

## **EFET response to BEIS consultation on re-coupling Great Britain auctions for cross-border trade with the EU at the day-ahead timeframe**



**3 November 2021**

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the opportunity to provide our comments to the consultation of the Department for Business, Energy & Industrial Strategy (BEIS) on recoupling Great Britain's (GB) electricity auctions for cross-border trade.

Since 1 January 2021, the end of post-Brexit transitional arrangements has not only led to the de-coupling of the GB day-ahead (DA) market from the EU Single Day-Ahead Coupling (SDAC), but also resulted in the two UK power exchanges operating two separate order books – and consequently two prices – in the day-ahead market for GB.

We appreciate the commitment of BEIS to resolving the day-ahead price de-coupling issue and welcome the constructive and open approach demonstrated with this consultation and in our previous meetings.<sup>2</sup>

### **Re-coupling the exchanges should be a priority**

The preference of EFET is that the two exchanges, EPEX SPOT and N2EX, re-merge their order books and organise a single auction in day-ahead on a voluntary basis and as soon as possible. This would be a pragmatic, no-regret solution in consumers' interest. If a voluntary solution is not possible, we urge BEIS and Ofgem to put in place a mandatory requirement to enable a *de facto* single price for the GB day-ahead market.

You may find below our detailed answer to the consultation questions.

#### **1. What has been the impact (financial or otherwise) of power exchanges ceasing to couple their auctions in the day-ahead timeframe and not producing a single GB clearing price? Please provide details and estimates of the impact.**

The decoupling of the GB day-ahead auctions has resulted in<sup>3</sup>:

- A material decrease in GB day-ahead liquidity. As a consequence:
  - Price formation in the individual auctions is less resilient to changes in volume, particularly on tight days;

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<sup>1</sup> 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. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at [www.efet.org](http://www.efet.org)

<sup>2</sup> See [Joint EFET, Eurelectric and IFIEC response to the TSOs consultation on loose volume coupling between GB and the EU](#), May 2021 and [EFET letter on recoupling the GB Power Exchanges](#), June 2021.

<sup>3</sup> See also our quantitative analysis presented to BEIS and Ofgem in April 2021: [EFET-Ofgem GB PX decoupling](#)

- There have been big wins and big losses for both generators and suppliers, depending on factors that are not directly linked to market fundamentals and are therefore hard to forecast or mitigate.
  - A significant increase in operational complexity due to the compressed timeline for participating in the two GB day-ahead auctions and interconnector day-ahead capacity auctions.
  - Greater difficulty in hedging portfolios when there is a significant divergence (greater than £10/MWh) between the EPEX SPOT and N2EX auctions.
2. **Do you agree with the proposal for the two day-ahead auctions noted in paragraph 22 to be used as the ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA?**

We concur with the BEIS option to consider the two daily GB auctions which currently take place at 09:20 and 09:50 as the ‘relevant day-ahead markets’ to be recoupled.

3. **Do you agree that the coupling of the ‘relevant day-ahead markets’ is necessary to provide the appropriate market arrangements to support efficient trade of electricity over interconnectors, as part of and in any case in advance of MRLVC? Please provide supporting evidence for this necessity.**

We agree with the view of BEIS that re-coupling the day-ahead auctions run by EPEX SPOT and N2EX is a no-regret option to improve electricity trading within GB and at its interconnectors. This solution should be implemented as soon as possible, without tying it to progress – or absence thereof – on the implementation of MRLVC.

4. **Do you agree with the proposal that legislative intervention is necessary to enable the formation of a single GB clearing price in the ‘relevant day-ahead markets’ to ensure efficient electricity trading over interconnectors, now and as part of MRLVC? Do you have evidence to support this proposal? Do you have any alternative proposals with supporting evidence?**

We agree and, if a voluntary solution is not possible, we urge BEIS to pursue a mandatory approach to enabling a *de facto* single price for the GB day-ahead market.

To this end, we welcome the Guidance published by BEIS on Electricity Trading Arrangements.<sup>4</sup> We interpret the Guidance as requiring the relevant electricity market operators to establish cooperation arrangements for the implementation of the Trade and Cooperation Agreement (TCA) that also deliver a technical solution providing a *de facto* single price for the GB day-ahead market. Such arrangements should be developed at the earliest opportunity.

5. **Do you agree with our outcomes in paragraph 27 against which the market operators should re-couple their ‘relevant day-ahead markets’? Are there additional outcomes that should be required in the recoupling of the ‘relevant day-ahead markets’?**

We agree.

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<sup>4</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/958195/secretary-of-state-electricity-trading-arrangements-guidance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958195/secretary-of-state-electricity-trading-arrangements-guidance.pdf)

- 6. Taking account of the UK’s obligations under the TCA, with particular reference to those provisions in Annex 29, do you agree with the proposed timeframe for making operational the new mechanisms for a single GB clearing price?**

We agree that the new mechanism for a single GB clearing price in day-ahead should be made operational as soon as possible without tying it to progress – or absence thereof – on the implementation of MRLVC, and in any case no later than April 2022. As for any project of such significant, we request robust testing from the power exchanges, including with market participants, to ensure an enduring coupling solution.

- 7. Do you agree with our proposal for the costs of re-coupling the ‘relevant day-ahead markets’ be borne by the operators?**

No comment.

- 8. What do you estimate to be the costs of implementing the proposal for either or both operators and the industry more widely? Please provide details and estimates of any relevant activities required to transition from the current arrangements to the new arrangements laid out in the proposal.**

No comment.

