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Commission's consultation on the progress report

Finnish Energy Industries wishes to provide its own contribution to the preparation of the Commission's report on the implementation of the Internal Electricity Market Directive. We hope that the Commission will take our viewpoints into account in its development of the operations of the internal electricity market in Europe. Finnish Energy Industries is grateful for the opportunity to voice its views and respectfully gives the following statement.

General

The Internal Electricity Market Directive 2003/54/EC and the Regulation on Cross-Border Trade EC/1228/2003 will create good preconditions for the formation of an efficient European electricity market. These preconditions include the neutrality of Transmission System Operators, TSOs, the undiscriminating and free access of consumption and production to the competitive market, and the deregulation of cross-border transmission connections for the use of the market. In our opinion, the most important of the above is the neutral and undiscriminating TSO operations. However, achieving an efficient electricity market requires full implementation of the Directive and Regulation in all the member states within the given schedule. Nevertheless, the implementation of the principles created in the Directive and Regulation still have room for further development.

Consistency and sufficient predictability of regulations are important

In addition to the Internal Electricity Market Directive, a number of other directives and regulations affect the operation of the electricity market. The most significant of these is perhaps the Emissions Trading Directive. Emissions trading has had a considerable impact on the electricity market. The political uncertainties of the allocation of emission allowances have created a significant new challenge for companies operating on the electricity market. Therefore, we would like to emphasise the importance of the assessment of the combined impact of various regulations when creating new ones. The consistency and sufficient predictability of the provisions and monitoring are a precondition for creating sustainable functioning of the electricity market. We are pleased that the Barroso Commission has regarded it as important to assess the impacts of the directives. We also wish to emphasise the importance of the market-based operation of the electricity market. Market design must be implemented so that different mechanisms, such as the management of transmission congestions, operate with true market focus. Excessive regulation prevents the functioning of market mechanisms.

In addition, the harmonisation of some factors, currently under national power of decision, is another precondition for creating impartial market conditions. These include taxation and production-related restrictions on market access. In our opinion, it is essential to harmonise this kind of factors that affect the regional and European electricity competition.

We wish to stress the importance of an equal treatment of different forms of electricity generation. Market-based conditions for investments in electricity production are essential for a balanced development of the electricity market.

The Electricity Directive gives the national regulators a great responsibility for promoting the efficient operation of the electricity market. The expansion of the electricity market from national markets through regional markets to a common European market creates a great challenge for both the actors and regulators on the electricity markets. Nordic branch organisations have launched a project with the aim of clarifying the possibilities of introducing a joint Nordic regulation model for electricity network operations, with the objective of harmonising the regulation environment in the Nordic countries. The project will be completed in autumn 2005. The results of the project will also be available in the development of a European regulation system.

Future development of the Electricity Market

In our opinion, the Commission's strategy in the creation of a European electricity market through an intermediate stage of regional markets is sensible. However, we see here a risk of the formation of divergent rules on the market operation between different areas. This kind of development could make it more difficult to integrate the regional markets when transferring to a common European market. For this reason, we regard it as important to follow coherent rules already in the stage of creating the regional markets. This way we will ensure a fluent transfer from regional markets to a European market.

Therefore, the Commission is creating guidelines on congestion management and transmission tariffication with the aid of the regulators' organisation ERGEG. We think that the guidelines are a good method of creating common principles for the operation of regional markets. We hope that the Commission will continue to use the guidelines as a tool for further development of compatible market rules in a way that promotes competitive activities in the electricity market in both the regional markets and at the European market level.

We support the conclusions of Eurelectric report "Integrating Electricity Markets through Wholesale Markets: EURELECTRIC Road Map to Pan-European Market". As stated in the Road Map, the development and integration of the wholesale market are essential. In a well-functioning, advanced market, the wholesale market prices will be transferred to the retail market in a market-oriented way. Thus, the small-scale electricity users will also benefit from the competition, and the price signals of the wholesale market will also reach the small-scale users (Figure 1).

Neutrality of TSOs operations is essential

In the development of the wholesale market, it is important to create autonomous TSOs. As the operation of the electricity market is based on the use of the physical transmission network operated by the TSOs, the role of TSOs in the creation of the preconditions of competition on the electricity market cannot be emphasised too much. The neutrality of the operation and decision-making of TSOs and their close co-operation with other TSOs and the electricity exchange is essential. We also want to emphasise the importance of the harmonisation of the task field of TSOs. The main task of TSOs must be the promotion of a well-functioning electricity market and the creation of operational preconditions for electricity market, for example, through network investments and market-based management methods for congestions.

