

Vattenfall Generation - *From cost centre to profit centre* **Alf Lindfors**

Electricity generation

The electricity market in the Nordic countries totals around 380 TWh. During years with normal weather, about 60 % is generated by hydropower. Nuclear power as well as other thermal power is normally around 20 % each, renewable power is still only 1-2 %. Vattenfall has a generation capacity in the Nordic countries of 90 TWh, of which 35 TWh in hydro-power plants and 55 TWh in nuclear power plants.

Before the deregulation

Before the deregulation of the market Vattenfall was more or less responsible for balancing the electricity system in Sweden and the total supply of electricity in Sweden. The main goal at that time was high availability, 85-90% availability as an average was not unusual in the nuclear power plants. Focus was on maintenance and investments to keep all plants in very good condition. Being the largest generator in Sweden, Vattenfall was the price leader and the tariffs were not negotiable.

Development after the deregulation

At the time for the deregulation of the market the Generation division was still a *cost centre* and the goals were more or less focused on total production costs. The incentives were not strong enough to cut the costs and the investments; they still led to maximising availability and production. Therefore, the Generation Management strongly stated a production cost level for Vattenfall in order to be a competitive “low-cost generator” on the new deregulated market.

During the first years after the deregulation the prices dropped to unexpectedly low level and the stated level for production costs was not sufficient - strategies and organisation had to be adapted to the new market conditions.

In order to create value a generator on a deregulated market always have to meet the market prices by efficiency improvements, by reducing taxes and fees, by increasing capital efficiency and repositioning of generation assets. The value chain is splitted up and the generation has to be a *profit centre*.

A new mind setting is needed in the generation units, the investment and maintenance driven organisation has to change to a value-creating organisation. All investments have to create value, assets that do not create value even after cost reductions will be disposed, sold or shut down.

In the new situation the profit centre “Vattenfall Generation Nordic Countries” has increased the operating profit with 100% over period of five years.