


# ACER

 Agency for the Cooperation  
of Energy Regulators

## Regional Intraday Implicit Auctions for Electricity

**Workshop on Intra Day  
Auctions, Brussels, 2  
December 2013**

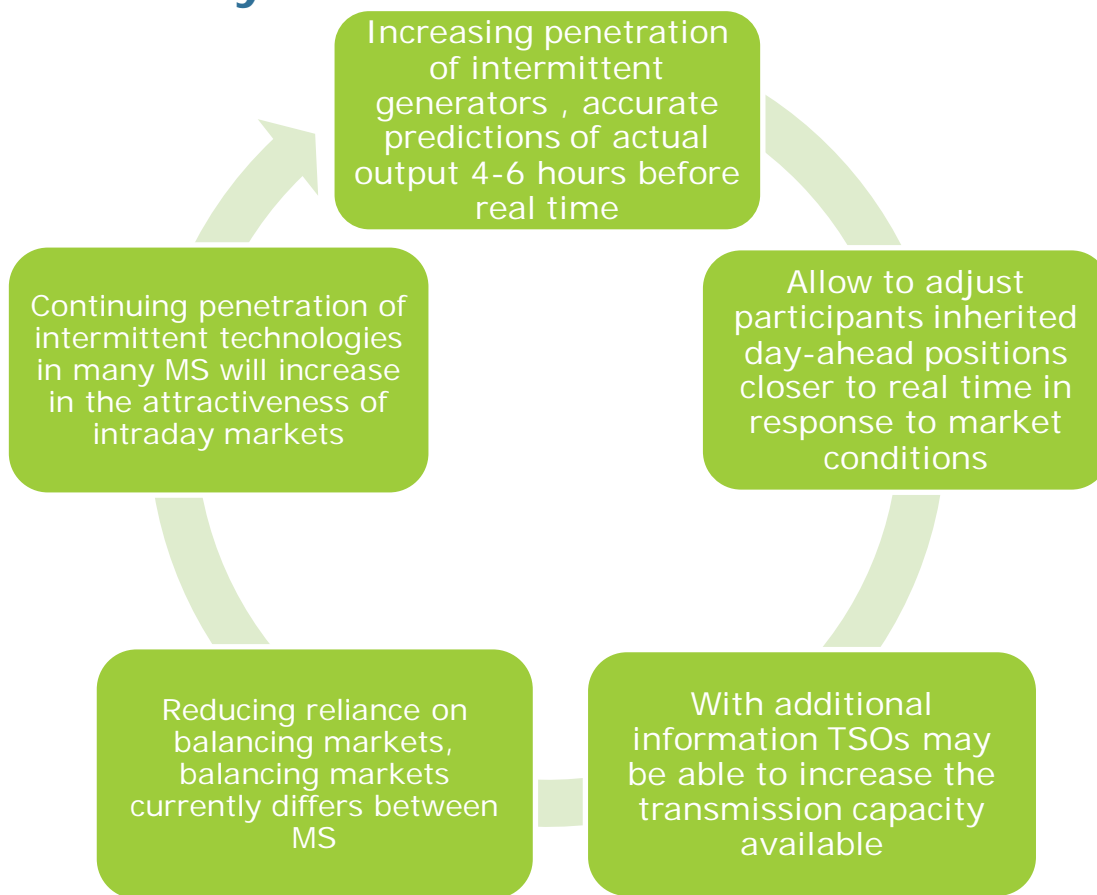
## Overview

- Target Model is continuous trading with capacity pricing, and complemented by regional auctions
- Auctions provide:
  - Established market based means of capacity pricing
  - Means of concentrating liquidity for small players and renewables
- Challenge how to combine with continuous trading
- Network Code should allow flexibility for continuous trading to be complemented by regional auctions - ACER Reasoned Opinion
- Key objective for regulators is to protect the interests of consumers –efficient pricing, liquidity, removing barriers to entry