Area of the roadmap - wholesale market

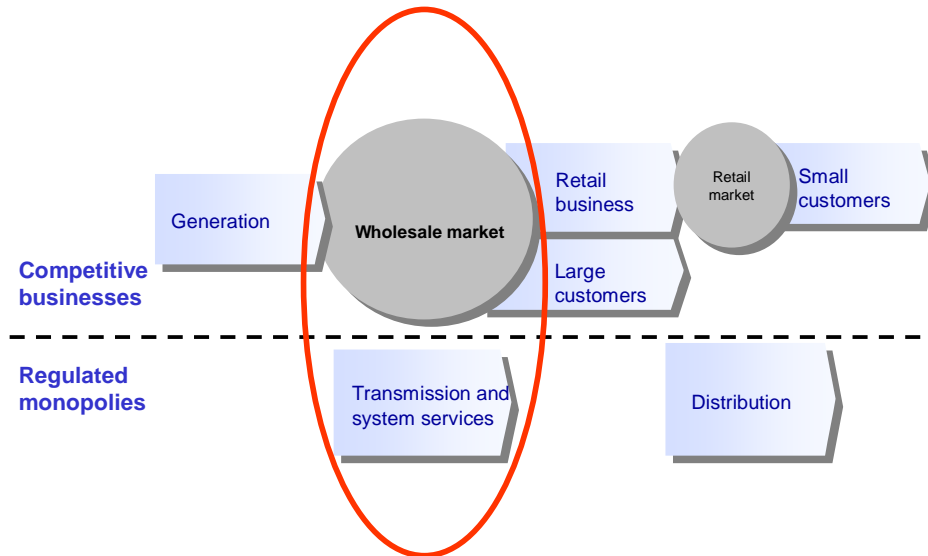


Figure 1: Area of the roadmap (Source: EURELECTRIC Road Map to a Pan-European Market)

Market structure based on the electricity exchange

According to our experience, a market structure based on the electricity exchange is the most effective. The market price formed in the liquid market on the exchange is reliable and provides neutral price information for all market parties. A market structure based on the electricity exchange enables the division of transmission capacity between price areas in a market-driven way so that the interconnection capacity is always allocated in the most efficient way in respect of the market. For example, in a structure based on bilateral contracts, an hourly price reference is not formed. As a result, congestion management can only be carried out with explicit auctions. We want to emphasise the transparency of the market as a precondition for the credibility and liquidity of exchange trading.

The congestion management methods applied must promote market functionality and efficient competition on the electricity market. Creating large price areas over TSO borders should be the target. The availability of the interconnection capacity between price areas should be continuously guaranteed to a certain level by the TSOs (fixed capacity). If the electricity flow at the interconnection exceeds the fixed capacity and a congestion situation arises, implicit auctioning should be used.

Counter trading is a market-based congestion management method, provided that the market infrastructure is well developed, i.e. that the TSOs are autonomous and there is a sufficient level of wholesale competition. Using an electricity exchange in implementing counter trading is one supportable alternative. We support counter trading in managing congestions within price areas (temporary congestions) and as a supplementary method with other congestion management procedures (auctions and market coupling) in order to guarantee the availability of the nominal available transmission capacity (fixed capacity). Counter trading, implemented using spot-offers, makes it possible to improve market transparency and also to provide local price signals to regulated production and consumption.

As stated in the Regulation, the congestion management method should give signals to market participants as well as to TSOs. We want to point out that TSOs' investments in frequently congested parts of the grid are also a relevant congestion management method. The counter trading method gives TSOs an incentive to develop the transmission system according to the needs of the market.

Market integration between countries and regions should be advanced also in respect of intra-day trade and the regulating market co-operation between TSOs. This way it would be possible to level out temporary internal fluctuations in power balance in different countries and regions within the limits of the available transmission capacity (for example, fluctuations caused by wind power).

Customer Protection / Consumers' position in the electricity market

The implementation of true freedom of choice for consumers in the electricity market in accordance with the requirements of the directive will reinforce the position of consumers.

The efficient operation of the market requires a clear connection between the wholesale price formed on the electricity exchange and the consumer price. In order to implement the market reform, it would be necessary for the regulation systems of electric energy that are still valid in some countries – that have in principle been opened to competition – to be abolished.

Electricity suppliers or distributors should not be given the role of the social welfare authorities. The regulations concerning the different treatment of various customer groups still in use in some countries should on no account be made a general requirement.

The consumer protection regulations touching upon the electricity market have been drawn up from highly national starting points in various member states, and they differ a great deal from each other. Possible harmonisation would be a very challenging and difficult task.

Finally

Finally we wish to state that the current regulations provide good preconditions for the creation of a European wholesale electricity market. The creation of operating models in accordance with the Directive and Regulation in all member states, fully and without delay, will require a strong political commitment on the national level to the objective of an efficient European electricity market.

Yours sincerely,

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