ACER – CEER Public consultation - Policy paper on the further development of the EU electricity forward market

A Eurelectric response paper

July 2022

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2022/12.105/27

WG Market Integration & Network Codes

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Public consultation - Policy paper on the further development of the EU electricity forward market

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.

The purpose of this survey is to conduct a public consultation by inviting stakeholders to express their level of agreement (through the likert scale) with consulting on the provided draft policy paper on the further development of the EU electricity forward market.

One response (between 'strongly agree' and 'strongly disagree') is expected for each section of the document allowing also for the option of 'no opinion'. There is room for providing comments on each paragraph of the draft paper at the end. Please complete this survey by following the numbering of draft paper sections.

Replies to this consultation should be submitted by Friday 29 July 2022, 23:59 hrs (CET).

Below you may find for your convenience an Excel document that can facilitate your company's internal coordination to complete this survey.

PC-EFM_Template_for_internal_coordination.xlsx

Data protection and confidentiality

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.

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.

Respondent's data

* Name and surname

This information will not be published.

Donia Peerhossaini

* Email

This information will not be published.

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* Company

Eurelectric

* Country of the company's seat

- Austria
- (•) Belgium
- Bulgaria
- Croatia
- Cyprus
- Czechia
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands

- ( ) Norway
- ( ) Poland
- ( ) Portugal
- ( ) Romania
- ( ) Slovak Republic
- ( ) Slovenia
- ( ) Spain
- ( ) Sweden
- ( ) Other

* Countries where your company is active

- [ ] All EU Member states
- [ ] Austria
- [ ] Belgium
- [ ] Bulgaria
- [ ] Croatia
- [ ] Cyprus
- [ ] Czechia
- [ ] Denmark
- [ ] Estonia
- [ ] Finland
- [ ] France
- [ ] Germany
- [ ] Greece
- [ ] Hungary
- [ ] Ireland
- [ ] Italy
- [ ] Latvia
- [ ] Lithuania
- [ ] Luxembourg
- [ ] Malta
- [ ] Netherlands
- [ ] Norway
- [ ] Poland
- [ ] Portugal
- [ ] Romania
- [ ] Slovak Republic
- [ ] Slovenia
- [ ] Spain
- [ ] Sweden
- [x] Other

Other countries where your company is active

* Activity

- ○ Aggregator (or association)
- ◉ Utility (or association)
- ○ Energy supplier (or association)
- ○ Trader (or association)
- ○ Transmission network operator (or association)
- ○ Regulatory authority
- ○ Generator (or association)
- ○ Distribution network operator (or association)
- ○ End-user (or association)
- ○ Other market participant

Please specify

Survey

What is your general opinion on the drafted proposal of the following sections?

Opinion table

	No opinion	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
* 1. Executive summary	○	○	○	◉	○	○
* 2. Introduction	○	○	◉	○	○	○
* 3. Objectives	○	○	○	○	◉	○
* 4. Literature review	○	○	○	◉	○	○
* 5. Terminology and problem definition	○	○	◉	○	○	○
* 6.1 Basic policy changes - no regret improvements	○	○	○	◉	○	○
* 6.2 The need for intervention	○	○	○	◉	○	○
* 6.3.1 Type of intervention - Option 0: Status quo: Bidding zone border LTTRs	○	○	○	◉	○	○
* 6.3.2 Type of intervention - Option 1: increased number of allocation and product timeframes	○	○	○	○	◉	○

* 6.3.3 Type of intervention - Option 2: Zone-to-zone LTTRs	○	◉	○	○	○	○
* 6.3.4 Type of intervention - Option 3: Zone-to-hub LTTRs	○	○	○	◉	○	○
* 6.3.5 Type of intervention - Option 4: Forward market coupling with CfDs	○	○	○	◉	○	○
* 6.3.6 Type of intervention - Option 5: Forward market coupling with Futures	○	○	◉	○	○	○
* 6.3.7 Type of intervention - Option 6: Market making	○	○	○	◉	○	○
* 6.4 Type of products offered by TSOs	○	○	◉	○	○	○
* 7. Analysis and conclusions	○	◉	○	○	○	○
* 8. Recommendations and proposed actions	○	◉	○	○	○	○

In case of disagreement on proposed draft, please share your comments in the table below (optional).

