All-NEMO Committee public consultation on amendments to the methodologies for setting harmonised maximum and minimum clearing prices for SDAC and SIDC

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
DT CACM

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As a market principle, Eurelectric recalls its support to the free formation of electricity prices to reflect real-time supply and demand conditions, guarantee a just remuneration and thus ensure an optimal allocation and adequacy of resources. 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.*" For this reason, Eurelectric has stated repeatedly in the past that technical price limits in both the day-ahead and intraday market shall be automatically increased if prices come close to (or reach) such limits.

For technical and operational reasons, Eurelectric recognises that technical price limits can be justified as a possible way (i) to avoid outstanding impacts in case of IT issues, operational errors, or corrupted input data in the EU market coupling algorithms and (ii) to limit risks / financial impacts related to the management of collaterals requested by power exchanges and/or trading limits. **The detrimental impact on market participants of maintaining unnecessarily high maximum 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, which would negatively affect market liquidity. Eurelectric considers that those aspects are tackled through the inertia mechanism which avoids undue price cap increases.

Eurelectric also notes that, during the 2022 energy crisis, political considerations led to expectations of a freeze in price cap increases. Eurelectric considers that **one should distinguish emergency measures as defined in the new Electricity Regulation from the expected functioning of the market under normal conditions**. This methodology is meant to tackle normal market conditions which should seek to ensure the free formation of prices. Any measure meant for emergency measures should be dealt with through a different process.

1. Change in the triggering event - Art.4.1(a), Art. 4.2(a)

Regarding the change in the triggering event, **Eurelectric does not understand the rationale behind the removal of the reference to "at least two MTUs.**" More specifically, it remains unclear how "the coexistence of several time granularities could affect the liquidity level of the market relevant to the orders submitted at the MTU level." During the online workshop organized by the all-NEMO Committee on 12 March, the coexistence of different time granularities was stated to affect price formation; however, the reasoning behind such a mechanism remains unclear. Similarly, the identified risk of confusion in relation to the distribution of these MTUs over a 30-day rolling period has not been sufficiently explained.

Eurelectric considers that this reference constitutes an important part of the current inertia mechanism, by avoiding that an isolated event on a single MTU of a given delivery day or a given market clearing leads to a price cap increase. The notion of 2 MTUs could be adapted to the shift to 15' MTU, e.g., by targeting two disjoint MTUs of the same day or a greater number of MTUs. Eurelectric would thus need to better understand the reasoning and mechanics behind the removal of this criterion before agreeing with this change.

Regarding the requirement to reach the threshold for 3 days instead of 2 days currently to trigger the maximum clearing price increase, **Eurelectric believes that 2 days already play the expected inertia role, as they imply two different clearings with two different order books** and thus allow to ensure that the price spike is not an isolated event. We do not believe that criteria based on a minimum number of MTUs and a minimum number of days are interchangeable.

2. Inclusion of a triggering condition based on market liquidity – Art. 4.1(d), Art. 4.2(d)

Eurelectric understands and supports the inclusion of inertia mechanisms in the price cap revision process to ensure that isolated events do not lead to an increase in the price cap. However, **for the SDAC, the liquidity indicator does not provide any added value compared to the technical triggering conditions (i.e. market decoupling) and should therefore not be introduced**. One major drawback of adding this criterion is that low market liquidity can reflect system scarcity, in which case the resulting price spikes should be fully accounted for, and the price cap should be revised.

On the other hand, **Eurelectric considers that a condition based on market liquidity could provide an additional safeguard in the context of Intraday Auctions (IDAs),** which present lower liquidity than other markets where price spikes occurring at moments of extremely low liquidity could be non-representative of the broader market situation.

In this context, we acknowledge the comments made by NEMOs at the workshop on 13 March that IDAs are subject to less than 5 MW of matched orders in certain bidding zones. If these situations are at the origin of price spikes, Eurelectric believes that further investigation should be conducted to clarify whether they reflect market fundamentals or not. **If analysis confirms that price spikes are not caused by system scarcity, it can make sense to exclude triggering events from the increase mechanism when liquidity is lower than 5 % in Intraday Auctions**.

