

Stakeholder workshop Svk – Fingrid

DRAFT

21st of April 2023

Teams



Agenda

14:30 – 14:40 Introduction & Background

14:40 – 14:50 Market Structure

14:50 – 15:00 Product design and inclusion

15:00 – 15:10 Allocation principles

15:10 – 15:20 Capacity calculation and splitting

15:20 – 15:50 Stakeholder comment and Q&A

15 min for questions received beforehand

15 min for questions/comments in the chat and by raising hand in Teams

15:55 – 16:00 Next steps and AoB

Welcome!

Fingrid

Ritva Hirvonen
Satu Viljainen
Annika Ahtiainen
Antti Raininko

Svenska kraftnät

Kaj Forsberg
Stefan Svensson
Per Kamperin
Linnéa Nyman
Rodrigo Gonzalez

Please use the
chat to post
your questions

Background

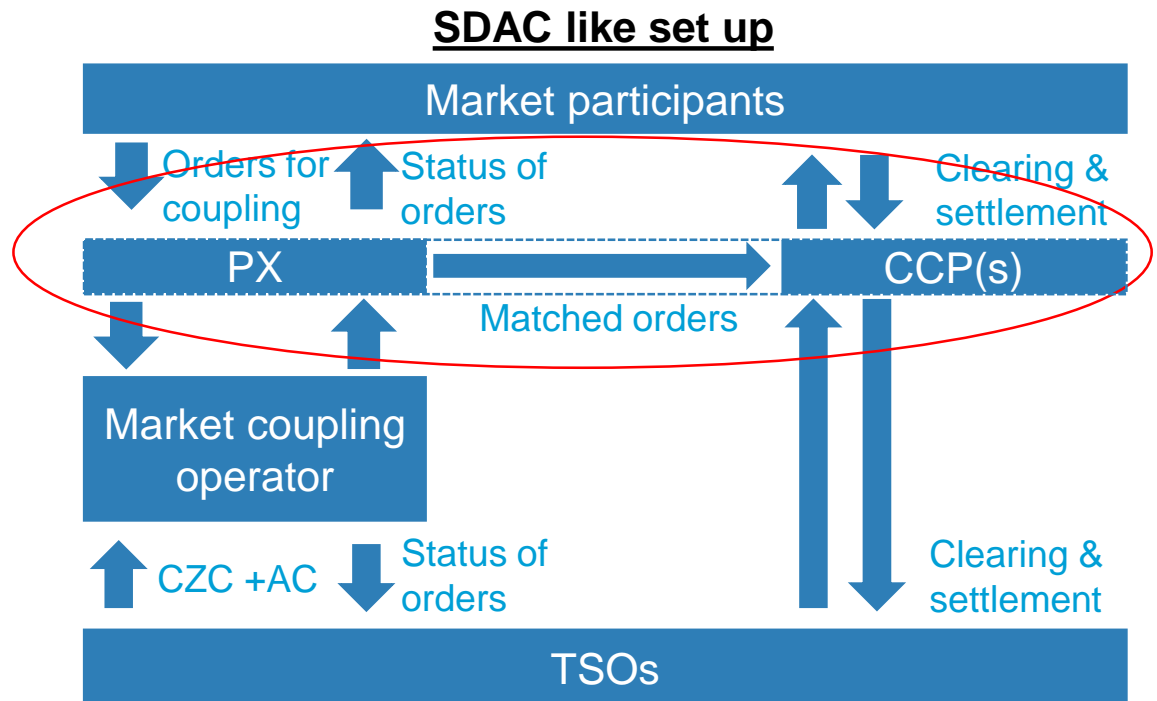
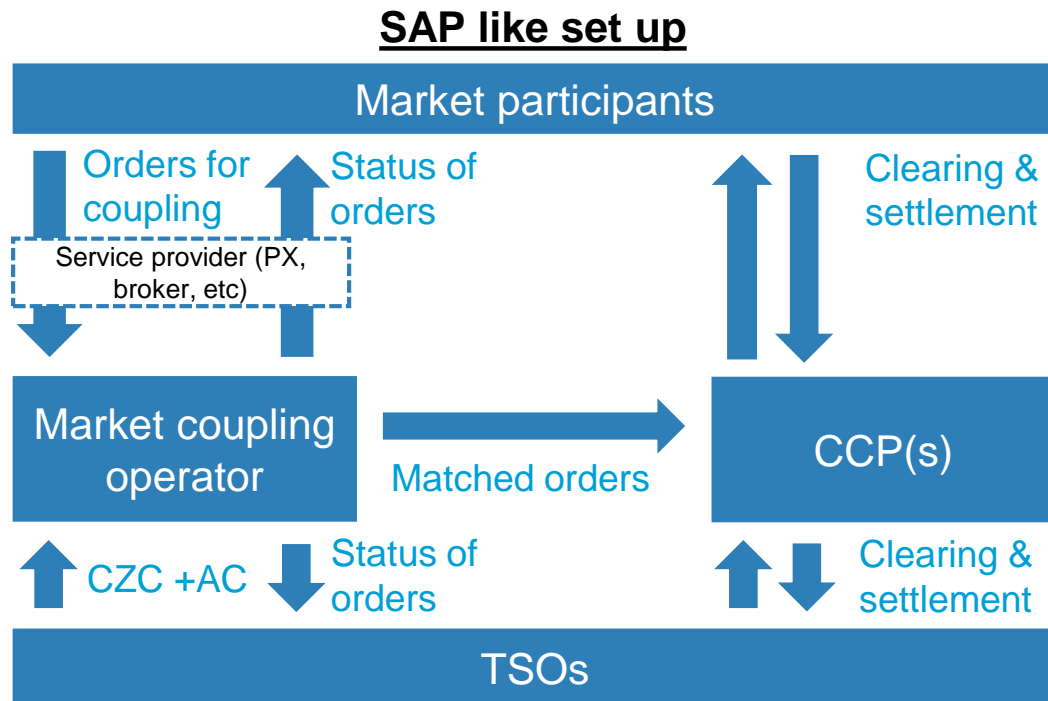
- In autumn 2022, ACER obliged the TSOs in Finland and Sweden to develop and provide cross-zonal hedging products other than long-term transmission rights (LTTRs) as a support to the functioning of wholesale electricity markets.
 - In its decision, ACER recommended "EPAD coupling" as a solution
 - Original deadline for submitting the proposal for these arrangements was 14 March 2023
- TSOs received 7 months additional time for the development of the arrangements. The new deadline is 14 October 2023. The additional time was needed because:
 - This is the first time TSOs have been asked to provide hedging products other than transmission rights. There are currently few details in the existing legislation for these arrangements.
 - Due to the novelty of the model, TSOs want to involve stakeholders to the development process. In addition to this webinar, there will be a stakeholder consultation in the beginning of August.

