

ACER Decision concerning risk-hedging opportunities on the bidding zone borders between Finland and Sweden: Annex I

For information only

Evaluation of responses to the public consultation on risk hedging opportunities on the bidding zone borders between Finland and Sweden

1 Introduction

Between 5 April and 3 May 2022, ACER held a public consultation on risk-hedging opportunities on the bidding zone borders between Finland and Sweden ([PC_2022_E_01](#)). ACER received 43 responses from a broad range of stakeholders, representing energy companies, energy users, their associations, financial companies and the TSOs. **Section 2** provides a table summarising stakeholders' comments and providing ACER's views in response to these comments. Where applicable, to avoid repetition, references are provided to ACER's views set out in the related sections of the Decision. **Section 3** provides a list of respondents.

In the consultation, ACER invited the stakeholders to comment on the two options set out in Article 30(5) of the FCA Regulation which ACER had to decide on:

- a) requesting the TSOs to issue LTTRs; or
- b) requesting the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

The stakeholders were also invited to provide their views on the expected impacts of the two options, including the impact of possible solutions explored by ACER under option (b), and to indicate their preferred option (and solution).

2 Summary of stakeholders' comments and ACER's views

Questions related to Option (a) of Article 30(5): ACER requests the TSOs to issue LTTRs

Respondents' views	ACER's views
<p>Question 1.1: Do you expect that the introduction of LTTRs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones? (single choice: yes/no/I don't know)</p> <p>Question 1.2: Please explain, if needed</p>	
<p>16 respondents expected that the introduction of LTTRs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones for the following reasons:</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER expects that the introduction of LTTRs on the FI-SE bidding zone border provides new hedging opportunities, but also sees a risk that, at the same time, LTTRs could decrease the availability of existing hedging opportunities and hamper the functioning of the existing electricity forward market in the Nordic region.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - EPADs do not currently provide sufficient hedging opportunities for certain bidding zones (especially in Finland, according to 3 respondents). LTTRs would create additional cross-border hedging opportunities for market participants (7 respondents) and could complement EPADs (3 respondents). - LTTRs are a well-established and understood solution across Europe providing an open and non-discriminatory access to hedging solutions against cross-border transmission price risks (2 respondents) with no additional costs (1 respondent). - When auctioned frequently (monthly, quarterly and yearly products) and for long delivery periods (at least 3 years), LTTRs help the financial market to reflect far better the physical flows and, therefore, lead to a more balanced and 	<p>As concluded in the assessment pursuant to Article 30(3) of the FCA Regulation, EPADs do not currently provide sufficient hedging opportunities, which give grounds for a regulatory intervention. While ACER in principle agrees that EPADs could be complemented by LTTRs, it would introduce additional complexity in the market and LTTRs on the FI-SE bidding zone borders also come with the risk of promoting parallel markets.</p> <p>ACER agrees with the respondents stating that LTTRs would be a harmonised European solution but does not agree with the view that LTTRs on the FI-SE bidding zone border would have no additional costs. The relevant TSO would need to cover additional costs for these new bidding zone borders charged by the single allocation platform. Similarly, market</p>

Respondents' views	ACER's views
<p>liquid financial markets. The benefits of LTTRs are directly linked to sufficiently frequent auctions and long-term products (3 respondents).</p> <p>Additional remarks by 2 respondents highlighting that the positive liquidity of LTTRs will depend on the following elements:</p> <ul style="list-style-type: none"> - It should be ensured that the TSOs are incentivised to maximize the available volume of LTTRs. - Market participants' willingness to participate to LTTRs auctions will strongly depend on the level of margining requirements. - The timing of the LTTR auction will obviously define the duration during which secondary trading takes place. - cross-zonal borders within Sweden are subject to the FCA guideline and that the TSO/regulatory authority should have an obligation to secure sufficient cross-zonal hedging opportunities. The Swedish regulatory authority seems to disagree with this. 	<p>participants, which have not participated in the LTTR auctions before, would also be subject to additional cost.</p> <p>ACER notes that market participants call for more frequent and earlier auctions of LTTRs. However, changing the schedule of LTTR auctions is outside the scope of the present decision.</p> <p>ACER notes that the volume available for an LTTR auction is subject to the methodologies for capacity calculation (Article 10 of the FCA Regulation) and for splitting long-term cross-zonal capacity (Article 16 of the FCA Regulation).</p> <p>Margin requirements are subject to the single allocation platform (and harmonised allocation rules).</p> <p>While ACER acknowledges that timing of LTTR auctions could have an impact on secondary trading, experience with LTTRs to date has shown that secondary trading is extremely limited regardless of timing.</p> <p>ACER agrees that all bidding zone borders (as listed in the determination of capacity calculation regions pursuant to Article 15 of the CACM Regulation) are subject to the FCA Regulation.</p>
<p>24 respondents expected that the introduction of LTTRs would generally not improve hedging opportunities in the Finnish and the Swedish bidding zones for the following reasons:</p>	<p>While ACER understands that LTTRs would provide additional hedging opportunities, ACER agrees with the respondents that introducing LTTRs may potentially reduce the existing hedging opportunities, which may negatively affect the overall availability of hedging opportunities on the FI-SE bidding zone borders.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - The addition of LTTRs could be detrimental to the overall liquidity of the Nordic market by splitting the liquidity of the existing EPAD products (11 respondents). - Some respondents stated that LTTRs would fail to add cross-border hedging opportunities, as they: 	<p>ACER shares the concerns of the respondents regarding the risk of split liquidity.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> ○ create an additional complexity to the market products (3 respondents) ○ LTTRs are an unknown product in the current Nordic hedging system (1 respondent) ○ only move the price risk from one bidding zone to another (1 respondent) ○ do not provide a 100% hedge against the volatility of the day-ahead price of the concerned bidding zone (contrarily to the currently existing EPAD products) (1 respondent) ○ do not address the primary market need to hedge bidding zone against regional price risks (1 respondent), and ○ do not force winning bidders to use the LTTRs to support the liquidity in the existing forward market (1 respondent) - LTTRs risk creating barriers for small and medium market participants (7 respondents) due to: <ul style="list-style-type: none"> ○ the additional complexity of the different market products (5 respondents), and, ○ the additional investments, collaterals and resources required by JAO to bid on the LTTR markets (2 respondents). - Measures supporting the EPAD trading would be preferred as they support the current market structure (2 respondents). - 1 respondent provided an example from the Estonian-Latvian market, showing that there is no link between the LTTR being auctioned and the EPAD market improvements, probably because most of the demand side was only for speculation or to be used for bilateral hedgers. - 1 respondent was of the view that LTTRs may potentially improve hedging opportunities in FI by adding an opportunity to move the risk exposure to another price area with a more liquid EPADs market but that the approach with only 	<p>ACER agrees that LTTRs cannot be used to directly hedge against the volatility of day-ahead electricity prices.</p> <p>ACER shares the concern that speculative LTTR holders may not provide hedging opportunities to the Nordic electricity forward market.</p> <p>ACER considers the views on increasing complexity linked to the introduction of LTTRs in section 6.3.2.4.</p> <p>ACER agrees that supporting EPAD trading is a more appropriate measure, as argued in the Decision.</p> <p>ACER considers the risk related to speculative use of LTTRs in sections 6.2 and 6.3 of the Decision.</p> <p>ACER agrees that with LTTRs a market participant could address a risk exposure with EPADs from other price areas and agrees that the SE2 and SE4 bidding zones are not addressed by this this decision.</p>

