

October 2022

UFE response to ACER Public consultation on HMMCP Methodologies Revision

Before answering the public consultation, UFE would like to make some general remarks:

For many months, we are yet facing anormal market situations, where unprecedented price levels are regularly observed and many TSOs/institutions alert on the risk of regular failure in some bidding zone – such as France. These high prices are detrimental to the whole economy. **Beyond the review of the automatic increase mechanism of the HMMCP methodology, UFE believes that an emergency temporary measure is needed to tackle the acuteness of the problem and avoid uninterrupted price cap increases.**

As it stands, the NEMO's' proposal doesn't prevent maximum price cap increases in case very high prices are regularly reached this winter (which is expected at least in certain bidding zones); **it therefore doesn't handle the current emergency situation, which requires, due to the very special circumstances** (major inflationist risk with collateral effects on the functioning of the market) **to freeze the cap at its initial value or even lower it given the very specific circumstances until the end of the crisis.**

This should be done with a cautious implementation that still gives visibility to market parties and avoids undesirable side effects (e.g. impairment of financial hedges, dispatching issues for DSR...). UFE thus warns against potential systemic risks. Indeed, on the electricity market, hedging is usually done financially; if the day-ahead price cap is reached, then financial hedging is capped. Therefore, the missing amounts must be acquired on the intraday markets and spreads where prices and caps are very high. Small players will clearly not be able to finance these amounts. UFE therefore requests that any decrease of the maximum clearing price below the initial level of €3000/MWh be accompanied by measures limiting the opportunistic transfer of capacity from the day-ahead market to the intraday and balancing markets.

Finally, with regard to the current freeze at €4,000/MWh, UFE would like to point out that even if it is a technical measure, in line with the current political context, and whose relevance is not contested, the possibility of such a measure is not foreseen in the HMCCP methodology and creates therefore legal uncertainty. It should not set a precedent for potential further modification of market rules without proper legal background. It is thus essential to put in place the legal basis if, in the future, a similar decision was to be taken.

General comments on the public consultation:

UFE notes that the decision to review the HMMCP methodology has been taken in order to monitor this risk by trying to slow down the increase of maximum price and avoid an unsustainable escalate of prices. **Therefore, UFE assumes that the aim of this revision is to address the current issue which is expected to last, not to address issue which could be occurred in a normal situation. UFE calls for a further revision of the methodology once the situation is normalized.**

As a market principle, UFE recalls its support to the 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”*.

Yet, UFE strongly believes that there are justified reasons to set technical price limits in the DA and ID markets:

- I. Prices limits are a possible way to avoid outstanding impacts for market participants in case of IT issues, operational errors, or corrupted input data in the EU market coupling algorithms.
- II. Price limits are limiting the risks / financial impacts related to the management of collaterals requested by power exchanges and / or trading limits.
- III. Price limits allow to avoid exposure to excessively high prices (as long as market participants have the possibility to bid at any price – as it is the case in some bidding zones) and to mitigate the associated volume risks.
- IV. Forward prices are driven by the price cap since market participants include failure risks in their bids (simulating themselves the number of hours they expect the Spot prices may reach this cap). An appropriate price cap is therefore essential to limit the impact of failure expectations on the forward prices.

Specific comments on the NEMO proposal:

As mentioned above, UFE considers that the NEMO proposal does not go far enough in the revision of the HMMCP methodology to address the current issue. Nevertheless, UFE would like to emphasize the principles of the NEMO proposal that go in the right direction:

- UFE welcomes the fact that the NEMOs' proposal tightens the criteria for raising the maximum clearing price, as the current methodology is not adapted to current circumstances
- UFE welcomes the expansion of the exception cases (exclusion of fall-back measures days, exclusion of virtual, uncoupled bidding zones and bidding zones with no traded volumes) in the price spike definition for not increasing price limits according to the automatic increase rule
- UFE welcomes the idea of having a decrease mechanism

When it comes to the proposed parameters, UFE would like to highlight following points:

