

## ACER public consultation on maximum and minimum clearing prices for single day-ahead and intraday coupling

EDF Group response

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15/09/2017

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### GENERAL REMARKS

The involvement of market parties in the implementation process of the European guidelines and network codes is fundamental. Therefore, the organisation by ACER of a public consultation on maximum and minimum clearing price limits for single day-ahead and intraday coupling in the view of the adoption of its decision is an appropriate and much-welcomed initiative.

Before answering to the specific questions of the public consultation, EDF wishes to make some general remarks:

- The electricity price revealed by well-functioning electricity markets must ensure the optimal dispatch of controllable assets (generation and demand response). Free price formation is therefore essential.
- Besides technical price limits in market coupling algorithms, regulatory arrangements imposing administrative balancing prices (e.g. artificially high prices) can also have a significant impact on the price formation in electricity markets, thus preventing electricity market price from reflecting the actual balance between demand and supply and leading to suboptimal dispatch in specific situations. Those arrangements should be carefully assessed by ACER, since they are likely to influence price formation in energy markets. Consequently, the price levels determined by these measures should be disregarded when setting the level of technical limits for the intraday (ID) and day-ahead (DA) coupling algorithms.
- For technical and operational reasons (e.g. the functioning of the algorithm, the management of collaterals, calling for a second run of the single day-ahead coupling with checked demand/offer curves, etc.), the existence of technical price limits is justified, especially for auction markets, be they held in day-ahead or intraday timeframes. However, those limits

should not negatively impact free price formation in bidding zones where DA and ID price formation is not already distorted by an administrative scarcity pricing scheme.

- A one-off automatic adjustment (e.g. limited to the second run of the single day-ahead coupling algorithm) of the maximum clearing price on day-ahead market limited to the time units where the existing technical limit is likely to distort price formation seems to be an appropriate measure. This solution would preserve the well-functioning of electricity markets by timely raising the technical price limit when needed and limiting the financial impacts on market participants (e.g. potential increase of collaterals due to a permanent increase of  $P_{\max\text{DA}}$ ).

Finally, EDF wishes to recall that energy prices revealed by spot markets do not guarantee in the long run that the dimensioning of generation capacity and demand response resulting from the decisions of market players will be in line with the security of supply targets set by public authorities. The increase or removal of technical price limits won't change this finding.

## ANSWERS TO THE CONSULTATION QUESTIONS

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

EDF is in favour of the implementation of an automatic adjustment rule for  $P_{\max\text{DA}}$  for the market time units in which the existing technical limit could restrict price formation in the day-ahead market, thus preventing the free formation of electricity prices which guarantees the optimal dispatching of the available assets. This opportunity would allow NEMOs to rely on a sufficient level of flexibility in order to avoid that  $P_{\max\text{DA}}$  distorts electricity market price formation.

Nevertheless, EDF believes that the specific solution proposed by ACER goes beyond what is necessary to reach this objective and risks imposing unnecessary burdens on market participants. Indeed, NEMOs' and ACER's proposals on the automatic adjustment rule for  $P_{\max\text{DA}}$  lack in details on the conditions for the activation of this mechanism and, in particular, on the duration of the increase of maximum day-ahead prices. Yet, we understand that ACER envisages a permanent increase of  $P_{\max\text{DA}}$  of 1000 €/MWh each time the clearing price has exceeded of 60% the  $P_{\max\text{DA}}$  in at least one market time unit. When assessing the effects of this proposal, it should be considered that an increase of the current level of technical price limits on the day-ahead market may induce some additional risks for market participants, notably concerning the management of the collaterals requested by power exchanges. Hence, the financial impact on market participants of an increase of maximum clearing prices in auction markets, be they day-ahead or intraday markets, should be duly considered in order not to limit market access and negatively affect market liquidity. Moreover, the proposed mechanism does not seem to allow a timely raise of  $P_{\max\text{DA}}$ , i.e. when prices can actually exceed the price limit in force, but it only triggers an automatic adjustment of the technical price limit starting from the next day-ahead auction.

