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ACER

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Opinion on Forward Risk-Hedging Products and Harmonization of Long-Term Capacity Allocation Rules

Association of Independent Electricity Retailers in Sweden(OE) has been invited to present their views in the context of a Consultation on Forward Risk-Hedging Products and Harmonization of Long-Term Capacity Allocation Rules.

We take the opportunity to express our opinion on these matters. The Nordic Electricity market is a well-functioning market with most of the physical trade on the spot market and the head part of the financial hedging with financial contracts.

In the case of cross-regional roadmap for day-ahead market coupling, we believe that it is well designed with step-realistic and that it is good that as soon as possible to get a single price algorithm.

In the case of cross-regional roadmap for intraday, we mean that it is important that you get a working routine for such a trade, but also that it must not be designed in a too complicated way. We believe that the Nordic solution for intraday trading in Elbas works very well and can be used as a model for intraday trading in Europe. It is important that the intraday market closes as close as possible to the delivery hour.

We don't see that there is any need for hedging between the Nordic market and continental Europe.

With efficient market coupling the power flow will go in the right direction according to price and with well-functioning financial markets on both sides of the borders, we do not foresee any need what so ever for hedging between the markets.

Hedging is done with financial contracts in the area where the hedge is needed. Cross border hedging is no issue.

With products (or combination of products) that gives you the opportunity to hedge the spot price in the area where you have your consumption or production.

We don't think that we need different rules for AC and DC connections. As long as they are between different spot markets they should in principle be treated equally. There could be a need for different firmness rules depending on if the interconnector is between spot markets or within

the same spot market. A higher degree of counter trading could be motivated in that case be the case for firmness rules within a spot market.

The firmness rules are important for the spot market and will also influence the forward market, but they don't affect the need for LT hedging for interconnectors.

The capacity shall be fully used in the day-ahead auctions. Market coupling function must be fully utilised.

We will in this context underline the disadvantages with PTR.

PTR will mainly be used by vertically integrated energy groups operating in the Nordic countries and continental Europe.

These groups will dominate the cross border trade and that will cause an increased proportion of bilateral electricity contracts and an increased market concentration. The result of this will be reduced competition, which ultimately affects end users in a negative way.

We will also point at the risk with FTR. FTR will mainly be used by vertically integrated energy groups operating in the Nordic countries and continental Europe. It will probably increase the proportion of bilateral electricity contracts. It will probably also cause a deterioration of liquidity in the CfD market. The result will be an increased market concentration, which will reduce the competition and ultimately have a negative impact on the end users.

Concerning the transmission capacity is our opinion that there is a need for stronger incentives for TSOs to eliminate bottlenecks and preventing disruption to the network. TSO shall guarantee capacity in the existing network and also be responsible for the risks associated with disturbances in the network. These risks should not be borne by electricity suppliers and end customers. Price Peaks due to extreme high demand or due to production disruption / failure, however, should provide price signals to the market.

At last some comments on the common Nordic retail market. A common Nordic retail market has been decided. There are obvious benefits of maintaining a system price in this market and as long as you have a system price that can be safe, there should be CfD for all price areas. There must be financial instruments that make it possible to hedge in all price areas.

It is important to promote the liquidity of the CfD market. One way is to promote liquidity in the CfD by preventing bilateral hedging. Another way is to have market makers for the financial products. Let the three largest companies be market makers in a price area. Discourage high market dominance in the individual price areas. And at last let the TSOs be active on the CfD market.

For Independent Electricity Retailers

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