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ENERGY

Liquidity and transaction costs

Draft report to ACER about methodology for assessment of liquidity and transaction costs

Björn Hagman, Jørgen Bjørndalen
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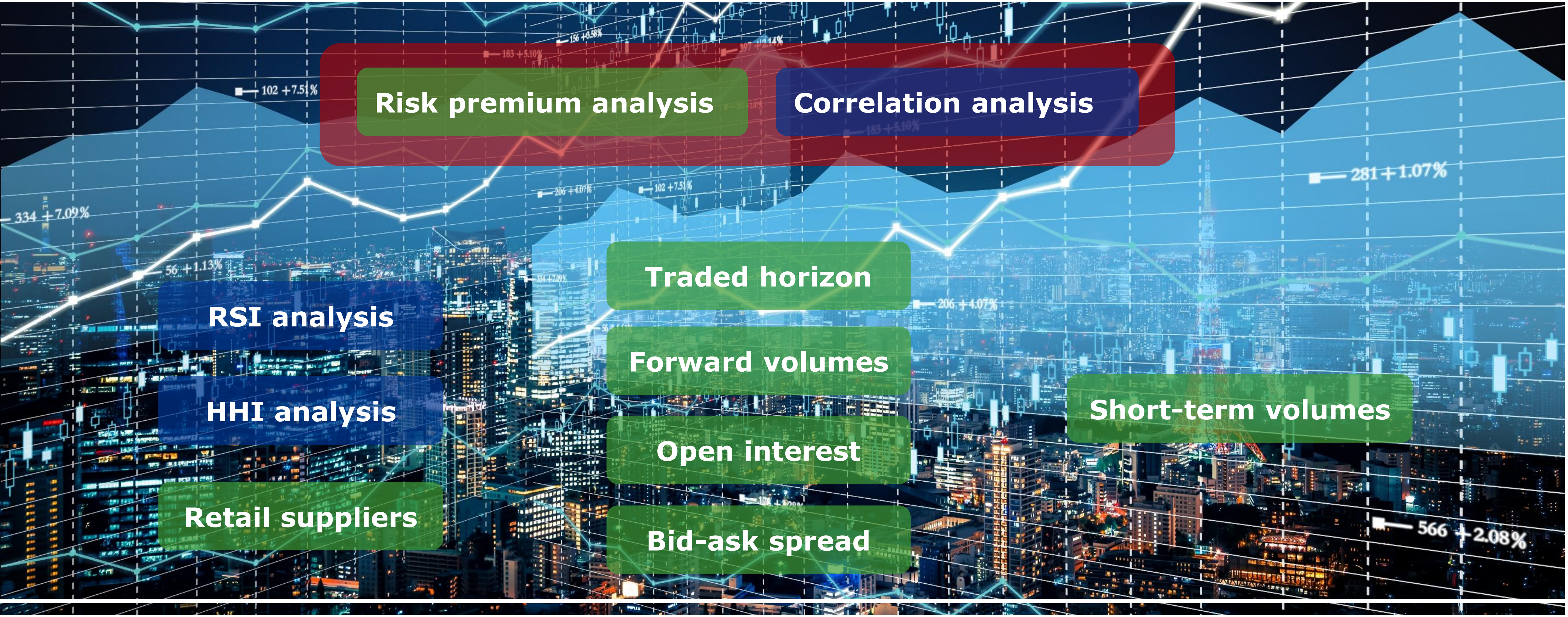
Suggested analytical approach



Holistic evaluation

- No knock-out criteria are suggested
- Need to evaluate the analytical results in a holistic manner
  - Consequences of a specific score for one indicator depends on the scores for other indicators and for other zones
  - Can negative impacts be reduced by mitigating measures as establishing an index as proxy or longer lead-time before implementation?
- The observed correlations in the CWE area suggests that looking at alternative proxies for hedging may be a way of mitigating the impacts of liquidity changes, e.g. in a BZ review context

Received comments on presentation with preliminary findings

- Comments in NRA web conference 16 December
- Comments in MESC meeting 18 December
- Written comments from
  - EFET
  - Eurelectric
  - Europex

“Important that the report describes the key role of liquidity in the efficiency of the market and that traders are essential for liquidity”

- We agree with these comments
- A special chapter (chapter 3) deals with the importance of liquidity and that traders are essential for liquidity

Concerns about how to consider “Risk premium and its cost for society”

- Several comments contest that negative welfare impacts may only arise if a market participant leaves or do not enter the market
  - Also comments that increased risk premiums will inevitably lead to loss of welfare
  - “Increased cost of hedging results in a net welfare loss”
  - “No-one benefitting from increased risk premiums”
  - Lack of hedging can ultimately result in (changed risk for) bankruptcy
  - “Effect on investments (incl via PPS) to be considered”
- We understand that the term welfare can be interpreted in different ways
  - We use therefore in chapter 9 the terms “socioeconomic efficiency” and “resource efficiency” to be more clear
- Chapter 9 discuss what may trigger welfare losses
- Chapter 7 explains our view and interpretation of risk premium
- Chapter 5.2 deals with PPAs

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“Balancing timeframe shall be considered”

- We agree
- Balancing timeframe is considered in chapter 4 “Liquidity impacts in day-ahead, intraday and balancing timeframes”.

Comments to the written draft?
Mail directly to DNV GL, cc: to ACER

Jørgen Bjørndalen
Jorgen.bjorndalen@dnvgl.com
+47 986 09 000

www.dnvgl.com

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