

# The cost of uncoupling GB interconnectors

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## 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 *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 article 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 discounts for each. The current timing leads to lower mistakes on the direction of flows, arguing for retaining 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. The social cost of uncoupling is €28 million/yr., considerably below earlier estimates in the literature. Experience since uncoupling validates this finding.

**Keywords** Electricity trading, Market coupling, auctions, price forecasting

**JEL Classification** F14; F15, Q47; Q48; L94

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