

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

NAET 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. The same goes for connections between the Nordic area and e.g. the Continent, i.e. at the Danish-German border where an essential bottleneck is the fact to the detriment of the whole Nordic market. TSO's should be incentivized to reduce bottlenecks in the system. The last ten years the system price has become less relevant for market participants due to increasing number of price areas and fewer hours with a common price. The system we have today rewards TSO's with increased bottleneck income.

Larger price-areas should be made to secure a good liquidity in traded EPAD contracts. The split of Sweden in to four 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 three other areas has very little trading. Thus, the sum of liquidity in the four 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. NAET 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. In case of a transposition from Physical Transmission Rights to Financial Transmission Rights is considered the potential negative impact from financial regulation such as EMIR and MiFID should also be taken into account.

- TSO's should not act as market makers on EPAD-contracts

However we would like to point out, any measures to be taken in the Nordic financial power market should support current system price and EPAD products.

The Board of NAET

The Nordic Association of Electricity Traders is a non-profit organization that was established in 1996 by companies active in the Nordic Power Market. Our mission is "to make the world's best power market better". NAET has over 50 member companies representing different kinds of market players such as power producers, distributors, industrial companies and financial institutions.

NAET's focus is on two key issues; liquidity and transparency on the Nordic Power Market. NAET has representatives both in the Nasdaq Commodities Financial Product Group as well as in Nordpool Spot's Customer Advisory Board in order to follow and influence developments in these issues. Additionally, we participate in discussions with authorities and legislators to secure a favourable market development on behalf of the members.

In the area of compliance and regulation we sponsor different kinds of projects that are of great importance to our members, such as interpretation of the legislation around IFRS. We are also one of the bodies that are entitled to give our opinion on Mifid to Norway's Ministry of Finance.