

In this edition of our quarterly newsletter, we will provide an update on the launch and first weeks of operation of the North Sea Link (NSL) cable from the market surveillance angle. This includes statistics, as well as insights into the risks that we have identified and our assessments of them. In addition, we examine the topic of market surveillance across all timeframes of physical power trading. We believe that all markets are interconnected, which makes it important to have a common understanding and application of the rules across timeframes.

### NSL – first experience of operation

In October 2021, Nord Pool’s market solution was opened for handling capacities on the NSL cable between Norway and the UK. A new auction was launched in Norway that was coupled with Nord Pool’s existing UK market. Market Surveillance is responsible for monitoring all our markets and, from October, these have included a new auction in NO2. To prepare for monitoring this new market, Market Surveillance conducted a risk assessment relating to the new auction, looking at the types of abusive behaviours to which it could be exposed. This also included how to monitor the new auction and implementing relevant alerts from day one.

### Risks

The main risks identified include capacity withholding, cross-market manipulation and erroneous orders – similar to the risks we see in other auction markets we monitor. What may distinguish the new NO2-auction is that there is a possibility for speculation between the new auction and the auction which follows it for asset-backed, and non-asset

backed traders. The latter could buy or sell power in the new NO2-auction before balancing their position in the liquid SDAC-auction an hour later – where traders can be confident that they are able to balance-out their positions. This possibility may reduce the risk of some market participants gaining a dominant position in the new NO2-auction and engaging in capacity withholding.

### Liquidity

An important factor that will affect risks in the new auction is liquidity. In the event of poor liquidity, new opportunities for market manipulation would be opened. However, after the introduction of the auction we have observed generally good liquidity, meaning that the risks are limited. We usually have more than 10 market participants participating in the auction daily, with significant volumes being traded. On average 16682 MWh were traded for each day in October 2021 and 17820 MWh in November (these figures represent average daily sum of purchase and sale volumes).

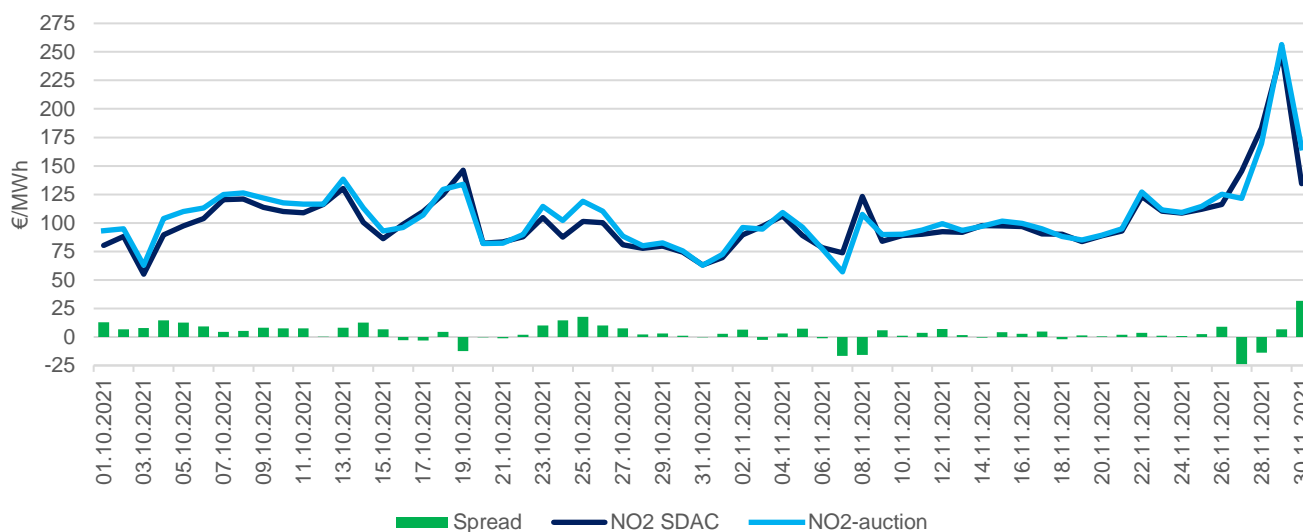


Figure 1: Average daily price and spread between the NO2-auction and NO2 in SDAC (October and November 2021).

