



European Union Agency for the Cooperation  
of Energy Regulators

ACER public workshop on

# Cross-zonal hedging opportunities for the FI-SE bidding zone borders

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Timing	Agenda point
14:00 – 14:05	Introductory remarks
14:05 – 14:30	Background and process for the ACER decision
	Q&A
14:30 – 14:55	Consultation questions related to option (a) – ACER requests the TSOs to issue LTTRs
	Q&A
14:55 – 15:15	Consultation questions related to option (b) – ACER requests the TSOs to ensure availability of other long-term cross-zonal hedging products
	Q&A
15:15 – 15:25	Consultation questions related to both options
	Q&A
15:25 – 15:30	Closing remarks

# General rules and objectives for this workshop

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- Objectives of this workshop:
  - Present the context and process for ACER's upcoming decision
  - Present consultation topics and questions
  - Respond to questions and comments relating to ACER's upcoming decision
  
- Submit your comments and questions:
  - via the chat box; or
  - by raising your hand (unmute your microphone when invited)

We will address questions and comments during Q&A sessions following each topic.

- Stakeholder positions and/or detailed comments should be submitted to ACER via the public consultation.

# **Background and process for the ACER decision**

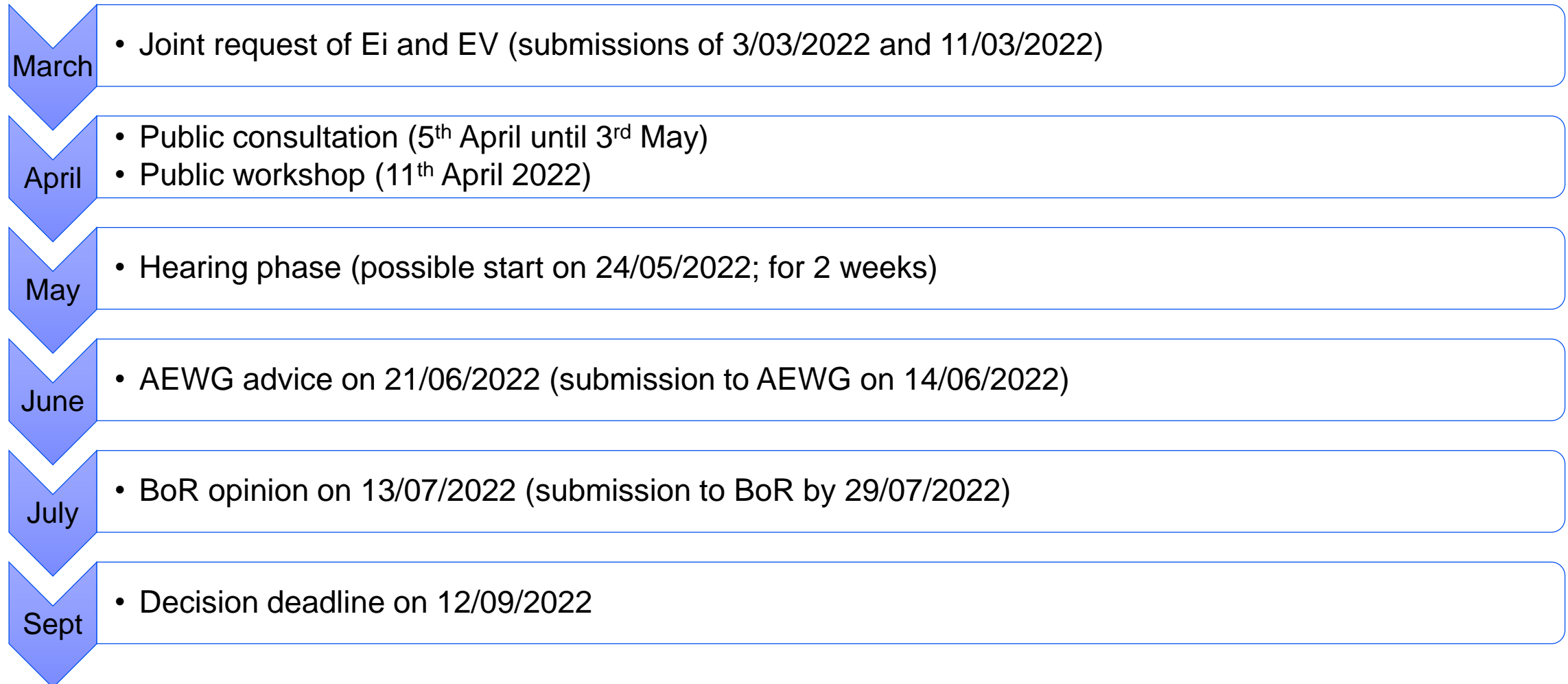
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Article 30 of the [FCA Regulation](#) sets out the process for identifying and addressing insufficient cross-zonal risk hedging opportunities. In particular,

