

# Evaluation report

## Public consultation on the risk hedging opportunities for the NL and NO2 bidding zones

**PC\_2024\_E\_11**

12 February 2025

## 1. Introduction

On 16 August 2024, the regulatory authority of the Netherlands ('ACM') informed ACER that they were not able to agree with the regulatory authority of Norway ('NVE-RME') to adopt coordinated decisions pursuant to Article 30(2) and (5) of the FCA Regulation to address the insufficient hedging opportunities identified in the Dutch and NO2 bidding zones. Therefore, ACM requested ACER to request the relevant transmission system operator ('TSO'):

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

ACER publicly consulted on the matter between 25 October and 22 November 2024 and received 16 responses to its public consultation. This document provides ACER's summary and evaluation of these responses.

## 2. Evaluation of responses

This section summarises all the respondents' comments and how these were considered by ACER. The tables below are organised according to the consultation questions and provide the respective views from the respondents, as well as a response from ACER clarifying how their comments were considered in the present Decision.

ACER would like to point out that for the sake of brevity and clarity of this document some arguments brought forward in the responses were summarised. For transparency reasons, the original and non-confidential responses to the public consultations are published [here](#).

### 2.1 Public consultation for ACER's decision concerning risk hedging opportunities for the NL and NO2 bidding zones

| Respondents' replies  | ACER views   |
|---|--|
| <b>1. 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?</b>  |  |
| 16 respondents answered to this question  |  |
| 8 respondents (Statnett; Statkraft; Renewables Norway; Å Energi AS; Hydro Energi AS; Nord Pool; Hafslund; EEX) do not consider LTTRs on NL-NO2 an effective measure to address insufficient hedging opportunities in the Netherlands and Norway 2 | ACER tends to agree with the views of these market participants. While ACER considers that LTTRs on NL-NO2 would provide another hedging product, ACER has doubts that these LTTRs would significantly improve hedging opportunities in the Netherlands or Norway. |
| 8 respondents (EDF Trading; Houmoller Consulting; Green Power Denmark; Centrica; TenneT; Energy Traders Europe; Energie-  | ACER acknowledges the views of these market participants. While ACER considers that LTTRs on NL-NO2 would generally provide another  |

|   |  |
|---|--|
| <p>Nederland; Shell Energy Europe) do consider LTTRs on NL-NO2 an effective measure to address insufficient hedging opportunities in the Netherlands and Norway 2</p>   | <p>hedging product, ACER expects that that these would also come at a cost of undervaluation of cross-zonal capacities and does not expect an overall socioeconomic benefit from LTTRs on NL-NO2.</p>  |
| <p>16 respondents provided further explanations to their answer</p>   |  |
| <p>5 respondents (EDF trading; Centrica; Energy Traders Europe; Energie-Nederland; Shell Energy Europe) consider LTTRs a good hedging tool and expect that LTTRs would improve the forward market liquidity in both bidding zones.</p>  | <p>While ACER generally agrees that LTTRs can serve as a hedging tool, which can improve forward market liquidity in the relevant bidding zones. However, as assessed in section 6.3 of ACER's decision, for the NL-NO2 bidding zone border ACER sees a risk that most LTTRs on that bidding zone border would likely not be used to improve the liquidity of the relevant bidding zones.</p>  |
| <p>One respondent (Centrica) stresses that especially large-scale renewables installations are currently finding it difficult to hedge their production within their own bidding zone and are therefore relying on the availability of additional hedging opportunities.</p>  | <p>ACER deems it important to allow for the possibility to address any hedging need for a fair price and requested the relevant 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>4 respondents (EDF trading; Energy Traders Europe; Energie-Nederland; TenneT TSO B. V.) share their preference for LTTRs in the form of FTR Options.</p>   | <p>The regional design of LTTRs, including the choice between FTR options, obligations or PTRs are out of scope of this decision but subject to a proposal in accordance with Article 31 of the FCA Regulation.</p>  |
| <p>One respondent (Shell Energy Europe) responds to concerns by ACER on possible undervaluation of LTTRs that auctions are set up in such a way that it shows the willingness of the market to pay for these products and that LTTR auction results influence the forward market prices and therefore are a fundamental part of forward markets. The respondent further dismisses ACER's concerns about LTTR undervaluation because of speculative trading, noting that speculative parties participating in LTTR auctions would either increase overall revenues derived from such auctions or would fail to obtain the product.</p> | <p>ACER agrees that LTTR auctions are set up in a way that the resulting LTTR price reflects the willingness to pay. However, an undervaluation of LTTRs in the EU is a widely proven effect and implies that a relevant share of LTTR holders considered a negative risk premium in their bid (instead of a willingness to pay extra for being hedged). ACER generally considers long-term cross-zonal capacity allocation as an important element for well-functioning long-term electricity markets. Further, ACER understands that speculative actors play an important and welcome role in the long-term electricity market by increasing competition and providing additional needed liquidity. However, undervaluation of LTTRs need to be adequately considered since this results in costs for tariff payers.</p> |

