



Department for
Business, Energy
& Industrial Strategy

GB Wholesale Electricity Market Arrangements

Re-coupling GB auctions for cross-border
trade with the EU at the day-ahead timeframe

Closing date: 3 November 2021 (extended from 28 October 2021)



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Any enquiries regarding this publication should be sent to us at: pxconsultation@beis.gov.uk

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General information

Why we are consulting

The purpose of this consultation is to seek views on the current arrangements for trading electricity on power exchanges in the GB wholesale electricity market and our proposals to support efficient cross-border trading. This consultation sets out a number of key items in respect of this matter:

- historical information regarding the GB wholesale electricity market, market arrangements as they applied to power exchanges prior to EU Exit, and how they have changed following EU Exit;
- the context under which GB electricity market arrangements may need to evolve further, including the requirements of the UK-EU Trade and Cooperation Agreement (TCA), and the inefficiency of current market arrangements as highlighted by market participants and other stakeholders; and
- proposals for next steps that may be taken to deliver new market arrangements in order to fulfil the requirements of the TCA and resolve issues with current electricity market arrangements in GB.

Consultation details

Issued: 30/09/2021

Respond by: 03/11/2021 (extended from 28/10/2021)

Enquiries to:

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Consultation reference:

GB Wholesale Electricity Market Arrangements

Audiences:

Market participants in the GB wholesale electricity market

Territorial extent:

This consultation applies to Great Britain only.

How to respond

Respond online at: <https://beisgovuk.citizenspace.com/clean-electricity/pxconsultation>

or

Email to: pxconsultation@beis.gov.uk

Write to:

Power Exchange Consultation
Energy Security, Networks and Markets
Department for Business, Energy and Industrial Strategy
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1 Victoria Street
London
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When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](https://www.gov.uk). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Background information

- 1 Prior to 1 January 2021, the UK¹ electricity market was part of the EU Internal Energy Market (IEM). As part of the arrangements for trading electricity within the IEM, the EU Regulation known as CACM², which established a guideline on capacity allocation and congestion management, set out the provisions for the short-term physical markets and single day-ahead market coupling (SDAC) across the EU. This came into force on 14 August 2015 and applied to all transmission systems and interconnections in the EU except the transmission systems on islands which are not connected with other transmission systems via interconnections. This included GB borders physically connected to continental Europe and to the Single Electricity Market (SEM) across the island of Ireland.
- 2 Under CACM each member state was required to designate ‘nominated electricity market operators’ (NEMOs) which were tasked with particular responsibilities for operating market coupling. In GB, European Power Exchange SE (EPEX) and Nord Pool AS (NP) were designated by Ofgem³ as NEMOs⁴. The two NEMOs were established as ‘regulated persons’ in the Electricity Act 1989⁵ with Ofgem empowered to enforce compliance. The two NEMOs cooperated to establish arrangements whereby the EU market coupling process matched bids and offers from across the EU taking into account that trades could be completed between these two exchanges without physical network constraint, resulting in the same day-ahead price determined for both NEMOs in the EU day-ahead auction – creating a single GB clearing price.
- 3 Following EU Exit, electricity is no longer traded through the EU market coupling regime established through CACM⁶. As a result, the EU market coupling process no longer determines prices for EPEX and NP’s respective GB day-ahead markets that were previously coupled. Instead, interconnector capacity is sold to the market separately and independently of the electrical energy through explicit auctions. EPEX and NP are now operating fully separated day-ahead markets, settling and clearing at different and independent prices.

¹ The proposal put forward in this consultation relates to GB only. Responsibility for energy is transferred to Northern Ireland, which has a separate wholesale electricity market shared with the Republic of Ireland.

² Capacity Allocation and Congestion Management Regulation (EU) 2015/1222

³ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms ‘Ofgem’ and ‘the Authority’, are used interchangeably in this document.

⁴ Ofgem’s decision to designate EPEX SPOT as a NEMO in GB is available at the following address:

https://www.ofgem.gov.uk/system/files/docs/2016/11/final_decisions_on_epex_spot_nemo_designation_and_revocation_of_apx_nemo_designation_in_gb.pdf

Ofgem’s decision to designate Nord Pool Spot AS (NPS), now called European Market Coupling Operator (EMCO), as a NEMO in GB is available at the following address:

https://www.ofgem.gov.uk/sites/default/files/docs/final_decisions_on_applications_to_be_designated_a_nemo_in_gb_10122015_2.pdf.

⁵ Section 25(8) – Electricity Act 1989

⁶ Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 revoked CACM to the extent it applied in GB as retained EU law.

