

**DECISION No 02/2025**  
**OF THE EUROPEAN UNION AGENCY**  
**FOR THE COOPERATION OF ENERGY REGULATORS**

**of 12 February 2025**

**concerning risk hedging opportunities**  
**for the NL and NO2 bidding zones**

THE EUROPEAN UNION AGENCY FOR THE COOPERATION OF ENERGY REGULATORS,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators<sup>1</sup>, and, in particular, Article 6(10), second subparagraph, point (b) thereof,

Having regard to Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation<sup>2</sup>, and, in particular, Article 30(5) thereof,

Having regard to the outcome of the consultation with the regulatory authorities and transmission system operators concerned,

Having regard to the outcome of the consultation with ACER's Electricity Working Group ('AEWG'),

Having regard to the favourable opinion of the Board of Regulators of 28 January 2025, delivered pursuant to Article 22(5)(a) of Regulation (EU) 2019/942,

Whereas:

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<sup>1</sup> OJ L158, 14.6.2019, p. 22.

<sup>2</sup> OJ L 259, 27.9.2016, p. 42.

## **1. INTRODUCTION**

- (1) Commission Regulation (EU) 2016/1719 (the ‘FCA Regulation’) lays down detailed rules on cross-zonal capacity allocation in the forward markets. One of the key objectives of the Regulation, specified in its Article 3, is the promotion of effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants.
- (2) According to Article 30(1) of the FCA Regulation, the transmission system operators (TSOs) shall issue long-term transmission rights (‘LTTRs’) on a given bidding zone border unless the competent regulatory authorities of the bidding zone border have adopted coordinated decisions not to issue long-term transmission rights on that border. According to Article 30(2) of the FCA Regulation, where LTTRs do not exist on a bidding zone border at the entry into force of the FCA Regulation, the competent regulatory authorities of the bidding zone border shall adopt coordinated decisions on the introduction of long-term transmission rights no later than six months after the entry into force of the FCA Regulation. The decisions of the regulatory authorities shall be based on an assessment as to whether the electricity forward market provide sufficient hedging opportunities in the concerned bidding zones. This assessment shall be carried out in a coordinated manner by the competent regulatory authorities of the bidding zone border in accordance with Article 30, paragraphs (3) and (4), of the FCA Regulation.
- (3) According to Article 30(5) of the FCA Regulation, in case insufficient cross-zonal risk hedging opportunities are identified in one or more bidding zones, the competent regulatory authorities of the bidding zone border shall request the relevant transmission system operators (‘TSOs’):
  - a) to issue LTTRs; or
  - b) to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.
- (4) By email of 16 August 2024, the regulatory authority of the Netherlands (‘ACM’) informed ACER that they were not able to agree with the regulatory authority of Norway (‘NVE-RME’) to adopt coordinated decisions pursuant to Article 30(2) and (5) of the FCA Regulation to address the insufficient hedging opportunities identified in the Dutch and NO2 bidding zones. Therefore, ACM requested ACER to adopt a decision either under point (a) or point (b) of Article 30(5) with respect to the NL-NO2 bidding zone border.
- (5) As regards NVE-RME, it is to note that point 47(d) of Annex IV to the EEA Agreement<sup>3</sup>, as established by EEA Joint Committee Decision No. 93/2017, contains provisions setting out a specific procedure concerning binding decisions in cases involving EFTA States. According to these provisions, the EFTA Surveillance

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<sup>3</sup> Agreement on the European Economic Area, OJ No L 1, 3.1.1994, p. 3.

Authority (ESA) is authorised to adopt decisions addressed to the national regulatory authorities of the concerned EFTA State(s), where ACER is competent on the EU side. Moreover, on 19 August 2024, NVE-RME submitted a request to ESA to adopt for Norway a decision regarding possible measures under Articles 30(5)(a) and (b) of the FCA Regulation for the Dutch and NO2 bidding zones. On 16 September 2024, ESA requested ACER to prepare a draft for its decision.

- (6) This Decision is issued following the above request of the regulatory authority of the Netherlands, and is structured as follows:

Section 2	<b>Procedure</b> describes the key steps leading to this Decision, including ACER’s engagement with the regulatory authorities and the TSOs.
Section 3	<b>ACER’s competence to adopt a decision</b> sets out the legal basis for this Decision
Section 4	<b>Summary of the request of the regulatory authority</b> lists the documents submitted to ACER as part of the request
Section 5	<b>Summary of the observations received by ACER</b> outlines the key positions and arguments expressed by the regulatory authorities and the TSOs
Section 6	<b>ACER’s assessment</b> sets out ACER’s assessment of the referred case and provides reasoning for ACER’s decision in light of comments from the parties concerned and market participants
Section 7	<b>Conclusion</b> summarises ACER’s assessment and decision
Section 8	<b>Further considerations</b> ACER responds to comments raised, which are of relevance for the concerned parties, related to the process following a decision under Article 30(5) of the FCA Regulation.
Annex I	<b>Evaluation of responses</b> provides a summary of responses to ACER’s public consultation and ACER’s replies to stakeholders’ comments

## **2. PROCEDURE**

### **2.1. Proceedings before regulatory authorities**

- (7) Over the course of 2023 and 2024, ACM and NVE-RME performed individual assessments of risk hedging opportunities, including a consultation with market participants, in line with Article 30, paragraphs (3) and (4), of the FCA Regulation. NVE-RME assessed all the Norwegian bidding zones (including NO2) and concluded that the risk hedging opportunities are insufficient in the assessed zones. ACM assessed the Dutch bidding zone and identified insufficient hedging opportunities there. In 2024, in view of the results of the assessments, ACM and NVE-RME engaged in discussions in order to take coordinated decisions under Article 30(5) of the FCA Regulation.
- (8) By letter dated 16 February 2024, ACM submitted to ACER a request to grant a six-month extension according to Article 6(10), subparagraph three, of Regulation (EU) 2019/942, to reach coordinated decisions with NVE-RME in accordance with Article 30(2) of the FCA Regulation. With ACER's decision 5/2024, this request was approved, extending the deadline to 19 August 2024 for ACM to reach a coordinated decision with NVE-RME.<sup>4</sup>
- (9) Following the extension of the deadline to reach coordinated decisions, ACM and NVE-RME expanded their respective assessment of hedging opportunities with updated data in line with Articles 30(3) and (4) of the FCA Regulation.

