

ACER consultation on how to improve risk hedging opportunities on the bidding zone borders between Finland and Sweden



EFET response – 3 May 2022

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments and help ACER decide how to address the insufficient risk hedging opportunities on the bidding zone borders between Finland and Sweden.

We particularly welcome the attention that ACER shows to respecting the obligations under the Forward Capacity Allocation Regulation (FCA GL). We expressed at multiple occasions our disappointment with the EU Nordic NRAs' decision back in 2017 not to issue long-term transmission rights (LTTRs) at the borders of their bidding zones (including FI-SE1 and FI-SE3), according to article 30.2 FCA GL.

Since the start of the liberalisation of the electricity sector, EFET has supported the issuance by TSOs of forward transmission rights at all bidding zone borders in Europe and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe as calculated in advance of delivery^{1,2}. This activity is an essential part of the TSOs' "public service" activities, as regulated entities. The issuance of forward transmission rights at all borders in all directions allows to:

- guarantee that a certain minimum volume of products will always be available and offered on a transparent and non-discriminatory manner through organised auctions;
- provide substantial congestion income to TSOs by allowing them to extract the maximum value out of the network infrastructure they manage in advance of delivery;
- provide better and more reliable visibility for market participants as to the total volumes of cross-border transmission hedging products;
- ensure that the capacity that is offered to the market is maximised at all points in time and that any variations of these volumes is published in a timely and effective manner;
- provide valuable signals as to the structural value of cross-border capacity, from a "congestion" point of view. This is useful for all market participants and for TSOs and regulators, whereas the daily price signals are much more volatile. For example, forward allocation provides clear market-based price signals as to the need for additional infrastructure investments.

¹ See [EFET response to Thema questionnaire on Nordic hedging](#) November 2020 and [EFET response to NVE-RME consultation on price hedging in the Nordics](#) September 2021.

² See the EFET paper calling for compulsory issuance by TSOs of forward transmission rights throughout Europe, dated 22 July 2014 and available at: https://data.efet.org/Files/Documents/Downloads/EFET_Compulsoryforward-TRs-22-Jul-14.pdf.

In the specific case of the Nordic market, with an existing – though insufficient – financial market for hedging, EPADs could always be kept alongside forward transmission rights, as they can complement each other in a number of ways:

- EPADs can complement forward transmission rights to hedge non-standard volumes (MW).
- EPADs can give market participants flexibility with regard to when and for which period hedging takes place, when forward transmission rights are auctioned at fixed dates for fixed delivery periods. Secondary markets for forward transmission rights largely mitigate this lack of flexibility, but they take time to develop.

Question on general impact of LTTRs

Q1.1

Do you expect that the introduction of LTTRs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones?

Yes

No

I don't know

Q1.2

Please explain, if needed:

LTTRs issued by TSOs provide an open and non-discriminatory access to hedging solutions against cross-border transmission price risks, with no additional transaction costs. They allow all market participants to take part, without having to rely on the non-guaranteed liquidity of alternative hedging instruments on financial markets, a liquidity that is always in danger as we have experienced with the contracts for differences in the Nordic region (EPADs)³.

The issuance of LTTRs is essential for the development of any wholesale trading or retail activity for non-local participants in all bidding zones (not just virtual ones), and for market participants to benefit from the liquidity of all European markets on a forward basis.

In addition, there is no evidence since the start of the liberalisation process that the non-issuance of LTTRs would bring any benefit to the internal energy market, or that the issuance of LTTRs could in any measure be harmful to existing, alternative arrangements for forward hedging.

Questions on LTTRs' impact on liquidity of EPADs

Q2.1

Following the introduction of LTTRs, do you expect the liquidity of the Finnish EPAD products to:

increase significantly

³ For more details on the dwindling liquidity of EPADs in the Nordic region, see our Memo on the Swedish bidding zone split, dated June 2016 and available at: https://data.efet.org//Files/Documents/Electricity%20Market/General%20market%20design%20and%20governance/EFET-memo_Swedish-zones-reform.pdf.

increase slightly

remain the same

decrease slightly

decrease significantly

I don't know

Q2.2

Please explain your choice:

LTTRs can be used as a complement to hedging instruments on financial markets. For instance, in a bidding zone where the liquidity of EPADs is low, such as the Finnish and Swedish bidding zones. LTTRs can provide a “bridge to liquidity” towards bidding zones that are more liquid, both in terms of their forward electricity market, and their market for EPADs.

