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ENERGY & ENVIRONMENT

The race to supply liquefied natural gas to the Baltic and Finnish market is on. Estonian project leads the race for Baltic terminal. Photo: Äripäev PAGE 10

POLAND

RENEWABLE POWER

Italians and Swedes to build wind farms in Poland

Italian energy company **Relight** has teamed up with **Greenfield Wind**, a young Swedish wind power developer with Polish roots, to develop renewable energy in Poland. The development agreement, signed a few weeks ago, is for 100 MW early stage wind power projects, representing a total investment of app. EUR 175m.

The deal means that Greenfield Wind together with Relight develop parts of Greenfield Wind's project portfolio in Poland. After the projects are finished Relight will own and operate the wind power turbines.

Relight's goal is to develop and own 300 MW of wind power in Poland and the collaboration with Greenfield Wind is their first investment on the Polish market.

The projects included in the deal are situated in the northeastern part of Poland. The municipalities concerned are positive towards wind power projects and welcome the large investments planned in the area. Wind measurements will begin during 2010 and construction is planned to commence in 2013.

"The deal with Italian Relight is a strong indicator that the market for renewable energy in Poland attracts a large international interest. We have seen that cultural and language barriers have been a large obstacle for many companies interested in the Polish wind power industry. Greenfield Wind has overcome these obstacles with our local presence and expertise and successfully reached Polish land owners. Our team has done a remarkable effort this far and we have the capacity to conclude one or two more deals of this size within the next year," says Peter Hogren, CEO of Greenfield Wind Poland, to news2biz.

Greenfield Wind is a wind power developer that since 2009 exclusively develops wind power projects in Poland. Greenfield Wind has offices in Stockholm, Sweden and Warsaw, Poland and is owned by its founders and a number of private investors. The company hopes to seal another one or two contracts similar to the Relight deal over the coming half a year.

Over the first three quarters of 2010 the combined capacity of Polish wind parks rose by an impressive 51%, reaching 1,096 MW. These figures, provided by the investment promotion agency PAIiIZ do not include the 240 MW Margonin wind farm, which is currently under construction in western Poland. Developed by Portugal's **EDP**, at the cost of more than PLN 1bn, the project is one of the largest of its kind in Europe.

According to projections, over the coming years an estimated 500-600 MW of new wind power capacity will be annually delivered to the market.

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SHALE GAS

Poland to be next drilling hotspot says Rystad Energy

A recent review of Polish exploration licenses, shows Poland is set to become a global hotspot with up to 370 potential wells to be drilled in the upcoming years at costs of up to USD 15m each.

The review, put together by Oslo based, independent E&P strategy consultants, **Rystad Energy** looks at 224 exploration concessions awarded in the country since 1995.

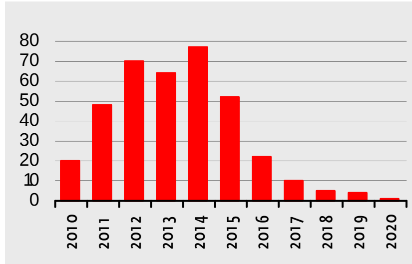
"Some 30% of Poland's land surface has now been licensed for exploration activity to more than 20 operators of different size and origin, including international super majors. The work programs agreed between the operators and the Ministry of Environment add up to more than 150 commitment exploration wells and another 220 optional exploration wells," Rystad Energy Consulting Manager Anders Wittemann tells news2biz.

The drilling activity levels could reach 50-80 exploration wells to be drilled each year, compared to recent years' activity level of 20-30 exploration wells drilled each year.

Key drivers for the interest in Poland include the potential for significant shale gas reserves, attractive fiscal conditions, and relatively high domestic gas prices. Rystad Energy stipulates a shale gas potential for Poland of more than 1 trillion cb.m, sufficient for more than 50 years of self-sufficient, growing consumption.

373 wells to be drilled by 2010*

Number of exploration wells to be drilled each year in awarded concessions



Source: Rystad Energy *) including 155 commitment wells

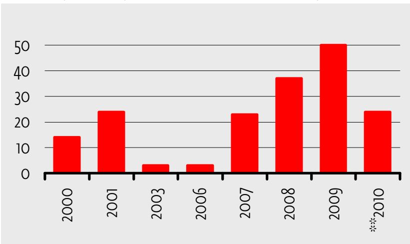
Rystad's analysts based their estimate of Poland's shale gas potential on information from the Polish Geological Institute and benchmarked it against their proprietary research on key US shale gas plays. According to the consultancy, although estimates are highly uncertain, the potential is certainly there.

Shale gas exploratory drilling in Poland started in 2010 with **PGNiG**'s well at Pionki-Kazimierz concession and followed by two wells operated by **3Legs Resources** (funded by **ConocoPhillips**) at Lebork and Cedry concessions. ExxonMobil, **Orlen Upstream**, **BNK Petroleum** are the next 3 operators out of total 20 companies holding shale gas prospective acreage in Poland who plans for drilling in 2011. Rystad Energy estimates that during 2011 there may be plans to drill up to 48 wells out of which 19 are committed wells.

Core samples have been collected and sent for analyses, with fracturing of the shale underground, which is the key enabler for flow of natural gas, yet to be completed. The increase in activity will nevertheless make Poland a hot spot for exploration in the next few years, regardless of the results. The work programs agreed between the operators and the Ministry of Environment add up to more than 150 commitment exploration wells and another 220 optional exploration wells, representing a huge opportunity for expansion of Poland's oilfield services sector.

