

Public consultation on cross-zonal hedging opportunities on the Finnish-Swedish bidding zone borders

Fields marked with * are mandatory.

Introduction

This consultation of the European Union Agency for the Cooperation of Energy Regulators ('ACER') is addressed to all interested stakeholders.

Please submit your response **by 3 May 2022**, 23:59 hrs (CET).

Questions can be addressed to ACER-ELE-2022-005@acer.europa.eu

Data protection

ACER will process personal data of the respondents in accordance with [Regulation \(EU\) 2018/1725](#), taking into account that this processing is necessary for performing ACER's consultation tasks.

More information on data protection is available on [ACER's website](#).

ACER will not publish personal data.

Confidentiality

Following this consultation, ACER will make public:

- the number of responses received;
- company names, except those with a valid reason for not having their company name disclosed;
- all non-confidential responses; and
- ACER's evaluation of responses.

You may request that **(1)** the name of the company you are representing and/or **(2)** information provided in your response is treated as confidential. To this aim, you need to explicitly indicate whether your answers contain confidential information, and also provide a valid reason if you want that the name of your company remains confidential.

You will be asked these questions at the end of the survey.

I have read the information provided in this section.

Respondent's data

* Name and surname:

This information will not be published.

Maciej Luczak

* Company:

Nasdaq

* Country:

Belgium

* Email:

This information will not be published.

maciej.luczak@nasdaq.com

Background documents

Legal acts

[Regulation \(EU\) 2019/942](#) of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.

[Regulation \(EU\) 2019/943](#) of 5 June 2019 on the internal market for electricity.

[Commission Regulation \(EU\) 2016/1719](#) of 26 September 2016 establishing a guideline on forward capacity allocation ('FCA Regulation').

Relevant documents

Joint request of the [Finnish regulatory authority](#) and the [Swedish regulatory authority](#) that ACER adopts a decision under Article 30(5) of the FCA Regulation.

[Assessment pursuant to Article 30\(3\) of the FCA Regulation for the Finnish and Baltic bidding zones](#) (2021).

[Assessment pursuant to Article 30\(3\) of the FCA Regulation for the Swedish bidding zones](#) (2021; *only available in Swedish*).

Context

This consultation aims to gather views and information from stakeholders regarding ACER's decision on cross-zonal hedging opportunities on the Finnish-Swedish bidding zone borders.

Legal framework

According to Article 30(5) of the FCA Regulation, in case insufficient cross-zonal risk hedging opportunities are identified in one or more bidding zones, the competent regulatory authorities of the bidding zone border shall request the relevant transmission system operators (TSOs):

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

By communications of 3rd and 11th March 2022, the Swedish and the Finnish regulatory authorities respectively informed ACER that they are not able to adopt coordinated decisions pursuant to Article 30(5) of the FCA Regulation in order to address insufficient hedging opportunities which have been identified in the Finnish bidding zone. Therefore, the regulatory authorities have jointly requested ACER to adopt a decision either under point (a) or point (b) of Article 30(5) with respect to the relevant bidding zone borders between the two countries (FI-SE1 and FI-SE3).

ACER has six months to decide on this matter, i.e. by 12th September 2022. In order to take an informed decision, ACER seeks stakeholders' views on the aspects outlined below. Any other comments are also welcome.

Market characteristics

The long-term market for electricity in the Nordic and Baltic bidding zones (FI; SE1-4; DK1-2; LT; LV; EE; NO1-5) is mainly based on two types of products. The first type of products are financial obligations referenced against the Nordic system price, i.e., the unconstrained market clearing reference price for the entire Nordic region, calculated without any congestion restrictions between the bidding zones. The second type of products are so-called Electricity Price Area Differentials (EPADs) which are financial obligations for the price difference between the Nordic system price and the price of an individual bidding zone.

Both types of products are standard financial contracts and can be traded on organised marketplaces (i.e. power exchanges), via brokers or bilaterally between market participants. Furthermore, market participants can also enter into non-standard bilateral contracts (e.g., directly linked to the price of a bidding zone or any other preferred reference price instead of combining a Nordic system price product with an EPAD). On

certain bidding zone borders, these products co-exist with LTTRs. This is the case of EE-LV, DK1-DK2, DK1-DE, DK2-DE, DK1-NL, and soon also FI-EE, where LTTRs are currently being implemented.

