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## MAIN FEATURES OF THE NEW FINNISH SUPPORT SCHEME FOR RENEWABLE ENERGY

On 9 November 2017 the Finnish Government published a government bill on a new scheme for renewable energy 175/2017 vp (“the **Government Bill**”). The Government Bill proposed that provisions on a premium system based on a technology-neutral tender process be added to the Act on Subsidies for Electricity Produced from Renewable Energy Sources (1396/2010) (the “**Act**”). The Parliament has on 23 May 2018 approved the Government Bill with some amendments by enacting an amendment to the Act (the “**Amended Act**”). Whereas the entry into force of the Amended Act will later be enacted through a decree (which remains subject to the approval of the EU Commission), it is expected that the first auction round is arranged in December 2018.

This document sets out the main features of the new support scheme.

### 1 Technology neutral support scheme

The new support scheme will be comprised of a competitive auction process. According to the Amended Act, the new subsidy scheme will apply to wind power, solar power, wave power, biogas<sup>1</sup> and wood fuel power<sup>2</sup>. Hydro power is explicitly excluded from the support scheme.

### 2 Validity of the support scheme and capacity

According to the energy and climate strategy for 2030 adopted by the Finnish government on 24 November 2016, the aggregate annual electricity production to be tendered under the new support scheme will be 2 TWh. The Government has, however, subsequently, stated that it will in the autumn 2018 make a proposal to the Parliament to ban the use of coal, which, if approved, will most likely reduce the aggregate annual electricity production covered by the scheme from 2 TWh to 1.4 TWh. If this reduction is effected, it is expected that only one auction round will be arranged (instead of two rounds, as originally planned). The timing of the round has not yet been determined, but it is expected that it will be arranged in December 2018.

The maximum annual electricity production to be tendered annually will in due course be set out in the budget (to be approved by the Parliament) for the relevant year. If the aggregate annual electricity production submitted by bidders in an auction round does not exceed the allocated annual electricity production of the relevant auction round by at least 20%, the auction round will be cancelled.

### 3 Preconditions for participating in the auction process

According to the Section 30 of the Amended Act, electricity producer must fulfill following preconditions for participating in the auction process.

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<sup>1</sup> In order to qualify as a biogas plant at least 85 % of electricity produced in the plant has to be produced by biogas.

<sup>2</sup> Wood fuel power refers to combined heat and power plants that are fueled by wooden side or waste products from the forest industry. In fuel power plants 85% of the energy has to be produced with different fuel than wood chips, 15% of the energy can be produced with different fuels than wood.



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In order to be eligible for the scheme, the power plant must be located in Finland or Finland's territorial waters (excluding, however, projects located in the Åland Islands).

Furthermore, in order for the relevant project to be eligible for the new scheme:

*(i) each power plant must be completely new, with the exception of the power plant building and its foundations, which may be recycled.* This precondition is dealt with in more detail in the Government Bill, where it for instance is stated that the wind turbine tower is considered as part of the engine, which means that the tower and the engine room must be new in order for the project to be eligible for the subsidy scheme.

*(ii) it must not previously have received any state aid.* There is, however, an exception from this requirement, based on which re-powering of old power plants, which have previously received state aid, under certain circumstances may be eligible for the new subsidy scheme. The decree by which the Amended Act will be enacted to enter into force will include more details on the circumstances under which re-powering is allowed.

*(iii) no final investment decision shall have been made by the bidder prior to the auction round.*

Finally, the Amended Act includes restrictions relating to the size of the projects. Projects with an annual electricity production exceeding the annual electricity production being tendered in the relevant auction round cannot be entered into the scheme. Moreover, in order for a project to be eligible for the new support scheme, a total annual output of at least 800 MWh is required. Each bidder may, in its discretion, include several projects and/or power plants in the same bid provided that each power plant included in the bid is of the same technology and has an annual output of at least 800 MWh but no more than 10,000 MWh. It is not required that the grid connection of all power plants is the same or that the power plants are located in the same area. However, the power plants shall have a common measurement point, internal grid connection or other technical connection in order to be included in the same bid.

The requirement to participate in an auction round is that the project upon submission of the application is fully permitted (i.e. that the applicable land use plan (or planning decision (Fi: *suunnittelutarveratkaisu*), as the case may be) as well as the building permit (or deviation decision, as the case may be) are legally binding and remain in force for a sufficiently long period enabling the competitive bidding. In addition, a binding grid connection offer (effectively conditional only upon the bidder being successful in the auction process)<sup>3</sup> valid for a sufficiently long time to enable entry into a final grid connection agreement if the bid is successful is required. A final grid connection agreement is accepted in lieu of a grid connection offer if such agreement has been entered into prior to the entry into force of the act on the new support scheme or if the bidder can prove that the grid owner has refused to make a required grid connection offer to the bidder.

