

18 December 2019 – Brussels
19th MESC meeting

EFET considerations on the elimination of price limits

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The legal background of Regulation 2019/943

Article 10

Technical bidding limits

1. There shall be neither a maximum nor a minimum limit to the wholesale electricity price. This provision shall apply, inter alia, to bidding and clearing in all timeframes and shall include balancing energy and imbalance prices, without prejudice to the technical price limits which may be applied in the balancing timeframe and in the day-ahead and intraday timeframes in accordance with paragraph 2.

2. NEMOs may apply harmonised limits on maximum and minimum clearing prices for day-ahead and intraday timeframes. Those limits shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonised for the internal market and shall take into account the maximum value of lost load. NEMOs shall implement a transparent mechanism to adjust automatically the technical bidding limits in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required.

3. Transmission system operators shall not take any measures for the purpose of changing wholesale prices.

4. Regulatory authorities or, where a Member State has designated another competent authority for that purpose, such designated competent authorities, shall identify policies and measures applied within their territory that could contribute to indirectly restricting wholesale price formation, including limiting bids relating to the activation of balancing energy, capacity mechanisms, measures by the transmission system operators, measures intended to challenge market outcomes, or to prevent the abuse of dominant positions or inefficiently defined bidding zones.

5. Where a regulatory authority or designated competent authority has identified a policy or measure which could serve to restrict wholesale price formation it shall take all appropriate actions to eliminate or, if not possible, to mitigate the impact of that policy or measure on bidding behaviour. Member States shall provide a report to the Commission by 5 January 2020 detailing the measures and actions they have taken or intend to take.

- Principle: no bidding or clearing limits
- Possibility of harmonised technical clearing limits in DA/ID, taking account of VoLL, with automatic adjustment mechanism
- Identification of direct and indirect measures restricting price formation
- Elimination of such measures

What is already clear in the regulatory framework, what not?

- **2017 ACER Decisions on harmonised technical price limits in DA & ID** – taken on the basis of Art. 41 CACM GL
 - Applicable to all EU NEMOs operating SDAC and SIDC
 - SDAC price limit Decision fully in line with Regulation 2019/943
 - **SIDC price limit Decision misses automatic adjustment mechanism (see Annex)**
- **ACER proposal for harmonised technical balancing energy price limits** (Q.6 of the Nov. 2019 consultation) – proposed on the basis of art. 30 EB GL
 - Similar system as DA/ID would make sense, possibility foreseen in EB GL; but balancing energy price limits not foreseen by Regulation 2019/943
 - **Legal interpretation of compatibility of art. 30 EB GL and art. 10 Regulation 2019/943 by the European Commission needed**

What to avoid: the OMIE/CNMC/ERSE proposal in Iberia

OMIE, CNMC and ERSE presented a proposal to reform bidding price limits in Iberia:

- The proposal does not do away with bidding price limits in MIBEL
=> All bidding price limits in DA/ID should be removed by 1 January 2020
- The proposal foresees bidding limits at 0/+300 EUR/MWh in DA/ID
=> The proposed limits are not technical, not on clearing prices, not harmonised, and not taking account of the VoLL
- The proposal uses the automatic adjustment mechanism to propose new bidding price limits
=> The 2017 ACER Decisions, including provisions on the automatic adjustment mechanism, are already valid and applicable on the Iberian DA/ID markets

Market participants need to be able to count on Regulators for a rigorous application of article 10 of Regulation 2019/943 (including 10.4 and 10.5)

Next steps for Regulators, ACER and the European Commission

- **The basics (Art. 10.1 and 10.2):**
 - Identify and do away with all bidding price limits in DA/ID
 - The only price limits that can remain are the harmonised clearing price limits set by ACER in its 2017 Decisions
 - Meanwhile, ACER should introduce an automatic adjustment mechanism in SIDC, and the EC should clarify the legal situation for technical price limits on balancing
- **The hard work (Art. 10.4 and 10.5):**
 - Identify all other direct and indirect measures restricting price formation
 - e.g. **direct:** reference to spot price in aFRR activation price in DK, “k factor” in imbalance settlement price in FR, mFRR bidding price limits in HU...
 - e.g. **indirect:** unjustified allocation constraints in cross-zonal capacity calculation, non-market based long-term capacity allocation splitting...
 - Report to be submitted by Member States to the EC by 5 January 2020!

Annex

EFET presentation at the 15th MESC meeting of 5 December 2018 – Proposal to introduce an automatic adjustment mechanism to the harmonised technical price limits in ID / amendment of ACER Decision 05-2017

5 December 2018 – Brussels
15th MESC

ACER decision for Harmonised Maximum and Minimum Clearing Prices – an EFET proposal

Paul Giesbertz

Member of the EFET Electricity Committee

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What is the issue?