Please note that you won't be able to see the full size of your response in the Survey Tool but once you download the PDF of your response, a full table with your input will be shown.

Comment table

	Comment
1. Executive summary	We recognize that the electricity market suffers from liquidity issues. Eurelectric supports evolutions or initiatives aiming at bringing benefits in terms of liquidity of the forward market. A better liquidity improves the hedging of the risks for all market participants (producers, suppliers, aggregators, …) of the forward market. This initiative from ACER and CEER is therefore welcome and seen as a good starting point for further discussions. However, we regret that ACER report focuses on LTTR which is only a part of the problem and does not address some of the fundamental factors concerning hedging. We encourage to pursue the discussions with stakeholders on a larger scope. Efficiency of forward market needs liquidity. Liquidity requires simplicity and transparency. Some of the ACER proposals (options 2 to 5) are introducing high level of complexity that could jeopardize the attractiveness of forward markets. We also want to remind that unstable regulatory framework also leads to important liquidity reduction. This can be for instance observed currently in the Iberian market where the recent interventions in the spot market led to an important reduction of liquidity in the forward market. Another important impact on the liquidity is that EMIR put a stop to the use of non-fully backed bank guarantees in the power and gas sectors from March 2016, which lead to reduction of liquidity in the market. The current consultation take place in a context of high prices and discussions about how to improve the electricity market design. Upcoming FCA revision will probably as well. We take note that ACER-CEER focuses in this report and consultation on the 3 years' time horizon of forward markets adapted to hedging decisions of market participants and not on longer time horizon adapted notably to investment decisions. Eurelectric believes that there is a need for complementary mechanisms / long-term price signals to ensure the necessary investments with view to the energy transition toward the net zero objective. Hence, we welcome the upcoming publication announced by ACER-CEER of another policy paper dedicated to relevant tools to be developed for hedging long-term investments (cf. page 4 of the report). A wide stakeholder involvement and consultation process is of course expected on this topic. By ticking "neutral" for some options, this should be interpreted as a call from our side for further assessment of the impact of the options on liquidity of forward markets. Our comments on those options should be considered as our initial reactions based on our current understanding of the measures. We would however welcome further discussions on those options to be able to finetune our positioning. At this stage, we consider that some of the options may not fit a “one-size-fits all” approach and would require further assessment.

2. Introduction	We appreciate the structuration of the reasoning developed by ACER and CEER in this paper, with first problems identified and then proposed options allowing for a qualitative ranking of options with their ability to solve the different problems. This enables us to comment both problems and options and propose our own ranking of options based on problems that we consider as relevant. ACER-CEER says that the policy paper “does not aim to objectively quantify and back up all the positions expressed by the regulators”. We are a bit puzzled by this statement. We also would like to mention that forward markets are very different from short-term markets in terms of goal and nature: they deal with anticipation of future equilibrium point (taking into account a.o. the expected flows at interconnections at delivery) and not with confronting physical offer and demand. The added value of LTTRs entirely lies in liquidity improvement, not directly in the forward price formation. Eurelectric appreciates the initiative from ACER and CEER to assess the challenges the European forward market faces, and possible solutions to mitigate some of these challenges. However, for Eurelectric, given notably the disruptive feature of a lot of proposals, these must be very carefully and objectively quantified when possible to demonstrate the added value for the efficient functioning of forward markets, typically through cost-benefit analysis. This is in particular the case of the most disruptive options (application of Flow-based, application of forward market coupling, …) which would need to be further studied (in particular their impacts and practical implementations).
3. Objectives	We are not sure of the relevance of objective 2(i) since it is in general impossible to achieve both objectives of low prices and low risk levels without major interventions. It would rather be a consequence of efficient, liquid, and competitive forward markets.
4. Literature review	It is interesting to have a compilation of literature, but ACER could explain which main outcomes and conclusions have been used. In addition, we note that many reference papers are related to electricity systems that are very different from European market system and regulatory framework (e.g. US and Australia). ACER seems to be mainly looking at literature on nodal markets. We would like to remind that Europe chose to implement a zonal market and that Eurelectric is fully committed to the implementation of the European target model. Using features of systems that drastically differ from European system without carefully assessing the collateral impact could be dangerous and lead to negative impacts.
	We disagree with some problem definition presented by ACER and we agree with some of them. Here are our detailed comments on each problem. Problem 1: we partially agree with ACER views - We recognize that the electricity market suffers from liquidity issues. Eurelectric supports evolutions or initiatives aiming at bringing benefits in terms of liquidity of the forward market. A better liquidity improves the hedging of the risks for all market participants (producers, suppliers, aggregators, …) of the forward market. This initiative from ACER and CEER is therefore welcome;

