

Explanatory document on Fingrid Oyj and Kraftnät
Åland Ab's proposal for arrangements in accordance
with Article 30(6) of Commission Regulation (EU)
2016/1719 establishing a guideline on forward
capacity allocation

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1 Background

Commission Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation (hereinafter the FCA Regulation) obliges transmission system operators to issue long-term transmission rights or ensure the availability of other hedging instruments at bidding zone borders unless the competent regulatory authorities of the bidding zone border have decided otherwise based on their assessment. In an assessment published in 2021, the Finnish and Swedish national regulatory authorities (hereinafter the NRAs) found the hedging opportunities in the Finnish bidding zone to be insufficient. Since the NRAs could not agree on the measures, they referred the matter to the European Union Agency for the Cooperation of Energy Regulators (hereinafter ACER).

ACER adopted a decision No 12/2022 on 14 September 2022, which has the objective to improve market participants' hedging opportunities in the Finnish electricity forward market. The decision obliges Fingrid to ensure that long-term cross-zonal hedging instruments other than transmission rights are made available to support the wholesale electricity market. To this end, Fingrid shall develop a proposal for arrangements and submit it to the Finnish NRA for approval.

Fingrid appealed ACER's decision to ACER's Board of Appeal on 14 November 2022. In its decision A-004-2022 adopted on 24 October 2023, the Board of Appeal rejected Fingrid's appeal and confirmed ACER's decision. In accordance with the decision of the Finnish NRA on 13 October 2023, Fingrid shall submit its proposal for the arrangements required by ACER's decision within two months of the Board of Appeal's decision.

ACER's decision was based on its own assessment that improving the hedging opportunities in the Nordic electricity forward market would be best achieved through a so-called EPAD coupling solution. ACER recommended that the transmission system operators explore the use of such a solution. However, ACER has emphasised, and ACER's Board of Appeal has also confirmed, that the EPAD coupling solution is only a recommendation and therefore not legally binding.

To support its decision, ACER presented a high-level description of the EPAD coupling solution. Such a solution has not been implemented anywhere in practice. In Sweden, Svenska kraftnät (hereinafter Svk) has carried out a pilot project based on the use of EPADs to increase hedging opportunities, but the pilot project differs essentially from the EPAD coupling solution recommended by ACER. Both solutions are problematic because they distort the price formation of EPAD contracts. Another problem is that EPAD coupling aims to correct for problems that existed in the Finnish electricity market before 2021 through regulatory intervention, but due to the long decision-making process those problems have already been solved or are being solved on market terms.

2 Assessment of the feasibility of EPAD coupling

2.1 Price distortion in the EPAD coupling solution recommended by ACER

ACER's EPAD coupling solution is based on the assumption that the financial electricity forward markets can be coupled in the same way as the physical day-ahead and intraday electricity markets. This assumption is not correct and shows a lack of understanding of the differences between the physical and financial electricity markets. In physical electricity market, the object of trading is always electrical energy irrespective of the bidding zone. This means that, for example, the electricity consumed in Finland can be produced also in Sweden to the extent that the transmission capacity allows it. If the transmission capacity does not constrain the market, it is possible to combine the bid curves for Finland and Sweden because all bids concern the same product, i.e. electrical energy. The same logic however does not apply to the bidding-zone-specific electricity derivatives, because with

these products the underlying assets are not the same across bidding zones. For example, the underlying of an EPAD contract referring to the Finnish bidding zone is the difference between the Finnish bidding zone price and the Nordic system price in the day-ahead market. Correspondingly, the underlying of the EPAD contract for the Swedish SE1 bidding zone is the difference between the SE1 bidding zone price and the Nordic system price. As the Finnish EPADs and the Swedish SE1 EPADs are different products, it is not possible to combine the bid curves for the FI and SE1 EPADs in the same way that the Finnish and Swedish bid curves for physical electricity can be combined.

In its recommendation, ACER circumvents the problem of combining the bid curves of the bidding-zone-specific EPADs by proposing an artificial coupling of the Finnish and Swedish EPADs in a way that distorts their price formation. ACER's model is based on a single auction organised by a market coupling operator selected by the transmission system operators (TSOs), in which the market coupling operator generates additional orders and allocates them to the TSOs in order to combine the demand and supply curves of the Finnish and Swedish EPADs. The additional orders are priced in such a way that TSOs are obliged to sell the Finnish EPADs at a price based on market participants' sell orders for the Swedish EPADs, and to buy the Swedish EPADs at a price based on market participants' buy orders for the Finnish EPADs. The additional orders artificially lower the price of the Finnish EPADs and increase the price of the Swedish EPADs. Figure 1 illustrates the impact of the EPAD coupling solution recommended by ACER on the price formation of the Finnish EPADs when the Finnish and Swedish SE1 bidding zones are coupled, and the flow is towards Finland (i.e. the price of the Finnish EPADs is higher than the price of the SE1 EPADs).

