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Via email
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2024/1739 – EPEX SPOT's reply to the public consultation on new trading arrangements on the NSL interconnector

We are grateful for the opportunity to respond to the proposed new trading arrangements on the NSL Interconnector. We have long advocated for fair, non-discriminatory access to the NSL Interconnector capacity. This maximises competition, liquidity and ensures the most efficient allocation of the capacity to maximise social welfare. We welcome the proposed changes in Norway which facilitates this but remain concerned that they are not mirrored in GB. It is our opinion that regulatory or legislative intervention is not needed to enable several power exchanges and their market participants to access NSL Interconnector capacity also in GB.

Any changes to the NSL interconnector should prioritize the removal of discriminatory arrangements to the interconnector capacity at the day-ahead stage. Establishing intraday arrangements should simply follow in a second stage if it is clearly shown that there is a need for further capacity allocation. Furthermore, establishing explicit auctions on the intraday and longer-term time frames would be less disruptive for the rest of the market.

Answers to the questions from the consultation

1) Do you agree that it is a good idea to establish intraday auctions on NSL for market participants?

Not necessarily.

It depends on what type of auction would be used to allocate the interconnector capacity. Supplementing the DA implicit allocation with explicit intraday (and other timeframes) auctions would be less disruptive to the trading arrangements in GB and NO. Also, we would be concerned if the intraday allocation withheld capacity from the day-ahead auction.

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Do the Norwegian and GB markets need more intraday auctions?

Implicit coupling requires the interconnector to agree a process to allocate its capacity to wholesale market auctions. This obviously has an impact on the wholesale market trading arrangements in GB and NO. Through allocating capacity implicitly an interconnector must ensure it has access to suitable wholesale markets. Allocating cross-border capacity implicitly should not be done if prices are not robust and representative. When these markets do not exist, they will need to be created, and the provision of unused capacities from day-ahead must be ensured, otherwise two isolated NO and GB auctions would be mathematically performed. Therefore, it is important to consider the impact it has on all participants in the GB and NO wholesale power markets. Specifically, in our experience, it is not always clear to market participants that new wholesale energy auctions are needed to facilitate these trading arrangements. The introduction of the auctions does not necessarily consider the market participants' appetite to trade and whether the new markets have an impact on the wider trading arrangements (i.e. liquidity) in Norway and GB.

There are better solutions available

A less invasive approach is to use explicit auctions. These auctions could also be used for longer-term and intraday capacity auctions. Whilst NSL make the case that it is more efficient to reuse the auction functionality, recent history (pre-GB's exit from the IEM) shows that interconnectors are perfectly capable of running both implicit and explicit auctions.

Hourly price deviations between both NO2 markets and GB should be presented including a resilience analysis of the auctions

Monthly average prices have little to do with the trading arrangements as they lack the relevant information regarding price formation and interconnector capacity allocation, which occurs on an hourly basis. Hourly price deviations between both NO2 markets and GB would be more appropriate to present alongside information about whether all capacity is allocated in the day-ahead timeframe.

Risk of capacity withholding with the current suggested solution

Statnett and National Grid Ventures do not publish available capacity volume 'left-over' following the current NSL day-ahead auction. At EPEX SPOT, we expect this to be very limited in the "correct" price direction. I.e. we would expect all the capacity to be allocated from the low-price to the high-price zone as part of the day-ahead allocation process. Is NSL proposing to withhold capacity for the intraday trading and what methodology would you use to calculate how much capacity is left?

In the situation where no capacity is withheld to intraday and all the capacity is allocated on the day-ahead market coupled auction, then intraday auctions could be useful in cases where the price-direction changes. Analysis of these price dynamics could demonstrate the potential need for additional trading options. The

drivers for those price changes would also be worth considering to best propose a schedule for the proposed intraday auction(s).

- 2) Assuming that intraday auctions will be established, how many auctions would you suggest? Would you support a stepwise approach? Please explain your views

A parsimonious approach to establishing auctions should be used.

