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Chair, NEMO Committee

Laurent Schmitt,
Secretary General, ENSTO-E

23 January 2018

Object: Technical and market design improvements urgently required for XBID go-live

Dear Mr Borchardt,

On 8 January 2018, the Nominated Electricity Market Operators (NEMOs) announced the target date of 13 March 2018 for the launch of the continuous cross-border intraday trading on the XBID platform. Since the inception of the XBID project, EFET has 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.

At repeated occasions, the European Commission and ACER insisted that NEMOs and TSOs guarantee that the introduction of continuous cross-border intraday trading secures at least the same level of access to interconnections in the intraday timeframe to market participants. The ultimate goal of the project is to actually improve cross-border intraday access and liquidity in intraday markets. This principle was instrumental in securing the support of EFET and the market participant community at large for this project.

With only a couple of months to go before the target go-live date, we wish to attract your attention to a number of technical and market design elements that threaten the promise of the European Commission and ACER that the introduction of XBID would not materialise in any step backwards in terms of cross-border intraday access or liquidity of existing intraday markets. We also point to a number of elements that threaten the very objectives of the XBID platform to improve intraday trading at a pan-European scale.

I. Technical limitations in the functioning of the XBID platform

1. *Interaction between the XBID platform and the local trading solutions*

Our primary element of concern with the announced specifications of the platform is the **absence of coupling between the XBID platform and the local trading solutions (LTS)**. Local intraday markets open earlier and close later than continuous cross-border intraday trading on the XBID platform. Market participants active on the intraday market will therefore wish to include orders on the LTS of the bidding zone in which they are active before and after trading on XBID is available. As announced by the NEMOs, the bids and offers introduced on the LTS will however not automatically be transferred to the XBID platform when continuous cross-border intraday trading opens, and unmatched orders on XBID will not be automatically transferred back to the relevant LTS when XBID closes.

We see a number of dangers with this specification:

- First, there are **operational risks** for market participants inherent to the procedure: market participants will need to enter orders on the LTS, then – if unmatched on the LTS – close this position on the LTS and introduce a new order on XBID, then – if unmatched on XBID – close the position again, this time on XBID, and place their original order back onto the LTS. Beyond the burden that this represents for market participants, such a procedure is prone to errors or missed opportunities if not performed properly. Indeed, if a trader cancels an order on the LTS only after placing it on XBID, this order could be matched both on the LTS and XBID even though it corresponds to only one intention to trade. Conversely, market participants could miss opportunities on the LTS or XBID should too much time elapse between their cancellation of the order on the LTS and its reintroduction on XBID.
- Second, there are **liquidity risks** for XBID: the cumbersome procedure prone to operational errors that the NEMOs propose could lead market participants in bidding zones where the intraday market is liquid enough to leave their orders on the LTS and not transfer them to XBID when continuous cross-border intraday trading is available. German market participants, for instance, may very well consider that their local intraday market is sufficiently liquid to not bother going through the procedure to place their orders on XBID and trade only on the LTS. Without the German intraday market liquidity on XBID, it is the future of liquidity on the XBID platform as a whole that is threatened.

Therefore, we request the automatic coupling of the XBID platform and all LTS participating before the go-live of XBID.

2. *Limitations in the XBID order book depth and new tick size*

Another important element of concern with XBID is the **limitation of the order book depth to 31 orders in total**. The NEMOs indicate that this specification has been introduced to guarantee a stable performance of the system. This is not an acceptable approach as system performance and stability must be a goal in itself and should not be achieved by limiting trading activities.

Currently the order book for continuous intraday trading in continental European markets where it is available is not limited, i.e. market participants can introduce as many orders as they wish on continuous trading platforms. Limiting the number of orders to 31 would therefore be a significant step back in terms of transparency and market signals. Further, it would fail to reflect the operational needs of market participants.

Also, **the tick size on XBID has been set at the low value of EUR 0,01/MWh**. The NEMOs have not indicated a reason explaining the level of the tick size.

It is worth noting that the tick size was re-evaluated from EUR 0,01/MWh to EUR 0,1/MWh in continental markets in 2016 with two objectives: limit the chances of opportunistic bidding and market manipulation on the one hand, and improve the performance of the trading platform on the other hand.