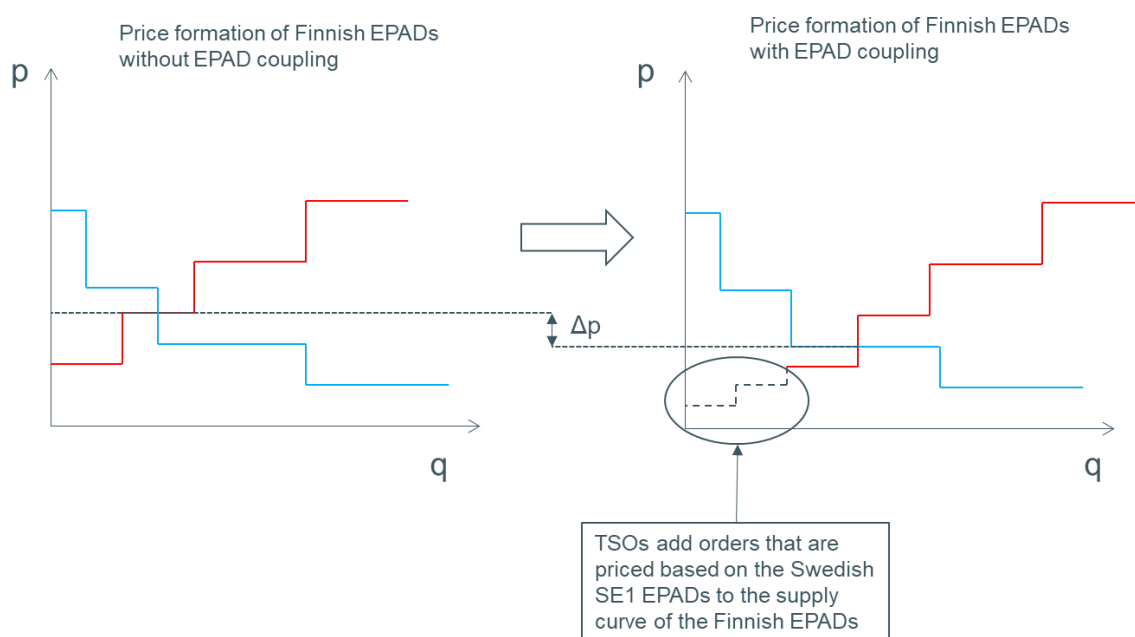


Figure 1. The impact of the EPAD coupling solution recommended by ACER on the price formation of the Finnish EPADs when the Finnish and Swedish SE1 bidding zones are coupled and the price of Finnish EPADs is higher than the price of SE1 EPADs.

In Figure 1, the illustration on the left-hand side presents the price formation of the Finnish EPADs in the initial situation where the price is obtained at the intersection of the market participants' demand orders (blue curve) and the market participants' supply orders (red curve). This price reflects the market participants' expectation of the average day-ahead electricity price in Finland during the

settlement period of the Finnish EPADs (e.g. the following year or the following quarter). In the illustration on the right-hand side, the TSOs' orders (marked with a dashed line) that are priced based on the market participants' sell orders for the SE1 EPADs in accordance with the EPAD coupling solution recommended by ACER have been added to the supply curve of the Finnish EPADs. These orders are not based on market fundamentals that reflect the situation in Finland, with the result that they artificially lower the price of the Finnish EPADs by Δp and thus distort the price formation of Finnish EPADs. Similarly, in the Swedish SE1 bidding zone, the TSOs add orders to the demand curve for the SE1 EPADs that are priced based on the market participants' demand orders for the Finnish EPADs, thus artificially increasing the price of the SE1 EPADs.

In the above example, the TSOs' orders in the EPAD coupling auctions crowd out market-based orders on both sides of the bidding zone border. The losses of the TSOs are covered by using the congestion income characterised as a public resource and, if necessary, by network tariffs. As a result of price-subsidisation, trading is concentrated on TSOs' EPAD coupling auctions where the prices of EPADs do not reflect their market-based prices. This may discourage trading in the continuous market where the EPAD prices are based on market fundamentals and where the market participants are not able to compete with the TSOs' subsidised EPAD orders.

