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# Newsletter

From Nord Pool Market Surveillance

June 2024

**In this edition of our newsletter, we discuss the new intraday auctions, which will go live in June 2024. We have a look at what market participants should consider, to be able to comply with REMIT II in these new auctions, and we give answers to frequently asked questions regarding marginal pricing and trading without physical assets. Further, we share statistics of market surveillance' activities in recent years.**

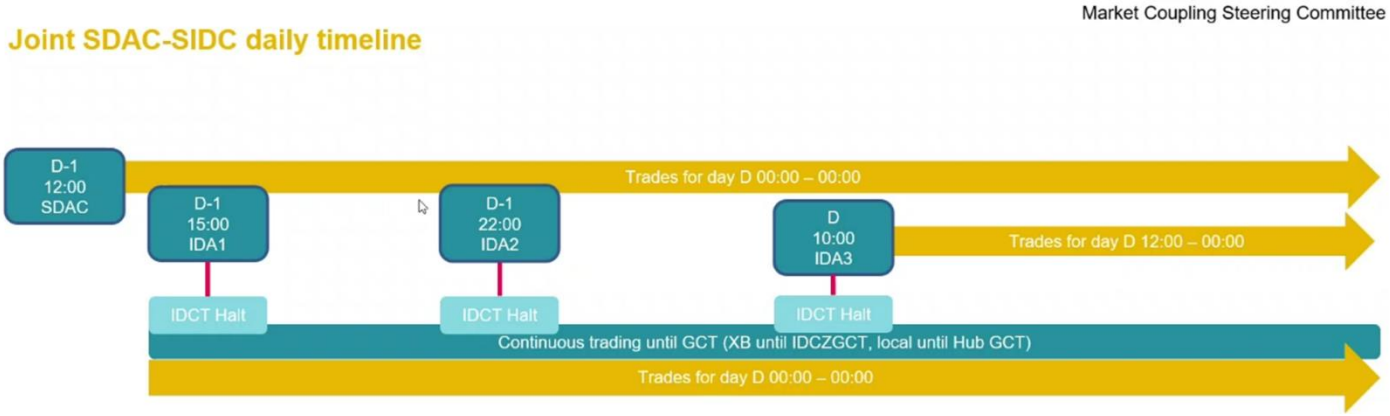


**Figure 1: Joint daily timeline for the Day-Ahead auction, Intraday Auctions and the continuous Intraday market.**

## What are intraday auctions (IDAs), and how are they organised?

The new intraday auctions[1], or IDAs, will go live in June 2024 and aim to improve the pricing of transmission capacity in the intraday market. This will allow Transmission System Operators (TSOs) to earn congestion rents for intraday products, unlike continuous intraday trading, where capacity is free.

IDAs will comprise three auctions, all taking place *after* the existing day-ahead auction (see timeline above).

### Two Auctions on the Day Before Delivery (D-1):

- First auction: at 15:00 CET, covering products for delivery over all 24 hours of the following day.
- Second auction: at 22:00 CET, also covering products for delivery over all hours.

### One Auction on the Day of Delivery (D):

- Third auction: at 10:00 CET, covering the last 12 delivery hours of the day (12:00-00:00).

[1] Intraday auctions are implemented to fulfil legal requirements for pricing cross-zonal capacity in the single intraday coupling (SIDC). See Article 55 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management ("CACM Regulation") and ACER's decision 01/2019 of 24 January 2019 establishing a single methodology for pricing intraday cross-zonal capacity.

IDAs will use the same algorithm as day-ahead auctions to provide auction results. With some exceptions, IDAs will permit the same order types as day-ahead auctions. During IDAs, cross-border trading in the continuous intraday will be halted. The time resolution will vary between quarter-hourly and hourly granularity, depending on the bidding zone.
You can find more detailed information about these new auctions and access Nord Pool's testing environment for IDAs here.

## How to comply with REMIT II in the new intraday auctions

REMIT, the EU Regulation on wholesale Energy Market Integrity and Transparency, will apply to IDAs, just as it does to established wholesale energy markets like the day-ahead auctions (SDAC), continuous intraday (SIDC) and balancing markets.

Revised in May 2024, REMIT II introduces new measures to prevent energy market abuse, including reporting duties, changes in definitions of market manipulation and inside information.

To help market participants comply with REMIT II when joining IDAs, Nord Pool's market surveillance team has prepared answers to frequently asked questions, below.

### Is it mandatory to take part in the IDAs?

No - it is up to each market participant to evaluate if they want to take part in the IDAs or not. A market participant might, for example, decide not to participate based on available resources or expected costs.

### Could not taking part in the IDAs count as capacity withholding?

Electricity generation capacity withholding generally refers to the practice of keeping available generation capacity from being competitively offered on the wholesale electricity market, when doing so would result in profitable transactions at the prevailing market prices. It is considered a form of market manipulation.

Under the old REMIT regulations, market manipulation, including capacity withholding, was defined as occurring only when a market participant placed an order or entered into a trade. However, REMIT II has broadened the definition of market manipulation in Article 2 (2)(a) to include:

*"entering into any transaction, or issuing, modifying or withdrawing any order to trade or* ***engaging in any other behaviour*** *relating to wholesale energy…"*.

With this expansion of the definition of market manipulation, Nord Pool's market surveillance experts cannot rule out that not partaking in an auction could potentially fall under "any other behaviour relating to wholesale energy". As REMIT II very recently came into force, we are awaiting new ACER guidelines that may shed light on how to interpret the changes in Article 2(2). Until then, we recommend that market participants ensure that they have a legitimate reason for not taking part in the IDAs, to protect themselves from potential claims of capacity withholding.

