ACER consultations on the algorithm methodology review, incl. SIDC and ID auctions

A Eurelectric position paper

November 2019

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2019/12.105/37

WG Market Integration & Network Codes

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Eurelectric thanks ACER for organising these consultations.

As a reminder, in its response to ACER consultation on capacity pricing of November 2018, Eurelectric opposed the introduction of intraday auctions, mainly for three reasons:

i) the introduction of those auctions will be detrimental to the liquidity of the SIDC platform based on a continuous market, deteriorating therefore the quality of energy price signals in the intraday time frame. Most trading and re-trading is done close before real time. This is the timeframe market parties need all the flexibility to protect them from exposure before the balancing market.
ii) Extracting congestions rents is not a prerequisite for non-discriminatory allocation of CZ capacity. A liquid continuous intraday is able to do that through continuous trading and re-trading.
iii) fears that the technical solution to manage European-wide auctions in the ID time frame would not support the required level of granularity/complexity of bids, leading to a step back with respect to the continuous implicit allocation based on the XBID algorithm.

The third motivation seems now even sounder, as ACER acknowledges in this consultation that it might not be possible to perform the intraday auction with the same range of products as those that can already be exchanged with the continuous cross-zonal capacity allocation in the intraday time frame. From this perspective, Eurelectric regrets that the potential issues raised by ACER have not been mentioned earlier in ACER decision 2018/01 and in the NEMOs consultation on SIDC algorithms in Summer 2019. We regret also that the questions related to the priority of specific products to be addressed with ID or DA auctions is not documented with a technical impact assessment.

Eurelectric has taken note of ACER decision, and considers that its concerns remain. Eurelectric advocates therefore for their consideration, when designing the route towards a swift and efficient implementation of the mandated ID auctions. In line with its previous positions, Eurelectric also supports ACER consideration that the interruption of the continuous ID trading as proposed by NEMOs is too long.

Consultation on the compliance of the all NEMOs' proposal for Methodology for the price coupling algorithm and the continuous trading matching algorithm

QUESTION 1 - Do you agree that the implementation of the 15/30 minute products and other essential functionalities of the intraday algorithm should have a higher priority than the complex products in case of any algorithm performance issues? *Please, provide detailed argumentation for either case.*

As of the products to be addressed by the ID auctions, Eurelectric considers that there should be no step back with respect to what is allocated with the continuous allocation process. In particular, as XBID makes it possible to both consider complex products (e.g. block orders with durations longer than 30 or 60 minutes) AND allocate cross-zonal capacity with a 15-minute granularity (or the longest imbalance settlement period at the border) from 15.00 DA onwards.

As of the SIDC auctions, Eurelectric considers that 15 min product granularity is crucial and should be prioritized, in particular as re-allocating cross-zonal capacity with hourly products after the IDCZGOT would:

i) significantly reduce the benefits of the auctions as regards cross-zonal capacity allocation, as hourly NTC to be allocated would be set at the smallest value among the

4 quarters of the hour, whereas there may remain significant available capacity for a specific quarter that could be efficiently allocated with 15 minute granularity.

ii) send inconsistent signals to market participants in comparison with prices on the continuous markets

Concerning the complex products, Eurelectric would welcome a technical assessment of the level of complexity induced by the different types: e.g. block orders, MTU aggregated orders, and complex orders. Such an assessment could prove to be helpful to decide whether some types of products should be prioritized.

Should the complex products not be implemented as of the first day, Eurelectric believes that the following conditions should be ensured:

- to allow portfolio bidding in SIDC auctions AND SIDC continuous markets in ALL bidding zones,
- to allow market participants to hold open positions in the intraday time frame in ALL bidding zones.

These prerequisites would indeed be necessary, as physical assets can hardly be finely optimized with simple products only.

QUESTION 2 - Do you agree that the implementation of the 15/30 minute products and other essential functionalities of the day-ahead algorithm should have a higher priority than the complex products in case of any algorithm performance issues? *Please, provide detailed argumentation, especially if your view is different from the one in intraday (Question 1).*

Eurelectric would like to recall that complex products as defined in the SDAC product definition, with a duration much longer than 30 minutes, allow a more direct valuation of some flexibilities such as demand response with complex/industrial processes or based on time of use/critical peak pricing retail tariffs, or power plants with start-up/shut-down costs. Removing the possibility to offer complex products in day-ahead auctions can thus be a threat for the valuation of such assets, likely to reduce their competitiveness and to generate inefficient dispatch decisions.

