ACER consultation on the NEMOs amended methodology proposal for the price coupling algorithm and the continuous trading matching algorithm

EFET response – 15 November 2019

We thank ACER for the opportunity to provide comments on the NEMOs’ amended methodology proposal for the price coupling algorithm and the continuous trading matching algorithm.

On a general note, it appears from the different questions in the consultation that ACER has identified “complex products” as a source of significant algorithm performance deterioration, and their removal as a go-to solution to resolve any performance problems. We would like to highlight the following points:

- ACER should properly define what they understand under the concept of “complex products”; we would, for instance, not include block orders in this category, and limit the category of “complex products” to PUN and MIC orders, as well as the like of user-defined or iceberg orders.
- Block orders and “complex products” are needed to allow market participants to appropriately reflect the technical constraints of their portfolio when offering their capacity in the market. The existence of such products is hence beneficial for the liquidity of the market.
- Reports from the NEMOs on the functioning of Euphemia so far indicate that the performance problems of the algorithm is rather related to the extension of market coupling to new markets than the inclusion of “complex products”.
- In order to increase the number of feasible solutions found by Euphemia, the NEMOs have proposed to increase the computation time of the algorithm during the coupling process (from 10 to 20 minutes), a solution they have been discussing for some time with the TSOs. EFET is not aware of where the discussion stands at this point, but there was so far no mention ever of a reduction in the number of available products.

Hence, before jumping to conclusions on a supposed silver bullet solution, we invite ACER to thoroughly analyse the root cause of the expected performance decrease of the coupling algorithms, and if and how far the suppression of products would solve this problems.
**Q1:** Do you agree that the implementation of the 15/30 minute products and other essential functionalities of the intraday algorithm should have a higher priority than the complex products in case of any algorithm performance issues?

The challenges that the intraday process will face in the coming years are many. Indeed, the resources and time of the NEMOs will be strained by the development in parallel of the pan-European intraday auctions, the switch to flow-based capacity calculation in intraday, as well as the introduction of smaller granularity products (30 minute-, 15 minute-products) and of complex products. While conducting these various projects, two fundamental objectives should govern the actions of the NEMOs, TSOs, NRAs and ACER:

- ensure the proper and stable functioning of XBID
- avoid any split in liquidity in the continuous intraday market

In terms of priorities, and as stated repeatedly in the past, we see the implementation of the pan-European intraday auctions as the lowest on the list. Despite many discussions on the subject, we still have difficulties to understand the real added value of this market design feature compared to other, more urgent reforms such as:

- capacity recalculation in intraday
- effective GOT at 15:00 all across Europe, with leftover capacities from DA until recalculation
- GCT 15 minutes before real time
- introduction of smaller granularity products

We believe intraday auctions risk threatening the liquidity of continuous trading, and the repeated suspensions of the continuous market will also limit market participants’ ability to adjust their positions at any moment in time. For more details, we refer to our response to the October 2018 consultation of ACER on intraday capacity pricing. We see the introduction of the three pan-European intraday auctions as one of the important sources of complexity in the cross-border intraday market.

Leaving the question of intraday auctions to the side, one very important element in order to ensure that the continuous intraday market maintains its current level of liquidity when introducing smaller granularity products is that these products can be matched between themselves. Until all ISPs in Europe are aligned – not before 2025 – cross-border transmission capacity in intraday can only be provided according to the longest ISP on the two sides of a given border. While we welcome the introduction of smaller granularity products, this means that XBID will have to deal with a variety of product granularity and transmission capacity granularity. ACER should ensure that the NEMOs are ready to provide cross-product matching by introducing this concept as a mandatory feature in this methodology. If this is not the case, the result will be effectively the split of XBID in a handful of separate markets for each product granularity and corresponding transmission capacity granularity.

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1 EFET response to the ACER consultation on the TSOs methodology for intraday cross-zonal capacity pricing, dated 30 October 2018 and available at: [https://efet.org/Files/Documents/Downloads/EFET_ACER%20consult%20ID%20capacity%20pricing_30102018.pdf](https://efet.org/Files/Documents/Downloads/EFET_ACER%20consult%20ID%20capacity%20pricing_30102018.pdf)
In terms of products, XBID already incorporates hourly block orders, without indication from the NEMOs that this increases the complexity of matching orders. As mentioned in our introduction, we don’t consider hourly block orders as “complex products”, and we oppose any proposal to remove them from the product offering on XBID. We do not believe that their existence should compete with the introduction of smaller granularity products.

The introduction of further complex products is generally welcome, and this work stream should not be delayed unless proven that the inclusion of such products has a damping effect on the algorithm performance.

**Q2: Do you agree that the implementation of the 15/30 minute products and other essential functionalities of the day-ahead algorithm should have a higher priority than the complex products in case of any algorithm performance issues?**

For day-ahead coupling, the challenges facing NEMOs seem less daunting than in intraday. Fundamentally, it is only about the introduction of smaller granularity products and of further complex products.

