

Response ID ANON-AUHG-DHMT-J

Submitted to **All TSOs' proposal for the single methodology for pricing cross-zonal intraday capacity**

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Introduction

1 What is your name?

Name:

Magnus Thorstensson

2 What is your email address?

Email:

magnus.thorstensson@energiforetagen.se

3 What is your organisation?

Organisation:

Swedenergy

Questions and general comments

1 Do you consider the proposed model as beneficial and the overall complexity related to the number of auctions as acceptable?

Do you consider the proposed model as beneficial and the overall complexity related to the number of auctions as acceptable? :

We recognize that the TSOs are obliged to develop a model to price intraday capacity and we recognize that the proposed hybrid model has been chosen as a compromise that can be relatively easily implemented based on current algorithms, contrary to the other discussed models, which are briefly introduced in the explanatory note (p13).

We agree with the explanatory note that pricing of intraday cross-zonal capacity is not the objective as such, but that introducing pricing should help the intraday market to meet certain objectives. These objectives are listed on pages 10 -11. In our view, the suggested hybrid model for intraday capacity pricing meets the objectives only partly:

Revealing scarcity: yes, auctions reveal scarcity at the time of the auction event.

Signal for investment: no, the described auctions alone do not reveal precisely, where grid investments is needed, if there is not a simultaneous use of flow based capacity allocation. The investment signal from the day ahead auction is therefore more precise and useful than the signal from the proposed intraday auction.

Efficient functioning of the intraday market: partly and very dependent on how auctions are implemented:

First: contrary to stated in the explanatory note, market participants believe that purely continuous trading can lead to efficient market outcomes, especially if liquidity is high. "First-come-first-served" does not mean that a market participant with a high need will not be served, if he comes second or third. If the first market participant sees a bid from the second or third market participant with a higher need and a higher price, the first market participant can resell its position. An efficiently functioning intraday market can therefore be achieved by other means than by introducing auctions. 15 min products, regular releases of (cross border) capacity, trading closer to the operational hour, stronger incentives to trade yourself into balance through improved imbalance pricing are examples of how efficiency could be improved without introducing auctions.

Second: we recognize that auctions can pool liquidity. However, the currently proposed auctions (number and timings) are not suited to pooling liquidity. 10 pm is only suitable for big market parties with 24 hour desks, 10 am is right when market parties prepare their day-ahead bids again favouring big market parties over smaller actors with less resources. In addition, it is a step back for many borders, which have earlier gate opening today. More below.

Third: one of the main benefits of intraday trading is the flexibility it can give to market participants to react to unforeseen events and readjust their positions close to the operational hour. Continuous trading has been chosen as the target model for intraday trading because of the flexibility it offers to market participants. If a power plant trips 10 am and you foresee it coming back 6 pm the same day, continuous trading should allow you to adjust your position. However, the current proposal does not make it possible to trade all 24 hours of the operational day continuously, instead you have to wait until (after) the second auction to (continuously) trade the second half of the day. This leads to a loss of flexibility and efficiency for intraday trading, which is one of the main needs of market parties closer to the operational hour. Instead of complementing continuous intraday trading, the suggested second auction risks to harm it, which in our view runs counter CACM Article 59 and 63.

Fourth: Adding a mechanism that requires market participants to change bidding behavior for the same intraday time frame from auctions with "pay-as-cleared" to continuous trading with "pay-as-bid", back to an auction and back to continuous trading, is adding complexity and reducing the efficiency of the proposed intraday solution for market participants. Will they be able to use the same trading interfaces, if different algorithms are running? Even if market participants will "just" have to change their behavior, but can trade on the same interface, there is added complexity back the interface for TSOs and NEMOs that have to change between different algorithms.

To conclude, we do not see benefits in the currently proposed model. On the contrary: for the Nordic countries, it could be a huge step backwards. In order for it

not to be harmful, it needs major adjustments. More below.

