



Position Paper No. 2

**FOREIGN INVESTORS'
COUNCIL IN LATVIA
POSITION PAPER
ON ENERGY
INDEPENDENCE AND
SECURITY**

08.09.2022



Executive summary

Energy security and independence are among the most crucial issues on the political, economic, and social agenda of the EU and Latvia. Following the global energy market disruption caused by Russia's invasion of Ukraine, the European Commission strongly calls for ending the EU's dependency on Russia's fossil fuels. Consequently, "REPowerEU" focuses on energy saving¹, diversified supplies² and an accelerated rollout of renewables.

The time has come for Latvia to resolve what should be done, and when, to raise energy security and independence in a manner that allows meeting mandatory EU goals. These complex issues require well-considered political decisions and concerted implementation by the public and private sector. The crisis is forcing the Government to make quick decisions with long-term implications. However, in practice, we are facing hurdle after hurdle as low-quality legislation and political decisions are passed with no due respect for the rule of law, the mid- and long-term effects on the society and economy, or fair competition. No result-oriented consultations are taking place between the public and private sector, nor are experts being heard to predict the potential outcome of the draft legislation and political decisions, as was seen with the sudden regulation imposed on the independent energy producers in the territory of Riga³ without sufficient consultation with the affected sector or other public institutions that are engaged in fields related to energy and competition.

In recent months specifically, it seems that politicians and public sector officials do not realise that certain actions and rhetoric have consequences. There is a lot of uncertainty and instability caused by a lack of constructive and consistent actions, and communication about the developments in the energy sector, which in turn negatively affects the rule of law. Is energy seen as a strategic benefit/matter of national security, or just another commodity? It is essential to fully consider the underlying principles of the rule of law, competition, the free market, and market regulation in the renewable energy production market. No crisis can justify unlimited violations of the said legal principles. Also, it is of paramount importance that harsh measures and communication are avoided when discussing renewable energy projects. If legal grounds are identified to impose either market entry or operational fees on renewable energy projects, these should only be introduced based on legally sound, balanced, and non-discriminatory arguments.

In this position paper, the Foreign Investors' Council in Latvia (hereinafter - FICIL) focuses on the need to reduce the barriers for entering the renewable energy market, to facilitate energy independence, for the government to take a systemic and consistent approach to the energy policy, and also to tackle the inactivity of society when it comes to energy issues.

1 EU 'Save Energy' <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0240&from=EN>

2 EU external energy engagement in a changing world <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022JC0023&from=EN>

3 Amendments to the Energy Law No. 1339/Page 13



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Recommendations

1. Drastically improve the renewable energy production market.

- Increase public awareness to welcome renewable energy projects 'in my backyard'. Societal buy-in is critical to accelerate rollout of renewables and meet mandatory EU goals.
- Ensure sufficient capacity of the transmission and distribution electric power grid through reasonable investment and maintenance costs. Where technically and economically viable, use decentralisation (for instance, energy communities) to relieve the grid, and introduce deposit payments to reserve grid capacities.
- Integrate technology neutral solutions for energy storage into the permitted grid connection capacities of businesses. Ensure and promote the freedom of businesses to make use of the energy storage solutions through elimination of bureaucratic and administrative obstacles.
- Involve businesses, investors and the public in general discussions when considering large-scale direct state involvement in the energy market, in order to ensure non-discriminatory market principles and avoid public entity excess spending where private funds can be allocated.

2. Introduce and promote measures to increase energy independence.

- Create state secure reserves of biomass and wood chips, with the annual renewal of such stock.
- Reduce barriers for businesses to develop and operate their own renewable energy projects and to use direct lines and connections, while also enabling renewable energy projects owned by businesses to participate in energy communities and otherwise contribute to the fostering of energy independence.
- Pro-actively direct a wide range of individuals to increase their energy independence, through saving of energy and investing into energy efficiency, energy production and storage solutions. Allow businesses to share the benefits of their renewable energy projects with the surrounding public using the infrastructure (both public and private) under energy communities or other tools.
- Policymakers should review and learn from the best-case studies and examples of other EU member states implementing "RePowerEU" with the aim of reducing any stigmas about policy decisions and use the best practices to increase the renewable energy capacity, such lessons-learned should be shared with businesses.



Rationale for recommendations

Drastically improve the renewable energy production market.

- **Societal and municipal buy-in for renewable energy projects 'in my backyard'.**

A wide range and large number of renewable energy projects are required throughout the territory of Latvia to provide for its energy independence and sufficiency, as well as meet mandatory EU goals. Municipalities and their residents must act comprehensibly with the said overall needs of Latvia. There is no time or place for ill-founded objections to the renewable energy projects of any type, whilst reasoned and *bona fide* requests of municipalities and local inhabitants should be considered and implemented to the maximum extent possible. Neither municipalities, nor local residents will achieve the end result by making it practically impossible for Latvia to safeguard the needs of the national energy sector and to meet mandatory EU goals. Policies and laws should be aimed towards acceptance and welcoming of the renewable energy projects.

