successful legal demonopolization of electricity sector the main objective of the reform – the creation of competitive electricity market was not reached. The obstacles remain economic and technical: (i) the specific structure of electricity market – on major producer of electricity Ignalina Nuclear Power Plant and (ii) the absence of interconnections with other Member States electricity systems.

In 2003, Ignalina Nuclear Power Plant was the biggest generator of electricity and had about eighty percent of the national electricity market (Ministry of Economic, 2004). Undoubtedly, it occupied the monopolistic position in the country (The National Control Commission for Prices and Energy, 2004). Lithuania had no interconnections with the electricity markets of Member States (with an exception of Latvia), therefore an import of electricity in order to create competition technically was unavailable.

The analysis of Lithuanian electricity sector reform leads to the conclusion that for the creation of a competitive market is not enough to create a favourable legal environment, the decisive factors are a market structure and an infrastructure of power grids.

**Current reform of electricity sector by establishing new companies**

In the third stage of electricity sector reform, starting from 2007, Lithuania faces following challenges (i) the decommissioning of Ignalina Nuclear Power Plant, (ii) the construction of interconnections with Poland and Sweden (iii) the creation of power exchange and (iv) harmonization of national law with the new legal regulations of the European Union.

**The formation of national investor for the construction of nuclear power plant**

On the 28th of June 2007 Lithuanian Parliament, while implementing the National Energy Strategy with regard to the energy policy of the European Union, approved the Law on the Nuclear Power Plant. The aim of this law is to lay legal grounds for the construction and management of the new nuclear power plant.

The Law on the Nuclear Power Plant substantiated the establishment of the national investor LEO LT, responsible for a formation of a company in charge of construction and management of future nuclear power plant. Also the law
stated, that *LEO LT* had had to form the group of companies, which would have carried out the electricity generation, transmission, distribution, supply and market operation.

On the 20th of May 2008 *LEO LT* was established. The legal form of the national investor was a public limited liability company. The Government of Lithuania paid its shares by contributing the shares of *LE and RST*. *NDX Energija* also made a contribution in kind by submitting the shares of *VST*. The Republic of Lithuania received 61.7 percent of shares of the national investor, the rest was left to Lithuanian private company *NDX Energija* (Establishment agreement, 2008). Thus the essential decisions, requiring the qualified majority of votes, could only be made unanimously with private investor *NDX Energija*.

*LEO LT* became a parent company of major companies in energy sector as shows Figure 1: *LE, VST, RST, Visaginas Nuclear Power Plant* and *InterLinks*. *LEO LT* owned (Milciuviene, Tikniute, 2009):

1. 96.4 percent of shares of *LE*, a transmission system operator. The company did not engage in electricity supply, it only performed the function of market operator, organizing the electricity trade, including auction. Two generation companies operated as *LE* subsidiaries, i.e. *Kruonis Pumped Storage Plant* and *Kaunas Hydro-Power Plant*. These plants ensured the balance of the electricity system, as well as constant electricity supply (National Control Commission for Prices and Energy, 2009).

2. 96.4 percent of shares of *VST*. *VST* was a distribution system operator and public supplier of electricity for the western part of Lithuania (Establishment agreement, 2008).

3. 71.3 percent of shares of *RST*. *RST*, as well as *VST*, was a distribution system operator and public supplier of electricity for the eastern part of Lithuania (Establishment agreement, 2008).

4. 100 percent of shares of *InterLinks*, company responsible for the construction of interconnections with other energy systems (Establishment agreement, 2008). Founded by *LEO LT* on 2008.

5. 100 percent of shares of *Visaginas Nuclear Power Plant*, the company responsible for the pre-investment activities of prospect nuclear power plant (Establishment agreement, 2008). Established by *LEO LT* on 2008.

![Figure 1. Formation of *LEO LT*.](image)

Therefore, as a result of vertical integration, *LEO LT* engaged in electricity generation, transmission, distribution and supply. *The Law on Nuclear Power Plant* establishing *LEO LT* was widely discussed in public and among politicians. The main problems were indicated: the Law named only one private company, invited to participate in the formation of national investor. Such a method of creation of *LEO LT* was considered corrupt, violating the rights of consumers, monopolizing the electricity sector.

In 2008, 22 of September, assuming the above mentioned imputations, Lithuanian Parliament addressed the Constitutional Court with a petition requesting to examine the constitutionality of certain provisions of *the Law on the Nuclear Power Plant*.

