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NGIC consultation on IFA access rules

Response of the European Federation of Energy Traders (EFET)

NWE Price Coupling Solution

Q01: Feedback from Market Participants on the NWE Price Coupling solution can be provided to the Operators. Comments received will be passed on to the NWE Price Coupling Project.

EFET supports the NWE Price day-ahead price coupling project. It is imperative that this essential element of the target model is completed during 2013 in order to demonstrate meaningful progress towards the 2014 internal market objective. NWE TSOs and PXs have gone to a considerable effort to implement this project under the voluntary framework of the Florence Forum. The successful implementation of this project should be seen as a major practical contribution to the completion of the internal market.

EFET is however concerned to see that a number of weak elements from the CACM network code (on which numerous comments were already made during the consultation process) seem to have inspired the proposed "new firmness" regime, which fundamentally consists in legalising "non firmness" and "free curtailment options".

We believe that insufficient incentives on TSOs and cable owners to ensure a high level of reliability and firmness will be directly detrimental to the achievement of the Integrated Energy Market, as well as to the business models of network infrastructures themselves. Indeed, **the proposed "new firmness" regime** outsources TSOs constraints to the market, while trying to preserve the expected "congestion income" through various compensation caps, **and places some risks (curtailments) on Market Parties who have no remedial actions available to act on them.** This approach will according to us result in lower congestion income (bad quality product) and a lower quality of service, due to a general lack of incentives or even to **"disincentive signals" being sent to all Parties**.

Although we recognise the specificity of DC cables in terms of service risks, **we believe that firmness should be ensured through market based mechanisms (such as buy back) and "TSO tools"** such as the adequate setting up of contractual arrangements to ensure firmness, in particular with

connected TSOs. This should be done in a general context of **financial incentives being placed on cable owners and TSOs to deliver a high quality of service and to efficiently manage and mitigate their risks.** These arrangements should aim to reduce to very rare exceptions the all too frequent unilateral curtailments without prior notice which have been heavily used in the past. In order to adequately monitor the quality of service, **some indicators should be set up and published on a regular basis**.

Our key message to the NWE Project Partners is therefore that **the NWE Day-Ahead project is an essential step in the construction of the European Market and has therefore a specific responsibility in setting up the correct standards and robust arrangements**. To that extent, the IFA and Britned interconnections are essential components of this global architecture (connecting the UK and CWE-Nordic markets) and should be carefully regulated.

In addition to this, there are a number of residual issues relating to capacity calculation, implementation of flow based, treatment of losses and other so-called allocation constraints, as well as details on the market coupling Euphemia algorithm where some basic methodological questions need to be resolved or answered and on which increased transparency and market orientation would therefore be welcome. We hope that the NWE stakeholder Forum of 14 June 2013 will be an opportunity for the Project Partners to tackle most of these issues.

At the same time we note NGC's apparent withdrawal from the intraday continuous trading project, which is obviously very unhelpful and a source of concerns to us. We would like to point out that the continuation of a very limited number of intraday auctions on IFA (2) and on Britned (2) is largely insufficient to allow a dynamic intraday market to develop and is not in line with the target model.

This consultation has not addressed the improvements needed in intraday at all and **we would strongly recommend NGC and RTE (as well as NGC and TENNET) to start as soon as possible a project for the early implementation of the selected European intraday allocation platform**, in order to avoid delaying the continuous coupling of the UK and CWE-Nordic markets in intraday further. We believe that this objective is largely achievable, and in case of expected delays in the development of the common European\NWE platform, it could be achieved through the extension of existing platforms and models, such as the ones already being efficiently used between France and Germany, with both explicit and implicit access. It has indeed emerged as an evidence in the European intraday debate that existing platforms only allow the coupling of standard hourly products and that an explicit access is also needed in parallel to the implicit access in order not to impose a complete market decoupling for non standard products.

These various concerns are set out in more detail in answer to the questions below.