## Introduction

- **Intraday capacity pricing focus points:**
  1. Rationale for an intraday markets
  2. Rationale for intraday capacity pricing
  3. Options for intraday capacity pricing under CACM
    - Currently no immediate enduring solution on the horizon
  4. NRA working views on intraday capacity pricing
- **Level playing field for small and large market players – key that intra day market provides this**
- **Why is this important to NRAs?**
  - We support competition that benefits consumers, the overarching aim of market integration
  - CACM framework guideline ACER Reasoned Opinion on CACM
- We have discussed with stakeholders this in the past, NWE intraday project workshop on 11 October 2011, but limited progress since

## Rationale for Intra Day Markets



- There is a valid case for and possibly an increasing attractiveness of intraday markets

## Rationale for Intra Day Markets

- **Rationale for ID capacity pricing is not different either**
  1. If participants have to pay for transmission capacity in day-ahead but can get it free in intraday they have an incentive to wait till the intraday market
  2. Although there is no certainty of available intraday capacity
  3. There is no economic reason to give capacity away for free that was not allocated in the day-ahead timeframe
  4. Consistency between different timeframes is therefore necessary to remove any temporal arbitrage or uncompetitive advantage to access capacity

### **Auctions can provide:**

- a means (but not the only means) of pricing intraday capacity
  - for an efficient allocation of capacity
  - a level playing field for access to capacity by small and large participants
- There is a valid case for and possibly an increasing attractiveness of intraday markets

## Options for ID capacity pricing under CACM

- **Article 71: complementary regional auctions**

- *(2) Complementary intraday regional auctions may be implemented inside and between bidding zones in addition to pan-European Intraday solution (subject to this article's criteria)*


- **Article 63: pricing of intraday capacity**

- *(1) Intraday Cross Zonal Capacity shall be priced and in a manner which:
  - (a) reflects Market Congestion; and
  - (b) is based on actual Orders*
- *(2) No later than twenty four months after the entry into force of this Network Code, all TSOs shall submit a proposal for a single methodology for the pricing of Intraday Cross Zonal Capacity compliant with the objectives of this Network Code to NRAs and the Agency.*
- *(3) In the period prior to the approval of the single methodology for the pricing of Intraday Cross Zonal Capacity, TSOs may propose Intraday Cross Zonal Capacity Allocation mechanism with reliable pricing consistent with the objectives of this Network Code and the principles specified in paragraph 1 for approval by the NRAs of the concerned MS*

## Options for intra day capacity pricing under CACM

- Regional auctions are an efficient means of pricing intra day capacity until a better solution is found
- However, regional auctions may also be an enduring solution to price intraday capacity
- It is imperative that any solution does not undermine intraday continuous trading
- It is also imperative that Network Code allows coexistence of both mechanisms to ensure that Target Model can be implemented