|   |   |
|---|---|
| <p>One respondent (TenneT) states that improved hedging opportunities from LTTRs will only materialise when the forward market in the connected bidding zone is more liquid than the forward market of the original bidding zone. Given that liquidity is low in both NO2 and NL BZs, the introduction of LTTRs alone is unlikely to significantly improve hedging opportunities.</p>               | <p>ACER shares these concerns of limited impact of LTTRs, which are connecting two bidding zones with limited liquidity.</p>  |
| <p>6 respondents (Statnett; Statkraft; Renewables Norway; Å Energi AS; Hydro Energi AS; Hafslund) explains the need to combine several hedging products to address the baseload price risk with LTTRs, which is considered 'too complex' by many stakeholders and mention that this is why Norwegian market participants are not asking for hedging products on the NL-NO2 bidding zone border.</p> | <p>ACER acknowledges the high complexity of using NL-NO2 LTTRs for addressing hedging needs, since these would need to be combined with illiquid forward products from the NO2 or the NL bidding zone or with an LTTR to the DE bidding zone which can only be acquired in a separate LTTR auction.</p> |
| <p>7 respondents (Statnett, Statkraft; Renewables Norway; Å Energi AS; Hydro Energi AS; Nord Pool; Hafslund) shared concerns about a split of liquidity by introducing LTTRs. 3 of these respondents (Statnett; Statkraft; Å Energi AS) mentioned that issuing LTTRs could also undermine EPAD auctions.</p>  | <p>ACER shares concerns about the risk of negative impacts on liquidity of EPADs and the Nordic System price.</p>   |
| <p>5 respondents (Statnett; Statkraft; Renewables Norway; Å Energi AS; Hafslund) explain that market participants in the Nordic market are mainly using the Nordic System price to hedge their price risk and may combine it with EPADs to address the remaining basis risk.</p>  | <p>ACER understand that EPAD and the Nordic System Price products are the standard hedging products used to address a heging need in the Nordic region.</p>   |
| <p>2 respondents (Renewables Norway; Hafslund) consider it unlikely that continental players will hedge its exposure in Norway due to the liquidity situation in NO2 and the need to acquire both a system price contract and an EPAD.</p>  | <p>ACER agrees.</p>   |
| <p>One Respondent (Statkraft) expresses the view that hedging an NO2 portfolio in the Dutch market is associated with high risks as continental European prices are no longer considered a feasible and safe proxy. This is because of a strong correlation between Dutch</p>   | <p>ACER agrees.</p>   |

