

ACER
Trg Republike 3
1000 Ljubljana
Slovenia
Mailto: consultation2012E13@acer.europa.eu

Kontakt
Alexandra Gruber

DW
211

Unser Zeichen
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**Public Consultation on Forward Markets
Comments by Oesterreichs Energie (Register ID number: 80966174852-38)**

Dear Madam,
Dear Sir,

Oesterreichs Energie, the Association of Austrian Electricity Companies, welcomes the opportunity to comment on the Public Consultation Paper: Forward Risk-Hedging Products and Harmonisation of Long-Term Capacity Allocation Rules, 29 August 2012. Oesterreichs Energie represents more than 130 energy companies active in generation, trading, transmission, distribution and sales which in total cover more than 90 per cent of the Austrian electricity generation and the entire distribution.

General remarks

Oesterreichs Energie believes that a common design model for the wholesale power market must be introduced on a European basis. This means that FTRs or PTRs should be issued by TSOs between all bidding zones.

The introduction of FTRs or PTRs would ease cross-border competition, rationalise price signals, provide additional transparency and therefore increase market liquidity and facilitate market entry.

However, larger price zones would reduce the necessity for FTRs and PTRs significantly as larger bidding zones themselves add to liquidity, increased competition on the wholesale markets and ensure hedging possibilities for market participants.

Specific Answers

1) Are there other products or options which are not considered in this document that would be worth investigating?

Oesterreichs Energie is not aware of a successful example of appropriate cross-border hedging being offered in liquid financial markets on both sides of an interconnector in any part of Europe in any other way than through the issuance of PTRs by TSOs.

2) What will be the importance of the long-term Target Model and specifically the design of the forward market and the structure of long-term hedging products once the Day-Ahead and Intraday Target Models are implemented? Do you think your interest and demand for long-term hedging products will change (either increase or decrease) with the implementation of the Day-Ahead and Intraday Target Models? More specifically, what is your interest in cross-border/zone hedging?

The long-term Target Model is highly important to foster market integration and hedging possibilities in order to reduce risks, be it hedging production or sales contracts abroad. Our interest would increase since access would be easier due to harmonized systems and procedures and because Day-Ahead and Intraday Target Models would influence prices much more in a fundamental, physical way rather than by loosely ATC-coupled markets with higher market concentration. Deviations of short-term prices in different markets would be significantly lower or at least dampened and would therefore require less capital for PTRs and FTRs. This, in turn, makes trading these products more likely.

Oesterreichs Energie member companies' interest in cross-border/zonal hedging is based on access to liquid markets and therefore hedging for production and sales positions in other zones for all kind of products.

3) Would long-term hedging markets need to evolve (e.g. in terms of structure, products, liquidity, harmonisation, etc.) due to the implementation of: 1) the day-ahead market coupling, 2) day-ahead flow-based capacity calculation and 3) occasional redefinition of zones? If so, please describe how these changes would influence your hedging needs and strategy. If no evolution seems necessary, please elaborate why. Can you think of any striking change not considered here?

In case of the implementation of the day-ahead market coupling and the day-ahead flow-based capacity calculation it is absolutely necessary that traded financial products (like e.g. futures) still have a valid and debitable underlying for hedging purposes. Therefore, spot indices for a specific region must still exist.

In case of occasional redefinition of zones it is for the reason of future proves of investment absolutely necessary that the existence and liquidity of new hedging instruments is ensured in due time or redefinition is announced some years before it actually takes place in order for the market to come up with new instruments. Market participants should be able to rebalance their cross-zonal positions quite some time before the actual reconfiguration.

If redefinition of zones takes place more often this will have a strong negative impact on cross zonal trading and liquidity of long-term products. TSO have to use other available instruments (building up new power lines, redispatch, counter trading) to strengthen trust of market participants in the possibility to hedge their producing and sales positions.

4) What is for you the most suitable Long-Term Target Model (combination of energy forwards and transmission products) that would enable efficient and effective long term hedging? What would be the prerequisites (with respect to the e.g. regulatory, financial, technical, operational framework) to enable this market design in Europe? Which criteria would you use to assess the best market design to hedge long-term positions in the market (e.g. operability, implementation costs, liquidity, efficiency...)?

