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Ref: Your letter concerning Agreement in Principle, dated 23th of October 2017

Fingrid's Response to the Proposed Agreement in Principle

Background

Fingrid received Statnett's (SN), Svenska kraftnät's (Svk) and Energinet.dk's (EN) joint letter (dated 23th of October 2017) regarding Nordic LFC block structure. The proposal includes also an Agreement in Principle ('AiP') with a new governance structure for Nordic TSO cooperation.

The new proposal is a continuation of the process initiated by SN and Svk on 20th of June 2017. It is to be noted that the proposal covers partly and is related to the implementation of the System Operation Guideline (2017/1485, later SO GL) and the draft Electricity Balancing Guideline (later EB GL) in the Nordic area.

The proposed AiP is based on the structure where SN and Svk would be transferred a leading responsibility with respect to balancing the Nordic synchronous area. Currently, each Nordic TSO has the responsibility of its control area. In addition, the Nordic TSOs have together agreed that SN and Svk have a coordinator role in maintaining the frequency and the time deviation in the common Nordic synchronous system.

AiP includes also a governance structure concerning all decisions related to balancing, including system and market design/development, pre and post spot planning, operative phase and post-operation analysis, including without limitation determinations for the purposes of SO GL art. 119 and other relevant provision related to the obligations stipulated in art. 119. The proposed governance is based on voting where voting powers are Svk (33 1/3%), SN (33 1/3 %), EN (16 4/6%) and Fingrid (16 4/6%). The majority requirement is 65 %.

In the letter SN, Svk and EN present two options for Fingrid. Fingrid should either

(1) Agree on the proposed AiP (including governance) where the leading responsibility with respect to balancing is transferred to SN and Svk. In this case Nordic synchronous area is proposed to be single LFC block and several LFC areas.

(2) If Fingrid doesn't agree on the proposed AiP, SN, Svk and EN have stated that they would form a three-TSO LFC block without Fingrid. It is also stated that if Fingrid should

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desire to join the three-TSO LFC block in the some later stage, such entry will presumably not be possible for the next two years.

Fingrid's response

Fingrid has assessed the new proposed AiP. In essence, the AiP is very close to previous draft proposal by SN and Svk on 20th of June 2017. Only minor changes have been made to the decision making process. SN and Svk together would still have an exclusive role in the decision-making.

As already highlighted by Fingrid in the previous correspondence¹, the decision making process of the TSOs of the Member States is clearly defined in the EU legislation. For example SO GL Art. 5 (7) states that proposals for terms and conditions or methodologies in relation to regions composed of five Member States or less shall be decided by TSOs on the basis of a consensus. The decision-making in the new proposed AiP is thus in severe contradiction with the EU legislation. The proposed voting powers are not justified.

The LFC structure definition is the first part of the SO GL implementation process. Regarding the Nordic LFC structure definition, Fingrid sees also other alternatives than the two alternatives presented by SN, Svk and EN. The LFC structure is subject to a national regulatory approval of the Member States. If the relevant TSOs fail to submit a common proposal for the LFC structure to the competent regulatory authorities of the Member States within the deadlines defined in the SO GL, the EU Commission and ACER will have a central role in the process regarding the decision on the LFC structure.

It should be noted that there is no direct connection between the LFC structure definition and the proposed AiP. The LFC structure of the Member States can be defined without the AiP, as is the common practice in Europe. Consequently, the LFC structure definition and the AiP are two separate issues.

As the new proposed AiP is in the essence similar to the previous draft proposal by SN and Svk on 20th of June 2017, Fingrid restates our earlier arguments and views included in our previous letter "Fingrid's response to Statnett and Svenska kraftnät's proposal on Nordic balancing" dated on 15th of September.

Based on the above, Fingrid cannot accept the proposed AiP.

Proposal on the way forward

In relation to the SO GL implementation, Fingrid, Statnett, Svenska kraftnät, Energinet.dk and Kraftnät Åland met on 11th of October. The TSOs concluded at the meeting that they have a consensus and common understanding about the timetable and required content for a common LFC structure proposal as required by the SO GL.

Fingrid has proposed to start with the existing LFC structure where the Nordic synchronous area consists of one LFC block and one LFC area. Fingrid is truly committed to develop the LFC structure in equal co-operation with all Nordic TSOs and stakeholders in the future. The existing LFC structure is based on advanced integration of the Nordic region. It's questionable if splitting the LFC structure would improve the efficiency of the

¹ Fingrid's response to Statnett and Svenska kraftnät's proposal on Nordic balancing dated on 15th of September

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Nordic and/or European electricity markets. However, Fingrid welcomes any improvements to the efficiency and the reliability of the electricity system and markets.

The implementation of the European network codes and guidelines should be seen as a perfect opportunity to take the next steps towards a more market-based and robust Nordic system. The network codes and guidelines provide clear timetables and decision-making processes for the future development.

Yours sincerely,

Fingrid Oyj



Jukka Ruusunen
CEO and President

In copy:

Kraftnät Åland

Swedish Ministry of the Environment and Energy
Finnish Ministry of Economic Affairs and Employment
Danish Ministry of Energy, Utilities and Climate
Norwegian Ministry of Petroleum and Energy

The Electricity Market Group (EMG) of the Nordic Council
Nordic Energy Regulators, NordREG
Energiavirasto, Energy Authority of Finland
Ålands landskapsregeringen