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EFET comments on GME and TERNA cross-border intraday continuous trading (XBID) draft proposal

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Dear Sirs,

EFET welcomes the joint proposal by GME and TERNA of a new cross-border intraday market (XBID) as presented at the 5th ERI CSE SG Meeting on 2 April 2014 in Rome.

We believe that an efficient and timely intraday market is key to allow market participants to optimise their portfolios during the day of delivery, as well as having the possibility to take into account relevant changes in fundamentals which remain unknown at the time of the gate closure of the day-ahead market session. This is a crucial aspect in particular to allow market mechanisms for the integration of renewable intermittent generation into wholesale electricity markets.

The target model proposed by ACER in the Capacity Allocation and Congestion Management (CACM) Framework Guidelines clearly defines implicit allocation (first-come-first-served), re-nominations till h-1 of delivery, continuous capacity allocation and bilateral trading using intraday capacities as the pillars for cross-border intraday capacity allocation.

EFET supports the development and the implementation of cross-border capacity allocation mechanisms based on continuous allocation. The key advantage of this approach is the ability to react quickly to events in this phase of the market via rapid decision-making. This is not achievable with centralised auctions with intervals of several hours where no action can be taken. Continuous trading in efficient and timely intraday markets represents the best solution for market participants, as it provides them with a broader set of tools to deal with current market features, such as RES intermittent output

Following the 5th CSE ERI SG meeting on 2nd April 2014, this letter intends to provide suggestions and proposals on how continuous intraday cross-border trading could be implemented in Italy.

Below, we have outlined the following issues:

- the key features of intraday markets, addressed by the European Target Model;
- EFET considerations on Italian market specific design features (the desire to put a price on capacity, internal bidding zones/congestions, the pool model and absence of portfolio bidding);
- our suggested amendments to the XBID model proposal by GME and TERNA

Key features of intraday markets

As background, it is essential to understand the necessity to further develop intraday markets. This is part of a structural market evolution, linked to the development of renewable energy and the change of the energy mix.

The intermittent nature of renewable energy and the significant variations of wind and solar forecasts that occur between the Day Ahead timeframe and Real Time have generated a new need for trading closer to Real Time (until H-1). This is essential in order to benefit from variations of generation output or to compensate for unexpected variations, with increased volumes being at stake compared to variations further ahead of real time (such as unplanned outages etc.).

These developments have been taken into account in the European Target Model. It foresees the development of coupled continuous trading markets until H-1 for the intraday timeframe.

It is important to first understand that continuous trading better addresses market needs, in that continuous trading allows trading much closer to real time, compared to energy auctions (auctions typically cover several hours of the day and take much longer to organise and settle. This can result in some hours being tradable only 6 to 8 hours before real time). Second, with “obligatory use” continuous trading (i.e. no optional capacity rights are allocated), there can be only two different outcomes in terms of congestions at a specific border and in a specific direction. Either:

1. the border is congested, in which case no trades are possible and continuous trading markets on both sides of the border are decoupled; or,
2. some capacity is still left available, which means that its value is zero and continuous trading markets are coupled on both sides of the border, thus allowing orders to be matched continuously across the border.

These simple features have already proven their efficiency in developed intraday markets, thus allowing the steady development of liquidity and a better optimisation of resources closer to real time. Furthermore, explicit access to capacity is needed for products that are not traded on the exchange, such as complex products involving the start-up of a power plant or a specific profile, or even for transit flows, i.e. flows originating - or going - to countries not yet coupled with the Shared Order Book.

These elements are part of the European Target Model and fully supported by EFET. They are core components, necessary to allow the efficient functioning and coupling of European intraday markets.

Our proposals, outlined below, integrate these primary features smoothly into the specific Italian market design and address the concerns about capacity pricing without harming the proper functioning of the coupled intraday markets.

Italian market design features

Concerns about capacity pricing

In order to address the concerns about capacity pricing, we propose a first auction available for both the internal Italian market (all internal zones) and international trading (i.e. with cross-border access). This will set the potential price of the capacity on individual borders if the request for capacity exceeds the available capacity (i.e. in case of congestion). The cross-border access would ideally involve all the neighbouring bidding zones through a direct participation in the implicit auction process. (This would avoid having to buy cross-border capacity prior to participating in the auction.) After the first auction, continuous trading would be available inside all bidding zones (including internal Italian bidding zones) and between all bidding zones in all non-congested directions based on the freely available capacity.

Internal congestions and internal bidding zones

Internal congestions and internal bidding zones should be considered as cross-border congestions and bidding zones in order not to create discriminations between market participants and between different locations. Internal congestions should be managed through capacity calculation processes, as an input to market allocation processes rather than using the market to solve internal congestions. Balancing and re-dispatch mechanisms should be separate from the intraday market and subsequent to it as much as possible. The day-ahead session of MSD, duly revised in some of its mechanisms (e.g. reserved offers), should be sufficient to TERNA to procure the ancillary services required for the real time management of the network where they cannot be procured by the TSO after the gate closure of intraday market.

