

LITHUANIA'S HEAT MARKET FRAMEWORK

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HEAT MARKET FRAMEWORK DEVELOPMENT TIMELINE



1990

1997

2003

2007

2010

2013

2019

2023

Now

Lithuania regains its independence from Soviet Union. This causes major challenges in energy sector as prior the regain of independence all energy sector was under control of Soviet government.

After regaining independence newly formed Lithuanian government took actions to retake control of its critical energy infrastructure, therefore:

- Ministry of energy was established
- All control of DH networks was given to state owned company “Lietuvos energija”

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Now

National control commission for energy resources prices and energy activities is established (**NERC**)

First definition of independent energy producers (third party access)

State owned company “Lietuvos energija” is reorganized and control of municipal DH networks is given back to regional companies (controlled by municipalities). In next two years regional companies are split into smaller – municipal level companies

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Now

Separate Heat law is approved, which foresees heat market establishment and competition of heat producers

Heat procurement regulation is set by Lithuanian government

Heat purchased from independent heat producers (IHP) can be purchased only if price is lower than **comparative price** (variable price component of district heating company).

Independent heat producers individually are non-regulated (tariff vise)



Beginning of IHPs regulation:

- In DH law it's determined that independent heat producers producing more than 50% of heat demand in DH system are regulated as district heating company

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DH market regulation is given to NERC:

Separate comparative prices are set per different IHP type or fuel used. With this market design potential IHPs are encouraged to enter the market

All IHPs are regulated, except in cases where NERC makes a decision not to regulate. Decisions were taken in cases if IHP regulation was not efficient (no impact to end user prices)

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DH law changes again:

- IHPs by rule are non-regulated except in cases when:
 - IHP used EU funds or other subsidies for construction / modernization of its heat production capacity
 - IHP operates CHP in which produced electricity is purchased with fixed or feed-in tariff
 - IHP produces more than 1/3 of heat demand in specific DH system
- NERC is obliged to set DH grid-code (terms and rules for using DH networks)

NERC revises DH market rules and updates comparative price calculation formula

NERC issues public allowance for DH companies to participate in the market with its own heat generation capacity (!)

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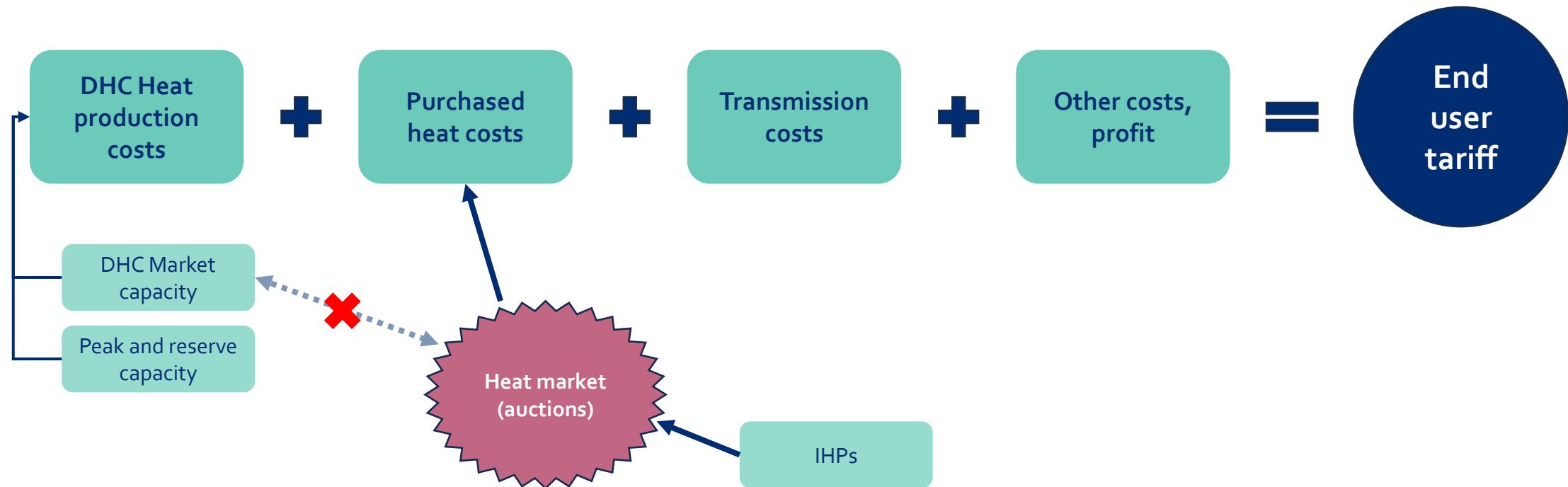
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Issue with transition from monopoly to market player role in regulated sector



