

CACM and the Future of Power Exchanges

**NORD
POOL**

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The European power market has, in recent decades, been taken through profound changes with the aim of enhancing security of supply, maximising socioeconomic welfare for end consumers and enable for more renewable energy.

A single integrated European energy market has been the agreed way forward from the EU Commission, and, as such, has been embraced by all stakeholders in the energy market. A well-developed market model has secured efficient power markets across an ever-expanding range of country borders.

At the heart of the development of a single integrated European energy market, sit the power exchanges, which have historically operated across several countries (markets) with a clear role of securing efficient market operations and security of supply. Traditionally power exchanges operated as natural monopolies in different geographical areas, with some notable exceptions eg the UK. But today they may operate in full competition across most European power markets.

This transition creates a continuing challenge in how the European power exchanges operate.

Power exchanges participate in and implement pan-European cross-border power trading projects, while also facilitating secure and transparent power trading. Within these projects power exchanges must both cooperate – to build robust, reliable, efficient power markets – while at the same time competing, to ensure a viable forum in which power can be traded; ensuring that production and consumption meet to establish fair and transparent power prices.

At Nord Pool we have struggled for several years to ‘square’ this particular ‘circle’ and now think it is time for power exchanges, including our own, to take action.

So we are remodelling our organisation to ensure that it is better fit for purpose.

As a direct result we are in the process of recreating our business as two organisations under a Nord Pool umbrella – separating out the differing requirements to compete and cooperate by forming a Market Coupling Operator company and a Power Exchange company.

Why restructure?

The change has been driven by the fact that we see a worrying lack of clarity in the Network Guidelines on Capacity Allocation and Congestion Management (CACM) – the European Regulation governing our cross-border business.

CACM provides both the basis for implementation of a single energy market across Europe, while at the same time administering competition between power exchanges.

We see a need to separate-out the distinctly commercial tasks of our market operations (the power exchange functions) from the cross-border market-coupling tasks of market operations (the MCO function).

Why does this matter?

At Nord Pool we want to deliver the very best that we can for our customers – which means ensuring that they get the benefits of what fair competition between power exchanges should be able to deliver.

With the CACM regulation as it currently stands we see some real challenges that stand in the way of that.

We perceive a very real conflict of interest that must be faced by all competing power exchanges. We are forced to make choices between investing in our own products, systems and services to deliver what our customers want from us – and investing in the common European projects in which we are required to participate, to provide benefits to wider society to help ensure that they can ‘keep the lights on’. But our competitors also directly benefit from that. And that is not much of an incentive to participate openly and fully!

The consequence is that key European implementation projects are taking longer and becoming more costly than necessary, because key parties are in head-to-head competition. We are wasting time and money.

Our second concern lies in the fact that there are parts of the CACM regulation that maintain barriers to new power market entrants and, ironically, hold back the development of true competition. In some geographical regions this goes as far as to distinctly favour the incumbent power exchange over any operation trying – as CACM encourages – to offer a competitive alternative. And, for us, that does not feel much like competition, but more like old-fashioned protectionism!

And the result? Ultimately it must mean that there will simply be no competition in some markets. A difference between separate geographical areas in, for example, how power exchanges recover the costs they incur

in participating in pan-European projects, can lead to a potential rise in trading fees as power exchanges try to recoup their losses. When costs are artificially higher on one exchange against another, trading will be skewed accordingly. CACM seeks to breed competition on one hand – while killing it on the other.

So what's the solution?

At Nord Pool we see very little realistic alternative, if there is to be the truly competitive future power trading landscape that the CACM regulation envisages and desires, to a change in governance which can ensure that commercial and cooperative interests can be pursued independently by separate entities.

We are leading the way by separating out these different interests within our own business. We want to lead by example and are not content simply to accept a ‘new status quo’ that represents little or no beneficial change.

And what happens if there is no change?

At Nord Pool we feel there is no room for complacency. We are organising for the future; developing a fully commercial, fit for purpose, power exchange organisation to deliver the benefits of competition; and a separate market coupling operation to lead from the front in the important on-going market integration projects which will ‘keep the lights on’ across Europe. And our experience is that this is not a hard thing to do – the change can be made smoothly and with minimal disruption, if the desire to do it is there.

If others do not see the world in the way that we do, that is regrettable. It would surely be a great pity if the power sector was to settle for anachronistic, monopolistic trading set ups which fail to deliver on a pan-European vision and benefit a few at the expense of many.

ABOUT NORD POOL Nord Pool, Europe's leading power market, delivers efficient, simple and secure trading across Europe. The company offers day-ahead and intraday trading, clearing and settlement to customers regardless of size or location. Today 380 companies from 20 countries trade on Nord Pool's markets in the Nordic and Baltic regions. Germany, France, The Netherlands, Belgium, Austria and the UK. Nord Pool is a Nominated Electricity Market Operator (NEMO) in 15 European countries, while also servicing power markets in Croatia and Bulgaria. In 2017 Nord Pool had a total turnover of 512 TWh traded power.