

# RWE

## Trading UK power after Brexit: opportunities and challenges

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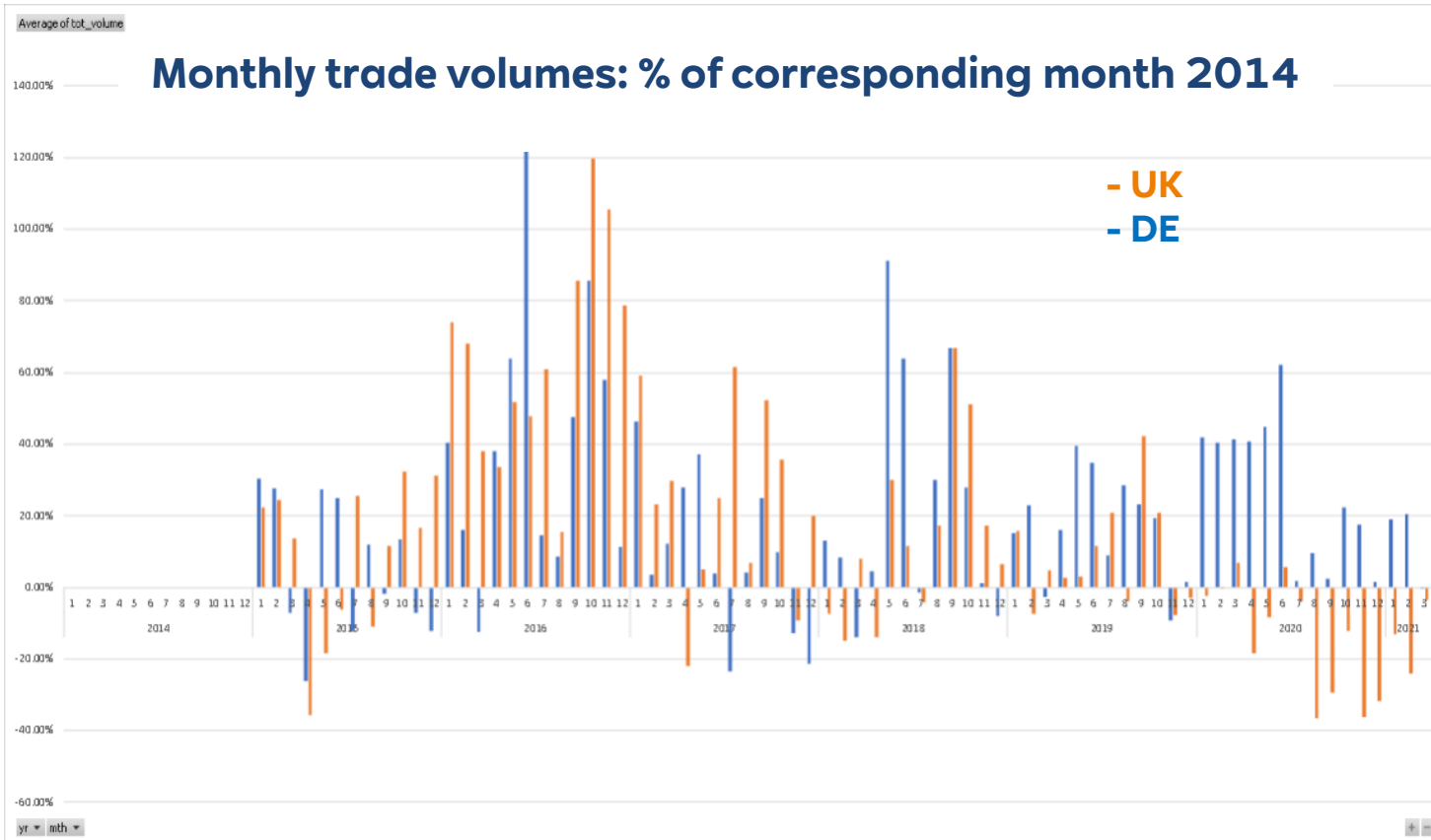
# Overview

