

Nord Pool and Brexit

Keeping Trades Flowing

**NORD
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Richard Sarti Nord Pool Director UK and Ireland

When the result of the June 2016 UK referendum on EU membership gave the British government a clear mandate to leave the EU, no-one could have predicted the full extent of the consequent months, even years, of complications and confusion. At Nord Pool we have been following the situation closely and considering its potential implications for power trading within the UK and across borders with the rest of Europe.

Our priority throughout the Brexit process has been – and remains – to ensure that Nord Pool members can continue to easily, efficiently and securely trade on our UK markets. We are confident that this will be the case, since Nord Pool can continue to operate fully in the UK, even if the EU Capacity Allocation and Congestion Management (CACM) regulations cease to apply.

‘Business as usual’ for energy?

The Brexit agreement with the EU seeks to maintain a: ‘framework to facilitate technical cooperation between electricity and gas networks operators and organisations in the planning and use of energy infrastructure connecting the Parties’ systems, and mechanisms to ensure security of supply and efficient trade re interconnectors over different timeframes’.

So, on the face of it at least, there was a deliberate intention from the outset that it should be ‘business as usual’ in the power sphere. But with – at the time of writing – a ‘no deal’ Brexit a distinct possibility, what impact might that have on the negotiators’ ‘business as usual’ intentions?

Managing a no-deal

Without a deal, UK participation in the Single Energy Market and the Internal Energy Market would end. As a result market coupling under CACM arrangements, which

permit cross-border trading, would cease too. The UK would de-couple from Europe and continue to operate in isolation, reverting to the situation which existed prior to market coupling in 2014.

In this scenario, interconnector operators have been asked by the UK government’s Department for Business Energy and Industrial Strategy (BEIS) and Ofgem, the government regulator for gas and electricity markets in Great Britain, to amend their trading arrangements and access rules in order to enable power to continue to flow between the UK and Europe. That said, we envisage little prospect of interconnectors suddenly closing down in the event of Brexit going forward without a deal being in place.

Towards the end of 2018, in light of a likely rejection of the UK government’s exit agreement, the UK government issued a set of ‘statutory instruments’ to provide a regulatory framework under which, in the event of a no deal Brexit, businesses and service providers could continue to operate, while awaiting a new permanent trading set up.

New regulations and codes?

In a no deal scenario, with existing certification of interconnectors expected to change to reflect the UK’s exit, interconnector owners and market operators such as Nord Pool – supported by the UK and Ireland regulators – would need to engage with relevant EU regional authorities to understand how they would be regulated after March 29th.

The administrators of the technical arrangements for the domestic electricity systems affected would need to work with the industry to address and update existing network codes. Ofgem has already published a consultation, which sets out a series of proposed modifications, in the event the UK Leaves the EU without a deal, to ensure licenses continue to be fit for purpose

In addition, Ofgem has published a letter outlining how REMIT (the EU regulation on energy market integrity and transparency) will apply in Great Britain, should a no deal take effect. The EU Agency for the Cooperation of Energy Regulators (ACER) has also published guidance on the withdrawal of the UK from the EU and the implications on REMIT.

Questions remain

Ultimately there still remain more questions than there are answers when it comes to considering the impact of Brexit on the power trading sector.

For us as a power exchange there are also questions of how our markets might be regulated in the event of a no deal. And REMIT reporting of UK trades to ACER would end; what, if any, replacement obligation would come into effect and how would it apply?

We have been working with BEIS and Ofgem to look at ways to minimise disruption to energy trading in the UK, post-Brexit, as well as implementing new arrangements which could continue to drive efficiency and bring benefit to consumers in the UK.

It is Nord Pool's view that much of the CACM arrangements could be maintained through new license arrangements, post-Brexit, on the basis that the GB Nominated Electricity Market Operators will still be able to use the Euphemia algorithm and have the infrastructure

in place to ensure liquidity is shared in both day-ahead and the continuous intraday market.

The only limitation would be that cross-border capacities would not be included in the calculation(s). Ultimately this would allow market participants to determine where they trade, based on the cost or efficiency of collateral arrangements, as well as the products and services on offer from power exchanges.

Keeping you trading

What we can say with confidence however is that at Nord Pool, regardless of the direction which Brexit takes, we are determined to continue to provide simple, efficient and secure trading and clearing services to participants in our UK power markets.

We envisage no changes to our rulebook or collateral arrangements being necessary under Brexit – Nord Pool will continue to produce robust daily power prices.

While we cannot advise individual customers on the preparations they may need to take, if you have any concerns about your trading position in the light of Brexit developments, please contact your local Nord Pool Market Manager in the first instance.

Further information

Useful Brexit guidance for UK market participants can be found at the following websites:

www.ofgem.gov.uk

www.gov.uk/dexeu

www.energy-uk.org.uk

www.acer.europa.eu

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 2018 Nord Pool had a total turnover of 524 TWh traded power.