Our experience with building markets shows that starting with one auction and potentially extending if/when there is liquidity and sufficient need to recalculate the capacity availability. This approach typically offers more stability and avoids an overbuilding of auctions.

To provide some context, there are currently four auctions that take place after the main day-ahead auctions in GB. Two local auctions and two coupled auctions between the Island of Ireland and GB.

Market participants provide liquidity and introducing markets in a stepwise approach allows you to assess the ability to attract liquidity and how efficient each implicit intraday auction is for allocating capacity.

The methodology should be transparent

National Grid Ventures and Statnett should explain the capacity calculation methodology they plan to use, particularly if capacity will be withheld for intraday trading. The alternative being that capacity offered to the ID auctions is simply the net position left over from the DA auction.

Is there also the possibility that the capacity would be withdrawn/extended based on the prevailing grid constraints in NO and GB or on any SO-SO agreement? Based on those procedures a recalculation of capacity could provide a natural trigger point for making new capacity available to auction.

Running explicit auctions intraday allows more flexibility with the potential auction schedule as only one capacity auction is impacted rather than several power markets.

- 3) Would you have a preference of
 - a. each ID auction covering a specific part of the day or
 - b. each auction covers all remaining hours of the day

In case implicit intraday coupling was introduced, we recommend that the first auction is scheduled in the afternoon/evening at D-1 covering all hours of day. If there is capacity remaining, a second IDA in the morning covering a partial day may have some value.

- 4) Taking into account the timing of other auctions within the IEM and in GB, at what time do you think we should run the intraday auction(s)?
 - a. Morning

- b. Afternoon
- c. Evening

Further to our answer to question 3, the timings should consider the operational impact on other markets. This would include GB DA markets, SDAC, GB-Ireland IDAs, SIDC (Pan-EU IDAs), local power markets and the explicit auction schedule of interconnectors. This information is publicly available and would be beneficial to present as part of any decision.

Consideration should be made to the operational procedures of market participants, power exchanges and other relevant auctions to ensure sufficient time is available to run robust procedures.

5) Do you support the setup of intraday trading in 30-minute MTU in GB and 15-minute MTU in Norway?

We do not have a strong preference for this option. We support the harmonization of the MTU with the rest of the Internal European Market and note that this is expected by 2025 in Norway. The MTUs between GB and NO do not need to be harmonized to perform the implicit coupling.

6) Do you have any other comments to the design of the new trading solution?

The capacity must be made available in a non-discriminatory manner.

For NSL to improve the dynamics of the implicit auction, the capacity must be made available in a non-discriminatory manner. National Grid Ventures and Statnett should allow all relevant markets (and their market participants) to access the NSL Interconnector capacity. This maximizes the liquidity and gives the best chance for the most efficient capacity allocation and maximizes the congestion rent on the interconnector.

Designing a procurement that forces the exclusive allocation of capacity to one power exchange prevents – by design – other relevant marketplaces and their market participants from having access to the capacity. It should not then become the power exchanges responsibility to fix these exclusive and inefficient trading arrangements designed by the interconnector.

It is regrettable that NSL's market design will fragment the power markets in GB by imposing a discriminatory, exclusive market design.

Existing discriminatory solutions should end as soon as possible.

Even though we are encouraged by the recent developments, it is fair to say we are disappointed that Norway has failed to implement non-discriminatory arrangements at an earlier stage. Non-discriminatory arrangements have been the standard for many years already across Europe, including between 3rd countries and IEM members. Norway was the first country to liberalise its electricity market in Europe and was a leader in defining how competition should look like in this market. It is therefore discouraging to see

that monopolies are still being defended to the very last possible date of the current service provider contract (extended to the maximum of three years) and that equal access is not being facilitated until external enforcement pressure is applied for Norway to follow the basic competition rules. It is also disappointing to see that GB still does not seem inclined to follow basic competition rules either, and in fact foresees retrograde trading arrangements compared with the way paved by GB NSL Access Rules for non-discriminatory access to NSL Interconnector capacity for market participants of several power exchanges.