### **2.2. Proceedings before ACER**

- (10) On 16 August 2024, ACM submitted to ACER its referral letter (also including their assessment as an annex), requesting that ACER takes a decision on the matter.
- (11) On 18 October 2024, ACER notified the concerned regulatory authority and TSO (collectively 'parties concerned') of the initiation of the decision-making procedure.
- (12) On 25 October 2024, ACER launched a public consultation of four weeks to gather stakeholders' views.
- (13) ACER held regular meetings and engaged in exchanges with the regulatory authorities and the TSOs of the Netherlands and Norway as well as ESA and the regulatory authorities through the AEWG and FCA task force to further explore the matter and understand the position of each party. In particular, the following meetings took place:
- 27 November 2024 videoconference with TSO and regulatory authority of the Netherlands

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<sup>4</sup> By Decision 093/24/COL of 3 July 2024, ESA approved the request by NVE-RME to extend the deadline to 19 August 2024 for NVE-RME to reach a coordinated decision with ACM.

- 28 November 2024 videoconference with all regulatory authorities in the 127<sup>th</sup> AEWG meeting
  - 5 December 2024 videoconference with TSO and regulatory authority of Norway and the EFTA Surveillance Authority
  - 12 December 2024 meeting with all regulatory authorities in the 63<sup>rd</sup> FCA task force meeting
- (14) On 7 December 2024, ACER notified the parties concerned of its preliminary position, setting a time limit for providing views in writing. The parties provided their views by 17 December 2024. These views are summarised in section 5.
- (15) On 18 December 2024, ACER notified the parties of the closure of the written and oral procedure.
- (16) The AEWG was consulted between 20 December 2024 and 10 January 2025 and provided its advice on 13 January 2025 (see Section 5.4).
- (17) On 14 January 2025, ACER submitted its draft Decision to the BoR for approval.
- (18) On 28 January 2025, ACER's Board of Regulators issued a favourable opinion pursuant to Article 22(5)(a) of Regulation (EU) 2019/942.

### **3. ACER'S COMPETENCE TO ADOPT A DECISION**

- (19) Pursuant to Article 6(10), first subparagraph, point (b) of Regulation (EU) 2019/942, ACER shall be competent to adopt an individual decision on regulatory issues having effects on cross-border trade or cross-border system security which require a joint decision by at least two regulatory authorities, where such competences have been conferred on the regulatory authorities under network codes and guidelines adopted before 4 July 2019.
- (20) Pursuant to Article 6(10), second subparagraph, point (b), of Regulation (EU) 2019/942, ACER shall be competent to adopt a decision on the basis of a joint request from the competent regulatory authorities.
- (21) Article 30 of the FCA Regulation, which is a guideline adopted before 4 July 2019, requires the competent regulatory authorities of a bidding zone border where no LTTRs are issued to carry out assessments of risk hedging opportunities in their relevant bidding zones. In case their assessment shows that these opportunities are insufficient in one or more bidding zones, Article 30(5) of the FCA Regulation requires the competent regulatory authorities to request the relevant TSOs either (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. In case two regulatory authorities are competent with respect to a given bidding zone border, requesting the TSOs under Article 30(5) would require a coordinated decision by at least two regulatory authorities on a regulatory issue affecting cross-border trade, in the meaning of the first subparagraph of Article 6(10) of Regulation (EU) 2019/942.

- (22) The coordinated decisions for the bidding zone border between the Netherlands and Norway (NL-NO2) falls under the competence of ACM and NVE-RME. As mentioned under Recital (7), following their individual assessment in accordance with Article 30(3) of the FCA Regulation, ACM and NVE-RME concluded on insufficient hedging opportunities in the Dutch and NO2 bidding zones
- (23) On 16 August 2024, ACM informed ACER that they were not able to adopt coordinated decisions with NVE-RME pursuant to Article 30(5) of the FCA Regulation, and, in line with Article 6(10), second subparagraph, point (b), of Regulation (EU) 2019/942, requested ACER to adopt a decision. As noted in Recital (5), NVE-RME requested ESA to adopt a decision in accordance with the procedure under point 47(d) of Annex IV to the EEA Agreement. Accordingly, the relevant competent regulatory authority requesting ACER to adopt a decision is ACM.
- (24) Considering the above, ACER is competent to adopt a decision on this matter. This decision is addressed to the TSO of the Netherlands, TenneT, based on Article 6(10), second subparagraph, point (b), of Regulation (EU) 2019/942 in joint reading with Article 30(5) of the FCA Regulation.

