

NEMO's public consultation pursuant to Art. 12 of Commission Regulation (EU) 1222/2015 on amendments to the Algorithm Methodology for the price coupling algorithm and the intraday auction algorithm due to co- optimisation

Eurelectric position 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.

Eurelectric welcomes the all-NEMOs Committee consultation according to Art. 12 of the CACM Regulation 1222/2015 on amendments to the Algorithm Methodology. It provides clear identification of the elements that need further study before practical implementation and gives a clear outline of the priorities for the coming years for the SDAC algorithm development, excluding further development and implementation of co-optimisation and binding deadlines. Below, we would like to outline our specific perspective on the consulted provisions relating to co-optimisation and the implementation of intraday auction (IDA):

- **Even though co-optimisation with multilateral linking, can in theory be seen as a long-term target, the development complexity of this project, huge and numerous challenges, maintained our doubts on the feasibility of co-optimization implementation and significant deterioration in algorithm performance and efficiency loss due to the increased bidding complexity. We stress the importance of further thorough R&D, as well as transparency and clarity in demonstrating feasibility. We strongly recommend deferring further steps, in particular the bidding guide, until at least 2 TSOs express interest to establish a co-optimization process and EUPHEMIA's evolutions are fully stabilised (ie 15min MTU implementation). Lastly, Eurelectric urges against setting a deadline until interest, feasibility and added value are confirmed.**
- **Eurelectric believes continuous trading should be the primary tool for the intraday market. If IDAs are introduced, we strongly recommend a cautious approach starting with one ID auction after ID recalculation (D-1), with limited interruptions to continuous trading and regular assessments to ensure operational efficiency and minimal impact on continuous trading liquidity. We urge holding off on additional auctions until one IDA demonstrates operational efficiency without draining liquidity in continuous intraday trading.**

Detailed comments

- **Amendments due to co-optimisation**

Eurelectric has two major concerns regarding the implementation of co-optimisation.

Firstly, **the Single Day-Ahead Coupling (SDAC) algorithm is already at its limit in terms of capability** and Eurelectric has concerns on the impact of co-optimisation on the performance of the algorithm and on the SDAC. We understand that a Euphemia Prototype for co-optimisation taking into account the flow-based compatibility deterministic requirement can perform with 60' MTU data and one additional Balancing Capacity product besides the Day-Ahead (DA).

This roadmap study did not provide answers to our doubts on the feasibility of the target model for co-optimization. Therefore, as underlined by the NEMOs, this initial simulation must be completed with 15' MTU data and multiple balancing market capacity products to be able to assess the Euphemia's real capability to incorporate co-optimisation. No implementation planning should be provided before further transparency on how to tackle such issues.

Indeed, Eurelectric is strongly opposed to any limitation such as the reduction in the variety of the energy products and bidding flexibility offered for the SDAC to accommodate the algorithmic complexity of co-optimisation; we also reject any negative impact on further evolutions of new products and services for the SDAC. Eurelectric is also against any prolongation of time needed for calculation and results publication.

Secondly, **the better efficiency and added-value of a co-optimisation implementation, in comparison with the market-based alternative as per Art.41 of the EB GL, remains uncertain.** Indeed, its efficiency relies heavily on the quality of the balancing capacity bids.

With co-optimisation, the bidding strategy will be much more complex for every Market Participant, historic as well as newcoming. Indeed, there are a lot of interdependencies between reserve capacity products and wholesale energy products: MW and MWh are not interchangeable.

Many current national BC procurement (the same applies to future market-based implementations implementations in line with Art.41 of the EB GL) are based on a sequential bidding process, where the SDAC happens after the procurement of balancing capacity. This allows market participants to prepare their energy bids with a deterministic view of their BC obligations.

In order to replicate the current multi-stage decision process, market participants would need to use an infinite number of „if-then-clauses“, which would have to be modelled in their biddings and would hence require sophisticated linked-blocks products. Also, portfolio bidding would become almost impossible, as interdependencies between different assets would be almost impossible to reflect in addition to the BC – energy interdependencies.

This increased complexity may lead to a reduction of offered volumes or to risks mark-ups to compensate for an imperfect bidding strategy regarding the technical constraints of the assets, therefore to efficiency losses.

