

National Report 2014 to the Agency for the Cooperation of Energy  
Regulators and to the European Commission

Finland

# CONTENT

<b>1 Foreword .....</b>	<b>4</b>
<b>2 Main developments in the gas and electricity markets.....</b>	<b>6</b>
<b>2.1 Legal framework .....</b>	<b>6</b>
<b>2.2 Electricity market .....</b>	<b>6</b>
2.2.1 Unbundling .....	6
2.2.2 Wholesale market .....	7
2.2.3 Retail market .....	8
2.2.4 Infrastructure.....	10
2.2.5 Security of Supply .....	10
2.2.6 Regulation .....	11
<b>2.3 Gas market .....</b>	<b>11</b>
2.3.1 Unbundling .....	11
2.3.2 Wholesale market .....	12
2.3.3 Retail market .....	13
2.3.4 Infrastructure.....	13
2.3.5 Security of Supply .....	14
2.3.6 Regulation .....	14
<b>2.4 Consumer protection and dispute settlement in electricity and gas.....</b>	<b>14</b>
<b>3 The electricity market.....</b>	<b>15</b>
<b>3.1 Network regulation.....</b>	<b>15</b>
3.1.1 Unbundling .....	15
3.1.2 Technical functioning.....	18
3.1.3 Network tariffs for connection and access .....	21
3.1.4 Cross-border issues .....	23
3.1.5 Compliance .....	26
<b>3.2 Promoting Competition.....</b>	<b>26</b>
3.2.1 Wholesale markets .....	26
3.2.2 Retail market .....	31
<b>3.3 Security of supply.....</b>	<b>35</b>
3.3.1 Monitoring balance of supply and demand.....	35
3.3.2 Monitoring investment in generation capacities in relation to SoS .....	36
3.3.3 Measures to cover peak demand or shortfalls of suppliers.....	38
<b>4 The gas market .....</b>	<b>41</b>
<b>4.1 Network regulation.....</b>	<b>42</b>
4.1.1 Unbundling .....	42

4.1.2	Technical functioning.....	43
4.1.3	Network and LNG tariffs for connection and access .....	43
4.1.4	Cross-border issues .....	44
4.1.5	Compliance .....	44
<b>4.2</b>	<b>Promoting Competition.....</b>	<b>45</b>
4.2.1	Wholesale markets .....	45
4.2.2	Retail market .....	46
<b>4.3</b>	<b>Security of supply.....</b>	<b>47</b>
4.3.1	Monitoring balance of supply and demand.....	47
4.3.2	Expected future demand and available supplies as well as envisaged additional capacity.....	48
4.3.3	Measures to cover peak demand or shortfalls of suppliers.....	49
<b>5</b>	<b>Consumer protection and dispute settlement in electricity and gas.....</b>	<b>50</b>
<b>5.1</b>	<b>Consumer protection .....</b>	<b>50</b>
5.1.1	Electricity .....	50
5.1.2	Gas.....	50
<b>5.2</b>	<b>Dispute settlement .....</b>	<b>51</b>
5.2.1	Electricity .....	51
5.2.2	Gas.....	52

# 1 Foreword

This national report is prepared by the Energy Authority to the Agency for the Cooperation of Energy Regulators and to the European Commission on the state of the Finnish electricity and natural gas markets in 2013 as required by Article 37(1)(e) of the Directive for the Internal Market in Electricity (2009/72/EC) and Article 41(1)(e) of the Directive for the Internal Market in Natural Gas (2009/73/EC). Although this is the third national report after the entry into force of the above-mentioned directives, the report continues the series of annual national reports published since 2004. The document covers the steps the Energy Authority (and Energy Market Authority in 2013) has taken and the results obtained as regards each of the tasks listed in Article 37 of the Electricity Market Directive and Article 41 of Natural Gas Market Directive. It contains a description of the powers and tasks of the regulatory authority, an overview of the regulation and performance of electricity and natural gas sectors and an update of security of supply with regard to both gas and electricity.

In 2013, duties and authority of the Energy Market Authority were expanded in many ways. The new Electricity Market Act that entered into force in September implemented the EU's third internal energy market package, which also confirmed the independent role of the Energy Authority. In parallel to this also necessary amendments to natural gas market legislation in order to implement the 3<sup>rd</sup> package were made.

The most important changes from the national viewpoint are new regulations on electricity networks' security of supply. There are now clear-cut criteria for the development of the electricity networks up until 2028 and even after that.

The name of the authority was changed in the beginning of 2014. The name Energy Authority better describes extensive duties of the authority. Instead of being just a supervisor of the electricity and gas markets as well as the national emissions trading authority, the Energy Authority has also become a promoter of renewable energy and energy-efficiency during the past few years.

In electricity markets the slightly poorer water situation in the other Nordic countries reduced net imports in 2013 while the share of domestic electricity production slightly increased. Changes in the Russian market model made at the end of 2011 have clearly reduced the imports of electricity from Russia, which – in combination with the simultaneous fairly good water situation in Norway and Sweden – has led to Sweden becoming the most important importer of electricity into Finland.

For the moment, exporting electricity to Russia is not possible. In the autumn of 2013, the transmission system operator Fingrid and Russian parties started the technical testing of export of electricity to Russia. The plan is to make commercial export of electricity to Russia possible starting in 2014.

Total installed generation capacity in Finland was about 16,500 MW in the end of 2013. However, all installed capacity is not available during the peak load situation. The total available generation capacity during the winter season 2013 - 2014 was about 12,800 MW which is 2,200 MW less than the estimated peak load. The import capacity of electricity at the end of the year 2013 from neighbouring countries to Finland was about 5,250 MW. During the year 2013 additional transmission capacity of 650 MW between Finland and Estonia was commissioned.

The Capacity Reserve Act has assigned the Energy Authority with the obligation to take care of the procurement of the capacity reserves needed to ensure the balance between supply and demand. The Energy Market Authority organised in spring 2013 tendering processes to purchase power plant and demand response capacity for the peak load reserves as old contracts ended in June 2013. Generation capacity included in the peak load reserves was decreased from 600 MW to 365 MW. Despite of tendering there are no consumption units capable for demand response in the capacity reserve system.

The electricity wholesale prices in the Nordic market remained low, due to the fairly good water situation in Sweden and Norway. The limited transfer capacity restricted the transmission of more affordable hydro power from Sweden to Finland, which is why the wholesale electricity prices in Finland were different from the prices in Northern and Central Sweden 19 per cent of the time last year. In 2013, Finland and Estonia had same price 69 per cent of the time.

Finland has been active in roll-out of smart meters and in using hourly data in balance settlement. By the end of 2013 at least 80 per cent of electricity customers per each DSO network area should have had a remotely readable smart meter. However, Finnish DSOs have been trying to install smart meters to all their customers and about 93 per cent of electricity consumption places in Finland were equipped with a smart meter in the beginning of 2014. In addition to this, instead of load curves the balance settlement is based on metered hourly consumption data in 89 per cent of consumption places.

The rate of supplier switching among electricity consumers increased in 2013 and for the first time level of 10 per cent of electricity consumers switching supplier during the year was reached.

Unlike the electricity market, the Finnish natural gas wholesale market does not face competition. All the natural gas needed is imported from Russia and there are no transmission connections to other EU countries.

Finnish gas TSO and the only wholesale company, Gasum has been planning a large scale regional LNG terminal, Finngulf LNG on the coast of the Gulf of Finland and construction of a pipeline connection, Balticconnector to Estonia. Balticconnector pipeline project has been included in the first PCI list decided by the European Commission in autumn 2013. Finngulf LNG project is also on the PCI list together with other LNG terminal projects from Estonia and Latvia. There are still ongoing negotiations between project promoters, state of Finland and Estonia and the European Commission which of these LNG projects would be materialized.

In 2013, consumption of natural gas in Finland decreased by around 5 per cent year-on-year. The consumption of natural gas decreased because of the mild weather and because of the low price levels in emissions trading and the electricity market. The low prices for emission allowances made natural gas less competitive when compared to coal in particular.

The Energy Authority carried out the regulatory and supervisory tasks of electricity and gas market, renewable energy operating subsidies and emissions trading - the specificity of the Finnish energy regulatory authority - with a staff of 71 employees at the end of 2013. The efficient functioning of the authority is based on streamlined processes, dedicated people and an extensive use of tailor-made IT systems that the authority has developed together with the service providers for all the major areas of regulation and supervision.

Riku Huttunen

Director General,  
Energy Authority

## 2 Main developments in the gas and electricity markets

### 2.1 Legal framework

The necessary changes due to the 3<sup>rd</sup> package in the Finnish electricity and natural gas market legislation were implemented on the September 1, 2013.

The main changes required by the 3<sup>rd</sup> package were related to the ownership unbundling of the electricity TSO and the tasks and the independence of the national regulatory authority. Due to the 3<sup>rd</sup> package also some changes in the sanction regime of electricity and gas market legislation has been made.

For national reasons also new requirements for electricity DSOs to develop their network has been implemented into electricity market legislation. According to the legislation electricity DSOs shall develop their distribution networks in order to avoid longer interruptions.

The REMIT regulation requires some changes in the sanctioning regime and the investigating and enforcement powers of the Energy Authority. An ad hoc working group set by the Ministry of Employment and the Economy presented the proposals to amend existing legislation in November 2013. The Finnish Parliament approved amendments in June 2014 and these changes will come into force early autumns 2014.

### 2.2 Electricity market

#### 2.2.1 Unbundling

##### Development in TSO unbundling and certification of TSO

The 3<sup>rd</sup> internal energy market directive package requires that electricity transmission network operators shall be ownership unbundled from production and supply activities. Therefore two generating companies, Fortum Power and Heat Oy and Pohjolan Voima Oy sold their Fingrid shares to the State of Finland and Ilmarinen Mutual Pension Insurance Company in April 2011.

Via voluntary deals Fingrid was transformed into a transmission network company factually unbundled from electricity production, operating in compliance with the Internal Electricity Market Directive. After the acquisition Fingrid is 53.1 per cent owned by the State of Finland, 19.9 per cent by Ilmarinen Mutual Pension Insurance Company and 27.5 per cent by other shareholders, which are mainly Finnish insurance companies.

After the new Electricity Market Act came into force in September 2013 the certification of Fingrid was started. The Energy Authority made the decision on the certification of Fingrid on March 14, 2014.

##### Development in DSO unbundling

According to the Electricity Market Act, electricity network operations must be legally unbundled from electricity trade operations and electricity generation if the annual quantity of electricity transmitted to the customers through the network operator's 0.4 kV distribution network has been 200 GWh or more during three consecutive calendar years. The arrangements were to be implemented no later than the beginning of 2007.

Totally, 35 distribution system operators were at the end of 2013 over the threshold value. Also some distribution system operators under this threshold value have legally unbundled network activities. In July 2014 a total of 52 distribution system operators of 80 operators were legally unbundled in Finland.

The requirement for separate management for the electricity network company is limited to legally unbundled system operators with 50,000 customers or more and at the end of 2013 it covered 18 distribution system operators in Finland.

The requirements for professional interests and compliance programmes are limited to legally unbundled electricity system operators with 50,000 customers or more and it covers 18 distribution system operators in Finland. The threshold of 100,000 customers was set into 50,000 customers by the Electricity Market Act updated in September 2013.

### **2.2.2 Wholesale market**

Development in market integration The Finnish electricity wholesale market is part of the North European power market. Finland forms an integrated wholesale electricity market with Denmark, Norway, Sweden, Estonia, Lithuania and Latvia. The Nordic market has been price coupled with the North Western European electricity market since February 4, 2014.

Physical day-ahead and intra-day trading takes place in the Nordic power exchange Nord Pool Spot. The formulation of area prices and the allocation of cross-border capacity and the congestion management between Finland and the other Nordic countries are managed by implicit auctions (market splitting) in the day-ahead market of the Nordic power exchange.

The price differentials emerge as a function of insufficient transfer capacity between areas. The limited transfer capacity restricted the transmission of more affordable hydro power from Sweden to Finland, which is why the wholesale electricity prices in Finland were different from the prices in Northern and Central Sweden 19 per cent of the time last year. In 2013 Finland and Estonia had same price 69 per cent of the time. Finland has interconnections to Sweden, Norway, Russia and Estonia.

At the end of 2013, the electricity transmission capacity from the other Nordic countries, Russia and Estonia to Finland amounted to around 5,250 MW. A new transmission connection, Estlink2 was opened between Finland and Estonia in December 2013. It increased the transmission capacity between the two countries by 650 MW.

Changes in the Russian market model introduced in autumn 2011 has caused a collapse in the import of electricity from Russia. In 2012 imports from Russia decreased by almost 60 per cent. Since late 2011, Russia has included a special capacity charge in the price of exported electricity.

For the moment, exporting electricity to Russia is not possible. In the autumn of 2013, the transmission system operator Fingrid and Russian parties started the testing of export of electricity to Russia. The plan is to make commercial export of electricity to Russia possible starting in 2014.

#### **Development in market concentration**

In 2013, there were no significant changes in the structure of the Finnish electricity wholesale market and in the development of market concentration.

The Finnish electricity generation sector is characterized by a large number of actors. The total number of companies producing electricity stayed at some 120 and the number of production plants was circa 550. The share of the three biggest generating companies of the total installed capacity is about 62 per cent.

The slightly poorer water situation in the other Nordic countries reduced net imports in 2013 while the share of electricity produced in Finland slightly increased. Net imports of electricity accounted for 18.7 per cent of the total electricity consumption in 2013.

Changes in the Russian market model made at the end of 2011 have clearly reduced the import of electricity from Russia, which – in combination with the simultaneous fairly good water situation in Norway and Sweden – led to Sweden becoming the most important importer of electricity into Finland. Finland was a net exporter to Estonia last year.

Finnish electricity production amounted to a total of 68.2 TWh in 2013, up 0.7 per cent year-on-year. In 2013, Finnish hydropower production accounted for 15.2 per cent of the total energy consumption, while the rate for nuclear power production was 27.1 per cent. CHP accounted for 28.4 per cent of Finland's total electricity consumption. The share of wind power increased to 0.9 per cent.

Electricity consumption in Finland decreased in 2013 due to the mild weather. The total electricity consumption was 83.9 TWh, which means a decrease of 1.5 per cent year-on-year. The combined share of housing, agriculture, services and construction from the total electricity consumption was 49.5 per cent last year, while industry accounted 47.3 per cent of the total Finnish consumption.

### **Allocation of capacity**

Finland belongs to the Nordic electricity market and congestions across the borders are managed by implicit auctions in the day-ahead market in power exchange Nord Pool Spot. This fulfils the requirements set in the Congestion Management Guidelines annexed to the Regulation (EC) No 714/2009. Remaining transmission capacity after day-ahead allocation is set for intraday market and balancing.

Finland is considered as a single price area within Nordic market and congestions within Finland and after the day-ahead market closure are managed by countertrade.

### **Development of trading in power exchanges**

In 2013, the volume of electricity traded in Nord Pool Spot AS in day-ahead auction Elspot amounted to 348.9 TWh, (324 TWh in 2012). The increase in physical volume is a result increase of the trading in Baltic market.

The market share of Nord Pool Spot AS from the consumption in Nordic and Baltic countries reached 84 per cent. The turnover in the intra-day market, Elbas was 4.2 TWh (3.2 TWh in 2012).

The share of power bought through Nord Pool Spot was 62.3 per cent of the Finnish consumption in 2013.

### **Development of wholesale prices**

The electricity wholesale prices in the Nordic wholesale electricity market remained low, due to the fairly good water situation in Sweden and Norway. The fact that the price of emission allowances remained low and the price of coal remained stable also assisted in keeping the wholesale price of electricity reasonable.

The daily system market price at the Nord Pool Spot was 22% higher than in 2012. The average system price in 2013 was EUR 38.10/MWh. The average Finnish area price in 2013 was EUR 41.16/MWh, showing an increase of 12 per cent year-on-year.

## **2.2.3 Retail market**

### **Development in market concentration**

In 2013, there were no major changes in the number of retail suppliers. To serve Finland's circa 3.3 million electricity customers, there are 71 retail suppliers of which 40 offered in 2013 their products nation-wide.



The Energy Authority has estimated that four electricity retailers have larger than five per cent share of retail market. However, the exact market shares of individual retailers are not available. The market share of the three largest companies in the retail market for small and medium-sized customers has been estimated to be 35-40 per cent.

During 2013 there were 5 electricity retailers in the Finnish electricity retail market without obligation to supply. These retailers are also fully independent from the Finnish network companies. Rest of electricity retailers, 66 have the obligation to supply within at least one distribution network area of responsibility. Only a few electricity retailers are ownership unbundled from electricity network activities. Most of the legally unbundled electricity retailers still belong to same group of companies as a distribution system operator.

### **Development in supplier switching**

In 2013, the rate of supplier switching among electricity users was more than 10% for the first time ever. A total of 10.1 per cent of electricity users switched suppliers during the year (in 2012 the rate was 7.8 per cent).

### **Development of retail electricity prices**

Electricity retail prices are not regulated in Finland. In January 2014, household consumers and electrically heated households paid in average 1.2–1.4 per cent more for their electricity than in 2013. This increase was mainly due to the fact that the electricity tax rate was raised at the beginning of 2014. Other changes in the electricity bills of consumers included decreased prices of electrical energy and increased distribution prices.

Low wholesale electricity prices in 2013 were also reflected in the retail prices of electrical energy. The obligation to supply price of electrical energy decreased by one per cent in average over the course of the year 2013. Offer prices are reacting faster than obligation to supply prices to changes of the wholesale market prices. The prices of new fixed term contracts decreased by 8.2–8.6 per cent over the course of the year. Electricity distribution prices experienced a minor increase.

