

Subject: State aid case SA.43140 (2015/NN) - Subsidised Energy Tax and RES and CHP support in Latvia

Dear Sir, Madam,

Latvia has prepared an additional information and clarifications regarding the state aid case SA.43140 (2015/NN).

1. Latvia has revised calculation of the amount to be invested in future infrastructure projects to remedy the historical potential discrimination under Articles 30 and 110 of the TFEU taking into account paragraph 128 of the European Commission's decision SA.36023 regarding the calculation of imported green electricity. The updated calculation of the imported green electricity is based on the amount of imported electricity (net of transit imports) multiplied by the percentage of green electricity in the generation mix of the Member State from which the electricity is imported.

The amount of levy imposed on the imported green electricity consumed in Latvia has been approximated as the average share of imports for consumption in Latvia from the neighbouring countries (Estonia, Lithuania and Russia) multiplied with the renewable electricity share in total electricity production in each of the respective neighbouring countries (according to Eurostat Shares and National RES Action plans). Latvia established the exact amount of physical imports and divided them among Estonia, Lithuania and Russia based on the flow data of the interconnectors with these countries. Estimated potential discrimination amount is about 77,4 million EUR (excluding Russia, to which EU Competition rules do not apply, it is about 56,1 million EUR) in the whole support period (taking into account the reduction created by the new way of collecting the levy). Please see calculation in the **Annex 1 [ierobežotas pieejamības informācija]**.

In order to remedy the potential discrimination, two actions should be taken into consideration.

First, Latvia has changed the system of collection of the levy.

Latvian Parliament on 23 November 2016 has adopted the Law "Amendments to the Electricity Market Law", which provides a change in the form how the funds for the support system are collected. From 1 January 2018 funds for the levy will be collected in two complementary ways. First, a part of the funds will still be collected as payments for the amount of consumed kWh. Second, it will introduce a new way of collecting the levy. This new way foresees that consumers will have to pay a fixed fee based on the grid level they are connected to. The differentiation of the connection capacity is already defined and already used by the national regulator for calculation of distribution tariff. It establishes four grid levels – 1) household consumers with a connection to 0,4kV lines and input automation under 64A; 2) other types of consumers connected to 0,4kV lines; 3) consumers connected to 6-20kV lines; 4) consumers connected to 110kV lines. This change in the mechanism does not change the total amount of funds allocated for the support system or paid to individual stations. Both parts of the levy will be approved by the national regulator. Calculation of the levy will be done according to a methodology approved by the national regulator. These changes have a crosscutting effect, without specific advantages for any individual company or sector. If deemed as effecting the intended support for energy intensive industry notified under the state aid case SA.42854, subsequent adjustments within that notification will be ensured.

The first mode of collecting the levy will be used to collect funds for the variable costs of the support system resulting from mandatory procurement of electricity. The second mode of collecting the levy will be used to collect funds for the fixed costs for the installed electric capacity that remain constant each year and cover the investment expenses of large cogeneration stations.

The funds collected with each of the mechanisms will slightly change on a year by year basis, depending on the amount of electricity produced under the scheme and on the end date of individual licences. Therefore this new mode of collecting the levy will have a significant effect on reducing the possible damage for the imported electricity (about 35,945 million EUR over the whole period) as of 1 January 2018 and therefore should be seen as a mitigating solution with respect to the Commission's decision in the state aid case SA.35177.

To comply with Latvian government's declared resolution to preserve the mandatory procurement component (MPC) at the level of 26,79 EUR/MWh, a corresponding state subsidy level must be provided. The subsidy would be attributed for the variable part of the MPC, ensuring non-discriminatory support from state budget to all consumers proportionate to consumption, exactly the same way it is done now.

Second, Latvia considers its commitment to implement synchronisation project as a sufficient remedy for the potential discrimination, taking into account the indications of the Commission that only future projects can be considered to constitute a remedy for potential discrimination under Articles 30/110 TFEU (excluding all projects that have already been planned and for which the financing has been secured).

Synchronisation of the Baltic States electricity networks with continental Europe will contribute to achieving a fully functioning and connected internal energy market and to the increase of energy security in the electricity sector of the Baltic States. This project will include a list of cross-border interconnections and strengthening of the internal lines, in order to disconnect from the current IPS/UPS system and connect with European networks. As one of the results for this project will be a strongly increased transmission capacity with other EU member states, allowing for more active cross border trade. Taking into account forecasts of generation capacity insufficiency in the Baltics states, this project will allow for more green electricity imports to Latvia.

So far Baltic States on several occasions have expressed a strong commitment to the project. On 7 December 2016 in the meeting of Baltic States prime ministers it was stressed that there is a need to strive for swift progress under the BEMIP framework for identifying the best, most cost-efficient and timely solution for the synchronisation of the Baltic States with the European network.

Currently the evaluation of all possible scenarios is going on with the help and the involvement of the European Commission. Under the BEMIP framework Baltic States are identifying the best, most cost-efficient and timely solution for the synchronization, taking into account the results of Joint Research Centre study and other studies revealing technical and financial aspects of synchronization process. The list of projects currently identified for implementation of the synchronization project are listed in Table 1. The total amount of investment for projects in the territory of Latvia could reach around 310 million EUR. It should be noted that according to the final results of the studies the list of projects and their costs could differ from those currently identified. Additionally, it should be noted that the planned investment for the synchronization project 3,5 times exceeds the potential discrimination of imported electricity.

Table 1.

[IEROBEŽOTAS PIEEJAMĪBAS INFORMĀCIJA]

2. Latvia has updated the numbers of the total budget of the scheme (from 1 January 2007 to 31 December 2037) taking into account the latest forecasts of the natural gas price and the market price of electricity and revoked rights to sell produced electricity under mandatory procurement. Total period of the scheme is longer than originally indicated because of one wind power plant that has not yet been put in operation due to court proceedings with third parties (the commencement of operation of the plant was originally scheduled for 7 July 2012;

currently it is foreseen that the proceedings will be closed and the station will be put in operation in 2017.)

Year	Support costs (over the electricity market price), EUR
2007	11 847 862
2008	35 626 821
2009	51 973 430
2010	67 289 577
2011	113 996 832
2012	189 060 698
2013	209 897 272
2014	245 737 516
2015	254 935 110
2016	238 445 797
2017	257 548 687
2018	262 681 553
2019	265 340 322
2020	255 959 302
2021	233 098 425
2022	210 313 333
2023	183 853 747
2024	172 570 087
2025	158 018 637
2026	153 137 387
2027	142 443 191
2028	105 967 733
2029	38 634 619
2030	37 802 564
2031	27 843 867
2032	10 984 211
2033	5 682 278
2034	4 663 042
2035	4 663 042
2036	4 593 160
2037	2 181 203
Total:	3 956 791 305

3. Latvia commits to individually notify till the end of June 2017 the aid to the TEC-2 CHP plant as its capacity is above the individual notification threshold set out in the 2008 Guidelines.

4. Latvia confirms that the 8000 hours threshold for biomass and biogas plants is actually not used and no installation receives any aid under this provision.

Latvia would expect that the information provided is sufficient and clearly understandable regarding the questions raised by the European Commission, therefore allowing for the European Commission to make a decision on this state aid case.