- 4 The UK and the EU agreed the Trade and Cooperation Agreement (TCA) on 24 December 2020, and it was applied provisionally from 1 January 2021 until formally entering into force on 1 May 2021. The TCA provides for regulatory and technical cooperation on a range of energy matters to support and strengthen the UK and EU's shared energy objectives. The TCA will enable efficient electricity trade over electricity interconnectors and the energy provisions⁷ will specifically support and strengthen the UK and EU's respective energy and climate ambitions whilst ensuring our respective markets are sufficiently compatible to enable efficient electricity trade to take place in an open and fair manner.
- 5 Electricity interconnection is the connection of neighbouring markets through large underground or underwater cables so that when there is an abundance of electricity in one market, it can be exported to another – and vice versa. Interconnection increases the ability of the UK electricity market to trade with other markets, enhances the flexibility of our energy system and has been shown to have clear benefits for decarbonisation. A recent report into the impact of interconnectors on decarbonisation, demonstrated how a higher level of interconnector capacity could decrease cumulative emissions in GB by up to 199MtCO_{2e} by 2050⁸, as well as reducing total system costs. Interconnection will be critical in realising our offshore wind target of 40GW by 2030 whilst maintaining security of supply, as multi-purpose interconnectors can further facilitate the efficient integration of offshore windfarms more quickly and in a coordinated manner. Efficient cross-border electricity trading arrangements are critical to realising the benefits of interconnection and multi-purpose interconnectors.
- 6 The TCA commits the UK and EU to ensure the efficient use of electricity interconnectors and coordinate to develop arrangements for robust and efficient outcomes for all relevant timeframes⁹. The TCA sets out the basis for these new arrangements in the day-ahead timeframe as an implicit (selling capacity on the interconnector and electricity together) multi-region loose volume coupling (MRLVC) trading model, with the objective of maximising the benefits of trade. The process requires the submission of the commercial bids and offers for the day-ahead market timeframe from 'relevant day-ahead markets in the UK'¹⁰. The MRLVC algorithm will use that data to calculate the net energy positions over the interconnectors, the results of which will be used to determine the results in the respective day-ahead markets. The technical details of the trading model are to be jointly developed by the relevant EU and UK Electricity System Operators and Interconnector Transmission System Operators (TSOs)¹¹ for submission to the Specialised Committee for Energy (SCE). The TCA sets

⁷ Part 2 – Title VIII – Energy - Trade and Cooperation Agreement

⁸ BEIS Research Paper number 2020/056: Impact of interconnectors on decarbonisation and available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943239/impact-of-interconnectors-on-decarbonisation.pdf

⁹ For example, Article 311 of the Trade and Cooperation Agreement

¹⁰ In the context of this consultation the 'relevant day-ahead markets' for the purposes of Annex 29 of the TCA are those GB markets described in paragraph 22 only.

¹¹ Article 311(1)(f), Article 312(1), Article 317 of the Trade and Cooperation Agreement

out a specific timeline for the SCE to ensure delivery of these technical procedures, as well as their entry into operation by April 2022¹².

- 7 It is important all relevant parties work with one another to ensure that electricity trade over interconnectors takes place in accordance with the TCA. To support this, the Electricity Trading (Development of Technical Procedures) (Day-Ahead Market Timeframe) Regulations 2021, established EPEX and NP as 'relevant electricity market operators' (REMOs) for the purposes of facilitating the development of the technical procedures. REMOs are required to co-operate with one another and the TSOs in order to support the development of technical procedures for the allocation of electricity interconnector capacity at the day-ahead timeframe in accordance with Annex 29 of the TCA, with Ofgem empowered to enforce compliance. Whilst the immediate priority is the development of the day-ahead market, the SCE shall keep under review the arrangements for all timeframes (namely the balancing, intraday and long-term timescales).