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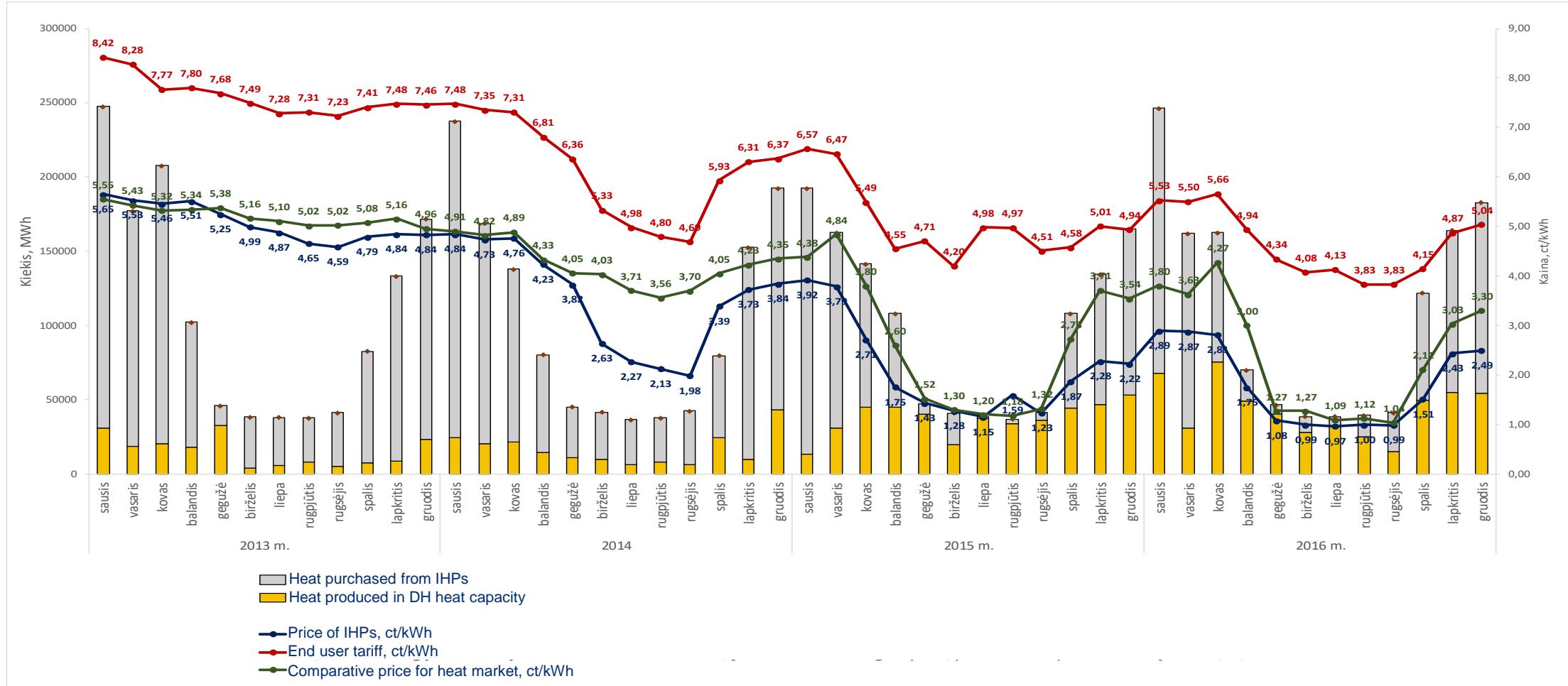
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And the problem evolved:



