



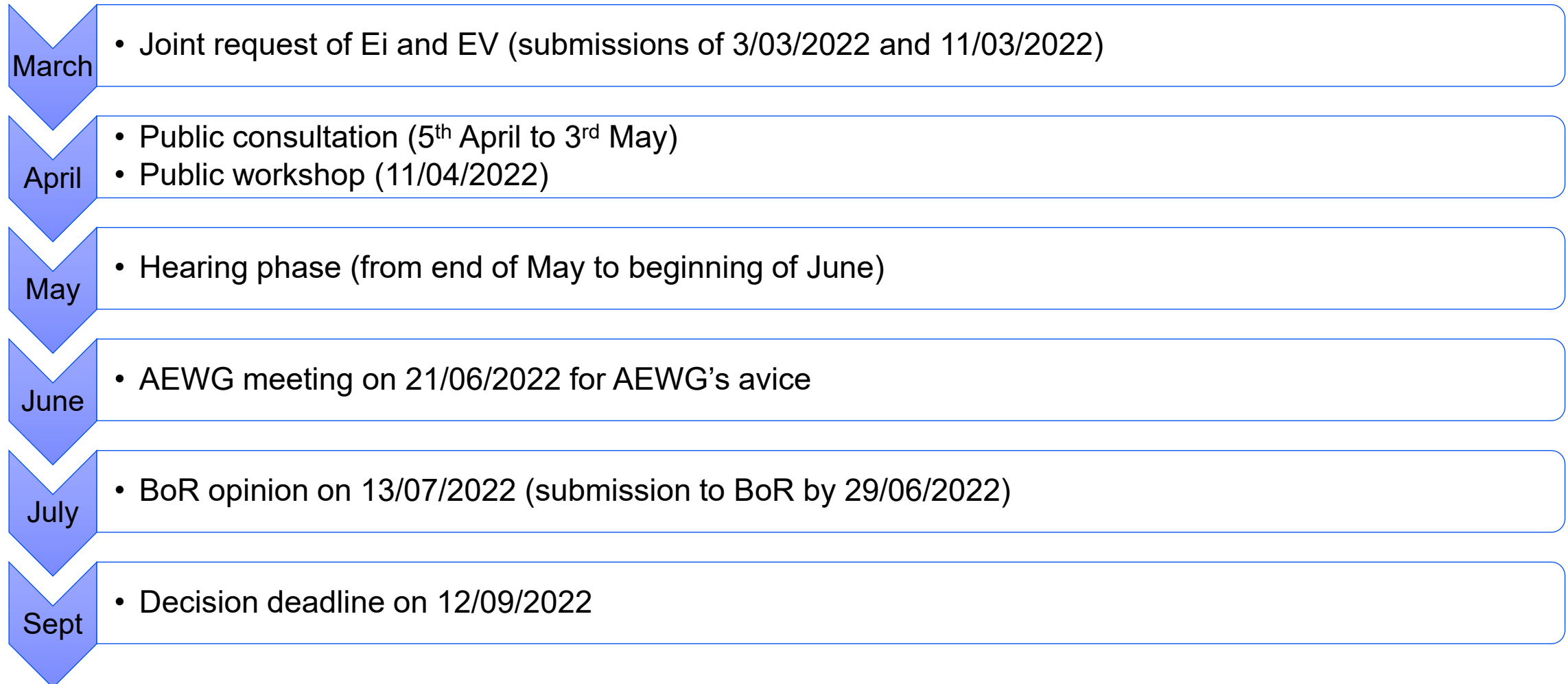
European Union Agency for the Cooperation
of Energy Regulators

ACER decision on: Hedging opportunities on the SE-FI BZBs

28th MESC

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1 June 2022



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:
 - to issue long-term transmission rights; or
 - to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

- 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

Possible outcomes of ACER's decision and follow-up

ACER has been asked to decide between option (a) and option (b) of Article 30(5) of the FCA Regulation.

Option (a)

TSOs are asked to issue long-term transmission rights



Exemption from Article 30(7) FCA is lifted, i.e. Articles 16, 28, 29, 31 to 57, 59, 61 FCA become applicable to the TSOs. Relevant TCMs would have to be approved for the TSOs.

Implementation

Once TCM approval process is finalised. Approx. 5 months for SAP to add new TSO and BZB.

Option (b)

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



TSO proposal and NRA approval

TSOs have 6 months to develop the necessary arrangements and submit them to Ei and EV for approval.

Implementation

TSOs implement the approved arrangements within 6 months. Ei and EV may extend this timeline by max. 6 months.

Electricity forward market	(most of) continental Europe	Nordic region
<i>Bidding zones</i>	Mostly per member state (some big ones; some smaller ones)	Smaller zones, sometimes subject to supply/demand asymmetry
<i>Hedging within zones</i>	<ul style="list-style-type: none"> • Zonal futures/forwards 	<ul style="list-style-type: none"> • System price futures/forwards • Contracts for differences (EPADs)
<i>Hedging between zones</i>	<ul style="list-style-type: none"> • Two zonal futures/forwards • One or more LTTRs 	<ul style="list-style-type: none"> • Two contracts for differences (EPADs)

Summary of public consultation replies

- Stakeholders had 4 weeks (5th April to 4th May) for providing feedback
- 43 respondents replied to questions on expected impact of option (a), i.e. introduction of long-term transmission rights (LTTRs) on the FI-SE bidding zone borders (BZBs) and the two approaches considered under option (b): EPAD coupling by TSOs or support of market maker function by the TSOs;
 - Majority of respondents do not prefer a solution with LTTRs
 - LTTR supporters expect increase in hedging opportunities with LTTRs, which are well established in Europe and could be provided rather soon
 - Majority of respondents have concerns that LTTRs could have detrimental effects on the existing Nordic long-term markets:
 - decreasing liquidity of system price and EPAD products by creating a parallel hedging market
 - LTTRs might strengthen the position of already dominant market players
 - Majority of respondents is concerned about increasing complexity following the introduction of LTTRs
 - Slight majority would favour FTR obligations against FTR options
 - Majority of respondents show preference for option (b), and have slight preference for EPAD coupling under option (b).
- You can find all submitted responses [here](#).

If ACER decides towards Article 30(5)(b) of the FCA Regulation, TSOs would need to submit a proposal defining the relevant solution. Two potential solutions for such proposal would be:

TSOs supporting a market maker function in the continuous markets for EPADs

- TSOs could organise a tender for a market maker function to facilitate order books for EPADs with prescribed maximum bid-ask spread and minimum volume of orders (costs from such tender could be recovered via TSOs' tariffs or other regulated mechanisms)
- Would directly support the liquidity of the established EPAD market but unlikely to address the issue of supply/demand asymmetry

TSOs organising cross-zonal coupling of EPADs

- TSOs would allocate long-term cross-zonal capacity by coupling market participant's bids for EPAD products in an auction
- EPAD coupling could directly add potentially substantial trading volumes to the EPAD market and could solve a problem of supply/demand asymmetry (excess supply in one zone meets excess demand in another zone)

Thank you. Any questions?

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



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