The electricity distribution price including tax was 0.5 per cent more expensive for household consumers and 0.1 per cent more expensive for electrically heated households at the beginning of 2014 than at the beginning of 2013.

### **Promotion of retail competition**

To promote competition in the electricity retail market the Energy Authority has maintained since 2006 a web-based tariff calculator designated to facilitate price comparisons and supplier switching. The system is also developed to inform private consumers better about the origin of the electricity. All retail suppliers are obligated to maintain up-to-date information on their public electricity price offers on this website.

### **Retail market integration**

Since 2005 Nordic energy regulators have been working to promote and facilitate a common end-user market for electricity in Finland, Denmark, Sweden and Norway. In October 2009 Nordic ministers for energy expressed their political support to the initiative to establish a common Nordic end user market.

The Energy Authority has actively continued working towards that target during 2013.

NordREG, the cooperative organisation for Nordic regulatory authorities, has prepared several recommendations for the Nordic ministries to facilitate the establishment of a single Nordic electricity retail market. However, implementation of the recommendations in the various Nordic countries and the establishment of a common Nordic retail market are ultimately dependent on national political decision-making.

## 2.2.4 Infrastructure

### **Development in transmission network investments**

Transmission capacity between Finland and Sweden is 1,350 MW with DC cables and 1,500 MW with AC lines. Moreover, Kraftnät Åland (TSO operating in Åland) has planned to build an interconnection between Åland and continental Finland in 2015 with capacity of 100 MW. At the present, the grid of Åland is only connected to Sweden, so the new interconnection will increase the transmission capacity between Finland and Sweden at the maximum by 80 MW.

A new interconnector EstLink 2 with capacity of 650 MW between Finland and Estonia was taken into use in December 2013. The total transmission capacity between Finland and Estonia is 1,000 MW.

Finland has a DC link for import from Russia to Finland. Its capacity is 1,400 MW. At present, the interconnections between Russia and Finland operate only in one direction – from Russia to Finland. However, there are plans to modify the connection to enable also transmission from Finland to Russia with capacity of 350 MW. The project is planned to be carried out in 2014.

### **Roll-out of smart meters**

In March 2009 came into force a Degree of the Council of State which requires that by the end of 2013 at least 80 per cent of the consumption places per each DSO should have been equipped with a smart meter capable for registering hourly metering and remote reading.

## 2.2.5 Security of Supply

### **Development in competences of NRA for security of supply**

The Capacity Reserve Act came in to effect in March 2011. According to the Capacity Reserve Act the peak load reserve capacity will be used as a strategic reserve to ensure that the balance between supply and demand is achieved only if the balance will not be achieved in commercial market.

According to Capacity Reserve Act the Energy Authority evaluates and decides the required size of peak load reserve capacity and arranges the tendering process in order to choose which power plants and consumption units capable for demand response would be accepted to the capacity reserve arrangement. The Energy Authority decided to reduce the power plant capacity to be obtained as the strategic capacity reserve from 600 MW to 365 MW from the summer of 2013. In addition to power plants also the consumption units capable for demand response may be included in the strategic reserves from December 2013. The Energy Authority decided to include a maximum of 40 MW of demand response capacity in the reserve capacity from December 2013.

The Energy Authority organised in spring 2013 tendering processes to purchase power plant and demand response capacity for the peak load reserves as old contracts ended in June 2013. Based on a competitive bidding arranged in the spring of 2013, the Energy Authority decided to include the two power plants in the capacity reserves during the current period that will end in June 2015. The Energy Authority requested capacity reserve offers also from consumption units capable of demand response, but no offers were submitted and thus there are no consumption units in the capacity reserve system.

### **Development in generation investments**

The most significant infrastructure project in Finland is the construction of nuclear power plant unit Olkiluoto 3. The completion of the building of this 1,600 MW unit has been delayed for several years. Originally the new unit should have been commissioned by the end of 2009.

In 2010 the Government made two decisions-in-principle in favour of additional construction of nuclear power. Teollisuuden Voima Oyj's and Fennovoima Oy's applications for constructing two

new nuclear power plant units were both approved by the Government and also by the Parliament. These new nuclear power plants would be in operation in 2020's.

### **Development in supply/demand balance**

According to the Energy Market Authority's estimates, Finnish electricity production capacity will not be able to cover the need for capacity during winter consumption peak periods. The resulting capacity deficit must be covered by importing electricity from other countries.

The Energy Authority has estimated that the capacity requirement covered by electricity imports will be around 2,200 MW at its highest peaks during the winter of 2013–2014.

In order to secure sufficient security of supply, it is important to ensure that access to domestic electricity and electricity transmission connections from neighbouring countries are as reliable as possible and available in full during the winter months.

Based on reports submitted by power plant operators to the Energy Market Authority, the Finnish electricity production capacity (excluding system reserves and the wind power capacity) was around 14,140 MW at the end of 2013. The entire capacity is not available during the peak periods, however. According to an estimate made by the Energy Market Authority in autumn 2013, a total of 12,800 MW of Finnish electricity production capacity will be available for the consumption peaks in winter 2013–2014.

Based on planned power plant investments and electricity consumption forecasts, the Finnish production capacity may be able to cover the entire consumption during peak periods in the 2020s.

## **2.2.6 Regulation**

### **Network regulation**

In the field of electricity, the Energy Authority is responsible for regulating 80 distribution network operators, 12 regional high-voltage distribution network operators and one transmission system operator.

Since the end of 2004, Finland has applied the ex-ante regulation of network pricing as required by the current Electricity Directive. The present, the third regulatory period covers the years from 2012 to 2015.

In November 2011 the Energy Market Authority confirmed with its decisions the methods concerning the rate of return in electricity network operation to be followed during the third regulatory period in 2012 – 2015. In 2013 the Energy Market Authority made supervision decisions regarding regulatory period of 2008 – 2011.

Due to heavy storms and long interruptions in Finland in December 2011 the Ministry of Employment and the Economy prepared new regulation which includes more stringent rules related to network development and compensations for customers in case of long interruptions. The new legislation come into force in September 2013 and it includes obligations for DSOs to plan and develop their network in order to avoid interruptions more than 36 hours in rural areas and 6 hours in urban areas by 2032. The new legislation also increases standard compensations paid by DSOs to customers if they have faced long interruptions. The maximum compensation for the customer is now 200 per cent of annual network charges or 1,000 EUR.

## **2.3 Gas market**

### **2.3.1 Unbundling**

In 2012 there were no changes in the unbundling regime of natural gas operations. Finland has availed itself of the possibility of an exemption allowed by the Natural Gas Market Directives and

thus there is neither legal nor operational unbundling of natural gas transmission network operation. Furthermore, Finland has not applied legal and functional unbundling in distribution network operations because Member States are free to decide that the unbundling provisions are not applied to network operators with fewer than 100,000 customers. All Finnish gas distribution system operators fall below the limit set by the Directive. Thus there are no requirements for legal or ownership unbundling of natural gas transmission and distribution system operators.

However, the accounting unbundling applies to all natural gas system operators. The transmission system operator Gasum Oy is owned by Fortum Heat and Gas Oy (31 per cent), OAO Gazprom (25 per cent), State of Finland (24 per cent) and E.ON Ruhrgas (20 per cent). Approximately 80 per cent of the Finnish DSOs are wholly or mainly owned by municipalities. The rest 20 per cent of the DSOs are owned by industrial users of natural gas.

### **2.3.2 Wholesale market**

#### **Development in market integration**

The natural gas market in Finland is relatively isolated and small. Finland has natural gas pipeline connection only to the Russian Federation. There is only one importer and wholesale supplier – Gasum Oy – which also owns and operates the natural gas transmission network. In June 2012, the Finnish Government's EU Cabinet Committee approved a strategic policy on the development of the gas network and the consumption of gas in Finland. The policy states that Finland must, in cooperation with Estonia, strive to include a LNG terminal project for the Gulf of Finland and the Baltic connector gas pipeline between Finland and Estonia to the Projects of Common Interest (PCI) list of the Commission's Energy Infrastructure Package. Inclusion in the PCI would allow applying for EU subsidies for these projects.

A pipeline between Finland and Estonia would allow integration of the Finnish and Baltic natural gas markets. Furthermore, an LNG terminal in the Gulf of Finland would provide Finland and the Baltic states with an alternative for the acquisition of natural gas from the current pipelines from Russia.

#### **Development in market concentration**

In 2013, consumption of natural gas in Finland decreased by around 5 per cent year-on-year. A total of 33.2 TWh of natural gas was consumed in 2013. The consumption of natural gas decreased because of the mild weather and because of the low price levels in emissions trading and the electricity market. The low prices for emission allowances made natural gas less competitive when compared to coal in particular.

At present, natural gas is imported into Finland only from Russia. In addition to the natural gas imported from Russia, biogas produced in Finland is supplied to the natural gas transmission network. Large users account for the bulk of natural gas consumption in Finland. Energy and power companies, which use the bulk of natural gas to co-generate heat and power, used ca. 55 per cent with industry consuming 45 per cent. The key industrial sectors were pulp and paper and chemical industries whose consumption corresponded to 40 per cent of Finland's total gas consumption. Natural gas accounts for approximately 10 per cent of Finland's total energy consumption.

The natural gas market is characterized by vertical integration. The wholesale supplier of natural gas – Gasum Oy – is the sole importer and operator of the transmission system. Furthermore, it is downward vertically integrated into retail supply and distribution network operation by owning one natural gas distribution system operator and retail supplier.

#### **Development in natural gas prices**

The wholesale supply of natural gas to the large Finnish end-users and retailers is based on cost based contracts between Gasum Oy and the customers. A majority of the customers buy natural gas from Gasum Oy based on a public tariff, which Gasum Oy renews at the intervals of 4 years.

A small number of contracts have been concluded before the year 1992, when the new type of competition legislation came into force prohibiting the previously used non-public pricing methods as an example of abuse of a dominant position.

The total wholesale price of natural gas, including transmission and natural gas energy, decreased by an average of 7.2 per cent during the course of 2013. The price of natural gas decreased because of the decreased prices in coal and heavy fuel oil. The tax-free price for natural gas energy decreased by 8.9 per cent between December 2012 and December 2013. The price of natural gas energy is index-linked to the price of heavy fuel oil and the price of imported coal, as well as to the domestic energy index published by Statistics Finland. Of these price factors, the price of coal fell by 15.7 per cent and the energy price index decreased by 11.2 per cent in 2013, while the energy price index increased by 6.1 per cent.

The natural gas transmission price did not change in 2013. Gasum Oy increased the natural gas transmission price exclusive of tax by 2.4 per cent at the beginning of 2012. The price remained unchanged at the beginning of 2013.

On the Finnish natural gas market, only natural gas users with a consumption of more than 5 million cubic metres and with remote metering can trade in the secondary market with the gas that they have acquired for their own use or retail. Additionally, Gasum Oy offers short term products that are sold on the secondary market operated by Kaasupörssi Oy, which is a subsidiary of Gasum Oy. Secondary market trading amounted to 626 GWh of the total volume or 11 per cent less than during the previous year. Secondary market trading accounted for 1.9 per cent of the total Finnish consumption of natural gas in 2013.

### **2.3.3 Retail market**

#### **Development in market concentration**

In 2013 there were no major changes in the retail market structure. The retail supply of natural gas covers only about 5 per cent of the total consumption. In Finland there are only about 36,000 customers in the natural gas market. The largest customer segment (29,000 customers) consists of households who buy natural gas for cooking. However, the total natural gas consumption of this segment amounts to only 1 mcm (0.02 per cent of total consumption). At the end of 2013 there were 23 natural gas DSOs. All of them are active also in retail supply. Many of the natural gas retailers in Finland are relatively small having only dozens of customers. The share of the top three retail suppliers is about 50 per cent of the total natural gas consumption in the retail level.

#### **Development in supplier switching**

As supplier switching in the Finnish natural gas retail market is not possible, all suppliers are in a monopoly situation within their network area.

### **2.3.4 Infrastructure**

Gasum has been planning a large scale regional LNG terminal, Finngulf LNG on the coast of the Gulf of Finland and construction of a pipeline connection, Balticconnector to Estonia.

Balticconnector pipeline project has been included in the first PCI list decided by the European Commission in autumn 2013. Finngulf LNG project is also on the PCI list together with other LNG terminal projects from Estonia and Latvia. There are still on going negotiations between project promoters, state of Finland and Estonia and the European Commission which of these LNG projects would be materialized. If these projects will materialize, the derogation enjoyed by the Finnish gas industry should be put under scrutiny.

In addition to these there are plans to build up some small-scale off-grid LNG terminals on the coast of Finland. These terminals would serve industrial users, maritime of use LNG and LNG trucks.

### **2.3.5 Security of Supply**

All natural gas used in Finland is imported from Russia. There's no natural gas production in Finland. Small-scale biogas is produced and pumped to the gas transportation network in two different locations. In addition propane can be produced indigenously as it is the only gas to be stocked in small amounts by Gasum Oy for immediate substitute for the possible lack of natural gas. The importing capacity of Gasum Oy is estimated to be about 9,500 MW.

In natural gas shortage situation market based mechanisms are used to reduce gas consumption at the first stage. The price of gas that exceeds gas users intended capacity is increased to reduce consumption. During winter 2013-2014 there was no need to increase the price of natural gas to reduce consumption.

There were no new transmission lines built during the 2013. On the basis of statistics in year 2013 delivered by the natural gas distribution system operators to the Energy Authority it can be concluded that interruptions of supply on the distribution level were minimal with total of 4 interruptions in distribution companies. In the Finnish natural gas transmission network there was 3 unplanned service interruptions during year 2013.

### **2.3.6 Regulation**

#### **Network regulation**

In the natural gas sector, there are 24 local distribution network operators and one transmission system operator. The transmission system operator is also the sole importer and wholesale supplier of natural gas. The Energy Authority is responsible for regulating natural gas distribution network operators and natural gas transmission network operator. Additionally, the Energy Authority is supervising the wholesale and retail supply activities of the operators as there are gas markets are not opened.

In 2013 the regulation of natural gas system operations continued in the established manner. In September 2009 the Energy Market Authority confirmed the methodology for the second regulatory period in 2010 – 2013. In 2013 the length of the second regulatory period was extended until end of 2015.

#### **Supervision of natural gas prices**

As there is no gas-to-gas competition in the Finnish gas markets, all natural gas suppliers have an obligation to supply and according to the legislation their tariffs should be reasonable.

## **2.4 Consumer protection and dispute settlement in electricity and gas**

In 2013 the Energy Market Authority received 95 new complaints related electricity system operators and retailers and made decisions on 82 complaints (some of them were received in 2012). In addition to these, the Energy Market Authority received two complaints related to natural gas markets and made decisions on both complaints during 2013.

There are no statistics about the number of other inquiries than complaints.

The complaints submitted fell into the following categories: connection charges, the network access charges, quality of supply, metering, inconsistencies in invoicing and general complaints regarding practices of the supplier.

## 3 The electricity market

### 3.1 Network regulation

#### 3.1.1 Unbundling

##### TSO unbundling and certification

Before an undertaking which owns the transmission system is approved and designated as transmission system operator, it shall be certified to have complied with the ownership unbundling requirements set in the Article 9 of the Electricity Directive. The undertaking must ensure that the same persons are not entitled to exercise control or any other rights directly or indirectly over an undertaking performing generation or supply functions and over a transmission system operator. The implementation of the Directive 2009/72/EC into national Finnish legislation was completed in September 2013 and the Finnish transmission system operator Fingrid requested certification with a letter dated on 12th September 2013.

Fingrid, the undertaking requesting certification, was established in November 1996 by joining two previously existing transmission network operators. It started its operations in September 1997. Fingrid owns the Finnish main grid and all significant cross-border connections. At the setup of the company, Fingrid was 12 per cent owned by the State of Finland, 25 per cent by Fortum Power and Heat Oy, 25 per cent by Pohjolan Voima Oy and 38 per cent by insurance companies. Both Fortum Power and Heat Oy and Pohjolan Voima Oy are major Finnish electricity generators.

The holdings of Fortum and Pohjolan Voima in Fingrid required that changes were made in the ownership structure to comply with the ownership unbundling requirements. Fortum and Pohjolan Voima sold on voluntary bases their Fingrid shares to the State of Finland and Ilmarinen Mutual Pension Insurance Company in April 2011 to comply with the requirements of the Electricity Directive. After the acquisition Fingrid is 53.1 per cent owned by the State of Finland, 19.9 per cent by Ilmarinen Mutual Pension Insurance Company and 27.5 per cent by other shareholders, which are mainly Finnish insurance companies

The official certification of Fingrid started after the new Electricity Market Act came into force in September 2014. The Energy Authority gave its preliminary decision on the certification of Fingrid in November 2013 and notified it to the European Commission. The Energy Authority gave the final decision on the Fingrid's certification in March 2014 after receiving the opinion of the European Commission in January 2014.

##### Development in DSO unbundling

According to the Electricity Market Act, electricity network operations must be legally unbundled from electricity trade operations and electricity generation if the annual quantity of electricity transmitted to the customers through the network operator's 0.4 kV distribution network has been 200 GWh or more during three consecutive calendar years. The arrangements were to be implemented no later than the beginning of 2007. Also some distribution system operators under this threshold value have legally unbundled network activities. Totally, 35 distribution system operators of 85 were at the end of 2013 over the threshold value. Also some distribution system operators under this threshold value have voluntarily legally unbundled network activities from electricity supply and generation activities. In July 2014 a total of 52 distribution system operators of 80 operators were legally unbundled in Finland.

The legally unbundled distribution system operators are not required to be structured any special legal form. The only limitation is that the separated companies cannot both be public utilities because then these companies would be part of the same legal entity.

