

Nordic regulators

cc: Energinet, Fingrid, Statnett, Svenska kraftnät, Nordic Council of Ministers' Elmarknadgrupp

16.6.2021

## **Limitations on cross-zonal interconnectors hamper markets' functioning and the reasons behind lack transparency**

Nordenergi is deeply concerned regarding the current capacity limitations on the borders of the bidding zone SE3, and calls for explanations why they are applied and why alternative measures are not being used? What are Svenska kraftnät's actions for removing the restrictions in a timely manner and for avoiding similar situation in the future? In addition, Nordenergi calls for legal assessment and clarity whether this situation is compliant with EU regulation.

### **Background**

On 23 March, Svenska kraftnät published an UMM regarding extensive capacity reductions from 22 May to 20 June onward. In total six cross-zonal borders are concerned, and all cases conflict the 70% rule of the Electricity Regulation. Later, Svenska kraftnät has extended the duration of these restrictions many times.

Svenska kraftnät has communicated the reason being unexpected east-west flows causing thermal load in SE3. This results from the commissioning of NordLink between Norway and Germany. The new flows are expected to increase in the near future with the commissioning of Olkiluoto 3 and NorthSeaLink. Additionally, the earlier decommissioning of nuclear reactors and the loss of their properties in the power system seem to have a role also in this situation.

### **Consequences**

The extensive limitations to trade leads to considerable socio-economic losses. The limitations between areas SE2 and SE3 during the summer of 2020 due to similar reasons led to high and occasionally very high market prices in the areas SE3 and SE4, and the high prices spread to Denmark, Finland, and the Baltic countries. Simultaneously, prices were extremely low in SE1, SE2, NO4 and NO3. In addition, prices in NO1, NO2 and NO5 were low, partly due to reduced capacities between NO1 and SE3. Hence, the socio-economic losses due to national capacity restrictions was not limited to Sweden. In 2021, limitations will also apply to cross-zonal borders, implying negative consequences not only for Sweden, but also to surrounding countries and markets.

### **Passive and conservative approach**

There are indications that Svenska kraftnät has not sufficiently analyzed the importance of the decommissioning of power production in SE3 for the power system and the electricity flows.

We are deeply worried and question the communicated extensive limitations of transmission capacities. And these extensive limitations are just to uphold the normal state of the power system! As the current circumstances for system operation has been known in large since 2015, this should not have come as a surprise to Svenska kraftnät.

During the summer of 2020, Svenska kraftnät withheld relatively large capacities from the day-ahead market and then released them to the intra-day market. Also, Svenska kraftnät in 2020 communicated that counter trade should only be used in situations with grave consequences for the security of supply. This could be seen as an indication that Svenska kraftnät recurrently takes too conservative approach and overestimates the need for capacity limitations.

Hence, it seems that Svenska kraftnät may not be doing the correct calculations based on the correct information/data, or they are unnecessarily conservative in their assumptions.

Svenska kraftnät relies too much on restricting cross-zonal capacities and does not duly consider market based tools. Counter-trade should always be considered as an option for maintaining the east-west commercial transmission capacity, as in these situations there would be generation capacity available in southern Norway (incl. NO2) and possibilities to steer down the FI to SE3 DC link flow by reducing generation in Finland and/or SE1 and SE2 through counter-trade.

### **Questions and call for action**

- 1) We expect information which remedial measures is Svenska kraftnät applying in addition to limiting transmission capacities? Are counter-trade in mFRR and intra-day markets, or other remedial actions fully applied? Are resources located in other bidding zones than SE3 considered duly? We remind that it is a TSO's responsibility to search for resources with lowest cost for tackling congestion issues and having the transmission capacity limitations as the last action.
- 2) Has Svenska kraftnät provided a proper analysis on the socioeconomic costs caused by capacity restrictions and compared this with the cost from other remedial actions, also considering the possibility of counter trading with resources located in other bidding zones than SE3? We call Svenska kraftnät to do a proper analysis and to contract resources from other bidding zones too.
- 3) Is the situation temporary or is there a risk of reoccurrence? With the history of capacity restrictions and the above mentioned changes in market fundamentals we see a risk that similar situations shall occur if Svenska kraftnät does not act timely.
- 4) Are the current restrictions compatible with European regulations and specially with the requirement of providing at least 70 % of the cross zonal transmission capacities into the market? We consider that the current situation in SE 3 very much looks like the situations that lead to the division of Sweden into 4 bidding zones and what lead to the requirement of applying counter trade on the Danish-German border.
- 5) We propose the regulators to ask Svenska kraftnät if it has analyzed the effects of future changes in the market fundamentals, such as the introduction of new production capacity in Finland and NSL towards GB? We remind again that transmission capacity reductions must be seen as the last measure.
- 6) Have the other Nordic TSOs been informed timely and sufficiently, and have they been included in the considerations on how to handle SE3's situation best?
- 7) What is Svenska kraftnät's / Nordic TSOs' communication plan on this situation and the introduction of corrective measures?
- 8) What is the timeline for introducing corrective measures?
- 9) How will the transparency be ensured with the implementation of flow based calculation and how will Svenska kraftnät ensure that when flow based calculation is applied, the internal bottlenecks are not moved on the borders?

Do not hesitate to contact us. Our contact-persons in this issue are:

Swedenergy: Magnus Thorstensson ([magnus.thorstensson@energiforetagen.se](mailto:magnus.thorstensson@energiforetagen.se), +46 733 92 57 61)

Finnish Energy: Petteri Haveri ([petteri.haveri@energia.fi](mailto:petteri.haveri@energia.fi), +358 50 571 1554)

Danish Energy: Carsten Chachah, ([cac@danskenergi.dk](mailto:cac@danskenergi.dk), +45 22 75 04 38)

Energy Norway: Per Arne Vada ([pav@energinorge.no](mailto:pav@energinorge.no), +47 900 62 046)

Nordenergi is the umbrella association of the Nordic electricity industry associations Danish Energy, Energy Norway, Finnish Energy and Swedenergy.

