

Electricity supply – market design and regulatory oversight

Case Finland

Baltic Electricity Market Mini-forum
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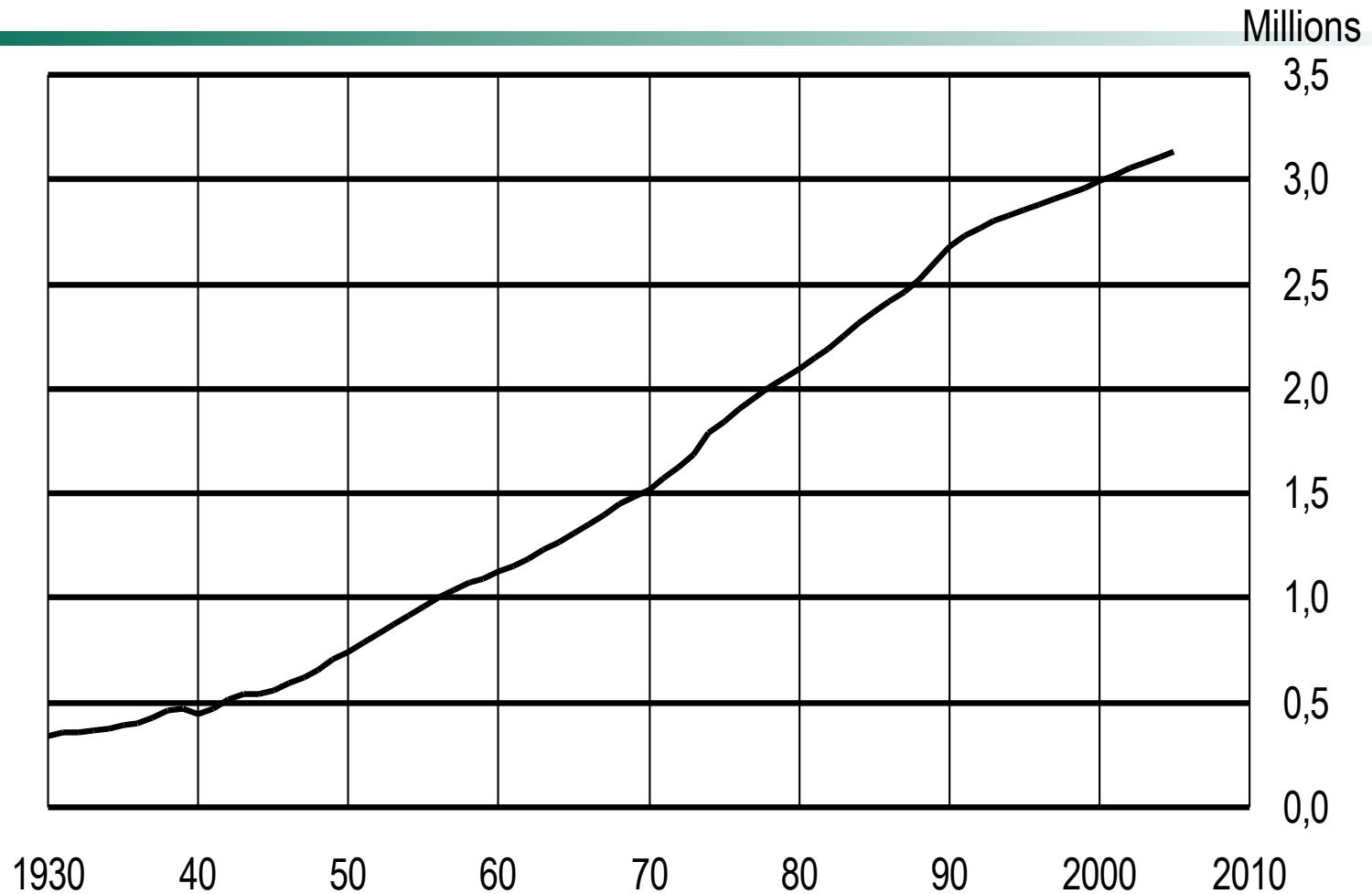
Structure of presentation

- General facts about the Finnish market
- Market opening and switching
- Unbundling requirements
- Regulation of electricity prices
- Division of responsibilities between regulator (Energy Market Authority) and competition authority