With the objective of improved performance in mind, we recommend that the tick size be set at EUR 0,1/MWh, and request that the depth of the order book not be limited – or at the very least be significantly improved.

3. *Limitations in the diversity of products available on XBID*

A third element of concern is that **only hourly products will be available on XBID at the target date for go-live**. Though the NEMOs have stated their intention to introduce sub-hourly products at a later stage, there will be no opportunity to trade 15- or 30-minute products on XBID at the start.

Once again, continuous implicit trading of 30-minute products exists at certain borders of the EU. With the go-live of XBID, these products would disappear without clear justification from the TSOs or NEMOs, which is a step back in terms of cross-border access to intraday markets.

We demand that XBID allow implicit continuous trading of sub-hourly products at the borders where such products are currently available as of the go-live date. We also request that NEMOs clarify and commit to a timeline for the introduction of sub-hourly products at all other borders.

II. Market design limitations endangering the development of cross-border intraday trading

1. *Iberian intraday market design and regional intraday auctions*

In a paper published on 20 December 2017, we described at length why **we perceive the position of the Iberian regulators CNMC and ERSE as counterproductive both for the development of XBID in the region, and for cross-border access to the Iberian intraday market**[1].

Without going into detail again, we would like to remind the European Commission that:

- We see the approach of the Iberian regulators as a **significant threat to the functioning of XBID in Iberia itself**:
  - Without effective portfolio bidding and direct nominations to the TSOs, market participants wishing to trade in Iberia will be constrained on XBID. The "hybrid" bidding solution proposed by the Iberian regulators would actually push market participants to perform illegal wash trades – considered a market manipulation in European law. As a counter-example, the Italian regulator has indicated its intention to introduce portfolio bidding in intraday to ensure the proper functioning of XBID on the Italian peninsula.
  - The current design of the regional intraday auctions proposed by the Iberian regulators will not only repeatedly interrupt XBID: with very limited hours ahead to trade in the auction model A, it is actually designed to keep liquidity on the auctions and divert it from XBID. We remind the European Commission that this would go against article 63.4.a of the CACM Guideline.
- We also see the approach of the Iberian regulators as a **significant threat to non-discriminatory access to the Iberian intraday market**:
  - With the market design currently proposed by the Iberian regulators, the market will be effectively foreclosed to non-Iberian participants every time XBID is suspended, as it will de facto impede trading at the external bidding zone border of the region (Spain<>France).
  - With the disappearance of the explicit auction at the external border of the Iberian region, market participants outside the Iberian region will be excluded from intraday trading on the local auction. Once again, the Italian regulator appears to have opted for a different solution with auctions that include the external borders of the country. This discriminatory approach proposed by the Iberian regulators would be a significant step back compared to the current situation at the Spain<>France border, and it would go against article 63.4.c of the CACM Guideline.

[1] EFET reaction to the Iberian NRAs recommendation on intraday market design, dated 20 December 2017, available at: http://www.efet.org/Files/Documents/Downloads/EFET_Reaction%20to%20Iberian%20NRAs%20decision%20on%20the%20ID%20market%20design_20122017.pdf.

Therefore, we request the immediate establishment of true portfolio bidding in the intraday timeframe in Iberia. We also demand the implementation of auction Model B as soon as possible, preferably for the launch of XBID in Q1 2018 and not 12 months later, accompanied with clear requirements and a precise timeline to rapidly reduce the number of auctions to one single opening auction. Should XBID go live in Iberia with the market design proposed by the Iberia regulators, we request that the TSOs maintain explicit access to capacity at the Spain<>France border to avoid discrimination of foreign non-Iberian participants.

2. *Exclusion of Switzerland from participating in XBID*

We would like to voice one again our **disappointment about the exclusion of Switzerland from XBID**. Since the adoption of the CACM Guideline, it has been clear for all that the Swiss TSO and power exchange(s) would not be allowed to participate in the single intraday coupling until a comprehensive energy agreement has been concluded between Switzerland and the EU. The Swiss TSO and power exchange(s) have nonetheless made clear that they are ready to be part of XBID.

