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**Subject: State Aid SA.40250 (2016/N) – Finland
Operating aid for electricity from wind power in Åland 2013-2015**

Sir, /Madam,

The European Commission wishes to inform Finland that, having examined the information supplied by your authorities on the matter referred to above, it has decided to raise no objections to the notified aid measure.

1. PROCEDURE: CIRCUMSTANCES OF THE GRANT OF THE AID/MEASURE, CORRESPONDENCE, ETC.

- (1) After pre-notification contacts the Finnish authorities (Government of Åland) notified the scheme for operating aid for wind power in Åland 2013-2015 on 26 May 2016, pursuant to Article 108(3) of the Treaty on the Functioning of the European Union ('TFEU').

2. DETAILED DESCRIPTION OF THE MEASURE

2.1. Background and objectives of the notified scheme

- (2) Electricity producers on Åland were supported in the past under the operating scheme of Finland for power plants using renewable energy sources, approved in Commission decision N893/2006 *Amendment & Prolongation of Aid to Power Plants*.¹

¹ OJ C 218, 18.9.2007, 4.

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- (3) Due to the subsequent division of legislative competencies between Åland and Finland, however, Åland was no longer included in the Finnish aid scheme. Therefore the Government of Åland introduced a new aid system for Åland, based on the Finnish scheme approved in Commission decision SA.32470 *Fixed operating aid for power plants using renewable energy*.²
- (4) This Åland scheme was approved in Commission decision SA.33567 *Production aid for electricity from renewable energy sources in Åland*³ and so extended aid to producers of electricity from renewable energy sources on Åland, who would previously have been in a position to benefit under the Finnish scheme.
- (5) The present measure constitutes an extension of that approved support scheme for wind generators in Åland, which was delayed in order to secure the financing for it.
- (6) The objective of the measure is environmental protection. Specifically, incentivising the production of electricity from wind installations.
- (7) Finland's renewable energy target under the Renewable Energy Directive for 2020 is 38% renewable share of gross final energy consumption⁴ a target which also covers renewable energy share of consumption on Åland.

2.2. Scope of the notification and national legal basis

- (8) The aid measure will only apply in the territory of Åland.
- (9) The legal basis of the measure is the *Provincial Act on operating aid for electricity produced from renewable energy sources (Decision LTB 41/2011)*, as amended by the *Act amending Section 17 of the act of Åland on operating aid for electricity (Decision LTB 6/2015)*.

2.3. Beneficiaries

- (10) The beneficiaries of the notified measure are operators of wind installations in Åland which are connected to the electricity network and generate at least 200 MWh of electricity a year.
- (11) The expected number of beneficiaries over the lifetime of the scheme is 4.
- (12) Beneficiaries must make an application for registration to the Government of Åland in order to receive support under the notified measure.

2.4. Form of aid and level of support

- (13) The aid is granted in the form of a direct grant, calculated per MWh of electricity produced.

² OJ C 189, 26.9.2011, 2.

³ Decision of 29.04.2013; publication in Official Journal pending.

⁴ Directive 2009/28/EC of the European Parliament and the Council of 23 April 2009 on the promotion and use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC OJ L 140 5.6.2009

- (14) The Åland authorities have confirmed that the form of aid, including the method of calculation, shall remain the same as that approved in Commission decision SA.33567 *Production aid for electricity from renewable energy sources in Åland* except that the aid amount will be set at a lower level.
- (15) The aid amount for wind power under the scheme approved in Commission decision SA.33567/2013 was set at €6.90/MWh. The notified measure will instead cap support payments at €4.90/MWh.
- (16) The Åland authorities also provided production costs information for electricity generated by wind power. The calculations represent wind installations with an installed capacity of 0.5MW, which represents the typical size of wind installations on Åland.
- (17) The production costs for electricity produced from wind installations are calculated according to the following formula:

$$\text{Production costs} = (\text{costs-revenues}) / \text{electricity}$$

Where:

costs = annuity⁵ + operating costs

electricity = installed capacity MWe*annual operating hours

operating costs = operating and service costs + balance costs + tax on real estate

- (18) The financing of the investment is assumed to be 30% equity capital and 70% loan capital. This is based on typical wind installations on Åland. The required return on invested capital is 12% and on loan capital is 1.34%.

