Paris, September 15th 2017

Answer to ACER consultation on maximum and minimum clearing prices for single day-ahead and intraday coupling

Direct Energie would like to thank ACER for giving market participants the opportunity to share their views about price caps in the energy markets.

Direct Energie has been supporting capacity mechanisms for now a long time and is of the opinion that energy only markets (EOM) cannot provide the economic signals that are necessary to guarantee the level of security of supply (SoS) defined by public authorities:

- If new capacities are needed to meet the SoS criteria, the expectation of rare and volatile spikes of the electricity prices is not sufficient enough to trigger investments, that need visibility and stability over a long period of time because of their capitalistic requirements.
- Hoping that the EOM could reach this objective is not reasonable in a competition point of view: indeed, during scarcity timeframe, it incites capacity holders to bid in the energy market at a price that is much higher than their real activation cost in order to cover the losses they face during all the other timeframes, that is to say, they are incited to abuse of their position during those specific circumstances, which is clearly not a safe and balanced market design.
- The recent cold snap in France in January 2017 have underline that the TSO have significant impacts during stress periods, since they have the possibility to use exceptional measures (such as ad'hoc negotiations with others TSO to increase cross-border flows, activation of out of the money capacities, decrease of the voltage level, etc.), that could distort market prices. It is then not possible to rely on pure energy market prices in very rare moments to fill the (annual and constant) missing money of the capacities that are required to ensure the desired level of SoS.
- It appears that recent scarcity periods have not induced high prices and conversely that price spikes are not necessarily related to scarcity period, but more often to practical or organisational issues (spikes in France on 2009 Oct 19th, or in Belgium on 2011 March 28th).

Therefore Direct Energie wishes that capacity mechanisms be set up all across the European Union.

Moreover the price caps (that are necessary on a technical point of view and that must be common between all coupled bidding zones) should not be defined in reference with the value of loss load (VoLL) since this value cannot be calculated properly in practice and cannot be the same in all bidding zones since they have different levels of SoS. Technical price caps should be defined in order not to prevent capacities (power plants or DSR) to participate to the market: a price cap at 3000 €/MWh (for the Day-Ahead or the Intraday) is by far sufficient since no known capacity has higher activation costs.

The harmonization of price caps between the Day-Ahead and the Intraday markets (but also with the balancing market) is an important topic, especially because the financial nature of the power forward products that are traded on EEX: in case of curtailment in the spot auction, buyers of forward products should go to the intraday market in order to purchase (again) the volumes that have been curtailed. In order to avoid financial losses, it is then necessary to have a similar price caps for all market maturities.

Furthermore, high price caps induces very high risks for both producers and retailers, especially if they don’t have a large perimeter of flexible assets (like local incumbents or former monopolies) they can activate in order to compensate any imbalance. Moreover high price caps can increase the requirements of collateral on the organised markets.

For all these reasons, the answers of Direct Energie to ACER consultation are the followings:

Q1: Do you have any concern with respect to the new proposed automatic adjustment rule for PmaxDA and for PmaxID ? If so, please explain thoroughly why.

Direct Energie is not in favour of an automatic adjustment rule, for all the reasons mentioned above and especially since no decrease adjustment rule is proposed after scarcity periods are ended.

Q2: Which of the three proposed options for the P maxDA would have your preference? Please explain thoroughly why.

Direct Energie is in favour of setting the price cap at 3000 €/MWh for the Day-Ahead, Intraday and Balacing markets.

As a second choice, Direct Energie is in favour of option 1 (keep the P maxDA as proposed by all NEMOs, i.e. +3000 EUR/MWh).

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

There is for Direct Energie is no particular urgency in addressing the question of maximum and minimum clearing prices for single day-ahead and intraday coupling.