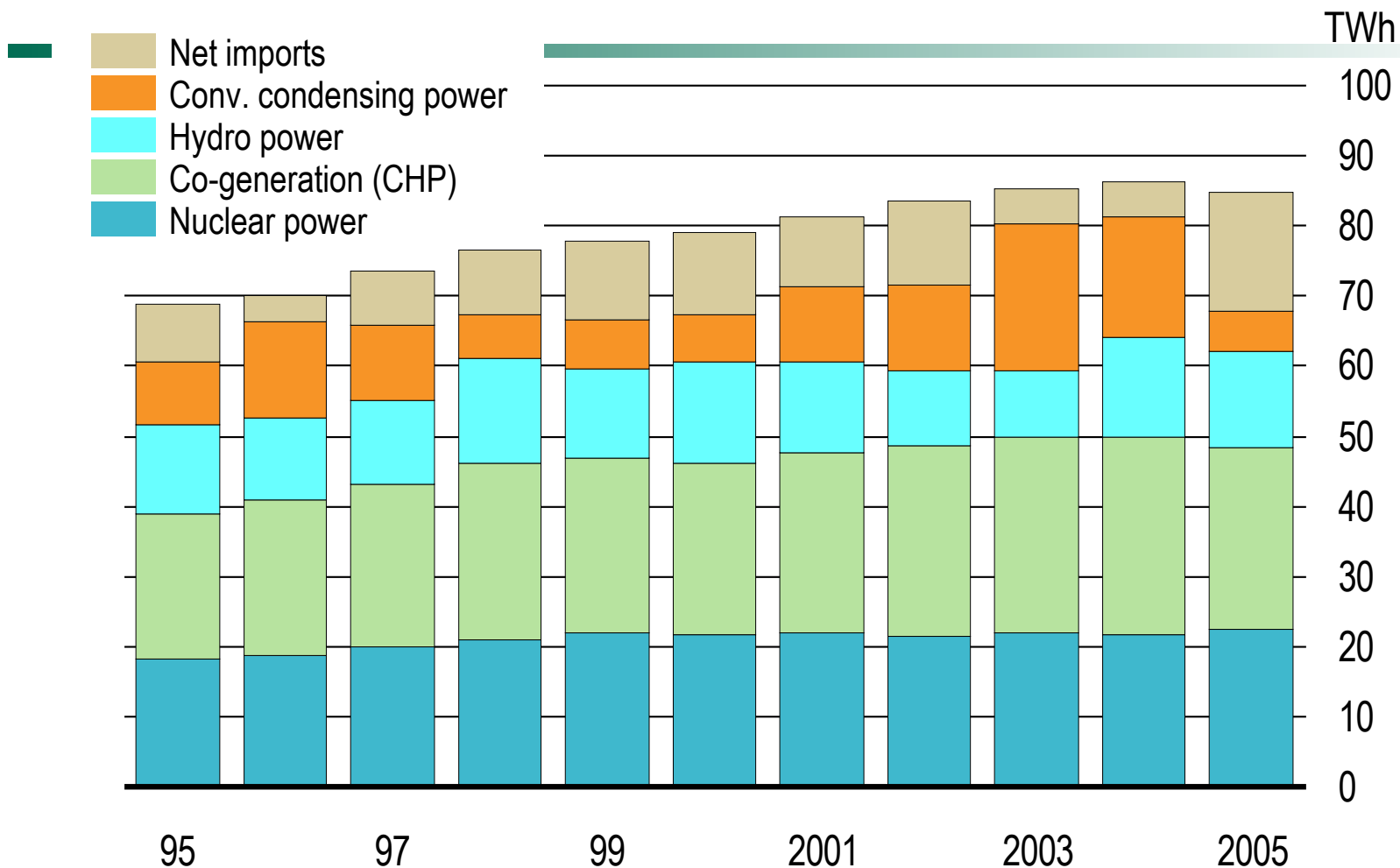
The Finnish electricity market

- A part of an integrated Nordic electricity market
- Characterised by a large number of actors
- **GENERATION**: more than 100 generators
- **TRANSMISSION**: 1 TSO, a private limited company, totally unbundled
- **DISTRIBUTION**: ca. 90 distribution network operators, mixed unbundling
- **RETAIL MARKET**: over 70 retail sellers