Fell area				
CA	Capacity [MW]		0.5	
AF	Annual full load [h]		2500	
GE	Generated electricity [MWh]	CA*AF	1250	
A	Equity capital [%]	0.3*J	232500	30%
B	Loan capital [%]	0.7*J	542500	70%
C1	Annuity factor equity cap.	$C1/(1-(1+IC3)^{-D1})$		0.134
C2	Annuity factor loan cap.	$C2/(1-(1+IC4)^{-D1})$		0.057
C3	Req. return of invest equity cap. [%]			12%
C4	Req. return of invest loan cap. [%]			1.3%
D1	Economic life [a]			20
E1	Total annuity [e]	$(C1*A)+(C2*B)$		0.08
I1	Required return of investment. tot [%]	$(C3*A)+(C4*B)$		4.5%
J	Investment costs [e]			775000
N1	Annuity factor	$I1/(1-(1+I1)^{-D1})$		0.077
O	Tot. annuity [e]	$N1*J$		59630.65

⁵ The annuity method converts the investments costs into an annual figure, taking into account the required return on investment capital over the economic lifetime on the installations. The economic lifetime of wind installations on Åland is considered to be 20 years.

P	Operating and service costs [e]	$2.5\% \cdot J$	19375
Q	Balance management costs [e/MWh]	$2 \cdot CA$	1000
R	Tax on real estate [e]	$0.3 \cdot J \cdot 0.01$	2325
S	Total annual costs [e]	$O+P+Q+R$	82330.68
T	Operating costs [e/MWh]	S/GE	65.86

Table 1: Production costs for wind power on Åland (Source: Åland authorities)

- (19) As compared to the electricity prices during the eligible years it becomes apparent that in the absence of aid the market price would not be sufficient to cover developers' production costs (as calculated in accordance with Table 1).

Year of Production	Typical production Costs [e/MWh]	Market price elec. [e/MWh]
2013	65,86	48
2014	65,86	29
2015	65,86	30

Table 2: Production Costs cf. Market Prices (Source: Åland authorities)

2.5. Duration

- (20) The duration of the scheme is 3 years, from 1 January 2013 until 31 December 2015.
- (21) The Åland authorities have confirmed that the scheme will not become operational before it is approved by the Commission and that no aid will be granted under the scheme before the Commission clearance of the aid measure has been received.

2.6. Granting Authority

- (22) The granting authority for the notified measures is the Government of Åland.
- (23) The Government of Åland will supervise compliance with the criteria of the aid system and the conditions set in the related legislation, calculate the total amount of aid payable to each installation, and provide the operating aid accordingly.
- (24) Eligible production from wind installations is verified by Kraftnät Åland, the transmission system operator on Åland.

2.7. Source of financing

- (25) The scheme will be financed from the budget of the government of Åland.

2.8. Budget

- (26) The expected overall budget of the scheme is an estimated €900,000, with a corresponding annual budget of approximately €300,000.

3. ASSESSMENT OF THE MEASURE

3.1. Presence of aid

- (27) Article 107 (1) TFEU provides that “*any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, shall, in so far as it affects trade between Member States, be incompatible with the common market*”.

3.1.1. Aid granted by a Member State or through State resources

- (28) The first aspect of the Article 107(1) definition requires that State aid is granted by a Member State or through State resources. The notified measure is financed directly from the budget of the Government of Åland and it thus constitutes State aid granted directly.

3.1.2. Favouring certain undertakings or the production of certain goods and distortion of competition

- (29) The notified measure will provide support payments to eligible generators of electricity from wind installations on Åland in addition to the market price. These generators will therefore be remunerated at a rate exceeding that remuneration which they would ordinarily have been in receipt of from the market had the aid not been granted.
- (30) This support is only available to this category of producer and not to any other. The aid thus constitutes a selective economic advantage awarded to the beneficiaries.