178 explorations licenses since 2000

Number of active exploration concessions awarded per annum*



Source: Rystad Energy

*) as of September 2010 **) in addition, 46 concessions awarded before 2000 are still active

"After a record high licensing activity in Poland since 2007, the pace has slowed down with only four additional concessions awarded since August 2010. The majority of the shale prospective acreage appears to have been taken. As we have anticipated, companies are now focusing on M&A activity to high grade their portfolios and investment funds. It is noteworthy that even more of the major oil companies of the world are targeting Poland; recently, **Eni** acquired three concessions and Total is reported to consider getting into shale exploration in Poland," says Anders Wittemann.

In addition, the work programs include plans for acquisition of new seismic data, combined over 20,000km of 2D seismic lines and more than 6,000 sq.km of 3D seismic grids.

Obstacles & opportunities

Market observers point to the limited availability of drilling rigs as a major hurdle in the development of Poland's shale gas sector.

"Our view is that this is not an obvious limitation since there are already qualified rigs and operating companies (including those of PGNiG) in Poland. Anyways, with an increase in demand, there will very likely be new capacity brought into the market," argues Wittemann. "A likely bottleneck is however the requirements for local standards and qualifications which could inhibit the availability of foreign service providers. Secondly, availability of large sized fracturing services is yet to be improved in Poland. This requires specialized equipment (tanks and pumps) of liquids and solid material to be pumped at high pressures to establish cracks and fissures to enable flow of gas out of the shale into the wells and to the surface."

Other key issues include access to land to get wells drilled and equipment brought in, which needs to be ensured and approved by multiple stakeholders (including land owners, municipality and central government) as well as compliance with other regulation related to use of water and injection of fluids into wells and potential contamination of underground water reservoirs.

Poland has been producing oil & gas since the 1950s, with a peak in the 1970s. The current production, which is mainly natural gas, is in the order of 6bn cb.m of natural gas (equivalents) per year. The annual consumption of gas in Poland tops approximately 13 bn cb.m and it is forecast to grow to 16bn cb.m by 2020. Poland is therefore a large importer of gas, mainly from Russia, paying Western European prices for natural gas delivered to Poland. In order to reduce the gap, construction of an LNG terminal in Swinoujscie for natural gas imports from the Middle East is ongoing and expected to be in operation from 2014. Poland's consumption of natural gas per capita is still among the lowest in Europe. The key drivers for this is the relatively high cost of natural gas due to import, high cost of domestic production of gas, and abundance of coal for power generation.

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RENEWABLE POWER

Vestas takes huge Polish wind order from Prokon

The world's largest wind turbine maker, Danish **Vestas**, has received an order from Germany's **Prokon Energiesysteme** for 70 V90-2.0 MW turbines for a series of wind energy projects in Poland.

The V90-2.0 MW turbines will be placed at several onshore wind farms across Poland, with a total combined capacity of 140 MW. The turbines will have a hub height of 105 meters.

The order is very large (represents more than 10% of Poland's 2010 built-up wind capacity) for Polish conditions and reflects Poland's significance as a hotspot for European wind investments right now. Vestas, according to their local Vestas CEO Kenneth Kolvits, has an extremely strong position in the Polish market, with a market share of around 50%.

Delivery of the turbines is scheduled to start in late 2011, with completion estimated for late 2012. Twenty-five of the 70 turbines will be installed in 2011. The contract includes supply, installation and commissioning of the turbines and a VestasOnline Business SCADA system.

"Vestas has been partnering with Prokon for some time, and are very happy with the confidence they have shown in our turbines," says Andrew Hilton, VP Communications, Vestas Central Europe, to news2biz. "We were very pleased to have Prokon make the first European order for Vestas' new V112-3.0 MW turbine in September, 2010." Also in early 2010, Vestas supplied the first 48 V90-2.0MW turbines for Prokon in Poland when they started their first wind park development there.

Prokon is an experienced and committed German wind energy project investor, planner, developer and operator located in Itzehoe in Holstein.

Prokon develops renewable energy projects with a focus on wind energy and has over 15 years of experience with wind projects. Its total installed wind energy capacity is 385.9 MW, which makes Prokon one of the largest and most experienced operators of wind energy in Germany. At the moment, Prokon has one wind park in Poland under construction Gniewino II, near Gdansk and has a further 11 parks under planning. The bulk of the sites are near the Baltic coast, but there are also sites near Lodz, in Wielkopolska, Masovia and Lower Silesia.

Wind power from Vestas' more than 41,000 wind turbines currently reduces carbon emissions by more than 40m tons of CO2 every year.

Vestas is the world leader in wind technology. Vestas was a pioneer in the wind industry and started to manufacture wind turbines in 1979. In 1987, the company began to concentrate exclusively on wind energy.

Today, Vestas operates in 65 countries with 23,000 staff and expects a turnover of EUR 6bn in 2010 with a 5-6% EBIT margin.

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IN BRIEF

Prices: power up, gas down

According to new energy tariffs, approved by the regulator URE, electricity prices for households will go up by 3.8% to 7.4% this year, depending on the region. The gas monopoly PGNiG has lowered the price of gas for households by approximately 3%.

