



REPUBLIC OF ESTONIA
COMPETITION AUTHORITY



Annual Report 2018

ESTONIAN COMPETITION AUTHORITY

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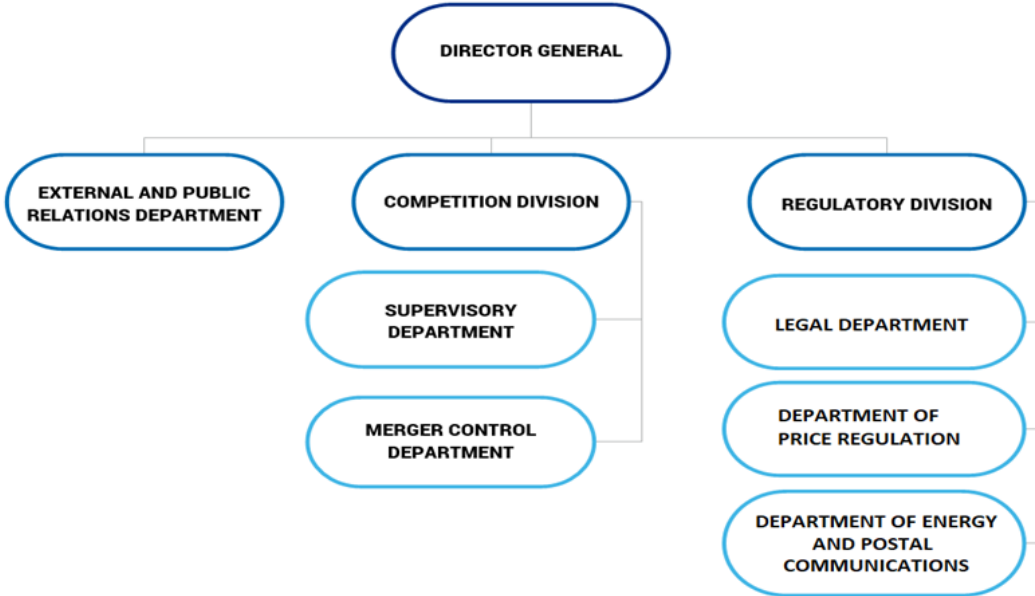
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ABOUT THE AUTHORITY

The Estonian Competition Authority exercises supervision in the fields of competition, electricity, natural gas, district heating, postal services, public water supply and sewerage and railways. In addition, the Authority settles disputes regarding airport fees. The Competition Authority is in the area of government of the Ministry of Justice.

The functions of the Authority are divided between two divisions. The Competition Division exercises competition related supervision, control of concentration in all economic sectors, analyses the competitive situation and raises competition related awareness. The Regulatory Division implements price regulation and market supervision in the markets of electricity, natural gas, district heating, water, railways and postal services. The External and Public Relations Department is responsible for ensuring effective support services of the Authority (including international and public relations, personnel work and training coordination, document management).



The Competition Authority employed 41 people as of the end of the year 2018, and 37 were civil servants and 4 were employees. The Authority employed 30% of men and 70% of women. The average age of a staff member was 45 years and the average years of service at the Authority was 12 years.

Most staff members have higher education in economics or law. In addition, there are officials with higher education in other disciplines such as power and thermal engineering, public administration, chemistry or other.

COOPERATION

The Authority considers both international as well as national cooperation highly important. The Authority routinely participates in the work of different field-based working groups, networks and organisations.

Competition agencies and sector regulators in various countries share knowledge and experience in the form of bilateral cooperation, but most of the international cooperation is achieved via respective cooperation networks and organisations.

The European Commission's Directorate General for Competition and the national competition authorities in all EU Member States cooperate with each other through the **European Competition Network**. As all the members of the network apply the European competition rules, it is necessary for the competition authorities to pool their experiences and share best practices in order to ensure the effective and consistent application of these rules.

European Competition Authorities is a forum of discussion for the competition authorities in the EU Member States, European Commission and the EFTA States to discuss competition related problems and share experiences.

OECD Competition Committee is a committee of the Organisation for Economic Cooperation and Development, focusing on competition issues in the area that includes all 35 members of the organisation.

International Competition Network is a global network with members from every region in the world ranging from small agencies to large ones with different resources and capabilities. The network is an informal venue and it is mostly addressed to maintain contacts and create convergence towards sound competition policy principles and application thereof.

Agency for the Cooperation of Energy Regulators (ACER) a European Union Agency, was created by the Third Energy Package to further progress the completion of the internal energy market both for electricity and natural gas. As an independent European structure which fosters cooperation among European energy regulators, ACER ensures that market integration and the harmonisation of regulatory frameworks are achieved within the framework of the EU's energy policy objectives.

Council of European Energy Regulators was established for the cooperation of the independent energy regulators of Europe. It seeks to facilitate the creation of a single, competitive, efficient and sustainable EU internal energy market.

Energy Regulators Regional Association is a voluntary organization comprising of 37 independent energy regulatory bodies primarily from Europe, Asia, Africa, Middle East and the United States of America. The Association's main objective is to increase exchange of information and experience among its members and to expand access to energy regulatory experience around the world.

The aim of the **OECD Network of Economic Regulators** is to share experiences and good practices in different sectors of economic regulation.

The objective of **Regional Gas Market Coordination Group** is to facilitate an effectively functioning common regional gas market in the Baltic States and Finland.

European Water Regulators (WAREG) was created in April 2014 by an initial group of 12 regulators of water supply and sewerage services in Europe. At present, WAREG is made up by 24 regulatory authorities with Member status and 3 regulatory authorities with Observer status, who share the following objectives of cooperation: to exchange and share common practices; to enhance technical and institutional cooperation among WAREG members; and to promote capacity building, stable regulation and consumer protection. In 2016 the Estonian Competition Authority hosted WAREG's working meeting in Tallinn.

Independent Regulators' Group-Rail (IRG-Rail) is the „Independent Regulators' Group – Rail”, a network currently comprising independent rail Regulatory Bodies from 30 European countries. The IRG-Rail acts as a platform for cooperation, information exchange and sharing of best practice between national railway regulators in order to face current and future regulatory challenges in railways and to promote a consistent application of the European regulatory framework.

The main task of the **European Network of Rail Regulatory Bodies** is to facilitate the active cooperation of national rail regulatory bodies and information exchange between these bodies and to assist European Commission in the preparation of delegated acts.

European Regulators Group for Postal Services serves as a body for reflection, discussion and the provision of advice to the European Commission on postal services. It also aims to facilitate consultation, coordination and cooperation between EU countries and the Commission.

European Committee of Postal Regulation examines postal regulatory affairs in a European context taking into account the changes in the borderlines between regulatory aspects and operational aspects in this domain. It also assesses the influence of international regulatory policies.

Universal Postal Union unites 192 member countries and is the primary forum for cooperation between postal sector players. It helps to ensure a truly universal network of up-to-date products and services. In this way, the organization fulfils an advisory, mediating and liaison role, and provides technical assistance where needed. It sets the rules for international mail exchanges and makes recommendations to stimulate growth in mail, parcel and financial services volumes and improve quality of service for customers.

The Estonian Competition Authority has very good relations and cooperation with colleagues from neighbouring countries. Often the undertakings are active in many neighbouring countries and authorities are facing similar challenges. Annual meetings take place with Latvian, Lithuanian and Finnish colleagues for discussing competition as well as regulatory issues.

The Authority has contributed to cooperation and foreign aid projects whenever possible in terms of human resources. Just as important as international cooperation is developing cooperation on a national level with both public sector authorities and undertakings or unions thereof.

COMPETITION SUPERVISION

The competition supervisory activities are generally divided in two major parts: solving cases related to competition restricting agreements and conducting proceedings related to the activities of undertakings in a market dominant position. For the Authority, that means conducting criminal, misdemeanour or administrative proceedings. In addition, the Authority analyses the competitive situation in different economic sectors and if necessary makes proposals to respective ministries to improve the competitive situation.