MARKET STRUCTURE AND SETUP

Market structure and setup

- Which entities are involved and how they need to interact
- Trade-off between several objectives
 - Simplicity, quick implementation
 - Securing equal playing field for power exchanges, CCPs and different product offerings for Hedging Product Coupling
- Two main options considered
 - **Single Allocation Platform** -like setup
 - **Single DayAhead Coupling** -like setup

Characteristics of the two options



Characteristics of the two options

➤ SAP - like

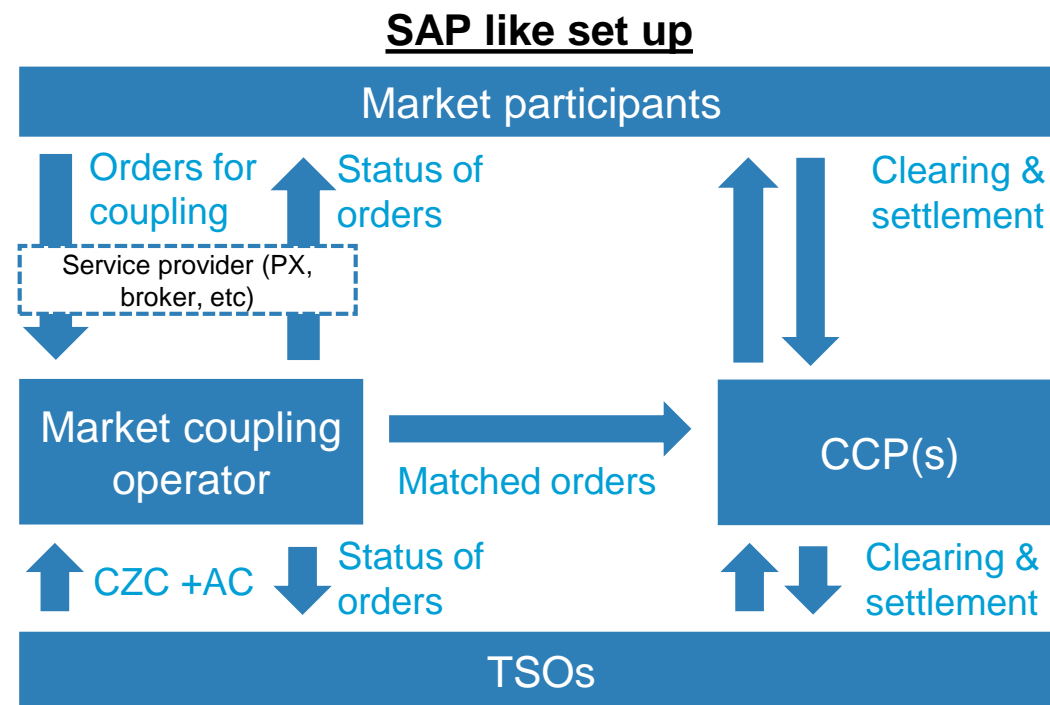
1. Quicker to implement and easier governance (MCO task is more limited and straightforward, i.e. match orders)
2. Will not necessitate NEMOs, but can be adapted to allow for NEMOs or other service provider if MPs prefer
3. MP interact directly with MCO
4. Similar to setup of JAO (SAP) for LTTR allocation (and the Svk pilot)

