

ACER consultation - Forward Risk-Hedging Products and Harmonisation of Long Term Capacity Allocation Rules”

The Danish Energy Association welcomes the opportunity to comment on the ACER status of views on the European convergence of Forward Risk-Hedging Products and Long Term Capacity Allocation Rules. While the main process on these issues since 21 September 2012 rests with ENTSO-E, constructive inputs from the Regional Initiatives can become important. The Danish Energy Association calls for a resource efficient coordination between the two lines of process.

The consultation paper clearly distinguishes between the development in the Nordic area and that of the rest of Europe. A status quo of the Nordic (and Baltic) area with in principle 100% day-ahead physical allocation, market splitting and purely financial hedging seem to be assumed and accepted. The Danish Energy Association welcomes this, as the efficiency of this model has been proven within that area for several years. The “continental” model includes longer term physical or financial allocation rules as well as market coupling. The Danish Energy Association agrees with the convergence/harmonization elements of the “continental” model, bearing in mind the different points of departure of the Continental and the Nordic area. This means – as stated in the paper – that the crucial question will be risk hedging and capacity allocation between the two areas. The Danish Energy Association urges ACER to go for FTRs on the maximum available capacity on these interconnections leaving out of scope PTRs. These FTRs might be offered by the Pan-European platform for FTRs envisaged. Within the Nordic area it might even be decided to introduce FTRs as a complementary hedging product to CfDs.

Future experience might indicate if a total harmonization between the two regions could offer major macroeconomic benefits, and the issue could then be addressed again.

In the following the most influential questions from a Nordic/Baltic perspective are addressed.

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

CfDs – price-hedging between a system price and an area price – are only sporadic dealt with – apparently because there is no focus on the Nordic/Baltic model including market splitting and one system price. However, some elaboration on this issue – related to the issue of forward energy hedging products and relevant reference prices for this – might be helpful.

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?

The question is basically answered by the general comments. As the Nordic area has had a day-ahead implicit auction market for many years there is basically nothing new internally. Concerning the interconnectors between the Nordic area and the rest of Europe, The Danish Energy Association expects an increasing trade – also due to the capacities planned. The present interconnectors are already subject to day-ahead market coupling. The Danish Energy Association very much prefers FTRs on the maximum available capacity on all these interconnectors – totally phasing out “explicit auctions” (“PTR”s).

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?

The increasing cross border trade due to market-integration and the development of intermittent electricity generation calls for appropriate financial hedging products traded in liquid markets. This goes both for hedging future energy price level and hedging differences between area prices (and system price where this exists) due to interconnector congestions.

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...)?

Seen from a Nordic/Baltic perspective a Long Term Target model must include ‘forwards’ in order to hedge against volatility in future energy price levels and FTRs in order to hedge against differences between area prices (plus CfDs where a system price exists).

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?

PTRs have the risk that transmission capacity is kept out of the market resulting in reduced competition. PTRs with UIOSI secures that transmission capacity is returned to the market, but very stringent rules for UIOSI would need to apply in order to ensure that the maximum capacity is always available to the market.

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

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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)?*

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

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

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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?*

A trade between the Iberian Peninsula and the Nordic region would never – from a Nordic perspective – imply any specific “transportation” including explicit capacity needs. This kind of trade would consist spot trades day ahead in the Iberian as well as in the Nordic market. Apart from this the contract would be purely financial. This could comprise hedging the price levels alone (“system price” or some other “reference price”) or also the actual area prices.

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

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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?*

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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 multi-year products in particular?*

Concerning FTRs Danish Energy Association recommends yearly, quarterly and monthly products. At a later stage – depending on the development of intermittent generation – weekly and daily FTRs might be needed.

Concerning forward hedging of energy price levels multiple year products are needed.

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?*

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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?*

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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?*

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

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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?*

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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?*

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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?*

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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?*

Seen from a Nordic perspective physical trade should be carried out exclusively in day-ahead spotmarkets.

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

- *How do you see the management of a transitional phase from regional platforms to the single EU platform?*
- *Should current regional platforms merge via a voluntary process or should a procurement procedure be organised at European Union level (and by whom)?*
- *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?*

The focus from a Nordic perspective is on the single auction platform for FTRs. FTRs should be issued by the TSOs. However the trading platform should be handled by the power exchanges.

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