

Overview of current peculiarities of promotion of energy from renewable sources in Lithuania. Country reports: Lithuania

Article (Published Version)

Griguolaitė, Rita (2015) Overview of current peculiarities of promotion of energy from renewable sources in Lithuania. Country reports: Lithuania. Renewable Energy Law and Policy Review, 6 (3). pp. 224-227. ISSN 1869-4942

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Citation: 2015 Renewable Energy L. & Pol'y Rev. 224 2015

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Wed Jul 26 06:51:57 2017

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Lithuania

Overview of Current Peculiarities of Promotion of Energy from Renewable Sources in Lithuania

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This report provides an overview of the legal background and strategic planning of development and promotion of energy from renewable sources in Lithuania. It discusses the main provisions of the Law on Energy from Renewable Sources in the sectors of electricity, transport and heat. Also, established national financial incentives for the promotion of energy from renewable sources are described.

I. Introduction: Legal background and strategic planning

Lithuania's renewable energy policy is highly influenced by commitments to the EU and Directives: 2009/28/EC¹, 2009/72/EC² and 2009/73/EC.³ Lithuania commits to the goal that by 2020 less than 23 % of energy consumed would be from renewable energy sources (hereinafter – RES), wherein for transport, the use of energy from the RES shall be increased not less than by 10%, for electricity by 20%, for district heating by 60%, and for household heating by 80%.

In 2010, National Audit Office of Lithuania released a report on the Use of Renewable Energy Sources Potential.⁴ The Report states that the country has resources not available in the neighbouring countries, such as geothermal energy (used for generation of electricity), while the biomass and bio-fuel potential per capita in Lithuania is one of the highest in the EU. Thus, the Audit Office concluded that the country has enough RES to achieve EU objectives.⁵

Following the EU policy directions and obligations, as well as Audit Office's recommendations, in

2010-2011 the legal basis for the energy from RES have been actively amended. The Law on Energy from Renewable Sources⁶ is the main law in the field. It establishes governance, regulation, supervision and monitoring of energy from RES within the energy sector in Lithuania, provides rules on organizations of activities from RES, and regulation of the producers using RES for energy.

Also, National Strategy⁷ for the development of energy from RES and the Plan⁸ of implementing measures for 2010-2015 were approved by the Government. As explained in the State Report 2013 to the Commission, these strategic documents aim to increase energy consumed from RES, to maximise the use of domestic sources in meeting the energy demands, to reduce import of polluting fossil fuel and to contribute reducing greenhouse gas emissions internationally.

It has to be noted, that besides environmental, economic and efficiency concerns, the objectives of reliable and secure supply of energy, as the driving force for the development of the use of energy from the RES, shall not be undermined when talking about

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1 European Parliament and Council Directive 2009/28/EC on the Promotion of the Use of Energy from Renewable Sources and Amending and Subsequently Repealing Directives 2001/77/EC and 2003/30/EC, OJ 2009 L 140/16.
2 European Parliament and Council Directive 2009/72/EC concerning Common Rules for the Internal Market in Electricity and Repealing Directive 2003/54/EC, OJ 2009, L 211/55.
3 European Parliament and Council Directive 2009/73/EC concerning Common Rules for the Internal Market in Natural Gas and Repealing Directive 2003/55/EC, OJ 2009 L 211/94.

4 National Audit Office of Lithuania Public Audit Report No VA-P-20-2-1 "Use of Renewable Energy Sources Potential in Lithuania", 15 January 2010.

5 Commission Report on Renewable Energy Progress, COM(2015) 293 final, at p. 5.

6 The Law on Energy from Renewable Sources of the Republic of Lithuania (Žin. (Official Gazette) 2011, No XI-1375), as last amended on 10 July 2014 (No XII-1020).

7 Resolution No 789 of 21 June 2010 (Žin. 2010, No 73-3725).

8 Order No 1-180 of the Minister for Energy of 23 June 2010 (Žin. 2010, No 78-4030).

Lithuanian policy on RES.⁹ Firstly, de-commissioning of Ignalina Nuclear Power Plant in 2010 reduced electricity generation in Lithuania for almost 65 % and increased the dependence on other energy sources, especially the imported natural gas. Secondly, interconnections of the energy infrastructure between Lithuania and other countries are quite limited so far. Thus, the use of RES is suggested to be essential for the security of energy supply in case of Lithuania.

In 2013, almost 23 % of annual energy consumption came from RES. The European Commission mentioned Lithuania among the Member States, which may exceed their 2020 renewable energy targets due to their RES policies.