➤ SDAC - like

1. Facilitates participation by multiple "PX:s"
2. MPs do not have to register and interact with MCO, but can trade through their NEMO of choice
3. More complicated governance and establishment process

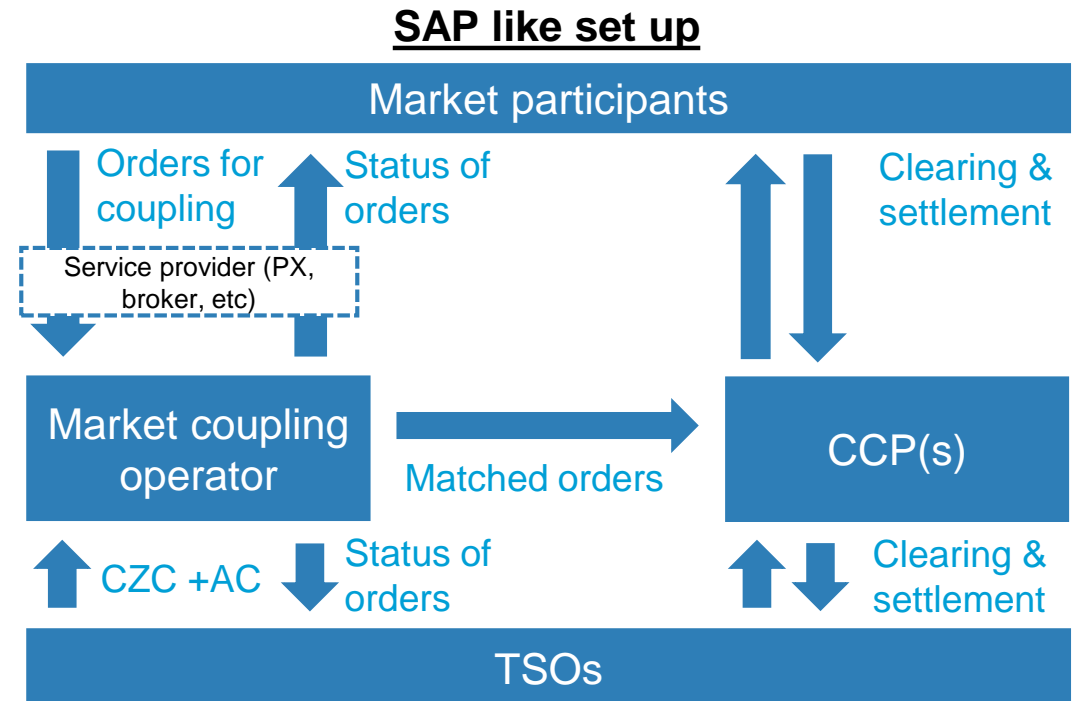
Preferred market structure setup – SAP-like

1. We need a solution implementable within 6-12 months;
 - a) SDAC like set up is foreseen to take longer
 - b) SAP like implemented in Svk pilot within timeframe
2. Two options for MCO:
 - a) TSOs procure it
 - b) Using JAO
3. Collateral management
 - a) Standard products are used and managed as normal
 - b) CCPs follow relevant financial regulation in order to participate