Free formation of prices (removal of price caps) is not ensured

- Possibility of price spikes / scarcity prices is important as a basis for investments in flexible capacity, including storage and demand-side response
- ACER decision contains proper mechanism to increase the harmonised maximum clearing price for single day-ahead coupling (HMCP SDAC)
- But such a mechanism is missing for the harmonised maximum clearing price for single intraday coupling (HMCP SIDC)
- So, only if HMCP SDAC reaches 10 000 EUR/MWh, the HMCP SIDC may be increased
- In the meantime, the HMCP SIDC is likely to restrict price formation

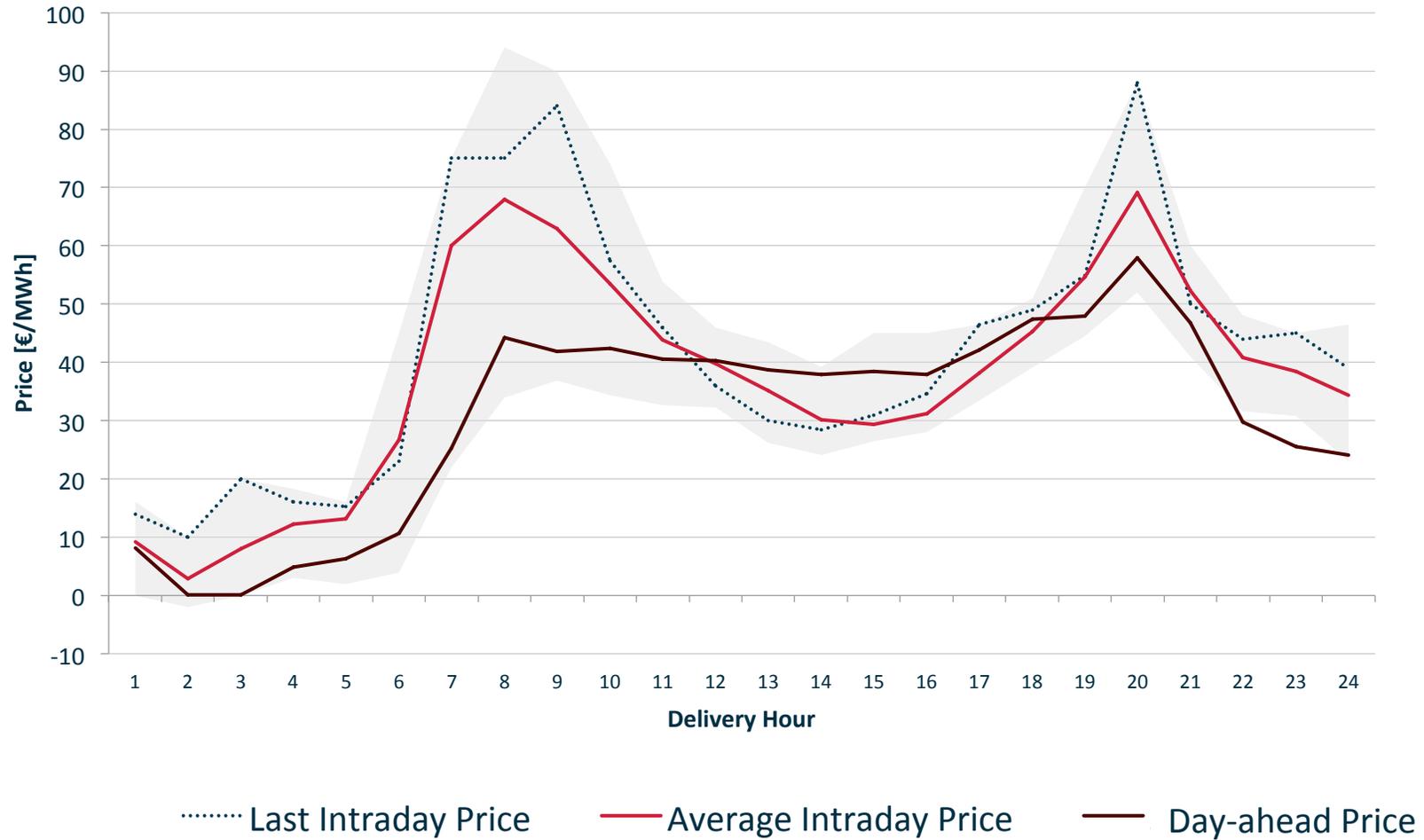
How do scarcity prices emerge? *Back-propagation!*

Start with the imbalance price

- Imbalance price is the ultimate price for physical delivery
- Uncapped imbalance price is crucial!
- Market participants manage imbalance price risk in forward markets: intraday – day-ahead – week-ahead – etc.

- Volatility and spikes are higher in shorter-term markets
- The closer to delivery, the higher the price caps (if any) should be

Exemplary Power day-ahead and Intraday Price Curves



BNetzA decision: ignores importance of back-propagation

CREG decision: acknowledges importance of back-propagation

- BNetzA (January 2018) introduced a price cap for balancing energy offers at 9999 Euro/MWh
 - Argument: ACER decision anyhow caps intraday prices at 9999 Euro/MWh
 - If imbalance prices are capped at 9999 Euro, then intraday prices will be capped at that level and an intraday price cap of 9999 Euro would become meaningless.
- CREG introduced rule to set imbalance price at 10 500 Euro/MWh in case of activation of strategic reserve
 - Requirement of EU Commission when reviewing Strategic Reserve
 - Explicitly above the intraday price cap



EFET proposal: Introduce mechanism to adjust HMCP SIDC

Two possibilities

Option 1 If imbalance price > HMCP SIDC, then HMCP SIDC is increased

- At least at the level of the highest imbalance price (the market must be able to close positions in ID market at a price to which it is exposed in the balancing market)

Option 2 If SIDC price > 60% of HMCP SIDC, then HMCP SIDC is increased with 1000 Euro/MWh (mirroring the ACER rule for SDAC)

- This option is necessary if imbalance prices are capped

- Not acting is not an option. Current moderate ID prices are not an excuse not to act.
- Aim: market design must be ready for the future / increasing share of variable RES.

What should be the next step?

- Can NEMOs implement this rule without NRA decision?
- Does ACER consider adapting its decision?

secretariat@efet.org
www.efet.org

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