

Security of electricity supply in Estonia

*Has the necessary electricity been guaranteed to
consumers in Estonia for the next ten years?*

Security of electricity supply in Estonia

*Has the necessary electricity been guaranteed to consumers in
Estonia for the next ten years?*

Summary of audit results

This time, the [annual report 2023 of the National Audit Office](#) is focused on the choices of the electricity system. To prepare the annual overview, the National Audit Office audited the security of electricity supply in Estonia. The audit report was one of the bases for preparing the annual overview, and it addresses three topics: whether it is sufficient what has been done to ensure the security of electricity supply, whether connecting the Estonian electricity system to the Continental European frequency band is on schedule, and whether the State is prepared to respond to an electricity emergency situation.

During the audited period, the Ministry of Economic Affairs and Communications was responsible for the area of energy, including the security of electricity supply. From 1 July 2023, the functions related to energy fall under the responsibility of the Ministry of Climate. Accordingly, in this audit, the National Audit Office refers to the Ministry of Economic Affairs and Communications (MEAC) with regard to observations but makes its recommendations to the Minister of Climate.

What did the National Audit Office find?

By now, there is a risk that Estonia may have a problem with security of electricity supply in 2027. Although the first signs that production of electricity from oil shale in Estonia may no longer be competitive in the future were revealed by the analyses of electricity supply carried out by Elering AS as early as in 2013, the owner instructed Eesti Energia AS only in 2019 to ensure 1000 MW of controllable electricity production capacity to ensure electricity production in Estonia to be sufficient to meet the electricity consumption demands. At the same time, the analysis of security of supply prepared in 2022 by ENTSO-E, the European Network of Transmission System Operators for Electricity, and the analysis of security of supply prepared and published by Elering AS the same year explicitly pointed out, for the first time, that the security of electricity supply may not be ensured in Estonia in 2027 because production of electricity from oil shale may no longer be competitive in the open electricity market¹.

¹ [Report on security of electricity supply in Estonia](#). Elering AS, 2022 (pp. 11, 20, 75, 77); [European Resource Adequacy Assessment](#). European Network of Transmission System Operators (ENTSO). 2022

Strategic reserve – electricity production capacity acquired for a limited time under predetermined terms and conditions, which is activated only if production capacity in the market is insufficient and security of supply is therefore at risk, and which is separated from the rest of the electricity market and does not affect the price of the electricity market.

In order to prevent the problem of security of electricity supply in Estonia that may arise in 2027, the Ministry of Climate and Elering AS have commenced with activities to establish a **strategic reserve**. Thus, preparatory activities have been carried out in 2023 in order to apply for the necessary state aid permission from the European Commission.

The availability of electricity is significantly affected by the increased price of electricity, which the Ministry of Economic Affairs and Communications had not taken into account from the consumer's point of view. The ministry assumed that the price of electricity is formed in the market as a balance of supply and demand and that in the conditions of a free market, the price of electricity cannot be too biased towards either producers or consumers. At the same time, the ministry has not assessed the impact of electricity prices on consumers, and it does not have a plan on how and which consumers should be protected from electricity prices that remain high for a long time.

Although subsidies have been paid to consumers in order to mitigate the high price of electricity – a total of approximately 190 million euros in subsidies have been paid in 2021–2023² – and consumers were transferred to the universal service established in the autumn of 2022 based on the law, the subsidies have mostly not been targeted and the production price of the universal service has turned out to be several times more expensive than the average exchange price of electricity in the first half of 2023. Despite the fact that a total of 192,196 customers still used the universal service and the general service related to its production price as at the end of July 2023³, the ministry has not actively informed consumers or motivated them to choose an electricity package at a cheaper price than the universal service.

The full-scale Russian war against Ukraine, which began on 24 February 2022, significantly increased the risks of security of electricity supply in Estonia. According to the nationwide risk analysis, the risk of a large-scale power outage in Estonia is also very likely.⁴ In order to reduce the risks of electricity security, the electricity system of the Baltic States must be synchronised with the Continental European frequency band, and several security risks threatening the Estonian electricity system, including cyber and sabotage risks, need to be mitigated in parallel. Although in Estonia, the activities required for synchronisation have so far been implemented according to the schedule, the possibilities of accelerating the project are limited due to the long delivery time of the materials required for the work and the lack of people doing the work. On 3 August 2023, the Baltic States agreed that the connection to the Continental European frequency band will take place earlier than originally agreed, in February 2025. At the same time, several direct security risks, including cyber and sabotage risks, need to be mitigated, and action plans need to be constantly practiced, including in case Russia organises an extraordinary desynchronisation, the water level at the Narva reservoir drops, external connections are interrupted, etc.

² The amount of subsidies is given inclusive of value added tax.

³ According to the data of Eesti Energia AS.

⁴ <https://riigikantselei.ee/riskid#elektrikatkestus>

Main recommendations

Recommendations of the National Audit Office to the Minister of Climate:

- analyse which consumers should be protected from long-term high electricity prices;
- update the electricity emergency response plan;
- improve supervision to ensure that providers of a vital service assess risks as soon as important circumstances affecting the provision of a vital service change.

Response of the Minister of Climate: The Ministry of Climate is analysing matters concerning the so-called energy poverty as part of the Energy Economy Development Plan 2035, which is currently being prepared. The development plan is to be completed at the beginning of 2025. According to the current legislation, low-income households can apply for a subsidy from the local government to cover their energy costs.

Comment of the National Audit Office: The purpose of the recommendation is to avoid state support measures to mitigate high electricity prices in the future as a result of which the state spends taxpayers' money on consumers who are not in need of support. By proactively planning measures to mitigate high electricity prices, it is also possible to analyse the price sensitivity of consumers and the effect of potential subsidies on electricity consumers and peak load.

Response of the Minister of Climate: We are of the opinion that the current emergency response plan works well. We plan to regularly review the plan. The electricity emergency response plan is planned to be updated in the first half of 2024.

Comment of the National Audit Office: The audit revealed that the emergency response plan is neither up to date nor functional. Among other things, the plan does not address the activities of the Ministry of Climate in the event of an extraordinary disconnection of the Baltic States from the Russian electricity grid and attacks on the electricity infrastructure nor the specific tasks of the Ministry of Climate, the Government of the Republic and providers of a vital service in responding to an electricity emergency.

Response of the Minister of Climate: We agree that supervision over providers of a vital service could be approved. To ensure such a task, it is necessary to find additional resources for the Ministry of Climate.