



energy authority

FCA art. 30 decisions, FI-EE –border and the Baltic CCR decisions

Market Stakeholder Committee Meeting, 29.9.2021

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Fair energy

The Task and how to Make the Assessment?

- Each NRA must assess whether the electricity forward market provides sufficient hedging opportunities
 - Evaluation
 - Consultation for the market participants
- If the analysis shows insufficient hedging opportunities, the TSO is asked to issue transmission rights or to support the markets by other long-term hedging products
- Evaluation criteria is given, but no actual thresholds
 - The decision is in the end based on individual NRA assessment

The Assessment

- 2016 NordREG consultation study on how to conduct the assessment
 - Updated in 2020
 - Same approach for the Nordic & Baltic CCRs
- EV decided to hire a consultant to do the numerical analysis
 - Baltic NRA colleagues joined in consultancy the study to minimize costs
 - Nasdaq market data 2012 - 2020

The Assessment

- Traded volumes somewhat lower than earlier.
 - Estonian EPADs' traded volumes and liquidity very low
 - Estonians hedging using the Helsinki – EPAD?
 - This requires high correlation between the two zones.

Figure 12: Total daily traded volumes (TWh) TAL and RIG EPADs

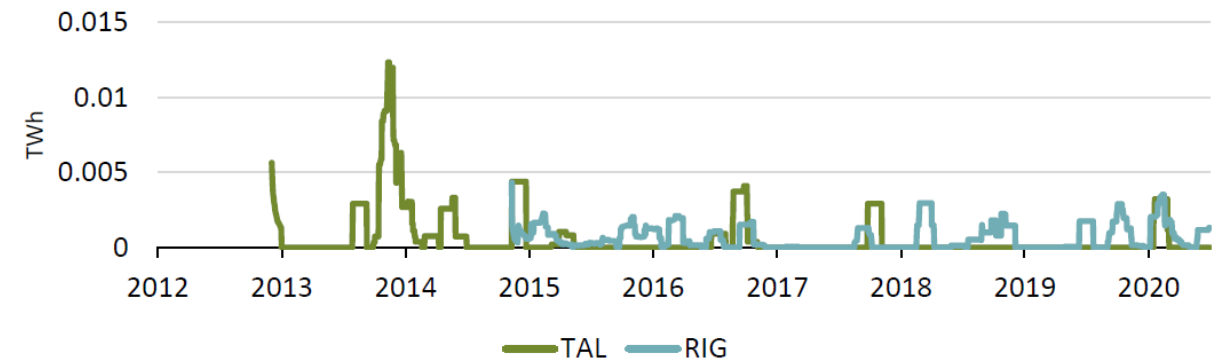
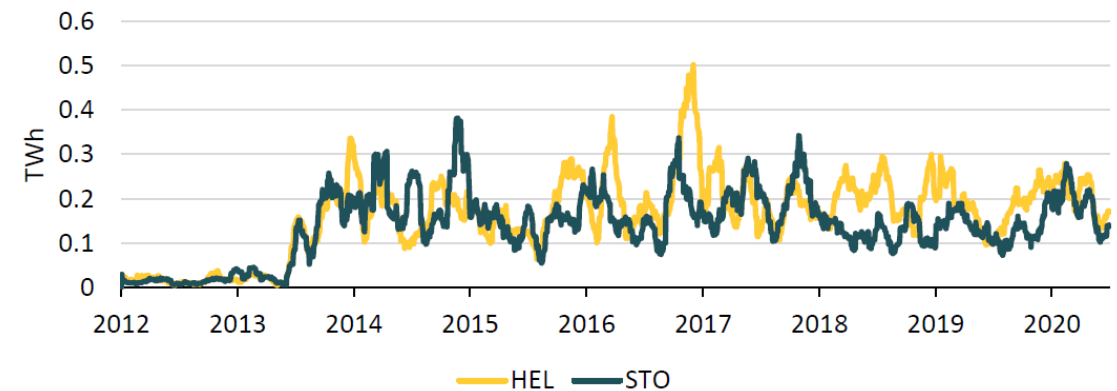


