

Minutes from the FCA seminar April 20 2015

Energy Norway (Andrea Stengel)

Summary:

Even though the EPAD market is not functioning perfectly EPAD is a better hedging product than LTTRs. Therefore the focus should be on improving the EPAD market by reviewing the price area formation and ensure stable price areas.

The NC FCA is not designed for the Nordic market, and it should not be mandatory to introduce LTTRs in the Nordic market. LTTRs are not efficient as a hedge for many of the fundamental market participants, especially in Norway with many price areas.

Alternative measures to improve the EPAD-market; the TSOs need to keep their neutrality, but could participate through

- auctioning market maker role or
- supporting EPAD auctions

Finnish Energy Industries (Petteri Haaveri):

Summary:

More focus on investments in transmission capacity. The bottlenecks and the high price differences between price areas are due to lack of investments in transmission. LTTR is costly for TSO. It takes money away from potential investments and can influence the tariffs.

Among the Finnish market participants the interest in LTTRs as a hedging product is very low.

Action points

- Agree on a Nordic investment package to remove bottlenecks
- Ensure that NC FCA don't block market development, should navigate towards financial markets
- Study what would be the best way for TSO to support EPAD market, if needed (TSO could eg. decrease spreads in the EPAD market via sponsoring market making)

Dong Energy (Jonas Ekblad):

Summary:

Acceptable liquidity in the EPAD market and EPAD is the preferred hedge. LTTR could be seen as a complement, but not as the main hedging solution. LTTRs might back up the current system and provide more liquidity in the EPAD market for some price areas.

Experience with PTR on DK-German border. PTRs is a complement but cannot replace EPADs. Problem with firmness issues and risk for cancelled auctions.

LTTRs can add value to the market as long as it doesn't decrease the liquidity. But there is a risk that the LTTRs has a negative influence on the liquidity of the SYS price contract. Therefore we want to avoid the LTTR regime to be introduced in all of the Nordic price areas, we do however accept that LTTR's can be a valid compliment in the Danish price areas.

It is preferable if the TSOs are not involved in the market. They should continue to what they do best – facilitate the spot market. However predictable and transparent rules for curtailment and capacity allocation are important.

Price areas need to be optimal also from a market point of view (balance between supply and demand) not only from system operation point of view. Price area division must be stable and predictable.

The Nordic market should not be forced to adopt LTTR. The Nordic regulators should promote the current financial system. Could consider to let the TSO facilitate market makers in some bidding areas.

SwedEnergy (Mats Nilsson):

Summary:

We should be open to EPADs being complemented by other products. Flow Based system 'needs' good hedging instruments (auctioning of EPADs or LTTRs) because of the price differences it will cause between price areas. Due to more renewable production in the future, hedging needs will increase. All price areas should be treated the same way.

In a study made by Hagman Energy in year 2013 market participants were asked if the TSO should auction EPADs in order to increase the liquidity in price area four in Sweden (SE4). All stakeholders but one and three authorities, recommended auctioning.

All TSOs should allocate transmission capacity in the forward market. i.e. the possibilities for exemptions should be omitted. SwedEnergy's priority list:

- EPADs e.g. current market instruments, traded at current trading platforms
- FTR obligations
- FTR option
- PTR with use it or sell it

Need for something physically underlying the EPAD market – either TSO capacity or production capacity.

Norsk Industri (Petter Longva):

(Represents large consumers)

Summary:

LTRs do not fit in the Nordic market and may actually weaken it. LTRs could split liquidity in the system price and reduce the trust in it.

LTRs as a hedging instrument is not interesting for a large consumer, for the following reasons

- Auctioning is not compatible with normal procurement strategies.
- The products are too short to be relevant (1 month, 1 year). A proper hedge for investments in most industries would start 3 years ahead.
- The products are too expensive and too risky; difficult with firmness issues.
- The products link only to the adjacent zone and not to the liquid price (the system price).
- LTR issuance by TSOs is incompatible with principle of unbundling. TSOs should be an independent market facilitator, not a market participant.

There is room for improvements in the Nordic market, but there may not be need for EPAD in every price area. Focus should be on improving the day ahead market: Important with balanced price areas. Similar and transparent price area structure across the market.

