

Response to the ACER consultation about Capacity Allocation and Congestion Management (FG) for Electricity

Firstly we have some general comments on the different issues mentioned in the FG. Secondly, IFIEC will provide an answer to each of the four questions in the consultation document.

Capacity calculation

IFIEC believes that in the framework of the target model the introduction of Flow Based (FB) capacity calculation into the pricing algorithm could be a promising way to use the grid optimally.

Definition of Zones

IFIEC stresses the FG should mention the goal of diminishing the number of zones and eventually creating conditions for a internal energy market without congestion as far as economically feasible.

On the path to diminishing the number of zones, IFIEC warns against changing existing (ie: pricing zones should not decrease in sizes) zones without an in-depth analysis and agreement by all the national regulators involved, of the local and overall effects for end-consumers. Above that, it is necessary to have a sufficient number of competing generators in all zones (for example: a minimum of four) in order to promote liquidity, competition and efficient markets.

Day-ahead capacity allocation

The FG should promote the development of trading platforms and make sure their liquidity is increased by allocating cross-border capacity to the market only via the PX in every zone. Block bids and other products should only be allowed if they improve liquidity, cross-border capacity and transparency.

The introduction of market coupling makes real competition between day-ahead electricity exchanges unfeasible. Therefore, physical markets (incl. exchanges) are an extension of the system operation and should be regulated (similar to the TSOs). In order to ensure cost efficiency and stable daily operation, this calculation must be done by one central market coupling organisation. A market coupling council must be set up with representatives from all the market players including end user representation.

Forward capacity allocation

Electricity consumers have a basic need to secure their future electricity prices (fully or in part) in zone they are located either hedging with financial/physical market products or with long-term bilateral contracts.

We believe that when the day-ahead market is liquid, well functioning, efficient and provides a representative market price for the underlying product (physical electricity inside the zone) the financial market (for example PX, traders, originators) will provide the necessary products for hedging, whether financial or for physical delivery.

However this is not the case today in most part of EU, so there is need for long term capacity products at least for transitory period. When implementing TRs, it is important that maximum long term capacity is offered to the market for different timeframes and quantities by TSOs. TSOs have to provide a market place and act as a market maker for the secondary market.

IFIEC welcomes the discussion about the nature of FTR in terms of options or obligations that has to be done before developing the Network code.

Intraday capacity allocation

IFIEC is worried about the progress that is made towards harmonization of the different intraday markets. IFIEC urges ACER to make sure TSOs and PXs start working on the development of a SOB and CMM as soon as possible. The main focus should be on creating a transparent and liquid harmonized intraday market. Therefore explicit access to intraday cross-border capacity should be limited to emergency situations to ensure security of supply.

Question 1: As price based market coupling is the mandated capacity allocation method in the Day Ahead time frame, Should FTRs be preferred to PTRs for long term capacity allocation?

IFIEC Answer: Depending on the modalities of the FTRs this could be one of the preferred options

It's important to clearly separate physical and financial market products in order to have a transparent, liquid and well functioning market with a limited potential for market abuse. FTRs and CfDs are "pure" financial products, and therefore compatible with physical markets. FTR "obligations" nets the capacity reservations in opposed direction between zones providing liquidity to secondary markets.

IFIEC sees possibilities for market abuse with PTRs. If the FG authorizes PTRs, the FG must impose measures to avoid misuse of capacity rights or abuse of market power.

Q2: is implementing implicit auctions on top of continuous trading considered to improve the intra-day market?

IFIEC Answer: No, IFIEC believes that the timeframes are too short in order to organize auctions. Liquidity should be concentrated: Auctions in day-ahead and continuous trading in intraday. Auctions in intraday will incentivise some generators to wait with the bidding until intra-day and weaken the firmness of the universal price reference given by the day-ahead auction.

Q3: is allowing direct OTC access to the CMM module important as a transitional feature?

IFIEC Answer: IFIEC believes that giving direct OTC access to the CMM module is not important and is also not to the benefit of industrial end-consumers. On the contrary, such access may be abused to block capacity.

- Introducing OTC features will delay the introduction of trans-national intra-day market.
- OTC bids are not put into competition on the market platform which means that not everybody has a fair chance of buying this energy at the OTC conditions.
- OTC access will reduce the liquidity of the intraday market platform and could potentially hurt the spot market by attracting capacity that would otherwise be used there.
- Allowing OTC in a transitional phase is counterproductive as it will slow down the development of the sophisticated products as there will be no pressure anymore and this will give the traders and producers the excuse that the solution will need to remain in place
- trades that really need the sophisticated products will be marginal versus the total intraday trades. as backup the national OTC market still remains in place and finally the grid operators have their balancing in place
- The best solution in order to make sure that sophisticated products will be developed is to abandon OTC from the start and develop the sophisticated products at the same time with the CMM and SOB.

Q4: Should the draft Framework guidelines be more explicit in the area of compensation? If yes, indicate how

IFIEC Answer: Yes, market actors have to have trust on the financial firmness of the capacity. This can be done by providing full financial compensation for the capacity holders in any curtailment, either

before or after nomination. Firm capacity facilitates liquid forward and secondary markets with efficient pricing, which are desirable. TSOs have a monopoly with respect to operating, maintaining and developing grids, so it's natural that TSOs carry the economical burden of the firmness of the grid capacity by providing full financial firmness for the capacity holders.

When TSOs have an obligation to guarantee financial firmness of the capacity, it creates automatically the right (economical) incentives for a TSO to minimize the cost of the curtailment's (planned or unplanned). Furthermore, FTRs provide strong incentives for the TSOs to increase available capacity as much as possible and avoid capacity disruptions.

The FG should provide correct tools for regulators to monitor the possible gaming of dominant market players in the capacity market.