

## EPEX SPOT response to ACER's Consultation on maximum and minimum clearing prices for single day-ahead and intraday coupling

Paris, 15 September 2017

### Introduction

The European Power Exchange EPEX SPOT operates the day-ahead and intraday markets for Germany, France, the United Kingdom, the Netherlands, Belgium, Austria, Switzerland and Luxembourg. As Nominated Electricity Market Operator (NEMO), EPEX SPOT participated in the development of the All NEMO Proposals on the maximum and minimum prices in accordance with Articles 9, 41(1) and 54(2) of the Regulation (EU) 2015/1222 establishing a guideline on capacity allocation and congestion management (CACM Regulation). The proposals have been submitted to the National Regulatory Authorities (NRAs) on 14 February 2017. On 24 July 2017 and 2 August 2017, all Regulatory Authorities agreed to request ACER to adopt a decision on the day-ahead and intraday minimum and maximum price proposal. EPEX SPOT welcomes the opportunity to express its views and comments on the Agency's proposals for amending the All NEMO Proposals.

EPEX SPOT advocates for unrestricted price formation because an efficient market requires a robust price signal which correctly represents market fundamentals at all times. A correct and trust-worthy market price signal is the key to unlock the required flexibility on electricity markets. Only the market price signal can transform supply and demand into one single measure for scarcity. Scarcity prices are essential for refinancing investment in flexible generation capacities during the few hours of operation. They are also essential to incentivise participation of demand response in the market. Unrestricted price formation and scarcity prices are an important ingredient to the market design.

Power Exchanges play a crucial role in the free price formation on European wholesale markets. EPEX SPOT generates and publishes hourly reference prices for electricity, which reflect the intersection between real time European demand and supply. This reference price is decisive for an efficient electricity market: it leads short-term generation and consumption decisions as well as long-term decisions to investment in new generation capacities. To allow efficient pricing formation, regulatory price caps should be removed.

However, the removal of regulatory price caps should not be confused with technical price limits for clearing prices, as foreseen in the CACM Regulation. Such technical price limits serve a practical purpose. They have been set at a level that does not limit the market (i.e. not too low), while at the same time not exposing market participants to unnecessary risks and costs (i.e. not too high).

**Q1: Do you have any concern with respect to the new proposed automatic adjustment rule for  $P_{\max DA}$  and for  $P_{\max ID}$ ? If so, please explain thoroughly why.**

EPEX SPOT supports a clear, transparent and automatic adjustment process. We welcome that ACER sticks to the stability provided by the implementation timeline of 5 weeks. We are also supportive of ACER's proposed amendment to the Single Intraday Market Coupling (SIDC) Proposal to adjust the  $P_{\max ID}$  to the level of the  $P_{\max DA}$  in the event the  $P_{\max DA}$  adjustment process has been triggered and  $P_{\max DA}$  exceeds  $P_{\max ID}$ .

However, EPEX SPOT has severe concerns with regard to the new proposed "1 time rule" for automatic adjustment, stating that the harmonised maximum clearing price limit shall be increased in the event the hourly clearing price has exceeded a value of 60 percent of the maximum clearing price "*in at least one market time unit*". NEMOs proposed a "3 time rule", stating that the adjustment process is only triggered if prices exceeded "*on at least 3 separate delivery dates in the preceding 30 days*."

In our view, the "1 time rule" will create a situation where the  $P_{\max DA}$  will be raised based on a single occurrence of surpassing the threshold. There is a high likelihood that this will be an occurrence that is not a result of scarcity. It will probably be due to operational issues, such as order or capacity entry errors, or a situation without relevance for wider EU application, or a local supply squeeze in only one market time unit with no relevance for the whole EU power system. Furthermore, the "1 time rule" based on one incident will also add unnecessary stability risks and process risks. An escalation occurring too quickly, e.g. in winter's time, has to be avoided.

For these reasons, EPEX SPOT recommends the following essential amendments to ACER's proposal:

- A higher hurdle to trigger the automatic adjustment process than the suggested "1 time rule" is needed. EPEX SPOT recommends to stick to the "3 time rule".
- As any smart design has to include safeguards and to avoid an extreme escalation, at least in the first stage, the automatic increase of the technical maximum prices shall be limited to 10,000 EUR/MWh. Since a European wide value of lost load (VOLL) does not exist and a value is not mentioned in ACER's proposal, such a limit to the automatic adjustment process is important to reduce additional risks for market participants.
- Furthermore, an automatic process to return to the initial  $P_{\max DA}$  and  $P_{\max ID}$  is needed. This could be triggered for example if for a certain period of time, e.g. 3 months, no event occurred that triggered an upward adjustment.

