



BritNed Response to ACER Consultation PC-2012-E-13

Forward Risk-Hedging Products and Harmonisation of Long-Term Capacity Allocation Rules.

BritNed welcomes the public consultation giving all stakeholders the opportunity to provide their views on the development of the forward risk-hedging products and harmonisation of the long-term capacity allocation rules.

BritNed has been waiting for the start of this consultation for some time as it is a key starting point in the development of the long-term capacity allocation rules which is a fundamental piece of work to achieve the ultimate objective of a more harmonised Europe.

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

At this time we don't see any other products which need to be considered.

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?

It is clear that the long-term market will benefit from a more liquid and established Day Ahead and Intra Day market and we appreciate the fact that the role of the Day Ahead market will be important for the long-term transmission hedging products. We welcome further certainty in the development of this area so that we are in a position to assess our revenue streams and analyse our financial risks.

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?

Yes, long-term hedging markets will need to evolve with careful consultation with all stakeholders. Work has already begun on key projects which are all being progressed and some are further developed than others e.g. the NWE Market coupling solution, assessment of

bidding zones, consideration of a flow base mechanism etc.. It is essential that the outcome of all such projects is fed into the development of all European Network Codes.

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...)?

To develop a fully harmonised market with the same products will inevitably take some time and we can only see this working if regional specifics are taken into account e.g. merchant DC interconnectors.

We see an opportunity to develop the hedging products allowing market participants further opportunities to hedge their risk at both ends of the interconnectors but in order to do this we need to fully understand how any plan would impact our own interconnector.

We understand that in some circles it seems that FTRs are the ultimate solution. As a merchant interconnector who currently works solely on PTRs the move to FTRs causes us a real concern. We can see that the nomination process throughout Europe may be simplified and can ease complexities across many borders but we are still very unclear how the FTRs will be developed and in fact how if at all FTRs can work alongside PTRs. We would very much appreciate if the structure of a merchant DC interconnector can be incorporated in any such development of FTRs.

We believe sufficient liquidity in the Day Ahead markets in both regions (FUI and CWE) is needed before this concept can work and unfortunately at this moment in time we don't have the confidence that this liquidity will be sufficiently available on the GB side.

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?

Enforcement should be dealt with by the regulatory authorities and ACER. We fully support transparency and monitoring by the regulatory authorities in this area to prevent any such gaming happening.

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

On a more general point the development must be consistent with the development of the other European Network Codes especially CACM and Balancing. Furthermore, it is also very difficult assessing the impact of such developments as those referred to within this consultation, against what is essentially an unknown background. Put another way, it is not possible to fully

appreciate the impact of any such initiatives in isolation of other market developments which may or may not happen in the future due to, for example, other code changes and consequent market changes. Finally, for long-term capacity allocation to be a success there needs to be a liquid and established Day Ahead market coupling solution which is still some way off.

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)?

A process was undertaken last Year in the France-UK-Ireland to develop (where possible) a harmonised set of Access Rules relating to Interconnectors. It became apparent that it was impossible at this stage to harmonise everything due to the different regimes in the member states. This exercise was very time and labour intensive but was a well worthy exercise. Certain key areas of the rules were omitted as such areas were being discussed and developed through the European Network Code process and would require further assessment at a later date.

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

We would like to stress that consideration needs to be made to take account of the differences between a merchant model and that of a socialised model. There are many different factors which have a significant impact on the individual businesses if not addressed properly. One must also consider the difference between an AC interconnector to that of a DC interconnector. As much as we see the intent of harmonising rules we ask that this is not at the expense of limiting the flexibility offerings of our products which is extremely important to both our customers and ourselves.

9. Which aspects should be harmonised in binding codes?

Again in general we welcome a harmonised approach at a high level but we cannot see how every detail can be harmonised in the Codes. As mentioned we have differences between merchant and socialised, DC and AC and exempt and non-exempt not to mention the different regulatory regimes and technical issues and considerations that may differ between member states. It may be similar to the approach taken which is briefly explained in the answer to question 7 (where we agree which items can be harmonised today, which items can be harmonised in the future and agree which items can not be harmonised at all).

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?

No comment.

11. Would allocating the products at the same time represent an improvement for market players? Why? Where, if not everywhere, and under which conditions?

We have based our business case (amongst other things) on the flexibility of offerings. We would not welcome constraints to the process. We do and will continue to listen to our customers very carefully to provide products which they will use. We do and will continue to work with our national regulators to ensure we are fully compliant with European legislation in offering our products.

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?

This is essential. Our offerings work in tandem as we offer long – term products which through UIOSI allows capacity not nominated to roll into the Day Ahead market and then into Intra Day. It is essential for transparency that market parties, regulators and transmission system operators (including ourselves) have clarity of the process.

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 mentioned above it is key to our business that we are able to offer a variety of products and have the flexibility to change to proactively react to the needs of the market. We regularly consider a variety of product offerings in collaboration with our customers.

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 merchant interconnector we aim to raise revenue by offering products to our customers which they will use and whilst at all times remaining compliant with legislation. In order to achieve this we would not welcome any constraint on the percentage we can offer for either our implicit or explicit offerings.

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?

We do not understand the relationship of the question to our particular business as we already have an obligation to be transparent to disclose our planned outages and this is published well in advance so that the market is fully informed as to the availability of our products.

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?

See answer to question 14.

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?

From the commercial go live of the BritNed interconnector there has been very little up take in a buy-back market. If the Market would like to utilise such buy-back arrangements then we will be happy to facilitate (as we do already in a similar form through a secondary market) provided that interconnectors such as ourselves are kept cost neutral.

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?

Yes, BritNed has based its business model on PTRs with UIOSI so any move away from this will cause us real concerns.

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?

We feel that any long-term hedging possibilities are expected to be limited. We are of the view that any removal of the nomination process will reduce the options currently open to our customers not to mention decreasing the value of our products. Further, the offered capacity to both Day Ahead markets is expected to have a substantial impact on the prices in both the FUI and CWE regions. This will inevitably decrease the value of our longer-term capacity products.

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?

There are definite benefits to harmonisation but when the details are looked at more closely it is sometimes not so easy to resolve. Differences still exist in the two member states we work under namely Great Britain and The Netherlands. We are more than happy to provide further details of our experiences throughout this consultation process.

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?

We followed a detailed tender process to select the right solution for BritNed and we are happy with the chosen solution. We fear that one shoe does not fit all and we will be reluctant to adopt a less optimal solution to that which we currently have and indeed tendered for.

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

BritNed has recently undertaken a detailed procurement tender process to choose the provider for our own auction platform. As you would expect this took a considerable amount of time, effort and expense to reach a solution. We have spent and continue to spend a lot of time, effort and expense with our customers to ensure they are comfortable in using the solution. A considerable amount of work continues to be done to develop and implement changes to our platform to cater for the welcome implementation of the NWE market coupling solution and further in the future the changes to the Intra Day process.

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

We think that this will be a long and arduous process as you will have to cater for so many needs which at this stage we feel borders on the impossible.

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

We do not see how you could avoid going through a European procurement process.

- **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?**

It is essential that discussing more of the above needs to be undertaken before any realistic timescales can be set.