2.2 Price distortion in arrangements similar to Svenska kraftnät's pilot project

Price formation of EPADs is distorted and the trading concentrates in auctions also under arrangements similar to Svk's pilot project, although the distortion is caused by a different mechanism than in the EPAD coupling solution recommended by ACER. Under arrangements similar to the Svk's pilot project, two pairs of EPAD auctions will be held simultaneously across the bidding zone border, i.e., four EPAD auctions in total. Each auction pair consists of a buy auction on one side of the bidding zone border and a sell auction on the other side (i.e., TSOs simultaneously sell bidding-zone-specific EPAD contracts on one side and buy another bidding-zone-specific EPAD contracts on the other side). The two auctions included in the auction pair are either both cleared or both rejected. Both auctions are cleared if the buying price of a bidding-zone-specific EPAD contract for the TSOs on one side of the bidding zone border is lower than or equal to the selling price of another bidding-zone-specific EPAD contract for the TSOs on the other side of border.

In Svk's pilot type of arrangement, the market participants' orders are always matched with the TSOs' orders. For each auction, the TSOs determine the maximum volume of EPADs available, but they do not quote a price for those EPADs in their orders. When the TSOs buy EPADs, the price is observed at the intersection of the supply curve derived based on the market participants' sell orders and the volume set by the TSOs. Similarly, when the TSOs sell EPADs, the price is obtained at the intersection of the demand curve derived based on the market participants' buy orders and the volume set by the TSOs. Therefore, the prices formed at the auctions do not reflect the true market value of EPADs, which can only be obtained by taking into account the market participants' buy and sell orders in one single auction. Figure 2 illustrates the price formation of Finnish EPADs in an arrangement similar to Svk's pilot project in a situation where the Finnish and the Swedish SE1 bidding zones are coupled, and the flow is towards Finland (i.e., the price of the Finnish EPADs is higher than the price of the SE1 EPADs).

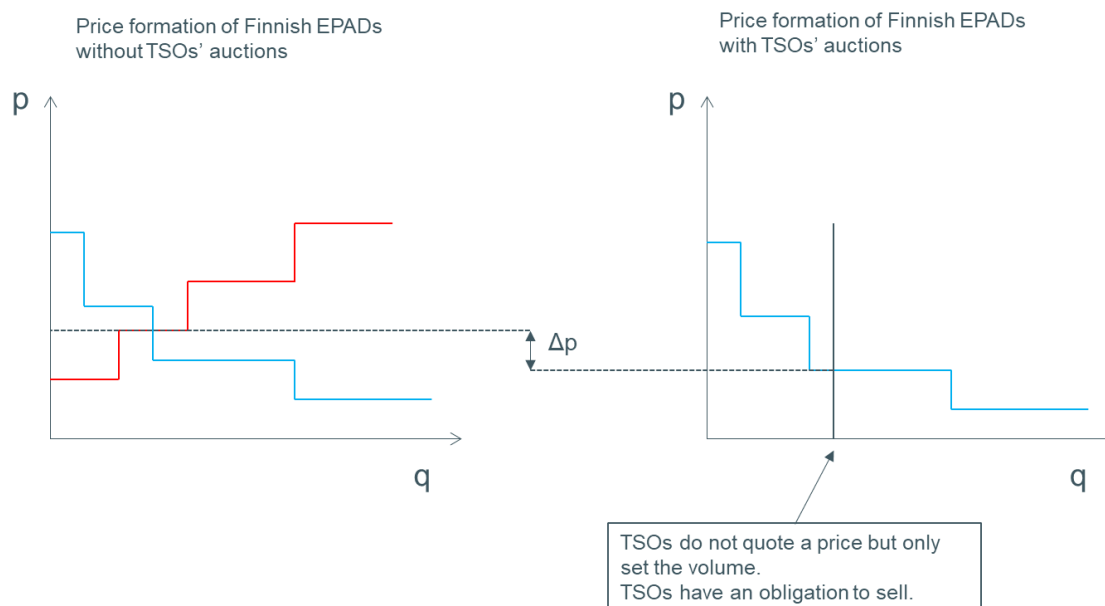


Figure 2. Price formation of Finnish EPADs in an arrangement similar to Svk's pilot project in a situation where the Finnish and the Swedish SE1 bidding zones are coupled, and the flow is towards Finland (i.e., the price of the Finnish EPADs is higher than the price of the SE1 EPADs).

Figure 2 shows that in the arrangement similar to Svk's pilot project, the price of EPADs in the more expensive bidding zone is obtained at the intersection of the demand curve based on the market participants' buy orders (blue curve in the illustration on the right-hand side) and the volume set by the TSOs. The price of EPADs at the auction is thus artificially lowered by Δp when compared to the base case where the EPAD price is obtained at the intersection of the market participants' buy and sell orders (blue and red curves in the illustration on the left-hand side). In the more expensive bidding zone, the distorted prices at auctions crowd out market-based supply of EPADs. In the cheaper bidding zone, the impacts are reverse, i.e., the price of EPADs increases and the TSOs crowd out market-based demand.

