

## MINUTES FROM THE PRODUCT GROUP FOR THE PHYSICAL MARKET

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**Date:** 3<sup>rd</sup> of February 2005

**Place:** Nord Pool Spot's office in Oslo

**Present:**

Karl-Henrik Nordblad	Fortum
Jonas Melin	Markedskraft
Siri Revelsby	Hydro Oil & Energy, Markets
Klaus Winther Hansen	Elsam
Bo Karlsson	Sydskraft (substitute for Lars Thuring)
Michael Bonde	E-ON Trading
Tom Tellefsen	Statnett (substitute for Timo Kaukonen, Fingrid)
Urban Hammarstedt	Nord Pool Spot (Chairman)
Rickard Nilsson	Nord Pool Spot
Åsmund Drivenes	Nord Pool Spot (Secretary)

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### **01/05 Comments to the agenda**

There were no comments to the agenda.

### **02/05 Minutes from the previous meeting the 19<sup>th</sup> of October 2004**

Hansen presented data concerning the effects of ramping as a follow-up on items 17/04 and 21/04 concerning ramping connected to Elspot Area DK1 (Jutland/Funen).

Nord Pool Spot (NPS) has asked Nordel to evaluate the possibility to either eliminate Ramping constraints from Elspot or to increase the flow change limit from one hour to the next. Nordel has for now declined to increase the limit based on frequency quality problems. This position was again emphasised by the TSO member in the meeting.

Hansen's presentation supports the Product Group's view (apart from TSO) that ramping frequently (affected close to 1000 hours in 2004) causes market inefficiency and problems to handle production. The presented data indicated that an increase in the ramping flow limit would reduce the problem. Other members in the group said that this is part of a general problem that TSOs appear to keep to large capacity margins in the planning stage (Elspot) which is negative for the market.

The issue will remain on NPS agenda and the dialogue with Nordel will continue.

Item 25/04 Market Coupling – NPS is of the opinion that Market Coupling between Denmark and Germany would be positive for the market and increase the efficiency in congestion management. This view is supported by Nordic TSOs and the Product Group again in this meeting expressed support for the idea. However, all parties involved must agree before Market Coupling can be implemented. This is unfortunately not the case at this point. Nord Pool Spot will continue its efforts to find an agreeable solution.

### **03/05 Status, trade, market and product development**

#### **- Statistics, report**

There were no comments to the provided statistics and graphs.

#### **- Linked Block Bids**

In brief, the Linked Block Bid functionality enables participants to make activation of one block bid dependent on if other blocks are activated or not. Blocks are linked together in such a way that one block has the highest priority and any subsequent linked block(s) are only considered for activation in case the block(s) with higher priority is activated. Other than that fact the normal prioritisation and calculation rules for blocks apply also for the Linked Block Bids.

The Product Group was positive to the implementation in January. It also supported NPS' chosen method and the fairly restrictive implementation. The later especially because NPS stated that once experience has been gained with the present structure and limitation rules for Linked Block Bids, it can evaluate possible introduction of added flexibility that is supported in the now developed block linking functionality.

#### **- Rulebook**

The official version of the Rulebook for Elspot has been switched in to English from 24 January 2005. It has been concluded that it does not require new signing of the agreement. A revision of the content in the Rulebook will be completed during 2005.

#### **- Fee campaign and kick-back**

NPS has introduced a fee campaign to attract new customers and it is valid from the start of 2005. In addition a kick-back campaign with no volume fee for week 6-05 has been carried out in order to pay a share of our profit back to current customers.

The fee campaign is based on a requirement to sign a letter of intent by 1 July 2005 and that trading shall begin no later than 1 January 2006. These elements apply:

- No entrance fee
- 6 months free annual fee when trading begins

NPS is considering to perform a general review of the fee structure during 2005 and any comments and suggestions from members on this issue should be sent to NPS.

#### **- New VAT legislation**

The new procedures for the settlement of trades at Nord Pool Spot AS' physical markets from 1 January 2005 connected to the new European Union VAT legislation was described in the meeting. The information was in accordance with the public information given in Exchange information 62/2004 on 20 December.

There were no specific questions raised by the group regarding this issue, but merely a general view that the chosen implementation procedure seemed wise.

#### **04/05 EU-issues**

In relation to new EU regulations that have been put in place and is underway the focus in this meeting was on article 3 point 6 in the EU Directive 2003/54/EC which mainly deals with a requirement for suppliers to linked to bills towards end customers inform about their electricity fuel-mix, i.e. "labelling", based on values from the previous year.