#### **4. SUMMARY OF THE REQUEST OF THE REGULATORY AUTHORITY**

- (25) The referral letter of 16 August 2024 explained ACM's and NVE-RME's views and preferences concerning the possibilities on how to address insufficient hedging opportunities in accordance with Article 30(5) of the FCA Regulation.
- (26) In this letter, ACM shared their views on possible measures to improve the hedging opportunities in the Netherlands, which ACM concluded to be insufficient. ACM expressed their preference for issuing LTTRs on the NL-NO2 bidding zone border when comparing it with the alternatives of market-making and coupling of hedging products. Further, ACM addresses the possibility of improving long-term cross-zonal capacity allocation on the other bidding zone borders of the Dutch bidding zone. ACM is generally in favour of such measures, since they are expected to improve the hedging opportunities in the Dutch bidding zone. However, ACM shared concerns about considering measures following a decision pursuant to Article 30(5)(b) of the FCA Regulation, which does not address the relevant bidding zone border. ACM interprets Article 30(5)(b) of the FCA Regulation in such a way that the arrangements should introduce cross-zonal hedging products and that those products should be on the bidding zone border where no LTTRs are present yet. Another concern is how to improve allocation on the Dutch bidding zone borders where LTTRs already exist if the regulatory authority on the other side of the bidding zone border do not want to implement any changes.
- (27) In the same letter, ACM explains that NVE-RME's opinion is that LTTRs are not well suited for hedging in Norway because of the size and number of bidding zones in Norway and because of the risk of decreasing hedging opportunities through splitting market liquidity. Further, NVE-RME considers it possible to take measures which are addressing the insufficient hedging opportunities in each relevant bidding zone. Establishing sufficient hedging opportunities in both bidding zones of a bidding zone

border will also provide market participants with sufficient cross-zonal hedging opportunities. Following their conclusion on insufficient hedging opportunities in the Norwegian bidding zones, NVE-RME requested the TSO of Norway ('Statnett') not to issue LTTRs on the borders between Norwegian bidding zones and towards Sweden, Denmark or Germany, but to develop arrangements that ensure sufficient hedging opportunities in the Norwegian bidding zones in accordance with Article 30(5)(b) of the FCA Regulation. NVE-RME's preferred solution is therefore to implement measures ensuring availability of sufficient hedging possibilities in the Dutch and Norwegian bidding zone independently.

## **5. SUMMARY OF THE OBSERVATIONS RECEIVED BY ACER**

### **5.1. Responses to the public consultation**

- (28) Responses to ACER's public consultation are summarised in Annex I. All non-confidential responses are published on ACER's consultation page.

### **5.2. Views provided by the TSOs**

- (29) In their response to the public consultation and exchanges via videoconferences, the TSO of the Netherlands ('TenneT') expressed its views concerning a possible introduction of LTTRs on the NL-NO2 bidding zone border or other measures pursuant to Article 30(5)(b) of the FCA Regulation. While TenneT considers LTTRs a possible measure to address insufficient hedging opportunities, they also shared doubts about the effectiveness of LTTRs on the NL-NO2 bidding zone border due to the lack of liquidity for market participants in either of the two bidding zones. TenneT explained that both NL and NO2 have access to products that improve the hedging opportunities of market participants located in the respective bidding zones. For NO2, this is the Nordic system price, in combination with EPADs. For NL, this is improved access to the German forward market through LTTRs on the NL-DE bidding zone border. Improving and strengthening these instruments will likely give market participants better hedging opportunities. Besides the doubt concerning the effectiveness of LTTRs on the NL-NO2 bidding zone border, TenneT also shared concerns about them being required to introduce new kind of products (e.g. FTR obligations) or approaches for addressing hedging opportunities on the NL-NO2 bidding zone border and suggested to consider such new approaches within the debate on FCA 2.0 instead. Further, TenneT shared concerns about the expected effectiveness of any chosen solution in terms of costs and benefits.
- (30) In their response to the public consultation and exchanges via virtual meetings, Statnett expressed its views concerning a possible introduction of LTTRs on the NL-NO2 bidding zone border or other measures pursuant to Article 30(5)(b) of the FCA Regulation. On 10 December 2024, Statnett started auctioning EPADs for the Norwegian bidding zones. The same kind of solution developed by the Swedish TSO is already operational for the Swedish bidding zones and proved to be an effective measure to support hedging opportunities in the Nordics. Regarding LTTRs, Statnett shared concerns about the complexity of having FTR options for each direction on the NL-NO2 bidding zone border and the need to acquire additional LTTRs to access the

German market due to insufficient liquidity in the Dutch bidding zone. Hence, Statnett mentioned that using LTTRs to address a hedging need is considered too complex for market participants in Norway. Further, Statnett shared concerns that LTTRs on the NL-NO2 border may split liquidity in the NO2 bidding zone and undermine the efficiency of the EPAD auctions. Statnett expects its EPAD auctions to address the insufficient hedging opportunities by addressing structural imbalances between consumers and producers in different Norwegian bidding zones, adding liquidity to the financial market, providing better price formation for the financial market and also by serving as better long-term price signals. For addressing the insufficient hedging opportunities in the Dutch bidding zone, Statnett considers it more effective to use the German future as a proxy and considers the allocation of LTTRs in the Core CCR as the relevant measure for that.

