

**Memorandum of Understanding on
the reinforced Baltic Energy Market Interconnection Plan
'BEMIP'**

Sides:

the European Commission

the Kingdom of Denmark

the Federal Republic of Germany

the Republic of Estonia

the Republic of Latvia

the Republic of Lithuania

the Republic of Poland

the Republic of Finland

the Kingdom of Sweden

HAVING REGARD TO:

The conclusions of the European Council of October 2009, which supported an EU objective to reduce greenhouse gas emissions by 80-95 % by 2050 compared with 1990 levels, in the context of reductions by developed countries as a group deemed necessary by the Intergovernmental Panel on Climate Change;

The 2020 energy and climate strategy, which sets targets on greenhouse gas emissions (a 20 % cut), renewable energy (at least a 20 % share) and energy efficiency (a 20 % improvement);

The 2030 framework for climate and energy, which sets targets for 2030 of at least a 40 % reduction in greenhouse gas emissions, a 27 % share for renewable energy and a 27 % increase in energy efficiency;

The five key interlinked and mutually reinforcing dimensions of the strategy on the Energy Union presented by the European Commission on 25 February 2015: energy security, solidarity and trust; a fully integrated internal energy market; energy efficiency as a contribution to the moderation of energy demand; decarbonisation of the economy; and research, innovation;

The governance framework for the Energy Union;

The Communication from the Commission to the European Parliament and the Council *Achieving the 10% electricity interconnection target — Making Europe's electricity grid fit for 2020*;

The medium to long-term measures set out in the Commission Communication *European Energy Security Strategy* of 28 May 2014. These include: making the internal energy market for electricity and gas work better; accelerating the construction of key interconnectors; moderating energy demand; increasing safe and sustainable energy production; diversifying external supplies; and improving coordination of national energy policies;

The three established objectives — security, sustainability and competitiveness — of the Union's energy policy, and the ambition to create an internal energy market where no Member State should remain isolated from European gas and electricity networks, ensuring that energy will flow freely across the European Union, without any technical or regulatory barriers;

The three objectives based on:

Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity (Electricity Directive);

Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas (Gas Directive);

Regulation (EU) 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators;

Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity;

Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks;

Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply;

Decision No 994/2012/EU of the European Parliament and of the Council of 25 October 2012 establishing an information exchange mechanism with regard to intergovernmental agreements between Member States and third countries in the field of energy;

Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure (TEN-E Regulation); and

European Commission Delegated Regulation (EU) No 1391/2013 of 14 October 2013 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure as regards the Union list of projects of common interest;

Any future amendments of the legislation cited;

Any other legislation relating to electricity and natural gas markets, and in particular the network codes;

The established legal framework for the Union's energy efficiency policy, which aims at increasing efficiency at all stages of the energy chain from generation to final consumption and the relevant legislation

Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency;

Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings;

Directive 2009/125/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for the setting of ecodesign requirements for energy-related products (recast); and

Directive 2010/30/EU of the European Parliament and of the Council of 19 May 2010 on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products, and their future amendments;

The established legal framework for the Union's renewable energy policy, which aims at increasing the production of renewable energy, lowering the Union's dependence on imported fossil fuels and making its energy production more sustainable. This framework is based on Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources, concerning which the Commission has submitted a proposal for its amendment (COM(2012) 595);

The work and achievements of regional cooperation in the energy sector in the Baltic Sea region conducted within the framework of the Baltic Energy Market Interconnection Plan (BEMIP). This plan was agreed in June 2009 and amended in March 2011 (West Baltic Task Force Action Plan) and in March 2013 (Roadmap for the implementation of natural gas projects in the eastern Baltic Sea);

The Memorandum of Understanding on the Baltic Energy Market Interconnection Plan signed on 17 June 2009 by the President of the European Commission and political leaders of eight participating Member States;

The BEMIP reform launched by the European Commission at the BEMIP high-level group meeting held in Brussels on 31 October 2014, and the review of the second regional Baltic initiative, i.e. the EU Strategy for the Baltic Sea Region (policy area Energy), both of which aim at further reinforcing regional energy cooperation in the Baltic Sea region;

The Declaration on Energy Security of Supply signed on 14 January 2015 by the Energy Ministers of the Baltic States. The Declaration calls for: developing liberal, transparent, competitive and fully functioning regional gas and electricity markets; full implementation of the third energy package; market integration; construction of necessary infrastructure; synchronisation of the Baltic States with the continental European network; and implementation of the European Energy Security Strategy;