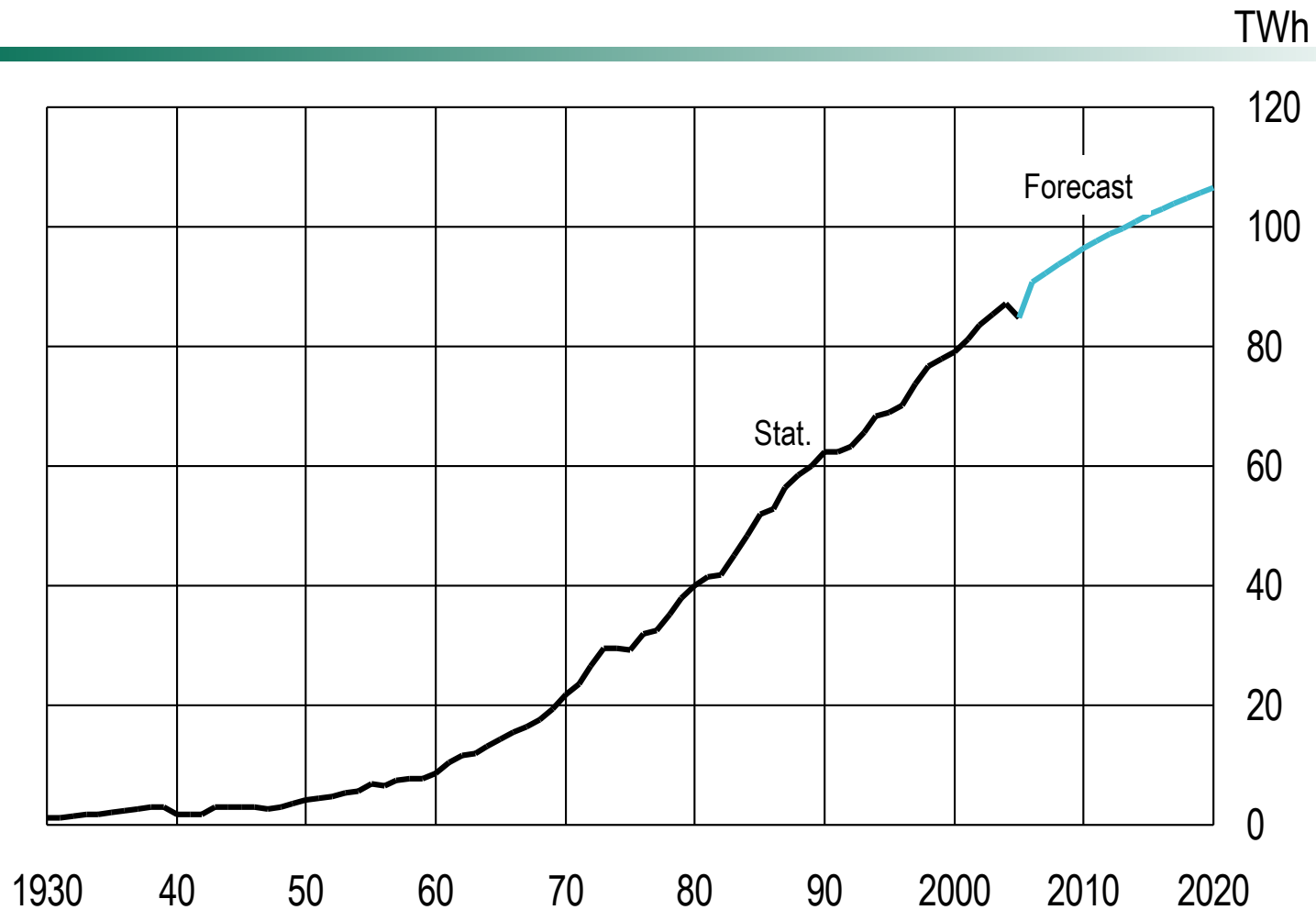
Number of Electricity Consumers



Net Supplies of Electricity



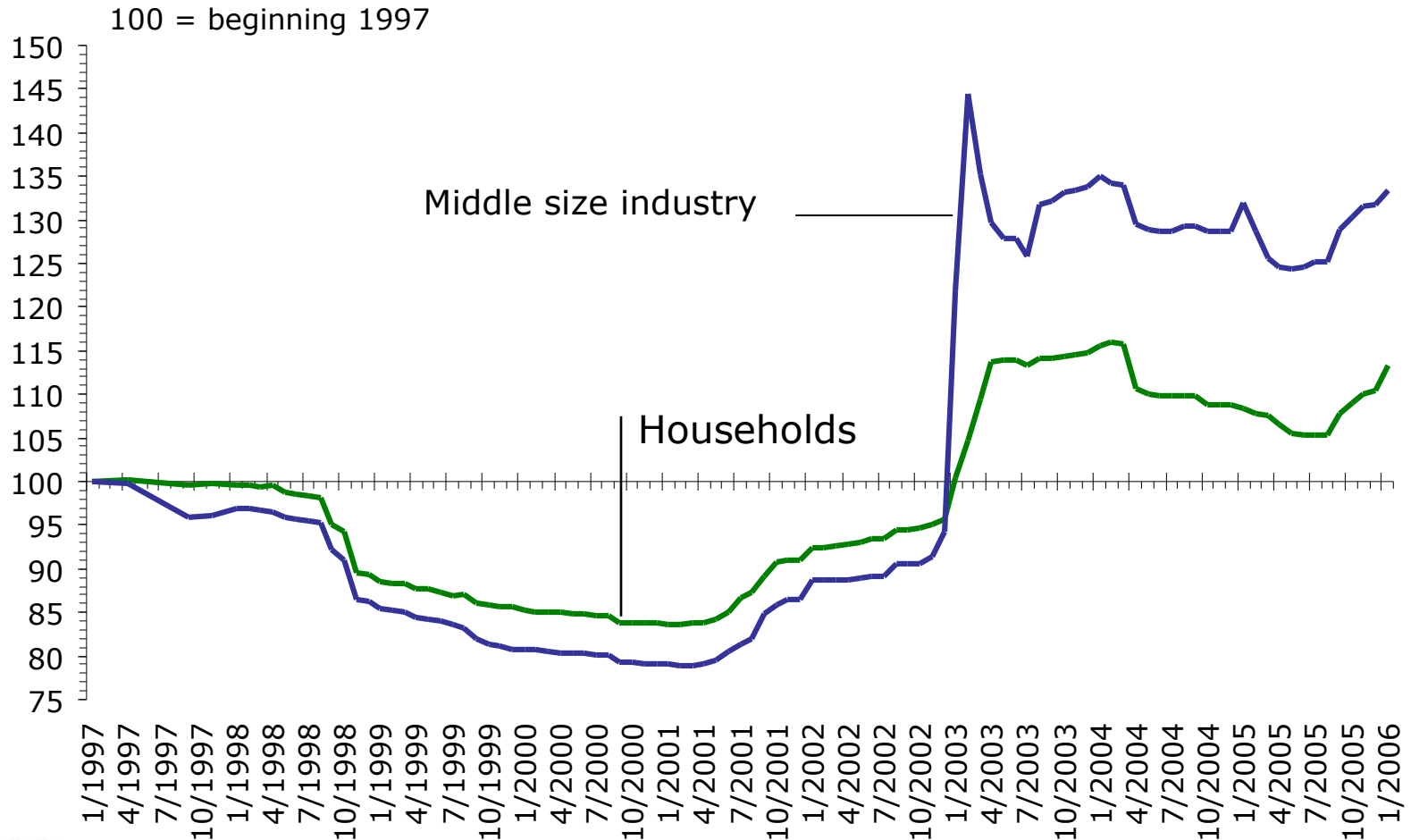
Electricity Consumption



Steps of market opening

- **The 1st stage of market opening** at the beginning of November 1995 → large users with the need of effect 500 kW or above became eligible (ca. 2 000 customers)
- **The 2nd stage of market opening** at the beginning of 1997 → all users eligible, hourly metering required (in practice, some 30 000 customers)
- **The 3rd stage of market opening** in autumn of 1998 → hourly metering abolished from small customers (max 3x63 A and 45 kW)

