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Memorandum from the Finnish Ministry of Employment and the Economy

15 September 2009

Commission complaint regarding progress made pursuant to Article 3 of Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market

On 9 June 2009 the European Commission reported that Finland had made insufficient progress in meeting the national indicative target. This opinion is based on the Commission's Renewable Energy Progress Report COM(2009) 192 and on the Commission Staff Working Paper SEC(2009) 03.

The reports describe the progress made by Member States according to two criteria. These are development of the share of electricity produced from renewable energy sources between 2004 and 2006, and progress towards meeting the 2010 indicative target. In assessing the former criterion, the Commission assigned to the lowest category countries whose share of renewable energy sources had remained the same or fallen between 2004 and 2006. For the latter criterion, countries are assigned to the bottom category if they have achieved less than a third of the increase needed to meet the 2010 indicative target. According to the Commission's analysis, Finland falls into the bottom category according to both criteria.

On the basis of the above analysis, the Commission takes the view that Finland has failed to take the appropriate steps to increase consumption of electricity produced from renewable energy sources as per the national indicative target. It therefore considers Finland to be in breach of Article 3(1) of the Directive. The Commission also cites the new Directive on renewable energy (2009/28/EC) and points out that substantial growth in the share of electricity produced from renewable energy sources is the minimum precondition for achieving the overall objective of 38%.

Basing itself on the working paper, the Commission also makes reference to the administrative procedure requirements set out in Article 6 and to the grid access requirements set out in Article 7.

The Commission asks the Finnish authorities for additional information on the following:

a) what actions have been taken since the submission of the last report that would indicate that Finland will achieve substantial growth in the share of electricity derived from renewable energy sources in proportion to the objective to be attained in 2010;

b) given that Finland falls into the bottom category for both criteria, what reasoning can be adduced to explain how Finland has complied with Articles 3(1), 6 and 7 of the Directive.

With regard to the Commission's analysis and questions, we would kindly point out the following:

The Commission's assessment of the progress made by Member States is based on an examination of individual years. National production of hydro power has been corrected using the normalisation procedure. However, the Commission's analysis takes no account whatsoever of the variations in imports and exports of electricity. Finland is part of the Nordic electricity market along with Sweden, Norway and Denmark. HEP production potential in Sweden and Norway has a considerable influence on the imports of electricity into Finland. In a good HEP year, imports from Sweden and from Norway via Sweden displace Finnish electricity production. In a bad HEP year, electricity is exported from Finland to Sweden and onwards to Norway.

In 2004, net imports of electricity into Finland were 4.9 TWh, and in 2006 11.4 TWh. Powerful growth in electricity imports displaced domestic production. Between 2004 and 2006, production of electricity from nuclear power, fossil fuels and peat fell by a total of 0.4 TWh. By contrast, the amount of electricity produced from wood fuels increased by 0.4 TWh, or 4%. Consequently, production of electricity from wood as a proportion of domestic production grew. Since HEP production capacity grew slightly between 2004 and 2006, so too did standardised HEP production. If, therefore, account is taken of changes in the imports brought about by climate conditions, the share of electricity produced from renewable energy sources in Finland has grown yearly between 2004 and 2006.

The mechanism described above also explains the increase in the share of electricity produced from renewables between 1997, the base year, and 2006. Over this period, electricity produced from wood fuels as a portion of total electricity consumption grew by almost two percentage points.

Nor can Finland concur with the Commission's view that increasing the share of electricity produced from renewables is the minimum precondition for meeting the overall target of 38%. The central principle of the renewable energy Directive is that Member States themselves be able to decide on increasing renewable energy in electricity production, heating and cooling, and in transport. This will allow the renewable energy objective to be met cost effectively, due allowance being made for each Member States' differing circumstances.

We would point out the following by way of reply to the Commission's questions:

a) <u>Measures taken since the previous report</u>

In November 2008, the Finnish government published a long-term climate and energy strategy containing guidelines for measures to achieve the overall objectives of 38% renewables. One objective is to increase wind energy production by a factor of thirty, to six TWh by 2020. This assumes use of the feed-in tariff system. The working party that is drawing up the system will publish its final report in September. For wind power, the main proposals were set out in the interim report that was published in April. In addition to the new economic steering methods, the awarding of grants under the new investment aid scheme (energy aid) has been increased several-fold. This year €105 million of aid has been granted (this figure includes the latest additional budget). In 2007, €30.7 million of investment grants were awarded.

The share of renewable energy may also be affected by energy efficiency. According to the climate and energy strategy, targeted energy savings and energy efficiency measures

could result in a saving of 37 TWh in final energy consumption by 2020. Of this, 6.4 TWh are electricity savings. In the report it published in June 2009, the Energy Efficiency Committee set up by the Ministry of Employment and the Economy listed 125 concrete measures. Implementation of the report's recommendations is currently underway.

b) How Finland has implemented the requirements of Articles 3(1), 6 and 7 of the Directive

As explained above, the Commission's analysis dos not take account of the impact of Nordic HEP production on electrify exports and imports and on Finland's production of renewable energy. Changes in electricity exports and imports typical of the Nordic market were, however, taken into account in the Commission's assessment of Finland's emission rights allocation plan for the second emissions trading period.

Likewise, Finland has put into place the administrative procedures provided for in Article 6. For wind power, for instance, the Ministry of the Environment has improved is knowledge of the impact of building wind farms and of the planning and authorisation procedure called for. With the backing of the Ministry of the Environment, the Regional Councils have carried out a survey of areas suitable for building farms. By the end of this year, a wind atlas will be drawn up, the main purpose of which is to guide decision-making in areas suitable for the construction of wind farms.

The Electricity Market Act has been supplemented in respect of access to the renewable energy network (provisions of Article 7). In connection with implementation of the Directive, the following amendments have been made to the Electricity Market Act (1130/2003):

* Section 9: the network operator must, on request, provide parties wishing to be connected with a comprehensive and sufficiently detailed estimate of connection costs (Article 7(4) of the Directive).

* Section 14: in the pricing of network services, account mast be taken of the terms required to ensure that the electricity system operates reliably and effectively, and of the costs and benefits arising from the network connection of electricity production plants. One new express obligation was that account be taken of benefits such as the reduction of energy losses in the local network or the reduction in network investments when the local energy plant reduces the need to transmit electricity from the national grid (Article 7(2) of the Directive).

Access to the small-scale renewable production network has also been facilitated by means of the special legislation (624/22007) provided for in Article 14b concerning network service charges for the production of electricity. The fee charged for the connection of small-scale electricity producers to the network may not include the resultant grid reinforcement costs. Furthermore, transmission payments chargeable on the production of electricity in the grid must cover a smaller portion of the grid costs than the transmission payments chargeable on consumption. A government decree regulates transmission charges for the production of electricity and the way these are defined on the distribution network, along with threshold values to be imposed on transmission charges for electricity production which are proportionate to the amount of energy supplied and which must be complied with by distribution systems operators. According to the Electricity Market Decree (65/2009), the transmission fee charged by a distribution network operator on electricity production assigned to an individual connection may not exceed an average of 0.07 cents per kilowatt hour per year.

The Government Decree on electricity supply reporting and metering (66/2009) stipulates that an electricity generation facility supplying electricity to the grid need not be equipped with special metering equipment if the facility is situated in a place of use equipped with a maximum of three 63-amp main fuses and the place of use is equipped with metering equipment that allows the amount of electricity taken from and fed into the grid to be metered. In practice, this means applying net metering on an hourly basis for small power production based on renewable energy.

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