Respondents' views	ACER's views
<p>SE1/SE3-FI LTTRs do not improve hedge opportunities in the remaining Swedish bidding zones SE2/SE4.</p> <ul style="list-style-type: none"> - 1 respondent provided additional remarks: <ul style="list-style-type: none"> o ACER should provide a clear FCA guideline also for point (b). Without a clear guideline it may prevent certain regulatory authorities to choose option (b) and choose option (a) as a default, due to the perceived legal uncertainties, and, o ACER should require that all provisions on systemic changes in the electricity wholesale market structure and functioning require social welfare to be increased as a consequence of such structural reforms. Art 30(4) of the FCA Regulation rightly recognize that the evaluation of the forward markets must be based on transparent criteria to prove whether the products offered are efficient. No evidence has been presented to prove that the issued LTTRs have contributed to better hedging opportunities in the forward market. 	<p>Article 30(5) of the FCA Regulation allows for alternative solutions to issuing LTTRs (option (b)), without being restrictive. This provides discretion to the relevant TSOs and their competent regulatory authorities with respect to such alternative solutions. This also means that any legal uncertainties linked to these solutions could (and should) be addressed by the TSOs in their proposal pursuant to Article 30(6) of the FCA Regulation, which will then be subject to approval by the competent regulatory authorities.</p> <p>Amending the FCA Regulation is not in the scope of this decision.</p> <p>ACER explains in section 6.3 of the Decision how LTTRs could improve hedging opportunities.</p>
<p>3 respondents did not know if the introduction of LTTRs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones for the following reasons:</p> <ul style="list-style-type: none"> - 1 respondent considered that LTTRs and in particular physical transmission rights (PTRs) would support big and fully integrated companies, increasing their market power, and would complicate the hedging of small companies as well as the transparency for the end user. - 1 respondent believed that liquidity and hedging opportunities will be more efficiently supported by supporting the existing market and instruments rather by introducing a new type of contract. 	<p>ACER shares the concerns of the respondents and considers that an EPAD solution would be more efficient.</p>

Respondents' views	ACER's views
<p>Question 2.1: Following the introduction of LTTRs, do you expect the liquidity of the Finnish EPAD products to: (Single choice: increase significantly / increase slightly / remain the same / decrease slightly / decrease significantly / I don't know).</p> <p>Question 2.2: Please explain your choice.</p>	
<p>3 respondents indicated that they expected the liquidity of the Finnish EPAD products to increase significantly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - LTTRs can be expected to increase competition in the Finnish financial electricity markets by correcting the structural imbalance of the supply and demand of financial instruments, thus leading to better price formation and more efficient markets. The increased competition can be expected to contribute to the liquidity of the financial products traded in the Finnish financial electricity markets. (1 respondent) - LTTRs help taking positions in the lower liquidity market. (1 respondent) 	<p>ACER agrees that LTTRs can address a supply/demand asymmetry as described in these comments.</p> <p>ACER agrees that LTTRs could be used for taking positions in the EPAD market.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - If LTTRs are options, market participants buying the transmission right may use the existing EPAD-contracts to delta hedge, which in turn will improve liquidity in EPAD-contracts. (1 respondent) 	
<p>9 respondents indicated that they expected the liquidity of the Finnish EPAD products to increase slightly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Competition among hedging opportunities encourage current incumbent marketplace and clearing house develop marketing and offering of relevant EPAD products (3 respondents) - Competition created by LTTRs between FI and SE encourages liquidity and is unlikely to damage that of EPAD and encourages liquidity (1 respondent) - LTTR buyers would hedge by trading EPADs on both side of the border (Finland and Sweden) (1 respondent) - Effect on liquidity is expected to be very low but positive due to the fact that Finland is a relatively balanced market (1 respondent) - LTTRs might add liquidity on the SE1-FI border where there is a very predictable flow. EPAD would be, however, a better hedging product. This added liquidity would not take place on the SE3-FI border (1 respondent). 	<p>ACER does not agree that LTTRs would increase competition among market places. ACER is not aware of any existing barrier to competition, since EPADs are standard products, which can be freely traded on any market place.</p> <p>ACER agrees that LTTRs could be used for taking positions in the EPAD market.</p> <p>ACER agrees with the views on the benefits of EPAD solutions.</p>

Respondents' views	ACER's views
<p>1 respondent indicated that they expected the liquidity of the Finnish EPAD products to remain the same following the introduction of LTTRs.</p> <p>No further explanations were provided.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>15 respondents indicated that they expected the liquidity of the Finnish EPAD products to decrease slightly following the introduction of LTTRs.</p>	<p>See above.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Liquidity of EPADs will be spread across different products and therefore be lowered (5 respondents) - LTTRs will be used instead of EPAD (2 respondents) if: <ul style="list-style-type: none"> o LTTRs are available, bilateral contracts will be more frequent compared to hedging contracts settled against the system price (1 respondent). o EPAD SE1 and SE3 liquidity is used to hedge part of EPAD FI exposure (2 respondents). - LTTRs' volume will be limited due to the limitation set by the portion of max Net Transmission Capacity (NTC) made available by the TSO (1 respondent). - It has been proven that building liquidity in smaller bidding zones is challenging (1 respondent). 	<p>ACER shares the concerns about negative impacts on the EPAD liquidity with parallel markets.</p> <p>ACER agrees that the TSOs should only offer available cross-zonal capacity.</p> <p>ACER agrees that a small bidding zone may face difficulties in hedging local exposure without provision of cross-zonal capacities or other measures.</p>