|   |   |
|---|---|
| and German markets on one side, while NO2 prices strongly correlate with the Nordic system price, with weak correlation between NO2 and NL.   |   |
| One respondent (Statkraft) questions that the introduction of LTTRs between NO2 and NL would have any net benefits on forward market liquidity. Given the poor liquidity on both sides of the border, at least in NO2, it is more likely that proprietary traders would seek to reap the benefits from the spread value rather than engaging in delta hedging activities. | ACER shares this view.  |
| One respondent (Hydro Energi AS) voices concern that TSO's congestion income might be reduced from undervalued LTTRs and the direct costs associated with TSOs participating in the market, increasing grid tariffs for consumers without improving hedging opportunities.  | ACER shares this concern.   |
| One respondent (Houmoller Consulting) considers LTTRs the only option for hedging as the liquidity of the Nordic power derivatives has collapsed  | ACER disagrees. While the insufficient hedging opportunities were identified, ACER does not consider LTTRs the only option for hedging in the Nordics.  |
| Two respondents (Green Power DK; Centrica) express the view that issuing LTTRs between NL-NO2 and DK1-NO2 could "bridge liquidity" by enabling the acquiring of transmission rights from the NO2-NL border and then to the German border, where most proxy hedging takes place.   | ACER agrees that a combination of more LTTRs could provide an access to the German forward electricity market, which has high liquidity. However, the use of a combination of LTTRs to address a hedging need is subject to significant complexity. |
| One respondent (Centrica) calls for safeguarding the ability for market participants to hedge in the market of their choice.  | ACER agrees that market participants should be allowed to freely choose the most adequate available hedge.  |
| One respondent (Centrica) asks to reduce barriers to entry (licencing, heavy bureaucratic requirements) for financial players in the wholesale market, so that more risk-takers can enter the market and offer a variety of hedging services. Financial players act as risk takers in the market and allow other market participants to hedge.                            | ACER generally welcomes measures for facilitating activities of financial players which are improving the liquidity in forward electricity market. However, these measures are not subject to this decision.  |
| One respondent (Centrica) explains that financial players tend to favour stable indices,  | The review of bidding zone configurations is not in the scope of this decision.   |

|  |  |
|--|--|
| <p>which is not the case if the risk of a potential reconfiguration of bidding zones is significant. Therefore, bidding zone re-delineations should be avoided where possible to prevent adverse effects on overall liquidity.</p>   |  |
| <p><b>2. Please provide suggestions for other measures, which could address the insufficient hedging opportunities.</b></p>  |  |
| <p>16 respondents answered to this question</p>  |  |
| <p>4 respondents (Centrica; EDF trading; Energy Traders Europe; Green Power Denmark) shared their preference LTTRs with full firmness. One of these respondents (Centrica) further suggests that firmness of LTTRs could be further increased via secondary markets organised by TSOs and JAO which would allow TSOs to buy back issued rights to manage unforeseen operational risks.</p> | <p>ACER acknowledges the benefits of LTTRs with full firmness and the need to better facilitate secondary trading. While such improvements are expected to be considered for the on-going revision of the FCA Regulation, ACER invites the relevant TSOs to already consider possible improvements ahead of such revision.</p> |
| <p>3 respondents (Shell Energy Europe; EDF trading; Energy Traders Europe) suggests offering weekly, monthly, quarterly and annual LTTR products. One of these respondents (Shell Energy Europe) additionally suggest to have LTTRs also as weekly and multi-annual products.</p>  | <p>While such improvements are expected to be considered for the on-going revision of the FCA Regulation, ACER invites the relevant TSOs to already consider possible improvements ahead of such revision.</p>   |
| <p>4 respondents (Centrica; EDF trading; Energy Traders Europe; Green Power Denmark) suggest for TSOs to provide LTTRs with higher maturities (e.g. Y+3).</p>  | <p>While such improvements are expected to be considered for the on-going revision of the FCA Regulation, ACER invites the relevant TSOs to already consider possible improvements ahead of such revision.</p>   |
| <p>3 respondents (EDF Trading; Centrica; Energy Traders Europe) suggest that TSOs should offer LTTRs for the maximum amount of cross-zonal capacity available.</p>   | <p>ACER considers it beneficial to allocate the volume of cross-zonal capacity needed to ensure sufficient hedging opportunities.</p>  |
| <p>4 respondents (Centrica; Energy Traders Europe; Energie-Nederland; Shell Energy Europe) point out that LTTRs could significantly increase the uptake on cross-border PPAs.</p>  | <p>ACER acknowledges these views.</p>  |
| <p>One respondent (Green Power Denmark) calls for facilitation of secondary trading (i.e. a platform for secondary trading).</p>   | <p>ACER acknowledges the need to better facilitate secondary trading. ACER expects this to be considered for the on-going revision of the FCA Regulation.</p>  |

