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Consultation on the Market Arrangements for Multi-Purpose Interconnectors

Thank you for the opportunity to provide our views on the market arrangements for multi-purpose interconnectors. As a wholesale market operator with a history in delivering the cross-border trading arrangements we want to see market arrangements that are practical, efficient and do not result in the distortion of price formation in home and neighbouring countries.

It is hard to predict the future trading arrangements. The current assumptions of implicit capacity allocation do not appear to consider the practicality of delivering of market coupling, outside of Single Day-Ahead Coupling (SDAC). Multi Regional Loose Volume Coupling (MRLVC) remains in the conceptual stage and yet significant challenges have already been presented without a clear path to address them.

Currently, we witness a variety of cross-border trading arrangements after Brexit. The consensus appears to be that they result in inefficient capacity allocation. In our view, a well-design implicit capacity allocation would be the optimal outcome, but this means price-coupling as part of SDAC. The more exotic the coupling, the more assumptions, the looser the coupling, the worse the potential outcome. Given this, further analysis could lead to the conclusion that a well-designed explicit arrangement could be as (if not more) economically efficient and practical.

Our answers to the consultation will focus on Chapter 3 and the 12 question that are contained in this chapter.

About EPEX SPOT

EPEX SPOT operates a power exchange in Great Britain, Central Western Europe, the Nordic countries and Poland, providing a market-place for companies to trade electricity. We facilitate trading in a transparent manner, according to public rules and publicises prices which serve as a benchmark for the wholesale and retail markets, as well as for the Over-The-Counter (OTC) market. In GB, EPEX SPOT has been active since 2000 and currently operates 4 daily auctions and a continuously traded market. There

are over 100 companies actively trading across these markets to optimise their portfolios and manage their imbalance positions.

Questions

Q1. Do you agree with the ranking of options (OBZ-implicit, HM-implicit, HM-explicit, OBZ-explicit) presented in the table?

Implicit trading is too general as a description. Anything other than connecting to the SDAC price coupling should be discounted.

Our preference is (1) a return to SDAC either with OBZ or HM. The final choice based on a modelling assessment and feasibility in terms of delivering the OBZ in time. Alternatively, (2) explicit trading & HM.

Q2. Do you believe that some of the permutations not workable and should be ruled out? Why?

- MRLVC with OBZ
    - The process increases in complexity with a last phase to determine the (Market Clearing Price) MCP of the OBZ:
    - MRLVC computes the flows across interconnectors between underlying markets. Price in each market must be determined in a subsequent stage, based on cross-border volumes forecasted by MRLVC. It means the price of the OBZ still needs to be determined after the MRLVC process. This model suffers, amongst other drawbacks, from the recognised inefficiency of the forecasting tool.
    - As one can expect nearly no electricity consumption in the OBZ, the price must be either calculated by SDAC or by GB coupling, depending on the capacity congestion. This means an additional process must be implemented after both SDAC and GB coupling to determine the market clearing price of the OBZs.
    - In normal situations, it can be assumed that congestion to both shores will not happen, otherwise it would mean a sizing issue between the OWF capacity installed and MPI capacity. If, however due to maintenance or incident only part of MPI capacity is available, an arbitrary rule must be defined to determine the price for the OBZ. This additional complexity would not occur if instead of MRLVC, GB is part of SDAC calculation process.
- Explicit with OBZ.
    - There will mainly be an OWF in the OBZ, i.e. nearly zero electricity consumption. This should lead to very low price (and likely frequent curtailment of sell orders). It could be possible that some buyers will acquire capacity to buy electricity in those OBZs. However, it is more realistic that OWF will acquire capacity and sell their electricity in neighbouring

markets to avoid selling their production at a very low price. In this situation there seems limited competitive tension and thus the creation of a redundant market.

Q3. Which of the four options is preferred, and why?

Implicit coupled with an OBZ as part of the SDAC price coupling. This is where the most robust, liquid markets offering the most reliable price signals and therefore the most efficient allocation.

However, it does lead to some questions on who would operate the OBZ and whether it would accommodate multiple market operators. What are the roles and responsibilities of the market operator and how could they ensure market integrity, particularly given that the arrangements cover different jurisdictions? A clear assignment or cooperation framework needs to be introduced in order for the network data (capacities constraints) as well as order data from the market participants to reach the central algorithm. Also, what would be the expected coordination between the market operator(s) in the OBZ and the home markets?

