

RME
Att: Kjersti Ness
rme@nve.no

Handled by: Trond A. Jensen, Statnett/
Markus B. Janitzek, Energinet

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Consultation Response

Energinet and Statnett Consultation Response

Energinet and Statnett respectively have received a draft of the methodology approval for implicit losses on the Skagerrak Interconnector by the Danish (DUR) and Norwegian regulator (RME) on the 7th November 2019. In line with the methodology approval process, Energinet and Statnett hereby have formed a joint response to the consultation, which will be sent to both regulators.

Comments to the draft approval

Energinet and Statnett would like to express our mutual appreciation for the proposed approval of implicit grid loss on the Skagerrak interconnector. However, we do have some comments we believe are important and hope DUR and RME will support.

1.1 Methodology approval & market timeframes

From the proposal it is not clear that the approval applies for all market timeframes. In line with the application from the TSOs, both Energinet and Statnett however assume that the final approval will be for the following market timeframes, day-ahead (DA), intraday and balancing. This in order to be able to implement implicit grid loss on the Skagerrak interconnector as soon as technically feasible within these market timeframes.

1.2 Loss factor

DUR and RME state that they expect the loss factor to be 2,5% at go-live of implicit grid loss on the Skagerrak interconnector. However, Energinet and Statnett would like to point out that this would mean using a loss factor reflecting the reference flow of 2017. Therefore, Energinet and Statnett highlight that we intend a recalculation of the loss factor prior the go-live of implicit grid loss on the Skagerrak interconnector with a reference flow of 2019. Further, this loss factor will be used in day-ahead, intraday, and the balancing market (once the latter market timeframes have the necessary technical implementation).

1.3 Evaluation of the first two years of operation

Together with Svenska Kraftnät and Fingrid, Energinet and Statnett have already conducted a broad study on the implementation of implicit grid losses on HVDC interconnectors in the Nordic DA

market. The study, which included implementation of implicit losses on the Skagerrak interconnector, required significant resources over a close to two-year timespan. Bearing this in mind, even with a scope limited to the Skagerrak interconnector only, it is hard to imagine that a new study for the Skagerrak interconnector can be done within 4 months.

The proposed evaluation from the regulators, is in effect based on the same analysis already carried out in the Common Nordic TSO Report for the DA market, but with new datasets. The results from the previous study was both convincing, intuitively appealing and in line with what to expect according to economic theory. As such, it is hard to imagine significant differences in the results that would change the previous conclusion of social economic welfare of implement-ing implicit grid loss on the Skagerrak interconnector. Therefore, Energinet and Statnett ask DUR and RME to re-evaluate their position regarding the required evaluation.

The uncertainty regarding the validity of the conclusion of the previous study was, and still re-mains, rather an unknown potential for arbitrage towards the intraday and balancing market. A new analysis of the day ahead market using the PX Simulation Facility cannot be expected to capture these effects. Further, although the Nordic TSOs have a history of good cooperation, we cannot expect Svenska Kraftnät and Fingrid to participate in an analysis that does not directly concern them. Thus, a new evaluation of the welfare economic consequences of implicit losses on the Skagerrak Interconnector for the DA market seems superfluous. To our best judgement, the relevant evaluation of implementing implicit grid losses on the Skagerrak Interconnector is in regard to potential arbitrage effects in the intraday and in the balancing markets. Statistical ob-servations of the changes in flows and trade in these markets together with an assessment of gridloss cost after go-live should be sufficient, and we would very much appreciate a dialogue with DUR and RME on the design of such assessment.

However, it has to be noted that the topology of the Nordic interconnectors will change in the mentioned expected evaluation period (1. January 2020 – 31. December 2021). For one, the flow based capacity calculation implementation is planned to end the parallel run in late 2021, which means that there is no longer a NTC based approach, which will further complicate the evaluation and also provide other benefits to implicit grid loss (only in day-ahead) that would not be clear in the evaluation. Moreover, Energinet is currently working on the analysis and implementation of implicit grid loss on further interconnectors. Once these are in place, there again is not the possibility to decipher which benefits are actually gained by the implementation of implicit grid loss on the Skagerrak interconnector.

1.4 CCM Nordic

Energinet and Statnett do not clearly understand what specific message DUR intend to relay in regard to the reference to the Nordic CCM on page 2/4/40/51-52, and would kindly ask for a clarification.

2. Summary

Energinet and Statnett urges DUR and RME to take into account the above comments that could be summarized to the following:

1. Clarify that approval of implicit grid loss is valid for all market time frames
2. The loss factor will be updated to reflect the latest year flow as the reference flow, and might differ from 2,5 %.

3. Suggest to have an evaluation based on observing the changes in flows, trade and grid loss cost after go-live.
4. Clarify the point regarding Nordic CCM.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Kjell Arne Barmsnes', written over a light blue horizontal line.

Kjell Arne Barmsnes

Head of Department
