

CREG/CRE consultation on a reform of intraday capacity allocation at the French-Belgian border



EFET response – 12 January 2016

The European Federation of Energy Traders (EFET)¹ thanks CREG and CRE for the opportunity to provide its views on the proposal to improve the methodology for intraday capacity allocation at the French-Belgian border.

EFET is a long-time supporter of the electricity target model. The introduction of the single day-ahead market coupling process is proceeding and **we also support the objective to implement the single intraday coupling process as soon as possible - an efficient cross-border intraday platform based on a Common Management Module (CMM) and a shared order book (SOB)**. We strongly believe that this solution is the right way forward since it allows to develop liquidity and to integrate intraday markets throughout Europe progressively for all categories of products (standard, non-standard and in all granularities).

The intraday market developments have, however, been held captive for years by conceptual approaches concerning market design and platform developments. Over these years we have witnessed that the development of liquidity in OTC trading with explicit access was beneficial in parallel to the development of liquidity in implicit trading, both for individual markets and across borders. Such open market design during the transition toward the target model allowed to launch the Swiss intraday market from scratch in 2013: it is now twice the size of the Belgian or Dutch intraday markets².

The delay in finalising the detailed arrangements for delivering the Common EU intraday platform for standard products (XBID 2017) and the additional work and improvements needed in all markets in order to deliver the common EU intraday platform according to the target model (with capacity pricing, non-Standard products, etc.) further support the introduction of no-regret intermediate market design improvements to facilitate cross-border intraday access to interconnections with direct explicit access to interconnection capacity (the CMM component of the market design), closer to real time gate closure times, and smaller product granularity (and cross border nominations) such as 30-minute products and 15-minute products.

¹ EFET promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org.

² Liquidity on the Belgian and Dutch intraday markets has decreased over the past year (-8% for NL, -3% for BE on a year to year basis) while other markets enjoyed a strong and steady growth (+28% for DE/LU, +23% for FR, +62% for AT, +43% for CH, +3% for UK). Source: EPEX Spot.

This approach for quick wins and progressive improvements through flexible market design solutions was clearly described in our letter to DG Energy of May 2012³, and our communication to AESAG members in April 2015⁴ on the subject.

Contrary to the rather well established day-ahead markets, intraday markets and their liquidity still need to be built and developed in many Member States, including in Belgium. This requires a favourable environment, so that companies have an interest for the development of their intraday activities and teams across Europe. The achievement of market integration for intraday in a timely manner thus requires additional efforts. In particular, there now needs to be parallel work on the side of TSOs and cable operators, for which increased coordination and flexibility is needed, as a preliminary condition for intraday markets to develop.

We therefore welcome the proposal of the Belgian and French TSOs, consulted by CREG and CRE. These are very concrete proposals which, we trust, will quickly allow for significant improvements to cross-border access to intraday markets in CWE, which can then also be coupled in a flexible way to adjacent intraday markets with the rollout of the XBID platform in 2017. In the interim, this entails both implicit and explicit access until all market needs can be met by implicit allocation, as foreseen in the CACM guideline.

³ EFET letter to DG Energy on the timely implementation of market opening and integration for intraday markets, 21 May 2012, available at:

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/WQH2XHGPUYBMA47U/EFET-Letter-on-Intraday_21-05-2012.pdf.

⁴ Five principles for efficient cross-border intraday trading, EFET communication to AESAG, 7 April 2015, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/3JZ26LNH2QGNA663/Five-Principles-for-efficient-XB-ID-trading.zip.

Consultation questions:

Question 1: Are you in favour of setting up beginning of February 2016 a continuous explicit allocation in intraday, with 24 gates, at the French-Belgian border, replacing the «improved pro-rata » mechanism?

