

NordREG – EPEX SPOT Meeting on Nordic TSOs MNA proposal

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Oslo, 19th September 2016

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EPEX SPOT and ECC feedback on Nordic TSOs MNA proposal

Introduction

- EPEX SPOT welcomes open, transparent and coordinated approach taken by NordREG to consult on the Nordic TSOs MNA proposal
- Nordic TSOs facilitated the development of the MNA proposal: yet majority of EPEX SPOT's comments on the TSO proposal were not taken into account
- EPEX SPOT comments are based on successful implementation of MNA in Great Britain and on development of contribution to all other MNA proposals in Europe

Proposed objectives for multi-NEMO arrangements

- CACM Regulation requires that the TSO proposal meets the objectives listed in Article 3
 - Nordic TSOs MNA proposal shall ensure a level-playing field amongst NEMOs and their CPP in the Nordic region
 - Multi-NEMO arrangements shall be efficient and cost-effective in their implementation and operation
- ▶ **The above objective can only be achieved through a minimum level of harmonisation between MNA – notably on shipping and governance**

Scope of the MNA proposal

- Nordic TSOs MNA proposal shall cover **both ‘internal Nordic borders’ and ‘external Nordic borders’** (see CACM Art. 45 and 57)
- MNA proposals shall be sufficiently aligned across EU member states
 - Multitude of models increases operational risks and costs associated with implementation and operation
 - Non-discrimination principle amongst NEMOs shall be guaranteed
- ▶ **EPEX SPOT suggests the Nordic TSOs MNA proposal shall be amended to include borders with neighbouring regions and consider the impacts on arrangements with adjacent TSOs**

Shipping solution – 1/4

Cross clearing (shipping between two NEMOs within a bidding zone):

- Nordic TSOs MNA proposal proposes that intra-zonal shipping is performed by the Central Counterparties (CCPs) : **EPEX SPOT supports such a decentralised cross-clearing arrangement**
- ▶ Due to competition constraints, the CCPs shall not agree amongst themselves to establish bilateral clearing links: **formal mandate from the TSOs or the NRAs is required for CCPs to do so**

Shipping solution – 2/4

Cross border shipping:

- TSO proposal suggests a solution with **one central shipper** for the entire Nordic region

▶ EPEX SPOT is concerned that **the establishment of a central Nordic shipper will create risks of discriminatory treatment among NEMOs in the Nordic region:**

- Arbitrary appointment of a central shipper is no option: tender would be needed
 - Tendering the central shipping role to an existing NEMO/CCP will imply very burdensome oversight to ensure the selected NEMO/CCP does not discriminate against competing NEMOs/CCPs
 - On the other hand, tendering the central shipping role to a 3rd party will create economic inefficiencies (*no netting of payments – see slide 26*)
- While the CWE market is opting for an open approach ensuring a level playing field amongst NEMOs (multi-shipping), opting for a central shipper in the Nordic will likely favor the Nordic incumbent NEMO:
 - Appointing a central shipper might be a lengthy process resulting in a delay of the Nordic MNA implementation compared to CWE
 - Potential favorable position of the incumbent NEMO for the allocation, and the operation of the central shipper role

