



European Union Agency for the Cooperation
of Energy Regulators

4.2 Update on the decision on Hedging opportunities on the SE-FI border

29th Market European Stakeholder Committee

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Article 30 of the FCA Regulation sets out the process for identifying and addressing insufficient cross-zonal risk hedging opportunities. In particular,

- NRAs of the bidding zone border assess whether there are sufficient hedging opportunities in the concerned bidding zones.
- In case there are insufficient hedging opportunities in one or more bidding zones, the NRAs shall request the relevant TSOs:
 - a) to issue long-term transmission rights; or
 - b) to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

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- EV and Ei have assessed, in a coordinated manner, risk hedging opportunities in the Swedish and Finnish bidding zones.
 - The assessment identified insufficient hedging opportunities in the Finnish bidding zone.
 - EV and Ei have not been able to adopt coordinated decisions requesting the TSOs to address the insufficient hedging opportunities identified in their assessment.
 - EV and Ei have jointly requested ACER (on 3/03/2022 and 11/03/2022) to adopt a decision
 - ACER's decision deadline on 12/09/2022
 - The Decision is published on ACER's website

- Relevant bidding zone borders:
 - Sweden 3 - Finland (SE3 - FI)
 - Sweden 1 - Finland (SE1 - FI)
- TSOs addressed by ACER decision:
 - Svenska kraftnät
 - Kraftnät Åland AB
 - Fingrid Oyj
- Concerned NRAs:
 - EV
 - Ei



Source: Ei

- In its decision ACER assessed possible solutions on how to address the insufficient risk hedging opportunities on the bidding zone borders between Finland and Sweden:
 - a) Issuing LTTRs (in accordance with Article 30(5)(a) of the FCA Regulation)
 - b) Solutions based on EPADs (in accordance with Article 30(5)(b) of the FCA Regulation):
 - TSOs organising cross-zonal coupling of EPADs
 - TSOs supporting a market maker function in the continuous markets for EPADs

	LTTRs	EPAD coupling	Market maker
Demand/supply asymmetry	+	++	0
Liquidity of EPADs	+/0/-	++	+
Liquidity of system price	0/-	0/+	0/+
Market transparency	-/0	0/+	0/+
Price formation for CZC allocation	-	+	/
Level playing field for MPs	0/-	+	+
Overall expected impact on available hedging opportunities	+/0/-	++	+
Estimation of time until implementation	1y	2y	1.5y

→ LTTRs on the FI-SE bidding zone borders is subject to several risks (e.g. through promotion of parallel markets) and uncertainties, while EPAD coupling can address the need for hedging opportunities on the FI-SE bidding zone border more efficiently without those risks.

- LTTRs on the FI-SE bidding zone borders would come with considerable risks for the existing electricity forward market design in the Nordic region.
 - Even if only some of these risks materialise, the overall hedging opportunities in the Finnish bidding zone may in fact diminish.
 - Both EPADs-related solutions are in principle suitable to address the problem of insufficient hedging opportunities in the Finnish bidding zone. Compared to LTTRs, these potential solutions could be:
 - more effective in addressing insufficient hedging opportunities in the Finnish bidding zone;
 - less intrusive to the Nordic market; and
 - less burdensome for the Nordic market participants.
 - Since the EPAD-related solutions are considered more suitable and less intrusive compared to LTTRs, ACER considers the longer implementation time as acceptable.
- **ACER decided to request the Finnish and the Swedish TSOs to ensure availability of other long-term cross-zonal hedging products in line with Article 30(5)(b) of the FCA Regulation.**
- **ACER recommends TSOs to further explore EPAD coupling, which appears to be more effective in improving hedging opportunities compared to the market maker function**

In accordance with Article 30(6) of the FCA Regulation:

1. the TSOs on the FI-SE bidding zone borders have 6 months to develop and submit a proposal to their NRAs (i.e. by March 2023)
2. Regulatory approval process
3. 6 months (which can be extended to 12 months) for implementing the approved methodology

Thank you. Any questions?

The contents of this document do not necessarily reflect the position or opinion of the Agency.



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