UKRAINE

GAS EXPLORATION

PKN Orlen to seek hydrocarbon reserves in Ukraine

Poland's leading oil firm **PKN Orlen** and the Ukrainian Ministry of the Environment have signed an agreement on cooperation in exploration and production of hydrocarbons in Ukraine.

In accordance with the agreement, Orlen will be able either to work under new licenses or to jointly develop hydrocarbon reserves already appraised by its Ukrainian partners.

Analyses will tell

"Our experts are currently carrying out detailed analyses, which will determine the final shape of PKN Orlen's future operations in Ukraine. Besides our own aspirations, the latter will depend also on local conditions, legal framework, and offers submitted by the Ukrainian side. We are interested in both new licenses as well as pre-appraised projects," Orlen's Joanna Puskar tells news2biz.

Under the co-operation agreement, Orlen and its Ukrainian partners are to jointly conduct exploration and production projects, related to both conventional deposits and shale gas. A decision on any equity involvement will be preceded by and based on in-depth analyses and expert opinions prepared by partners under the agreement.

"Due to confidentiality agreements we cannot disclose the names of our potential partners at this point. The same goes for the estimated value of our investments in the country – it is too early for that."

Our experts are currently carrying out detailed analyses, which will determine the final shape of PKN Orlen's future operations in Ukraine.

Joanna Puskar of PKN Orlen

PKN Orlen is currently engaged - through its subsidiary **Orlen Upstream** - in four exploration and production projects: in the Latvian section of the Baltic Sea shelf, where it is cooperating with **Kuwait Energy Company**, in the vicinity of Sieraków (60km northwest of Poznan), where it is operating jointly with **PGNiG**, and in the Lublin region, where it is carrying out another two projects individually.

The company holds a total of seven licenses, under which it is appraising conventional deposits with gas-condensate potential, as well as unconventional deposits, primarily shale gas. The work is currently at a stage of initial exploration and preparations for drilling, which Orlen Upstream has scheduled for next year.

Ukraine is endowed with significant resources of crude oil and natural gas. Three petroleum basins have been identified in its territory:

- Dnieper-Donets Basin (Poltavsky Basin), where the in-place unappraised resources, as estimated by international experts, amount to 150m tonnes of oil and 850 bn cb.m of gas.
- North Carpathian Basin (covering also parts of Poland) is the oldest petroleum basin in operation.
- Black and Azov Sea Basin, which comprises both onshore and offshore areas lying within the boundaries of Ukraine. So far, it is the least explored of the Ukrainian petroleum basins.

Rowing upstream

"Our entry to Ukraine is in line with PKN Orlen's upstream segment development guidelines," says Joanna Puskar. "The reserves are located in Eastern Europe and there are prospects for expansion of the product portfolio. We have established relations and signed agreements with a local partner, which should facilitate further analytical work."

Orlen seeks to catch up with its main competitors in the region, Hungary's **MOL** and Austria's **OMV**, which chose to develop their upstream capabilities a few years ago.

Apart from exploration projects, Orlen is to invest in power generation. By the end of 2011 the company is to choose partners and general contractors for a gas-fired power plant in Wloclawek and select a location for another investment of this type.

In order to finance its new undertakings, Orlen is to sell its chemical subsidiary **Anwil** and its stake in the mobile operator **Polkomtel**. By the end of February, the company is to decide whether to sell also its Lithuanian business Orlen Lietuva, which Orlen's CEO Jacek Krawiec referred to as a "bad, flawed, unnecessary investment" at a recent meeting with journalists.

"We paid USD 2.8bn for the Lithuanian refinery and invested another USD 0.7bn into the business. In order to get a satisfactory return, the plant should be earning PLN 1bn a year, but there is no way to achieve such a result," Krawiec added.

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SHALE GAS

Ukraine may see industrial shale gas production soon

Ukraine has Europe's largest reserves of shale gas, according to **Nadra Ukrainy**, the country's state-run company in charge of geological survey. They are concentrated mainly in the western part of Ukraine, the Lviv and Volyn regions, close to the border with Poland, whose own reserves are estimated at 1.36tn cub.m of shale gas or half the total EU reserves.

The industrial production of shale gas may not only put an end to Ukraine's dependence on the gas imported from Russia, but also dramatically change the situation on the global markets. To start the industrial production, the country will have to enlist the support of large international players.

According to the information revealed at the Toronto Stock Exchange (TSE), the TSE-listed **East West Petroleum Corporation** (EWP, Canada), which explores oil fields in western Romania, has agreed with **Kuwait Energy Company** to jointly explore the Ukrainian depths.

Foreign interest

After the information release, the share price of EWP, which possesses necessary exploration technologies, has reportedly gone up by 5.5%.

That was not the first time that foreign companies showed their interest in coming to Ukraine though. In June 2010, Poland's **Kulczyk Oil** completed the acquisition of 70% in the Ukrainian gas explorer **KUB-Gas**.

Earlier last year, the UK-registered **Cadogan Petroleum** announced the purchase of the Canadian **Momentum Energy**, which used to possess licences for the gas exploration in the Lviv region.

As his country borders both Poland and Ukraine and also depends on the gas supplies from Russia, in early 2010, the Belarusian president Aleksandr Lukashenko requested the Belarusian prospectors to find shale gas in the country.

The industrial production of shale gas in Europe may seriously affect Russia's monopoly in the segment of oil and gas supplies to the continent.