- **Full respect for the rule of law, competition, and market regulation.**

No crisis can justify the use of any short-sighted and biased restrictions or violations of the rule of law, free market, competition, public tendering, and market regulation. The acts of the public institutions, their agencies and state owned companies on the market should be narrowed down to the bare minimum, and only used, for instance, in cases of existing market failures or shortfalls. However, no act by any public company should be permitted in cases of existing market failures or shortfalls which have been caused by the laws and regulations, and policies deliberately implemented in Latvia for decades. The private sector should be granted the opportunity of implementing large scale renewable energy projects of national interest, on an equal footing with the public companies.

- **Reasonable deposit payments to reserve grid connection.**


Both transmission and distribution electric power grid operators have publicly announced a shortage of free grid capacity in practically the whole territory of Latvia. The number of permits to install new electric power generators issued by the Ministry of Economics exceeds the available grid capacity by four times⁴. That being said, the Ministry continues to issue permits mainly to developers of the renewable energy projects. At the same time, private industrial objects seek space in which to develop and increase production capacities.

Use of reasonable (non-excessive) deposit payments could potentially eliminate speculative business practices from hindering further development and expansion of the private industrial sector. However, it is of utmost importance that laws and regulations governing the deposit payments objectively safeguard the legal interests of those reserving the grid capacities. Deposit payments should not become an easy source of wealth for the grid operators, whilst the queue of companies waiting in line for the grid connection should be transparent, and binding on the grid operators. In general, grid capacities should only be increased, provided this can be achieved with reasonable investment and maintenance costs. Decentralisation should be permitted to relieve the grid, where it is technically and economically feasible.

- **Inclusion of technology-free and open market energy storage solutions into the permitted grid connection capacity.**

Capacity limits are set for all grid connections, including those of wind and solar energy production. However, combined wind and solar energy generating equipment may be used jointly with the energy storage solutions to increase the overall efficiency of the project. For instance, wind generates 70 MW, solar – 30 MW, but 10 MW remains in excess as the so-called accumulated energy. Currently, “JSC *Augstprieguma tīkls*” requires that a separate grid

⁴ <https://sadalestikls.lv/lv/preses-relizes/relize/ieceretajam-elektrostacijam-rezerveto-jaudu-apjoms-sadales-tikla-parsniedzis-1-gw>



connection point is installed for the accumulated energy. However, from a technical point of view, this could be solved with the help of battery storage. On a case-by-case basis, the market could allocate and implement the most efficient solution and the grid operator would only have to define the allowed maximum capacity at the particular point of the grid connection.

Introduce and promote measures to increase energy independence

- **State reserve of biomass and woodchips. Organise and annually renew the state strategic reserve of biomass and woodchips.**

Disruptions and shortages of biomass and woodchips are already being faced by the existing manufacturing industry. The appeal by the Government to the municipalities to switch their district heating from natural gas to biomass means that, in a short while, the demand for the biomass will inevitably increase. Availability of the state strategic reserve would allow the self-sufficiency of Latvia's energy sector to be strengthened. In addition, the reserve could prove to be a useful tool to mitigate sharp fluctuations of the biomass price.

Furthermore, the state must consult with the European Commission on a regular basis in order to allocate as much public and private investment to large-scale energy security enhancing projects, avoiding false claims and pretensions, and considering both state energy reserves and strategic infrastructure investments, among others.

- **Energy communities, direct lines and connections.**

Administrative barriers and burdens should be removed to facilitate businesses to install and operate their own renewable energy projects, as the wider public and even grid operators could benefit from them. Their participation in energy communities should be favoured in terms of mutual energy generation, storage and trade via direct lines and connections among private sector players.

Currently, any power plant with the capacity exceeding 1MW must be registered as a publicly regulated service provider. The rapid development of technologies and their enormous impact on the levels of self-supply with electric power from renewable sources calls for the need to avoid subjecting such projects to market regulation. The imposition of such a requirement would burden these projects with regular reporting and payment of regulation fees.

Also, the net settlement system is considered for legal entities. At present, there is no set limit, therefore, FICIL emphasises the importance of providing an adequate capacity of electric power generation in case any limits are set at a later stage, to also accommodate large businesses that have significant energy consumption. In addition, the availability to legal entities of the net payment system depends on the permit of the distribution grid operator to connect the electric power generating device to the grid. From this follows that all equipment generating electric power from renewable energy resources should be connected to the distribution grid. This, in turn, excludes the opportunity of using the high-voltage grid connection for net payment system purposes. This also overshadows the potential for expanded use of direct lines and connections.

- **Widely spread the increase of energy efficiency.**

Notwithstanding the fact that energy efficiency has been on the public agenda for more than a decade, widespread and comprehensive activities have not taken place in the private sector and households. FICIL recognises and appreciates the effort of each private company and household in this direction, however, urges the substantially wider and more comprehensive rollout of energy efficiency, energy self-production and storage solutions to be implemented for private companies and households. Revision and simplification of the laws and regulations is required to boost this type of investment. In addition, respective state aid programs should be available to households and businesses.



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