For market participants it rationally makes sense to sell EPADs at auctions only if the prices at the auctions are higher than in the continuous market and, conversely, to buy only if the prices at the auctions are lower than in the continuous market. This leads to the prices of EPADs at auctions to differ from those in the continuous market and to the trading to concentrate in the price-subsidised auctions organised by the TSOs. The losses of the TSOs are covered by using the congestion income characterised a public resource and, if necessary, by network tariffs.

2.3 Impact of physical electricity market on the pricing of derivative contracts

The price of an EPAD contract reflects the market participants' expectations of the price development of its underlying asset during the settlement period. Thus, for example, the price of the Finnish EPAD contract for the year 2024 reflects the market participants' expectations of the average day-ahead electricity price in Finland compared to the Nordic system price in 2024. Correspondingly, the prices of the Swedish EPADs reflect the expectations of the day-ahead electricity prices in Sweden. These expectations take into account, among other things, the forecasted development of the hydro reservoirs in the Nordic countries, the availability of wind power, fuel prices, the prices of emission allowances, and the availability of the cross-border transmission capacities. Differences between EPAD contract prices in different bidding zones result from the fact that the market sees that the day-ahead electricity prices in the concerned bidding zones will also differ from each other.

It therefore follows that the prices of the different bidding-zone-specific EPAD contracts should converge if and only if the market sees that the value of their underlying assets will converge. In other words, if the market expects the day-ahead electricity prices in the Finnish and Swedish bidding zones to converge, only in that situation would the prices of the Finnish and Swedish EPADs converge, or they should converge. In this situation, the market participants can trade with EPADs from either bidding zone to hedge their bidding zone price risk without any separate arrangements to couple the forward markets, and therefore there is no need for an EPAD coupling solution either. In practice, this kind of situation existed in the Finnish and Swedish bidding zones until mid-2011, as shown in Figure 3. Once the day-ahead electricity prices started to diverge, also the EPAD contract prices in these bidding zone diverged.

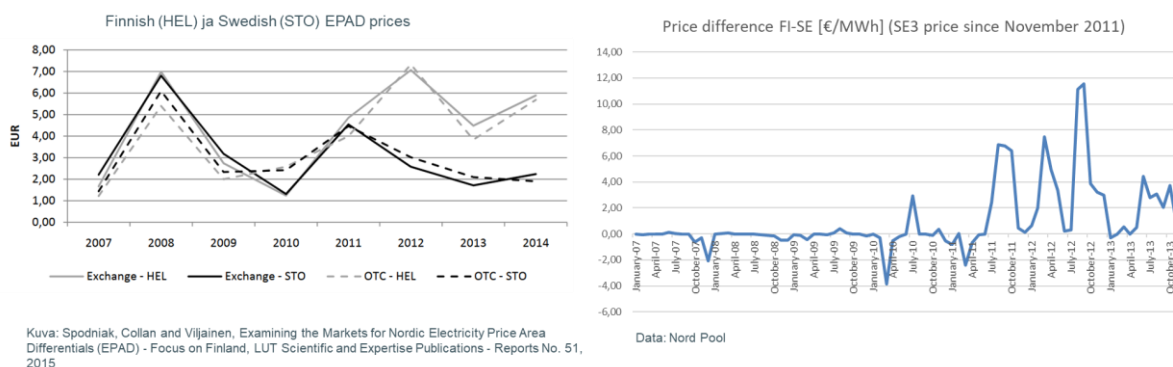


Figure 3. An example of the uniformity of the prices of the Finnish and Swedish EPADs and the area prices of Finland and Sweden.

ACER and its Board of Appeal do not seem to understand the fundamental principles described above regarding the pricing of EPADs. This can be concluded, among other things, from the fact that they define the goal of the EPAD coupling solution to be an increased price convergence between different bidding-zone-specific EPAD contracts and pursue this goal with the addition of artificial orders that are not priced based on market fundamentals. The reason provided is that this would allow the transmission capacity to be taken into account in the EPAD prices. At the same time, it is however forgotten that the forecasted availability of the cross-border transmission capacity during the EPAD settlement period (e.g., during the following year, quarter or month) is already included in EPAD prices from the outset, as it is one of the market fundamentals impacting the valuation of their underlying assets. TSOs publish the long-term transmission capacity forecasts for the following year on a monthly basis, so the market participants have this information at their disposal for the purpose of EPAD pricing.