LITHUANIA

UPSTREAM

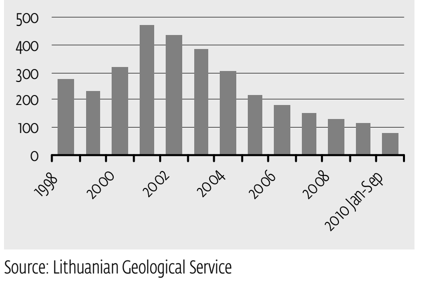
Lotos acquires full stake in Lithuanian oilfield company

Lotos Petrobaltic, the upstream subsidiary of Poland's number two oil refiner **Grupa Lotos**, has boosted its stake in Lithuanian **Geonafta**, becoming the only owner of the Lithuanian crude extraction and exploration business. The transaction is said to raise Petrobaltic's annual oil output by 50%, or 100,000 tonnes.

The acquisition is in line with Lotos' newly-adopted strategic focus on the upstream segment, adding confirmed, low-risk reserve to Petrobaltic's portfolio.

Oil production in Lithuania

In '000 tonnes



Source: Lithuanian Geological Service

"What Geonafta brings to the table is expertise in onshore drilling, something we are very much looking forward to as Petrobaltic is experienced in offshore extraction only," Lotos spokesman Marcin Zachowicz tells news2biz. "Moreover, the company holds a number of exploration concessions, which makes it a prospective investment."

Petrobaltic had held a 40.6% stake in Geonafta for 10 years, and acquired the outstanding shares from a group of private investors (mainly from Lithuanian **Hermis Capital**) for an undisclosed sum. Together with its Lithuanian subsidiaries Minijos nafta, Genciu nafta and Manifoldas, Geonafta has been exploring hydrocarbon reserves and extracting oil in Lithuania for 20 years.

Asked about his company's investment plans with regard to Geonafta and the Baltic states as a whole, Marcin Zachowicz says it is way too early for any specifics. The Lithuanian company admits to having discovered fields containing an estimated 8m tonnes of oil and produced about 13% of initial Lithuanian oil recoverable reserves (56% of the total amount produced by all the companies). The Lotos spokesman declined to disclose any figures on Geonafta's current oil reserves and concessions.

Besides hydrocarbon exploration and production, Geonafta provides a wide range of drilling services, which are set to be in high demand in the region as a result of the expected shale gas boom in Poland.

Lotos Petrobaltic holds an exploration and drilling license for the Polish economic zone of the Baltic Sea, where it operates an oil rig. Via its subsidiary **Lotos Norge E&P** the company is present also on the Norwegian continental shelf, with six exploration concessions and one production license. In three cases Lotos' Norwegian subsidiary is also the operator.

Petrobaltic's confirmed reserves in the Baltic and Norway total some 6.4m tonnes of crude and 4.5bn cb.m of gas.

Last year, just before Christmas, Lotos Norge E&P signed Berge Oilfield Services AS to carry out 3D seismic work on one of its license areas in the southern part of the North Sea. The contract came to NOK 60m. Lotos plans to launch production at one of its Norwegian oil fields this year.

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ENERGY POLICY

Lithuania asks EU opinion on gas sector unbundling

Although it seemed very resolute to do so just a couple of months ago, in December Lithuania's government decided not to rush unbundling the country's natural gas sector, a move aimed at separating the gas transmission system from the **Lietuvos dujos** into a separate company.

The plan, officially known as the implementation of the EU's third energy package, calls for separating the transmission system from incumbent gas company Lietuvos dujos into an independent firm in order to ensure that other gas suppliers gain access to the market. Lietuvos dujos would then remain a gas importer and distributor. One of potential new gas suppliers could be the would-be LNG import terminal that the government plans to build in Klaipeda for hundreds of millions of Litas.

The government's plan angered the gas utility's two strategic investors Russian **Gazprom** (37%) and German **E.On Ruhrgas** (39%) who called the scheme a nationalisation. Russia's PM Vladimir Putin went further to call it 'a robbery'. In practical terms, Gazprom's answer to Lithuania's gas independence ambitions was a 15% gas price cut promise to Estonia and Latvia but not to Lithuania.

A package of new laws that will regulate the unbundling process received general government approval in December but before putting their final signatures and sending the laws to the Seimas, the cabinet decided to request opinion of the European Commission.

The original schedule calls for unbundling to take place by March 2012. Estonia too is preparing for a similar reform, while Latvia is somewhat hesitating. Gazprom holds stakes in both countries' gas utilities.

ENERGY

Mazeikiai refinery starts heating oil sale in Estonia

Mazeikiu Nafta Trading House (**MNTH**), a fully-owned subsidiary of the Lithuanian fuel producer **PKN Orlen** and the largest fuel supplier in

Estonia, added trading in heating oil to its operations.

"All of our major competitors are trading in heating oil, hence we started trading it as well," says Tõnu Ääro, CEO of MNTH, to news2biz. "Actually, we planned this move already for several years."

"We target both the corporate consumers as well as households having a central heating system using heating oil – the so-called small-scale wholesale market," says Ääro.

According to Ääro, the company strives to have about 20-25% of the heating oil wholesale market in the years to come.

Recession diminishes sales

MNTH, established in 2003, trades with the produce of the Polish PKN **Orlen**-owned Lithuanian refinery on Estonian wholesale market. At establishing, the share of the company reached 80% in the gasoline wholesale market and 15% in that of diesel fuel.

