

To NordREG – Nordic Energy Regulators,
Att: NordREGFCAstudy@energiavirasto.fi

Tonne Kjærsvvej 65
7000 Fredericia
Tel. +45 70 10 22 44
Fax +45 76 24 51 80

info@energinet.dk
www.energinet.dk
cvr-nr. 28 98 06 71

Energinet.dk's comments to the consultation on NordREG-report on measures to support the functioning of the Nordic financial electricity market

18. marts 2016
Nanna Foller Larsen,
NFL@energinet.dk

Energinet.dk would like to thank NordREG for the opportunity to comment on the hearing organized by NordREG regarding the NordREG-report on measures to support the functioning of the Nordic financial electricity market carried out by THEMA Consulting Group and Hagman Energy AB.

Energinet.dk understands the basis of the report about measure to support hedging opportunities and that assessment of the liquidity has not been studied yet. However in an assessment of measures to support the Nordic financial electricity market, it is important to highlight the need for an assessment of the liquidity in the Nordic areas. The assessment of the extent of lack of liquidity will influence the measure that is to be used to relief the liquidity problem. If the liquidity problem is restricted to only one or two areas the measures may be assessed differently than in a situation where the liquidity problem is wide spread in the Nordics. The report's description of the importance of the assessment of hedging opportunities in the areas, and how such an assessment may be organized, is therefore appreciated.

In general, Energinet.dk finds that the conclusions in the report are very broad and generic. Moreover, the report makes many presumptions not being adequately supported by factual arguments or/and historical data. The descriptions of how the six models works are fine, but Energinet.dk finds that the report is best described as a kind of preliminary study of possible measures and it could have been interesting with an assessment by another consultant, which is not influenced by conventional thinking and previous reports.

Energinet.dk finds that there are multiple issues in the report.

In the report, there are made several references to responses from market participants, but it is not clear which market participants that have answered, nor what market participants have been asked about. Also Energinet.dk finds that reflections on market participant's reasons for their answers are lacking from the report. The reflections on which market participants that already have sufficient options to hedge price risks are missing. If the market participants have sufficient hedging opportunities either directly in the area price or in the system price due to a high correlation

between the system price and the area price, they have a limited incentive to implement additional hedging possibilities. This could affect the market participant's answers and is therefore important to reflect on, especially if the market participants fear the new measures for hedging would harm the market already used by these market participants.

Furthermore Energinet.dk would like to highlight that considerations with respect to regulations and other legal obligations that affects TSOs and market participants are absent from the report. There are e.g. no considerations with respect to the competition law, state aid rules, REMIT, financial regulations (EMIR and MIFID) or the energy regulation. Therefore all suggested measures still need to be checked in relation to these legal obligations before any kind of actions can be done.

In the report it is assumed that the cost of auctioning EPADs via Nasdaq OMX Commodities is lower than the cost of auctioning long term transmission rights via JAO. The assumption is not supported by facts and Energinet.dk examined, in relation to the pilot project for implementing Physical transmission rights on the Great Belt, the costs for having Nasdaq OMX Commodities auction of EPAD Combo's and this was more than twice the cost of auctioning long term transmission rights via CASC/CAO (JAO). Therefore Energinet.dk would suggest that costs are examined in more detail.

Furthermore it seems that the report is biased with respect to Long term transmission rights. Reflected in the reports preference for EPAD combos as alternative to the Long term transmission rights, with the main argument that EPAD combos contribute to the liquidity of the EPAD market, since the same products used to hedge the differences between the system price and the area price, are used to hedge the spot price differences between areas. Energinet.dk finds that this is only a part of the picture. Liquidity in a particular product is not the only contribution to an efficient pricing of EPADs. There is a clear price correlation between Long term transmission rights and EPAD and therefore the prices of Long term transmission rights must affect EPAD prices (and vice versa).

Moreover the report present the Long terms transmission rights and EPADs as being each other's substitute, which is not the whole truth. Specifically one could imagine that Long term transmission rights between Norway and surrounding would get a EPAD market in Norway going, because Long term transmission rights give the Norwegian hydropower producers the possibility to "export" hedging to other countries. Thus Long term Transmission rights and EPADs are complementary.

In conclusion, Energinet.dk would like to highlight that the arguments that FTR-options are less suitable for fundamental hedging are not supported by facts. Furthermore it should be investigated in more details, the risk presented in the report, that transmission rights will reduce the liquidity in the EPAD market. This has not been examined in great detail and not at all in the report. Whether this risk is big or small has a big impact on the evaluation of the effects of the different measures.

Best regards,
Nanna Foller Larsen, Energinet.dk