- We appreciate that ACER recognizes the link between the bidding zone size and the liquidity of their forward market; this should point towards paying strong attention to liquidity criteria in the BZR study (BZR should not be only about efficient congestion management), and take this into account when evaluating the BZ delineation. However, we note that there can be liquidity problems in all BZs, for other reasons.
- ACER considers that there are conflicting goals between short term market efficiency (which requires efficient management of congestion) and liquidity in the forward market. We disagree with this statement and in particular with the “conflicting goals”. While the goal of long term market is to offer efficient and effective hedging possibilities to MP and to provide price signal for investment/divestment, the goal of short term market is to reach the most optimal dispatch, respecting the network constraint, at the lowest cost for the society. They should not be considered as conflicting as following solutions allow to better mingle them:
  - o Congestion management through market actions or topological measures.
  - o On top, if there is a liquid forward market, there will also be a fast reacting/liquid short term market able to provide solutions to manage the congestions (e.g. via counter-trading)
- The causes of liquidity issues can differ in the different regions. For instance, the last years there has especially been concerns about a lack of liquidity for power-price hedging in some of the bidding zones in the Nordic CCRs.

Problem 2: we partially disagree with ACER views

LTTRs are hedging instruments against the variation of the spread between bidding zones and are thus different products than forwards. They are not competing with each other. Similar practices occur on the gas market: gas transport capacities at interconnection points that market participants can be subscribed on a year-ahead basis, and have no direct link to the forward (e.g. year-ahead) market transactions they may proceed with on the commodity side (typically buying/selling forward products at liquid hubs like TTF, being the reference gas market for hedging in forward in Europe).

ACER is mixing cause and consequence when considering that MPs would prefer to hedge in liquid zones and buy LTTRs: in general, it is way simpler for MPs to hedge in their BZ.MPs have to find proxy hedges (which is currently difficult given the mismatch between forward and LTTR maturities) only in case there is no liquidity in their own BZ (MPs always prefer a perfect hedge than a proxy hedge).

LTTR are assisting liquidity in the forward market. This is not the one or the order, they are not an alternative for forward trade in the BZ. Notably, the issuance of PTR UIOSI and FTR options has positive impact on the liquidity in the forward market: when MPs buy an option, they have optionality in their portfolio to manage. When their option is moving in and out of the money (i.e. when the forward value of the spread is varying around the value at which they bought the option), MPs usually adjust their hedges accordingly by entering into forward transactions (buying/selling forward contracts, unwinding positions). Those buying/selling orders are contributing to higher liquidity in the forward market.