EFET welcomes the improvements proposed by Elia and RTE for the allocation of cross-border intraday capacity at the French-Belgian border, namely the migration from the current “improved pro-rata” capacity allocation to an explicit, first come first served allocation with 24 gates and a neutralisation time of one hour. Indeed, we believe **it is crucial to find a solution to improve capacity allocation at this border. EFET has asked to abandon the pro-rata allocation mechanism for many years as this capacity allocation method has proved inefficient and has delayed the development of liquidity in intraday markets in the Benelux.** EFET members welcome the objective of the TSOs and regulators to establish the new capacity allocation mechanism as early as February 2016 at the French-Belgian border. We also agree with the project to use the ICS platform of DBAG for the allocation of intraday capacity at this border as the platform has proved its robustness in the allocation of intraday capacity at many other borders in CWE, including the French-German and French-Swiss borders.

Question 2: Do you have further remarks on the draft French-Belgian interconnection rules proposed by RTE and Elia (see annexes)?

No

Question 3: Among the three options presented, which solution of intraday capacity allocation at the French-Belgian border seems most relevant in view of an implementation by the summer of 2016? Market participants are invited to justify their position.

As explained in our introduction to this consultation response, EFET has always been supportive of the target model (i.e. a continuous trading implicit-only platform) and of its progressive implementation through transitional mechanism that allow flexible and efficient cross-border access to intraday markets as it is foreseen in the CACM guideline. The CACM guideline clearly provides this crucial transitional step for the evolution and well functioning of intraday markets in view of reaching the target model.

The most important element at the moment is to **implement a flexible design to quickly replace the current “improved pro-rata” mechanism in place at the French-Belgian border.**

EFET advocates for a parallel continuous explicit and implicit allocation of intraday capacity as proposed in option #2. Parallel implicit and explicit allocations until implicit allocation can answer all market needs allow for flexibility in all categories of intraday products and transits until markets are efficiently coupled. This intermediate market design is efficient and will enable intraday markets to develop faster and improve their liquidity. **EFET members therefore support running both (explicit and implicit) allocation mechanisms in parallel (option #2), until sufficient liquidity – including for non-standard products – materialises through the implicit allocation.** EFET suggests that the period for which this solution is maintained be dependent on the development of liquidity and tradability of non-standard products on the implicit platform rather than be bound by an arbitrarily pre-determined timeline of six months: asking TSO to come up with a new proposal will generate further delay in the implementation of the “quick wins”, requested for several years now.

We remain confident the CRE and CREG will put market efficiency at the centre of their considerations when deciding for the interim market design for intraday capacity allocation. As mentioned above, we believe this would be best achieved with option #2. Should regulators consider option #2 impracticable as an interim solution, EFET believes that preferring an interim implicit-only solution to parallel implicit and explicit allocation would introduce operational and compliance risks by constraining trading of non-standard products through standard hourly or block bids contracts. Would an implicit-only solution be nonetheless preferred, an explicit fallback solution will need to be implemented in case of technical outage of the platform (option #3). In this case, one needs to make sure that a zone does not end up totally isolated in intraday, leading to very high imbalance prices. Furthermore, to be valid, the fallback solution would need to be properly tested, clean and robust. An interim implicit-only solution without explicit fallback (option #1) is unrealistic. Beyond all the reserves mentioned above with regard to option #3, not proposing a fallback mechanism in option #1 is not acceptable for market participants.

Question 4: What are the pros and cons of having explicit and implicit allocation in parallel (including implicit allocation with blocks)?

When discussing pros and cons of parallel implicit and explicit allocations, we need to make a distinction between the transitional period until the full target model is reached and the period when the target model is implemented throughout the EU. Our considerations below reflect the interim period before the full implementation of the target model. EFET supports an interim solution with parallel implicit and explicit allocation for the following reasons:

- The recent track record on the FR-DE-AT-CH borders shows that having both explicit and implicit in parallel can boost intraday markets significantly. In their common response to the European Commission consultation on a new electricity market design⁵, ACER and CEER highlight, among others, the importance of efficient and accessible short-term markets to remove obstacles to the full integration of RES-E generation in the market. We believe that the parallel implicit and explicit allocation mechanisms currently in place at the heart of CWE contribute to facilitating the participation of RES-E in the market and to allowing all market participants to re-balance their portfolio close to real time.
- Explicit access is needed both for transits and for trading non-standard products as long as implicit platforms are not connected throughout all regional hubs and as long as non-standard products are not available for trading. Also non-standard market needs would include matching several bids to fill-in a larger hourly or block order: this cannot be traded on implicit platforms today since multi-product matching is not available and because liquidity may still be insufficient in many markets.
- Using standard implicit products to trade non-standard products (such as profiles) would distort the price signals of standard products. It would likewise be inadequate to use an implicit platform for transits since this would require trading with oneself. The same goes for posting pre-arranged OTC deals on an implicit platform: pre-arranged deals introduce market manipulation risks and introduce artificial operational constraints to already arranged transactions.

On the concerns of CREG with regard to market abuse, we recall that EFET has been a strong support of transparency rules in the market since the start of the liberalisation process. Market participants are subject to strict transparency requirements through REMIT on the one hand, and through transaction reporting in the framework of REMIT and EMIR on the other hand. We believe these two instruments give ample data for the regulators to detect any misbehaviour of market participants. It is the firm belief of

⁵ Joint ACER-CEER response to European Commission's Consultation on a new Energy Market Design, point 8.3, 7 October 2015, available at:

http://www.acer.europa.eu/Official_documents/Position_Papers/Position%20papers/ACER_CEER_EMD_Response.pdf

EFET that since this robust framework exists, including precise interpretations provided by the proposed market rules, regulators should not need to restrict the design of the market only with the objective to prevent all risk of potential misbehaviour. Doing so would require strong evidence based on market data and a full assessment of the impact the proposed remedy may have on the development of market activity.

EFET acknowledges that running both systems in parallel may create additional costs on the side of TSOs, although part of these costs will be incurred in any case because the explicit access to capacity will have to be maintained as a fallback solution. Extra costs will also be borne by market participants for dealing with separate systems, potentially affecting smaller market participants in a more significant manner. However, any market participant is free to only trade on the implicit platform should it deem that maintaining capacity to participate in the explicit allocation process is too costly.

Once implicit platform(s) will be able to properly cope with all market needs, an implicit-only model will be appropriate to avoid the cannibalisation of liquidity on the platform by explicit allocation – until then, no such risk is to be expected as the implicit platforms do not offer the non-standard products which warrant the continued existence of explicit allocation.

Final remarks:

EFET would also like to insist on additional issues of equal importance as explicit access such as:

- The importance of lowering the GCT neutralisation lead-time to one hour maximum. EFET welcomes CREG's resolution to urge TSOs to implement 24 gates at the BE-NL border, where no concrete project or planning seems to be available yet. Indeed, reducing lead-time is key for the development of intraday markets, amongst others given the increase in RES production.
- The need for smaller granularity products such as 30-minute or 15-minute products with the associated cross-border nomination access.

Finally, EFET welcomes CREG's insistence on the importance of implementing a proper cross-border capacity recalculation in intraday as soon as possible so that additional capacity is released in intraday after the efficient use of all available capacities in day-ahead with flow-based market coupling. EFET welcomes the immediate improvements proposed by the TSOs in terms of capacity release, but calls for a true recalculation of intraday capacity in D-1 based on all available data post day-ahead clearing, all this before the date of end of 2017 announced by the TSOs. We refer to our responses to the RTE and CREG consultations on the subject⁶. Without progress on capacity calculation, the discussion on capacity allocation will remain purely theoretical.

⁶ EFET response to the RTE consultation on modifications to cross-border intraday capacity calculation at the Belgian and German borders, 6 November 2015, available at:

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/QNY2AYASB4DBLS3F/EFET_RTE-consultation_ID-XB-CC-methodology.pdf

and EFET response to the CREG consultation on modifications to cross-border intraday capacity allocation at the French and Dutch borders, 8 January 2016, available at:

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/9EX2B3VJGNW4MLTG/EFET_CREG-consult_ID-capacity-recalculation.pdf.