The fierce competition has cut the company's share in the gasoline wholesale market to 25% in 2009, while its market share in diesel fuel has increased to 26%. According to Ääro, MNTH's share on both markets is currently a bit short of 30%.

In 2009, MNTH turned over EUR 0.5bn, a 45% drop compared to the year before. Along with turnover, profit more than halved to EUR 1m.

"In our field of business, turnover is not that important indicator as it fluctuates along with the world market fuel prices. Both sales volume in tonnes as well as profitability margin count a lot more," explains MNTH's head.

"Our sales volume has decreased about 12% in the last two years, mostly due to the decline in consumption, but also due to increased competition. Some clients are gone, now we try to get them back."

For 2010, Ääro predicts a decline in turnover by 10-15%. "At the moment, the decline in consumption influences the sales the most. However, in the next year, we expect the sales starting to increase again."

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IN BRIEF

German CCR exits

German CCR Logistics Systems, an industrial waste logistics specialist, is winding up its Lithuanian activities that started in the beginning of 2008 (see no 248 page 13). "The liquidation of our company mainly reflects the protectionism of Lithuania, which makes it quite hard for foreign companies to enter the market. This refers especially to our company focus, the fulfilment of WEEE, ELV and battery legislation", says Achim Winter, chairman of supervisory board at CCR Logistics Systems, to news2biz. The German firm is also shutting down its Latvian subsidiary.

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Lithuanians pay most for power in the Baltics

In H1 2010, Lithuanian household and industrial consumers paid highest rates for electricity in the Baltics, taxes included, according to Eurostat figures. Household consumers were charged EUR 0.121 per kWh (up by 20% y/y), businesses paid EUR 0.146 (-8%). The respective rates in Latvia were EUR 0.105 and EUR 0.139, and EUR 0.1 EUR and 0.099 in Estonia.

LATVIA

NATURAL GAS

Gazprom and Putin grant cheaper natgas for Latvia

The state visit of President Valdis Zatlers to Russia (see page 13) has finally brought about what the Latvian politicians have been promising for months: cheaper Russian natural gas for Latvia. The rate has been reduced by 15%, exceeding the initial estimates. Meanwhile, rumour has it that the economy minister Artis Kampars inadvertently tried to negotiate a much higher selling price.

Gift bearing Russians

Latvia's previous contract with Russian natgas giant **Gazprom** was set to expire in 1 January 2011, so the visit provided an opportunity to sign the new one just on time. Both the Latvian natural gas monopolist **Latvijas Gaze** – which counts Gazprom as one of its largest shareholders – and Kampars had previously promised that the new deal would include lower prices (see no 300 page 12), but it was unclear just how large the reduction would be.

Although the reduced price is valid for just one year and Gazprom has previously announced that the gas prices could be back to pre-recession levels by 2012, it is generally agreed that 15% is better than expected.

This does not mean, however, that Latvian customers will also enjoy a 15% reduction: even though new tariffs indeed have been announced, the reduction is about 5% for industrial users and about 7% for households who use natgas for heating.

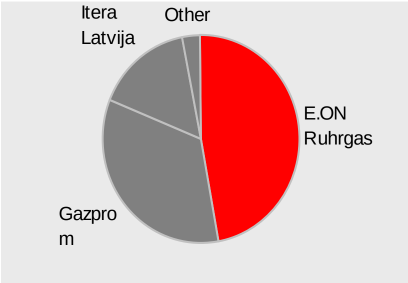
Latvijas Gaze explains that the purchase price is not set in stone: the new deal means that the new formula for calculating the price for Latvia involves a 15% reduction, but the gas price itself still remains volatile and is influenced by oil prices and currency exchange rates. Moreover, the new year has brought higher taxes, and the reduced VAT rate applied to natgas now stands at 12%, not 10%.

Can we pay more?

The negotiations for the new price were finalised during Kampars' meetings with Gazprom's board chairman Aleksey Miller and the Russian Prime Minister Vladimir Putin.

Juris Savickis, head of **Itera Latvija** gas company, which is another large shareholder of Latvijas Gaze, reports that, during his meeting with Putin, Kampars almost negotiated higher natgas prices for Latvia. According to Savickis, Kampars was ill-prepared for the meeting and suggested that the gas price could be fixed upon its price in spot gas markets, to which Putin immediately replied that it could be done from 1 January.

The suggestion would mean that Latvia would end up paying more for its gas: as the demand for the fuel rises in winter, so do the gas prices.



Well connected with Gazprom

Latvijas Gaze's ownership structure, 31 December 2009

Source: Latvijas Gaze

Savickis adds that Putin understood that Kampars had made a faux pas and did not discuss the proposal any further.

On his behalf, Kampars has accused Savickis of spreading lies, noting that he was not even present during any of the meetings where the gas prices were discussed. Kampars claims that he did not come up with any such proposals. Still, Kampars believes that the underlying idea makes sense and could lead to lower gas prices in the long term.

RECYCLING

Danes forge Baltic bulb collection via Latvia

The Danish association of Lamp Importers, **LWF**, in 2009 took over the management of collection of quicksilver containing long-life bulbs in Latvia and Estonia. Already in 2006 LWF started collection and recycling of bulbs in Denmark and Jan Bielefeldt, a chemical engineer with a background from **Rockwool** and the largest Danish chemical disposal company **Kommunekemi**, took over as CEO in the Baltics and since then has divided his time between the Baltics and Denmark.