We want to highlight that the current situation in terms of LTTRs differs in the different CCRs.. To this extent, the problems pointed by ACER as well as the solutions to address them must be assessed taking into account those starting situation and their potential transition costs and impacts in case of application of a pan-European solution. For instance, some regions like CORE are used to the emission of LTTRs by TSOs, while some others are not. In the Nordic region, where hedging activities is based on the system price and EPADs, there are maybe some bidding zones which could be negatively affected by LTTRs, but on the other hand, this would offer alternative hedging possibilities to MPs and

5. Terminology and problem definition	hence the overall situation should be assessed. This means that a “one size fits all solution” to accommodate cross-border hedging must be very carefully assessed. In particular, one should therefore carefully assess the impact of LTTRs issuance depending on the current market context. In particular, the impact of LTTR to the liquidity of the home markets should bring attention to the alternative hedging solutions in place: should MPs find it more attractive to hedge in another bidding zone, this probably means that their alternative hedging solutions must be reviewed. Problem 3: we agree with ACER views On the secondary market: Secondary market (i.e. transfer of LTTRs between MPs) is allowed, although not frequent. Note that MPs can also restitute the yearly LTTR they bought during the monthly auctions (without control over the price at which they are resold which constitutes an additional price risk). The weakness of the current secondary market is likely to be partly due to the low volumes of LTTRs offered by TSOs (MPs keeping them for their hedging) compared to the physical cross-border capacity, but there are also organizational reasons, and we share the view that the secondary market should be better facilitated (e.g.: have possibility to have a platform to resell LTTRs with price limit, either through auctions or through continuous trading). On the timing/moment of the auction: Indeed, the LTTR are only issued once a year (typically November) for yearly products. The idea of more frequent auctions should be looked at, see our comments at paragraph 6.3.2. Problem 4: we partially disagree with ACER views We interpret problem 4 as follows: ACER considers that the negative impact on liquidity in case of BZ split is perceived as a barrier to a BZ reconfiguration. We disagree with this idea: market liquidity is not a barrier to reconfiguration of bidding zones, but is a criterion to carefully consider when studying bidding zones reconfiguration. Problem 5: we agree with ACER views We agree with this problem. Indeed, market participants regret the fact that TSOs are not issuing LTTRs beyond one year ahead. Aligning the maturities of LTTRs with the maturities of forward contracts would be a positive evolution. MPs should have the possibility to benefit from the transmission grid in at least Y+2 and Y+3, allowing suppliers, producers, all market participants to better hedge in the forward market. At the end of the day, this would be beneficial for the customer who would have more opportunities to hedge its exposure against market price volatility. Details on how the allocation and splitting process would be done for those maturities are important and should be carefully discussed with the market (for instance, by having block products allowing MPs to buy several years together). In particular, frequency of auctions, products offered and possibilities to have blocks, allocation methodologies, … should be tackled properly.

Problem 6: we disagree with ACER views

MPs are not interested in buying FTR obligations, they do not want to be exposed to the full obligation in order to properly hedge their underlying risks and exposures. Instead, they want to profit from the optionality of FTR options. The choice of products for LTTRs should depend on the appetite of MPs and this in accordance with the objectives of FCA (besides, FTR-obligations are already foreseen as a possibility in the FCA guideline; if there would have been an interest for such products, it would have been expressed by MPs when the dedicated methodologies were consulted, and NRAs could have asked for the implementation of these products). This lack of appetite for FTR-obligations can be explained by several factors, notably the fact that they do not allow MPs to grasp opportunities in the same way as options because FTR-obligations "lock" the situation forever/whatever the market context. Let's take the illustrative example of two bidding zones A and B; owning an FTR-obligation from A to B:

- does not allow a customer to benefit from potential decrease of the electricity price in its bidding zone. For instance, let's take a customer located in B who decided to buy in A and buy an FTR from A to B (following a lack of liquidity in B), suppose that the price decreases drastically in B, he will not be able to benefit from this decrease;
- does not allow a producer to benefit from potential increase of the electricity price in its bidding zone. For instance, let's take a producer located in A who decided to sell in B (following a lack of liquidity in A) and to buy an FTR from A to B; suppose that the price increases drastically in A, he will not be able to benefit from this increase.