**Power trading developments post-Brexit**

**Experience to date of reverting to explicit allocation on the interconnectors**

**Future prospects for UK power market liquidity and interconnector usage**

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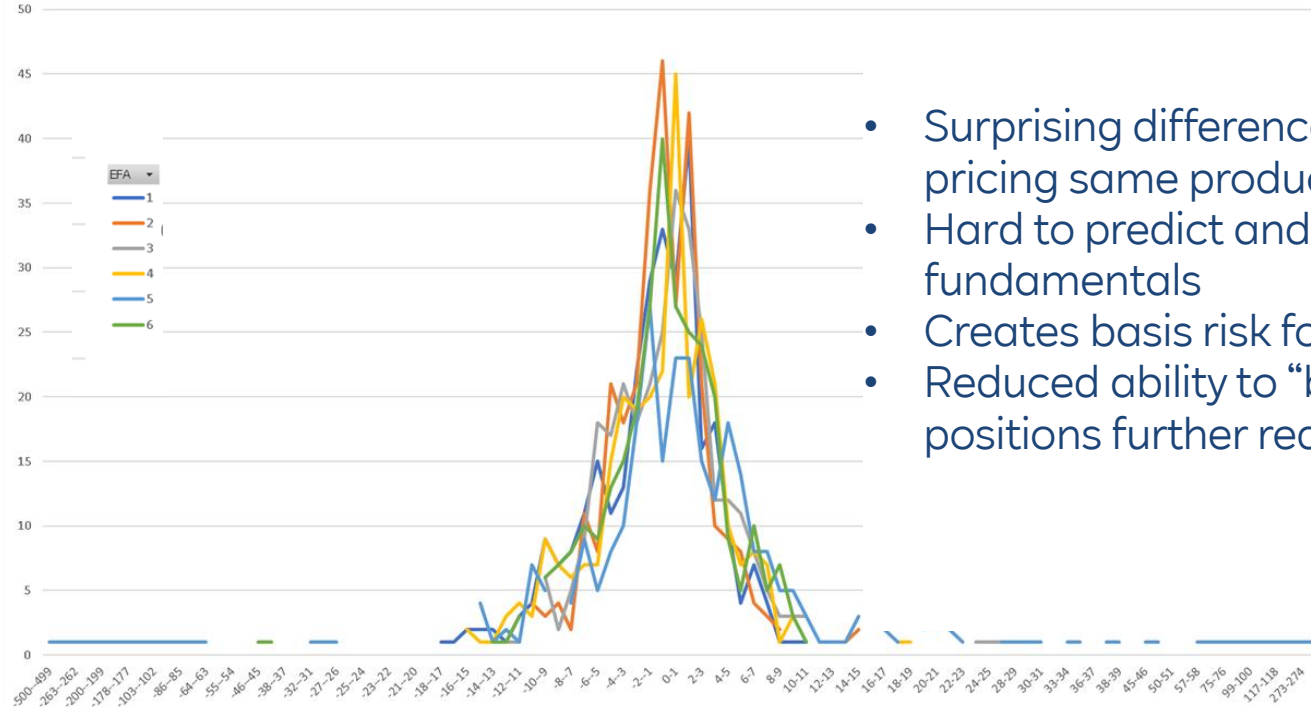
## What are the drivers?

- Fall in liquidity predated exit
- Carbon price uncertainty
  - Level of price
  - EU ETS, UK ETS or Carbon Emissions Tax?
  - Future linking
- Inability to hedge UK carbon price
  - Unknown and unhedgeable CPS and Carbon Emissions Tax
  - First UK allowance auctions not until 19 May
- Inability to lock-in clean spark spreads forward
- Market decoupling and splitting of day-ahead UK price
- Reversion to explicit allocation over the interconnections



