

# How should the European forward markets look?

Expectations for all market needs



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# How should European forward markets look like?

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As for other timeframes, key elements of market design are:

- ➡ Possibility to trade standard and non standard energy products
- ➡ Open access to network infrastructures through flexible rights  
(full coupling)
- ➡ All TSOs to auction transmission rights between all bidding zones
- ➡ Maximisation of capacity between all bidding zones (no withholding),
- ➡ Stability of bidding zones and coherence with DA, IB, Balancing,
- ➡ Common grid model and regional TSO coordination

# Benefits of transmission rights

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- ➡ Enabling competition across bidding zones, also in retail markets
- ➡ Providing the right price signals in all bidding zones and supporting liquidity in all bidding zones,
- ➡ Valuing TSOs assets (natural physical hedge between bidding zones) at different time horizons,
- ➡ Delivering welfare gains for all European stakeholders through more efficient markets (“coupling forward hedging markets”)

Transmission rights shall be auctioned in a coordinated way by a centralised auction office with the same rules for all borders between bidding zones

- ➡ Long maturity needed, 1-3 years,
- ➡ Coordinated allocation method, rules and platform(s),
- ➡ Secondary markets facilitated by TSOs and regulators, with possibility to slice transmission rights
- ➡ TSO buy back if needed (no curtailment of allocated rights)

# Transmission rights: transparency and firmness

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- ➡ Transparency on capacity calculation method/process,
- ➡ Early publication of NTCs and of their variations (price sensitive)
- ➡ Transmission rights shall be firm,
- ➡ In case of force majeure, compensation at initial price,  
otherwise compensation according to market spread
- ➡ TSOs to buy back in case of reductions in available capacity  
(market based management of the reduction)

Flexibility for all market needs require:

- ➡ Dual usage flexibility: cash settlement (FTR) or nomination (PTR),
- ➡ Flexibility to nominate in anticipation if needed, including 1 year ahead ("obligatory use"), thus allowing TSOs issue additional rights after netting,
- ➡ PTRs + automatic UIOSI to the day-ahead market coupling (or DA auction) + flexibility to nominate in anticipation  
= dual usage product (FTR/PTR) + optional / obligatory choice,

# Distinction with Contracts for Difference (CfD)

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as e.g. applied in Nordic markets

- Not issued by the TSO but by market participants, which engage with each other via a central clearing house
  - Pay out the difference in energy price between a price area (bidding zone) and the system regional price (which is virtual)
  - No link to the underlying physical transmission of capacity (CfD does not reflect the transmission path), thus complementary
  - CfDs needed to hedge the local price against the system price
- ☞ It is a purely financial market managed by the industry, not TSOs

# Thanks for your attention

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