

26th Market European Stakeholder Committee

Johan Roupe, Swedish Energy Markets Inspectorate

Wednesday 1 December

26th Market European Stakeholder Committee

- **The Nordic electricity market is somewhat different than the rest of Europe**
 - Many and smaller bidding zones
 - Strongly interconnected
 - Financial market without involvement of TSO's (so far)
- **Financial market liquidity (turnover) has decreased sharply since 2007-2008**
 - Financial crisis reduced trading mandates
 - MiFID requirements made platform trading less attractive compared to bilateral trading
 - Change in generation portfolio and reduced prices may have decreased hedging interest/need generally

26th Market European Stakeholder Committee

- **The purpose of FCA GL is to make sure that there are sufficient hedging opportunities**
 - This should be the ultimate purpose for our decision as well
- **Different options available, involving the TSO**
 - LTR's
 - Other cross border hedging opportunities that can be provided

26th Market European Stakeholder Committee

- **FCA may not say it explicitly, but it should follow from more general legislation that we should strive for the most cost efficient solution**
 - **If costs are equal (including risks) -> choose the solution with best result in terms of hedging opportunities**
 - **If results are equal in terms of provided hedging opportunities -> choose the cheapest solution**

26th Market European Stakeholder Committee

- Different market participants have different specific needs – and strategies
- In general, market participants express need for increased liquidity in EPAD contracts
 - Tighter Bid/Ask spreads
 - Increased turnover (which would increase the possibility to take a position (buy/sell) and turn it if necessary)
- Most (if not all) market participants trade day-by-day or week-by-week
 - Depending on strategy/need, trading horizons vary between 1 to 5 years ahead
 - Investors likely to want even more long term hedging, which is where PPA contracts come into play (10-20 years duration)

26th Market European Stakeholder Committee

- The task for NRAs is to make sure that there are sufficient hedging possibilities
- If the underlying financial market is more or less dysfunctional everywhere in Europe (imagine a future with 2-3 German bidding zones) – LTTR to/from Germany can not be the solution to everyone's problem
- **Measures should be designed to strengthen the existing financial market rather than trying to fix it with LTTR**
- Article 30.5 in FCA gives NRAs and TSOs the opportunity to design something that fits the future market

26th Market European Stakeholder Committee

- Imagine that we would conclude that all bidding zones in Sweden are illiquid (and in Norway, Finland and Denmark).
- How much of the Swedish volume could be hedged in Germany by using LTTR's?
 - Installed generation capacity in Sweden: >30 000 MW
 - Net capacity SE4-DE: 600 MW
 - Net Hedging need met: 2%
- Clearly, LTTR can not replace a well-functioning financial market in the Nordics