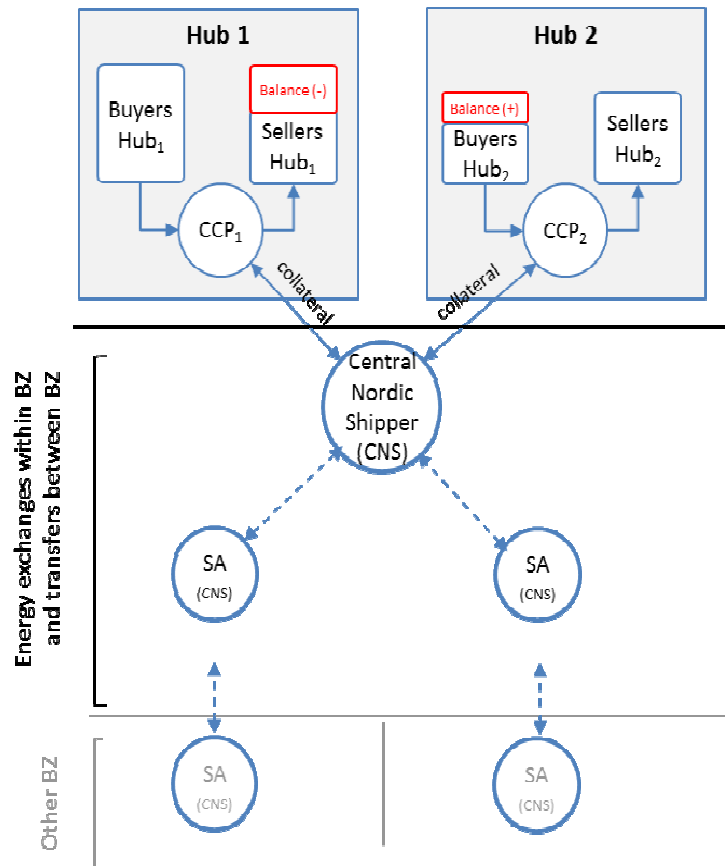
Shipping solution – 3/4

Merits of the Multiple-Shipper model:

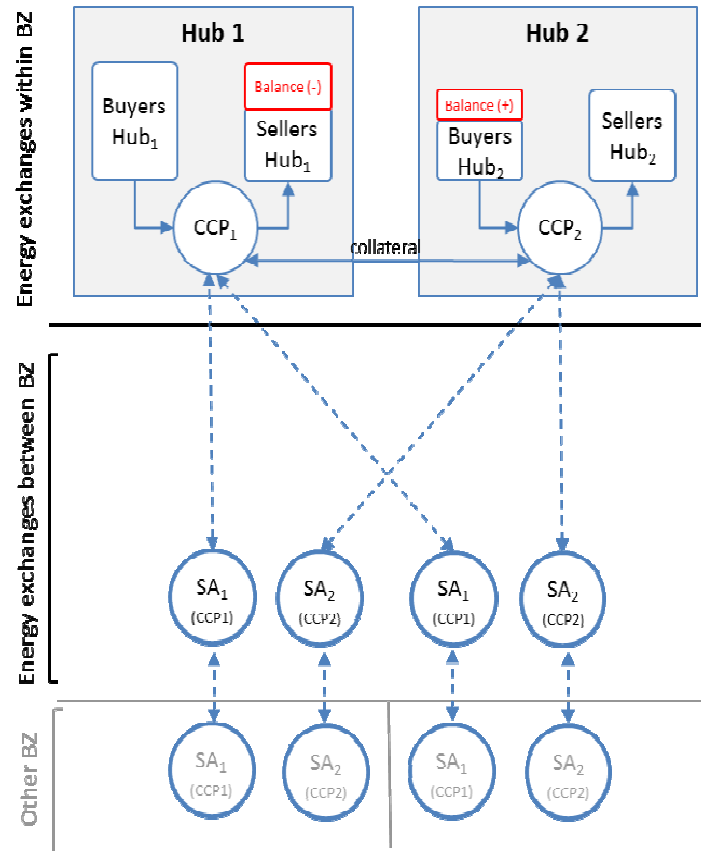
- ▶ **Cost-efficiency:** netting of payments and collateral requirements on the same CCPs
- ▶ **Operational security:** limited number of interfaces
- ▶ **Ease of implementation:** reuse of existing technical and contractual infrastructures
- ▶ **Governance:** no selection of a shipping agent in a long and complex tender process ; non-discriminatory mechanism “by design”
- ▶ **European harmonisation & non-discrimination:** likely to be the EU standard, reduce implementation delays of CACM across regions

