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Consultation on the Nordic TSOs proposal for arrangements concerning more than one nominated electricity market operator (NEMO) in a bidding zone

Reference number 2016-101956

Nord Pool welcomes the opportunity to provide input on the Nordic TSOs proposal for arrangements concerning more than one nominated electricity market operator (NEMO) in a bidding zone (Nordic MNA Proposal).

Nord Pool strongly supports the Nordic MNA Proposal in its current version as published as part of this consultation. The Nordic MNA Proposal preserves two fundamental aspects of the Nordic electricity market, for which Nord Pool strongly agrees that they should also be preserved in a multiple NEMO set-up.

Fundamental 1 - preservation of the common Nordic system price

The first fundamental aspect is the preservation of the common Nordic system price (the “System Price”). Nord Pool fully supports the statement made in 4.2.6. of the Nordic MNA Proposal, namely that it is important to ensure that the System Price is also calculated with complete order books of all NEMOs in the Nordic region. The System Price is an important reference price for financial trading in the Nordic region, and as financial trades act as a hedge for physical consumption, production and trading, the System Price therefore ensures liquidity and risk management on the physical side. Nord Pool will continue the calculation and publication of the Nordic System Price.

Nord Pool is further supportive of a model allowing all NEMOs to calculate additional reference prices as and when they see a benefit for the market participants. Such a model would be a guarantee for the non-discrimination of NEMOs and would foster liquidity. Such a model would require that each NEMO shares its anonymized and aggregated order book per bidding zone with other NEMOs. Implementing the sharing of order books is technically easy utilizing the PCR infrastructure.

Fundamental 2 - preservation of the coupling of the Nordic region also during a fallback solution

The second fundamental aspect is the preservation of the coupling of the Nordic bidding zones even in case of only partial coupling or full decoupling (MCR fallback procedures). As illustrated in 4.1.3. of the Nordic MNA Proposal, the current arrangements are important to ensure efficient price formation and liquidity in the Nordic market, which is characterized by multiple bidding zones per country. Nord Pool fully agrees with the view expressed in 4.2.4. of the Nordic MNA Proposal, namely that more NEMOs being active in the Nordic region does not change the need for keeping the Nordic region internally coupled also during a fallback solution.

Against this background, and being overall in support of the Nordic MNA Proposal, Nord Pool would like to highlight the following comments and remarks to some specific aspects of the Nordic MNA Proposal:

Nord Pool supports using already agreed solutions furthers efficiency

Under the heading “2. Legal requirements and interpretation”, the Nordic MNA Proposal states that *“According to article 36 (4) of the CACM Regulation, NEMOs shall use already agreed solutions to efficiently implement the objectives of this Regulation where possible.”*

Nord Pool fully supports this statement and is of the opinion that, for reasons of efficiency, this should be the guiding principle when deciding on the final Nordic MNA, especially in respect to IT solutions and clearing and settlement mechanisms.

Nord Pool recommends Nordic specific definition of “full” and “partial” decoupling

Under 4.1.3 the Nordic MNA Proposal explains that in the current Nordic situation *“In case of activation of the MCR fallback procedures, the current Nordic procedure is to always keep the Nordic bidding zones coupled. This is independent of whether or not the reason is partial coupling or full decoupling. (...) Individually the Nordic bidding zones are not large bidding zones. It is therefore important for liquidity in the Nordic market to keep the bidding zones coupled, especially since 84%¹ of the total consumption of power in the Nordic and Baltic market is traded on Nord Pool.”*

Further, under the heading “3. Relevant algorithm requirements for price coupling – All TSOs proposal”, the Nordic MNA Proposal states that the following algorithm requirement is relevant for arrangements for more NEMOs: *“For each bidding zone the result from application of the algorithm shall be one price and one net position for each Market Time Unit (MTU) and, where applicable, net positions for each scheduling area and each NEMO trading hub for bidding zones with several NEMOs in a bidding zone. If required by relevant TSOs there shall be one price and one net position for each MTU for each bidding zone under all circumstances, including partial and full decoupling. In case of partial decoupling, net positions and prices shall be determined by implicit auctions on non-decoupled bidding zone borders.”*

¹ Nord Pool Annual Report 2013

As stated above in our introductory comments, Nord Pool considers it to be a fundamental that the coupling of the Nordic region is also preserved during a MCR fallback solution.

Nord Pool would recommend, however, that the terminology around partial and full decoupling should be clarified and defined specifically in the Nordic context in the final version of the MNA in order to avoid any misunderstandings. The reason behind this recommendation is that the terms “partial decoupling” and “full decoupling” are being used in the proposals of the CWE TSOs *not as defined in the MRC fallback solutions*, but within their own bidding zone-specific connotation. In the proposals of the CWE TSOs these terms are being used exclusively in the context of individual bidding zones (which predominantly correspond with country borders), with “full decoupling” meaning that no cross-border capacity is available at any border of the individual bidding zone, and “partial decoupling” meaning that only some of the individual bidding zone’s borders are being decoupled.

