

ACER consultation on intraday capacity pricing



EFET response – 30 October 2018

Introduction

The European Federation of Energy Traders (EFET) thanks ACER for the opportunity to comment once again on the TSOs proposal for intraday capacity pricing¹. We analysed the document, including the reasons for which NRAs referred the decision-making on this subject to ACER, and find the questions raised by the Agency of high relevance.

We acknowledge that the CACM Regulation requests the TSOs to develop a single methodology for pricing intraday cross-zonal capacity, which opens the door for pan-European intraday capacity auction(s). However, **the CACM Regulation's main priority for intraday is first and foremost to ensure efficient, non-discriminatory access to cross-zonal capacity while maximising social welfare**. In general, therefore, we are not convinced by the introduction of cross-zonal intraday capacity pricing auctions. A continuous intraday market – as defined as the target model in CACM – is best suited to deliver a real-time price signal and allow market participants to continuously optimise the dispatch of their production and consumptions units. This simplifies market entry for new competitors and it minimises the volume and cost of TSO balancing activity. A liquid continuous intraday market will become increasingly vital, as intermittency becomes more important in European electricity systems. Intraday capacity pricing auctions deprive the continuous market of liquidity and jeopardise its efficient functioning.

The recent go-live of continuous intraday market (XBID) is key to allowing efficient, non-discriminatory access to intraday capacity at all times, as it enables market

¹ For more information on our position on the initial TSO proposal, see our response to the TSOs consultation on an intraday capacity pricing methodology, dated 12 May 2017, available at: https://efet.org/Files/Documents/Downloads/EFET_ENTSOE_ID-capacity-pricing_12052017.pdf.

participants to adjust their positions at any moment of the day for all the remaining hours. We hope for its rapid extension to new borders. The early and soon to be harmonised gate opening time (GOT) at 15:00, recently decided by ACER, will also contribute to efficiency and non-discrimination. However, **in order to truly improve social welfare, intraday capacity recalculation is of the utmost importance.** Combined with XBID and an early GOT, intraday capacity recalculation will allow to square the circle of efficiency, non-discrimination and social welfare maximisation in intraday capacity access.

Fundamentally, **pricing scarce intraday cross-zonal capacity is about redistribution of welfare, rather than about increasing social welfare as such.** So far TSOs have not make a convincing case for either the introduction of intraday capacity pricing itself or a solution that would limit the effect of intraday capacity pricing auctions on the continuous market. Considering all this and the fact that intraday capacity pricing auctions will necessarily have a disruptive effect on the efficiency of continuous trading (XBID interruptions), we believe that **TSOs, NRAs and ACER need to set clear priorities.** We hence welcome that the NRAs set a number of principles for intraday capacity pricing auctions in their letter to ACER of July 2018:

- Intraday capacity should first be priced through an intraday auction ('IDA'), whenever the cross-zonal capacities are (re)calculated;
- Each IDA should be held for all remaining market time units;
- If multiple IDAs to price the intraday capacity are held, the single intraday coupling (SIDC) mechanism shall not be organised in discrete sessions, meaning that TSOs shall allow the SIDC for all the remaining market time units (MTUs) of delivery day D, independently of the number of IDAs proposed in the methodology;
- The interruption of the SIDC in order to hold an IDA shall be limited as much as possible; and
- The pricing mechanism should be supported by an appropriate algorithm and products.

Our line of thinking is not far from that of the NRAs, and our response to this consultation is structured around two main ideas:

- 1. Intraday capacity pricing should be subordinate and linked to intraday capacity recalculation(s)**
- 2. Intraday capacity pricing auctions should not affect continuous implicit trading via XBID, or if not possible, as little as possible**

Responses to consultation questions

Question 1: *Should the implementation of the intraday cross-zonal capacity pricing be linked/conditional to a recalculation of cross-zonal capacities?*

As explained in our introduction, intraday capacity pricing does not as such improve welfare; it rather re-distributes it. Only if it is linked to intraday capacity recalculation(s) can it truly bring welfare benefits. Hence, we strongly support a subordination of intraday capacity pricing to intraday capacity recalculation(s). If intraday capacity pricing auctions are introduced, then their number should be strictly limited (see our response to question 2) and they should only be introduced if and when capacity is recalculated in intraday.

In practical terms, this means that the implementation of intraday capacity pricing auction(s) should only take place once the intraday capacity calculation methodologies (ID CCMs) are approved and implemented.