Yet, the practical consequence of the exclusion of Switzerland from XBID will put an end to the implicit coupling mechanism in intraday at the Switzerland<>Germany and Switzerland<>France borders. This is a new step back for market participant as a result of the go-live of XBID.

While we acknowledge the reasons for the original standoff between Switzerland and the EU, the negotiations between the Swiss Federal Council and the European Commission seem to have advanced in 2017. The example of the recent EU-Switzerland agreement on the linkage of their respective Emissions Trading Systems is a good example of effective cooperation in the energy field even in the absence of a wide-ranging energy agreement between Switzerland and the EU. We remind the European Commission of its commitment back in 2016 that the standoff in EU-Switzerland relations would not lead to any step back for market participants, and that existing market arrangements would be maintained.

Therefore, we recommend the inclusion of Switzerland in XBID from go-live. Should this be politically unfeasible, we request that the existing implicit coupling arrangements at the borders between Switzerland and the EU be maintained.

3. *Absence of fallback solutions to XBID*

In light of recent technical failures of implicit intraday platforms in Europe, we are worried with the **absence of fallback solutions to XBID**. There is admittedly no requirement in the CACM Guideline for the TSOs to establish fallback solutions to the single intraday coupling. Like many other organisations and institutions, this is an element we overlooked at the time of the drafting and adoption of the Guideline.

However, there being no legal requirement does not prevent TSOs to establish fallback solutions in the form of local explicit auctions at the various EU borders. The XBID system combines different functions in a way that no other platform in Europe has ever done: a shared order book, a congestion management module, and a shipping module. In the absence of detailed feedback on the performance testing conducted by the NEMOs, this complex structure makes us fear the possibility of failures of the platform. In these cases, while intraday trading will still be possible on the LTS at a bidding zone level, access to cross-border capacity will be impossible. Market participants with an open cross-border position will need to rebalance their portfolio on local markets, possibly at significant premiums.

Therefore, we demand that TSOs develop fallback solutions for all the borders before XBID go-live. At the borders where they are currently available, explicit auctions could be maintained as fallback auctions.

III. Summary of the EFET requests

EFET urges the European Commission to use its influence to ensure that the following elements are implemented **before the go-live of XBID**:

- the XBID platform is automatically coupled to all LTS participating in the go-live
- the tick size is set at EUR 0,1/MWh
- the depth of the order book is not limited or significantly improved
- XBID allows implicit continuous trading of sub-hourly products at the borders where such products are currently available as of the go-live date
    - *We also request that NEMOs clarify and commit to a timeline for the introduction of sub-hourly products at all other borders.*
- true portfolio bidding in the intraday timeframe is immediately available in Iberia.
- auction Model B is implemented in Iberia as soon as possible, accompanied with clear requirements and a precise timeline to rapidly reduce the number of auctions to one single opening auction
    - *Should XBID go live in Iberia with the market design proposed by the Iberia regulators, we request that the TSOs maintain explicit access to capacity at the Spain<>France border to avoid discrimination of foreign non-Iberian participants.*
- Switzerland is included in XBID
    - *Should this be politically unfeasible, we request that the existing implicit coupling arrangements at the borders between Switzerland and the EU be maintained.*
- TSOs develop fallback solutions for all the borders participating in the go-live, maintaining explicit auctions as fallback solutions at the borders where they are currently available

EFET insists these requests be followed before the go-live of XBID. Each of the elements detailed in this letter is a threat not only to the future of single intraday market coupling via XBID, but also to the efficiency of intraday markets as we know them, including across borders.

Previous experience of European projects that went live before all conditions for success were met – day-ahead flow-based market coupling, the joint allocation platform, EMFIP – have shown how difficult it is for us all as a community to put a project back on track to deliver the expected benefits to the market, and to European citizens down the line. It is vital that the European Commission, as the initial driving force behind XBID, uses its influence to find solutions guaranteeing that the implementation of XBID truly contributes to the development of European intraday markets across borders.

We thank you in advance for your consideration of our recommendations, and we look forward to a fruitful dialogue with you and your team.

Yours sincerely,

Jan van Aken, Secretary General