

All NEMOs Consultation questions

From this document you can provide your comments on the following four proposals that the NEMOs must submit to the NRAs by Mid-February:

1. Algorithm Proposal, incorporating the Day-Ahead and Intraday requirements
2. Products Proposal
3. Back-up Methodology Proposal
4. Harmonized Max-Min Price Limit Proposal

This consultation questions form intends to gather related view, arguments, positions and assessment proposals from stakeholders. It consists of both very open and relatively specific questions on each of the proposed methodologies. Some questions may only appeal to certain market actors. We are grateful for your response and partial answers are also very welcome. Please relate your comments to the provided questions, where possible.

Please remember to send your contribution to consultation@nemo-committee.eu by 2 December at the latest. Do not forget to fill in the 'Respondent's information' on the first page of this consultation form too.

In case you would have any questions or remarks, do not hesitate to [contact us](#) directly.



Respondent's information

1. What is your name?

Andrea Stengel

2. What organization do you represent?

Nordenergi, the umbrella association of the Danish, Finnish, Norwegian and Swedish electricity industry associations

3. What is your email address?

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Algorithm Proposal, incorporating the Day-Ahead and Intraday algorithm requirements

Algorithm proposal

1. Do you have comments on the proposal to base the SDAC and SIDC on the PCR Euphemia and XBID algorithms?

The choice of the PCR Euphemia algorithm for the SDAC and the XBID algorithm for the SIDC is based on currently used/to be used algorithms and therefore acceptable.

Concerning Article 4 para2: why is it specified that a "quadratic linear programme" should be used? It would be enough to state the main objective "to maximise overall economic welfare".

Concerning Article 4 para 7.a: why mention hourly prices when in the future it might be quarterly prices? Rather use : "relevant market time unit".

Regarding Article 5 point 4: How is the article meant to be interpreted, specifically: "The SOB module maintains a consolidated order book for all contracts (not local contracts) themselves" in combination with "NEMOs are entitled to match other local contracts themselves".

How do you define local contracts? A) Contracts entered in NEMO A in Bidding Zone Alfa or B) contracts entered in Bidding Zone Alfa, irrespective which NEMO is chosen by the market party? If the definition of local contracts is A), it means that an order entered in NEMO A in Bidding Zone Alfa is not shared within Bidding Zone Alfa and market participants active on NEMO B in Bidding Zone Alfa, but just within NEMO A in Bidding Zone Alfa.

Therefore: we suggest to emphasise/add to the text, that all orders entered in the local trading solution (Article 5 para 3) are automatically entered into the Shared Order Book. Then the only question would be the visibility based on network constraints i.e. order in Bidding Zone Alfa would in any case be visible to market parties in Bidding Zone Alfa independent of whether they trade on NEMO A or B.

Only in situations where the intraday algorithm doesn't work for some reason, and where communication with the SOB is impossible, or after XB gate closure it should be able to match it locally within NEMO A in Bidding Zone Alfa.

2. Do you have comments on the emphasis in the Proposal on monitoring and maintaining algorithm performance?

We appreciate the involvement of the Market Electricity Stakeholder Committee (MESC) in the definition of criteria for algorithm performance monitoring and reporting of the monitoring results. The criteria and the performance results measured should be published regularly to the extent possible, even if there are no deteriorations or other special events visible to ensure confidence. The publication of this type of performance monitoring statistics could be added for example under Article 6 para 4.

We do not see in the proposal, that the TSOs or the NRAs are involved in the monitoring of the algorithm performance. We think that TSOs and NRAs have a role in performance monitoring too, for the TSOs regarding their requirements and a general role for the NRAs.

3. What should be the critical parameters of algorithm performance (DA; ID)?

We support the criteria proposed by Eurelectric and highlight the following ones:

social welfare for the coupled area,

paradoxically rejected block bids

optimality gap

for intraday: bids not matched since they were in the queue during gate closure, depending on how gate closure will be defined

a list of products affecting performance and making the matching especially difficult (and why). See also below our answer to question 1 in the Product Proposal.

incident reporting (use of back-up procedures, second auctions (where existing)) etc.