Some market participants in Finland and Sweden are active in several EU countries and they use LTTRs as part of their hedging strategy. The issuance of LTTRs by the Swedish and Finnish TSOs will increase competition on the bidding zone borders between Finland and Sweden and is unlikely to damage that of EPADs. Competition encourages liquidity, including when it comes to cross-border hedging instruments.

Q2.3

Following the introduction of LTTRs, do you expect the liquidity of the Swedish EPAD products to:

increase significantly

increase slightly

remain the same

decrease slightly

decrease significantly

I don't know

Q2.4

Please explain your choice:

We refer to our response to question Q2.2.

In relation to Q2.5 below, we insist that the objective of the TSOs and ACER should be to improve the availability of cross-border hedging instruments, rather than focus on whether or not the liquidity of existing products (EPADs) will be further damaged. Studies and market participant surveys have shown that the liquidity of EPADs is too low to provide appropriate hedging opportunities at the Finnish-Swedish bidding zone borders. TSOs adding LTTRs can only increase the total liquidity of hedging instruments.

Q2.5

In your view, if LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should:

not be introduced.

still be introduced (regardless of their negative impact), in order to provide the market with the required hedging opportunities

Questions on LTTRs' impact on market complexity

Q3.1

Do you have any concerns that issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex?

Yes

No

I don't know

Q3.2

Please explain, if needed:

LTTRs are used throughout the rest of Europe, to the satisfaction of all market participants, including smaller entities and new entrants in a given market. Contrary to EPADs, purchasing LTTRs from the TSOs does not require extra market knowledge and contacts. LTTRs are made available to all market participants by the TSOs in a transparent and non-discriminatory manner.

Our opinion is that a natural consequence of implementing LTTRs at the Finnish-Swedish bidding zone borders is that it will also increase possibilities for market participants to conclude bilateral contracts (PPAs or similar) in one or two price areas (areas connected with LTTRs) instead of using system price contracts with unknown correlation with the two area prices.

Questions on possible form of LTTRs

Q4.1

If TSOs are requested to issue LTTRs, would you prefer:

FTR obligations

FTR options

Other

I don't know

Q4.2

Please explain, if needed:

EFET is of the opinion that Physical Transmission Rights (PTRs) based on "Use It or Sell It" (UIOSI) principle or Financial Transmission Rights (FTRs) as options (not obligations) are the long-term hedging products which should, at a minimum, be offered by TSOs between all

bidding zones across Europe. These products give the maximum flexibility for companies to compete across borders and avoid creating new barriers to entry to cross-border market participants. The introduction of pure transmission obligations could be developed by the industry itself and should only be considered after the TSOs have established a healthy market for transmission rights as options.

If the functionality of anticipated netting was considered as part of the TSO activities, additional consultation and details would need to be considered. An important requirement would be to avoid splitting liquidity of the limited volume of available rights. Therefore this function could also be added as an option to existing LTTRs. Another simple alternative would be to limit TSO activity to optional rights based on the volume of available interconnection capacity volumes and to let the industry develop the adequate regime for obligatory rights as they require very different competencies and processes

Questions on possible approaches for option (b)

Q5.1

In your view, which approach or approaches under option (b) would provide sufficient cross-zonal hedging opportunities?

TSOs coupling of EPADs (i.e. with an auction of EPADs)

Support of a market maker function

Other

I don't know

Q5.2

Please explain, if needed:

We believe that there should be no exception to TSOs issuing LTTRs at all EU bidding zone borders, in all directions and to the full amount that the underlying infrastructure can offer for each timeframe as calculated in advance of delivery.

Should an easy solution be at hand to boost the liquidity of EPADs, we expect it would have been implemented long ago considering that the liquidity of EPADs has been collapsing in many Nordic bidding zones over the past decade.

Questions on the preferred choice to address insufficient hedging opportunities

Q6.1

What would be your preferred outcome?

ACER requests the TSOs to issue LTTRs.

ACER requests the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets...

... and the TSOs would provide coupling of EPADs (i.e. with an EPAD auction).

... and the TSOs would support a market maker function.

... and the TSOs would provide a different kind of support.

No interventions in the Nordic long-term market.

Q6.2

Please explain your choice:

EFET supports the issuance by TSOs of forward transmission rights at all bidding zone borders in Europe and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe as calculated in advance of delivery. This activity is an essential part of the TSOs' "public service" activities, as regulated entities. We believe there should be no exception to this.

In the specific case of the Nordic market, with existing – though insufficient – hedging instruments available on the financial market, EPADs would be worth keeping alongside forward transmission rights, as they can complement each other in a number of ways, as described above.

Other comments

Q7.1

Do you have any other comments?