Prohibited cooperation between real estate brokerage operators

At the beginning of 2017, real estate portal kv.ee informed the real estate brokerage companies that from 1 April, the price discounts in force until that date for real estate brokerage operators with over ten agents will be abolished.

Accepting such new contract terms would have resulted in a four-fold increase in the total cost of the service for large real estate brokerage operators. This strongly annoyed a number of real estate brokerage operators, so some of them started planning activities against the kv.ee portal. The first announcements of such activities of real estate brokerage operators became public at the end of March 2017 and at the beginning of April by newspaper articles and the press releases published by the companies themselves.

Based on the data published in the media, in April 2017, the Competition Authority initiated criminal proceedings against eleven real estate brokerage operators.

In the course of the proceedings, the Competition Authority found that in February 2017, 11 companies competing in the real estate market namely OÜ Kinnisvarabüroo Uus Maa, Arco Real Estate AS, AS Ober-Hausi Kinnisvara, Pindi Kinnisvara OÜ, AS Domus Kinnisvara Vahendus OÜ, LAAM Kinnisvara OÜ, LVM Kinnisvara OÜ, CKE Kinnisvara OÜ, RE Kinnisvara AS, 1Partner Kinnisvara Tallinn OÜ and OÜ Kinnisvaraekspert, concluded an agreement distorting competition and with the collaboration of Association of Real Estate Companies of Estonia conducted coordinated activities.

According to the suspicion of the Competition Authority, competitors agreed that they would not accept the pricing conditions of the announcements to be published in the real estate portal kv.ee and the prices formed on their basis. The operators also confirmed to each other that they would stop publishing ads in the real estate portal kv.ee if AllePal OÜ does not change the price conditions and make the price of the service more favorable. As the company managing the real estate portal kv.ee stuck to the original proposal for the amendment of the terms and conditions of the contract, the above eleven real estate companies terminated the valid contracts with the real estate portal kv.ee before the new pricing conditions came into force. According to the suspicion, the chief executive of the Association of Real Estate Companies of Estonia helped to conclude the agreement primarily as an intermediary for the kv.ee portal.

Under competition law, each undertaking must decide independently how it intends to behave on the market, i.e., if the undertakings agree with each other on how they intend to operate on the market, it is an infringement of competition law. The Competition Act applies both to agreements between undertakings and to the decision of the association of undertakings. This is particularly the case where the decision of the decision affects the autonomous economic behavior of the members of the association. It is also important to emphasize that while the agreement may have other legal objectives, it does not mean that the Competition Act does not apply. Thus, the pursuit of a legitimate aim does not preclude an agreement which distorts competition.

The Competition Authority is of the opinion that the emergence of a legal problem could have been prevented if each real estate brokerage operator had independently decided on its behavior against the kv.ee real estate portal, including whether to continue the contract or terminate it and, if so, under what conditions and in what amount.

The Public Prosecutor's Office ended the proceedings with opportunism and imposed financial obligations on the undertakings. The biggest obligation was imposed to Pindi Kinnisvara OÜ (5,000 euros), the obligation imposed to other companies ranged from 650 to 4,500 euros, and one natural person opted for community service instead of financial obligation. In total, financial obligations were imposed for the amount of approximately 57 thousand euros.

The obligation offered by Gaasivõrgud AS for the implementation of single invoice

The Competition Authority conducted supervisory proceedings to verify the compliance of the activities of AS Gaasivõrgud with the Competition Act.

Eesti Energia AS filed a complaint to the Authority that the activities of AS Gaasivõrgud are in conflict with the Competition Act, as equal treatment of market participants is not guaranteed. AS Gaasivõrgud is the largest gas distribution network operator in Estonia, which has important means and dominant position within the meaning of the Competition Act. As a subsidiary of AS Eesti Gaas, AS Gaasivõrgud offered a solution to consumers where a single invoice for both the network service and the gas sold was presented. This advantage was also used as a sales argument why the consumer should choose AS Eesti Gaas as a gas seller. This created a significant competitive advantage over other non-network gas sellers who lacked the ability to submit a single invoice.

In the course of the proceedings, the Competition Authority asked, among other things, from nine gas sales companies whether they considered it important to allow the submission of a single invoice in terms of competitive conditions and consumer interests and whether they had approached AS Gaasivõrgud on this issue. The interest in providing a single invoice is primarily with those sellers who have a significant number of residential customers and who know the customer's desire to receive a single invoice for gas and network service consumption. As a rule, it was noted that such an option is important in terms of competitive conditions.

AS Gaasivõrgud provided the Authority with an indicative action plan for the provision

of a single invoice and described problems that prevented the process from being implemented faster.

In its preliminary assessment of the plan submitted by the company, the Competition Authority noted that a situation where a single invoice can be submitted by only one market participant is a distortion of competition between gas sellers and gives AS Eesti Gaas a competitive advantage. According to the Competition Act, an undertaking in a dominant position is prohibited from offering or implementing different conditions for different business partners in the case of equivalent agreements, putting some of them at a disadvantage. In order to avoid the risk of violation of the Competition Act, AS Gaasivõrgud should also create an opportunity for offering single invoice for other gas sellers as soon as possible. Otherwise, the Authority considered it possible for issuing a precept to an undertaking. The Authority asked the undertaking to submit an action plan with deadlines for the introduction of a single invoice for all gas suppliers.

AS Gaasivõrgud filed an application with the Authority to terminate the supervision proceeding with assuming an obligation. The purpose of the obligation was to develop a single invoicing technical solution and applicable standard terms and to provide a possibility of submitting a single invoice for all sellers. Pursuant to the Competition Act, an undertaking whose activities may violate §§ 4 or 16 of the Competition Act or Article 101 or 102 of the Treaty on the Functioning of the European Union, and for which the Competition Authority is considering imposing an obligation to eliminate the violation by a precept, may submit an application to the Authority for assuming the obligation.

The Authority is of the opinion that the obligation offered by AS Gaasivõrgud effectively eliminates the competition concerns referred to by the Authority in its initial assessment and precept warning. In the opinion of the Authority, it is important that the gas sellers interviewed during the procedure have not expressed a substantive opposition to the application of AS Gaasivõrgud to assume the obligation. The Authority found that the undertaking offered by the undertaking was necessary and sufficient to address the competition situation and that it was not appropriate to continue the supervision proceeding. The Competition Authority obliged AS Gaasivõrgud to comply with the proposed obligation and to inform the Authority of the obligation to complete the operational phases.

Excessively high prices for ancillary waste transport services

In previous years, the Competition Authority has repeatedly addressed the fees for ancillary waste transport services set by waste transport undertakings, which tend to be too high. The waste carrier may only charge a cost-based fee for the various ancillary services for which the consumer has no choice. Such ancillary services are different smaller services related to waste transportation, such as opening the gate, moving the container to the waste vehicle, etc. The validity of such a position specifically in terms of gate opening service has also been confirmed by the courts. As a rule, the amount of surcharges is not assessed in the waste transport competitions, which is why the waste carriers have been free to set them at their own discretion. In 2018, the Authority also closed two cases of surcharges for the transport of waste.

Price of opening the gate set by Tallinn Waste Centre

Tallinn Waste Centre carries out organized waste transport in several Tallinn areas. According to the price list of services, the fee for opening the gate, door, barrier, etc., with a key, remote control, card, short code (hereinafter gate opening service) on a monthly basis with VAT is 7.10 euros. Several consumers turned to the Authority, who estimated that the fee charged for the gate opening service established by the Tallinn Waste Centre was unreasonably high when using the basic service only once a month. Thus, if the consumer uses the service only once a month, the monthly price will even exceed the price of the basic service. Therefore, in its initial position, the Authority found that the fee charged by the operator for opening the gate can be unreasonably high if the opening operation is carried out once a month and the service user cannot order a one-off service.