|   |  |
|---|--|
| One respondent (Energie-Nederland) points out that instruments like EPADs in NO and coupling of forward products in NL do not address cross-zonal risks at the NO2-NL border.   | ACER understand that measures which would provide for sufficient hedging opportunities in NO2 and the Dutch bidding zone would also facilitate the possibility to address cross-zonal risks for NO2-NL.  |
| One respondent (Energie-Nederland) states that the FCA Regulation prescribes transmission rights as the standard basis risk products.   | ACER understands that the FCA Regulation considers LTTRs as the standard measure but also allows for other measures to address insufficient hedging opportunities.   |
| 2 respondents (Energie-Nederland; TenneT) voices legal concerns that an involvement of TenneT in the buying and selling of futures might go against the Section 10b of the Dutch Electricity Act 1998.  | ACER understands that requirements from EU law prevails over requirements from national legislation.   |
| One respondent (Centrica) points out that it is important that financial regulation maintains the rules that have been tailored to the energy market's specificities and preserves the MiFID II Ancillary Activity Exemption in its current form.   | ACER understands that the specificities of electricity markets should be adequately considered under financial regulation. However, such provisions are out of scope of this Decision.   |
| One respondent (Statnett) mentions that Dutch hedging needs should be addressed via the German future product and spread products between Germany and the Netherlands.  | ACER agrees that German future products seem to be the most suitable proxy for Dutch market participants.  |
| 6 respondents (Statnett; Statkraft; Renewables Norway; Å Energi AS; Hydro Energi AS; Hafslund) explain that the planned launch of EPAD auctions for the Norwegian bidding zones should address the insufficient hedging opportunities in Norway 2.  | ACER acknowledges these views but considers such measures subject to the Norwegian TSOs' proposal in accordance with Article 30(6) of the FCA Regulation.  |
| 4 respondents (Statnett; Renewables Norway; Å Energi AS; Hafslund) believe that solutions should address the hedging need on each side of the bidding zone border without introducing LTTRs on NL-NO2.  | ACER agrees that individual measures could be a possible option to address insufficient hedging opportunities.   |
| One respondent (TenneT) suggests that strengthening of existing cross-zonal hedging products (EPADs, LTTRs NL-DE) will likely improve hedging opportunities. Decisions to develop new cross-zonal hedging products should not be taken for this specific BZ border but be part of a discussion relating to FCA GL 2.0 or Electricity Market Reform Directive. | ACER agrees that such measures could be a possible option to address insufficient hedging opportunities. The expected costs and benefits of any possible option should be duly considered by TSOs when developing their proposal in accordance with Article 30(6) of the FCA Regulation. |