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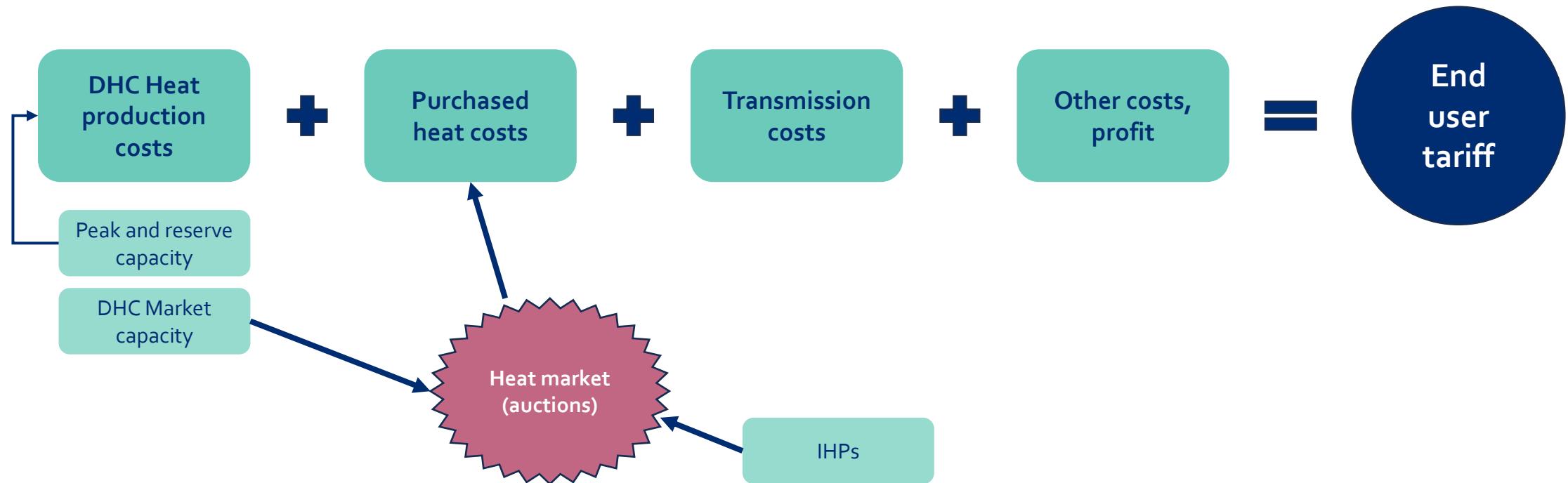
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Now

Market and regulation was redesigned focusing on creating equal rights for market participants to compete:

