

The time is now to pave the way for efficient electricity exchanges between the EU and the UK

A joint letter from key associations and companies across the energy sector towards the European and UK governments

Reaching the EU's & UK's respective ambitions for a competitive green transition

Political leaders in the EU and the UK have reconfirmed their respective ambition for the Green Transition and for closer cooperation in the field of energy. This political willingness to commonly find solutions for the offshore developments of the North Seas was also recognised in the North Seas Energy Cooperation (NSEC) 2023-2024 Action Agenda. As companies and associations committed to deliver the energy transition in the UK and Europe, we strongly support this. In particular it provides an opportunity to resolve a number of crucial outstanding issues in the EU-UK energy relationship like inefficient market coupling or CBAM. If these issues are fixed, it would create massive benefits to both consumers and industry, as well as help the EU, EEA and UK meet their respective climate and energy targets. The issues around Carbon Border Adjustment Mechanism (CBAM) have already been highlighted by different studies, but the implementation of linking the EU and UK ETS is still pending and should be progressed as a matter of urgency. Another key element, which is the focus of this letter, is to establish more efficient electricity arrangements between the European Internal Energy Market (IEM, which includes Norway) and the GB market. This is of particular urgency to unlock investment in offshore generation and grid infrastructure required to achieve the goal of fully exploiting the renewable energy potential in the North Seas. Efficient cross-border trading arrangements would also provide huge gains in social welfare for both the EU and UK consumers, meaning that the costs of meeting the energy objectives can be significantly reduced.

Developing the offshore grid as an essential enabler

Efficient, fair and open energy markets are absolutely critical to achieving the aims of optimal operation and investment. In order to secure the required investments to transform the North Seas into the Green Power Plant of Europe, which could run into the billions, investors need confidence that their assets will be operated in the most optimal and efficient way – based on trusted market principles. These are investments with long lead-times, in particular for offshore hybrid interconnectors (combining offshore renewable integration and interconnection between countries). Clarity on an evolution towards an improved market framework is urgently needed in order for generation and transmission infrastructure to be developed on time to reach the declared political ambitions. The Draghi report also highlights the importance of investment in grid infrastructure to reinvigorate EU competitiveness and the Letta report specifically mentions the need for finding a balanced and mutually beneficial framework to strengthen the ties with the UK.

Uncertainty on market design impedes investment decisions

We are concerned, that the EU and the UK will not achieve their objectives of fully developing the potential of the North Seas as long as electricity is traded using sub-optimal market mechanisms. As the GB markets are no longer part of the IEM, capacity on most interconnectors from the EU to GB market is allocated using explicit capacity rights. This is an inefficient mechanism to operate existing interconnectors, and it will even have a bigger impact on future more complex cross-border infrastructure such as hybrid interconnectors. It is essential that an efficient and well-known mechanism, i.e. implicit price coupling, is re-established by the UK and EU/EEA institutions, in order to maximise benefits for EU and UK consumers and to enable future investments.

The Multi-Region Loose Volume Coupling (MRLVC) mechanism, as set out in the EU-UK Trade and Cooperation Agreement (TCA) Annex 29, may not be sufficient to support efficient operation and investment in simple cross-border interconnectors, let alone hybrid grids. Moreover, its introduction could detrimentally impact market functioning by introducing inefficiencies and delays. At best, MRLVC will take several years to implement, and there is a risk that once the MRLVC design is fully evaluated it is found not to be fit for purpose. Without confidence that the infrastructure will be used fairly and efficiently, critical investments are at risk of delay or cancellation. Confidence and predictability that an efficient market mechanism will be installed is needed now so that upcoming critical investment decisions can be taken.

Price Coupling is the only viable market mechanism

In our view, reestablishing a system of price coupling between the IEM and GB markets is the only market mechanism able to realize the untapped potential of the North Seas. It is broadly recognised that this would provide the framework for the optimal development and operation of the North Seas, meeting the climate and energy goals of the EU and UK. We call upon both sides of the seas to seize the opportunity to overcome the past political impasse following the UK's withdrawal from the EU and to open up for a new phase that allows mutual benefits to be secured via a pragmatic approach.

The UK does not need to join the IEM for a solution to be found. The parties to this letter believe that there is a much easier solution available, making it possible to extend the European price coupling to the GB market while still protecting the integrity and EU-governance of the IEM. This solution would allow the inclusion of interconnectors to the GB market (and North Seas hubs) in the Single Day Ahead Coupling (SDAC) allocation process, but as a distinct service extension. The GB market would not become a member of SDAC but would instead procure a clearly defined (and limited) service provided by SDAC which remains under EU control. Once implemented in SDAC, it should be quickly followed by a roll out in the intraday timeframe (SIDC) considering its importance for the variable renewable energy sources. Such a solution would need to be accompanied by operational agreements between parties, guaranteeing coordinated and harmonized operations.

The service would fully respect the existing EU regulatory framework, the established EU-UK cooperation principles and be subject to the dispute resolution process in the TCA. The solution would require only limited changes to Annex 29 of the TCA, which is within the remit of the Specialized Committee for Energy. The technical annex to this letter outlines the main principles for a possible implementation of this solution.

The parties to this letter urge the UK government and European governments, with the support of the European Commission, to pursue this opportunity as a matter of urgency, thereby paving the way to transform the North Seas into a truly European Green power hub.

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TECHNICAL ANNEX***Main principles of a possible implementation of price coupling under the current TCA***

1. Interconnectors between EU and GB market (and North Sea hubs) are included in the SDAC capacity allocation process, but as a distinct service extension.
 - a. GB market is not joining SDAC, but is instead receiving a clearly defined (and limited) service provided by SDAC and under EU control.
 - b. Existing SDAC parties are responsible for the operation of the service, with UK interconnector TSOs and power exchanges being the service recipients. For example, NEMOs act on behalf of GB market Power exchanges (similar to existing Served NEMO model used in Europe today), and the bordering national TSOs act on behalf of their interconnectors to GB.
 - c. SDAC parties will be entitled to charge GB market parties reasonable service charges for providing this service. These charges will be transparent and in-line with those paid by EU SDAC parties. This should ensure a fair contribution from GB towards SDAC costs directly associated with the GB service provision, while allowing GB to give its consumers and producers access to the benefits of SDAC at a fair price.

2. The arrangements require only limited changes, fully respecting the existing EU regulatory framework as well as the cooperation principles established in the TCA.
 - a. It requires modest changes to Annex 29 of the TCA, which is within the remit of the Specialized Committee for Energy.
 - b. Capacity allocation and access arrangements on the individual GB market interconnectors will continue to be regulated by the relevant regulators: Ofgem and the bordering country NRAs. This avoids the need for a new regulatory framework.
 - c. GB market parties will be responsible for any GB market arrangements required to support this model – e.g., GB market virtual hub, Power exchanges appointment/regulation, cost recovery/sharing.
 - d. The SDAC technical arrangements need to be configured and tested for GB market interconnectors (but they used to support GB market prior to Brexit).
 - e. Future developments/changes to the service to GB market can be made by mutual consent (with the status quo operating model continuing to apply if no mutual agreement is found), while SDAC governance remains entirely applicable to manage EU SDAC in line with EU regulation.

3. The operational integrity of both GB market and SDAC can be protected. SDAC parties are able to commit to the ongoing provision of the service if it is on the basis of service conditions that are feasible (and accepted by all parties) - e.g., the maximum number/type of complex orders; number of GB market bidding zones (price points); and the supported market time units.

4. Once successfully rolled out for SDAC, the service can be extended to other timeframes, such as intraday using a similar service framework provided by SIDC and in a later stage coupling the balancing markets.
