

NordREG

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Swedenergy on the report 'Measures to support the functioning of the Nordic financial electricity market'

Swedenergy welcomes the opportunity to comment on the report. As a whole, the report constitutes a thorough exposition of different measures to involve transmission capacity in the forward market and in general we agree with the findings.

Swedenergy proposes that the Nordic Regulators instruct the TSOs to allocate transmission capacity in the forward market. Allocation of transmission capacity will lead to an increase of open interest as it adds volume to the market. Neither of the market making models adds volume to the market and should therefore not be considered.

Swedenergy prefers that the transmission capacity is allocated in the EPAD market, and should be done by all Nordic TSOs and organized by Nasdaq.

General comments

The basis for the development of the Network Codes is that common rules will enable network operators, generators, suppliers, and consumers to operate more effectively across the market. This will support well-functioning, cross-border wholesale markets, which is a prerequisite for cost efficient use of resources enabling limited environmental impact and simultaneously minimum costs for the consumers.

The Network Codes aims at creating a level playing field in a common electricity market, and also to facilitate an efficient cross-border trade where barriers cannot be addressed by the market itself or the market participants. One such obstacle is the fundamental separation between the transmission and trading of electricity. A consequence of this is that market participants can be exposed to the risk of transmission congestions which shows as a price difference between the zonal spot price and the artificial system price.

In order to facilitate cross-border trade in the physical market, this is managed by the Transmission System Operators financially guaranteeing the nominated capacity. Hereby the available transmission capacity is utilized to integrate the day-ahead and intra-day markets. Swedenergy wants to stress that the same should be applied for transmission capacity in the forward market. The provision of long-term hedging solutions against congestion costs and the day-ahead congestion pricing is necessary to enable cross-border trade. Consequently, the Transmission System Operators should be instructed to allocate capacity also in the forward market.

Swedenergy prefers to further the existing arrangements in the forward market; hence financial transmission capacity should be allocated in the EPAD market.

In addition, we want to stress that all alternatives with auctions adds capacity to market, which the market making alternatives does not do. Therefore we do not agree with the report stating that market making would be better for liquidity than auction of FTR-options.

In principle, market making is a market solution and therefore isn't a measure calling for regulatory intervention. Furthermore, this measure also implies that somebody has to decide on the obligations for the market marker to fulfil, e.g. an acceptable price spread, and to what costs. Also, this alternative means that there will be no connection to the congestion rents, i.e. the underlying transmission capacity, which is the main purpose of the Guideline on Forward Capacity Allocation.

In Swedenergy's opinion, the Nordic Transmission System operators should auction EPADs, preferably individual contracts before EPAD Combos, as this would be more attuned to the different needs of market participants. We also propose that the auction should be organized by Nasdaq in order to minimize the administrative costs for the market participants. The auctioning should be in accordance to a predefined time schedule where a certain amount of transmission capacity is auctioned at certain points in time ahead of delivery.

Stockholm as above



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