From the beginning, the Latvian company **Ekogaisma** was taking care of operations both in Latvia and Estonia. But in 2010, it was decided to found one legal entity in each of the countries. First stop was Lithuania where the company **Ekosviesa** was founded with top players **Philips**, **General Electric**, and **Osram** as shareholders. Since then, the major German, now Indian-owned bulb manufacturer **Havells Sylvania** has joined the circle of owners.

Lithuania still drags a bit behind its Baltic cousins, as the legislation regarding the collection of bulbs and tubes from municipal garbage collection stations is not in place yet.

Ekosviesa, like its Baltic counterparts Ekogaisma in Latvia and the upcoming **Ekogaisma Eesti** in Estonia is organised with a minimum of staff and all collection, transport and recycling activities are outsourced to partners. Each company has one staff in addition to Mr Bielefeldt, but Latvia has one extra, a financial controller for all of the three countries. Until 2010, Ekogaisma in Latvia operated as the Baltic company with a branch in Estonia, but the setup of Lithuanian Ekosviesa signifies a change in focus so that each country will have a separate company. Mr Bielefeldt expects the Estonian Ekogaisma Eesti to be operational perhaps as early as this month.

Baltics are not Scandinavia

"When I came here in 2009, I expected the Baltic countries to be more or less like the Scandinavian countries, but I soon found out that there were great differences, not just due to different languages," says Mr Bielefeldt. "Estonia seems pretty much like Finland and things are running rather smoothly, whereas it is rather more bureaucratic in both Latvia and Lithuania."

In Estonia, the collection is carried out at municipal garbage collection stations and at companies, whereas in Latvia the municipal collection is not working too well, so in addition to collection at companies that handle light sources, Ekogaisma also has collection boxes set up at relevant retailers.

Importer based recycling

The EU legislation regarding collection and recycling of light sources which came into effect in April 2006, stipulates that it is the responsibility of the importer in each country to collect used bulbs and tubes.

Thus, each individual importer associated with the Baltic Ekogaisma or Ekosviesa companies sends in reports to the relevant companies as to how many bulbs or tubes they have imported and the collector then bills the importer a recycling fee related to how many units have been imported. The collected Baltic bulbs and tubes are taken to a recycling plant in Latvia where they are separated in aluminium, glass and light phosphor. The two former are used as raw material in glass or aluminium processing, while the light phosphor, which contains quicksilver, is stored as there is no interest in commercial usage at this time.

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EMERGENCIES

Harsh weather repeatedly knocks out power lines

Even though the last winter was one of the coldest in years, this year has not brought a welcome change, and Latvia must survive another notably harsh winter. Nevertheless, there is a slight difference: if the last winter was unusually cold, this one is unusually snowy, and, while it makes for beautiful Christmas, the snow has also wreaked havoc on the Latvian power grid. At its peak, up to 55,000 households were left without electricity, leading the Latvian government to declare a state of emergency.

The first blackouts began on 26 December, as the weather turned to freezing rain. Trees near the power lines could not support the additional weight and snapped, falling on the power lines and knocking them out. As a result, about 20,000 households in Latgale and Eastern Vidzeme regions were left without power. The state-owned Latvian power utility Latvenergo had largely repaired the initial damage by 29 December, when the weather took another turn for worse and the repaired lines were damaged again, this time leaving about 7,000 households in the dark.

The snowy forests may look picturesque, but they become a nightmare if your job is to keep the lights on. Photo: Latvenergo

The scenario was repeated during the following days, with an ever-increasing intensity: by 2 January, up to 55,000 households in Vidzeme and Latgale were experiencing power shortages and blackouts, and Latvenergo enlisted the help of the Latvian armed forces.

By 6 January, 16,000 households throughout Latvia were still left without electricity, and the Latvian government declared a state of emergency in 40 municipalities.

The weather is gradually improving, allowing Latvenergo to step up its repair work, and by 7 January, about 9,000 households still were without power.

BLACK MARKET

Police bust an illegal petrol station in Riga

Tired of high fuel prices? If you know where to look, you can save a small fortune by using illegal petrol stations, such as the one busted by police in Riga on 5 January.

The filling station sold diesel fuel for LVL 0.59 a litre – in comparison, a litre of legal diesel will set you back for about LVL 0.84. The police have confiscated 20,000 litres of diesel and detained two people.

While the police have not yet made any announcements about the origin of the fuel, a possible explanation could be cheap Russian imports. The trade is especially popular in border regions where many people hold Russian passports, the unemployment remains high, and the local population is looking for any income: the "importer" drives with an almost empty fuel tank to the nearest filling station on the other side of the border, fills up the car and returns to Latvia, where the tank is promptly emptied and the trip can begin again.

The local press reports that numerous enterprising individuals have even set up large-scale operations, hiring drivers and paying them a monthly salary.

As the whole scheme is perfectly legal – save, of course, for reselling the fuel on the black market – just about the only way how to fight it is by busting the illegal sellers. And, with fuel prices on the rise, the business is also increasingly lucrative, so it is safe to say that the police still have their fair share of busting to do.