The Constitutional Court ruled that *the Law on the Nuclear Power Plant* (The Constitutional Court, 2009):

1. to the extent that the main aim of the national investor is to make profit for its shareholders and that the safeguards of the consumer rights are not particularly addressed in this Law does not contradict the constitutional provision, that State defends the interests of consumers.

2. to the extent that the national investor, as an owner, will concentrate in its hands the main portion of production of electricity, its transmission, distribution, export and import, does not contradict the constitutional provision, that the State regulates economic activity so that it serves the general welfare of the Nation; prohibits monopolization of production and the market and protects freedom of fair competition.

3. to the extent that, when creating the national investor, the state, without a tender and failing to apply the legal norms regulating fair competition, has chosen the partner and established exceptional rights for the shareholder of this company, doesn’t contradict the constitutional provision, that all persons are equal before the law, the court, and other State institutions and officials; the law prohibits monopolization of production and the market and protects freedom of fair competition.

However, the Constitutional Court recognized that one provision of *the Law on the Nuclear Power Plant* and several provisions of *the Law on the Possession, Use and Disposal of State-owned and Municipal Property* contradict the Constitution:

1. provision of *the Law on the Nuclear Power Plant* to the extent that it did not establish any legal regulation securing the implementation of the goal of the law, which is creation of preconditions for construction of the new nuclear power plant, contradicts the constitutional provision, that the State regulates economic activity so that it serves the general welfare of the Nation.
2. provisions of the Law on the Possession, Use and Disposal of State-owned and Municipal Property to the extent that they did not establish any criteria of property investment, which would enable to differentiate state-owned property investment by taking account of the specificity of the invested property and its significance to the general welfare of the Nation and other constitutionally important circumstances, contradict the constitutional provision, stating that the procedure for the possession, use and disposal of State property is established by law.

3. the provision “Decisions regarding investment of state-owned and municipal property shall be adopted while following the criteria and procedure established by the Government” of the Law on the Possession, Use and Disposal of State-owned and Municipal Property to the extent that the Government is authorized to establish the criteria for investment of state-owned and municipal property contradict the constitutional provision, stating that the scope of power is limited by the Constitution and with the constitutional principle of a state under the rule of law.

To sum up, generally the Constitutional Court admitted that the formation of LEO LT was not in conflict with the Constitution. Only secondary provisions concerning the implementation of the objective to create financial preconditions for building a new nuclear power plant contradicted the Constitution.

The previous analysis of the reasoning of the Constitutional Court showed, that from a legal perspective, there weren’t any particular reasons to liquidate national investor. The contradictions could have been easily removed by the legislative amendments of the Law on the Nuclear Power Plant and the Law on the Possession, Use and Disposal of State-owned and Municipal Property. Nevertheless, the forthcoming decision to liquidate LEO LT revealed political unwillingness of the Government to maintain status quo.

The liquidation of national investor LEO LT

It is widely acknowledged, that the political interventions are the main factors behind the poor performance in the industry (Cetin, Oguz , 2007). In 2008 after the elections, the majority in Parliament of Lithuanian Social Democrats was replaced by the Union of Conservatives and Christian Democrats. New majority formed the Government with a completely different view about the ways how the new electricity energy projects – the construction of the nuclear power plant and the interconnections with Poland and Sweden electricity power systems – should be carried out.

Appealing to distinct provisions of the Constitutional Court decision of March 2, 2008 the Lithuanian government determined to liquidate LEO LT. This decision was highly supported by the newly elected president of Republic of Lithuania Dalia Grybauskaite.

The main restraint of liquidation was a disagreement with the private investor NDX Energija about the ways of liquidation of LEO LT. NDX Energija proposed to liquidate LEO LT in a way of restitution, – refunding to the parties the contributions given to pay the authorized capital. According to this proposal NDX Energija would have got back the shares of VST and the State – the shares of RST and LE. The Government disagreed with such form of liquidation. Considering, that enormous penalties were imposed in case of breach of LEO LT establishment agreement, government sought peaceful settlement.

Seeking the liquidation of LEO LT, the Parliament amended the Law on Nuclear Power Plant on 21 July 2009 (Seimas, 2007) (Seimas, 2009), thus increasing the influence of the State in the management of company LEO LT and opening an opportunity to reorganize or liquidate it. Amendments of the Law on Nuclear Power Plant empowered the Government to own not less than 2/3 of shares of the national investor company. The amendments also entitled retro active reevaluation of LE and RST shares, owned by the State before the formation of LEO LT. By the virtue of these amendments LEO LT was eliminated from the projects of construction of new nuclear power plant and electricity bridges to the West, which currently have to be carried out by state-owned companies.


