CONSULTATION RESPONSE

energy traders europe

Public consultation on NL-NO hedging opportunities

Brussels, 22.11.2024

General remarks

We support the issuance of LTTRs at the Norwegian and Dutch border (NO2-NL) to address the absence of cross-border hedging tools at this border. We advise the regulators to closely monitor the liquidity situation on both sides of the border.

Long-term transmission rights (LTTRs) in the form of Financial Transmission Rights (FTRs) options and Physical Transmission Rights (PTRs) issued by TSOs are key tools to enable cross-border hedging for market participants.

We advocate issuing LTTRs at a maximum available capacity, at every bidding zone border and with longer maturities to efficiently promote hedging and liquidity in forward markets and increase price stability, ultimately bringing lower consumer bills on the way towards the green transition.

Key messages

1. We support the issuance of LTTRs in the form of FTR options or PTRs with the “Use It Or Sell It” option at the NO2-NL border, especially given the absence of other cross-border risk hedging alternatives.

2. Dutch and Norwegian TSOs should offer LTTRs at maximum available capacity, with longer maturities (3-5 years) and with full financial firmness.

3. In addition to yearly and monthly products, issuance of quarterly LTTRs could be considered.

Consultation questions

Would you consider LTTRs on the NL-NO2 bidding zone border an effective measure to address the insufficient hedging opportunities in the Netherlands and Norway 2?

Yes.

Please further explain your answer from above:

Forward markets are crucial to secure a stable and affordable electricity supply in the context of the energy transition. They represent 90% of all volume of electricity transactions in Europe, enabling buyers and sellers to lock in prices and volumes in advance, delivering stable consumer bills to customers and managing volatility risks. Liquid and efficient forward markets are also crucial for the uptake of PPAs, securing private investments to finance low-carbon sources of electricity.

LTTRs in the form of FTR options and PTRs with UIOSI, made available by TSOs to the market via transparent and non-discriminatory auctions, represent key hedging tools to cover basis risk for market participants engaging in forward cross-border trade between adjacent bidding zones. While LTTRs represent only a fraction of the volumes exchanged on the forward market for electricity, their issuance at bidding zone borders reduces cross-border trade risks, and can be conducive to increased liquidity in the concerned forward markets.

As owners of the transmission cables, TSOs are best equipped to offer hedging options to cover basis risk in the form of LTTRs. This enables market participants to hedge their cross-border risks without resorting to more costly and complicated alternatives, ultimately keeping the cost of trading low.

Please provide suggestions for other measures, which could address the insufficient hedging opportunities:

We support the issuance by the TSOs of LTTRs in the form of FTR options (or PTRs with UIOSI) at the NO2- NL border, especially in the absence of other cross-border risk hedging tools at this border. Here are some further suggestions on how to facilitate an efficient and liquid forward market:

- Maximising LTTR capacity allocation: In principle, TSOs should offer LTTRs at the maximum available capacity at each bidding zone border and in both directions. TSOs should update their computation throughout the year and if additional capacity will be available, offer it to auctions. The maximum volume of LTTRs calculated as available by the TSOs before each auction should be made available to the market. Maximising cross-border transmission capacity at the NO2-NL border will offer more cross-border hedging options and decrease risk management costs for market participants at this specific border, ultimately benefitting consumers.

- Ensuring the firmness of LTTRs: TSOs are natural sellers of LTTRs at bidding zone borders. They can manage and adjust associated risks as owners of the physical transmission capacity. While we understand TSO concerns regarding periods of high LTTR compensation (incl. rare cases of market decoupling), the firmness of LTTRs ensures the trust of market participants in the transmission rights. Market participants' trust is being fully protected against basis risks when holding an LTTR is at the heart of that system, and in turn increases the prices they are willing to offer for LTTRs.

- Consulting the market on an LTTR product offering:

- Quarterly products: In addition to the traditional yearly and monthly products, the NorNed operators could consider the issuance of quarterly LTTRs, as is rather common on HDVC interconnectors (incl. Viking Link).
- Multi-year products: LTTRs with longer maturities could also facilitate the uptake of cross-border PPAs. Offering LTTRs with longer maturities (3-5 years) would enable market participants to hedge their volumes on longer-term contracts and could participate in the uptake of cross-border PPAs, which could further advance RES development in Norway and enable Dutch consumers to benefit from green sources of electricity. PPAs are concluded on a multi-year basis, but without matching LTTRs to cover basis risks for the whole duration of the contract, no physical cross-border PPA has seen the light of day yet in Europe. In this regard, we fully support the decision of French TSO RTE to issue LTTRs for Cal+2 in French bidding zone borders, including the border with Switzerland and recommend Norwegian and Dutch TSOs to offer LTTRs with longer maturities on their common bidding zone border.

Please provide any other comments related to ACER's decision addressing the identified insufficient hedging opportunities:

Providing LTTRs on the NO2-NL border is an improvement of the status quo, given the absence of alternative cross-border hedging tools on that bidding zoner border. We hope that this development will serve to improve liquidity on the forward electricity market on both sides of the cable.

However, considering the specific organisation of forward markets in the Nordic area, we understand that there is no guarantee of liquidity improvement. The limited availability of [NO2 <> system price] EPADs may limit the capacity of NorNed LTTRs to truly link the Nordic and continental forward markets. Once LTTRs are being issued, we advise the Norwegian and Dutch regulators to carefully monitor the liquidity situation on both sides of the border. If counterproductive effects are noted, alternative options could be evaluated.

On a final note, we understand that the discussion is still open about the type of LTTRs that could be made available to the market on NorNed. We support the issuance of FTR options (or as the case may be, PTRs with UIOSI) and call on ACER to specify the type of LTTRs they have in mind for this border. Should FTR obligations be considered for the first time in Europe, we would invite ACER to open a public debate on the matter with market participants.

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