RECOGNISING:

That enhanced efforts are needed in the Baltic Sea region to implement correctly and efficiently the Union's energy *acquis* and to achieve efficiently and in good time the objectives of the Union's energy policy. These objectives include:

- (i) developing truly competitive electricity and gas markets of the Baltic States and fully integrating Lithuania, Latvia, Estonia — and Finland as regards the gas sector — into the wider EU energy market;
- (ii) accelerating and more effectively coordinating the implementation of critical energy infrastructure projects in the region; and
- (iii) achieving the agreed targets related to energy efficiency and renewable energy;

That effective regional cooperation in the Baltic Sea region is key to achieving the energy policy objectives and to addressing the main challenges faced in the energy sector by Member States;

A need to streamline and to more effectively coordinate the work carried out in the Baltic Sea region in the energy sector within the framework of various regional initiatives, including the policy area Energy of the EU Strategy for the Baltic Sea Region;

A need for further strengthening of the Baltic Energy Market Interconnection Plan initiative, and for broadening its scope of responsibilities by including other aspects — beyond energy markets and infrastructure — of the Union's energy policy;

The benefits to be gained from a new BEMIP action plan defining measures, projects and actions to be implemented by the Member States of the Baltic Sea region in all priority areas covered by the new extended scope of the Baltic Energy Market Interconnection Plan initiative;

That this Memorandum of Understanding may need to be adapted at a later stage to ensure that it effectively contributes to enhanced regional cooperation in the broader sense set out by the framework strategy for the Energy Union.

THE SIDES AGREE:

To make the best endeavours to continue their regional cooperation in the area of the Union's energy policy and to work together to achieve in good time the agreed objectives and targets.

I. The renewed structure of the Baltic Energy Market Interconnection Plan

The Sides agree to reinforce the structure of the Baltic Energy Market Interconnection Plan initiative by incorporating the policy area Energy of the EU Strategy for the Baltic Sea Region, and by establishing a three-tier structure: political, operational and working.

(1) Participation

The Baltic Energy Market Interconnection Plan initiative should include representatives of the European Commission and Member States, including Denmark, Germany, Estonia, Latvia, Lithuania, Poland, Finland, Sweden, and — as an observer — a representative of Norway.

(2) The structure

The Baltic Energy Market Interconnection Plan initiative has a three-tier structure, including:

- a high (political and operational) level, constituted by the BEMIP high level group and
- a technical level, constituted by working groups on: infrastructure (i.e. regional groups established under the TEN-E Regulation); internal energy market; security of supply; renewables; energy efficiency; nuclear energy; and various aspects of the integration of the Baltic States' electricity network into the continental European network, including their synchronous operation.

a) BEMIP high-level group - political and operational levels

The political level is composed of the Commissioner responsible for the Union's energy policy and the Ministers of the Member States and Norway in charge of energy policy. It provides a political vision and strategic guidance, and defines priorities for regional cooperation carried out under the Baltic Energy Market Interconnection Plan initiative. It prepares political agreements for matters that cannot be resolved at the operational or technical level.

The operational level is composed of senior officials (Directors-General or Directors) in the European Commission in charge of the Union's energy policy, and officials at the equivalent level in the responsible ministries and agencies of the Member States and Norway working in the energy policy area.

It implements the guidance and decisions from the political level and monitors the progress achieved under the Baltic Energy Market Interconnection Plan initiative. It is responsible for coordinating activities between working groups at a technical level. It resolves matters that cannot be solved at the technical level and which are necessary for the coordinated, timely and effective implementation of the new BEMIP action plan. It also prepares meetings of the political level.

b) Technical level

Technical level working groups established under the Baltic Energy Market Interconnection Plan initiative are composed of working-level representatives of the European Commission in charge of the Union's energy policy and of the ministries and agencies working on energy policy in the Member States and Norway.

The BEMIP high-level group may decide to merge or terminate existing working groups and to establish new working groups, when necessary. When deciding to merge or terminate existing groups, the BEMIP high-level group should consider their level of activity and the work performed by them.

They provide technical support to the work of the BEMIP high-level group. They discuss and coordinate specific measures and actions, and undertake projects and studies necessary for the

implementation of the new BEMIP action plan in all areas covered by the Baltic Energy Market Interconnection Plan initiative.

