EFET comments to the Ministerio de Energía, Turismo y Agenda Digital (MINETAD) consultation on the Iberian day-ahead and intraday power market rules

EFET comments – 8 February 2018

The European Federation of Energy Traders (EFET\(^1\)) welcomes the opportunity to provide comments to the draft day-ahead and intraday market rules for the Iberian power market.

We would like to focus our comments on the intraday timeframe as, at the moment, we do not consider the intraday market design to be fully fit for purpose for the XBID platform. EFET has been for long an active contributor to the discussions around the reform of the Iberian intraday market design and XBID project: since the inception of the XBID project, we have supported the NEMOs and the TSOs to ensure that the XBID platform delivers on the CACM Guideline objective of maximising economic surplus in the intraday timeframe via a continuous matching algorithm.

With this present contribution, we would like to provide further recommendations\(^2\) to ensure a sound Iberian intraday market design and make it fully fit for cross-border implicit intraday trading on the continuous XBID platform. The objective of the XBID project is to allow efficient matching of offer and demand at each point in time via continuous intraday trading throughout Europe, while ensuring efficient cross-border access to transmission capacity through implicit allocation.

Both models presented by the Iberian regulators are dissatisfying and not fully compliant with the CACM Guideline for different reasons: Model A clearly contradicts the Target Model and is therefore not acceptable in the mid to long term, as it does not allow market participants to trade all hours of a given day at any time in XBID. Model B presents a better compromise, as it would allow market participants to trade sufficiently in advance of real time in XBID by opening all 24 hours of the day for negotiation, even though the continuous market would be repeatedly interrupted. Overall, the only market model, between the two presented, that would be acceptable is Model B. We appreciate that the Model B was recognised\(^3\) by CNMC and ERSE as the one closest to the spirit of the intraday market foreseen by the CACM Guideline, as well as the regulators’ intention to re-assess the number of regional auctions, though both these recommendations should only be implemented at a later stage. However, the improvements identified by the Iberian National Regulatory Authorities (NRAs) request for amendments issued last 17 November are still largely insufficient to ensure the development of efficient cross-border intraday power markets in the region.

**Having also in mind the recent delay of the XBID go-live date now foreseen to happen on next 12 June, we urge all Iberian Institutions to make the necessary efforts aimed at implementing directly the Model B, without any transitory period involving Model A.** Furthermore, we do not fully

\(^1\) The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org)

\(^2\) For previous EFET works on the topic see for instance: [EFET reaction to the Iberian NRAs recommendation on intraday market design, 20 December 2017](https://www.efet.org)

\(^3\) See CNMC and ERSE request for amendments of 17 November 2017: [https://www.cnmc.es/sites/default/files/Request%20For%20Amendments.pdf](https://www.cnmc.es/sites/default/files/Request%20For%20Amendments.pdf)
understand the justification behind a transitory period and from where the inability to directly implement B comes from: the regulators justify this approach by a supposed lack of experience of Iberian market participants with continuous trading and a need to adapt internal procedures and IT systems to the new environment. Looking at the responses to the NRAs’ consultation of September 2017, we are surprised by this statement as it does not appear that market participants voiced such a concern. This can be explained by the fact that many of them are already active on continuous markets elsewhere in Europe. Further, we believe that the need for market participants to adapt to continuous trading in the Iberian region is in any case an irrelevant factor to decide on whether to adopt Model A or Model B for the regional complementary auctions.

Further recommendations

Regional auctions design

As mentioned in previous contributions on the design of regional complementary intraday auctions in the Iberian market, the priority of EFET is the completion of the XBID project and its effective implementation throughout Europe. Should TSOs and regulators of the Iberian region wish to establish complementary regional auctions, these should be compliant with the European target model, preserve the centrality of the continuous trading solution and hence have as little impact as possible on XBID.

At the moment, we fear that a market design contemplating a great number of regional auctions would impact liquidity on the continuous trading. We reiterate that our vision for complementary regional auctions in Iberia is with one single opening auction, giving the opportunity to market participants to negotiate in XBID continuous market all available hours of given day D without restrictions and well in advance of real time. Therefore, we request a precise timeline to rapidly reduce the number of auctions to one single opening auction.

Furthermore, we remain concerned with regard to the effective opening of regional auctions on the Spanish-Portuguese border to all market participants, including foreign trading entities without assets or customers in the Iberian region. Overall, we recommend to give more consideration to the interaction between the regional Iberian intraday auctions and XBID in the rest of Europe and make sure that there is no negative impact in terms of market access and liquidity or discrimination deriving from the Iberian market design. In this context, explicit access to capacity on the Spanish-French border should be maintained.

Making portfolio bidding work

As mentioned in our introduction, we appreciate the Iberian regulators’ intention to allow portfolio bidding in the intraday market, as the elimination of mandatory units bidding is an essential component of market participants’ freedom regarding their optimisations. However, we are concerned that with the current NRAs’ proposal, portfolio bidding will remain only on paper: the merit of portfolio bidding relies essentially on the freedom of market participants to choose and activate whichever plants they consider economically efficient within their portfolio. Moreover, portfolio bidding in continuous markets is massively facilitating trading operations. By requiring a market participant to trade on the market every

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4 See for instance: EFET response to the public consultation for complementary intraday regional auctions for the Spanish-Portuguese bidding zone border, 11 September 2017
variation of schedules, instead of simply allowing the increase or decrease of production from plants within the same portfolio, the spirit and value of portfolio bidding would actually be lost and complexity of operations would increase, with impacts on market efficiency. As mentioned multiple times by EFET\(^5\), we recommend not mixing up commercial and physical phases: at the intraday gate closure, a market participant allowed to trade on portfolio should be entitled to allocate the total amounts purchased or sold to the individual units of its portfolio and directly nominate these schedules to the TSO (nomination or ‘scheduling’). In all other main European markets, this is normal practice, while transparency scrutiny can be done via existing regulations without constraining market design.

In line with the above requests, we consider that operational rules to implement portfolio bidding should be defined. As a final consideration, this solution will provide exactly the same opportunities to all market participants.

Conclusions

We recommend the MINETAD as well as other Institutions of the Iberian region to carefully consider all the reforms that are still needed to ensure a successful participation of Spain and Portugal in XBID— including an immediate transition to portfolio bidding— and to concentrate more on the interaction between the regional Iberian intraday auctions and XBID in the rest of Europe. The absence of a reaction and not taking into consideration these critical market design reforms will not only nullify the expected benefits of the continuous intraday market, but will also worsen the overall Iberian market conditions by reducing the number of market participants and its liquidity.

EFET remains available in offering its expertise and in further providing recommendations for a sound Iberian intraday market design and for efficient cross-border intraday trading.

\(^5\) See EFET position paper "Portfolio-based bidding in the intraday electricity market: way forward for the Iberian region", 10 October 2017