

## **ACER consultation on all NEMOs' proposal for products that can be taken into account in day-ahead coupling**



### **EFET response – 27 October 2020**

The European Federation of Energy Traders (EFET\*) welcomes the opportunity to provide our comments on the proposal on products that can be taken into account in day-ahead coupling made by all Nominated Electricity Market Operators (NEMOs) in accordance with Article 40 of the Commission Regulation (EU) 2015/1222 establishing a guideline on capacity allocation and congestion management.

#### ***Q1: Do you agree with the choice of day-ahead products proposed by all NEMOs?***

The main purpose advanced by the NEMOs and ACER for the limitation of so-called “complex products” in single day-ahead coupling (SDAC) is to ensure the performance and scalability of the coupling algorithm. We welcome this objective and the introduction of “complex products” in SDAC. We also believe that the NEMOs should proceed to their inclusion unless proven it has a damping effect on the algorithm performance, taking account of the planned extension of the algorithm calculation time.

First, we welcome the clarification in the proposal that block orders will have to be included in SDAC (art. 4.2).

Second, the NEMOs' proposal shows that linked bids as well as exclusive bids are listed as optional products (art. 5.2(a)). We strongly disagree with this proposal, as we believe such products are crucial in day-ahead. They allow market participants to reflect the constraints of their physical assets or contracts, and thereby the optimisation of portfolios. This could lead to an increase in electricity prices and a de-optimisation of the whole market: In case linked bids are not available, market participants will not be able to spread expenditures such as start-up and run-down costs over multiple bids. In case exclusive bids are not available, this would force market participants to choose ex-ante and place their bid for a certain MTU, when they would have had alternative options that the market coupling algorithm could have optimised.

We do not believe that linked or exclusive bids introduce such a degree of complexity in the algorithm that they deserve to be made optional. In our view, only a thorough demonstration of their negative impact on algorithm performance would have warranted their exclusion from the list of mandatory products to consider.

Third, and conversely, we observe that sub-hourly products are made mandatory in day-ahead (art. 4.1). We understood from public statements at stakeholder group meetings that the inclusion of 30-minute and 15-minute products is probably what threatens most the

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performance of the algorithm, alongside the geographical expansion of SDAC. While we support the introduction of smaller granularity products in general, and acknowledge this is a legal requirement from Regulation 2019/943, we believe that this represents much less of a priority in day-ahead than it can be in intraday<sup>1</sup>. Once again, we're missing a proper impact assessment of this measure, and we fail to understand why the introduction of 30-minute or 15-minute products must be prioritised over the inclusion of other "complex products" that add much less complexity to the algorithm.

Should 30-minute and 15-minute products be introduced, we reiterate the recommendations we made concerning the intraday market: 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 Imbalance Settlement Periods (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 Multi-Regional Coupling (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 conclusion, we observe that MRC already incorporates block orders as well as a wide variety of "complex orders", from user-defined blocks and iceberg orders to Minimum Income Condition (MIC) and *Prezzo Unico Nazionale* (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 challenges to the Euphemia algorithm are the extension of SDAC to more markets (and the related number of bidding zone borders), and the introduction of smaller granularity products. The latter should not come at the cost of a suppression of block orders or other products currently proposed in MRC.

**Q2: Any other comments?**

PUN and MIC are also optional, which could potentially be a positive evolution provided that the obligation to market participants in Italy and Iberia are also reviewed accordingly.

In the previous NEMO's consultation the Scalable Complex Order there was a new order aimed "to increase scalability while keeping the flexibility for the bidders" and "an alternative to complex orders, preserving most of the economical and operational advantages for bidders"<sup>2</sup>.

Regarding scalability, performance improvements "are expected" but "shall be confirmed by future investigations". We think that the NEMOs and ACER proposal should have analysed this further in a separate evaluation report.

<sup>1</sup> See also [EFET response to the ACER consultation on the NEMOs amended methodology proposal for intraday products](#)

<sup>2</sup> [http://www.nemo-committee.eu/assets/files/200408\\_Products%20Proposal\\_DA\\_TRACK-7640fe517cd9ee883ef94895d54cf2e2.pdf](http://www.nemo-committee.eu/assets/files/200408_Products%20Proposal_DA_TRACK-7640fe517cd9ee883ef94895d54cf2e2.pdf)

Regarding flexibility and advantages for the bidders, we would like to highlight that the first source of flexibility for the bidders is the ability to use the most suitable type of orders, without any restriction. This does not happen in Iberia currently, where the following is not allowed:

- Freedom for arranging portfolio bidding and then nominate physical schedules to the TSOs.
- Use of block orders with sophisticated features. For example, exclusive blocks, parent-child blocks, etc currently used in Central Europe.

For all these reasons, we question if this proposal is the most suitable strategy to make evolve the list of SDAC products. Alternatively, we propose the elimination of complex MIC orders and low gradient orders and not introducing the scalable MIC orders in the SDAC. The flexibility for market participants should come from the freedom of bidding (i.e. portfolio bidding + direct nomination to TSOs) and the use of “block orders” (including the most sophisticated formats of blocks currently available in Central Europe).

If there is a performance problem of Euphemia due to geographical expansion and the future change to a 15-minute Market Time Unit, we have to assume that SDAC cannot be the mean of achieving an optimal dispatch in the context of the energy transition in any region. The intraday continuous trade close to real time is the most appropriate tool. Flexibility provided for all types of generation technologies and demand response must and can give the most in the market with simple and harmonized bidding and nomination rules across Europe.

We encourage ACER, NRAs and relevant NEMOs that these regional/national market design features are clearly hindering the SDAC and SIDC framework. This can be achieved with a transitional period in order to accommodate the update of the regulatory framework to allow the use the complex block orders instead of MIC orders.