¹² Annex 29 – Part 2 of the Trade and Cooperation Agreement

The benefits of a single GB clearing price

Market analysis

- 8 Secretary of State Guidance¹³ on the application of the TCA arrangements noted the previous arrangements for cooperation put in place in GB by NEMOs under CACM. These methods of cooperation resulted in a single GB clearing price, and the guidance further noted that it would be appropriate to replicate this cooperation at the earliest opportunity for the implementation of the TCA arrangements.
- 9 In April 2021, the UK and EU TSOs published the Cost Benefit Analysis¹⁴ (CBA) for MRLVC. This identified that a single GB clearing price, determined through a subsequent GB price coupling following MRLVC, for the wholesale electricity market at the day-ahead timeframe is highly desirable for the effective implementation of MRLVC, which will underpin efficient trading arrangements with the EU. The CBA further notes that the lack of the single GB clearing price, with GB power exchanges independently calculating separate prices through separate auctions, may create issues in the effective implementation of MRLVC, such as incomplete optimisation, a negative impact on price formation and increased complexity of fallback and coordination procedures. Therefore, the TSOs recommended a single GB clearing price as a common feature in all MRLVC design options.
- 10 In response to the CBA, market participants and trade associations have highlighted the importance of the single GB clearing price in support of the TCA and effective functioning of the newly proposed implicit trading model. They have expressed the need for implementing such arrangements as soon as possible regarding such action as ‘no regret’ work that will also improve the efficiency of the explicit trading arrangements in place today.
- 11 EFET¹⁵, Eurelectric¹⁶ and IFIEC Europe¹⁷ explained in a joint letter¹⁸ that merging the order books of the GB power exchanges is a first and no regret option whichever cross-zonal trading arrangement is ultimately implemented. It was noted that the successful development of new cross border arrangements is important to unlock benefits for UK and EU citizens now, and key to developing large scale renewable infrastructure in the North Sea in the future, to help both the EU and UK to meet their net zero ambitions.

¹³ Electricity trading arrangements - published in January 2021 and available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958195/secretary-of-state-electricity-trading-arrangements-guidance.pdf

¹⁴ Annex 29 – Part 1(1) & Part 2 of the Trade and Cooperation Agreement

¹⁵ EFET - European Federation of Energy Traders (represents UK businesses)

¹⁶ Eurelectric - is the federation for the European electricity industry (of which Energy UK is a member)

¹⁷ International Federation of Industrial Energy Consumers - represents the interests of industrial energy users in Europe

¹⁸ https://data.efet.org//Files/Documents/Press%20releases/2021/210518_PR_MRLVC%20consultation.pdf

- 12 The House of Lords European Union Committee¹⁹ similarly raised concerns regarding consumer electricity prices and the risk of increases due to the inefficiency of the initial cross-border electricity trading arrangements between UK and continental Europe and the island of Ireland following written and verbal evidence from a number of stakeholders. As part of its evidence Energy UK stated that:
- “Leaving the IEM on 1 January ... [led] the legislation that supported the coupling of the Day-Ahead market in GB to fall away. This means GB power exchanges no longer share order books to deliver a single day ahead price. This has led to the two day ahead auctions often clearing at different prices, leading to additional risk for market participants (especially renewable generators) and ultimately additional cost for customers.”*
- 13 The Committee stated in its report that the UK government, Ofgem, and Northern Ireland’s Utility Regulator should monitor closely for price rises and consider taking mitigating actions if necessary. The Committee noted the government should explore options for recoupling GB’s two power exchanges while the new day-ahead trading arrangements are being developed.
- 14 Voluntary arrangements to support the formation of a single GB clearing price at the day-ahead timeframe have not yet been proposed, despite the recommendations made by the CBA and industry highlighting this as a no regret option. Given the requirements of the TCA, the recommendation in the CBA, the views of industry and the House of Lords European Union Committee, it is our view that arrangements to support the formation of a single GB clearing price are highly desirable to support efficient trade of electricity over interconnectors as part of and in any case in advance of MRLVC.

Future efficient arrangements

- 15 Annex 29 of the TCA sets out requirements for MRLVC. These include that interconnector flows should be calculated by applying a specific algorithm to specific data, which include commercial bids and offers for the day-ahead market timeframe from ‘relevant day-ahead markets in the UK’, and network capacity data and system capabilities determined in accordance with the procedures agreed between transmission system operators. If that data includes network capacity or system capabilities that do not reflect the physical ability to trade and flow power between the ‘relevant day-ahead markets in the UK’ and across EU-UK interconnectors, MRLVC may not calculate the most efficient interconnector flows.
- 16 Once the MRLVC processes have determined interconnector flows, these flows need to be inputted into the relevant respective GB and EU day-ahead markets. If those ‘relevant day-ahead markets’ in GB subsequently introduce additional constraints not

¹⁹ Beyond Brexit: food, environment, energy and health - 22nd Report of Session 2019-21 - published 23 March 2021 - HL Paper 247 and available at: <https://publications.parliament.uk/pa/ld5801/ldselect/ldeucom/247/247.pdf>

used in MRLVC, such as not taking into account the physical ability to trade and flow power between the 'relevant day-ahead markets', then this is likely to deliver a less efficient outcome. For example, the interconnector flows determined by MRLVC could be split and input separately into each of the 'relevant day-ahead markets'. Each of the 'relevant day-ahead markets' could then undertake separate price formation, using a sub-set of the commercial bids and offers used by MRLVC and an input value for interconnector flows determined by MRLVC. However, this may result in different clearing prices formed between the 'relevant day-ahead markets', and in cleared prices that do not align with the interconnector flows determined by MRLVC (for example, if prices on the exchanges diverged to the extent that one had a higher price than a connected market, and one had a lower price).

