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Capacity hoarding in interconnector markets

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This short note sets out Ofgem's observations on occasional extreme prices in NESO interconnector auctions between 2022 and 2026, and reiterates our expectations of the steps that trading parties must take to ensure that they are compliant with the market rules prohibiting capacity hoarding on interconnectors.

Capacity hoarding in interconnector capacity markets

One of the ways that National Energy System Operator (NESO) keeps the system balanced is by trading on interconnectors in the period ahead of gate closure in order to either reduce or increase planned imports to (or exports from) GB. Approximately 1TWh of power was bought by NESO in 2025 for delivery into Great Britain (GB) via interconnectors from France, Belgium, the Netherlands and Denmark, at a cost of around £160m (ultimately paid for via electricity consumers' bills), with a further 1.6TWh of power sold for export from GB. Clean Power 2030 modelling by NESO projects that, without any reform, interconnector redispatch volumes could be 500% higher by 2030 than 2024, even with further network build.[1]

NESO interconnector trades are arranged through competitive, ad-hoc auctions held in intraday timeframes, anywhere up to around two hours ahead of delivery. Where it identifies a trading requirement, NESO will publish a request via its "Faradyn" auction platform, specifying the direction of the requirement (i.e. whether power is required to be imported to or exported from GB), the size of the request, the delivery period and the interconnectors which can be used to meet the requirement. Registered trading parties will then submit into the auction the prices at which they are willing to import or export different volumes of power via specified interconnectors for the given delivery period. NESO then decides which (if any) bids and/or offers to accept to best meet its requirements, and notifies the relevant parties.

In order to be able to trade with NESO, trading parties must acquire the necessary capacity via the relevant interconnector capacity auctions, to enable them to flow power into or out of GB. Depending on the timing of a NESO request, intraday capacity auctions may be held either before or after a NESO auction is run – and so trading parties will either need to bid into capacity auctions in anticipation of an expected NESO request, or must bid into a NESO auction despite not yet holding the required interconnector capacity.

Bids submitted into interconnector capacity auctions, and bids and offers submitted into NESO interconnector auctions, qualify as orders to trade in a wholesale energy product, and so are subject to the requirements of Regulation (EU) No 1227/2011 on Wholesale Energy Market Integrity and Transparency as incorporated into UK law (REMIT). Among other things, REMIT prohibits market participants from engaging in, or attempting to engage in, market manipulation in these markets.

In monitoring for breaches of REMIT in GB, Ofgem has regard to the guidance published by the EU Agency for the Cooperation of Energy Regulators (ACER).[2] Those guidelines

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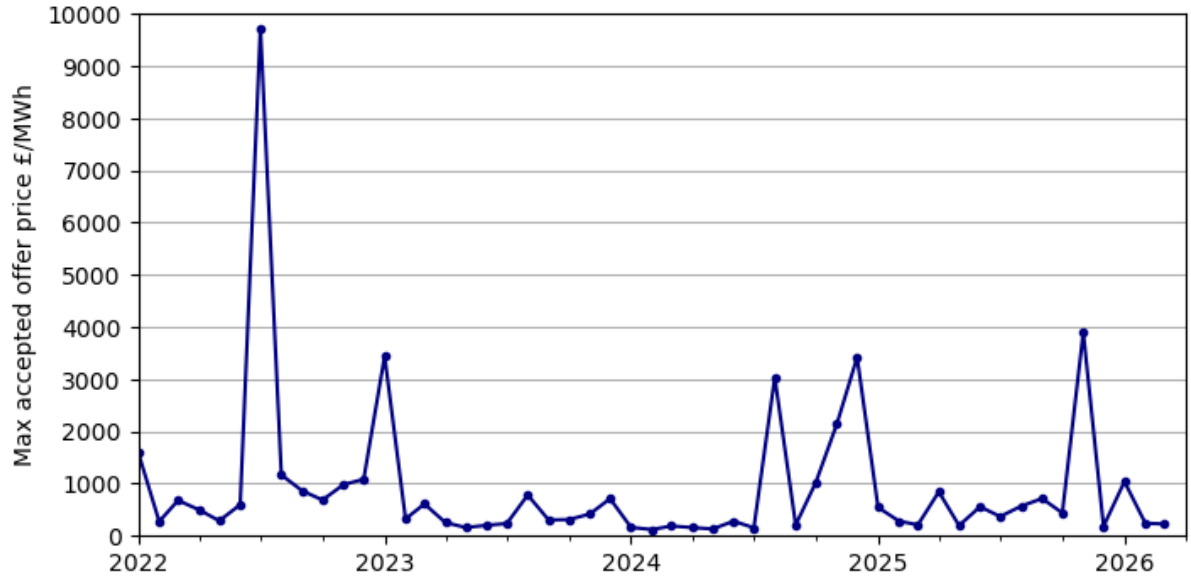
[1] Reformed National Pricing - Balancing, Settlement and Dispatch - Call for Input (1).pdf, page 31 and NESO_Clean_Power_2030_Annex 2_Final_v2.pdf, Figure 2.