- **The starting level of the new methodology should be set to 3000€/MWh at most.** it is not explicitly stated in the NEMOs' proposal whether this initial value applies directly to the entry into force of the methodology or whether the return to this initial value would proceed from the decrease mechanism (after 12 months without reaching a given 70% limit X, HMMCP set back the limit X, with a predefined floor of 3.000 €/MWh). **UFE requests that this initial price limit be applied directly at the entry into force of the methodology** since this cap would not have been increased if the current NEMOs proposal would have already been applied.
- Increasing the “inertia” of the price cap increase mechanism is relevant in the current market conditions. While prices should be freely formed by the matching of the demand and supply curve, we must not ignore the impact of the value of the price cap on the formation of forward prices and the subsequent financial requirements. In this context, although the NEMO proposal is a step in the right direction, **UFE calls for increasing the inertia of maximum clearing price increases through the following levers:**
 - Introduce a triggering event definition stricter than the one proposed in the NEMOs' amendment proposal
 - Increase the triggering threshold beyond 70%
 - Reduce the maximum price increase below the +1000€ proposed by the NEMOs
 - Exclude all 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, bidding errors by participants, decoupling, partial decoupling, flow-based fall back) preventing a proper functioning of SDAC
 - Limit the number of price limit changes to one over a year
 - Shorten the trigger period of the decrease mechanism to 6 months instead of 12

months to limit the impact of the maximum clearing price on forward prices and collateral requirements while maintaining a clear price signal for market participants

Harmonized Maximum and Minimum Clearing Price for the Single Day-ahead Coupling:

1. Do you agree with the rationale of the NEMOs' amendment proposal?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE believes that the NEMOs' proposal goes in the right direction by tightening the criteria for raising the maximum clearing price, as the current methodology is not adapted to current circumstances. However, UFE considers that this revision does not go far enough (see answer to the following questions).

2. Do you agree with the proposed initial price limits of the NEMO's amendment proposal?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE is in favor of an Initial price limit for maximum clearing price **at 3.000€/MWh at most**.

Furthermore, it is not explicitly stated in the NEMOs' proposal whether this initial value applies directly to the entry into force of the methodology or whether the return to this initial value would proceed from the decrease mechanism (after 12 months without reaching a given 70% limit X, HMMCP set back the limit X, with a predefined floor of 3.000 €/MWh).

UFE requests that this initial price limit be applied directly at the entry into force of the methodology since this cap would not have been increased if the current NEMOs proposal would have already been applied.

3. Do you consider that the initial maximal price limit should be?

- More than +3000€/MWh higher than the proposed level
- Less than +3000€/MWh higher than the proposed level
- At the proposed level
- **Less than +1000€/MWh lower than the proposed level**
- More than +1000€/MWh lower than the proposed level
- No opinion

UFE considers that the initial price limit for maximum clearing price should **be at 3.000€/MWh at most.**

4. Do you consider that the initial minimal price limit should be?

- More than +1000€/MWh higher than the proposed level
- Less than +1000€/MWh higher than the proposed level
- At the proposed level
- Less than +1000€/MWh lower than the proposed level
- More than +1000€/MWh lower than the proposed level
- **No opinion**

UFE considers that the **initial minimal price limit** is not the priority issue of the moment. In any case, UFE is **opposed to a decrease towards more negative territories.**

5. Do you agree with the proposed price spike definition of the NEMOs' amendment proposal?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

UFE considers that **the proposed price spike definition should be stricter** than the one proposed in the NEMOs' amendment proposal.

6. Do you agree with the proposed value for the price threshold of 70% of the NEMOs' amendment proposal?

- Strongly agree

- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

UFE considers that the increase in the threshold is a step in the right direction but is not sufficient. UFE would like to increase the triggering threshold beyond 70%.

7. Do you agree with the other elements of the price spike definition (exclusion of fall-back measures days, exclusion of virtual, uncoupled bidding zones and bidding zones with no traded volumes) of the NEMOs' amendment proposal?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE considers that the NEMO proposal to expand the exception cases for not increasing price limits according to the automatic increase rule goes into the right direction.