### **5.3. Responses to ACER's preliminary position**

- (31) In its preliminary position, ACER shared its understanding of the observations received by the parties, shared its concerns on the efficiency of LTTRs on the NL-NO2 bidding zone border and preliminary concluded to aim for a decision pursuant to Article 30(5)(b) of the FCA Regulation. Further, in response to concerns raised by the concerned parties, ACER shared its views on possible next steps following a decision under Article 30(5)(b) of the FCA Regulation.
- (32) ACER received written feedback to its preliminary position from ACM and TenneT, as well as from NVE-RME. ACER did not receive any request for oral hearing.
- (33) In its feedback to ACER's preliminary position, ACM shared its understanding of ACER's intention for taking a decision pursuant to Article 30(5)(b) of the FCA Regulation. However, ACM shared its disagreement to having a market-maker solution as an option under Article 30(5)(b) of the FCA Regulation since it does not comprise a cross-zonal hedging product.
- (34) In its feedback to ACER's preliminary position, NVE-RME expressed support of ACER's conclusion of the preliminary position and clarified that Statnett's EPAD auctions are currently considered as a pilot project, while NVE-RME's decision concerning Statnett's proposal pursuant to Article 30(6) of the FCA Regulation, for the internal Norwegian bidding zone borders and the bidding zone borders towards Sweden, Denmark and Germany, is foreseen for February 2025.
- (35) In its feedback to ACER's preliminary position, TenneT acknowledged ACER's intention for taking a decision pursuant to Article 30(5)(b) of the FCA Regulation. Concerning ACER's views on possible arrangements following a decision pursuant to Article 30(5)(b) of the FCA Regulation, TenneT invited ACER to list market making only as second option since it is considered less developed and less likely to be a suitable solution.



#### **5.4. Comments of the regulatory authorities submitted to the AEWG**

- (36) The German regulatory authority (BNetzA) provided comments during the AEWG consultation period with a recommendation for LTTRs and shared concerns regarding specific potential solutions under Article 30(5)(b) of the FCA Regulation.
- (37) The AEWG provided its advice on 13 January 2025, broadly endorsing the draft Decision and inviting ACER to:
- *Reconsider the structure of the draft decision regarding the future developments following the ACER decision (e.g. move section 8 to an annex).*
  - *Clarify the case specific character of this decision, as the general future direction should be subject to the FCA 2.0 process.*
- (38) ACER addresses the feedback received from the AEWG advice in section 8.

#### **5.5. Comments from ESA**

- (39) ESA provided feedback with editorial corrections as well as input related to the reference to the EEA and the objectives laid down in the FCA Regulation.

### **6. ACER'S ASSESSMENT**

- (40) This section sets out ACER's assessment of the expected impact from LTTRs on the NL-NO2 bidding zone border. Section 6.1 sets out the relevant legal framework. Section 6.2 provides an overview on hedging electricity prices in the European Economic Area ('EEA'). Section 6.3 provides ACER's assessment concerning the expected effectiveness of LTTRs on the NL-NO2 border. Section 6.4 provides ACER's views on the expected overall impact of LTTRs on the NL-NO2 border.

#### **6.1. Legal framework**

- (41) One of the key principles regarding the operation of electricity markets listed in **Article 3 of Regulation (EU) 2019/943** is that long-term hedging products are tradable on exchanges in a transparent manner and long-term electricity supply contracts are negotiable over the counter (subject to compliance with Union competition law) in order to allow market participants to be protected against price volatility risks on a market basis, and mitigate uncertainty on future returns on investment.
- (42) In line with this principle, **Article 9 of Regulation (EU) 2019/943** specifies, in paragraph (1), that the TSOs shall issue long-term transmission rights or have equivalent measures in place to allow for market participants, including owners of power-generating facilities using renewable energy sources, to hedge price risks, unless an assessment of the forward market on the bidding zone borders performed by the competent regulatory authorities shows that there are sufficient hedging opportunities in the bidding zones concerned.

- (43) Article 9 of Regulation (EU) 2019/943 refers to the FCA Regulation, which lays down detailed rules on cross-zonal forward capacity allocation, aiming to promote a number of objectives. One of the key objectives, set out in Article 3(a) of the FCA Regulation, is to promote long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants.
- (44) **Article 30 of the FCA Regulation** sets out a process whereby the competent regulatory authorities decide on cross-zonal risk hedging opportunities, as set out below:
- (45) According to paragraph (1) of Article 30 of the FCA Regulation, TSOs on a bidding zone border shall issue LTTRs unless the competent regulatory authorities of the bidding zone border have adopted coordinated decisions not to issue LTTRs on the bidding zone border. When adopting their decisions, the competent regulatory authorities of the bidding zone border shall consult the regulatory authorities of the relevant capacity calculation region and take due account of their opinions.
- (46) According to paragraph (2) of Article 30 of the FCA Regulation, where LTTRs do not exist on a bidding zone border at the entry into force of the FCA Regulation, the competent regulatory authorities of the bidding zone border shall adopt coordinated decisions on the introduction of LTTRs no later than six months after the entry into force of the FCA Regulation.
- (47) According to paragraph (3) of Article 30 of the FCA Regulation, the decisions of the competent regulatory authorities pursuant to paragraph (1) or (2) shall be based on an assessment, which shall identify whether the electricity forward market provides sufficient hedging opportunities in the concerned bidding zones. The assessment shall be carried out in a coordinated manner by the competent regulatory authorities of the bidding zone border and shall include at least:
- (a) a consultation with market participants about their needs for cross-zonal risk hedging opportunities on the concerned bidding zone borders
  - (b) an evaluation.
- (48) According to paragraph (4) of Article 30 of the FCA Regulation, the evaluation shall investigate the functioning of wholesale electricity markets and shall be based on transparent criteria, which include at least:
- (a) an analysis of whether the products or combination of products offered on forward markets represent a hedge against the volatility of the day-ahead price of the concerned bidding zone. Such product or combination of products shall be considered as an appropriate hedge against the risk of change of the day-ahead price of the concerned bidding zone where there is a sufficient correlation between the day-ahead price of the concerned bidding zone and the underlying price against which the product or combination of products are settled.