(3) Meetings, working methods and participation of stakeholders

Meetings of the BEMIP high-level group are convened and chaired by the corresponding representative of the European Commission in charge of the Union's energy policy. Meetings are to be held, in principle, once a year. High-level group meetings at the political level should be held, when possible, back-to-back with Energy Council meetings.

Meetings of working groups at technical level are to be held as necessary and are to be chaired by the representative of the European Commission in charge of the Union's energy policy.

Working groups may meet and work together, as required, to discuss matters common to several groups. This applies in particular to matters concerning energy infrastructure, the internal energy market and security of supply since these areas are intrinsically interlinked.

Working methods of the working groups should be defined in their terms of reference by the Commission and the Member States. When deciding on working methods for the working groups, the working methods laid down by the TEN-E Regulation may be considered.

When the legislation provides for their participation and/or upon invitation, representatives of the following may participate in meetings of the groups (at all levels): Agency for the Cooperation of Energy Regulators; European Network of Transmission System Operators; national regulatory authorities; transmission system operators; project promoters; countries that are not members of the Baltic Energy Market Interconnection Plan; independent experts; and other stakeholders. Procedures for inviting representatives of external institutions or bodies will be laid down in the terms of reference of working groups.

II. The new extended scope of responsibilities of the Baltic Energy Market Interconnection Plan

The Sides approve the extension of the scope of the Baltic Energy Market Interconnection Plan initiative by including — in addition to electricity and gas markets, infrastructure and power generation — other aspects of the Union's energy policy, in particular: security of supply; energy efficiency; renewable energy; and various aspects of the integration of the Baltic States' electricity network into the continental European network, including their synchronous operation.

The Sides express their intention to coordinate their cooperation under the Baltic Energy Market Interconnection Plan initiative in the above-mentioned energy priority areas and they agree to make best endeavours to meet the objectives defined for these areas. Each Side may decide not to take part in the work on an energy priority area when this is of no relevance to its territory.

The Sides envisage that the new BEMIP action plan will define specific roadmaps, measures, projects and studies necessary to achieve, effectively and in good time, the objectives agreed for the identified energy priority areas.

(1) Electricity and gas markets

The Sides intend to work together towards establishing an open, competitive and fully integrated regional energy market in the Baltic Sea region in both the electricity and gas sectors. Its operation will be fully compatible with the Union's third energy legislative package.

➤ Electricity markets

The main common objectives of regional cooperation in the electricity markets of the Baltic Sea region are:

- Equal market conditions (no discrimination among market participants and no obstacles for new entrants);
- Free, cross-border, intra-EU trade and market opening;
- Free competition in each country with effective third party access regimes;
- A flexible electricity market better adapted to the energy transition, both on the supply and demand side, thus enabling the market integration of new generation sources, in particular renewables, and removing market barriers;
- Reduced market concentration through, for example, increased competition and cross-border trade;
- Sufficiently high market liquidity;
- Fair and effective price formation (competitive and transparent market price for electricity);
- Transparent and effective capacity allocation according to the network code, based on implicit auction and flow-based methodology;
- Facilitating the integration of new sources of electricity, notably renewables, into the market;
- Transparent and easily accessible market information;
- Efficient market monitoring; and
- Regarding trade with non-EEA third countries: reciprocal principles and a common approach towards rules applied in trade with non-EEA third countries within the framework of the Union's intergovernmental agreements.

The Sides express their intent to work to develop competitive energy markets that provide incentives for investments in new, competitive power generation capacity in the Baltic Sea region, and to work on measures regulating electricity imports from third countries to ensure that EU electricity producers have a level playing field *vis-à-vis* third country producers.

➤ Synchronisation

The Sides acknowledge that synchronisation of the Baltic States with the continental European network that contributes 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 is included in the scope of the Baltic Energy Market Interconnection Plan initiative as a self-standing objective given, in particular, its legal, technical and financial complexity and political importance. A BEMIP working group is established to discuss various aspects of the integration of the electricity network of the Baltic States into the continental European network. Such aspects include the synchronous operation and all related issues, such as the security of operation of the power systems of BEMIP countries, adaptation needs of existing and planned production sources in the region (including planned nuclear power plants),

expansion of transmission networks (including significant investments needed) in all those BEMIP countries concerned, and electricity trade with third countries, including a future role of connections with third countries.

➤ Gas markets

Efforts should be continued to implement the most economically viable solution to connect Finland and the three Baltic States to the continental European gas network and to new gas supply sources, and to accelerate market opening in the Member States applying derogations from the Union's third energy legislative package.

