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COMMISSION OPINION

of 28.10.2020

**pursuant to Article 20(5) of Regulation (EU) 2019/943 on the implementation plan of
Finland**

(ONLY THE FINNISH AND SWEDISH VERSIONS ARE AUTHENTIC)

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I. PROCEDURE

On 10 July 2020 the Commission received an implementation plan from the Ministry of Economic Affairs and Employment with respect to Finland, prepared pursuant to Article 20(3) of Regulation (EU) 2019/943¹ (hereafter “Electricity Regulation”). Article 20(3) of the Electricity Regulation requires Member States with adequacy concerns to set out measures to eliminate regulatory distortions or market failures on their markets in an implementation plan.

Pursuant to Article 20(5) of the Electricity Regulation, the Commission is required to issue an opinion on whether the proposed measures and the timeline for their adoption are sufficient to eliminate the regulatory distortions or market failures.

II. DESCRIPTION OF THE IMPLEMENTATION PLAN

In its implementation plan, Finland proposes to implement the following measures:

1. General wholesale market conditions

Finland indicates that there are no formal or informal price caps in day ahead and intraday markets other than the technical limits currently applied within European single day-ahead and intraday coupling as set out in Article 41(1) and 54(1) of Regulation 2015/1222. Finland also brings forward that there are also no formal or informal rules or requirements that limit generators’ ability to freely price their offers in the wholesale markets. There are also no rules or provisions that would require the transmission system operator (hereafter ‘TSO’) to release generation reserves based on market prices.

2. Balancing markets

Finland operates a joint Nordic balancing market. Within the market imbalances are handled and settled according to common rules defined in the System Operation Agreement between the Nordic TSOs. Balancing is managed within the Nordic control areas as one system

¹ Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity, 14.6.2019, OJ, L 158, p. 54

consisting of all four Nordic TSOs. All bids are collected into the joint Nordic merit order list and in the order of the list the production increases and decreases are carried out where firstly, it is most advantageous and secondly in the price order of the bids, however taking into account congestions between control areas.

Finland indicates that Nordic TSOs signed in 2018 an agreement to update and adapt the balancing market design in order to ensure an efficient and secure balancing scheme compliant with Regulation 2017/2195² establishing a guideline on electricity balancing (hereafter “Electricity Balancing Guideline”). The measures include introducing:

- (a) a Nordic market for balancing capacity from frequency restoration reserves with automatic activation, by 2020
- (b) a single price model for imbalance settlement, by 2021
- (c) a 15 minutes imbalance settlement period in line with the Electricity Balancing Guideline³, by 2023
- (d) a Nordic market for balancing capacity from frequency restoration reserves with manual activation, by 2024

Finland indicates that there were no discussions to introduce an administrative scarcity pricing mechanism as referred to in Article 44(3) of the Electricity Balancing Guideline.

3. Demand side response

Finland considers it has been at the forefront of promoting real-time price signals for all consumers. Industrial users are active in the markets and it is common for industrial users to optimise their supply portfolio based on day-ahead market prices. Larger household consumers (mostly electrical heating) are moving towards market based load control schemes as well.

Finland has carried out a full roll-out of smart meters to all customers including household customers (currently 99,8% coverage of customers, 100% of measured in energy) and mandated the use of hourly data for settlement purposes. All customers have the possibility to choose an electricity contract with dynamic pricing based on the day-ahead market prices. Almost all suppliers provide also dynamic contracts to their customers. At the end of 2018, approx. 9% of the retail customers had a dynamic electricity price contract. There are also service providers, both aggregators and independent aggregators, who give small customers the possibility to participate in balancing markets.

² Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

³ Regulation 2017/2195 requires all TSOs to apply the imbalance settlement period of 15 minute in all scheduling areas while ensuring that all boundaries of market time unit shall coincide with boundaries of the imbalance settlement period. The regulation allows that the national regulatory authority may, at the request of the TSO or on its own initiative, grant the relevant TSOs a derogation from this obligation until 1 January 2025. In May 2020 Nordic TSOs announced that they will apply jointly for such a derogation until 22 May 2023.

Finland is committed to implementing its Smart Grid Working Group recommendations by 2021 to further increase demand-side response and opportunities for customers to participate. This includes defining the functional requirements for next generation smart meters.

4. Retail markets: regulated prices

Finland indicates that it already has a fully deregulated retail market.