- (b) an analysis of whether the products or combination of products offered on forward markets are efficient. For this purpose, at least the following indicators shall be assessed:
- i. trading horizon;
  - ii. bid-ask spread;
  - iii. traded volumes in relation to physical consumption;
  - iv. open interest in relation to physical consumption.
- (49) According to paragraph (5) of Article 30 of the FCA Regulation, in case the assessment shows that there are insufficient hedging opportunities in one or more bidding zones, the competent regulatory authorities shall request the relevant TSOs either (a) to issue LTTRs or (b) to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.
- (50) According to paragraph (6) of Article 30 of the FCA Regulation, in case the competent regulatory authorities choose to issue a request as referred to in point (b) of paragraph (5), the relevant TSOs shall develop the necessary arrangements and submit them to the competent regulatory authorities' approval no later than six months after the request by the competent regulatory authorities. Those necessary arrangements shall be implemented no later than six months after approval by the competent regulatory authorities. The competent regulatory authorities may extend the implementation time upon request from the relevant TSOs by a period of no more than 6 months.

## **6.2. Overview on hedging of electricity prices in the EEA**

- (51) Forward electricity markets allow market participants to hedge their risk exposure against possible short-term (e.g. day-ahead) price fluctuations, in order to improve stability of their cash flows. There are various types of financial products traded in the forward electricity markets and their trade takes place on various platforms from several years in the future up to two days ahead of delivery of the relevant electricity forward product. Forward electricity products are priced based on the expected average day-ahead electricity price over the delivery time of the relevant electricity forward product.
- (52) Many market participants in the EEA rely on proxy hedging to address an electricity price risk for their bidding zone. Proxy hedging is a method used by market participants who lack sufficiently liquid forward electricity products for their bidding zone and use a similar but more liquid electricity forward product to address their hedging needs. Besides the need for liquidity of a proxy product, the correlation of a proxy product with the price of the bidding zone where the market participant has an open risk position indicates how well a proxy can be used to meet the needs for hedging. While a proxy hedge with good correlation can cover for a large share of the electricity price risk, a risk from non-fully correlating prices remains if only hedging with a proxy product. This remaining risk after a proxy hedge is referred to as basis risk. The basis risk can be addressed once the zonal forward product or a forward product relating to the price

- spread (e.g. LTTR; EPAD), which relates to the bidding zone of the market participant, is available.
- (53) While these general principles are the same for all EEA electricity forward markets, the specific characteristics of standard products used for hedging the price risk for day-ahead electricity prices differ among the EEA.
- (54) The two main standard products for hedging of the price risk for day-ahead electricity prices in the Nordic and Baltic bidding zones are:
- (a) financial obligations referring to the Nordic system price, which is an unconstrained market clearing reference price for the entire Nordic region and serves most Nordic market participants as a proxy to hedge their electricity price risk; and
  - (b) contracts for differences (CfDs) referred to as EPADs (Electricity Price Area Differentials), which are financial obligations for the difference between the price of a given bidding zone and the Nordic system price and address the basis risk after a proxy hedge with the Nordic system price.
- (55) The electricity forward market in Continental Europe, on the other hand, is mainly based on zonal hedging products (forwards and futures) providing a direct hedge against the price of electricity in a bidding zone. Market participants from many Continental European bidding zones, such as the Dutch bidding zone, are using the German electricity forward products as a proxy since it is the most liquid electricity forward product in Europe.
- (56) LTTRs are currently issued on most bidding zone borders in Continental Europe. For the Nordic region, most bidding zones do not have access to LTTRs on their bidding zone border, but LTTRs are only issued on the bidding zone border connecting Denmark with Continental Europe and on the Finnish-Estonian border. The currently applied standard for LTTRs is FTR options, which address the directional positive price spread per bidding zone border direction. In Continental Europe, hedging between bidding zones is therefore usually done with two zonal price futures or one or more LTTRs, while in the Nordic electricity forward market, hedging between bidding zones is usually done with two EPADs from the different zones.

### **6.3. ACER's views concerning the expected effectiveness of LTTRs on NL-NO2**

#### **6.3.1. Expected use of NL-NO2 LTTRs for hedging a risk position in the NO2 bidding zone**

- (57) As mentioned in Recital (7), following its assessment, NVE-RME concluded on insufficient hedging opportunities for the Norwegian bidding zones. Market participants who would like to hedge a position in the NO2 bidding zone usually use the Nordic system price as a proxy hedge and address their basis risk with an EPAD for the NO2 bidding zone. NVE-RME's conclusion on insufficient hedging opportunities mainly derives from the limited liquidity of EPAD products in NO2. An NO2 market participant could use an NL-NO2 LTTR to move its NO2 price risk position to the Netherlands and address it with a Dutch zonal future instead of

addressing it with the Nordic system price and an EPAD for NO<sub>2</sub>. Therefore, LTTRs on the NL-NO<sub>2</sub> bidding zone border could facilitate matching of open interest among the Dutch and NO<sub>2</sub> bidding zones. However, since the market participants in NO<sub>2</sub> seem to have a higher correlation with the Nordic system price (i.e. 0.856 – from 2023 day-ahead prices) than with the Dutch (i.e. 0.683) or German price zone (i.e. 0.692), ACER understands that it is preferable for these market participants to hedge via the Nordic system price as a proxy, which would result in a smaller basis risk than hedging with a Dutch or German proxy. Further, the access to LTTRs through auctions at the single allocation platform is limited (i.e. once for each monthly/yearly product), which would leave an open basis risk for cross-zonal trade until the time of the LTTR auction, if relying on these. The foreseen EPAD auctions by Statnett on the other hand are foreseen to be more frequent, which would allow NO<sub>2</sub> market participants to address their basis risk sooner, even if there would be no opportunities to trade EPADs on the continuous market.

