July **2022**

Public consultation pursuant to Art. 12 of Commission Regulation (EU) 1222/2015 (hereinafter CACM Regulation) on Harmonized maximum and minimum clearing prices for single day-ahead coupling and for single intraday coupling

1. Name : Sébastien Méraud
2. **Email : sebastien.meraud@ufe-electricite.fr**
3. Organisation : UFE (Union Française de l'Electricité)

Preliminary remarks:

UFE does not express itself on the explicit values of the minimum and maximum clearing prices for IDAs but reminds the following principles:

We welcome this all NEMOs consultation on the HMMCP methodologies for single day-ahead coupling (SDAC) and single intraday coupling (SIDC). The involvement of market participants in the implementation process of EU guidelines and network codes is crucial.

Before answering to the questions of the public consultation, we would like to make some general remarks:

(a) **Relation to the current European market situation**: The timing of this consultation falls during a crisis period with unprecedent high electricity prices in Europe. Knowing this, the proposals, reasoning, and decisions to be held and taken within the framework of the possible amendments to the HMMCP methodologies for SDAC and SIDC shall not be biased by the current situation and respect the principles of Electricity Regulation and CACM Regulation.

(b) **Free price formation and justified reasons for price limits**: We would like to remind our support to free formation of electricity prices which notably guarantees the optimal dispatching of the available assets. Pursuant to Electricity Regulation Article 10, technical limits in the DA and ID timeframe "shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonized for the internal market and shall take into account the maximum value of lost load". For technical

and operational reasons, we believe that technical price limits are justified as a possible way (i) to avoid outstanding impacts in case of IT issues, operational errors, or corrupted input data in the EU market coupling algorithms and (ii) to limit risks / financial impacts related to the management of collaterals requested by power exchanges and/or trading limits. The detrimental impact on market participants of maintaining unnecessarily high max clearing prices in auction markets, be they held in the DA or ID timeframes, should be duly considered in order not to limit market access, and negatively affect market liquidity.

(c) **Consistency and hierarchy of price limits across timeframe**: We believe that there should be a consistency of maximum and minimum clearing prices across timeframe, respecting an increasing rule for maximum clearing prices with respect to the timeframe when approaching real time (that is $0 \leq maxDA \leq maxID \leq maxBAL$) and a decreasing rule for minimum clearing prices with respect to the timeframe when approaching real time (that is $0 \geq minDA \geq minID \geq minBAL$).

- Indeed, being closer to real time means being closer to potential real physical scarcity or over-supply which only is discovered/realized in the real-time time frame (balancing). Electricity prices should reflect market fundamentals.
- The market sequence should therefore allow that a scarcity or over-supply revealed at a given time step is (partially or totally) corrected at a subsequent time step by allowing a broader range of prices, which is only possible if the hierarchy described above is respected.
- In other words, the max price limit should allow scarcity prices to manifest. And in a symmetrical way, the min price limits should allow over-supply to manifest.
- This implies in particular that minimum and maximum prices in the balancing timeframe should serve as upper/lower bounds for the evolutions of minimum and maximum prices on SDAC and SIDC.

4. **When integrating HMMCP for Intraday Auctions, NEMOs propose to follow the same principles as for SDAC. This means a differentiation from HMMCP for the SIDC continuous. What is your view on that differentiation, and do you have a view on what maximum and minimum clearing price should be applied for SIDC IDAs and what mechanism for possible upward or downward adjustment of that maximum and minimum clearing price should be applied?**

The principles of upward and downward adjustments of the minimum and maximum clearing prices for IDAs should be similar to those applied for the DA. More generally, each price limit should be subject to the same mechanism for raising or lowering it if the criteria for raising or lowering it are met.

5. **The current methodologies describe a dynamic process to increase the maximum clearing price if market prices reach certain thresholds. NEMOs would like to consult on the**

possibility to also implement a decrease of the maximum clearing price after a period when no thresholds have been exceeded and the maximum clearing price shows to be unnecessarily high.

In any case, the rule of an automatic decrease of the max clearing price shall be designed in such a way to respect Article 10 of Electricity Regulation, that is not to hinder free price formation.
We see some reasons to support such a proposal.

- Collateral requirements and/or trading limits can be impacted by maintaining high max clearing prices. The management of those constraints induces some risks for market participants without clear benefits in terms of functioning of electricity markets and in particular free price formation. This would justify returning to a lower max clearing price limit, in particular for SDAC, in case no thresholds have been hit or exceeded for a certain period.
- The rule could be the following: after a given time during which the triggering threshold for increasing the max price has not been reached in any bidding zone of the SDAC, the harmonized max clearing price shall be set to the previous level he had and never be lower than the original level set in the first version of the methodology (3000 €/MWh).
- A trade-off between stability and flexibility should be considered; very frequent changes in price limits should indeed be avoided. We call for a public discussion with all NEMOs and ACER to define the relevant rule in terms of time / period after which the max clearing price could be decreased. Various solutions are possible such as a sliding period (sufficiently long) from the date of establishment of the max clearing price in force, or on the contrary a fixed date such as the start of a next calendar year or a next summer season. More generally, we call on all NEMOs together with ACER to organize a workshop with market participants to discuss the choice of all parameters embedded in the HMMCP methodologies (see as well below in the next questions).

6. **NEMOs would like to consult on the duration of the transition period between detection of the threshold and entry into force of the new price cap. Shall this be shortened, increased, or maintained to be 5 weeks after the triggering threshold (60% of max clearing price) has been reached?**

In principle, we believe that the transition period should be shortened to the minimum while taking into account IT systems, processes and operational constraints and providing a sufficient time to analyze the causes of reaching the threshold, to guarantee free price formation.

- First, we would like to recall that those 5 weeks in the HMMCP methodology for SDAC were proposed initially as a reasonable duration to accommodate the changes implied by increasing max technical prices in IT systems and processes of both NEMOs and

market participants and management of collateral issues by market participants. The new rule, if any, shall in no way endanger IT systems and processes related to SDAC and the length of the transition period shall not go below the necessary duration for implementation to be evaluated both by NEMOs[1] and market participants.

- A real increase event has now been experienced for SDAC, with the establishment of a new max clearing price at 4000 €/MWh on 10 May 2022, 5 weeks after the threshold was exceeded on 3 April 2022 for delivery date 4 April 2022. Hence, all NEMOs and market participants may have more perspective on the time which is necessary to make the max price limit modification. On the side of market participants, technically, the implementation of new price limits can be done in an agile manner.
- **Again, we call for a discussion via a dedicated workshop with all NEMOs in order to evaluate more properly the rationale for the length of the transition period and then be able to set a relevant value.**

In addition, we would like to develop and potentially expand the conditions for not increasing price limits according to the automatic increase rule. Currently, Article 4(1)(d) of HMMCP methodology for SDAC excludes the case when the triggering threshold is reached in bidding zones decoupled. The exceptions cases should be extended to all the situations where reaching the triggering treshold is not linked to market fundamentals but to a technical or operational error (IT issues, operational errors, corrupted data,corrupted orders, decoupling, partial decoupling, flow-based fall back) preventing a proper functioning of SDAC. A more thorough definition of such exceptional cases should be found, and the dedicated workshop can be a starting point for this.

Finally, concerning the announcement and publication by NEMOs to market participants, we believe that the rule should be amended as well. Currently, this is at least 4 weeks before the implementation and application of the new price limit, hence this lets up to one week as the new price limit is currently applied 5 weeks after the triggering threshold was reached. We request this delay being shortened to the minimum because it is of utmost importance that market participants are informed widely and as soon as possible (if not immediately) in case of changing price limits.

7. **Do you consider the current approach to increase the maximum clearing price in steps of EUR 1000,-- still adequate?**

We call for explanations or quantitative justifications of this parameter. **We would welcome a public workshop organized by NEMOs to discuss it.**

8. **Do you think that the event that the clearing price exceeds a value of 60 percent of the harmonised maximum clearing price for SDAC in one market time unit of a day in single**

[1] The procedure giving the list of tasks to be performed by NEMOs in case of modification of the max clearing price for SDAC is detailed here: SDAC_OTH_06 - Modification of Maximum Clearing Price.

bidding zone is a sufficient trigger to increase the harmonised maximum clearing price for SDAC? For example: to instead as the basis for triggering a maximum clearing price increase to be given by a requirement that the threshold has been exceeded on multiple different days (e.g. separate SDAC trading days) within a given period.