Possible measures:

- Changing the price area structure
- More stable and predictable price areas
- Introduce market making for EPADs (through the market, TSO as facilitator)

SCA/SKGS (Fredrik Kopp):

(Represents large electricity consumer. Active in many European markets)

Summary:

Hedge their portfolio with financial products, use the local DA price as reference. See no need for FTR or PTR (anywhere) in order to hedge, as they have sufficient hedging possibilities in the financial markets. Gets hold on EPADs in all areas at "ok" prices. SE4 requires more job, but is not impossible.

All capacity should be allocated in the day ahead market. Well functioning physical market creates the basis for a well functioning financial market. Important with market coupling and implicit auction to have a robust physical market.

Need discussions about criteria for price areas and for investment in transmission capacity. Need for more transparency in how TSOs structure the market and how they are acting in the market. Want a reduction in the number of price areas, as some price areas are too small and do not reflect structural bottlenecks.

TSO should guarantee capacity on the borders in longer time frame than day ahead. TSO should be forced to take some of the cost of curtailment not only push the cost to the market.

If the rules are in place and the size of the market is big enough, the market will create and develop instruments for hedging. A mandatory introduction of any hedge instrument is not the way to develop the market. Hedging is done to mitigate variations in cash flow. Trade day ahead is to cover fundamental needs for consumption.

The TSO should have the possibility to buy/sell EPADs on borders. If so, clear criteria for when they should do so must be outlined. It should not be the default.

Elfi /Finland (Pasi Kuokkanen):

(Represents large end-users)

Summary:

Liquidity for EPAD Finland is not good enough. Large industrial consumers use bilateral products for hedging purposes. Problem with low turn-over and volume in the EPAD market.

Believe that both EPAD and LTTR can coexist. Regulators should bring in several options for market participants. Customers will find the cheapest and most efficient way of hedging. Don't believe that liquidity in the Finnish EPADs contracts will suffer.

If development in the market is not good enough regulators should step in and promote competition. Transparency is one of the key elements in well-functioning markets.

Believes that the best market has both LTTR and EPADs.

Danske Commodities (Thor Kastrup):

Summary:

Mainly active in the Danish, Swedish and Finnish market.

Are pro LTTR (in some of the Nordic areas). The Nordic market can be divided into two groups. Group 1, the correlation with system price is high (Norway and SE1 and SE2) which gives a sufficient hedge. Group 2, the correlation with the system price is low (Denmark, SE3 and 4 and Finland – NB in Finland there is some correlation with SYS, but with big movements) which gives no sufficient hedge. In group 2 LTTR would be a good addition.

Don't believe LTTR would decrease liquidity in system price products. Believes that adding products will increase the market attractiveness.

Regulators must make sure that entry barriers are low and strive for keeping rules and regulations at a minimum and ensure transparency. TSO should offer capacity. Boost daily markets with daily TR auctions.

Not necessary with LTTR in areas that are highly correlated with system price.

Oberoende Elhandlare (Bo Lindörn):

Summary:

The financial market satisfy its need, but the cost of risk management has increased as the number of price areas has increased. The price areas should be as few and as large as possible. A balance in the number of price areas with regard to the functioning of the financial market is very important.

TSO should be able to be active in the market, e.g. as a market maker or to participate in the continuous trade of EPADs.

Sufficient to hedge on hubs in the Nordic market, no need for LTTRs. Fear that an introduction of LTTRs would increase the proportion of bilateral electricity contracts, decrease competition and lead to lower liquidity in EPAD contracts.

Petri Eväsoja (NAET/Fortum):

(Representing Fortum)

Summary:

Nordic market needs to be developed, but central European tools do not fit here.

The liquidity is good but it can always be better.

There is a need for more investment in interconnectors in the Nordic market. The TSOs have to agree where to invest in the Nordic region. The TSOs need to look at bigger price areas outside their own borders.

(Representing NAET)

Summary:

The Nordic market is well developed and transparent. Liquidity in system price and EPADs is acceptable. No need to introduce LTTR.

Need more transparent and open capacity handling – longer timeframe. The TSOs need to look at bigger price areas outside their own borders.

The regulators must secure a Nordic solution in the NC FCA.

Next steps as known at the date of the hearing:

- Tri-lateral meetings between the Commission, ACER and ENTSO-E (One scheduled on the 4th of May)
- Commission Internal-Service Consultation (May)
- Commitology meetings (Autumn/Winter)
- Adoption by the European Parliament/ Council