2 What kind of key implementation challenges would you foresee for the model?

What kind of key implementation challenges would you foresee for the model?:

The first challenge we see is connected to the proposed timing. Besides not considering a closing auction, starting intraday trading as late as 10 pm is far too late. Continuous trading must be enabled immediately after DA-results and flows are available. In addition, 10 pm is well outside of today's business hours in the electricity sector and would necessitate restructuring of trading desks and connected back offices. It is of course possible for bigger market parties to make those investments. However, especially small – and medium sized market participants might not be able to participate in the first auction directly. They could choose to enter the market later the next day, which would put them at a disadvantage. Or they might wish to procure those services from third parties, which would allow them market access, but would lead at the same time to fewer actors being active directly on the market and higher concentration. Concerning the second auction, 10 am is within business hours, but at the same time market parties are active preparing their bids for the day ahead market. Again, bigger parties might have the resources to participate in both auctions simultaneously; smaller parties might outsource or choose not to participate. We see the timing as a risk that puts small and medium sized actors at a disadvantage, leading them to either exit the market altogether or to higher market concentration if they procure services from third parties. All reactions have negative implications for the efficient functioning of the intraday market and run thereby counter to one of the reasons to introduce auctions in the first place. Besides, given the proposed auction times in combination with the gate closure at 60 min before the operational hours the hours 0 and 12 can be only traded for 30 min in continuous trading, which is a very short period for adjustment of auction results in trading, should adjustments be needed. In addition, 10 pm gate opening for intraday trading is a huge step backwards for all Nordic bidding zone borders, both within countries and across country borders.

The second challenge is connected to the national or regional exemptions, which allow an earlier national/regional gate opening time if a TSO/the TSOs of the region and the NRAs agree. While an earlier auction in the day ahead would allow small – and medium sized participants to participate on an equal footing with bigger actors, there is a big risk, that - lacking pressure to harmonize - some countries would block an earlier gate opening, others would agree on a different regional gate openings, and connection between regions might be forgotten. The result of these national and regional exemptions from a too late harmonized gate opening at 10 pm could provoke a European patchwork, instead of the intended harmonized gate opening. This is unacceptable for the Nordic region, which currently has a harmonized gate opening within the region and on the connections to the Baltics and the CWE at 2 o'clock. Disharmonized gate opening times across the Nordic region or between the Nordics region and its neighbours could in addition lead to risks for market participants that need to decide if they offer their flexibility at an earlier gate opening to a purely national market or if they choose to wait for the harmonized gate opening at a later stage. And it would put market participants in a late opening region at disadvantage to those in a region with earlier gate opening. To conclude, a too late European harmonized gate opening could provoke different non-harmonized earlier gate openings at national and/or regional level, which would in effect lead to market splitting instead of the intended market integration.

Third, the proposed split of the continuous trading in two blocks due to the inclusion of a second auction considerably reduces the flexibility that intraday trading is supposed to offer to market participants. That flexibility becomes more important closer to real time if unforeseen events happen such as an outage, a sudden change in wind strength etc. Currently market participants can go on the continuously traded intraday market and adjust their position, in the future, if the event happens in the first half of the day, market participants can trade the first hours but have to wait for the second auction to adjust their position for the rest of the event. This is a considerable reduction of flexibility, which is one of the main objectives of the intraday market. In addition, the split of the continuous trading into two blocks introduces added inefficiencies, since market participants need to change their bidding behavior repeatedly between auction, continuous trading and auction back to continuous trading for the intraday timeframe.

3 Do you agree with the proposed number and timings of the auctions and Continuous Trading sessions ? If alternate timings or numbers are preferred please state them and explain why?

Do you agree with the proposed number and timings of the auctions and Continuous Trading sessions ? If alternate timings or numbers are preferred please state them and explain why?:

We disagree with the proposed number and timings of the auctions and the continuous trading sessions for the reasons described above as they are too late, increase the risk of non-harmonized solutions, and as the second auction reduces the flexibility of intraday trading and thereby harms its main purpose. Also we lack the option of a closing auction.

If the TSOs want to price intraday capacity and in order to pool liquidity, we suggest to move the starting auction for the intraday to an earlier point in time, for example 2 pm. However, in order for any starting auction to make sense, there needs to be a commitment to make cross border capacity available.