**Q2: Which of the three proposed options for the  $P_{\max DA}$  would have your preference? Please explain thoroughly why.**

EPEX SPOT supports **Option 1**, i.e. to keep the  $P_{\max DA}$  as proposed by All NEMOs at **+3,000 EUR/MWh**.

Technical price limits for clearing prices must be high enough in order not to limit the market. The proposed maximum clearing price for day-ahead of + 3,000 EUR/MWh corresponds to the current price threshold. So far, this threshold has proven entirely adequate. The analysis of historical prices also proves that technical price limits have never been reached in EPEX SPOT markets for scarcity reasons. The following two examples demonstrate that in practice, the current price threshold does not constrain the market:

- In Germany, one of the most liquid markets in Continental Europe, maximum clearing prices for day-ahead and intraday have never been reached:

Yearly maximum prices (in €)	2011	2012	2013	2014	2015	2016	2017*
15-minute auction (15:00 am)	-	-	-	73,19	464,37	277,04	290,65
Hourly day-ahead auction (12:00 am)	117,49	210,00	130,27	87,97	99,77	104,96	163,52
15-minute intraday (continuous, index)	-	-	-	-	236,35	180,70	329,81
Hourly intraday (continuous, index)	162,06	272,95	163,44	139,12	121,66	114,70	200,43

**Figure 1:** Yearly maximum prices on EPEX SPOTs German markets, Source: EPEX SPOT, \*: until 31/08/2017

- In France, on 19 October 2009, the hourly quotes hit 3,000 EUR/MWh over four hours from 8am to 12pm. The technical ceiling of 3,000 EUR/MWh was therefore applied for these hours, in conformity with EPEX SPOT Auction trading regulations. According to the investigation into the factors explaining these prices launched by the French Energy Regulatory Commission CRE from November 2009, “extreme pressure on production fundamentals and on the forecast balance between supply and demand the day before the 19 October led to the price peak recorded the following day.” (<http://www.cre.fr/en/documents/deliberations/communication/spike-in-electricity-prices-on-19-october-2009>). CRE requested EDF and UFE to take the necessary measures to prevent similar events in the future, but judged that the maximum clearing price of 3,000 EUR/MWh is sufficient. After this “1 time event” the threshold has not been increased. On a side note, such incidents did not occur since that time in the last 8 years.

Besides, if there is a clear, transparent and automatic adjustment process, there is no need to choose a higher limit from the very beginning, i.e. + 5,000 EUR/MWh or even + 9,999 EUR/MWh, because if the limit is attended, it will be increased automatically anyway.

Furthermore, higher maximum clearing prices, i.e. Option 2 and Option 3, expose market participants to unnecessarily higher costs and risks:

- Higher costs – related to high collaterals or low trading limits will squeeze out market participants, will amplify tight market situation and endanger the overall market integrity.
- Higher default risk of members will impact Central Counterparties (CCPs) / NEMOs as central counterparty.
- Higher operational risks - from the potential impact of operational errors related to (i) order entry by market participants (fat finger error) (ii) capacity provided by transmission system operators (TSOs), or (iii) a decoupling event.
- Higher imbalance risks – Market participants with short positions might remain imbalanced in case their pre-trade limits are exhausted and market orders are rejected. This could be particularly the case in tight market situations where balancing requirements are of particular importance for TSOs.

This would compromise the functioning of existing markets. In particular small market participants are concerned by these risks in a disproportionate way. They are however key actors for a successful energy transition in a decentralized and flexible power market and should not bear disproportionate risks.

CCPs act as volume and price takers in the Single Day-Ahead Market Coupling (SDAC) without being able to reject the auction results in case of excessive built up of cross-CCP exposures. With the introduction of Multiple NEMO Arrangements (MNA), this risk becomes more pressing since cross-CCP exposures can become virtually infinite in absence of a cross-CCP limit or physical capacities setting a natural cap for cross-border volumes between CCPs. Higher maximum prices in the SDAC and SIDC will aggravate this issue further. It should be noted that the residual cross CCP exposure (exposure above the usually collateralized 99% confidence interval) can easily exceed the CCPs' own capital, therefore necessitating, as foreseen in EMIR, other lines of defense, like default funds which are sized to withstand extreme but plausible events. In front of the upcoming implementation of SDAC and SIDC increasing the systemic importance for the European wholesale markets due to the coupling of multiple CCPs; the failure of one CCP could trigger the failure of other CCPs. Therefore we propose that cases in which the automatic adjustment process has been triggered will be defined by ACER as a force majeure situation.

In general we consider minimum standards on CCPs' business conduct, financial stability, margin requirements, ability to withstand stress events, legal certainty and transparency in spot electricity markets as key for successful implementation of the European Target Model, which are even more important in case of higher technical price limits.

**Q3: Do you have any concern with respect to the new proposed implementation date? If so, please explain thoroughly why.**

EPEX SPOT has no concerns regarding the new proposed implementation date.

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