

The cost of uncoupling GB interconnectors

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EPRG Working Paper 2102

Cambridge Working Paper in Economics 2118

Abstract

The UK left the EU Integrated Electricity Market on 31/12/20 and with it access to Single Day Ahead Coupling that clears local and cross-border trades jointly – interconnectors are implicitly auctioned. The new the Trade and Cooperation Agreement requires a replacement “Multi-region loose volume coupling” to be introduced before April 2022. Until then, interconnector capacity is allocated by an explicit day ahead auction before the EU auction with nomination after the EU results are known. The paper measures the risks posed by taking positions in each market separately and the resulting costs of uncoupling of GB’s interconnector trade. It compares four forecasts of price differences under two sequencing of markets and explicit auction, determining traders’ risk premia for each. The current timing leads to lower mistakes on the direction of flows, although higher profit volatility, arguing to retain the current timing. Competitive traders locking in their positions after the explicit auction (overstating costs as subsequent trading out of unprofitable positions is ignored) limit the total loss of interconnector revenue from uncoupling to €31 million/yr., and the social cost of uncoupling is €28 million/yr., considerably below earlier estimates in the literature.

Keywords Electricity trading, Market coupling, auctions, price forecasting

JEL Classification F14; F15, Q47; Q48; L94

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Publication	March 2021
Financial Support	InnovateUK and the UK Engineering and Physical Sciences Research Council (EPSRC) via the ‘Prospering from the Energy Revolution’ Industrial Strategy Challenge Fund’, for the project “The value of Interconnection in a Changing EU Electricity system” (ICE) (EP/R021333/1).