The Tallinn City Government changed the price list during the proceedings (from 01.02.2018) by adding a fee for the service of opening the gate for 1-2 times to the price of the monthly gate opening service. The corresponding fee is 4.80 euros including VAT. If the consumer uses the service three or more times a month, the monthly gate opening, etc., the price will apply in the amount of 7.10 euros plus VAT. In this case, the gate opening service became less expensive for the consumer by 2.30 euros if the consumer only used the service once a month. Although the fee for opening the gate 1-2 times is higher than the equivalent fee in the price lists of other waste carriers, this results from the conditions of public procurement organized by the Tallinn City Government, where no one-off fee was provided. If the Tallinn City Government were to impose an even less expensive one-off fee, the Tallinn Waste Centre would already bear a loss on this service. On the other hand, as only the monthly fee was provided for in the public procurement conditions, it became relatively favourable, so that the monthly fee applied by the Tallinn Waste Centre is generally less expensive compared to the equivalent fee of other waste carriers.

The over price of ancillary service set by OÜ Ekovir

In the waste transport area organized by the City of Kohtla-Järve, OÜ Ekovir established the price of 1.99 euros for the ancillary services of the municipal waste collection and transportation services in the price list "Moving the container with waste shafts from the elevated site, 1 container (0.8 m³).” The Competition Authority found that moving containers from elevated space is not part of organized municipal waste transport, but is a related service. This ancillary service is not needed by anyone for anything else than for being provided with a waste transport service. In other words, it is an ancillary service enabling to provide the basic service, and it is not separable from the basic service. As OÜ Ekovir has no reasonable alternative to the service offered to the waste owners, OÜ Ekovir held a dominant position in the container handling service. The Competition Authority assessed the cost of lifting the container from the elevated platform and the time it took to lift the container from the elevated platform and concluded that the fee of moving the container established by OÜ Ekovir from the

elevated platform was unfair within the meaning of the Competition Act.

The Competition Authority dealt with this case both in the supervision proceedings, where the precept obliged the company to lower the price of the service so that it would not exceed 0.50 euros once with the transfer of the container, as well as a misdemeanour whereas the operator was punished by a fine.

Recommendation for controlling the price of waste transport

The Competition Authority sent a recommendation to local governments to ensure transparency in retroactive changing of the prices offered on the procurement of waste transportation. The recommendation relates to a practice where the actual transportation rate does not arise during the procurement, but after the conclusion of the procurement contract if the carrier submits a price increase request to the local government. Local governments should not allow price increase ex post facto unless the conditions for applying for them were unequivocally and comprehensively foreseen for the participants in the procurement.

The Authority investigated how the carriers selected as a result of the waste transport contracts organized by the local authorities have applied for price increases during the procurement period and on what basis such requests have been granted. The Authority found that in recent years price increases have spread throughout Estonia during the procurement period. This practice will pave the way for tenderers who deliberately do not show all their foreseeable costs in public procurement, but will submit them to the local government as a separate application after winning the procurement. In fact, it is not even a viable option for companies competing at the procurement to offer a realistic price if significant business risks can be mitigated once the procurement has been won by submitting a price increase request. Consequently, the competition loses its meaning. The damage is on the one hand in the rise in prices for the consumer and, on the other hand, to the elimination of competitors who did not prove to be the winner due to the higher price.

The procurement documents and the waste management rules must describe as precisely as possible what costs are manageable by the operator and which are not. The local government does not need to lightly release the company that won the procurement from its business risk. The rise in the consumer price index and wage costs over three to five years should not surprise any entrepreneur. It is known to the Authority that in recent years there has been considerable fluctuation in the cost of waste disposal. This does not mean that the local government should comply with the requests of the carrier in all such cases. The cost increases and the lack of more affordable alternatives must be demonstrated by the carrier who applies for the price increase.

CONTROL OF CONCENTRATIONS

The main purpose of the control of concentrations is to avoid creation or strengthening of dominant position of an undertaking, which may give rise to a significant impediment to effective competition. A concentration shall be subject to control by the Competition Authority if, during the previous financial year, the aggregate turnover in Estonia of the parties to the concentration exceeded 6 million euros and the aggregate turnover in Estonia of each of at least two parties to the concentration exceeded two million euros.

In 2018, the Authority conducted 52 concentration related proceedings, 45 concentration notices were submitted in 2018 and seven notices were brought over from the previous year. The Authority granted 43 permissions to concentration, in 40 cases thereof the Authority made decisions in the 30 calendar days prescribed in the Competition Act. In six cases the Authority decided to initiate supplementary proceedings and two supplementary proceedings were brought over from 2017.

Supplementary proceeding is carried out in order to ascertain whether the concentration subject to control does or does not involve anti-competitive circumstances. According to the law, the maximum length of the supplementary proceeding is four months.

During the supplementary proceedings two permissions to the concentrations were granted (AS Eesti Meedia and HTR Direct OÜ and CMS Production OÜ; Enefit Green AS and Nelja Energia AS); in one case (AS Alexela Oil and Euro Oil Aktsiaselts) the permission was granted with obligations; in one case (OÜ R-S Valdus and part of Aktsiaselts Väätsa Prügila) the concentration was prohibited; in one case the Authority ended the proceedings, because the concentration was subject to being controlled by the European Commission; in one case the Authority ended the proceedings due to the withdrawal of the concentration by the parties and in two cases the proceedings were continued in 2019.

The breakdown by types of concentration was as follows:

- An undertaking acquired control of the whole or part of the other undertaking in case of 44 concentrations (Competition Act § 19 (1) p 2);
- Undertakings jointly acquired control of the whole or a part of another undertaking in the case of 6 concentrations (Competition Act § 19 (1) p 3);
- Undertakings merged within the meaning of the Commercial Code in one case (Competition Act § 19 (1) p 1);
- A natural person already controlling at least one undertaking acquired control of the whole or a part of another undertaking, or of several undertakings or parts thereof in one case (Competition Act § 19 (1) p 4).

The Authority conducted proceedings in the following sectors:

- Road maintenance
- Commercial property
- Production and sale of concrete elements
- Sale and logging of forest
- Production of metal construction
- Wholesale and retail sales of motor vehicles
- Pharmacies
- Publishing of magazines
- Sea container terminals
- Extraction and sale of aggregates (limestone, gravel, sand)
- Insurance services
- Activities of travel agencies and tour operators
- Retail of motor fuels
- Online sales of electronics
- Sale and production of energy
- Services of advertising agency
- Waste handling
- Parking services
- Catering services
- Port services
- Distribution of radio advertising
- Marketing communications and advertising brokerage
- Operation of TV-channels
- Sale of wood-aluminium windows
- Transport services (rail transport, road transport, river transport)
- Wholesale of alcoholic beverages
- Healthcare, hospitals
- Demolition work
- Retail business and wholesale trade
- Dental services
- E-commerce.

The majority of concentrations (39) took place between Estonian undertakings and in the case of three concentrations both parties were foreign undertakings. In ten cases, the concentration involved both undertakings registered abroad and undertakings registered in Estonia.

Prohibition of concentration of OÜ R-S Valdus and Aktsiaselts Väätsa Prügila

On 21 September 2018, the Competition Authority prohibited the concentration in the waste management sector. With this transaction, OÜ R-S Valdus, a subsidiary of Ragn-Sells AS, intended to acquire the Väätsa landfill.

