

Finnish Electricity Export Ambitions Highlight Market Differences

By [The Moscow Times](#)

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A transmission line run by Fingrid, which expects to sell power to Russia.

HELSINKI — Finland hopes within a year to be able to sell power to Russia, partly to earn more from underused interconnectors between the two countries, but the two markets are so different that such exports may be tough to achieve.

Finnish grid operator Fingrid reported earning 6 million euros (\$7.8 million) less on Russian interconnections in the first half of this year than a year earlier, as a rise in Russia's electricity prices made it less attractive to send power to its northern neighbor. Total revenue was 264 million euros in the first half.

The Finnish and Russian grid operators last year made technical changes to also allow power flows from Finland to Russia, a development the companies hope will boost trading volumes on their three connecting cables.

“Some trading (of exports) to Russia may well be possible within the next 12 months. But we still need to agree on the terms,” said Juha Kekkonen, the executive vice president of Fingrid.

Russian power prices jumped this year partly due to an increase in payments to guarantee power plant availability, which has created a commercial need for imports and sharply reduced electricity transfers to Finland.

The changes have made it possible to export 350 megawatts of electricity from Finland to Russia, but different factors that determine prices in both markets still make it unattractive for traders to send electricity to Russia, experts said.

“Exports to Russia are technically possible, but as long as the designs of Nordic and Russian power markets remain so different, the trade will be very complicated,” said Satu Viljainen, a professor at Lappeenranta University of Technology in Finland.

One difference is that Nordic power generators are paid for producing electricity, while in Russia producers get income both from selling power and having plants available for generation.

These so-called capacity payments are meant to guarantee that sufficient generating capacity is available to the market, but also to give incentives for investors to build new plants.

When Russian power export monopoly Inter RAO buys electricity on the market, it has to pay capacity payments on top of energy costs, and that can double prices.

Traders wishing to sell Nordic electricity to Russia, however, do not receive a capacity payment, leaving them with a high discount to prices national generators receive.

Kekkonen said capacity payments can add about 25 euros a megawatt-hour on top of the electricity price in Russia, driving the cost up to 50 to 60 euros a megawatt-hour during peak hours.

Wholesale power prices in Russia rose 15 percent during the third quarter from a year ago to 1,143 rubles (\$37.14) per megawatt-hour, Finnish utility Fortum, which owns power plants in Russia, said last week.

During the same period, Nordic power prices fell 42 percent to 20.8 euros (\$27.23) per megawatt-hour, dented by abundant rain, which increased the supply of cheap hydropower, it added.

The rise in Russian prices and fall in Nordic power reduced electricity imports from Russia to Finland to 3 terawatt-hours in the January-September period, from 8.5 terawatt-hours during the same period a year ago, Finnish Energy Industries statistics showed.

“At the moment, it makes no sense for Inter RAO to buy electricity from the Russian exchange and to export it [to Finland],” Kekkonen said.

Viljainen estimated that Russian exports to Finland could be profitable when prices in the Nordic market rise to at least 50 euros a megawatt-hour, an average level unlikely to be hit this winter.

In the opposite direction, Nordic power prices would have to fall below 20 euros a megawatt-hour, also unlikely as year-ahead power prices are currently trading at 38 euros a megawatt-hour.

“That creates the ‘dead band’ in flows when power prices in the Nordic market are between 20 and 50 euros a megawatt-hour,” Viljainen added.

Inter RAO said power imports from the Nordics could be possible in the future, but it expects the impact to be modest.

“Clearly, imports [from the Nordics] might be economically feasible in certain periods,” Inter RAO’s spokesman, Anton Nazarov, said in an e-mail.

“In the long run, even considering the recent exports decline, we do not have negative forecasts for future trade (balance) with the Nord Pool,” Nazarov said, adding that the fall in the Nordic prices was seen as “cyclical.”

“In a way, it’s a test case that reveals a lot of how two markets of different designs can interact or not,” Viljainen said of two-way power trading between Russia and the Nordic market.

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