The price difference between EPAD contract prices in adjacent bidding zones reflects the market's expectations of the future day-ahead price difference in these bidding zones during the EPAD settlement period. The EPAD prices include the information on the long-term availability of the transmission capacity during their settlement period. If, for example, an interconnector between bidding zones is known to be unavailable due to a scheduled maintenance or an unplanned outage, the price difference between bidding-zone-specific EPADs can be assumed to be larger than it would otherwise be. On the other hand, if a new interconnector that is expected to reduce the day-ahead price differences is about to be completed, the price differences between the bidding-zone-specific EPAD contracts for the periods following the commissioning of the new interconnector are also likely to be reduced.

It is possible to assess the correctness of the EPAD prices by examining them in relation to the realised price differences in the day-ahead market. If, for example, EPAD prices are systematically higher than the day-ahead price differences, the situation may warrant an assessment from the perspective of possible abuse of a dominant position through market surveillance. Even in this situation, ACER's EPAD coupling solution is not an appropriate action because instead of forcing the convergence of the bidding-zone-specific EPAD prices, the aim should be to ensure the correctness of pricing and not to distort it by granting subsidies through mechanisms such as EPAD coupling. Increasing the physical cross-border transmission capacity available to the market is the only market-based way to promote the convergence of the bidding-zone-specific EPAD prices.

In the EPAD coupling solution, forcing the convergence of the electricity derivatives prices while ignoring the realities of the physical electricity market means that some consumers in the higher price bidding zones are able to hedge their electricity purchasing prices at a lower level than what the market-based prices are. Correspondingly, in the cheaper bidding zones, some producers are able to hedge their electricity selling prices at a higher level than what the market-based prices indicate. The costs of subsidising the prices are covered by using the congestion income, which is to be used primarily for investments or to ensure the availability of the transmission capacity in a way that benefits all grid users equally, or secondarily to reduce grid tariffs which also benefits all the grid users. Subsidising the prices thus in practice means a transfer of income from grid users to those financial market participants who succeed in obtaining price-subsidised contracts.

2.4 Changes to the TSO tasks required by the EPAD coupling solution

ACER's EPAD coupling solution defines the tasks of the TSOs as, inter alia, defining and issuing electricity derivatives, selecting a market coupling operator that organises the trading of electricity derivatives and selecting the power exchanges that provide trading services to market participants. These tasks do not fall within the tasks of the TSOs under Article 40 of Directive 2019/944, and Fingrid has not been assigned such tasks in the national legislation, as similar tasks are typically defined in EU law as belonging either to the competent regulatory authorities or to the Member States. However, ACER's Board of Appeal concludes in its own decision that, in accordance with Article 40(8) of Directive 2019/944, additional tasks may be assigned to the TSOs, and the Member State shall, where appropriate, make the required changes in national law in order to comply with EU regulations.

In accordance with Article 30(6) of the FCA Regulation, TSOs shall develop the arrangements required by ACER's decision within six months of its notification and submit them to the competent regulatory authorities for approval. The arrangements shall be implemented within six months of the regulatory approval. The authorities may grant an extension of up to six months for the implementation of the arrangements. Therefore, it must be possible to implement the arrangements within a maximum of one year from the date of approval. Article 30(6) of the FCA Regulation does not however contain specific rules on the procedure for approving arrangements and does not set a time limit for the approval process. The rules set out in Article 4 of the FCA Regulation are not applicable for the approval procedure, as the arrangements do not fall within the terms and conditions or methods referred to therein.

It follows from the above that the need for, and implementation of, any legislative changes should be determined prior to the adoption of the arrangements, since this is the only stage in the process of implementing the ACER decision, the timetable of which is not specifically laid down and in which the regulatory authority therefore has discretion. Otherwise, the implementation of a solution such as the EPAD coupling within the prescribed time limit of no more than one year is not likely to be

possible, since such a short time limit does not allow for the necessary legislative changes to be included in the implementation timeline of the arrangements that are already very complex, and Fingrid, on the other hand, does not have the possibility to influence the timetable for the implementation of legislative changes, since the matter falls within the competence of the legislature.

As a result of regulatory inaccuracy, it is currently not known with certainty when corrective action under the EPAD coupling solution targeted to remedy the situation before 2021 could be available. If no changes to the national legislation are needed, then the implementation could take place at the earliest in 2025. At the same time, it is noteworthy that the primary objective of ACER's decision to make available other hedging instruments will be realised on market terms as early as the beginning of 2024, if EEX starts listing zonal futures in the Nordic bidding zones as announced.

Another point to note is that the next regulatory assessment of the adequacy of hedging opportunities in accordance with Article 30(8) of the FCA Regulation should be carried out by the first half of 2025 at the latest. This new assessment makes it possible to take into account changes in the market situation since 2020 and to assess the need for market intervention in light of them. Where appropriate, the changes in national legislation required by the EPAD coupling solution may be promoted in parallel with the assessment if it is to be ensured in advance that it is included in the range of means, if the assessment further concludes that market intervention is justified.