As already mentioned in "problem 2", options have a positive impact on market liquidity, at the contrary to FTR obligations. Indeed, when MPs buy an option, they have optionality in their portfolio to manage. When their option is moving in and out of the money (ie, when the forward value of the spread is varying around the value at which they bought the FTR option), MPs usually adjust their hedges accordingly by entering into forward transactions (buying/selling forward contracts, unwinding positions). Those buying/selling orders are contributing to higher liquidity in the forward market. For FTR obligation, this optional aspect is inexistant, and the related forward hedging activity also does not exist. Replacing FTR options by FTR obligation would actually be detrimental to the liquidity in the forward market.

The impact of FTR obligations should therefore be carefully assessed in our European market context.

Regarding ACER view on the price of FTR option vs FTR obligation (2), one cannot compare the price of those products that are completely different in terms of hedging aspects. The FTR obligation does not offer the same protection as the FTR option hence their price cannot be compared.

Regarding the difficulty to have zone-to-hub LTTR (3), it has never been an objective from FCA to have zone-to-hub LTTR. It is therefore surprising that ACER points this as negative aspect of PTRs/FTR options.

Problem 7: we strongly disagree with ACER views

We strongly disagree with this statement. Analysis of “ex post risk premium” does not make sense: no one can ever know the market outcome beforehand, … The only indicator that would make sense (to detect any abnormal arbitrage opportunity between forwards and LTTRs) would be to compare the auction result with the forward spread at the moment of the auction. We disagree about any systematic bias on this indicator.

Could ACER clarify and publish the studies they refer to ? Which spread does ACER refer to ? We do not understand ACER statement : how could a product be systematically be sold with such a bias ? Could ACER provide more explanation ?
Looking randomly at some examples:
The monthly auction for May 2022:

- In BE-GE: auctioned at 6,87 €/MWh, spread was traded around -2 €/MWh (GE at 204, BE at 202), payout was “only” 4,88 €/MWh
- In the opposite direction, GE -> BE: auctioned at 6,77, spread was traded around +2 €/MWh, payout was “only” 4,04 €/MWh

We also would like to remind that the price at which market participants are buying FTR options from A to B is the result of the current underlying value (i.e. the value of the spread at the moment of the auction = forward price in B – forward price in A) plus the additional risk premium translating their vision of the probability that this spread vary over the option period.
Auction price reflects the market value of the product at the moment of auctioning. It does not constitute a “price floor” below which the realized spread (= the spread in day-ahead) cannot go.
We also want to remind that the price paid reflects all the risks embedded in the product (credit risk, cost of capital, force majeure and “emergency situation” covering a.o. outages in the grid, …) and borne by MPs;

Problem 8: we are neutral with ACER views
We agree that having clearer common criteria to assess the liquidity in the BZ would be welcome (and this should be part of the BZR study). However, again, this problem should not be a criterion as such. Eurelectric hence supports the mandatory issuance of LTTRs by TSOs.

6.1 Basic policy changes - no regret improvements	We disagree with the need to align FB requirements in LT and DA timeframe (6.1.1): - Given the fact to set FB as the target model is contradictory with current FCA (article 10), it would represent a change in paradigm. This change in paradigm shall be very carefully assessed and a CBA is needed to demonstrate that the implied increased complexity / costs of development worth it (see the costs and delay on the DA FB Market Coupling project). - Flow based makes sense for flows, not for FTR options. ACER says they do not see reasons to have a different approach in Day-Ahead and Intraday from Forward. At the contrary, we consider that the forward market, as opposite to DA and ID, does not have as objective to determine the optimal import/export flows between bidding zones. Therefore, the use of Flow Based should carefully be assessed and its benefits – if any – should be quantified. - Flow based should not be an objective, it is a tool. Objective is to ensure availability of hedging tools for market participants - FB allocation approach will favor borders with high underlying spread values but not necessarily those with high volatility, which makes no sense since these are options that are exchanged and which does not correspond to MPs needs. FB Allocation as it is seen for the moment for the forward market is not mature at all and would be detrimental to forward market integration. Those concerns have been reported by Eurelectric during the relevant workshops organized by EntsoE and ACER in January and May 2022. - A central Flow Based Auction leads to significant impact on collateral, as recently reported by JAO, which would prevent MPs to fully participate to these auctions. We welcome discussions on the issuance of monthly products at the yearly auction, but details and impacts should carefully be assessed and discussed with the market (6.1.2). We could agree with the introduction of “Monthly products at 1YA auction” provided that this also means that the full capacity calculated year-ahead is allocated to the market. The FCA Regulation should enshrine the principle that TSOs should offer to the market the maximum amount of capacity calculated as available at the time of the auction and not keep some for other timeframes (this would also require a review of the splitting rules). We can add a no-regret measure which is the maximization of amount of long-term cross-border capacity available as early as possible to be allocated by TSOs on all borders.