In December 2009, the Government of the Republic of Lithuania, NDX energija and LEO LT signed the agreement on dissolution of the establishment of LEO LT (NDX energija, 2009). The main aim of this agreement was to settle the terms for liquidation of LEO LT.

It was agreed, that NDX energija would get a restitution in amount of 680 000 000 LTL from the Government and will pass all it’s LEO LT shares. Moreover, it was concluded, that all disputes between government and NDX energija will be settled peacefully.

One can only presume, why NDX energija agreed to enter the agreement on dissolution. Apparently, a pending law suit might have been a persuasive argument. In August of 2009 VST brought a court action against NDX energija, claiming that NDX energija privatized VST unlawfully, by assigning the bank loans, received to purchase the shares, to the privatized VST. Allegedly, the purchase price was paid not by NDX energija, but by privatized VST itself. The VST claimed the compensation of damages in the amount of 520,831 mln. LTL. However in the course of the negotiations of NDX energija with the Government VST withdrew the claim from the court and renounced the suit (Delfi, 2010).

Hence, NDX energija agreed with the manner of liquidation of LEO LT, suggested by the Government. The results of Agreement on the dissolution of the establishment of LEO LT are: (i) private investor NDX energija lost the shares of VST; (ii) the Government regained the shares of privatized electricity distribution company VST; (iii) the national investors LEO LT is in the process of liquidation, though the government of Lithuania has to appoint a new company, in charge of implementation of strategic goals – the construction of the nuclear power plant and interconnections with Poland and Sweden.

The Government decided that Visaginas Nuclear Power Plant, 100% indirectly controlled by the Republic of Lithuania, will coordinate the construction of new nuclear power plant. In June 2010, in the process of
increasing an authorized capital, Visaginas Nuclear Power Plant acquired from LEO LT a controlling package of shares of bellow mentioned companies:
1. LE (The Nordic Exchange, 2010),
2. RST (NASDAQ OMX, 2010),
3. VST (VST, 2010),

At the beginning of December 2009, Lithuania announced an invitation to treat for the investment in the new Visaginas Nuclear Power Plant project. The purpose of this tender is to attract financially strong investors who have experience in the nuclear energy sector. Two responses were received from potential strategic investors, one of them did not meet tender requirements. Korea Electric Power Corporation submitted an attractive binding proposal to co-invest in the project and to construct a nuclear power plant in the period to 2020 for an attractive fixed price. However Korea Electric Power Corporation unexpectedly informed the authority that it is revoking its proposal (Ministry of Energy, 2010). Consequently, in Lithuania the perspectives of building a new nuclear power plant are unclear.

![Figure 2. Liquidation of LEO LT.](image_url)

Previous analysis of LEO LT project shows, that the only rationale of liquidation of LEO LT was an elimination of private capital from the construction of a new nuclear power plant. Figure 1 and Figure 2 reveals, that Visaginas Nuclear Power Plant, formed after the political decision to liquidate LEO LT, actually performs the same functions which prior to liquidation performed LEO LT – it is a parent company of VST, RST, LE and InterLinks. Without considering the legality issues of creation of LEO LT, which might be a reason why this particular investor lost its prestige, it should be admitted , that the political will to decline a private investment in energy sector projects may negatively affect the enhancement of competition by reducing private initiatives to participate in energy sector businesses.

In the course of preparation of this article RST and VST were merged in one company LESTO – the operator of electricity distribution of Lithuania.

**Construction of electricity network interconnections with Poland and Sweden**

As it has been already mentioned above, one of the main Lithuanian strategic goals in energy sector is to construct network interconnections with Poland and Sweden. It is expected, that new power connection with Poland and Sweden will: (i) integrate the Baltic States Power system into the Western European and Nordic countries electricity system; (ii) strengthen the energetic independence of Lithuania; (iii) contribute to the development of an integrated European Union electricity market; (iv) increase the guarantee of the energy supply continuity.

Two independent companies LitPol Link and InterLinks were established to coordinate the construction of electricity network interconnections with Poland and Sweden.