Respondents' views	ACER's views
<p>- Liquidity has been decreasing over time and the introduction of a new hedging instrument would not make it easier to hedge the exposure, rather the opposite (1 respondent).</p> <p>In order to prevent increased bilateral trading outside transparent and supervised venues and outside CCP clearing, 1 respondent strongly recommends ACER to support the existing market design and products and not, by default, request the TSOs to issue LTTRs. In the respondent's view, well-functioning financial markets with transparency, tight spreads and high liquidity would secure efficient hedging opportunities for all market participants and by this reduce the cost of hedging overall.</p>	
<p>9 respondents indicated that they expected the liquidity of the Finnish EPAD products to decrease significantly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Liquidity flows are a random process, mathematically speaking, and it cannot be proven that more liquidity would flow to Finland. It depends on the interest of the market participants, and having a transparent and liquid market is not in the interest of all market players. Some market players may prefer to trade in less transparent and non-liquid market (3 respondents). - Implementing LTTRs would be an inferior alternative to measures which support the EPAD trading in the Nordic market, since the measures of supported market making and auctioning of EPADs are linked to and strengthen the trading of system price contracts, in contrary to LTTRs (1 respondent). 	<p>ACER agrees that it is difficult to foresee the impact on EPADs' liquidity and that there are benefits in introducing an EPAD solution. ACER also shares respondents' concerns as to possible negative impacts on the EPAD liquidity.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - ACER's observation on the expected risk of liquidity is supported. LTTRs will not attract new participants but only make the market more complex and expensive for the market participants to hedge their position (1 respondent). 	
<p>6 respondents indicated that they do not know how they expect the liquidity of the Finnish EPAD products to be affected following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations :</p> <ul style="list-style-type: none"> - The impact of LTTR introduction on liquidity is dependent on the previous level of liquidity and demand-supply dynamics. Therefore, it is difficult to assess precisely. On the FI-EE border, the introduction of LTTRs would however significantly increase the liquidity on both sides of the border (1 respondent). - It is difficult to judge the impact of LTTRs on liquidity (1 respondent). - The impact on Finland's EPADs would be reflected in a decrease in liquidity on the demand side, but supply may increase indirectly. The market actors might benefit from bilateral hedging (FI = SE1 -LTTR) but to adjust their position on the marketplace (FI = SYS + EPAD FI) (1 respondent). - The issuance of LTTRs by the Swedish and Finnish TSOs will increase competition on the bidding zone borders between Finland and Sweden and is unlikely to damage that of EPADs, which encourages liquidity, including when it comes to cross-border hedging instruments (1 respondent). 	<p>ACER acknowledges these comments and agrees that the impact on EPAD liquidity is difficult to foresee.</p>

Respondents' views	ACER's views
<p>Two respondents added that liquidity and hedging opportunities will be more efficiently supported by establishing a support model that uses the existing market and instruments, rather than introducing a new type of contract.</p>	<p>ACER agrees that solution which directly support EPAD products (i.e. EPAD coupling; market maker function) could support hedging opportunities more efficiently.</p>

Respondents' views	ACER's views
<p>Question 2.3: Following the introduction of LTTRs, do you expect the liquidity of the Swedish EPAD products to: (single choice: increase significantly / increase slightly / remain the same / decrease slightly / decrease significantly / I don't know).</p> <p>Question 2.4: Please explain your choice.</p>	
<p>3 respondents indicated that they expected the liquidity of the Swedish EPAD products to increase significantly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>

Respondents' views	ACER's views
<p>Explanations:</p> <ul style="list-style-type: none"> - There will be additional demand from Finland for Swedish EPADs (1 respondent). - If LTTRs are options, market participants buying the transmission right may use the existing EPAD-contracts to delta hedge, which in turn will improve liquidity in EPAD-contracts. In addition, all bidding zone borders within Sweden should be in scope to significantly increase liquidity in Swedish EPADs, in particular SE4 (1 respondent). 	<p>ACER agrees that additional demand from the Finnish bidding zone may increase liquidity of the Swedish EPADs.</p> <p>ACER agrees that LTTRs could be used for taking positions in the EPAD market.</p>
<p>6 respondents indicated that they expected the liquidity of the Swedish EPAD products to increase slightly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Competition among hedging opportunities encourage current incumbent marketplace and clearing house to develop marketing and offering of relevant EPAD products (3 respondents). - Competition created by LTTRs between FI and SE encourages liquidity and is unlikely to damage that of EPAD and encourages liquidity (1 respondent). - It is expected that some of the currently unsatisfied demand for hedging in the Finnish financial electricity markets will be satisfied using the instruments available on the Swedish financial electricity markets and therefore increase the demand and liquidity of those instruments (2 respondents). - LTTR buyers would hedge by trading EPADs on both side of the border (Finland and Sweden) (1 respondent). 	<p>ACER does agree that LTTRs would increase competition among market places. ACER is not aware of any existing barrier for competition, since EPADs are standard products which can be freely traded on any market place.</p> <p>ACER agrees that LTTRs can address a supply/demand asymmetry as described in these comments.</p> <p>ACER agrees that LTTRs could be used for taking positions in the EPAD market.</p>

Respondents' views	ACER's views
<p>1 respondent indicated that they expected the liquidity of the Swedish EPAD products to remain the same following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Liquidity might be added in SE1 but won't have a positive impact for SE3 considering the existing adverse flows and the fact that LTTRs will be more expensive than an EPAD. To boost liquidity in SE1, an EPAD auction would be a better solution. 	<p>ACER agrees that LTTRs could be more efficiently used at the FI-SE1 bidding zone border compared to the FI-SE3 bidding zone border.</p>
<p>14 respondents indicated that they expected the liquidity of the Swedish EPAD products to decrease slightly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Liquidity of EPADs will be spread across different products and therefore be lowered (3 respondents). - LTTRs will be used instead of EPADs (2 respondents). If LTTRs are available, bilateral contracts will be more frequently used while the use of hedging contracts settled against the system price will decrease. 	<p>ACER shares respondents' concerns about negative impacts on the EPAD liquidity due to parallel markets.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - Liquidity has been decreasing over time and the introduction of a new hedging instrument will not make it easier to hedge the exposure, rather the opposite (1 respondent). - LTTRs' volume will be limited due to the limitation set by the portion of max NTC made available by the TSO, (1 respondent). - Different bidding zones' liquidity will be affected differently (potential increase for SE1 and SE3 - potential decrease for SE2 and SE4) (1 respondent). - It has been proven that building liquidity in smaller bidding zones is challenging (1 respondent). - Two respondents are of the view that LTTRs do not provide a perfect hedge (unlike the EPAD system). Those respondents indicate that they prefer to hedge with existing financial products due to the perfect hedging it offers. - To prevent increased bilateral trading outside transparent and supervised venues and outside CCP clearing, one respondent strongly recommends ACER to support the existing market design and products and not by default request the TSOs to issue LTTRs. According to the respondent, well-functioning financial markets with transparency, tight spreads and high liquidity would secure efficient hedging opportunities for all market participants and by this reduce the cost of hedging overall. - One respondent was of the view that if the need for purchasing a hedge in Finland cannot be met without going through an EPAD SE3, it might lead to an additional liquidity imbalance towards this zone. 	<p>ACER agrees that the TSOs should only offer available cross-zonal capacity.</p> <p>ACER agrees that small bidding zones may face difficulties in hedging local exposure without provision of cross-zonal capacities or other measures.</p> <p>ACER agrees that LTTRs might lead to a shift of liquidity.</p>
<p>7 respondents indicated that they expected the liquidity of the Swedish EPAD products to decrease significantly following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split</p>

Respondents' views	ACER's views
	liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.
<p>Explanations:</p> <ul style="list-style-type: none"> - Liquidity flows are a random process, mathematically speaking, and it cannot be proven that more liquidity would flow to Finland. It depends on the interest of the market participants, and having a transparent and liquid market is not in the interest of all market players. Some market players may prefer to trade in less transparent and non-liquid market (3 respondents). - ACER's observation on the expected risk of liquidity is supported. LTTRs will not attract new participants but only make the market more complex and expensive for the market participants to hedge their positions (1 respondent). 	ACER agrees that it is difficult to foresee the impact of LTTRs on EPAD liquidity.
<p>12 respondents indicated that they do not know how they expect the liquidity of the Swedish EPAD products to be affected following the introduction of LTTRs.</p>	<p>For ACER's assessment of LTTRs' impacts, see section 6.3 of the Decision.</p> <p>ACER's assessment considers a number of potential impacts of LTTRs on the liquidity of EPADs. While the overall impact is not straightforward, ACER is particularly concerned about the risk of split liquidity with parallel markets, which may cause an overall decrease in the liquidity of EPADs.</p>
<p>Explanations :</p> <ul style="list-style-type: none"> - The situation is not clear (2 respondent). - Supply bids from SE1 might shift to FI and therefore SE1's liquidity might stay the same. For SE3, the situation is unclear and might stimulate more trading between SE3 and FI. The hedging possibilities between Swedish price areas will remain unsatisfactory (1 respondent). - The impact of LTTR introduction on liquidity is dependent on the previous level of liquidity and demand-supply dynamics. Therefore, it is difficult to assess 	ACER agrees that it is difficult to foresee the impact on EPAD liquidity.

