

Recoupling Only GB Day-Ahead – Not a ‘no regrets’ Approach

**NORD
POOL**

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The UK finds itself at a pivotal moment in its energy trajectory. While it was the first major economy to halve its emissions, consumers have also experienced a surge in energy bills which has left many feeling the financial strain. As the renewables boom persists, it is vital that this growth can deliver efficient and cost-effective energy to consumers. However, the current policy commitments for GB’s short term wholesale markets are ill-equipped to achieve these essential objectives.

Against this backdrop, last summer the Department for Energy Security and Net Zero (DESNZ) set out its intention to introduce legislation which would recouple GB’s two separate day-ahead markets into one. DESNZ noted this was considered a ‘no-regrets’ solution to progress the development of cross-border arrangements and fulfil its EU-UK Trade and Cooperation Agreement (TCA) obligations. In reality, recoupling only GB’s day-ahead markets, without also simultaneously coupling GB’s intraday markets, is very far from a ‘no regrets’ solution.

Nord Pool has for years been a strong advocate for market coupling and its benefits in GB and throughout Europe. Coupling demonstrably provides consumers, industry and stakeholders with greater transparency across markets, is a more efficient way of utilising renewable generation, supports greater liquidity and stronger security of supply and lowers costs for consumers. But only when the day-ahead and intraday markets are coupled simultaneously.

As the two power exchanges in GB compete on the division of market participants and liquidity, coupling only one market timeframe will shift the playing field in favour of one power exchange. Once the intended legislation is in force, it will create, at best, isolated, sub-optimal, local trading pools within GB and, at worst, the conditions necessary for the emergence of a de facto, unregulated monopoly operating GB’s day-ahead and intraday markets.

The previous coupling of GB’s day-ahead markets, which required power exchanges to share orders in day-ahead but not intraday, provides recent precedent for this beginning to occur, before being dismantled in the wake of Brexit. Market participants who could not afford or chose not to pay for access to both power exchanges (and why should they?) migrated towards the power exchange ‘holding the most cards’- i.e. the exchange able to offer maximum access to liquidity in both the day-ahead and intraday markets, directly and only as a result of legislation. If this is enabled once again, all market participants will be beholden to a single power exchange and its requirements, with a single point of failure for these markets.

Our experience tells us that this market setup will not result in more efficient and cost-effective utilisation of renewable generation, nor will it enable more participation. Instead, it will result in higher fees and eliminate any incentives to develop more innovative trading arrangements. Many smaller, innovative market participants that operate in the demand-side flexibility and renewables sectors will be prevented or unincentivized from trading in wholesale markets. Despite consumers

subsidising much of the development and implementation costs of these technologies, they will miss out on the potential savings from these operators optimising their production and selling it at the best possible price. This outcome directly contradicts what the Net Zero transition seeks to achieve!

Unfortunately, once this market setup is in place, and market participants and liquidity migrate to one power exchange, it will be increasingly difficult to undo. Other power exchanges will simply not be able to compete. New trading approaches and quicker, more robust, trading platforms are unlikely to overcome the competitive imbalance introduced by legislation. Any prospective new entrant power exchanges will also see GB as a 'closed' market not worth entering because it has nearly insurmountable barriers to entry that cannot be overcome by innovative offerings. While this not only stands to negatively impact Nord Pool's GB operations, it risks further ingraining an uncompetitive and costlier setup which will be passed on to consumers.

By way of contrast, European policymakers have recognised that both power trading timeframes must be coupled for renewable and flexible generation to be fully utilised, consumers to experience maximum social welfare and to enable new power exchanges to enter the market. Market participants and liquidity there are not split or isolated into sub-optimal trading pools, but instead can access all power exchanges in day-ahead and intraday markets. This enables power exchanges to offer the best, most innovative trading and collateral arrangements to market participants and provides an incentive for new entrant power exchanges and the development of new market segments. All of which reduces costs for consumers. The currently intended set up for GB is not only at odds with the approach taken across the EU, it simply ignores many of the valuable lessons gained from over a decade of electricity market coupling.

With commitments to decarbonise the UK's electricity system by 2035 and variable renewables set to make up between 65-70% of electricity generation in 2030, market participants will increasingly depend on having competitive, liquid and accessible day-ahead and intraday markets. A genuinely 'no regrets' solution would surely be to ensure that the day-ahead and intraday markets are coupled simultaneously. This would promote a future-oriented longer-term setup which supports competition and innovation, increases liquidity in multiple timeframes, boosts security of supply and helps ensure renewables are utilised cost-effectively and efficiently for consumers.

Now is the time to ensure that GB's market setup does not have a single dominant operator nor sub-optimal local trading pools, but, rather that it is, open, modern and competitive. Let's not knowingly sacrifice GB's long-term market for short-term opportunism.

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