Need for regulatory intervention

The two bidding zone borders between Finland and Sweden (FI-SE1 and FI-SE3) have so far functioned without any supportive actions from the TSOs. However, a recent assessment pursuant to Article 30(3) of the FCA Regulation (see background documents: [Assessment](#)) indicated insufficient hedging opportunities in the Finnish bidding zone. In this case, the FCA Regulation requires either issuing LTTRs or having equivalent cross-zonal measures in place to allow for market participants to effectively hedge price risks.

Accordingly, ACER intends to request the TSOs of the FI-SE1 and FI-SE3 bidding zone borders either:

- **Option (a):** to issue LTTRs; or
- **Option (b):** to make sure that alternative long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

ACER considers that any TSO intervention (whether issuing LTTRs or having alternative measures in place) would likely improve the hedging opportunities in the relevant bidding zone(s). However, the two options represent different ways to improve hedging opportunities, with different potential market impacts and also different implementation challenges. The following two sections discuss these two options in more details, focussing on their potential impacts and estimating their likely implementation timelines.

ACER's questions are grouped into three sections. In the following two sections, ACER discusses the two possible options in more details and asks questions about their potential impacts. In the third section, you will be asked to state your preference between the two options, and to provide more general comments.

Option (a)

ACER requests the TSOs to issue LTTRs

Possible market impacts

With respect to possible market impacts of LTTRs, ACER notes that:

- LTTRs may make hedging in the Nordics more complex

LTTRs (e.g., financial transmission right options between two bidding zones) might however not be well compatible with other established long-term hedging opportunities in the Nordics (i.e. financial obligations involving a system price). Therefore, the introduction of LTTRs might increase complexity and cost of hedging in the Nordic long-term market. For a complete hedge

when using an LTTR, market participants in the Finnish bidding zone would still require a Nordic system price product and an (SE1 or SE3) EPAD product (or to enter into a bilateral contract directly linked to the price of a bidding zone).

- LTTRs may affect liquidity of the EPAD market

LTTRs may address asymmetry between two bidding zones, when issued on a border between a bidding zone with a generation surplus and a bidding zone with a consumption surplus. In such case, issuing LTTRs could provide a product similar to two EPADs of the relevant bidding zones and could therefore indirectly promote liquidity of the related EPAD products (e.g. generators, once they obtain an LTTR, could offer electricity in form of EPADs in an adjacent bidding zone without much risk).

However, the introduction of LTTRs could also have a negative impact on liquidity of the established Nordic long-term products. Smaller market participants may be reluctant to participate in two parallel markets (i.e., market for the currently established Nordic forward products and market for LTTRs) due to additional costs and complexity. If an increasing share of market participants decides to hedge with bilateral contracts with direct delivery of electricity in a bidding zone (which could be promoted by the use of LTTRs), this might negatively impact the liquidity of Nordic system price products and EPADs. Therefore, ACER also sees the risk that creating such parallel markets may split liquidity among the different long-term electricity products, which could have an overall negative effect on the hedging opportunities available to everyone.

Another possible impact is that LTTRs on the bidding zone borders between Finland and Sweden could cause an increase in liquidity of EPAD products from one bidding zone at the expense of the liquidity of EPAD products of the adjacent bidding zone. For example, market participants in the Finnish bidding zone could use LTTRs to be active on the SE3 EPAD market (liquidity would increase for SE3 EPADs) instead of being active on the FI EPAD market (liquidity would decrease for FI EPADs). In this case, however, market participants using LTTRs to access the adjacent EPAD market would be limited to the timings of the LTTR auctions to fully close their local price risk. This may put them at a disadvantage vis-à-vis market participants in the adjacent bidding zone who would have better hedging opportunities given a more liquid continuous EPAD market.

