



Nemo Link Explicit Day Ahead Auction Consultation

Building on the approved Non-IEM Access Rules, Nemo Link has reviewed its processes again in readiness for GB leaving the Internal Energy Market, which now seems certain from 1st January 2021. This consultation proposes some minor adjustments to the trading rules and invites feedback from all potential customers and stakeholders.

16th October 2020

INTRODUCTION

- 1 Nemo Link Limited (NLL) and Elia System Operator are responsible for the transmission of electricity across the Anglo-Belgian Interconnector. This interconnector connects the national electricity systems of Belgium (owned and operated by Elia) and Great Britain (owned by three companies but operated by National Grid Electricity System Operator (NGESO)). NLL is a 50:50 joint venture between Elia and National Grid Plc holding an Interconnector Licence to operate Nemo Link in GB and designated as a Transmission System Operator (TSO) under the European Third Package.
- 2 On 25th January 2019, Nemo Link's Access Rules were approved by the British and Belgian regulatory authorities. These rules hold at their core the underlying assumption that GB remains part of the EU's Internal Energy Market. These Access Rules remain in effect today and will continue to do so until 31st December 2020.
- 3 On 18th October 2019 the relevant regulatory authorities also approved another version of Nemo Link's Access Rules which would become active only in the event GB left the EU's Internal Energy Market, a prospect that now seems inevitable from 1st January 2021.
- 4 Following further assessment of the non-IEM trading environment, Nemo Link is proposing some minor amendments to its non-IEM Access Rules which we think will better meet the needs of market participants, enable more efficient trading, and hence also benefit consumers through maximising social economic welfare. This document outlines the proposed changes and respondents are requested to submit any comments or questions on the proposals by email to the following address by 13th November 2020.

Email: customer.service@nemolink.co.uk

- 5 Further information about Nemo Link is available on the Nemo Link website:

<http://www.nemolink.co.uk>

CONTEXT

- 6 The Nemo Link Non-IEM access rules were developed to enable continued trading in the event GB left the Internal Energy Market. At the time, it was necessary to focus mainly on established operational processes to ensure a robust and smooth handover. However, over the Brexit transition period, we have had the opportunity to assess and discuss in greater depth whether the current Non-IEM access rules can be better optimised to deliver the most efficient trading environment. Specifically, there are some areas in which we think we can improve the Non-IEM access rules, and we are interested in perspectives on further changes that are outside Nemo Link's direct control but nevertheless helpful for us to understand the views of market participants more widely in order to advocate further change from key stakeholders. The main topics of the consultation are summarised below:
- (a) Adjustment to the timings of the explicit day ahead capacity auction that will replace the implicit day ahead auction. Nemo Link proposes moving the opening time from 09:40 to 09:00 CE(S)T. This change would also require a shortening of the long-term nomination window by 15 minutes from 09:00 to 08:45 CE(S)T; and
 - (b) Altering the day-ahead firmness deadline (DAFD) from 11:00 CE(S)T to 09:00 CE(S)T to better align with the new DA explicit auction; and
 - (c) Shortening the length of the day-ahead nomination gate by half an hour from 14:00 CE(S)T to 13:30 CE(S)T to better align with the current operational processes and to build in more contingency; and
 - (d) Understanding whether market participants would prefer an earlier GB energy auction held before rather than in parallel with the Single Day Ahead Coupling (SDAC) at 12:00 CE(S)T; and
 - (e) Understanding the importance of a single GB reference price to market participants.