The concentration procedure revealed that the concentration would affect in particular two vertically-related waste management services: (i) municipal waste collection and transport; and (ii) final disposal of mixed municipal waste at landfills. The Competition

Authority has established that the principle of proximity applies to the transport of mixed municipal waste to landfills, i.e., mixed municipal waste is primarily transported to the nearest landfill. Therefore, all landfills do not compete with each other for receiving municipal waste from different regions of Estonia. It was also found that there is no competitive pressure between the waste incineration unit of Iru Power Plant, which burns a significant proportion of mixed municipal waste collected in Estonia, and the landfills. As a result of these conclusions, the Competition Authority defined the geographical scope of the final disposal of mixed municipal waste in landfills more narrowly than the entire territory of Estonia. Considering the impact area of the Väätsa landfill, the Competition Authority assessed the impact of the concentration in the Central and Southern Estonia region. In this area, Ragn-Sells has only one competitor in the region on collecting and transporting municipal waste - Eesti Keskkonnateenused AS. At the final disposal of mixed municipal waste at the Väätsa landfill, there is also only one main competitor - Paikre landfill. In a situation with such concentrated market structures, the Competition Authority estimates that the concentration would distort competition in both product markets. Concentration of vertically-related municipal waste management services to one company would give it significant advantages over the few competitors and, according to the Competition Authority, would distort competition.

Ragn-Sells made proposals for assuming obligation for avoiding distortion of competition resulting from the concentration. The proposed obligations included the application of public and uniformly applicable price list for receiving mixed municipal waste at the Väätsa landfill or, alternatively, receiving mixed municipal waste at the Väätsa landfill through procurement procedures. In assessing the proposed commitments, the Competition Authority took the position that, regardless of how the conditions for receiving mixed municipal waste at the Väätsa landfill would be changed, as a result of the Ragn-Sell would have the motivation and incentive to favor itself as a vertically integrated undertaking. Therefore, the obligations proposed do not prevent the competitive pressure resulting from the concentration.

- The concentration decision has been appealed to the Tallinn Administrative Court.

Completion of the proceedings of Eesti Keskkonnateenused AS and Tallinna Kommunaalteenused OÜ

On 26 October 2018, the Competition Authority made a decision to terminate the concentration proceedings for companies providing street cleaning services in Tallinn. With this transaction, Eesti Keskkonnateenused AS intended to acquire the business of street cleaning services of the private limited company N&V Tallinn.

Street cleaning services are provided only in major cities, and the service provider is selected through procurement. When analyzing the market, the Competition Authority found that most of the companies providing street cleaning services in Estonia operate only locally in one city. Similarly, the successful tenderers in the repeated procurements in the same region have been successful tenderers of the previous procurements. Therefore, the Competition Authority assessed that the geographic scope of the provision of street cleaning services is local rather than nationwide and often city-based.

As a result of the concentration, Eesti Keskkonnateenused AS would have achieved a 70% - 80% share of Tallinn street cleaning areas and 60% -70% share of annual street cleaning costs in Tallinn. It would have been a second successive concentration with which Eesti Keskkonnateenused AS intended to acquire its direct competitor in Tallinn, which has proved to be a more successful tenderer in both of the tenders where both have participated. The previous concentration was the acquisition of OÜ Jaakson Linnahoidus, for which Eesti Keskkonnateenused AS was authorized by the Competition Authority on 23.09.2016. As a result of the acquisition of Tallinna Kommunaalteenused OÜ, only one company would have remained competing with Eesti Keskkonnateenused AS. Therefore, the product market structure would have become significantly less competitive. Leaving the market by one of the major participants in the Tallinn street cleaning services procurement would have significantly reduced the power of Tallinn Municipal Service Department as the major organizer of procurements and the largest buyer of services, as the selection of service providers in many procurements would have decreased from three to two. In addition, the analysis of participation in previous tenders and the responses of other companies offering street cleaning services revealed that the potential competition pressure for the provision of street cleaning services in Tallinn is weak. The Competition Authority estimates that the concentration would have significantly damaged competition in the provision of street cleaning services in Tallinn.

In order to prevent distortion of competition arising from the concentration, Eesti Keskkonnateenused AS submitted various behavioral obligations that the Competition Authority did not consider appropriate. Subsequently, Eesti Keskkonnateenused AS filed an application for the withdrawal of the concentration notice informing them that the parties to the concentration had decided to withdraw the concentration.

The concentration of Enefit Green AS and Nelja Energia AS

In November 2018, the Competition Authority granted permission to the concentration of Enefit Green AS, a subsidiary of Eesti Energia Aktsiaselts, and Nelja Energia AS. Eesti Energia Aktsiaselts is a vertically integrated company owned by the state and active in several fields of activity. In addition to the generation, wholesale and retail of electricity, the company's activities include, among others, mining, processing, and transport of oil shale, management of a distribution network, balance provider services, and electrical discharge services. Nelja Energia AS is engaged in the production of electricity from renewable energy sources (wind, biogas).

The Competition Authority received objections to the concentration from several companies. The main objections concerned the definition of the product market. For example, it was claimed that electricity produced from renewable energy sources constitutes a separate product market and that the geographic scope of the product market is limited to Estonia. It was also pointed out that prior to the concentration, Eesti Energia Aktsiaselts already holds a dominant position in the generation and wholesale of electricity. Objections were also raised concerning the impact of the concentration on other product markets (in particular on the product market for maintenance and repair of wind generators) and on a number of issues not directly related to the concentration.

There was a horizontal overlap between the business activities of the parties to the concentration in the market for the generation and sale of electricity. Similarly to the practice of the European Commission, the Competition Authority did not distinguish between electricity produced from renewable energy sources and other energy sources. Electricity is a homogeneous product. For example, in terms of use, the electricity produced from renewable energy sources does not differ from electricity produced from oil shale. Electricity wholesale in Scandinavia and the Baltics is generally carried out through the Nord Pool power exchange. In Estonia, Eesti Energia Aktsiaselts sells all the produced electricity through the Nord Pool power exchange, except for marginal quantities for direct line customers, and Eesti Energia Aktsiaselts buys electricity from the stock exchange for other group activities. Approximately 95% of all electricity produced in Estonia is sold through Nord Pool, while smaller manufacturers sell directly to the electricity retailer (mostly the same group company). The wholesale of electricity takes place in a similar manner in the Nordic and Baltic countries.

The vast majority of electricity (over 99%) is sold on a day-ahead market. The object of the deal is the obligation to deliver to the buyer a certain amount of electricity at a certain hour of the next day. Market participants submit offers to the market for the purchase or sale of electricity at a certain price, and the price of electricity on the market is determined by the supply/demand ratio. Electricity producers offer electricity for sale in the price area where their production capacity is located. Eesti Energia Aktsiaselts sells the production of its Estonian power plants in the Estonian price area

of the Nord Pool power exchange. As a market manager, Nord Pool has a responsibility to ensure that market prices in the different price areas are as uniform as possible. EUPHEMIA (Pan-European Hybrid Electricity Market Integration Algorithm) is the mathematical algorithm applied to in the entire Scandinavian and Baltic electricity market to ensure a more efficient distribution of electricity in the system, taking into account system constraints (transmission capacity, system losses, etc.) and offers made in different price areas for the purchase and sale of electricity. When solving the optimization task, trans-national commercial flows in transmission cables, and prices in each region are revealed every hour. As a result of the optimization activity, generally, uniform prices are created in the price areas with sufficient transmission capacity. The prerequisite for uniformization in the optimization of prices is the existence of transmission cables between price areas. Connection cables allow commercial transmission of electricity from one price area to another. Connection cables are generally operated by transmission network operators (Elering AS in Estonia and Fingrid Oyj in Finland).

When assessing the concentration, the Competition Authority needed to determine whether the acquisition of control by Eesti Energia Aktsiaselts over Nelja Energia AS alters the structure of the product markets in such a way as to cause significant harm to competition. Thus, it was first necessary to define which product markets were affected by the concentration and then to assess the competitive situation and its change in those product markets. In the case of this concentration, the Competition Authority defined the market for the generation and wholesale of electricity with the geographic scope covering Estonia and Finland, the product market for the retail sale of electricity in Estonia and the product market of supply of wind turbine repair and maintenance services (the exact geographic scope of the market was left open in this case).

