

## ENTSO-E consultation on ID capacity pricing methodology



### EFET response – 12 May 2017

#### *Introduction*

We acknowledge that the CACM Regulation opens the door to both regional auctions and a single methodology for pricing intraday cross-zonal capacity. However, we have reservations regarding the need for and relevance of intraday capacity pricing in the current stage of development of intraday markets in most parts of Europe. The main **objective of the CACM Regulation is to ensure non-discriminatory access to cross-zonal capacity while maximising social welfare**. Pricing scarce intraday cross-zonal capacity is fundamentally about redistribution of welfare rather than about increasing social welfare. In addition, a complicated pricing and auction mechanism introduces the risk that capacity is not being allocated to the market, which implies a welfare loss.

The establishment of a liquid continuous intraday market (XBID) is also one of the key objectives of the CACM Regulation. XBID will enable market participants to adjust their positions at any moment of the day for all the remaining hours. As a tool that will provide such flexible adjustment possibilities and will allow dynamic capacity calculation, we deem it most prone to enhancements in overall social welfare.

We see now that all these CACM requirements are conflicting with each other and this incompatibility problem requires **TSOs and NRAs to set clear priorities**. Ours, and believe that of the legislator when approving the CACM Regulation, was and remains XBID. Still, while TSOs were developing the proposed methodology, the **XBID project announced a new six-month delay of its go-live date**; progress on **intraday capacity calculation and recalculation stalled**; and the **TSOs' proposals on the intraday gate opening time will limit certain market participants' ability to trade**. We are concerned that TSOs do not have their priorities right at the moment.

Our goal is to ensure that the market design for intraday increases overall welfare, and **we remain to be convinced that introducing intraday capacity pricing and auctions will not undermine the efficiency of XBID**, which is the corner stone of efficient and close-to-real-time capacity allocation in intraday, enshrined in the CACM Regulation.

**We would also appreciate more clarity on the reason why such a mechanism is considered necessary i.e. its objective and which problems it is supposed to address.** We believe that the primary objective of intraday capacity allocation should be to ensure non-discriminatory access to the grid. This does not necessarily require intraday capacity pricing. Therefore we request TSOs to further detail what kind of constraints and problems (e.g. physical capacities, competition issue, etc.) they are currently facing, and that they justify how capacity pricing would address these issues. We also invite NRAs to very carefully review these justifications before approving the proposed methodology.

### **1. Do you consider the proposed model as beneficial and the overall complexity related to the number of auctions as acceptable?**

Our reluctance to see multiple intraday auctions coexisting with the continuous intraday market is mainly due to the major impacts this would have on continuous trading:

- First, multiple regional auctions risk splitting liquidity and hampering the development of an efficient continuous intraday trading;
- Second, under certain market design solutions, regional auctions may limit the availability of continuous trading only to blocks that were already auctioned, thereby reducing opportunity for an efficient adjustment of positions on a continuous basis;
- Third, depending again on the market design solution, XBID continuous trading may be suspended during the auctions.

We stress that **complexity in the design of cross-border intraday markets should be avoided** in order to attract market participants and foster liquidity. Should regulators consider it useful and necessary to implement capacity pricing in intraday, then we argue in favour of restricting the model to one single opening auction in the late afternoon of D-1.

**2. What kind of key implementation challenges would you foresee for the model?**

See our introductory statement, as well as our responses to Q1, Q3 and Q4.

**3. Do you agree with the proposed number and timings of the auctions and Continuous Trading sessions? If alternate timings or numbers are preferred please state them and explain why?**

No, we oppose the proposal of the TSOs, both on the number and timing of the auctions.

**On the existence of a second auction during the delivery day:**

- Increasing the number of auction will dilute liquidity on the continuous market. The auctions are supposed to complement continuous trading and not the opposite. With the proposition in the consultation, the second auction will jeopardize continuous trading.
- 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).
- The proposed second auction in the middle of the day prevents trading on the continuous market for HE13 to HE24 until the second auction has taken place.

Removing this second auction is the only way to keep a liquid and efficient continuous market, and to make the mechanism not too complex

**On the timing of the first auction:**

- 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).

In order to 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 opening auction, the timing of the auction needs to be advanced, ideally between 18:30 and 21:00.

**4. Will the proposed interaction of auctions and Continuous Trading sessions enable market participants to optimize their positions in the intraday timeframe? Which advantages and disadvantages you would foresee. Please explain.**

We remain to be convinced that introducing intraday capacity pricing and auctions will not undermine the efficiency of XBID.

As it stands, we believe that the TSOs' proposal will have a negative impact on the liquidity of the continuous trading, will fragment continuous trading (due to the second auction), and risks excluding certain market participants (timing of the opening auction). We urge TSOs to rethink their proposal. In its current form, we believe that the proposal of the TSOs will decrease social welfare rather than increase it.

**5. Which type of products would you consider beneficial for the auctions in the proposed model? Do you expect this proposed setup to create any issues for the tradable product range? If so, please explain why.**

No comment.

**6. General comments**

Other comments:

- Article 1 mentions that “The Proposal applies solely to cross-zonal intraday capacity pricing. Intraday trading within a bidding zone is outside the scope of the Proposal as are complementary regional auctions in line with Article 63 of the CACM Regulation.” We therefore understand that this methodology proposal would also apply to the internal bidding zone borders within Italy and the Northern Italian borders, as well as to the Spanish-Portuguese border. Recent proposals made by the relevant TSOs in these regions may need to be amended accordingly.
- Article 3.5: what is the meaning of “discrete sessions” in the sentence “The single intraday continuous coupling mechanism shall be organised in discrete sessions which allow for continuous allocation of intraday cross-zonal capacity for MTUs, which are not covered in the forthcoming IDAs and not traded in a preceding continuous session”? Also, the drafting of the CACM Regulation always considered intraday capacity pricing through auction as a possible complement to continuous trading, not the contrary.
- Article 4.10: once again this inverts the rationale of the CACM Regulation: intraday capacity pricing through auction as a possible complement to continuous trading, not the contrary

- Article 5 leaves the door open for multiple auctions, interruptions of continuous trading, etc. What is the point of joint methodologies if exceptions allow TSOs to diverge from the basic principles of these methodologies? If ID capacity pricing is deemed useful at a specific border, then it should respect the common principles.
- Article 6.3: what is the rationale of imposing ID capacity pricing at all bidding zones borders?