Therefore, as an alternative option to the one proposed by ACER, EDF suggests a one-off automatic adjustment of  $P_{\max\text{DA}}$  limited to the time units in which  $P_{\max\text{DA}}$  is likely to distort free price formation on the day-ahead market. This adjustment could be implemented by using the existing back-up procedures (e.g. the second day-ahead auction to be held at 12:30 in D-1) which would allow to re-run

the day-ahead market with higher technical price limits for the time units in which the  $P_{\max\text{DA}}$  was reached in the first run. This mechanism would ensure that the day-ahead market prices systematically reflects the actual demand-supply equilibrium (i.e. with no delay, as it could result from ACER's proposal) while preserving market participants from the potential additional costs related to a permanent increase of the technical price limits.

Moreover, we believe that the proposed automatic adjustment should mainly aim at aligning the technical price limits on day ahead market with the one in force in markets closer to real time (intraday and balancing markets) for the same market time unit. It is indeed necessary to ensure free price formation already in the day-ahead timeframe: e.g. if  $P_{\max\text{DA}}$  is too low with respect to the price reflecting the balance between demand and supply for a particular market time unit, producers and demand response operators would offer certain assets only in timeframes close to real time since they could be properly valued only in these markets. The adjustment scheme proposed by EDF would prevent the occurrence of these situations.

According to the scheme proposed here above, a specific clause imposing an automatic alignment of  $P_{\max\text{ID}}$  with  $P_{\max\text{DA}}$  when the latter becomes higher than the former, would not be needed. Moreover, the necessity for technical price limits to be fixed at levels higher than 10000 €/MWh should be considered only if market prices need to reach this high level to reflect the actual balance between demand and supply (i.e. with no administrative scarcity pricing).

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

EDF believes that the current maximum price of +3000 €/MWh in force in day-ahead market can be maintained as proposed by NEMOs since we observed in the past years a very low occurrence of price spikes above 1000 €/MWh. This means that, up to now, the maximum price in force in the day-ahead market did not limit price formation and, consequently, it did not lead to inefficient dispatching decisions.

As underlined above, it should be considered that an increase of the current level of maximum prices on the day-ahead market may induce some additional risks for market participants, notably concerning the management of the collaterals required by power exchanges. Hence, Option 2 and 3 risks imposing additional costs to market participants active in day-ahead markets without clear benefits in terms on the functioning of electricity markets, in particular in terms of free price formation. Furthermore, in EDF's view, the level of  $P_{\max\text{ID}}$  at +9999 €/MWh may be justified by the fact that the single intraday market coupling is a continuous trading market which implies significant differences in terms of the potential exposure of market participants and, consequently, of the amount of collaterals requested by power exchanges.

Also, the current design of the SDAC is based on an hourly granularity, whereas some ID markets already manage 15 minutes products. In EDF's view, 10000€/MWh might indeed be reached for a 15 minutes time unit, but is very unlikely to be reached as of today during a 60 minutes time unit. This consideration represents an additional justification for the selection of option 1, i.e. maintaining an initial technical price limit at 3000 €/MWh for day-ahead market.



Thus, as underlined in the previous answer, the current maximum day ahead-price (+3000 €/MWh) coupled with a well-designed mechanism for an automatic alignment of  $P_{\max DA}$  with the technical price limits in force in the subsequent timeframes (e.g. the intraday market), as the one proposed by EDF, is an appropriate solution to clear the market in the specific time units where the current price cap may distort market price formation.

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

EDF wishes to draw ACER's attention on the impact that some of the proposed amendments of NEMOs' proposal can have on market participants' activities and on the functioning of local electricity markets during the transitory period of the implementation of the single market coupling solutions. Therefore, the implementation deadline of NEMOs' proposal should not be set before 1<sup>st</sup> January 2019.