Many of the distribution system operators are either municipal utilities or companies in which the majority of the shares are owned by municipalities. There are about 15-20 DSOs who are

private or state owned. In Finland there are no requirements for ownership unbundling of the DSOs. Most of the legally unbundled distribution system operators still belong to same group of companies as electricity retailers and/or generators. In many cases the parent company of a legally unbundled distribution system operator is a generating or retailing company. On the other hand, some electricity retailers are owned by a group of distribution system operators. In most cases the legally unbundled distribution system operators belonging to a group of companies share their operational, managerial, and financial responsibilities. Part of the strategic and operational tasks of distribution system operators are done in collaboration with other parts of the concern or outsourced to them. Usually, the distribution system operator and the retailer have at least a common customer service.

There are also available independent service providers for the construction and maintenance of the network. Some electricity system operators have outsourced part of their operational tasks to these service providers.

The majority of the electricity system operators have the economic ownership of the assets. However, there are some electricity system operators who are operating with leased out network assets and thus they don't have the economic ownership of their network assets. At the end of 2013 there were 7 distribution system operators who were operating with a distribution network leased out from their parent company. In addition to these there are some other DSOs whose network assets are partially leased, like some substations. Regardless of whether the electricity system operator has or doesn't have the economic ownership of the assets, it needs to fulfil the technical, economic and organisational preconditions for the electricity system license:

- The organisation of the applicant corresponds to the scope and nature of its system operations;
- The applicant has a sufficient staff in its service;
- The applicant has in its service an operating manager and, if the applicant carries out electrical works, a manager of electrical works, that meets the eligibility requirements laid down in or by virtue of the Electrical Safety Act (410/1996);
- The applicant has the economic conditions for profitable electricity system operations;
- The applicant has the right to decide on the resources needed for the operation, up-keep and development of an electricity system; and
- The grid operator to be placed under the systems responsibility has delegated the functions related to the national balance responsibility to its separate operational entity or a subsidiary wholly owned by it.
- The applicant has unbundled electricity distribution network operations from other operations or electricity transmission operations.

The fifth point is comparable to the Article 26(2)(c) in the Directive 2009/72/EC. The corresponding principle has been de facto applied in Finland established practise of granting an electricity system license since year 1995. Besides these requirements, any additional rules that would provide the electricity system operators with more financial independence are not required. There isn't for example any formal restriction preventing that cash flow (e.g. in the form of dividends or transactions) of electricity system operator can be used by the holdings. The functional unbundling requirements are applied to legally unbundled distribution system operators with some limitations, with the exception of the requirement in the article 26(2)(c), which is applied to all distribution system operators (see above).

The functional unbundling requirements are restricted to legally unbundled distribution system operators because the requirements are related to the legal organs of the company (the board of directors and the managing director) and are not therefore applicable to vertically integrated company. The transition period related to legal unbundling did not extend to functional unbundling requirements but in practice the distribution system operators needed to be first legally unbundled before the functional unbundling requirements could be applied.



The requirement for separate management for the electricity network company is limited to legally unbundled system operators with 50,000 customers or more and at the end of 2013 it covered 18 distribution system operators in Finland. According to Electricity Market Act a person managing a network operator engaged in a legally unbundled electricity network operation with 50,000 customers or more may not act as the managing director of a utility in charge of electricity generation or electricity supply or as a member of its board of directors or a corresponding organ, if the network operator and the utility are under the control of the same party. The threshold of 50,000 customers is lower than the directive requires.

The requirements for professional interests and compliance programs are limited to legally unbundled electricity system operators with 50,000 customers or more and it covers 18 distribution system operators in Finland. The ministerial degree, which sets the detailed content of the requirements, was given in October 2006 and updated in fall 2013. The updated ministerial degree entered into force at the September 1<sup>st</sup>, 2013. The threshold of 100,000 customers was set into 50,000 customers by the Electricity Market Act updated in September 2013. The Energy Market Authority has prepared and published a recommendation for compliance program. According to the ministerial degree the distribution system operators had to prepare a compliance program and send it to the Energy Market Authority in 2007. The first reports on implementation of the program were published and posted to the Energy Market Authority in 2008. The electricity system operators with 50,000 customers, but under 100,000 customers, had to prepare their first compliance programs and send it to the Energy Authority in 2013.

The accounting unbundling applies to the rest of electricity system operators, which are not required to be legally unbundled. The accounting unbundling is also required in the legally unbundled companies, which have other activities besides network business if these activities are not relatively small. As a relatively small activity has been considered business activities whose annual revenue is less than EUR 500,000 and less than 10 per cent of the company's total revenue. Accounting unbundling requirements are specified with the ministerial degree and the Energy Market Authority has issued updated version of the guidelines on the compilation of unbundled financial statements in June 2011. These guidelines are not legally binding but they show the procedure the Energy Market Authority considers fulfil the requirements of the legislation. Both the distribution system operators and the transmission system operator are under the obligation to publish unbundled accounts with certain formula. They shall publish the unbundled financial statements as a part of the statutory financial statement, annual report or corresponding other public document available to the stakeholders.

The unbundled income statements, balance sheets and any supplementary information of unbundled operations are audited as part of the statutory auditing. The Energy Market Authority has issued the guidelines in co-operation with chartered accountant on the auditing of unbundled financial statements in 2006. These non-binding guidelines aim to help the audit of unbundled financial statements in different electricity system operators and inform the auditors about the unbundling requirements. The Energy Market Authority supervises that the network companies are fulfilling the unbundling requirements.

The Authority has also powers to oblige the companies to correct mistakes or omissions. A conditional fine may be imposed to make decisions effective. As a final mean the Energy Market Authority may also withdraw the electricity network license from the company. Even if there are legally unbundled distribution system operators, many of them still have the same corporate presentation with the electricity supply and generation activities. In most cases, for example, the customer service or web-pages are shared, but only a few distribution system operators have separate headquarters. The electricity transmission system operator doesn't have electricity supply or generation activities in the same corporation and thus has its own corporate presentation.

The 3rd Internal energy market directive package sets obligations regarding communication and branding of the DSOs. These requirements were be implemented in the Finnish regulation in fall 2013. The Electricity Market Act now sets obligations to legally unbundled electricity system

operators to ensure that its brand separates from those in the same group of companies as electricity retailers and/or generators and that it appears in communication with its own identity.

### **3.1.2 Technical functioning**

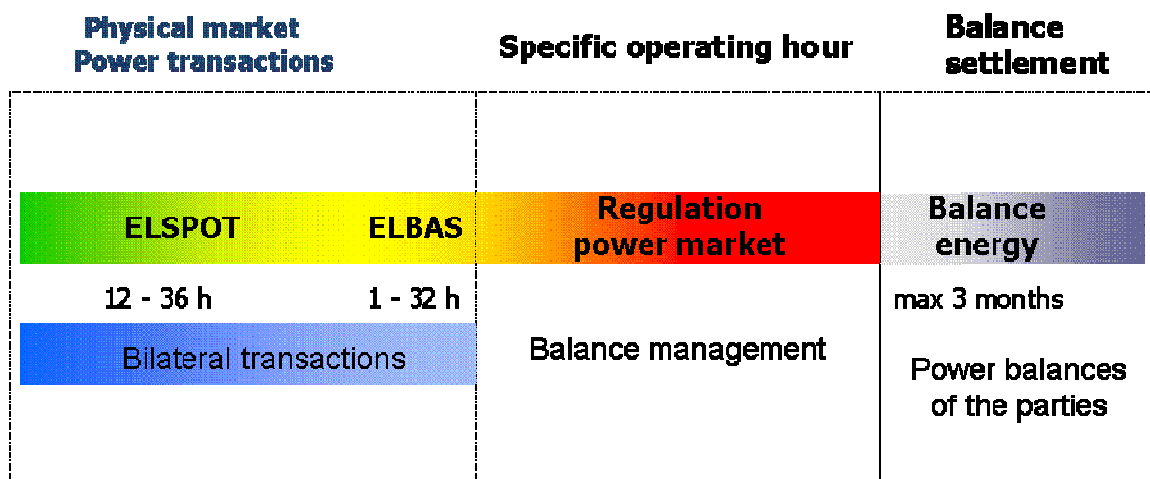
#### **Balancing services**

According to Article 37(6)(b), the provision of balancing services which shall be performed in the most economic manner possible and according to the Article 37(8), the regulatory authorities shall ensure that transmission and distribution system operators are granted appropriate incentive, over both the short and long term, to increase efficiencies, foster market integration and security of supply and support the related research activities. When monitoring compliance with and reviewing the past performance of network security and reliability rules and setting or approving standards and requirements for quality of service and supply or contributing thereto, Article 37(1)(h).

The balancing services and other services related to the system responsibility are governed by the Electricity Market Act, which in turn reflects the requirements of the Directive 2009/72/EC. According to the Electricity Market Act, the Energy Market Authority approves the pricing methodology for balancing services provided by the TSO. During the first and second regulatory period (years 2005 – 2007 and 2008 - 2011) the Energy Market Authority executed joint supervision of both network and system operation (including balancing services) in the price regulation of the TSO. Furthermore, the Energy Market Authority approves terms and conditions of TSO's balancing services (i.e. standard balance agreement) when they are to be renewed. In November 2011 the Energy Market Authority approved terms and conditions for TSO balancing services from January 1, 2012 and these terms and conditions are valid until further notice.

Balancing is managed by market based methods in the synchronously connected Nordic countries (Finland, Sweden, Norway and Denmark). The Nordic countries have established common regulation power market in the year 2002 to handle balancing. Imbalances will be handled and settled according to common rules defined in System Operation Agreement between the Nordic TSOs. Balancing is managed within the Nordic control areas as one system consisting of all four Nordic TSOs. The balance management is based on frequency requirements agreed on the System Operation Agreement. However, imbalances within a country are settled according to principles that vary from one country to another.

Figure 1 presents the balance management in the context of the Nordic electricity market model. Besides the regulation power market for actions during the specific operating hour, Elbas-market can be used for the intra-day trading and revisions of nominations after the day-ahead spot market (Elsport) has closed.



**Fixed transactions must be agreed and reported before the specific operating hour**

Figure 1. Balance management in the Nordic electricity market model (Source: Fingrid Oyj).

In the Nordic regulation power market all bids are collected in the joint Nordic merit order list and according to this list the production increases and decreases are carried out where they are most advantageous in the price order, however, taking into account congestions between control areas. This leads to the effective utilisation of the Nordic balancing resources.

The balance between production and consumption within a specific operating hour is created through the regulation market by the upward and downward regulation of production and consumption to handle physical imbalances taking into account the effects on congestions.

The price of the regulation power during the specified operating hour (the balancing interval 60 minutes) is determined on the basis of ordered up- or down-regulations. This implies that the price of the regulating power is known only after the end of the specific operating hour. It has been agreed that the price of up-regulation is the most expensive up-regulation bid ordered by the TSO during the specific operating hour. All those who have participated in the up-regulation during the specific operating hour receive the same compensation per MWh. Respectively the price of down-regulation is the cheapest down-regulation bid ordered by the TSO during the specific operating hour. All those who have participated in the down-regulation during the specific operating hour receive the same compensation per MWh.

The average regulating power price for up-regulation in the year 2013 was 45 €/MWh and for down regulation 37 €/MWh. In 2012 the corresponding prices were 46 EUR/MWh for up-regulation and down-regulation was 32 EUR/MWh. The volumes traded in regulation market were for up-regulation 121 GWh and for down-regulation 159 GWh in Finland during the year 2013.

Requirements set by the TSO for Finnish bidders to act in the Nordic regulation power market are as follows:

- The minimum capacity of a single bid is 10 MW
- Full power should be delivered by the bidder in 10 minutes after the bid,
- The bid must include power (up/down regulated MW), price (EUR/MWh) and location (north/south of Finland)
- The bids are to be submitted electronically to TSO no later than 30 minutes before the beginning of the operation hour, bids can be given within "rolling window" where gate is closed 30 minutes before the specific operating hour and bids can be given from beginning of operating day until 30 minutes before the specific operating hour

- The bid applies to a whole hour and it can be activated immediately from the beginning of the hour or later during the hour
- There may exist several power plants behind one regulation bid

The balance service costs related to the national energy consumption were in Finland 40 EUR/GWh in year 2013 when costs of regulating and balancing power and costs of reserves are excluded. The total annual income for TSO from the balance fees in year 2013 was 37,2 million Euros. Fees are charged from every balance responsible party.

The TSO provides information on forecasts and values for the reserves before, during and after the operating hour; also regulation prices after operating hour. Most of this information is given only to the market participants and to Nord Pool. Publicly available information can be found on Fingrid's website [www.fingrid.fi](http://www.fingrid.fi) and Nord Pool Spot's website [www.nordpoolspot.com](http://www.nordpoolspot.com).

The new balance agreement was implemented in Finland from the beginning of 2009. The purpose of balance settlement is in all Nordic countries to settle the imbalances that are the result of electricity deliveries between the parties in the electricity market. The system operators perform two types of balance settlement: one for production and one for consumption. In Finland production up to 1 MW is settled as consumption.

Balance power between two countries is priced and settled according to the Nordel System Operation Agreement. Since September 2002, bids from market participants with available regulating capacity are entered into a common price list in the common Nordic Operational Information System (NOIS). There is now a common regulation market and the system operation agreement results in a balance control and balance regulation of the interconnected power system that is much harmonised.

The balance settlement inside the countries is a settlement between the system operators and the balance responsible parties. This settlement is governed by national balance agreements. The balance agreements also describe how the balance responsible parties can participate in the regulation power market.

The Finnish, Norwegian and Swedish TSOs have decided to implement a harmonized balance settlement model at TSO level. The implementation includes harmonizing and integration of national grid and bidding area level balance settlement. Ultimately one common operational unit responsible for making the balance settlement has already been established. The expected go-live for a common Nordic balance settlement will be late 2015. The Electricity Market Act include a provision which allows Fingrid with a separate permission from the Energy Authority to outsource the actual work of balance settlement to a company owned by TSOs coming from EEA countries.

### **Quality of supply**

In the Finnish legislation the electricity system operators have various obligations:

- obligation to develop the electricity network;
- obligation to connect; and
- obligation to transmit electricity

The legislation also includes new obligations for DSOs to plan and develop their network in order to restrict storm related interruptions to 36 hours in rural areas and 6 to hours in urban areas gradually by 2032.

In addition to price, quality of supply is also important to electricity users. The regulation model for the third regulatory period encourages system operators also to improve the quality of electricity in two ways: by taking into account network investments in the capital base and by treating the losses caused to customers by interruptions as items comparable with costs.

In the economic regulation of network operators the losses caused to customers by an interruption in electricity supply are taken into account as an item comparable to costs, i.e. price tags are developed for different type of interruptions. The Energy Authority has not set specific targets for electricity quality improvement. The outturns required of system operators must be equal to the average outturns of previous years. However, the regulation model encourages system operators to improve the quality of electricity supply, because by having fewer and shorter interruptions compared to average level of previous years the system operator is allowed to have higher rate of return. Similarly, electricity quality impairment lowers the permitted rate of return for the system operator.

Table 1 shows interruptions in transmission and distribution networks during the years 2002-2013. The numbers include both planned and unplanned interruptions. In Finland storms and other circumstances caused by weather or animals have a remarkable influence on interruptions because about 85 per cent of MV distribution network are overhead lines. Thus annual variations in interruption times may be significant.

**Table 1. Interruptions in transmission and distribution networks in 2003-2013.**

	Interruptions minutes lost per customer per year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Transmission	2.12	2.10	2.02	2.10	1.50	1.55	2.7	5.0	6.9	1.3	2.6
Distribution	123	103	180	145	103	129	96	279	366	175	343

According to the Electricity Market Act the electricity network operators have to pay standard compensations to the customers if the interruption time is 12 hours or more. If the interruption time is at least 12 hours the standard compensation is 10 per cent of the customer's annual network access charges. The compensation increases stepwise with the interruption time. The maximum compensation is 200 per cent of the annual network charges when the interruption time has exceeded 12 days. However the maximum compensation is limited to 1000 euros per customer per year. Maximum compensation limit will rise to 1500 euros on January 1, 2016 and finally to 2000 euros on January 1, 2018.

### **3.1.3 Network tariffs for connection and access**

#### **Regulation of network tariffs for connection and access**

According to the Electricity Market Act, the network operators are able to set the actual network tariffs and charges by themselves. There is no ex-ante approval of tariffs or prices of network services by authorities. The network operators have to notice their customers about the changes in charges at least one month prior to entering into force.

The Energy Authority confirms ex-ante the methodology to be used in setting both transmission and distribution network tariffs and connection charges. The Energy Market Authority has to approve ex-ante also the terms and conditions of transmission and connection services before the network operators are able to apply them.

The methodology of setting transmission and distribution network tariffs is confirmed by the Energy Authority prior to each regulatory period. The length of regulatory periods is four years. The present regulatory period covers the years 2012 – 2015. The Energy Market Authority confirmed by its decisions the methods concerning the rate of return in electricity network operation to be followed in the third regulatory period for each network system operator in November 2011.

After the regulatory period has come to an end, the Energy Market Authority confirms the earnings of each network operator in its supervision decisions for the regulatory period, and will confirm the amount of any accrued earnings that exceed or fall short of reasonable earnings for

the regulatory period. Where necessary, the supervision decisions include obligations to return to the customers any surplus profit for the completed regulatory period through lower network charges for the new regulatory period. The supervision decisions correspondingly confirm that the network operator may allow raise network charges for the new regulatory period, with the amount by which the earnings accruing to the network operator from the previous regulatory period fell below the reasonable earnings level. The process is in line with the Article 37(10).

The supervision decisions regarding regulatory period of 2008 – 2011 were given in 2013.

