# ACER consultation on minimum and maximum price limits for day-ahead and intraday coupling

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## EFET response – 15 September 2017

The European Federation of Energy Traders (EFET) thanks ACER for consulting market participants on the proposal of the NEMOs regarding minimum and maximum price limits for day-ahead and intraday coupling. Our contribution below draws from our response to the December 2016 consultation of the NEMOs on the subject[1] and our public statement on technical price limits for day-ahead, intraday and balancing of March 2017[2].

**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.**

We fully support the ACER proposals. It is crucial to allow for a fast adjustment of price limits, especially as the proposed maximum price limits are set too low.

We propose a small clarification regarding the ACER proposal of a new point 5.2 in the SIDC Proposal (see below, in bold, underlined): "*In the event that the Harmonised Maximum Clearing Price Limit applicable for the Single Day Ahead Coupling is increased above the Harmonised Maximum Clearing Price Limit applicable for the Single Intraday Coupling, the latter shall also increase to be **at least** equal to the former.*"

Indeed, the new amended point 5.2 in the SIDC Proposal goes in the right direction, but should not prohibit NEMOs from amending the harmonised maximum clearing price limit for SIDC above that of SDAC in this specific case.

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[1] EFET response to the NEMOs consultation on harmonised price limits for day-ahead and intraday, December 2016, available at : http://www.efet.org/Files/Documents/Electricity%20Market/Spot%20and%20short-term%20markets/EFET_NEMOs-consult_price-limits_02122016.pdf.
[2] EFET statement on technical price limits in day-ahead, intraday and balancing, March 2017, available at : http://www.efet.org/Files/Documents/Downloads/EFET-statement_price-limits_23032017.pdf.

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

Before answering this question, we would like to mention that it is essential that the $P_{max}ID$ is increased for the two following reasons:

- Ultimately market participants are exposed to an imbalance price that in the most extreme situation (a scarcity driven brown-out) should be set at an estimate of the VoLL. Though arbitrary limits still apply to imbalance prices in many Member States, this is the way forward according to Title V of the Electricity Balancing Guideline. This means that market participants should be able to trade at least up to that price level. As intraday trades can take place close to delivery, it is important that intraday trades are not restricted by a cap that is clearly below the VoLL.
- Whereas market participants need to provide collateral for trading on the organised day-ahead market, such requirement is absent for intraday trading. Therefore any possible concern that high price limits could have a negative impact on market competition and liquidity because of high collateral requirements, do not apply for intraday trading. In other words, there is no legitimate reason for not choosing a value higher than EUR 9,999 per MWh.

Recent VoLL-estimates are still lacking in several markets but DECC and Ofgem calculated a weighted-average VoLL figure of GBP 16,940 per MWh (about EUR 21,700 per MWh) for peak winter workdays in Great Britain[3]. Based on this study, we suggest that an estimated VoLL value of EUR 20,000 per MWh is used until better assessments are available. And by consequence, we propose to set the $P_{max}ID$ at EUR 20,000 per MWh. If it is concluded that the VoLL in some other EU member states is lower than 20,000, this should not have influence on the $P_{max}ID$, as the highest VoLL estimate in a region should set the $P_{max}ID$ for the whole region. The maximum imbalance price in Member States with a lower VoLL can be set at that lower level, however it should not be restrictive for intraday trading in the region.

Regarding the ACER proposals on $P_{max}DA$, one could in theory also imagine such high levels of EUR 20,000 per MWh. However that seems unnecessary, as it is not necessary to allow trading up to the maximum imbalance price in a forward market like the day-ahead market. Secondly, such high technical price limits might have repercussions on market competition and liquidity because of collateral requirements. Unfortunately, the NEMOs did not analyse and quantify such possible repercussions.

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[3] The Value of Lost Load (VoLL) for Electricity in Great Britain, Final report by London Economics for OFGEM and DECC, July 2013, available at: https://www.ofgem.gov.uk/ofgem-publications/82293/london-economics-value-lost-load-electricity-gb.pdf

Option 1 however is not acceptable. The price limits proposed by the NEMOs for day-ahead and intraday are too low for the following reasons:

- This value of EUR +3,000 per MWh in day-ahead has already been reached in a few instances in the past, and thus has already constrained day-ahead market prices.
- Secondly, it is safe to assume that current overcapacity will be reduced following the closing and/or mothballing of some of the existing capacity. Thus, high prices due scarcity will be more likely to occur in the coming years, for example in evening hours (no PV), with low wind and high demand.
- Finally, it is important to note that price caps that do not take proper account of the VoLL not only constrain market prices when the day-ahead price actually reaches this cap. They also continuously constrain prices on the forward markets, because forward prices reflect expected spot prices. Likewise, price caps in day-ahead that do not take proper account of the VoLL artificially suppress market participants' appetite to hedge their positions appropriately in the forward market. Any potential capping of spot prices thus suppresses forward price signals and liquidity.

Option 3 is preferable, because it proposes the highest limit for the $P_{max}DA$ and is therefore the least restrictive on the free for the formation of prices. However two remarks must be made:

- There is no need to use same values for the $P_{max}DA$ and $P_{max}ID$. It is well possible that the $P_{max}ID$ is set at a higher value than the $P_{max}DA$. As explained before, the need for market parties to trade up to very high prices, close the VoLL, is increasing when coming closer to real time delivery.
- A higher $P_{max}DA$ has consequences for collaterals that must be provided by market participants when trading on the DA market. Following an informal survey among EFET members – which comprise both large and small trading companies – none of our member companies have indicated that a $P_{max}DA$ of EUR 9,999 per MWh would restrict their ability to trade. If NEMOs can provide a sound study proving that a $P_{max}DA$ of EUR 9,999 per MWh would have serious negative consequences on market competition and liquidity, then a value of EUR 5,000 per MWh (Option 2) might be a more appropriate compromise.

Finally, EFET would like to remind that regulatory caps on bids remain in certain markets. Maintaining these caps in spite of the harmonisation of technical price caps would clearly defeat the purpose of the CACM Regulation. ACER should exert pressure on national regulators and governments to ensure that such regulatory bid caps are removed permanently.

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

No concerns and support to the ACER proposal. In fact, we do not understand why new price limits can only be applied after the implementation of the MCO function.