The exceptions cases should be extended to all the situations 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, bidding errors by participants, decoupling, partial decoupling, flow-based fall back) preventing a proper functioning of SDAC.

8. Do you agree with the proposed triggering event of the NEMOs' amendment proposal?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

UFE considers that the triggering event definition should be stricter than the one proposed in the NEMOs' amendment proposal.

9. Do you consider that the triggering event should be?

- Much stricter than the proposed level (meaning that more price spike events should be needed to trigger the automatic mechanism)
- **Stricter than the proposed level**
- At the proposed level
- Looser than the proposed level (meaning that fewer price spike events should be needed to trigger the automatic mechanism)
- Much looser than the proposed level

10. What is your opinion on the triggering of a maximum price limit increase due to the price spikes on the day-ahead market in the Baltic bidding zones on 17 August 2022?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

Given the current methodology, the price spikes on the day-ahead market in the Baltic bidding zones on 17 August 2022 was an event likely to increase the maximum clearing price. However, in the situation with the current price levels, **UFE would have liked the maximum clearing price not to increase since this cap would not have been increased if the current NEMOs proposal would have already been applied.**

11. What is your opinion on the triggering of a maximum price limit increase due to the price spikes on the day-ahead market in the French bidding zone on 4 April 2022?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

Given the current methodology, the price spikes on the day-ahead market in the Baltic bidding zones on 17 August 2022 was an event likely to increase the maximum clearing price. However, in the situation with the current price levels, **UFE would have liked the maximum clearing price not**

to increase since this cap would not have been increased if the current NEMOs proposal would have already been applied.

12. Do you agree with the maximum price increase of +1000€ as proposed in the NEMOs' amendment?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

13. Do you consider that the proposed maximum price increase should be?

- More than +500€/MWh higher than the proposed level
- Less than +500€/MWh higher than the proposed level
- At the proposed level
- Less than +500€/MWh lower than the proposed level
- **More than +500€/MWh lower than the proposed level**
- No opinion

14. Do you agree with the proposed minimum price increase of the NEMOs' amendment proposal?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

UFE considers that the **initial minimal price limit** is not the priority issue of the moment. In any case, UFE is **opposed to a decrease towards more negative territories**.

UFE calls for a workshop in the future to discuss and review the initial price limit.

15. Do you consider that the proposed minimum price increase should be?

➤ **More than +50€/MWh higher than the proposed level**

- Less than +50€/MWh higher than the proposed level
- At the proposed level
- Less than -100€/MWh lower than the proposed level
- More than -100€/MWh lower than the proposed level
- No opinion

UFE considers that the **initial minimal price limit** is not the priority issue of the moment. In any case, UFE is **opposed to a decrease towards more negative territories**.

UFE calls for a workshop in the future to discuss and review the initial price limit.

16. Do you agree with the proposed interim period of the NEMOs' amendment proposal?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

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.

17. Do you consider that the interim period should be?

- More than 4 weeks longer than the proposed duration
- Between 2 and 4 weeks longer than the proposed duration
- Less than 2 weeks longer than the proposed duration
- **At the proposed duration**
- Less than 2 weeks shorter than the proposed duration
- More than 2 weeks shorter than the proposed duration
- No opinion

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.

18. Do you agree with the proposed treatment of the interim period of the NEMOs proposal?

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE strongly agrees with the treatment of interim period according to which during interim period no further price limit increase is initiated.

19. Do you consider the initiation of further price limit changes during the interim period an option?

- Yes
- **No**

20. Do you agree with the proposed set-back of the limit in case no price spikes occur for a period of 12 months of the NEMOs' amendment proposal?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE welcomes the idea of having a decrease mechanism in case no price spikes occur for a certain period. The period should be as short as possible given the impact of the maximum clearing price on the forward prices and collateral requirements while maintaining a clear price signal for market players which requires a certain stability. In this context, a period of 6 months would seem more appropriate.

21. Do you consider that there is a need to differentiate through the design of automatic mechanism, price spike events leading to curtailment of demand bids and price spike events that do not lead to curtailment of demand bids?

