

Finnish Electricity Industries (ET) position concerning bid/price area plans in the Nordic market area

General comments

The market structure should be developed so that it enables the market to function as efficiently as possible. The ultimate goal is a level playing field with fluent transmission and as far as possible a common price for the whole market area. The methods to achieve this are sufficient investments on transmission network and the use of counter trade where occasional congestions appear. Also cross-country areas should be considered. This way the functioning of the market is best ensured and the liquidity of financial products promoted.

Congestion Management in the Nordic Market – evaluation of different market models

The report prepared by Ea Energy Analyses, Hagman Energy and COWI was ordered by the Nordic Council of Ministers. The report proposes introduction of additional bid or price areas. ET objects to this proposal for the following reasons:

- Counter trade, which gives the immediate incentive for needed grid investments by the TSOs is removed, which rather aggravates than reduces the problem.
- Sufficient grid investments combined with partial counter trade are more efficient methods to handle congestion management.
- The proposal is in conflict with the goal of achieving an efficient and competitive wholesale and retail market with credible level playing field, as this goal requires as large as possible price areas. Players may withdraw from sales in areas where they do not have generation.
- The approximated socioeconomic benefits are negligible when compared to the total size of the market and increased hedging and IT-system costs.
- The consequence would be an income transfer from Norwegian and Swedish consumers to Norwegian and Swedish producers and German consumers

Comments on the proposal of dividing Finland into two bid or price areas

ET objects to this proposal for the following reasons:

- Dividing Finland into two price areas would hinder the competition on the retail market and raise hedging costs. This would increase the consumer price and less product alternatives would be available for the customers. In addition, it would put consumers in Northern Finland and in Southern Finland in different positions.
- Small retailers would probably choose to operate only in one area, thus weakening the competition situation.
- Required changes in IT-systems for planning, settling and invoicing electricity trade would create considerable costs and also increase operating costs. The estimated socioeconomic benefit for Finland would hardly cover these costs.
- Bid area model would affect the price formation on the spot market and surely make the price formation more equivocal and less transparent for the end customers.
- Splitting Finland does not contribute to solving the congestion in Southern Sweden nor deciding how to divide the costs of transmitting electricity from Norway to Denmark through Sweden. Finland itself has no major structural bottlenecks and thus should not be splitted.

Concluding remarks

The proposed solution is misguided. It will aggravate the situation and move the actual problem from the centre of attention. Fostering the necessary grid investments should remain in centre of attention. Finding a common understanding how grid investments and counter trade can be combined and financed to mitigate congestion in Southern Sweden is also of great importance. Additional bid/price areas are not the solution. Their introduction hampers with the goal achieving one price for the whole market area. Joint price areas with neighbouring countries would solve current challenges and dynamic congestions. Using the bottleneck incomes in investments and in counter trade would already ease the situation significantly. In 2008 only the bottleneck incomes were about 240 MEUR in Nordic countries.

Yours sincerely,

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