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NWE DA Market Participant Consultation Paper

EFET Response – 19/03/2013

Part 1: Questions regarding the alternative timings proposed by the NWE parties at NWE go-live (pictures 6, 7 and 8).

1. Would it be possible, in the rare case of decoupling, to reduce the current CWE internal (and CWE-Nordic shadow auction) notification process time slot of 60 minutes? (this includes local nominations, generation nominations, cross border nominations, …), knowing that this is a way to reduce the number of unavoidable decoupling (as can be seen in the overview above)?

a. No, I need 60 minutes also in the rare cases when the DA Price Coupling processes are significantly delayed in comparison with the normal process.

i. I need 60 minutes for all nominations

ii. I need 60 minutes for the generation nominations, the other nominations I can handle faster.

Can you please motivate your answer?

Many processes need to take place after the publication of the individual exchange rights, such as:

- generation portfolio have to be optimised unit per unit
- counterparties' re-nomination rights have to be regarded and processed after PX results were published (these are contractually agreed)
- drawing rights have to be regarded and processed after PX results were published (these are contractually agreed)

As a matter of principle, it is essential that a minimum nomination time of 60 minutes is respected because the coupling process is integrated in a chain of tight and complex processes, some of which, such as TSOs nominations, are not meant to be flexible. Increasing the time available for the coupling process would have the effect of reducing the time available for the market to perform these processes. This would likely increase the risk of operational errors on market participants' side. For the same reason, it is important the final notification deadline is respected.

Further, there is no common understanding on what constitutes a "rare situation of decoupling". In the context of flow-based market coupling, fall-back situations would potentially become even more complex to handle, and decoupling may change from "rare situations" to more regular events.

Fall-back procedures should be simplified to a very limited number of cases that can be easily handled by market participants and that would still guarantee a reliable price formation, while respecting the already quite extensive 3.5 hours dedicated to the coupling process.

These are fundamental conditions of an efficient market coupling process. They need to be respected in currently coupled markets and for further extension of market coupling.

In addition to this, we would recommend providing much earlier information to market participants on the likely time of publication of the market coupling results, or on a potential risk of decoupling. This would ease operational processes on a daily basis in case of slight or more important delay.

b. Yes, I would be able to handle all my notifications faster in such rare cases, namely in
   i. max . 45 minutes
   ii. max. 30 minutes
   iii. any other:

   Do you have additional comments?

Part 2: Questions regarding the possible measures to extend the overall process time in the future, in order to make feasible the scenarios that are currently not feasible.

2. A possible solution to solve the timing issue, is to move the Gate Closure Time (GCT) for order book submission to an earlier moment to allow more time for the entire price coupling process, which may be needed in rare circumstances. Would you be prepared to accept an earlier order book GCT to reduce the number of inevitable decoupling? (taking into account that the publication of ATC / Flow Based values will not be earlier than 10:00 (Nordic-Baltic) and 10:30 (CWE) hrs as today)

a. No, it is not feasible for me to have a GCT earlier than 12.00 hrs

Can you please motivate your answer?

It is necessary for the day-ahead market to benefit from the maximum information possible so that the order book remains of good quality:

- An earlier GCT would reduce the time for OTC trading before PX GCT
- An earlier the GCT would decrease the amount and quality of information available for the day-ahead auction
- The later the GCT, the more accurate the forecasts for wind and solar. Those forecasts are a fundamental price setting variable in a growing number of markets.

As a consequence, EFET would warn against moving the GCT to an earlier point of time due to the negative effects this would have on order books. Market participants need at least 90 minutes to prepare bids between 10.30 (when they have info about XB capacities) and gate closure. This will become even more relevant when complex bids will be available or in a flow based environment.

If GCT was to be moved at all, we would therefore prefer a GCT later than 12:00. However, the GCT can only be moved to later if the coupling process is reduced to less than 3.5 hours so that the nomination time is not reduced. Having a later GCT or an earlier publication of market results would let more time for the market to work well.

b. Yes, it would be feasible for me to advance the GCT, namely

i. At 11.30 hrs
ii. At 11.00 hrs
iii. Other suggested GCT

3. If you have answered negative both on question 1 (of part 1) and on question 2 above, but the NWE parties are forced to either advance the GCT or reduce the notification process time of 60 minutes, which measure would you prefer?

a. Advance the GCT permanently
b. Reduce the notification process time of 60 minutes in rare cases.

