Trading activity in forward markets; Assessing liquidity

TF1 Electricity, Deliverable 3, WP 2018

Vienna, 27 February 2018
Task Force 1: Wholesale Market Opening

Scope:

- Effective wholesale market opening is central for establishing a competitive regional electricity market and its integration with the European market.

- With a view to support wholesale market opening, the activities of TF1/ECRB EWG focuses on:
  - regulatory support to forward market, day-ahead and intraday market integration in SEE
  - providing coordinated regulatory input to the SEE day-ahead market coupling projects established under the WB6 initiative
  - providing an assessment of trading activities in forward markets in CPs,
    - including cross-border trading (forward transmission rights) with other CPs and EU MS, the level of liquidity, the main trading products and trading horizon
Introduction to the topic

- Open and liquid market = Access to (market + network + information + commodity)

- Deregulation of wholesale prices results with the market, credit and other risks that need to be managed by market participants
  - Producers need to sell most of their output on forward basis to ensure a reliable revenue stream
  - Suppliers supplying end consumers - need to buy most of their needs on forward basis
  - As their risk-offloading needs do not always match, the market creates room for intermediaries that specialize in managing market, credit and other risks

- It is rather difficult to manage such risks if the market is not mature enough and market participants are not (actively) participating in the market, and in particular in forward timeframe – this results in a non-liquid market

- Regulators are best placed to assess forward market liquidity and undertake potential measures
Objective of this specific task

- Specific objective is to:
  - Understand the hedging needs of market participants in the CP
  - Assess if the associated risks are hedged in the market and understand how

- The overall objective is to:
  - Prepare a report and present it to ECRB for approval

The report should provide information on how incumbent generators and suppliers manage their portfolio on forward basis; including the timeframe and tenor of contracts, trading venues used, risk appetite, cross-border hedging, etc.
Work required by the TF1 & EWG

- TF1 in consultation with EWG to prepare a questionnaire which will then be distributed to wholesale market participants through NRAs
  - The questionnaire will be detailed requiring ‘tick’ answers. Textual description only where necessary

- Questionnaire will be specific for generators, suppliers and wholesale traders

- The collected information will be consolidated in a report that will be presented to the EWG for comments

- After consideration of views the final report will be presented to the EWG

- Finally ECRB Section will submit the report to ECRB for approval
A flavor of how the questionnaire should look like … but much much longer!

1. If you are an:
   - Entity engaged in production of electricity, complete Part A of the questionnaire
   - Entity engaged in supply of electricity to end users, complete Part B of the questionnaire
   - Entity engaged in trading on wholesale market, complete Part C of the questionnaire
   - Entity engaged in more than one activity mentioned above, complete the relevant parts of the questionnaire.

A. Part A: Electricity producer
1. In addition to producing electricity, if your entity supplies electricity to end users and/or trades in the wholesale market please complete also the Part B and/or C.
2. Your companies ownership structure is (tick):
   - State ownership
   - Private ownership
   - Mixed or other (please provide details…)
3. Do you sell more than 50% of the output to a single company?
   - Yes
   - No
4. If Q3 is yes, is there any obligation (legal, regulatory or commercial) to do so?
   - Yes
   - No

B. Part B: Electricity supplier
1. In addition to supplying electricity, if your entity produces electricity and/or trades in the wholesale market please complete also the Part A and/or C.
2. Your companies ownership structure is (tick):
   - State ownership
   - Private ownership
   - Mixed or other (please provide details…)
3. Do you buy more than 50% of the output from a single company?
   - Yes
   - No
4. If Q3 is yes, is there any obligation (legal, regulatory or commercial) to do so?
   - Yes
   - No

C. Part C: Electricity trader
1. In addition to trading electricity, if your entity supplies electricity to end users and/or produces electricity in the country of the NRA through which you received this questionnaire please complete also the Part A and/or B.
2. Your companies ownership structure is (tick):
   - State ownership
   - Private ownership
   - Mixed or other (please provide details…)
1. Is your company part of a group which engages also in electricity production or supply to end users electricity in the country of the NRA through which you received this questionnaire (tick):
   - Yes
   - No
## Timeline

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<th>Specific tasks 2018/19</th>
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- ECRB EWG Meetings
- Submissions by this date
Thank you!

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