TIMING OF THE EXPLICIT DAY AHEAD AUCTION

- 7 Paragraph 1 of Article 26 of Chapter 4 of Appendix 3: Rules for Daily Capacity Allocation on the GB-Belgian border of the currently approved version of Nemo Link's Non-IEM rules define the timing of the opening of the day ahead capacity auction at 09:40 CE(S)T. Paragraph 2 of the same Article also states that the auction bidding period would end 30 minutes later at 10:10 CE(S)T.
- 8 Following further analysis of the non-IEM setup and further informal discussions with key stakeholders and market participants, it has been noted that holding an auction in time for market participants to access the GB Day Ahead "Over The Counter" (OTC) liquidity window could lead to more efficient trading. Most liquidity is currently visible between 09:00 and 10:00 CE(S)T.
- 9 Diagram 1 below shows that the existing Non-IEM DA auction would not enable market participants to hedge positions during the main GB OTC liquidity window as the auction window closes at 10:10 CE(S)T. The diagram also shows a proposal to move the

auction to commence at 09:00 CE(S)T, and to shorten the auction window to 20 minutes to enable the delivery of auction results at 09:25 CE(S)T leaving sufficient time for market participants to still access the GB OTC liquidity window.

- 10 Enabling this change would also require a small shortening of the long-term nomination window which opens 16:30 CE(S)T D-2 and currently closes at 09:00 D-1, but under the proposed changes would close at 08:45CE(S)T. This shortening is required to calculate the Available Transfer Capacity (ATC) for the Day Ahead auction.

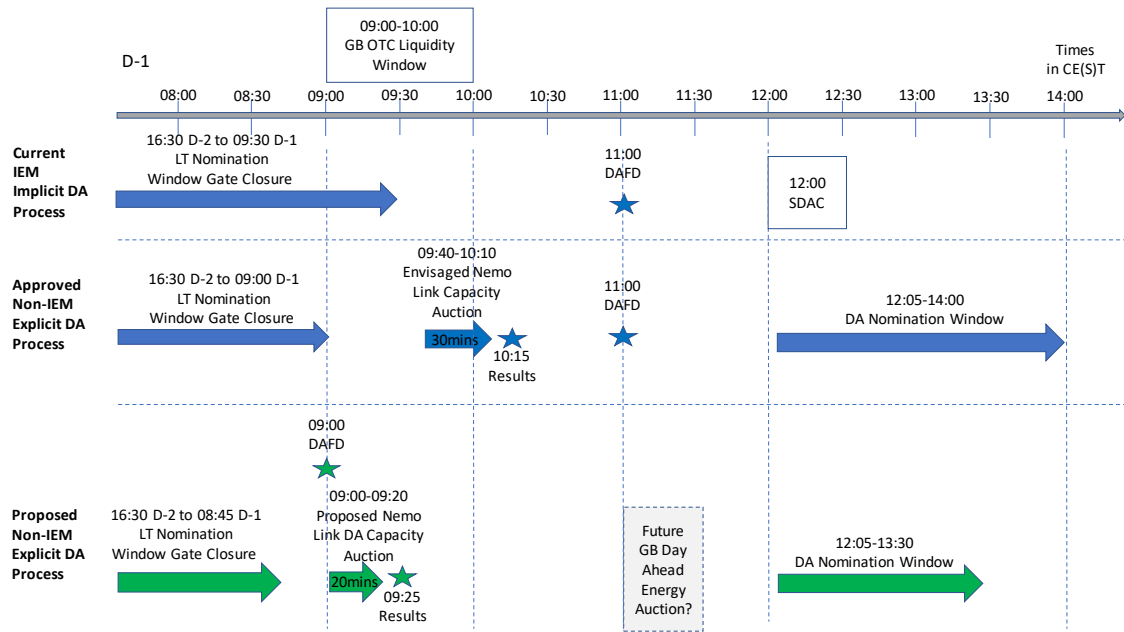


Diagram 1: Current and Proposed Trading Processes in a Non-IEM World

- 11 One potential disadvantage of this change is the operational challenge that comes from both a shorter bidding window, and the timing which may coincide with auctions on other borders.
- 12 Market participants are invited to provide feedback on the proposal to bring forward the DA Nemo Link explicit capacity auction from 09:40 to 09:00 and to shorten the length of the bidding window by 10 minutes to enable earlier result publication and subsequent access the GB OTC liquidity window. In the access rules themselves, Nemo Link proposes to include a wide window within which to hold the Day Ahead capacity auction so that any future adjustments can be made swiftly to accommodate changing market needs following consultation with market participants.

