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Position Paper

All NEMO Committee Public Consultation on Harmonized maximum and minimum clearing prices for SDAC and for SIDC

Introduction and General Comments

The German Association of Energy and Water Industries (BDEW) represents over 1,900 members of the electricity, gas and water industry. In the energy sector, BDEW represents companies active in generation, trading, transmission, distribution, and retail.

BDEW welcomes the opportunity to comment on the public consultation on the Harmonized maximum and minimum clearing prices for SDAC and for SDIC.

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.

Questions

BDEW fully supports the free formation of prices in the electricity markets. Price limits should only be set for technical reasons such as for example IT issues or operational errors and should not restrict trading or limit market participants' bidding behaviour.

Currently, we see high and unprecedented prices in the electricity market, which underlines the importance of discussing the shift of technical price limits. At the same time, one has to bear in mind that high technical limits lead to higher margining requirements for all market participants. A change in price limits should therefore be carefully assessed and chosen in such a way that market access is not limited for certain market parties and that market liquidity is kept high.

It should be prevented that technical price limits are constantly changing. However, it is important to quickly react to market developments and therefore update the limit as soon as possible after the threshold of 60% is reached.

> **Question 1:** 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?

BDEW agrees with the NEMO proposal to follow the same principles for the intraday auctions which will be introduced form 2023 onwards as for SDAC. We want to point out that we still oppose the introduction of intraday auctions parallel to the intraday continuous trading and support the approach to treat them as different products.

> **Question 2:** 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.

It seems reasonable to allow for a decrease of maximum clearing prices after a period when no thresholds have been exceeded. A proposal should be discussed with market participants how the duration of this period should be defined and what the steps for the decrease could be.

The decrease of maximum clearing prices should in no case hinder the free formation of prices and the original agreed on technical price limit should never be undershot. Also, it should be prevented that technical price limits are constantly raised and lowered.

> **Question 3:** 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?

The duration of the transition period of 5 weeks, after the triggering threshold has been reached seems appropriate. A smooth implementation on both sides, exchanges and market participants is more important than a fast implementation. It is reasonable to react to market developments quickly as they indicate that the technical limit is set too low. A constant change in price limits should at the same time be avoided.

The duration for the NEMOs' to inform market participants about reaching the threshold and the upcoming change in the technical price limit should be amended. NEMOs should publish this result the next day.

Question 4: Do you consider the current approach to increase the maximum clearing price in steps of EUR 1000,-- still adequate?

BDEW agrees with the current approach to increase the maximum clearing price in steps of EUR 1000. It should be applied for future changes.

Question 5: 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.

BDEW considers it appropriate that in the event of a clearing price exceeding the threshold in one market time unit of a day in a single bidding zone, this qualifies as a sufficient trigger to increase the harmonised maximum clearing price. Since price formation is at MTU granularity and price limits must be harmonised this rule allows for a free formation of prices in the SDAC.

Concerning the 60% threshold BDEW agrees that this is rightly chosen. An upward shift in the threshold encounters the risk to hinder the free formation of prices and could lead to a more constant change in price limits.

Question 6: HMMCP methodologies to describe also an automatic extension of the minimum clearing price when a certain threshold is reached?

It seems reasonable to allow for an automatic extension of the minimum clearing price when a certain threshold is reached, as minimum prices set at a level too high could hinder the free formation of prices.

Question 7: Any other views regarding the HMMCP methodologies for SDAC and SIDC?

BDEW suggests that NEMO's should introduce plausibility checks when accepting market participant's orders to prevent false orders from being entered into the system and therefore affecting the market clearing price. Over the past years, participants have developed automated systems which bring new challenges to market participants and NEMOs. As a default, each automated system can place market orders with unlimited quantities which brings a significant risk potential which could be minimised by NEMOs.

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