
NWE MARKET COUPLING

CWE convergence down despite coupling

The price coupling of day-ahead electricity markets in Northwest Europe launches Tuesday in a move which the project partner spot exchanges and grid operators hope will integrate the European power market further, but Platts data shows there is a wide price differential as well as diminishing price convergence in the already market-coupled Central West Europe region.

NWE countries cover around 75% of Europe's electricity demand, and price coupling allows cross-border transmission capacity to be used directly by power exchanges to minimize price spreads between markets, known as implicit allocation.

NWE will add the UK day-ahead market to the already market-coupled CWE and Nordic regions comprising Belgium, Denmark, Finland, France, Germany, Austria, Luxembourg, the Netherlands, Norway, and Sweden, while the Baltic states will be coupled to the Nordic region through EstLink and Poland will be linked with Sweden through the SwePol interconnector.

The UK is currently only partially coupled with continental Europe, with participants able to "embed" UK orders into the CWE order book over the 1-GW BritNed interconnector between the UK and the Netherlands.

NWE will see full price coupling on the UK-Dutch link and will also bring in the 2-GW IFA link with France.

Market coupling has limited impact

Price convergence within the CWE region of Belgium, France, Germany and the Netherlands has been declining over the past two years, showing that market-coupling has only a limited effect on spot prices, which are ultimately still decided by demand and supply fundamentals in a specific market, market sources said.

While market coupling makes cross-border spot trading easier, sources said it cannot change national fundamentals by adding new supply or increasing interconnector capacity.

The spot exchanges covering the CWE region have been tracking a decline in price convergence between markets as country-specific supply fundamentals have shifted since the launch of CWE coupling in November 2010.

In 2011, the first full year of CWE market coupling, the entire region had full price convergence for approximately 66% of the time, according to exchange data. However, by 2012 this figure had dropped to 46% as markets experienced wider location spreads. Last year, CWE spot prices converged for just 15% of the time.

Germany and the Netherlands are the stand-out CWE examples of low price convergence amid high cross-border flows. Spot prices on the Dutch market were identical to those in Germany for over 90% of the time in 2011. Last year this convergence fell to 19%, according to power exchange APX.

The widening price spreads have coincided with a fivefold increase in German net exports to the Netherlands over the same period, from just 5 TWh in 2011 to around 25 TWh in

2013, accounting for almost a quarter of total Dutch electricity consumption last year.

Market coupling plays an important role in the allocation of flows at the border between the lower-priced German market and its higher-priced Dutch neighbor by maximizing the existing cross-border transmission capacity, with allocated transmission capacity fully maxed out for most hours of an average day, according to data from the CWE price coupling website.

Mel Kroon, chief executive of Dutch grid operator TenneT, said in September 2013 that the Netherlands was importing Germany's national energy policy in the shape of massive, fluctuating volumes of subsidized green power.

But a return to closer price convergence will not be possible without new transmission capacity, the TenneT CEO said.

Market participants have been little surprised by the drop in price convergence given the vast generation-mix differences between the CWE countries, and national rather than cross-border fundamentals are expected to remain the dominant price drivers as the market looks ahead to NWE coupling.

"All in all, the integration under the wider NWE coupling initiative will probably bring markets closer together but the fundamental situation in each of these countries remain essential for the future convergence of prices," GDF Suez Trading analyst Paul Raymond said.

Flow-based market coupling

Flow-based market coupling, planned after this summer for the CWE region, may further maximize the use of existing cross-border capacity, by lowering the transmission system operators' safety margins.

In the intraday market, TenneT and its German partner TSO Amprion last week announced plans to lower this by 100 MW.

According to the parallel run test data from European cross-border auctioning platform CASC, location spreads between Germany and France were around Eur2 narrower under FBMC than under the current ATC allocation schedule for much of last year.

However, the FBMC price finding algorithms need to be improved further, especially for days with strong renewable volatility, according to sources.

After the latest delay to the introduction of FBMC — from June 2014 until after the summer — many in the market are now skeptical about a go-live date before the fourth quarter of 2014.

"As a short-term market, it may not create lots of trading opportunities, but it may allow a better use of production and infrastructure assets," GDF Suez Trading CEO Edouard Neviaski said.
— *Andreas Franke, Darren Stetzel*