Nord Pool Spot has been discussing possible ways to handle this issue with energy branch organisations, Nordel and various national regulatory authorities. The issue was also discussed in the last Nord Pool Group's Market Council where the exchange was asked to continue the dialogue with relevant organisations and authorities in order to help find sensible short- and long-term solutions to the issue of labelling. NPS intends to continue such discussions in order to seek practical and efficient solutions to the labelling issue that will not infringe or inhibit the free trade of electricity contracts.

The main objectives for NPS are to establish a common Nordic framework for handling of labelling in the Nordic region, which does not distort market trading competition or the liquidity, turnover and existing reliability in electricity prices in the Elspot Market.

The product group showed support for the initiatives taken by NPS and like in other forums there was within the group a sense that in the long-term the labelling provision is most likely best handled via a separate certificate system for quality. However, several group members needed more time to think through the issue and it was concluded that it would be good to discuss the issue also in subsequent meetings.

#### **05/05 The Swedish west coast corridor**

For some time there has been a discussion within Nordel about possible ways to improve capacity allocation procedures for Elspot connected to the existing limits in the Swedish West Coast Corridor. Based on discussions with Svenska Kraftnät a technical proposal has been made which provides a procedure in Elspot that can consider the effect each interconnector flow has on the West Coast Corridor limit. Therefore, the method could possibly ensure that individual interconnectors would only be limited if the calculation "shows a bottleneck" in the West Coast Corridor. Before implementation can be considered the technical system solution needs to be tested and naturally the allocation procedures must be approved within Nordel.

Group members stated that a solution must be simple and easily understood. It was pointed out that many special solutions can create an even worse situation since they might affect transparency negatively. Members urged NPS to ensure that when a solution is agreed upon inform the market through proper information channels.

#### **06/05 Counter trade administered by Nord Pool Spot**

During last year several discussions took place concerning how to handle bottlenecks in the Nordic area. The discussions focused on several things and some of the main areas were how to handle internal bottlenecks inside each country and what bidding area structure the system should have in the future. In that context, it has been debated if it would be more efficient to implement counter trade on a regular basis or a different setup of bidding areas in Elspot or a new mix of those things compared with today.

Last year two investigations were carried out, one made by Nordel and one by the Energy Authority in Sweden (STEM). In the Nordel investigation, which is published on their homepage, focus was on if it is possible to handle counter trade directly connected to daily trade in Elspot by using the same bids as in the Elspot trade for counter trade. Simulations were made in an attempt to find out what cost the TSO would be exposed to by guaranteeing a minimum level of capacity by using counter trade.

The other investigation carried out and published by STEM focused on how the general structure to handle congestion management in Sweden and in the Nordic market could look like. The main questions were to evaluate if the current system is sufficient or if there instead should be more bidding areas in for example Sweden in Elspot or more counter trade in general.

Nordel asked Nord Pool Spot (and market players, associations and authorities) about our opinion concerning handling of counter trade directly connected to the Elspot trade.

In the product group there were both members that expressed negative and positive views on implementation of counter trade in the planning phase and likewise can be said concerning possible new separation of Elspot areas.

Nord Pool Spot's answer, so far, to Nordel's inquiry is that we are sceptical to introduce counter trade directly connected to daily trade in Elspot without first doing an analysis about the consequences it could have in the market. Technically it is believed to be possible to handle within a few years time in a new/updated spot trading system.

The group was positive to both the discussion about counter trading and principles for separation of Elspot areas. It also supported NPS intention to analyse consequences of counter trading in Elspot before drawing firm conclusions.

#### **07/05 Nord Pool Spot web page**

NPS has established a project group with the objective to improve Nord Pool Spot's part of the Nord Pool web page. The group will focus both on what is presented and how as well as on achieving internal NPS control over how and when the web page is updated. The group will contact customers to identify their needs in relation to the web page.

In the meeting members in the product group requested an improved summary of regulating power prices to be included on a revised web page. NPS urged the members to come back with further suggestions further on in time.

#### **09/05 Any other business**

**2<sup>nd</sup> of January 2005** – Nord Pool Spot informed of the technical difficulties we experienced during the price setting on 2<sup>nd</sup> of January. The technical problem has since then been corrected.

**Negative prices** – NPS systems have been adapted to handle negative prices. Some customers have informed NPS that their systems are unable to handle negative prices. NPS will distribute an Exchange Information to describe the issue.

**EUR as conversion currency** – EUR will be the conversion currency starting 1<sup>st</sup> of January 2006. An analysis of this change will be presented during June 2005.

**New trading system** – A specification of a new system has been distributed to potential vendors and an investment decision is planned to be made in April 2005.

**Combined clearing and settlement for physical and financial trading** – Members asked for status on the issue and NPS stated that it hopefully can give that late spring.

#### **09/05 Next meeting**

Date: 11th of May 2005  
Time: 10.00 – 15.00  
Place: Copenhagen, Denmark