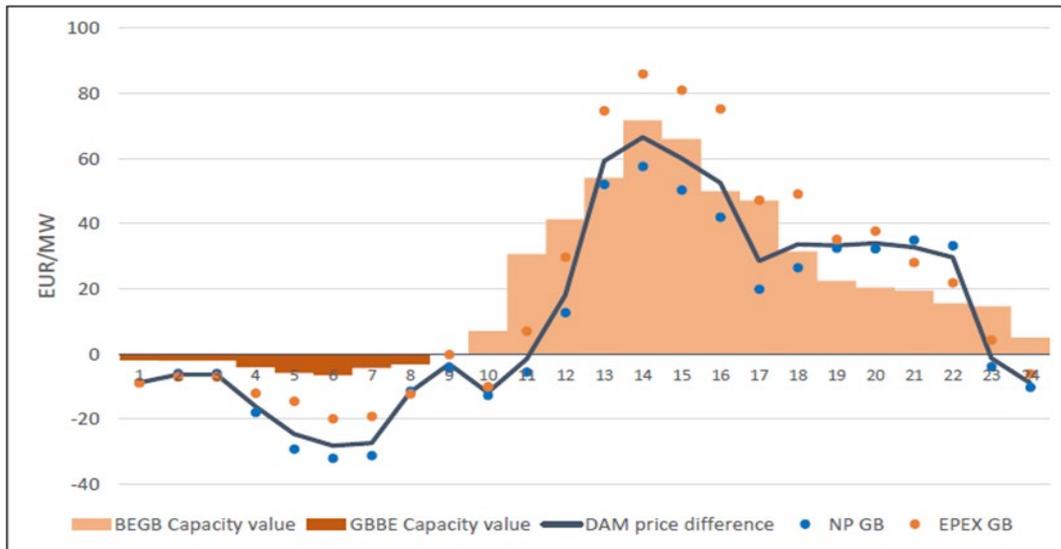
- 17 Any such constraint in price formation could have the effect of fragmenting the market liquidity of the 'relevant day-ahead markets', increasing price volatility, and undermining price signals for market participants. In effect, it would make it more difficult and costly for traders participating in the 'relevant day-ahead markets' to anticipate and manage the value of interconnector capacity. This would not only undermine trading arrangements in day-ahead markets, particularly at times of system stress, but in the short-term markets more generally, and could negatively undermine the ability to undertake effective longer term financial hedging strategies in particular with long term transmission rights. For example, if a trader were to buy a Financial Transmission Right²⁰ (FTR) between the GB and SEM markets it would not be clear which GB market price this FTR would be settled against. This may in turn further undermine the efficiency and maximum utilisation of UK-EU trade.
- 18 Fragmented market liquidity may also occur, and have similar effects, due to separate price formation irrespective of the implementation and operation of MRLVC. Under explicit allocation, traders must separately purchase electricity and interconnector capacity. This form of explicit trade can result in an under-utilisation of interconnectors because capacity is purchased without the power price being known. On occasion this can even lead to interconnector flows against the price difference between the connected markets. The effect of the current fragmented GB day-ahead markets appears to have further undermined price signals for participants and the ability of traders to maximise trade through explicit arrangements. This can be seen in the figure below from the analytical results of the CBA²¹, which illustrates the range of price difference between the connected respective day-ahead markets relative to the value of interconnector capacity on NEMO Link on 28 March 2021. It can be seen at hours 10 and 24, that despite interconnector capacity being sold at a higher value in the BE>>GB direction, day-ahead prices were higher in the Belgium market than in both GB markets, demonstrating instances of inefficient trade. Furthermore, during hours 11 and 23 the difference in prices in the two GB day-ahead markets is large enough to change the

²⁰ This is a financial instrument that allows the holder to receive the positive difference in the day-ahead market price between the GB market and the SEM, if a trader holds an FTR in the right direction.

²¹ Cost Benefit Analysis of Multi-Region Loose Volume Coupling (MRLVC) arrangements to apply between the UK and the bidding zones directly connected to the UK [slide 91] which can be found at: <https://consultations.entsoe.eu/markets/cost-benefit-analysis-of-multi-region-loose-volume/>

direction of the price differential with the Belgium market (one is positive, the other negative). Such differences hamper market participants ability to assess the value of interconnector capacity.

Figure 1: GB day-ahead prices relative to the value of interconnector capacity for Nemo Link on 28th March 2021



- 19 We therefore consider that arrangements should be put in place between the ‘relevant day-ahead markets’ to support the formation of a single GB clearing price, so that the commercial bids and offers input into MRLVC can be matched, cleared, and settled in line with the MRLVC process to determine interconnector flows, and in any case to support the GB market and GB market participants in trading cross-border electricity as efficiently as possible in advance of MRLVC.