- 9. What do you estimate to be the impacts (financial or otherwise) to operators and market participants from adopting the new arrangements laid out in the proposal? What are the impacts of not implementing the proposal? Please provide details and estimates of the relevant costs and benefits.**

No comment.

- 10. To what extent do you agree with our proposals for regulating the new mechanism for a single GB clearing price? Should these obligations be capable of enforcement by Ofgem as if they were a relevant requirement on a ‘regulated person’ for the purpose of the Electricity Act 1989?**

If a voluntary solution is not possible, those entities operating the ‘relevant day-ahead markets’ should be subject to enforcement action by Ofgem under the Electricity Act 1989 in case they fail to meet the outcomes described in paragraph 27, as if those outcomes were relevant requirements on a ‘regulated person’ under that Act.

- 11. To what extent do you agree with the proposal for a designation process enabling eligible persons (including existing market operators) to apply to undertake MRLVC functions rather than establishing a new entity for this purpose?**

We support competition in the energy market, including between trading venues. EFET supports a model whereby entities wishing to undertake the functions of MRLVC on the British side can volunteer to do so. This could include the current operators of day-ahead auctions.

- 12. To what extent do you agree Ofgem should be responsible for assessing entities against any future designation criteria and approving the designation of entities**

**who undertake coupling activities under MRLVC? What do you think any such designation criteria and process should look like?**

We agree that Ofgem should be responsible for assessing entities against any future designation criteria and approving the designation of entities who undertake coupling activities under MRLVC.

- 13. An alternative legislative option would be to licence those entities who wish to undertake market coupling under MRLVC relating to ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA. It would be beneficial to obtain stakeholders thoughts on this alternative approach.**

No comment.

- 14. Are there similar issues and concerns, as set out in this consultation for the ‘relevant day-ahead markets’, for the intraday trading timeframe?**

Generally speaking, we support common merit orders in both day-ahead and intraday. With the advent of the UK exit from the European Union, the GB market was not only decoupled from the rest of SDAC, but the two power exchanges active in day-ahead now operate separate order books. While future trading arrangements with the EU are subject to a bilateral process in the context of the TCA, we see the re-coupling of the two power exchanges in day-ahead as a matter that can be dealt with internally. Ensuring that the GB day-ahead market restores a single price signal is for us a matter of priority.

Once this project is completed, we would welcome further work by BEIS and Ofgem on ensuring the sharing of order books in intraday. We note that the situation in intraday is already different from day-ahead, with implicit intraday allocation on the interconnectors with Ireland still open to both power exchanges with full sharing of order books, creating a single GB price for these auctions. Further improvements in relation to the sharing of order books within GB and for all timestamps of the intraday timeframe should be sought after.

- 15. What are those issues and concerns, do they relate to domestic or cross-border trade between the UK and the EU, and do you have evidence of the associated impacts?**

See response to question 14.

- 16. The proposed intervention spans the specific auctions noted in paragraph 22 which we propose should be used as the ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA. However, we would welcome views as to what extent you agree that a similar mechanism is needed to produce a single GB clearing price across existing intraday trading mechanisms?**

We note that currently order books are already (and still) shared for implicit intraday auctions at the interconnectors with Ireland, which results in a single clearing price at the time of that auction. Further improvements in relation to the sharing of order books

in the continuous intraday market within GB for all timestamps of the intraday timeframe would be welcome, as that would help improve liquidity and market efficiency.

**17. Do you agree that there are interactions between UK-EU trading and other UK trading borders, specifically with Norway? What are those interactions, and what are the associated impacts?**

We remain concerned that the NSL interconnector Access Rules limit interconnector capacity allocation to day-ahead and do not provide for long-term or intraday capacity allocation. There is also no fallback solution in case of decoupling. The lack of long-term and intraday capacity allocation will result in sub-optimal use of the NSL interconnector and, as a result, will increase costs for GB consumers. We urge BEIS and Ofgem to request the cable operators to issue both long-term and intraday capacity on the NSL interconnector. In case the TSOs propose, or are required, to implement implicit intraday capacity allocation on the interconnectors we strongly support that the implicit solution should be open to all relevant electricity market operators in GB on a non-discriminatory basis.

Ensuring the allocation and possible 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 renewables. If the flow on the cable is not able to react to unanticipated intraday changes in generation and demand, 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 occasional decoupling events). Not providing 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.

Moreover, we regret the decision to assign monopoly access to one power exchange for day-ahead allocation, as it is inconsistent with the GB Electricity Interconnector License<sup>5</sup> which requires interconnector Access Rules to be transparent, objective and non-discriminatory. Providing monopoly access to the interconnector capacity in day-ahead to only one power exchange in GB is in our view discriminatory – be it for power exchanges themselves, or for market participants that use their services. To ensure efficient wholesale market functioning Ofgem should require the relevant TSOs and exchanges to ensure non-discriminatory access for both exchanges on the NSL interconnector.

**18. Considering either day-ahead or intraday timeframes, to what extent do you consider that it would be beneficial for a new mechanism for a single GB clearing price to apply to all UK-EU and UK-Non-EU interconnection? What would be the impact (financial or otherwise) of having different arrangements in place on different borders?**

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<sup>5</sup>[https://epr.ofgem.gov.uk/Content/Documents/Electricity\\_Interconnector\\_Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Electricity_Interconnector_Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf)

We believe that it would be beneficial to have a single GB day-ahead clearing price to apply to all UK-EU and UK-Non-EU interconnection. We therefore consider that merging the order books of the power exchanges active in the GB day-ahead market should be treated as a matter of priority by BEIS and Ofgem. Hence, we welcome the constructive and open approach – and recognition of the importance of the issue – of the GB authorities on this matter.