The proliferation of new BZs will also bring increased complexity in terms of maintenance of the topology as well as shipping activities.

Q4. Under implicit trading (loose volume coupling), which bidding zone configuration (HM or OBZ) best supports:

a) market efficiency?

Some of our concerns about market efficiency are addressed in our answer to question 2.

b) consumer benefits?

With OBZ configuration, no capacity is reserved for the OWF. Therefore, the OWF would be in competition with onshore electricity producers to export electricity to the other shore. Capacity would be used by the most efficient electricity producer. Consumers should therefore benefit from the lowest price between onshore and offshore production means.

c) integration of renewables?

The reserved capacity brought by the HM model ensures the renewables can export electricity and can most certainly be profitable. This is not the case with OBZ model as capacity would be used by the most efficient electricity producer, which can be an onshore production means.

Q5. Under explicit trading, which bidding zone configuration (HM or OBZ) best supports:

a) market efficiency?

We could expect that OWF to submit sell orders in the onshore BZ and as the electricity consumption in the OBZ will be very limited it would result in OBZ with null or very limited liquidity. Thus the market clearing price in the OBZ would be meaningless. Therefore, with explicit trading, the concept of bidding zone with a market clearing price being calculated does not seem appropriate.

b) consumer benefits?

If reserved capacity is made two days before (HM model), one can expect a less efficient use of the capacity. Less efficient use of capacity means less wind energy (if OWF produces more than forecasted) or less imports (if OWF produces less than forecasted) which both leads to an electricity price increase.

c) integration of renewables?

The reserved capacity brought by the HM model ensures the renewables can export electricity and can most certainly be profitable.

Q6. Do you think that a transition from HM to OBZ is possible and/or desirable?

If there is a transition to SDAC then this would be desirable. The model seems only viable in combination with a full price coupling mechanism. The addition of a new bidding zone is feasible although the timelines would be uncertain and need to be checked if the OBZ was within the SDAC configuration.

Presumably, outside of SDAC, given the right governance arrangements, then it would be possible to create a new OBZ, but unlikely to be desirable.

Q7. What conditions must be met so that a transition from explicit-HM to implicit-OBZ configuration would be viable for developers?

The implicit solution needs to be defined as soon as possible. Uncertainties over the impact of the BBZ capacity methodology, preliminary orderbooks etc and their impact on the efficiency of MRLVC remain.

Visibility on the transition of OWF from HM to OBZ is important as this switch will impact the available capacity between two BZ for non OWF, potentially impacting the investment onshore.

Q8. How does this relate to other areas such as regime design or charging arrangements?

Nodal has only been partially explained without the impact on consumers and the functioning of the FTRs. Really hard to understand what the impact would be on these market arrangements. There is no example of implicit trading between nodal and national markets as far as we are aware.

Q9. How do you envisage long-term, day-ahead and intraday trading arrangements working for MPIs under both HM-explicit and OBZ-implicit scenarios? Can explicit capacity allocation work with OBZ configuration, if yes how?

This is very difficult to assess the impact and needs much more time and careful consideration to assess the potential impact. One example could be: HM model is based on D-2 weather forecasts. The day-ahead auction price formation is impacted by weather forecasts which are not up to date, leading to immediate arbitrages with the intraday market if the capacity that will not be used by the OWF is released in explicit auctions. This can lead to a mistrust of the day-ahead price formation, especially in case of large deployment of OWF with HM model.

Q10. What are your views on using either PTRs or FTRs in the long-term timeframe? Will OWFs have an active role in long-term capacity allocation?

FTRs are efficient to hedge against a price risk, but not against a volume risk. Given the impossibility of having reliable weather forecasts long in advance, FTRs or PTRs do not seem appropriate for OWF.

Q11. Which timeframe is the most vital/relevant for MPIs and why?

Considering the large amount of electricity produced by OWF, and the sufficiently accurate wind forecasts available in D-1, it is important that OWF can take part to the day-ahead auction which is the most liquid auction. Therefore day-ahead timeframe is the most relevant for MPI

Q12. Are there any improvements to commonly understood trading models (explicit trading or implicit price or volume coupling) that can be made to better facilitate efficient market arrangements for MPIs?

MRLVC is inefficient compared to an integrated implicit auction to determine the market clearing price for OBZ, e.g. in case of congestion from the OBZ to both shores.