Contribution ID: 8de98004-b303-45ec-9113-fe3fc3b4ab19
Date: 29/07/2022 16:06:01

Public consultation - Policy paper on the further development of the EU electricity forward market

Fields marked with * are mandatory.

Introduction

This consultation of the European Union Agency for the Cooperation of Energy Regulators (‘ACER’) is addressed to all interested stakeholders.

The purpose of this survey is to conduct a public consultation by inviting stakeholders to express their level of agreement (through the likert scale) with consulting on the provided draft policy paper on the further development of the EU electricity forward market.

One response (between 'strongly agree' and 'strongly disagree') is expected for each section of the document allowing also for the option of 'no opinion'. There is room for providing comments on each paragraph of the draft paper at the end. Please complete this survey by following the numbering of draft paper sections.

Replies to this consultation should be submitted by Friday 29 July 2022, 23:59 hrs (CET).

Below you may find for your convenience an Excel document that can facilitate your company's internal coordination to complete this survey.

PC-EFM_Template_for_internal_coordination.xlsx

Data protection and confidentiality

ACER will process personal data of the respondents in accordance with Regulation (EU) 2018/1725, taking into account that this processing is necessary for performing ACER’s consultation tasks.
More information on data protection is available on ACER's website.

ACER will not publish personal data.

Following this consultation, ACER will make public:

- the number of responses received;
- company names, except those with a valid reason for not having their company name disclosed;
- all non-confidential responses; and

- ACER's evaluation of responses.

You may request that **(1)** the name of the company you are representing and/or **(2)** information provided in your response is treated as confidential. To this aim, you need to explicitly indicate whether your answers contain confidential information, and also provide a valid reason if you want that the name of your company remains confidential.

You will be asked these questions at the end of the survey.

Respondent's data

* Name and surname

This information will not be published.

Paul Giesbertz

* Email

This information will not be published.

pgiesbertz@energie-nederland.nl

* Company

Energie-Nederland

* Country of the company's seat

- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czechia
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands

- Norway
- Poland
- Portugal
- Romania
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Other

* Countries where your company is active

- [ ] All EU Member states
- [ ] Austria
- [ ] Belgium
- [ ] Bulgaria
- [ ] Croatia
- [ ] Cyprus
- [ ] Czechia
- [ ] Denmark
- [ ] Estonia
- [ ] Finland
- [ ] France
- [ ] Germany
- [ ] Greece
- [ ] Hungary
- [ ] Ireland
- [ ] Italy
- [ ] Latvia
- [ ] Lithuania
- [ ] Luxembourg
- [ ] Malta
- [x] Netherlands
- [ ] Norway
- [ ] Poland
- [ ] Portugal
- [ ] Romania
- [ ] Slovak Republic
- [ ] Slovenia
- [ ] Spain
- [ ] Sweden
- [ ] Other

* Activity

- Aggregator (or association)
- Utility (or association)
- Energy supplier (or association)

- ○ Trader (or association)
- ○ Transmission network operator (or association)
- ○ Regulatory authority
- ○ Generator (or association)
- ○ Distribution network operator (or association)
- ○ End-user (or association)
- ◉ Other market participant

Please specify

Association of Dutch energy companies (aggregators, suppliers, traders, generators)

Survey

What is your general opinion on the drafted proposal of the following sections?

Opinion table

	No opinion	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
* 1. Executive summary	○	○	◉	○	○	○
* 2. Introduction	○	○	◉	○	○	○
* 3. Objectives	○	○	◉	○	○	○
* 4. Literature review	○	○	◉	○	○	○
* 5. Terminology and problem definition	○	○	◉	○	○	○
* 6.1 Basic policy changes - no regret improvements	○	○	◉	○	○	○
* 6.2 The need for intervention	○	○	◉	○	○	○
* 6.3.1 Type of intervention - Option 0: Status quo: Bidding zone border LTTRs	○	○	○	◉	○	○
* 6.3.2 Type of intervention - Option 1: increased number of allocation and product timeframes	○	○	○	○	◉	○
* 6.3.3 Type of intervention - Option 2: Zone-to-zone LTTRs	○	◉	○	○	○	○
* 6.3.4 Type of intervention - Option 3: Zone-to-hub LTTRs	○	◉	○	○	○	○

* 6.3.5 Type of intervention - Option 4: Forward market coupling with CfDs	○	◉	○	○	○	○
* 6.3.6 Type of intervention - Option 5: Forward market coupling with Futures	○	◉	○	○	○	○
* 6.3.7 Type of intervention - Option 6: Market making	○	○	◉	○	○	○
* 6.4 Type of products offered by TSOs	○	○	◉	○	○	○
* 7. Analysis and conclusions	○	◉	○	○	○	○
* 8. Recommendations and proposed actions	○	◉	○	○	○	○

In case of disagreement on proposed draft, please share your comments in the table below (optional).

Please note that you won't be able to see the full size of your response in the Survey Tool but once you download the PDF of your response, a full table with your input will be shown.

