



European Union Agency for the Cooperation  
of Energy Regulators

# Possible developments of the EU electricity forward market

7 December 2022



## Pertaining to the EU forward markets

- 1. Market fragmentation** – unequal access across the BZs
- 2. Hedging disincentives** – unharmonised policies (CfDs, CRMs, ...)
- 3. Market structure** – high market concentration and supply/demand asymmetry
- 4. Vulnerability to bidding zone reconfiguration**

## Pertaining to cross-border hedging

- 5. LTTRs contribute to market fragmentation** – by serving as hedging products on their own
- 6. Accessibility of cross-border hedging products** – infrequent auctioning
- 7. Inadequate maturities** – not matching the participants' hedging needs
- 8. LTTRs are continuously undersold** – negative risk premia
- 9. Non-coordinated exemptions for TSOs to offer LTTRs** – national decisions on cross-border products

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**Some problems** can be addressed by energy regulators **directly**: these are discussed in the following slides with **concrete policy options**

**Other problems** are outside of competence of energy regulators, or dedicated solutions already exist and just need to be applied. For these, ACER provides **general recommendations**:

- 1. Improving market structure, promoting competition** – address high market concentration (vertical /horizontal), improve competition and remove entry barriers
- 2. Reduce hedging disincentives** – design regulatory interventions (long-term contracts) in a targeted way which minimises the impact on hedging incentives – don't take away all the risk
- 3. Re-configuration of bidding zones** – perform the bidding zone review process to assess all aspects of the bidding zone sizing
- 4. Reduce barriers to trade at organised marketplaces** - reduce barriers to trade at organised marketplaces (e.g. non-fully backed bank guarantees)

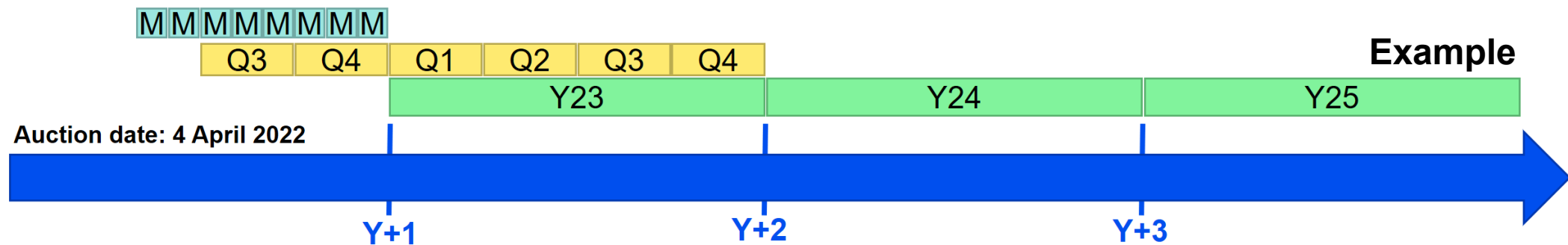
## 1. Coordinated assessment and decisions on TSOs' exemptions

- TSOs are generally required to allocate LTTRs, however...
- ...NRAs may decide that TSOs
  - (a) have equivalent measures in place; or
  - (b) are exempted from supporting the forward market, subject to assessment that forward markets work well without the TSO's support
- This option requires that NRAs in regions **jointly assess and decide** on possible exemptions for TSOs to issue LTTRs
- In case no support to the forward market is provided, an assessment is needed
- This assessment is based on a study determining the market's ability to provide such opportunities without the TSOs' support and backed by transparent and precise metrics

