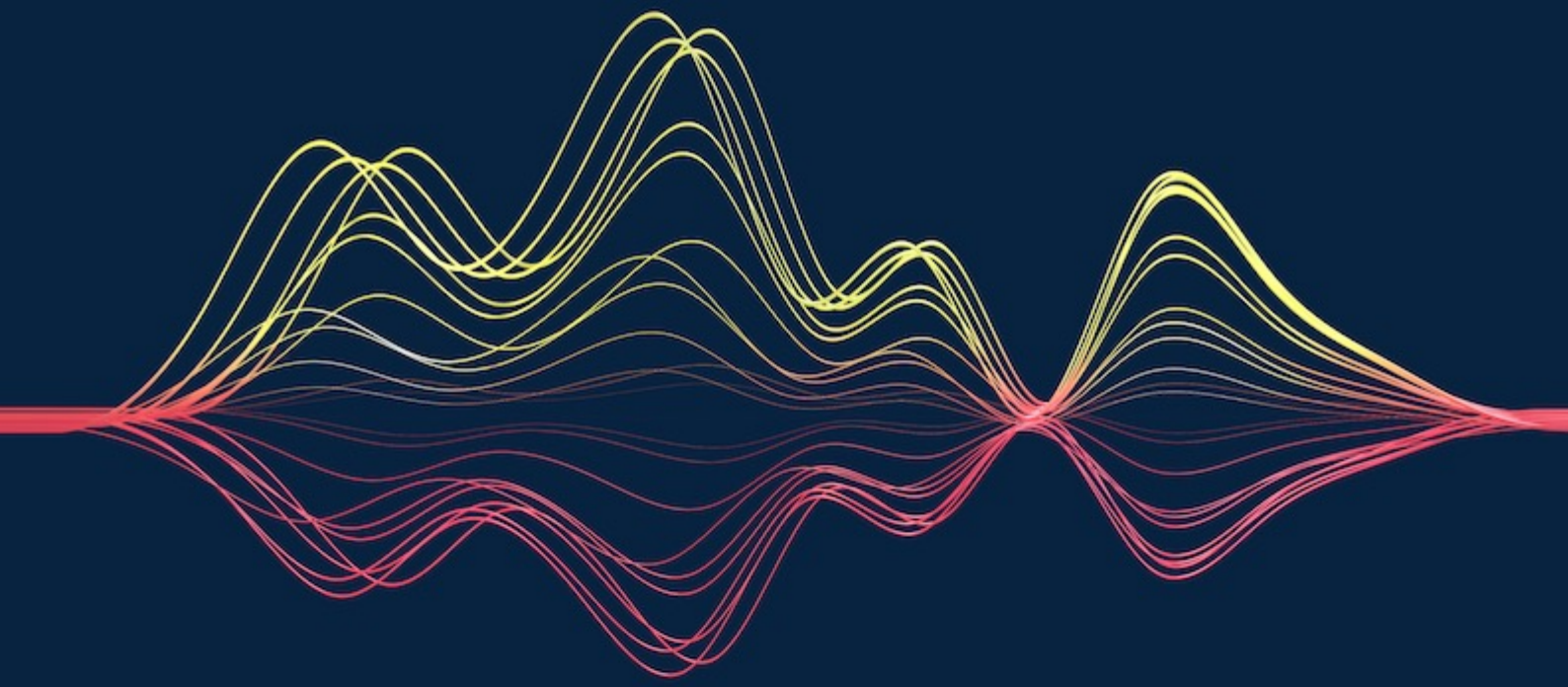
FINLAND

Corporate Power Purchase Agreements



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PPA structures and parties involved

To what extent are corporate PPAs presently deployed and what sort of structure do they take?

Both physical and financial PPAs are used in the market.

Do the country's regulators allow corporate owners to purchase (1) directly from a facility, or (2) from a choice of suppliers?

In Finland, corporate owners may decide where to buy electricity so they may purchase electricity both: (1) directly from a production facility; and/or (2) from a choice of suppliers.

Other than the generator and the off-taker, are any third parties commonly party to the PPA structure (e.g. a utility or other market agent)?

In practice, it is most common that parties to a PPA are only the generator and the offtaker/buyer.

Is a generator permitted to sell electricity directly to an end user? If so, do they require a licence or other form of authorization?

End users may purchase, and the generator may sell power directly. The sale of electricity does not need a licence.

Challenges

What are some of the technical, political, financial or regulatory challenges to corporations adopting green energy in the short/medium term in your country and how have these challenges been overcome (or how can they be overcome)?

The challenges with respect to the developers of new wind parks have mainly related to:

- long duration of the permitting (including appeals) processes;
- regional concentration of the wind production on the west coast due to permitting restrictions in the eastern part of Finland;
- bottlenecks of transmission grid capacity.

