

ELECTRICITY PRICES IN ESTONIA

Foreign trade and tax policies were to be brought in line with those of the Economic and Monetary Union by the time of the EU accession on 1 May 2004. Consequently, consumer prices grew significantly in May and June. Later on inflation decreased until March 2005, when electricity prices were raised as planned. In retrospect, this can be viewed as the first impulse from the prices of energy carriers, which influenced the annual price rise of the consumer basket quite substantially in 2005 and at the beginning of 2006.

The role of energy and fuel in the acceleration of inflation has concealed the fact that electricity is still cheap in Estonia. This is not only in comparison with the average prices in the European Union but also compared to the Nordic countries and even Lithuania and Latvia (see Table a). The low price of electricity has helped to restrain the price increase of other energy carriers (except motor fuel).

In the near future, electricity prices will most probably increase. This is caused by the following circumstances:

- Stricter environmental regulations, due to which Estonia will have to shut down the majority of currently operating power stations by 2015;
- Growing need for investments in the Baltic States due to electricity shortages. The demand is increasing in all three Baltic States, whereas the production capacity is declining;

- Tax reform oriented to a more environment-friendly management and the imposition of excise duties on electricity at least at the minimum level required by the European Union by 2010, which is related to the gradual opening of the electricity market.

Opening the electricity market completely in 2013 will create new market conditions. Their impact on the electricity price rise will depend on the demand-supply ratio in the Baltic States at that time.

In short-term, Estonian investments in electricity generation and distribution networks can be financed also by revenues from waste trading. For instance, in the financial year 2005-2006 Eesti Energia earned about half of its annual profit from the sales of carbon dioxide quotas.¹ In the near future, this is expected to reduce pressures to increase electricity prices.

In the long run, prices are expected to increase substantially and the issue is the extent of the price increase. The development plan of Estonian electricity management for the period of 2005–2015 completed in 2005 implies the possibility that electricity prices will increase 50–60% over the next ten years. However, this is based on some expectations of the future prices of energy carriers on the world market that may have become outdated by now.

¹ Source: The Äripäev, 25 April 2006.

Table a. Electricity prices in Estonia and neighbouring countries (euro/100 kWh)

	Annual household consumption				
	600 kWh	1,200 kWh	3,500 kWh*	7,500 kWh**	15,000 kWh
Estonia					
taxes included	8.7	7.4	7.1	6.9	6.4
taxes excluded	7.4	6.2	6.1	5.8	5.4
Lithuania					
taxes included	9.0	9.0	7.2	7.3	5.4
taxes excluded	7.6	7.6	6.1	6.2	4.5
Latvia					
taxes included	6.5	6.5	8.3	6.7	5.1
taxes excluded	5.5	5.5	7.0	5.7	4.3
Finland					
taxes included	19.3	13.6	10.4	8.7	6.7
taxes excluded	15.0	10.4	7.8	6.4	4.8
Sweden					
taxes included	28.8	19.5	13.3	12.3	11.4
taxes excluded	20.5	13.0	8.1	7.3	6.5

Source: Eurostat

* Average consumption in the Baltic States

** Average consumption in Sweden and Finland