- Strongly agree
- Agree
- Neutral

➤ **Disagree**

- Strongly disagree
- No opinion

UFE considers that the same rules should apply to price spike events whether or not this price spike event is leading to curtailment of demand bids

22. Do you consider that there is a need to limit the number of price limit changes over a year?

➤ **Yes**

- No

23. Do you generally agree with the need to allow for max/min price limits to come back to their initial level in case no price spikes occur for a certain duration?

➤ **Strongly agree**

- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion

24. What is the maximum number of price limit changes over a year that you consider would still be beneficial for the market?

- More than 6
- 6
- 5
- 4
- 3
- 2
- **1**
- Less than 1
- No opinion

UFE considers that a certain stability in the price limit changes is important for the pricing of forwards prices.

25. Do you consider that the NEMOs proposal is correctly reflecting the requirements for the technical bidding limits set in the Article 10 of Regulation (EU) 2019/943?

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree
- No opinion

26. Please justify your answer

27. Do you think that other design elements of the automatic mechanism should be considered? Please specify

Harmonized Maximum and Minimum Clearing Price for the Single Intraday Coupling:

1. Do you agree with the proposed initial price limits of the NEMOs' amendment proposal for the Single Intraday Coupling (SIDC)?

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion

UFE considers that it is necessary to avoid the opportunistic transfer of capacities from DA to intraday while allowing assets with high activation costs to be dispatched in intraday.

2. Do you consider that the initial maximal price limit should be?

- More than +3000€/MWh higher than the proposed level
- Less than +3000€/MWh higher than the proposed level
- At the proposed level
- **Less than +3000€/MWh lower than the proposed level**
- More than +3000€/MWh lower than the proposed level

- No opinion

UFE considers that the initial maximum price limit for the SIDC should be lower than that proposed by the NEMOs without commenting on its specific level.

3. Do you consider that the initial minimal price limit should be?

- **More than +3000€/MWh higher than the proposed level**
- Less than +3000€/MWh higher than the proposed level
- At the proposed level
- Less than +3000€/MWh lower than the proposed level
- More than +3000€/MWh lower than the proposed level
- No opinion

4. Do you consider that the limits of the SIDC should be?

- Equal between SIDC auctions and SIDC continuous
- Higher (in absolute value) for the SIDC continuous than for the SIDC auctions
- Higher (in absolute value) for the SIDC auctions than for the SIDC continuous
- Equal than the SDAC limits for the SIDC auctions and different for the SIDC continuous
- **Always higher (in absolute value) or equal to the Single Day-Ahead Coupling (SDAC) limits**
- Equal between the three SIDC auctions
- No opinion

UFE believes 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 $0 \leq \text{maxDA} \leq \text{maxID} \leq \text{maxBAL}$) and a decreasing rule for minimum clearing prices with respect to the timeframe when approaching real time (that is $0 \geq \text{minDA} \geq \text{minID} \geq \text{minBAL}$).

5. Do you agree that the price limits of the SIDC continuous and SIDC auctions should be the same?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- **No opinion**

6. Do you consider that a specific automatic mechanism to change the price limits should also be applied to the SIDC continuous?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE considers that each price limit should be subject to the same mechanism for raising it if the criteria for raising it are met.

7. Do you agree to apply a similar automatic mechanism than the SDAC to the SIDC continuous?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE considers that each price limit should be subject to the same mechanism for raising it if the criteria for raising it are met.

8. Do you consider that a specific automatic mechanism to change the price limits should also be applied to the SIDC auctions?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE considers that each price limit should be subject to the same mechanism for raising it if the criteria for raising it are met.

9. Do you agree to apply a similar automatic mechanism than the SDAC to the SIDC auctions?

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion

UFE considers that each price limit should be subject to the same mechanism for raising it if the criteria for raising it are met.

10. Do you consider that the NEMOs proposal is correctly reflecting the requirements for the technical bidding limits set in the Article 10 of Regulation (EU) 2019/943?

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree
- No opinion

11. Please justify your answer

12. Do you consider than other design elements of the automatic mechanism should be considered? Please specify