Daily Implicit Allocation of IFA capacity, business processes

Q02: Operators are inviting Market Participants to provide feedback on any aspects of the sections 3.1 and 3.2 of this document and as proposed in the consultation draft IFA Access Rules V9 [Ref 5]. Please make reference to the article you are providing comment on.

- Article E5.2.3 & Article E8.8:

EFET supports a compensation system based on the Day Ahead Positive Market Spread for LT Unused Units in order to guarantee capacity firmness. This is in line with the CACM Framework guidelines and with best practices in other European interconnectors.

- Article E7.4.6 : EFET does not support the pro-rata basis methodology : the order of product duration should prevail.

Q03: Operators are inviting Market Participants to provide feedback on any aspects of this proposal for activation of IFA Losses in the Euphemia Price Coupling Algorithm.

EFET does not support the activation of losses in the market coupling algorithm, for a number of reasons:

- First of all, losses on AC interconnectors should not be incorporated in the algorithm under any circumstances for the reasons given in section 4 of the TSO proposals [ref 1]. It is impossible to impute losses on any AC line back to individual transactions. Indeed this issue was one of the reasons for introducing the original Cross Border Electricity Regulation (1228/2003) and the inter TSO compensation mechanism ten years ago!

- Likewise, losses on DC lines within a bidding zone should never be allocated back to individual transactions since this will disrupt the integrity of the bidding zone. The same goes when DC lines coexist in parallel with AC cables, as this will be the case on the future France-Spain interconnection,

- Although it is possible to impute losses on DC interconnectors back to individual transactions, this does not necessarily mean that this should necessarily be done.

    - The TSO study indicates that the static welfare loss is very small (c. Euro 7m per year).

    - It introduces a difference between the treatment of national vs. cross border arrangements.

    - It prevents price convergence in the absence of congestion. The delimitation of bidding zones will already, to an extent, represent a barrier to cross-border competition. So there may be a good case for allowing for an offsetting policy whereby DC losses on interconnectors are socialised.

EEFT will continue to develop these arguments in order to ensure that they are well understood also when implementing the CACM network code.

Q04: Operators are inviting Market Participants to provide feedback on any aspects of the IFA UIOSI Price compensation methodology

EFET agrees that UIOSI compensation should be based on the day-ahead market spread.

New Firmness Option

[Ref2]_Q01: What are User's preferences between LT and UIOSI Curtailment compensation at the positive Day Ahead Market Spread (taking into account the IFA Losses) and price-paid principle as currently in place?

As stated above, compensation at market spread is necessary to deliver the firmness requirements that are set out in the Framework Guidelines and which should be incorporated into the Forward network code. It is therefore suitable that IFA should adopt a method of compensation based on Day Ahead Market Spread.

[Ref2]_Q02: Any additional comments in relation to this new firmness option.

However, this approach to compensation should be implemented **from the moment that the forward product is sold and not only on nominated LT rights** as is proposed. EFET opposes the use of any arbitrary deadline before which firmness is less secure. Likewise we insist that, after nomination, physical firmness should be applied. This would ensure that no discrimination is introduced between implicit and explicit allocation.

Positive Day Ahead Market Spread Cap

[Ref2]_Q03: What is your preferred approach for the Reference Period: option RP_1 or option RP_2?

EFET opposes all day-ahead market spread caps for compensation. Neither RP1 nor RP2 are acceptable as they would effectively mean that capacity is non-firm.

EFET could accept a cap on the total compensations payable per month based on the congestion income received by the TSO as set out in paragraph 4.4.

[Ref2]_Q03_a_1: If option RP_1 is preferred, what should be the duration of the Reference Period: month(s), quarter(s), annual(s)?

[Ref2]_Q03_a_2: If Option RP_1 is preferred, what is the preferred approach between the options RP_1.1 and RP_1.2?[Ref2]_Q03_b: If option RP_2 is preferred, what should be the duration of the Reference Period: one year, two years, or more?