6.2 The need for intervention	- Option 0: we are neutral to this option. We agree with pros and cons presented by ACER, although harmonization should not be a goal in itself; - Option 1: we agree that more coordination in assessing the need for TSOs to issue LTTR, to assess the liquidity of the forward market, etc, would be welcome; we would like to highlight that ACER seems to present LTTR as a solution from the past, while we consider those hedging tools still very relevant and needed; - Option 2: we agree with this proposal and consider this is the most promising, simple and workable one, provided that the products offered fit the market needs; - Option 3: we disagree with this option: o The main drawback of this approach is that it assumes that the liquidity will be sufficient in all bidding zones; o We agree with the features of a well-functioning forward market presented by ACER, but to us this has nothing to do with the quality of efficient hedging tools for cross-zonal risk (which are tools to facilitate the liquidity of forward markets).
6.3.1 Type of intervention - Option 0: Status quo: Bidding zone border LTTRs	No comment
6.3.2 Type of intervention - Option 1: increased number of allocation and product timeframes	We welcome this proposal to increase the time horizon of LTTR: - Currently, MP have to “sit” on their cross-border risk until very late (typically November Y-1). The maturities of LTTRs should be aligned with the maturities of forward products in the market. It would allow MP to hedge their cross-border risk together with other risks in the market. - TSOs own and operate the grid, and have sufficient visibility on the availability of transmission grid 2-3 years ahead. They could easily already issue part of the available capacities 2-3 years in advance. We also welcome to increase the number of auctions and steer the development of secondary market. Details on the duration/granularity of products, moment of issuance and frequency/dates of the auctions should be carefully assessed and discussed with the market participants.

6.3.3 Type of intervention - Option 2: Zone-to-zone LTTRs	General comments on options 6.3.3., 6.3.4, 6.3.5 and 6.3.6: - These options seem to constitute a set of potential accompanying measures for market design with small bidding zones. We would like to remind that the bidding zone review study has not been done and that as per Electricity Regulation, the decision to split BZ belongs to Member States. - These options would lead to an over complexification of the forward market. They would lead to a more complicated price discovery and transparency. For us this goes against the objective of forward market that should be simple, transparent, and easy to understand. How would these solutions help the difficulties encountered by suppliers, aggregators, customers ? Competition, accuracy of price signal, … are also important aspects of the market efficiency that should not be neglected; - They would require significant modifications of current market design and governance as prerequisites that have not been addressed so far (nor mentioned in ACER paper). o Strong regulatory oversight in order to ensure fairness and common governance o Common system operation would be needed across all BZ. The allocation of LTTR zone-to-zone or hub-to-zone would probably be very complex under the current European system with national TSOs and NRAs. - All these options are assuming that cross-zonal transmission is available (eg hub-to-zone), and in large quantities, in order to hedge the zone-to-hub risks (or zone-to-zone). Today, we do not see large quantities of LTTRs issued by TSOs. If this would be possible, why not simply selling more LTTRs ? - Being resilient to BZ reconfiguration is for us not an objective of the forward market design: the criteria should be the overall efficiency of forward market. Practically, should a change in BZ happen, it would probably take place beyond the scope of sold LTTRs. If not, accompanying measures for potentially already issued LTTR should be found, but this would probably be a minor problem compared to all the other impacts of a change in BZ. - We however support to further study and discuss with the market participants those options, their impact, with more quantitative analysis and impacts, including all the consequences on the market functioning. On zone-to-zone LTTRs in particular: this solution would allow in theory all BZ to access high liquidity BZ (even if not adjacent), but this would create complexity due to the number of combinations. Some combination would probably be more interesting than others, but then the difficulty is to determine which combinations should be issued by TSOs, while maintaining level playing field between all the BZ. The governance around this decision would probably too complex. This option would hence require further assessments (including quantitative one). It is also not answering all the hedging needs of market participants except for proxy hedging.