- (58) As addressed in section 5, NVE-RME, Statnett and all Norwegian respondents to ACER's public consultation do not consider LTTRs on the NL-NO<sub>2</sub> bidding zone border as an effective measure to improve hedging opportunities in the NO<sub>2</sub> bidding zone. Besides other arguments brought forward, most market participants shared that they consider the use of LTTRs as too complex to address their hedging needs. Firstly, this perceived complexity relates to the currently applied form of LTTRs, i.e. FTR options for each direction of the bidding zone border in combination with the applied financial obligations of trading products for delivery of electricity in a bidding zone (i.e. NO<sub>2</sub> EPADs or Dutch zonal futures). Secondly, if Norwegian market participants would like to use LTTRs to access a liquid forward product (i.e. as a 'bridge' to Germany), they would need to combine several LTTRs, which need to be acquired from two separate auctions. While in general ACER deems it possible to use LTTRs to address a hedging need in NO<sub>2</sub>, ACER agrees that hedging a risk position in the NO<sub>2</sub> bidding zone border by using several LTTRs is subject to a significant level of complexity and can therefore be a barrier especially for smaller market participants.

6.3.2. Expected use of NL-NO<sub>2</sub> LTTRs for hedging a risk position in the NL bidding zone

- (59) As mentioned in Recital (7), ACM identified insufficient hedging opportunities in the Dutch bidding zone. While the liquidity for electricity forward products for the Dutch bidding zone is limited, forward electricity products for the neighbouring German bidding zone show the highest liquidity in the EU forward electricity market. Day-ahead prices in 2023 in the Netherlands showed a rather high correlation of 0.934 with the day-ahead prices in the German bidding zone. In comparison, correlation of Dutch prices with the day ahead price for NO<sub>2</sub> (i.e. 0.683) or the price index for the Nordic system price (i.e. 0.554) is significantly lower. Besides the superior liquidity of the German forward products, the clearly better correlation shows that a German forward product is a much more suitable proxy for hedging a price risk related to the Dutch bidding zone. Therefore, ACER understands that most Dutch market participants would primarily not aim for addressing their hedging needs via LTTRs towards NO<sub>2</sub> but would rather aim for addressing their hedging needs via the German forward products (in the absence of available products for the Netherlands). These market

participants, who used a German proxy hedge, may use the forward products for the Netherlands once available or LTTRs to Germany to address the remaining basis risk.

- (60) As mentioned in section 6.3.1 above, LTTRs on the NL-NO2 bidding zone border could facilitate cross-border trading by allowing to match open interest among the Dutch and NO2 bidding zones and may therefore enhance liquidity in these bidding zones. However, similarly to the situation of market participants in NO2 also Dutch market participants would face a certain amount of complexity when aiming for a hedge via NL-NO2 LTTRs. While Dutch market participants are more familiar with handling FTR options, a Dutch market participant would still need to combine the NL-NO2 LTTR with an EPAD for NO2, which is subject to limited liquidity, and a Nordic system price product.
- (61) Compared to the possibility of addressing a hedging need through a German proxy hedge, using an NL-NO2 LTTR seems inferior in terms of liquidity, correlation and complexity. Nevertheless, NL-NO2 LTTRs would provide an additional alternative way to hedge for market participants in the Dutch bidding zone, which attested insufficient hedging opportunities. As shown by the responses to ACER's public consultation (see section 5.1), market participants may still be interested in LTTRs since it would offer an additional cross-zonal hedging product and is expected to improve hedging opportunities in the relevant bidding zones. Besides the direct use of LTTRs for addressing a hedging need of a market participant, LTTRs can also have a positive effect on hedging opportunities by improving the liquidity in the relevant bidding zones. These effects are further addressed in section 6.3.3 below.

6.3.3. Expected impact of LTTRs on NL-NO2 on the hedging opportunities in the Dutch and NO2 bidding zones

- (62) Regardless of the limited interest for NL-NO2 LTTRs from Norwegian market participants, LTTRs could still improve liquidity in NO2 as well as they could generally improve liquidity in the Dutch bidding zone. For example, if a Dutch market participant would use an NL-NO2 LTTR to transfer its risk position from the NL bidding zone to the NO2 bidding zone, its new open interest in NO2 can lead to an increase of liquidity in NO2 (and a possible decrease of liquidity in the Netherlands). Besides this possible shift of liquidity, LTTRs generally improve trading possibilities among the relevant bidding zones. These additional trading possibilities may also improve liquidity, for example, through arbitrage activities from market participants since LTTRs can also be acquired by market participants for speculative purposes. Such speculative LTTR holders may use an acquired LTTR to offer positions in each bidding zone and therefore improve the liquidity in the relevant bidding zones. While a speculative LTTR holder may support the liquidity of NO2 EPADs or Dutch Future products by trading its LTTR position on these markets, there is no certainty that a speculative LTTR holder would do that or rather hold the LTTR position until delivery without using it for further trading forward products in the Dutch or NO2 bidding zone. Especially in the case of bidding zones without a sufficiently liquid forward product (e.g. NO2 EPADs and Dutch zonal product), speculative LTTR holders would face difficulties in supporting the liquidity of the relevant bidding zones of an LTTR through delta hedging an FTR Option since they would not be able to close a risk

exposure when needed (i.e. liquidity risk) and therefore may rather abstain from such trading activities. Due to the limited size of the NO<sub>2</sub> and Dutch bidding zones, ACER does not expect the forward products in either of these bidding zones to reach high levels of liquidity but expects that market participants in these bidding zones will keep relying on proxy hedging in the future. If a speculative LTTR holder would not use the NL-NO<sub>2</sub> LTTR to trade NO<sub>2</sub> EPADs or the Dutch zonal product, there would not be any positive effect on the liquidity in the Dutch or NO<sub>2</sub> bidding zones.