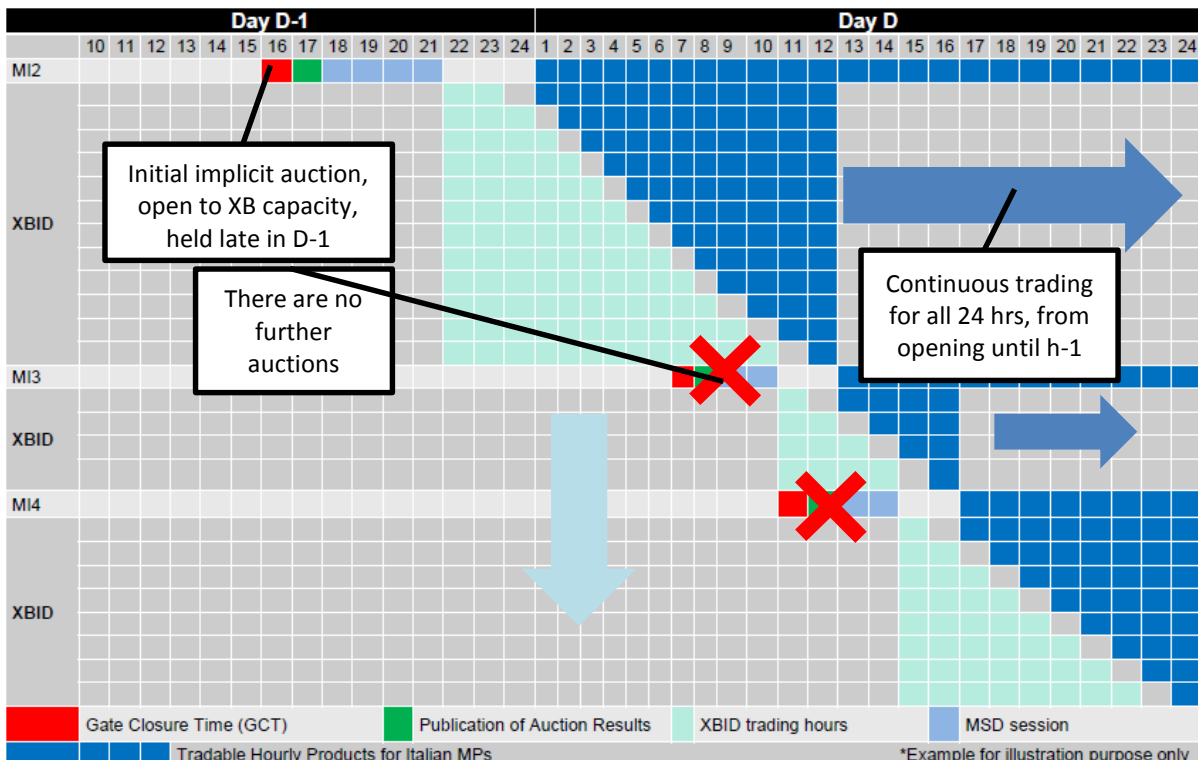
Pool model and absence of portfolio bidding

EFET does not identify the necessity to implement Balance Responsible Entities and portfolio bidding as a precondition for the development of intraday trading in the Italian market design - but these measures, e.g. implemented at least at bidding zone level, would certainly help separating market activities from network activities, taking into account that market participants would have to notify TERNA of the expected program of each individual units on a continuous basis and with a sufficient neutralisation lead time (such as 1 hour).

EFET suggested amendments to the GME and TERNA XBID model proposal

These proposals seek to overcome the problems that were identified following the presentation of a new cross-border intraday market by GME and TERNA at the 5th ERI CSE SG meeting:

1. A single introductory auction is run for all the 24 hours of day D, based on the capacity available after the Day-Ahead Spot auction. This allows capacity to be priced in case of congestion during the auction. This “opening auction” is not a feature that EFET considers necessary and this is not required by the CACM NC but rather accepted, subject to adequate measure in order not to hinder the correct functioning on the coupled continuous intraday trading on the coupled continuous intraday trading). We understand that pricing of capacity is desired by AEEGSI/TERNA.
 - a. The initial auction is run (much like the existing MI1) late in the day of D-1.
 - b. This initial auction is implicit.
 - c. It covers capacity allocation both between the Italian zones and cross-border capacity. There should be no discrimination between domestic generation/production units and cross border units. If the initial auction results in congestion, then the process ends here.
2. If capacity is still available after the initial auction, then remaining capacity is allocated implicitly, at zero price, on a first-come-first served basis using continuous trading.
3. All 24 hours are tradable from opening and throughout the session until h-1.
4. No additional auctions are held.



This model would allow the initial implicit auction to be open to cross-border participation and avoid that only half of the day is tradable until after the second/third MI auctions (e.g. the 13th hour not traded until after 10 am – and only available at 11 or only hour 12 traded at 10am, etc...).