6.3.4 Type of intervention - Option 3: Zone-to-hub LTTRs	Among the options 2 to 4, we consider that this option 3 should be further discussed with Market Participants. The overall impacts on the market design (price formation, transparency, efficiency of the market, complexity of the market, ….) of such an option should be carefully assessed, with quantified analysis (not only based on qualitative assessments). This option will not address the fundamental problem of lack of liquidity in the BZ: the hub will maybe be liquid, but liquidity issues will be shifted to the Hub-to-Zone risk (MPs would have to “sit” on the spread risk Hub-to-Zone). Market participants will continue to have exposures in individual bidding zones. The crucial prerequisite for this option is to have sufficient liquidity on the Hub-To-Zone LTTR (ie: would there be sufficient volumes of LTTRs hub-to-zone issued by TSOs for MPs, and an efficient and liquid secondary market for these rights). During the workshop, ACER explained that at this stage, this point was not determined. We would like to raise our concerns and warning: a very careful analysis of how to ensure liquidity of the hub-to-zone LTTR is a prerequisite for this option. Furthermore, as pointed by ACER, the liquidity of the hub would also be a key prerequisite. Therefore we would like to request solid analysis regarding the potential liquidity of such hubs itself. In case of BZ reconfiguration, we disagree with ACER point of view: the HUB price/structure should also be adjusted according to the new BZ configuration. Hence, this solution is not neutral to a change in BZ reconfiguration, especially if this reconfiguration is radical, and the liquidity of the reconfigured bidding zone would likely be affected just as much as without such hub configuration. We hence have several questions and much deeper analysis would be required to assess this idea: - How would the hub structures and price be determined ? - How would the hub interact with each other? (for instance if MPs need to hedge between two hubs) ? - How would the zone-to-hub “capacity calculation” work ? based on which fundamentals ? How will TSOs determine how much quantity of hub to zone LTTR they can sell ? - How would the liquidity of the zone-to-hub LTTRs be created and guaranteed ? - How would the congestion rents be managed?

6.3.5 Type of intervention - Option 4: Forward market coupling with CfDs	This option is most similar to the current Nordic forward market model. However, with a more complex setup given the need to implement a market-coupling in a multi-nemo environment, this model would be more challenging to implement for certain CCRs. It would require important work to organize the forward market in a structured and restrictive way (eg the definition of standardized CfDs). We question the use of “market coupling” terminology which assumes an implicit valorization of the capacity simultaneously with energy products. We are puzzled by the comment page 20 which suggests that the choice of CfDs offered would have serious impact on the possibility to hedge across some borders. It shows that ex ante arbitrary choice would have important consequences and potentially limit the hedging possibilities for market participants compared to current situation. The benefits presented by ACER seem far away from the objective of the forward market and the FCA : ACER should keep in mind that some specificities in the different regions can justify differences/adaptions of the model and harmonization should not necessarily be an objective in itself. We disagree with drawback presented by ACER: this option is also conditional to the liquidity of the hub-to-zone CfD, not only to the liquidity of the hub.
6.3.6 Type of intervention - Option 5: Forward market coupling with Futures	It seems that ACER is mixing the goal of the forward markets with the goal of the short term markets. Forward markets are there to allow market participants to hedge their exposure in their BZ. Their objective is not to compute an ex-ante equilibrium point between the bidding zones (computing supply/demand balance of each bidding zone) in the future. This option does not address the problem of market needs. We are concerned about improvements brought by this solution which needs to be assessed further: - It admittedly improves the liquidity punctually at the moment of the auction - But it does not address the needs of the market: MPs need continuous possibilities to hedge in the forward market. They do not want to wait several weeks/months until the next auction. - It assumes that cross-border capacity will be available for those auctions. We observe today low volumes of cross-zonal capacities offered to the market and hence we wonder how the situation could improve.