By the way, we would like to stress again the absolute need for available links between both energy and balancing capacity markets and between all MTUs in order to avoid inefficiencies due to the concomitance of both markets, to reflect the technical constraints of interdependencies mentioned above. If no multilateral linking was allowed, this would lead to high inefficiencies. The process would then be equivalent to a co-clearing which is definitely not the goal of co-optimisation. As mentioned by the NEMOs, the added complexity introduced by the multilateral linking has not been estimated yet, so its feasibility remains unsure.

Moreover, when the assets can provide one or more of the products but only one at a time, the bidding strategy will rely on an opportunity cost, which will be derived from forecasts of the balancing capacity prices or the energy prices. Therefore, **co-optimisation might be subject to inefficiencies due to the fact that forecasts are used**, as any BC market.

At last, the indicative deadline of 1 January 2029, along with the anticipated timeline for implementation of a fully-fledged methodology in the SDAC algorithm, is very ambitious and implies burdensome requirements. Moreover, it preemptively assumes the outcome of the ongoing prioritisation process at MESC level and contradicts the message from chapter 5 regarding the absence of legal deadline. As outlined in the N-Side roadmap study, there is a clear necessity for extensive R&D, estimated to take between 1.5 to 2.5 years. Additionally, the explanatory note coming along with this consultation reminds that the SDAC R&D pipeline is already fully occupied until at least the end of 2025. Consequently, in practical terms, this timeline only allows for one year for the actual implementation of the methodology.

As there is no legally binding deadline to implement this methodology and numerous concerns need to be dispelled, Eurelectric urges against defining a deadline for the implementation at this time. The first priority on this subject should be to continue the R&D efforts to demonstrate the feasibility without drawbacks on the performance of the SDAC and including other upcoming evolutions of SDAC (15 min MTU, Nordic Flow based, ...), as well as the gains expected from the target-model of co-optimisation. Eurelectric agrees with the identified subjects to be clarified by future R&D. As the added value of co-optimisation will rely on the quality of the bidding of the

market participants, we support the idea to develop a bidding guide. To this end, the expectations of TSOs and NEMOs still need to be clarified and the time and resources allocated to Market Participants sufficient. Besides, since we perceive a lack of interest of TSOs and Market Participants towards this methodology and Market Participants have already multiple changes to implement resulting from recent legal evolutions, we strongly recommend to consider the next steps (in particular the bidding guide) only once at least 2 TSOs have confirmed their interest to establish a co-optimization process and once the evolution of EUPHEMIA are fully stabilised (ie 15min MTU implementation). The co-optimisation implementation should therefore be put on hold until its feasibility and added value is proven, taking into account all constraints, including the bidding behaviour of market participants, besides the ones applying to TSOs.

If new articles covering co-optimisation were to be added to the Algorithm Methodology, some evolutions are suggested:

- 4.2: Eurelectric supports having different MTUs for DAM and BCM, more specifically to have a BCM MTU up to at least one hour. 15' is considered too short by market participants.
- Annex I, Article 4A, 1.a): the clearing price for each BCM and MTU should be reported in “€/MW and per MTU” as “€/MWh” is misleading.
- Annex I, Article 4A, 8.c): “Research shall include [...] linking of orders between the DAM and BCM with intertemporal links between all MTUs”.

• Amendments due to Intraday Auctions

Eurelectric would like to recall that ID auctions have been initially introduced due to an article in CACM GL requiring the pricing of intraday capacity. In CACM GL, an alternative solution should have been to delete the possibility to price capacity in ID, instead of confirming the possibility of ID auctions.

Eurelectric still considers that continuous trading should be the main solution and the target model for intraday market. The value-added of ID auctions has not been proven; it could endanger the efficiency and deteriorate the liquidity of the ID market.

Shall ID auctions be introduced, Eurelectric requests that:

- the design of ID auctions preserves continuous ID market liquidity, typically by shortening as much as possible the interruptions of the continuous market.
- the number of ID auctions remains limited. In practice **we strongly urge beginning with one ID auction after ID recalculation (D-1 at 22.00) and holding off on additional auctions until one IDA proves successful in terms of operational efficiency without draining liquidity in continuous intraday trading.**
- to regularly review/assess of the implementation of ID auctions. Such a review should analyze the effects of IDAs in terms of efficiency, cross-zonal capacity allocated, and impact on the liquidity of the continuous SIDC. The assessment should result in the publication of an annual report based on relevant indicators to demonstrate improvements in congestion management and capacity allocation; as well as to challenge the number of auctions.

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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