

## **swissenergy's response to ACER's public consultation on Forward Risk-Hedging Products and Harmonisation of Long-Term Capacity Allocation Rules**

swissenergy (a unit of swisselectric - the organisation of Swiss electricity grid operators) welcomes ACER's public consultation on forward risk-hedging products and harmonisation of long-term capacity allocation rules and the opportunity to bring in its feedbacks and comments.

A well functioning forward market of transmission rights is very important as it allows market operators to hedge in efficient way their positions across borders. This fosters cross-border competition and supports the objective to achieving an open and efficient internal market.

In swissenergy's view PTRs with UIOSI or FTRs options are best instruments for market operators to hedge risks across the border, no other instruments do provide same optimal hedging opportunities. Important is that TSOs ensure the firmness of this rights and that in defining the transmission rights allocation between different timeframes liquidity of the markets and the market needs are appropriately considered.

Further, swissenergy believes that a well functioning secondary market which gives to market operators the opportunity to easily resale or transfer acquired transmission rights will be essential.

Finally, before answering the specific questions swissenergy would like to express the opinion that at the end only one auction platform is necessary and that for example CASC.EU is a good functioning platform and showed how best integrating new borders within the platform.

### **Answers to the questions**

#### **Forward risk-hedging products**

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

No. In our view there should be the issuance of PTRs with UIOSI or FTR options (FTRs) between all bidding zones. These products allows market participants to compete across border efficiently, transparently and without barriers.

- 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-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?*

The Forward Market is extremely important for our member companies. The design of this market will highly influence the hedging activities which are our core activities and will influence the risk management opportunities.

The implementation of the DA and ID Target Model, will not impact relevantly in our interest for long term hedging products.

Our member companies interests in hedging across zones/borders remains relevant given also the fact that they invested in assets in different markets and need to manage the risks related to that exposure.

3. *Would long-term hedging markets need to evolve (e.g. in terms of structure, products, liquidity, harmonisation, etc.) due to implementation of : a) the day ahead market coupling, b) day-ahead flow based capacity calculation and c) 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?*

Per se the implementation of the day ahead market coupling and the introduction of flow based capacity calculation does, in swissenergy's view, not consequently imply that long term hedging markets need to evolve.

Given that zones should remain stable and robust, in case of redefinition of zones, it is important that appropriate hedging cross-zonal products will be issued in order to allow to hedge positions across the zones, this means that FTRs option or PTRs with UIOSI should be issued by TSOs between all bidding zones. In any case, it is extremely important that a potential zone redefinition will only be introduced after having foreseen a sufficient lead time.

Long term hedging markets need to evolve in any case because it is of utmost importance to reach the goal of having an efficient internal European power market with harmonized forward risk hedging products and harmonized long-term capacity allocation rules. Long term hedging markets need to evolve in order to improve liquidity within forward markets and at the end to give to market operators the opportunity to manage optimally and efficiently long term risks.

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...)?*

We think that the Forward target model defined within the framework of the Florence Forum is the most appropriate in order to enable efficient and effective long term hedging.

Furthermore, issuing FTRs options or PTRs with UIOSI with a maturity that is aligned with the maturity of power forward products, and auctioning those through a dedicated auction office would enable market operators to hedge in the medium and long term their position. The establishment of well-functioning, liquid secondary market would also support appropriate long term hedging.

Main prerequisite in order to enable the market design are the harmonization and standardization of products, harmonized smooth and efficient operation requirements, harmonized and effective financial guarantees requirements, firmness of issued PTRs/FTRs. There are different criteria which could be used, in our view efficiency and efficacy would deserve priority. We think that if the market is efficient, is well functioning and is cost-effective, then there will be also as consequence enough liquidity.

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

We do not see any manipulation opportunity as the market will be full transparent and non-nominated PTRs are given back to the D-1 market automatically. Further we are of the opinion that NRA's do now have appropriate instruments (i.e. REMIT, MAR) to monitor and prevent potential market manipulative behaviours.

### **Whish list**

In general swissenergy is of the opinion that the harmonized auction rules implemented in Central-West, Central South regions and Switzerland represents today's best practice and can be used as good fundament in order to expand its rules in the wider European region.

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

The goal should be that all aspects are harmonized, we do not see reason for not harmonizing some aspects

Specifically important is the harmonization of:

- Product definition, issuances of PTRs with UIOSI and FTR, no CFD, **only option** products;
- Definition of "Firmness", "Force Majeur", "System Emergency";
- Compensation in case of curtailment;
- Financial guarantees, payment deposit;
- Operational procedures;
- Secondary market rules, resale, transfer of acquired transmission rights;
- Fall back procedures.

N.B.: PTRs and FTR options should not be considered as financial products/instruments under Mifid.

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

In principle there should not be country specific elements within the auction rules.

There could be that some countries do have different power products (e.g. different Peak-Products), in such a case it could make sense that for a transition period the correspondent forward transmission right product has the same feature.