Respondents' views	ACER's views
<p>precisely. On the FI-EE border, the introduction of LTTRs would however significantly increase the liquidity on both sides of the border (1 respondent).</p> <ul style="list-style-type: none"> - It is difficult to judge the impact of LTTRs to liquidity (1 respondent). - The impact on Sweden's EPADs would be reflected in a decrease in liquidity on the supply side, but demand may increase indirectly. The market actors might benefit from bilateral hedging ($SE1 = FI - LTTR$), but to adjust their position on the marketplace ($SE1 = SYS + EPADSE1$) (1 respondent). - The issuance of LTTRs by the Swedish and Finnish TSOs will increase competition on the bidding zone borders between Finland and Sweden and is unlikely to damage that of EPADs, which encourages liquidity, including when it comes to cross-border hedging instrument (1 respondent). <p>Three respondents state that they do not understand the rationale behind this question as it is very difficult to accept that any changes in Sweden would justify to continue a status of insufficient hedging opportunities in the Finnish bidding zone.</p> <p>Two respondents add that liquidity and hedging opportunities will be more efficiently supported by establishing a support model that uses the existing market and instruments, rather than introducing a new type of contract.</p>	<p>Any regulatory intervention aimed at improving hedging opportunities in the Finnish bidding zone must also consider potential impacts on hedging opportunities in other bidding zones.</p> <p>ACER agrees with this statement.</p>

Respondents' views	ACER's views
<p>Question 2.5: In your view, if LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should:</p> <ul style="list-style-type: none"> • not be introduced. • still be introduced (regardless of their negative impact), in order to provide the market with the required hedging opportunities 	

Respondents' views	ACER's views
<p>30 respondents indicated that if LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should not be introduced.</p> <p>12 respondents indicated that if LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should still be introduced (regardless of their negative impact), in order to provide the market with the required hedging opportunities.</p> <p>1 respondent did not provide an answer.</p>	

Respondents' views	ACER's views
<p>Question 3.1: Do you have concerns that issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex? (single choice: Yes / No / I don't know)</p> <p>Question 3.2: Please explain, if needed.</p>	
<p>28 respondents expressed concerns that issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex.</p>	<p>ACER considers these comments in section 6.3.2.4 of the Decision.</p>

Respondents' views	ACER's views
<p>Explanations:</p> <ul style="list-style-type: none"> - Introducing LTTRs will increase the complexity of the hedging market set-up for smaller market participants (4 respondents) and consumers (2 respondents). - Introducing a new hedging instrument will, by itself, increase the complexity of the market (3 respondents). - Making the Nordic market more complex is not the way to go. Liquidity and hedging opportunities will be more efficiently supported by establishing a support model that uses the existing market instruments (2 respondents). It would be much simpler if the TSOs acted as market makers for standard EPAD products. This solution would have no obstacles and would boost the liquidity of those products (3 respondents). - The complexity of the Nordic market also comes from the high number of bidding zones. Introducing LTTRs in a market with such a high number of bidding zones would be complex as many different products would need to be introduced (3 respondents). - To hedge in a single bidding zone, a chain of LTTRs might be needed to bridge several bidding zones in the Nordic market (1 respondent). - If LTTRs were to be introduced, the duration (2 respondents), amount, size and frequency of the auctions would play a key role (1 respondent). - Introducing LTTRs would lead to higher transaction cost and perhaps higher collaterals (1 respondent). - Introducing LTTRs might risk to reduce liquidity both in the EPAD market but also in System contracts. This setup makes the situation in continental Europe and the Nordic region very different. LTTRs are not designed for the Nordic market, leading to increases of the market “power/share” of individual companies (1 respondent). 	<p>ACER understands that LTTRs could increase complexity, which would especially affect medium and smaller sized market participants.</p> <p>ACER agrees with the respondents in relation to the benefits of EPAD solutions. In ACER's understanding, the TSOs would only support a market maker function but would not take up this role directly.</p> <p>ACER shares the concern about increasing complexity with small bidding zones and therefore a high number of LTTRs issued per bidding zone border.</p> <p>ACER agrees with the respondents regarding the differences between the forward market in the Nordic region and in Continental Europe.</p> <p>ACER agrees that LTTRs would only complement hedging products when used for a hedge against the price in a zone and it cannot directly complement a Nordic system price product.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - The complexity of LTTRs also comes from the fact that two areas need to be handled with LTTRs product even if there is only interest in the hedging in one bidding zone (1 respondent) - Overwhelming majority of market participants have a need to hedge prices within bidding zones and not across bidding zones. LTTRs are completely disconnected from the System price that is a reference for the Nordic market (1 respondent). - There is no secondary trading of LTTRs in contrast with the existing financial products (1 respondent). 	<p>ACER agrees with this observation.</p>
<p>15 respondents did not have concerns that issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex.</p>	<p>ACER considers these comments in section 6.3.2.4 of the Decision.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - LTTRs are not inherently complex (2 respondents). - Energy professionals are used to trading and hedging such products in other bidding zones (e.g. continental Europe) (7 respondents). - Contrary to EPADs, purchasing LTTRs from the TSOs does not require extra market knowledge and contacts. They are made available transparently and in a non-discriminatory manner by the TSO (1 respondent). - LTTRs would only be issued in parallel to the existing financial hedging instruments, hence the usage of those products is not mandatory and would therefore not inherently increase the complexity of the market (3 respondents). - LTTRs may not be a perfect direct hedging product for certain market participants but that the indirect increased EPAD liquidity should improve the hedging opportunities. A well-designed implementation through FTR options should at the same time increase the demand for existing EPAD contracts, which 	<p>ACER agrees that LTTRs on the FI-SE bidding zone borders can be issued in a transparent and non-discriminatory manner and understands that introducing LTTRs on these borders would not add any complexity for market participants already using LTTRs on other borders.</p> <p>While ACER agrees that participation in LTTR auctions would not be mandatory, some market participants with hedging needs do consider the complexity of combining LTTRs with the established standard products of the Nordic electricity forward market as a barrier for participating in LTTR auctions. Such barrier could have a negative effect on the TSOs' congestion income.</p>

