

Public Consultation

with market participants about their needs for cross-zonal risk hedging opportunities on the bidding zone borders within the Baltic Capacity Calculation Region

The harmonised cross border markets in all timeframes will lead to a more efficient European market and benefits to customers. Forward markets have an important role in allowing parties to secure capacity and hedge positions ahead of the day-ahead timeframe. The Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (FCA GL) entered into force on 17 October 2016, will ensure that this can happen in the future pan-European market.

The provisions of FCA GL establish a framework for the calculation and allocation of interconnection capacity, and for cross-border trading, in forward markets (i.e. timeframes longer than day-ahead).

In accordance with FCA GL Article 30(1) transmission system operators (TSOs) on a bidding zone border shall issue long-term transmission rights (LTTR) **unless** the competent regulatory authorities of the bidding zone border have adopted coordinated decisions not to issue LTTR on the bidding zone border.

On April 6, 2017 Estonian and Finnish national regulatory authorities (NRAs) agreed on the hedging opportunities on the Estonian – Finnish (FI-EE) bidding zone border and found that there are sufficient hedging opportunities for FI-EE bidding zone border and agreed that there is no need for issuing by TSOs LTTR or to make other cross-zonal hedging products available on the FI-EE bidding zone border.

On April 26, 2017 Estonian and Latvian NRAs agreed that in addition to offering the Physical Transmission Rights - Limited (PTR-L) hedging instrument on Estonian – Latvian (EE-LV) bidding zone border, no need for issuing by TSOs LTTR or to make other cross-zonal hedging products available on the EE-LV bidding zone border.

In accordance with FCA GL Article 30(8) at least every 4 years, the competent regulatory authorities of the bidding zone border shall perform, in cooperation with the Agency for the Cooperation of Energy Regulators, an assessment of hedging opportunities pursuant to FCA GL Article 30 (3) – Article 30 (5).

In accordance with FCA GL Article 30(3), the coordinated decisions of national regulatory authorities shall be based on an assessment, which shall identify whether the electricity forward market provides sufficient hedging opportunities in the concerned bidding zones. The assessment shall be carried out in a coordinated manner by the NRAs of the bidding zone border and shall include at least:

- a) a consultation with market participants about their needs for cross-zonal risk hedging opportunities on the concerned bidding zone borders;

- b) an evaluation. In accordance with FCA GL Article 30(4), the evaluation shall investigate the functioning of wholesale electricity markets and shall be based on transparent criteria which include at least:
 - a) an analysis of whether the products or combination of products offered on forward markets represent a hedge against the volatility of the day-ahead price of the concerned bidding zone. Such product or combination of products shall be considered as an appropriate hedge against the risk of change of the day-ahead price of the concerned bidding zone where there is a sufficient correlation between the day-ahead price of the concerned bidding zone and the underlying price against which the product or combination of products are settled;
 - b) an analysis of whether the products or combination of products offered on forward markets are efficient. For this purpose, at least the following indicators shall be assessed:
 - i) trading horizon;
 - ii) bid-ask spread;
 - iii) traded volumes in relation to physical consumption;
 - iv) open interest in relation to physical consumption.

In accordance with FCA GL Article 30(5), in case the assessment shows that there are insufficient hedging opportunities in one or more bidding zones, the competent NRAs shall request the relevant TSOs:

- a) to issue LTTR;
- b) to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

Within the Baltic Capacity Calculation Region, the LTTR are implemented on Latvia (LV) and Estonia (EE) cross border interconnection (one direction, towards LV) in a form of Financial Transmission Rights (FTR) from 2018. Therefore, the NRAs should decide on the introduction of LTTR for the following bidding zone borders: Latvia – Lithuania (LV-LT) in both directions, LV-EE, direction from LV to EE, and FI-EE in both directions. However, also EE-LV border in direction from EE towards LV should be re-evaluated to make sure that the need of FTRs is still needed and sufficient hedging instruments.

To assess the market participants' needs for cross-zonal risk hedging opportunities on Estonian and Latvian electricity bidding zone borders, the Estonian Competition Authority (ECA) and the Public Utilities Commission of Latvia (PUC) hereby invite the active traders within the Baltic States electricity market to express their opinion on the cross-zonal risk hedging instruments.

ECA and PUC request the active traders to answer the following questions:

1. Are there sufficient hedging opportunities on the EE and LV bidding zones borders?
 - a. If there are sufficient hedging opportunities, please describe the used opportunities;
 - b. If you do not have enough hedging opportunities, please explain, what hedging products and on what borders do you expect to be useful for your business;

- c. Do you have a need for cross-zonal risk hedging opportunities on the EE-FI (both directions), LV-EE (in direction LV->EE), LV-LT (both directions) bidding zone borders? Please explain.
 - d. Are existing EE-LV FTRs sufficient for hedging the electricity price difference between EE and LV? Do you see the continuing need for FTRs in EE-LV border from 2022? Please explain why.
 - e. The usage of Tallinn and Riga Electricity Price Area differentials (EPADs) is very low. In case you see the need for additional hedging opportunities in EE bidding zone, please explain why Tallinn EPADs cannot serve enough hedging opportunity and do you see any possibility to increase the Tallinn EPADs ability to provide hedging.
2. Which products does your electricity hedging portfolio consist of?
- a. Share of the products used in past 3 years, including time horizon;
 - b. Planned share of the hedging products for next two years (2021, 2022).

Please give your opinion and answers to the questions **not later than 6th November, 2020**. The opinions and answers are welcome by post or e-mail to:

Estonian Competition Authority, Tatari 39, 10134 Tallinn Estonia

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or

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