In Eurelectric's view, if both 15/30 min products and complex products (with the same range of options as today) cannot be accommodated within the Single Day-Ahead Coupling, complex products should be prioritized. As far as cross-zonal capacities can be allocated with a finer granularity closer to delivery (be it with the continuous SIDC or with the intraday pan-European auctions), it is key for the efficiency of demand response based on spot markets that block products with a long duration can be handled at least in day-ahead. Making their management more difficult could thus be very costly to them, and in particular in situations of potential scarcity.

QUESTION 3 - Would you support any of the options above (i.e. Options 1, 2 and 3) to reduce the suspension time of the continuous SIDC? *Please, provide detailed argumentation for your choice.*

Eurelectric is in favor of options which reduce the SIDC suspension. As the power system develops towards more decision making closer to real-time, any interruption in the possibility to trade will result in welfare losses to society. Also, the suspension as such limits competition and excludes market participants in smaller bidding zones as they will only be able to trade locally.

In relation to the ID auctions of 22h in DA and 10h in DA, the consultation suggests that, from 30 minutes through 15 minutes before the auction, the ID continuous allocation might be suspended because TSOs need to calculate the ATC, from the re-calculated NTC (which is a process that takes place earlier than quarter considered here) and the already allocated capacity (AAC). Eurelectric does not understand why this operation requires 15 minutes (is there a particular complexity in this operation? Taking more than 10 seconds to perform such a calculation seems highly inefficient)

and considers that ATC calculation should not take longer than some seconds (as a matter of facts, ATC are continuously recalculated in XBID).

Second, the consultation suggests that in the last 15 minutes before the auction, the ID continuous allocation might be suspended because the market participants should be aware of the ATC to be allocated with the auction. Eurelectric does not understand the rationale behind this requirement. Indeed, market participants are unlikely to care about the effective ATC as soon as they are aware of the relative change (delta NTC) that will be applied with the auction. The new NTC could be announced 30 minutes before the auction without stopping the continuous allocation until the auction.

Therefore, to minimize the continuous SIDC suspension, Eurelectric would suggest that the relative change in cross-zonal capacity (delta NTC) is published 30 minutes before the auction with no need to suspend the continuous SIDC (first step option 3). The continuous SIDC could remain open until the gate closure for submitting bids to the auctions. The merging of cross-zonal capacities from the re-calculation (new NTC) and from the continuous SIDC (AAC up to the GCT) could be performed in the first minute after the gate closure, during the first steps of bid validation (alternative to option 1 and 4). Then the clearing would take place as foreseen based on this new ATC (taking into account all AAC until the GCT).

QUESTION 4 - Would you support the elimination of complex products in order to decrease the suspension of the continuous SIDC after the deadline for bid submissions (Option 4)? *(please, note the connection to Topic 1) Please, provide detailed argumentation for your choice.*

In Eurelectric's view, if the capacity cannot be efficiently (i.e. including complex bids) allocated within the time delays allowed by the CACM guideline, then the capacity should be allocated within the continuous SIDC.

It is up to the TSOs and NEMOs to deploy the necessary effort to manage the complexity taking into account the legal requirements. Anyway, the backup solution can allocate the capacity efficiently in case the auction-based SIDC fails to comply with the requirements.

Processwise, instead of setting a firm deadline for the golive of the algorithm regardless of its efficiency, Eurelectric would thus recommend to set a hard deadline (e.g. 2021) for the technical developments of the algorithm of ID auctions to manage both complex products AND 15/30 minutes products, and a relative deadline (e.g. 6 months after the achievement of the appropriate level of performance) for the operational golive.

QUESTION 5 - Do you agree with the list of indicators proposed by all NEMOs for either of the algorithms? Please, indicate any new indicators or an amendment to the proposed ones, which would, in your view, help to monitor how the NEMOs in cooperation with TSOs fulfil their legal obligations of developing and operating the day-ahead and intraday algorithms. *Please, provide detailed argumentation for your choice.*

Question 6 – any other comments:

Suspension of the continuous SIDC

As of the time delay for clearing the auction, Eurelectric recalls the framework set by Article 63 of the CACM Regulation for the complementary regional auctions, which should in Eurelectric's view be also applicable for the pan-European intraday auctions prescribed by the ACER decision. This Article mandates that the continuous capacity allocation shall not be suspended for more than 10 minutes, not only in normal operation. In Eurelectric's view, if the IDA algorithm does not deliver

efficient results within 10 minutes, then the auction should be considered as failed and capacity should be allocated within XBID.

