

14 September 2017

To:

ACER Agency for the Cooperation of Energy
Regulators

consultation2017E02@acer.europa.eu

From:

Fortum Power and Heat Oy
POB 100, FI-00048 FORTUM, Finland

tel. [REDACTED]

FORTUM'S RESPONSE TO ACER'S CONSULTATION PC_2017_E_02 ON MAXIMUM AND MINIMUM CLEARING PRICES FOR SINGLE DAY-AHEAD AND INTRADAY MARKETS

Fortum welcomes the opportunity to present its comments to the maximum and minimum clearing prices for the European single day-ahead and intraday coupling.

Fortum is a leading clean-energy company that provides its customers with electricity, heating and cooling as well as smart solutions to improve resource efficiency. We want to engage our customers and society to join the change for a cleaner world. We employ some 9,000 professionals in the Nordic and Baltic countries, Russia, Poland and India, and 62% of our electricity generation is CO₂ free. In 2016, our sales were EUR 3.6 billion. Fortum's share is listed on Nasdaq Helsinki. www.fortum.com (EU transparency register ID 03501997362-71)

Fortum wants to give the following answers to the consultation questions:

Q1: Do you have any concern with respect to the new proposed automatic adjustment rule for P_{maxDA} and for P_{maxID} ? If so, please explain thoroughly why.

Fortum supports the ACER proposal on the automatic adjustment rule for P_{maxDA} . High peak prices occur rarely and are also impacted by unexpected plant or grid failures. Thus one exceeding of the 60% price limit (instead of the 3 separate days within 30 days, as in the NEMO proposal) is an appropriate trigger to increase the P_{maxDA} in order to secure that the maximum price does not cause any obstacles in utilising high-cost resources to always clear the day-ahead market.

The adjustment of P_{maxID} needs to take into account possible technical issues in moving from a 4-digit euro limit to a 5-digit limit. The ACER proposal to set P_{maxID} equal to P_{maxDA} if P_{maxDA} is raised over 9999 €/MWh might also not be optimal in the long run as the VOLL is higher in the ID market than in the DA market where load reductions can be planned one day in advance. A better solution would be to introduce in the SIDC rules a new article on reassessment of the ID price limits at least every two years and always following any automatic P_{maxDA} amendment similarly to the Article 5.4 in the SDAC proposal.

14 September 2017

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

Fortum prefers the option 2 of increasing $P_{\max DA}$ to 5000 €/MWh. In the DA market there are currently relatively many bids close to the present 3000 €/MWh price limit. This indicates that there are very probably some resources especially in the demand side also with higher costs than 3000 €/MWh. Some resources can also require longer activation periods, or shut-down periods in the demand side, which would mean that a single hour needs to have a clearly higher price if other hours during the activation period are not so tight. In order to have a predictable market development, a decision to increase the $P_{\max DA}$ from the present 3000 €/MWh level to 5000 €/MWh is preferred over leaving the increases to be done only through the automatic adjustment rule. The increase to 5000 €/MWh would also give a signal to the market for bidding additional resources to the day-ahead market and emphasising the financial benefits of market-based demand response in tight situations.

It is crucial that all available resources are utilised to clear the day-ahead market and to avoid purchase bid curtailments. Market participants must be able to trust that they can always cover the non-flexible part of their planned electricity needs through the day-ahead market and that they also can hedge the day-ahead spot prices through financial derivative contracts based on the day-ahead prices. If the purchase bids would be curtailed due to too low $P_{\max DA}$, the extra costs for the curtailed part would remain unhedged, which could lead to major economic problems for market participants who have relied on derivative hedging contracts.

Fortum considers that $P_{\max DA}$, $P_{\max ID}$ and the maximum balancing/imbalance price should have stepwise different values, as the value of lost load (VOLL) becomes higher when the reaction time becomes shorter. When the situation is known at the day-ahead level, load reductions do not usually cause quite so high costs as during sudden load shedding. The price uncertainty for an open market position would also be symmetric (0...200%) if the following market always has a doubled price ceiling. This would support market participants to cover their planned electricity purchase needs primarily in the day-ahead market also during tight market situations, thus avoiding possible shortages of balancing resources. Thus we would prefer $P_{\max DA}$ at 5000 €/MWh, $P_{\max ID}$ at 9999 €/MWh and the balancing/imbalance price ceiling at 20000 €/MWh. Based on future market needs, these ceilings can be later raised, but keeping a stepwise difference between the ceilings. The higher $P_{\max ID}$ would enable possible quick load reductions with higher costs than $P_{\max DA}$ still to be offered in the ID market, which would avoid intraday shortages to be left to the balancing timeframe and possible TSO curtailments. Thus we do not support the option 3 on aligning the $P_{\max DA}$ with $P_{\max ID}$.

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

Fortum supports ACER's proposal for the timeline for implementation.

14 September 2017

For possible questions or comments, please contact: