

# ENTSO-E's consultation on cross-zonal ID pricing capacity

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A EURELECTRIC response paper

May 2017

***EURELECTRIC is the voice of the electricity industry in Europe.***

*We speak for more than 3,500 companies in power generation, distribution, and supply.*

***We Stand For:***

***Carbon-neutral electricity by 2050***

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

***Competitive electricity for our customers***

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

***Continent-wide electricity through a coherent European approach***

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

***EURELECTRIC. Electricity for Europe.***

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

EURELECTRIC acknowledges that the TSOs have to develop a methodology for intraday capacity pricing and we acknowledge that today's well-functioning system of continuous trading can be further improved.

From this perspective, EURELECTRIC recognizes that a common methodology should be developed to manage both:

- capacity releases (for example intraday capacity calculation results in additional capacity, "left-over" capacity from the day ahead market coupling, additional capacity through reduced ramping restrictions), and
- capacity buybacks (intraday capacity calculation results in less capacity than previously allocated).

In EURELECTRIC's view, the intraday capacity allocation process should be flexible enough to accommodate any delay or exceptional event that may justify a capacity release/buyback to occur at any time in the intraday time frame (and not only at 22.00 DA or 10.00 on day D). The proposed methodology fails to address this challenge and is in contradiction to the principle of pricing scarcity when it occurs.

To highlight the fact that introducing ID auctions is not the only possible solution to price capacity in the ID time frame, EURELECTRIC suggests one possible alternative hybrid approach. Given the short consultation period, EURELECTRIC could not complete a full assessment of the respective advantages and drawbacks of this approach. Nevertheless, EURELECTRIC encourages ENTSO-E to consider this proposal (or any other that would be in line with the specifications of the CACM guideline) with the same care as its own proposal.

1. NEMOs open cross-zonal ID continuous market for all ISP as early as possible, conforming to the CACM recommendations in terms of IDCZGOTT. The gate opening should be harmonised within and between regions, and by no way later than the IDCZGOT in force as of today for each border. As opposed to harmonizing a late IDCZGOT at 10 pm and allowing national/regional exemptions, EURELECTRIC proposes to harmonize an early IDCZGOT at 3 pm and allow for national/regional exemptions.
2. TSOs may decide at any time in the intraday time frame to release/buy back cross-zonal exchange capacities. In addition, TSOs could organize capacity calculation so as to perform releases/buybacks subsequently to capacity calculation at CCR level, i.e. around 22.00 and 10.00. We suggest however, to address the capacity calculation process in order to determine, how that process could be speeded up to allow an earlier model to run in and between CCRs. If some TSOs struggle to provide updated information, for example day ahead results, could be used in the model instead?
3. When a release/buyback is decided:
  - a. **TSOs notify market participants** of the direction/volume/timing of the upcoming release/buyback within the cross-zonal ID continuous market. The timing should allow market participants to adapt their bidding strategy considering the new context, e.g. a notification delay between 15 min and 1h15 min could be relevant.
  - b. **Market participants can update their bids** on the ID continuous market before the

effective release/buyback.

- c. At the specified time, the **ID MCO implements all capacity releases/buybacks requested by TSOs**. We recommend relying on the same methodologies as TSOs can use to manage countertrading actions in the ID timeframe. Alternatively, the ID MCO could manage the process on behalf of the demanding TSOs:
- i. For a buyback: select the most economical offers in each bidding zone related with the countertrading action. For example, if a TSO aims to buy back 500MW of capacity previously allocated from BZ A to BZ B, the MCO takes the highest buy bids in A (or connected areas if corresponding capacities allow) for 500MW and the lowest sell offers in B (or connected areas) for 500MW. Simultaneously, it reduces the cross-zonal exchange capacity of the corresponding amount.
  - ii. For a capacity release: select the most economical bids (as long as the price spread remains positive) in each bidding zone related with the capacity release. For example, if two TSOs aim to release 500MW of capacity from BZ A to BZ B, the MCO takes (as long as the price spread remains positive) the lowest sell bids in A (or connected areas if corresponding capacities allow) for up to 500MW and the highest buy offers in B (or connected areas) for up to 500MW. Simultaneously, it increases the cross-zonal exchange capacity of the corresponding amount (500MW even if only part of it is allocated at the release).
  - iii. The “price” of intraday capacity corresponds then to the energy price spread consecutive to the capacity release/buyback implementation. TSOs may however face a revenue/cost corresponding to the average spread between the selected bids.

