

NordREG is an organization for the Nordic energy regulators. Our mission is to actively promote legal and institutional framework and conditions necessary for developing the Nordic and European electricity markets.

Position paper

Local intraday markets: A potential adverse effect on competition

Summary

NordREG is concerned about developments in local intraday markets falling outside the scope of CACM GL and “under the radar” of European legislation. As a consequence, the trade taking place in local intraday markets may have negative implications on the success of the cross-zonal intraday solution in CACM GL. Furthermore, it undermines level playing field among NEMOs.

NordREG believes a clear timeline committing TSOs to provide intraday capacity simultaneously as early as possible in all capacity calculation regions would be highly beneficial both in terms of maximizing social welfare in the EU, but also by ensuring a level playing field among NEMOs. We encourage the Commission to give clear guidance on such message to ACER/TSOs/NRAs. Furthermore, NordREG urges the Commission to follow the development of the single intraday coupling solution closely after go-live, specifically with focus on how liquidity develops.

Background and problem description

CACM GL shall in accordance with the main objectives in article 3 inter alia promote effective competition, create a level playing field among NEMOs and ensure optimal use of the transmission infrastructure.

In order to achieve this, CACM GL lays down detailed rules on the development of supplementing terms and conditions or methodologies for “cross-zonal” capacity allocation and congestion management in the day-ahead and intraday markets.

The Nordics are characterized by the use of bidding zones as a tool for capacity congestion management to a significant extent and most trade in the Nordics is cross-zonal. However, this is very different in other EU Member States.

Local intraday trade and trade platforms for intraday trade within bidding zones exist in parallel with the cross-zonal markets in some of the largest Member States. In the context of reporting on the development of single intraday coupling in CACM GL, NordREG believes it is important to assess whether local markets in itself or specific arrangements related to these local markets will affect the success of the single intraday solution (the XBID-platform), as it may be possible to keep trade/volume at local platforms out of the single market intraday solution. In addition, NEMOs might differentiate trading fees (which are unregulated) significantly between local and cross-zonal markets, in order to urge market participants to stay in the local market, so the NEMO does not need to share this liquidity with other NEMOs. By setting the annual fee for only participating in the local market substantially lower, may – together with a late gate opening time; effectively keep small markets participants from trading in the common intraday solution.

Can local markets established within bidding zones undermine the efficiency of cross-zonal markets?

One of our concerns is that trade taking place in local markets may have potentially negative implications on the success of the cross-zonal intraday solution in CACM, overall welfare and efficiency for Europe.

In the intraday market, capacity on the transmission interconnectors between bidding zones has to be allocated for there to be any cross-zonal intraday trade. TSOs have very different opinions on when this capacity can be provided. At the moment, it appears that some regions will open cross-border trade (the XBID platform) at 9pm or 10pm in the evening D-1. Thus leaving a significant scope for internal trade in the hours leading up to that time. In NordREGs view, the issues with development of local markets are even further enhanced with certain elements in the capacity calculation methods and the concept of bidding zones not being applied to more extent.

In the Electricity Wholesale Markets in the ACER/CEER Annual Report on the Results of the monitoring of the internal electricity and gas volume markets, it is stated:

“In conclusion, the level of utilization of cross-zonal capacity in the ID timeframe remains low, which leaves a large part of the potential benefits from infrastructure investments untapped. However, despite significant delays experienced in the implementation of the SIDC, mainly caused by technical and decision-making issues among the project parties involved in the XBID project, the forthcoming go-live of the SIDC in first quarter of 2018 is expected further to increase the efficient use of the cross-zonal capacity in the ID timeframe”.

NordREG shares the concern of low liquidity in the ID cross-zonal markets. We do however question whether the single intraday coupling solution (SIDC) will attract as much trade as possible in areas where intraday cross-zonal trade starts very late in the evening, and very close to the first operational hour. This is outside the ordinary business hours, and the late gate opening time leads to cross-zonal markets being less accessible and potentially more costly for market participants. It is more difficult for market participants to gain the benefits from optimizing their portfolios by selling to high-price areas and buying energy in low-price areas.

In the local markets within a bidding zone there is no restriction set on capacity. Trading platforms therefore do not have to wait for capacity as a necessary input to open up for trade in local products. NordReg believes this may lead to the cross-zonal markets losing relevance for some markets participants.

If the cross-zonal markets were to open earlier in the day, these markets would be more easily accessible for trade for all market participants. In our view this would be crucial to ensuring that the single intraday coupling solution has its intended effect of facilitating cross-border trade as well as contributing to a truly integrated and efficient energy market for Europe. Furthermore, increasing accessibility on SIDC would, in our view increase the use of transmission infrastructure, and increase the gain in social welfare by facilitating more trade between bidding zones.