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RESPONSE TO THE CONSULTATION ON FORWARD RISK-HEDGING PRODUCTS AND HARMONISATION OF LONG-TERM CAPACITY ALLOCATION RULES

Introduction

Statkraft's basis for participating in the above mentioned ACER consultation is our long experience in the power market in a large number of European countries. We have experience with both asset based hedging and European wide power trading.

Providing efficient supply and utilization of resources should be the main objective of the European electricity market. A liquid forward market must provide the basis for planning and investments for both generators and consumers and is thus a prerequisite for a competitive European electricity market in the future.

The EU Target Model and the process towards a single market should support this objective of efficiency and should progressively reduce price level differences in Europe, with - for the longer term - single electricity prices for large bidding areas. Full harmonisation of market design and market rules should not be an objective in itself. Our experience shows that the power market development in different regions in Europe has reached quite different stages in respect of maturity of the power market. In addition the generation mix, the market structure, market participants' preferences, needs, trading experiences and cultures vary across regions. Different models can work, both the Nordic model (Day-Ahead system reference price plus CfDs) as well as the continental model (forward products with physical delivery and PTRs/FTRs for cross-border hedging) have their merits and can function. Statkraft does not at this stage have a clear preference for a single EU target model. Different models in different regions should be allowed to be developed further before one can conclude what level of harmonisation is desirable and if so which is the preferred design for a European wide harmonization.

The TSOs have an important role in the power market. We appreciate that work is done with the aim to standardise method for capacity calculation, capacity allocation and transparency in connection with these issues. The transmission risk-hedging products which are treated in the consultation will probably in quite different ways affect the TSOs and their incentives. We therefore think it is vital to thoroughly evaluate how to promote desirable behaviour from the TSOs and the possibility to manage possible undesirable incentives by appropriate regulation and monitoring. We oppose solutions were TSOs are given an active commercial market role by the regulator, for instance if they are required to

sell CfDs, which is an ordinary commercial market product offered by different commercial players. We are also concerned about the TSOs' possible inside position and requirements for regulation and monitoring if the TSOs are allowed to participate in a secondary market for long-term capacity rights.

Response to the questions

1) *Are there other products or options which are not considered in this document that would be worth investigating?*

No, given the scope and basis for the consultation.

2) *What will be the importance of the long-term Target Model and specifically the design of the forward market and the structure of long-term hedging products once the Day-Ahead and Intraday Target Models are implemented? Do you think your interest and demand for long-term hedging products will change (either increase or decrease) with the implementation of the Day-Ahead and Intraday Target Models? More specifically, what is your interest in cross-border/zone hedging?*

Generators and consumers need forward electricity markets of adequate duration and liquidity, linked to the day-ahead price zones in which power is generated and consumed. Having a liquid forward market for all day-ahead price zones is however not likely, and some sort of auxiliary contracts (PTRs, FTRs, CfDs, etc.) will be required.

Our interest and demand for long-term hedging products will probably not change in some regions (for instance Nordic) with the implementation of the Day-Ahead and Intraday Target Models, while they might change in other regions. Cross-border opportunities might be of interest both from a hedging and trading perspective.

3) *Would long-term hedging markets need to evolve (e.g. in terms of structure, products, liquidity, harmonisation, etc.) due to the implementation of: 1) the day-ahead market coupling, 2) day-ahead flow-based capacity calculation and 3) occasional redefinition of zones? If so, please describe how these changes would influence your hedging needs and strategy. If no evolution seems necessary, please elaborate why. Can you think of any striking change not considered here?*

Day-Ahead markets and forwards/hedging markets are both important and always need to be addressed in case of evolvements like flow based Day-Ahead market coupling. Ideally, the main structure of the day-ahead markets should probably be agreed before any detailed definition of the forward market is set and the structure of both markets should be made flexible in order to enable changes in either of them. In the Nordic market model, Day-Ahead liquidity is more important, as the Day-Ahead price also is the reference price for all forward products. However, in several continental EU markets, forward products with physical delivery are the main traded products.

4) *What is for you the most suitable Long-Term Target Model (combination of energy forwards and transmission products) that would enable efficient and effective long term hedging? What would be the prerequisites (with respect to the e.g. regulatory, financial, technical, operational framework) to enable this market design in Europe? Which criteria would you use to assess the best market design to hedge long-term positions in the market (e.g. operability, implementation costs, liquidity, efficiency…)?*

Our experience shows that the power market development in different regions in Europe has reached quite different stages in respect of maturity of the power market. In addition the generation mix, the market structure, market participants' preferences, needs, trading experiences and culture vary across regions. Different models can work, both the Nordic model (Day-Ahead system reference price plus CfDs) as well as the continental model (forward products with physical delivery and PTRs/FTRs for cross-border hedging) have their merits and can function. Statkraft does not at this stage have a clear preference for a single EU target model. Probably different models in different regions should be allowed to be developed further before one can conclude which is the preferred for a European wide harmonization.

5) *What techniques of market manipulation or "gaming" could be associated with the various markets for hedging products? What measures could in your view help prevent such behaviour?*

Market games will only be possible due to lack of competition across borders. Market manipulation can only be reduced by establishing trans-national markets that create real trans-national competition.
Secondly transparency both on fundamental market data as well as on market rules is key to reduce the risk of gaming.
Moreover, regulators have several instruments in REMIT and MAR, and the monitoring tools in these instruments allow for a detailed monitoring of both transmission rights and bidding on power exchanges, and also allow for a monitoring of available and offered generation capacity to the market. No specific measures should be needed on top of these instruments.

6) *Would you like to change, add or delete points in this wish-list? If so, please indicate why and how.*

No comments.