Eurelectric asks that the NEMOs' proposal is amended as to remove the liquidity criteria to the SDAC and continuous intraday markets. In addition, **we consider that the proposal to suspend the methodology for calculating the average liquidity over 30 days in case of a market design change should be deleted.** This proposal leads to uncertainty for market participants, since relevant market design changes are not appropriately defined and the calculation would be subject to different interpretations. In general, Eurelectric believes that the liquidity level on the given day of a price spike is more relevant than its comparability over a 30 day period. In case a given market design change causes a price spike or change in market liquidity, it should be fully reflected in the price cap.

Furthermore, **Eurelectric notes that the current absence of a decrease mechanism makes this safeguard particularly relevant in the context of IDAs**. Indeed, as long as there is no decrease mechanism to correct a maximum price increase that does not reflect market conditions, it seems legitimate to limit the risk of non-representative price limit increases. Otherwise, non-representative events could permanently expose market participants to negative impacts on e.g., their collateral management.

In addition**, we consider that the proposal to suspend the methodology for calculating the average liquidity over 30 days in case of a market design change:**

- leads to uncertainty for market participants, since relevant market design changes are not appropriately defined and the calculation would be subject to different interpretations.
- In general, Eurelectric believes that the liquidity level on the given day of a price spike is more relevant than its comparability over a 30-day period. If liquidity increases due to the market design change, a price spike should be reflected, and if the liquidity is degraded, the foreseen mechanism would anyway apply.

In addition to the restriction of the liquidity criterion to IDAs, Eurelectric considers that this criterion based on market design changes should be removed.

Finally, if a triggering condition based on market liquidity is implemented for IDAs, Eurelectric calls for full legal clarity regarding the calculation to measure liquidity in bidding zones. Please find further considerations regarding the homogeneous database below (Section: other comments).

3. Inclusion of a proposal to revert to the initial price limit after one year if the price threshold is not reached – Art. 4.1(e), Art. 4.2(e)

Eurelectric could support the idea of implementing a decrease mechanism for the maximum clearing price. Collateral requirements and/or trading limits can be impacted by maintaining high maximum clearing prices. The management of those constraints induces risks for market participants, especially if the higher price limit is without clear benefits in terms of market functioning and does not interfere with the electricity markets and, in particular, free price formation. It could therefore be justified to revert to a lower maximum clearing price limit in case no thresholds have been hit or exceeded for a certain period. This said, the price limit should never be lower than the original level set in the first version of the methodology.

The appropriate time length should be assessed so as to span over seasonal and conjunctural effects, while ensuring that market participants do not have to bear the weight of unnecessarily high price caps. The mechanism should not result in frequent price cap changes to preserve predictability and stability for market participants.

4. Other comments : Homogeneous database over the last thirty days

Regarding the proposed inclusion of a triggering condition based on market liquidity, the NEMO proposal suggests that:

> *"the average cleared buy and sell volumes should be calculated against a homogenous database over the last thirty (30) days. Where changes in market design occur that prevent the possibility of homogeneous averaging, application of the methodology will be suspended until the average value is consolidated."*

In case a condition based on market liquidity averaged over 30 rolling days is introduced, it should be strictly limited to intraday auctions, as stated above. **It is also strictly necessary that the liquidity metric is made publicly available on a continuous basis on the NEMO Committee's website**. A similar practice is already in place today with the publications of aggregated curves on the NEMO Committee website.

Finally, should the additional criteria concerning changes in market design still be applied despite concerns mentioned above, **the methodology must ensure legal clarity and at least also include an accurate description of such "changes in market design" that would prevent homogeneous averaging.** This description should receive approval from ACER and be appropriately communicated to market participants.

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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