Comment table

	Comment
1. Executive summary	Energie-Nederland welcomes that ACER is acknowledging the importance of forward markets. A liquid forward market allows market participants (producers, traders, suppliers and consumers) to hedge risks at lower costs. It reduces risks for investments and thus lowers investment costs. It also reduces entry barriers for new market participants (generators, suppliers) and it thus fosters competition. All these elements bring welfare gains. The level of liquidity is determined by the market structure within a bidding zone, thus the size of the market, the number of market participants and the different needs of these participants to trade forward. Also, the amount of cross-zonal capacity plays a role (especially relevant for intraday market). However, the way of allocating cross-zonal capacity is not that relevant. Market coupling of day-ahead markets is preferable compared to explicit auctioning of cross-zonal capacity, as it results in more efficient pricing and thus dispatch. However, it is not improving liquidity. Therefore, Energie-Nederland is of the opinion that the liquidity of the forward market is a result of the size of the market and market structure. It should therefore be one of the important factors that has to be considered when reconfiguring the bidding zones. Larger zones have a positive effect on liquidity. (Not only on the liquidity of forward markets but also on the liquidity of intraday and balancing markets.) The allocation of cross-zonal capacity has hardly any impact on liquidity, with three exceptions. • Cross-zonal capacity is currently allocated up to one year ahead. Energie-Nederland supports the idea to allocate cross-zonal for a period beyond one year ahead. This will have a small, positive impact on the liquidity of the forward market two or three years ahead of delivery. • LTTTRs should be introduced for NorNed. • Cross-zonal capacity is not allocated in the last hour before delivery. Although the intraday market is especially relevant in the last hours before delivery as weather forecasts are more accurate. Cross-zonal capacity is crucial for the liquidity of the intraday market, especially for smaller zones like the Dutch bidding zone. (See for example page 10 of the Annual Market Update 2021 of TenneT.) Energie-Nederland therefore calls on regulators and TSOs to allow for cross-zonal trading in the last hour before delivery.
2. Introduction	An efficient allocation of cross-zonal capacity is important, but hardly has any impact on the liquidity of forward markets. The liquidity of forward markets should not and cannot be influenced by regulatory interventions. It is however an important factor in the configuration of bidding zones.
3. Objectives	No comments.

4. Literature review	Based on the literature mentioned, ACER seems to conclude that enhancing FTR products (with a zone-to-zone of zone-to-hub functionality) could address the issue of hedging the basis risk, especially if smaller bidding zones are implemented (as smaller bidding zones increase the basis risk). Energie-Nederland disagrees with that conclusion as such FTR products will never be liquidly traded. A new product is added, but overall it does not help market participant to achieve a perfect hedge at low costs.
5. Terminology and problem definition	On terminology: forward products can also be standardized energy contracts. On problem description: Problem 1 Lacking liquidity is not only a problem for small bidding zones. Also the larger bidding zones (like Germany) do not have a very liquid forward market. The German forward market could be classified as a moderately liquid market. (To compare with the gas market, forward trading on the TTF is much more liquid than on the German power market.) Problem 2 It is mentioned that the alternative hedging strategy of trading on a neighbouring market, hampers the liquidity of the home market. This is true, however not problematic. If a dirty hedge (on a neighbouring market with high liquidity) is more attractive (less costly) than a perfect hedge on the home market with low liquidity, then this alternative hedging strategy is beneficial for these market participants and thus ultimately also for all consumers in the home market. Problem 4 Liquidity is not a barrier to reconfiguration of bidding zones, but is one of the factors to carefully consider when reviewing bidding zones reconfiguration. Problem 5 Energie-Nederland agrees that longer maturities (ahead of one year ahead) should be introduced. They will have a small but positive impact on liquidity of forward markets. Energie-Nederland also underlines that cross-zonal capacity should be allocated for intraday trading in the last hour before delivery. Currently the gate closure for cross-zonal trade is set at 1 hour before delivery. This is unnecessary hindering the efficiency of the market and thus results in welfare loss for consumers. TSOs might argue that facilitating cross-zonal trade in this last hour would not be possible because of operational security issues, however that would be false argument. Intraday trading within all zones in the last hour is possible. Obviously cross-zonal trade can be restricted up to the available capacity as already used for facilitating cross-zonal trade up to the last hour.

