

EURELECTRIC and EFET considerations on intraday capacity pricing May 2016

While EURELECTRIC and EFET acknowledge that the CACM Guideline (article 55) opens the door for TSOs to develop a proposal for a single methodology for pricing intraday (ID) cross-zonal capacity by 24 months after its entry into force (i.e. by Q2 2017), we would 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. EFET and EURELECTRIC are of the opinion 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.

In the first place, EURELECTRIC and EFET have strong reservations regarding the need for and relevance of ID capacity pricing. The main objective of the CACM Guideline is to ensure non-discriminatory access to cross-zonal capacity while maximising social welfare. The establishment of a liquid continuous ID market is also one of the key objectives of the CACM Guideline. We see now that all these CACM requirements are conflicting with each other and this incompatibility issue requires some “flexibility” and possible adaptation.

Pricing scarce intraday cross-zonal capacity is fundamentally about redistribution of welfare rather than about increasing social welfare. In addition, a complicated pricing mechanism introduces the risk that capacity is not being allocated to the market, which implies a welfare loss. As mentioned during the workshop organised by ENTSO-E on 22 February 2016, pricing capacity in a continuous intraday trading mechanism is very complex and therefore, complementary intraday auctions would be required. EFET and EURELECTRIC have generally been reluctant to see regional auctions implemented mainly due to the major impacts this would have on continuous trading. First this would raise questions on how available capacity is allocated between the two mechanisms. Second, it could have an impact on liquidity in the continuous trading even without having to suspend it.

In this context, EFET and EURELECTRIC would like to re-iterate some key principles to bear in mind when discussion **adjustments** to the ID market design.

1. Today, the first priority is to implement the XBID solution and to make sure that the ID capacity pricing is consistent with the target model, as defined in the CACM Guideline, i.e. implicit continuous trading. It is crucial to **secure go-live of the XBID solution** by Q3 2017. Local and cross-border continuous trading is essential. Market parties are concerned with the impact of

ENTSO-E's proposals on continuous trading, as auctions and continuous trading are hardly compatible – some alternative proposals could be investigated to interrupt continuous trading in a less radical manner. We are worried that the currently proposed methods for auctions could move the gate closure further away from the operational hour, that they could further complicate the introduction of products aligned with the ISP and that they thereby would reduce the flexibility that the intraday market is supposed to provide.

2. EURELECTRIC and EFET are convinced that TSOs should consider **progress on capacity calculation** in the intraday timeframe as priority. Indeed, the expected outcome of improving capacity calculation in terms of surplus is very important (according to us it is likely to surpass the potential benefits of capacity pricing). If we consider the example of the CWE region, allowing the go-live of flow-based market coupling in the day-ahead timeframe, the available capacities in intraday have dramatically decreased at some borders. It is therefore essential that TSOs work on capacity calculation for intraday in order to identify the additional capacities that could be made available to the market in intraday when taking into account the latest updated forecasts. The frequency of recalculation should also be clearly determined and communicated.
3. The further development of cross-border intraday markets is essential for market participants as it has a direct impact on their flexibility by improving their ability to adjust their portfolio closer to real time. Therefore, in any case, **complexity should be avoided** in order to attract market participants and foster liquidity in the intraday timeframe.

Having these principles in mind, EURELECTRIC and EFET would also like to raise some concerns in case the decision to go for intraday auctions in parallel of continuous trading would be taken:

1. The ability of market participants to adjust their positions at any moment is of utmost importance. This is the reason why the choice has been made for continuous trading. The establishment of intraday auctions should not negatively affect this ability: at any moment of the day, one should be able to freely trade any product on the remaining hours of the day. In addition, continuous trading is the right tool to allow a dynamic capacity calculation.
2. Before establishing a precise mechanism for complementary auctions, EFET and EURELECTRIC are convinced that full transparency in the capacity calculation (methodology, timing, frequency, etc.) and the repartition/allocation of the available capacity between the two mechanisms is of utmost importance.
3. Last but not least, should a decision be taken to price scarce capacity, the relevant methodology should be market based. The pricing methodology should correctly reflect the appetite of market participants to exchange power on the border.