According to the Act on Supervision of Electricity and Gas Markets the methodology confirmed by the regulator may include the following items:

- method for the valuation of regulated asset base
- method for determining approved rate of return on capital
- method for determining realised profit of network operations
- method for setting efficiency targets for network operations

The network will be included into the regulated asset base in the net present value instead of book value. Ever since the first regulatory period, the Energy Authority has encouraged system operators to make investments in the electricity network. In the regulation model, all investments in the network will annually be taken into account in the regulated asset base which is used to determine the reasonable rate of return. Thus the methodology provides incentives to transmission and distribution system operators to develop and to make necessary investments into their network in order to ensure viability of the networks as required by the Article 37(6)(a). The net present value of the network will be updated annually by taking into account depreciation and investments. Approved rate of return on capital is determined using a WACC-model (Weighted Average Cost of Capital) and will be updated annually.

The network operators have been encouraged to increase the efficiency of their operations and to maintain a high security of electricity supply. For the third regulatory period in 2012 - 2015 the Energy Market Authority set both the general efficiency target and the company-specific efficiency target for the DSOs. The company-specific efficiency targets are estimated on the benchmarking of DSOs by using semi - nonparametric StoNED-method (*Stochastic Nonsmooth Envelopment of Data*).

The network operators may appeal against the methodology confirmed by the Energy Authority to the Market Court and, furthermore, both the Energy Authority and the network operators are able to appeal against the decisions of the Market Court to the Supreme Administrative Court. A total of 54 distribution network operators submitted the appeals against the decision issued by the Energy Market Authority in May 2010 on rejecting to elevate a market risk premium in the middle of the second regulatory period. The Market Court turned down the appeals in December 2010. Two companies hence made an appeal to the Supreme Administrative Court. In December 2013 the Supreme Court turned down the appeal.

A total of 76 electricity network operators filed appeals with the Market Court in December 2011 against the methodology decisions for the third regulatory period (2012 – 2015) confirmed by the Energy Market Authority. The Market Court heard the case in autumn 2012. The Market Court turned down all but one of the claims in December 2012. The Energy Market Authority was obliged to impose a cap on maximum effect of outage costs in the efficiency incentive of regulatory methods. The Energy Market Authority gave new methodology decisions in summer of 2013. One network operator made an appeal to the Supreme Administrative Court concerning three of the claims that Market Court turned down. The case is still pending.

The Energy Authority has developed details of the methodology with a view to achieving a regulatory model that is incentivizing more innovations and investments in the networks in order to ensure viability of the networks as required by the Article 37(6)(a). In line with this a project - Roadmap 2020 - went ahead during the years 2009-2011. During this project a vision for network regulation in 2020 was prepared and the needed strategies and actions to develop network

regulation of both distribution and transmission system operators were defined. The project Roadmap 2020 was concluded in November 2011.

The Electricity Market Act has detailed provisions related to network charges collected from electricity generation. Since February 2008 the connection fees for small-scale electricity generation (maximum 2 MVA) may not include the costs caused by strengthening the existing electricity network but only include the direct costs of connection.

The regulation also sets the maximum level of the network charges for the electricity generation connected to the distribution network. The annual network charges collected from an electricity generator may not exceed 0.07 cent/kWh.

According to the Electricity Market Act, at the request of the customer (either generator or load), the transmission and distribution system operators shall give him/her a comprehensive and sufficiently detailed estimate on the costs of connection. The Energy Market Authority has fixed in January 2011 by its decisions the methodology for pricing of grid connections in distribution networks. Distribution system operators should have followed this methodology in pricing of connection fees from May 2011.

### **3.1.4 Cross-border issues**

#### **Capacity allocation and congestion management**

Finland is a part of synchronously operated Nordic power system. It has 400 kV and 220 kV AC interconnectors to Sweden and one 220 kV AC interconnector to Norway. Furthermore there are two DC interconnectors between Finland and Sweden (Fenno-Skan 1 and 2) and two DC interconnectors between Finland and Estonia (Estlink 1 and 2). Finland has also interconnectors to Russia (back-to-back DC converter station at Vyborg and a 400 kV and two 110 kV AC interconnectors synchronised to Finnish power system).

Congestions across the borders between Finland and Sweden, Finland and Norway and Finland and Estonia are managed by implicit auctions (market splitting) in the day-ahead market (spot market) in power exchange Nord Pool Spot. Implicit auctions imply that market-based methods are applied in capacity allocation, and thus congestion management is wholly integrated to the functioning of the Nordic wholesale market. In the implicit action the energy and transmission capacity between various bidding areas is allocated in a single process to the parties of electricity trading. Capacity which may not have been used on the Elspot market is offered to the Elbas market, where trading finishes no later than one hour before the hour of operation. The Elspot capacities for the next day are announced before noon and the Elbas capacities in the afternoon. Finland is considered as a single bidding area within Nordic market and congestions within Finland and after spot market closure are managed by counter-trade.

There exist no priority transmission rights for cross-border trade from Finland to Sweden and from Finland to Norway and from Finland to Estonia or vice versa. For hedging against prices differences between area prices and the system price market actors may use EPADs (Electricity Price Area Differentials, replacing former Contracts for Differences (CfD)).

Priority transmission rights are used to allocate capacity between Finland and Russia. Actors can buy rights in auctions arranged by TSO for one or more years. Fingrid makes 1,300 MW of transmission capacity from Russia available to the electricity market on its 400 kV connections from Russia. Fingrid has reserved a volume of 100 MW to be used as a power system reserve. Electricity can be imported from Russia by customers who have made an agreement on a fixed transmission right with Fingrid and an agreement on energy purchases with a Russian organisation responsible for electricity sales.

In August 2011 a new trading scheme, so-called direct exchange trade, was adopted in electricity trade from Russia to Finland. Direct exchange trade is a first step towards more market-focused procedures in electricity trade between Russia and Finland and at the same time between Russia and the EU. In this model an electricity market player engaged in direct exchange trade buys

electricity in the electricity exchange in Russia and sells it directly to the Nord Pool Spot. The player can also trade the offered electricity not sold to the spot market in the secondary market, in other words in Nord Pool Spot's or the Russian intra-day market. So far, the volume of direct trading is limited to 100 MW, while in conventional bilateral trade it is 1,200 MW and trading is only available from Russia to Finland. The goal is develop trading so that it works in both directions between Finland and Russia.

## MAXIMUM NTC

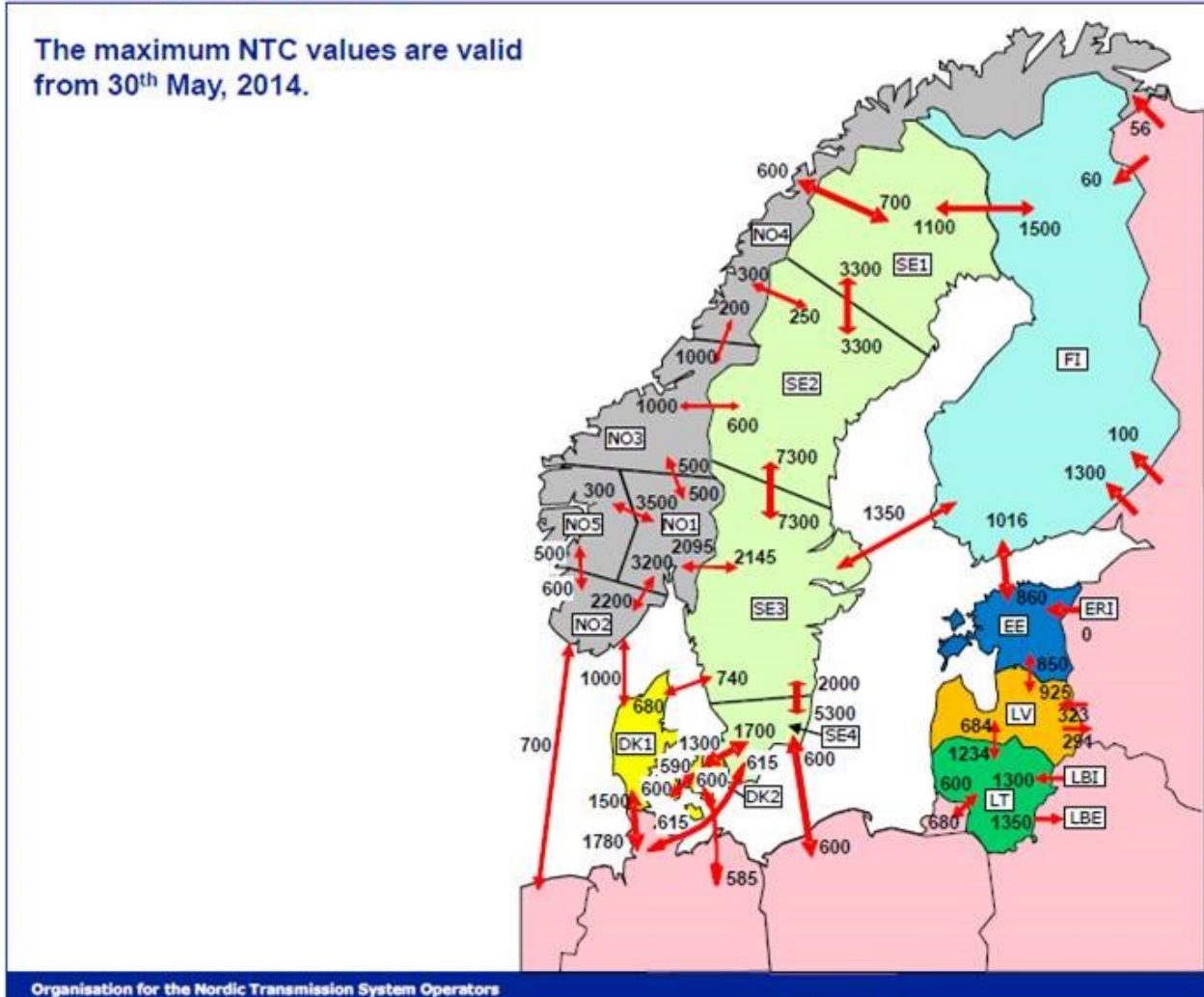


Figure 2. Transmission capacities on interconnectors within Nordic power system

Transmission capacities on interconnectors within Nordic power system are presented in Figure 2. In implicit auctions (market splitting) price areas exist when there is not enough capacity between these areas and the price of electricity will vary between these areas depending on the amount of congestions. When no congestions exist prices are equal within the price areas.

The Nordic market has traditionally been split into six price areas: Finland (Helsinki), Sweden (Stockholm), West Denmark (Jutland), East Denmark (Zealand), South Norway (Oslo) and North Norway (Tromsø). However, this was changed in 2010 as Norway was split into five price areas. Similarly in November 1, 2011 Sweden was split into four price areas. Figure 3 presents the percentage of hours during the year 2013 when same day-ahead area price existed. In this picture the price areas are grouped for clarity.



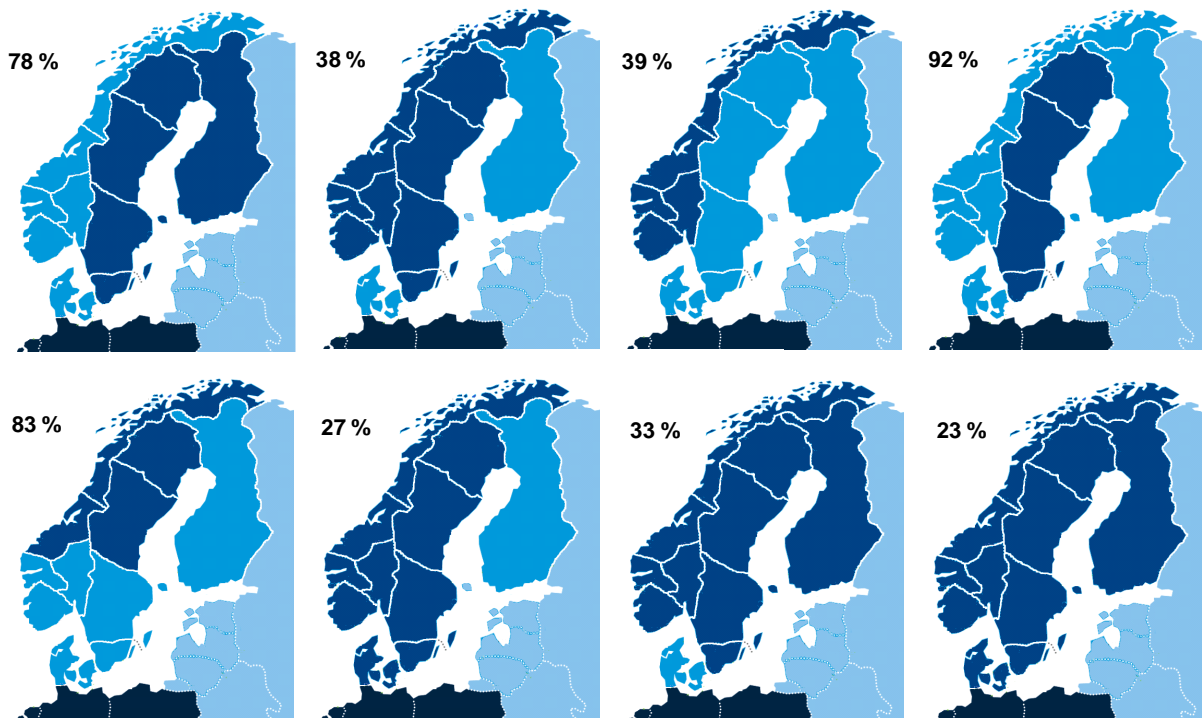


Figure 3. Percentage of hours during which different price areas groups have had equal prices in 2013

Counter trade is used to relieve both national and inter-regional congestions during the daily network operation. Costs of counter trade are paid by the TSO. Table 2 shows the costs of the counter trade paid by the Finnish TSO during the years 2005 - 2013. Counter trade costs in 2013 were 880 000€.

Table 2. Net costs of counter trade in Finland during the years 2005 - 2013 in million Euros.

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Costs	0,86	0,48	0,244	0,127	0,085	0,2	1,6	4,7	0,88

Source: Fingrid Oyj.

### **Implementation of the Regulation 714/2009 and Congestion Management Guidelines**

The Energy Authority acts as the regulatory authority to supervise the compliance with the Regulation 714/2009 in Finland. The supervisory powers of the Energy Authority are ex-post by their nature. Furthermore, the Energy Authority shall take the Regulation 714/2009 into account while issuing the confirmation decisions on the network pricing methodology to the network operators.

The Congestion Management Guidelines under the Regulation 714/2009 entered into force in March 2011. The Congestion Management Guidelines set up requirements for TSOs on managing congestions, co-ordination, transparency and use of congestion income. Furthermore, the Congestion Management Guidelines require that competent regulatory authorities oversee TSOs' actions. Obligations to market participants are also included in topics having relevance to congestion management.

Congestion management method applied to allocate all interconnector capacity in Nordic market, i.e. implicit auction, fulfils the requirements set in the congestion management guidelines. Remaining transmission capacity after day-ahead allocation is set for intra-day market and cross-border balancing. Nordic TSOs publish information either on their own website (e.g. [www.fingrid.fi](http://www.fingrid.fi)) or Nord Pool Spot's website ([www.nordpoolspot.com](http://www.nordpoolspot.com)).

During the year 2013 congestion management income for the Finnish TSO totalled 18.5 Million EUR (in 2012 EUR 50.8 Million).

### **3.1.5 Compliance**

According to the Finnish legislation the Energy Authority shall supervise that the provisions of the Electricity Market Act and any rules and regulations issued under it, as well as Regulation 714/2009 are complied with. However, the construction of cross-border power lines, and the import and export of electricity are supervised by the Ministry of Employment and the Economy.

After transposition of the Directive 2009/72/EC into Finnish legislation in September 2013 the Energy Authority started the certification process of the Finnish electricity transmission system operator, Fingrid Oyj. The Energy Authority made the decision on the certification of Fingrid in March 2014 after receiving opinion from the European Commission. As the Finnish transmission system operator, Fingrid is ownership unbundled from other operations provisions in Article 37(3)(a)(b)(e) and Article 37(5) are not relevant for Finland.

The Energy Authority ensures compliance of electricity transmission and distribution system operators with their obligations under the Directive and other relevant Community legislation as required in Article 37(1)(b) by using mainly ex-post supervision. Investigation may start based on a request from any market actor or on the Energy Authority's own initiative. In 2013 any such investigation cases were not started.

According to the Finnish legislation the official of the Energy Authority has the right to perform an inspection in the premises occupied by a body or an establishment carrying out the activities supervised in order to carry out the surveillance duty under the Electricity Market Act and to supervise the compliance of the confirming or obliging decisions made by the Energy Authority. However, an inspection may not be carried out in premises within the scope of domestic peace. A body or an establishment carrying out activities to be supervised shall, on demand, present the documents and files in its data systems to the official performing an inspection and provide access to the electrical apparatus and equipment that can have a meaning for the supervision of the compliance with the rules or regulations issued by virtue of the Electricity Market Act. The official performing the inspection has the right to take copies free of charge of the documents to be inspected as well printouts of the files in the data systems.

On the basis of Finnish legislation the Energy Authority is empowered to oblige an electricity network operator or a retail supplier to correct his mistake or omission. The Energy Authority has powers to order in the obliging decision how the mistake or omission should be mended. The obliging decision may also include an order to refund customer of a fee incorrectly charged from him. The Energy Authority may impose a conditional fine to make a decision effective. Thus the powers of the Energy Authority are compliant with the Article 37(4)(a)(b)(c)(e).

Since September 2013 the Energy Market Authority has also had right to propose to the Market Court to impose administrative fines to network system operators or other electricity market actors for the non-compliance with their obligations pursuant to the Electricity Market Act or the Regulation as required in the Article 37(4)(d).

In 2013 there were no such cases where the Energy Market Authority should follow the binding decisions of the Agency or the Commission according to the Article 37(1)(d) or guidelines according to the Article 39.