### Price spread between the new NO2-auction and the SDAC-auction

Market participants active in the NO2-auction know the SDAC-auction will follow shortly after. A certain difference in price – spread – between the two auctions can occur. The hours with the highest price spread between the auctions typically occur during periods where it was difficult to predict the general price level in the market. That is, when the supply curve is steep or when there is a large uncertainty in wind power generation.

The daily average prices, along with the price spread between the SDAC-auction and the new NO2-auction, are presented in Figure 1, above.

The duration curve in Figure 2 shows all hourly spreads, sorted from highest to lowest and denoted in percentages. The hourly spread has been above 20 €/MWh in 8.5% of the hours. In 71.5% of hours, the price has been higher in the new NO2-auction. The average absolute price difference between the two auctions has been 8.5 €/MWh.

High volumes traded and the presence of a significant number of market participants, reduce the risk of market manipulation but do not eliminate it. We are currently monitoring the auction according to our new routines and we are ready to follow up any suspicious behaviour to ensure a secure and fair market for all participants.

We encourage all market participants to report any suspicious behaviour that they may see to Market Surveillance so that we can look into the matter.

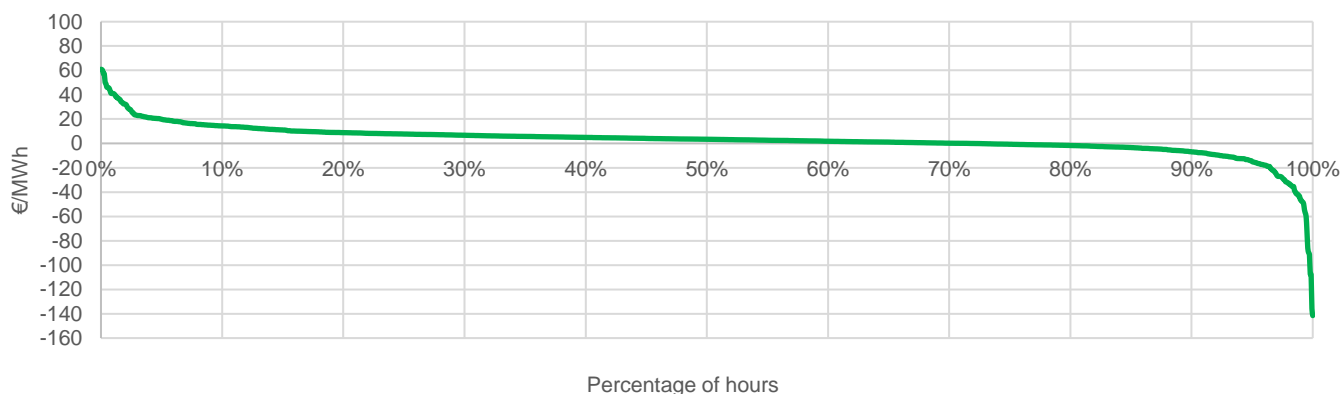


Figure 2: Duration curve of the hourly price spread between the NO2-auction and NO2 in SDAC.

## Market surveillance for all timeframes of physical power markets

Power markets are organised in such a way that the same power delivery period can be traded in several different timeframes – first days or months ahead, as a financial product, and then, day-ahead or within the day, as a physical power market product. Physical power markets, which we focus on in this article, include day-ahead and intraday markets, but also balancing, redispatch and countertrading markets. All these markets are wholesale energy markets<sup>1</sup> and are covered by REMIT. Similarly, entities that organise them are PPATs – persons professionally arranging transactions – and have an obligation to monitor the markets for signs of market manipulation or insider trading. In addition, TSOs may be market participants as well, if they place orders or enter in transactions in these markets.

