The Netherlands Authority for Consumers and Markets
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Subject: Public consultation on Long-Term Hedging Opportunities (FCA Regulation)

We welcome the opportunity to respond to this important consultation on whether forward transmission rights should be issued on the NorNed interconnector.

Long-term transmission rights (LTRs), ranging from months up to one-year in duration, are available to market participants on Dutch bidding zone borders with Germany, Belgium and the UK. We have also seen LTRs up to two years in duration offered on the Belgian bidding zone borders with Germany and France.

In our experience offering LTRs provides an option for market participants, generators and customers, to access neighbouring markets to hedge longer-term price risk cross border.

For example, providing LTRs of two years duration makes it possible for a customer in the Netherlands to enter into a two-year cross-border PPA to purchase electricity from generation in Norway. This would enable a more market-based deployment of renewable generation. In the absence of LTRs such a transaction is not possible.

Providing LTRs on this border will increase the hedging opportunities that are available to both customers and generators, increase both competition and increase forward market liquidity in both the Netherlands and Norway.

Finally, in the case of offshore bidding zones – where the transmission asset has a dual role as both the electricity grid connection for the offshore wind farm and as an interconnector – we believe that longer duration transmission rights (> 15 years) will be necessary to support a more merchant deployment of offshore wind.

Individual responses to the questions set out in the consultation are set out below.

1. QUESTION 1: Please specify the name of your company, the country in which your company is located, as well as your business activities.

Shell is an integrated energy company that is active in generation, trading, supply and consumption of electricity in the Netherlands and neighbouring markets.

2. QUESTION 2: Do you currently use any long-term hedging instruments, e.g. for monthly, quarterly and yearly timeframes?
3. QUESTION 3: Do you trade as part of asset-backed trading, speculative trading, or both?

We currently use long-term hedging instruments in all timeframes available to market participants. We use hedging instruments both for the Netherlands and cross bidding zones to manage price risk for both the generation and consumption of electricity. We trade long-term hedging instruments via all available routes – via an exchange, broker and bilaterally – including with TSOs, who are responsible for issuing LTRs.

4. QUESTION 4: Is your need for hedging also across bidding zone borders (i.e. cross-zonal risk hedging on bidding zone borders)?

In our experience there is a strong benefit to market participants, which includes generation and consumption, being able to hedge across bidding zone borders as this provides market participants with an additional option to hedge price risk – which in the absence of LTRs is not possible.

We expect that issuing LTRs on the NorNed interconnector will increase liquidity and competition in both the Netherlands and Norway.

For example, providing LTRs of two years duration would make it possible for a customer in the Netherlands to enter into a two-year cross-border PPA to purchase electricity with a renewable generator in Norway. This has the dual benefit of enabling a more market-based deployment of renewable generation while at the same time providing more options to customers in the Netherlands to decarbonise their electricity demand. In the absence of LTRs such a transaction is not possible.

Auctions for cross-zonal capacity are organised by the Joint Allocation Office are well established and also very competitive, with a large number (over 40) and wide variety companies participating.

5. QUESTION 5: Do the electricity forward markets provide sufficient hedging opportunities for hedging for the NL bidding zone?

LTRs ranging from months up to one-year in duration, are available to market participants on Dutch bidding zone borders with Germany, Belgium and the UK. Regardless of whether long-term hedging opportunities are sufficient or not in the Netherlands, issuing LTRs on the NorNed Interconnector will increase hedging opportunities and will tend to increase competition and liquidity in those timeframes.

Given that forward market liquidity in the Netherland is relatively poor we believe that offering LTRs on NorNed would deliver a material improvement.

In addition, we believe that offering a range of LTR tenors including weekly, monthly, quarterly, annual and multi-annual. Providing a range of LTR tenors would enable market participants to better match the risk they are seeking to hedge to LTR availability.

In the Netherlands it is possible to trade long-term hedging instruments via all available routes – via an exchange, broker and bilaterally – including with TSOs, who are responsible for issuing LTRs.

6. QUESTION 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)?
7. QUESTION 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?

LTRs with a tenor ranging from months up to one-year in duration, are available to market participants on Dutch bidding zone borders with Germany, Belgium and the UK. In addition, it is possible hedge long-term price risk in the Dutch, and neighbouring markets via different and complementary routes to market including exchange, broker and bilateral.

Offering long-term transmission rights with a longer tenor would be beneficial for market participants, including generators and customers, to also hedge longer-term price risk cross-border.

As mentioned above this would, by way of example, enable a customer in the Netherlands to enter into a longer-term cross-border deal to purchase renewable electricity in Norway. This has the dual benefit of enabling a more market-based deployment of renewable generation while at the same time providing more options to customers in the Netherlands to decarbonise their electricity demand. In the absence of LTRs such a transaction is not possible.

We support the Commission's proposed EU Power Market Design requirement that Transmission System Operators should offer LTRs of a minimum three years duration, as a positive development.

In addition, for Hybrid Offshore Wind Interconnector projects, such as the recently announced Lion Link between the Netherlands and the UK, we consider that a "home market set up" best aligns with enabling a more merchant deployment of offshore wind. This is because, in the case of a hybrid project, the transmission cable has a dual function as both the electricity grid connection for the Offshore Wind project and as an interconnector.

In case policy makers opt for an offshore bidding zone approach, we are concerned that offshore wind revenue, with the generator selling into a market where there is (for the foreseeable future) no demand, will be too low to support deployment without a high level of Government price support – the cost of which will be socialised to consumers. Alternatively providing the offshore wind farm with longer term (> 15-year) transmission rights could unlock a more market-based approach to offshore wind deployment and avoid the complexity and cost associated with Government price support.