Expected implementation timeline

In case ACER decides for option (a),

- relevant provisions of the FCA Regulation related to LTTRs (listed in Article 30(7) of the Regulation) would become applicable, and the related terms and conditions or methodologies would need to be approved for the involved TSOs and bidding zone borders.
- ACER understands that it might take approximately 5 months to introduce a new TSO and a new bidding zone border on the single allocation platform.

Based on the above, ACER expects that the entire process may take between 6 and 18 months.

LTTs in the form of FTR obligations are more compatible with EPADs (i.e. equivalent the combination of two EPADs) but the established framework for issuing LTTs is not yet fully designed for FTR obligations. Hence, it might take more time (than the above estimated timeline) to implement LTTs in the form of FTR obligations.

Question on general impact of LTTs

* Q1.1

Do you expect that the introduction of LTTs would generally improve hedging opportunities in the Finnish and the Swedish bidding zones?

- Yes
- No
- I don't know

Q1.2

Please explain, if needed:

No, we believe that a potential introduction of LTTRs will reduce the hedging opportunities in the Finnish and Swedish bidding zones, since winning bidders are not forced to use the LTTRs to support the liquidity in the existing forward market. There is no monitoring for what purpose LTTRs are really used. With the introduction of LTTRs, the need to trade the existing products on the exchange is reduced.

Introducing LTTRs between the Finnish and Swedish bidding zones, and potentially also across the whole Nordic region with 12 bidding zones, would be detrimental to efficiently developing the Nordic market liquidity due to a splitting of liquidity over more products. We are deeply concerned that LTTRs will risk reducing the liquidity in the Nordic System price and Swedish and Finnish EPADs. Small and medium sized participants are an essential part of the market. They would likely not participate in an additional LTTRs product on JAO due to additional investments, collateral and resources required, which could lead to less competition and increase the concentration of participants controlling both the sell- and buy side. In a forward market with a well-functioning day-ahead market the existing products also comprise a better hedging tool than LTTRs. Market participants can hedge their bidding zone exposure directly. And even if the aim is to hedge cross-border, the EPADs should be used. Further, the FCA art 30.4 (a) rightly recognizes that appropriate hedging products must represent a hedge against the volatility of the day-ahead price of the concerned bidding zone. This is fundamental for a well-functioning electricity market, and the hedging products need to consider the specifics of the underlying Nordic physical electricity market. An LTTR does not represent a 100% hedge against the volatility of the day-ahead price of the concerned bidding zone. The Nordic hedging strategy with System Price and EPAD contracts represent a 100% hedge against the volatility of the day-ahead price of the concerned bidding zone. The purported net benefit of LTTR needs to be proven sufficient to justify an introduction. All provisions on systemic changes in the electricity wholesale market structure and functioning require social welfare to be increased as a result of such structural reforms. There is little or no evidence that introduction of LTTRs on the Swedish and Finnish borders would increase social welfare. Existing hedging instruments, such as the System Price and EPADs, have already proven their efficiency, but are currently lacking liquidity. Measures need to be taken in accordance with FCA, Article 30.5 (b), to improve liquidity. We have not seen any positive effects from the already issued LTTRs on the Nordic and Baltic EPADs. As an example, we have evaluated the lack of liquidity in the Estonian and Latvian EPADs. The demand of the LTTR auction for April 2022 on JAO for the Estonian-Latvian border was 1295 MW and the offered capacity was 150 MW. It should be expected that some of the demanded volume of 1145 MW not executed in the auction and some of the 150 MW executed in the auction should have been traded in the EPAD forward market, but this effect cannot be seen. This shows no link between the LTTR auctioned and the EPAD market. This lack of effect into the EPAD market is probably due to that most of the demand side was only for speculation or to be used for bilateral hedgers. We recommend ACER to create a level playing field between the two options under Art 30.5 (a) and (b).

