

15 September 2017

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Fingrid's response to Statnett's and Svenska kraftnät's proposal on Nordic balancing

Fingrid received Statnett's and Svenska kraftnät's joint proposal for the Nordic Balancing Concept on 20th June 2017. The proposal includes also an Agreement in Principle (hereafter referred also as 'AiP') with a new governance structure for Nordic TSO cooperation. Statnett and Svenska kraftnät provided Fingrid and Energinet.dk with an offer to sign the AiP and set the deadline of 15th September 2017 as the final date for signing the agreement. Statnett and Svenska kraftnät have also informed that their target is to establish their own LFC block to replace for their part the current common Nordic LFC block if Fingrid and Energinet.dk do not sign the proposed Agreement in Principle.

Between the 20th of June 2017 and this date meetings and exchange of information between the four TSOs has taken place to clarify the contents of the proposal and to provide the TSOs not being involved in the preparation of the proposal an opportunity to give their views on the proposal. Fingrid submitted its joint letter with Energinet.dk to Svenska kraftnät and Statnett on the 21st of August 2017 raising its comments and questions to the proposal. Following that, on 29th of August 2017, Svenska kraftnät and Statnett provided their response to the issues raised by Fingrid and Energinet.dk in their letter. In addition to the above, Fingrid submitted on the 11th of September 2017 a memorandum including its view on the proposal. The four TSOs have discussed the above proposal in four meetings organised on 23rd and 30th of August, 7th and 12th of September 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.

Statnett and Svenska kraftnät have at the meeting held on 12th of September 2017 specifically requested Fingrid to comment on the following three issues. Please find below Fingrid's view on each of these issues.

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Fingrid's view on the issues in the proposed Agreement in Principle

(i) Governance

In the Agreement in Principle Statnett and Svenska kraftnät have proposed that they would be given a full decision-making power regarding balancing in power system operation, market development as well as IT development. Based on the proposal, Statnett and Svenska kraftnät would also prepare the terms and conditions as well as methodologies for approval by the competent regulatory authorities of the relevant EU Member States. Energinet.dk and Fingrid would be offered an opportunity to be involved in the development work without any decision-making power. The extent of involvement of Fingrid and Energinet.dk (if any) would be decided solely by Statnett and Svenska kraftnät.

Fingrid cannot accept the proposed governance model in the Agreement in Principle.

The decision making process of the TSOs is clearly defined in the EU legislation. For example, SO GL Art. 5 (7) states that TSOs deciding on proposals for terms and conditions or methodologies in relation to regions composed of five Member States or less shall decide on the basis of a consensus. Same decision-making provision (Article 4(5)) is included also in the EB GL.

Fingrid has requested Finnish Energy Authority's opinion on the development of regional proposals and agreements included in the SO GL and EB GL. The Finnish Energy Authority has in its statement, dated 6th of September 2017, stated the following:

- The TSOs have the responsibility to develop the proposals and submit them for NRAs's approval. This responsibility cannot be appointed to another entity.
- In preparing a proposal given by more than one TSO, i.e. a joint proposal, the TSOs shall closely cooperate.
- The decisions on proposals in relation to regions composed of five Member States or less shall be made in a consensus.

The Finnish Energy Authority also emphasized that the SO GL and EB GL requirements set by the legislator are not for the TSOs to be agreed otherwise in contracts. Contract clauses in breach of the regulation shall be considered void in any regulatory context.

In addition, the Nordic Energy Regulators, NordREG, highlighted in their letter, dated 18th of August 2017 that terms and conditions or methodologies related to system balancing within the synchronous area must be developed in line with the governance structure of the relevant EU legislation. NordREG specifically pointed out that according to SO GL Art. 141 (2) the proposal for determination of LFC-block(s) in the Nordic synchronous area shall be jointly developed by all TSOs of the synchronous area and approved by the NRAs.

Furthermore, the proposed governance model is in contradiction with the Finnish national legislation. Fingrid is mandated with system responsibility, including system balancing, by national legislation. This responsibility cannot be delegated to another company or country. This has been confirmed by the Finnish Energy Authority.

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Lastly, it is legally unclear whether a TSO bound by the Directive 2009/72/EC and the Regulation 714/2009/EC can contractually delegate decision-making power to a non-certified non-EU TSO. This is naturally falling under the continuous monitoring task of each Member State NRA.

Fingrid has informed Statnett and Svenska kraftnät about the unacceptability of the governance model proposed in AiP. Unfortunately, it has been made very clear, that although the proposed governance model is illegal both according to the EU legislation and the Finnish legislation, either Statnett or Svenska kraftnät have not been willing to deviate from the proposal. As a result, Fingrid has been de-facto excluded from the AiP. Despite this fact and because the Nordic synchronous area is of common interest, Fingrid has commented below the other two issues, namely the IT arrangements and the ACE model.

