Van: [redacted] <[redacted]@edftrading.com>
Verzonden: dinsdag 3 oktober 2023 17:24
Aan: ACM-Post
CC: [redacted]; [redacted]; [redacted]
Onderwerp: EDFT - Consultation answer ACM/16/031317

LET OP: Deze e-mail is afkomstig van buiten de ACM. Klik niet op links of open geen bijlagen, tenzij u de afzender herkent en zeker weet dat de inhoud veilig is.

Dear ACM,
First, we would like to thank you for this consultation on the Long Term hedging opportunities (FCA Regulation) on the Dutch bidding zone.
You will find below EDF Trading's contribution (in blue for easier reading) on the different questions raised.
[redacted]
Thanks a lot.
Best regards,

Company details

1. Please specify the name of your company, the country in which your company is located, as well as your business activities.
EDF Trading Limited is located in London, United Kingdom.
We trade several commodities across Europe, the main ones being power, gas and coal.
And regarding power (including Dutch bidding zone), we trade all time frames, from Long Term to Intraday.

Current use of hedging instruments

2. Do you currently use any long-term hedging instruments, e.g. for monthly, quarterly and yearly timeframes? If so, please specify:
Yes we currently use all long term hedging instruments in the Dutch bidding zone (BZ)

a) what instruments you use for hedging (i) for the Netherlands bidding zone and (ii) across bidding zone borders; We use all instruments available for hedging at all time frame: Yearly, Quarterly and Monthly. We use both energy products on the market (physical and financial), and also the LTTRs (Long Term Transmission Rights) at all timeframe available on the Dutch BZ borders.

b) for what specific goal you use these instruments; we use these instruments to manage price volatility, to extract value and to manage trading position.

c) how you trade these instruments (via an exchange, broker and/or bilaterally); we use all of them

d) please give a rough estimate of the percentage of your total volume of instruments traded via (i) an exchange, (ii) broker and/or (iii) bilaterally.

Need for hedging instruments

3. Do you trade as part of asset-backed trading, speculative trading, or both? If you trade assetbacked: please specify the asset classes/portfolios you are trading for. We only trade proprietary trading in Dutch BZ.

4. Is your need for hedging also across bidding zone borders (i.e. cross-zonal risk hedging on bidding zone borders)?
Yes, we also need hedging across BZ borders.

a) If so, why do you have a need for cross-zonal risk hedging on bidding zone borders? Using cross-zonal risk hedging allows to extract values across all interconnectors linked with the Dutch BZ. This also helps to create a liquid and efficient energy market. With LTTRs, market participants (MPs) will have a better incentive to hedge on the market.

b) Is there a need for hedging across the bidding zone border NO2-NL? If so, please elaborate on that. Yes there is a need to hedge across the NO2-NL borders. We would strongly support the implementation of Long Term auctions on the NO2-NL border like most of the other interconnectors.

Providing LT hedging on this border will help the market to be more efficient and provide new/better LT hedging opportunities.

Are there sufficient hedging opportunities?

5. Do the electricity forward markets provide sufficient hedging opportunities for hedging for the NL bidding zone? Please indicate in your answer what criterion you have used to determine whether there are “sufficient” hedging opportunities.

a) If not, please explain why the need is not met. The main criteria to determine sufficient hedging opportunities is the liquidity. In the Dutch BZ, the liquidity is not allows always sufficient to trade.

b) Are there measures that can improve the situation? Please specify. ▪ What type of hedging contracts are needed? ▪ Is there a need for hedging in an organized market versus a bilateral market or through a broker/other? Please explain your answer. We need to remove excessive regulatory barriers (like massive collateral requests) in order to maintain current and attract new market participants.

6. Do the electricity forward markets provide sufficient hedging opportunities for hedging across Dutch bidding zone borders (i.e. cross-zonal risk hedging on bidding zone borders)? Please indicate in your answer what criterion you have used to determine whether there are “sufficient” hedging opportunities.

a) If not, please explain why the need is not met. One of the main criteria is the cross zonal capacity available for the LTTRs, the more there are the better. It is also important to have to right energy product to trade on the market. For example on the UK market, the yearly product is not equivalent to the yearly LTTR product on the Britned interconnector.

b) Are there measures than can improve the situation? Please specify. ▪ What type of hedging contracts are needed? ▪ Is there a need for hedging in an organized market versus a bilateral market or through a broker/other?

View on long-term transmission rights

7. What is your company’s view on the use of long-term transmission rights as an instrument for hedging the cross-border market spread between two bidding zones? The LTTRs are crucial for proper hedging. It allows MPs to manage risk on the price volatility, to manage trading position, and to extract value.

8. Do you already use long-term transmission rights? If so, could you tell us about the purpose of your use of transmission rights, and whether and how these transmission rights satisfy your need for hedging? Yes we do use LTTRs on all BZ borders available. More capacity should be available and give to the market via the LT auctions. Capacity should also be given more in advance on Year+2 and Year+3, and not only Y+1 as currently. This would help to create liquidity on the energy market and provide more LT hedging opportunities.