



# Comments on the methods for the evaluation of the Nordic forward market for electricity

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- Why do we need a functioning forward market?
  - Price signals for maintenance/investment/use of assets
  - Hedging needs of Norwegian retailers and producers
- Can the market function or are there external reasons for it's non-function?
  - Contracts with reference in the system price are liquid
  - How do EPAD markets work?
- Indicators for market functioning
  - Which indicators to choose and how to calibrate factors for market functioning

# Different hedging needs and strategies

- Norwegian retailers
  - Depending on contract portfolio – systemprice and standard variable contracts do not necessitate hedging of area prices. But aim to hedge fixed price contracts 100% against area price.
  - Hedging depends on area price expectations: less willingness to pay for a hedge if area price is expected to be below system price
- Norwegian producers
  - Power prices are partly hedged with system price contract, but wish to hedge area price to a certain degree (ideally the same volume and horizon)
  - Hedging depends on area price expectations: less willingness to pay for a hedge if the area price is expected to be above the system price
- Conclusion "pragmatic and informal"
  - IAS 39 seems to be relatively little used (but it is known as a reference).
  - Wish to use EPADs to hedge area price differentials, but looking on spreads and liquidity, some decide that the cost is bigger than the benefit and rather accept an open position. Systemprice is not considered to be a perfect hedge, but Systemprice plus EPAD is often considered to be too expensive.

# Questions to market function – beyond indicators

- Functioning of the EPAD marked depends on the fundamental size and composition of a bidding zone: ideally fundamental actors with both buy and sell interests
- Functioning of the EPAD marked depends on the stability of the bidding zone
  - or on very well functioning and trusted communication by the TSOs
- Do we need to trade EPADs on the exchange or can a well functioning OTC marked play the same role?
  - Transparency! Exchanges considered more transparent
  - Is the EPAD cleared or not?
  - Both markets should be taken into account in the assessment

# Indicators to evaluate markets

- Agree with the proposed indicators, and that calibration and thresholds need to be discussed
  - Transaction cost: Bid – ask spread
  - Descriptive measures: trading horizon, traded volume and open interest
  - Price measures: ex post risk premium

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**THANK YOU**