4. Do you have comments on the proposals for transparency regarding the algorithm (public description, performance and incident reporting, consultation on changes)?

Regarding the public description: We appreciate that the NEMOs shall maintain a public description of both algorithms according to Article 6 para 4.

Regarding performance reporting: as mentioned in question 2 above: we would appreciate if the performance criteria and regular statistics on them could be reported along the publicly available description of the algorithms und Article 6 para 4.

Regarding incident reporting: usage of back up procedures should be reported, even if they worked and there were no visible consequences for market parties. That could also happen under Article 6 para 4.

Regarding consultation on changes: since market parties can not directly post change request to the algorithm, it is important that all change requests posted by NEMOs and/or TSOs are made public. The MESC can then discuss whether or not it has impact on stakeholders. If a change request has impact on stakeholders, a discussion in the MESC could determine what the appropriate consultation procedure should be: is a prepared MESC discussion enough to gather input from all stakeholders or is an open consultation the appropriate method to get feedback on a change request in accordance with CACM article 12. See also answers to 5 and 6.

5. Do you have comments on the proposals for controls on usage and change requests for new functionality, to maintain DA and ID algorithm performance?

We agree that the main goal should be to maintain DA and ID algorithm performance, so there might be legitimate reasons to control usage and to disagree on a new functionality. Performance criteria will be developed according to 6.1., and there are principles for usage limits described in 7.15.

It is uncertain, whether allocation constraints from the TSOs such as for example FB constraints fall under the notion of "Usage limits". It should be made clear that this is not the case.

In addition, we would like to emphasise that a third solution to restricting usage or denying a new functionality should be to improve Algorithm Performance as mentioned in Article 7 para 17. That should actually be the first solution, in case the costs are not bigger than the benefits.

We therefore lack transparency on how these decisions are taken within the NEMO Committee to ensure an objective and non-discriminatory treatment of change requests and how the different criteria and objectives are prioritized in the NEMO Committee decision making process. There should therefore be a publication of all posted change request and the decision to go ahead or not, independent of their category under 7.27. to ensure a minimum of transparency.

6. Do you have comments on the proposal to manage changes to the algorithms, or should all changes require a modification using the procedure outlined in CACM (Articles 9 and 12)?

We agree that the change management principles described in Article 7 can work for minor/day to day changes to the algorithm. We are uncertain however, how the decision is made regarding which change request is a minor change and which change request requires the use of procedures described in CACM Articles 9,10 and 37 to ensure the management of the algorithm by the TSOs and NEMOs.

Connected to that is the question of when a change should be notified to stakeholders or consulted with stakeholders and how - for example by following CACM Article 12. For that reason, we think that all change request should be made public independent of categorization, to ensure that an informed discussion in the MESC can happen regarding the choice of the proper consultation procedure.

7. NEMOs propose a formal escalation body where NEMO decisions (taken on the basis of QMV) can be challenged. This is relevant because some algorithm issues may involve conflicting NEMO, TSO or MS priorities. Do you have comments on the proposal to consult with the MESC? Should NRAs or ACER potentially play a role in resolving conflicts (e.g., acting as the arbitral body for NEMO decisions), or is an independent arbitral tribunal adequate? Do you have any other comments?

We do not think an independent arbitral tribunal is adequate for all decisions. If the conflict is "just" between NEMOs an independent arbitral tribunal set up by the NEMOs would work. If the conflict involves NEMOs, TSOs and conflicting MS priorities, an arbitral tribunal established by the NEMOs is not the correct decision making authority. In that case NRAs or ACER should play a role in resolving conflicts. The first step would be to publish all change request to see, what interests are touched.

8. Do you have any other comments on the Proposal?

Add a paragraph, describing that all change requests are made public, and that MESC can discuss and decide upon whether the change has impact on stakeholders , and if yes, what the appropriate method to ensure stakeholder participation would be.