7) *Which aspects of auction rules would be most valuable to be harmonised? Can you provide some concrete examples (what, when, where) of how this could help your commercial operation (e.g. lowering the transaction costs)?*

Harmonization is desirable, but never necessary and is not a goal in itself. Firm/non-firmness or interruptibility and compensation in case of unavailability is the most important issue for us in auction rules, however harmonization of firmness rules is no prerequisite. The CASC auction rules seem to be a good reference case for further harmonization.

8) *Which elements of auction rules have regional, country specific aspects, which should not be harmonised?*

Full harmonisation is of auction rules desirable. Firmness of DC-cables, might require different firmness regimes.

9) *Which aspects should be harmonised in binding codes?*

No clear preference.

10) *If you are to trade from the Iberian Peninsula to the Nordic region and there existed PTRs with UIOSI, FTR Options or Obligations and CfDs in different regions – what obstacles, if any, would you face? How would you deal with them?*

No comments.

11) *Would allocating the products at the same time represent an improvement for market players? Why? Where, if not everywhere, and under which conditions?*

No, allocating all products in the EU at the same time would be too cumbersome and not manageable for traders. Moreover, there is no need for such full alignment. Results of a first auction can be used in a 2nd auction which improves the bidding quality.

12) *How important is it that capacity calculation for the long-term timeframe is compatible and/or consistent with the short-term capacity calculation and that capacity is interdependent and optimised across different borders?*

The market would benefit from better coordination between TSOs with the aim of increasing available capacity for the day-ahead and intraday markets. Furthermore, providing data and analyses for the near future would improve transparency and the functioning of these markets.

Full optimisation and maximisation of allocating cross-border capacity will be achieved in the Day-Ahead stage. It is therefore not necessary to introduce "flow based" approaches in calculating forward capacities. On the contrary, this would unnecessary complicate things and introduces risks for traders.

13) *Please indicate the importance of availability of different hedging products with respect to their delivery period (e.g. multi-year, year, semester, season) for efficient hedging against price differential between bidding zones. What do you think of multiple-year products in particular?*

In the Nordic market model, the main hedging product for fundamental market participants will be the forward electricity contract that their price zone is linked to.

In the continental markets, currently basically Month Ahead and 1 Year Ahead products are the main products. It is preferable to have more auctions with different periods like quarterly or seasonally. Focus on the horizon up to 1 year but a multi-year product and / or an additional earlier auction for selling year ahead products would be good.

In CEE markets, more emphasis must be given to shorter term products (month ahead, week ahead) because of the underlying illiquidity and associated risks.

14) *What would be your preferred splitting of available interconnection capacity between the different timeframes of forward hedging products? Which criteria should drive the splitting between timeframes of forward hedging products?*

In more mature, liquid markets, more focus on year ahead or multiyear products. In less liquid markets it is important to have larger shares of shorter term products.

15) *While products with planned unavailability cannot be standardised and harmonised throughout Europe, they enable TSOs to offer more long-term capacity on average*

than standardised and harmonised products would allow. Do you think these products should be kept in the future and, if so, how could they be improved?

No clear preference, but we are not fundamentally against such non-standardised products. They are acceptable if they are justified from the specific situation. In any case, full transparency is important.

16) *Products for specific hours reflect market participants' needs. What should drive the decision to implement such products? How should the available capacity be split between such products and base load ones in the long-term timeframe?*

We do not expect any interest for this kind of products from generators, distributors, or consumers. Transmission lines are available all hours so transmission rights products should normally be base load.

17) *Should this possibility* (Secondary market) *be investigated and why (please provide pros and cons)? In case you favour this possibility, how should this buyback be organised?*

Statkraft is sceptical for the idea that TSO should have the possibility to buy back already allocated long-term capacity. This will probably result in an increased role of the TSO as market participant and thereby also challenges due to their inside position regarding transmission issues. In addition questions related to their incentives and regulation also has to be addressed. We therefore think it is vital to thoroughly evaluate how to promote desirable behaviour from the TSO's and the possibility to compensate possible undesirable incentives by appropriate regulation and monitoring.

18) *With the potential evolution from PTRs with UIOSI to FTR options, does the removal of the nomination process constitute a problem for you? If so, why and on which borders, if not on all of them?*

The removal of the nomination process is no problem for us.

19) *With the potential evolution from PTRs with UIOSI to FTR options, does the removal of the nomination process constitute a problem for you? If so, why and on which borders, if not on all of them?*

The removal of the nomination process is no problem for us.

20) *If nomination possibility exists only on some borders (in case of wide FTRs implementation), is it worth for TSOs to work on harmonising the nomination rules and procedures? If so, should this harmonisation consider both the contractual and technical side? How important is such harmonisation for your commercial operation? Which aspects are the most crucial to be harmonised?*

Harmonisation is important as it will reduce administrative / transaction costs.

21) *Looking at the current features offered by the different auction platforms (e.g. CASC.EU, CAO, individual TSO systems) and financial market platforms in Europe, what are the main advantages and weaknesses of each of them?*

The main problem of multi-TSO platforms is unclear accountabilities and liabilities. In general, communication (e.g. in case of irregularities in the price formation) needs further improvement. Also performance of IT systems needs improvement.

22) *How do you think the single auction platform required by the CACM Framework Guidelines should be established and organised?*

No clear preferences..

23) *How do you see the management of a transitional phase from regional platforms to the single EU platform?*

No clear preferences...

24) *Should current regional platforms merge via a voluntary process or should a procurement procedure be organised at European Union level (and by whom)?*

No clear preferences.

25) *Should the Network Code on Forward Markets define a deadline for the establishment of the single European platform? If so, what would be a desirable and realistic date?*

No clear preferences..

Yours sincerely,
for Statkraft AS

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