Development of the electricity price

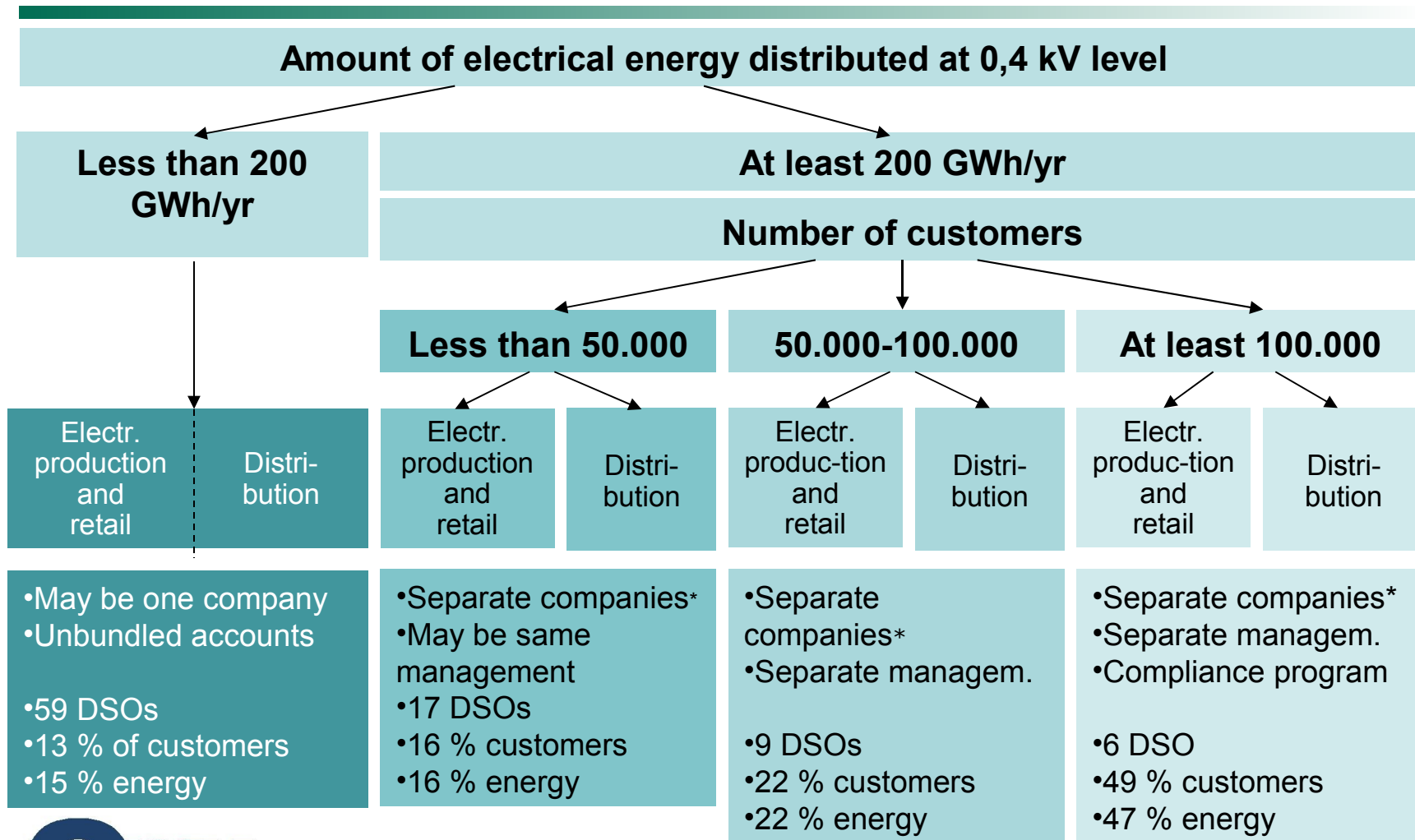


Supplier switching

- EMA collects information from the DSO's about the amount of electricity supplied via distribution network that is sold in the competitive market
 - In 2004, more than 80 per cent of the electricity used by small and medium-sized industrial users was acquired from the competitive market (non-local supplier or a negotiated contract with the local supplier)
 - In 2004, 30 per cent of electricity used by very small businesses and households based on such contracts
- A rough estimate of the total switching rate could be 15 per cent

Unbundling of electricity activities

- legal unbundling should be done by January 1st, 2007



Regulation/supervision of pricing

- No regulation of electricity prices
- Ex post supervision of pricing on the basis of Electricity Market Act and the Act on Competition Restrictions
- The Competition Authority oversees that there are no competition restrictions like price cartels, abuse of dominant position etc.
- EMA and Competition Authority signed a Memorandum of Understanding to develop and intensify their co-operation at the end of January 2006

Electricity Market Act

- Retail suppliers that have a significant market power (measured by market share) in the distribution network area have an obligation to supply electricity at a **reasonable price** to
 - Household customers
 - Other small customers, max 3x63 A or 100 000 kWh
- Such a supplier must have prices and terms publicly available
- Such prices must be informed to the regulator before they are applied

Electricity Market Act (continued)

- All electricity retail suppliers must inform to the regulator retail prices and terms, at which the supplier offers electricity publicly to customers with max 3x63 A main fuses or 100 000 kWh consumption
- EMA has launched an Internet-based service to small customers to compare electricity prices (www.sahkonhinta.fi or www.emvi.fi)

Responsibilities of authorities: EMA

- **Network activities**
 - Licencing of network activities
 - Regulation of network pricing
 - Supervision of neutrality of network operators
- **Retail supply**
 - Supervision of obligation to supply electricity trade
- **Wholesale supply**
 - No mandate
- **Electricity generation**
 - Supervises security of supply