## 2. Improved allocation

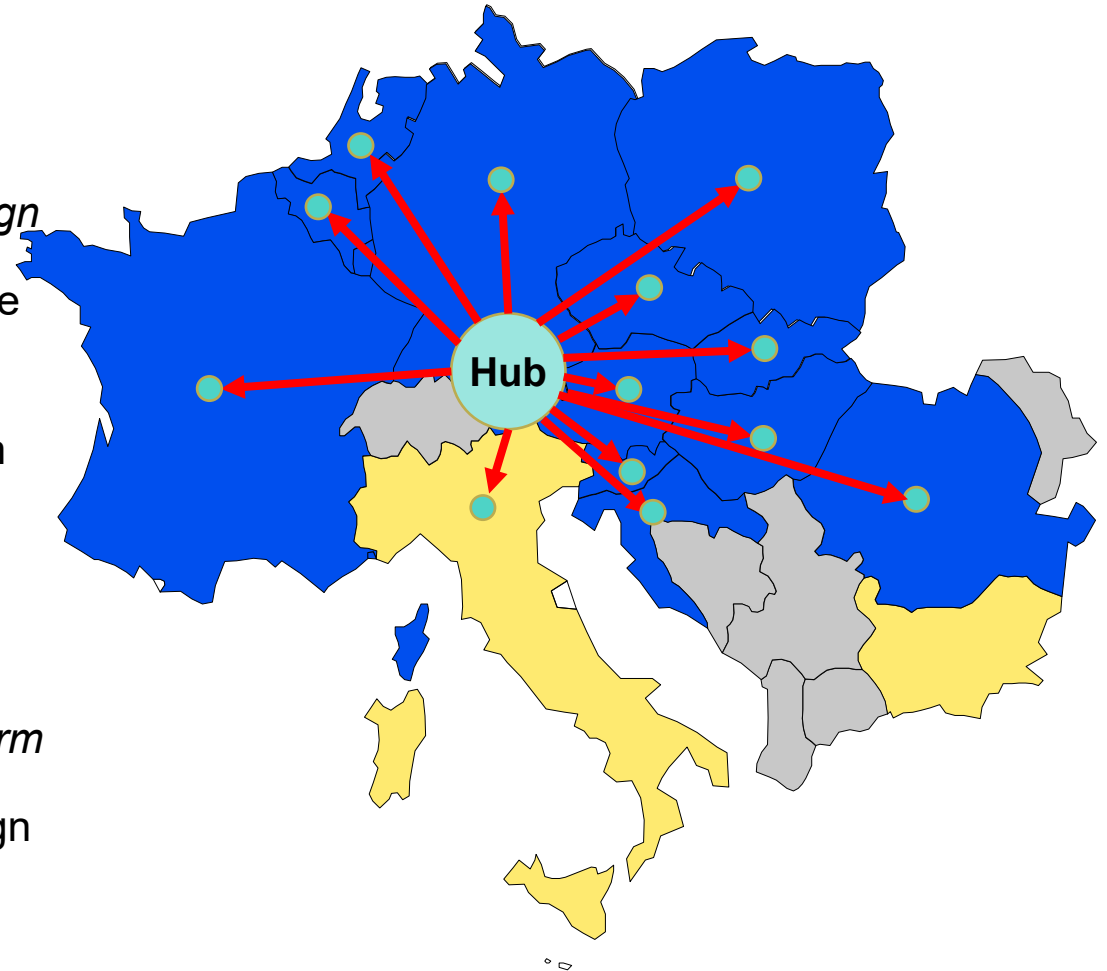
This policy option foresees that the allocation of LTTRs is improved through:

1. Longer term products (up to Y+3)
2. More frequent auction (weekly)
3. Statistical capacity calculation (based on average of DA offered capacity)
4. Continuous access to secondary market (including capacity leftovers)