1. DHC market participation result was evaluated through tariff



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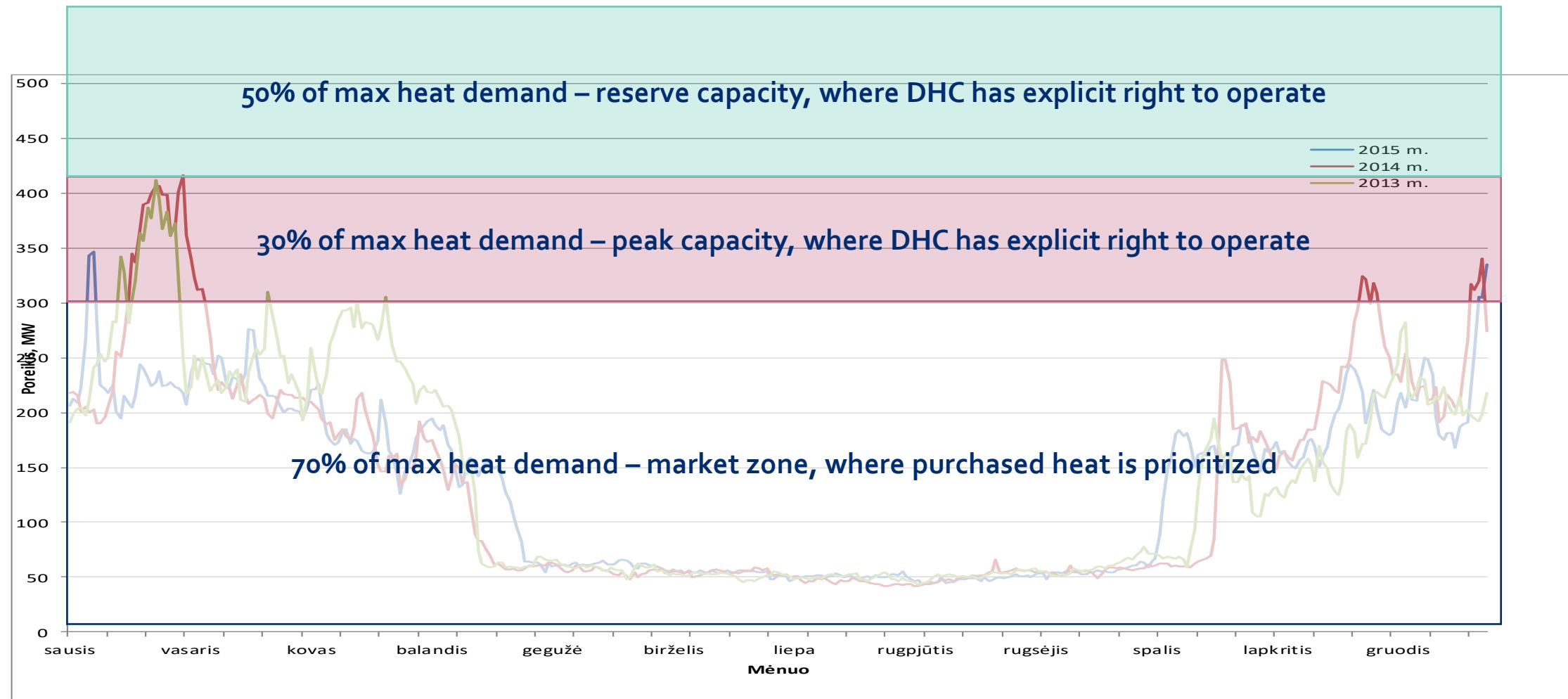
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2. Clear separation of DHC capacity which would be included in the tariff (without participating in monthly auctions)



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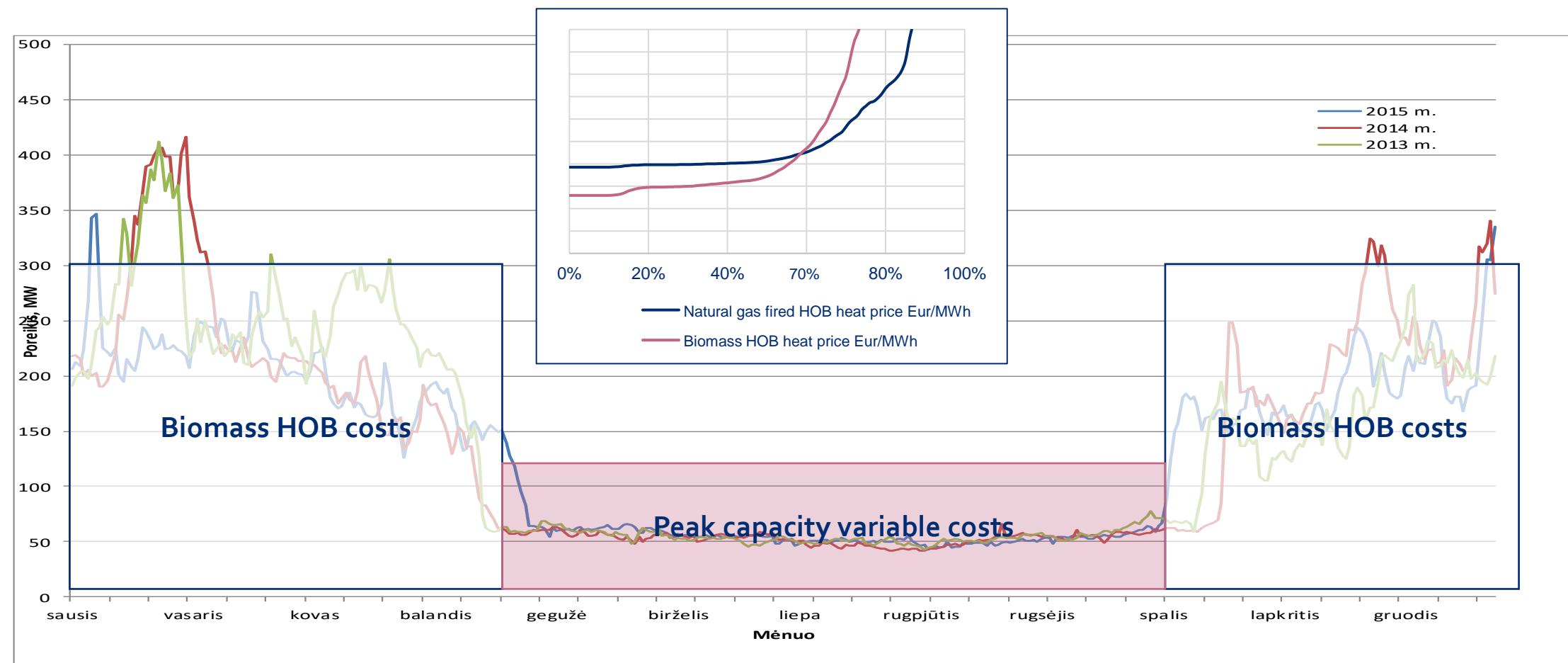
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3. Comparative price is no longer linked to DHC heat production costs