(ii) IT

In the Agreement in Principle Statnett and Svenska kraftnät have proposed that development of Nordic IT solutions should be handled by a joint IT development venture ('Fifty') established by Statnett and Svenska kraftnät. This venture is intended to be converted into a company by the end of 2017. The software solutions implementing and supporting the proposed balancing concept and other future developments within the area of balancing would be developed by Fifty. Unless specifically approved otherwise by Statnett and Svenska kraftnät, Fingrid and Energinet.dk would be required to participate in all common IT solutions, including cost recovery of the solutions, without having any decision right to such solutions.

In general, Fingrid supports common IT solutions among the Nordic TSOs where common solutions are found to be cost-efficient. IT solutions should be procured with open, transparent and market-based manner as it is required by relevant procurement legislation. The governance related to the procurement and development of common IT solutions shall be based on equal decision-making of the TSOs and to take into account the requirements of the national procurement law.

However, the proposed model where Fingrid would be required to, de-facto, fund Statnett's and Svenska kraftnät's in-house IT departments (or Fifty company yet to be established) without any decision-making power and proper transparency to the related cost basis etc. is completely unacceptable.

(iii) ACE model

The proposal includes a concept document for "The Nordic Balancing Concept". The concept document outlines a balancing model with ACE control based on bidding zones. Currently Nordic synchronous system is balanced as one system based on common frequency control. Implementing ACE control would thus be a substantial change for the current Nordic balancing markets.

Fingrid agrees that both the Nordic balancing markets and the operational practices need to be developed as the power system is transforming to a low-carbon, intermittent and de-centralized generation mix. Well-functioning balancing creates the basis for the whole electricity market, including intraday and day-ahead markets as well as wholesale and retail markets. As balancing has far-reaching effects on the functioning of the whole

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electricity market, Fingrid finds it of utmost importance that all relevant stakeholders in the Nordic countries are invited to actively develop a new balancing concept and the main principles for a new balancing model.

When making substantial changes to current practices to meet requirements set in SO GL and EB GL, it needs to be ensured that the new solutions are better than the current ones. Proposals developed in accordance with SO GL and EB GL shall include a description of the expected impact on the objectives of these Guidelines and consultation with stakeholders. Consequently, new solutions should increase Nordic as well wider European socioeconomic benefits, promote liquid well-functioning markets and improve system security and meet the objectives set Article 4 of SO GL and Article 3 of EB GL. Without a proper study and involvement of stakeholders in the study such changes cannot be justified.

At this stage, neither Fingrid nor the stakeholders are in a position to properly assess the model proposed by Statnett and Svenska kraftnät as the description of the model leaves many questions open and lacks completely all technical and socio-economic analysis and justifications. Notwithstanding the above, Fingrid agrees in principle that ACE-model can be considered as one possible option for an operation model of the future. The model was already used in the Nordics until early 2000's and it is commonly used in the continental Europe today.

Pöyry Management Consulting has been asked by Fingrid to conduct an independent review of "The Nordic Balancing Concept" as proposed by Statnett and Svenska kraftnät. The review is attached to this letter to facilitate the further development of the future balancing model.

Proposal on the way forward

To conclude, Fingrid cannot accept the proposed Agreement in Principle for the reasons explained above.

However, it is evident that the Nordic balancing market and the underlying operational practices need to be developed. This development needs to be done in close cooperation by the participating TSOs and with active involvement of stakeholders. The implementation of the European network codes and guidelines should be seen as a perfect opportunity to take the next steps to a more market-based and robust Nordic power system.

As the implementation of the European network codes and guidelines is a rather substantial change in the Nordic power market, Fingrid proposes to follow a stepwise implementation process and the deadlines as set by the network codes and guidelines. In light of this, the first measure to be taken on the basis of the System Operation Guideline - i.e. the determination of the LFC blocks is to prepare a joint proposal covering the Nordic synchronous area confirming the current LFC structure. This would mean continuing with the current structure where the synchronous area is one LFC block. Any eventual change to the current structure would need to be thoroughly analysed and assessed in cooperation with the relevant stakeholders. Against this background Fingrid sees that the regulatory proposal on the LFC structure according to the System Operation

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Guideline can only be the current structure with all the TSOs of the Nordic synchronous area included in one LFC block.

System Operation Guideline entered into force yesterday the 14th of September 2017 in the Member States of EU. We refer to the process set in the above guideline and propose to closely cooperate in this matter to develop Nordic balancing market and underlying operational practices and start the implementation processes as required in the above guideline as soon as possible.

Yours sincerely,

Fingrid Oyj



Jukka Ruusunen
CEO and President

In copy:

Energinet.dk
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

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