3 Changes in the market situation

3.1 Correction of structural asymmetry of production and consumption

Market participants' hedging opportunities are assessed by the regulatory authorities at least every four years. The Energy Authority's previous assessment concerning Finland was published in spring 2021 and it is based on the situation in the forward market in 2016–2020. In its decision, ACER appears to classify Finland as an area with a production deficit where the imbalance between supply and demand in the forward market cannot be corrected without corrective action by the public administration. ACER justifies its EPAD coupling recommendation by reasoning that it would increase the supply of EPADs in Finland and thus correct the problem in the forward market resulting from the asymmetry in production and consumption in the physical electricity market. As regards the balance between production and consumption, ACER's picture of the situation is incorrect, as at the end of 2023 Finland will be in balance in terms of production and consumption, as shown in Figure 4.

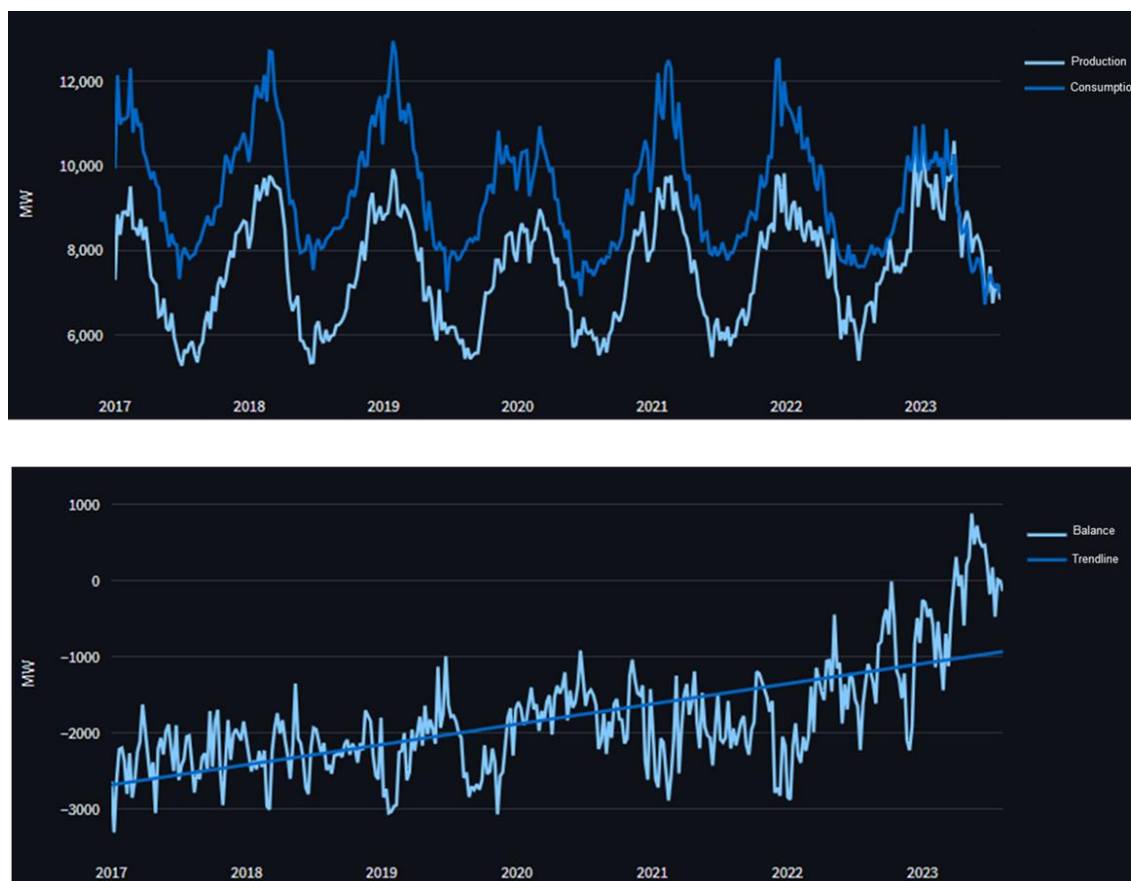


Figure 4. The balance between production and consumption in Finland.