A new mechanism for a single GB clearing price

- 20 In this section we set out a high-level approach for the coupling of specific daily day-ahead auctions, which would be used as the 'relevant day-ahead markets' for the purposes of Annex 29 of the TCA, with the aim of seeking stakeholder views on whether to implement this, and if so how to do so in practice. Stakeholder feedback and engagement will support us in assessing and developing our proposal further as well as highlighting other possible proposals which may be necessary in the wider wholesale market in the future.
- 21 We consider our proposal:
- supports the UK's compliance with its obligations under the TCA;
 - reflects the aims of the accompanying Joint Declaration made by the UK and the EU²²;
 - acknowledges the outcomes of the CBA undertaken by the TSOs;
 - is consistent with the Secretary of State Guidance published in January 2021; and
 - reflects stakeholder views that we have received on current market arrangements.

Proposals

- 22 We consider that the 'relevant day-ahead markets' for the purposes of Annex 29 of the TCA are the two daily hourly GB auctions which currently take place at 09:20 and 09:50. It is our view that the use of the commercial bids and offers from these auctions is most likely to maximise the benefits of cross-border trade by providing the most reliable market information. This is because each auction is comprised of 24 hourly contracts/delivery periods corresponding to the 24 hours of the following day; each auction sees the largest traded volumes out of the available daily day-ahead auctions; moreover, these two auctions were previously coupled by EPEX and NP (as NEMOs) for purposes of trade with the EU (when the UK was part of the IEM).
- 23 Daily day-ahead auctions are currently operated by EPEX and NP as follows:
- *EPEX – hourly auction – Gate Closure – 09:20*

²² 'Joint Declaration By The Union And The United Kingdom On Annex ENER-4' which can be found at pg.7: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/948105/EU-UK_Declarations_24.12.2020.pdf

- *EPEX* – *half-hourly auction* – *Gate Closure* – *15:30*
 - *NP* – *hourly auction* – *Gate Closure* – *09:50*
 - *NP* – *half-hourly auction* – *Gate Closure* – *14:30*
- 24 The market coupling function under MRLVC could be performed by a new entity created specifically for this purpose. However, as EPEX and NP currently run these auctions which we consider are relevant for the purposes of Annex 29 of the TCA, and did so successfully for purposes of price coupling under CACM when the UK was part of the IEM, we think it is appropriate that they have the opportunity to be considered for the role. We will set out our views regarding the roles EPEX and NP may choose to undertake in MRLVC market coupling in the next section.
- 25 For the purposes of market coupling under MRLVC, the exact time at which the auctions will need to run will depend on the timing of the MRLVC process. In the meantime, before the implementation of MRLVC, we consider it possible to create, implement and operate the arrangements necessary to achieve a single GB clearing price for the purposes of the two auctions described in paragraph 22. Any necessary adjustments to the timing of those auctions to accommodate MRLVC can be made in the future.
- 26 Our legislative proposal, subject to this consultation and Parliamentary approval, referred to as ‘a new mechanism for a single GB clearing price’, would require those entities currently operating the specific daily day-ahead auctions described in paragraph 22, which we propose should be the ‘relevant day-ahead markets’ for the purposes of Annex 29, to make operational arrangements to couple those auctions, whereby bids and offers from across those auctions are cleared and settled in a manner that results in a single GB clearing price.
- 27 We consider that, as outcomes, the operational arrangements should ensure that the recoupling of these auctions:
- results in a single GB clearing price across the two ‘relevant day-ahead markets’;
 - can take place and operate in advance of implementation of MRLVC and be standalone;
 - allows for future interaction with, and amendment as necessary to facilitate, MRLVC;
 - is fair and non-discriminatory in the treatment of the relevant market operators, TSOs, and wider market participants; and
 - account for the needs of the relevant market operators, TSOs, and wider market participants.
- 28 Initially, until the technical procedures are developed further, which will enable detailed governance procedures to be developed (see below), we propose for those entities operating the ‘relevant day-ahead markets’ be subject to enforcement action by Ofgem

under the Electricity Act 1989²³ should they fail to meet the outcomes described in paragraph 27 as if those outcomes were relevant requirements on a 'regulated person' under that Act.

- 29 In order to reflect the UK's obligations under the TCA, with particular reference to the timelines in Annex 29, we propose that the new mechanism for a single GB clearing price should be made operational as soon as possible prior to the entry into operation of the MRLVC technical procedures and in any case no later than April 2022.
- 30 We propose that the associated costs of the re-coupling of the GB day-ahead markets be borne by the relevant electricity market operators.

