

NorNed and the wider European integration perspective

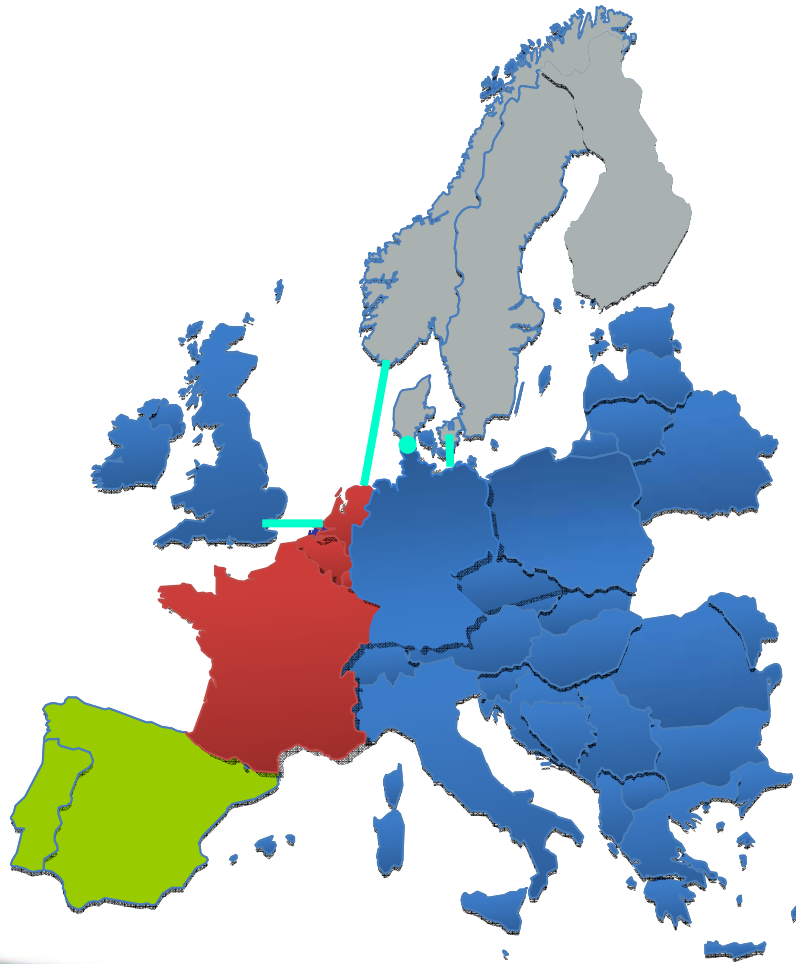
Workshop NorNed Implicit Auctioning

Andrew Claxton
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MAKING MARKETS WORK

The interregional issue



- Several discrete regional solutions
 - Nordic
 - Iberia (Mibel)
 - TLC
- Intention to link or extend regions
 - CWE
 - EMCC: Denmark – Germany, Sweden - Germany
 - NorNed: Netherlands – Norway
 - Extend CWE (Britain, Switzerland, Austria, ...)
 - Mibel – CWE

Situation



- ▶ No decision yet on how to implement CWE – Nordic market coupling
 - ▶ CWE market coupling go live in March 2010
 - ▶ Joint study undertaken by the CWE and Nordic parties: no conclusion yet
- ▶ Material risk that no solution is ready in time
 - ▶ Large number of parties involved; slow progress
 - ▶ Avoidance of change to existing implementation projects (EMCC, CWE)
 - ▶ Potential degradation to existing solutions (e.g., Denmark – Germany)
- ▶ Delivery of a NorNed implicit auction solution for start of CWE MC should be the main priority
 - ▶ Compatible with Denmark/Sweden – Germany
 - ▶ Able to support BritNed and other extension or links to CWE
- ▶ NorNed project could be catalyst for this “enduring” solution



Options – Price Coupling

- ▶ Model used successfully in TLC and planned for CWE
- ▶ The optimal solution in terms of price harmonisation
- ▶ Promoted by several parties
- ▶ Simply impractical by March 2010
 - ▶ Even if agreed now, it would require a new implementation project – significant delay to CWE MC
 - ▶ But agreement likely to take a long time: governance and control issues
- ▶ Could still be the eventual solution



Options – Volume Coupling



- ▶ “Dome Coupling” model proposed in recent ETSO-EuroPEX study
- ▶ Two stage process
 1. Dome Coupling calculates interregional flows
 2. Separate regional solutions then calculate regional prices
- ▶ EMCC is an example of volume coupling
- ▶ Issues of price discrepancies and processing time to be evaluated
- ▶ Potentially feasible by March 2010
 - ▶ Use EMCC to perform Dome coupling calculations?
 - ▶ Or, use CWE CCU?
- ▶ NorNed project is well placed to work with EMCC to deliver a possible solution, resolve key issues



Critical EMCC governance issues (1)



Aspect

The operational reliability of the APX market (and CWE MC) heavily dependent on the performance of the Dome coupling

Problem

In the current EMCC structure, APX has negligible control over critical development and operational issues

Possible Resolution

Adequate mechanisms to provide necessary control and assurance to APX (and all PXs)



Critical EMCC governance issues (2)



Objective

Dome Coupling is essentially a “Public Service Obligation” (PSO) – hence requirement to offer service to new interconnectors on reasonable terms; future adaptability, etc

Problem

Key issues controlled by EMMC board: not representative of all users; no PSO mandate

No clear regulatory framework (needs to be multinational; PXs’ status)

Possible Resolution

Near term: national regulation of TSOs plus contractual control framework with all PXs to give effect to PSO

Long term: role for ACER?



Possible mitigation (1): FTRs

- Daily auction of Financial Transmission Rights
 - Basic concept: pay €XX/MW, receive €(EMH – NO)/MW (for imports)
 - Parties buying FTR can fully hedge NorNed price difference
 - Place market orders in NO and EMH
 - Indifferent to NL_{12} price
 - Risk of curtailment small (who would bid into EMH unless hedged?)
 - Similar terms and rules to current explicit auctions – e.g.:
 - Directional rights, not obligations (only positive value)
 - Treatment of ramping
 - Firmness (but would need to be firm ahead of 1100 market)
 - Main change is to settlement arrangements
- Likely outcomes (flows, NorNed revenues, trader profits) similar to current explicit auction (but not worse)
- Impact on traders, but hopefully modest (e.g., similar trading strategies; existing APX back office interfaces)



Possible mitigation (2): Intraday

- ▶ Unused NorNed capacity (following day-ahead allocation) is made available on a first-come/first-served, continuous basis
- ▶ Integrated with Nordic Elbas market and APX intraday market to maximise liquidity and ease of access
- ▶ Enable participants to correct any inefficient flows resulting from day-ahead allocation (wrong direction or less than full utilisation)
- ▶ Relevant to both existing DA explicit auctions and any interim market coupling solution
- ▶ Necessary for longer term market efficiency and sustainability
 - ▶ Increasing importance of intraday in CWE due to growth in wind generation
 - ▶ Natural synergy between hydro system (high reserves/flexibility) and wind (intermittency)