A participation fee (currently estimated to be EUR 2,500 per bid) is payable in connection with the submission of the bid in the auction process. Since the purpose of the fee is to cover administrative

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<sup>3</sup> A template for such offer is currently being prepared by Finnish Energy (Fi: *Energiategollisuus*).



costs caused by the auction system, it will not be refunded even if the bidder is unsuccessful in the auction round.

#### 4 Support level and duration of support

Sections 32 and 34 of the Amended Act contain provisions on support level and duration of support. The support will be determined separately for each bid in a competitive auction process where the bidders with the lowest offered premium, the aggregate annual electricity production of which do not exceed the annual electricity production allocated to the relevant auction round, are approved into the scheme (pay-as-bid). The maximum duration of the support granted to the project is 12 years. The approval into the scheme is transferrable to third parties in connection with the transfer of assets of the relevant project(s).

Based on a floor price of EUR 30/MWh the bidder will in its bid set a premium not exceeding EUR 53.5<sup>4</sup>, which the bidder required in excess of the floor price in order to implement its project. This floor price plus the offered premium is referred to as the target price.

As stated in the Government Bill, the support scheme is a combination of a sliding and fixed premium. If the market price of electricity, which is determined on the basis of the average Nordpool area price for the relevant calendar quarter, is the floor price (EUR 30/MWh) or less, the support is fixed at the premium offered by the bidder. If the market price of electricity exceeds the floor price, a sliding premium will be applied, where the support equals the difference between the market price and the target price. In this respect, the Government Bill sets out the following two sample calculations:

*Table 1. Sample calculation of aid in accordance with the premium per year (MEUR) for a power plant where the production of electricity is 0.1 TWh per year*

The average market price of electricity (EUR/MWh)	Premium (EUR/MWh)						
	10	15	20	25	30	35	40
30	1,0	1,5	2,0	2,5	3,0	3,5	4,0
35	0,5	1,0	1,5	2,0	2,5	3,0	3,5
40	0	0,5	1,0	1,5	2,0	2,5	3,0
45	0	0	0,5	1,0	1,5	2,0	2,5
50	0	0	0	0,5	1,0	1,5	2,0
55	0	0	0	0	0,5	1,0	1,5
60	0	0	0	0	0	0,5	1,0

*Table 2. Sample calculation of aid in accordance with the premium per year (MEUR) for a power plant where the production of electricity is 0.25 TWh per year*

The average market price of electricity (EUR/MWh)	Premium (EUR/MWh)						
	10	15	20	25	30	35	40
30	2,5	3,8	5,0	6,3	7,5	8,8	10,0
35	1,3	2,5	3,8	5,0	6,3	7,5	8,8
40	0	1,3	2,5	3,8	5,0	6,3	7,5

<sup>4</sup> According to the Government Bill, the maximum level may be reduced by a Government decree.



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45	0	0	1,3	2,5	3,8	5,0	6,3
50	0	0	0	1,3	2,5	3,8	5,0
55	0	0	0	0	1,3	2,5	3,8
60	0	0	0	0	0	1,3	2,5

**5 Requirements relating to the bid**

Requirements relating to the bid are stated in the Section 31 of the Amended Act. The bid must be made by a due date determined by the Energy Authority using a form to be produced by it and include: (i) the offered premium; (ii) the offered annual production volume of electricity; and (iii) information on the generation unit(s) to be used for the production of electricity (in respect of which it should be noted that there is no requirement to provide information on turbine types but rather whether the relevant project is a wind power project, a solar power project or a project for any other eligible technology) as well as the municipality where the project is located. In this respect the bidder is not allowed to alter its bid after said due date.

After due date determined by the Energy Authority, the bidder may not revoke the bid. Neither may the bidder amend the bid regarding the offered premium or the annual production volume of electricity, or the notice of the power plant where the electricity is to be produced after the due date.

In addition to the above, the bid must include information on the bidder, evidence of satisfaction of the preconditions for participation in the auction round as well as the tariff period (which corresponds to the calendar quarter) as of which the support period for the project is requested to commence. Said tariff period must commence within 3 years from the approval into the scheme. According to the Government Bill, the bidder may amend the commencement tariff period by giving notice to the Energy Authority, until the approval decision of the submitted bid has been made by the Energy Authority.

The capacity and the number of generators, and the construction schedule of the power plant can be updated later, as the bid may only contain a range set by the bidder. However, according to the Government Bill, the final information must be notified to the Energy Authority within three (3) years and two (2) months from approval of the project into the scheme. The information must be specific and final and no range within which refinement could take place is allowed any longer at that point.

There is no possibility of partial approval of a project into the scheme. This means that if there is not sufficient capacity available under the scheme in order to approve the entire annual electricity production included in a bid into the scheme, the bid will be rejected. Furthermore, if there are two bids for the same annual electricity production, but the capacity available under the scheme is not sufficient for the approval of both bids, neither of the bids will be approved into the scheme.