Day-Ahead Algorithm requirements

1. Do you have comments on the proposed DA Algorithm requirements – 1. Background?

No comment

2. Do you have comments on the proposed DA Algorithm requirements – 2. Terminology?

No comment

3. Do you have comments on the proposed DA Algorithm requirements – 3. Approach?

Regarding State, Future Requirement: it would be welcome if a distinction could be made, which Future Requirements are already under development within PCR and for which Future Requirements development has not yet started and when it is expected to start in that case.

4. Do you have comments on the proposed DA Algorithm requirements – 4. Price coupling algorithm requirements-Title 1- Requirements on functionalities and performance?

Regarding 1.h and i:

What exactly does h mean? Does h describe a normal situation as 1 price per bidding zone per MTU? Or does it describe a normal situation as 1 price per bidding zone per MTU per NEMO trading hub and that could be a different price at NEMO A or NEMO B even in a normal situation within a bidding zone, "where applicable"? In our view, in a normal situation, h should require 1 price per bidding zone per MTU independent of how many NEMO trading hubs are within the bidding zone.

In addition, h) addresses a potential fall back requirement of requiring 1 price per MTU independent of NEMO trading hubs in a fall back situation to be determined by the respective TSO. We assume this will be addressed in the separate hearing 2017.

What is exactly the difference between h and i besides one being an initial requirement and the other one a future requirement? Does i) take into account the potential fall back requirements from a TSO or is i) supposed to reflect a normal situation?

Regarding 3.c: not necessary and too deterministic of the future. Maybe in the future a self-developed algorithm performs better. The algorithm should be performing the market coupling meeting all the requirements other characteristics are not important to write down in a binding methodology.

Regarding 3.e. we would like a new paragraph added: the algorithm should scale well, when a higher time resolution is introduced i.e. for example a step from hourly to quarterly products

Regarding 3.g. we would like to add a paragraph that the choices on how the algorithm shall handle potential curtailment situations are made transparent to the market parties,

5. Do you have comments on the proposed DA Algorithm requirements – 4. Price coupling algorithm requirements-Title 2- Requirements related to Cross-zonal capacities?

Regarding 1 a and b) : what is the difference besides the initial / future requirement?

6. Do you have comments on the proposed DA Algorithm requirements – 4. Price coupling algorithm requirements-Title 3- Requirements related to allocation constraints?

Regarding 1 c and 3: both address the losses on DC cables and are initial requirements: one incorporates losses and the other one sets a "flow tariff" resembling the losses, both lead to zero flow should the price difference not recuperate the losses. Why not merge both paragraphs in one addressing losses on DC cables? It should anyway be transparent for market parties, which function is activated on which DC cable and how exactly the losses are incorporated

General comment: it should be transparent for market parties which of the allocation constraints under Titel 3 is activated, the size of the constraint and where it is activated.

7. Do you have comments on the proposed DA Algorithm requirements – 4. Price coupling algorithm requirements-Title 4- Requirements related to balance constraints?

Regarding 1: what is meant by a "defined area"? A member state? A TSO area? If a defined area were not identical with all bidding zones, could it put an extra constraint on the algorithm?

8. Do you have comments on the proposed DA Algorithm requirements – 4. Price coupling algorithm requirements-Title 5- Requirements on algorithm output and deadlines for the delivery of single day-ahead coupling results?

No comment

9. Do you have comments on the proposed DA Algorithm requirements – 4. Price coupling algorithm requirements-Title 6- Currency?

We support the proposal that all bids and results are delivered in euros into the algorithm.

Intraday Algorithm requirements

1. Do you have comments on the proposed ID algorithm requirements – Title 1: General requirements?

1.d.: while we understand the need to have possible different GOT and GCT during a transition period, it makes sense to harmonise them and to move GCT closure to real time

1.s.: ideally price limits per bidding zone are harmonised

2. Do you have comments on the proposed ID algorithm requirements – Title 2: Requirements related to Cross-zonal capacities?

Regarding 1 l: if a bidding zone, one border, one instrument or one NEMOs needs to be halted/unhalted, it needs to be made public why this decision was taken.

We disagree with the possibility for explicit allocation, and where such is considered, it needs to be subject to ACER's approval due to its cross-zonal effects.

3. Do you have comments on the proposed ID algorithm requirements – Title 3: Requirements related to allocation constraints?