That move should happen in a harmonized way across the whole Nordic regions including the borders to neighbouring regions. Rather than proposing a common gate opening at 10 pm with exemptions possible, we propose to turn it around. We propose a harmonized gate opening at 2 pm, and TSOs can get border by border exemptions if they have good reasons.

We propose to drop the second auction at 10 am, since it harms the flexibility of the intraday trading by delaying the gate opening of continuous trading of the second half of the day until 10.30 am. Simply pricing intraday capacity for the second half of the day a second time is not an objective as such (it has been priced once in the first intraday auction already!) and should not take precedence over continuous trading and the flexibility it offers.

We would also like to know in this context, whether the TSOs have assessed the option of closing auctions at the end of every hour for the remainder of the capacity after gate closure of the continuous trading for pricing the capacity? A closing auction would not harm continuous trading since it requires neither a later gate opening of the second continuous session nor an interruption of the continuous trading session. In addition, a closing auction could also pool liquidity closer to real time, to the benefit of smaller market participants, intermittent power production, demand response and aggregators, besides allowing TSOs to price remaining capacity.

4 Will the proposed interaction of auctions and Continuous Trading sessions enable market participants to optimize their positions in the intraday timeframe? Which advantages and disadvantages you would foresee. Please explain.

Will the proposed interaction of auctions and Continuous Trading Sessions enable market participants to optimize their positions in the intraday timeframe? Which advantages and disadvantages you would foresee. Please explain.:

As described above, no. The proposal is a step backward for the Nordic market, it reduces flexibility and we currently see no benefits, just increased risks for market participants. Even the possibility of zonal or national gate opening at an earlier point does not outweigh the risks. Due to the Nordic structure with small bidding zones, we are dependent on cross border intraday trading if we want to have a liquid market.

5 Which type of products would you consider beneficial for the auctions in the proposed model? Do you expect this proposed setup to create any issues for the tradable product range? If so, please explain why.

Which type of products would you consider beneficial for the auctions in the proposed model? Do you expect this proposed setup to create any issues for the tradable product range? If so, please explain why. :

If an intraday starting auction is introduced, we propose to use that auction to increase the time resolution from hourly to quarterly products. That way ramping restrictions on the cables connecting the Nordic countries to the continent could be reduced, allowing more capacity to be made available to the markets and increasing their flexibility. In addition, market participants need to have a market close to real time to trade 15 min products, since the balancing settlement period is proposed to be adjusted to 15 min. Last but not least, the demand side could benefit from 15 min products.

Auctions of hourly products would considerably reduce the potential benefit of a starting auction, since ramping restrictions would remain the same.

6 General comments

general comment:

As described above, we think that the currently proposed hybrid model is a bad compromise with considerable downsides for market participants. If the proposed hybrid model is kept as a combination of auction and continuous trading, it should be adjusted to avoid negative consequences. The first auction should be moved in a harmonized way to 2 pm, the second auction should be dropped. Additional benefits could be gained by moving from hourly to quarterly products.

We think generally, that the different options for the hybrid model have not been assessed in sufficient depth, as for example the option of closing auctions, which would not harm the continuous trading, has not been analyzed by the TSOs to our knowledge.

In addition, the assessment of how intraday capacity can be allocated in an optimal way has not addressed all the relevant questions. The questions addressed were optimization of allocation between market parties and the generation of congestion rents, which is not an objective as such. An interesting additional question would have been the optimal allocation of capacity across timeframes. Currently all physical capacity is allocated to the day ahead, with intraday and balancing getting the remainder. Concerning balancing it has been recognized that it might be beneficial to develop models to co-optimize the allocation of balancing capacity and day ahead capacity. We think that it could make sense to analyze possibilities of how to co-optimize day-ahead, intraday and balancing capacity at the same time. The price signal would then not just serve to give access to those who need capacity most urgently, but it would allow to signal, when they need the capacity in the day ahead or in the intraday (or in the balancing timeframe).