As long as there are no sufficiently liquid markets on both sides of a border or in a price zone for all relevant products (standard products as well as products for balancing purposes, PTRs with UIOSI, and secondary trading are the way to go. FTRs can be used in case of liquid markets on both sides as long as they are not subject to financial regulation and all regulatory issues in connection with the aforementioned. Otherwise FTRs will have a strong impact to the liquidity and would possibly kick out smaller market participants from the market.

Since operability, costs, and efficiency are prerequisites we think liquidity in secondary markets would reliably be an assessment criterion.

5) What techniques of market manipulation or “gaming” could be associated with the various markets for hedging products? What measures could in your view help prevent such behaviour?

Since PTRs are subject to UIOSI we don't think market manipulation is an issue at all. If products are illiquid there is always the danger of market power and market abuse. Enabling harmonized and well-functioning markets would limit opportunities for gaming or other manipulation. Additionally, REMIT is in place in order to ensure transparency and preventing illegal activities.

We would like to mention that also for the whole process of transmission (CACM) on the side of TSOs transparency is a key issue.

6) Would you like to change, add or delete points in this wish-list? If so, please indicate why and how.

In our view the wish-list is extensive enough and covers the most important issues.

7) Which aspects of auction rules would be most valuable to be harmonised? Can you provide some concrete examples (what, when, where) of how this could help your commercial operation (e.g. lowering the transaction costs)?

Auction timing and products should be harmonised with regional OTC- and futures-markets, in order to limit risks associated with buying transmission rights. A European platform is preferable with regard to cost efficiency, e.g. IT interfaces and procedures. It has to be checked if existing platforms like maybe power exchanges can play a major role in this context.

8) Which elements of auction rules have regional, country specific aspects, which should not be harmonised?

Oesterreichs Energie does not believe there is any reason to consider a non-harmonised model for the issuance of transmission risk hedging products in any part of Europe, based solely on the liquidity (or not) of financial trading in electricity contracts.

9) Which aspects should be harmonised in binding codes?

There are several issues that can be harmonised, among others capacity calculation, auction procedures, secondary markets, level of collateralisation, admission procedures, products and duration in comparison and connection to power forward contracts, and ratio of different timeframes.

10) If you are to trade from the Iberian Peninsula to the Nordic region and there existed PTRs with UIOSI, FTR Options or Obligations and CfDs in different regions – what obstacles, if any, would you face? How would you deal with them?

We understand the question as how competition can be achieved in the forward market by using transmission rights. This example shows that transmission rights are not only about hedging the price difference between the different price zones, but also about cross-border competition in the forward market. If you just want to hedge the price difference between the different bidding zones you can buy in one bidding zone and sell in another bidding zone. If a Spanish supplier would like to supply a customer in the Swedish bidding zone 4 there are two alternatives. The Spanish generator can sell its generation in the Spanish market and buy a Nordic system price contract and a CfD for Sweden 4. This would mean that the Spanish supplier would compete with other Spanish generators in the Spanish forward market and in the same way compete with Swedish suppliers in the retail market for Sweden 4, but there will be no cross-border competition due to these transactions. In case transmission rights are introduced, the Spanish supplier will buy transmission rights between all relevant bidding zones, which would be complicated for a single supply contract, but would give cross-border competition between all bidding zones.

And we would like to repeat: However, larger price zones would reduce the necessity for FTRs and PTRs significantly as larger bidding zones themselves add to liquidity, increased

competition on the wholesale markets and ensure hedging possibilities for market participants.

12) How important is it that capacity calculation for the long-term timeframe is compatible and/or consistent with the short-term capacity calculation and that capacity is interdependent and optimised across different borders?

Since the value of TRs in general is derived from short-term differences among others it is essential that capacity calculation is compatible, otherwise wrong economic signals are set.

13) Please indicate the importance of availability of different hedging products with respect to their delivery period (e.g. multi-year, year, semester, season) for efficient hedging against price differential between bidding zones. What do you think of multiple-year products in particular?

As long as there are traded long-term markets (or at least customers or producers that want to buy or sell quantities forward) on both sides of a border/zone there will be a need for hedging products with the same duration. Offering these will always contribute positively.

Multiple-year products could be of interest especially for hedging purposes in connection with investments in power plants. For other trading purposes they are not that important since there is little evidence that these contracts exist in the traded energy markets. But in all cases yearly products should be offered to the market more than one year in advance..

14) What would be your preferred splitting of available interconnection capacity between the different timeframes of forward hedging products? Which criteria should drive the splitting between timeframes of forward hedging products?

