

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

NordReg workshop – 10th of May 2016

Nanna Foller Larsen,

Market Development and International Cooperation, Energinet.dk



Report on possible measures

Energinet.dk understands that the report is a

- initial examination of possibilities for supporting the financial market in the Nordics.
- Further analyzes to be done on the liquidity in the financial market.
- Important with an assessment of the hedging opportunities – description in the report appreciated – Will have a big impact on the measures to implement.
- Conclusions are very broad and generic.
- Descriptions of the 6 models are fine but Energient.dk find the report best described as an preliminary description of 6 possible measures.

Unclear responses from market participants

References to responses from market participants

- **not clear whom have answered**
- **not clear what they have been asked about**

Important to analyze whom is responding

- If market participants has sufficient hedging opportunities
 - in the area price or in the system price due to high correlation between area price and system price
- If market participants has insufficient hedging opportunities

Human reaction not to which to keep what is know to you

Costs of measures

Assuming that cost of using Nasdaq OMX is lower than the cost of using JAO

➤ The report seems to be biased

- Would be possible to look into these costs or
- state that these costs would have to be part of a further assessment.

Missing evaluations of costs associated to measures with consideration to the gains

Market maker support: The cost of continuous procurement processes ?

TSO market maker: The cost of setting up Chinese walls and developing competences in financial market ?

EPAD contracts: The cost of developing competences in the financial market and to create auction plans and evaluate risks ?

Long term transmission rights (LTTR)

Assume EPAD combos contribute more to EPAD liquidity compared to FTR's - Only one side of the coin

- Liquidity in a products is not the only contribution to an efficient market
- Clear price-correlation between LTTRs and EPAD's
 - Price of LTTR must effect EPAD prices
- EPAD and LTTRs are not each others substitute

Assume LTTR reduces the liquidity in the EPAD market – not supported by arguments or analyzed

- Underlying assumption: The size of the financial market is static
 - Market participants move from EPADs to LTTRs but
 - LTTR creates more information of future spot prices - due to a clear price-correlation between LTTR and EPADs
- The financial market is not static
 - Higher demand from existing and new market participants - No reduced liquidity in the EPAD market

Missing legal assessments

Considerations of legal aspects are not included

Market maker solution:

- How is the competition ensured with only one market participant - State aid ?
- How to structure a tender to ensure TSO flexibility and ensure no market manipulation possibilities - Competition rules ?
- Is it possible for TSOs to be market maker and thereby a market participant in the financial market – Regulation 714/2009 ?

EPAD contacts:

If financial - considerations of cost and risk related to handling of financial contacts with respect to financial regulation (EMIR and MIFID) ?

Transmissions rights:

LTTR in the primary market are exempted from financial regulation by MiFID II, considerations of cost and risk in the secondary market ?

Cost and risk evaluation

Assuming the risk and cost associated with auctioning EPADs can be covered by the congestion income

Congestion income is only to be used for (regulation 714/2009):

- Maintaining and increasing cross-border capacity
 - Guaranteeing actual available transmission capacity
- Risk and costs of auctioning EPAD are probably not correctly estimated.

For LTTR the financing are clearly stated in the FCA and Harmonised Allocation Rules.