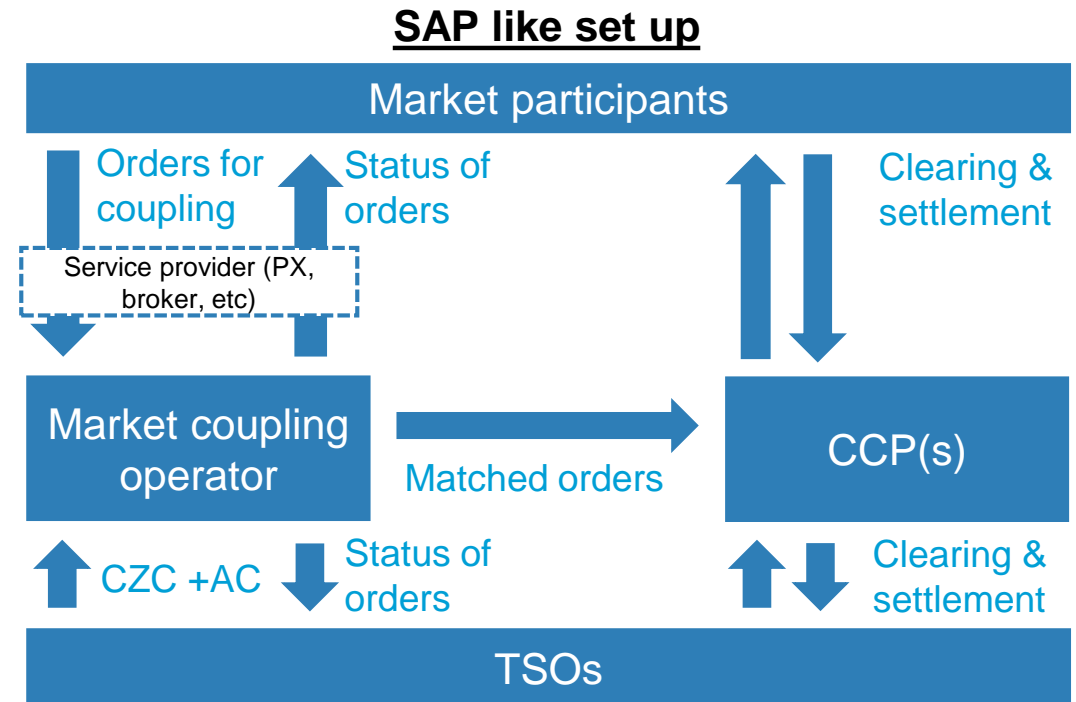
Roles and responsibilities in allocation of Hedging Products

- **Market Participants (MP)s**
Submits orders, obtains hedging positions with CCP
- **TSOs**
Provides inputs (volumes/contracts) to MCO and obtains hedging positions with CCP, contracts MCO
- **Market Coupling Operator (MCO)**
Receives and matches orders, informs CCPs and MPs
- **Central Counterparties (CCPs)**
Provides clearing to MPs and TSOs
- **Service Provider (PX or Broker or other)**
Can provide services for participation for the MPs



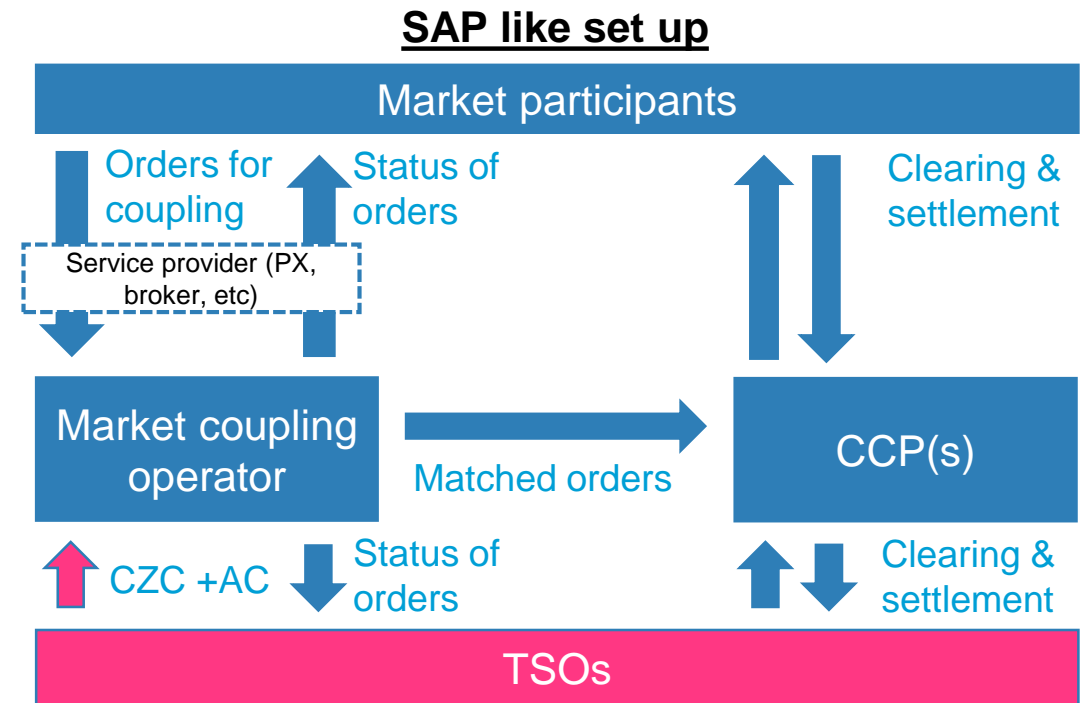
Relationships/contracts to be established using the preferred SAP setup