- ACER should provide a clear FCA guideline also for point (b). Without a clear guideline it may prevent certain NRAs to choose option (b) and choose option (a) as a default, due to the perceived legal uncertainties. The result could be that the NRAs do not fulfill the responsibility of finding an appropriate intervention instrument. One of the main objectives is to make sure that sufficient hedging opportunities are made available to market participants. If there is no agreement between the NRAs of which intervention instruments to use, then the burden of proof must lie with both NRAs (and not only the NRA that in accordance with FCA Article 30.5 b) choose to support the existing products in the forward market). The goal for both NRAs should be to provide better hedging opportunities on both sides of the borders.

- 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 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. With no evaluation of LTTRs we see a high risk of implementing the wrong instrument with unwanted and unforeseen consequences.

Questions on LTTRs' impact on liquidity of EPADs

* Q2.1

Following the introduction of LTTRs, do you expect the liquidity of the Finnish EPAD products to:

- increase significantly
- increase slightly
- remain the same
- decrease slightly
- decrease significantly
- I don't know

Q2.2

Please explain your choice:

We generally expect that an introduction of LTTRs will decrease the liquidity slightly in the Finnish and Swedish EPAD products. Further, we fully agree with ACER observation above that "LTTRs on the bidding zone borders between Finland and Sweden could cause an increase in liquidity of EPAD products from one bidding zone at the expense of the liquidity of EPAD products of the adjacent bidding zone" In this scenario there is a high risk that the liquidity in the Finnish EPAD would decrease significantly.

The physical Nordic electricity market design created by the Nordic TSOs and NRAs consists of 12 bidding zones. To build a liquid forward market, a common Nordic System Price contract is needed to secure a transparent and well-functioning liquid market. To have a 100% bidding zone hedge there is a need to have an additional EPAD contract. EPAD contracts are used to hedge the price difference between the bidding zone and the Nordic System Price.

The high number of bidding zones in the Nordics poses a challenge for creating liquidity in the EPAD market. We are highly concerned about further reduced liquidity in the EPAD contracts, especially since a hedge with the Nordic System price alone has shown tendencies to become less appropriate as a proxy for several bidding zones. The market participants therefore wish to hedge the bidding zone with both a system price contract and an EPAD contracts. The EPADs are supporting the system price and vice versa, for a fully firm bidding zone hedge. The current LTTRs are not fully firm and are not related to the system price and therefore do not contribute to increase the liquidity in the Nordic electricity forward market.

We see a high risk that introducing LTTRs will not improve hedging opportunities for all market participants but rather reduce the market liquidity further. We expect this to result in more bilateral trades. The Nordic electricity market has for decades had a strong preference for trading on the regulated forward market. With increasing price differences between the Nordic bidding zones, the Nordic System price is not functioning as a strong proxy by itself when hedging. Consequently, the need to hedge the bidding zone price risk has become increasingly important.

It is a completely different situation to have LTTRs between Germany and a neighbouring country with only one bidding zone, than to have it between very small bidding zones as in Sweden and Finland. Building liquidity in smaller bidding zones has proven to be challenging. This as there are typically few large producers in the bidding zone, and there is often an imbalance between production and consumption. To prevent increased bilateral trading outside transparent and supervised venues and outside CCP clearing, we strongly recommend ACER to support the existing market design and products and not by default request the TSOs to issue LTTRs. Well-functioning financial markets with transparency, tight spreads and high liquidity will secure efficient hedging opportunities for all market participants and by this reduce the cost of hedging overall. We believe that this is also more in line with one of the objectives of the FCA to provide efficient hedging opportunities for market participants regardless of bidding zone borders.

* Q2.3

Following the introduction of LTTRs, do you expect the liquidity of the Swedish EPAD products to:

- increase significantly
- increase slightly
- remain the same
- decrease slightly
- decrease significantly
- I don't know

Q2.4

Please explain your choice:

Same comments for Swedish EPADS as for the Finnish EPADs under Q2.2. Please see our answers under Q2.2.

Q2.5

In your view, if LTTRs were to decrease liquidity of EPADs in one of the bidding zones, they should:

- not be introduced.
- still be introduced (regardless of their negative impact), in order to provide the market with the required hedging opportunities

Questions on LTTRs' impact on market complexity

* Q3.1

Do you have any concerns that issuing LTTRs on the FI-SE1 and FI-SE3 bidding zone borders may make hedging in the Nordics more complex?