Respondents' views	ACER's views
<p>will counter the negative effects of adding an additional instrument (1 respondent).</p> <ul style="list-style-type: none"> - Implementing LTTRs will increase possibilities for market participants to conclude bilateral contracts (PPAs or similar) (2 respondents). - Small and mid-size companies are relying on professional service providers (experienced in the LTTRs products) to perform their hedging (1 respondent). - Any new hedging solution other than the LTTRs would add complexity to hedging (1 respondent). 	<p>ACER agrees with the respondents regarding the increasing possibility to conclude bilateral contracts with LTTRs. However, ACER is concerned that such development entails a risk of split liquidity in parallel markets.</p> <p>ACER understands that the need to pay service providers for participating in LTTR auctions may be considered a barrier for small and medium-size participants.</p>
<p>No respondent indicated that they did not know if issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex.</p>	

Respondents' views	ACER's views
<p>Question 4.1: In case LTTRs are introduced, would you prefer: (single choice: FTR obligations / FTR options / Other / I don't know)</p> <p>Question 4.2: Please explain, if needed</p>	
<p>17 respondents would prefer FTR obligations if LTTRs were introduced.</p>	
<p>Explanations:</p> <ul style="list-style-type: none"> - FTR obligations are much more suited to complement the current financial products due to their similar structure (5 respondents). - FTR options are more suited as trading instruments rather than to have a hedging purpose. FTR options would be more likely used in speculative trading rather than to improve the fundamental hedging needed (4 respondents). 1 respondent provided details on the various ways in which market participants could use FTR options (some of them being potentially detrimental to the market). 	<p>ACER understands that LTTRs in the form of FTR obligations would be more compatible with the established hedging products and would be more suitable to meet the hedging needs of some market participants. FTR options would be more likely used for speculation.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - Compared to options, obligations can be used to cover a physical position which is needed by a clear majority of the market participants (2 respondents). - If FTR options were combined with EPAD products, the results of market participants choosing not to exercise their LTTRs could be catastrophic (1 respondent). - Obligations will be easily understood by the market and should therefore be preferred (1 respondent). 	
<p>13 respondents would prefer FTR options if LTTRs were introduced.</p>	
<p>Explanations:</p> <ul style="list-style-type: none"> - FTR options increase hedging opportunities and are well received by market participants (1 respondent). - FTR options perfectly complement financial instruments as system price and area price (1 respondent). - FTR options constitute products which the market is familiar with as they are implemented on other borders (7 respondents) and, in particular, they will be implemented on the Estonian-Finish bidding zone border in the future (5 respondents). - Only FTR options reflect the actual physical flows. FTR obligations might not reflect the actual expected physical flows and may distort the underlying fundamentals behind the financial markets. With FTR options, however, the Force Majeure risk needs to be borne by the TSO (1 respondent). - From a trading perspective, FTR options are preferable for non-asset backed entities but that for hedging purposes, FTR obligations are preferable. Overall FTR options are preferred (1 respondent). 	<p>Most LTTRs in Europe are issued as FTR options. ACER understands that several market participants would prefer the FTR options because they are used on other bidding zone borders.</p> <p>ACER understands that FTR obligations can also consider the expected physical flows. Since, in comparison with FTR options, such flows can also be netted in case of obligations, FTR obligations could be provided in larger volumes by the TSOs. Rules on force majeure equally apply to both forms of LTTRs.</p> <p>ACER shares the view regarding specific preferences for the different forms of LTTRs.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - LTTR obligations are less suited for hedging during peak hours (1 respondent). - FTR options or PTRs with the “use-it-or-sell-it-principle” should be the product offered at minimum by the TSOs across all European bidding zones as they provide the most flexibility for companies to compete across borders while avoiding the creation of new barriers. FTR obligations could be introduced by the industry itself. If a functionality of anticipated netting was to be considered, other details would need to be considered (1 respondent). 	<p>ACER does not see why the two types of products should be differently suited for peaks.</p> <p>ACER notes this preference but is not of the opinion that LTTRs could be introduced by somebody else than TSOs.</p>
<p>4 respondents would prefer other products than FTR options or FTR obligation if LTTRs were introduced.</p>	
<p>Explanations :</p> <ul style="list-style-type: none"> - Contribution to EPADs as market makers would be preferred (1 respondent). - Issuance of LTTRs should be reconsidered because: <ul style="list-style-type: none"> o for small- and medium-size market participants, it would be a major challenge to take a stand on LTTR auctions (1 respondent). o ensuring availability of other long-term cross-zonal hedging products was needed (1 respondent). - Even though FTR options present benefits for the traders, the current Nordic market design is more suitable to FTR obligations (1 respondent). 	

Respondents' views	ACER's views
<p>9 respondents do not know which product they would prefer if LTTRs were introduced.</p>	
<p>Explanations :</p> <ul style="list-style-type: none"> - On one hand, FTR options are preferable for trading purposes but FTR obligations are more compatible with the current products of the Nordic market (2 respondents). - 2 respondents highlighted the need to understand the collateral requirements and settlement processes, and that they prefer TSOs as a counterparty instead of a clearing house to avoid large concentration margins. - 1 respondent asked to reconsider the issuance of LTTRs. 	

Questions related to Option (b) of Article 30(5): ACER requests the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

Respondents' views	ACER's views
<p>Question 5.1: In your view, which approach or approaches under option (b) would provide sufficient cross-zonal hedging opportunities? (multiple choice: TSOs coupling of EPADs (i.e. with an auction of EPADs) / Support of a market maker function / Other / I don't know). Question 5.2: Please explain, if needed.</p>	

Respondents' views	ACER's views
<p>27 respondents are of the opinion that the support of a market maker function to provide sufficient cross-zonal hedging opportunities under option (b) would provide sufficient hedging opportunities.</p>	<p>For ACER's assessment of the market maker function, see section 6.4 of the Decision.</p>
<p>Explanations :</p> <ul style="list-style-type: none"> - Existing EPADs are a sufficient hedging product as long as a market maker is present to set prices (3 respondents). - TSOs should use the currently existing financial products. There is no need for creating new EPAD products (3 respondents). - Supporting a market maker function is the most straightforward and simplest solution from a market participant's point of view. However, this approach could be challenging for TSOs (1 respondent). - Market makers are essential for well-functioning markets (1 respondent). - A market maker function would be best for transparency (1 respondent). 	<p>ACER agrees that sufficient hedging opportunities could be ensured with a market maker function.</p> <p>ACER agrees that such a solution could in principle be simple but may present a potentially high operational costs for the TSOs.</p> <p>ACER agrees with the views as to the benefits of market makers. In a functioning market, market makers could also be provided without regulatory support.</p> <p>ACER agrees that a market maker function could ensure transparency.</p>
<p>24 respondents are of the opinion that TSOs' coupling of EPADs under option (b) would provide sufficient hedging opportunities.</p>	<p>For ACER's assessment of the EPAD coupling option, see section 6.4 of the Decision.</p>