- **Market Participant (MP)s**
Agreement with MCO (or Service provider) and CCP
- **TSOs**
Agreement with MCO and CCPs
- **Market Coupling Operator (MCO)**
The MCO is contracted by the TSOs
Agreement with MPs and CCPs (and Service Provider)
- **Central Counterparties (CCP)s**
Agreement with MPs, TSOs and (to some extent) MCO
- **Service Provider (optional by choice of MP)**
Agreement with MP and MCO



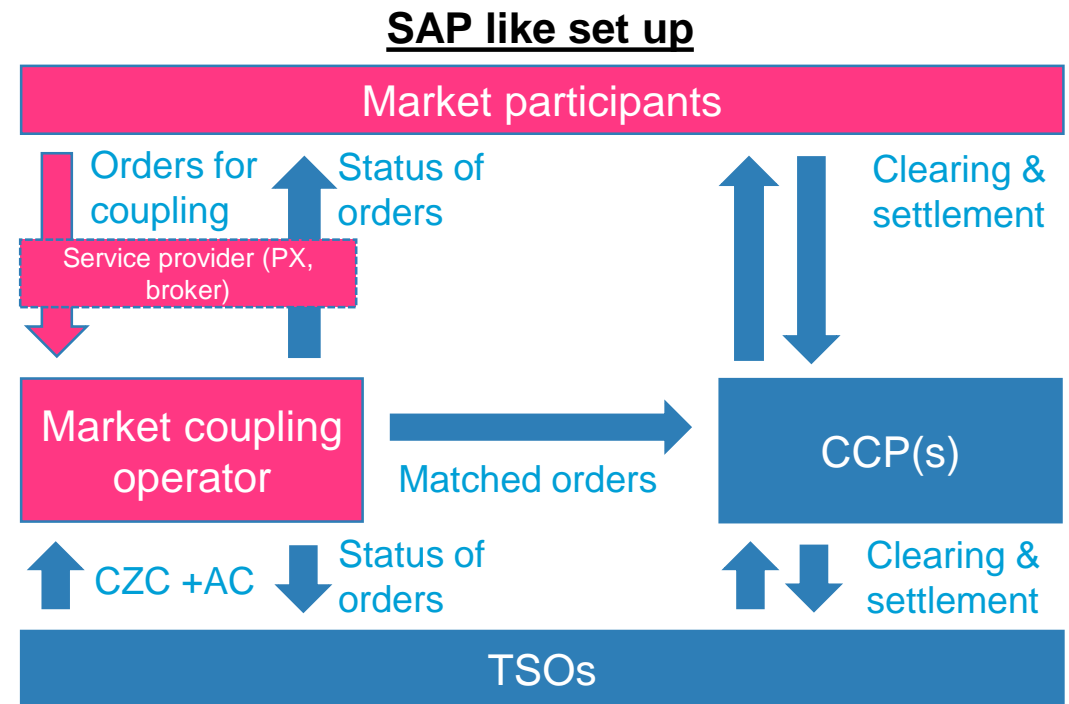
Stepwise illustration of process/interactions

1. TSOs announce auction (volumes, contracts) to market and MCO



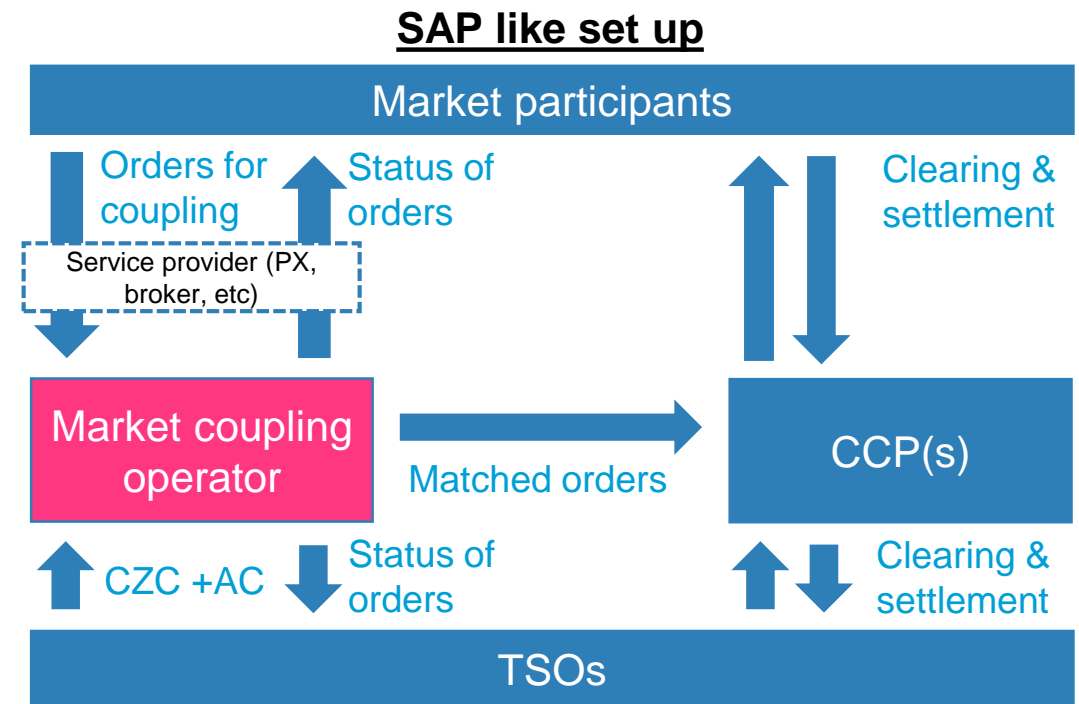
Stepwise illustration of process/interactions