Concerning the generation and wholesale of electricity, the following arguments supported the definition of the geographic market covering Estonia and Finland:

- Operation of Nord Pool power exchange and principles of price formation (price optimization through an algorithm).
- In 2017, prices were identical in 98% of hours, and there was a very strong correlation between Estonian and Finnish prices (correlation 0.99).
- There has been little congestion between Estonia and Finland.
- The analysis of the security of supply of the system operator covers a wider area than Estonia - Elering AS takes into account the regional level in its analysis of the security of supply.

The Competition Authority concluded that the concentration would increase the concentration of production assets necessary for the generation of electricity on Estonian territory, but in the conditions of the Nord Pool power exchange, the producers of electricity holding production assets in Finland will compete with the parties to the concentration. In addition, the Nord Pool power exchange system operates in a way that also other electricity producers in the Baltic States exert competitive pressure. As a result of the optimizing activities of Nord Pool AS, as a market operator, generally uniform prices are created in price areas with sufficient transmission capacity. The prerequisite for uniformization in the optimization of prices is the existence of transmission cables between price areas. In Estonia and Finland, electricity prices in 2018 were identical in 98% of hours, which indicates the integration of two price areas. In 2017, the market share of Eesti Energia Aktsiaselts and Nelja Energia AS in the product market was 14%. In the Nordic and Baltic countries as a whole, the parties to the concentration account for about 2.5% of the generation and wholesale of electricity. Considering the principles of operation of the Nord Pool power exchange, the position of Eesti Energia Aktsiaselts in the market for the generation and wholesale of electricity and the dependence of wind energy production on the weather conditions, the Competition Authority had no reason to conclude that Eesti Energia Aktsiaselts would be able to influence electricity prices significantly and independently of other electricity producers.

The Competition Authority estimates that this concentration will not reduce the opportunities for electricity retailers to buy electricity, as wholesale of electricity takes place through the Nord Pool power exchange. Of the parties to the concentration, only Eesti Energia Aktsiaselts is engaged in the retail sale of electricity.

The objections to the concentration also concerned the possible distortion of competition in the market for the provision of maintenance and repair services for wind turbines. These services are provided by Empower 4Wind OÜ, an operator under the joint control of Nelja Energia AS and Empower Aktsiaselts. The fact that, following the concentration, Empower 4Wind OÜ is therefore subject to joint control by Eesti Energia Aktsiaselts and Empower Aktsiaselts does not, according to the Competition Authority, significantly distort competition in the provision of maintenance and repair services for wind turbines. Eesti Energia Aktsiaselts has to carry out public procurement for the purchase of wind turbine maintenance and repair services, and after the concentration, the obligation to purchase services will extend to the wind turbines operated by Nelja Energia AS prior to the concentration.

ANALYSIS OF THE ELECTRICITY RETAIL MARKET

From 1 January 2013, the electricity market is 100% open to all consumers. This means that all consumers with a valid network contract can choose a suitable electricity supplier and price package. The Competition Authority analysed the developments in the electricity retail market within five years after its opening. The main focus was on the electricity suppliers operating in Estonia, the change in the number of sellers after the opening of the market, and the level of activity of consumers. In addition, a study was carried out on the awareness of the Estonian population about the openness of the electricity market and on how the opening of the market has affected people's behaviour, attitudes, and choices about electricity suppliers.

Due to the opening of the market, the competition has increased with the addition of new electricity suppliers. Therefore, consumers also have more opportunities to choose the most suitable seller and price package. In 2012, that is, just before the market opened, Eesti Energia AS owned 87% of the market. By 2017, the market share of Eesti Energia AS had decreased by 27.5% compared to 2012.

The analysis of fixed and stock price packages of electricity in the comparison portal showed the prices of the packages with fixed monthly prices seem to have lowered, but nevertheless, these packages are not the most advantageous in terms of monthly average prices compared to other packages.

With a stock exchange price-based package, the customer can benefit from the discount periods of electricity exchange market, but at the same time be prepared for more expensive price periods. In such packages, the price of electricity depends entirely on the price of electricity on the stock market, which is constantly changing. It can be inferred from the size of the stock market margin of electricity sellers that they are rather low, indicating that the market is functioning, and consumers have a choice. According to historical electricity market prices, packages with stock market prices have become more advantageous than fixed price packages.

The switching process of the electricity supplier has been smooth for Estonian consumers. 82% of those who have changed the electricity supplier or package, characterized the switching process positively, as showed by the monitoring survey.

Of all the residents who opted for or changed the electricity supplier after opening the market, 64% of the respondents named the price as at least one cause. The main reason for not switching is that the current service is convenient and good. Nearly half of the Estonian population (52%) believe that the information available on the electricity suppliers in the electricity market and on the price of electricity packages offered by them is sufficient. 20% consider the information to be inadequate, and 28% cannot assess it.

Awareness of the openness of the electricity market, according to the survey, is very high: 90% of the population is aware of the openness of the electricity market, while 9% of the population has declared to have probably heard of it.

A person who has entered into a network contract can view their consumption data and contracts through a data exchange platform managed by Elering. In the same place, it is possible to give electricity suppliers the power of attorney to view their consumption data, which will allow electricity suppliers to make personal price offers. In addition, there are reference portals in the market for electricity prices that help consumers to compare different offers.

DEVELOPMENTS IN THE NATURAL GAS MARKET

The most important milestones for the 2018 gas market are:

- study "Creation of a price model of the natural gas entry-exit system for the single gas market of the Baltic States and Finland";
- Protocol for the Common Intentions of Regulators of Estonia, Latvia, and Finland for the creation of FinEstLat gas market area;
- regional and national gas risk assessment;
- preparation of pricing methodology of the gas transmission system
- creation of a price model for the natural gas entry-exit system for the single gas market of the Baltic states and Finland.

The development and implementation of a single Baltic and Finnish regional gas market is managed by a regional gas market coordination group, which includes national ministries, regulators, and system operators.

In 2017, an international procurement for finding a consultant who would conduct a study "Creating a Natural Gas Entry-Exit Price Model for the Single Gas Market of the Baltic States and Finland" was carried out in co-operation between Baltic and Finnish regulators. The procurement was financed in equal parts by Baltic and Finnish regulators. The main contractor was the Finnish regulator, and the winner of the contract was Baringa Partners LLP (UK). The work was completed in 2018.

The work was divided into two parts. In the first phase, the consultant compared the postage stamp starting price method, the power-weighted distance starting price method, and the matrix starting price method and made a recommendation for selecting the final method for the region. Based on the data, the regulators selected the most appropriate method for the region - the postage stamp method. In the second phase, the consultant drew up a regional pricing model with computational tools in MS Excel. In addition, the consultant drew up a reference model of postage stamp starting price method with the power-weighted distance starting price method according to the Commission Regulation (EU) 2017/460, and a tool for defining the ratios of network users.

In terms of practical aspects, the postage stamp starting price method is the simplest and most understandable, requires the least amount of data and has constant tariffs at different Entry-Exit points. The study showed that the postage stamp starting price method provides the best social welfare because, in case of equal input prices, the cheapest gas offered is always on the market. At the same time, a single exit price would result in a very large movement of cash flows between system operators, which significantly increases the risk for system operators and reduces their willingness to participate in such market organization.

The Baltic and Finnish regulators agreed on a compromise on **a single gas market area** that follows the requirements of Commission Regulation (EU) 2017/460 and means the following market organization:

- each country is treated as a separate entry-exit system, and for each country, entry-exit prices are calculated by the regulator using a separate postage stamp starting price method;
- the input prices in the market area are harmonized by the adjustment based on the average entry price of the Member States of the European Union on the basis of the benchmarking, with the margin of error;
- the interconnection points between the gas systems of countries in the market area for the calculation of starting prices will be abolished (no tariffs are applied), including interconnection points of the Inčukalns underground gas storage (LV);
- cash flows between system operators are minimized by exit prices of different countries.

Protocol for the Common Intentions of Regulators of Estonia, Latvia, and Finland for the creation of the FinEstLat gas market area.