- Yes
- No
- I don't know

Q3.2

Please explain, if needed:

We support the observation made by ACER above on the risk that introducing LTTRs will add market complexity.

We want to underline that by only issuing LTTRs on Swedish and Finnish interconnectors on SE3 and SE1 does not improve the bidding zone hedging in the other two Swedish bidding zones, SE2 and SE4. It might also risk that market players in other Swedish and Nordic bidding zones would require equal measures. We believe that the FCA goal is to provide sufficient hedging opportunities for all market participants independently of bidding zone borders. Which is more likely to be realized with other actions than introducing additional LTTR.

If LTTRs would be introduced across the whole Nordic region, a chain of LTTRs will be necessary if you want to bridge several bidding zones in the Nordic market. Please see examples below:

Example 1: How to hedge in the existing forward market for a small producer in SE1 with consumption in the same bidding zone (Bidding zone hedge):

Sell Nordic System price

Sell EPAD SE1 contracts

= 100% hedge against the volatility of the day-ahead price in SE1

Example 2: How to hedge cross border with an EPAD COMBO for a producer in SE1 with a customer in FI:

[Sell Nordic System price]

Sell EPAD SE1 contract

[Buy Nordic System price]

Buy EPAD FI contract

= 100% hedge against the volatility of the day-ahead price in both bidding zones FI and SE1 with a cross border hedge. (Sell Nordic System price and buy the Nordic System price can be netted and leave you with the EPAD COMBO.)

= EPAD COMBO support the existing forward market by increased open interest and liquidity.

Example 3: Producer in SE1 with consumption in FI using LTTRs

Buy LTTRs from SE1 to FI

= Resulting in LTTR taking liquidity from the existing forward market. No System and EPADs contracts needed and no secondary forward market trading.

Example 4: A chain of LTTRs will be necessary if you want to bridge several bidding zones in the Nordic market. Using LTTRs between the whole Nordic region and outside the Nordic borders would result in an unintended negative effect on the Nordic forward market. Therefore, hedging with LTTRs would result in a high level of complexity that would not serve the transparency nor the liquidity.

Questions on possible form of LTTRs

* Q4.1

If TSOs are requested to issue LTTRs, would you prefer:

- FTR obligations
- FTR options
- Other
- I don't know

Q4.2

Please explain, if needed:

We are generally not in favor of LTTRs, but if we should have a view on a LTTR it would be a FTR obligation.

FTR options are more designed to attract speculators. Establishing a separate market outside the regulated exchange markets should secure that the market participants use these LTTR products for hedging purposes and should not be available for speculation since this is a pure intervention instrument (in case of insufficient hedging opportunities) where public money (loss of congestion rent) are used. The current available FTRs options may be used for different purposes:

- a) Speculation in FTR options (financial swap): This transaction doesn't contribute to improve liquidity or hedging possibilities. It's just a financial swap. The TSO gets the (fixed) option premium and gives the volatile congestion rent away.
- b) Arbitrage (risk free profit); Based on the prices in the bilateral market/exchange, a market participant (speculator) is willing to pay a max price for a FTR option. As an example, if DE power future contract is at 100 and FR power future contract is at 105 => you are willing to pay 4 EUR for the FTR option DE-FR and buy simultaneously DE power future contract and sell FR power future contract= 1 EUR profit. This is only possible when you have liquid forward markets on both side of the borders.
- c) Hedging («cross-border out of the Nordics»): As an assumption if a consumer in SE4 need to hedge their bidding zone risk with FTR options. He could buy a German power future contract and an FTR option DE-SE4. No system price and no EPAD SE4 contracts would be traded in the forward market. This will result in reducing the liquidity both in the system price and EPAD SE4 contracts. This doesn't support the Nordic power market, but the German power market.

We also find support in the below statement from the NVE report from 2015 that the LTTRs are not very efficient hedging instruments.

“In reality, it is the volatility of the price difference (per hour) plus the difference between the average prices that drives the payoff for FTR options and PTRs with UIOSI (see also Newbery, 2004).