In May 2008, LitPol Link was formed for the preparatory works of the construction of power interconnections between Lithuania and Poland. 50 percent of LitPol Link's shares belong to LE and the rest 50 percent to Polish transmission system operator (LitPol Link, 2010).

The new power connections will allow Lithuania and other Baltic States join the Western European Electricity System. The 400kV overhead double-circuit transmission line Lithuania-Poland will interconnect the Polish city of Elk with the Lithuanian city of Alytus, where back-to-back station will be built. The line’s length will reach 150 km of which 100 km will be on the Polish side. The rest 50 km will be on the Lithuanian side. The 600 – 1000 MW power link interconnection, valued approx. 237 million EUR, is planned to be operational by 2015 (LitPol Link, 2010a).

In August 2008 InterLinks was established by LEO LT. InterLinks is designated for the construction of interconnections with Swedish electricity system, so called NORDBALT project. In November 27, 2009 LE and LEO LT signed a contract for acquisition of shares, whereby LE became the sole shareholder of InterLinks, after having acquired 1 000 000 (one million) shares (The Nordic Exchange, 2009a).
The main objective of NORDBALT project is to connect the power transmission systems of Lithuania and Sweden with the interconnection of 700 MW capacity. Length of the interconnection would be about 450 km. The interconnection will comprise of High Voltage Direct Current (HVDC) subsea and land cables, overhead line and converter (AC current to DC current) stations at both ends of the interconnection. The future possibility to connect offshore wind farms is also foreseen. (InterLinks, 2010).

**The creation of electricity supply market**

For the creation of electricity supply market two preconditions should be met: (i) the suppliers and generators should have fair access to the electricity transmission services; (ii) the platform for the transparent trade of electricity should be created.

**The establishment of independent transmissions system operator**

In October 22, 2009 LITGRID was established as a new subsidiary of LE. The company performs the function of electricity transmission operator. 100 percent shares of the newly established company are owned by LE (The Nordic Exchange, 2009b).

The main function of the LITGRID is to ensure the efficient, reliable and stable operation of the Lithuanian electricity system which is a part of simultaneously operating electricity systems of the Baltic States, Belarus and Russia. LITGRID seeks to ensure the independence of the transmission system operator’s decision making from other activities which are not directly connected to the electricity transmission. (LITGRID, 2010).

LE and its subsidiary LITGRID signed a contract under which the company LITGRID took over the high-voltage electricity transmission grid and other electricity equipment, functioning at mutually adjusted mode as well as interrelated equipment designated to transmit electricity owned by LE, for a temporary use (The Nordic Exchange, 2009c).

The establishment of LITGRID created preconditions for implementation of the European Union legal requirements concerning unbundling of transmission operator activity and fair business environment for electricity transmission services in Lithuania.

**The establishment of power exchange**

The cooperation of private and public initiatives of generators, suppliers, and transmission system operators has led to the creation of power exchanges in the majority of member states. Power exchanges are trading platforms operating day-ahead (one day before delivery) and facilitating anonymous trade in hourly and multi – hourly contracts called block orders (Meeus, Purchala, Belmans, 2005).

Lithuanian power exchange started to operate on the 1st of January, 2010. It is organized on the principles of Nord Pool Spot – electricity power exchange operating in the Nordic countries. The trade is carried out on a day-ahead basis, all electricity delivery agreements are arranged day-ahead for each hour of the following day. The wholesale electricity trade in Lithuania is carried out in two ways: at Lithuanian power exchange and bilaterally between electricity generators and suppliers. About 75 percent of electricity is traded on Lithuanian power exchange.

To ensure proper operation of the Power Exchange several structural changes were made.

1. On December 10, 2009 LITGRID, the subsidiary of LE, founded a new company BALTPOOL for a wholesale electricity trade organization. 100 percent of its shares are owned by LITGRID (The Nordic Exchange, 2009d). BALTPOOL is a sole electricity market operator of Lithuania. The main function of the company is to organize wholesale electricity trade on Lithuanian power exchange in cooperation with Nord Pool Spot.

2. On 21 of October 2009 LE registered one more subsidiary Energijos tiekimas for an electricity supply purposes. The company performs retail trade in electricity in the markets of Lithuania and neighbouring countries. LE remains a sole shareholder of Energijos tiekimas (The Nordic Exchange, 2009e).