- Regulatory authorities of the bidding zone border assess whether there are sufficient hedging opportunities in the concerned bidding zones.
- In case there are insufficient hedging opportunities in one or more bidding zones, the regulatory authorities shall request the relevant TSOs:
  - to issue long-term transmission rights (LTTRs); or
  - to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

- The assessments of the [Finnish](#) and [Swedish](#) regulatory authorities identified insufficient hedging opportunities in the Finnish bidding zone.
  - EV and Ei have not been able to adopt coordinated decisions requesting the TSOs to address the insufficient hedging opportunities identified in their assessment.
- EV and Ei have jointly requested ACER to adopt a decision requesting the TSOs either:
- to issue long term transmission rights; or
  - to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

# Estimated timeline for ACER's decision



- Relevant bidding zone borders:
  - Sweden 3 - Finland (SE3 - FI)
  - Sweden 1 - Finland (SE1 - FI)
- TSOs addressed by ACER decision:
  - Svenska kraftnät
  - Kraftnät Åland AB
  - Fingrid Oyj
- Concerned NRAs:
  - EV
  - Ei



Source: Ei



- The Nordic long-term market is mainly based on two type of products:
  - Financial obligations referenced against the Nordic system price
  - Electricity Price Area Differentials (EPADs)
    - Financial obligations
    - Price difference between Nordic system price and the price of an individual bidding zone
  
- Besides these two standard financial contracts, market participants can also enter into non-standard bilateral contracts
  
- Some bidding zones within the Nordic system price are already issuing LTTRs on some of their BZBs:
  - DK1-DK2, DK1-DE, DK2-DE, DK1-NL
  - EE->LV and soon also FI->EE

# Possible outcomes of ACER's decision and follow-up

ACER has been asked to decide between option (a) and option (b) of Article 30(5) of the FCA Regulation.

## Option (a)

TSOs are asked to issue long-term transmission rights



Exemption from Article 30(7) FCA is lifted, i.e. Articles 16, 28, 29, 31 to 57, 59, 61 FCA become applicable to the TSOs. Relevant TCMs would have to be approved for the TSOs.

## Implementation

Once TCM approval process is finalised. Approx. 5 months for SAP to add new TSO and BZB.

## Option (b)

TSOs are asked to make sure that other long-term cross-zonal hedging products are available to support the functioning of wholesale electricity markets



## TSO proposal and NRA approval

TSOs have 6 months to develop the necessary arrangements and submit them to Ei and EV for approval.

## Implementation

TSOs implement the approved arrangements within 6 months. Ei and EV may extend this timeline by max. 6 months.

# Q&A session (10 minutes)

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Related to: background and process for the ACER decision

# Consultation questions related to option (a): **ACER requests the TSOs to issue LTTRs**

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# LTTRs on FI-SE1 and FI-SE3: possible market impact due to increased complexity

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- LTTRs may make hedging in the Nordics more complex
  - LTTRs might not be well compatible with the Nordic system price and EPAD products
  - Market participants may require additional resources
- When using LTTRs on the FI-SE1 or FI-SE3 bidding zone borders to fully hedge a position, market participants would need to combine the LTTR with:
  - with a Nordic system price product and an EPAD product; or
  - with a (non-standard; bilateral) contract directly linked to the price of the adjacent bidding zone.