In fact, the payoff for a PTR or an FTR option is uncorrelated with the average (or accumulated) price difference.

Consequently, such contracts are not very efficient hedging instruments for market business models exposed to the difference in average prices in two (or more) regions”.

Please see https://publikasjoner.nve.no/rapport/2015/rapport2015_135.pdf for further information.

Option (b)

ACER requests the TSOs to ensure availability of other long-term cross-zonal hedging products

Possible approaches

There are different ways for TSOs to ensure that alternative hedging products are made available (see background documents: [2022 study](#)). If ACER decides for option (b), the Swedish and the Finish TSO would have to develop the necessary arrangements to ensure that alternative hedging products are made

available. Therefore, any decision in this respect requires a careful consideration of possible approaches under this option, their potential market impacts, their feasibility and any implementation challenges.

The 2022 study analyses a range of measures to improve hedging opportunities and indicates that issuing EPADs may be the most beneficial solution to improve hedging opportunities in the Nordic market (e.g. Finish/Swedish bidding zone borders). Another relevant option for the Finish/Swedish bidding zone borders may be the support for a market maker function. Key considerations regarding the two measures are listed below. For a more detailed analysis, see the 2022 study:

TSOs organising cross-zonal coupling of EPADs:

With the use of long-term cross-zonal capacity, the TSOs could couple the supply and demand for EPADs in different bidding zones. This approach:

- could directly add potentially substantial trading volumes to the EPAD market and as such, could contribute to solving the underlying structural problem with asymmetry between consumers and producers in some bidding zones;
- would not expose the TSOs to risks which are faced by market participants when matching supply and demand for EPADs. The TSOs allocate long-term cross-zonal capacity and use day-ahead congestion income to ensure revenue adequacy for settlement of these EPADs at delivery;
- could be most effectively done via auctions;
- would require developing appropriate regulatory framework, which may be time consuming;

Support for a market maker function in the continuous markets for EPADs:

TSOs could organise a tender for a market maker function to facilitate order books for EPADs with prescribed maximum bid-ask spread and minimum volume of orders. This approach:

- could directly reduce bid-ask spreads for the relevant products;
- could be rather simple to implement;
- might involve recovery of costs via TSOs' tariffs or other regulated mechanisms;
- may have limited effectiveness in case there is market asymmetry between consumers and producers in the bidding zone;
- would require developing appropriate regulatory framework which may be time consuming.

Expected implementation timeline

In case ACER decides for option (b),

- FCA Regulation requires the TSOs to develop a proposal for the necessary arrangements and submit it to the regulatory authorities for approval within 6 months following the decision.
- Once the TSOs' proposal is approved by the regulatory authorities, the TSOs have 6 months for its implementation. The regulatory authorities may extend this deadline by maximum 6 months.

Based on the above, ACER expects that the entire process may take up to 2 years (depending on the specific solution) following the decision by ACER.

Questions on possible approaches for option (b)

* Q5.1

In your view, which approach or approaches under option (b) would provide sufficient cross-zonal hedging opportunities?

You can select more than one approach

- TSOs coupling of EPADs (i.e. with an auction of EPADs)
- Support of a market maker function
- Other
- I don't know

Q5.2

Please explain, if needed:

With listed EPADs on the exchange there are sufficient hedging products available for the Swedish and Finnish bidding zones. There is therefore no need to request the TSOs to issue LTTRs. The FCA Article 30.5 (b) gives ACER the legal basis to require the Swedish and Finnish TSOs to support hedging possibilities in the existing forward market. The FCA Article 30.5 (b) was included in the FCA at the request of the Nordic Energy Regulators (NordREG) in a position paper sent to the European Commission/DG ENER on November 27, 2014, to fit the Nordic market design. Requesting the Swedish and Finnish TSOs to support existing hedging products would be the most efficient way of improving the hedging opportunities in the Swedish and Finnish bidding zones. This will also be in line with the purpose of the FCA Article 30.5 (b).