|   |  |
|---|--|
| 3 respondents (Renewables Norway; Å Energi AS; Hafslund) explain that due to the Norwegian weather-based power system EPADs are more suitable to address this volatility as market parties secure the price in the bid area regardless of the direction of flow between the bidding zones during the delivery period.     | ACER acknowledges these views.   |
| 4 respondents (Renewables Norway; Å Energi AS; Hydro Energi AS; Hafslund) state that the EPAD auction pilot projects in Norway and in Sweden should be evaluated and made permanent.  | ACER acknowledges the observations of positive impact of EPAD auction projects on hedging opportunities in Norway and Sweden. However, confirming such measures is not subject to this Decision.   |
| Two respondents (Centrica, Statkraft) refer to the on-going reform for EMIR 3.0 and asks for improvements under the financial regulation to support the forward electricity market.   | ACER generally welcomes measures for facilitating activities of financial players which are improving the liquidity in forward electricity market. However, these measures are not subject to this decision.   |
| One respondent (Green Energy Denmark) points out that collateral requirements have a significant impact on liquidity and calls for an assessment whether collateral requirements are too high   | ACER generally welcomes measures for facilitating activities of financial players which are improving the liquidity in forward electricity market. However, these measures are not subject to this decision.   |
| One respondent (Statkraft) suggests that hedging opportunities could be improved by making sure Statnett and other Nordic TSOs are incentivised to reduce structural bottlenecks in the grid, reducing price differences between Nordic BZs and allowing the Nordic system price to become a more robust reference price. | ACER generally welcomes measures to address structural congestions and acknowledges that on a long run such measures could have a positive impact on hedging opportunities by facilitating more efficient proxy products through better correlation. |
| Two respondents (Green Energy Denmark; Centrica) point out the impact of regulatory stability and avoiding political market interventions. The market reform and instruments promoted within it should not further negatively impact forward market liquidity.  | ACER generally agrees.   |
| One respondent (EEX) suggests that the respective TSOs contract a professional market maker that at a given remuneration put quotes on the respective markets at pre-specified conditions or hire a commodity trading house which trades the TSO's capacity at a certain profit.  | ACER considers this a potential option and invites TSOs to consider it when developing their proposal in accordance with Article 30(6) of the FCA Regulation.  |



|  |   |
|--|---|
| Two respondents (EEX; Nordpool) share their preference for solutions where TSOs supporting forward products which are already traded at exchanges. One of these respondents (EEX) proposes for the TSOs to offer spread products which relate to the existing zonal forward products. Another of these respondents (Nordpool) proposes primary auctions with implicit allocation of cross-zonal capacity, where the auctioned products can be cleared via exchanges where secondary trading can be done. | ACER considers this a potential option and invites TSOs to consider it when developing their proposal in accordance with Article 30(6) of the FCA Regulation. |
| One respondent (EEX) suggests to contract a commodity trading house to trade TSOs' cross-zonal capacity at a certain profit.   | ACER invites TSOs to consider any relevant option when developing their proposal in accordance with Article 30(6) of the FCA Regulation.                      |
| Two respondents (EEX, Nordpool) suggest to establish a market-maker function to support hedging opportunities in the relevant bidding zones.   | ACER considers this a potential option and invites TSOs to consider it when developing their proposal in accordance with Article 30(6) of the FCA Regulation. |
| <b>3. Please provide any other comments related to ACER's decision addressing the identified insufficient hedging opportunities.</b>   |   |
| 12 respondents answered to this question   |   |
| One respondent (Statnett) summarises that for Norway the EPAD auctions should mitigate the low liquidity in Norwegian bidding zones without a need for LTTRs, while insufficient hedging opportunities in the Netherlands may be mitigated with LTTRs to other Core Member States or by offering volumes of zonal future contracts.  | ACER considers this a potential option and invites TSOs to consider it when developing their proposal in accordance with Article 30(6) of the FCA Regulation. |
| One respondent (Statkraft) suggests there is no interest among Norwegian market participants in an LTTR introduction on the NO2 NL border and that such a step would mainly support liquidity on Dutch and German markets at the expense of Norwegian market participants.   | ACER acknowledges this feedback. In its Decision ACER asked the Dutch TSO to consider other measures.   |
| 5 respondents (Renewables Norway; Å Energi AS; Hydro Energi AS; Nord Pool; Hafslund) summarise that LTTRs are not considered an appropriate hedging product compared to  | ACER acknowledges this feedback. In its Decision ACER asked the Dutch TSO to consider other measures.   |