- LTTRs may address asymmetry between two bidding zones
  - by coupling a generation surplus from one bidding zone with a consumption surplus of another bidding zone
  - LTTRs could provide a similar function as two EPADs of the relevant bidding zones
    - This could indirectly promote liquidity of the related EPAD products
- Issuing LTTRs on a bidding zone border could increase liquidity of EPAD products in one bidding zone at the expense of the liquidity of EPAD products of the adjacent bidding zone
  - This could have a negative impact on hedging opportunities in one of the bidding zones due to limited timings of LTTR auctions
- If LTTRs promote a trend towards more bilateral trades with non-standard products directly linked to the price of a bidding zone, negative impacts on liquidity of the system price and EPAD products can be expected

- Do you expect that the introduction of LTTRs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones?
  - *Yes/No/I don't know*
  - Option to add written comment
  
- Following the introduction of LTTRs, do you expect the liquidity of the Finnish/Swedish EPAD products to:
  - *increase significantly/slightly; remain the same; decrease slightly/significantly; I don't know*
  - Open text field to explain selection
  
- In your view, if LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should:
  - *not be introduced.*
  - *still be introduced (regardless of their negative impact), in order to provide the market with the required hedging opportunities*

- Do you have any concerns that issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex?
  - *Yes/No/I don't know*
  - Option to add written comment
  
- If TSOs are requested to issue LTTRs, would you prefer:
  - *FTR obligations/FTR options/Other/I don't know*
  - Option to add written comment



# Q&A session (10 minutes)

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Related to:

Consultation questions concerning option (a) – ACER requests the TSOs to issue LTTRs

Consultation questions related to option (b):  
**ACER requests the TSOs to ensure  
availability of other LT CZ hedging products**

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- There can be different ways to improve hedging opportunities
  - See e.g. [2022 study](#) commissioned by Ei
  - If ACER decides for option (b), the Swedish and the Finish TSOs would have to develop the necessary arrangements for this option.
- In the consultation, ACER explores two potential approaches (but stakeholders will have an option in the survey to suggest other possible solutions):
  - TSOs organising cross-zonal coupling of EPADs
    - The 2022 study indicates that this may be the most beneficial solution
  - TSOs supporting a market maker function in the continuous markets for EPADs

## Option (b) – coupling of EPADs

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- With the use of long-term cross-zonal capacity, the TSOs could couple the supply and demand for EPADs in different bidding zones.
- This approach:
  - could directly add potentially substantial trading volumes to the EPAD market and as such, could contribute to solving the underlying structural problem with asymmetry between consumers and producers in some bidding zones;
  - would not expose the TSOs to risks which are faced by market participants when matching supply and demand for EPADs. The TSOs allocate long-term cross-zonal capacity and use day-ahead congestion income to ensure revenue adequacy for settlement of these EPADs at delivery;
  - could be most effectively done via auctions;
  - would require developing appropriate regulatory framework, which may be time consuming;

## Option (b) – supporting a market maker function

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- TSOs could organise a tender for a market maker function to facilitate order books for EPADs with prescribed maximum bid-ask spread and minimum volume of orders.
  
- This approach:
  - could directly reduce bid-ask spreads for the relevant products;
  - could be rather simple to implement;
  - might involve recovery of costs via TSOs' tariffs or other regulated mechanisms;
  - may have limited effectiveness in case there is market asymmetry between consumers and producers in the bidding zone;
  - would require developing appropriate regulatory framework which may be time consuming.

# Option (b) – consultation question

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- In your view, which approach or approaches under option (b) would provide sufficient cross-zonal hedging opportunities? (multiple choice)
  - *TSOs coupling of EPADs (i.e. with an auction of EPADs)*
  - *Support of a market maker function*
  - *Other*
  - *I don't know*
  
- Open text field to explain selection

# Q&A session (10 minutes)

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Related to:

Consultation questions concerning option (b) – ACER requests the TSOs to ensure availability of other LT CZ hedging products

# Consultation questions related to **both options**

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- What would be your preferred outcome?
  - *ACER requests the TSOs to issue LTTRs.*
  - ACER requests the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets...
    - *... and the TSOs would provide coupling of EPADs (i.e. with an EPAD auction).*
    - *... and the TSOs would support a market maker function.*
    - *... and the TSOs would provide a different kind of support.*
  - *No interventions in the Nordic long-term market.*
  
  - Open text field to explain selection
  
- Open text field for any other comments

# Q&A session (5 minutes)

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Related to:

Consultation questions concerning both options



# Thank you.


Further questions and comments can be submitted to  
[martin.viehhauser@acer.europa.eu](mailto:martin.viehhauser@acer.europa.eu) and [ACER-ELE-2022-005@acer.europa.eu](mailto:ACER-ELE-2022-005@acer.europa.eu)

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