



Response of the Authority for Consumers & Markets (ACM)
ACER consultation on Maximum and minimum clearing prices for
single day-ahead and intraday coupling
PC_2017_E_02, 24 August 2017

ACM appreciates the possibility to comment on the second consultation question of the ACER consultation paper.

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

The VoLL should be the basis for maximum prices

Allowing prices to reflect scarcity is the basis for good market design. Prices should therefore be allowed to rise to the level of the Value of Lost Load (VoLL). As a consequence, price caps - if necessary - should not be set lower than the level of the VoLL. This principle forms part of the Clean Energy Package of the European Commission and is also supported in the European Regulators 'White Paper on Efficient Wholesale Price Formation'. Furthermore, the CACM GL prescribes that the price cap should take into account an estimation of the VoLL.

This precondition for efficient price formation in times of scarcity is currently not always met, as there are still price caps below the VoLL. Raising the price cap to the VoLL in order to better reflect scarcity thus will improve price formation. It will also give a clear signal to market participants and investors that regulators are committed to efficient price formation. This signal is important, given that market parties often voice the fear that political pressure will lead to regulatory intervention if market prices are perceived to reach too high a level. Such fears of regulatory intervention can also hamper efficient price formation.

Raise the DA maximum price to 10.000 EUR/MWh

ACM is in favour of a DA maximum price of 10.000 EUR/MWh.

The NEMO proposal with a price cap at 3.000 EUR/MWh is not based on an analysis of the VoLL, but based on the fact that it is current practice in many countries. A price cap set at 3.000 EUR/MWh would be lower than the VoLL in many Member States and would thereby run against the principles advocated in the 'White Paper on Efficient Wholesale Price Formation'. The price cap should not be used as a form of price regulation.

A price cap set at 10.000 EUR/MWh would be closer to the VoLL, thereby improving price formation. Furthermore it would align maximum prices in DA and ID markets. The level of maximum prices should not influence the choice between offering capacity DA or ID.

An automatic adjustment rule is a second best solution

The introduction of an automatic adjustment rule is a useful complementary mechanism. However, it is no substitute to raising the price cap. The first best solution is to start with setting the price limit at an appropriate level, thereby avoiding automatic adjustments as much as possible.

The automatic adjustment rule has its disadvantages. Adjusting the maximum price as a result of the triggered adjustment rule has an impact on the behaviour of market participants, and most likely on NEMOs, TSOs and other institutions or rules as well. It is important that the automatic adjustment mechanism leads to swift adjustments, otherwise it does not serve its objective. However, this also



means that market parties have to adjust quickly, within five weeks.

It is therefore better to set the maximum price closer to the VoLL and have market parties adjust behaviour and rules from the start. This also provides incentives for flexible production and demand side response in a timely manner.