# 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 (CCR)

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(2), where long-term transmission rights (LTTR) do not exist on a bidding zone border at the entry into force of FCA GL, the National Regulatory Authorities (NRAs) of the bidding zone border shall adopt **coordinated decisions** on the introduction of LTTR no later than 17 April, 2017, six months after the entry into force of FCA GL.

In accordance with FCA GL Article 30(3), the coordinated decisions 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**. 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 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 long-term transmission rights;
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 CCR, the LTTR are implemented on Latvia (LV) and Estonia (EE) cross border interconnection (one direction, towards LV) in a form of Physical Transmission Rights (PTR–limited). Therefore, the NRAs should decide on the aforementioned introduction of LTTR for the following bidding zone borders: Latvia – Lithuania (LV-LT), Latvia – Estonia (LV-EE), direction LV-EE, and Estonia – Finland (EE-FI).

**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 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. Do you have enough hedging opportunities in the EE and LV electricity markets?
    a. If you have enough hedging opportunities, please explain;
    b. If you do not have enough hedging opportunities, please explain, what hedging products do you expect to be useful for your company;
    c. Do you have a need for cross-zonal risk hedging opportunities on the LV-LT, EE-FI (both directions) and LV-EE (one direction, towards EE) bidding zone borders?
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 (2017, 2018).

Please give your opinion and answers to the questions not later than 13 February, 2017. The opinions and answers are welcome by post or e-mail to:

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