1. Electricity

Article 13 of the Law on Energy from Renewable Sources establishes that the use of RES for electricity production is one of the main strategic goals of state energy policy and provides the exact capacity targets from different RES: capacity of wind plants connected to the grid must be increased at least up to 500 MW, solar electricity plants, exceeding 30kW, - 10 MW, hydro power plants - 14 MW, power plants running on biofuels - 355 MW. It has to be noted that feed-in tariffs will be suspended when these capacities will be reached.

In 2013, the Government initiated the amendment of the Law changing the rules on financial support to solar plants. The amendment has been initiated due to the huge amount (over 15 thousand in 2012) of the requests to install Solar PV (with installed capacity up to 30 kWh), what would have required paying over around € 114.3 million to those producers annually, and, as the Government explained, that would have potentially increased electricity prices to

consumers. The amendment, which established the limitation on development of solar plants, made most of the producers to change their investment plants and development of the further activities. Around € 3.4 million of compensations have been paid following the claims of producers.¹⁰

On 2 March 2015 the new amendment entered into force establishing the system of net metering for solar electricity plants (in households <10kW, budgetary and state institutions <50 kW). It is expected to encourage installation of additional solar power plants (10MW installed capacity).¹¹

2. Transport

Article 36 of the Law on Energy from the Renewable Sources requires promotion of the use of biofuels for transport, biogas, electricity, hydrogen and other alternative fuels in transport. Article 36 (8) of the Law provides that binding quality requirements for biofuels for transport shall be determined by the Ministries of Energy, Environment, and Ministry of Transport and Communications, while Article 38 established sustainability criteria for biofuels for transport and bioliquids, including the reduction of emission by at least 50 % from 1 January 2017, limitation of the origin of the raw material used for making biofuels for transport, and blending of biofuels for transport in fuels produced from mineral fuels.

However, in 2013 energy from RES in transport comprised only 4.65 %. There are two main kinds of biofuel used in Lithuania: biodiesel, and bioethanol. The potential of other sources are not exploited and there hardly is any clear strategy how to diversify the biofuel sources, or how the energy from renewable sources could be used and promoted more in the transport sector in general. Knowing the fact that the average age of the vehicles registered in the country is around 15 years,¹² and the public transport also is relatively old, the use of RES in transport would require a more detailed strategy to reach the targets of the Directive.

3. Heat

District heating is a high concern of the Ministry of Energy and municipalities. The sector has undergone and still goes through significant modernization, as

9 See for e.g. Decision No XI-2133 of the Parliament of the Republic of Lithuania of 26 June 2012 "National Strategy for Energy Independence"; Erika Matulionytė-Jarašūnė, "The Development of Renewable Energy Sources in the Context of Energy Security", 1(5), *Darnaus Vystymosi Strategija ir Praktika* (2011), pp. 76-92.

10 Decision No 257 of the Government of 26 March 2014 "The Report of the Government of the Republic of Lithuania 2013", at p. 47.

11 National Reform Programme 2015 of Lithuania, pp. 37-38, available on the Internet at <http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_lithuania_en.pdf> (last accessed 30 July 2015).

12 According to the data of 2014 of the national vehicle registration office "Regitra".

old and inefficient district heating systems inherited from the Soviet Union are not satisfactory in terms of efficiency and prices for consumers.

The Law on Energy from the Renewable Sources obliged the municipalities to organize the provision of heat energy in a way that RES would be used for the production of heat energy.¹³ Also, there is an obligation to heat suppliers to purchase the heating produced from RES from independent producers of heating.¹⁴

The undertakings producing heating and biomass producing and supply attracted the attention of the national competition authority which in 2013 initiated antitrust investigation in the sector and recently announced suspicions that biofuel supply agreement between the heating provider in the capital city of Vilnius and biofuel supplier is foreclosing the market to competition. The anti-trust investigation procedure continues to date.

The rules of purchase of biofuels were also under the spotlight at the government level. In 2014, legal basis was prepared establishing the compulsory amount of biomass bought on the energy exchange "Baltpool" (in 2015 – 50 %, in 2016 – 100 %), increasing the list of entities obliged to buy biomass on the exchange, including unregulated producers of heat, and setting rules of biomass purchase control and penalties for infringing those rules.¹⁵

Moreover, the government wishes to participate (own majority of shares) in plants that generate energy (electricity and heat) from municipal waste incineration. The European Commission has started an EU Pilot procedure investigating whether relevant national provisions¹⁶ setting the requirement for a state to be a compulsory major shareholder of such plants are in line with EU law.