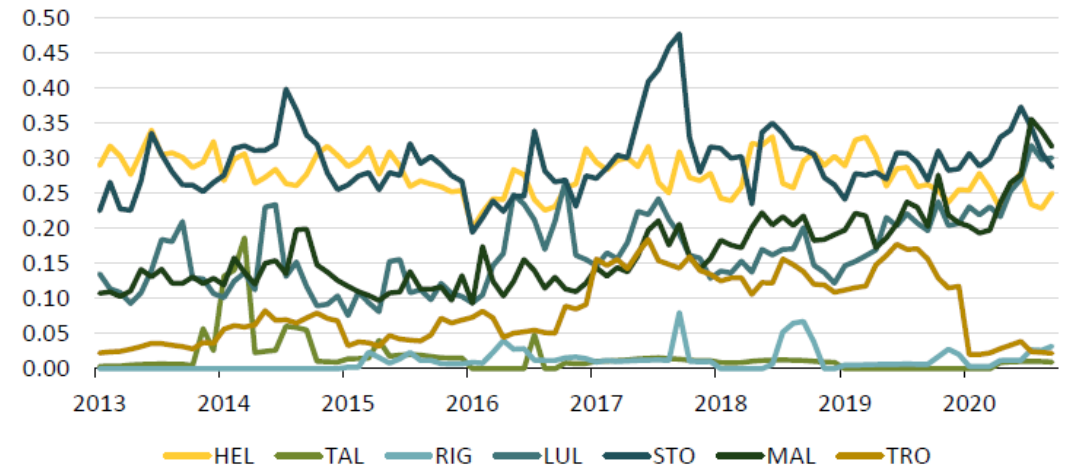
Figure 13: Total daily traded volumes (TWh) HEL and STO EPADs



The Assessment

- Open interest at a steady but low level in Estonia
- Open interest in relation to physical consumption
 - indication of the share of physical consumption that is hedged in the futures market
 - Very low in Estonia
- Statistically significant risk premium observed for the Hel EPAD
- Increasing bid-ask spread for Hel and Tallinn EPADs

Figure 8: Open interest in relation to physical consumption, monthly EPADs



The Assessment

- Correlation:
 - Do the products offer hedge from price fluctuations? Is it possible to hedge the price risk of a specific zone using the EPAD of an another zone?
 - Correlation between bidding zones' (averaged) spot prices
 - The level of correlation had decreased when assessing the weekly spot-price averages
 - The Estonians were previously able to use the Finnish EPAD to hedge in Estonia. Now this is no longer possible due to decreasing correlation
- Calculating correlation of averages over a long period of time has to be taken with a pinch of salt

The Consultation

- FCA requirement
 - “consultation with market participants about their needs for cross-zonal risk hedging opportunities”
- EV conducted several consultations
 - Market participants on their hedging opportunities,
 - Market participants on the consultation study
 - TSO on the consultation study & draft decision
- Main takeaways from the consultations
 - Numerous comments on decreasing hedging opportunities
 - Various requests on how to fix this: New kinds of EPADs, transmission rights
 - Some replies stating that the situation is ok

The Decision

- The Finnish and Estonian NRAs' assessment:
 - The positive development during the earlier assessment had ended and the hedging opportunities are now getting worse
 - The high bid-ask spread of the Tallinn EPAD is an indication of issues in the hedging markets
 - The observed high risk-premium for EPADs is likely a result of imbalance between the buyers and sellers of hedging products
 - This has led to worsening hedging opportunities for the buyers of electricity
 - The Estonian market participants are no longer able to hedge using the Helsinki –EPAD due to decreasing correlation between the bidding zones.
 - **The EPAD –product no longer offers sufficient hedging opportunities for the Estonian market participants**
 - The TSOs are asked to issue transmission rights for the FI-EE –border.

What now?

- The FI and EE TSOs are now requested to issue LTTRs on the FI-EE –border
 - Drafting and approving several methodologies in line with FCA GL
- The Splitting Methodology (FCA art. 16) states that the methodology *shall be coherent with the capacity calculation methodology*
 - There is no LT CCM in the Baltic CCR until the BRELL –agreements with Russia come to an end (ACER decision)
 - How could the methodology be implemented before LT CCM is in place
 - The NRAs are aware of the urgent need for improving the hedging opportunities and are now looking at legal possibilities to have the TSOs introduce LTTRs as soon as possible
- Timeline?
- Transmission rights and EPADs: A paradigm shift
 - Increased complexity, but also increased hedging opportunities

Other Borders

Baltic CCR

- EE – LV
 - FTRs already available for the EE -> LV -direction
 - The relevant NRAs came to the conclusion that LTTRs in the other direction are not needed
- SE-LT, PL-LT, LV-LT
 - Analysis revealed that there are sufficient hedging opportunities
 - No need to ask for the TSO to issue LTTRs

FI – SE –border

- The discussions between the NRAs ongoing.
- EV has identified issues in the hedging opportunities, which is supported in the consultation responses

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