On the 60% rule: any justification related to free price formation would be appreciated. This should be another point of discussion during the workshop to be organized.

In addition, UFE warns against the risk of runaway energy prices, particularly in the event of system adequacy issues in the coming winters. Collateral requirements and/or trading limits can be impacted by maintaining high max clearing prices. The management of those constraints induces some risks for market participants without clear benefits in terms of functioning of electricity markets and in particular free price formation. **In this context, UFE calls for the implementation of a certain inertia in the price increase.** NEMOs and ACER could thus explore the following levers:

- Increase the triggering threshold beyond 60%
- Exclude cases where reaching the triggering threshold is not linked to market fundamentals but to a technical or operational error (IT issues, operational errors, corrupted data,corrupted orders, decoupling, partial decoupling, flow-based fall back) preventing a proper functioning of SDAC
- Set a maximum number of maximum clearing price increases per year/season to allow market participants to limit the inclusion of risk premiums in their forward pricing.

Notwithstanding the preliminary remarks in point (a) of UFE's response, UFE would like to mention the recent report[2] published by the French regulator CRE regarding the power peak price of 4th April 2022 between 7am and 9am (leading to an increase in the maximum DA price level from 3000 to 4000€/MWh). CRE points out that the exceptionally high price levels were due to the very unlikely conjunction of various different events: 4th April 2022 night was the coldest April night since 1947, peak demand management measures in France end on 31st March, low nuclear availability, wind and co-generation production was underestimated, import capacity was extremely low from Germany and Belgium. It is estimated that power prices could have been divided by two with a shift of 500 MW to 1 GW of the supply-demand balance (increase of production, decrease of consumption).

In the context of current energy crisis, French regulator CRE calls for a revision before October 2022 of the rule of automatic price increase for SDAC when the clearing price exceeds a value of 60 percent of the harmonised maximum clearing price for SDAC in one market time unit of a day in single bidding zone. CRE otherwise calls for suspending the automatic increase of clearing price for

[2] https://www.cre.fr/content/download/25791/file/Rapport_pic_prix_4avril2022.pdf

SDAC if such a revision is not possible before October 2022.

UFE recommends ACER to take advantage of the workshop that UFE is requesting to be held with market participants (see above and our answer to question 10), in order to review parameters when needed in the context of current energy crisis by October 2022.

9. **HMMCP methodologies to describe also an automatic extension of the minimum clearing price when a certain threshold is reached?**

Currently, no rule of automatic decrease is foreseen for the minimum clearing price for SDAC nor for SIDC continuous. The minimum limits are fixed, and no adjustment is foreseen in case such limits would be hit or exceeded. An adjustment might be considered both for the DA and ID timeframe if it appears that current methodology could hinder free price formation on the downward side, in consistency with the reasoning on free price formation on the upper side (cf. point (b) in our introduction) and pursuant to Article 10(1) of Electricity Regulation.

10. **Any other views regarding the HMMCP methodologies for SDAC and SIDC?**

As mentioned above, we call on all NEMOs together with ACER to organize a workshop involving market participants to discuss further all the parameters to be embedded in HMMCP methodologies, even more if new parameters are set and/or introduced (the percentage involved in the triggering threshold, the transition period before increasing the SDAC price limit, the increment step, the length of the period for the decreasing rule – if introduced, etc.).

- During such workshop, NEMOs and market participants could also discuss the introduction of plausibility checks by NEMOs when accepting market participant's orders to prevent false orders from being entered into the system and therefore affecting the market clearing price. Currently, for example, each automated system employed by market participants, can place market orders with unlimited quantities which brings a significant risk potential that could be minimized if NEMOs introduce a plausibility check here.
- Such a workshop shall be organized in complement to current consultation and before the final amendment proposal by all NEMOs is sent to ACER. It could be as well complemented by a study on collateral arrangements across Europe with an assessment of the risks and financial impacts associated. This would be a valuable input in any case.