Respondents' views	ACER's views
<p>Explanations :</p> <ul style="list-style-type: none"> - Coupling of EPADS and the support of a market maker function both support the liquidity of the EPADs (3 respondents). - TSOs issuing EPADs would provide a direct support to the current market (by providing additional liquidity) as these instruments can already be traded in the existing markets (2 respondents). - A market maker cannot meet the exposure in EPADs since, besides the TSO, no other company could play this role (1 respondent). - Coupled auctioning of EPADs provides similar if not the same, position as FTRs would, from the TSO perspective (1 respondent: TSO). - It is not clear why the process of TSOs auctioning EPADs should take up to two years. It depends on the volumes of EPADs to auction as well as on the decision on whether or not the TSO will be setting up its own trading desk (1 respondent). - ACER's focus should be on introducing LTTRs as swiftly as possible to align Finland/Sweden with the rest of the EU bidding zones issuing LTTRs. The respondent would support the TSOs' coupling of EPADs if it was to improve the functioning of the EPAD market. However, not enough clarity has been provided on how this solution would be implemented (1 respondent). - Minimising the complexity of the auction is desirable (1 respondent). - EPAD auctioning can be a very strong tool for liquidity especially for areas with a stable flow (e.g. SE1-FI). This option would support the current market structures while giving the opportunity for smaller players active in mainly one price area without higher costs (1 respondent). - An auction can provide transparency. The frequency and offered volumes would be crucial. (1 respondent). - The proposed solution (TSOs' auctioning of EPADs) would be legally valid under the Article 30(5) of the FCA regulation. Market participants want to hedge 	<p>ACER agrees that both solutions would support EPAD liquidity and can be considered a direct support to the current market.</p> <p>ACER agrees that, in terms of the coverage of the resulting financial risk, the TSOs are better placed to support the market by allocating cross-zonal capacities compared to supporting the market with a market maker function.</p> <p>Section 6.5.7 of the Decision provides ACER's views on the expected implementation time and the related processes. ACER expects an implementation of up to 2 years but encourages the TSOs to implement the related solution as soon as possible.</p> <p>Section 6.4.3 of the Decision provides a possible setup of EPAD coupling, to be considered by the TSOs when developing their proposal under Article 30(6) of the FCA Regulation. In case the TSOs decide to propose the EPAD solution, it is expected that their proposal would provide clarity on how to implement this solution.</p> <p>ACER agrees that EPAD coupling could support EPAD liquidity and could be also well accessible for smaller market participants.</p>

Respondents' views	ACER's views
<p>beyond one year. The EPAD forward hedging curve is 4 years and the system price forward hedging curve is 10 years. The TSOs' auctioning of EPADs should ensure that those products are fungible with the existing secondary market products to improve liquidity and contribute to a reliable price formation (1 respondent).</p> <ul style="list-style-type: none"> - Enhancing the open interest and liquidity in the existing market is preferred (1 respondent). 	<p>ACER generally acknowledges these preferences and understands the benefits of more and earlier auctions. However, such details would be subject to a TSOs' proposal in accordance with Article 30(6) of the FCA Regulation.</p>
<p>7 respondents commented on other measures to provide sufficient cross-zonal hedging opportunities under option (b).</p>	
<p>Explanations:</p> <ul style="list-style-type: none"> - LTTRs should be issued to provide sufficient cross-zonal hedging opportunities (2 respondents). - LTTRs should be implemented first because they would quickly increase the hedging opportunities for the Finnish market participants. Once implemented, they can be complemented by alternative measures. In particular, the market maker function does not solve the asymmetry problem in the Finnish financial electricity markets (1 respondent). - TSOs' support would be against EU and Finnish competition law. Nasdaq OMX commodities has already today a dominant position in the EPAD market and clearing. There are no relevant competitors in the hedging market. Large producers could offer hedging opportunities among other services but those contracts would restrict freedom of end-users heavily (2 respondents). - Support for TSOs offering additional EPAD liquidity and the market maker function. Regarding the details of the auction, many details of the mechanism need to be considered (e.g. volume, periods, duration of products, etc) (1 respondent). 	<p>ACER agrees that a market maker function would not effectively address a supply/demand asymmetry.</p> <p>EPADs are standard products which can be freely traded on any market place. A solution based on EPADs can be provided in a non-discriminatory manner. Therefore, ACER disagrees with this comment.</p> <p>ACER understands that each solution could address the insufficient hedging opportunities and therefore expects that both solutions in combination are not needed. In case of EPAD coupling the market could establish a market maker function on its own.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - Peak products in the EPADs auction would be welcome as System Price peak products are rarely traded in the market (1 respondent). - Auctioning of EPAD combos is another potential solution (i.e. EPADs reflecting the expected physical flows between two bidding zones) (1 respondent). 	<p>Regarding the details of the auction mentioned by the respondent, these will be subject the TSOs' proposal pursuant to Article 30(6) of the FCA Regulation.</p> <p>EPAD coupling is, in certain aspects, similar to auctioning of EPAD combos but provides more flexibility and better complements the current market, because it does not require to explicitly link two EPADs and market participants may only acquire the EPAD product they need.</p>
<p>5 respondents do not know which options to choose from to provide sufficient cross-zonal hedging opportunities under option (b).</p>	<p>For ACER's assessment of viable solutions under option (b), see section 6.4 of the Decision.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - Even though EPAD auctioning and support of a market maker function seem to be good approaches, there is not enough information on the different approaches to be able to take a clear stand. It should be clear that any support measures should be non-discriminatory, and not distorting competition amongst different players offering either physical or financial products in the Nordics. Aspects to be clarified are the following: auctioned EPAD volumes, method to define EPAD volumes, timing of EPAD auctions, clearing entity and the conditions of the market maker agreement (2 respondents). - There should be no exception to the TSOs issuing LTTRs on all EU bidding zone borders. If an easy solution to boost the EPAD liquidity already existed it should already have been implemented (1 respondent). - Approaches under option (b) have not been used and therefore there is no return on experience available (1 respondent). 	<p>ACER notes that either solution (EPAD coupling and market maker function) should meet the conditions listed by the respondents. Sections 6.4.2 and 6.4.3 provide possible setups for each solution. However, it is ultimately for the relevant TSOs to decide on their preferred solution, develop detailed arrangement for its implementation and submit their proposal to the competent regulatory authorities.</p> <p>ACER disagrees with the view that there should be no exception to issuing LTTRs. According to the FCA Regulation, the decision whether or not to issue LTTRs lies with the competent regulatory authorities. The FCA Regulation also explicitly allows for considering alternative solutions, i.e. pursuant to Article 30(5)(b) of the FCA Regulation.</p>

Respondents' views	ACER's views
<p>- TSOs' support would be against EU and Finnish competition law. Nasdaq OMX commodities has already today a dominant position in the EPAD market and clearing. There are no relevant competitors in the hedging market. Large producers could offer hedging opportunities among other services but those contracts would heavily restrict end-users' freedom (1 respondent).</p>	<p>ACER agrees that there is limited experience with the two solutions considered in ACER's Decision. However, ACER notes that in developing alternative solutions, the TSOs may, to some extent, rely on the existing regulatory framework envisaged for issuing LTTRs.</p> <p>EPADs are standard products which can be freely traded on any market place. A solutions based on EPADs can be provided in a non-discriminatory manner. Therefore, ACER disagrees with the last comment.</p>