- (63) Further, as raised by NVE-RME, Statnett and several respondents to the public consultation, issuing LTTRs on the NL-NO<sub>2</sub> bidding zone border could have detrimental effects on the liquidity of the hedging products in the Nordics and may undermine the efficiency of the EPAD auctions. ACER shares these concerns, since NL-NO<sub>2</sub> LTTRs would allow Norwegian market participants to address their hedging needs in alternative ways, which might pull liquidity from the Nordic system price and NO<sub>2</sub> EPADs and as such possibly split liquidity in the Nordic market.

#### **6.4. Expected overall impact of LTTRs on NL-NO<sub>2</sub>**

- (64) While ACER acknowledges the lack of interest in LTTRs from Norwegian market participants, LTTRs on the NL-NO<sub>2</sub> bidding zone border would offer an alternative way of hedging, which may provide new hedging opportunities for the Dutch and NO<sub>2</sub> bidding zones. In particular, LTTRs on the NL-NO<sub>2</sub> bidding zone border would be able to match open interest for hedging among the two bidding zones. In this respect, LTTRs may be considered a suitable means to achieve the objective of improving hedging opportunities.
- (65) As explained in sections 6.3.1 and 6.3.2, hedging with NL-NO<sub>2</sub> LTTRs seems an inferior approach to hedge a position in the Dutch or NO<sub>2</sub> bidding zones in terms of complexity, correlation with the used proxy and, in the case of Dutch market participants, also in terms of liquidity. Considering the existing superior alternatives to address a hedging need in the Netherlands (i.e. via a German proxy and NL-DE LTTRs or the NL product once available) and for NO<sub>2</sub> (i.e. using the Nordic system price and the foreseen EPAD auctions), ACER understands that using an NL-NO<sub>2</sub> LTTR would mainly be attractive if it comes as a cheaper alternative. Besides the need for the NL-NO<sub>2</sub> LTTR price to offset the higher basis and liquidity risk, speculative buyers of LTTRs may also want to generate an additional profit from entering into a LTTR position. If the interest in LTTRs depends on LTTRs being a cheaper alternative compared to the other existing hedging opportunities an undervaluation of the LTTRs auctioned for the NL-NO<sub>2</sub> bidding zone border would be a likely consequence. Undervaluation of LTTRs relates to a loss of congestion income for TSOs and subsequently higher cost for consumers. Undervaluation of LTTRs is a phenomenon which can be observed throughout the EEA<sup>5</sup> and considering the

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<sup>5</sup>See ACER's [2024 Market monitoring report](#) and [data dashboard on LTTR evaluation](#).

circumstances described above, ACER expects also an undervaluation of LTTRs to occur on the NL-NO2 bidding zone border.

- (66) In conclusion, ACER sees that LTTRs on NL-NO2 could potentially improve hedging opportunities in the Dutch and NO2 bidding zone. However, considering lack of interest of Norwegian market participants (see section 6.3.1) and the superior alternatives for Dutch market participants (see section 6.3.2), it is not certain if or how much NL-NO2 LTTRs would be used directly for hedging purposes. Further, it is uncertain that LTTRs acquired for speculative reasons would be used to support the liquidity of the Dutch and NO2 bidding zones. The lack of liquidity in the Dutch and NO2 bidding zones, as identified by ACM and NVE-RME, further decreases the potential of speculative LTTR holders using LTTRs to support the liquidity of the existing forward products. Additionally, ACER sees a risk for detrimental effects from LTTRs on the existing hedging opportunities in the Nordic market (see section 6.3.3). An overall positive effect on hedging opportunities in the Dutch and NO2 bidding zones is therefore uncertain. Further, LTTRs on the NL-NO2 bidding zone border are expected to result in a loss of congestion income and hence would result in societal costs. Therefore, ACER has significant doubts that the introduction of LTTRs on the NL-NO2 bidding zone would lead to an overall positive effect.

## **7. CONCLUSION**

- (67) As explained in section 6.4 above, ACER does not expect an overall positive effect but sees a risk of lacking societal cost-effectiveness from introducing LTTRs on the NL-NO2 bidding zone border. Access to the currently used proxies for the Dutch bidding zone (i.e. German forward products) or NO2 bidding zone (i.e. using the Nordic system price and the foreseen EPAD auctions) can be generally considered more effective ways to address the hedging needs in these bidding zones than using NL-NO2 LTTRs. Therefore, ACER considers it preferable to address the insufficient hedging opportunities by other, more effective, measures to be developed under Article 30(5)(b) of the FCA Regulation.
- (68) For the above reasons, ACER deems it justified to request the Dutch TSO to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets in line with Article 30(5)(b) of the FCA Regulation.

## **8. FURTHER CONSIDERATIONS**

- (69) In its advice (see section 5.4) the AEWG asked ACER to clarify the case specific character of this decision and stated that the general future direction should be subject to the FCA 2.0 process. As set out in section 1, this decision relates to the specific circumstances concerning the potential introduction of LTTRs on the NL-NO2 bidding zone border, which is further shown with ACER's assessment in section 6.3. ACER also agrees that a general potential change of the forward electricity market design is subject to the revisions of the FCA Regulation, which is not pre-empted by this decision. Concerning AEWG's suggestion to move section 8 of this decision to an annex, ACER would like to clarify that this section only provides ACER's view on



possible arrangements following a decision under Article 30(5)(b) of the FCA Regulation to respond to the concerns and comments raised by ACM during the proceedings of this decision, while these views do not impact ACER's conclusions under section 7. Therefore, ACER prefers to keep this section in the recitals of this Decision to be able to clearly address the concerns raised by concerned parties directly in ACER's decision.