Like in intraday, it is important to ensure that the day-ahead market maintains its current level of liquidity when introducing smaller granularity products, and that these products can be matched between themselves. Until all ISPs in Europe are aligned – not before 2025 – cross-border transmission capacity in day-ahead can only be provided according to the longest ISP on the two sides of a given border. While we welcome the introduction of smaller granularity products, this means that MRC will have to deal with a variety of product granularity and transmission capacity granularity. ACER should ensure that the NEMOs are ready to provide cross-product matching. If this is not the case, the result will be effectively the split of MRC in a handful of separate markets for each product granularity and corresponding transmission capacity granularity.

In terms of products, MRC already incorporates block orders – which, as mentioned in our introduction, we do not consider “complex products” and would oppose any suppression of – as well as a wide variety of complex orders, from user-defined blocks and iceberg orders to MIC and PUN orders. NEMOs have gradually improved the performance of Euphemia in order to accommodate more complex products. From what we understand from reports in various stakeholder forums, it seems that the current challenge to the Euphemia algorithm is the extension of MRC to more markets (and the related number of bidding zone borders) rather than complex products. We also understand that NEMOs and TSOs are currently in discussion to extend the computation time of the algorithm to ensure that more feasible solutions are found within the calculation timeframe.

At this stage, the introduction of smaller granularity products in day-ahead should not come at the cost of a suppression of block orders or other products currently proposed in MRC.
The introduction of further complex products is generally welcome, and this work stream should no be delayed unless proven that the inclusion of such products has a damping effect on the algorithm performance, taking account of the planned extension of the algorithm calculation time.

Q3: Would you support any of the options above (i.e. Options 1, 2 and 3) to reduce the suspension time of the continuous SIDC?

As mentioned in our response to the October 2018 consultation of ACER on intraday capacity pricing, we believe that the link ACER made at that time between article 55 (intraday capacity pricing) and article 63 CACM (complementary regional auctions) is very important. Article 55 does not give any detail as to how intraday capacity pricing auctions should be organised, and what are the limits of the effect they can have on XBID. Article 63 on the other hand clearly states that complementary regional auctions “shall not have an adverse impact on the liquidity of the single intraday coupling” (art. 63.4.a) and that “continuous trading within and between the relevant bidding zones may be stopped for a limited period of time [...] which shall not exceed the minimum time required to hold the auction and in any case 10 minutes” (art.63.2).

The provisions of article 63, which was discussed much more in depth during the negotiations on the CACM Regulation, should serve as a benchmark for the implementation of article 55.

The proposal of the TSOs and NEMOs to suspend XBID during 30 minutes for the 15:00 D-1 auction and 60 minutes for the 22:00 D-1 and 10:00 D auctions is absolutely not acceptable. We believe that intraday capacity pricing auctions should not lead to an interruption of continuous trading of more than 10 minutes. This will ensure that the market design truly respects the letter and spirit of CACM, where intraday capacity pricing is a complement to continuous trading, not the contrary.

We see that none of the options proposed by ACER would manage to reach to goal of a maximum 10-minute suspension of XBID. We invite ACER to continue discussions with TSOs and NEMOs in order to seek a solution that would match what we understood as ACER’s initial objective of keeping XBID suspension below 10 minutes.

Either a combination of option 1 and 2, or the implementation of option 3 would only allow a reduction of the suspension time by 15 to 20 minutes. Still, nothing is proposed in terms of diminishing the time for the calculation, transferring, validation and publication of results. This means no improvement for the XBID suspension time of the 15:00 D-1 auction, and leaves a 45-minute suspension for the 22:00 D-1 and 10:00 D auctions, which we deem as far too long.

If ACER does not find a solution to make sure that the 22:00 D-1 and 10:00 D auctions do not suspend XBID and negatively affect continuous trading, we suggest that they abandon their proposal to have three intraday auctions and come back to the initial TSO proposal of one opening auction only, at 15:00 D-1. For this single opening auctions, improvements to time needed for the calculation, transferring, validation and publication of results should still be sought after.
Q4: Would you support the elimination of complex products in order to decrease the suspension of the continuous SIDC after the deadline for bid submissions (Option 4)?

First, we would welcome a clarification from ACER whether its intention in option 4 is to eliminate “complex products” from the auctions only or from both XBID and the auctions. Also, ACER fails again to define what they understand with “complex products”, most specifically whether they include block orders in this category. Looking at the current XBID features, we can only guess that ACER includes block orders in this category.

Unless we are mistaken, the suppression of “complex products” would:
- have no effect on capacity re-calculation and merging with capacities from continuous trading – hence no reduction of the first 15-minute suspension
- have no effect on the publication and bidding time – hence no reduction of the following 15-minute suspension
- may have an effect on calculation time as part of the process to calculate, transfer, validate and publish results – which may lead to a partial reduction of the last 30-minute suspension

The gain of suspension time linked with the elimination of “complex products” with the implementation of option 4 is therefore likely to be minimal. Without further indication of how “complex products” affect the calculation time, we oppose the elimination of such products. Most specifically, we fundamentally reject option 4 if ACER includes block orders in its definition of “complex products”, as their tradability is a very useful market design feature that contributes to the liquidity of the intraday market.

Q5: Do you agree with the list of indicators proposed by all NEMOs for either of the algorithms? Please, indicate any new indicators or an amendment to the proposed ones, which would, in your view, help to monitor how the NEMOs in cooperation with TSOs fulfill their legal obligations of developing and operating the day-ahead and intraday algorithms.

No comment.