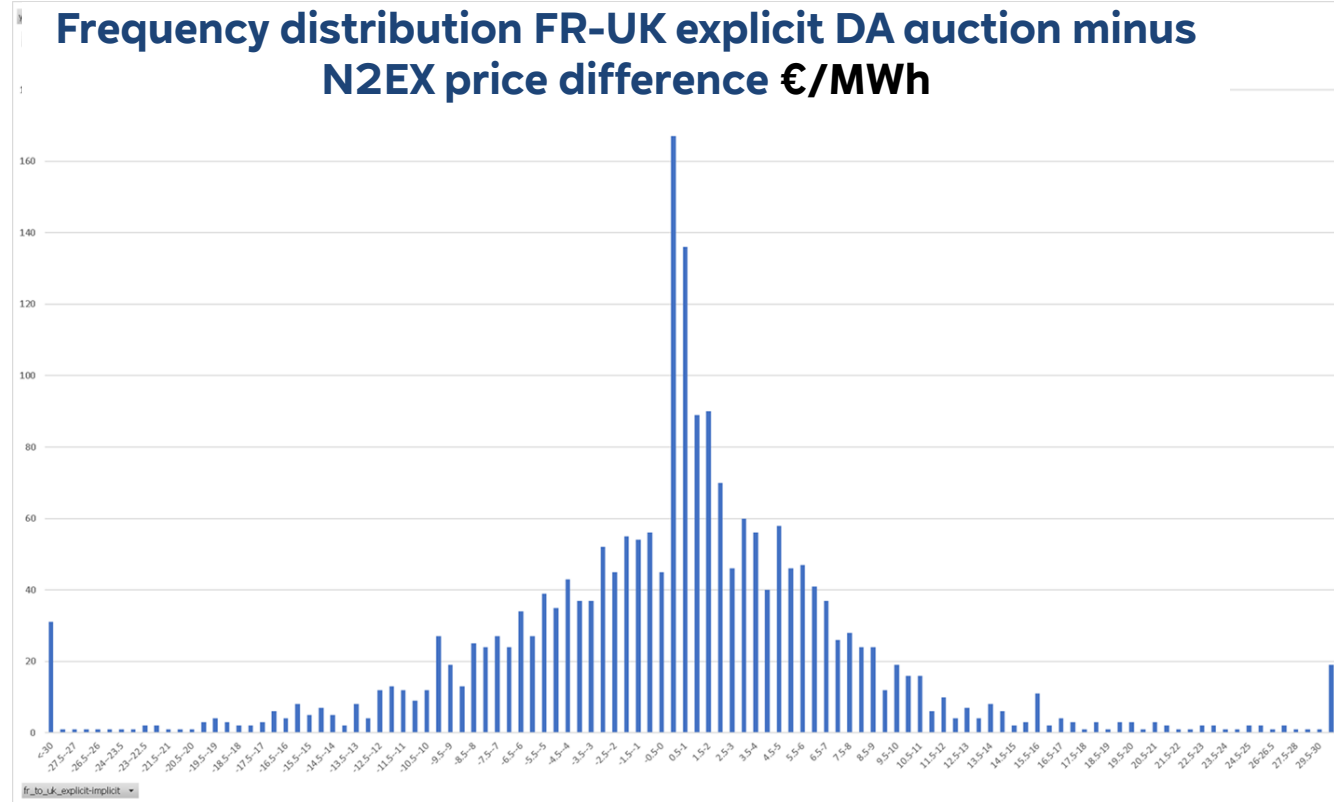
# UK day-ahead market is now decoupled

N2EX - EPEX price differences 01/01/21-18/03/21



- Surprising differences for markets pricing same product 30 minutes apart
- Hard to predict and no link to fundamentals
- Creates basis risk for CFDs
- Reduced ability to “bridge” EU-UK positions further reduces liquidity

# Explicit allocation separates pricing and use of interconnection



# How inefficient are the cross-border flows?

- Inefficiency is difficult to estimate
  - Differential timing of explicit capacity auctions, two UK DA markets, SDAC and nominations
  - No clean implicit comparison
  - Identification of flows/nominations in “wrong direction”
  - Intraday “corrections”
- Systematic average discounts on explicit:
  - Taking each direction separately: €1.20/MWh on FR-UK; €0.60/MWh UK-FR (includes flows in “opposite” direction 13% of the time)
  - Average discount in direction of implicit flow rises to €2.60/MWh; and
  - Average discount rises to €3.00/MWh with full error in swing hours
- Total cost of “errors” €60m to €160m per annum depending on availability assumptions

# Will the interconnections be used efficiently in future?

## Market convergence

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- UK Carbon Price vs EUA Price
  - Carbon Price Support
  - Linking UK-ETS to EU-ETS
- EU Guarantees of Origin no longer recognised in UK
- Coal phase out
- More interconnectors
- Greater convergence = more scope for errors?

## Efficient capacity allocation and usage

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- UK day-ahead coupling
- UK-EU day-ahead coupling under TCA
  - Loose volume coupling
- Development of intraday markets
  - reduced distributional effects
  - opportunity to correct scheduling errors
- A future return to full price coupling?



# Future prospects for UK power market liquidity



- Development of UK carbon market
  - Participation
  - Scope
  - Management of change
- Linking of UK ETS to EU ETS or other carbon markets
- Increased renewable penetration
  - Interaction with support schemes
  - Timing of optimisation/hedging
- Growth and efficient usage of interconnectors