Such solution is also in line with ACER's report on "Final Assessment of the EU Wholesale Electricity Market Design" where ACER clearly recognize the importance of market makers in illiquid products. The FCA Article 30.5 (b) also opens up the possibility for regulators to designate market makers for illiquid markets through a tender process. In our view this possibility should be a possible option available for the NRAs under Article 30.5 (b).

Furthermore, it is our experience that the 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.

We recommend ACER to request the TSOs to establish an arrangement to auction EPADs for SE1, SE3 and FI that are fungible with the existing secondary market products (same ISIN number) to improve liquidity in the Nordic exchange derivative market in general and building open interest and liquidity in the EPADs. This will contribute to a reliable price formation and transparent prices on the exchange, including automatic clearing of the auction product to reduce the counterparty risk. The establishment of EPAD actions is also strongly recommended in the Merlin & Metis report to improve the hedging opportunities in the Swedish EPADs. A market maker scheme could be established in addition to further strengthen the Swedish and Finnish EPAD liquidity.

As mentioned under Q3.2 with the use of LTTRs under example 3. The TSOs should only couple the supply and demand for EPADs in different bidding zones and not LTTRs. Using LTTR is in most cases a replacement of both System and EPADs and would be detrimental for the forward market since no System Price and EPADs contracts would then be needed. Please also see examples under Q4.2 point c. Please see below point with benefits in short for EPADs:

- Sufficient for asset backed cross border hedging purpose.
- Provides full firmness.
- Supports the day-ahead auction and creditability of the System Price.
- Social welfare gains through increased competition.
- 100% bidding zone hedge against the volatility in the day-ahead market.
- Supports the existing secondary EPAD market (increase liquidity and competition)
- Auction product listed and tradable in the secondary market
- Evidently that it will support the existing forward market
- Transparency (auction result and secondary market prices)

Both options

Questions on the preferred choice to address insufficient hedging opportunities

* Q6.1

What would be your preferred outcome?

- 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...

- ... and the TSOs would provide coupling of EPADs (i.e. with an EPAD auction).
- ... and the TSOs would support a market maker function.
- ... and the TSOs would provide a different kind of support.
- No interventions in the Nordic long-term market.

* Q6.2

Please explain your choice:

Please see answer under Q5.2.

Other comments

Q7.1

Do you have any other comments?

Nasdaq believes 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 handling, transparency and long-term hedging is needed to secure needed investments. This has proven even more important during the recent development in the Nordic electricity market with high volatility and price hikes that have affected both household's and company's cost of energy.

Nasdaq has engaged with Nordic electricity market stakeholders to discuss actions to improve current market conditions and needed changes to the overall design of the Nordic electricity market. If it is of any interest, we can forward the Nasdaq policy paper with our view on the state of the Nordic electricity market

and actions that we believe can improve the current conditions experienced in the market and build a base for future development of the market structure.

Nasdaq would very much appreciate a follow up meeting with ACER as soon as possible to follow up possible measures that we believe can be introduced to ensure better price hedging opportunities in the whole Nordic region. With respect to this (as well as a request to obtain a copy of the Nasdaq policy paper), please contact Mrs. Elina Yrgård on elina.yrgard@nasdaq.com, with cc to Mrs. Anne-Marit Rudby on anne-marit.rudby@nasdaq.com.

Questions on confidentiality

* Do your answers contain confidential information?

- Yes
 No

* Do you want the name of your company to remain confidential?

In the evaluation of responses, ACER will not link responses to specific respondents or groups of respondents unless this is appropriate.

- Yes
 No

Useful links

[FCA Regulation \(https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016R1719-20210315\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016R1719-20210315)

[2022 study \(https://ei.se/download/18.1e1327417f44b6fd6c1b4a6/1648030703084/FCA-Konsultrapport-Measures-to-improve-hedging-opportunities-on-the-electricity-market-in-Sweden.pdf\)](https://ei.se/download/18.1e1327417f44b6fd6c1b4a6/1648030703084/FCA-Konsultrapport-Measures-to-improve-hedging-opportunities-on-the-electricity-market-in-Sweden.pdf)

Contact

[Contact Form](#)