Following the decision in Tallinn on 5 December 2014 of the Prime Ministers of the three Baltic States, Estonia, Latvia and Lithuania commit to work together towards:

- i. the creation of an effectively functioning regional gas market in their territories;
- ii. achieving the full implementation of the Union's third energy legislative package in the Baltic States; and
- iii. the integration of their gas market with the continental European market and the Finnish market. Finland commits to participate in this work, which aims at interconnecting its gas market to the Baltic States regional gas market.

(2) Security of supply

The Sides agree on working together to develop energy security measures in the Baltic Sea region and to enhance regional cooperation on risk assessment, including a regional system and security of supply adequacy assessment and emergency preparedness. In the first stage, the work will concentrate on regional system and security of supply adequacy assessments in the electricity sector, and on the proper implementation of the Union's legislation on security of supply in all relevant sectors.

Representing a region that is highly vulnerable to potential gas crises, the Member States of the Baltic Sea region should work, if possible on the basis of a common approach, towards strengthening the Union's policy in the security of supply area. Based on the principles of solidarity, the interested Sides should work to put in place a consistent preventive strategy and emergency response systems to effectively address potential disruptions of gas supply — particularly in the power and district heating sectors — and to develop regional preventive action plans and emergency plans.

The Sides recognise the potential for increasing security of supply through energy efficiency measures and fuel switching in the heating sector.

(3) Energy infrastructure

The Sides recognise the need for market-based investments in electricity, gas and oil infrastructure to achieve the objectives of the Union's energy policy, including: ending energy isolation of Finland and the Baltic States; integrating the Baltic States' markets; increasing diversification of energy supply; enhancing security of supply; ensuring market opening; integrating renewable energy; and delivering electricity interconnection targets.

The Sides agree to coordinate their work on energy infrastructure projects identified in the BEMIP action plan. Projects should include Projects of Common Interest included in the first and subsequent Union lists of Projects of Common Interest and other energy infrastructure projects that have critical importance for meeting the Union's energy policy or for the functioning of the regional electricity and gas market.

The Sides intend to make best endeavours to implement in good time the infrastructure projects located on their territory. They also intend to provide necessary support to, and coordinate their work on, cross-border projects directly crossing the border of, or having a significant cross-border impact on, two or more Member States. In this context, the BEMIP high-level group should regularly monitor and discuss the implementation of critical energy infrastructure projects.

(4) Nuclear energy

The Sides express their intent to work together with regard to three aspects of nuclear energy policy, i.e. nuclear safety, nuclear safeguard and nuclear security.

The Sides express their willingness to exchange information and views on their plans to construct new nuclear power plants in the Baltic Sea region and on the decommissioning process of existing nuclear power plants.

(5) Renewable energy

The Sides commit to take measures, as defined in their national laws and national renewable energy action plans, to achieve the binding, national, overall renewable energy targets set in Part B of Annex I to Directive 2009/28/EC, and sectoral targets for electricity, heating and cooling, and transport. They commit to exchange information and best practice to this end.

The Sides intend to work together to achieve the EU's binding 20% renewable energy target and national targets for 2020 laid down in the Renewable Energy Directive, with a view to continuing the work towards achieving the binding EU-level renewable energy target of at least a 27% share by 2030. In this regard, the Sides intend to discuss the possibility of setting up a macro-regional roadmap for contributing to the EU renewable energy target for 2020, and with a view to 2030.

The Sides intend to discuss the potential and possible measures for an improved cooperation between the Member States in the Baltic Sea region, and their cooperation with other Member States, through the use of cooperation mechanisms provided for in the Renewable Energy Directive in order to harness the full potential of renewable energy sources.

The Sides may discuss cross-border support projects including joint support schemes between individual or several Member States in the Baltic Sea region. Cooperation will be on a voluntary basis only, upon mutual agreement between the countries involved and should take into account existing grid capacities.

The Sides intend to work together in the area of research and development of renewable energy technologies. They intend to facilitate further cooperation between the region's research centres and companies, which would result in a better and more cost-effective use of R&D infrastructure and capacity and EU financing instruments, including those designed for territorial cooperation. This should result in exploiting the innovation potential in the region that would alternatively be left uncaptured if addressed on a single country level.