With respect to the long permitting processes, the Finnish government has already introduced a temporary fast-track system for environmental and water permit procedures and certain appeal processes related to the green transition projects. The legislation regarding the fast-tracking of green transition projects entered into force in January 2023.

Further, the new Governmental Programme includes the following targets to tackle some of the above challenges:

- reduction of duplicate complaints and reducing the possibility of complaints between authorities;
- ensuring resources and better management of Administrative Courts;
- resourcing sufficiently the permitting of electricity grid investments.

In relation to the transmission grid capacity, the Finnish electricity TSO Fingrid Oyj announced during the spring 2023 that new grid connections at more than one MW are not permitted to connect to the main grid or distribution network (this does not apply to connection agreements made before 1 May 2023). The temporary restrictions are imposed due to the dramatic growth in wind power and the regional concentration on the west coast that poses a challenge to the stability of power plants and the power system as a whole. Lifting of these restrictions requires new main grid connections that are to be completed in the west coast region in 2027 and 2028. Also, temporary production output limitations in some areas have been (and may be) imposed by Fingrid to maintain the transmission grid stability.

Regulatory changes

Are there any anticipated regulatory changes which will alter the regulatory landscape for corporate green energy and corporate PPAs?

Finland has very high ambitions for increasing green energy production that supports its climate goals. According to the new Governmental Programme published in June 2023, Finland is committed to the previously defined climate targets. The Governmental Programme also outlines that the operating conditions for wind power and increase of wind energy production will be further developed. There is also a desire to build wind power in different parts of the country (current wind production is mainly located to the west coast area) and, to a significant extent, also offshore.

Anticipated regulatory changes are therefore assumed to be mainly positive with respect to the production of local green energy and demand for cPPAs supporting the targets set in the Governmental Programme.

In 2023 Finland implemented temporal windfall tax legislation (Act on temporary profit taxes for the electricity and fossil fuel sectors) following the EU Emergency Regulation that is applied to the electricity companies. The windfall tax rate is 30% of the firms' net profits exceeding a 10% return on capital in 2023.

Incentives and benefits

What is the corporate appetite for green energy, including any political or financial incentives available to corporates to adopt green energy?

The corporate interest towards green energy has been increasing during recent years. The increase of wind power in Finland as well as other renewable energy forms together with the corporate sustainability objectives have created a growing market for corporate green energy solutions.

What are the key local advantages of the corporate PPA model which can benefit our clients?

Local advantages in Finland regarding the use of PPAs include favourable wind conditions, large share of unused land, net power deficit and governmental goal to reach full coal exit by 2030 and good security of the transmission grid. Finland is also part of the Nordic wholesale electricity market (Nord Pool), which includes the Nordic countries and the Baltic countries. The Nord Pool enables sale and purchase of electricity between the Nordic countries as well as day-ahead and intraday trading, clearing and settlement, data and compliance. The power grids in the Nordic countries are interconnected; Finland is in direct contact with the system of Sweden, Norway, Estonia and Russia. In 2022 Finland ceased electricity imports from Russia.

Further, according to Transparency Int., Finland is the third least-corrupt nation, which provides a strong basis for large-scale projects.

Increasing interest for green hydrogen (and P2X) investments in Finland drive the demand for new green energy PPAs for P2X developers.

The new Governmental Programme brings the green electricity distributed via public EV charging points to the scope of traffic sectors' blending mandate, creating a market for green electricity based green fuel tickets.

What subsidies are applicable to the generation and sale of renewable energy?

Energy aid is granted for investment and study projects in renewable energy and energy efficiency. The support is particularly targeted at sectors outside the emissions trading scheme, such as renewable energy projects in transport, small-scale production and energy efficiency projects. The number of authorisations for energy aid is confirmed annually in the budget process and by Parliament.

The feed-in-tariff subsidy scheme was replaced by a premium auction scheme for 1.4 TWh of new capacity, which was executed through the auction process finalized in March 2019. Currently, there are no plans for new production subsidy schemes related to renewable energy production or new tendering rounds under the premium system in Finland.

Does your country implement a national support scheme with tradable green certificates (such as guarantees of origins)?

Yes. Finland has enacted national regulation for guarantees of origin for electricity, gas, hydrogen, heating and cooling and the verification of the origin of energy by guarantees of origin.

Guarantee of origin (GoO) is a certificate issued for electrical energy produced using renewable energy sources in accordance with the applicable legislation. If an electricity supplier sells or uses renewable energy in its marketing, it must verify the origin of the electricity. GoOs may be transferred from one account holder to another within the Finnish GoO register, and GoOs can also be imported/exported between other AIB (Association of Issuing Bodies) member registers.

