Public Consultation

with market participants about their needs for cross-zonal risk hedging opportunities on the bidding zone borders within the Baltic Capacity Calculation Region

The harmonised cross border markets in all timeframes will lead to a more efficient European market and benefits to customers. Forward markets have an important role in allowing parties to secure capacity and hedge positions ahead of the day-ahead timeframe. The Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (FCA GL) entered into force on 17 October 2016, ensures that this happen in the pan-European market.

The provisions of FCA GL establish a framework for the calculation and allocation of interconnection capacity, and for cross-border trading, in forward markets (i.e. timeframes longer than day-ahead).

In accordance with FCA GL Article 30(1) transmission system operators (TSOs) on a bidding zone border shall issue long-term transmission rights (LTTR) unless the competent regulatory authorities of the bidding zone border have adopted coordinated decisions not to issue LTTR on the bidding zone border.

In accordance with FCA GL Article 30(8) at least every 4 years, the competent regulatory authorities of the bidding zone border shall perform, in cooperation with the Agency for the Cooperation of Energy Regulators, an assessment of hedging opportunities pursuant to FCA GL Article 30 (3) – Article 30 (5).

In accordance with FCA GL Article 30(3), the coordinated decisions of national regulatory authorities (NRAs) shall be based on an assessment, which shall identify whether the electricity forward market provides sufficient hedging opportunities in the concerned bidding zones. The assessment shall be carried out in a coordinated manner by the NRAs of the bidding zone border and shall include at least:

a) a consultation with market participants about their needs for cross-zonal risk hedging opportunities on the concerned bidding zone borders;

b) an evaluation.

In accordance with FCA GL Article 30(4), the evaluation shall investigate the functioning of wholesale electricity markets and shall be based on transparent criteria which include at least:

a) an analysis of whether the products or combination of products offered on forward markets represent a hedge against the volatility of the day-ahead price of the concerned bidding zone. Such product or combination of products shall be considered as an appropriate hedge against the risk of change of the day-ahead price of the concerned bidding zone where there is a sufficient correlation between the day-ahead price of the concerned bidding zone and the underlying price against which the product or combination of products are settled;

b) an analysis of whether the products or combination of products offered on forward markets are efficient. For this purpose, at least the following indicators shall be assessed:

i) trading horizon;

ii) bid-ask spread;

iii) traded volumes in relation to physical consumption;

iv) open interest in relation to physical consumption.

In accordance with FCA GL Article 30(5), in case the assessment shows that there are insufficient hedging opportunities in one or more bidding zones, the competent NRAs shall request the relevant TSOs:

a) to issue LTTR;
b) to make sure that other long-term cross-zonal hedging products are made available to support the functioning of wholesale electricity markets.

Within the Baltic Capacity Calculation Region, the LTTR are implemented on Latvia (LV) and Estonia (EE) cross border interconnection (direction towards LV) from 2018 and Finland (FI) and EE (direction towards EE) from 2023 in a form of Financial Transmission Rights (FTR). Therefore, the concerned NRAs should issue decisions regarding bidding zone border: Latvia – Lithuania (LV-LT) in accordance with Article 30 of FCA GL.

To assess the market participants' needs for cross-zonal risk hedging opportunities on Latvian and Lithuanian electricity bidding zone borders, the National Energy Regulatory Council of Lithuania (NERC) and the Public Utilities Commission of Latvia (PUC) hereby invite traders which are active within the Baltic States electricity market to express their opinion on the cross-zonal risk hedging instruments.

NERC and PUC invite the active traders to answer the following questions.

1. **Are there sufficient hedging opportunities on the LT-LV bidding zone borders?**

   a. If sufficient hedging opportunities are currently available, please describe the instruments and mechanisms your company uses.

   b. If hedging opportunities are lacking, please specify which products you believe would be beneficial, and on which bidding zone borders these should be implemented.

   c. Does your company need cross-zonal risk hedging instruments on the LT–LV border (in both directions)? Please elaborate.

   d. Currently, there are no EPAD (Electricity Price Area Differential) products available for the LT and LV bidding zones, and no Long-Term Transmission Rights (LTTRs) for the LT zone. If you believe that additional hedging opportunities in addition to already available ones are needed, please share your experience using EPADs or LTTRs in other bidding zones. Under what circumstances such instruments from other zones could be useful for your company?

2. **What products are included in your company's electricity hedging portfolio? Please provide the share and type of hedging products your company has used over the past three years, including the typical trading horizons.**
    a. What is your planned hedging strategy for the next two years (2026 and 2027), including the expected share of each product?
    b. Please share examples of your company's experience with various hedging instruments, including both positive and negative outcomes, as well as your expectations for future performance.
3. **Would your company consider using local (Lithuanian or Latvian) electricity price hedging solutions if financial institutions will introduce such electricity price risk management instruments?**

Please provide your opinion and answers to the questions not later than 26 May 2025. The opinions and answers are welcome by post or e-mail to:

Public Utilities Commission of Latvia, Skanstes street 25, Riga, LV-1013, Latvia

E-mail: sprk@sprk.gov.lv

or

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