1. TSOs announce auction (volumes, contracts)
2. MPs submit orders to MCO



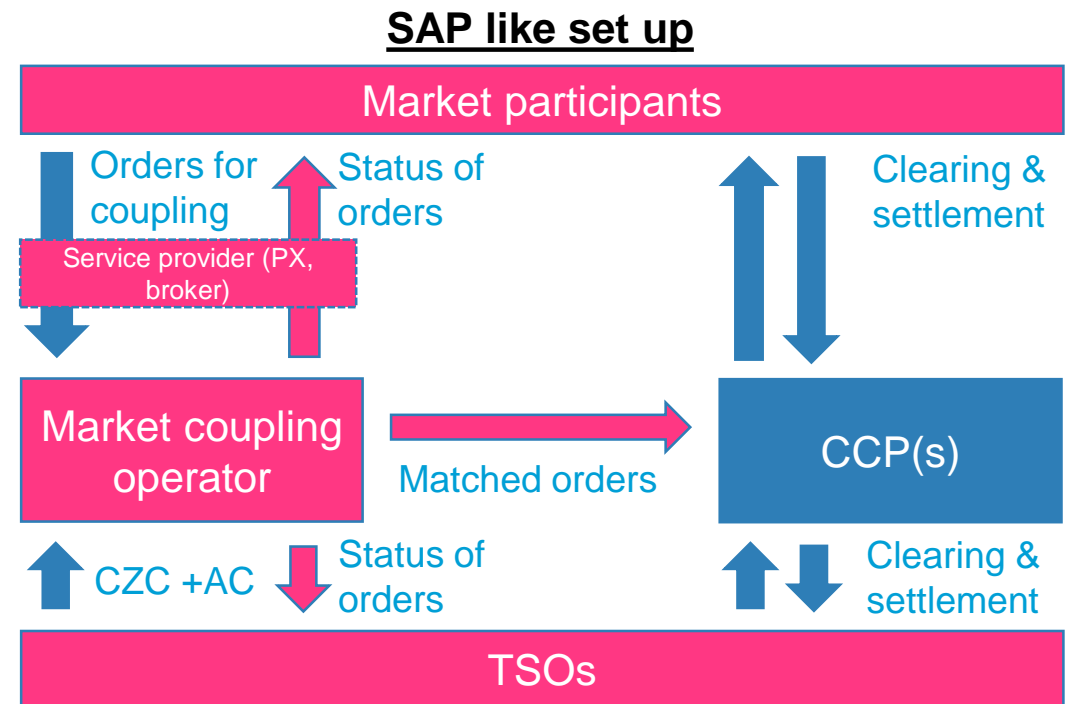
Stepwise illustration of process/interactions

