NORD POOL

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# Winning the Race to Net Zero: Why sharing is caring
## - Liquidity sharing in day-ahead and intraday markets at all times will benefit market participants -

**EU Electricity Market Reform proposes day-ahead and intraday liquidity sharing at all times**

The EU Electricity Market Reform will introduce long overdue changes to the way day-ahead and intraday power markets are operated. The changes proposed by the Council and the European Parliament regarding day-ahead and intraday markets (Article 7 (2) of the Electricity Regulation) will, at long last, oblige power exchanges to share their day-ahead and intraday liquidity at all times.

**This proposal does not affect flexibility, capacity and balancing markets**

Flexibility, capacity and balancing markets are not affected by the proposed changes to the article regarding day-ahead and intraday markets. Claiming the contrary is both plain incorrect and misleading. The proposed article regarding day-ahead and intraday markets (Article 7 (2)) and the corresponding Recital 14 very clearly only refer to "*trading with day-ahead and intraday products*".

Day-ahead and intraday markets are 'energy-only' markets and day-ahead and intraday products are a niche group of highly specific products - hourly, half-hourly and quarter-hourly deliveries of electricity, for example. Day-ahead and intraday products are standardised and limited in number to make them tradable on an exchange in high quantities by as many traders as possible in an as wide as possible a liquidity pool.

Flexibility and capacity markets are bespoke markets designed to create market signals to motivate changes in energy supply and demand. They are designed to: (i) integrate different technologies (such as smart meters) (ii) reward response time and duration (iii) reward location, or (iv) incentivise renewable energy resources. Balancing 'markets' are not commercial trading markets, but are market-based arrangements established by transmission system operators (TSOs) with the sole aim of helping them to manage the balance of supply and demand in their networks. As such, flexibility, capacity and balancing markets are in many ways different from or even the exact opposite to day-ahead and intraday markets.

Flexibility, capacity and balancing markets can, however, benefit from the efficiency that comes from access to a single large day-ahead and intraday liquidity pool, encompassing the liquidity from all power exchanges, to fulfil their own day-ahead and intraday trading needs.

**Wider liquidity brings benefits and lowers barriers to trade for market participants**

There are big gains in the proposed changes for market participants. First and foremost, they will have access to the same liquidity pool for day-ahead and intraday products regardless of which power exchange they belong to. Their choice of power exchange no longer needs to be determined by which power exchange has the largest liquidity pool in 'local' day-ahead and intraday markets.

Market participants will also benefit from lower trading and clearing fees and better customer service at the power exchange of their choice. When power exchanges can no longer rely on the 'forced incentive' of customers joining because they are the only ones with meaningful liquidity at certain times, they will have more incentive to invest in trading technology. Market participants can also anticipate a race between competing power exchanges to create the new products and services they want.

**Shared liquidity helps renewables integration to the benefit of market participants and the end consumer**

The sharing of liquidity at all times in the day-ahead and intraday markets is a prerequisite for the successful integration of renewable generation into European electricity markets. Whether the wind blows or the sun shines becomes relatively predictable only very close to the moment of actual delivery. With the share of intermittent renewables in the production mix rising, increasing intraday volumes are being traded in the final minutes that the market is open. In Germany, the biggest electricity market in Europe with the highest share of wind and solar capacity, intraday trading is allowed up to the moment of delivery. Almost 40% (and rising) of German intraday trading now takes place in the final 60 minutes. For the most efficient integration of renewable generation, it is key to allow all power exchanges to offer their market participants access to the same, combined liquidity pool.

**Proposed changes boost competition**

The proposed changes upgrade existing 'local' day-ahead and intraday markets to become fair, modern and competitively operated. Liquidity sharing will allow all market participants access to the largest possible day-ahead and intraday liquidity pools and create an incentive for power exchanges to offer the most cost-competitive, best-in-class and most innovative customer experience. We perfectly understand that some power exchanges are uncomfortable with sharing their liquidity. They will no longer be able to rely on the competitive advantage afforded to them just because they are the only ones providing access to these 'local' day-ahead and intraday markets. In the future, according to the proposal by the Council and the European Parliament, members of other power exchanges will also be able to access the same liquidity.

**Adopt the proposal now**

Benefits from liquidity sharing between power exchanges in day-ahead and intraday markets at all times will only come if the changes proposed by the Council and the European Parliament on the article regarding day-ahead and intraday markets (Article 7 (2) and the corresponding Recital 14) are adopted in the EU Electricity Market Reform now. Further delay sends the wrong signal to market participants, competing power exchanges and potential new entrants.

