

**AS "Augstsprieguma tīkls" and LITGRID
AB Common Proposal for the Hedging
Opportunities on the Lithuanian - Latvian
Bidding Zone Border in Accordance with
Article 30(6) of the Commission
Regulation (EU) 2016/1719 of 26
September 2016 establishing a guideline on
forward capacity allocation**

17th November 2017

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AS "Augstsprieguma tīkls" and LITGRID AB taking into account the following,

Whereas

- (1) This is a common proposal for the hedging opportunities on the Lithuanian - Latvian bidding zone border developed by the Latvian Transmission System Operator AS "Augstsprieguma tīkls" and Lithuanian Transmission System Operator LITGRID AB (hereafter referred to as "TSOs") in accordance with Article 30(6) of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereafter referred to as the "FCA Regulation"). This proposal is hereafter referred to as "Proposal".
- (2) In case the competent regulatory authorities have adopted coordinated decisions not to issue long-term transmission rights on the bidding zones border and have requested the relevant TSOs to make sure that other long-term cross-zonal hedging products are made available to support the functioning of the wholesale electricity markets (Article 30(5) (b) of the FCA Regulation) on the relevant bidding zone borders, pursuant to Article 30(6) of the FCA Regulation the relevant TSOs shall develop the necessary arrangements and submit them to the competent regulatory authorities' approval no later than six months after the request by the competent regulatory authorities.
- (3) Acting in accordance with Article 30(3) of the FCA Regulation, the competent regulatory authorities have conducted assessments on the bidding zone border between the two countries regarding whether the electricity forward market provides sufficient hedging opportunities in the concerned bidding zones of Lithuania and Latvia. The assessments on the functioning of the wholesale electricity markets in the concerned bidding zones indicated that there are insufficient hedging opportunities in the Lithuanian bidding zone (LT), and sufficient hedging opportunities in the Latvian bidding zone (LV).
- (4) Pursuant to Article 30(1), Article 30(2) and Article 30(5) of the FCA Regulation, competent regulatory authorities of the Lithuania and Latvia adopted coordinated decisions not to issue long-term transmission rights on the bidding zone border¹ and requested the TSOs in cooperation to make sure that other long-term cross-zonal hedging products are made available to support the functioning of the wholesale electricity markets (Article 30(5) (b) of the FCA Regulation) on the above mentioned bidding zone borders.
- (5) Pursuant to Article 30(6) of the FCA Regulation, in case the competent regulatory authorities choose to issue a request as referred to in paragraph 5(b), the relevant TSOs shall develop the necessary arrangements and submit them to the competent regulatory authorities' approval no later than six months after the request by the competent regulatory authorities. Those necessary arrangements shall be implemented no later than six months after approval by the competent regulatory authorities. The competent regulatory authorities may extend the implementation time upon request from the relevant TSOs by a period of no more than 6 months.
- (6) Pursuant to Article 30(6) of the FCA Regulation this Proposal is subject to approval by the National Commission for Energy Control and Prices in Lithuania and the Public Utilities Commission in Latvia.
- (7) The Proposal was aligned between the TSOs and submitted on 17 November 2017 to the Public Utilities Commission in Latvia and the National Commission for Energy Control and Prices in Lithuania.
- (8) The Proposal takes into account the general principles, goals and other methodologies set out in the FCA Regulation. The goal of the FCA Regulation is the coordination and harmonisation of forward capacity calculation and allocation in the long-term capacity

¹ The Decision No 50 of the Public Utilities Commission, dated on 11th of May, 2017. 17 May 2017 Agreement between the Public Utilities Commission of Latvia and National Commission for Control and Prices of Lithuania Regarding the Hedging opportunities on Latvian – Lithuanian Bidding Zone Border Pursuant to the Commission Regulation (EU) no 2016/1719

- markets, and it sets requirements for the TSOs to co-operate on a pan-European level; on the level of CCRs, and across bidding zone borders.
- (9) Also the Proposal contributes to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union.
- (10) In conclusion, the Proposal contributes to the general objectives of the FCA Regulation to the benefit of all market participants and electricity end consumers.

SUBMIT THE FOLLOWING PROPOSAL TO RELEVANT REGULATORY AUTHORITIES:

Article 1

Subject matter and scope

The proposal for the necessary arrangements of the hedging opportunities on the Lithuanian - Latvian bidding zone border as determined in this Proposal shall be considered as the common proposal of the TSOs in accordance with Article 30(6) of the FCA Regulation.

Article 2

Definitions

For the purposes of the Proposal, terms used in this document shall have the meaning of the definitions included in Article 2 of the FCA Regulation, of Regulation (EC) 714/2009, Directive 2009/72/EC and Commission Regulation (EU) 543/2013.

Article 3

Proposal

Though there are no specifically created for the Lithuanian price zone², other available long-term hedging products, specifically EPAD Riga offered by Nasdaq OMX in combination with Nordic system ENO product may be used for hedging by market participants for both Lithuanian and Latvian bidding zone prices³.

Alternative mean to be used for hedging prices in Latvian and Lithuanian bidding zone is Nasdaq OMX offered Nordic system ENO product with EPAD Helsinki and in combination with Estonia-Latvia FTR-Option product.

Considering the lack of legal regulation and interpretation of the current regulatory legal framework TSOs can't be engaged in facilitation of the functioning financial risk hedging market(s).

In order to make hedging utilising EPAD Riga product more effective improvements in its performance may be attained by market participants⁴:

- Market makers role for EPAD Riga may need to be improved, and should be attributed to market participants.

To make sure that access to other long-term cross-zonal hedging products are made available in the coming years by 2020 on the Lithuanian – Latvian bidding zone border, Lithuanian and Latvian TSOs

² FCA guidelines do not require that hedging should be enabled through locally based products/platforms.

³ Based on analysis document dated May 3rd, 2017 No. O5-98 annexed to the Lithuanian NRA's decision dated May 11th, 2017, structural congestion on Lithuania and Latvia cross-border is not present neither in direction from Lithuania to Latvia nor from Latvia to Lithuania. Prices of the Lithuanian and Latvian price zones are very similar and strongly correlated and the price differences are very small

⁴ The NRAs are given a vital role in ensuring that all market players (incl. market participants) live up to their obligations that the market functions properly.

propose to increase the capacity between bidding zones Estonia (EE) and Latvia (LV) to be conducted by Latvian and Estonian TSOs Augstsprieguma tīkls AS and Elering AS.

By strengthening transmission capacity between the EE and LV bidding zones, the structural grid congestion will be reduced and price differences will be equalized between these bidding zones. This enables market participants to hedge within a larger acquisition area and thus in the product that has the best liquidity within this area. Given the fact that the price difference between LV and LT today is very low and that there is also a good price correlation between the EE and Finland (FI) bidding zone, it creates the prerequisites for the market participants who wishes to hedge in Lithuania and Latvia to use a more liquid EPAD in any of these bidding zones. The proposal thus ensures increased risk hedging opportunities in Lithuania and Latvia.

Article 4 Publication of the Proposal

The TSOs shall publish the Proposal without undue delay after the national regulatory authorities have approved the Proposal.

Article 5 Language

The reference language for this Proposal shall be English. For the avoidance of doubt, where the TSOs need to translate this Proposal into national language(s), in the event of inconsistencies between the English version published by the TSOs in accordance with Article 4(13) of the FCA Regulation and any version in another language, the relevant TSOs shall, in accordance with national legislation, provide the relevant national regulatory authorities with an updated translation of the Proposal.