3.1.3. Effect on trade between Member States

- (31) The notified measure only favours the generation of electricity from benefitting plants and is therefore selective. The beneficiaries operate in a liberalised market for electricity with cross-border trade. The advantageous treatment therefore distorts competitions and is likely to affect trade between Member States.

3.1.4. Conclusion with regard to the presence of state aid

- (32) The notified measure thus satisfies all relevant tenets of Article 107(1) TFEU and constitutes State aid.

3.2. Legality

- (33) The aid scheme has not yet been implemented and will not be implemented before the approval of the scheme by this Commission decision. Therefore Finland has complied with its stand-still obligation set out in Article 108(3) TFEU.

3.3. Compatibility

- (34) The Commission has assessed the compatibility of the notified aid scheme on the basis of Article 107(3)(c) TFEU.

(35) Point 247 of the *Guidelines on State aid for environmental protection and energy 2014-2020*⁶ ('EEAG') provides that the Commission will apply the EEAG to all measures in respect of which it is called upon to take a decision after the applicability of the EEAG.

(36) The current measure was notified on 26 May 2016, and it is thus the provisions of the EEAG for the purposes of assessing compatibility.

3.3.1. Objective of common interest

(37) The aim of the notified measure is to help Finland to achieve the renewable energy targets set by the EU as part of its 2020 strategy by promoting the deployment of wind installations in Åland.

(38) In line with Point 31 of the EEAG, the Commission thus considers that the notified scheme is clearly aimed at an objective of common interest in accordance with Article 107(3) of the Treaty.

3.3.2. Need for State intervention

(39) State aid may only be deemed compatible with the internal market if the Member State has demonstrated a need for State intervention, i.e. that the State aid measure is targeted towards a situation where aid can bring about a material improvement that the market cannot deliver, per Point 27(b) EEAG.

(40) In the case of the production of RES electricity, the Commission presumes that a residual market failure remains, which can be addressed through aid for renewable energy, for the reasons set out in Point 115 of the EEAG. This condition is therefore met for the present case.

3.3.3. Appropriate instrument

(41) Point 27(c) EEAG stipulates that the proposed measures should be an appropriate policy instrument to address the objective of common interest.

(42) In order to allow Member States to achieve their renewable energy targets in line with EU 2020 objectives the Commission will presume the appropriateness and limited distortive effects of aid provided that it complies with all other applicable conditions in accordance with Point 116 EEAG.

(43) The Commission is satisfied that this requirement is met in the present case and thus presumes that the measure is being realised via an appropriate instrument.

3.3.4. Incentive effect

(44) Point 49 EEAG provides that State aid has an incentive effect if it induces the beneficiary to change its behaviour towards reaching the objective of common interest.

(45) The information submitted by the Åland authorities demonstrates that in the absence of aid the cumulative production costs for this type of installation (see

⁶ Communication from the Commission – OJ C 200, 28.6.2014.

Table 1) is less than the price which producers could expect to receive from the market (see Table 2).

- (46) All of the installations were also previously deemed eligible as beneficiaries for aid under the Åland scheme applicable directly before the notified measure (until end 2012) and approved in Commission decision SA.33567 *Production aid for electricity from renewable energy sources in Åland*.
- (47) At the point at which the beneficiaries applied for operating aid in order to proceed with their installations, the Åland authorities have confirmed that work would not have begun on their installations. The subsequent splitting of legislative competencies between Finland and Åland necessitated the creation of separate schemes applicable to Åland only.
- (48) The undertakings were deemed eligible for assistance in the period of 2013-2015, after the expiry of the previous scheme, and are not awaiting the approval of the measure in order to receive support.
- (49) The Åland authorities have confirmed that Åland will use an application form aid which complies with all of the stipulations in Point 51 EEAG. Therefore, in line with Points 49 – 51 EEAG the aid has an incentive effect because the beneficiaries would not have proceeded with their projects had they not expected their projects to be rendered economically viable by receiving aid for the duration of the original scheme.