ESTONIA

NATURAL GAS

Balti Gaas leads LNG terminal race

The race to supply liquefied natural gas (LNG) to the Baltic and Finnish market is on, with entrepreneurs in all four countries developing their own terminal projects. However, from the viewpoint of economic viability, only one terminal for the market with a total consumption of 9.2m cb.m (2009) pays off; and the Estonian company **Balti Gaas** claims to have a firm lead in the race.

"The region will not support several large terminals, and the question is, who launches its terminal first," says Urmo Männi, chairman of Balti Gaas, to news2biz.

"We have a 1.5-year lead to our competitors," adds Männi. According to him, the development of Balti Gaas terminal in the town of Paldiski, North-western corner of Estonia, has advanced so far that the company expects to receive a construction permit this summer. The construction is approximated to take two years – thus, the terminal should be ready in 2013, while its competitors have named 2014 as an earliest date of launching operations.

Balti Gaas, owned by businessmen connected to the fuel retailer **Alexela**, evaluates the cost of the terminal to be about EUR 350m. In its initial stage, two 160,000 cb.m tanks will be built along with the gasifying station and a small power plant.

The project also includes a possibility of building a vessel refueling station. "LNG as a fuel for ships is a growing trend in the world, and by the time we have completed our terminal, there are several LNG-using vessels sailing the Baltic Sea as well," notes Männi.

"The average throughput of the Paldiski terminal is calculated to be about 2.4m cb.m a year, based on the potential consumption. However, the maximum yearly capacity will be 9m cb.m, close to the total consumption of the region," says Männi. "Nevertheless, we have a possibility to expand on the plot, doubling the capacity of the terminal."

With or without EU support

According to Balti Gaas' plan, the financiers and owners of the terminal would be the gas pipe network operators from all four countries. In that case, the project would be viable for applying for a support from the EU, which could cover approximately one-third of its construction costs. Balti Gaas itself would be an operator of the terminal.

There are several weaknesses in that plan, though. Firstly, the EU will discuss possible financing of the union's energy infrastructure development called Second Strategic Energy Review (SER2), which includes the Baltic Energy Market Interconnection Plan (BEMIP), in February.

LNG and the Baltics

- **LNG is basically a natural gas condensed into a liquid at close to atmospheric pressure. The reduction in volume makes it much more cost-efficient to transport LNG over long distances by specially designed cryogenic sea vessels (LNG carriers). In order to distribute LNG via ordinary natural gas pipeline, it has to be regasified. LNG terminal is in its essence a large cryogenic reservoir similar to a vacuum flask.**
- **Currently, all the natural gas used in Finland and Baltic states originates from Russia, and is delivered via pipelines by Gazprom. The only reasonable option in pursuit for breaking Gazprom's monopoly is a construction of an LNG terminal, as this allowes importing gas as far as from Qatar, for instance.**
- **A total dependance from the Russian company, who is well-known for pricing the gas not according to the economical reasoning but rather to a political will, has made the construction of the LNG terminal a project of national importance, and also a security issue.**
- **The regional gas market is quite small, though: Finland consumed 4.3m cb.m of natural gas in 2009, Estonia 0.63m cb.m, Latvia 1.53m cb.m and Lithuania 2.73m cb.m. Hence, just one or two LNG terminals fit to the market.**
- **Besides the project of Balti Gaas, four LNG terminal projects are under development in the region: Inkoo (Finland), Muuga (Estonia), Riga (Latvia) and Klaipeda (Lithuania). The terminals in Muuga and Klaipeda are expected to be ready in 2014, according to media sources; the construction timeline of others is not yet revealed.**

Apart from connecting power grids of the region, BEMIP also includes a project of developing the gas networks of different countries as well as constructing an LNG terminal. But the EU is yet to decide whether it will allocate cash to the implementation of SER2 at the moment, and in what amount.

Secondly, the gas distributors, who also possess the gas pipelines, might not want to join the LNG terminal project, as it may harm the interests of their shareholder **Gazprom**, who is currently the sole gas supplier for the region.

Finding other owners to the networks might help to overcome this obstacle – that is why Estonian and Lithuanian politicians started talking about re-privatizing those networks this summer (see no 301 page 11, news2biz LITHUANIA no 296 page 14). These plans were recently shelved, though: Lithuania seeked an advice from the EU (see news2biz LITHUANIA no 308 page 13), while the Estonian coalition avoids taking drastic steps before the general elections in March.

Therefore, the financing scheme may not be established by this summer when Balti Gaas wants to start construction of the terminal – or might not be established at all.

"We are prepared for this scenario to happen, and are determined to construct the terminal anyway, even a downsized one," says Urmo Männi. "We have an alternative financing scheme ready, involving injecting our own capital as well as including other investors and loans from the banks."

Waiting for a sub-sea pipeline

What is essential for the terminal to be built in Paldiski, though, is the southern end of the Finnish-Estonian sub-sea pipeline called **Balticconnector** (see no 234 page 12). According to the initial plan, the EUR 115m pipeline will connect Inkoo in Finland with Paldiski, thus providing Balti Gaas an excellent opportunity to sell the re-liquefied gas in the Finnish market.

Balticconnector, a joint project of the Estonian and Finnish gas distributors **Eesti Gaas** and **Gasum**, is currently in an early stage of development. The companies expect to launch the construction of the pipeline in 3-4 years, while also hoping that the project is eligible for the EU support.

Gazprom may also hamper the LNG terminal project. "Should they decide to sell natural gas to the market in lowered price, there will be no business for us," says Männi. "The higher the gas price is, the more appealing our project is for our investors."