Questions on approach to forming and implementing a single GB clearing price:

- 1. What has been the impact (financial or otherwise) of power exchanges ceasing to couple their auctions in the day-ahead timeframe and not producing a single GB clearing price? Please provide details and estimates of the impact.**
- 2. Do you agree with the proposal for the two day-ahead auctions noted in paragraph 22 to be used as the 'relevant day-ahead markets' for the purposes of Annex 29 of the TCA?**
- 3. Do you agree that the coupling of the 'relevant day-ahead markets' is necessary to provide the appropriate market arrangements to support efficient trade of electricity over interconnectors, as part of and in any case in advance of MRLVC? Please provide supporting evidence for this necessity.**
- 4. Do you agree with the proposal that legislative intervention is necessary to enable the formation of a single GB clearing price in the 'relevant day-ahead markets' to ensure efficient electricity trading over interconnectors, now and as part of MRLVC? Do you have evidence to support this proposal? Do you have any alternative proposals with supporting evidence?**
- 5. Do you agree with our outcomes in paragraph 27 against which the market operators should re-couple their 'relevant day-ahead markets'? Are there additional outcomes that should be required in the recoupling of the 'relevant day-ahead markets'?**
- 6. Taking account of the UK's obligations under the TCA, with particular reference to those provisions in Annex 29, do you agree with the proposed timeframe for making operational the new mechanisms for a single GB clearing price?**
- 7. Do you agree with our proposal for the costs of re-coupling the 'relevant day-ahead markets' be borne by the operators?**
- 8. What do you estimate to be the costs of implementing the proposal for either or both operators and the industry more widely? Please provide details and**

²³ Section 25 – Electricity Act 1989

estimates of any relevant activities required to transition from the current arrangements to the new arrangements laid out in the proposal.

- 9. What do you estimate to be the impacts (financial or otherwise) to operators and market participants from adopting the new arrangements laid out in the proposal? What are the impacts of not implementing the proposal? Please provide details and estimates of the relevant costs and benefits.**

Question on regulation of a single GB clearing price:

- 10. To what extent do you agree with our proposals for regulating the new mechanism for a single GB clearing price? Should these obligations be capable of enforcement by Ofgem as if they were a relevant requirement on a 'regulated person' for the purpose of the Electricity Act 1989?**

Potential future interventions

- 31 Although the consultation is primarily focussed on identifying the ‘relevant day-ahead markets’ that would be used for purposes of Annex 29 of the TCA and the proposal to re-establish a single GB clearing price by coupling those specific daily day-ahead auctions, we would like to understand stakeholder views about a number of further related issues regarding:
- further governance arrangements and processes (once new trading arrangements with the EU are operational), and the role of Ofgem in those governance processes;
 - possible further policy proposals relating to the operation of power exchanges in the GB wholesale market across other timeframes; and,
 - possible further policy proposals relating to the operation of power exchanges in the GB wholesale market across other borders.

Future governance arrangements

- 32 Currently, other than the obligations set out by the Electricity Trading (Development of Technical Procedures) (Day-Ahead Market Timeframe) Regulations 2021, which requires REMOs to cooperate with each other and TSOs in the development of technical procedures for efficient cross-border trading, there are no other specific roles and responsibilities for REMOs set out in legislation in relation to cross-border trading following the revocation of CACM after EU Exit. However, once the technical procedures for MRLVC are developed further, specific roles and responsibilities are likely to be identified which will need to be completed by market operators and governed accordingly.
- 33 As we described in paragraph 24, the market coupling function under MRLVC is likely to be a task identified in the technical procedures. It does not necessarily need to be performed by those entities currently operating daily day-ahead auctions and a new entity could be created specifically for this purpose (and establish new auctions). However, as EPEX and NP currently run suitable auctions and did so successfully for the purposes of price coupling under CACM when the UK was part of the IEM, we think it is appropriate that they have the opportunity to be considered for the role. We therefore propose to invite applications, in due course, for eligible persons to be designated to undertake MRLVC, including operation of ‘relevant day-ahead markets’ and the mechanism for a single clearing price as described above.
- 34 Previously, under CACM there was a designation process for those wishing to be designated as a NEMO. The process was carried out by Ofgem with those wishing to be designated as a NEMO assessed against specific criteria. We propose a similar arrangement be introduced whereby those wishing to be designated as market

operators, for purposes of market coupling under MRLVC, would need to satisfy Ofgem they meet specific criteria. We expect this will build on, and could replace, our initial governance proposals set out above in relation to the mechanism for a new single GB clearing price.