[2] https://acer.europa.eu/sites/default/files/documents/en/remit/Documents/ACER_Guidance_on_REMIT_

identify transmission capacity hoarding - defined as "*(i) the acquisition of all or part of the available transmission capacity (ii) without using it or without using it effectively*" - as behaviour which may constitute market manipulation under REMIT. In the specific context of interconnector markets, an ACER guidance note from 2018 explains in more detail how this type of conduct can meet the definition of market manipulation.[3]

Over the past few years, we have observed occasional extreme prices being submitted into (and accepted in) NESO interconnector auctions. Figure 1 shows the price of the most expensive interconnector trade in each month since the start of 2022 – with trades at prices over £1000/MWh observed in a number of months in this period. On some occasions, extremely high prices have been submitted by trading parties which controlled a very large share of available capacity on the required interconnectors for the delivery period in question, which we consider is likely to have left NESO with little alternative but to trade with the companies involved. Often the level of intraday and imbalance prices subsequently observed in the connected markets following the NESO request have been far less expensive than implied by the prices submitted into the NESO auctions.

FIGURE 1: **Most expensive monthly NESO interconnector trade prices - buys**



Source: Ofgem analysis of "Interconnector Requirements and Auction Summary", NESO data portal

Occasional high prices in NESO auctions resulting from market conditions on the other side of the GB interconnectors are to be expected – particularly where a NESO

application_6th_Edition_Final.pdf . At the time of the UK's departure from the EU, Ofgem took the decision to continue to interpret REMIT when carrying out its monitoring and enforcement responsibilities with regard to the ACER guidance – see https://www.ofgem.gov.uk/sites/default/files/docs/2020/10/eu_exit_remit_comms_-_oct_20_update_0.pdf p2

[3] Guidance Note - Transmission Capacity Hoarding.pdf

requirement is large and liquidity is limited, or the request is issued close to delivery and/or subsequent to the intraday interconnector capacity auction being held.

Nevertheless, in light of these recent trends, we would like to remind trading parties of:

1. The importance that they ensure that when participating in intraday capacity auctions they only bid for capacity that they can reasonably expect to be able to use, in light of market conditions at the time (including levels of available liquidity). This is a particularly important in the context of a market design in which every megawatt of capacity acquired is a megawatt that cannot be used by another market participant.

2. The importance that trading parties take steps to ensure that – when preparing prices to be submitted into a NESO auction – the approach taken to assess the likelihood of high price scenarios is not overly conservative, and that any risk premium included in prices is reasonable. This is particularly the case where trading parties control a decisive share of available transmission capacity. Market participants have an obligation to ensure that the prices submitted are justified by market fundamentals, and reflects the price level that would have been achieved had they not held a decisive share of capacity.

3. The importance that trading parties have comprehensive compliance procedures in place, and are actively considering the requirements of REMIT in relation to their bidding in both interconnector capacity auctions and NESO auctions.

We will continue to monitor developments in interconnector auctions carefully, and will not hesitate to take action under our REMIT enforcement framework in the event that we see any evidence of companies failing to comply with market rules. In doing so, we will have regard to the adequacy of a firm's policies and procedures and other internal controls (which are a key consideration when assessing the seriousness of a potential breach of REMIT).[4]

[4] See REMIT penalty statement REMIT Penalties Statement.pdf, eg paragraphs 5,20 and 5.25