## **3.2 Promoting Competition**

### **3.2.1 Wholesale markets**

Since September 2013 the Finnish legislation has included explicit provisions regarding monitoring the level of transparency, including of wholesale prices, and ensuring compliance of electricity undertakings with transparency obligations and monitoring the level and effectiveness of market opening and competition in line with Articles 37(i)-(k).

The development of shares of different generation forms, imports and exports can be seen in the Table 3.

Table 3. Electricity production by source and import from neighbouring countries.

TWh		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>GROSS PRODUCTION</b>		84,3	85,8	70,5	81,9	81,2	77,1	71,6	80,4	73,5	70,3	71,2
	Cons. in power plants	3,9	3,6	2,7	3,3	3,4	2,9	2,9	3,4	3	2,6	2,9
<b>PRODUCTION</b>		80,4	82,2	67,9	78,6	77,8	74,2	68,7	77	70,6	67,7	68,3
	Hydro power	9,5	14,9	13,6	11,3	14	16,9	12,6	12,8	12,3	16,6	12,6
	Wind power	0,1	0,1	0,2	0,1	0,2	0,2	0,2	0,3	0,5	0,5	0,8
	Nuclear power	21,8	21,8	22,3	22	22,5	22	22,5	21,9	22,2	22,1	22,7
	Conv. therm power	49	45,4	31,8	45,1	41,1	34,9	33,3	42	35,4	28,6	32,2
	Co-gen. CHP	28	28,2	26,1	27,6	26,8	26,7	24,2	28,5	25,9	22,8	23,4
	distr. heat	15,3	15,1	14,4	14,5	14,4	15,5	14,8	17,4	14,9	13,5	13,7
	industry	12,7	13	11,6	13,1	12,3	11,2	9,4	11,1	10,9	9,3	9,7
	Condensing etc.	21	17,2	5,7	17,5	14,4	8,2	9,1	13,5	9,6	5,7	8,8
	conv.	21	17,2	5,7	17,5	14,4	8,2	9,1	13,5	9,6	5,7	8,8
	GT etc.	0	0	0	0	0	0	0	0	0	0	0
<b>IMPORTS</b>	from	11,9	11,7	17,9	15,4	15,4	16,1	15,5	15,7	17,7	19,1	17,6
	Sweden	0,5	0,4	6,4	3,7	3,1	2,8	1,9	2	5,1	14,2	12,4
	Norway	0,1	0,1	0,2	0,2	0,2	0,2	0,1	0,1	0,1	0,08	0,05
	Russia	11,3	11,1	11,3	11,6	10,2	10,9	11,7	11,6	10,8	4,4	4,7
	Estonia					1,9	2,3	1,8	2	1,7	0,4	0,5
<b>TOTAL SUPPLY</b>		92,3	93,8	85,8	94	93,2	90,2	84,2	92,7	88,8	86,8	85,9
<b>EXPORTS</b>	to	7	6,8	0,9	3,8	2,9	3,3	3,4	5,2	3,8	1,6	1,9
	Sweden	6,9	6,6	0,8	3,7	2,7	3,3	3,2	4,8	3,2	0,03	0,2
	Norway	0,2	0,2	0,1	0,1	0,1	0	0,1	0,2	0,1	0,09	0,1
	Russia	0	0	0	0	0	0	0	0	0	0	0,03
	Estonia					0	0	0	0,2	0,5	1,5	1,5
<b>GROSS CONSUMPTION</b>		85,2	87	84,9	90,1	90,4	86,9	80,8	87,5	84,4	85,1	84
	Incl. Electric boilers	0,1	0,1	0,1	0,1	-	0,1	0,1	0,1	0		

Source: Adato Energia Oy, Statistics Nordel

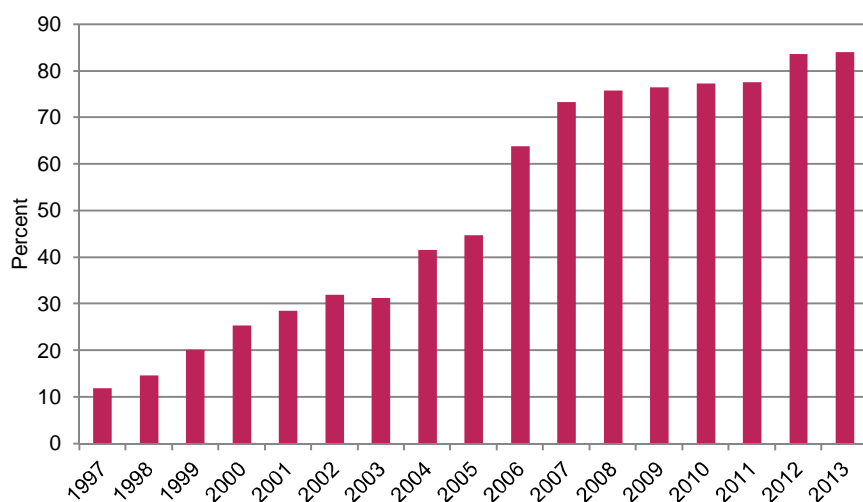
### 3.2.1.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

In the Nordic and Baltic electricity market electricity trading takes the form of bilateral trade – i.e. direct trading among the market actors – and trading via the power exchange. There is the Nordic electricity exchange Nord Pool Spot AS for the physical electricity trade and Nasdaq OMX for the financial electricity trade. Approximately 84 percent the electricity used in the Nordic and Baltic area is traded through power exchange whereas remaining 20 percent is traded via bilateral transactions or internal procurement.

In 2013, the volume of electricity traded in Nord Pool Spot AS in day-ahead action Elspot amounted to 349 TWh, (324 TWh in 2012). The increase in physical volume is a result increase of the trading in Baltic market. The market share of Nord Pool Spot AS from the consumption in the NPS area, covering Nordic and Baltic countries remained on 84 per cent, though the volume and geographical coverage changed from previous year. The market share of Nord Pool Spot AS in Finland was 62.3 %.

Figure 4 presents the share of electricity bought from Nord Pool Spot AS in relation to the electricity consumption in Nordic and Baltic countries (Finland, Sweden, Norway, Denmark, Estonia, Latvia and Lithuania) during the years 1997-2013

The share of electricity bought from the power exchange in relation to the Finnish electricity consumption has increased considerably since Finland joined the Nordic power market area in June 1998. From the share of 5 per cent the share of electricity bought from the Nordic power exchange has increased to cover 62 per cent of the Finnish consumption in 2012.



**Figure 4. The percentage share of electricity bought from power exchange in relation to the electricity consumption in Nordic countries (Finland, Sweden, Norway and Denmark). (Source: Nord Pool Finland Oy)**

The basis of the price formation in the Nordic power market is the spot market. Trade is organised as an implicit auction. The prices are determined by summarising all purchases into a purchase curve and all sales into a sales curve. Bids in the electricity spot market are given in the same way regardless of the player, and accordingly, a bid for the following day has to be given before noon every day indicating the amounts one wishes to purchase or sell at the relevant hour at different price levels. When the price has been determined for each operating hour, the sales and purchases of individual players are determined. In case there are no grid restrictions between the Nordic countries or internally in one of countries, the spot price is the common price for the whole Nordic market area.

The allocation of cross-border capacity and the management of congestions between Finland and the other Nordic countries and Estonia are managed by implicit auctions (market splitting) in the day-ahead market of the Nordic power exchange. The price differentials emerge as a

function of insufficient transfer capacity over the national boundaries. In 2013, about 81 per cent of the time Finland and the northern and central Sweden belonged to the same price area. Finland had the same price with Estonia 69 per cent of time in 2013.

In 2013 the average day-ahead area price for Finland in Nord Pool Spot was 41.16 EUR / MWh, up 12 per cent from the previous year (36.64 EUR/MWh in 2012). The average day-ahead system price amounted to 38.10 EUR/MWh, up 22 per cent from previous year. In 2012 the system price was 31.2 EUR/MWh.

The TSO provides system services (ancillary services) in Finland. As far as the power reserves are concerned, the TSO's goal is to make sure that sufficient volume of reserves is maintained continuously in Finland in cost-efficient manner and in accordance with the system operation agreement signed between the Nordic transmission system operators.

The TSO produces only part of the system services. Fingrid owns and operates 1,300 MW of gas turbine generation capacity used as fast disturbance reserve. The maintenance of reserves is primarily arranged as a service purchased from electricity producers and reserve holders. Agreements of this kind exist specially in three first categories of system services.

The participation of electricity producers and others in the maintenance of the reserves as a service provider is fully voluntary. Fingrid has established a "reserve bank" where companies owning controllable capacity can register their resources. The resource owners maintain the agreed and measured properties at their power plants in the agreed manner and receive the compensation from the TSO.

As far as the agreements concerning the maintenance of primary reserves (frequency controlled normal operation reserve and frequency controlled disturbance reserve) are concerned, the terms, contents and compensations specified in the agreements are identical for all service providers.

The agreements to provide instantaneous reactive power reserves have been established with all generators over 10 MVA when they are connected to the network and the terms, contents and compensations specified in the agreements are identical for all generators within a voltage level.

The load shedding serving as primary and secondary reserve (frequency control and fast disturbance reserve) have been agreed upon with companies in the pulp and paper, chemical, and metal industries. The agreements provide for a total power of around 1,000 MW and are in effect from 2005 to 2015.

### **3.2.1.2 Monitoring the level of transparency, including compliance with transparency obligations, and the level and effectiveness of market opening and competition**

Transparency and market surveillance have been organised in two ways within the Nordic energy market. There are arrangements that are based on legislation and authority surveillance, and additionally, there are voluntary contract-based arrangements between the Nordic power exchange and the market actors

The surveillance responsibility over the Nordic power exchange lies in Norway. As regards the spot market, Nord Pool Spot AS operates on the basis of a licence from the Norwegian energy regulator Norges vassdrag- og energidirektorat (NVE) and the market supervision is the responsibility of the Norwegian competition authority. The financial market is operated by Nasdaq OMX on the basis of a license from the Norwegian Financial Supervisory Authority.

The Forum of Nordic energy regulators (NordREG) has agreed to co-operate regarding the issues of the Nordic power exchange despite the fact that besides the Norwegian regulator NVE, the other Nordic Regulators have no legal mandate over the Nordic power exchange.

In 2011 NordREG and Nord Pool Spot agreed to found the Nord Pool Spot Regulatory Council to provide a forum for exchange of information and discussion on market development in the Nord Pool Spot market area. At the end of 2013 members of the Council are Nord Pool Spot As and the national regulatory authorities from Finland, Sweden, Norway, Denmark, Estonia, Latvia and Lithuania. The objective of the Council is to extend the dialogue between Nord Pool Spot and the regulators in the region and also serve as a point for information from Nord Pool Spot to all relevant regulators

As required by the Norwegian Stock Exchange Act and the related regulations on market surveillance, Nord Pool Spot has established its own market surveillance department. The department is responsible for monitoring trading activities and the conduct of participants both in the physical and the financial power market. The market surveillance is intended to ensure that the activities of the market actors are in line with the prevailing statutes and regulations as well as with the power exchange's own rules.

All members in Nord Pool Spot have a contractual obligation to release information to Nord Pool Spot and general public on events which have a relevant effect to price formation in the Nord Pool Spot or in the financial market. Members have to report on any plans or changes of plans for maintenances or limitations of their production units. The same applies to any outage or failure concerning more than 100 MW, as soon as possible after the event has occurred.

Market participants have to report relevant information within 60 minutes to Nord Pool Spot. National information has to be reported to the TSOs as well. More information is available on Nord Pool Spot's website under Disclosure rules.

Nord Pool Spot has its insider trading rules for the spot and the financial market. Furthermore, Nord Pool Spot has rules for handling market sensitive information and guidelines for ethics in trading.

Furthermore, in Finland there are some national rules on disclosure of information. In the Electricity Market Act it is stated that: "A power plant operator shall notify the electricity market authority of a plan for constructing a power plant, of commissioning of a power plant and of long-term or permanent decommissioning of a power plant." Further provisions on the contents of the notification obligation and notification procedure are given by Government decree.

On the basis of the Electricity Market Act, the power plant operator is obliged to notify the Energy Market Authority of a planned maintenance outage of its power plant practising separate electricity generation, with an output of 100 MVA, which would take place between the 1<sup>st</sup> of December and the 28<sup>th</sup> of February. The notification shall be made at least six months before the planned starting date of the maintenance outage. The Energy Market Authority may order that the date of a maintenance outage of a power plant be rescheduled outside the period of the 1<sup>st</sup> of December and the 28<sup>th</sup> of February.

The provisions included in the Electricity Market Act concerning the notifications of planned maintenance outages has at least two objectives. Firstly, it is aimed at improving the knowledge on security of supply, and secondly, it is aimed at increasing the efficiency of the electricity price mechanism. Thus, the objective is to guarantee that the price of electricity is determined on the basis of supply and demand also in those situations when the supply of electricity is constrained – for instance due to low hydro reservoirs and/or increased demand – in the Nordic electricity market. The Section intends to make it more difficult to manipulate the market price and to enhance the possibilities to utilize the generation plants.

### **3.2.1.3 Competition supervision**

The responsibility of supervising the electricity generation, wholesale supply and retail supply falls primarily to the Finnish Competition and Consumer Authority. The Electricity Market Act in Finland does not include any, or only a few, rules governing the generation and supply of electricity except supervision of retail supply under obligation to, the monitoring of security of supply and unbundling. On the basis of the Act on Competition Restrictions, the Finnish Competition

and Consumer Authority has powers to investigate and give decisions on cases amounting to abuse of a dominant position.

The Finnish Competition and Consumer Authority works, among other industries, also in the electricity sector to promote healthy competition and to investigate antitrust and merger cases. In the Finnish Competition Act there are no special provisions related to the abuse of dominant position in the electricity market. The Finnish Competition and Consumer Authority's analysis is always case-specific and there are no universally applicable criteria which could be used in the decision making. The Finnish Competition and Consumer Authority's view is that energy sector cases should be assessed on equal standard with cases in other industries. Nor has the Finnish Competition and Consumer Authority gathered up any special information of the electricity markets.

There is a one special provision related to merger control on the electricity sector. The Market Court may, upon the proposal of the Finnish Competition and Consumer Authority, prohibit a concentration in the electricity market as a result of which the combined share of the transmission operations of the parties to the concentration and the entities or facilities in such a relation to them of the amount of electricity distributed at 400 V in the distribution grid exceeds 25 per cent on a national level. So far the Finnish Competition and Consumer Authority has not investigated a merger where this provision could have put into practise.

The role of the Energy Market Authority in avoiding abuses and harmful dominance in electricity and gas market is based on maintaining equality and transparency in terms and pricing of transmission and distribution activity. The competitive sector of electricity sales is supposed to be self-conducting as long as the transmission and distribution work neutrally.

### **3.2.2 Retail market**

In 2013, there were 71 retail suppliers of which 40 offered their products nation-wide. Only a few electricity retailers are ownership unbundled from electricity network activities. Most of the legally unbundled electricity retailers still belong to same group of companies as a distribution system operator.

In Finland electricity retail supply does not require any license or registration at the Energy Authority. There are no regulated tariffs for retail supply that have to be approved by the Energy Authority or any other authorities.

However, according to the Electricity Market Act an electricity retailer in a dominant position within the area of responsibility of a distribution system operator shall deliver electricity at reasonable prices to consumers and other users of electricity whose place of use is equipped with main fuses of 3x63 amperes at maximum or whose site of electricity use receives annually no more than 100,000 kWh of electricity (obligation to deliver). If an electricity retailer referred to above does not exist, the obligations of an electricity retailer in a dominant position shall be applied to an electricity retailer whose market share is the highest in the area of responsibility concerned (distribution network area). An electricity retailer in a dominant position shall have terms of retail sale and prices, and the criteria underlying these that are publicly available to the customers encompassed by the retailer's obligation to deliver. They shall not include any unreasonable conditions or limitations that would restrict competition within electricity trade. The Energy Authority may order the retailer referred to here to deliver electricity to the customers within the obligation to deliver.

The prices of electricity within the obligation to supply system do not have to be approved by the regulator before the supplier takes them into use. By virtue of the Electricity Market Act the Energy Authority may investigate either on the basis of a complaint or at its own initiative the pricing of electricity. In 2013 the Energy Authority did not make such investigations.

There are 66 electricity retailers having the obligation to supply within at least one distribution network area of responsibility.

The Energy Authority has estimated that four electricity retailers have larger than five per cent share of retail market. However, the exact market shares of individual retailers are not available. The market share of the three largest companies in the retail market for small and medium-sized customers has been estimated to be 35-40 per cent.

During 2013 there were 5 electricity retailers in the Finnish electricity retail market without obligation to supply. These retailers are fully independent from the Finnish network companies.

**Table 4. The largest companies in the electricity retail market (market shares according to energy sold to end users connected to the distribution network).**

	Total retail consumption (TWh)	No. of companies with >5% retail market	Number of <u>fully</u> independent suppliers (1)	Market share of three largest retail companies (%)		
				large and very large industrial	small-medium industrial and business	very small business and household
2003	45.5	4	< 5	N/A	35-40	
2004	45.9	5	< 5	N/A	35-40	
2005	46.3	5	< 5	N/A	35-40	
2006	47.9	4	< 5	N/A	35-40	
2007	48.2	4	< 5	N/A	35-40	
2008	49.2	4	< 5	N/A	35-40	
2009	50.6	4	< 5	N/A	35-40	
2010	50.0	4	< 5	N/A	35-40	
2011	47.7	4	5	N/A	35-40	
2012	51.3	4	6	N/A	35-40	
2013	49,4	4	6	N/A	35-40	

### 3.2.2.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

The retail prices are not regulated in Finland. The electricity supplier must provide the Energy Authority information on prices which are applied when selling electricity to the customers whose main fuse is max 3x63 amperes or whose consumption is below 100,000 kWh. In line with the Articles 37(1)(i) and 37(1)(j) the price information is regularly analysed in order to aid market development and made publicly available in easily comparable form in the Energy Market Authority's price comparison web service ([www.sahkonhinta.fi](http://www.sahkonhinta.fi)).

