

NEMO consultation on Harmonized maximum and minimum clearing prices for single day-ahead coupling and for single intraday coupling, pursuant article 12 of CACM Regulation



EDF response

15th July 2022

Consultation Overview

The methodologies in accordance with Art. 41(2) and Art. 54 (2) of CACM determining the harmonized minimum and maximum clearing prices (HMMCP) to be applied in all bidding zones for single day-ahead coupling and for single intraday coupling respectively, were last approved by ACER on 14 November 2017. There have been no amendments to the two methodologies since as no need to amend has been identified in previous review. This is a joint consultation from all NEMOs.

According to Article 4 (3) for both the HMMCP methodologies respectively, *'the NEMOs shall, at least every two years, reassess the HMMCP, share this assessment with all market participants and consult it in the relevant stakeholder forums organized in accordance with Article 11 of the CACM Regulation.'*

The harmonized maximum clearing price for SDAC was raised by 1000 EUR/MWh up to 4000 EUR/MWh as the relevant threshold was recently reached in one bidding zone. Indeed, the current market situation calls for a more thorough review of the methodology. Some market participants already expressed some ideas on maximum and minimum prices for SDAC and SIDC.

The implementation of Intraday Auctions (IDAs) also requires to introduce a definition of HMMCP for IDAs into the HMMCP methodology for SIDC.

Out of scope of the consultation

- the principle that maximum and minimum clearing prices remain harmonized in all bidding zones
- the principle that a dynamic increase of the maximum and minimum clearing prices shall be in place

What happens next

During the months of June and July, the responses will be reviewed and in accordance with Article 12.3 of CACM GL duly considered in the process of revising and proposing amendments to the HMMCP methodologies before sent to ACER for review and approval. Audience Market participants, TSOs and NRAs Interests CACM GL related to SDAC and SIDC

Questions

We welcome this all NEMOs consultation on the HMMCP methodologies for single day-ahead coupling (SDAC) and single intraday coupling (SIDC). The involvement of market participants in the implementation process of EU guidelines and network codes is crucial.

Before answering to the questions of the public consultation, we would like to make some general remarks:

(a) **Relation to the current European market situation:** The timing of this consultation falls during a crisis period with unprecedented high electricity prices in Europe. Knowing this, the proposals, reasoning, and decisions to be held and taken within the framework of the possible amendments to the HMMCP methodologies for SDAC and SIDC shall not be biased by the current situation and respect the principles of Electricity Regulation and CACM Regulation.

(b) **Free price formation and justified reasons for price limits:** We would like to remind our support to free formation of electricity prices which notably guarantees the optimal dispatching of the available assets. Pursuant to Electricity Regulation Article 10, technical limits in the DA and ID timeframe “shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonized for the internal market and shall take into account the maximum value of lost load”. Yet, we believe that there are justified reasons to set technical price limits in the DA and ID markets:

- (i) They are a possible way to avoid outstanding impacts for market participants in case of IT issues, operational errors, or corrupted input data in the EU market coupling algorithms.
- (ii) They are limiting the risks / financial impacts related to the management of collaterals requested by power exchanges and / or trading limits.
- (iii) Price limits allow to avoid an exposition to excessively high prices (as long as market participants have the possibility to bid at any price – as it is the case in some bidding zones) and to mitigate the associated volume risks.

In addition, the detrimental impact of maintaining unnecessarily high max clearing prices in auction markets, be they held in the DA or ID timeframes, should be duly considered in order not to limit market access, and negatively affect market liquidity. For all these reasons, EDF recommends to consider reasonable price limits.

(c) **Consistency and hierarchy of price limits across timeframe:** We believe that there should be a consistency of maximum and minimum clearing prices across timeframe, respecting an increasing rule for maximum clearing prices with respect to the timeframe when approaching real time (that is $0 \leq \max_{DA} \leq \max_{ID} \leq \max_{BAL}$) and a decreasing rule for minimum clearing prices with respect to the timeframe when approaching real time (that is $0 \geq \min_{DA} \geq \min_{ID} \geq \min_{BAL}$).

- Indeed, being closer to real time means being closer to potential real physical scarcity or over-supply which only is discovered/realized in the real-time time frame (balancing). Electricity prices should reflect market fundamentals.
- The market sequence should therefore allow that a scarcity or over-supply revealed at a given time step is (partially or totally) corrected at a subsequent time step by allowing a broader range of prices, which is only possible if the hierarchy described above is respected.
- In other words, the max price limit should allow scarcity prices to manifest. And in a symmetrical way, the min price limits should allow over-supply to manifest.
- This implies in particular that minimum and maximum prices in the balancing timeframe should serve as upper/lower bounds for the evolutions of minimum and maximum prices on SDAC and SIDC.

4. When integrating HMMCP for Intraday Auctions, NEMOs propose to follow the same principles as for SDAC. This means a differentiation from HMMCP for the SIDC continuous. What is your view on that differentiation, and do you have a view on what maximum and minimum clearing price should be applied for SIDC IDAs and what mechanism for possible upward or downward adjustment of that maximum and minimum clearing price should be applied?

As a matter of consistency in terms of price formation in the intraday timeframe, maximum and minimum clearing prices to be applied for pan-EU IDAs (which will be put in place pursuant to ACER

Decision 01/2019) shall be consistent with those applied in SIDC continuous and shall respect the principles exposed in point (c) here above in our introductive statement.