The Sides intend to work together towards improving access to finance for renewable energy projects that have the potential to better harness the renewable energy potential in the Baltic Sea region. Such projects would include projects increasing the use of local renewable energy in district heating and improving the security of supply in the heating sector, and use of renewable energy sources in municipal infrastructure projects in urban centres.

The Sides intend to work together by exchanging information and best practices and by cooperating to increase the contribution of renewable energy in the transport sector.

(6) Energy efficiency

The Sides should work together to increase energy efficiency at all stages of the energy chain from generation to final consumption. This will help to achieve energy efficiency objectives defined in the Union's legislation and the 2020 and 2030 energy and climate strategies and in the strategy on the Energy Union.

The Sides intend to share information and best practices on — and to cooperate on measures that aim at — improving their energy efficiency, and which include in particular:

- Achieving new savings each year of 1.5 % of the annual national energy sales;
- Energy efficient renovations to be undertaken in at least 3% of buildings owned and occupied by central governments each year, or an alternative approach, such as other cost-effective measures, including deep renovations and behavioural change of occupants, in accordance with the Energy Efficiency Directive;
- Requirements on buildings, including mandatory energy performance certificates in accordance with the Energy Performance of Buildings Directive;
- Developing efficient district heating to improve energy efficiency and security of supply, in accordance with Article 14 of the Energy Efficiency Directive;
- Minimum energy efficiency standards and labelling requirements for a variety of products such as boilers, household appliances, lighting and televisions, and effective market surveillance related to these ecodesign and energy labelling requirements;
- The preparation of national energy efficiency action plans every three years;
- The planned rollout of smart meters for electricity and gas;
- Energy audits carried out at least every four years by large companies;
- Protection of the rights of consumers to receive easy and free access to data on real-time and historical energy consumption.

The Sides will also exchange information, experience and best practice on the possibility of using the Union's financial instruments, including the regional and structural funds and the European Fund for Strategic Investments, for energy efficiency measures and projects.

III. The new action plan: implementation and monitoring

The Sides intend to prepare the new BEMIP action plan.

Following the incorporation into the Baltic Energy Market Interconnection Plan initiative of the policy area Energy of the EU Strategy for the Baltic Sea Region, the new BEMIP action plan is considered to be the action plan of the policy area Energy of the EU Strategy for the Baltic Sea Region.

The working groups will define in the new BEMIP action plan, and subsequently implement, measures and actions necessary to achieve the objectives laid down for the agreed energy priority areas. The new BEMIP action plan should be action and target-oriented, and should set specific deadlines for the achievement of measures and actions, expected results and milestones. Where feasible and justified, measures and actions should be defined for each Member State.

The new BEMIP action plan is to be regularly reviewed and, when necessary, revised by the working groups to take into account the most recent developments in the energy sector and to include new measures and projects needed to address emerging challenges. In this context, the guidance of the BEMIP high-level group should be of particular importance. Any amendments to the new BEMIP action plan must be approved by the high-level group.

The working groups will prepare reports on their activities and achievements based on input provided by national authorities, transmission system operators and other relevant implementing bodies. The reports should describe the expected and real status of measures, projects and studies in terms of activities and timeline. They may also identify challenges in implementing agreed projects and measures and provide for recommendations to address them. The reports will be shared for information purposes between the working groups.

The reports will be presented to the BEMIP high-level group (operational level), which may decide to inform the high-level group (political level) about any outstanding issues, when necessary.

Practical aspects of the reporting, such as reporting periods, frequency of reporting, structure of reports and structure of input for reporting, should be defined after the conclusion of the Memorandum of Understanding and the new BEMIP action plan. The structure of the reports may differ so as to respect the specificities of the areas dealt with by different working groups.

Depending on the specific action or project, national ministries, national agencies and national regulatory authorities from the Member States participating in the Baltic Energy Market Interconnection Plan initiative, transmission system operators and project promoters will implement the new BEMIP action plan.

V. Nature of the Memorandum of Understanding

The present document records a political intent alone. It does not establish any new legal commitments and does not replace or modify any existing legal obligations with regard to the Sides and any third persons. It does not prejudice in any way the outcome of discussions on governance systems for the 2020 and 2030 energy and climate strategies and for the framework strategy on the Energy Union.

Signed in Luxembourg on 8 June 2015.

For the European Commission

For the Kingdom of Denmark

For the Federal Republic of Germany

For the Republic of Estonia

For the Republic of Latvia

For the Republic of Lithuania

For the Republic of Poland

For the Republic of Finland

For the Kingdom of Sweden