ALTERING THE DAY-AHEAD FIRMNESS DEADLINE (DAFD)

- 13 The current DAFD timing is scheduled at 11:00 CE(S)T one hour before the SDAC to enable market participants to adjust their positions in the event of curtailment.
- 14 In the future, GB power auctions could however be scheduled earlier as this would allow for more efficient trading over the interconnectors. It is also anticipated that

market participants would make more use of the GB OTC liquidity window to trade their physical positions.

- 15 Moving the DAFD timing to 09:00 CE(S)T, which corresponds to the proposed start of the Day-ahead explicit auction window, would provide the market with more predictability and capacity firmness and it would enable the market more means to trade out any impacts of curtailment before the DAFD.
- 16 Nemo Link would welcome the views of the market to this proposed timing change.

SHORTENING THE LENGTH OF THE DAY AHEAD NOMINATION GATE

- 17 In the currently approved Non-IEM Access Rules, the Day Ahead nomination window is scheduled between 12:05 CE(S)T and 14:00 CE(S)T.
- 18 Shortening the default Day Ahead explicit nomination gate closure from 14:00 CE(S)T to 13:30 CE(S)T allows Nemo Link to better adhere to the current operational TSO timings. It also allows for additional contingency in case of system issues.
- 19 Furthermore, where exceptional market circumstances arise (e.g. delays at SDAC) Nemo Link could extend the DA nomination window with the agreement of Elia and NGESO.
- 20 Nemo Link would welcome the views of the market to this proposed timing change.

TIMING OF THE GB DAY AHEAD ENERGY AUCTION

- 21 Nemo Link would also like to understand the position of market participants on the timing of any future GB energy auction and how this relates to the timing of the SDAC auction.
- 22 In the case of the GB Day Ahead Day Ahead Auction running in parallel to SDAC, our understanding is that traders would need to make an unconditional bid/offer in both markets to ensure that the energy is bought/sold in both markets. This approach however carries a risk that traders would need to nominate their capacity against the price direction, in which case they would suffer a loss.
- 23 Sequential Day Ahead energy auctions where the GB auction is scheduled ahead of SDAC would allow traders to first submit a conditional bid or offer in the GB auction and, only if the trade cleared, proceed with placing their conditional offer or bid in SDAC. The ability to first assess whether the GB Day-Ahead price is above or below a threshold level before placing a bid in SDAC reduces the risk that traders would need to nominate against the price direction.
- 24 A sequential approach would also be consistent with processes on the Swiss explicit border (Swiss Day Ahead Market results are published at 11:10 CE(S)T, SDAC closes at 12:00 CE(S)T). Overall therefore, Nemo Link believes it would make sense for the GB Day Ahead energy auction(s) to take place before SDAC. We would propose such an auction to clear before 11:30 CE(S)T.

- 25 Implementing such an auction is not within the control of Nemo Link's responsibilities, however we would like to understand whether market participants agree that a GB energy auction before SDAC would make sense.
- 26 Market participants are invited to provide their feedback on the timing of a GB energy auction(s).

GB REFERENCE PRICE

- 27 Finally, Nemo Link would also like to understand the position of market participants in relation to the importance of a single GB reference price. One consequence of GB leaving the IEM is that the power exchange order books will no longer necessarily be coupled and therefore it is possible that more than one GB reference price will emerge. Nemo Link is interested to understand whether and why a single GB reference price is important to market participants.

SUMMARY OF CONSULTATION QUESTIONS

- 28 In summary therefore questions for market participants are as follows:
- (a) Do you agree with the proposed Day Ahead auction time change and the shortening of the LT nomination window?
 - (b) Do you agree with the movement of the Day Ahead Firmness Deadline from 11:00 to 09:00CE(S)T?
 - (c) Do you agree with shortening the length of the day ahead nomination window from 14:00 to 13:30 CE(S)T?
 - (d) Do you agree a Day Ahead energy auction in GB earlier than SDAC is desirable?
 - (e) How important is a single GB energy reference price?
- 29 Please email your responses to customer.service@nemolink.co.uk by 13/11/2020.