- Max/min clearing prices for pan-EU IDAs shall be equal to those applied in SIDC continuous.
- The same rule for increasing the SIDC maximum clearing price in the event that the max clearing price for SDAC is increased above the max clearing price for SIDC shall be applied for pan-EU IDAs. In such a case, the max clearing price for SIDC IDAs shall also increase to be equal to the max clearing price for SDAC.
- A rule could be added to increase the SIDC continuous and IDAs maximum clearing price when a certain percentage of the SIDC max clearing price in force is reached for one market time unit in a single bidding zone.
- The same reasoning applies in a symmetric way for SDAC and SIDC minimum clearing prices, to respect the hierarchy described in introduction in point (c) above.

Finally, the same principle in terms of scope and application as in Article 1 and 5 of the HMMCP for SIDC continuous shall be applied to IDAs: maximum and minimum clearing pricing shall be applied in all bidding zones which participate to pan-EU IDAs and NEMOs shall implement the HMMPCP for SIDC IDAs immediately.

5. The current methodologies describe a dynamic process to increase the maximum clearing price if market prices reach certain thresholds. NEMOs would like to consult on the possibility to also implement a decrease of the maximum clearing price after a period when no thresholds have been exceeded and the maximum clearing price shows to be unnecessarily high.

In any case, the rule of an automatic decrease of the max clearing price shall be designed in such a way to respect Article 10 of Electricity Regulation, that is not to hinder free price formation.

We see some reasons to support such a proposal.

- Collateral requirements and/or trading limits can be materially impacted by maintaining high max clearing prices. The management of those constraints induces some risks for market participants without clear benefits in terms of functioning of electricity markets and in particular free price formation.
- SDAC is an implicit auction where all volumes and prices are determined in a blind auction and some protection from extraordinary prices is appropriate for market participants. Indeed, in some bidding zones in Europe, this is impossible to manage a residual exposure issued from the DA in the ID markets. Due to some local market rules, the transfer of imbalanced position from DA to ID is forbidden. As long as those rules exist, in extreme tense situations, market participants could bid at any price. Max prices being harmonized at EU level, this might justify not to maintain an unnecessarily high max clearing price level. And thus, this would justify returning to a lower max price limit in case no threshold has been hit or exceeded.
- The rule could be the following: after a given period during which the triggering threshold of the previous max price has not been reached in any bidding zone of the SDAC, the harmonized max clearing price shall be set to the previous level he had. The finetuning of this time period should be further discussed (e.g. its duration, the fact to consider seasons).

6. NEMOs would like to consult on the duration of the transition period between detection of the threshold and entry into force of the new price cap. Shall this be shortened, increased, or maintained to be 5 weeks after the triggering threshold (60% of max clearing price) has been reached?

First, we would like to recall that those 5 weeks in the HMMCP methodology for SDAC were proposed as a reasonable duration to accommodate the changes implied by increasing max technical prices in IT systems and processes of both NEMOs and market participants. The new rule, if any, shall in no way

endanger IT systems and processes related to SDAC and the length of the transition period shall not go below the necessary duration for implementation to be evaluated both by NEMOs and market participants.

In principle, to guarantee free price formation, we believe that the transition period should be shortened to the minimum while taking into account IT systems, processes and operational constraints and providing a sufficient to analyze the causes of reaching the threshold.

In addition, we believe that technical price limits should not be modified, when the triggering threshold is reached not in relation to market fundamentals but to a technical or operational error (IT issues, operational errors, corrupted data) preventing a proper functioning of the market coupling,

7. Do you consider the current approach to increase the maximum clearing price in steps of EUR 1000,-- still adequate?

We agree with the current automatic increase rule for the max clearing price, even if the choice of the increment step (1000 €/MWh) seems arbitrary. Why not an increase of 500€/MWh instead? Any rationale or justification of this step would be helpful.

8. Do you think that the event that the clearing price exceeds a value of 60 percent of the harmonised maximum clearing price for SDAC in one market time unit of a day in single bidding zone is a sufficient trigger to increase the harmonised maximum clearing price for SDAC? For example: to instead as the basis for triggering a maximum clearing price increase to be given by a requirement that the threshold has been exceeded on multiple different days (e.g. separate SDAC trading days) within a given period.

On the 60% rule: the choice for this percentage seems arbitrary. Again, any rationale would be appreciated.

On the rule related to the triggering threshold reached on at least one MTU of a day in a single bidding zone: since price formation is at the MTU granularity, and price limits must be harmonized, we believe it allows to respect free price formation on SDAC.

9. HMMCP methodologies to describe also an automatic extension of the minimum clearing price when a certain threshold is reached?

Currently, no rule of automatic decrease is foreseen for the min clearing price for SDAC nor for SIDC continuous. The min limits are fixed, and no adjustment is foreseen in case such limits would be hit or exceeded. An automatic adjustment shall be considered both for the DA and ID timeframe to enable free price formation on the downward side, in consistency with the reasoning on free price formation on the upper side and pursuant to Article 10(1) of Electricity Regulation. In particular, min limits must allow market participants to bid at levels sufficiently low in case of extreme situations of scarcity of demand or over-supply.

10. Any other views regarding the HMMCP methodologies for SDAC and SIDC?

EDF would like that NEMOs and / or ACER clarify the foreseen timeline of stakeholder involvement and of entry into force of the subsequent methodologies and formally confirm that a consultation will be held properly on the amendment proposals. In addition, EDF would welcome a workshop to discuss further the possible amendments of the methodologies.