

State aid: Commission opens in-depth investigation into Lithuanian electricity strategic reserve measure

The European Commission has opened an in-depth investigation to assess whether Lithuanian support to energy company AB Lietuvos Energija in the context of a strategic reserve measure may have unduly favoured the company and distorted competition in the Single Market, in breach of EU State aid rules.

The Commission's investigation concerns an electricity **strategic reserve** measure, which was in place in Lithuania until 2018. Strategic reserves generally keep certain generation capacities outside the electricity market for operation only in emergencies. They can be necessary to ensure security of electricity supply when electricity markets are undergoing transitions and reforms, and are meant to guard against the risk of supply interruptions during such transitions.

From 2013 to 2018 (when the scheme was discontinued), the Lithuanian Power Plant (LPP), owned by AB Lietuvos Energija, Lithuania's state-owned incumbent, was selected by the Lithuanian government to provide strategic reserve services with the intention of increasing security of electricity supply in Lithuania. LPP was paid for the provision of these services.

In 2016, the Commission received a formal complaint alleging that the measure was incompatible with EU State aid rules. The Commission has reached the preliminary conclusion that the measure constituted State aid. The Commission will now assess the aid to ensure it did not unduly distort competition within the EU's Single Market.

In order for the Commission to approve a capacity measure under EU state aid rules, the Member State must demonstrate the need for the measure, ensure that it is fit for purpose and open to all capacity providers.

At this stage, the Commission is concerned that the measure may not have been in line with EU State aid rules. The Commission's in-depth investigation will examine in particular whether:

(i) The strategic reserve was necessary to ensure security of electricity supply for the period 2015-2018, when Lithuania became significantly more interconnected with neighbouring countries;

(ii) It was appropriate and proportionate for Lithuania to assign the service directly and exclusively to LPP, without considering other potential capacity providers such as other power plants, storage or demand response;

(iii) The design of the strategic reserve distorted the formation of market prices and undermined investment by other market operators that could have

contributed to security of supply.

The Commission will now investigate further to determine whether its initial concerns are confirmed. The opening of an in-depth investigation gives Lithuania and interested third parties an opportunity to submit comments. It does not prejudge the outcome of the investigation.

Background

Strategic reserves such as the Lithuanian measure are capacity mechanisms.

The Commission carried out a [sector inquiry](#) into capacity mechanisms between April 2015 and November 2016, which [concluded](#) that strategic reserves may be appropriate interventions where Member States identify temporary risks. Strategic reserves should only be deployed in emergency situations. They should be held outside the market to minimise distortions to market functioning. Strategic reserves should be transitional measures, which accompany market reforms and are phased out as soon as the reforms take effect.

The Commission has assessed strategic reserves in two previous cases regarding Germany (SA.45852) and Belgium (SA.48648) and [approved such measures in February 2018](#).

The non-confidential version of the decision will be published in the [State aid register](#) on the [competition](#) website under the case numbers SA.44725 and SA.45193, once eventual confidentiality issues have been resolved. The [State Aid Weekly e-News](#) lists new publications of State aid decisions on the internet and in the EU Official Journal.