Tom Williams, Partner and Head of Energy & Infrastructure

Henrik Dahlström, Investment Director

**Transcript**

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| 00:10 | Welcome back to another edition of Downing’s Energy Transition Shorts. Today I’m joined by Henrik Dahlström, Investment Director at Downing, who also leads our investment activity in the Nordics.  |
| 00:32 | So, Henrik, we’ve seen a lot of governments and regulators look at zonal pricing recently. Whilst our focus in the UK was ongoing from national to zonal, ultimately rejected, in Sweden, they’re looking at exactly the opposite. Can you tell us a little bit about ENTSO-E, its recommendations and the implications of those recommendations for Sweden? |
| 00:57 | Thanks, Tom. You are correct. ENTSO-E, which is the European Network of Transmission System Operators for Electricity. They proposed some changes to the price zones in Sweden by redrawing the zonal maps. However, the Swedish government rejected the proposals and did not implement the changes, and instead the government asked SVK, which is the Swedish Transmission and System Operator, to instead investigate whether the number of price zones could be reduced. |
| 01:24 | Okay. And so why do we think that is? |
| 01:28 | Well, we’ve done some analysis on the prices in the four Swedish zones. And looking at the correlation of day ahead prices between the zones, you see a very high correlation between day ahead prices in SE1 and SE2, and also between day ahead prices in SE3 and SE4, although that correlation is a bit lower, but it’s still high. And based on this analysis, it is possible that the government could opt to merge zones one and two and also zones three and four. |
| 01:56 | As such, we think it’s possible that we could see fewer price zones in the short term. And as the government is unhappy with the current significant price differences that you see between the North and the South, a reversion back to one national price zone appears to be a realistic outcome. This will, however, require a great deal of investment into the transmission network in between now and then.  |
| 02:21 | So, our lessons from Sweden 2016 to 2025. Started off with the national zone, gone to four regional zones, now looking at condensing them to north-south divide, and then potentially going back to a national zone at the end. The discourse in the UK is very much around the opposite and how actually, locational price signals – i.e. citing of demand next to lower power prices that alleviates the need for investment in the transmission system seems to have been something that’s really been abandoned in Sweden. I think, probably, for the best now that things are how they’ve landed in the UK and we’ll see how all of this develops. Well, I hope you found that interesting and we’ll be back for another edition of the Energy Transition Shorts in due course. |