Questions related to Option (a) and Option (b)

Respondents' views	ACER's views
<p>Question 6.1: What would be your preferred outcome? (single choice, mandatory)</p> <p>(a) ACER requests the TSOs to issue LTTRs. ACER requests the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets...</p> <p>(b) ... and the TSOs would support a market maker function.</p> <p>(c) ... and the TSOs would provide coupling of EPADs (i.e. with an EPAD auction).</p> <p>(d) Other (please specify)</p>	

Respondents' views	ACER's views
Question 6.2: Please explain your choice	
<p>14 respondents would prefer that ACER requests the TSOs to issue LTTRs.</p>	<p>For ACER's assessment of LTTRs, see section 6.3 of the Decision.</p>
<p>Explanations :</p> <ul style="list-style-type: none"> - Issuing LTTRs would be in line with other areas as these tools are widely used in Europe as well as in other Nordic and Baltic countries (6 respondents). This should therefore lead to a fast implementation of LTTRs (2 respondents). - LTTRs offer market participants a relevant alternative to EPAD, expanding hedging opportunities with a new product and rejuvenating the hedging market. This would significantly improve the situation from the perspective of the Finish electricity buyers (3 respondents). - LTTRs are the best suitable complementary product for the market in its current circumstances (1 respondent). - Due to a lack of detailed information considering the different alternatives, the proposed options under option (b) cannot be assessed. In general, LTTRs are positive but should not remain the only measure (2 respondents). - Forcing TSOs to auction EPADs would challenge the TSOs' role as neutral market facilitators and LTTRs would also incentivise the TSOs to offer as much cross-border capacity to the market as possible (1 respondent). - As the TSOs are not active in the financial markets, the imbalances between buyers and sellers are left to the financial markets and are sometimes so large that it undermines the well-functioning of financial markets. The TSOs could therefore hedge their expected imbalances and decrease the gap between the 	<p>ACER agrees that issuing LTTRs would be harmonised with most other bidding zone borders in the EU and it is likely that it would be implemented faster than an EPAD-related solution.</p> <p>ACER agrees that LTTRs would provide additional hedging opportunities for market participants. However, considering the risk of detrimental impacts on the currently established hedging opportunities (i.e. EPADs), LTTRs could also have an overall negative effect on the availability of hedging opportunities.</p> <p>ACER provided further descriptions and assessments of possible EPAD-based solutions in section 6.4 of the Decision. However, the TSOs need to develop such solution including the relevant details and submit it to their competent regulatory authorities for approval.</p> <p>ACER does consider that the TSOs' involvement in a given solution would affect their role/mandate as a system operator. ACER expects that the same amount of cross-zonal capacity would be provided for the solution of EPAD coupling or issuing LTTRs.</p> <p>ACER agrees with the view regarding the need to allocate cross-zonal capacity (i.e. LTTRs or EPAD coupling) to address the issue of supply/demand asymmetry. EPAD coupling may also allow for a market</p>

Respondents' views	ACER's views
<p>physical and financial markets. Two solutions are then available to improve the hedging opportunities: issuing LTTRs or issuing EPAD combo if and only if it is dynamically adjusted to border flow expectations as driven by price differences in the forward market. Supporting the market maker function is essential for the need of a continuous market (1 respondent).</p> <ul style="list-style-type: none"> - The option chosen must be compatible with the current derivatives market structure of the Nordics. The preferred option is FTR obligations (1 respondent). - Support to the TSOs' issuing forward transmission rights at all bidding zone borders in Europe and in all directions to the full amount that the underlying infrastructure can offer for each timeframe. In the specific case of the Nordics market, EPADs would be worth keeping alongside forward transmission rights due to their complementary nature with LTTRs (1 respondent). 	<p>maker function being organised by the market without further regulatory support.</p> <p>ACER acknowledges that FTR obligations are the preferred form of LTTRs for many Finnish market participants. However, issuing FTR obligations could require a longer implementation time, bringing it closer to the expected implementation time for EPAD coupling. ACER considers that EPAD coupling is a more efficient solution.</p>
<p>13 respondents would prefer that ACER requests the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets and that the TSOs support a market maker function.</p>	<p>For ACER's assessment of possible solutions under option (b) of Article 30(5) of the FCA Regulation, see section 6.4 of the Decision. TSOs' support of a market maker function is considered in section 6.4.2 of the Decision.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - The market maker support would directly fit into the existing framework and would boost the liquidity of the EPAD products (8 respondents) without any additional complexity for the market participants (1 respondent). - This solution is preferred due to the continuous hedging possibilities it provides and its transparency (1 respondent). - Tight conditions on the maximum bid-ask spread should be defined (1€/MWh is mentioned). In case those conditions are not respected, TSOs auctioning EPADs or FTR options would be preferred (2 respondents). - Financial compensation for the market maker should be provided (1 respondent). 	<p>ACER agrees with the view that the TSOs supporting a market maker function could increase liquidity of EPAD products in a continuous manner.</p> <p>The effectiveness of this solution depends on the requirements imposed on the market maker. These requirements are subject to the TSOs' proposal and will also have a direct impact on the costs resulting from such function. ACER notes that operational costs linked to this function are difficult to estimate at this stage, as they are subject to a tender for such market maker function.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - Even though the solution looks easy to implement, it is not free of challenges (1 respondent). 	<p>ACER agrees and points out that eventual challenges for establishing a market maker function would need to be addressed in a TSOs' proposal pursuant to Article 30(6) of the FCA Regulation.</p>
<p>16 respondents would prefer that ACER requests the TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets and that the TSOs provide coupling of EPADs (i.e. with an EPAD auction).</p>	<p>For ACER's assessment of possible solutions under option (b) of Article 30(5) of the FCA Regulation, see section 6.4 of the Decision. TSOs' coupling of EPADs is described in section 6.4.3 of the Decision.</p>
<p>Explanations:</p> <ul style="list-style-type: none"> - This option supports the existing market and instruments while increasing the liquidity and hedging opportunities (8 respondents) and allowing for a smooth transition (2 respondents). - Existing EPADs are a sufficient hedging product as long as a market maker is present to set prices (3 respondents). - This option would be a good combination with the support of a market maker function (3 respondents). - Support for TSOs offering additional EPAD liquidity and the market maker function. Regarding the details of the auction, many details of the mechanism need to be considered (e.g. volume, periods, duration of products,...) (1 respondent). - ACER should also require of the Nordic TSOs to look into a model with larger bidding zones (1 respondent). - LTTRs are not a suitable instrument for the Nordic bidding zones (1 respondent). 	<p>ACER shares the respondents' expectation that EPAD coupling would support the existing EPAD products and increase hedging opportunities.</p> <p>ACER agrees with the benefits of having market makers and understands that the introduction of EPAD coupling in the Nordic electricity forward market would not prevent the emergence/existence of market makers, without any further regulatory support for such a function.</p> <p>The ultimate solution under Article 30(5)(b) of the FCA Regulation and related necessary arrangements are to be proposed by the TSOs, and approved by the competent regulatory authorities.</p> <p>The configurations of bidding zones is out of scope of this Decision.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - LTTRs lack the potential to improve hedging opportunities in all Swedish zones. The alternative options such as the EPADs auctioning by TSOs would be simple and very efficient if correctly implemented (1 respondent). - Coupling of EPADs would be legally valid under the Article 30(5) of the FCA Regulation. Market participants want to hedge beyond one year. The EPAD forward hedging curve is 4 years and the system price forward hedging curve is 10 years. The TSOs auctioning EPADs should ensure that those products are fungible with the existing secondary market products to improve liquidity and contribute to a reliable price formation (1 respondent). 	