After the reestablishment of independence the Ignalina nuclear power plant fully satisfied domestic consumption needs of electricity consumers and exported its electricity. In spite of it one of the main goals of energy policy was independence from Russia. After closing of Ignalina nuclear power plant, Lithuania imports vast majority of electricity from Russia. Lithuania still has sufficient electricity generation capacities, however imported electricity is almost twice cheaper than home generated. So it can be concluded, that despite of twenty years of reforms one of the main goals of Lithuanian energy policy – the independence from Russian power system, is not accomplished.

**Perspective**

On May 4, 2010 Lithuanian Government approved the concept of an amendment of the Law on Electricity, implementing the Third Energy Package of the European Union. The Government also approved the restructuring plan of energy companies in Lithuania. It stipulates the establishment of four units of electricity companies for the activities of transmission, generation, distribution and maintenance. The State will retain the control of all four units.

It was settled in the concept of an amendment of the Law on Electricity, that electricity transmission grids, transmission system operator LITGRID and market operator BALTPOOL would be separated from LE and the state-owned shares of Lietuvos Elektrėnė would be incorporated into the authorized capital of LE, controlled by the Government of Lithuania.

The transmission system operator LITGRID, alongside with the electricity transmission grids and its market operator will be controlled directly, in compliance with provisions of the Third Energy Package of the European Union regarding unbundling. LITGRID will be responsible for the continuation of the interconnection projects with Sweden and Poland as well as integration of Lithuanian market into the Baltic and regional Nordic electricity markets.

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The company Visaginas Nuclear Power Plant is responsible for the preparation of the project of a new nuclear power plant. Majority of shares of this company are owned by state. The construction of the power plant will be carried out by the project performance company, which is intended to be established with the participation of the strategic partners.

The research of the electricity sector reveals that Lithuanian electricity policy goals – to ensure the strategic reliability of electricity supply and integrate Lithuania into the European Union market - have not been accomplished yet. The major supplier of electricity remains Russia and the electricity power system is still not connected to Western Europe and Nordic countries. However, the companies carrying out the interconnection projects, managing electricity power exchange and coordinating the construction of a new nuclear power plant are established. These changes give rise to thinking, that Lithuania is on the way to liberalization of electricity market and creation of competition.

Conclusions
1. Three main goals of Lithuanian electricity sector reform: (i) the connection of Lithuania’s high tension electricity networks with Poland and Sweden; (ii) integration into the electricity market of the Western Europe and the Nordic countries; (iii) construction of a new regional nuclear power plant.

2. The legislative reform of the energy sector can be divided into three stages: (i) the adoption of national legal norms after the declaration of independence; (ii) the harmonization of national law with the European Union legal acts and (iii) the creation of preconditions to construct a new nuclear power plant and to integrate Lithuanian electricity market into the Western European and Nordic countries electricity markets.

3. During 1990-1996 the restructuring of Industrial Association of Energy and Electrification Lietuvos energetika was carried out only by changing a legal form of company – from Industrial Association to special purpose public limited liability company, but not by the unbundling of energy sector activities. Only later in 1997 electricity sector activities were legally separated from the heat sector.

4. Notwithstanding that legal unbundling of electricity activities has been completed successfully, as a result, the competition hadn’t occurred in Lithuanian market. The main obstacles of competition in electricity market are not merely legal but economical and technical: (i) the specific structure of electricity market and (ii) the lack of interconnections with electricity power systems of other Member States.

5. In the year 2007, Lithuanian Parliament, while implementing the National Energy Strategy approved the Law on the Nuclear Power Plant. The Law substantiated the establishment of the national investor LEO LT, responsible for a formation of a company in charge of construction and management of future nuclear power plant.

6. In the year 2009, the political decision to liquidate LEO LT was reached. The main objective to liquidate LEO LT was to eliminate a private capital from the construction of a new nuclear power plant. Without considering the legality issues of the creation of LEO LT, it should be admitted that the political will to decline a private investment in energy sector may negatively affect the enhancement of competition and reduce private initiatives to participate in the energy sector businesses.

7. Lithuania attempts to construct the network interconnections with Poland and Sweden. The new power connection will: (i) integrate the Baltic States Power system into the Western European and Northern Europe Electricity System; (ii) strengthen the energy independence of Lithuania; (iii) contribute to the development of the integrated European Union electricity market; (iv) increase the guarantee of the energy supply continuity. Two independent companies were established to coordinate the construction of electricity networks with Poland and Sweden – LitPol Link and InterLinks.