Further development of the single market area of the Baltic States and Finland led to disagreements with the Lithuanian system operator Amber Grid AB. The source of disagreement was the wish of Lithuania to receive compensation from other parties for investments made and being made in Lithuanian gas infrastructure.

In order to proceed with the process, Finland, Estonia, and Latvia decided to continue with the creation of a common market (FinEstLat market area), which would be launched in 2020. In support of this, the regulators of Estonia, Finland, and Latvia signed on 14.11.2018 the protocol of joint intentions to create FinEstLat gas market area.

The key words of the joint intent protocol are:

- The single FinEstLat market area will be launched on 01.01.2020;
- until 2022, the FinEstLat market area consists of two balance zones (Finland and Estonia-Latvia balance zones);
- In 2022, Finland will join the Estonian-Latvian balance zone, and a common entry-exit area will be created;
- there are no tariffs at the cross-border connection points of the market area;
- the market price in all input points equals 142.77 €/MWh/day;
- each country has a different exit price that is set according to national regulations.

At the same time, negotiations with the Lithuanian system operator and regulator for Lithuania joining the Baltic and Finnish market area will continue.

Regional and national gas risk assessment

In connection with the entry into force of Regulation (EU), 2017/1938 of the European Parliament and of the Council, a new regional and national gas security risk assessment had to be prepared. According to the regulation, Estonia, Latvia, Lithuania, and Finland belong to the Northeast region risk group. In addition, Estonia, together with Latvia and Lithuania, also belonged to the Belarus risk group. Regional risk assessments mainly concerned the impact of the risk realized in one country on neighbouring countries.

The Belarus risk group was led by the Polish Ministry of Energy. As Estonia does not have gas supplies through Belarus, the impact of potential risks is very limited.

The regional risk assessment was led by the Lithuanian Ministry of Energy. Representatives of ministries, regulators and system operators from Lithuania, Latvia, Estonia, and Finland participated in the process. The regional risk assessment was based on the study "Joint Risk Assessment of Estonia, Finland, Latvia and Lithuania" compiled by the Joint Research Centre.

In accordance with the Regulation, the Authority prepared a risk analysis of the national security of gas supply and submitted it to the Ministry of Economic Affairs and Communications for approval. On the basis of risk analyses, the Competition Authority prepared a preventive action plan for reducing the risks affecting the security of gas supply and the plan for managing the supply disruption, which was submitted to the Ministry of Economic Affairs and Communications for adoption.

Preparation of pricing methodology of the gas transmission system

Estonia will have to apply the European Commission's directly applicable gas regulations by the end of 2020 at the latest (waiver of the exemption).

Therefore, the European Commission Regulation (EU) 2017/460 establishing a network code on harmonized transmission tariff structures for gas must also be complied with. The regulation has been drafted on the principle that network users should understand the basis of which costs transfer charges will be formed and that they could be reasonably predicted.

In addition, Estonia participates in FinEstLat market area. Therefore, the Authority prepared a **new transmission system price methodology**, with the following basic principles:

- According to Regulation 2017/460, the price cap regime will be applied in Estonia;
- In Estonia, a separate postage stamp starting price methodology is applied to the calculation of transfer prices;

- the entry prices will be in the market area are harmonized with the neighbouring countries by the adjustment based on the average entry price of the Member States of the European Union on the basis of the benchmarking, with the margin of error;
- interconnection points between countries of the market area in the calculation of starting prices will be abolished;
- anticipated system operator compensations (ITC) are minimized through the exit tariffs of each participating country;
- the methodology can be used for transfer prices starting that enter into force on 01.01.2020.

Approval of the methodology and the application tables was preceded by consultations, in which market participants were able to submit their opinions and suggestions.

WATER SERVICE DISPUTE WITH AS TALLINNA VESI

Pursuant to the Public Water Supply and Sewerage Act, the Competition Authority shall coordinate the price of water services for water companies operating in the larger areas.

In March 2018, AS Tallinna Vesi submitted an application for approval of the price of water service in Tallinn and Saue. The obligation to submit a tariff application to the Competition Authority pursuant to the Public Water Supply and Sewerage Act is based on the decision of the Supreme Court of 12 December 2017. The court found that the Competition Authority does not have to comply with the agreement on water service prices provided for in the service contract between the water company and the city of Tallinn and AS Tallinna Vesi must comply with the precept of the Competition Authority to submit a new tariff application.

In December 2018, the Competition Authority failed to approve the price application of AS Tallinna Vesi. The Authority did not agree with the costs incurred in calculating the price of water service provided by the company. According to the Authority, the price of water service of Tallinn and Saue had been calculated with an estimation of an excess cost of nearly EUR 10 million. According to the Public Water Supply and Sewerage Act, there is no justification for including the price of water service an excessively predicted pollution charge and an extraordinary depreciation component that is not based on the capital invested by the company. Consequently, the Competition Authority did not approve the prices of water and wastewater drainage and treatment service requested by the company. According to the price request, AS Tallinna Vesi applied for a sale revenue of EUR 44.5 million euros to be earned with the price of water services. The Estonian Competition Authority estimated the reasonable sales revenue to be EUR 34.5 million at the price applied for consumers.

The Authority approved the prices of additional services related to the monopoly service contained in the price application, for which there was no conflict with the law.

The Competition Authority concluded that sales revenue earned with both the prices of water services provided by the company for coordination and the prices of water services currently used is unreasonably high and does not conform to the pricing principles of the Public Water Supply and Sewerage Act. In the price application, the company had predicted excess pollution charge and extraordinary expenses with the extraordinary depreciation component into the price of the water service, which the Competition Authority could not assess as being in conformity with the law. The Authority estimates reasonable sales revenue being EUR 35 million. Taking into account that with the current water service prices, AS Tallinna Vesi will earn an even higher sales revenue (EUR 46 million) than requested in the price application, (EUR 45 million), the total price of water and sewerage services to the consumer should be 25% lower than the current price.

The Authority found that based on current prices, the weighted average price for water and sanitation would be 2.31 €/m³. A reasonable price can be considered 1.74 €/m³. Consequently, current prices are by 0.57 €/m³ higher than the reasonable price level.

On December 6, the Estonian Competition Authority issued a precept warning to AS Tallinna Vesi about the fact that the sales revenue from the water service prices applied and, therefore, the prices for water and wastewater services are not in accordance with the Public Water Supply and Sewerage Act. The Authority will then decide on issuing a precept to AS Tallinna Vesi. In the event of non-compliance with the precept, the Competition Authority has the right to start the determination of the temporary price of a water service, which would be valid until the approval of the prices compliant with the law.

RESULTS OF PRICE REGULATION

To obtain an overview of the results of long-term price regulation, the Competition Authority analysed the capital productivity of companies subject to the regulation, their price dynamics, the quality of the service for the consumer and, in the context of these results, also the efficiency of energy use.

In assessing the real capital gains of undertakings, the figures in the annual accounts were used and the capital productivity ratios were calculated on the basis of operating profit divided by invested capital. The data received were compared with the weighted average cost of capital (WACC) allowed by the Competition Authority, as shown in the following figure.