Even though the Finnish area price on the wholesale market rose in 2013 the retail prices kept falling as in 2012 but at a slightly slower rate. This indicates that the drop in the wholesale price which took place in 2012 had not been totally transferred to the retail prices. The average price of electricity in open-ended contract followed the normal seasonal variation. The prices of fixed-term contracts for one decreased throughout the year. Thus the fixed-term contract which were the most inexpensive alternative already in the beginning of the year became even more attractive for consumers.

In 2013 the average price of electrical energy under obligation of supply excluding taxes for a residential customer with 5,000 kWh/a consumption decreased by -1.2 per cent. For small houses with electric heating (consumption 18,000 kWh/a) the decrease was -0.9 per cent.



The electricity distribution price including tax was 3.5 per cent more expensive for household consumers – for electrically heated households 4.3 per cent – at the beginning of 2013 than at the beginning of 2012. The rise of distribution network charges in 2013 was mainly due to the increase in the electricity tax which was introduced in the beginning of year.

In 2013 the electricity bill for apartment house households and households with electrical heating increased in total by 1.4 and 1.2 per cent respectively.

The estimated national average electricity prices during the second half of 2013 for three reference customer bands defined by Eurostat are shown in Table 5. Energy costs and supply margin for household customer at the table are based on public energy tariffs. Negotiated and actual energy prices might differ marginally from the ones presented here.

**Table 5. Electricity prices (cnt/kWh) for reference customer bands during period 1.7-31.12.2013. <sup>1</sup>**

Euro/MWh	Band Dc	Band Ib	Band Ie
Network charges (excl. levies)	4.84	3.11	0.59
Levies included in network charges	-	-	-
Energy costs and supply margin	6.03	5.09	4.77
Non-recoverable taxes*	4.72	0.70	0.70
<b>Total</b>	<b>15.59</b>	<b>8.90</b>	<b>6.06</b>

\*For households electricity tax and VAT, for industry electricity tax only

The Energy Authority monitors that all necessary information is available to all retail market participants and overlooks that retail market sellers follow the transparency requirements set by the Electricity Market Act. Monitored parameters include price level and spread and, switching rates. The Energy Authority publishes statistics on electricity prices monthly and switching rates three times per year.

In collaboration with other NordREG members the Energy Authority also prepares annually a report on Nordic electricity markets, which compares the above mentioned parameters across the Nordic markets.

In line with the Articles 37(1)(k) and 37(1)(l) contractual issues are dealt with case-specifically in co-operation with the Finnish Competition and Consumer Authority and contractual freedom, compatible with Community law, is respected.

Since 2007 the Energy Authority has collected information on supplier switching from the distribution system operators. In 2013, the estimated number of customers that switched their supplier was about 310,000. The overall switching rate in 2013 was 10.1 per cent. Thus the overall switching rate increased notably from previous year. Table 6 shows the supplier switching rates in 2006 - 2013.

<sup>1</sup> Prices are based on the new methodology by Eurostat for collecting electricity prices from 2007 onwards. Prices are average of the 6 months. Definitions for reference customer bands are:

- Band Dc: household customers with annual consumption of 2 500-5 000 kWh/year,
- Band Ib: commercial customers with annual consumption of 20-500 MWh/year and
- Band Ie: commercial customers with annual consumption of 20-70 GWh/year.

**Table 6. The share of customers who have changed the supplier.**

	Households and other permanent dwellings		Other customers		Total
	< 10000 kWh/a	>10000 kWh/a	Max 3x63 A	>3x63 A	
2006	3.1 %	7.7 %	3.8 %	7.7 %	4.2 %
2007	3.0 %	6.8 %	3.3 %	8.0 %	4.0 %
2008	3.4 %	5.6 %	2.8 %	6.2 %	4.4 %
2009	7.2 %	10.9 %	5.1 %	11.6 %	8.1 %
2010	8.0 %	10.5 %	4.8 %	12.6 %	7.6 %
2011	7.0 %	11.7 %	4.7 %	14.1 %	7,6 %
2012	6.6 %	9.6 %	4.1 %	13.0 %	7.6%
2013	10.2 %	12.7 %	3.1%	18.0 %	10.1%

The Energy Authority does not collect data on the shares of different types of customer contracts. However, the most typical contract for household customers is a contract made for an indefinite period that may be terminated with two weeks' notice. There are also fixed-term contracts with the most common duration being one or two years. If a fixed-term supply contract has been concluded outside the obligation to supply with a consumer for a period longer than two years, the consumer may terminate the contract after the period of two years in the same way as he may terminate a contract that is valid indefinitely. After the roll-out of smart meters some retailers have also started to offer even for residential customers contracts where electricity price is linked with hourly prices from Nord Pool Spot Elspot.

In the national level the legal provisions on information exchange between the parties are set forth in the Decree, issued by the Ministry of Employment and the Economy in December 2008. It is supplemented by the branch organisation's recommendations. These rules set the framework for the information exchange during the supplier switching: what kind of information and in which timetable the new supplier and the DSO have to send to the other market actors and also what are the conditions for the present supplier to reject the supplier switching process. According to the decree, it is also required that the market actors shall ensure before taking into use that their information exchange systems are able to send and receive standard protocol messages.

According to the decree and recommendations the new supplier shall notify the network operator about the new contract. This notification shall be done at the earliest three months and at the latest 14 days before the contract enters into force. If metering changes are needed in the consumption site, a notification shall be available to a network operator at the latest 30 days before. However, the Energy Authority has not collected statistical information on actual time delays for switching.

### **3.2.2.2 Recommendations on supply prices, investigations and measures to promote effective competition**

The Energy Market Authority has not given any direct recommendations on supply prices. However, the Energy Market Authority it publishes monthly statistics on retail and network prices in order to promote competition and public market analysis. In addition, according to Article 37(1)(o) all necessary information on supply prices is provided to the Finnish Competition and Consumer Authority if needed.

The Energy Market Authority is granted the powers to impose necessary and proportionate measures to promote effective competition and to ensure the proper functioning of the electricity market. The objective of the Electricity Market Act is to ensure the prerequisites for the effective

function of the electricity market and thereby ensure a sufficient supply of energy at reasonable prices and quality. The primary way to achieve the goal is to safeguard healthy and functioning competition in electricity production and sales as well as to obtain a fair and equal service in all network activities.

The Energy Authority also has the right to cooperate with the Finnish Competition and Consumer Authority, the Financial Supervisory Authority, national regulatory authorities from other EEA countries, the Agency and the European Commission. According to Section 10 of the Administrative Procedure Act of Finland (434/2003) an authority shall provide the requested assistance, within its competence and as required by the nature of the matter, to another authority for taking care of an administrative matter; it should also otherwise promote inter-authority co-operation.

To promote effective competition in the electricity retail market the Energy Authority has maintained since 2006 a web-based tariff calculator designated to facilitate price comparisons and supplier switching. The system has also been developed to inform customers better about the origin of the electricity. All retail suppliers are obligated to maintain up-to-date information on their public electricity price offers on this website. Approximately 150,000-200,000 searches was done monthly in 2013. This has been the normal level since the introduction of the comparison system.

Since 2005 Nordic energy regulators have been working to promote and facilitate a common end-user market for electricity in Finland, Denmark, Sweden and Norway. The main objective for the end-user market integration is to minimize the regulatory and technical obstacles for the suppliers willing to operate in the various Nordic countries.

### 3.3 Security of supply

During the year 2013 Finland has not implemented any safeguard measures as mentioned in the Article 42.

#### 3.3.1 Monitoring balance of supply and demand

The Energy Authority has a responsibility for monitoring the security of supply situation for electricity.

The Energy Authority maintains information on generation and interconnector capacity, while the Ministry of Employment and the Economy has the responsibility for preparing the estimates for the demand of electricity. In 2013 there were no changes in these competences.

Based on consumption estimates given by the Ministry of Employment and the Economy the peak load demand in the next winter season 2013 - 2014 would be about 15,100 MW. Total demand for electricity in Finland in 2020 is estimated to be about 93 TWh. In year 2030 total demand for electricity is estimated to be about 102 TWh and peak load demand in winter 2029 - 2030 17,000 MW. Table x presents the short term estimation of peak load demand.

Table 7. Short term forecast for peak load demand.

Winter season	2014-2015	2015-2016	2016-2017
Estimated peak load, MW	15,100 MW	15,200 MW	15,300 MW

In the years 2014 - 2017, domestic electricity generation capacity will not be sufficient to cover the electricity consumption during peak consumption periods in a normal year. Dependency on imports will significantly decrease once the new nuclear power plant unit (Olkiluoto 3) has been completed. Originally the new unit should have been commissioned by the end of 2009. Currently there's no official estimation of commissioning the plant.

### 3.3.2 Monitoring investment in generation capacities in relation to SoS

The total available generation capacity during the winter season 2013 - 2014 was about 12,800 MW. The capacity included 365 MW of peak load reserve. Peak load reserve is considered as a strategic reserve and it's not available for the electricity market. The reserve consists of two condensing power plants.

Total installed generation capacity in Finland was about 16,500 MW in the end of 2013. Installed wind generation capacity was about 400 MW at the same time. However, the available amount of wind generation in peak load period in winter is assumed to be negligible. Estimated available generation capacity in the winter season 2014 - 2015 is about 12,800 MW.

**Table 8. Electricity Generation Capacities in Peak Load Period, MW**

	Separate Electricity Generation			Gas turbines and engines	Combined Heat and Power		Capacity of power stations	Power system reserves
	Hydro power	Nuclear power	Condensing power		Industry	District heat		
2001	2,460	2,640	4,000	800	1,610	3,400	<b>14,910</b>	..
2002	2,480	2,640	3,990	800	1,780	3,420	<b>15,110</b>	..
2003	2,490	2,680	3,200	20	2,180	2,910	<b>13,480</b>	1,030
2004	2,500	2,680	3,200	20	2,200	2,900	<b>13,500</b>	1,080
2005	2,520	2,680	3,200	10	2,290	2,900	<b>13,600</b>	1,080
2006	2,550	2,680	3,200	10	2,290	2,920	<b>13,650</b>	1,060
2007	2,350	2,720	2,800	10	2,450	2,790	<b>13,120</b>	1,046
2008	2,350	2,700	2,650	-	2,450	3,150	<b>13,300</b>	1,180
2009	2,350	2,700	2,650	-	2,450	3,150	<b>13,300</b>	1,180
2010	2,550	2,700	2,200	-	2,300	3,350	<b>13,100</b>	1,180
2011	2,575	2,730	2,200	-	2,365	3,490	<b>13,360</b>	1,240
2012	2,595	2,750	2,045	-	2,370	3,490	<b>13,155</b>	1,240
2013	2,610	2,765	2,045	-	2,330	3,550	<b>13,300</b>	1,556
2014	2,610	2,765	1,650	-	2,330	3,430	<b>12,800</b>	1,540

Generation fuel mix for energy from the year 2013 is presented in Figure 5. During the next year it is not expected to be any significant changes in fuel mix for power generation in Finland.

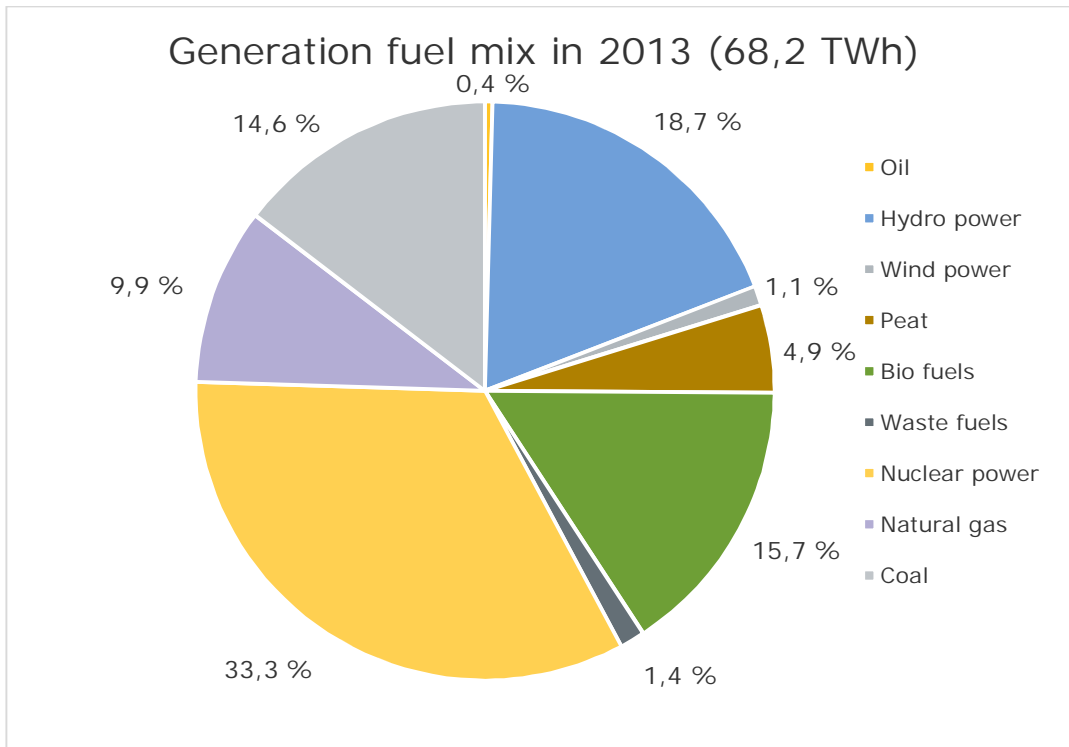


Figure 5. Generation fuel mix for energy (TWh) in 2013. Source: Finnish Energy Industries.

Electricity production capacities under planning or construction at the moment are presented in Table 9.

Table 9. Forthcoming new generation capacity in 2014-2016 \*There's uncertainties relating the time schedule of the fifth nuclear unit Oikiluoto 3 (1600 MW)

MW	Hydro	CHP		Nuclear power	Wind Power
		District heating	Industry		
2014	23	82			273
2015	37	12			36
2016	9			1600*	
2017	3	145			

Wind power capacity is targeted to increase up to 2,500 MW by year 2020. Main reason for increase is Finland's feed-in tariff system introduced in 2011. Feed-in tariff is available for wind power, bio-gas and wood-driven power capacity. About 1,400 MW of condensing power capacity will reach age close to 45 years in 2020. It's assumed that capacity would be decommissioned in years 2016-2023.

### **Monitoring investments in transmission lines**

The second DC interconnector, EstLink 2, between Estonia and Finland was commissioned in December 2013. The capacity of the new transmission link is 650 MW. The total cost of the project was approximately 320 million Euros. The submarine cable was built in co-operation with the Estonian transmission system operator Elering. The project received an investment subsidy of 100 million Euros from the European Union. Previously there were one 350 MW DC connection between Finland and Estonia. The new transmission link increased the total electricity transmission capacity between the countries to approximately 1,000 MW. The new DC link connected the Baltics strongly to Finnish power system and to the Nordic electricity market.

Currently there's an ongoing project to connect Åland islands to Finnish mainland power system. A new DC interconnector of 100 MW is expected to be ready during 2015. Currently Åland islands are only connected to the Swedish power system. The new cable will increase cross border capacity between Swedish price area SE3 and Finland.

### **3.3.3 Measures to cover peak demand or shortfalls of suppliers**

#### **3.3.3.1 The Peak Load Reserve Act**

There's a strategic power reserve capacity mechanism in place in Finland. The Act on Peak Load Reserves to Ensure Balance between Supply and Demand (so-called Capacity Reserve Act) came in to effect on March 1, 2011 and replaced the previous act. Peak load reserve it's used to ensure that the balance between supply and demand is achieved if the balance has not been achieved in commercial market i.e. Nord Pool Spot. However, the peak load reserve plants aren't allowed to participate and bid on the commercial market. The Capacity Reserve Act has increased the role of the Energy Authority. According to the act the Energy Authority evaluates and decides the required size of the peak load reserves arranges the tendering process and makes the procurement decisions. The Energy Authority also supervises the profit of the peak load power plants.

During the peak load season, from December to end of February, peak load reserve power plants are in 12 hour readiness. Otherwise power plants are in one month readiness. The use of peak load reserve power plants is very rare, the last time reserve was activated during the winter 2009-2010.

The power plants selected will receive fixed compensation for acting as a reserve. The Finnish TSO, Fingrid is responsible for making agreements with the selected power plants and Fingrid pays the compensations to the power plants. The peak load reserve system is funded by the fees collected from the Finnish electricity end-users. The Energy Authority has approved terms and conditions for the use of peak load reserves and the methodology for collecting payments from the electricity users to cover costs of this system in 2011. These terms and conditions were updated during the year 2013.

The tendering process of peak load reserve power plants is carried out by Energy Authority. Two units were selected to the peak load reserve as a result of a tendering process in spring 2013. These two units comprise reserve of total 365 MW for two year period from 1.7.2013 to 30.6.2015. It is possible also for consumption reduction (demand response) to act as a peak load reserve capacity. However, currently there are no demand response reserves in place.

#### **3.3.3.2 Responsibilities of TSO regarding security of supply and operational security**

The transmission system operator Fingrid secures the system operation in Finland by delivering the following services:

- Maintenance of operational security
- Maintenance of frequency (by power reserves)
- Maintenance of voltage
- Data exchange to maintain operational security

Maintenance of operational security implies that power system is planned and operated in a way that the impacts of disturbances are minimised. Here the grid planning, transmission limits, disturbance management and reserves (frequency controlled and fast disturbance reserves, black start reserves) are considered.