Shipping solution – 4/4

Central Zonal Shipper (not being one of the CCPs)
(number of external interfaces in bidding zone: 2)



Multiple Shipper
(number of external interfaces in bidding zone: 1)



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Internal link without collateral requirement
External link, with collateral requirement

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Cost-sharing and recovery

- The feasibility of the implementation of any MNA is **fully contingent on the agreement on financial conditions for cost-sharing and cost-recovery** between NRAs, NEMOs, CCPs, TSOs
- Guiding principles for cost-sharing & recovery :
 - ▶ Non-discriminatory treatment of NEMOs
 - ▶ Transparent financing model
 - ▶ Stable and sustainable financing model
- NEMOs should more generally **not pay for costs that are incurred by TSOs and thus not under their control** (no means to audit TSO costs and ensure that they are cost-efficient)

Governance

- EPEX SPOT considers that a sound governance is key to an effective implementation and operation of the MNA
- **Governance and contractual frameworks are not fully considered as for now in the Nordic TSOs MNA proposal**
- Governance and contractual frameworks shall ensure:
 - Clear roles, responsibilities and liabilities
 - Transparent adherence processes for new Parties
 - Provisions for cost reporting, sharing and recovery
 - Compliance with respective regulatory framework (e.g. tax, CCPs financial regulations)
- ▶ Nordic TSOs should initiate discussions on the development of governance frameworks to be validated by the Nordic NRAs

Comments specific to Day-ahead – 1/3

Cross-Zonal Capacity and Allocation constraints

- The introduction of a platform between the Coordinated Capacity Calculator (CCC) and NEMOs to provide the CZCs to NEMOs brings additional complexity and costs.
- ▶ Rather build on existing infrastructure and use a **non-discriminatory rotational principle** for provision of CZCs to NEMOs.

Current Nordic Fall-back solution

- EPEX SPOT understands the importance for the Nordic region to remain coupled due to security of supply reasons.
- ▶ However, we cannot support a procedure where market results from the previous day are used for nomination purpose. If it is a regulatory requirement, **any risks/costs related to imbalances should be recovered**

Comments specific to Day-ahead – 2/3

System Price

- EPEX wishes to underline that the order books and market prices produced by the NEMOs are considered as proprietary data of the NEMOs and should only be used by other NEMOs for System Price calculation purpose, subject to the applicable commercial agreements.

Relevant algorithm requirements

- **“Single Price”** per bidding zone should be understood as one the **single unrounded price calculated by the MCO algorithm**
- EPEX SPOT considers there is no technical ground for NEMOs to deliver bidding curves of the control area of a TSO requesting such data. Today, **EPEX SPOT publishes these curves (in an aggregated format) on its website** where they are already accessible to the TSOs.

Comments specific to Day-ahead – 3/3

Infinite transmission capacity links

- It is important to distinguish between the theoretical and the technical definition of ‘infinite capacity’. In practice it will not be possible to configure genuinely ‘infinite capacity’ between NEMO hubs, due to mathematical constraints and the excessive risks and collateral costs associated.
- Hence, the term ‘infinite capacities’ should refer to a defined level of capacity sufficient to ensure unlimited exchange between hubs **under normal market conditions**, and provided sufficient collateral is deposited with the relevant CCP.

Comments specific to Intraday

Current market access restrictions

- TSO proposal states that until the implementation of XBID, Nord Pool will be the sole PX offering services in the Nordic Intraday market:
 - ▶ EPEX SPOT disagrees with this requirement, as it should be entitled to **operate Intraday markets in the Nordic markets.**
 - ▶ **Non-discriminatory access to cross-zonal capacities** is already today a 3rd Package requirement.
 - ▶ Therefore, we believe it is non-compliant and should not be part of the Nordic TSO proposal.
- EPEX SPOT would welcome more information on how the Nordic Intraday market is organised and on which basis Intraday transactions take place in the Nordic region.

Thank you for your attention!

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