



QUARTERLY NEWSLETTER

from Nord Pool Market Surveillance

Q1 2021

Welcome to the newsletter from Nord Pool Market Surveillance, covering the first quarter of 2021. In this edition we will look at how the Market Surveillance team handles situations with high market prices, focusing primarily on the day-ahead market.

One of the main tasks of Market Surveillance is to look for prices that do not reflect the apparent market situation, either due to insider trading or market manipulation. As a result, we follow price developments closely, and work to understand the background of the price fluctuations we observe.

Back in 2020 we had periods with very low prices in the Nordics, while in 2021 we have had the opposite. In the UK especially, we have seen hours with prices reaching £1500/MWh – rather extreme – while in the Nordics there have also been price records during the first quarter.

High prices and potential market abuse

In a well-functioning market, prices efficiently reflect the underlying market situation. In the electricity market, consumption, availability of production units, wind, and inflow to water reservoirs, are examples of important factors influencing the price level. Drastic day-on-day changes, for example due to extreme weather events, may often result in very high (or very low) prices. At Market Surveillance we analyse the fundamentals behind significant price movements. See the box (on next page) for an example of price analysis on 4th May 2021, or our news stories in 2020 ([1](#), [2](#), [3](#), [4](#)).

Very high prices send important signals to market participants to reduce consumption and increase production. Such price signals are vital in ensuring security of supply both in the short term and the long term.

Therefore, our task in Market Surveillance is not to prevent high prices, but rather to detect when prices do not reflect the prevailing market situation as a result of market abuse. This is irrespective of whether possible abusive behaviour is contributing to increasing or decreasing prices. Thus, abnormally high or low prices will always be something that Market Surveillance will pay extra attention to.

High Nordic day-ahead prices in May

On Tuesday 4th May, prices in the day-ahead market peaked at 144.65 EUR/MWh in Finland and the Baltic region. The system price came out at 59.90 EUR/MWh on 3rd May and 44.00 EUR/MWh on 4th May, significantly higher than the average May system price of 8.34 EUR/MWh in 2020. What are the reasons behind these high prices?

Based on Market Surveillance's data, there are several fundamental factors in the Nordic region that contributed to high prices during 1st - 4th May:

- Some significant maintenance limiting supply: two nuclear power plants - Olkiluoto 1 ([890 MW](#)), Forsmark Block 2 ([1120 MW](#)), as well as a few other larger power plants not being available;
- Demand in May was higher than normal due to lower temperatures;
- Cold weather also influences the seasonal spring thawing, which in turn limits supply due to reduced inflow to hydropower reservoirs;
- Wind power production was 2.7 times lower than normal during the first three days of May.

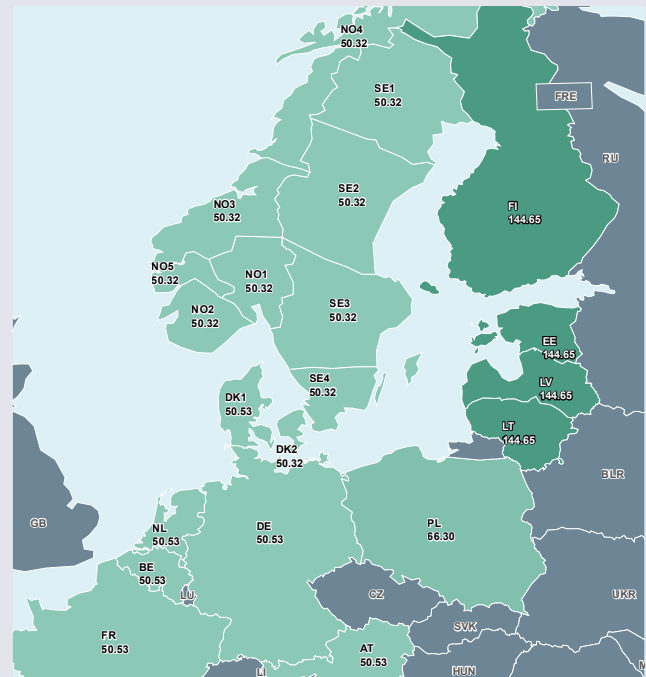


Figure 1. Spot prices on Thursday 4th May 2021, 07:00

Physical and economic withholding

Periods with very high prices are typically a sign of a strained market situation, which may open opportunities and increase profit potential from abusive behaviour. In particular, physical or economic withholding¹ is relevant when looking for market manipulation. The circumstances can make it possible even for smaller market participants to profit from withholding capacity or pricing up their production assets.

Market Surveillance therefore needs to pay extra attention when the market situation is strained. Economic or physical withholding may be relevant to follow up on, both under competition law and under REMIT. However, our main task in Market Surveillance is to identify and report potential breaches of REMIT.

In order to reduce the risk of market manipulation, we recommend that market participants have a conscious approach to the topic of physical and economic withholding. Under REMIT, this applies to all market participants regardless of whether they would be considered dominant or not under competition law.

¹ According to ACER, electricity generation capacity withholding is the practice of keeping available generation capacity from being competitively offered on the wholesale electricity market, even though offering it competitively would lead to profitable transactions at the prevailing market prices. Electricity generation capacity withholding can occur in two ways; economic or physical withholding. Capacity withholding may be performed by one or more market participants, acting independently or in collaboration.

The crucial role of transmission links

In situations with large price differences between neighbouring areas we also focus on capacity allocation from TSOs and the publication of outages and limitations in the transmission grid. This may be both to detect possible market manipulation by TSOs and to detect possible abuse by other market participants. Some market participants may get access to inside information regarding outages in the grid. These may also provide more attractive opportunities for market participants to engage in capacity withholding.

Market Surveillance has a significant focus on transmission-related incidents, and we have reported a number of such cases to the authorities during 2020 and the first quarter of 2021.

Detecting market manipulation

In addition to the challenges described above, other types of market manipulation and insider trading may also become especially relevant during periods of very high or very low prices.

In general, Market Surveillance is eager to understand the reason for increased prices when these occur. In order to detect market abuse, we have in place a number of alerts and routines. In some cases, we have experimented with changing the thresholds for when an alert is triggered to ensure that our monitoring approach is effective for detecting manipulative behaviour.

We are confident in the routines we have in place and continue working on improving existing checks and developing new ones, as markets evolve and new products open for trading.

Tip-offs from market participants and other stakeholders who notice possible hindrances to efficient price formation, are another important input to our monitoring. We have received a significant number of tip-offs during the last year, and such assistance continues to be a vital part of our monitoring efforts.

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We hope that you have enjoyed reading our latest quarterly newsletter. Please let us know if you have any comments on the subjects covered here, or if there are any issues you would like us to examine in future editions: market.surveillance@nordpoolgroup.com

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