ANNEX:

**Article 7 (2) of the Electricity Regulation**

Article 7 (and the corresponding Recital 14) of the Electricity Regulation should be worded as follows:

**Art 7 (Day-ahead and intraday markets)**

2. Day-ahead and intraday markets shall:
   a. be organised in such a way as to be non-discriminatory;
   b. maximise the ability of all market participants to manage imbalances;

c. maximise the opportunities for all market participants to participate in cross-zonal ***and intra-zonal*** trade in ***a non-discriminatory way and*** as close as possible to real time across ***and within*** all bidding zones;

***(ca) be organised in such a way as to ensure the sharing of liquidity between all NEMOs, both for cross-zonal and for intra-zonal trade at all times between themselves, including after intraday cross-zonal gate closure time [as in Council Version]. In particular, NEMOs shall submit all orders for day-ahead and intraday products to the single day-ahead and intraday coupling until the latest point in time when day-ahead or intraday trading is allowed in a given bidding zone. NEMOs shall not organise the trading with day-ahead and intraday products, or products with similar characteristics [amendment proposed by Nord Pool to make it water-tight], outside the single day-ahead and intraday coupling. This obligation shall apply to NEMOs and ~~where appropriate~~ [this needs to be deleted from the Council Version – as in the Parliament version - to avoid that some Member States exercise discretion] to undertakings which directly or indirectly exercise control or any right over a NEMO and to undertakings which are directly or indirectly controlled by a NEMO [as in Council Version].***

**Recital 14**
It is therefore important for the intraday markets to adapt to the participation of variable renewable energy technologies such as solar and wind as well as to the participation of demand ~~***side***~~ response and ***energy*** storage. The liquidity of the intraday markets should be improved with the sharing of the order books between market operators within a bidding zone, also when the cross-zonal capacities are set to zero or after the gate closure time of the intraday market. ***In order to ensure that order books are shared between NEMOs in the day-ahead and intraday timeframes, NEMOS should submit all orders to the single day-ahead and intraday coupling and should not organize the trading of day-ahead and intraday products, or products with similar characteristics, outside the single day-ahead and intraday coupling. To address the inherent risk of discrimination in the trading of day-ahead and intraday products inside and outside the single day-ahead and intraday coupling, this obligation should apply to NEMOs and to undertakings which directly or indirectly exercise control or any right over a NEMO***.

Why the above wording?

The wording of Article 7(2) must create a legally enforceable provision obliging all power exchanges (referred to below as "nominated electricity market operators (NEMOs)") to submit all orders for day-ahead and intraday products to the single day-ahead and intraday coupling (SDAC & SIDC) even if - and this is CRUCIAL - these orders are received AFTER intraday cross-zonal gate closure.

In Nord Pool's opinion, when it comes to the two slightly divergent proposals from the European Parliament and from the Council, the Council's text is much clearer, more precise and better fit for purpose than the European Parliament's proposal. In particular it is vitally important that the Council text (unlike the Parliament's) explicitly refers to "*at all times between themselves, including after intraday cross-zonal gate closure time*".

The Council's text is also more complete as it extends the NEMOs' obligation to any subsidiaries of NEMOs by amending the text referring to NEMOs' parent companies ("*This obligation shall apply to*

*NEMOs and […] to undertakings which directly or indirectly exercise control or any right over a NEMO*”) with the added wording: “*and to undertakings which are directly or indirectly controlled by a NEMO*”.

This amendment is key to avoiding the creation of a new loophole. Without this, some NEMOs will immediately set up a subsidiary company and, for example, transfer trading with intraday products after cross-zonal gate closure to their new subsidiary. That way they can avoid having to comply with the new obligation to submit all orders for day-ahead and intraday products to the single day-ahead and intraday coupling. This would be a clear step back towards monopolistic markets.

There are only two words to disagree with in the Council text. The words “*where appropriate*” were inserted in front of “*to undertakings which directly or indirectly exercise control or any right over a NEMO and to undertakings which are directly or indirectly controlled by a NEMO*”.

This surely allows Member States the discretion not to enforce liquidity sharing when it comes to NEMO’s affiliates and subsidiaries. That means a new loophole for some NEMOs to move trading in the final hour in Member States where trading after intraday gate closure is allowed into a dedicated subsidiary and to convince the respective governments it is “*not appropriate*” to enforce liquidity sharing for the subsidiary in these Member States.

Nord Pool further suggests that the Council text should have an insertion reading “*or products with similar characteristics*”. Prior to SIDC go-live we had a discussion with a competitor power exchange about SIDC product specifications. They argued that a product which has a minimal change in tick size (the minimum price increment change of a trading instrument) would create a totally different product to which SIDC rules do not apply, so it could be traded without having to share liquidity. The discussion was eventually resolved in a lock-in meeting with the European Commission, at the eleventh hour, before SIDC go-live. The suggested insertion would avoid a similar discussion prior to the go-live of Article 7(2).