5. Interconnection

Finland indicates it has strong interconnections to the neighbouring countries (total 5100 MW compared to peak load of 15 300 MW), most of the interconnection capacity (3 600 MW) is based on direct current (DC) technology. Alternating current (AC) connections to Sweden connects Finland to the Nordic synchronous system and are crucial for the operation of the Finnish electricity system. Finland and Sweden have committed to increasing the level of AC interconnection with a new 800 MW overhead line by 2025.

Finland highlights that 1 500 MW of the import capacity comes from third countries. The commercial transmission capacity from third countries to Finland is 1300 MW and 320 MW from Finland to third countries. Finland indicates that it has no intention to increase dependency on third countries with regards to security of electricity supply.

III. COMMENTS

On the basis of the present notification the Commission has the following comments on the implementation plan.

1. Balancing markets

The Commission welcomes the reform of the Nordic balancing market in order to ensure an efficient and secure balancing scheme compliant with the Electricity Balancing Guideline (15 minutes imbalance settlement period, single pricing mechanism for imbalance settlement, etc).

The Commission also welcomes the commitment of Finland, together with other Member States in the Nordic region, to participate in the European platform for the exchange of balancing energy from frequency restoration reserves with manual activation, the European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation, and the European platform for imbalance netting according to Articles 20, 21 and 22 of the Electricity Balancing Guideline, as well as existing initiatives for joint procurement of frequency containment reserve resources.

Effective scarcity pricing encourages market participants to react to market signals and to be available when the market most needs them and ensures that they recover their costs in the wholesale market. Article 44(3) of the Electricity Balancing Guideline describes an additional settlement mechanism separate from the imbalance settlement, to settle the procurement costs of balancing capacity, administrative costs and other costs related to balancing, preferably achieved with the introduction of a shortage pricing function. The Commission invites Finland to consider introducing a scarcity pricing function as soon as possible but no later than 1 January 2022.

In the Commission's view, it is important that this mechanism is well designed so that it does not only provide incentives for short term flexibility but also sends appropriate signals for investments to maintain system adequacy. In this context, the Commission invites Finland to consider whether the price adder which the referred function creates in times of scarcity should apply not only to balance responsible parties but also to balance service providers which provide balancing energy to the TSO. The Commission also considers that the scarcity pricing function should be triggered by the scarcity of reserves in the system and it should be calibrated to increase balancing energy prices to the Value of Lost Load (VoLL) when the system runs out of reserves.

2. Interconnection

The Commission welcomes Finland's articulation on the likely evolution of future interconnection capacity. The certainty about the volume of available future interconnection capacity is important for market participants to be able to make informed decisions about investments in generation or demand response.

3. Capacity mechanism

The Commission invites Finland to make sure that the design of its capacity mechanism complies with the requirements of the Electricity Regulation and adapt its mechanism, where necessary, as required by Article 22(5) of the regulation. In particular, the Commission invites Finland to comply with Article 22(2) of the Electricity Regulation whereby during imbalance settlement periods where resources in the strategic reserve are dispatched, imbalances in the market are to be settled at least at the value of lost load or at a higher value than the intraday technical price limit as referred in Article 10(1), whichever is higher.

The measure shall also comply with Article 107 of the Treaty on the Functioning of the European Union.

4. Other recommendations

The Commission recommends that Finland together with the other Member States in the Nordic region strive for establishing a regional coordination centre in accordance with Article 34 to 47 of the Electricity Regulation. The regional coordination centre should be operational by July 2022. Regional coordination centres support the increasingly integrated operation of electricity systems across the EU, thereby ensuring their efficient and secure performance.

IV. CONCLUSION

Pursuant to Article 20.5 of the Electricity Regulation, the Commission invites Finland to amend its implementation plan to take utmost account of the above comments of the Commission. Finland is invited to publish its amended plan within three months and inform the Commission.

Pursuant to Article 20.6 of the Electricity Regulation, Finland shall monitor the application of their implementation plan and shall publish the results of the monitoring in an annual report and submit that report to the Commission. In this report, Finland is invited to explain whether and to what extent the market reforms have been implemented according to the planned timeline, and if not explain the reasons why.

The Commission's position on this particular notification is without prejudice to any position it may take on the compatibility of any national implementing measure with EU law.

The Commission will publish this document on its website. The Commission does not consider the information contained therein to be confidential. Finland is invited to inform the Commission within ten working days following receipt whether and why they consider that, in accordance with EU and national rules on business confidentiality, this document contains confidential information which they wish to have deleted prior to such publication.

Done at Brussels, 28.10.2020

For the Commission
Kadri Simson
Member of the Commission