1. TSOs announce auction (volumes, contracts)
2. MPs submit orders to MCO
3. MCO matches orders



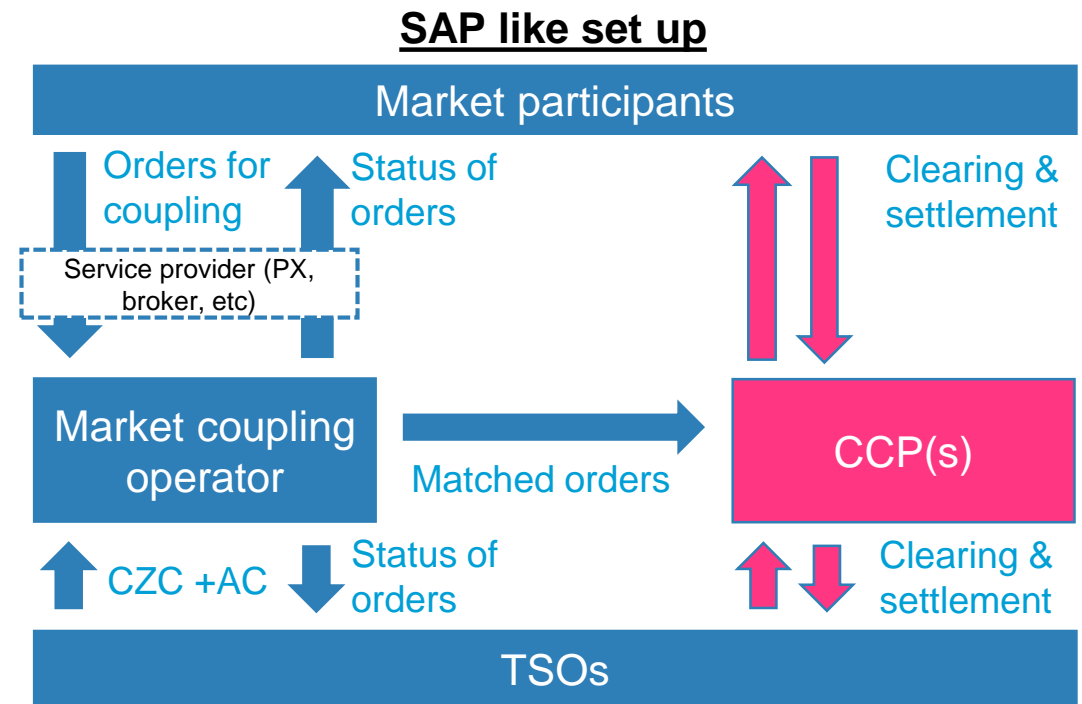
Stepwise illustration of process/interactions

1. TSOs announce auction (volumes, contracts)
2. MPs submit orders to MCO
3. MCO matches orders
4. MCO informs MPs, TSOs and market of results



Stepwise illustration of process/interactions

1. TSOs announce auction (volumes, contracts)
2. MPs submit orders to MCO
3. MCO matches orders
4. MCO informs MPs, TSOs and market of results
5. CCP clears concluded transactions



Product design and inclusion

Definition of Hedging Products

1. Which products may qualify as Hedging Products?
 1. Futures and forwards that are settled and provide an efficient hedge of Day-Ahead prices in the relevant bidding zones; SE1, SE3 and FI
 2. Base load contracts listed with CCPs.
2. For the initial 18 months of implementation, EPAD contracts listed with Nasdaq will be proposed to be used

Inclusion of new Hedging Products

1. After the initial period, other listed products besides the existing EPADs can be accommodated subject to market participants' interests
2. The accommodated Hedging Products will need to fulfil the following criteria:
 1. A future or forward contract settled against the day-ahead price in the relevant bidding zones, or a CfD obligation settled against the price difference between the day-ahead price in the relevant bidding zones and a hub price;
 2. Traded on public exchanges; and
 3. Cleared at authorised clearing houses according to applicable financial market legislation.

Other arrangements

1. TSOs will regularly consult the market participants on their preferences regarding the product design
2. If more than one type of Hedging Products are accommodated, the available long-term cross-zonal capacities will be split between these products
3. If the accommodated Hedging Products are listed at multiple clearing houses, the market participants may choose which clearing house they wish to use

Allocation principles

Allocation principles

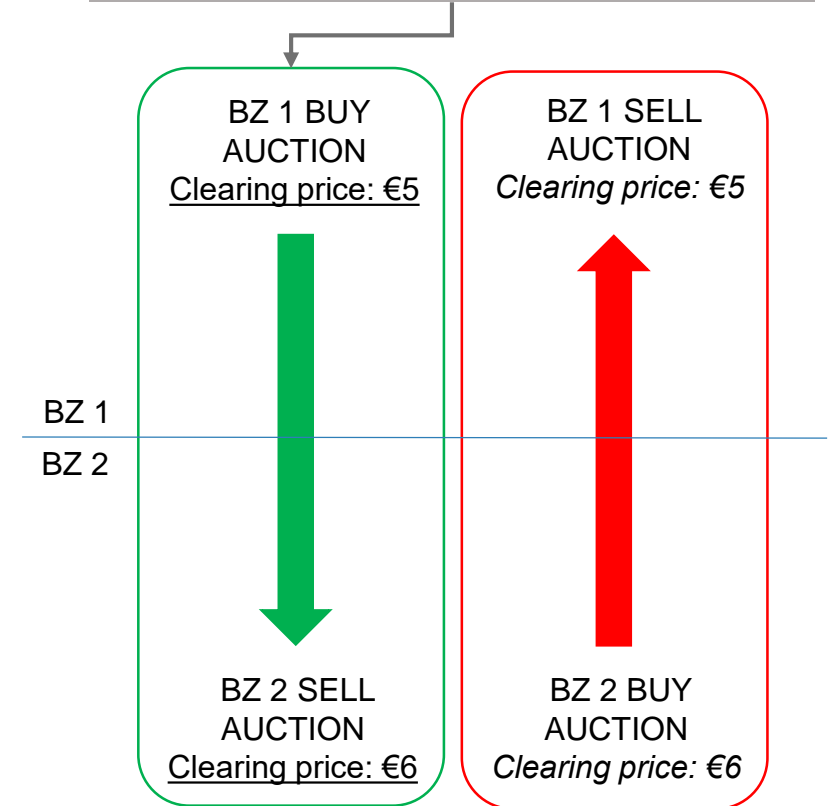
1. TSOs intend to arrange auctions on regular basis (monthly, bi-weekly or similar)
2. Volumes and contracts offered will be published well in advance
3. Contracts used will be Hedging Products in monthly, quarterly and yearly maturities
 1. Consultation will target the issue of splitting total volumes into maturities
4. Auction rules to be developed
 1. Gate opening and gate closure times
 2. How to submit orders
 3. Etc.