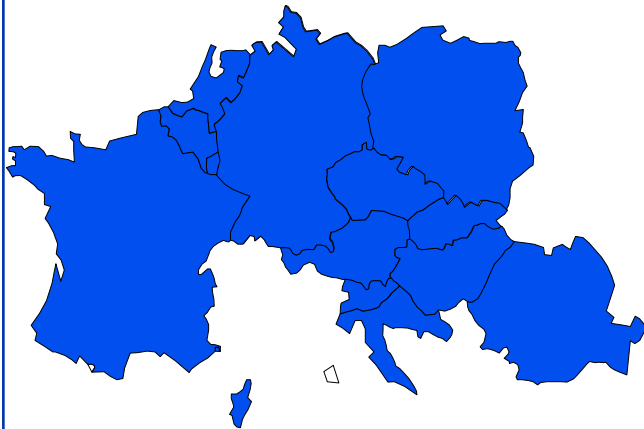
## 3. Zone to Hub LTTRs

1. Transition to **hub-based hedging** complemented with **accessible Z2H TRs**
  - *Transition is voluntary, implicitly incentivised with TR design*
2. Z2H TRs issued as **obligations or options** (depending on the hub price construction)
3. Hub defined at regional (CCR) level, but two regions can form the same hub
4. Coupling with Z2H CfDs would require a governance setup similar as in CACM
  - *Complex, burdensome, but could be the step after this reform*
5. A regional decision could allow for a Coupling with CfDs design (changing the counterparty from the SAP to a MCO)



## Market set-up

### Hub – Core CCR



## Hub price formation

- The hub price formation would be subject to a regional methodology, approved by the relevant NRAs
- In the example, the hub price is computed as the volume-weighted average of the day-ahead price\*

Correlation** to [%]	HU	NL	PL	SK	RO	SL	AT	BE	HR	CZ	FR	DE
Core hub	96.8	96.8	84.8	97.3	94.9	97.0	98.6	97.2	96.8	98.5	95.6	98.4
DE hub	93.1	95.7	84.5	94.7	91.0	93.1	95.9	95.8	92.9	98.1	89.6	100

**Core hub presents better correlations for all BZs (except DE) compared to DE hub**

\*yearly 2021 traded volumes were used for the example

\*\* Data used from 1/1/2021 to 31/08/2022

## Products

For every bidding zone, Z2H FTR Obligations are the products offered by the **Single Allocation Platform (or selected exchange(s) for CfDs)**:

Market participants can place the following bids:

- Buy **Z2H FTR**
- Sell **Z2H FTR**
- Linking of two Z2H FTRs from different zones is possible to buy or sell **Z2Z FTRs equivalents**

## Clearing

- **Z2H products** are cleared if:
  - A buy order is matched by a sell order in the same zone **OR**
  - A buy order is matched by a sell order in a different zone by allocating cross-zonal capacity
- **Z2Z equivalents** are cleared if:
  - A linked Z2Z bid is more competitive (leads to higher surplus) than two separate Z2H FTR between same two zones **AND**
  - Enough cross-border capacity is available between the concerned zones
- **Optimization** is performed with the objective of economic surplus optimisation
- **Capacity allocation** is performed based on FB implicit allocation
- **One auction** is organised **each week** during which new capacity (and leftovers) is made available
- **Daily auctions** are organized during which only capacity leftovers are made available



- By default are required to issue LTTRs zone-to-hub with “improved allocation”:
  - a) Towards a hub in own CCR, or
  - b) Towards a hub in neighbouring CCR
- Regional alternative: TSOs/NRAs have two alternatives
  - a) Support forward market in some other equivalent ways (e.g. issue CfDs instead of LTTR)
  - b) Do not provide any support to the forward market (if supported by assessment showing no support is needed)
- National complement: TSOs/NRAs may complement forward market through market making
- National choice: TSOs/NRAs belonging to more than one CCR have the possibility to issue LTTRs towards one or multiple hubs

Nov-Dec

- Last meetings with stakeholders
- Finalisation of drafting

Jan

- Expected decision for end of January
- Organisation of a workshop to present the paper

- **FCA revision would not take place before 2024**
- **Electricity Regulation could already consider necessary changes in 2023**

# Thank you. Any question?



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✉ [info@acer.europa.eu](mailto:info@acer.europa.eu)  
🖱 [acer.europa.eu](http://acer.europa.eu)

🐦 [@eu\\_acer](https://twitter.com/eu_acer)  
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