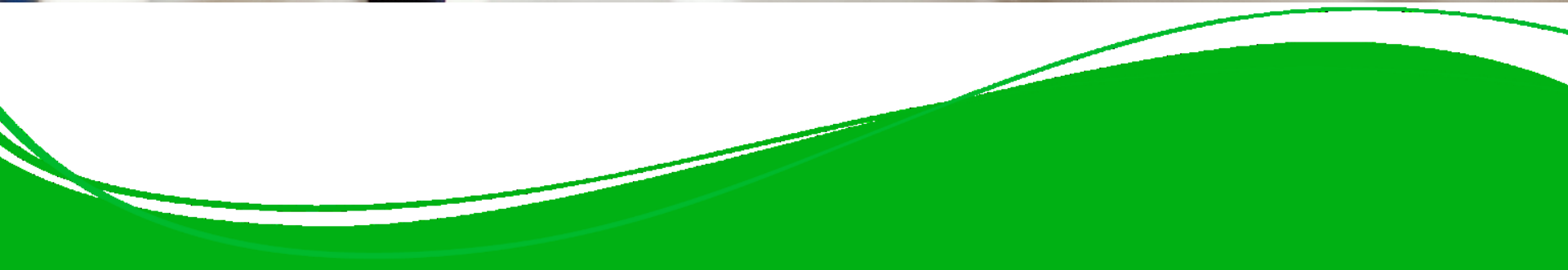


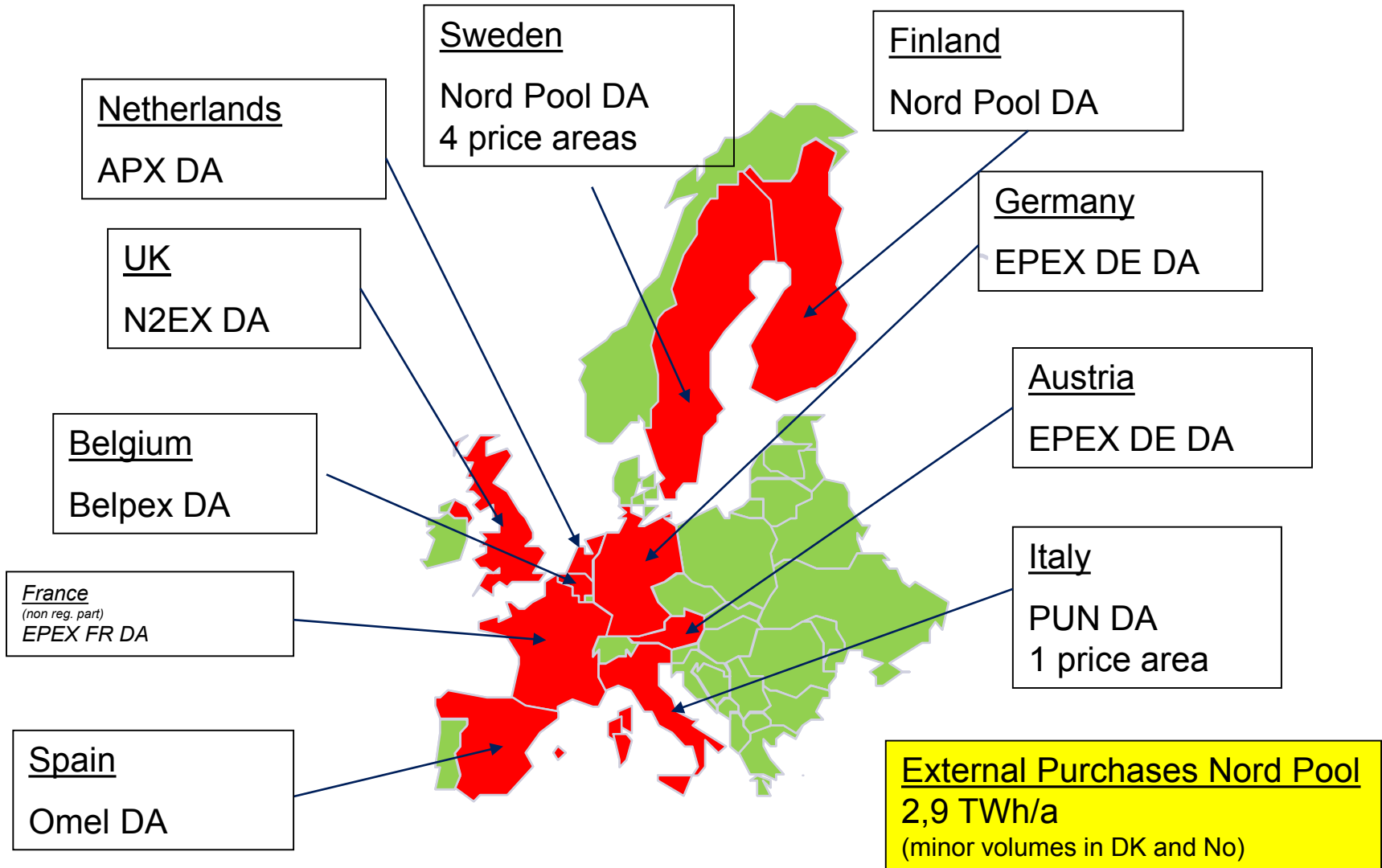
El Hearing – Long Term Transmission Rights April 20, 2015 SCA/SKGS



Consumers view of todays market and future developments



Price references used by SCA in Europe



Experience from hedging in the current market

Nordics as well as continental Europe



- On all the markets on the previous slide we are using cash-settled financial contracts with the local DA-price as reference

- In the Nordic area we hedge the System Price and when deemed appropriate also the EPAD:
 - ◆ We get hold of EPADs in all areas at a “ok” prices
 - ◆ SE 4 requires more job, but not impossible

- The System Price is vital for a major consumer who would like to hedge the price. It covers a big enough consumption /production area to attract not only fundamental players, but also speculative players => liquidity

We do not see any need for FTRs or PTRs (anywhere)

What is important to make the total market work?



- The basis is the function of the physical market
 - ◆ TSO responsibility

- Market coupling between price areas:
 - ◆ All transport capacity shall be allocated to the market
 - ◆ Implicit auctions

- Transparent and reasonable criteria for determining price area structure:
 - ◆ Not too small. Will have problems to attract speculative players
 - ◆ How shall transmission investments be evaluated vs. counter trade vs. doing nothing

- Transparent and reasonable criteria for determining when the TSOs shall intervene e.g. counter trade, curtailment of capacity etc.

What should be done make the Nordic market function even better?

- Reduce the number of price areas to a minimum:
 - ◆ Structural bottlenecks

- The TSOs shall guarantee capacity over the borders:
 - ◆ Counter trade paid by congestion fees or tariff
 - ◆ Will lead to increased predictability => easier to attract non-fundamental players

- The TSOs should maybe have the possibility to buy/sell EPADs on borders:
 - ◆ Clear criteria when they have to do it; during the time before a grid investment is finalized??
 - ◆ It should NOT be a default option that they have to do it.

Summary



- A physical market with clear and transparent rules is the basis
- The financial hedging market needs an underlying physical market of a certain size to be able to attract enough capital to work
- If the rules are in place and the size is big enough, the market will create and develop instruments
- A mandatory introduction of any hedge instrument is not the way to develop the market!



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