The generators can freely sell the certificates generated to the produced volumes together with the physical electricity output from the production plant under a PPA or separate from the physical electricity sales to be traded on an open market.

Typical PPA terms and risk allocation

To the extent corporate PPAs are deployed, how are prices, terms and risks affected?

Topic	Details
Do prices tend to be floating or fixed?	Typically, PPAs are based on a fixed price for an agreed period as this offers both the buyer and the seller stability and predictability of prices / revenues and protects against fluctuations in electricity prices. The pricing structures may, however, vary and be eg a combination of fixed and floating prices.
What term is typically agreed for the PPAs?	According to the Finnish Wind Power Association, the typical term of PPAs is from 10 to 20 years.
Are the PPAs take-or-pay or limited volume?	The PPAs have generally been based on the take-or-pay principle.
Are there any other typical risks?	Not applicable

To the extent corporate PPAs are deployed, in whose favour will the risks typically be balanced?

Type of risk	Details
Volume risk	The risk allocation for volume risk depends on the PPA type:

	pay-as-produced (offtaker bears the risk) or fixed volume model (producer bears the risk).
Change in law	Typically, the change in law provision seeks to restore the original economic intentions and balance between the parties, first through mutual negotiations of the effects of the change in law.
Increase / reduction of benefits	Typically, the PPA delivery obligations also include the delivery of environmental attributes and those are often included in the contract price. The definition of environmental attributes may or may not also include the future benefits. The allocation of this risk can also be connected with a change in law provisions and follow the risk allocation mechanism under such provisions.
Market liberalisation (if applicable)	Not applicable.
Credit risk	Typically, some credit support under the PPA is required from both parties and at least if the financial standing of either party deteriorates.
Imbalance power risk	In the absence of specific allocation, the liability would remain with the generator.
Production profile risk	Usually, this risk is allocated to the buyer under a cPPA and the buyer acquires any missing volume from the market.

Balancing

Does your country operate a balancing responsibility scheme?

Yes.

If your country operates a balancing responsibility scheme, who is the balancing authority and do the generator and offtaker typically undertake balancing themselves?

The Finnish TSO (Fingrid Oyj) is the authority responsible for maintaining a continuous power balance in Finland and for the nation-wide imbalance settlement.

In accordance with the Finnish legislation, each party operating in the electricity market is obliged to maintain a continuous power balance between its electricity production, procurement, consumption, and sales. In practice, an electricity market party cannot do this by itself, which is why it must have an open supplier which balances the power balance of the party. A party whose open supplier is Fingrid is referred to as a balance responsible party. The open delivery between Fingrid and a balance responsible party is agreed through a balance agreement. The balance responsible party must have a valid imbalance settlement agreement with eSett Oy, being the company referred to in the Finnish Electricity Market Act as the entity through which Fingrid has organised the functions related to the management of nation-wide imbalance settlement.

In practice, in the PPA structure there must be a company that is legally responsible for balancing the electricity that is produced or consumed at the input and output points of the grid. The PPA structure will also usually include an agreement on balancing services agreement with a balance responsible party.

The party responsible for balancing may be either the producer, the offtaker or a third party and the party best placed to do so will vary on a case-by-case basis. Usually in physical PPAs the parties have the same balancing responsible party, and this is a prerequisite in pay-as-produced PPAs. In financial PPAs the parties always have different balancing responsible parties.

Significant transactions

What significant transactions/deals have taken place in the last 12-18 months?

We have acted as advisor for SAJM Holding, a Finnish solar PV developer in its divestment of development phase solar PV park with contemplated capacity of 475 MWp.

We also recently advised Kommunalkredit Austria AG and AP Pension Livsforsikringsaktieselskab as lender to Renewable Power Capital (RPC) in the financing (and subsequent refinancing) of a portfolio of three onshore wind farms with a total capacity of 171 MW in Finland, known as Merkkikallio, Puutikankangas, and Rustari (OX2 being the seller of the projects).

We advised Prime Capital AG and Prime Green Energy Infrastructure Fund S.A. SICAV-RAIF on the acquisition of the 192 MW Lappfjärd wind farm in Finland (closed in June 2021) and the subsequent financing of the project in 2022 as well as on the acquisition of Project Sandbacka from Svevind, a privately owned developer of renewable energy projects and its co-development partner AB Vindkraft i Skog. Project Sandbacka is a 90 MW ready-to build wind farm in Finland comprising 14 wind turbine sites.

Also, in 2022 we advised a UK renewable energy investor in early phase wind farm projects to be located in Kajaani and Kalajoki Finland.

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