- (70) During the procedure ACM has raised concerns regarding the interpretation of the possible arrangements that may be developed by the TSOs under Article 30(5)(b) of the FCA Regulation. ACM interprets Article 30(5)(b) of the FCA Regulation in such a way that the arrangements should introduce cross-zonal hedging products and that those products should be on the bidding zone border where no LTTRs are present yet. In NVE-RME's opinion, market participants will have sufficient cross-zonal hedging opportunities when there are sufficient hedging possibilities on both sides of the border, i.e. for market participants in both relevant bidding zones and that this means that a possible arrangement is to ensure that hedging products are made available within both bidding zones in question. During the AEWG consultation, BNetzA, also shared concerns regarding specific potential solutions under Article 30(5)(b) of the FCA Regulation.
- (71) ACER has concluded to request TenneT to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets pursuant to Article 30(5)(b) of the FCA Regulation. Following such request the relevant TSOs shall, pursuant to Article 30(6) of the FCA Regulation, develop the necessary arrangements and submit them to the competent regulatory authorities for approval. The determination of the arrangements to be implemented is thus not subject to this decision but subject to the assessment and decision by the relevant TSOs and regulatory authorities.
- (72) While ACER understands that Article 30 of the FCA Regulation only requires assessment within bidding zones that do not offer LTTRs on all its borders, that Article allows for other measures than issuing LTTRs to improve cross-zonal hedging opportunities. The measures following a decision pursuant to Article 30(5)(b) of the FCA Regulation should address, through the implementation of appropriate arrangements, the insufficient hedging opportunities identified in the assessment in accordance with Article 30(3) of the FCA Regulation.
- (73) The FCA Regulation does not specify the possible arrangements that TSOs may develop, following a request under Article 30(5)(b), to 'make sure that other long-term cross-zonal hedging products are made available'. Article 30(6) of the FCA Regulation provides that the TSOs shall develop the necessary arrangements but does not contain any requirements for those arrangements. In particular, the FCA Regulation does not define 'cross-zonal products' or, more specifically, 'long-term cross-zonal hedging products', and only refers to the latter in the context of a request pursuant to Article 30(5)(b) of the FCA Regulation.
- (74) ACER understands that Article 30 of the FCA Regulation does not exclude that the TSOs may develop other types of arrangements to address insufficient hedging

opportunities than introducing specific cross-zonal hedging products on the bidding zone border, as long as those arrangements aim to provide market participants in the bidding zone(s) with sufficient hedging opportunities by ensuring the availability of cross-zonal hedging products to support the functioning of the wholesale electricity market. Specifically, in ACER's view, a request to ensure availability of other long-term cross-zonal hedging products cannot exclude those hedging products which, in combination with other hedging products, are able to provide a full hedge against a cross-zonal price risk. ACER therefore deems it possible for TSOs to consider arrangements, which do not directly relate to the bidding zone border without LTTRs but more generally to the bidding zone(s) where insufficient hedging opportunities were identified. Thereby, any arrangements that improve the hedging opportunities within the bidding zones on both sides of the bidding zone border also automatically increase hedging opportunities between these two bidding zones.

- (75) ACER tends to agree with the suggestion of several parties from Norway, that the insufficient hedging opportunities identified in the NO2 bidding zone may efficiently be addressed through EPAD auctions by Statnett, which considers availability of cross-zonal capacity from internal Norwegian bidding zone borders.
- (76) For the Netherlands, ACER generally considered two types of measures that may improve the hedging opportunities in the Dutch bidding zone. The first type of measures aim to increase the suitability and accessibility of proxy hedging, namely improving the access of Dutch market participants to German forward electricity products, which are highly liquid and correlating well with the Dutch electricity price. The other type of measures are the measures that foster liquidity of the Dutch forward products, such as market making. In its feedback to ACER's preliminary position, ACM shared its understanding that market making cannot be considered for a proposal pursuant to Article 30(6) of the FCA Regulation, since it does not provide 'other cross-zonal hedging products' as required by Article 30(5)(b) of the FCA Regulation. As explained in Recitals (73) and (74), ACER's understanding of Article 30 is that measures, which effectively facilitate cross-zonal hedging opportunities, should not be excluded. ACER would like to clarify that assessing a submission by TenneT pursuant to Article 30(6) of the FCA Regulation will be to the discretion of ACM. Considering ACM's views on the matter, TenneT could primarily explore measures to increase accessibility of LTTRs on the NL-DE border, especially to provide Dutch market participants with the possibility to address their basis risk in times when correlation between Germany and the Netherlands is not high. TenneT may liaise with other TSOs of the Core CCR to assess the current potential of suggestions for improvements of LTTR allocation, as suggested by some respondents to ACER's public consultation,

**HAS ADOPTED THIS DECISION:**

*Article 1*

1. The TSO of the Netherlands, TenneT TSO B.V., is requested to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity market.

2. To this aim, the TSO of the Netherlands, TenneT TSO B.V., shall develop the necessary arrangements to address the identified insufficient hedging opportunities, and submit them to the competent regulatory authority for approval within six months of the day of notification of this Decision.

Done at Ljubljana, on 12 February 2025.

**- SIGNED -**

*For the Agency  
The Director*

C. ZINGLERSEN

Annex:

Annex I – Evaluation of responses to the public consultation (*for information only*)

*In accordance with Article 28 of Regulation (EU) 2019/942, the addressees may appeal against this Decision by filing an appeal, together with the statement of grounds, in writing at the Board of Appeal of the Agency within two months of the day of notification of this Decision.*

*In accordance with Article 29 of Regulation (EU) 2019/942, the addressees may bring an action for the annulment before the Court of Justice only after the exhaustion of the appeal procedure referred to in Article 28 of that Regulation.*