

About the Lithuanian-Polish Power Bridge

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Hardly anyone can say when precisely Polish-Lithuanian cooperation in the field of energy commenced. It is common knowledge that neighboring countries always find common interests and common problems that can only be solved with the help of mutual agreements. This article will deal only with one aspect of the cooperation – the implementation of the project to lay a power transmission line between Poland and Lithuania. To be exact, we should perhaps say that we have tried to lay the line, - which in some parts of the article is called “bridge” - as it is still not constructed.

Lithuanian energy specialists started discussions regarding the connection of Polish and Lithuanian power systems as early as 1995. The discussions were conducted by the Polish Power Grid Company, the German company “Preussen Elektra AG”, the French company “EDF”(Electricite de France) and the American company “Stanton group”.

However, a substantive agreement was reached at the end of 1997 when AB “Lietuvos Energija” (Special Purpose Joint Stock Company “Lietuvos Energija”) and the Polish Power Grid Company (Polskie Sieci Elektroenergetyczne S.A.) prepared two documents for signature i.e. the Agreement for the construction of the transmission line Lithuania-Poland and a Power supply contract. It was anticipated that the construction work would be carried out in stages. During the first stage it was planned to construct a power transmission line from Alytus in Lithuania to Hancza in Poland. It had to be constructed on a tower of a 400 kV transmission line but initially it would have worked with 110 kV voltage. The capacity of transmission in the first stage was 50MW. The planned start date for the construction was February 1998, to be completed by the end - December of 1999. The power had to be supplied to an “island” in the Hancza district. The price of the electricity to be sold by Lithuania to Poland was fluctuating between 2.55 and 2.9 US cents for a basic kilowatt-hour, and from 6.65 to 6.95 US cents for a peak kilowatt-hour of energy. Final figures had to agree when the contract was signed. The supply was expected to be carried out by 2005.

It was planned to construct the power transmission line Alytus-Kruonis in Lithuania and Hancza-Elk in Poland during the second stage of the project. This would give the units (two units were planned) of Kruonis Hydro Pump Storage Plant the opportunity to work for the Polish power system and export peak energy. From a technical point of view it was possible to increase the transmitted capacity of such a line, provided, of course, that it was necessary.

AB “Lietuvos Energija” had to obtain the consent of the company’s shareholders in order to sign the contract. At the time (and now) most of the shares belonged to the State, and were held by the Ministry of economy. AB “Lietuvos Energija” failed to obtain consent from the Ministry of economy. Their main objection was that there was insufficient transmission capacity. The Ministry of Economy was preparing proposals for the

¹ This article presents the narration of a story that started in 1997 and is still continuing. It would be perfect to finish this story at least by the year 2005. The article introduces factual information, which is presented in chronological order and, with just a few exceptions, without the commentaries of the author. The readers may draw their own conclusions.

construction of a more powerful line. The Polish Power Grid Company announced an international tender for the acquisition of peak energy on the 14 November 1997 when it did not sign the contract with Lithuanian power specialists.

The Minister of Economy approved the conditions of the tender “ On the export of power to Western and Central European countries while creating necessary technical, organizational and financial preconditions” through his order of 31 October 1997. The Minister formed a commission from the representatives of the Ministry of Economy and AB “Lietuvos Energija”. The commission was responsible for sending the conditions of the tender to the companies according to the selected list, summarising the proposals of the companies as well as presenting a report on further stages of the tender, its procedure and the date of the announcement of the tender. The list of the companies who were to be invited to tender, in accordance with its conditions, is as follows: British Energy, CallEnergy Company, Inc., Enron International, Leastrom Development Corporation Limited, Preussen Elektra AG, The Stanton Group, Inc., Vatenfall AB International.

The conditions of the tender stated that the Ministry of Economy would need precise information covering all possible variants of the projects to transmit power to Western and Central European countries, and announced the tender to the Company or the group of companies, requiring them to buy no less than 6TWh of power from Lithuania each year and to sell it to the consumers of Western and Central European countries, and also ensure that the necessary technical, organizational and financial preconditions were in place. In addition, it was stated that the Ministry looked forward to receiving the technical proposals made in accordance with the project concept, which could later be specified and adjusted, from a technical and commercial point of view. Later on the second stage of the tender would be carried out when the additional documents could be sent for tender, the final technical proposals submitted and prices announced.

Transmission of power should start by January 2002 at the latest to comply with the conditions of the tender. The contract is for 10 years, but with the possibility to extend. Proposals would have to be delivered by 10 December 1997.