- 35 An alternative regulatory option would be to licence those entities who wish to undertake market coupling under MRLVC relating to ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA. Achieving a single GB clearing price could be included among the licence requirements. Licencing in this way was not an approach which was utilised when implementing the requirements of CACM but could be considered for any future governance arrangements and it would be beneficial to receive stakeholder views.
- 36 Once the technical procedures have been developed, the governance and potential designation or licencing processes for any entities performing coupling operations can be considered in greater detail. However, at this stage we would like to obtain initial stakeholder thoughts on possible future governance and designation processes for the purposes of MRLVC in advance of the technical procedures being published.

Questions on future governance arrangements:

- 11. To what extent do you agree with the proposal for a designation process enabling eligible persons (including existing market operators) to apply to undertake MRLVC functions rather than establishing a new entity for this purpose?**
- 12. To what extent do you agree Ofgem should be responsible for assessing entities against any future designation criteria and approving the designation of entities who undertake coupling activities under MRLVC? What do you think any such designation criteria and process should look like?**
- 13. An alternative legislative option would be to licence those entities who wish to undertake market coupling under MRLVC relating to ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA. It would be beneficial to obtain stakeholders thoughts on this alternative approach.**

Possible future interventions across other timeframes

- 37 The EU intraday continuous market coupling solution was initially known as Cross-Border Intraday (XBID)²⁴. As part of the XBID programme UK TSOs and NEMOs worked with their EU counterparts on what were known as a ‘Local Implementation Projects’. However, continuous intraday cross border arrangements were not extended to UK markets before EU Exit.
- 38 The efficient use of electricity interconnectors is a key focus for the TCA which extends beyond the day-ahead timeframe. The TCA requires the development of arrangements

²⁴ This subsequently became known as Single Intraday Coupling - (SIDC)

to deliver robust and efficient outcomes for all relevant timeframes being forward, day-ahead, intraday and balancing²⁵. The immediate focus is on the day-ahead timeframe given the priority placed on it by the TCA and the immediate deadlines set out in Annex 29 of the TCA. However, we would like to obtain initial stakeholder views on whether similar issues and concerns, set out in this consultation document, could similarly apply in the intraday trading timeframes and whether any potential action is required to support future trading arrangements.

Questions on possible future interventions across other trading timeframes:

- 14. Are there similar issues and concerns, as set out in this consultation for the ‘relevant day-ahead markets’, for the intraday trading timeframe?**
- 15. What are those issues and concerns, do they relate to domestic or cross-border trade between the UK and the EU, and do you have evidence of the associated impacts?**
- 16. The proposed intervention spans the specific auctions noted in paragraph 22 which we propose should be used as the ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA. However, we would welcome views as to what extent you agree that a similar mechanism is needed to produce a single GB clearing price across existing intraday trading mechanisms?**

Possible future interventions across other borders

- 39 The arrangements and proposed interventions set out in this consultation have been with respect to maximising electricity trade between the UK and the EU. However, stakeholders have raised directly with us concerns associated with the interactions and implications of the operation of UK-EU power trading and the trade of power on other borders, specifically between GB and Norway and through the allocation of capacity on the North Sea Link (NSL) interconnector.
- 40 An agreement between the UK and Norway on cross-border trade in electricity and cooperation on electricity interconnection is expected to support arrangements for efficient trade between the two parties. The CBA published by the UK and EU TSOs set out similar economic and social welfare benefits as those seen on UK-EU interconnectors with respect to the participation of NSL in MRLVC. The trading arrangements across NSL and the associated market requirements will be a concern of both the UK and Norway. These arrangements cannot be unilaterally determined by the UK via legislation.
- 41 However, we are aware that the operation of an entirely separate day-ahead electricity auction in GB, if run for the purposes of allocating capacity over NSL, could raise some of the same issues set out in this consultation document about the fragmentation of

²⁵ Article 311(1)(f) of the Trade and Cooperation Agreement

liquidity in the GB wholesale market, if not also coupled with the 'relevant day-ahead markets'. We understand NSL's capacity at go live will be allocated by NP, as the presently appointed power exchange, at the 9:50 day-ahead auction which is considered one of the 'relevant day-ahead markets' for the purpose of this consultation. This may facilitate future participation of NSL in MRLVC. We are therefore interested in stakeholder views about the interactions between UK-EU and UK-Norway trading, and any potential action required to support the trading arrangements.

Questions on possible future interventions across other trading borders:

- 17. Do you agree that there are interactions between UK-EU trading and other UK trading borders, specifically with Norway? What are those interactions, and what are the associated impacts?**
- 18. Considering either day-ahead or intraday timeframes, to what extent do you consider that it would be beneficial for a new mechanism for a single GB clearing price to apply to all UK-EU and UK-Non-EU interconnection? What would be the impact (financial or otherwise) of having different arrangements in place on different borders?**

Consultation questions

Please see below a complete list of all the consultation questions which have been posed throughout the document.

