GDF SUEZ response to ACER Consultation on Forward Risk-Hedging Products and Harmonisation of Long-Term Capacity Allocation Rules

General comments

GDF SUEZ welcomes the ACER consultation on Forward Risk-Hedging Products as an opportunity to provide further feedback about market expectations and needs with regard to development of the European forward electricity market.

In our view, long-term transmission rights do not only provide market participants with opportunities to hedge cross-border transactions, but are equally important to increase cross-border competition and liquidity in the forward market.

Long-term transmission rights shall be offered on multi-year (1 to 3 years) products to market participants. Physical Transmission Rights (PTRs) with “Use-It-Or-Sell-It” (UIOSI) principle should remain and are considered as Financial Transmission Rights (FTRs) Options. The introduction of FTRs Obligations is not supported. Furthermore, CfDs considered as swap, should only be offered by market participants and therefore should not be part of the consultation neither the network code.

Questions

General

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

Yes, long-term transmission rights shall be offered on multi-year (1 to 3 years) products to market participants.

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?

Market coupling suits very well together with long-term allocations with “use-it-or-sell-it” mechanism.

3) Would long-term hedging markets need to evolve (e.g. in terms of structure, products, liquidity, harmonization, 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 market coupling: see previous question.

Flow-based capacity calculation: no fundamental changes
Redefinition of bidding zones: splitting up existing bidding zones in smaller bidding zones would make hedging more difficult and would decrease competition in forward markets. In this context, introduction of transmission rights becomes even more important to ensure hedging possibilities for market players.

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...)?**

The key principles of the suitable Long-Term Target Model include the following:

- Harmonized set of rules for borders with FTRs and PTRs with UIOSI;
- Allocation of maximum capacity on a multi-year basis (year by year products) and appropriate regulatory incentives for TSOs;
- PTRs and FTRs should be firm rights and thus achieve a full hedge against short term congestion costs;
- Obligation of TSOs to set up a European platform for primary and secondary trading of transmission rights;
- Market should be extensively consulted on all the issues related to market design and its changes.

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?**

PTR with UIOSI or the equivalent FTR do not allow any transmission owner to hoard capacity from the market. Any player willing to influence the market value of transmission rights is eventually confronted with the outcome of the market coupling result where bids and offers from generators all over the involved coupled areas do come together depending on the cross-border capacities. Moreover, regulators have sufficient legal instruments in REMIT and MAR to monitor both transmission rights and bidding on power exchanges.

**Harmonization wish-list**

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

**On the secondary trading:** GDF SUEZ do not believe that the organization of secondary “FTR/PTR” trading is a task for TSOs nor for the auction office. The auction office should only be notified on the final ownership of the FTR/PTR, but not be involved in the trading itself. In the case of PTR, the ownership should be notified before the nomination gate closure. In the case of FTR, the ownership should be notified at the market coupling gate closure, or even later on.

**On the reduction of “held” capacities:** GDF SUEZ appreciate that caps are an intermediate solution to give all parties (TSOs and FTR/PTR owners) some comfort. However, such caps should be gradually
removed (i.e. increased). A harmonized methodology to define the level of the caps and the way they will evolve over time has to be adopted. A market consultation for this methodology seems appropriate.

**Recovery of payments:** on one hand, TSOs plead to have a “risk free business”, on the other hand, they want to have a financial guarantee. On top of that, market participants buy “FTR” with the aim to have a larger value back via the cash out on (market spread if positive). Given all these elements, it would be fair to have a discussion on having a financial security that is balanced between TSOs and FTR/PTR owners, as indeed a TSO eventually also has to cash out to the FTR/PTR owners the cash out value (market spread).

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)?

No answer

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

See question 6

9) Which aspects should be harmonised in binding codes?

Auction rules should be part of the Network Code for Forward Allocation.

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 answer

**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?

Cross-border capacity should be allocated all at once at the same time. E.g. all yearly auctions should happen at the same time for all borders in Europe. Hence, all borders would be treated on a non-discriminatory basis. It is important that the calendar of the auctions is notified sufficiently long time in advance.

It also does not make any sense to split the amount of “yearly” capacity over 2 auctions (like it is the case on the Dutch borders). The valuation of FTR/PTR does eventually not depend on the amount of auctions, but on the total amount of capacity that will be offered to the market, and to the anticipation of market fundamentals of the participants to the auction.

Long term allocation can remain on a “ATC” based principle, while the short-term allocation could be flow based, once the process is mature also for market participants to be launched. The aim of the
long-term allocation is to give the market a clear signal of the amount of possible (yearly, monthly) exchanges between markets. TSOs should maximize the capacity they offer to the market, but the uncertainties for long-term calculation have to be taken into account.

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?

Compatibility of capacity calculation methods across various timeframes is key to ensure that maximum capacity is being allocated to the market and that all the capacity not used before DA timeframe is offered to the market.

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?

Multiyear calendar products (corresponding to the commodity calendar products traded in the energy market) would be an advantage to increase cross-border competition in the forward market.

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?

Maximum available capacity should be allocated to the most long term product. There is no reason to reserve upfront capacity for the market coupling process.

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?

Yes, it would be positive that TSOs can make use of products that maximise the allocated capacity, such products could indeed be profiled, e.g. in a yearly auction, it would be possible to offer in some months more than in other months, or it would be possible to offer different volumes during peak or off peak.

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?

TSOs should allocate maximum capacity to the most long term product. The secondary market is able to structure the transmission rights according to market needs.
Secondary market

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

Maximization of allocated capacity means that sometimes too much capacity has been allocated by TSOs. In such a case, TSOs should buy back already allocated capacity. This process should be clearly defined with regard to features of the reverse auction, timing of the notification about the auction to the market.

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?

PTRs with UIOSI are needed at borders where the bidding zones have no liquid markets. PTRs with UIOSI can also give market participants a wider choice of trading products. In markets with market coupling, the move to FTRs options should be implemented as quickly as possible.

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?

It would be a natural development to directly introduce FTRs options within the Nordic market, as the Nordic forward market is based on financial products. PTRs with UIOSI are more efficient in some of the other markets on the Continent. A monitoring how PTRs with UIOSI are actually used over time, will give insight at what moment it will be most appropriate to step them down. FTRs options simplify operations in the market (no nomination deadline reducing also operational risks and costs, no “netting” needed between TSOs for the nominated rights, etc..), the advantages would probably outweigh for most market players the drawbacks.

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?

Yes, we believe that market participants have an interest in PTRs with UIOSI at several borders. At the same time, establishing a single platform for the nomination of long term transmission rights (PTRs) should not be considered as we believe the nominations anyway will not longer be necessary when moving to FTRs options.
**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?

No preference for any of them, however, the fact they have different financial market platforms (implying different rules, updating process of rules, etc...) creates a cost, and thus also an entry barrier to small players to participate.

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?

GDF SUEZ believes that it does not make sense to develop several platforms:

- For TSOs it has a higher cost to keep alive more than one platform
- For market participants, the operational costs are higher, also understanding rules creates additional costs.

For market participants, it is important to have ONE robust platform. Redundancy (servers, network, availability, ...) is crucial. Moreover the final customer is paying auction offices via grid tariffs. ACER and national Regulators should incentivize to move towards one single auction office in Europe.