	Problem 6 Energie-Nederland does not agree with the view of ACER. The fact that LLTRs are offered only as PTR or FTR options does neither cause inefficiencies, nor does it negatively impact liquidity of forward markets. Problem 7: we strongly disagree with ACER views Energie-Nederland does not agree with the view of ACER. We do not understand why LTTRs would be undervalued, and even if this would be the case, it does neither result in inefficiencies nor does it impact liquidity of forward markets. Problem 8: we are neutral with ACER views Energie-Nederland agrees that having clearer common criteria to assess the liquidity in the BZ would be welcome. However, we disagree with the statement that no LTTRs would be necessary between France and Germany as these two countries would have liquid forward markets. These two countries do not have good liquidity. The German forward market could be classified as moderately liquid.
6.1 Basic policy changes - no regret improvements	We disagree with the need to align FB requirements in LT and DA timeframe (6.1.1). We welcome discussions on the issuance of monthly products at the yearly auction, but details and impacts should carefully be assessed and discussed with the market (6.1.2). We could agree with the introduction of “Monthly products at 1YA auction” provided that this also means that the full capacity calculated year-ahead is allocated to the market. The FCA Regulation should enshrine the principle that TSOs should offer to the market the maximum amount of capacity calculated as available at the time of the auction and not keep some for other timeframes (this would also require a review of the splitting rules). We can add two no-regret measures: • the maximization of amount of long-term cross-border capacity available as early as possible to be allocated by TSOs on all borders. Maximization of the amount of cross-zonal capacity does have a positive impact on liquidity, the way of allocating capacity has little impact. • Allocation of cross-zonal capacity for intraday trading in the last hour before delivery.

6.2 The need for intervention	- Option 0: Energie-Nederland strongly prefers the introduction of LTTRs on NorNed. - Option 1: we agree that more coordination in assessing the need for TSOs to issue LTTR, to assess the liquidity of the forward market, etc, would be welcome; we would like to highlight that ACER seems to present LTTR as a solution from the past, while we consider those hedging tools still very relevant and needed on all borders; - Option 2: we agree with this proposal and consider it unlikely that LTTRs would be issued on borders where there is no need, as there are no very liquid forward markets within the EU power market. - Option 3: we disagree with this option. The main drawback of this approach is that it assumes that the liquidity will be sufficient in all bidding zones. We agree with the features of a well-functioning forward market presented by ACER, but this has nothing to do with the quality of efficient hedging tools for cross-zonal risk (which are tools to facilitate the liquidity of forward markets).
6.3.1 Type of intervention - Option 0: Status quo: Bidding zone border LTTRs	No comments
6.3.2 Type of intervention - Option 1: increased number of allocation and product timeframes	We welcome this proposal to increase the time horizon of LTTR.
6.3.3 Type of intervention - Option 2: Zone-to-zone LTTRs	General comments on options 6.3.3., 6.3.4, 6.3.5 and 6.3.6: Energie-Nederland does no see sufficient added value of these options. It is unclear which problem will be addressed. It will not improve liquidity of forward markets. It will complicate allocation of cross-zonal capacity, which will be an entry barrier and not stimulate competition and liquidity. In addition, it can be mentioned that some new products (like any-zone to any-zone CfDs) can be introduced and traded purely on a voluntary basis without regulatory intervention. If there is a need for such products, then they can be developed and traded by the market.
6.3.4 Type of intervention - Option 3: Zone-to-hub LTTRs	See above.
6.3.5 Type of intervention - Option 4: Forward market coupling with CfDs	See above.
6.3.6 Type of intervention - Option 5: Forward market coupling with Futures	See above.

6.3.7 Type of intervention - Option 6: Market making	This option constitutes a targeted measure to raise liquidity within a bidding zone. Energie-Nederland is however strongly opposed to any kind of obligation or constraints imposed to some market participants which would be against the fundamental principles of the market, like free price formation. It is correctly mentioned that a tender would be needed for this market making function and it would entail costs. It is assumed that the TSO would be involved, although that is not a necessity. But more importantly, such measure would require a clear justification. In particular, it must be shown that the benefits would outweigh the costs that will have to be socialized.
6.4 Type of products offered by TSOs	We agree with option 0, i.e. maintaining existing PTRs and FTR options with full financial firmness. We disagree with option 1 as reduced firmness would go against all the improvements of firmness.
7. Analysis and conclusions	Energie-Nederland welcomes that ACER is acknowledging the importance of forward markets. A liquid forward market brings welfare gains. However, the way of allocating cross-zonal capacity is not that relevant. Energie-Nederland is of the opinion that the liquidity of the forward market is a result of the size of the market and market structure. It should therefore be one of the important factors that has to be considered when reconfiguring the bidding zones. Larger zones have a positive effect on liquidity. (Not only on the liquidity of forward markets but also on the liquidity of intraday and balancing markets.) The allocation of cross-zonal capacity has hardly any impact on liquidity, with three exceptions: • Cross-zonal capacity is currently allocated up to one year ahead. Energie-Nederland supports the idea to allocate cross-zonal for a period beyond one year ahead. This will have a small, positive impact on the liquidity of the forward market two or three years ahead of delivery. • LTTTRs should be introduced for NorNed. • Cross-zonal capacity is not allocated in the last hour before delivery. Energie-Nederland therefore calls on regulators and TSOs to allow for cross-zonal trading in the last hour before delivery.
8. Recommendations and proposed actions	See comments to analysis and conclusions.

Questions on confidentiality

* Do your answers contain confidential information?
  - ( ) Yes
  - (•) No

* Do you want the name of your company to remain confidential?

  In the evaluation of responses, ACER will not link responses to specific respondents or groups of respondents unless this is appropriate.
  - ( ) Yes
  - (•) No

Contact

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