In our view, this kind of hybrid approach could:

- Be more flexible than relying mainly on ID auctions;
- Introduce a single process for intraday trading instead of a combination of auctions and continuous trading, which is easier to handle for all involved actors
- Maximize liquidity on the continuous ID market;
- Lead to appropriate remuneration of TSOs (or payment by TSOs, respectively) for any increase/decrease of capacity in the ID timeframe regardless of its timing;
- Foster price formation reflecting the situation foreseen for the full ID timeframe very quickly after new information on cross-zonal capacities are available.
- EURELECTRIC is aware that the proposed model would encompass an evolution of the continuous trading algorithm which could take some time to be implemented. However, the absence of deadline for the implementation of the intraday capacity pricing methodology should lead TSOs to take in due account EURELECTRIC’s proposal, given the expected benefits of this option and its compliance with the CACM Regulation.
- Finally, EURELECTRIC believes that, irrespective of the model chosen for capacity pricing, priority should be given to the implementation and the successful go-live of the XBID platform. This does not exclude possible future evolutions of the XBID platform and algorithm. As it has been experienced for the single day-ahead coupling, an upgrade after the go-live of the XBID platform, by implementing the proposed hybrid solution, is an alternative that should be assessed.

As of the proposal by ENTSOE, EURELECTRIC is concerned that introducing the auctions in the ID timeframe is likely to:

- Reduce significantly liquidity on the continuous ID market, hampering market participants to balance their position as soon as possible. We note that this expected impact should lead to disregarding of the introduction of “regional” complementary auction, as foreseen in Article 63.4.a of the CACM guideline.
- Introduce new uncertainties regarding "pricing" of capacity between the auctions in the different timeframes since some capacity can be auctioned three times (once in the day ahead, twice in the intraday). This challenge, together with the fact that final “pricing” is performed in the latest auction, may introduce significant uncertainties in DA generation dispatch scheduling, affecting subsequently the DA CGM and the ID capacity calculation processes )
- Introducing ID auctions would impose TSOs to make a trade-off between waiting for the next auction or releasing/buybacking capacities through the continuous market as soon as possible/necessary.
- The proposed additional auction at 10 a.m would lead to additional efforts for market parties. Market parties use the morning to prepare their bids for the day ahead auction at noon.

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

EURELECTRIC considers that ENTSOE’s proposal contradicts articles 59 and 63 of the CACM guideline. Implementing the proposed approach encompasses therefore legal challenges.

Furthermore:

- running additional auctions in the ID time frame is likely to reduce the significance of DA prices, leading to higher uncertainty in DA dispatch scheduling and thus increasing margin requirements in ID capacity calculation
- If capacity is finally “priced” with the last auction, should FTR be valued against the prices resulting from this last auction? Also, could it not be possible to nominate PTRs until 2h before the intraday gate closure (then UIOSI) – that would allow to develop a solution where capacity allocation is fully optimized between the different timeframes?

Running additional auctions at the same time frame as Day-Ahead auction might generate operational difficulties for market participants

**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?**

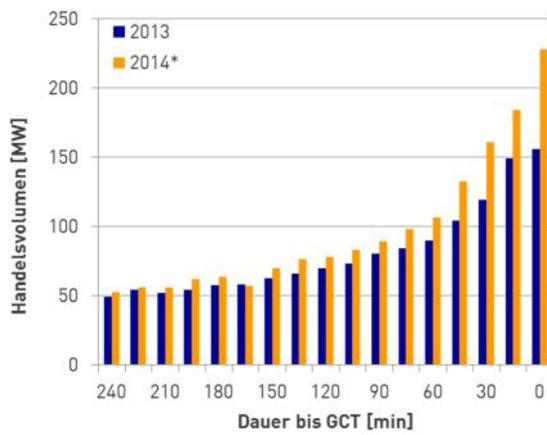
No, EURELECTRIC does not agree. EURELECTRIC believes that ENTSOE's proposal is in opposition with rules set in Article 59 and 63 of the CACM guideline. Namely, Article 59.4 mandates that ID cross-zonal trading should be open at the latest at the IDCZGOT (i.e. 22 pm); on some borders (e.g. CCR Nordic, CWE) it opens earlier in the afternoon. Once open, it should not close before the IDCZGCT (i.e. 1 hour before the ISP). Between the opening and the closure of cross-zonal ID markets, there should be no interruption of trading, except in case of regional auction for which the continuous market can be placed on hold for max 10 minutes (Art 63.2).