### Cross-market manipulation

A common monitoring approach is important, since all market timeframes are closely interconnected – behaviour in one market timeframe very often affects behaviour in others. Manipulative patterns that span over several market timeframes are called cross-market manipulation, which is one of the highest-risk areas for Nord Pool’s Market Surveillance, because of the potential impact on our markets. As a result, we have a special focus on monitoring this type of behaviour and we greatly appreciate any observations from market participants that can help us identify such instances.

Cross-market manipulation may consist of a market participant taking a position in one market for the purpose of manipulating the other market. For example, the Spanish competition authorities have imposed penalties on several dominant generators for withholding their capacity in the

day-ahead market and selling it at much higher prices in the “technical restrictions” market<sup>2</sup>.

In order to make sure we have sufficient data to form a reasonable suspicion of a REMIT breach, we have in place data exchange agreements with some TSOs. We are continuously looking into strengthening this cooperation and invite TSOs for a dialogue on market surveillance topics. Also, we are in continuous communication with NRAs, which can investigate cases across the timeframes.

### Importance of proper market design

At Market Surveillance we believe that market manipulation often happens because of imperfections in market design. Prevention of cross-market manipulation starts with establishing a sustainable and consistent market framework that ensures the optimal use of generation and consumption assets, as well as transmission, in all market timeframes.

We believe that transmission capacity provided to each of the physical market timeframes should represent the physical available transmission capacity. When commercial transmission capacity in one timeframe is higher than physical capacity – market participants may receive incorrect incentives for their bidding to the day-ahead and balancing markets. It is important to try to minimise this distortion (see also [Market Surveillance Newsletter Q4 2019](#)). In this spirit, Market Surveillance recently actively participated in the Danish TSO’s, Energinet, consultation looking for a new model for countertrading (especially relevant on the DK1-DE border)<sup>3</sup>. In our opinion it is important to ensure that as many market participants as possible can participate in the new countertrading arrangement, reducing the impact of incentives on each of them individually. Therefore, we welcome Energinet’s consultation to find an alternative to special regulation, while also looking into the intraday trading model.

<sup>1</sup> All these timeframes are mentioned in the 6<sup>th</sup> edition of ACER Guidance, Section 2.2.2. Wholesale energy markets (“WEM”)

<sup>2</sup> Link to the case concerning the events in 2001: [https://www.cnmc.es/sites/default/files/35011\\_0.pdf](https://www.cnmc.es/sites/default/files/35011_0.pdf). In this case, the decisions were successfully appealed, since Spanish authorities could not establish that the generators had a certainty that their

capacity will be required in the technical restrictions market. Case is cited based on “The Guide to Energy Market Manipulation”, editor Gordon Kaiser, 2018.

<sup>3</sup> Countertrade: intraday model design <https://en.energinet.dk/About-us/Events/Countertrade-Intraday-Model-Design-200421>

## Importance of transparency

Another aspect that is crucial for a well-functioning market is transparency and symmetrical information to all market participants. In our previous [Newsletter Q2 2021](#) we discussed the importance of transmission capacity information provided by the TSOs. It is equally important that all market participants inform about their unavailabilities in a timely and effective manner.

Market Surveillance strongly advocates for transparency regarding prompt publication of imbalance prices. Such information may create risks of insider trading (for example, for later products in the intraday market) for market participants whose assets are activated for balancing. In the Nordic region, real-time publication of imbalance prices could help prevent these situations.

Real-time publication could also help all market participants get a proper understanding of the market situation – ultimately enhancing security of supply. Expectation of high balancing prices (for example, following a period that settled at very high prices) could motivate market participants to trade themselves in balance in earlier physical market timeframes.

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