

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This information will not be published.

Rose Sargant

* Email

This information will not be published.

rose.sargant@nasdaq.com

* Company

Nasdaq Oslo ASA

* 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
- 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

Derivatives exchange

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	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 2. Introduction	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 3. Objectives	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 4. Literature review	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 5. Terminology and problem definition	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.1 Basic policy changes - no regret improvements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.2 The need for intervention	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.3.1 Type of intervention - Option 0: Status quo: Bidding zone border LTTs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.3.2 Type of intervention - Option 1: increased number of allocation and product timeframes	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.3.3 Type of intervention - Option 2: Zone-to-zone LTTs	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.3.4 Type of intervention - Option 3: Zone-to-hub LTTs	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

* 6.3.5 Type of intervention - Option 4: Forward market coupling with CfDs	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.3.6 Type of intervention - Option 5: Forward market coupling with Futures	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.3.7 Type of intervention - Option 6: Market making	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 6.4 Type of products offered by TSOs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 7. Analysis and conclusions	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* 8. Recommendations and proposed actions	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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	
2. Introduction	Nasdaq welcomes ACER's paper and its focus on the functioning of the electricity forward market. The Nordic forward market has seen a steady drop in liquidity over the last ten years. We believe that there are several reasons for this, not all of them addressed by ACER in its paper. One reason is the small bidding zones in the Nordic market. The biggest challenge for creating liquidity and sufficient hedging opportunities in the Nordic power market is the high number of bidding zones. In addition, the bidding zones in Norway and Sweden are too small to allow for good competition in each bidding zone. This as there are typically few large producers in the bidding zone, and there is often an imbalance between production and consumption.
3. Objectives	
4. Literature review	
5. Terminology and problem definition	<p>As ACER acknowledges under problem 1, it is challenging to achieve liquidity in forward products when the bidding zone is small. However, the merging of certain bidding zones does not seem to be a solution ACER has considered. In light of current strained market conditions and high wholesale power prices, which may continue to be strained in the long term due to demanding decarbonization targets, larger bidding zones should be considered. The huge disparity in prices between the Nordic bidding zones cannot be sustained in a well-functioning single market design, which has been set up with the goal to merge prices across bidding zones as much as possible. It is clear that investment in cross-border grid capacity needs to keep up with developments in the market.</p> <p>Nasdaq is very concerned about the large price differences between the Nordic bidding zones since a hedge with the Nordic system price alone has shown tendencies to become less appropriate as a proxy for several bidding zones. The market participants therefore need to hedge the bidding zone with both a Nordic system price and an EPAD contract. The EPADs are supporting the Nordic system price and vice versa, for a fully firm bidding zone hedge.</p>
6.1 Basic policy changes - no regret improvements	

6.2 The need for intervention	<p>We appreciate that ACER acknowledges that LTTRs do not automatically improve hedging opportunities within bidding zones. It needs to be evaluated in more detail how LTTRs complement hedging products available within a bidding zone. In that respect, we find it important that any new cross-border products, whether via LTTRs or a market coupling design, complement existing trade in hedging products on the financial exchanges. The net benefit of an intervention needs to be proven in order to justify an introduction of new product types into the existing market design. It is not clear in the paper whether this is ACER's aim or whether it seeks to replace current marketplaces for hedging products as much as possible.</p> <p>Most of our customers aim is to have higher liquidity in existing forward products, instead of introducing new products which increase the complexity in the market. The result of the ACER public consultation on cross-zonal hedging opportunities on the Finnish-Swedish bidding zone borders shows that 55.81% of the respondents did not expect that an introduction of LTTRs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones. Any redesign should therefore be based on improving this liquidity in the existing forward market products. In this respect, the solutions proposed by ACER should focus more on hedging within bidding zones, rather than hedging cross-border. This is in line with ACER's objective under point 3, but not with proposed solutions under point 6. These solutions mainly focus on options for introducing cross-zonal hedging products and not products that clearly represent a hedge against the volatility of the day-ahead price of the concerned bidding zone. This is fundamental for a well-functioning electricity market.</p>
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	<p>The solutions which ACER suggest in respect to market coupling entail a costly and complex redesign. There is no evident benefit of forward market coupling. Systemic changes in the electricity wholesale market structure and functioning require an increase in social welfare. There is little or no evidence that the introduction of forward market coupling would increase social welfare when other hedging instruments have already proven their efficiency but are lacking liquidity.</p> <p>There is no consideration for the fact that forward contracts are financial instruments and fall under financial legislation, notably MIFID II, and clearing houses clearing such products need to comply with the EMIR Regulation. We would therefore like to understand if ACER via its paper suggests a deregulation, i.e. exemption from the financial regulation rules, of the forward electricity market. Any additional layer of regulation would be unworkable from a supervisory perspective and would increase the regulatory burden on exchanges and market parties.</p> <p>The Nordic electricity market has for decades had a strong preference for trading on the regulated forward market. The introduction of MiFID II and EMIR, combined with increasing price differences between the Nordic bidding zones, has resulted in a drive towards more bilateral trading, i.e. trading outside of the transparent and supervised venues and outside of CCP clearing. To prevent increased bilateral trading, we strongly recommend ACER to focus on measures to support the existing forward markets and products. Well-functioning financial markets with transparency, tight spreads and high liquidity will secure efficient hedging opportunities for all market participants thereby reducing the cost for hedging.</p>
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	<p>This paper should be a first step towards a more comprehensive review of the forward electricity market. In our view, the goal should be to improve liquidity in the concerned bidding zones within the already existing forward markets/products. The focus should be on short term solutions such as the auctioning of existing forward market products and market making, which are covered under article 30 (5) (b) of FCA. For the long term, we strongly recommend ACER to consider merging small bidding zones.</p>

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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