A bidder who has been successful in the auction process is required to complete the construction works of at least one generation unit and connect it to the grid and start energy production within three years from the approval of the project into the scheme. However, if not all generation units have been constructed and connected to the grid by said deadlines, this would possibly lead to an obligation to pay compensation for underproduction (as set out below). Moreover, the electricity producer would also lose part of its construction security. In addition, since the commencement date



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of the subsidy would remain unchanged, the subsidy period would in practice be shortened as an outcome.

It is required that the entire offered capacity is fully constructed and connected to the grid within five years from approval of the project into the scheme. The right to support is forfeited if either of said three and five year deadlines is missed.

### **6 Bid bonds**

Participation in the auction process would, according to the Section 31 of the Amended Act, require provision of a bid bond to the benefit of the Energy Authority. The amount of the security will be calculated by multiplying the offered annual production of electricity in MWhs by two. For example, if the annual electricity offered by the bidder amounts to 0.1 TWh, the security would amount to EUR 200,000. According to the Amended Act, guarantees issued by financial institutions domiciled in the EEA, cash deposits and policies issued by insurance companies domiciled in the EEA would be acceptable as security. As stated in Section 57 a of the Amended Act, the security is released (i) if the bidder is unsuccessful in the auction; or (ii) upon granting by the bidder of the construction security referred to below. If the bidder is successful in the auction process but does not grant construction security, the Energy Authority will enforce the security and simultaneously the decision on the approval into the scheme will be cancelled.

If the bidder is successful in the auction process, it shall within one month from approval into the scheme grant a construction security to the benefit of the Energy Authority. According to the Section 31 of the Amended Act, the participation security shall be valid for six (6) months from the due date determined by the Energy Authority. As stated in Section 33 of the Amended Act, the construction security shall be valid for three (3) years and six (6) months from the issuing date of the security.

The types of security accepted are the same as for the participation security. According to the Section 33 of the Amended Act, the amount of the security will be calculated by multiplying the offered annual production of electricity in MWhs by sixteen (16). For example, if the annual electricity production offered by the bidder amounts to 0.1 TWh, the construction guarantee shall amount to MEUR 1.6. The construction security is released if and to the extent the relevant power plants are fully constructed and connected to the grid and producing electricity within three years from approval of the project into the scheme. To the extent that the offered capacity is not producing electricity by said date, the Energy Authority will enforce the construction security.

### **7 Payment of the support**

According to the Section 32 of the Amended Act, the 12 year support period commences from the start of the tariff period set out in the relevant bidder's bid (regardless of whether by said date the project has been connected to the grid or not). There is, however, no restriction preventing the bidder from starting production and sale of electricity prior to the commencement of the tariff period from which the right to support starts.

The support is paid on the basis of electricity produced and fed into the grid. Since the support is restricted to the annual electricity production offered in the bid, support is not paid in respect of electricity produced in excess of the offered annual production. Since the electricity production from



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renewable resources normally vary over time, the Government Bill, however, provides for some flexibility in this respect; the Government Bill provides that the (annual) production based cap of the support scheme is calculated as an aggregate cap by applying four year periods starting from the commencement of the support period for the relevant project(s). Accordingly, any excess production in the first three years will, for example, reduce the support payable in the fourth year.

The support is paid quarterly in arrears. The bidder shall apply for payment within two months from the end of the relevant tariff period. A precondition for the payments is that a monitoring plan for the project(s) is attached to the first application for support payment and, subsequently, approved by the Energy Authority.

### **8 Underproduction compensation**

In order to mitigate the risk of the actual production from a successful projects being less than the annual electricity production offered in the relevant bids, an underproduction compensation mechanism has been included in the Sections 33 and 36 of the Amended Act. For the purpose of this compensation, the 12 year support period has been split up in three sub-periods of four years each. The underproduction compensation becomes payable if the electricity produced annually by the relevant bidder is less than (i) 75% of the aggregate electricity production volume offered in the first sub-period; and/or (ii) 80% of the aggregate electricity production volume offered in the second and third sub-period respectively.

Notwithstanding the above, the electricity producer would not be obliged to pay the underproduction compensation (i) insofar as the shortage is attributable to the grid operator; and (ii) for the time when the market price of electricity in the power plant's location has been negative. In addition, the Energy Authority could exempt the electricity producer from the obligation to pay the underproduction compensation due to unusual and unforeseeable circumstances beyond the control of the electricity producer, who relies on the circumstances has not had the opportunity to influence the circumstances or avoid the consequences despite of all diligence that has been taken and the remedial action taken by the producer without delay.

The compensation is calculated by multiplying the MWh deficit in production by the premium approved for the relevant bidder. Accordingly, if the bidder's approved premium is EUR 25/MWh and deficiency in production is 60,000 MWh, the underproduction compensation equals MEUR 1.5. The Energy Authority is entitled to set off future support payments against the underproduction compensation until it has been paid in full. A more detailed calculation formula may subsequently be included in a Government decree.

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