3.3.5. Proportionality

- (50) According to Point 69 EEAG, environmental aid is considered to be proportionate if the aid amount per beneficiary is limited to the minimum needed to achieve the environmental protection objective aimed for. The requirements of Point 124 and 126 are only applicable as of 1 January 2016 and 1 January 2017 respectively. Therefore, as per Point 128, the proportionality will be assessed on the basis of Point 131 EEAG.
- (51) The production costs provided by the Åland authorities in Table 1 and the market price in Table 2 demonstrate that, at the proposed aid level of €4.90, the aid does not exceed the difference between the production costs and the market price. The following table summarises the information and shows the expected State aid as a percentage of the extra production costs for the years 2013-2015.

Technology	Capacity [MW]	Typical prod. Costs [e/MWh]	Market price elec. [e/MWh]	Extra prod. Costs [e/MWh]	State aid [e/MWh]	State Aid [% extra prod. costs]
Wind 2013	0.5	65,86	48	17,86	4,9	27,43%
Wind 2014	0.5	65,86	29	36,86	4,9	13,29%
Wind 2015	0.5	65,86	30	35,86	4,9	13,66%

Table 3: Comparison Production Costs and Market Prices.

- (52) In addition, the notified measure also places an overall cap on the level of support which beneficiaries can receive by providing that at no point may the aid as a percentage of the extra production costs can exceed 50%.

- (53) The production costs calculation includes a targeted pre-tax nominal internal rate of return for installations which is 4.5%. From the electricity prices for the period 2013-2015 it can be deduced that the aid remains insufficient to cover all operating costs for wind installations.
- (54) The beneficiaries sell their electricity on the Nordpool spot market and so face the same conditions as similar installation in mainland Finland. As such, the Åland authorities have provided information on typical rates of return for wind installations on mainland Finland.
- (55) According to Tuulivoimatie, a wind energy information agency in Finland, the internal rate of return estimated on projects in Finland is in the range of 10-15% for a 15 year period. Therefore the Commission is satisfied that the internal rate of return applicable to the notified measure is reasonable.
- (56) Point 131d EEAG requires that aid may only be granted until an installation has been fully depreciated in accordance with normal accounting rules. In the present case it has been confirmed that beneficiaries will only be eligible to benefit from the scheme as long as they are not fully depreciated.
- (57) Based on the foregoing the Commission considers that the aid granted under the notified measure is proportionate in line with point 131 of the EEAG.

3.3.6. Cumulation

- (58) The Åland authorities have confirmed that no other aid schemes exist which the beneficiaries of the notified measure could avail of.
- (59) The Åland authorities have also confirmed that the beneficiaries cannot benefit from any operating schemes applicable in mainland Finland.

3.3.7. Distortion of competition and balancing test

- (60) According to Point 90 EEAG, the Commission considers that aid for environmental purposes will by its nature tend to favour environmentally friendly technologies over other more polluting ones, the effect of the aid will in principle not be viewed as an undue distortion of competition since it is inherently linked to the objective which it pursues – environmental protection.
- (61) The Commission considers that aid to renewable energy does not have undue distortive effects on competition and trade because the applicable conditions in EEAG Section 3.3 are fulfilled.
- (62) The Commission therefore concludes that the distortion of competition caused by the notified scheme is balanced by the positive contribution towards common policy objectives.

3.3.8. Transparency

- (63) The Åland authorities have committed to implementing all of the applicable conditions laid down in Section 3.2.7 EEAG and thus comply with the transparency provision for all aid granted as of 1 July 2016.

3.3.9. *Conclusion with regard to the compatibility of the measure*

- (64) In light of the above assessment, the Commission considers that the notified aid scheme pursues an objective of common interest in a necessary and proportionate way and that therefore the aid is compatible with the internal market on the basis of EEAG.

4. CONCLUSION

- (65) The Commission concludes on the basis of the foregoing assessment that the measure is compatible with the internal market pursuant to Article 107(3)(c) TFEU.
- (66) If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: <http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Your request should be sent electronically to the following address:

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Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission