

QUARTERLY NEWSLETTER

from Nord Pool Market Surveillance

Q4 2019

Welcome to the second quarterly newsletter from Nord Pool's Market Surveillance team. We are excited to share this update on surveillance, regulations and other topics we have been working on. In this second edition of our newsletter we share our thoughts on the countertrading agreement that exists on the border between Denmark West and Germany (Joint Declaration DK1-DE), while one of our market surveillance experts explains how we work with a case.

Joint Declaration: Countertrading on DE-DK1 border and its effects

The day-ahead market remains the main timeframe for trading physical contracts in electricity. As a reliable measure of the physical supply and demand situation, it provides a signal ensuring optimal operation and investments in power systems across the EU.

In recent years, a strong push has been made towards closer market integration – ensuring that electricity is traded cross-border, flowing from low-priced areas to high-priced areas. According to the Joint Declaration between Germany and Denmark, Transmission System Operators (TSOs) in the respective countries aim gradually to increase transmission capacity between Denmark West (DK1) and Germany (DE) available to the day-ahead market, as shown in Figure 1, page 2.

However, the Joint Declaration is a political agreement, which does not change the fact that there are situations where the transmission grid cannot sustain the actual corresponding physical flow. Therefore, countertrading measures (measures by TSOs to relieve physical congestion) are applied in real time to solve the situation. Often this is done by applying special regulation¹ to regulate down in DK1 and regulating up by trading on the intraday market in DE. The total volume of countertrade due to the Joint Declaration in 2018 was 552 584 MWh, with countertrade taking place 17.5% of the time².

It follows that Danish producers and consumers have an incentive to modify their bids in the day-ahead market, in order to be down-regulated in the real-time special regulation market, thereby arbitraging between the two markets. Such behaviour can potentially affect prices in the day-ahead market and increase the volumes needed to be countertraded, which again could distort both the intraday and regulation market. It is also important to consider that ineffective use of Nordic generation resources can arise because only Danish bids are used for special regulation, while the flows in the day-ahead market include all generation and consumption resources from the Single Day-Ahead Coupling. In certain situations, power may flow from Nordic areas (often including a large share of hydropower) to Denmark, where Danish resources, such as wind, are then down-regulated in real-time (in 2018 26% of special down-regulation was delivered by wind power³).

The latest ACER guidance stipulates that market participants may need legitimate technical, regulatory and/or economic justification for offering generation capacity above marginal cost³.

¹ [Special regulation is applied when Energinet makes a specific selection of regulating power bids for upward or downward regulation disregarding the usual price order.](#)

[\(Regulation C2: Balancing market\)](#)

² [Monitoring Report on DK1-DE Countertrade following Joint Declaration 2018](#)

³ [ACER Guidance on the application of REMIT 4th edition, updated 15th October 2019](#)

The case handling process by Jon Rokne Bolkesjø

According to Market Surveillance's assessment, bidding below marginal costs or withholding generation/consumption from one market with the intention of offering it in another market may also need justification.

Depending on the interpretation of this guidance, taking benefit of arbitrage incentives created by the political agreement may constitute market manipulation.

As a result, Market Surveillance encourages all market participants to exercise caution and pay close attention to the increased risk of manipulation arising from the Joint Declaration. We would also encourage the relevant regulatory parties to give clearer guidance on this matter, for the benefit of all market participants.

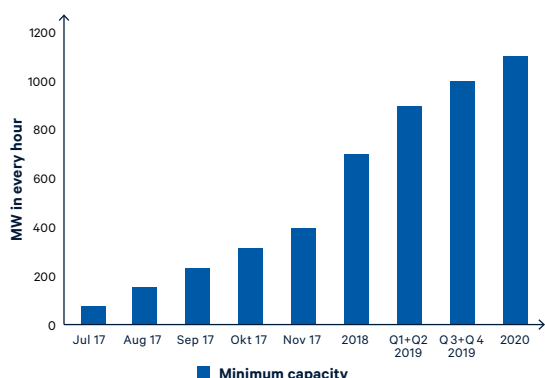


Figure 1. Minimum transmission capacities (MW in every hour) following the Joint Declaration. Source: [Monitoring Report](#)

Key points on the Joint Declaration

TSOs sometimes provide more transmission capacity between Denmark West and Germany to the day-ahead market than is technically available for the actual flow of power.

This may create incentives for market participants to strategically adjust their position in the day-ahead market. In our opinion, this may constitute market manipulation and we therefore encourage market participants to exercise caution in trading.

The price signal of the day-ahead market is weakened by such agreements.

Nord Pool's Market Surveillance team will continue working with these issues from the physical market's side. If you have any questions or suggestions related to this topic, please send them to us, see contact details on page 3.

There are several ways in which Nord Pool can become aware of unusual trading activity in the market. Most often we are notified when alerts that we have developed to identify specific trading patterns and outliers are generated.

But we also receive tip-offs from market participants. Those observations are of particular value to us, since they show how the market looked from a trader's perspective. Such communication is of course always treated in the strictest confidence.



All unusual events and notifications are passed through a first assessment by a Market Surveillance analyst. At this stage, we are looking for market fundamentals or known trading behaviour by the market participant that could explain the event.

- The more we know about the trading activity of a market participant, the easier it is to decide whether there is a legitimate reason or not, behind the activity we see. That in turn will decide whether we dismiss the event or follow it up more closely. Our alarms generate several hundred 'events' every week and it is important to be able to efficiently filter out 'false positives'.

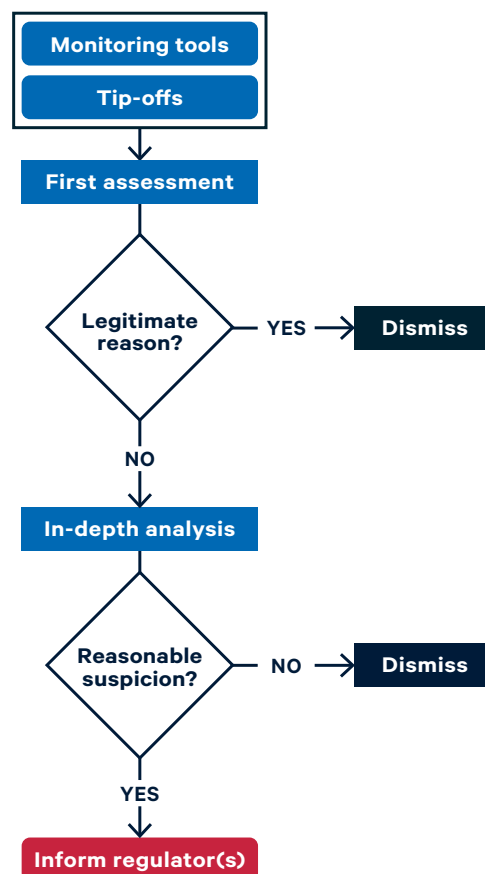
For those alerts that we do not dismiss after first assessment, we start a more in-depth analysis. At this stage, we may also decide to ask questions of the market participant in order to be able to decide on the case.

- At this point we are typically asking for information regarding the specific event, but also for more general information on how the market participant is trading with us. For example: it is very valuable to know what physical assets are traded through which portfolio, if there is a bilateral contract that may impact the volumes traded via the exchange or how a market participant handles uncertainty when ramping up a sizeable production unit.

Based on the available information, we then have to decide whether we have a reasonable suspicion that the identified trading behaviour might represent a breach of REMIT. If that is the case, it is our legal obligation to inform the relevant regulator(s). We are, however, unable to inform the market participant about the outcome of our investigation. This is in line with regulatory guidance and applies also for cases where we conclude there was no reasonable suspicion of a REMIT breach.

At Nord Pool Market Surveillance, we are constantly vigilant over suspicious trading activity in order to ensure regulatory compliance, fairness and transparency. If you have any questions or think you may have identified unusual trading activity in the market, please contact us, see details below.

Case handling process



How to contact Market Surveillance

We hope that you have enjoyed reading our second quarterly 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.

Also, we are always open to discuss any questions on regulation that you might have, related to your own trading.

Simply contact: market.surveillance@nordpoolgroup.com or +47 67 10 91 35.

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 360 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 2019 Nord Pool had a total turnover of 494 TWh traded power.