The power system in Finland is planned in accordance with principles agreed jointly between Nordic TSOs in Nordic Grid Code<sup>2</sup>. The main planning principle is that the power system has to withstand any single fault (n-1 criteria). A dimensioning fault (worst possible fault) varies on the

---

<sup>2</sup> Available on website [www.entsoe.eu](http://www.entsoe.eu)

basis of the operational situation of the Finnish grid, but is often the tripping of the largest production unit or an extensive busbar fault.

Electricity transmission in the main grid are kept during real time operation within the predefined limits given by operational reliability calculations, which take into account potential faults and planned outages in the power system. The transmission limits are defined for each probable fault and network situation. Short-term congestion problems in the main grid are managed commercially through counter trade, and long-term congestions are managed by applying price areas or by investments in the grid.

The Nordic electricity grid is synchronously interconnected and the frequency is allowed to vary in normal state between 49.9 and 50.1 Hz. The frequency containment reserve for normal operation, frequency containment reserve for disturbances and automatic frequency restoration reserve are power reserves which are activated automatically by frequency changes. Within the Nordic power system, it has been agreed that countries maintain continuously a frequency containment reserve for normal operation (FCR-N) of 600 MW. Of this volume, Finland's share is presently 140 MW.

For disturbance management purposes, both power and transmission reserves are maintained in the Finnish power system. TSO is responsible for the maintenance of reserves that are needed in the Finnish power system. For this, TSO uses its own resources and also purchases reserve maintenance from other resource owners. Restoration of the power system from severe disturbance incidents is headed by TSO's Power System Control Centre.

The frequency containment reserve for disturbances (FCR-D) begins to activate when frequency goes below 49.9 Hz, and the full reserve has been activated at a frequency of 49.5 Hz. The reserve used includes both active power reserves of power plants and load shedding. During a normal operational situation, the interconnected Nordic system is required to have approximately 1,000 MW of frequency controlled disturbance reserves, of which Finland's obligation is approximately 260 MW.

It has been agreed that up to 300 MW of automatic frequency restoration reserve (FRR-A) is maintained in predefined morning and evening hours in the Nordic countries in 2014. Country-specific obligations have been divided between the Nordic TSOs in relation to the annual consumption.

The manual frequency restoration reserve (FRR-M) consists of active and reactive power reserves that can be activated manually within 15 minutes. After activating this reserve, the power system has been restored to such a state that it can withstand another potential disturbance. In the Nordic grid, each country must have a volume of fast disturbance reserve that equals the country's dimensioning fault. In Finland, this volume is normally 880 MW. Table 10 presents summary of reserves for securing system operation in Finland.

**Table 10. Summary of reserves for securing system operation 2013 in Finland (Source: Fingrid Oyj).**

Type of reserve	Contractual capacity	Obligation
Frequency controlled normal operation reserve (FCR-N)	- Power plants, 148 MW - Vyborg DC link, 100 MW - Estonia DC link, 50 MW	140 MW
Frequency Containment Reserve for Disturbances (FCR-D)	- Power plants, 607 MW - Load shedding, 40 MW	260 MW
Automatic Frequency Restoration Reserve (FRR-A)	- Only in morning and evening hours	70 MW
Manual Frequency Restoration Reserve (FRR-M)	- Gas turbines, 1229 MW - Load shedding, 405 MW	880 MW

--	--	--

The voltages in the power system are maintained at a technically and commercially optimal level during both normal and disturbance situations. The objective of voltage level and reactive power adjustment is to prevent overvoltage and undervoltage, to achieve nominal voltages specified in agreements (110 kV network) and to minimise the grid losses. The voltage level in the Finnish transmission grid is adjusted by using reactors and capacitors. The voltage ratio between different voltage steps is controlled with on-load tap changers of transformers.

Instantaneous reactive power reserve is also needed in order to secure the technical functioning of the Finnish power system during the disturbances. The reactive power reserves of the main transmission grid are located in synchronised generators. Reactors and capacitors also serve as reserves. Reactive power reserves are activated automatically when the voltage in the grid decreases as a result of a disturbance. Compensation is paid to power producers for reactive power reserves reserved in generators.

TSO takes care of data exchange required by the maintenance of operational reliability in the power system. TSO and parties connected to the grid supply each other with planning and measurement data needed in the maintenance of operational reliability. Such data includes production plans, generator power measurements, and status data on generator circuit breakers and connecting stations. If necessary, the amount of data exchanged and the technical details of data exchange are agreed upon between TSO and the other party through a separate data exchange agreement.



## 4 The gas market

The Finnish natural gas market has been under sector-specific regulatory supervision since the assertion of the Natural Gas Market Act in August 2000. The Natural Gas Market Act was amended first at the beginning of the year 2005 to implement the Natural Gas Market Directive (2003/55/EC) and the second time in 2013 to include the requirements of the Gas Directive 2009/73/EC. The Natural Gas Market Act aims at improving the functioning of the natural gas market and to prepare the natural gas sector for the integrating European natural gas market. The Act provides large-scale consumers, buying at least 5 million cubic meters of natural gas per year, with the possibility of mutual secondary market trading in natural gas they have purchased from an importer operating in Finland. A separate market place, operated by Kaasupörssi Oy, has been established for trading gas on the secondary market.

The Finnish natural gas market is relatively isolated with a pipeline connection only to the importing country Russia. There is only one importer and wholesale supplier – Gasum Oy – which also owns and operates the natural gas transmission network and is the TSO.

Accordingly, Finland has availed itself of the possibility of a derogation allowed by the Natural Gas Market Directive. Following this, the natural gas market has not been opened in the manner specified in the directives. This exemption is effective as long as Finland does not have a direct connection to the natural gas network of any other EU Member State and as long as Finland has only one main natural gas supplier.

No major changes have taken place in the operating environment of the Finnish natural gas market in the recent years. In a European comparison, the Finnish natural gas market is highly exceptional.

There were 22 local natural gas distribution network operators at the end of the year 2012. As can be seen from the Figure 6, all the Finnish natural gas DSO's and the consumption sites of natural gas are situated in the southern part of the country along the main transmission pipeline.



Figure 6. Map of natural gas network in Finland (source: Finnish Gas Association)

Due to the limited extent of the Finnish natural gas network the development of the Finnish natural gas market will require further extension of the pipeline system. There have been plans to extend the gas pipeline to the western coast of Finland but any decision has not been made.

Increasing the volume of the gas market would be important in making additional import connections economically viable.

The Finnish gas TSO, Gasum has been planning a large scale regional LNG terminal, Finngulf LNG on the coast of the Gulf of Finland. Gasum has together with the Estonian gas TSO, EG Vörguteenus AS also planned to build up a pipeline connection, Balticconnector between Finland and Estonia.

Balticconnector pipeline project has been included in the first PCI list decided by the European Commission in autumn 2013. Finngulf LNG project is also on the PCI list together with other LNG terminal projects from Estonia and Latvia. There are still on-going negotiations between project promoters, state of Finland and Estonia and the European Commission which of these LNG projects would be materialized. If these projects will materialize, the derogation enjoyed by the Finnish gas industry should be put under scrutiny.

In addition to these there are plans to build up some small-scale off-grid LNG terminals on the coast of Finland. These terminals would serve industrial users, maritime of use LNG and LNG trucks.

## **4.1 Network regulation**

### **4.1.1 Unbundling**

Finland has availed itself of the possibility of an exemption allowed by the Natural Gas Market Directives and thus there is neither legal nor operational unbundling of natural gas transmission network operation. Furthermore, Finland has not applied legal and operative unbundling in distribution network operations because Member States are free to decide that the un-bundling provisions are not applied to network operators with fewer than 100,000 customers. All Finnish distribution system operators fall below the limit set by the Directive.

As a result of this, the natural gas market in Finland is characterized by vertical integration. The only wholesale supplier of natural gas – Gasum Oy – is the sole importer and operator of the transmission system. Furthermore, it is downward vertically integrated into retail supply and distribution network operation by owning one natural gas distribution system operator and retail supplier. Gasum Oy is owned by Fortum Heat and Gas Oy (31 per cent), OAO Gazprom (25 per cent), State of Finland (24 per cent) and E.ON Ruhrgas (20 per cent).

Approximately 80 per cent of the Finnish gas DSOs are wholly or mainly owned by municipalities. The rest 20 per cent of the DSOs are owned by industrial users of natural gas. In Finland the retail supply of natural gas is operated in all the DSOs within the same company as distribution. There is no natural gas production in Finland.

As Finland has derogation from the unbundling requirements of the Directive, the certification of the natural gas TSO has not been done in Finland.

The accounting unbundling applies to all natural gas system operators. The accounting un-bundling is also required in the companies, which have other activities besides natural gas network business if these activities are not relatively small. As a relatively small activity has been considered business activities whose annual revenue is less than 10 per cent of total revenue of the company's natural gas supply operations.

Accounting unbundling requirements are specified with the ministerial degree and the Energy Authority has issued the guidelines on the compilation of unbundled financial statements in 2005. These guidelines are not legally binding but they show the procedure the Energy Authority considers fulfilling the requirements of the legislation. Both the distribution system operators and the transmission system operator are under the obligation to publish unbundled accounts with certain formula. They shall publish the unbundled financial statements as a part of the statutory financial statement.

The unbundled income statements, balance sheets and any supplementary information of separated operations are audited as part of the statutory auditing. The accounts are not subject of a separate audit and this audit is not addressed to the requirements of the regulator in any extent. Auditors are required to give their opinion in the auditor's report on whether the income statements and balance sheets and the supplementary information conform to Natural Gas Market Act and any rules and regulations related to it.

The Energy Authority has issued the guidelines in co-operation with chartered accountant on the auditing of unbundled financial statements in 2006. These non-binding guide-lines aim to help the audit of unbundled financial statements in different electricity system operators and inform the auditors about the unbundling requirements.

The Energy Authority supervises that the network companies are fulfilling the unbundling requirements. The Authority has also powers to oblige the companies to correct mistakes or omissions. A conditional fine may be imposed to make decisions effective. As a final mean the Energy Market Authority may also withdraw the network license from the company.

#### **4.1.2 Technical functioning**

##### **4.1.2.1 Report relevant security and reliability regulation and data**

In the natural gas sector, there are 24 local distribution network operators and one transmission system operator. The transmission system operator is also the sole importer and wholesale supplier of natural gas.

On the basis of statistics in year 2013 delivered by the natural gas distribution system operators to the Energy Authority it can be concluded that interruptions of supply on the distribution level were minimal with total of 4 interruptions in distribution companies. In the Finnish natural gas transmission network there was 3 unplanned service interruptions during year 2013.

##### **4.1.3 Network and LNG tariffs for connection and access**

###### **Regulation of network tariffs for connection and access**

According to the Natural Gas Market Act, the network operators are able to set the actual network tariffs and charges by themselves. There is no ex-ante approval of tariffs or prices of network services by authorities.

The Energy Market Authority confirms ex-ante the methodology to be used in setting both transmission and distribution network tariffs and connection charges. The Energy Market Authority has to approve ex-ante also the terms and conditions of network and connection services before the network operators are able to implement them.

The methodology of setting gas transmission and distribution network tariffs is confirmed by the Energy Authority prior to each regulatory period. Prior to confirming the methodology the regulator publishes the guidelines on details of the methodology and organises public consultation on the guidelines with the stakeholders. After the regulatory period has ended the Energy Authority will validate the earnings of each network operator in its supervision decisions for the regulatory period, and will confirm the amount of any accrued earnings that exceed or fall short of reasonable earnings for the regulatory period. Where necessary, the supervision decisions will include an obligation to return to the customers any windfall profit for the completed regulatory period through pricing for the new regulatory period. The supervision decisions will correspondingly confirm that the network operator may allow in its pricing for the new regulatory period, for the amount by which the earnings accruing to the network operator from the previous regulatory period fell below the reasonable earnings level.

The network system operator may, during individual years within the regulatory period, gain earnings from its operations that are higher than the earnings considered reasonable in line with

the confirmed methodology without intervention by the regulator. The pricing shall be reasonable when viewed over the regulatory period as a whole.

The length of regulatory periods is four years. In September 2009 the Energy Market Authority confirmed the methodology for the second regulatory period in 2010 – 2013. In 2013 the regulatory period was extended until end of 2015. The Energy Market Authority validated the realized profits of network operations for 2006 – 2009 and gave a decision on reasonable pricing for the first regulatory period the fall of 2010.

According to the Act on Supervision of Electricity and Gas Markets the methodology confirmed by the regulator may include the following items:

- method for the valuation of regulated asset value
- method for determining approved rate of return on capital
- method for determining realised profit of network operations
- method for setting efficiency targets for network operations

The present methodology of setting network tariffs includes all items mentioned above, besides efficiency targets for distribution network operations.

The network will be included into the regulated asset value as the net present value instead of a book value. The net present value of network will be updated annually by taking into account depreciation and investments. The approved rate of return on capital is determined by using a WACC-model (Weighted Average Cost of Capital) and will be updated annually. The methodology provides incentives to the transmission and distribution system operators to develop their network as all network investments are included into regulated asset base. For natural gas TSO the confirmed methodology includes also incentives to maintain and improve its cost efficiency and security of supply level.

The Energy Authority collects annually from the network operators several kinds of data of network operations, like tariffs of network services, financial information and technical key figures. Annually collected technical key figures include i.e. information on quality of supply. The Energy Authority has also powers to ask additional information from the transmission and distribution system operators on network operations for the supervision purposes.

According to the natural gas market legislation, charges of transmission and distribution services shall be public. TSO and DSOs shall have public charges and terms and conditions for network services.

#### **4.1.4 Cross-border issues**

The Finnish natural gas transmission network is only connected to the Russian natural gas pipeline. In Finland there is only one natural gas wholesale company, Gasum Oy. The company imports natural gas and transmits it through its own transmission network to large-scale consumers and distribution companies. Gasum Oy is also the owner of the Finnish side of the natural gas interconnector between Finland and Russia.

Due to the fact that there is only one undertaking acting at the same time as an importer, a wholesale supplier and a transmission system operator, there is no need for specific management of interconnection capacity or congestion.

#### **4.1.5 Compliance**

According to the Finnish legislation the Energy Authority shall supervise that the natural gas transmission system operator, distribution system operators and suppliers are compliant with the provisions of the Natural Gas Market Act and any rules and regulations issued under it. As according to the Article 49(1) Finland has a derogation from the Article 9 of the Directive 2009/73/EC there are no legal obligations for the certification of the Finnish natural gas transmission system operator. Therefore also provisions in Article 41(3) and Article 41(5) are not

relevant for Finland. The Energy Authority ensures compliance of natural gas transmission and distribution system operators with their obligations under the Directive and other relevant Community legislation as required in Article 41(1)(b) by using mainly ex-post supervision. Investigation may start based on a request from any market actor or on the Energy Authority's own initiative. In 2013 any such investigation cases were not started.

According to the Finnish legislation the official of the Energy Authority has the right to perform an inspection in the premises occupied by a body or an establishment carrying out the activities supervised in order to carry out the surveillance duty under the Natural Gas Market Act and to supervise the compliance of the confirming or obliging decisions made by the Energy Authority. However, an inspection may not be carried out in premises within the scope of domestic peace. A body or an establishment carrying out activities to be supervised shall, on demand, present the documents and files in its data systems to the official performing an inspection and provide access to the electrical apparatus and equipment that can have a meaning for the supervision of the compliance with the rules or regulations issued by virtue of the Natural Gas Market Act. The official performing the inspection has the right to take copies free of charge of the documents to be inspected as well printouts of the files in the data systems. On the basis of the Finnish legislation, the Energy Authority is empowered to oblige a natural gas system operator or a retail supplier to correct his mistake or omission. The Energy Authority has powers to order in the obliging decision how the mistake or omission should be mended. The obliging decision may also include an order to refund customer a fee incorrectly charged from him. The Energy Authority may also impose a conditional fine to make a decision effective. Thus the powers of the Energy Authority are compliant with the Article 41(4)(a)(b)(c)(e). Since September 2013 the Energy Authority has also right to propose to the Market Court to impose administrative fines to network system operators or other natural gas market actors for the non-compliance with their obligations pursuant to the Natural Gas Market Act or the Regulation as required in the Article 41(4)(d).

In 2013 there were no such cases where the Energy Authority should follow the binding decisions of the Agency or the Commission according to the Article 41(1)(d) or guidelines according to the Article 43.

## **4.2 Promoting Competition**

### **4.2.1 Wholesale markets**

In the year 2013, the size of the Finnish natural gas market was 3.2 Bcm (3.5 Bcm in 2012, at 0 oC), which was all imported from Russia. Only propane is produced indigenously as it is the only gas to be stocked in small amounts for immediate substitute for the possible lack of natural gas. The importing capacity is estimated to be about 9,500 MW, so the maximum transmission capacity is often at use in cold winter days. Maximum 24-hour use was 18.4 Million m<sup>3</sup> on January 24th, 2013. The Russian natural gas exporter Gazprom and Gasum Oy has entered into an agreement for Russian natural gas exports to Finland until the 31st of December 2025. The agreement marks a substantial increase in gas sales to Finland, with an annual level of 6 Bcm.

#### **4.2.1.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition**

Pricing of the energy sales of natural gas is based on the natural gas supply contract between Gasum and Gazprom's subsidiary company Gazprom Export. The supply contract is based on the special structure of Finland's natural gas market, which reflected in the fact that the price of natural gas follows not just changes in oil prices, but also fluctuations in the price of coal and domestic market energy prices. The wholesale supply of natural gas to the large Finnish end-users and retailers is based on cost based contracts between Gasum Oy and the customers. A majority of the customers by natural gas from Gasum Oy based on a public tariff, which Gasum Oy renews at the intervals of 4 years. A small number of contracts have been concluded before the year 1992, when the new type of competition legislation came into force prohibiting the previously used non-public pricing methods as an example of abuse of a dominant position.

