

EFET response to NVE's consultation on the trading solution for North Sea Link (NSL) and expanded marketplace concession for Nord Pool EMCO



EFET response – 26 February 2021

The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments to NVE's consultation on the trading solution for North Sea Link (NSL) and expanded marketplace concession for Nord Pool EMCO.

We note the exceptional circumstances under which the TSOs have sought to develop and propose efficient cross-border trading arrangements between Norway and the UK for implementation ahead of the NSL interconnector go-live expected in Q3 2021.

EFET supports the proposed implicit allocation of interconnector capacity at the day-ahead stage. However, to ensure that day-ahead interconnector capacity is efficient, the proposed rules must aim to maximise participation of market participants in the relevant day-ahead auctions. To maximise participation our preference would be for these day-ahead auctions to be part of the European wide single day-ahead market coupling (SDAC).

As this preferred solution is not possible, then second best solution would be for Nord Pool EMCO to ensure that members of both Nord Pool and EPEX SPOT in both Norway and Great Britain (GB) are able to participate in the day-ahead auctions to allocate NSL interconnector capacity – instead of creating an additional day-ahead auction which, particularly in GB, would only serve to further fragment day-ahead liquidity.

Since the decoupling of the two GB day-ahead auctions from the SDAC process EFET members have observed significant day-ahead market fragmentation and price volatility. Also, auction timings (explicit capacity auctions on the three interconnectors with the continent + two energy actions in GB + SDAC auction) create significant operational challenges for our membership.

Therefore, EFET sees that a stand-alone approach to allocation of North Sea Link's (NSL) day-ahead capacity will further fragment liquidity in both Norway and GB.

We understand from the description of the separate trading solution that for the implicit allocation **all** bids and asks in each bid area will be aggregated into supply and demand curves for the coming day at an hourly level – and that a standalone version of the Euphemia algorithm will be used to determine flows and prices. In order for **all** bids and asks to be used, Nord Pool EMCO must ensure that all relevant bids and asks on both Nord Pool and EPEX SPOT are

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used – otherwise the proposed solution will only represent a part of the relevant market and it will be less efficient.

We note that the GB Interconnector License already requires that interconnector capacity, in all timeframes, is allocated on a non-discriminatory basis. We find that any rules that explicitly exclude the participation of market participants on one trading venue or another, would discriminate against market participants of the trading venue that is excluded and force market participants choice of trading venue. Cross-border capacity should be made available on a non-discriminatory basis for market parties of all power exchanges.

If non-discriminatory access to interconnectors was allowed for all power exchanges, then it could create single GB day-ahead auction price. Day-ahead auctions would run at the same time and outturn the same clearing price to efficiently allocate capacity based on all orders. We understand that NSL interconnector's proposed trading arrangements and related Access Rules and Charging Methodology deny other power exchanges any right to offer trading services using NSL capacity available during the capacity allocation timeframe.

The day-ahead trading solution being developed for NSL interconnector will represent an important input into the anticipated loose volume coupling arrangements that we expect to be developed for the interconnectors between GB and the continent. If the NSL would be coordinated allowing other interconnectors to connect to the same energy markets, it would develop liquidity, strengthening the price signal and delivering more social welfare and congestion revenue.

Furthermore, the proposed trading arrangements do not suggest any form of coordination with other interconnectors while this point is key for the orderly functioning of power markets. **Of even greater concern for EFET than the proposed day-ahead arrangements is the apparent lack of rules for the allocation and nomination of long-term (monthly and annual) and intraday capacity.** We also note that there do not appear to be any arrangements for the exchange of balancing services over the cable.

The lack of long-term capacity allocation is a concern as market participants will not be able to hedge their long-term price risk across bidding zone borders, and we consider that long-term hedging opportunities are not currently sufficient. We expect that enabling long-term capacity allocation on the NGNSL interconnector will improve forward market liquidity in both GB and Norway.

For the allocation of forward capacity our preference is for NSL Interconnector to issue financial transmission rights, similar to those already issued on the interconnectors to Ireland. We believe that financial transmission rights would provide the greatest access for market participants to utilise the cable for forward hedging, especially given the relatively small volume of physical generation and demand in the relevant price zone in Norway.

We are equally concerned by the lack of intraday capacity allocation. Allowing for the allocation and nomination of intraday capacity as close to real time as possible is important to enable market participants to access the interconnector to help manage intermittent and hard to forecast renewables. If the flow on the cable is not able to respond to unanticipated intraday

changes in generation and demand – then we would expect this to increase overall system operation costs for the TSOs at both ends of the cable. In addition, intraday capacity allocation acts as a fall-back in case, for any reason, the day-ahead allocation of capacity fails for operational reasons (we have seen this on the continent with the occasional decoupling event). Not providing for intraday allocation and nomination creates a risk that the 1.4GW interconnector may – in case of a decoupling event – and in the absence of robust fall-back arrangements – fail to schedule any flows.

To conclude, we are concerned that the proposed design of the trading arrangements – and in particular, the apparent lack of intraday and forward capacity allocation, will be detrimental to all market participants and significantly increase costs for consumers in Norway and GB. As has been demonstrated on other interconnectors, third-party and non-discriminatory access to cross-border capacity in all timeframes is perfectly feasible ahead of the expected go live of NSL interconnector. We therefore ask Stattnet and NSL to reconsider their position and propose arrangements that ensure both maximum utilisation of the interconnector and deliver the maximum benefit of the cable to consumers in both Norway and GB.