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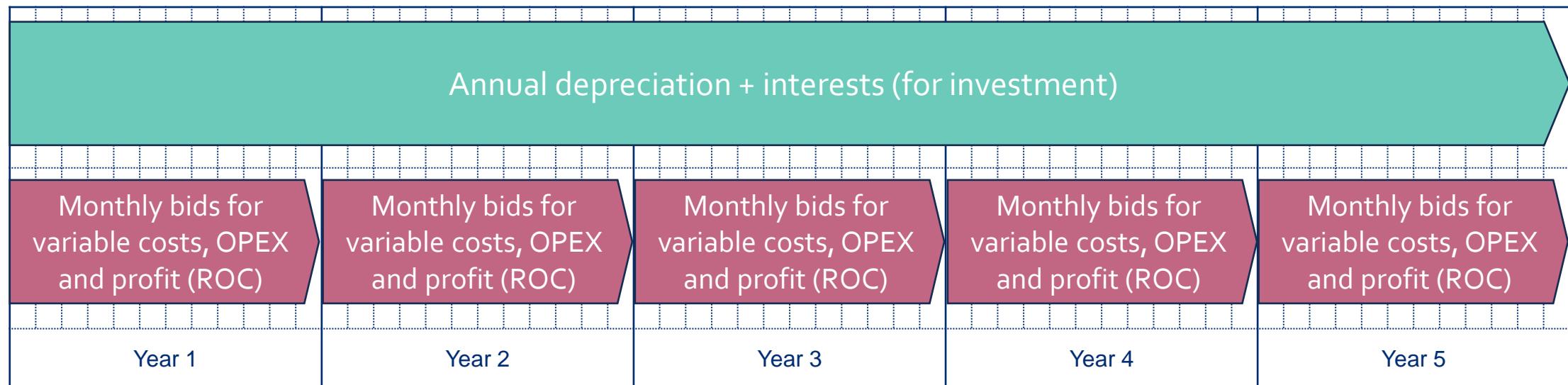
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After revision of Heat law long term capacity was introduced in DH systems with mature heat markets



If unit can't provide capacity when needed and it's obliged to - certain sanctions apply reducing incomes

Currently capacity auction mechanism is applied only in 1 DH system

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Upcoming challenges in further market development:

- Introduction of new capacity (extra mile to reach 100% heat production from RES)
- Replacement of old capacity units as current units are close to end of lifecycle and new units price differs x3 times
- Cross-sectorial integration, allowing DH sector to participate in electricity balancing market

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