The proposal by ENTSOE foresees no cross-zonal trading before 22.00 DA, which would be a step back in many regions. Furthermore, it would introduce 30 minute cross-zonal trading interruptions for all ISP from 0.00 through 12.00 and even 12 hours (!) for all ISP from 12.00 through 24.00.

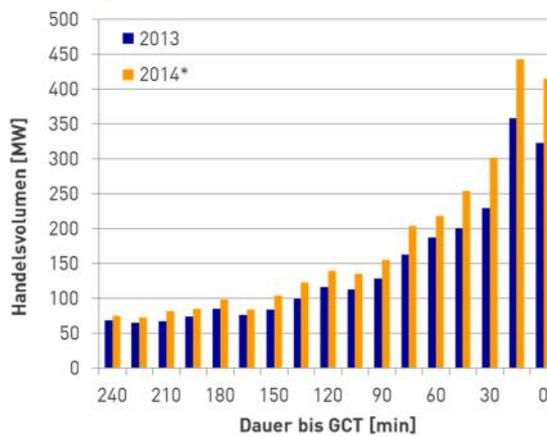
**4. Will the proposed interaction of auctions and Continuous Trading sessions enable market participants to optimize their positions in the intraday timeframe? Which advantages and disadvantages you would foresee. Please explain.**

The optimization of positions is a continuous running process. The ability of market parties to adjust their positions at any moment is of utmost importance. This is the reason why the target model foresees continuous trading in the ID market. New and improved forecasts for actual consumption and production (especially of RES) are the key drivers for the trading activities on the ID market. The highest trading activity can be typically observed shortly before the gate closure of the ID market (see picture), when forecast of the actual consumption and production is the best. The establishment of an intraday auction would interrupt continuous trading and it would be impossible to optimize their positions based on update forecast. Market parties should be able to freely trade any product of the remaining hours of the day.

### Intraday Deals für H21-H8



### Intraday Deals für H9-H20



Considering that there might be no cross-zonal trading from 12.00 through 22.00 DA with potentially significant price change at 22.30, EURELECTRIC foresees significant challenge to optimize generation, storage, and DR schedules for the first hours of delivery of day D. The difficulty could even be leveraged, as the potential price changes will be known during night time, when operational staff availability might be reduced.

The same difficulties could arise for delivery in the early afternoon, considering that no cross-zonal trading would be possible between 22.00 DA and 10.00 with potentially significant price update at 10.30.

**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.**

In case auctions would be introduced, EURELECTRIC considers that they should encompass the full range of products managed within the DA auction, with an ISP granularity. In any case, it would be highly detrimental for market efficiency that products that can be traded in XBID and DA auctions cannot be traded with the ID auctions proposed by ENTSOE. It would equally be highly detrimental if the ID market does not switch to ISP granularity, since at least the market closest to balancing should reflect ISP granularity

EURELECTRIC considers by the way that, as all NEMOs agree to use portfolio-based trading within XBID, there is no reason to maintain unit-based trading in earlier DA or ID auctions targeting the same delivery period. Introducing portfolio-based trading in those auctions is most likely to reduce significantly computational complexity of the MCO function.

**6. General comments. Please provide us with any additional comments you may have in the proposal.**

EURELECTRIC regrets that this consultation was open for the minimum period of 31 days foreseen in the CACM guideline. When ENTSO-E proposes such a dramatic change in the organization of energy markets, EURELECTRIC would appreciate to be given a longer period of time for building positions and proposing alternative solutions that can be discussed and agreed with other stakeholders.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



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