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

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What is the issue?

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

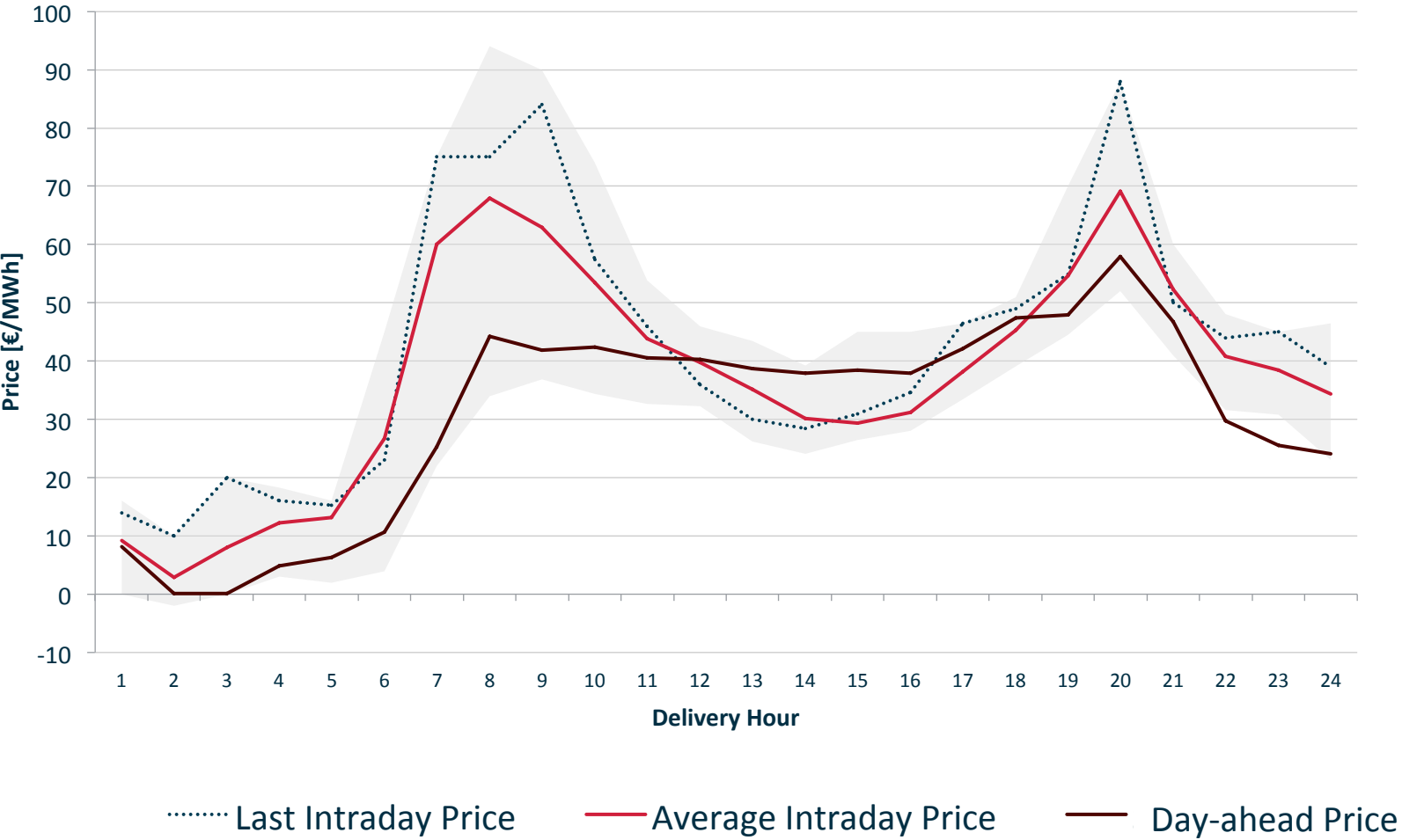
- Possibility of price spikes / scarcity prices is important as basis for investments in flexible capacity, including storage and demand-side response
- ACER decision contains proper mechanism to increase harmonised maximum clearing price for single day-ahead coupling (HMCP SDAC)
- But such mechanism is missing for 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 mean time, 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 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 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 level of highest imbalance price (market must be able to close positions in ID market at a price to which it is exposed in 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 no option. Current moderate ID prices is no excuse not to act.
- Aim: market design must be ready for future / increasing share of variable RES.

What should be next step

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

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