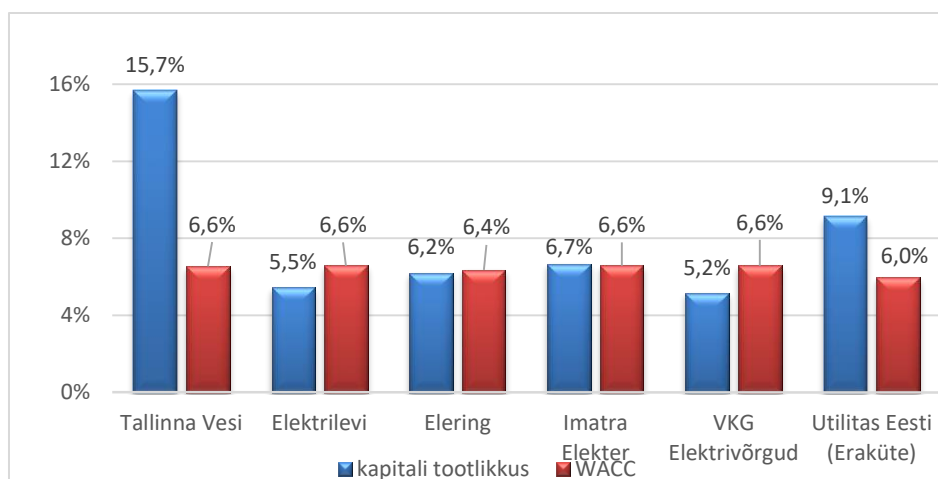


Figure 2. The arithmetic averages of entrepreneurial capital productivity and WACC for the period 2005-2017 (excluding Utilitas Eesti AS ¹)

The figures show that during the 13-year period, the average capital productivity indicator of electricity distribution network operators (excluding Imatra Elekter AS) has remained below the level provided by the regulators. The average capital productivity indicator of transmission system operator Elering AS is 6.2%, while the WACC allowed by the regulator has been 6.4%. The average capital productivity indicator of the largest electricity distribution network operator Elektrilevi OÜ is 5.5%, while the allowed WACC has been 6.6%. Similarly, the indicator of the distribution network operator VKG Elektrivõrgud OÜ has remained below the allowed indicator. However, the distribution network operator Imatra Elekter AS and the heating company Utilitas Eesti AS have

¹ The data of Utilitas Eesti AS since 2014, the average of the district heating sector was calculated as the average of the WACC period indicators of 2014-2017

been allowed to exceed WACC by 0.1 and 3.1 percentage points respectively.

AS Tallinna Vesi clearly exceeds the return on capital of other monopoly companies, as its average return 15.7% on capital over the 13-year period significantly, by 9.1 percentage points, exceeds WACC allowed by the regulator² as well as the indicators of other companies.

An important indicator for the consumer is the energy efficiency indicator as it has a significant impact on the price formation of services. The smaller the energy losses, the lower the price of the service sold to the consumer. Also, the direction of reducing energy losses also shows the efficiency of the regulator's work, because one of the most important tasks of the regulator is to direct entrepreneurs to more efficient operations.

If 18 years ago, the loss of electricity distribution networks was about 20%, today a technical minimum has been reached, the further development of which would require a change in the network configuration. However, the latter is both technically and economically impractical. The dynamics of the relative electrical loss of distribution networks is reflected in the figure below

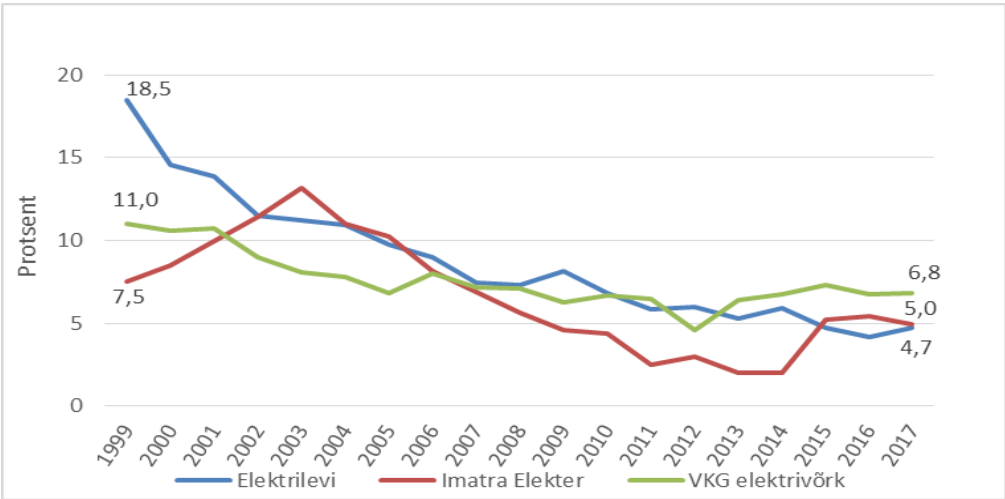


Figure 3. Relative losses of power distribution networks

There has also been a similar success in terms of heat loss. If 18 years ago, the heat loss of 25-30% was considered normal; today the acceptable heat loss is no more than 15%. Although 10% of loss can technically be achieved in the heat network, it would require the replacement of the entire existing heat network in many network areas, which is not economically feasible. Thus, it can be argued that the goal of price regulation taken ten years ago - to achieve a maximum of 15% loss by 2017 for most network areas - is fully achievable and has already been achieved in most major networks.

² Since November 2010, major water companies are under the control of the Competition Authority, there is no WACC indicator on them for the precious year which is why the arithmetic average of the 8-year period (2010-2017) has been used as a basis for comparison.

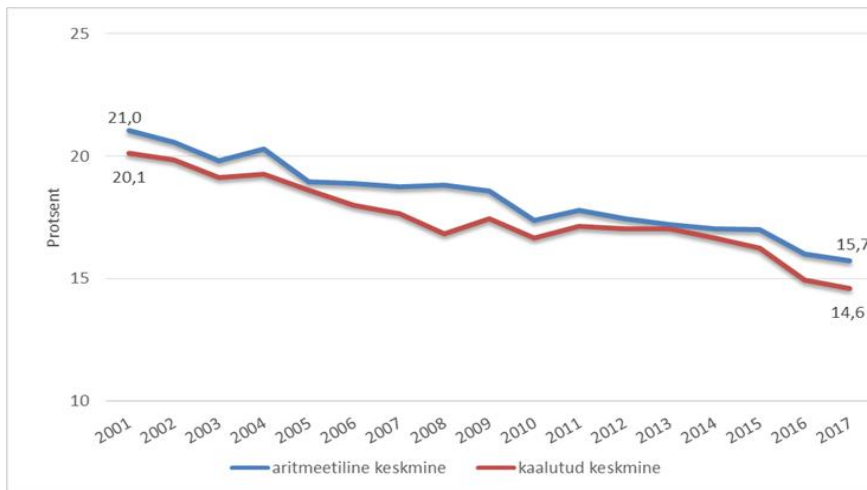


Figure 4. Relative heat losses of heating operators

In conclusion, price regulation can be deemed a success. One of the main objectives of the regulation, to ensure price stability for consumers and to avoid excessive profits for monopolistic operators, has broadly been met. Most progress has been achieved in the field of energy saving. Both electricity losses and losses in district heating networks have decreased significantly during the period under review.

SYNCHRONISATION OF ELECTRICITY SYSTEMS

The Baltic States electricity system is currently operating in sync with the Russian-Belarus combined electricity system. Desynchronization of the Baltic electricity network from these systems and synchronization with the European mainland network is a strategic objective of the European Union energy policy. Synchronization with the European energy system will ensure the better long-term security of supply of electricity for Estonia and reduce our dependence on third countries.

The synchronization of the Lithuanian, Latvian, and Estonian electricity systems with the Central European Network (CEN) is aimed at developing infrastructure to deepen market integration. The synchronization project consists of a number of investment objects that include internal reinforcements in the Baltic transmission system and management system updates required for synchronization. Considering the complexity of the synchronization project and the dependence of the project implementation on the conditions of the Central European Member States and third countries, the necessary investments for the synchronization project are divided into three stages:

Stage 1 The strengthening of the Baltic transmission network, which is necessary regardless of the selected synchronization scenario;

Stage 2 Investment units prepared by the Baltic and Polish TSOs related to dynamic and frequency stability studies and investment units resulting from the expected policy decision of the preferred synchronization scenario from mid-2018;

Stage 3 - Investment objects identified at later stages of the process.