Renewable heat obligations for all new buildings and existing buildings undergoing major renovations were introduced and entered into force on 31st December 2014. Building efficiency is one of the main priorities, as heating price depends on the amount of heat used which is closely related to the efficiency of the house. In 2014, the heat energy from RES provided to district heating system comprised 45 %.¹⁷

II. Financial incentives

Development of the renewable energy is promoted by the state. The production of energy from the RES

is supported through the Public Service Obligations. In 2013, this amount equalled LTL 182.6 million.¹⁸

Article 3(2) of the Law on Energy from Renewable Sources provides a list of support measures. Currently the main support measures are as follows: discount for the connection to the grid, priority to renewable energy sources when there are limited transmission capacities, the capacities and permeability of electricity grids are reserved, excise tax reliefs for biofuels, feed-in tariffs, reliefs for balancing electricity are applied.¹⁹

It is suggested that the development of energy from RES in Lithuania is limited because of unstable schemes of subsidies and tariffs, as well as administrative burdens such as strict and inflexible territorial planning procedures necessary for instalment of power plants.²⁰

1. Fixed tariffs and prices

National Control Commission for Prices and Energy (hereinafter – NCC) is responsible for setting a maximum feed-in tariffs quarterly for both electricity from renewable energy sources plants with installed capacity of over 10 kW and for renewable energy sources producers with installed capacity up to 10 kW. The characteristics of the feed-in tariff the producer gets are as follows: (i) a tariff may change every quarter, (ii) a tariff is valid for the day when the electricity is supplied to the grid, (iii) a feed-in tariff applies only to 50 % of produced electricity to the grid during the calendar year, what implies producers should also be the electricity users themselves, (iv)

13 Law on Energy from RES, *supra* note 3, Art. 12 (2) and Art. 23.

14 Law on Energy from RES, *supra* note 3, Art. 25.

15 Decision No 298 of the Government of 25 March 2015 "The Report of the Government of the Republic of Lithuania 2014", at p. 50.

16 Decision No 158 of the Government of the Republic of Lithuania of 19 February 2014.

17 Order No 1-17 of the Minister for Energy of 22 January 2015, "Strategy of the Ministry of Energy 2015-2017", at p. 3.

18 Summarized information is provided by the NCC at the official website, English version available on the Internet at <<http://www.regula.lt/en/Pages/the-sector-of-renewable-energy-resources.aspx>> (last accessed on 22 July 2015).

19 National Reform Programme, *supra* note 8, at p. 37.

20 Liudas Mažylis and Aistė Pikšrytė, "EU Regulatory Policy models' Application in the Renewable Energy Sector", 12(1), *Public Policy and Administration* (2013), pp. 120 et seq., at pp. 128-129.

the tariff is guaranteed for 12 years counting from the obtained permission by the producer to produce electricity to the grid.²¹

2. Auctions

Participation in the auction for the plants producing electricity from the RES (with installed capacity over 10 kW) is a condition to receive a feed-in tariff. The NCC is the organizer of the auctions that are based on the free promoted quota established by the Lithuanian Government.²² According to the data of the NCC only auctions for hydropower plants are or-

ganized for the moment, as a quota has been already allocated for biomass, solar PV and wind energy power plants (transmission system), while auctions for wind power plan (distribution system) are suspended. The winner of the auction is selected according to the proposed lowest preferred feed-tariff. An additional criterion of the bigger installed capacity of the plant is applied in case there are several producers participating in the auction proposing the same preferred tariff.²³

III. Conclusion

Lithuania has enough RES to achieve EU targets. The legal basis and strategies for promoting RES in electricity and heat are satisfactory; however, the use of RES in transport sector requires reconsideration in order to reach more sufficient results. Development of the renewable energy is supported by legally established measures, including feed-in tariffs set by National Control Commission for Prices and Energy quarterly, however, auctions to get a feed-in tariff currently is organized only for hydropower plants.

21 Summarized information in English is provided by the NCC, available on the Internet at <<http://www.regula.lt/en/Pages/tariffs-for-electricity-from-res.aspx>> (last accessed on 30 July 2015).

22 Currently the quota for the wind energy is 210 MW and 50 MW (respectively for transmission and distribution systems), hydro energy – 14 MW, biomass – 105 MW and solar PV – 10 MW.

23 The conditions to participate in the auction (in English) are provided by the NCC, available on the Internet at <<http://www.regula.lt/en/Pages/auctions-.aspx>> (last accessed on 30 July 2015).