Allocation principles

1. TSOs will offer to purchase and sell Hedging Products in symmetrical volumes on both sides of borders SE1-FI and SE3-FI
 1. Contracts will be allocated in the direction(s) where TSOs can purchase at same price or lower than the price that they can sell for
2. No local matching will be allowed between buyers and sellers within a bidding zone – only matching MPs' orders with TSOs'
 1. Facilitates use of multiple CCPs without need for cross clearing agreement between the CCPs
 2. Ensures that orders that can match in continuous trading will remain there – purpose is not to replace current market, but to make it function better

Example
4 auctions are run, 2 auctions are cleared

Additional hedging opportunities provided where they are *most desired*



Allocation principles

1. Each TSO will have equal positions and their own portfolio of contracts on both sides of the bidding-zone border
 - a) If 10 MW are allocated on SE1-FI border, 5 MW will belong to Svk and 5 MW to Fingrid
2. Matched orders will result in transactions
 - a) Transactions to be concluded by clearing with the CCPs of MPs' choice
 - b) Initial period with only EPADs (currently listed with Nasdaq), but several products will be viable further on
3. Marginal pricing applies
 - a) The bid/offer that meets the volume limit for TSOs' offer will set the price
 - b) Secondary allocation principles may be added (i.e. time of order submission etc.)

Capacity calculation and splitting

Cross-zonal capacity determination and splitting for FI-SE bidding zone borders

From FCA Regulation:

1. Long-term capacity calculation methodology of the **Nordic CCR** shall be applied (in accordance 10(1) of the FCA Regulation → methodology approved by ACER, to be implemented)
2. Methodology for splitting long-term cross-zonal capacity of the **Nordic CCR** in accordance with Article 16(1) of the FCA Regulation for splitting the long-term cross-zonal capacity between different long-term time frames → not-applicable for these arrangements

Solution for FI-SE hedging products:

1. TSOs apply a transitional solution for the FI-SE bidding zone borders until the long-term capacity calculation methodology have been implemented for the FI-SE bidding zone borders → solution is to be developed and implemented
2. TSOs develop solution for splitting the long-term cross-zonal capacity for different timeframes and different hedging products

Long-term cross-zonal capacity determination

1. TSOs take into account the forecasted impacts of planned and unplanned outages on the availability of the cross-zonal capacity when determining the long-term cross-zonal capacity
2. The total cross-zonal capacity made available for hedging products shall respect the operational security limits, which define availability for the cross-zonal capacity on the relevant bidding zone border
3. TSOs expect that total cross-zonal capacity made available for the hedging products are estimated to be approximately 10 – 20 % of the historical DA capacities as
 1. Hedging products will have full firmness contrary to LTTRs, which have specific firmness rules to manage TSOs' risks
 2. Volumes dependence to the amount of market players' bids
 3. Volumes are dependent on historic interest in the hedging product in respective bidding zone

Splitting of long-term cross zonal capacity

1. The TSOs shall split the long-term cross-zonal capacity between yearly, quarterly and monthly timeframes and between several hedging product auctions for these timeframes
2. TSOs are planning to have at least one hedging product auction every month for the yearly, quarterly and monthly products
3. TSO are planning to publish available long-term cross-zonal capacities for hedging product auctions as requested by Transparency regulation:
 1. Indicative values (forecast values)
 2. Final values (offered values)

Stakeholder comment and Q&A

Stakeholder comment and Q&A

1. 15 min for questions received beforehand
2. 15 min for questions/comments in the chat and by rising hand in teams

Next steps and AoB