It follows from the above that it is not possible to justify interfering in the operation of the electricity forward market in Finland on the basis of structural distortions in the physical electricity market. This is not to say that there could not be similar problems in the sufficiency of hedging opportunities that were observed in the assessment published in 2021. However, due to changes in the market situation, this should be assessed in the light of the current situation before interfering in the operation of the market, so as not to distort its operation by potentially unnecessary support measures. This is also a fundamental principle of EU energy policy, according to which the internal electricity market is based on a market mechanism and where public intervention is the exception to the main rule.

3.2 Market entry of new products

In addition to the changes in the balance between production and consumption, changes in the competitive situation are impacting the current market development. New publicly listed hedging products are entering the market on market terms, so in the light of current information, support for a single product as set out in ACER's EPAD coupling solution cannot be justified on the grounds that the market mechanism cannot be expected to remedy potential problems in the forward market.

There has been only one commodity exchange offering publicly listed EPADs in the Nordic electricity forward market throughout its existence, and for twenty years there have been no significant changes in the products available for zonal price hedging (excluding changes regarding for which bidding zones EPADs are available and for which time horizons they are issued). However, in summer 2023, the situation changed when EEX and Nasdaq announced a corporate transaction that would lead to the sale of Nasdaq's Nordic electricity businesses to EEX and, consequently, the replacement

of EPADs with zonal futures. The acquisition is currently awaiting approval by the competition authorities. In addition, EEX has announced that regardless of the outcome of the assessment by the competition authorities, it intends to introduce zonal futures and spread trading in the Nordic bidding zones in early 2024. System price futures are also likely to remain in the selection and may be suitable for use in bidding zones where the bidding zone price correlates sufficiently well with the system price. In addition to EEX, Nord Pool has also announced plans to introduce new electricity financial products in the Nordic market, which highlights the ongoing market-driven transformation of the electricity financial product offering in the Nordic countries. Administrative decisions should therefore not just lock in support of existing EPADs, but rather encourage the development of market-based solutions.

Due to changes in the competitive situation, at least system price futures, zonal futures and spread trading or, alternatively, system price futures, zonal futures, spread trading and EPADs will most likely be available for hedging the bidding zone prices in the Nordic countries. The situation is thus substantially changing compared to the situation assumed in the EPAD coupling solution recommended by ACER. The EPAD coupling solution recommended by ACER does not at all identify a situation where EPADs are not available, nor does it provide guidance for a situation where there are several hedging products available that serve the same hedging need. Rather, ACER and its Board of Appeal see it as a problem if other products are available in addition to the existing EPADs. While it is true that, in the short term, the split of liquidity between different products may temporarily weaken the liquidity of individual products, the entry of new players into the market to challenge existing companies and their products is an integral part of a competitive market, the basic nature of which is that the products that best satisfy the needs of market participants succeed and unnecessary ones are eliminated. It is on this choice that the efficiency of the market in allocating resources is based, in comparison with allocating public support through administrative decisions to individual products that are believed to be the best.

Intervention in the market through a price-distorting solution such as EPAD coupling would be particularly detrimental in the current market situation, where new publicly listed products are entering the market. In a competitive market, the willingness of market participants to trade new products determines their success. If the new products meet the hedging needs of market participants better than the current listed products, and the costs incurred in trading on the exchange do not become a barrier to trading in the same way as with existing products, the liquidity of exchange traded products can be expected to develop positively. The potential of new products will only become clear if market participants are allowed to freely choose which products to trade and the market is allowed to freely price products on the basis of supply and demand. Only by allowing the market to operate freely will it be possible to see whether the conditions for a functioning market are met or whether there are such structural imperfections that could justify public intervention. On the other hand, the prematurely imposed obligation on the TSOs to buy or sell products prevents seeing whether the new products could succeed on market terms and whether the market has the ability to strike a balance without public intervention. Premature administrative intervention in the market may lead to subsidising products that do not meet the hedging needs of market participants in the first place and granting subsidies to products selected by the TSOs creates barriers to the entry of new better products into the market. These factors have not been taken into account in ACER's EPAD coupling solution in any way.

4 TSO's measures to support of the functioning of the financial markets

Taking into account, on the one hand, the long deployment time of the EPAD coupling solution recommended by ACER and uncertainties in its implementation, and, on the other hand, recent developments in physical electricity markets and electricity forward markets, allocating the resources of the transmission system operator to support EPADs may prove not only unnecessary but also counterproductive in the long run. However, transmission system operators may, through their own measures, contribute to the objective of the FCA Regulation of sufficient cross-zonal hedging opportunities by means other than direct support to financial products. These measures include the development and operation of transmission grids in a way that reduces price spreads between bidding zones and supports the maintaining of the largest possible bidding zones. At the same time, risks of unnecessary disruption to the functioning of forward markets are avoided.