8. In pursuit to create a competitive electricity supply market, the independent transmission system operator LITGRID and electricity market operator BALTPPOOL were established. Furthermore, national power exchange organized on the principles of Nord Pool Spot started to operate.

9. The restructuring and changes in ownership of energy companies still have not enhanced the competition in Lithuanian electricity market. Electricity policy goals – to ensure the strategic reliability of electricity supply and integrate Lithuania into the European Union market have been not accomplished yet. The major supplier of electricity remains Russia and the electricity power system is still not connected to Western Europe and Nordic countries. However, the companies carrying out the interconnection projects, managing Electricity power exchange and coordinating a construction of a new nuclear power plant are established. These changes give rise to thinking, that Lithuania is on the way to liberalization of electricity market.

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Saulė Miličiūnienė, Agnė Tikniūtė

Elektros sektoriaus įmonių reforma Lietuvoje

Santrauka

Paskutinių dešimtmečių daugelis pasaulio valstybių bandė sukurti konkurencingą elektros rinką nesukūrdomos į jų sektorių specifinį teisinį reguliavimą. Tačiau tokia taktika nepasiteisino, todėl politikams ir mokslininkams teko peržiūrėti elektros rinkos liberalizavimo dozę ir pakartotina iškelti naujų konkurencingumo užtikrinimo priemonių.


Nepaisant tai, kad sėkmingai teisėtai buvo atskirtas elektrės energijos tiekimo konkurso rajonas, reikia pripažinti, kad politinės buvo siekis pašalinti privatizacijos procesą. Taigi esminius sprendimus, kuriems būtų balsų akcijos. Taip Lietuva įgyvendino nacionalinę energetikos strategiją. 

2007 metais Lietuvos Parlamentas, įgyvendindamas Nacionalinę energetikos strategiją, atsižvelgdamas į Europos Sąjungos energetikos politiką, priėmė Atominės elektrės įstatymą. Įstatymas sudarė teisines prielaidas sukurti nacionalinį investuotojo LEO LT, kuriam buvo pavaizduoti įmonių, tūrejusią statyti atominę elektrinę ir atvežti ji administruoti. 

2008 m. gegužės 20 d. buvo įsteigta nacionalinis investuotojas LEO LT. Lietuvos Respublikos Vyriausybė apmokėjo savo akcijas Lietuvos energijos ir Rytų skirstomųjų tinklų akcijoms. 

Privatus investuotojas NDX energija tapo pirmąją įsteigti nuo Rusijos, Lietuva nori savo aukštos gyvenimo standartų. 

Pagrindinis motyvas, nulemęs toki nuolatinių investicijų likimą, buvo siekis pašalinti privatų kapitalą nuo naujos atominės elektrės įstatymo projektų. Atsiribojant nuo neabejotų procedūrų pateiktų kanto LEO LT, reikia pripažinti, kad politinė valia pašalinti privačių investicijų įmonių, turėjo neigiamų pasekmų - neigiamai paveikti konkurciją bei sumažinti privačių iniciatyvų dalį energijos versle. 

2009 metais buvo uždaryta Ignalinos atominė elektrinė, tiekusi 70 proc. susibūrusios elektros energijos Lietuvoje. Lietuva susidūrė su uždavinimu užtikrinti elektros energijos tiekimo tėvintumą ir gamybą iš saugios branduolinės energetikos. 

Buvo pristatytas sprendimas ne vėliau kaip iki 2015 metų pradėti eksploatuoti naująjį regioninę atominę elektrinę, siekiant patenkinėti vadinamą šalis ir kaimyninio valstybių poreikį. Daroma prielaida, kad nauja atominė elektrinė padės išvengti didelės priklausomybės nuo iškastinio kuro importo, kurio kainos yra sunkiai prognozuojamos, taip pat bus sumažintas teršalų išmetimas į atmosferą ir susidarymus nepageidaujamą poveikį ekonomikai. 

Nacionalinės energetikos strategijos tikslai susiję su geopolitinėmis Lietuvos padėtis - Lietuvos elektros tinklai neturi jungčių su Vakarų Europos valstybėmis, o istorikai yra siejant šį skirtimą su Rusijos kaliningrado sritys, Latvija ir Baltarusija elektrės energijos sistemomis. 

Siekdama sumažinti priklausomybę nuo Rusijos, Lietuva nori savo aukštos energijos tiekimo tėvintumą ir gamybą iš saugios branduolinės energetikos. 

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