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[Ref2]_Q04: Any additional comments or alternative methodologies in relation to this proposal.

CAPs in compensations should be considered as a transitional arrangement to be minimized and removed after a precise period of time. Furthermore, these compensation arrangements should be harmonised as far as possible.

Reserving volume to Intraday auctions

[Ref2]_Q05: Whether this would be an attractive option.

Reserving capacity for explicit intraday auctions is not an acceptable solution as this would effectively amount to withholding capacity.

This is also particularly unattractive with the current very limited intraday access through only 2 auctions, with a Gate closure Time very far away from real time.

This design is very far away from the intraday target model which has already started being implemented on various interconnections and we would therefore urge RTE and National Grid not to further consider this option and rather to start a proper implementation project for continuous trading in intraday..

It is indeed high time to review the current market design in intraday since maintaining intraday auctions will increasingly become a barrier to the correct functioning of the NWE intraday market as a whole and will lead to inefficient commercial decisions being taken and higher costs to consumers to an ineffective coupling of UK and CWE-Nordic markets.

[Ref2]_Q06: If yes then, what would be an appropriate volume to be reserved to intraday?

[Ref2]_Q07: If yes then,what would be the preferred option between ID_1 and ID_2?

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Introducing a new LT interruptible product

[Ref2]_Q08: Whether this would be an attractive option.

No volumes should be reserved for specific interruptible products as this practice would legitimate systematic curtailments without proper justifications. In our view curtailment should only occur under very restrictive conditions and after the market based buy back mechanism when there is sufficient time for it. Forward interruptible products would also hamper the proper functioning of forward coupling of markets.

[Ref2]_Q09: If yes then, what would be the appropriate volume of capacity to be allocated through new interruptible LT products?

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[Ref2]_Q10: If yes then, what new interruptible LT products (from one or more of Annual, quarter, Seasonal, monthly and weekly) would be of interest?

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[Ref2]_Q11: If yes then, what time prior to the intraday auctions would be suitable for LT Interruptible Nomination Gate Closure?

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[Ref2]_Q12: If yes then, whether an unused LT interruptible Unit should be subject to UIoSI or UIoLI into the Intraday Auction?

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[Ref2]_Q13: If yes then, whether this would be attractive in addition to or instead of reserving capacity to the intraday timescale.

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LT ICE becoming a 7 days notification

[Ref2]_Q14: Do you support sending the LT ICE on a daily basis?

Yes, more flexibility is always better for Market Participants.

Any further potential alternative firmness options and/or mitigations

[Ref2]_Q15: The Operators wish to invite from Market Participants any further potential alternative firmness options and/or mitigations measures. Please detail your proposal(s).

Development of an active secondary capacity market where TSOs and other Agents could buy back capacity, such as the implementation of a secondary platform (specified on the Draft FCA NG from ENTSO-E).

Firmness should be guaranteed. Curtailments should only occur in Force Majeure events.

Feedback on new options for Curtailment of Capacity and/or Nomination

[Ref2]_Q16: Feedback on the pro rating of Pre LT ICE issue and Nomination Curtailment is sought from Market Participants.

- **6.3.a. Pre-LTC ICE issue.**

  Curtailment according to the order of product duration (shortest products curtailed first) is preferable to a pro rata methodology. In fact, holders of annual capacity face more firmness risk than shorter term capacity holders.

- **6.3.b. Real time curtailment. Nominations in the Constrained direction only,**

The current approach is preferable with curtailments in intraday first, then day ahead and finally LT rather than pro rata across all products and timescales.

- **6.3.c. New firmness option**
  - **Volume reserved to intraday.**
  - **Volume reserved to LT interruptible product.**

[Ref2]_Q17: Feedback on the option to curtail a User's nominations net position is sought from Market Participants..

Curtailments should apply to the net position of the user's nominations in the different timescales on both directions for a particular hour.