Here we have to stress that a very short period of time was given to prepare for such an important proposal. In fact, invitations for tender were not issued until the beginning of November, and therefore only 1,5 month was left for the preparations of proposals. This period of time was really too short to prepare a project on this scale. It was thought that the companies more or less knew the situation and the representatives of the Ministry had a number of meetings with them and discussed all issues. However, when the companies delivered their proposals, they noted that they had been given insufficient time to prepare their proposals, and as a result they were not as comprehensive as they could have been.

The commission considered the proposals and stated that:

1. Proposals had been received from the following companies:

ENRON; Power Bridge Group consisting of CallEnergy Company, Siguler Guff and Company, Stanton Group and Duke Engineering and Services; Leastrom Development Corporation. British Energy and Vatenfall informed that they had decided not to take part in the tender.

2. None of the companies were able to meet the criteria stated in the tender.

3. None of the companies were able to present a comprehensive business plan.

The commission concluded that they would have to announce a second stage of the tender and invite applications from the three companies that already participated in the first stage. In addition, it was decided to invite all the other companies interested in the project. The commission recommended that companies should submit their proposals within three months of the date of the announcement of the tender.

The Ministry of Economy took account of the outcome of the discussions with the companies that had expressed an interest in the project to connect the Lithuanian power system with the systems of Western and Central European countries, as well as the recommendations of the commission, and suggested that the Government of the Republic of Lithuania should announce an international tender for implementation of the project. The Government of the Republic of Lithuania adopted the resolution of 8 February 1998 and authorized the Ministry of Economy to announce the tender and to state in its conditions that no less than 6 TWh of power would be exported at an average prices of 10 cents for one kilowatt-hour.

The Ministry of Economy formed the commission (the chairman – the Minister, three representatives of the Ministry of Economy, and one representative of The Institute of Energy and one from the National Control Commission for Energy Pricing and Energy Activities) based on the resolution of the Government. The commission was responsible for considering the proposals, selecting the successful candidate, and presenting the results of the tender for the approval of the Government of Lithuania. Also, the Ministry of Economy approved the conditions of the tender, which stated additionally that the necessary power transmission lines and other installations to ensure the transmission of power to Poland had to be constructed from the funds of the company. The preliminary route of the transmission line was to Kruonis-Alytus-Elk (Poland); using a power transmission – 400 kV overhead line with permanent power sources based in Lithuania. The transmission of power had to commence no later than on the 1 January 2002, in accordance with the contract awarded to the successful company.

The tender was announced in the international press on the February 11, 1998. Eight companies purchased tender documents. Three proposals were submitted by the closing date, from Enron Europe Ltd., Closed Joint Stock Company “Stella Vitae” and Partners and Power bridge Company. Having considered all the proposals, the commission concluded that none of the tenders met the requirements of the tender completely. In addition, the commission decided not to consider the proposal from CJSC “Stella Vitae” and Partners because some of its proposals were inconsistent with the nature of the tender.

The Minister of Economy of Poland and the Polish Power Grid Company were informed of the announced tender.

The commission decided (six members for, one against) to start negotiations with Power Bridge Group on April 6, 1998. It was decided to start the negotiations with Enron Europe Ltd., if within the period of two months any result could not be reached in negotiations after the winner that was approved.

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AB "Lietuvos Energija" and the Power Bridge Group published a communiqué on the November 2, 1998. It is worthwhile to cite apart of this communiqué:

"The contract regarding the implementation of the project of the transmission of Lithuanian power to Western Europe has been signed. The supplementary contract of the project determining the obligations of both sides has been signed by Mr. Anzelmas Bačauskas, Director general of AB "Lietuvos Energija", and Mr. Josef Novy, Vice-president of "Duke Engineering & Services Co" representing Power Bridge Group on the October 31, 1998. The contract comes in force after the approval of the Government of the Republic of Lithuania and when the necessary guarantees will be granted. The consortium of Power Bridge Group pledges itself to invest finances into the project and to find purchasers of the exported power. Every year Lithuania pledges itself to supply 6 TWh of power. In addition, the Government of Lithuania and AB "Lietuvos Energija" will help the consortium of Power Bridge Company to deal with legal questions, to get necessary permissions and the right to use the plot of land that will be used for the construction of the line of power transmission in the territory of Lithuania. It is planned that power would be transmitted to Europe via new high-tension current line by the January 1, 2002. It is foreseen to export up to 6 billion kWh of power every year. The line constructed by Power Bridge is a missing element in the "Baltic ring" energy system. It will connect power grids of Western Europe and the Baltic States, and at the same time will enhance the security of Lithuanian, Latvian and Estonian energy systems. If AB "Lietuvos Energija" supplies the planned amount of power to the consortium of Power Bridge Group, every year it will earn up to 600 million of litas".

