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JAO survey on Long Term Flow-Based Auction (LTFBA) bid prioritisation

A Eurelectric response paper

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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.

WG Market Integration & Network Codes

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We welcome the opportunity to provide comments to the JAO public survey on credit limit and bid prioritization in the process of designing the future long-term flow-based auction setup in the Core region.

First, we would like to share our concerns regarding the use of a simple poll for such an important topic. Such a practice for a topic that has such a strong impact on the forward market must be avoided. In addition, this issue should have been discussed during the ENTSO-E workshop on LTFBA on 24 May. Moreover, the audience of the consultation's announcement appeared to be quite narrow as many market participants did not see it, further reducing the initial time to answer.

1. Having reviewed the presentation with the proposals, which of the options would you like to see implemented for the long term flow-based allocation?

None of the options proposed.

2. Do you have any comments or suggestions?

We would like to raise our strong concerns regarding this consultation. JAO is warning on very serious issues regarding the impact on collateral's requirements that this centralized FB auction will have.

At the light of this identified issue, we call for an updated analysis of the benefits of LTFBA, considering this issue of collateral raised by JAO to assess the impact on the auction results depending on different options.

In terms of content, we consider that none of the options proposed (i.e., priority as bid component, priority as a parameter, priority as a bid flag) is satisfactory as the common concept behind those is not acceptable.

New rules of bid rejection that would be detrimental to market participants w.r.t. to the current situation should be avoided.
Neither the random nor the prioritized bid rejection criteria are satisfactory. Bids are submitted because they are the results of a bidding strategy. Rejecting them on a random manner is just ignoring this. Also, asking market participants to prioritize bids would suppose that market participants can prioritize them. A bidding strategy has to be considered as a whole and bids resulting from it cannot be split up in priority groups as the consistency within a bidding exercise would be consequently torn apart.

While we acknowledge the issue raised by JAO, we ask alternative solutions other than « bid rejection for credit limit » to be considered, such as different collateral management. Therefore, we call for an urgent meeting with ACER, ENTSO-E and JAO in order to discuss it with market participants.

Also, this is an opportunity to review the way the collaterals are computed by JAO as of today (which would mitigate the impact on the amount of collaterals with one auction). We understand that the amount of collateral is currently estimated depending on a worst-case scenario that could happen in terms of default / credit risk. However, other solutions could be based on the volumes actually involved while using fine-tuned parameters for the JAO collateral computation method.

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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