CONSULTATION RESPONSE

EFET

European Federation
of Energy Traders

Amendments to the Algorithm Methodology for the price coupling algorithm and the intraday auction algorithm due to Co-optimisation

Brussels, 25 September 2023. The European Federation of Energy Traders (EFET) welcomes the opportunity to provide to all NEMOs Committee consultation according to Art. 12 of Commission Regulation (EU) 1222/2015 (CACM).

Market participants position on co-optimisation

The co-optimisation project should be put on hold until the value-added of capacity reservation for balancing by TSOs is proven – taking into account all timeframes and not just balancing itself. If that assessment is positive, TSOs and NEMOs must develop a solution to ensure the multilateral linking of bids to ensure true co-optimisation. NEMOs should also map the performance effects on DA market coupling (SDAC).

We remind that there is no fixed legal deadline in the Regulation (EU) 2017/2195 (EB GL). The date for implementation included in the consultation, which is set for 1/1/2029, is unacceptable for market participants because it pre-empts the discussion that ACER, NEMOs, TSOs and market participants are having on project prioritisation.

No changes related to co-optimisation should be included in the Algorithm Methodology until concrete evidence of substantial welfare gains and the absence of adverse effects on SDAC and balancing markets materialize.

This requires more R&D work from TSOs and NEMOs, which can only resume once resources become available (not before the end of 2025, according to ENTSO-E and the NEMO Committee).

With co-optimisation, market participants' bids for balancing capacity and day-ahead markets will be negatively affected in a significant way. For the moment it appears extremely complex to develop an efficient multi-product offer matrix for the two markets. The load and ancillary services offers cannot be exchanged 1:1 and exact dependencies have to be respected.

Co-optimisation will thus decrease the efficiency of the stepwise approach currently in place. If decided to move forward with co-optimization, we would welcome a bidding guide in order, notably, to assess the complexity linked to co-optimization from a BRP/BSP point of view. When estimating the welfare impact, the loss of market efficiency by increased

complexity for market participants and unclear price signals needs to be taken into account.

It is crucial that following concerns are acknowledged and properly addressed:

1. Unnecessarily increasing complexity for TSOs, NEMOs, and market participants, while reducing product diversity and flexibility.
2. Diminishing market efficiency and undermining the quality of price signals compared to the existing operation of DA, ID, and balancing markets.
3. Constricting market participants' ability to adjust positions efficiently across borders, as they cannot consider preceding market outcomes for their bids.
4. Excluding specific market participants (BSPs) and technologies (storage) from energy and balancing markets if no adequate linking options are implemented.
5. Raising concerns about the performance, stability, and efficiency of the SDAC algorithm

General remarks on the consultation

- We still question the value of co-optimisation all together and the benefits it will bring.
- Without any clear idea of what the actual bidding complexity would look like ("bidding guide"), any further implementation and preparation steps have little value.
- Co-optimization might prevent storage units (that are crucial for balancing services) to participate in both the DA and the Balancing Capacity Market (BCM).

Positive elements

- The concept of a "bidding guide" developed together with market participants as a list of requirements is a useful exercise and should be conducted prior to any further decisions and practical implementation.
- Clear message on priorities for the coming years for the SDAC algorithm development (co-optimisation not being part of it).

Negative elements

- Impact of the co-optimisation concept on SDAC algorithm remains problematic (timing, complexity) and NEMOs (for the moment) do not provide potential solutions (only pointing to the issues).
- Proof of concept was for a highly simplified process; still not clear if actual process with all required elements (bid linking, 15min, multiple BC products) is feasible.
- In a co-optimization setting, we see severe restrictions for bidding storage units (e.g. hydro), that are currently offering a significant fraction of the balancing services. In a sequential bidding process (as facilitated with a market-based CZCA

methodology), BSPs can adjust their DA bids in order to comply with the balancing capacity results. MW and MWh are not interchangeable for storage units, as restrictions on the energy capacity need to be respected by the generation schedules."

- The bidding considerations that are currently done in a reactive manner, responding to the previous auction result, would all need to be included into one super-strategy ('policy' in stochastic optimization terminology). In order to replicate the current multi-stage decision process, market participants would need to provide an infinite number of „if-then-clauses".
- The required bid specifications with linking options between products and MTUs will prevent a timely and transparent clearing process. At the same time market participants, particularly with storage units, will need to reduce the offered volumes to account for the uncertainty involved.
- In turn any potential welfare gain achieved by a joint DA/BCM clearing would need to surpass the definite welfare loss inflicted by reduced participation.

Concrete proposals

- 4.2: Different MTUs for DAM and BCM is absolutely necessary. 15' for BCM is too short.
- Annex I, Article 4A, 1.a): the clearing price for each BCM and MTU should be reported in "€/MW and hour", "€/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" – this is a prerequisite for at least having the option for storage to participate in both DAM and BCMs
- Allow for a different MTUs of the BCM (multiples of the DAM MTU, e.g. 4h)
- Art.4A.8: The deadline of 1/1/2029 regarding the algorithm requirements is called 'indicative' and 'anticipated', but it has concrete and onerous requirements. It pre-empts the prioritization exercise at MCCG level, which was exactly meant to ensure that any timelines remain realistic. It also contradicts the message in chapter 5 on the development pipeline being full and the lack of legal deadlines. We propose to delete it.

Contact

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