

Joint response of EFET, Eurelectric and IFIEC Europe to the consultation on the TSO's Cost Benefit Analysis on Multi-Regional Loose Volume Coupling

EFET, Eurelectric and IFIEC Europe appreciate the effort TSOs have gone to commission analysis in a short period of time. We also thank the TSOs and regulators on the EU and UK sides for their readiness to present their thoughts on this analysis during the EU TSOs webinar of 4 May and the EFET-Energy UK TCA Open Forum of 11 May 2021. However, we do not feel able to reply to the detailed points of the ENTSO-E questionnaire and have therefore recorded our thoughts in this document.

We have copied our response to the European Commission, ACER, the Department for Business Energy and Industrial Strategy and Ofgem.

About EFET, Eurelectric and IFIEC Europe

The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, with EU and UK members.

Eurelectric is the federation for the European electricity industry. We represent the power sector in over 32 European countries, speaking for more than 3,500 companies in power generation, distribution, and supply. Eurelectric contribute to the competitiveness of the electricity industry, provide effective representation in public affairs, and promote the role electricity in addressing the challenges of sustainable development

IFIEC Europe represents the interests of industrial energy users in Europe for whom energy is a significant component of production costs and a key factor of competitiveness in their activities in both Europe and throughout the world.

Context

EFET, Eurelectric and IFIEC Europe welcomed the fact that energy trading was covered within the Trade and Cooperation Agreement (TCA) agreed between the UK and the EU. Efficient electricity and gas trading are an area in which there are significant mutual benefits to be realised. Efficient trading arrangements can: enhance security of supply; promote competition and better outcomes for customers; and promote the efficient development of the offshore networks which will play a big role in meeting both the UK and EU's climate targets. In addition, these arrangements are vital for the efficient operation of the Single Electricity Market (SEM) on the island of Ireland¹.

¹ While we note the SEM is protected via the Northern Ireland protocol, the efficiency of trade between a small market and GB has a big bearing on the functioning of the market within Island.

In terms of electricity trading, we saw the TCA as a call to develop as efficient a form of electricity trading arrangements as possible, in all timeframes, without the UK participating fully in the Internal Energy Market. We note the ambition in the joint declarations made by the EU and UK² alongside the TCA to deliver arrangements that (a) are as efficient as possible and that (b) under normal circumstances result in flows across electricity interconnectors being consistent with the prices in the Parties day-ahead markets. The successful development of these new arrangements is important to maximise welfare for EU and UK citizens now, and key to developing large scale renewable infrastructure in the North Sea in the future, to help both the EU and UK to meet their net zero ambitions. With this in mind we trust that solutions to the challenges we set out below can be quickly found through continued cooperative working between the representatives of the UK and EU.

Our understanding of current situation

The TSO's perspective

Our understanding of the positions outlined by TSOs is:

- Two forms of Multi Regional Loose Volume Coupling (MRLVC) at the day-ahead stage which could be compatible with the body and annex of the TCA have been identified:
 - o One solution, the so-called “preliminary order books” approach, has been ruled-out.
 - o The so-called “common order-books” approach appears capable of implementation, but TSOs have suggested it would increase operational risks and have significant interactions with the Single Day Ahead Coupling (SDAC) process.

- The efficiency of the results of Multi Regional Loose Volume Coupling (MRLVC) would be heavily dependent on the methodology for estimating flows between EU bidding zones (the so called BBZ process). We have seen no analysis of how this calculation could be carried out and are unsure whether any analysis has been undertaken.

- There are various possible interactions with the Single Day Ahead Coupling (SDAC) process:
 - o Both options presented in the cost-benefit analysis (CBA) foresee the MRLVC process as intertwined with SDAC (and the GB day-ahead market), rather than a distinct and separate process operated prior to the running of the Euphemia algorithm. Thus it seems likely that wider changes to the SDAC timings could be required were MRLVC to be implemented.
 - o We understand that a set of changes to the SDAC process, unrelated to MRLVC – including the implementation of Core and Nordic flow-based capacity calculation and allocation, and the introduction of short granularity cross-zonal products – are currently in progress. This creates concerns about the availability of resources and a potential need to prioritise.
 - o We also note that concerns have been expressed that MRLVC could place additional pressures on the market coupling process – potentially increasing the risks to efficient operation of SDAC and the risk of decoupling. We note that, as far as we’re aware, the magnitude of this risk and the potential consequences have not been quantified.

² https://ec.europa.eu/info/sites/default/files/brexit_files/info_site/com_2020_855_final_annexe3_v1.pdf.

ACER and NRA positions

Based on comments at the webinar of 4 May and the Forum of 11 May, we understand that:

- ACER and the EU NRAs share many of the TSOs' concerns outlined above. We noted that ACER and the EU NRAs stated that they would not be in a position to recommend adoption of any of the solutions presented so far and that they seem to have reservations with regard to any wider changes to SDAC timings.
- We understand the position of Ofgem and the Utility Regulator as supporting further and deeper analysis of how an MRLVC approach could be made to work.