In Estonia, four major investment projects are needed for synchronization, all of which are included in the first phase of the synchronization project - reconstruction of 330 kV lines from Estonia to Latvia and investments to upgrade the management system and installation of the necessary voltage control and compensation equipment. The Tsirguliina-Valmiera connection has already been reconstructed in the territory of Estonia and has to be reconstructed on the territory of Latvia to achieve the necessary transmission capacity. Depending on the alternative final decision to synchronize, additional investments may be needed, and these investments will be covered in the second phase of the project.

Regulation (EU), No 347/2013 of the European Parliament and of the Council (Regulation No 347/2013), No 347/2013 of the European Parliament and of the Council (Regulation No 347/2013) has, since spring 2013, including an obligation for the Competition Authority to provide an assessment of investment projects of common interest and to distribute cross-border costs in cooperation with regulators in neighbouring countries.

Article 12 of the Regulation stipulates that as soon as a project of common interest is sufficiently mature, project promoters shall submit an application for investment, after having consulted the transmission system operators of the Member States and the TSOs to which the project has a significant positive net effect. This investment application shall include a request for the transnational distribution of costs and shall be submitted to all relevant national regulatory authorities together with:

- a) **cost-benefit analysis of the project** consistent with the methodology, taking into account the benefits outside the Member State concerned,
- b) **business plan**, where the financial viability of the project is assessed and the selected funding solutions, and in certain cases **results of market research** have been indicated, and
- c) if the project promoters can agree, then **a reasoned proposal for the transnational allocation of costs**.

On 31.05.2018 Elering AS together with Latvian and Lithuanian TSOs AS Augstsprieguma Tikls and Litgrid AB submitted to the Competition Authority a cross-border cost allocation investment request of the joint interest project "Integration and synchronization of the Baltic power system with European networks," which in regards to Estonia, covered four projects - Strengthening of the overhead line 330 kV (LV) of Tartu (EE) - Valmiera (LV), Strengthening of the overhead line 330 kV Balti (EE) - Tartu (EE) (L300), Strengthening of the overhead line 330 kV Viru (EE) - Tsirguliina (EE) 330 kV (L353) and additional infrastructure aspects related to synchronization of the electricity system of the Baltic states with European networks .

In Estonia, the majority of the first stage investments are made up of 330-kV transmission lines starting from the Narva region and going to Latvia via Valga. The estimated total volume of the first stage of investments in Estonia is 187.79 million euros (432.56 million euros in total). The project is planned to be completed by the end of 2025.

In the Baltic States, TSOs proposed to regulators the allocation of cross-border costs. The cost-benefit analysis showed that all the Baltic countries are receiving positive net profit. Therefore, the Baltic TSOs proposed that part of the investment costs of the Estonian project be borne by the Estonian transmission system operator Elering AS, the share of Latvia and Lithuania of the investment shall be borne by Latvia and Lithuania respectively.

On 06.09.2018, the Estonian Competition Authority and Latvian and Lithuanian regulators signed an agreement on the allocation of cross-border costs. The agreement confirmed that the allocation of costs in the investment application is justified and consent has been reached in terms of allocation of cross-border costs agreed by the transmission system operators of Estonia, Latvia and Lithuania. It was also agreed that TSOs should apply for EU funding under CEF in order to reduce the impact of the project on the transmission tariff.

AN OVERVIEW OF THE RAILWAYS MARKET

The Competition Authority applies measures in the rail services market to eliminate discriminatory or otherwise unfair treatment. One of the important tasks of the Competition Authority is also the resolution of complaints submitted by railway undertakings. If the railway undertaking finds that the railway infrastructure undertaking has unfairly treated him / her in the approval of the railway network statement, allocation of capacity, organization of coordination procedure, declaration of the capacity exhausted, scheduling of traffic, organization of traffic management, planning of innovations, performance of maintenance work or determination of usage fee, he/she may submit a complaint to the Competition Authority.

In Estonia, there are railway infrastructure undertakings that the railways managed by whom are designated for public use by AS Eesti Raudtee and Edelaraudtee Infrastruktuuri AS. AS Eesti Raudtee manages 1229 km of railways and provides the service of granting the use of railway infrastructure to rail transport service undertakings and rolling stock owners together with traffic management. Edelaraudtee Infrastruktuuri AS manages 223.8 km of railways for the provision of similar services. In September 2018, AS Eesti Raudtee informed its co-operation partners about the imposition of an additional usage fee for service facilities. On the basis of the requests of the railway undertakings, the Competition Authority started the procedure for checking the compliance of the usage fees of the service facilities with the requirements.

In 2018, AS Liinirongid and AS GoRail provided passenger transport services and the following companies provided rail freight services: AS Maardu Raudtee, AS Railservis, AS Kunda Trans, AS Sillamäe Sadam, OÜ Dekoil, AS E.R.S, Vesta Terminal Tallinn OÜ, AS Operail, Edelaraudtee AS, AS Alexela Terminal, Enefit Kaevandused AS, Leonhard Weiss RTE AS, Horizon Tselluloosi and Paberi AS, AS Skinest Rail and AS DBT. According to the data of Statistics Estonia, about 7.8 million passengers used passenger transport service in 2018 and the goods were transported in the amount of nearly 27.8 million tons, which has increased compared to 2017 - passenger transport service was used by 7.4 million passengers that year, and the volume of cargo transportation was 27.2 million tons.

In 2018, Directive (EU) 2016/2370 of the European Parliament and of the Council in regard to the opening of the market for domestic passenger transport services by rail and the governance of the railway infrastructure was transposed into Estonian law. In addition, the requirements were clarified to ensure the independence of railway infrastructure undertaking and non-discriminatory treatment and effective competition of applicants for capacity. The amendments increased the list of complaints, the resolution of which is within the competence of the Competition Authority. In addition, additional basis was laid down for defining the requirements for the independence of the railway infrastructure undertaking and for performing its core functions.

EU PARCEL REGULATION

With the rapid growth of international e-commerce, relatively high fees for delivering a parcel to the buyer are often a major problem. This has a direct negative impact on those who want to use international parcel delivery services.

The market for international parcel delivery services is diverse, complex and competitive - different service providers offer a variety of services and prices depending on the weight, size and format of the parcels sent, the destination, the value-added features (e.g., tracking systems) and the number of parcels sent. In several Member States, universal postal service providers do not have the largest market share in the parcel delivery services market. Such diversity makes it difficult for consumers and users to compare parcel delivery service providers both in terms of quality and price, since for similar services they are often unaware of the different delivery options of parcels in international e-commerce. Access to relevant information should be made easier, especially for individuals and small businesses.

In order to improve international parcel delivery services for private individuals and small businesses, public lists of tariffs for international parcel delivery services need to be made more accessible and transparent. Making international services more transparent and easier to compare across the European Union should help to reduce unjustified differences in tariffs, including unjustified differences in national and international tariffs.

Based on these starting points, an EU regulation on international parcel delivery services was developed, which entered into force on 18 April 2018. According to the Regulation, the undertakings concerned must start to submit to the national regulatory authorities by 31 January of each year, as of 1 January of the same year, the current prices for parcel delivery services. This concerns undertakings who have at least 50 employees working for it or who operate in at least two Member States. The services concerned are the ones that can be used for delivering goods. It also includes items of correspondence with a thickness of over 2 cm, as it is also possible to deliver goods in them. It is up to the regulator of the Member State to collect the relevant information on tariffs and to forward it to the European Commission, which will publish the information on the relevant website by 31 March each year. Such a website provides for consumers of services an opportunity to see and compare all kinds of options. In addition, such transparency and comparability can contribute to lowering service charges by service providers.

The Competition Authority collected and forwarded the corresponding tariffs to the European Commission for 2019. 14 postal service providers had an obligation to submit data. The future must show how much benefit this initiative will bring - whether service fees are becoming more comparable and transparent in general terms and whether, ultimately, the fees for international services will also be harmonized to some extent across the Member States, or whether service providers will lower fees in order to stay competitive.