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

At least the following aspects should be harmonised in binding codes:

- The issuances of PTRs with UIOSI and FTR, no CFD, only option products;
- Definition of "Force Majeur", "Firmness";
- Compensation in case of curtailment;
- The set up of an efficient secondary market and resale and transfer rules;

- Fall back procedures;
- Payment deposit.

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

PTR's with UIOSI and FTR with the characteristic of an option can coexist, so from this point of view there is no particular obstacle in dealing with this two different transmission rights at different borders. Different is the situation regarding the Nordic Region and the existence of the CfDs (perhaps interconnectors Nordic-Continental Europe could be handled differently).

In this last case hedging becomes more complex, because participants wishing to hedge the price between two zones in a "CfD environment", need to conclude additional contracts. In fact two CfDs are needed one from the sell area to the virtual point and one from the virtual point to the buy area. This causes additional transactional complexity and also operational risks. By using cross-border capacity rights between two zones, only two contracts are needed.

CfD's could bring in addition counterparty risks, if the CfD is issued from an 3<sup>rd</sup> Operator which is not a SO.

## **Capacity calculation and allocation method**

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

Auctioning forward products at the same time would probably disadvantage small players due to the increased operational risk, and higher need of financial guarantees. This could negatively influence market liquidity.

Even for larger market participants, it could be very difficult to handle several auctions at the same time. Furthermore one can expect that in most countries market liquidity is not sufficient to meet hedging needs of market participants in case long-term PTRs for several borders are auctioned at the same time, thus increasing the risk of inefficient outcomes.

*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 general principle should be that TSOs shall auction the maximum of available capacity over the defined timeframes.

It is important that capacity calculation methods and parameters for the long-term timeframe are consistent with the ones in the short-term so that the real grid and flow situation is represented and appropriate cross-border capacity will be allocated forward.

## **Products**

*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 order to provide best cross border hedge opportunity the forward transmission rights products and the forward power products should be aligned/compatible.

For example in the German power market multiyear (max 3 years) power products are traded with sufficient liquidity. In such a case, it would be efficient if at the German borders system operators issue correspondent multi-year transmission rights products. The same is valid for quarters.

The issuance of yearly and monthly products should be standard for all the regions.

*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?*

Swissenergy is of the opinion that appropriate amount of capacity should be split between all timeframes based on market operators needs and in order to ensure enough liquidity within the respective market and the proper functioning of the market. In any case swissenergy believes that a relevant part of capacity should be allocated forward.

A certain balance between the different timeframes of forward hedging products should be looked for. The market needs and the liquidity of the forward power product should be considered when splitting between the different forward timeframes.

*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?*

TSOs should offer long-term the maximum available capacity. We understand that it could be useful for the TSO issuing products with planned unavailability and we think that it should be possible but it should be ensured that there is in any case a relevant amount of capacity offered through "pure" base load products. In particular the yearly base load product has among other the function of being a price reference that is also used in commercial bilateral power contracts. Therefore it should not happen that no "pure" base load product is issued.

*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?*

Also in this case, the goal should be to have long term transmission rights which are correspondent with standard liquid forward power products. In our view that implies the issuance of base load and peak products, other less standardized products are not useful. Through the secondary market, operators will then have the opportunity to slice the longer term product based on their needs.

## **Secondary Market**

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

In our view TSOs should have the possibility to buy back at market value already allocated long-term capacity in case of grid problems/emergencies. This is for the TSO a risk management measure which supports the TSO's in providing a safe operation of the transmission grid.

The main disadvantage is the fact that this would mean for TSO performing market activities, which could influence the market. Therefore it is important that this buyback measure should be used in extraordinary situations and should be monitored by the involved NRAs.

## Nomination

*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?*

*19. How could the potential evolution from PTRS with UIOSI to FTRs on border(s) you are active impact your current long-term hedging strategy?*

If properly set-up the evolution from PTRs with UIOSI to FTRs options should not impact relevantly current long-term hedging strategies.

*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?*

It is in any case worth for TSOs to work on harmonising the nomination rules and procedures, on both sides contractual and technical. This harmonization is important because it should lead to higher efficiency and less operational risks. Operational errors can have relevant negative financial impact.

## Auction Platforms

*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?*

Current auction platforms are working well, for swissenergy member companies is important that at the end only one of them will be on place.

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

By using as example the establishment of CASC.EU. The inclusion of the auctioning of the Italian and Swiss capacity worked in our view smoothly.

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

Through a stepwise approach by integrating one region after the other the transition to the single EU platform should be possible without relevant difficulties. When most of the rules elements are already harmonized then it becomes much easier moving to one regional platform.

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

In swissenergy's view the voluntary process is appropriate but a clear deadline should be set in the Network Codes and the process should be monitored by NRAs and ACER.

- *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?*

Yes, the Network Code on Forward Markets should define a deadline. In swissenergy's opinion, as the harmonization process is/should be ongoing, a realistic deadline is End of 2015 for the yearly (multi-year) product auctioning.