Regarding Title 3 in general: it should be made public, which allocation constraints are activated, where, how the operated and why

4. Do you have comments on the proposed ID algorithm requirements – Title 4: Requirements on algorithm output and deadlines for the delivery of single intraday coupling results?

No comment

5. Do you have comments on the proposed ID algorithm requirements – Title 5: Currency?



Products Proposal

1. Do you have comments on the proposed DA and ID Products, including the categorisation of whether they are required at the start of operation of the SDAC/SIDC or at a future date?

The list of products to be available by the start of the operation of the SDAC/SIDC seems to be complete. Nordenergi has followed with worries the discussion on the performance of Euphemia and proposes that an evaluation is done whether all product types today are also needed in the future. Especially the need for so called PUN-offers should be evaluated, how much they are needed and how much they stress the algorithm.

2. The NEMOs believe that the technical specifications of the different products are better explained in separate public documentation, which can be more readily updated if needed. Do you have comments on this approach?

That sounds sensible

3. Do you have comments on the proposed process to enable new products, or should all changes require a modification using the procedure outlined in CACM (Articles 9/12 and 40/53)?

In our view the introduction of new products can be done using the process described in the Change Management Principles described in the All NEMO proposal. That should allow a speedy introduction if all NEMOs agree. Additional transparency should be ensured by making the change request public. If there is however a disagreement on such a change request, procedures outlined in the CACM should apply.

4. Do you have any other comments on the Proposal?

Why is there no article on the proposed processes, referencing to the All NEMO proposal? In our view everything from the chapter of "Impact on the objectives of CACM Regulation" point 4 could be moved in a separate article.



Back-up methodology Proposal

1. Do you have general comments on the proposed Back-up Methodology for single day-ahead coupling and for the single intraday coupling?

No comments

2. Do you have specific comments on Article 3-the 'SDAC backup procedures and steps' of the proposed Back-up Methodology for single day-ahead coupling and for the single intraday coupling.

No comments

3. Do you have specific comments on Article 4-the 'Intraday timeframe price coupling algorithm backup procedures and steps' of the proposed Back-up Methodology for single day-ahead coupling and for the single intraday coupling.

No comments



Harmonized Max-Min price Limit Proposal

1. Do you find that the proposal addresses all the relevant objectives and issues that it should?

- If not kindly list key issues not covered, and motivate why they should:

No comments

2. In the proposal being consulted upon two different levels are indicated as possible price limits to apply in the Single Intra Day Coupling (SIDC), one like proposed for Single Day Ahead Coupling (SDAC) and one with a wider range. The reason being that SIDC, contrary to SDAC (Implicit Auction), is based on continuous trading and matching of individual orders based on a continually, for each Bidding Zone, visible best bid/ask spread and accordingly there is no clear relevance for limits other than on technical grounds.

On that basis we have these specific questions linked to the price limits to be applied:

- Do you have any opinion about if the price limits set for Single Day Ahead Coupling (SDAC) and Single Intra Day Coupling (SIDC) should be identical or different?

In principle, the upper price limit should be purely technical and allow scarcity prices to manifest. If day ahead and intraday markets function reasonably well, then real physical scarcity only manifests close to real time or in real time i.e. in the intraday and balancing markets, when the uncertainty about available production (capacity), grid capacity and projected demand has been considerably reduced. In our view therefor, the upper price limit in the SIDC and the balancing markets has to reflect scarcity pricing, to incentivise flexibility from production and load. The SDAC price limit could either be identical to the SIDC price limit, or it could be lower since physical scarcity is not yet properly manifested in the day ahead markets. In any case, the SDAC should be high enough to function as a technical limit as opposed to actually capping prices. If the technical limit is (continuously) reached, it is too low.

- If you argue for different levels can you kindly provide reasoning for why that should be the case:

As argued above: the SDIC upper price limit should either be higher or identical to the SDAC upper price limit, since physical scarcity is manifesting closer to real time/in real time.

- Do you have any opinions about the limits proposed for SDAC? If you disagree with the proposed limits what would you deem as more appropriate limits and can you elaborate on why?