As a rule of thumb a splitting according to liquidity of traded products in the energy market could be a criterion. A proper secondary market could then increase liquidity for TRs.

15) While products with planned unavailability cannot be standardised and harmonised throughout Europe, they enable TSOs to offer more long-term capacity on average than standardised and harmonised products would allow. Do you think these products should be kept in the future and, if so, how could they be improved?

Since standardisation is key to liquidity it is preferable to develop harmonised products. The rest of the potential capacities can be auctioned in shorter timeframes.

16) Products for specific hours reflect market participants' needs. What should drive the decision to implement such products? How should the available capacity be split between such products and base load ones in the long-term timeframe?

TSOs should allocate maximum capacity to the most long term product. The secondary market is able to structure the transmission rights according to market needs. We like to mention

that also for balancing purposes transmission rights should be made available and usable on a market based procedure.

17) Should this possibility be investigated and why (please provide pros and cons)? In case you favour this possibility, how should this buyback be organised?

Maximization of allocated capacity means that sometimes too much capacity has been allocated by TSOs. In such a case, TSOs should buy back capacity already allocated. This process should be clearly defined with regard to features of the reverse auction, timing of the notification about the auction to the market.

In case of FTRs, due to new events TSOs ask the FTR owners to sell them back capacity for the period of curtailment. Based on the result of this inverse auction, FTR owners would drop (part of) their rights and be compensated. If no FTR owners would be willing to sell back to the TSOs, the FTR owners will be compensated at the spread of the price coupling.

In case of PTRs, due to new events, TSOs ask the PTR owners to sell the back capacity for the period of curtailment. Based on the result of this inverse auction, PTR owners would drop (part of) their rights and be compensated. If no PTR owners would be willing to sell back to the TSOs the PTR owners will be compensated at the UIOSI value, or at the value of the allocation of the day ahead explicit auction if still in place. If no explicit day-ahead auction would be organized, the PTR owner would be compensated at the day-ahead market spread (in this case, the moment of this market spread should be defined) or balancing spread between the two markets (if this spread is positive in the direction of the PTR).

18) With the potential evolution from PTRs with UIOSI to FTR options, does the removal of the nomination process constitute a problem for you? If so, why and on which borders, if not on all of them?

PTRs are needed at borders where the bidding zones have no liquid markets at least not for all products. PTRs can also give market participants a wider choice of trading products.

19) How could the potential evolution from PTRs with UIOSI to FTRs on border(s) you are active impact your current long-term hedging strategy?

It depends on the status of the relevant markets. It would be a natural development to directly introduce FTRs within the Nordic market, as the Nordic forward market is based on financial products. PTRs are more efficient in some of the other markets on the Continent.

20) If nomination possibility exists only on some borders (in case of wide FTRs implementation), is it worth for TSOs to work on harmonising the nomination rules and procedures? If so, should this harmonisation consider both the contractual and technical side? How important is such harmonisation for your commercial operation? Which aspects are the most crucial to be harmonised?

Yes, we believe that market participants have an interest in PTRs at several borders. At the same time, establishing a single platform for the nomination of long term transmission rights (PTRs) places unnecessary burden on TSOs and cannot be seen as market improvement.

21) Looking at the current features offered by the different auction platforms (e.g. CASC.EU, CAO, individual TSO systems) and financial market platforms in Europe, what are the main advantages and weaknesses of each of them?

As long as there is no really integrated market in Europe and there are different regions with different approaches and producing and transmission infrastructure in our opinion it makes sense to have auction platforms which take this differences into account. But all of them have to work under a fixed framework. Competition and different solutions how it can work and how a platform in detail could be operated in a cost efficient way are welcomed by the market.

22) How do you think the single auction platform required by the CACM Framework Guidelines should be established and organised?

o How do you see the management of a transitional phase from regional platforms to the single EU platform?

See answer to question 21)

o Should current regional platforms merge via a voluntary process or should a procurement procedure be organised at European Union level (and by whom)?

Voluntary, but the framework how each single platform should do and fulfill their task has to be fixed in advance.

o Should the Network Code on Forward Markets define a deadline for the establishment of the single European platform? If so, what would be a desirable and realistic date?

No.

Thank you for taking our comments into consideration. If you have any further questions, please do not hesitate to contact us.

Yours sincerely,

DI Dr. Peter Layr
President

Dr. Barbara Schmidt
Secretary General