



ENERGITILSYNET

Danish Energy Regulatory Authority

DERA DECISION ON CROSS-ZONAL HEDGING OPPORTUNITIES IN THE DANISH ELECTRICITY MARKET

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Wholesale &
Transmission

ENGLISH SUMMARY (GIVEN WITHOUT PREJUDICE TO THE DANISH DECISION)

DERA

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1. On the basis of the enclosed presentation and assessment plus agreement of intention with the Swedish Energy Market Inspectorate (Annex 2) and consultant report (Appendix 3), the Danish Energy Regulatory Authority ("DERA") shall decide on long-term transmission rights pursuant to Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation ("FCA GL").
2. The Swedish Energy Market Inspectorate ("EI") has, per 12 April 2017, made final decisions regarding the bidding zone borders DK1-SE3 and DK2-SE4. These decisions are attached as Annexes 4 and 5.
3. FCA GL commits TSOs at the border of a bidding zone to issue long-term transmission rights unless the competent regulatory authorities have taken coordinated decisions not to issue long-term transmission rights at the borders of the bidding zone.
4. If, at the time of entry into force of FCA GL, there are no long-term transmission rights at the border of a bidding zone, the competent regulatory authorities shall have six months to make coordinated decisions on the introduction of long-term transmission rights.
5. At the time of entry into force of FCA GL (17 October 2016), there were no (and still are not available today) long-term transmission rights on the Konti-Skan (DK1-SE3) and Øresund (DK2-SE4) connections. DERA and the competent regulatory authority in Sweden, The Swedish Energy Market Inspectorate, EI, must thus take coordinated decisions on the introduction of long-term transmission rights on the connections in question within six months of the entry into force of FCA GL.
6. The coordinated decisions of DERA and EI shall be based on assessments in which the regulators identify whether the forward market for electricity has sufficient hedging opportunities in the concerned bidding zones, i.e. DK1, SE3, DK2 and SE4.

7. Houmøller Consulting ApS has evaluated the forward markets for electricity in DK1 and DK2 for DERA based on a method agreed by the Nordic regulators (NordReg) and Houmøller Consultation's own method.
8. DERA has conducted a market review of Houmøller Consulting ApS's evaluation. DERA has also consulted the market participants on the hedging opportunities in DK1 and DK2 and on market participants' need for cross-zonal hedging opportunities at the borders of the affected bidding zones.
9. Based on an overall assessment of Houmøller Consulting ApS's evaluation and market responses, DERA finds that there are insufficient hedging opportunities in the two Danish bidding zones, DK1 and DK2.
10. DERA notes that EI has found that there are sufficient hedging opportunities in the Swedish bidding zones SE3 and SE4.
11. It follows from the FCA GL that, if there is insufficient hedging opportunities in one or more bidding zones, the competent regulatory authorities shall request the relevant TSOs to either: (a) issue long-term transmission rights; or (b) to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.
12. DERA notes that the FCA GL does not specify what should be included or emphasized in assessing whether the relevant regulatory authorities should request the relevant TSOs to introduce long-term transmission rights or to ensure that there are other long-term hedging products available.
13. DERA notes that the Nordic electricity market model normally does not contain long-term transmission rights between the Nordic countries and that in the consultation responses to DERA from Norwegian and Swedish sides, there is a desire to maintain the Nordic market model without transmission rights.
14. DERA also notes that EI has estimated that the bidding zones SE3 and SE4 have sufficient hedging opportunities.
15. DERA is therefore of the opinion that alternatives to transmission rights between Denmark and Sweden must first be examined in order to clarify possibilities for improving the financial hedging opportunities in DK1 and DK2. DERA thus meets the wishes of the Nordic stakeholders.
16. DERA notes that the Danish TSO, Energinet, in dialogue with other TSOs, can investigate the possibility of increasing transmission right capacities on connections other than the Danish-Swedish borders in its consideration of measures to improve hedging opportunities in Danish bidding zones.
17. Against this background, EI and DERA have taken coordinated decisions not to introduce long-term transmission rights on the Konti-Skan and Øresund transmission lines. On the other hand, EI and DERA request the relevant TSOs, Svenska Kraftnät and Energinet to ensure that other long-term hedging products concerning transmission capacities are available to support the functioning of the wholesale electricity markets.