Signatories' concerns

While we understand the points summarised above, we are very concerned about the current situation:

- I. The CBA has not provided a clear articulation of the costs and benefits of MRLVC.
- II. Two forms of MRLVC have been identified – and one has been ruled out. The other would seem to require further development of the technical solution and further consideration of how it could be implemented alongside SDAC, recognising that MRLVC would link the energy markets in the EU and UK and would therefore need to interface with both.
- III. One of the key drivers of the efficiency of any outcome, the BBZ calculation, appears not to have been analysed in detail.
- IV. TSOs have identified risks to the operation of the SDAC algorithm, suggesting that it could give rise to more frequent decoupling. This would clearly be an unacceptable outcome, but we consider it important that efforts are made to quantify this risk and analyse its consequences.
- V. TSOs have also identified risks to themselves, which appear to translate into a reticence to progress analysis of MRLVC solutions and suggestions that wider parts of the existing regime – such as the firmness regime and availability of long-term cross-border capacity - would need to change to mitigate these risks. This is unacceptable in our view.
- VI. ACER and EU NRAs appear to be unwilling to consider any approach which requires amendments to the SDAC timings.
- VII. There appears to be a lack of dialogue and governance around the process of developing arrangements which, by their nature, require EU and UK parties to be involved. Roles and responsibilities seem unclear, and accountability appears lacking.

The consequence of this situation is that it is difficult to form a view on the new trading arrangements. The situation as we see it is:

1. There is an opportunity to put in place trading arrangements that benefit both the UK and EU. However, the lack of appropriate governance and decision-making processes creates a stronger risk that we will end up with a sub-optimal solution.
2. More work needs to be done to understand the actual costs and benefits of the solutions currently on the table, and their consequences, so that a well-informed decision on how best to proceed can be made (under an improved governance framework).

Potential ways forward

We think it is vital that steps are taken now to avoid a potential stalemate. This section considers some alternative ways in which this could, potentially, be achieved:

1. *Improved governance and enhanced dialogue* – Cross-border trading arrangements clearly involve multiple parties. We need to begin by ensuring that all relevant stakeholders from the EU and the UK are seated around the same table. EFET and Energy UK have created the TCA Open Forum with this in mind and would be happy to continue facilitating this dialogue.
2. *Greater analysis, discussion and testing of MRLVC options, in tandem with the market* – Analysis of potential solutions needs to continue – in close cooperation with the market:
 - a. We consider that the BBZ methodology should be an immediate focus for further analysis; and
 - b. Thought needs to be given to the way alternative arrangements might be tested.
3. *Further exploring changes in SDAC timings and risks* – The consequences of MRLVC for SDAC also need to be investigated further:
 - a. Any changes to SDAC timings which would be required to make MRLVC feasible should be thoroughly analysed, with the help of NEMOs, and consulted with market participants.
 - b. We also request further analysis of the increased risks and associated costs of decoupling.
4. *Making the volume coupling tighter* – Including order books from more EU bidding zones in the volume coupling process, particularly those bidding zones which often set the prices in bidding zones connected to GB, could significantly mitigate concerns about the BBZ flow forecasting methodology.
5. *Prioritising the island of Ireland* – Arguably customers on the island of Ireland lose most from the current situation. Unlike other borders with GB, there is currently no day-ahead allocation on that border. Given the small size of the market relative to the volume of interconnection, this has a detrimental impact. The benefits of volume coupling at this border do not hang on the question of the accuracy of BBZ flows. Hence, we consider it could be beneficial to recouple this border in day-ahead at the earliest occasion provided that solution is robust and enduring – benefitting both the EU and UK.
6. *Merging day-ahead order books in GB* – As we have made clear to UK authorities, merging the order books of the GB power exchanges is a first and no-regret step in this process, which will immediately improve market functioning and take a step closer to implementing new cross-border trading arrangements.
7. *Flexibility on both sides* – We understand that the Specialised Committee, once constituted, could amend Annex ENER 4 to the TCA were it to wish to do so. Perhaps a more creative interpretation of Annex ENER 4 needs to be considered by all parties if the potential benefits expected from the implementation of the TCA are to be unlocked.

In conclusion

EFET, Eurelectric and IFIEC Europe work to promote open, competitive and well-functioning markets across Europe. We firmly believe that free trade of electricity is the best way to deliver security of supply, competitive prices and drive decarbonisation. The current situation is failing to maximise these benefits and the position we have heard in recent meetings provides little confidence that this situation will change soon. There is consequently a need for dialogue between all involved stakeholders in order to identify a pragmatic way forward. We are confident that options to improve the existing arrangements, and to develop arrangements for intraday and balancing, exist. However, we feel it is going to take a combination of technical expertise, political flexibility and considerable pragmatism in order to achieve this. EFET, Eurelectric and IFIEC Europe stand ready to play a part in any way we can.