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## **FORTUM'S RESPONSE TO NORDREG'S CONSULTATION ON MEASURES TO SUPPORT THE FUNCTIONING OF THE NORDIC FINANCIAL ELECTRICITY MARKET.**

Fortum welcomes the opportunity to comment and appreciates the report by Thema consulting and Hagman Energy.

### **Real measures to support the functioning of the Nordic financial electricity market**

As a first priority measures to improve cross-border trading, TSOs should secure enough transmission capacity over the borders at all times. Physical bottlenecks should be built away with more transmission capacity where needed. Especially the third connection between Northern Sweden and Northern Finland needs to be built. Larger price-areas should be made to secure a good liquidity in traded EPAD contracts. The split of Sweden in to 4 different bidding zones is a good example of what happens to liquidity. The liquidity in the Stockholm area is less than half of what Sweden used to have and the 3 other areas has very little trading. So the sum of liquidity in the 4 areas is smaller than what Sweden as a whole used to be. This works the other way as well, merging price areas would increase total liquidity as it has done with the system price. These are the measures TSO should concentrate their effort on improving the financial market.

### **Secondary options to support the functioning of the Nordic financial electricity market**

If the above mentioned improvements have been made and the market still needs support from the TSO, then other measures should be evaluated. Fortum strongly agrees to the findings of the report especially on the following points: -  
Regulators should carefully design any need for intervention in the financial market

- *If something is needed to be done in order to improve the Nordic financial market then it should be done with EPAD contracts*
- *Financial Transmission Rights (options or obligations) should not be introduced to the Nordic market*
- *TSO's should not act as market makers on EPAD-contracts*

However we would like to point out, all auctioning of EPAD's or EPAD Combos will possess challenges for TSO's and Regulators:

- *TSO's will need to reassess their financial risks and in the worst case increase tariffs to cover for the costs*
- *The auction price is lower than realized according to studies of PTR auctions*
- *Regulators face a huge challenge in fine-tuning the system so that the "right" amount of EPAD's are auctioned*

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As a last resort measure we support the market maker function where the TSO would pay for a market maker. Why is this the preferred solution. The cost is known in advance by the TSO and so are risks. The adjustment of bid-ask spread can be agreed in relation to the cost as well as the volume.