All the expressed ideas seem to be very nice and they give a very rosy outlook of the future. To forestall the end of this story, it is necessary to say that all the business with this company ended only with this rosy outlook. The contract has never been duly finished and signed. It is possible to write a separate article on the course of negotiations and its results. Both sides were accusing each other. Finally, AB "Lietuvos Energija" presented an official communiqué to the representatives of the consortium of Power Bridge Group stating that it broke off negotiations with the consortium because the consortium was not fulfilling its engagements of the contract. It was a number of reasons of such behavior: the leaders of the consortium changed and finally the consortium fell to pieces, thus nobody could negotiate and continue the negotiations and the implementation of the project. The consortium had to find a new investor in order to continue the project. In fact, AB "Lietuvos Energija" did not have any hopes to finish negotiations successfully, and in addition to that, all deadlines stated in the conditions were also missed. The question was referred to the Government's decision. It decided to authorize the Ministry of Economy to reject all proposals presented for an international tender on the financing of the project of the connection of Lithuanian and Western European energy systems as well as to cancel the tender by its resolution of March 30, 1999. This possibility was included into the conditions of the tender and all participants were informed about its presence. The Government of the Republic of Lithuania nullified the results of the tender by the previously mentioned resolution. The Government with its resolution authorized the Ministry of Economy to prepare new conditions for an

international tender on the integration of Lithuanian power system into the systems of Western and Central European countries. Moreover, the Government stated that apart from Lithuania, Poland and Germany could also take part in the project.

Thus, 11 months had passed from the moment of the start of the negotiations with Power Bridge Group and the project was still stuck in the same place. We can not say that the time was wasted for nothing. The negotiators of AB "Lietuvos Energija" acquired the experience of negotiations, thoroughly discussed all paragraphs of the contract, got into every technical detail and etc. It an input for the future.

There was one more effort, even though also unsuccessful, to attract an investor into the project of the connection of the Lithuanian power system with the systems of Western and Central European countries. As it was previously mention, the Government of Lithuania authorized the Ministry of Economy to prepare the conditions of the new international tender and to present them for the approval of the Government. The conditions that were approved were called "The conditions of the new tender for the selection of the strategic partner for the implementation of the project of the integration of Lithuanian power system into Central and Western European power systems". The conditions stated that this tender had to select the strategic partner that would implement the new international project of the integration of Lithuanian power system into the systems of Central and Western European countries. Poland, Lithuania and Germany could take part in it. Kruonis hydroelectric power station could be involved in the project as a Lithuanian side. We may see that new aspects and a new "lure" for the attraction of the strategic partner do appear.

The conditions were sent to 16 companies that were previously contacted and in one or the other way expressed their interest in the project. However, the time period for the submitting of the proposals was also very short. The Government on the May 5, 1999 approved the conditions, and the deadline for the submission of the proposals was by the June 21, 1999.

This tender also did not take place. It was canceled one day before the opening of the envelopes with the proposals (on the 21st of June). The envelopes were not opened and were officially returned to the companies together with information about the cancellation of the tender.

The change of the Governments toll place in Lithuania. While canceling the tender, the new Minister of Economy stated that they wanted to prepare a new transparent and clear tender that would correspond to Western standards of tenders. He remarked that the conditions of the tender were not very clear.

Eventually the situation in Europe has changed too. The Directive of the EU on common regulations of the market of power came in force on the January 1, 1997. The market of the power started to function in many countries of the European Union. Three Baltic ministers responsible for the energy had signed the agreement on the cooperation in the field of energy on October 29, 1998. One of the priorities stated in agreement was the establishing of common market of the Baltic power. In addition, the strategy of the energy of the Baltic States was adopted in April of 1999, and it also gave the priority to the establishment of common power market. The situation in the field of energy was influenced by the previously mentioned factors, thus the connection of Polish-Lithuanian energy systems became the strategic objective of Lithuania. We could participate in the Western power market, provided such connection was implemented. It was a new

approach to the issue of the connection of Polish-Lithuanian energy systems. In the future common Baltic energy market has to be integrated into the markets of Western European countries according to the strategy of Baltic power. This goal could be reached only if Polish and Lithuanian power systems are connected. Therefore, it was a very logical decision to cancel the tender that actually was meant only for the export of Lithuanian power to Western European countries. In the future we have to speak about Lithuania's (together with the two other Baltic countries) participation in the market of the Baltic countries, Western European countries as well as in the markets of Scandinavian countries (via "Baltic ring").