Price caps should theoretically be set at Value of Lost Load. This is a key element in making the energy-only market work. For this reason, the current price cap of EUR 3000/MWh might need to be increased. We want to restate the principle that the SDAC should function purely as a technical limit for algorithm matching purposes and not actually limit the trade. If trades repeatedly approach the SDAC, it should be moved to a higher level (but not higher than the SDIC). If it's find needed to increase the limits, they should be increased sufficiently in order to avoid repeatedly.

Nordenergi wants to emphasise that second auctions used in DA on some market areas distort the price formation and can act as de facto price limits below the proposed + 3000 SDAC. Since second auctions also increase the risk for a decoupling, we propose a re-evaluation of the purpose of second auctions, ideally leading to their disappearance. In addition, the second auctions slow down the calculation process and cause further stress for the algorithm.

- Do you have any opinion about either of the options (A: +3000/-500; B:+9999/-9999) proposed as limits for SIDC? If you disagree with both sets of proposed limits what would you deem as more appropriate limits and can you elaborate on why?

We propose for the SIDC the limit B +9999/-9999 to allow for proper scarcity pricing close to real time or in the future a price cap based on the estimated value of lost load (VOLL) for customers. This proposal has however several consequences on currently existing arrangements regarding balancing market max prices, the use and pricing of strategic reserves and max order price limits (which are not identical to clearing price limits described in the methodology). If we want to avoid that strategic reserves, max order price limits and balancing max prices result in de-facto price caps or increased incentives to provoke the activation of strategic reserves or risk imbalances in the operational hour, instead of letting day ahead and intraday markets work, these elements of market design should be reformed too.

Consequences in the Nordics are:

In Sweden and Finland, the strategic reserve is offered in the Day-Ahead Auction to avoid curtailment at the price of "Last Commercial Bid + 1 Euro". Since prices should reflect scarcity prices it would therefore make sense to see whether the strategic reserves in Sweden and Finland need a reform. The winter package points also to the need to reform strategic reserves activation principles.

3. Do you have any suggestions on how to over time tackle the required need to consider the limits in relation to Value of Lost Load (VOLL)?

- Further, do you have a suggestion on how to in relation to price limits tackle the fact that there is no uniform VOLL across the EU?

The question of VOLL is also addressed in the winter package. In the meantime, we propose to set the SDIC to +- 9999 to allow it to come closer to reflecting scarcity prices that market parties might be willing to bid, independent of what the final VOLL calculation harmonized or not will be. The guiding principle for setting the SDAC and the SDIC does not have to be VOLL necessarily, a pragmatic approach would be to pick a high number that works as a purely technical cap, but does not limit the bidding behavior of market parties.

4. While the Proposal clearly says that harmonised limits shall apply for SDAC and SIDC respectively it also allows for derogations based on two options, namely (a) an agreement between relevant NEMOs and TSOs and approval by NRAs (Article 6.1), or (b) temporary derogations decided upon by the All NEMO Committee (Article 6.3), and for both options it may be valid in single Member States, Bidding Zones and regions or the whole SIDC or SDAC geographic scope if due consideration is made of the impact on the objectives of the regulation.

- What is your view on the derogation option in Article 6.1?

We strongly disagree with the option for a permanent derogation from the Harmonised Minimum and Maximum Clearing Prices for SDAC and SIDC. In a price coupled area it might lead to one region/area repeatedly meeting the price cap, while there is no scarcity manifest in the neighbouring price area/region, with all the negative consequences for the functioning of the algorithm (decoupling, fall back procedures) and competition that that may imply.

- What is your view on the temporary derogation option in Article 6.3?

We agree that a temporary derogation should be possible for the reasons described in Article 6.3. In our view the temporary derogation may also trigger a review of the Harmonised Maximum and Minimum Clearing Price Limits described in 6.4.

- What is your view in general about possible existence of derogations, and do you find that, when such decisions are made, the measures proposed to ensure consideration of overall objectives are sufficient?

See above.

5. Do you have other specific feed-back on this Min-Max Proposal?

No comment