Recently, Gazprom revealed that it is ready to lower the gas price for the Baltic market by 15%. The Russian natural gas giant already signed such a contract with Latvia (see news2biz LATVIA no 308 page 11).

"The best scenario for us would be if we could work hand-in-hand with the Incukalns gas reservoire in Latvia. We could fill their tanks when the LNG is attractively priced, and they could sell the gas when the consupmtion is high," says Männi.

Little known of competitors

However, the Latvians have plans to build the terminal of their own near the capital Riga, and Latvia's Minister of Economy Artis Kampars has called other Balts to join this project. As long as the project remains in top of Riga's agenda, the cooperation of Balti Gaas and the Incukalns reservoir is doubtful.

Red dots mark the five LNG terminals under development in Baltic states and Finland. Picture: news2biz

Lithuanians, whose LNG terminal project in the port of Klaipeda is led by the state-owned Klaipedos Nafta oil terminal, have recently decided to proceed with the plan without waiting for the EU help (see news2biz LITHUANIA no 301 page 13). According to media reports, the Lithuanian government expects the terminal to be ready by 2014.

There is a little known about the Finnish LNG terminal project except the fact that it is planned to be in Inkoo, next to the northern end of Balticconnector.

Similarly, it is hard to evaluate how far the second Estonian LNG terminal project in the port of Muuga, east of Tallinn, has developed as its developer, the former Ministry of Environment and the chairman of the state-owned lottery firm **Eesti Loto** Heiki Kranich declines to give comments related to the project. "I will comment if there will be something to comment," he says to news2biz.

We have talked to

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UTILITIES

Tallinna Vesi lodges complaint to the EC

Tallinna Vesi, the listed water and sewage services provider of Estonian capital lodged a complaint to the European Commission regarding the anti-monopoly law that came into force last year (see no 299 page 12) as well as its implementing measures.

The anti-monopoly law, passed by the parliament Riigikogu last year, set stricter limits on pricing on those enterprises that have a monopoly status in certain area. The main initiator of composing such bill were the fat dividends paid by Tallinna Vesi while the prices for water and sewage services increased in the capital area almost every year.

The new law requires the largest utilities to seek an approval from the competition board Konkurentsiamet for tariffs, which have to be based on reasonable profitability. Tallinna Vesi seeked for such an approval in November last year for the following five years wanting to increase prices in average by 3.5% in 2011 and by 2.5-2.7% y-o-y up until 2015.

Ian Plenderleith, CEO of Tallinna Vesi, turns to the EC to protect the investors of the water company.
Photo: Raul Mee, Äripäev

In the end of November, Konkurentsiamet turned down the company's application, stating that it does not meet the requirements stated by the law. In December, Tallinna Vesi submitted a revised application while also sending a complaint to the EC.

"Tallinna Vesi has no objection to balanced and professional quality and economic regulation of the water industry," says Ian Plenderleith, Tallinna Vesi's CEO, to news2biz. "To date, however, no professional discussions have taken place with Tallinna Vesi regarding this subject."

"Tallinna Vesi is only interested in open and transparent regulation that meets with internationally acceptable principles and recognises the terms and conditions of the privatisation agreement signed in 2001," he adds.

The company applied to the EC because it sees the current dispute as a breach of the company's privatisation contract signed in 2000. "Tallinna Vesi will use all available alternatives to protect the terms and conditions of the original privatisation contract," says Plenderleith.

Two majority owners of the stock exchange listed Tallinna Vesi are the city government and the British utilities giant **United Utilities**.

Last year, the share in Tallinna Vesi was suddenly excluded from the major deal between United Utilities and the French **Veolia**, with which the Britons sold their overseas assets (see no 306 page 12). Although none of the parties involved comment the issue, it is quite obvious that the reason for that exclusion is the obscure status of Tallinna Vesi's future profitability.

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WASTE TO ENERGY

ÅF takes EUR 1m order for Estonia's first waste burner

Following an order for **Eesti Energia**'s power and heat plant in Narva (see no 306 page 12), the Swedish consultancy **ÅF** has moved west to Iru outside Tallinn and shifted to waste as it won another contract, for EUR 1m, from the state owned giant before Christmas.

ÅF will supply owner's engineering and supervision services for the plant in Iru just east of Tallinn and the work will be carried out by ÅF's units in Estonia, Finland and Sweden.

"The Estonians will be on site whereas some part of the project will be carried out in Sweden and Finland," says Jüri Alasi, managing director of ÅF in Estonia, to news2biz. "We have already started, in fact we started as soon as we got the contract and we will be working on this assignment all the way until production starts in 2013."

According to Alasi, ÅF had a head start in this project as the company was involved in the earlier stages as well. "Still we are very happy to develop a new form of energy production in Estonia as this is the first waste-to-energy plant built in Estonia," says Alasi.

The plant will utilize 220,000 tonnes of municipal waste annually with a generating capacity of 50MW district heat and 17MW electricity. The waste will be collected all over the northern part of Estonia.

Even though with this plant alone a substantial part of Estonia's solid waste will be incinerated, Alasi sees a future for waste-to-energy in Estonia. "I think that we will see more waste-to-energy plants in the coming 5-10 year period. We have worked on some plans for an investor, but sadly, they did not materialise," says Mr Alasi.

We have talked to

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