As mentioned above, we do not consider that either of these solutions would be reasonable.

Market coupling should be designed not to fail, unless on extremely rare occasions (certainly less than once a year) and delays should be avoided on a daily basis.
On these rare occasions, we believe that there are more options available than the two unsuitable measures that the present consultation document proposes. We believe that in case of decoupling, alternative solutions should be available to the Project parties instead of squeezing market participants' time, such as:

- allowing for a delay of the final notification deadline up to one hour after 15:30 provided that other GCTs allow for this delay, cf. question 5.
- working on more efficient solutions that could potentially emerge from a better integration of market participants to the project,

We are indeed concerned with regard to the various proposals envisaged in this consultation because we have not been associated with the definition of the successive fall back and decoupling modes. A discussion is needed.
For these reasons, EFET does not support any of the solutions proposed by the Project parties.

4. Can you please motivate your answer to the previous question? For example is the choice you prefer based on a different assessment of efficiency of the day ahead price formation, cost of implementation of changes on your side, or something else that an advancement (earlier) of GCT or delay of notification can cause?

See question 3.

From a practical point of view, we could handle a variety of scenario as long as the 60 minutes nomination process is respected but for the well-functioning of the market we need to avoid anticipating the GCT. We would also suggest consulting market participants not only on the timings but also on the functioning of the various decoupling scenario in order to simplify them and to ensure that they will be able to improve rather than deteriorate the situation. The more complex the fall back process will be, the higher the probability of additional mistakes or improper outcome will be.

5. In order to get the complete picture of complexities surrounding this 15:30 notification deadline, the NWE project wants to know if there are negative impacts or clear advantages on market participants' side in case that the nomination deadline would be extended after 15:30. Would an extension of the CWE TSOs notification deadline be acceptable for you?

a. No, my internal processes are organized in such a way that all notifications must go out before 15.30 hrs.

b. Yes, an extension would be acceptable in rare situations provided that all the following GCT (also in neighbouring markets or in the gas market) allow for this delay.

From a trader's perspective, as far as our internal working processes are concerned, there is no fundamental technical issue to delay nominations for up to an hour in rare situations. However, it is absolutely essential that any delay to the final notification deadline will be also applied to all national nominations (including to the gas market). It is impossible for market parties to finalise their national notifications before the results from the day-ahead market have been published.

Point n°7[1] listed in the consultation document ("*Overview of the possible and feasible price coupling scenarios"*) virtually excludes any change in the notification deadline in the short to medium term, and we wonder whether the Project parties are taking this solution seriously.

The most important aspect for market participants is that the nomination time is not reduced so that no additional risks of errors are introduced. EFET believes that the solution could also lie in a simplification of the internal fall back and decoupling scenario, in addition to the ability of TSOs to delay subsequent GCT in a consistent way. However, the NWE project parties did not provide any information on either option, even if both have been on the table for many years now.

Possibly delaying the final notification deadline beyond 15:30 has remained for too long a "*complex and hardly achievable proposal in the short or mid-term*" without being seriously considered although it was discussed in 2010. The necessity for market coupling to work in any circumstance, as well as the need for efficient and simple fall-back solutions, were also already expressed and taken into account in the CWE-Nordic coupling in 2009 and 2010, and should therefore not come as a surprise to Project Parties either.

6. Another possible operational scenario involves NWE TSOs and PXs trying to keep the NWE region coupled or partially coupled as long as possible. If this however ultimately fails, there may be no day-ahead price as no time is left before the 15.30 deadline to perform nominations following a full decoupling and an isolated run of the markets. It is suggested to have the cross border capacity allocated in the intraday timescale and not have a day-ahead allocation of cross-border capacities on the CWE-UK, CWE-Nordic and possibly the internal CWE interconnectors. Would you accept having no day-ahead price in such rare case provided the cross border capacity is allocated in the intraday timescale??

a. Yes, in rare cases this is acceptable.

b. No, this is not acceptable under any circumstance

This would be a serious misconception and would undermine the most essential concepts of market design and of respective stakeholders' roles: the role of an exchange is to produce a

[1] "Final notification deadline in CWE of 15.30 hrs. This is the latest starting point for the security assessment processes which are fixed in ENTSO-E's Operational Handbook and apply to all Continental European TSOs. TSOs consider that a change of this deadline will be very complex and has very low probability to be able to be moved at all in short or mid-term future."

reliable price signal and an orderly formation of prices. It is therefore not conceivable for this process to be allowed to fail by design.

As a consequence, under no circumstances should the market coupling process threaten that central role of organised markets in delivering day-ahead price signals, on which a variety of contracts and index are calculated. Day-ahead markets constitute an essential component of a well functioning market design and an essential articulation between forward and intraday markets.

If Project Parties are not able to manage these processes in a reliable way, we would suggest to review the way these internal processes are, or to delay the introduction of price coupling for the bidding zone as long as the adequate conditions for a reliable coupling process are not met.

Finally, the day-ahead capacities should never be handed over to the intraday process without being previously used and optimised in day-ahead. We see no reasons or justifications, in any circumstance, for day-ahead capacity not to be optimised at the day-ahead stage. This would otherwise be equivalent to withholding an essential element of day-ahead price formation and could take away in a single event much of the accumulated benefits in terms of social welfare.

7. In relation to the previous question (6) please if possible comment on the following:

a. If you answered No to the question above, would you change your opinion if each PX were able to establish in some way (which would remain to be determined) day-ahead area price(s) for its own isolated market even while some of the Area-to-Area capacities linked to that market has been handed over already to Implicit Continuous Intra Day Market?

No, this would not be acceptable at all. Most of the forward financial, physical and OTC contracts are based on the day-ahead price index. Any alternative day-ahead price determination will increase market actors' risk/uncertainty and ultimately lead to higher power prices on a daily basis, thus taking away all the benefits of market coupling. Internal processes must be robust enough to deliver reliable prices on a daily basis.

b. In case you have answered YES to the previous question could you describe how, when and under what conditions the capacities could be given to the implicit continuous cross border intraday market? The reason for asking is that such details are still to be produced in case this option would be plausible to consider further in case market and regulatory support would be given for it.

8. Another scenario could be to investigate the parallelization of partial coupling and full decoupling after go-live in terms of technical and procedural feasibility. Knowing that there is no certainty whether it can be implemented after go-live, shall NWE parties start the investigation?

a. Yes.
b. No.

Please motivate your answer.

Parallelisation of partial and full decoupling could be a useful tool available to Project Parties before Go-Live. Therefore, the Project parties should investigate in that direction. However, EFET would like to insist on the need for market participants to be involved (i.e. informed and consulted) during this investigation process.

Part 3: Questions regarding the harmonization of price caps in NWE

9. Currently min/max price caps vary across the NWE region. This could result in price differences even where there is spare transmission capacity and generation potentially being curtailed first in the country with the least restrictive limit, with the market with the lower limit still able to export. Which of the following do you prefer and why?

1. Harmonised price caps across all NWE markets

2. Non-harmonised caps provided that measures are taken to prevent curtailment being exported

3. Non-harmonised caps with no special measures

10. Below you find 4 possible scenarios for future price caps in the whole NWE. Which of the scenarios do you prefer and why?

1. Price caps as in Nordic-Baltic (-200€; +2000€)

2. Price caps as in CWE (-3000€; + 3000€)

3. Wider price caps than one or both of the CWE limits -3000€; + 3000€

4. Price caps narrower than those of CWE, but different to one or both of the -200 € and +2000 € applied in Nordic-Baltic

Can you please motivate your answer?
Please see our answer to question 11.

11. What would constitute a good basis for determining cap and floor on the DA market?

Price limits should be designed to cope with situations of a (technical) market failure (in particular system or communication problems) or market curtailment. Limits should be designed not to be hit under normal trading conditions. By contrast, it should not be used to regulate prices or ensure affordable energy costs. These should be as high (caps) or low (floor), in order not to interfere with market participants' price finding, and harmonised throughout NWE markets.

The current prices at CWE have stood the test of time so far. Wider prices caps may become necessary in the future if the market becomes more volatile due to the increased share of renewable, but this would require a much wider debate.