NORTHPOOL
TRADING ENERGY

Leiden, 08/07/2022

Contribution of Northpool B.V. to *Konsultationsprozess 9 – AB-BKO*

In general Northpool is opposed to any regulation that differentiates between BRPs with and without assets and/or consumption. Northpool likes energy markets to be as open and transparent as possible. It encourages governing parties to provide the same trading possibilities to all BRPs, from long term, to day ahead, to intraday and imbalance.

Northpool is a proprietary trading company that has no assets or consumption. Our business model is making a profit purely from trading energy commodities. Our purpose in the energy markets is making it more efficient by making a market when other parties don't and taking positions when other parties can't. In a perfectly efficient energy system, there would be no place for Northpool. As long as the system is not perfect, there is a place for Northpool. Assuming that supply and demand are effectively reflected in energy prices, Northpool has an incentive to be in the "right" position, helping the system reducing inefficiencies and eventually decreasing imbalance volumes. If one of Northpool's trading strategies has a net negative result, it is in Northpool's interest to abort or change the strategy.

If looking at imbalance positions specifically, Northpool believes it is helping to reduce imbalance volumes over the long run. Northpool has a long track record in the Netherlands for doing this. Northpool is monitoring market and imbalance data in real-time and has developed its own models for (renewable) power production and consumption. With this in hand, Northpool can make a very good prediction of imbalance volumes. However, Northpool cannot guarantee to be in the "right" imbalance position for every settlement period. Reasons for this can be sudden (unexpected) changes to fundamental values or a lack of liquidity in the market for closing its position. In Austria, liquidity in the hourly intraday products is lower closer to delivery. Also liquidity in quarterly product can be low, making it impossible to have the right position in every quarter/settlement period.

As an example, how well does Northpool do in the following example? Northpool takes a 10MW long imbalance position in an hourly product of which the quarterly products have low liquidity. The system imbalance volumes turn out to be 100MW short, 20MW long, 20 MW long and 20MW long in the Q1, Q2, Q3 and Q4 of this hour respectively. So without Northpool's 10MW long position the quarterly system imbalance positions would be 110MW short, 10MW long, 10MW long and 10MW long. So more balancing energy is activated with Northpool's interference than it would have been without. Northpool is in the "wrong" imbalance in 3 out of 4 settlement periods. Looking at imbalance prices, Northpool is likely to make a loss since the imbalance prices in Austria are quite binary (relatively high when system is short, relatively low when system is long). However, one could also argue that Northpool is helping the system in the quarter with the highest imbalance volume. The quarter that is probably the most difficult (and most expensive) quarter to manage with balancing energy. It does so at the expense of the imbalance in the other 3 quarters, that were probably relatively easy (and cheap) to manage. Is that not beneficial for the system as a whole then?

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Now, let us look at the example again and imagine Northpool having a 10MW short position in this hour, with the system quarterly imbalances being the same. Going through the same argumentation for this scenario is showing that it is very difficult to assess what is the "right" or "wrong" position for the hourly product.

This example illustrates that it is essential that imbalance prices are calculated in a way that do not offer profits for being in the "wrong" position. For example, there should not be an arbitrage opportunity between intraday market price and imbalance price to be in the "wrong" position. There should also be no arbitrage opportunity between hourly product intraday price and quarterly imbalance prices. In the same article referenced on APCS's website, "Guideline of Electricity Balancing" Article 17, it says "…imbalance prices should reflect the real-time value of energy". If this would be the case always, there would never be an incentive for a BRP to be in the "wrong" imbalance position.

With regard to liquidity in quarterly products, BRPs with renewable assets or consumers face similar issues as Northpool. Increasing solar output in the morning and decreasing output in the afternoon are relatively hard to balance correctly, especially if the cloud cover is changing with time. The same goes for wind profiles. BRPs with wind turbines can very precisely profile their wind output on day ahead based on their wind model. However, they may be facing difficulty adjusting their quarterly profiles in the intraday market if the expected wind field comes in an hour earlier or later than expected. Even domestic consumption (profiles) can be heavily affected by weather conditions, as heavy rain and thunder storms can increase consumption on a very short time scale. So BRPs with assets or consumers are facing a similar degree of uncertainty with regard to their (imbalance) positions as BRPs without assets or consumers. And they might be facing the same difficulty managing their positions, especially their quarterly profiles.

So how can the imbalance volumes in Austria be reduced according to Northpool? First of all it is important that market data is as openly available and as adequately published as possible, both by BRPs and by APG/APCS. For example BRPs could provide the market with more actual data on their production than is the case now, although Northpool understands that BRPs have no incentive in doing so. APG/APCS could provide better and more real-time data on solar and wind production, power demand and the current system imbalance. Secondly, APCS can incentivize BRPs to reduce their imbalance volumes by making the imbalance prices correctly reflect the real-time value of electricity. Hereby assuming that this will lead to more extreme imbalance prices, the business case for BRPs to manage their portfolio more adequately and on a shorter time scale will improve. It could also incentivize BRPs with short term flexibility to offer their flexibility in the intraday market, since their margins are likely increasing. This should lead to lower overall imbalance volumes.

Northpool can promise APCS that it will continuously monitor its positions in the Austrian power grid. Northpool is on its way to have trading desk presence 24/7 by the end of this year. This implies that we will have eyes on the market every minute of the day and are able to evaluate and adjust our positions on a very regular basis. As such, it is unlikely that Northpool is in the "wrong" (imbalance) position for an extended period of time.

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With the increase of intermittent renewable energy in Austria, the country will experience higher imbalance volumes in the coming years. The BRPs with the best forecasting models, real time monitoring tools and willingness to invest in market presence will best minimize their imbalance volumes. If the business case is right, Northpool can optimize the Austrian power market by challenging these BRPs and developing its own models and tools. However, the intended rule change is not in favor of that. Moreover, Northpool's opinion is that the intended rule change will not relieve the problem of imbalance volumes.

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Roald Noort, CEO of Northpool B.V.