MARKET PARTIES PLATFORM
Linking Energy Markets

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Subject: MPP answer to Core TSOs informal survey on market participants hedging needs

3. Do you agree that hedging on average happens progressively over a period, meaning the closer the delivery, the higher the share (of his consumption and/or generation) that a market participant hedges?
If so, how much of your portfolio would you have hedged in total one year ahead and one month ahead?
If not, how would you then characterize the usual hedging behavior of market participants? Based on which criteria would you create a hedging strategy?

The MPP would like to underline that the objective of the FCA guideline of meeting "the hedging needs of market participants" should not be understood as a requirement for TSOs to mirror the hedging strategy of market participants.

On the contrary, for market participants, hedging is a dynamic process of assessing and minimizing risks in the market. To provide market participants at the earliest possible stage all available tools for performing hedging, it is vital that TSOs make available to the market the maximum capacity available as soon as possible. Market participants should afterwards be able to rely on the secondary market for forward transmission rights if further needs arise or previous needs disappear. This also advocates for the development of an organized and liquid secondary market, which does not exist today, asonly OTC transfers and returns to the issuing TSOs are possible. (For instance, this task could possibly be performed by the SAP, which already organizes the primary market.)

4. In case long-term splitting is applied, would you prefer to have fixed percentages as a splitting rule or a fixed MW amount of capacity reserved for monthly auctions?

As mentioned above, we do not believe that it is in the interest of market participants to let TSOs withhold cross-zonal capacity for release at a later stage. TSOs should rather make the maximum possible capacity available to the market, as soon as their calculations allow.
Release of capacity at later time horizons (monthly, weekly) should come from recalculations and the gradual easing of constraints initially applied by the TSOs due to uncertainties.
Should TSOs nevertheless decide to reserve volumes for each timeframe, we would prefer that they are expressed as percentages of the calculated capacity for the given timeframe, after deduction of the already allocated capacity. This would allow to take into account seasonality effects and reduce the risk of capacity curtailment in case the calculated capacity is lower than expected.

5. Would it be acceptable if, as result of applying splitting rules, no capacity would be offered in some months, but there would be a larger share of offered capacity for the yearly auction?

This would be acceptable.

6. How would you as a market participant choose to split 100 MW between yearly and monthly LTTR products to best meet the hedging needs in the market? Please justify your choice.

As explained in our answer to previous questions, we do not believe that it is in the interest of market participants to let TSOs withhold cross-zonal capacity for release at a later stage. If the availability of 100MW of cross-zonal capacity is the outcome of the calculations of TSOs, this should be made available to the market at the earliest possible auction.

7. What criteria have you applied for your offered LTTR splitting described above? Please describe them in detail and their underlying rationale.

As explained in our answer to previous questions, hedging is a dynamic process for market participants that responds to risks and opportunities. In order to provide market participants with a maximum of tools to perform this essential market function of managing risks, TSOs should make the maximum calculated cross-zonal capacity available to the market as soon as possible.

8. At the moment, Core TSOs consider the following indicators as worth to be investigated for the decision-making on potential ratios of offered capacities between yearly and monthly auctions:

- **Offered vs. requested capacity on yearly and monthly timeframes. Is this indicator relevant? If not, please provide your explanation.**
- **Historical auctioned volumes for proportional splitting the LTTRs between yearly and monthly time. Is this indicator relevant? If not, please provide your explanation.**
- **Seasonality effects. Is this indicator relevant? If not, please provide your explanation.**
- **Would you also propose different indicators? Please give a justification for other indicators.**

As explained in our answer to previous questions, we do not believe that it is in the interest of market participants to have cross-zonal capacity withhold for release at a later stage. Hedging is a dynamic process that responds to risks and opportunities. We therefore do not believe that indicators such as presented by the TSOs are necessary or relevant for deciding whether some cross-zonal capacity should be withheld for release at a later stage.

9. Do you have any suggestions how Core TSOs can ensure that the hedging needs of market participants are met by the splitting rules?

As explained in our answer to previous questions, we consider that market participants should be provided with a maximum of tools to perform an optimal hedging strategy. Splitting rules that withhold some available cross-zonal capacity from market participants will eventually remove some hedging ability from market participants. We therefore consider that making the maximum of the calculated cross-zonal capacity available to the market as the best way that the hedging needs of market participants are best met.

10. Do you have any other aspects that you would like to make Core TSOs aware of?

We also ask TSOs and NRAs to consider allocation of multi-year cross-zonal products. This can provide market participants with additional possibilities to hedge long-term risks. Especially in smaller, less liquid market zones this can provide a valuable link to a broader pool of liquidity. NRAs already grant some Interconnectors the right to issue multi-year products to alleviate investor risks. The interest in these products shows an appetite at market side for such long-term products. Similar products could be considered for other interconnectors, providing longer-term hedging possibilities for market participants. In such time horizons, splitting of cross-zonal capacity between multi-year and yearly products makes sense to balance long-term hedging possibilities against market access.