**The market surveillance team at Nord Pool recommends that market participants have a legitimate reason for not partaking in the IDAs. Examples of such reasons could be: resource limitations or cost considerations.**

If a market participant does not take part in IDAs with the intention of affecting auction prices, or to send false or misleading signals regarding supply and/or demand, this action could constitute a breach of REMIT and potentially also inside information.

### If the market is not mandatory, is the price I offer my volumes at voluntary, if I choose to take part?

If a market participant chooses to take part in IDAs, REMIT, with its prohibition of market manipulation, including capacity withholding, applies. Market participants can therefore not offer volumes at 'voluntary prices'.

What is capacity withholding exactly? For a detailed description, we refer to ACER's Guidance on REMIT. In general, capacity

withholding occurs when a market participant with the ability to influence the price or the interplay of supply and demand chooses not to offer all available capacity to the market. As a rule of thumb, when participating in the intraday auction, a market participant should offer all available capacity at a price equal to the marginal cost. Deviations from this practice require a legitimate technical, regulatory and/or economic justification.

Below are some examples of potentially legitimate justifications to not offer all available capacity at marginal cost:

a. The opportunity costs exceed the marginal costs. These opportunity costs can be either the lost value of producing electricity now, compared to at a later point in time (for energy-limited generation) or the expected lost value of selling electricity in the current market segment compared to doing so a later sequential market. Consider, for example, a gas-fired power plant with a marginal cost of 100€/MWh. If the expected market price in the continuously traded intraday market is 150€/MWh, opportunity costs may exceed 100€/MWh. Placing orders based on opportunity cost typically constitutes a legitimate economic justification.
b. A market participant considers that participating in the intraday auction with all available volumes requires significant effort and carries a significant risk of error due to the limitations of current IT-systems. After assessing the economic potential for profit in the IDAs, the participant chooses to take part with only a smaller volume. Such a strategy can be legitimate, provided the economic and technical assessment is reasonable and the strategy is not intended to manipulate the market.

### Can a market participant price volumes in the SDAC based on price expectations in the IDAs? If so, can this also be done for volumes that are not flexible?

Yes, opportunity cost can be a legitimate reason for pricing that deviates from marginal cost. However, it is crucial that the applied opportunity cost is realistic. We also recommend applying the same principles for both sale and purchase volumes.

For volumes that cannot be adjusted based on price (e.g. must-run production), it may still be relevant to use opportunity cost when placing orders in the day-ahead market. These volumes and their prices must reflect what you expect to be able to sell in the sequential market. When determining these price levels and volumes, a good starting point is to consider the prices and volumes at which you would be willing to speculate between the markets if there were no underlying physical assets.

Note that these considerations only apply to REMIT. In some countries, other legislation might need to be taken into account[2].

### How can a market participant without physical assets use the IDAs? Is there anything special they need to consider?

For a market participant without physical assets, REMIT, with its prohibition of market manipulation, applies in the same way. The market participant may still trade significant volumes in the auction and potentially have the ability to affect supply and demand.

If a market participant is engaged in purely speculative trading, the concept of marginal cost is not relevant. Nonetheless, the Nord Pool market surveillance team is of the opinion that opportunity cost should be the starting point for trading decisions. The main input for determining opportunity cost is the expectation of volumes and prices likely to be achievable in later sequential markets. Any order placed should genuinely reflect the participant's real willingness to buy or sell electricity in the auction, regardless of whether they trade based on physical assets or not.

## In summary

You do not have to take part in intraday auctions just because you either take part in the SDAC, or the SIDC. A legitimate reason to not take part in IDAs should suffice, to show

[2] See for example systemansvarsforskriften §8 in Norway

that capacity is not withheld in potential conflict with REMIT.

Anyone who takes part in IDAs needs to comply with the prohibition of market manipulation. As a general rule, marginal cost should be used as basis for pricing and all available volumes should be offered to the auction. Deviations from the above will require a legitimate technical, regulatory and/or economic justification, for example; opportunity cost.

## Market Surveillance Statistics 2023

In 2023, Market Surveillance concluded 99 cases. In 40 cases we contacted market participants, and 38 cases were sent to the relevant NRA(s), including NRAs of EU-members, the UK and Norway. The average investigation time was 23 days, a number consistent with previous years. This is measured from the date of the event, until the date when Market Surveillance conclude the investigation, either by disregarding the case or sending a notification to the NRA(s). Table 1 shows key statistics on investigations and notifications from 2019-2023.

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Number of cases** | 58 | 94 | 92 | 130 | 99 |
| **of which err. Orders** | 26 | 25 | 27 | 56 | 46 |
| **Cases sent to NRAs** | 24 | 40 | 34 | 46 | 38 |
| **Average investigation time** | 21 | 21 | 22 | 23 | 23 |
| **Tip-offs internal/external** | 10 | 10/38 | 10/23 | 17/26 | 8/18 |

*Table 1: Key statistics for investigations and notifications. The distinction between external and internal tip-offs were only introduced in 2020. The numbers previous to 2020 are both internal and external.*

**HOW TO CONTACT MARKET SURVEILLANCE**
We hope that you have enjoyed reading our latest Market Surveillance 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

In 2023 we saw a drop in total amount of cases compared to 2022, a year marked by volatile and high prices. We see a continued high number of cases being erroneous orders. Market Surveillance' impression as to the reason for the increase in erroneous orders is the fact that market participants are better at informing about their erroneous orders, either through UMMs or informing Market Surveillance directly.

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