6.3.7 Type of intervention - Option 6: Market making	We note in ACER paper that this measure is foreseen “where TSOs do not get involved in any allocation of long-term cross-zonal capacities” (cf. page 21), so it constitutes a targeted measure to raise liquidity within bidding zone and hence differs from previous options. It deserves attention since it tackles the issue of liquidity at the root and addresses a problem that is complementary to the one of cross-zonal hedging and LTTR issuance. Market making is a common tool already used; reinforcing it through a regulatory intervention, provided it is contracted by power exchanges via a voluntary, market-based process, could help improving the liquidity. We underline that we are strongly opposed to any kind of obligation or constraints imposed to some market participants which would be totally against the fundamental principles of the market. Moreover, the role of TSOs and the recovery of costs could be difficult to anticipate. At the end, the cost for ensuring the market making functions would have to be recovered and passed through to customers. The benefits of such option should be further illustrated and quantified in a specific example in Europe to ensure it is coherent with the current roles of TSOs and power exchanges and that benefits are higher than the costs (borne by costumers via network tariffs). It seems to overlap with the voluntary market making tool already used by power exchanges (cf. page 13 of the report).
6.4 Type of products offered by TSOs	We agree with option 0, i.e. maintaining existing PTRs and FTR options with full financial firmness. We disagree with option 1 as reduced firmness would go against all the improvements of firmness supported by market participants and would be a step back in the FCA Regulation (as recognized by ACER itself), and also with option 2 (FTR obligation), as the possibility already exists in the FCA Regulation but no one seems interested so far (see our comments on FTR obligation in the section 5, problem 6: we disagree with the use of FTR obligations).

7. Analysis and conclusions	While we welcome the initiative to engage into a revision of the forward market and with some of the problems raised by ACER, we partially disagree with current ACER conclusions for the following reasons. - This assessment is focusing on LTTRs, which is only one part of the problem. - This assessment of LTTRs is based on a list of problems. However, we disagree with some of the problems mentioned and there are important problems that have not been addressed by ACER. - We disagree with the need to have as an objective of the forward market the determination of optimal import/export flows and hence disagree with the idee to organize market coupling in the forward time frame on the model of the DA/ID one. As we stated before, forward markets lead with the anticipation of future equilibrium point and their aim is to secure future positions of market parties through hedging possibilities. It is not in this timeframe that the optimal equilibrium of the common market should be achieved, this is the objective of the spot market. We disagree with ACER opinion that the forward market is unable to match excess demand with excess supply in the forward markets (by definition, at the market prices that arise on those markets, supply and demand are always perfectly matched). The price determination in the different zone takes into account the difference of supply or demand excess in the different zones. Simply, those will effectively materialize in the short-term market. Therefore, we partially disagree with the conclusion drawn by ACER about promising options. We consider that some of the options proposed have merit and should be further studied, their impact and collateral effects should be investigated and discussed with the market: - option 1 would be welcome; - option 6, on a market-based voluntary approach, could have some interests if well designed; - option 3 and 4 should be further explored, clarified and assessed; We also welcome the proposal to harmonize the assessment and decisions by NRAs. On the type of product, once again, we strongly disagree with the use of FTR obligation (see comments to problem 6 in the section 5). We are fully committed to pursue the discussions and study the alternatives more in depth and with a larger context.
8. Recommendations and proposed actions	See comments to analysis and conclusions.

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

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