**ACER**

 Agency for the Cooperation  
of Energy Regulators

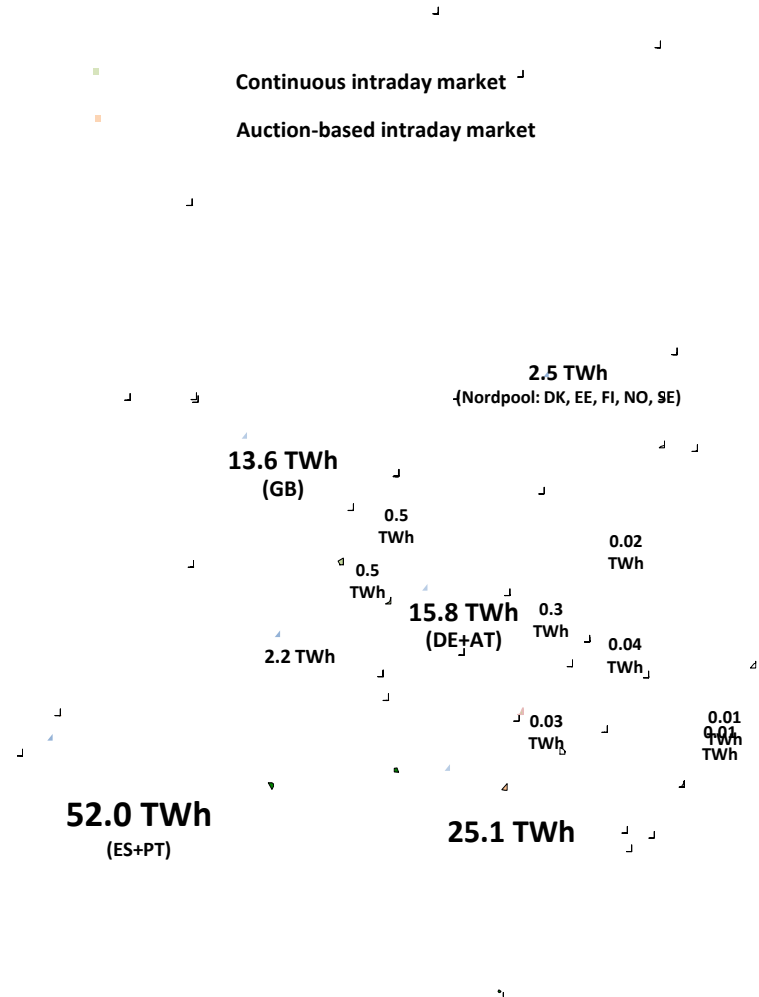
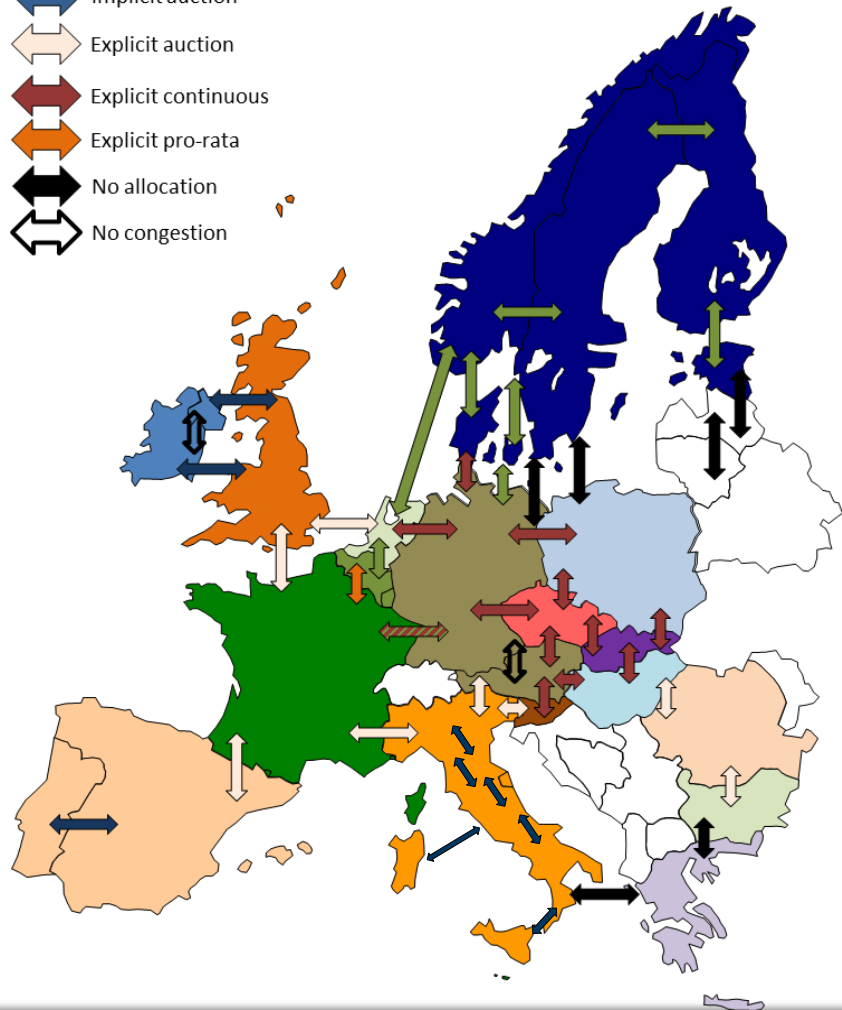
# **How Intraday market designs with implicit auctions can efficiently complement continuous trading**

## **NRAs Working Views**



## Current Intra Day Markets

- Implicit continuous
- Implicit auction
- Explicit auction
- Explicit continuous
- Explicit pro-rata
- No allocation
- No congestion