Respondents' views	ACER's views
<p>Question 7.1: Do you have any other comments?</p>	
<ul style="list-style-type: none"> - The possibility to use bank guarantees as collateral when trading power should be re-introduced (1 respondent). - ACER should investigate market power in some bidding zones and its effect on prices, all barriers to entry caused by regulation and the fact that more and more participants are using black pools to trade which leads to less transparency (1 respondent). - SAP/JAO does not collect any membership or participation/bidding fees from their participants compared to power exchanges. It is therefore not a barrier to entry for smaller market participants. TSOs risks in case of LTTRs are transparent and limited. The same level of transparency and level of risk should be guaranteed for the TSOs. Data transparency similar to LTTRs should be guaranteed for every chosen solution (1 respondent). 	<p>Possible impacts on forward market liquidity resulting from financial policy changes are discussed in section 6.2.4 of the Decision.</p> <p>ACER consider these developments in section 6.5.4 of the Decision, further investigations into market power in some bidding zones is beyond the scope of this Decision.</p> <p>ACER agrees that any solution proposed by TSOs must provide sufficient transparency to the market.</p>

Respondents' views	ACER's views
<ul style="list-style-type: none"> - If ACER requests the TSOs to issue LTTRs, they should be obligations, with different product lengths and with an horizon at least as big as the current market. Auctions should be organized at least monthly (preferably weekly) (1 respondent). - Support for EPAD auctioning on SE1-FIN. If LTTRs were to be introduced, they should not be the only hedging tool and rather complement the existing ones (1 respondent). - LTTRs which promote real hedging opportunities in the Finnish bidding zones should be chosen over a commercial products (without completion) (3 respondents, including an association). - Short term supply/demand balance is expected to change a lot. Current hedging possibilities in Finland are acceptable. FTRs introduction therefore represent a risk to the existing market (1 respondent). - The best way to improve the hedging opportunities in the Nordic market is probably the reduction of the number of bidding zones to create larger liquidity pools. The respondent also asked whether the forthcoming commissioning of the Olkiluoto 3 nuclear power plants was considered when assessing the Finnish EPAD market. The commissioning should, at least theoretically reduce the need for FTRs (1 respondent). - This process follows a wrong way to address this problem as an analysis cannot be done only on these two country borders but should be done on all the Nordic area. Larger bidding zones should be studied as well (1 respondent). - It is important that market participants provide their views. Liquidity and hedging opportunities will be more efficiently supported by establishing a support model that uses the existing market and instruments, rather than introducing a new type of contract (1 respondent: TSO). - A well-functioning Nordic electricity market design is essential for an efficient end-user market and important to secure the green energy transition, where risk 	<p>These specifications are beyond the scope of the Decision.</p> <p>ACER does not agree with the view that EPADs are commercial products which are not subject to competition. EPADs are standard products which can be freely traded on any market place. Therefore, ACER also does not share the view that LTTRs should be generally preferred for this reason. ACER shares concerns about risks related to the introduction of LTTRs on the FI-SE bidding zone borders.</p> <p>The expected impacts of the different solutions on the relevant bidding zones as well as the wider Nordic region are considered throughout the Decision. Bidding zone configurations as such are, however, outside the scope of this Decision.</p> <p>ACER agrees with the views on the benefits of EPAD based solutions.</p> <p>ACER agrees with comments on the importance of a functioning Nordic electricity forward market.</p>

Respondents' views	ACER's views
<p>handling, transparency and long-term hedging is needed to secure needed investments (1 respondent).</p> <ul style="list-style-type: none"> - If LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should not be introduced due to their expected low benefits. If LTTRs had been a solution to the insufficient hedging possibilities, lower EPAD liquidity could have been accepted (1 respondent). - It is not clear why the process of TSOs auctioning EPADs should take up to two years as there is a running market for EPADs. It should be clarified what are the EPAD volumes that would be auctioned and whether a trading desk will be set up by the TSO or not (1 respondent). <p>In addition to its response to the public consultation, Fingrid submitted a PDF document providing its views as to how the two options under Article 30(5) promote the objectives of the FCA Regulation. Key views are summarised and considered in sections 6.3.3 and 6.4.4 of the Decision.</p>	<p>ACER's consideration of Fingrid's views set out in the PDF document are outlined in sections 6.3.3 and 6.4.4 of the Decision.</p>

3 List of respondents

Organisation	Country	Type
Respondent*	Denmark	Energy company
Gävle Energisystem AB	Sweden	Energy company
Skellefteå Kraft AB	Sweden	Energy company
Ignitis Group	Lithuania	Energy company
Elering AS	Estonia	Transmission System Operator

Organisation	Country	Type
Baltic Energy Partners	Estonia	Energy company
UAB Perlas Energija	Lithuania	Energy company
Entelios Trading AB	Sweden	Financial company
Jämtkraft AB	Sweden	Energy company
lin Energia Oy	Finland	Energy company
Association of Energy Users in Finland	Finland	Association
Parikkalan Valo Oy	Finland	Energy company
TrønderEnergi Kraft AS	Norway	Energy company
Respondent*	Finland	Other industry company
Power-Deriva Oy	Finland	Energy company
Skandinaviska Enskilda Banken AB (publ)	Sweden	Financial company
Tussa Energi AS	Norway	Energy company
Pohjois-Karjalan Sähkö Oy	Finland	Energy company
S-Voima Oy	Finland	Energy company
UPM Energy	Finland	Energy company
Motify Energy Trading AB	Sweden	Energy company
Respondent*	Sweden	Energy company
Göteborg Energi AB	Sweden	Energy company
Svenska kraftnät	Sweden	Transmission System Operator
Fingrid Oyj	Finland	Transmission System Operator
Turku Energia	Finland	Energy company

Organisation	Country	Type
Tafjord Kraftproduksjon AS	Norway	Energy company
Helgeland Kraft Strøm AS	Norway	Energy company
Helgeland Kraft Vannkraft AS	Norway	Energy company
Vattenfall AB	Sweden	Energy company
Fortum Power and Heat Oy	Finland	Energy company
UNIPER SE	Germany	Energy company
Oy Herrfors Ab	Finland	Energy company
Swedish Forest Industries Federation	Sweden	Association
Centrica	United Kingdom	Energy company
Volue Market Services	Sweden	Energy company
Finnish Energy	Finland	Association
Nasdaq	Belgium	Financial company
Respondent*	Sweden	Other industry company
Nord Pool	Sweden	Energy company
EFET	Netherlands	Association
E.ON Sverige AB	Sweden	Energy company
Swedenergy	Sweden	Association

* Respondents who wanted to remain anonymous.