Consequently, in the Nordic context, which is an integrated region comprising multiple bidding zones in several countries, and even within the borders of one country based on structural congestions, it should be clarified that the term “full decoupling” refers to a scenario in which no cross-border capacities are available between the Nordic region and all its external cross-zonal borders. “Partial decoupling” should be defined as a scenario in which only some external cross-zonal borders are decoupled, for example the borders between the Nordic region and CWE.

In both scenarios, “full” and “partial” decoupling as defined above, the NEMOs within the Nordic region shall remain coupled using the same coupling mechanism as in the Single Day Ahead Coupling (presently reflected in DA MRC). Hence one price for each bidding zone can be achieved and all production and consumption within each bidding zone is properly matched.

Nord Pool agrees with infinite capacity set-up

Under 4.2.1 the Nordic MNA Proposal explains in the context of the multi-NEMO set-up that *“Between the different hubs within the bidding zone there are infinitive capacities, i.e. there are no limitations on how many transactions that can take place between the different hubs/order books within the bidding zone.”*

Nord Pool agrees that infinite capacities is indeed the only way of guaranteeing that all orders are matched and that one single price per bidding zone is established for each MTU.

For the sake of clarity, Nord Pool would like to add that for technical reasons, the day-ahead algorithm requires a number to be set as the cross-zonal capacity (CZC) between any configured and interconnected hubs. This number must however be agreed to be such that there never can be congestion between two NEMO hubs in one bidding zone.

Nord Pool agrees with principle that settlement & clearing arrangements should be agreed between the NEMOs/CCPs

In 4.2.3 under the heading “Clearing and settlement”, the Nordic MNA Proposal suggests that *“It is up to the CCPs to agree how the clearing between them within a bidding zone should be managed. The leading principles should be that it should be done in an efficient manner and to as low cost as possible.”*

Nord Pool sees this as in line with Article 77 of CACM, and believes that the most efficient and cost-effective solution would be to utilize existing solutions where possible.

With regards to cost recovery for clearing and settlement arrangements, Nord Pool would like to draw the NordREGs attention to the fact that different CCPs are subject to different regulation depending on the kind of business model which they adopt. Nord Pool, for example, is only offering the trading of physical products to its members, and is therefore not subject to EMIR regulation and the specific risk management and collateral requirements which this regulation imposes on other NEMOs/CCPs which have chosen to also offer derivatives trading. EPEX Spot, which uses ECC for clearing and settlement purposes, is an illustration of the latter case. Naturally, clearing and settlement costs are higher for the latter group of CCPs than for Nord Pool. Nord Pool is of the strong opinion, that in the context of cost sharing and cost recovery, however, such higher costs, which are attributable only to the choice of business model of a CCP, must not be imposed on other NEMOs/CCPs.

Nord Pool suggests obligation on all NEMOs to share intraday orders

In 5.2.1 under the heading “Pre-coupling - XBID”, the Nordic MNA Proposal states that *“The Shared Order Book (SOB)² allows for the simultaneously matching of all orders received by the NEMOs active in the single intraday coupling solution, regardless of how many NEMOs are active within a single bidding zone.”*

In addition to existence of the SOB, there should be an obligation on each NEMO to submit all their continuous intra-day orders to the XBID SOB enabling best price matching based on all orders of market participants active at all NEMOs connected to Single Intra Day Coupling (i.e. XBID). This requirement must then be applied in and between all countries connected to Single ID Coupling to guarantee reciprocity and non-discrimination of NEMOs. We make this comment against the backdrop that in XBID there has been introduced the concept of Global Orders vs. Local Orders, and it is only Global Orders that will be visible and matched in the SOB. Our expectation is that a very significant portion of the order book of some NEMOs will be consisting of Local Orders, and thus will not be submitted to the XBID SOB.

² Defined in Article 2 (24) of the CACM Regulation.

Nord Pool proposes discussion with NordREG on cost recovery

Under the heading “7. Financial arrangements”, the Nordic MNA Proposal states that *“As a general principle, all parties, NEMOs and TSOs, shall cover their own costs which relate to adapting the current systems to the arrangements contained in this proposal”*.

In line with CACM, Nord Pool and other NEMOs suggest that a more differentiated view is adopted.

Regarding cost sharing, NEMOs are of the view that common/regional/national costs for common purpose which are under common control should be shared among NEMOs and TSOs. All other common/regional/national costs should be attributed to the entity incurring these costs.

Regarding cost recovery, NEMOs are of the view that all common/regional/national costs for common purpose, regardless of whether they are under common control or individually controlled should be 100% recoverable by the entity incurring these costs.

Nord Pool proposes to discuss the arguments supporting such a view in a dedicated meeting with the NordReg.

Yours sincerely,

A handwritten signature in blue ink that reads "Hans Raneh". The signature is written in a cursive style with a large, looping initial 'H'.