## Further Rationale For Auctions – Renewables and Liquidity

- Liquid and transparent cross border intra day markets needed
- Small players less able to use diversified portfolio to balance their positions
- Small renewables less able to invest heavily in their trading or forecasting capabilities
- Concentrating trades in an auction helps smaller market players manage their risks
- In hybrid system, liquidity of pan European market must be preserved

## Network Code Wording: ACER Reasoned Opinion on CACM NC

### Article 71

#### COMPLEMENTARY REGIONAL AUCTIONS

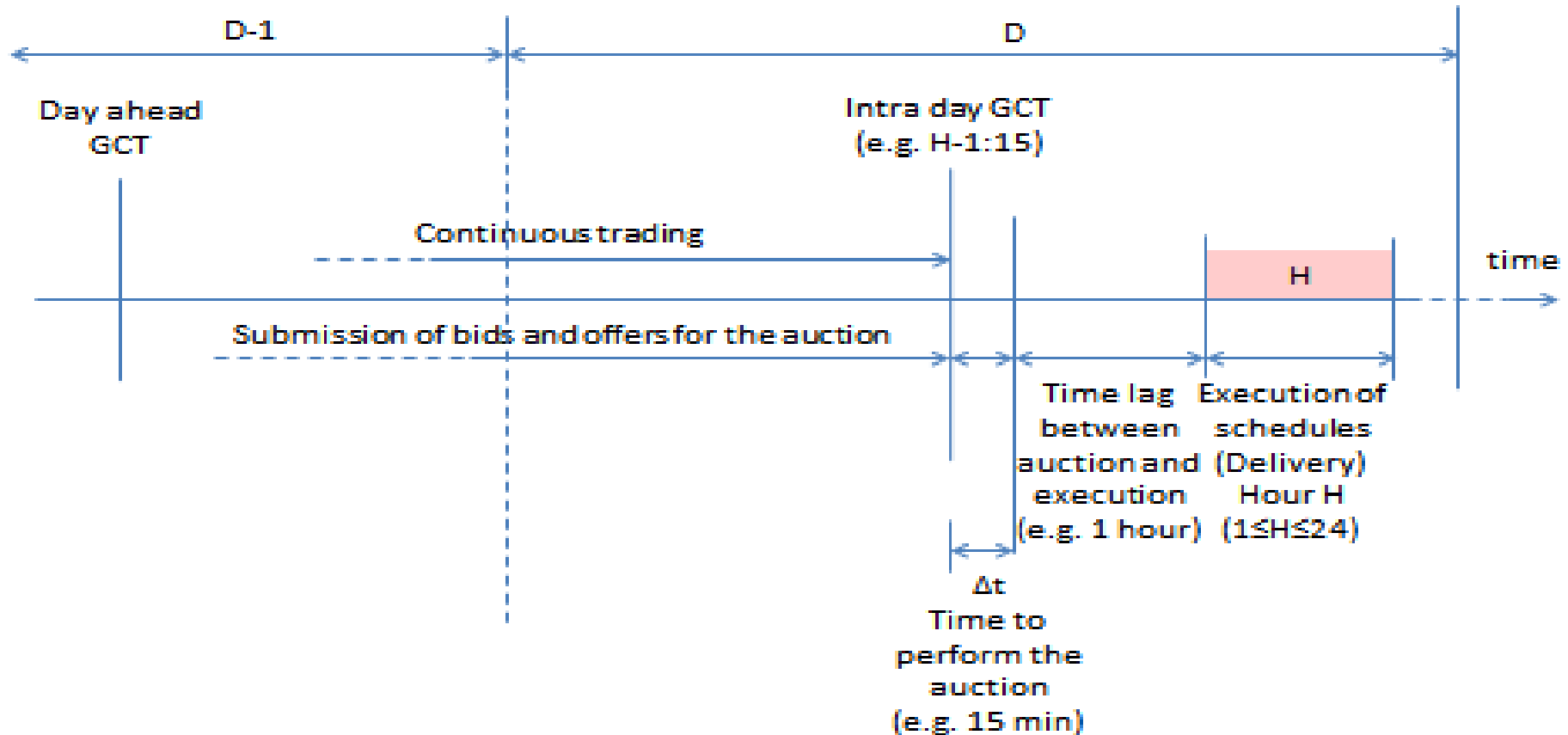
1. TSOs and NEMOs may develop a common proposal for design and implementation of complementary intraday regional auctions.
2. Complementary intraday regional auctions may be implemented inside and/or between bidding zones in addition to pan-European Intraday solution. In order to perform the intraday regional auctions, the continuous trading inside and/or between the relevant bidding zones can be stopped for a limited period of time which shall not exceed the minimum time required to perform the auction.
3. Relevant NRAs may approve the proposal for complementary intraday regional auctions if the following conditions are met:
  - (a) Regional auctions shall not have an adverse impact on the liquidity of the pan-European Intraday solution;
  - (b) All Cross Zonal Capacity shall be allocated through the Capacity Management Module;
  - (c) The regional auction shall not introduce any undue discrimination between Market Participants from adjacent regions;
  - (d) The timescales for complementary regional auctions shall enable market participants to trade as close as possible to real time
  - (e) NRAs shall have consulted the Market Participants in the concerned Member States
4. The NRAs of the concerned Member States shall periodically, but at least every 2 years, review the compatibility between any regional solutions and the pan-European Intraday solution to ensure the conditions above continue to be fulfilled.

