CONSULTATION RESPONSE

EFET
European Federation of Energy Traders

NEMOs consultation on products that can be taken into account in single day-ahead coupling.

9 February 2023

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide our comments on products that can be taken into account in day-ahead coupling (SDAC) made by all Nominated Electricity Market Operators (NEMOs) in accordance with Article 40 of Regulation (EU) 2015/1222.

We congratulate the NEMOs and everyone involved for completing the SDAC geographical extension in 2022 to all its members in Europe. In this review, the NEMOs are not proposing any amendment to the content of the current list of SDAC products. Therefore, we reiterate some of our main remarks that we provided in the previous consultation response[1].

Key messages

1. We welcome maintaining block orders in the category of mandatory products for SDAC;
2. This list of mandatory products should be extended to linked bids and exclusive bids;
3. The introduction of 15-minute products in SDAC, which is expected to bring significant complexity and deteriorate algorithm performance, should not come at the expense of the availability of products currently accommodated by SDAC in most Member States;
4. We advise refocusing the work on MIC orders removal towards making complex orders available in Iberia, rather than developing so-called “scalable MIC orders”.

SDAC mandatory and optional products

First, we welcome that block orders have to be included in SDAC (art. 4.2).

Second, the current ACER-approved methodology still lists linked bids as well as exclusive bids as optional products (art. 5.2(a)). We wish to see these products included in the list of mandatory products to be accommodated by SDAC as they are crucial in day-ahead. They allow market participants to reflect the constraints of their physical assets or

[1] EFET response to ACER consultation on all NEMOs DA products, October 2020

contracts, and thereby the optimisation of portfolios. The removal of such products could lead to an increase in electricity prices and a de-optimisation of the whole market: in case linked bids are not available, market participants will not be able to spread expenditures such as start-up and run-down costs over multiple bids.

In case exclusive bids are not available, this would force market participants to choose ex-ante and place their bid for a certain MTU, when they would have had alternative options that the market coupling algorithm could have optimised.

We do not believe that linked or exclusive bids introduce such a degree of complexity in the algorithm that they deserve to remain optional. In our view, only a thorough demonstration of their negative impact on algorithm performance would have warranted their exclusion from the list of mandatory products.

We missed such quantitative analysis in the last two years of consultations and workshops. We invite NEMOs to provide such data to market participants and NRAs and, in case no significant effect on algorithm performance is identified, to propose a modification of the ACER methodology to make these products mandatory.

Third, and conversely, we observe that sub-hourly products are made mandatory in day-ahead (art. 4.1). We understood from public statements at stakeholder group meetings that the inclusion 15-minute products in SDAC in Q1 2025 in every bidding zone (except Ireland) with the ‘’big bang’’ approach is probably what threatens the performance of the algorithm most.

While we support the introduction of smaller granularity products in general and acknowledge this is a legal requirement from Regulation 2019/943, we believe that this represents much less of a priority in day-ahead than it can be in intraday. Once again, we are missing a proper impact assessment of this measure, and we fail to understand why the introduction 15-minute products must be prioritised over the inclusion of other “complex products” in certain bidding zones (e.g. block orders in Iberia) that add much less complexity to the algorithm.

When 15-minute products will be introduced, we reiterate the recommendations we made concerning the intraday market: it is important to ensure that the day-ahead market maintains its current level of liquidity when introducing smaller granularity products, and that these products can be matched between themselves through a cross-product matching solution.

Until all Imbalance Settlement Periods (ISPs) in Europe are aligned – not before 2025 – cross-border transmission capacity in day- ahead can only be provided according to the longest ISP on the two sides of a given border. While we welcome the introduction of

smaller granularity products, this means that SDAC will have to deal with a variety of product granularity and transmission capacity granularity.
If there is a performance problem of Euphemia due to the future change to a 15-minute Market Time Unit, we have to assume that SDAC cannot be the mean of achieving an optimal dispatch in the context of the energy transition in any region. The intraday continuous trade close to real time is the most appropriate tool.

In conclusion, we observe that SDAC already incorporates block orders as well as a wide variety of “complex orders”, from user-defined blocks and iceberg orders to Minimum Income Condition (MIC) and Prezzo Unico Nazionale (PUN) orders.

NEMOs have gradually improved the performance of Euphemia in order to accommodate more complex products. From what we understand from reports in various stakeholder fora, it seems that the current challenges to the Euphemia algorithm are the introduction of smaller granularity products. The latter should not come at the cost of a suppression of block orders or other products currently proposed in SDAC.

PUN and MIC products

PUN and MIC are also optional, which could potentially be a positive evolution provided that the obligation to market participants in Italy and Iberia are also reviewed accordingly.

We understand that PUN orders are expected to be phased out and this is a development we very much welcome. However, the last consultation on the market reform in Italy is not foreseeing any changes[2]. We would like to see an assessment by the NEMOs on this by this March.

We raised our concerns regarding the replacement of MIC orders by Scalable MIC orders to improve Euphemia performance, announced at the Market Coupling Consultative Group meetings in 2022.

In the framework of several European consultations, we have already expressed our views on this:

- The flexibility for market participants should come from the freedom of bidding (i.e. portfolio bidding + direct nomination to TSOs) and the use of “complex block orders” (including the most sophisticated formats of blocks currently available in the rest of Europe)
- It is necessary to allow a transitional period in order to accommodate the update of the regulatory framework to the use the complex block orders instead of MIC orders

[2] https://www.arera.it/allegati/docs/22/685-22.pdf

As far as we understood their projected design, scalable MIC orders will not allow to properly reflect market participant constraints, flexibility and costs, and risk impacting price formation and price clearing.

Complex block orders currently available in the rest of Europe can alleviate this limitation of Scalable MIC orders and should be made available to all capacity resources, such as all types of storage, demand side response, etc. This would improve the optimisation of SDAC and achieve a level-playing field with other European market participants.

We encourage the NEMOs, ACER, NRAs to overcome these regional/national market design features are clearly hindering the SDAC framework. This can be achieved with a transitional period in order to accommodate the update of the regulatory framework to allow the use the complex block orders instead of Scalable MIC orders.

Contact

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