We are conscious that linking the implementation of intraday capacity auction(s) to the implementation of the ID CCMs would necessarily delay the former. However, this time should allow TSOs to define the products, algorithm and other features of intraday capacity auction(s) in the intraday capacity pricing methodology itself, as expected by market participants and the Agency alike. We take this opportunity to repeat our message that the implementation of the Electricity Market Guidelines – already not binding enough to be approved as Network Codes – should not result in a series of sub-methodologies, the adoption process of which (including transparency and stakeholder consultation aspects) is not regulated in CACM.

Finally, concerning the current discussions on the timing for the EU-wide intraday capacity auction, we definitely want to see it linked to a recalculation on the cross-zonal capacity. However, we are concerned with the consensus among TSOs to hold it at 22:00 in D-1:

- The proposed timing of the opening auction puts small market participants without a 24/7 trading desk in a difficult position, not only for the auction itself but also for all the half-hours that are not available on continuous trading until the auction is completed.
- Due to this timing, with the results around 22:30, it gives only 30min (22:30 to 23:00) to trade HE1 (00:00 to 01:00). After the results of the auction are published, market participants need time to reassess their positions and only then can they trade. This will significantly limit, if not prescribe trading on the continuous market for HE1 after the auction.

In recent months, it has become apparent not only that European TSOs have no experience with capacity recalculation in intraday, but that they have not yet thoroughly thought about a model for it. The TSOs' proposals for intraday capacity calculation methodologies (ID CCMs) in all capacity calculation regions show that the TSOs have very little idea of how and how often they will recalculate capacity in

intraday, and we have made comments to this in our responses to the TSOs and NRAs consultations on this subject².

Bearing this in mind, we are surprised that the one of the only things TSOs seem to be clear about is the extensive time which they will need for capacity recalculation between the day-ahead market closes/day-ahead nominations are confirmed (15:30 at the latest) and the envisaged timing of the intraday capacity pricing auction (22:00). The lack of explanation on the TSO side why they need such a long time margin between the day-ahead clearing and the intraday capacity auction shows that the debate and thinking on intraday capacity recalculation is not mature yet. As a result, and reiterating once again our position on the need to link ID CCMs and intraday capacity pricing, we believe that it is too early to set a precise timing for the intraday capacity pricing auction.

Should ACER nonetheless decide to set the time of the intraday capacity pricing auction in its decision on the methodology already, we suggest the timing of the auction to be advanced, ideally between 18:00 and 20:00. This will avoid penalising certain categories of market participants, ensure that capacity in the first hours of the delivery day are allocated as efficiently as possible, and attract more liquidity in the auction.

Question 2: *Do you see a value/benefit in having an additional IDA at 10:00 am market time delivery-day, even without recalculation of cross-zonal capacities in some CCRs?*

No, we do not see any value/benefit to introducing a second auction beyond the initial “opening auction”. This would have detrimental effects on the liquidity and efficiency of the continuous market. Thus, we oppose the implementation of additional intraday capacity pricing auctions:

- Increasing the number of auction will dilute liquidity on the continuous market. The auctions are supposed to complement continuous trading and not the opposite. The proposal to have a second auction will jeopardize continuous trading.
- With a proposed auction timing at 10:00, the results of the proposed second auction will be available around 10:30, which gives only 30min (10:30 to 11:00) to trade HE13 (12:00 to 13:00). After the results of the auction are published, market participants need time to reassess their positions and only then can they trade. This will significantly limit, if not prescribe trading on the continuous market for HE13 after the auction.

² See our common response, with Eurelectric, MPP and Nordenergi, to the TSOs consultations on their draft capacity calculation methodologies, dated 19 July and last updated on 22 March 2018, available at: https://efet.org/Files/Documents/Downloads/EFET_Eurelectric_MPP_Nordenergi-TSOs%20consultation%20CCM_22032018.pdf. See also our responses to the corresponding NRA consultations on the subject for the Hansa, Nordic and CORE regions, dated 26 and 27 October 2017, available respectively at: http://www.efet.org/Files/Documents/Downloads/efet_eurelectric_mpp_nordenergi-energitsynet_hansa_ccm-2017-2210-0013-01-e.pdf, http://www.efet.org/Files/Documents/Downloads/26102017_Response%20of%20NORDENERGI_EFET_EURELECTRIC%20and%20MPP%20to%20the%20NordREG%20....pdf and http://www.efet.org/Files/Documents/Downloads/27102017_RESPONSE_EFET_EURELECTRIC_NORDENERGI_MPP_BUNDESNETZAGENTUR_CORE%20CCM_FINAL.pdf.

- The proposed auction timing at 10:00 will also interfere with balancing auctions. This will reduce liquidity for the one or the other, as market participants can offer capacity only once at the same time.
- It is unclear whether the proposed second auction in the middle of the day prevents or not trading on the continuous market for HE13 to HE24 before the second auction has taken place.

Our opposition to such a second auction is even stronger if not linked to a second recalculation of intraday capacity. We refer to our response to question 1 for considerations on the need to link intraday capacity pricing and intraday capacity recalculation(s).

Question 3: *In general, do you see a value/benefit in having a progressive increase of the number of IDAs in the future? Please note that the timings and obligations regarding the intraday capacity calculation methodologies in different CCRs are not in the scope of the IDCZCP Decision.*

As mentioned in our response to question 2, we don't see a benefit to increasing the number of intraday capacity pricing auctions. This would have detrimental effects on the functioning of XBID.

While we acknowledge the statement of caution of ACER reminding respondents that the timings and obligations regarding the intraday capacity calculation methodologies in different CCRs are not in the scope of the IDCZCP Decision, this does not preclude the Agency in its decision to limit the number of intraday capacity pricing auctions to one, and at any rate to make it clear that intraday capacity pricing auction(s) need to be linked to intraday capacity recalculation(s) according to the ID CCMs.

If the number of pan European intraday capacity pricing auctions increases and if, additionally, further separated complementary regional auctions are introduced locally in individual CCRs (already the case in Iberia at the expense of the XBID intraday market) the market design would largely deviate from the European target model and from the spirit of the CACM Regulation.

Question 4: *Do you see a value/benefit in having an additional IDA at 15:00 market time day-ahead, based on the cross-zonal capacities remaining after the end of the SDAC? What would be the drawbacks of such an auction?*

While on some specific days, certain market fundamentals can change between 12:00 and 15:00 in D-1, such changes are not systematic, and rarely significant. It is true that market fundamentals may evolve between 12:00 and 15:00 in D-1 but they may also evolve at any time during the day, e.g. during ID capacity calculation or after 22.00 in D-1. Other significant changes may also arise later in the afternoon or even later in the evening in day D (e.g. outages of transmission infrastructure or outages of power plants). The continuous intraday market (XBID) is the right tool for market participants to adjust their positions considering changes in market fundamentals.

In a much more pragmatic way, the decision of ACER on ID GOT will allow XBID to open at 15:00, which will give the opportunity to market participants to adjust to these changed fundamentals in the continuous intraday market.

However, we challenge the view of these regulators that the decision to allow XBID to open at 15:00 would require an intraday capacity pricing auction at 15:00 in the absence of recalculation of intraday capacity. So far, neither TSOs nor NRAs have demonstrated the **reason why intraday capacity pricing auctions without capacity recalculation would be beneficial and is considered necessary, i.e. what is their objective and which problems are they supposed to address.** In the absence of further detail on what kind of constraints and problems the TSOs are currently facing (e.g. physical capacities, competition issue, etc.), and considering that they have so far provided no justification on how capacity pricing would address these issues, we continue to oppose an intraday capacity pricing auction at 15:00 without recalculation of intraday capacity.

Regarding other considerations of the NRAs, we do not see a link between intraday capacity pricing auctions and the introduction of 15-minute products: XBID already allows trading sub-hourly products. TSOs should indeed propose 15-minute products at borders where they are not currently available to improve market participants' portfolio optimisation, but this has nothing to do with intraday capacity pricing auctions. With such 15-minute products tradable at all bidding zone borders, XBID will also allow the coupling of short intraday products, without the need for and interruptions brought about by intraday capacity pricing auctions.

Question 5: *Do you think the proposed interruption of cross-zonal continuous trading is justified for the organisation of IDA? If not, please argue why. What would be the maximum length of interruption acceptable from a trading perspective and why?*

We believe that the link ACER makes 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 auction(s) 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 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 TSOs to suspend XBID during 45 minutes (15 minutes prior, and 30 minutes after the auction(s)) is absolutely not acceptable. We believe that intraday capacity pricing auction(s) 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.