## NRAs Working Views on Hybrid System – Key Issues

- Intra day auctions currently in place in some markets: Italy, MIBEL, Ireland
- Concerns from stakeholders that regional auctions may have an adverse effect on continuous market:
  - Liquidity
  - Temporary suspension of continuous trading on border where auctions in place
- Implementation should ensure that continuous market free to work between auctions.
- Outcomes of the continuous section go into the auction process for congestion management purposes.
- Market based solution consistent day ahead design (implicit auction)

## Hybrid System: How would it work?

### PROPOSAL WITH COMPLEMENTARY AUCTIONS – TIMING AND GCT



## Key Questions:

- Suspension of continuous trading during auction – is this necessary?
- How are bids and offers matched in the shared order book treated in regional auctions?
- What are the impacts on liquidity?
- What are the impacts on market participants?
- What are the impacts on consumers?

## Implementation Case 1: Italy

- Current system of four intra day implicit auctions. High liquidity
- 6 zones and multiple borders – congestion pricing important issue for consumer welfare
- Continuous trading can coexist with auctions – matched trades transferred to auction for congestion pricing
- Mechanism would be similar to how forward bilateral trades are submitted to the Day ahead market – willingness to pay bid/offer
- Plan to move to hourly auctions ending each continuous trading window

## Implementation - Case 2: MIBEL

- Current system of eight intra day implicit auctions. High liquidity
- 2 zones within MIBEL – implicit auctions current allocate capacity
- Continuous trading can coexist with auctions - matched orders on continuous market are firm
- Plan to move to hourly auctions ending each continuous trading window
- Need for brief suspension of continuous trading on borders to allow for auction to run



## Implementation - Case 3: Ireland

- Market redesign in Ireland to meet Target Model by 2016
- No detailed design or implementation yet but regional auctions intra day may be part of this design
- Need for liquid markets for small players to access cross border capacity
- Hybrid continuous/auction system more conducive to centralised scheduling and dispatch
- Congestion pricing for intra day time frame key given high levels of intermittent generation (40% by 2020)

## Conclusions - benefits of auctions and continuous:

Continuous intraday trading:

- Provides greater flexibility for trading closer to real time
- Allows participants to trade when it suits them, allowing greater ability to balance their position

Intra day auctions:

- Allow both large and small participants to adjust their position close to real time under the same conditions.
- Ensure that only the most economic trades takes place
- Provides an established means of pricing intra day capacity

## Conclusions

- Regional auctions are an efficient means of pricing intra day capacity until a better solution is found
- However, implicit auctions may also be an enduring solution to pricing intraday capacity
- Wording from ACER Recommendation on CACM gives adequate flexibility to allow continuous trading and intra day auctions to coexist