Should this 10 minute limitation be disregarded, Eurelectric considers that the longer time would allow the MCO to inform market participants, 5 minutes before the maximum clearing time is reached, about the likelihood that the auction is cancelled and the capacity released within the continuous intraday allocation.

Phase out of complementary regional auctions

As of Article 63 of the CACM Regulation, Eurelectric also calls for the clarification by NRAs and by the EC that the implementation of the intraday auctions mandated by ACER will allow for the immediate phase out of all regional complementary auctions.

Failure of the IDA algorithm

Eurelectric acknowledges and recognizes the relevance of using the same algorithm for European intraday auctions, as for the single day-ahead coupling. However, considering the possibility of failure of pan-European auctions, as for June 7th 2019 for example, the algorithm documentation should include details on the conditions for considering that the auction is failing and switching to the alternate efficient solution for capacity allocation, i.e. the coupled continuous intraday markets. To be more specific, Eurelectric highlights that due to even more restrictive time constraints in the ID time frame, a strict time limit should be set for considering that an ID auction does not deliver and switching to a capacity allocation within XBID instead of maintaining continuous market suspended.

Flow-Based (Art 6)

Eurelectric does not see any relevant obstacle to the implementation of the flow-based capacity allocation in ID auction, even if such advanced capacity allocation is not managed with the continuous allocation.

Allowing Flow-Based capacity allocation with the Intraday Auctions is specifically mentioned by ACER in its recommendation 2019/01 as a benefit of their introduction, all NRAs' letter specifying that "TSOs should enable the flow-based capacity calculation within the IDA procedure". We would therefore recommend that this development is made before the golive of the intraday auctions.

Go live

These challenges are key for the well-functioning of intraday markets, and need to be seriously considered. From this perspective, Eurelectric would recommend to condition the golive of ID auctions to the achievement of a satisfactory level of performance, including:

i) Aligning the product range on what is actually managed with the XBID algorithm
ii) And achieving consistent results in less than 10 minutes with a very high level of reliability (e.g. less than 3 auctions failed each year)

Eurelectric would thus recommend to set a hard dead line (e.g. 2021) for the technical developments rather than for the golive, and a relative dead line (e.g. 6 months after the achievement of the appropriate level of performance) for the operational golive.

Ownership & funding of the algorithm

Eurelectric acknowledges that the technical challenges to achieve an efficient auction algorithm are significant. Addressing those involves major development of the MCO function. From this

perspective, Eurelectric invites other stakeholders (incl. TSOs, NEMOs, and NRAs) to consider the opportunity of having the SDAC and SIDC algorithms developed in open source.

This would have major benefits at low cost :

- Full transparency on the solution actually used;
- Possibility for academics or stakeholders to propose and test new developments;
- No proprietary issue, when contracting service providers for the development of specific modules

Governance

Eurelectric would welcome the consideration of the market participants in the governance and assessment bodies of the SDAC and SIDC algorithms. Market participants are indeed directly impacted by those development and their views should be systematically considered before decisions are made.

In particular, it would be relevant to organize a stakeholder committee with representatives from the main users' associations that will monitor the performance of the algorithm, potential updates, discuss the possible delays in implementation, and provide feedbacks from the users.

Cross-product matching

Beside the important questions related to ID auctions, Eurelectric would like to raise one important concern on the good functioning of the continuous intraday market, during the transition phase between current ISP and target ISP.

In order to avoid any liquidity fragmentation (i.e. having different merit orders within the continuous market), it is important that XBID can match product with different granularity, of course provided that they correspond in terms of delivery and price. For instance, XBID should be able to match 2 products of 15 min granularity with one product of 30 min granularity (provided that they correspond in terms of price and delivery period). Without such a feature, one risk to have different merit orders and a fragmentation of liquidity, hence reducing the efficiency of the intraday market.

Consultation on ID products

Question 1: Do you agree with the choice of intraday products proposed by all NEMOs?

Eurelectric would like to recall that complex products as defined in the SDAC decision of a duration much greater than 30 minutes allow a more direct valuation of some flexibilities such as demand response with complex/industrial processes or based on time of use/critical peak pricing retail tariffs, or power plants with start-up/shut-down costs. Removing the possibility to offer complex products in intraday auctions can thus be a threat for their valuation, likely to reduce their competitiveness and to generate inefficient dispatch decisions.

Eurelectric also supports that consideration of 15/30 minutes in intraday auctions, to make sure that cross-zonal capacity is allocated as efficiently with auctions as it is with continuous SIDC.

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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