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To: Energy Regulatory Office of Poland

EFET response to the consultation regarding the consultations on the needs for cross-zonal risk hedging opportunities on Polish bidding zone borders

Dear Sir or Madam,

EFET[1] welcomes the opportunity to comment on the need for hedging instruments on the non-synchronous interconnections with neighbouring markets. We have already expressed our need for cross-zonal risk hedging in a letter sent on 20 November 2015 to the TSOs and Regulatory Offices of Poland, Lithuania and Sweden. We therefore appreciate URE launching the consultation process, as required by the FCA Guideline. Below, we provide the answers to the questions asked in the communication no. 7/2017 associated with brief explanatory remarks. We remain at your disposal should you like to discuss these issues further.

Question 1) Are there needs for cross-zonal risk hedging between Poland and Sweden and between Poland and Lithuania?

YES

We have repeatedly indicated that utilize the gains from the interconnections with Lithuania and Sweden, a proper hedging tool in the form of explicit transmission rights on both interconnections are necessary and would ease and attract further market entries. EFET believes that giving the market participants the opportunity to manage their basic, transmission-related risk exposure, allows them to optimize their portfolio and therefore underpins the liquidity and market-based competition on both wholesale and retail level. The possibility to hedge in a forward timeframe also provides information about the market's expectations towards the future prices, increasing transparency and further enhancing the welfare gain from market integration.

EFET notes that by design, explicit forward transmission rights can be offered between the bidding zones of Poland + Czech Republic and Germany, yet there is little or no capacity being offered in these auctions to the market participants due to the broadly discussed issue of unscheduled physical flows on this profile. Against this background, EFET has no ability to provide evidence of the contribution of these products to competition and security of supply for the Polish market. We nonetheless are convinced that the welfare gain mentioned in previous paragraph would apply to all the interconnections on Polish borders. We strongly believe, that with the extensive investments done in order to remediate the capacity loop flows, market participants will see more capacities being offered in a forward timeframe on the borders with Germany. At the same time, we note that there are no physical constraints that we are aware of and that could prevent the Polish TSO from offering forward capacity products on the borders with Sweden and Lithuania. We would also like to indicate that the feedback received from stakeholders in neighbouring zones in

[1] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org

response to our letter from 20 November 2015 does not signal any contradictions to the possibility of introducing hedging on these profiles.

Question 2) Does the electricity forward market provide sufficient hedging opportunities in the Polish bidding zone? Please justify your answer.

NO

The liquidity of the Polish forward market suffers from insufficient liquidity for most products offered – we elaborate on this issue further in our answer to question 3. Bearing in mind the shortcomings of the forward power market in Poland, EFET believes that in order to provide the necessary hedging opportunities, explicit forward transmission rights should be made available on all the existing interconnections. These transmission rights, either physical or financial, should be firm and should comprise the majority of the anticipated capacity available in a given point in time. In order to enhance and complement this system, forward transmission right should be tradeable on a secondary market, allowing both the market participants to adjust their portfolios and the TSO to buy back any oversold capacities.

Question 3) Are there products or combination of products offered on forward markets that represent a hedge against the volatility of the day-ahead price of the Polish bidding zone?

NO

The Polish Commodity Forward Instrument Market in principle does offer a variety of products covering different periods in the future up to Year +3. The liquidity of these products, however, tends to differ greatly between the timeframes covered, as well as baseload, peak and off-peak product types. While market participants may find a counterparty to secure their positions through trading Y+1, Q+1 and M+1 baseload and peak products relatively easily, other products are severely less liquid, or attract no trades at all. Not to mention significantly lower liquidity on TGE forward market within last 12 months. At the same time, the Financial Instruments Market operated by TGE sees no liquidity at all.

Taking the opportunity, we would also like to underline, that the liquidity of a forward market in Sweden suffers from a continued decline since 2011, whereas volume of forward products offered for Latvia/Lithuania price are is negligible. Such insufficient capability for market participants to hedge their positions effectively is a barrier to trade, hindering liquidity of the power market in the region.

We hope that you will find our remarks useful and we are happy to discuss these issues further.

Yours sincerely,

On behalf of European Federation of Energy Traders

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Chair of EFET Working Group Poland