Measures to reduce price spreads between bidding zones include new investments in interconnectors in the long run and, in the short term, more efficient use of existing transmission grid and countertrade. Long-term measures to prevent fragmentation of bidding zones due to internal bottlenecks include investments in interconnections within bidding zones. In the short term, market distortion caused by internal congestions can be prevented by allocating congestion income to the costs of redispatching. The measures to support the functioning of the market depend on the strategy of the transmission system operator.

Fingrid's strategy has long been, and still is, to respond to market needs with sufficient and timely investments that promote price uniformity between bidding zones and the preservation of mainland Finland as a single bidding zone. Both congestion income and other funding are used for investments. For example, Fingrid will pay for all the costs of the new Aurora interconnector between Finland and Sweden on the Finnish side that are not covered by EU funding, and 80 per cent for investments on the Swedish side. Fingrid has in progress the largest investment programme in its history for investments within Finland. The investment-based strategy promotes the use of market-based solutions also in exceptional situations, as was seen, for example, in correcting the effects of a mistake made in the day-ahead market in Finland on 24.11.2023. As a result of the erroneous offer, Finland was missing about half of the electricity needed for the following day after the publication of the day-ahead market results. As a corrective measure, the market participant that made the mistake procured the missing electricity in the intraday market. This meant that transactions in the intraday market increased tenfold compared to the normal situation. Without a strong transmission grid within the bidding zone, where internal congestions do not determine the dispatch of generation and where electricity can be freely generated anywhere within the bidding zone, it would not have been possible to compensate for the generation shortage on market terms in the intraday market.

The transmission system operator may also opt for a strategy other than investment-based strategy for congestion management and supporting the functioning of electricity markets. For example, in order to manage structural congestions within a country, the control area of the transmission system operator can be divided into several bidding zones, resulting in differentiated electricity prices on wholesale markets within the country. However, from a forward market perspective, the fragmentation of bidding zones may be problematic if small bidding zones do not support the development of sufficiently liquid forward markets. As the transmission system operator receives congestion income from domestic bidding zone borders, the use of these funds to support electricity financial products at domestic bidding zone borders may be one appropriate way to allocate congestion income to reducing disadvantages for market participants caused by investment

deficiency. However, the benefits are unevenly distributed among market participants and benefit only those market players who succeed in procuring supported hedging products. On the other hand, despite internal congestions in the transmission grid, the transmission system operator can maintain a large bidding zone and thus support the functioning of the electricity forward markets. This requires addressing internal congestions through countertrading and redispatching, the costs of which are typically covered by transmission network charges levied on all grid users. The benefits of the measures will be targeted at all market participants in the form of a better-functioning electricity forward market.

5 Fingrid's proposal for the arrangements required by ACER's decision

The objective of ACER's decision is to reduce the effects of market disruption in Finland caused by asymmetry in electricity production and consumption and insufficient supply of hedging products and to promote price uniformity for hedging products in the Finnish and Swedish bidding zones. Taking into account the correction of the asymmetry in electricity production and consumption realised during the decision-making process and the market's ability to proactively produce new solutions to meet the hedging needs of market participants, Fingrid considers that the market operating conditions have improved spontaneously and on market terms, and that the existence of the market disruption on which ACER's decision is based can no longer be unequivocally demonstrated. In particular, Fingrid considers that with the introduction of new hedging products on the market, ACER's decision's requirement for hedging products to be available is materialising on market terms faster than could be ensured by special arrangements drawn up by the transmission system operator, and in this situation Fingrid does not consider it appropriate to propose special arrangements to support separately selected hedging products. This is because the mere expectation of support measures to be launched can influence the behaviour of market participants and thus steer the development in a non-market-based direction. In order to promote the objective of price uniformity of hedging products in ACER's decision, Fingrid proposes that the arrangements include increasing and more efficient use of physical transmission capacity, which will reduce price spreads in the physical electricity markets in the Finnish and Swedish bidding zones and thus promote price uniformity of hedging products.

Fingrid justifies its proposal on grounds that competition between transmission system operators and market participants or commercially operating electricity exchanges using the profits of monopoly operations is an unsustainable solution in terms of competition and market development in the current market situation. Even if some market participants could temporarily benefit from subsidised auctions organised by transmission system operators that distort price formation, the overall effects on market development are detrimental because the conditions for market-based operation deteriorate and incentives for the development of new products are reduced. In addition, locking in to existing EPAD products only, as recommended by ACER, would create significant barriers to the entry of new products and would then hamper the ongoing market evolution. Furthermore, the EPAD coupling solution recommended by ACER does not work for several parallel hedging products, nor does the arrangement under the Svk pilot project, which would force TSOs and regulatory authorities to choose the subsidised product. This would distort competition and lead to inefficiencies in resource allocation.