Questions on approach to forming and implementing a single GB clearing price:

- 1. What has been the impact (financial or otherwise) of power exchanges ceasing to couple their auctions in the day-ahead timeframe and not producing a single GB clearing price? Please provide details and estimates of the impact.**
- 2. Do you agree with the proposal for the two day-ahead auctions noted in paragraph 22 to be used as the ‘relevant day-ahead markets’ for the purposes of Annex 29 of the TCA?**
- 3. Do you agree that the coupling of the ‘relevant day-ahead markets’ is necessary to provide the appropriate market arrangements to support efficient trade of electricity over interconnectors, as part of and in any case in advance of MRLVC? Please provide supporting evidence for this necessity.**
- 4. Do you agree with the proposal that legislative intervention is necessary to enable the formation of a single GB clearing price in the ‘relevant day-ahead markets’ to ensure efficient electricity trading over interconnectors, now and as part of MRLVC? Do you have evidence to support this proposal? Do you have any alternative proposals with supporting evidence?**
- 5. Do you agree with our outcomes in paragraph 27 against which the market operators should re-couple their ‘relevant day-ahead markets’? Are there additional outcomes that should be required in the recoupling of the ‘relevant day-ahead markets’?**
- 6. Taking account of the UK’s obligations under the TCA, with particular reference to those provisions in Annex 29, do you agree with the proposed timeframe for making operational the new mechanisms for a single GB clearing price?**
- 7. Do you agree with our proposal for the costs of re-coupling the ‘relevant day-ahead markets’ be borne by the operators?**
- 8. What do you estimate to be the costs of implementing the proposal for either or both operators and the industry more widely? Please provide details and estimates of any relevant activities required to transition from the current arrangements to the new arrangements laid out in the proposal.**

- 9. What do you estimate to be the impacts (financial or otherwise) to operators and market participants from adopting the new arrangements laid out in the proposal? What are the impacts of not implementing the proposal? Please provide details and estimates of the relevant costs and benefits.**

Question on regulation of a single GB clearing price:

- 10. To what extent do you agree with our proposals for regulating the new mechanism for a single GB clearing price? Should these obligations be capable of enforcement by Ofgem as if they were a relevant requirement on a 'regulated person' for the purpose of the Electricity Act 1989?**

Questions on future governance arrangements:

- 11. To what extent do you agree with the proposal for a designation process enabling eligible persons (including existing market operators) to apply to undertake MRLVC functions rather than establishing a new entity for this purpose?**
- 12. To what extent do you agree Ofgem should be responsible for assessing entities against any future designation criteria and approving the designation of entities who undertake coupling activities under MRLVC? What do you think any such designation criteria and process should look like?**
- 13. An alternative legislative option would be to licence those entities who wish to undertake market coupling under MRLVC relating to 'relevant day-ahead markets' for the purposes of Annex 29 of the TCA. It would be beneficial to obtain stakeholders thoughts on this alternative approach.**

Questions on possible future interventions across other trading timeframes:

- 14. Are there similar issues and concerns, as set out in this consultation for the 'relevant day-ahead markets', for the intraday trading timeframe?**
- 15. What are those issues and concerns, do they relate to domestic or cross-border trade between the UK and the EU, and do you have evidence of the associated impacts?**
- 16. The proposed intervention spans the specific auctions noted in paragraph 22 which we propose should be used as the 'relevant day-ahead markets' for the purposes of Annex 29 of the TCA. However, we would welcome views as to what extent you agree that a similar mechanism is needed to produce a single GB clearing price across existing intraday trading mechanisms?**

Questions on possible future interventions across other trading borders:

- 17. Do you agree that there are interactions between UK-EU trading and other UK trading borders, specifically with Norway? What are those interactions, and what are the associated impacts?**
- 18. Considering either day-ahead or intraday timeframes, to what extent do you consider that it would be beneficial for a new mechanism for a single GB clearing price to apply to all UK-EU and UK-Non-EU interconnection? What would be the impact (financial or otherwise) of having different arrangements in place on different borders?**

Next steps

This consultation will remain open for 4 weeks. The responses submitted to the consultation will be used to assess the suitability of our proposal and inform any forward action we take to support the implementation of new, efficient trading arrangements under the obligations of the TCA, and reflects stakeholder views that we have received on current market arrangements.

We will publish the government response to consultation, where we will outline any further actions we intend to take along with potential timelines for said actions.

This consultation is available from: www.gov.uk/government/consultations/re-coupling-great-britain-electricity-auctions-for-cross-border-trade

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.