|   |   |
|---|---|
| EPADs and would not serve the hedging needs of Norwegian market participants and that improving existing products should be prioritised over introducing parallel TSO products with no clear benefits to the liquidity situation in the Nordic region.  |   |
| One respondent (Centrica) summarises that while the introduction of a system price in the Nordics has been reasonable due to the number of small BZs with low liquidity and EPADs are needed to complement the system price product, but their liquidity is too low.  | ACER generally agrees and deems it important to address the insufficient hedging opportunities in the NO2 bidding zone.   |
| 2 respondents (Green Power DK; Centrica) summarises that LTTRs are essential to unlock liquidity in forward markets and can co-exist with the current Nordic system price and EPADs. Combining LTTRs with Nordic EPAD power derivatives could increase the liquidity of EPADs.                                    | While ACER generally agrees that LTTRs could co-exist with the standard products in the Nordics and could support hedging opportunities, ACER also sees a risk of a possible negative impact on standard Nordic products and invites the relevant TSOs to consider more efficient alternatives. |
| One respondent (Energy Traders Europe) cautions that the limited availability of NO2 EPADs may limit the capacity of NorNed LTTRs and encourages regulators to evaluate other options if the introduction of LTTRs does not lead to a liquidity improvement.  | ACER asked the Dutch TSO to consider other measures.  |
| One respondent (Green Power Denmark) shares its view on the measures taken concerning the NO2-DK1 bidding zone border. More specifically, the respondent does not consider the foreseen solution of EPAD auctions in the Norwegian bidding zone as adequate to live up to Article 30(5)(b) of the FCA Regulation. | While the NO2-DK1 bidding zone border is not in the scope of this decision, ACER considers EPAD auctions in Norway as a potential solution to address insufficient hedging opportunities in Norway.   |
| One respondent (TenneT) mentions that the different projects to achieve a single integrated European electricity market are competing with each other for limited resources to develop and implement them on the TSO side.  | ACER acknowledges the limited resources of TSOs.  |
| One respondent (TenneT) shares its concern over possible underselling of LTTRs which would constitute a transfer of wealth from the public to individual companies to the detriment of consumers.   | ACER shares this concern.   |
| One respondent (TenneT) shares its views concerning the choice between FTR options  | The regional design of LTTRs, including the choice between FTR options, obligations or  |

|   |   |
|---|---|
| and FTR obligations and concludes with concerns that FTR obligations may be implemented in a sub-optimal way and could be counter-productive.   | PTRs are out of scope of this decision but subject to a proposal in accordance with Article 31 of the FCA Regulation.   |
| One respondent (TenneT) shares concerns about collateral requirements being opposed on TSOs and urges to pursue a model where TSOs collaterals exposure is none or at least very limited. | ACER invites the relevant TSOs to weight all costs and benefits of potential solutions when developing their proposal in accordance with Article 30(6) of the FCA Regulation. |

## 2.2 List of respondents

| No. | Organisation                   | Country        |
|-----|--------------------------------|----------------|
| 1.  | Statnett SF                    | Norway         |
| 2.  | EDF Trading                    | United Kingdom |
| 3.  | Renewable Norway               | Norway         |
| 4.  | Houmoller Consulting ApS       | Denmark        |
| 5.  | Å Energi AS                    | Norway         |
| 6.  | Statkraft                      | Norway         |
| 7.  | Hydro Energi AS                | Norway         |
| 8.  | Nord Pool                      | Norway         |
| 9.  | Hafslund                       | Norway         |
| 10. | Green Power Denmark            | Denmark        |
| 11. | Centrica plc.                  | Denmark        |
| 12. | European Energy Exchange (EEX) | Belgium        |
| 13. | TenneT TSO B.V.                | Netherlands    |
| 14. | Energy Traders Europe          | Netherlands    |

|     |                     |             |
|-----|---------------------|-------------|
| 15. | Energie-Nederland   | Netherlands |
| 16. | Shell Energy Europe | Netherlands |