In addition, we have to emphasize the fact that the cooperation with our Polish colleagues has been very weak during the above-mentioned period. From time to time we were just informing Polish partners about the tenders that were organized by us. In fact, any negotiations took place during that period. This fact could be regarded as one of the reasons why our tenders were so unsuccessful.

The cancellation of the tender put an end to our one-sided efforts to construct so called "bridge". It also started a new era in Polish-Lithuanian cooperation in the field of energy. A new work group was established at the Ministry of Economy, and it has reviewed a conception on the integration of Lithuanian energy system into the systems of Western European countries and prepared its new version. The Board of the Ministry of Economy considered this new project, approved it and proposed to discuss it with the Polish colleagues. A number of meetings with Polish side were carried out during that period. Finally, the Ministers of Economy of Poland and Lithuania signed a memorandum on the connection of Polish and Lithuanian power systems on the October 18, 1999. A joint work group was established following the memorandum, and started its work in November 1999. Besides, two subgroups were also established for the considering of specific issues. Polish and Lithuanian experts analyzed and discussed a number of variants of project implementation, prepared a report and an Executive Summary with the conclusions. The previously mentioned documents were discussed, harmonized and signed during the joint meeting in Warsaw on the April 27-28, 2000.

A total price of the implementation of the project is approximately 380-410 million Euros according to the calculations of the work group.

The main conclusion of the report is that the project will be profitable only if 50 percent of its total price is covered by the grant that could possibly be obtained from the EU (or other sources).

The Minister of Economy of Lithuania has presented the project together with the conclusions drawn by the joint work group to the European Commission and the European Bank for Reconstruction and Development. The further negotiations showed that it was necessary to do a feasibility study in order to obtain the assistance from the EU.

The European Bank for Reconstruction and Development promised to find funds for the preparation of the feasibility study. The European Commission assured that the project was given the priority.

The Prime-ministers of Poland and Lithuania met in Warsaw on the December 5, 2000. The question of the "bridge" was among other questions to be considered. The Prime-ministers authorized Polish-Lithuanian Economic Cooperation Commission to consider this issues in one of its meetings as well as to establish a special subgroup that would

present its conclusions on the plan of further actions for the implementation of the project to the Council of Cooperation of the Governments of Poland and Lithuania. The subgroup was established on the December 21, 2000. The members of the subgroup have met four times from its establishment. They agreed that the main decisions would be made after the feasibility study and its conclusions were carried out. The sides decided to do some things on their own, even though the feasibility study was not prepared. In fact, they agreed to consider the questions of the first stage of the constructions. The decision was made that the following things were to be carried out:

- Converter in Alytus
- Single circuit 400 kV transmission line on the double circuit line's tower Alytus-Elk
- 400/220 kV Transformer (about 360 MVA) in Elk

Furthermore, it was decided what kind of actions had to be taken in order to implement the first stage of the project by the 2003 in Lithuania and by the 2005 in Poland. The Polish side assured that the earlier dates of the implementation of the project were not realistic.

The question on the establishing a joint company was also considered. It was decided to review this question when the feasibility study was prepared.

I have already mentioned that the European Bank for Reconstruction and Development is looking for funds to finance the preparation of the feasibility study. According to the latest information the bank was allowed to use funds from Phare but the European Commission wanted to know about technical conditions for the preparation of the feasibility study. The EC is in this process, and we do hope that the procedure of the selection of the candidates that will be preparing the feasibility study will soon be started. It is expected that the study will be prepared this year.

We would like to draw the attention of the readers to the beginning of the article where the events of the first stage of the constructions of the unsigned contract are presented and to compare them with the scope of the constructions of the first stage according to the data of the latest agreements. Volume of works as well as technical indicators is almost the same. However, there is no discussion on selling-buying of power in the latest agreements that have been reached in the negotiations. The situation has changed dramatically and not for our benefit during the last four years. The principal of "it is better to have a bird in the hand than two in a bush" was not used in this case.

The article does not have an ending because the story is not finished, it is still continuing. Despite all disasters the project is slowly but surely moving forward. It is not possible to imagine that the project of such scope could be implemented very quickly. Since political and economic interests as well as the interests of various groups do clash here.

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