The total wholesale price of natural gas, including transmission and natural gas energy, decreased by an average of 7.2 per cent during the course of 2013. The price of natural gas decreased because of the decreased prices in coal and heavy fuel oil.

The tax-free price for natural gas energy decreased by 8.9 per cent between December 2012 and December 2013. The price of natural gas energy is index-linked to the price of heavy fuel oil and the price of imported coal, as well as to the domestic energy index published by Statistics Finland. Of these price factors, the price of coal fell by 15.7 per cent and the energy price index decreased by 11.2 per cent in 2013, while the energy price index increased by 6.1 per cent.

The natural gas transmission price did not change in 2013. Gasum Oy increased the natural gas transmission price exclusive of tax by 2.4 per cent at the beginning of 2012. The price remained unchanged at the beginning of 2013.

Additionally, Gasum Oy offers short term products that are sold on the Kaasupörssi Oy. Since 2002 there has existed a secondary market operated by Kaasupörssi Oy, which is a subsidiary of Gasum Oy. Members in the secondary market represent all the major gas users in Finland. Kaasupörssi Oy maintains the Gas Physical Forward (GPF) market which includes both the secondary market of gas and the market of additional gas purchased from Gasum for short-term needs. In 2013 the total volume in the GPF market was 2,035 GWh, about 23 per cent down from 2,636 GWh in 2012. Secondary market trading amounted to 626 GWh of the total volume or 11 per cent less than during the previous year. Secondary market trading accounted for 1.9 per cent of the total Finnish consumption of natural gas in 2013.

According to the Natural Gas Market Act the supplier in a dominant market position in a natural gas network shall supply natural gas at a reasonable price upon the request of a customer connected to the network, if the customer has no other economically competitive options to purchase natural gas through a natural gas network (obligation to supply). Because the Finnish gas market has not been fully opened to competition and there is only one importer/wholesaler, the obligation to supply applies to all gas suppliers. Therefore the customers in every customer category have the same right to purchase natural gas at a reasonable price. As regards the supervision of natural gas wholesale or retail pricing, the powers of the Energy Authority are exercised by their nature.

#### **4.2.2 Retail market**

The retail supply of natural gas covers only about 5 per cent of the total consumption. The share of the top three retail suppliers is about 50 per cent of the total volume.

The size of the natural gas retail market in Finland in relation to the total consumption of natural gas is small. The retail supply of natural gas covers only about 5 per cent of the total amount of natural gas used in Finland.

In Finland there are only about 34,000 customers in the natural gas market. Less than 150 customers - heavy industrial users as well as power and district heating plants - use more than 95 per cent of the total natural gas consumption in Finland. The largest customer segment (25,000 customers) consists of households who buy natural gas for cooking. However, the total natural gas consumption of this segment amounts to only 1 mcm (0.03 per cent of total consumption).

At the end of 2013 there were 23 natural gas retail suppliers. Many of the natural gas retailers in Finland are relatively small having only dozens of customers. The share of the top three retail suppliers is about 50 per cent of the total volume. In addition to the original domestic retail suppliers, there are also retail suppliers owned by foreign-based companies. The market entrance of the foreign-based companies has occurred through acquisitions.

No new retail suppliers without any affiliate connection to either TSO or DSOs in Finland have entered the market since the introduction of natural gas markets. As regards vertical integration in the natural gas retail market, the only wholesale supplier and TSO Gasum Oy is downward vertically integrated into natural gas retail supply and distribution network operation through its ownership in Gasum Paikallisjakelu Oy.

#### 4.2.2.1 Retail price monitoring

As mentioned above the supplier in a dominant market position in a natural gas network shall supply natural gas at a reasonable price upon the request of a customer connected to the network, if the customer has no other economically competitive options to purchase natural gas through a natural gas network (obligation to supply). Since the Finnish gas market has not been fully opened to competition and there is only one importer/wholesaler, the obligation to supply applies to all gas suppliers practically in every case.

Estimated national average natural gas prices in December 2013 for one reference customer are shown in Table 11. In smaller reference customer groups there are only few customers within distribution companies leading into problems when representative prices are to be defined. These prices are defined from end-user prices within obligation to supply.

Table 11. Natural gas price for the reference customer in December 2013.<sup>3</sup>

Cent/kWh	I4-1
Network charges (excl. levies)	0.95
Energy costs and supply margin	2.89
Taxes	1.15
Total (excluding VAT)	5.02

#### 4.2.2.2 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

The Natural Gas Directive allows to Finland a derogation from the obligation to liberalise its natural gas market, as long as Finland only has one main supplier of natural gas and is not connected to the European gas network. For that reason, supplier switching is not possible in the present situation.

#### 4.2.2.3 Recommendations on supply prices, investigations and measures to promote effective competition

In 2013 the Energy Market Authority has not given any direct recommendations on supply prices. However, the Energy Market Authority publishes monthly statistics on prices in order to promote competition and public market analysis.

### 4.3 Security of supply

#### 4.3.1 Monitoring balance of supply and demand

The Energy Authority has a responsibility for monitoring the security of supply of gas. The Energy Authority maintains information on transmission network capacity and availability, while the Ministry of Employment and the Economy has the responsibility for preparing the estimates for the demand. In 2013 there were no changes in these competences.

According to the Natural Gas Market Act, the role of the regulator in security of supply issues is to monitor the balance between supply and demand in natural gas, the quality and maintenance

<sup>3</sup> Reference customer: annual consumption 150,000 MWh, 4,000 hours.

of networks and measures to cover the peak demand and avoid the supply shortages. Energy Authority publishes a report on security of supply of gas every year.

All natural gas used in Finland is imported from Russia. There's no natural gas production in Finland. Small-scale biogas is produced and pumped to the gas transportation network in two different locations. In addition propane can be produced indigenously as it is the only gas to be stocked in small amounts by Gasum Oy for immediate substitute for the possible lack of natural gas. The importing capacity of Gasum Oy is estimated to be about 9,500 MW. In natural gas shortage situation market based mechanisms are used to reduce gas consumption at the first stage. The price of gas that exceeds gas users intended capacity is increased to reduce consumption. During winter 2013-2014 there was no need to increase the price of natural gas to reduce consumption.

There were no new transmission lines built during the 2013. New natural gas fired power plants weren't installed.

#### 4.3.2 Expected future demand and available supplies as well as envisaged additional capacity

Taxation of natural gas has increased substantially in the previous years. Increasing tax level has been weakening the competitiveness of natural gas and the usage of gas is expected to decrease. Also gas fired power plant capacity has been decommissioned in the recent years. Natural gas consumption is shown on Figure 7.

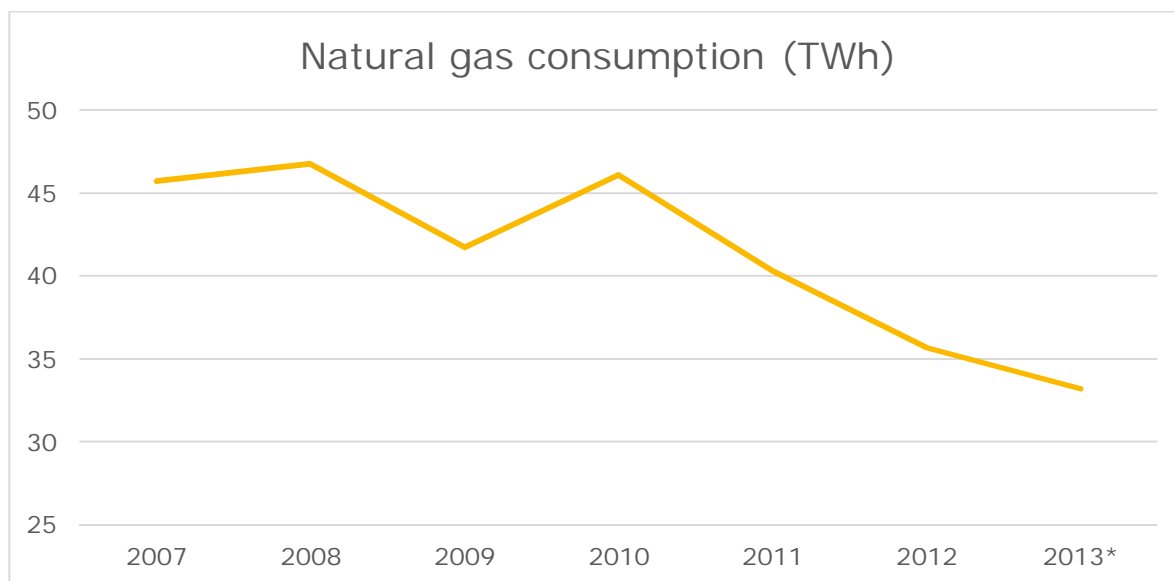


Figure 7. Natural gas consumption (TWh), 2007-2013

Currently there are no specific plans to expand natural gas transmission pipelines. However, there is a long term plan to expand the gas network to the western part of Finland, mainly to the cities of Turku and Naantali. Length of pipeline extension would be about 200 km.

There's several plans to build liquefied natural gas (LNG) import terminals to Finland. TSO, Gasum, is planning to build a regional large scale LNG terminal to Inkoo. This terminal could provide even 25-50 per cent of total gas consumption in Finland. The project has been included in the first list of Projects of Common Interest (PCI) together with proposals of LNG terminals in Estonia and Latvia. There are still on-going negotiations between project promoters, states of Finland and Estonia and the European Commission which of these terminals would be materialized.

In addition, there's several small scale off-grid LNG terminal projects in planning phase. These terminals would mainly serve local industrial users, maritime users of LNG and LNG trucks. These LNG terminals would not be connected to the natural gas transmission grid.



Finnish and Estonian gas TSOs have also planned to build a gas pipeline to link Finnish and Baltic natural gas transmission networks. This new pipeline, Balticconnector, would enable that the Baltic natural gas storage facilities and LNG terminal could be used to improve reliability in natural gas transmission to Finland. Balticconnector has also been included in the list of Projects of Common Interest (PCI).

There's a small scale LNG proGasum Oy has opened a new liquefied natural gas (LNG) production plant in June 2010 in Porvoo. LNG production capacity of the plant is about 20,000 tons per year. There is also 2,000 m<sup>3</sup> LNG storage for produced LNG. This LNG can be gasified back to natural gas transmission network.

#### **4.3.3 Measures to cover peak demand or shortfalls of suppliers**

In natural gas shortage situation market based mechanisms are used to reduce gas consumption at the first stage. The price of gas that exceeds gas users guaranteed capacity is increased to reduce consumption. This kind of market based mechanism is typically used 0-2 times during the winter time. If shortage situation continues TSO is allowed to cut down consumption of non-gas dependent customers.

If shortage situation still continues, substitute fuels (HFO, LFO, coal, peat, wood and LPG), a special propane air mixing unit of 350 MW and movable LNG-regasification plant of 75 MW can be used. If the natural gas supply is prevented over an extended period the obligatory storages can be used too. The National Emergency Supply Agency controls for use of obligatory storages in Finland. Total volume of stockpile fuels and obligatory storages must be at least equal to cover normal consumption of imported fuels for five months.

## 5 Consumer protection and dispute settlement in electricity and gas

### 5.1 Consumer protection

#### 5.1.1 Electricity

##### Compliance with Annex 1

According to the Article 37(1)(n) of the Directive 2009/72/EC the national regulatory authority shall help to ensure, together with other relevant authorities, that the consumer protection measures, including those set out in annex 1 are effective and in force. Annex 1 lists number of consumer protection measures that should be guaranteed in consumer relations. Legislation changes required by the Directive 2009/72/EC were approved by the Finnish parliament in September 2013.

In the Electricity Market Act the rules concerning the contract information are mentioned in the paragraph 86 and the current legislation the current legislation fulfils the requirements stated in the annex 1 section 1(a).

In the current Electricity Market Act the rules concerning changing contractual terms are mentioned in the paragraph 93. The paragraph fulfils requirements set in the annex 1 section 1(b). The Consumer Agency and Consumer dispute settlement board oversees that the contractual terms are reasonable for the consumers and followed by the industry. Also the selling practices belongs to their jurisdiction.

The requirements in section 1(c), (e), (g) and (j) are fulfilled in the current legislation in paragraphs 26, 57, 67 and 68.

In the current Electricity Market Act there are no specific rules concerning requirements mentioned in Annex 1 section 1(f) because general clause in the paragraph 1 in the chapter 2 of the Finnish Consumer Protection Act can also be used for handling consumer complaints in electricity related issues.

There isn't equivalent paragraph to the requirement of Annex 1 section 1(h) in the current Electricity Market Act itself. However, the paragraph 8 in the chapter 6 of the Degree of the Council of State concerning measurement and balance settlement (66/2009) corresponds this section of Annex 1.

##### Ensuring access to consumption data

Article 37(1)(p) states that the national regulatory authority shall ensure access to customer consumption data, the provision, for optional use, of an easily understandable harmonized format at national level for consumption data, and prompt access for all customers to such data under point (h) of Annex 1.

The paragraph 8 in chapter 6 of the Degree of the Council of State concerning measurement and balance settlement (66/2009) states that customer has right to his own consumption data free of charge. Information must be released to the customer at the same time when it is given or ready to be given to the supplier. This corresponds to the requirements of section (h) of the Annex 1 of the directive.

#### 5.1.2 Gas

##### Compliance with annex 1

Article 41(1)(o) states that the national regulatory authority shall help to ensure, together with other relevant authorities, that the consumer protection measures, including those set out in Annex I, are effective and enforced.

Annex 1 lists number of consumer protection measures that should be guaranteed in consumer relations. The current legislation fulfils the most of the consumer related changes required by the Directive 2009/73/EC.

In the current Natural Gas Market Act the rules concerning the contract information are in paragraph 7 under chapter 4 and comparing the current legislation to the annex 1 requirements the current law fulfils the requirements stated in the annex 1 section 1(a). The paragraph 6 in chapter 4 of the Natural Gas Market act states that the rules in paragraph 95-99 of the Finnish Electricity Market Act also apply to the natural gas market.

In the Natural Gas Market Act the rules concerning the changing the terms of contract are in paragraph 7 under chapter 4. The paragraph fulfils requirements set in the annex 1 section 1(b).

In the current Natural Gas Market Act there are no specific rules concerning requirements mentioned in Annex 1 section 1(f) because the Finnish consumer protection acts general clause in paragraph 1 under the chapter 2 can also be used for handling consumer complaints in electricity related issues. The disputes between consumers and companies may be solved in the Consumer Disputes settlement Board, which is an impartial body of experts for solving disputes between the parties. The Consumer Disputes settlement Board does not charge any fees handling disputes. The Board's written decision is a recommendation and the parties are not obliged to follow it. A dispute handled by the Board can always be taken to a court of law. The Consumer Ombudsman may bring the class action, for instance, against a network operator or gas supplier and act as the representative of the class in a general court of law.

There isn't equivalent paragraph to the requirement of Annex 1 section 1(h) in the current legislation at the moment.

### **Ensuring access to consumption data**

Article 41(1)(q) of the directive 2009/73/EC states that the national regulatory authority shall ensure access to customer consumption data, the provision for optional use, of an easily understandable harmonized format at national level for consumption data and prompt access for all customers to such data under point (h) of Annex I.

The current Natural Gas Market Act does not include corresponding provisions about customers' access to the consumption data.

## **5.2 Dispute settlement**

### **5.2.1 Electricity**

The Energy Authority monitors the transmission system operator, distribution system operators and suppliers overall compliance with the electricity market legislation. However, the Energy Authority does not have power for dispute settlements between consumers and energy companies in the individual cases. The paragraph 39 of the Act on surveillance of the natural gas and electricity markets states that complaints against transmission or distribution system operator must be handled within two months after receipt of the complaint. According to paragraph 38 the regulatory authority's decisions shall have binding effect unless and until overruled on appeal. Paragraph 30 gives to the Energy Authority the power to get relevant information from the market participants and conduct inspections on their grounds in order to get relevant information for monitoring purposes.

In Finland the disputes between consumers and entrepreneurs in the individual cases may be solved in the Consumer Disputes Settlement Board, which is an impartial body of experts for solving disputes between the parties. The Consumer Disputes Settlement Board does not charge any fees for handling disputes. The Board's written decision is a recommendation and the parties are not obliged to follow it. A dispute handled by the Board can always be taken to a court of law.

The Consumer Ombudsman may bring the class action, for instance, against a network operator or electricity supplier and act as the representative of the class in a general court of law.

### **5.2.2 Gas**

The Energy Authority monitors the natural gas transmission system operator, distribution system operators and suppliers overall compliance with the natural gas market legislation. However, the Energy Market Authority does not have power for dispute settlements between consumers and energy companies in the individual cases, like related to following terms and conditions. The paragraph 39 of the Act on the surveillance of the natural gas and electricity markets states that complaints against natural gas transmission or distribution system operator must be handled within two months after receipt of the complaint. According to paragraph 38 the regulatory authority's decisions shall have binding effect unless and until overruled on appeal. Paragraph 30 gives to the Energy Authority the power to get relevant information from the market participants and conduct inspections on their grounds in order to get relevant information for monitoring purposes.

In Finland the disputes between consumers and entrepreneurs in the individual cases may be solved in the Consumer Disputes Settlement Board, which is an impartial body of experts for solving disputes between the parties. The Consumer Disputes Settlement Board does not charge any fees for handling disputes. The Board's written decision is a recommendation and the parties are not obliged to follow it. A dispute handled by the Board can always be taken to a court of law.