– Consultation Response –

ACER public consultation on amending the electricity price coupling algorithm methodology

Brussels, 15 February 2024| Europex welcomes the opportunity to respond to ACER consultation on amending the electricity price coupling algorithm methodology for the implementation of co-optimisation.

Q1: Do you consider that the Proposal should take into account the steps listed under chapter 9 of the feasibility study when defining the R&D activities necessary to enable the implementation of co-optimisation?

Partially.

Please explain your answer

The steps listed in the feasibility study for full implementation of co-optimisation in the SDAC algorithm comprehend a high-level and detailed design, final design adjustments and stakeholder engagement. We believe that the proposal – which envisages a light R&D process in parallel with the definition of missing parts of requirements, such as the Bidding Guide – contributes to the high-level design phase reported in the feasibility study.

Nonetheless, the research period should be preceded by a cost-benefit-analysis which should evaluate both the feasibility and welfare gains of co-optimisation – including possible benefits and costs of reserving cross-zonal capacity for balancing – as well as the impact of co-optimisation on all different wholesale market timeframes. ACER should carry out this assessment and take into consideration the results before taking the final decision on the amendments to the methodology. In addition, the methodology used in the assessment and the results of the analysis should be made public.

Once this step is concluded with the provision of clearer requirements, the proposal may be integrated with the other steps already cited above.

Q4: In your view, what information would the NEMOs and the TSOs still need from market participants to define the bid design?

In order to provide order types which are useful for market participants, NEMOs and TSOs need to know the market participants' needs on using and linking balancing capacity products

with day-ahead products within proper MTU selection. Indeed, the Bidding Guide set-up process will lead to a more adequate R&D process and consequently to a proof-of-concept for the co-optimisation model and a fully-fledged algorithm methodology.

NEMOs and TSOs are also well advised to better understand the interplay with other markets timeframes, which are not addressed by the co-optimisation (i.e., futures, SIDC), to ensure that negative impacts on those markets are avoided and the needs of market participants are sufficiently addressed.

Q5: What is the most suitable process for market participants to provide such information?

Public consultation and public workshop.

Please elaborate your answer

On the one hand, public workshops are the most suitable process to collect inputs from market participants as they represent occasions of discussions and dialogue. Additionally, they may be useful for providing market participants with further updates on existing Regulations and methodologies required for the co-optimisation. On the other hand, public consultations are more suitable when a more concrete and detailed design of the co-optimisation requirement will be formulated, at the end of the MPs hearing phase and with the support of the results from the light R&D program.

Q6: Under Article 4(16) of the algorithm methodology, a 1-year timeline is foreseen for the collection of inputs from market participants on the bid design. How do you consider this 1-year timeline?

Europex believes that it is of utmost importance to obtain a highly accurate bid design, without setting a fixed deadline. As bid design could highly affect the impact of co-optimisation on other market segments and different timeframes, bid design should not be hastily laid out only because of a fixed deadline to respect.

Overall, we recognise that the 1-year timeline foreseen for the collection of inputs from market participants, has been established for, on the one hand, allowing an adequate time of collection and analysis of the MPs' inputs, and, on the other hand, being compliant with the deadline of 1 January 2029 for the inclusion of co-optimisation requirements in the algorithm methodology.

Q8: By allocating cross-zonal capacity where its market value is the highest, i.e. either to the day-ahead market or to the balancing capacity markets, co-optimisation aims to facilitate the integration of balancing capacity markets and to allow for a more optimal use of cross-zonal capacity between these two markets. Thanks to the co-optimisation process, the cost for the procurement of balancing capacity is expected to decrease by making use of cheaper bids from other areas and/or by reducing the individual TSO's demand for

balancing capacity through sharing of reserves. What do you consider to be the most significant benefits of co-optimisation?

Before introducing co-optimisation, ACER should demonstrate that the benefits of this change clearly outweigh its costs and possible impacts on other market segments and timeframes. Theoretically, a benefit of co-optimisation could be to facilitate liquidity for balancing reserves. However, preceding the implementation work, TSOs should have clarified their anticipated usage of the co-optimised allocation process. Thus far, TSOs have not expressed any willingness to apply this method for the exchange of balancing reserves. This may be done through the provision of usable combinations/links of balancing capacity with energy products for different kinds of BSPs technologies so that entry barriers to MPs are not set. Nonetheless, this is subject to several caveats:

- This objective should not jeopardise the SDAC algorithm performance, the welfare created through the SDAC, as well as the use of orders related to SDAC products already available within the algorithm methodology and that are functional for market liquidity.
- Moreover, the value and explanatory power of the price signal of market results should not be impaired. The overall functioning and efficiency of the SDAC auction might also be at risk.
- While end-consumers are obviously expected to benefit from reduced prices for balancing capacity, a potential increase in retail prices for electricity due to an elevated price level in the SDAC auction might outweigh the gains.

Overall, before proceeding with the implementation of co-optimisation into operations, we suggest proving its benefits, clarifying its anticipated usage, analysing its potential negative interdependencies with existing market segments and assessing that there is no potential harm to the functioning system of the algorithm.

About

Europex is a not-for-profit association of European energy exchanges with 33 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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