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## Single Market Coupling Operator for Europe's Single Electricity Market Press release from Houmoller Consulting ApS

The event in Finland Friday 24 November highlights the need for a single European Market Coupling Operator, as suggested by the European Commission and the pan-European regulator ACER.

On 24 November, a big spot bid error from a market player caused the Finnish spot prices to crash. Due to this error, the day-ahead whole-sale price for electricity (the so-called *spot price*) hit the price floor of -500  $\in$ /MWh for 10 consecutive hours.

The average of this day's Finnish spot price was -203.4  $\in$ /MWh. In contrast, for this day, the Finnish average spot price was expected to be around 60  $\in$ /MWh<sup>1</sup>.

As noted by some TSOs and other observers, this could have jeopardised the system security.

Further, according to market players, the erroneous spot prices have probably cost market players more than  $\in$  100 million – also because the error in Finland had consequences for neighbouring countries, where the spot prices were similarly corrupted.

Nord Pool was the electricity exchange, which received the erroneous spot bid. However, Nord Pool's procedures for detection of erroneous spot bids failed to work – even though the volume of the erroneous bid corresponded to approximately 50% of Finland's consumption.

Legally, the electricity exchanges cannot be held responsible for the consequences of market players' erroneous spot bids. This would require the exchanges to have very big capital buffers. The cost of these buffers would have to be financed by fees paid by the exchanges' participants. In turn, this would drive trading away from the exchanges.

However, with thousands of European market players, we know such erroneous spot bids **will** be submitted to the exchanges from time to time. Consequently, we need to have very strong procedures guarding against erroneous spot bids playing havoc with the electricity market.

With a single, European entity doing the daily calculation of spot prices and market coupling flows, installing & controlling such procedures is simple. The single Market Coupling Operator can install such procedures and <u>have them approved by regulators</u>. Further, regulator-appointed <u>external controllers</u> can regularly check the procedures are in place and working.

In contrast: the current market coupling system have far too many cooks to spoil the broth (i.e., far too many exchanges involved in the calculation of spot prices and market coupling

<sup>&</sup>lt;sup>1</sup> The preceding day, the Finnish spot price was 59.4 €/MWh.

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flows). The Finnish event illustrates again how an error at just **one** of the many cooks can play havoc with the electricity market.

For more information, you may refer to the PowerPoint presentation *Single Market Coupling Operator*<sup>2</sup>.

Further, the Finnish event highlights the need to have the option of a so-called *second spot auction*. Many European countries have this option. However, unfortunately not all national regulators have installed this option (e.g., currently this option does not exist in the Nordic countries).

At the outset, at noon Central European Time, the spot trading system closes – and the spot prices for the following day are calculated. However, for countries having the option of a *second spot auction*, the spot system will re-open for trading if the initial calculation yields very high or very low spot prices.

Having the option of a second auction causes the spot trading system to give us a better emulation of the perfect day-ahead trading system. For more information, see slide no. 18 of the PowerPoint presentation *Single Market Coupling Operator*.

Best regards

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<sup>&</sup>lt;sup>2</sup> The presentation can be downloaded from <u>https://houmollerconsulting.dk/facts-findings/</u>