

Auction process

Overview Public Consultation

12/11/2019 | Glenn Plancke

In what follows a summary is given of the feedback received in the public consultation about the design note on the Auction process

- Comments were received from:
 - BBL, Fluvius, Fluxys, Febeliec, CREG and FEBEG
- Purpose of this presentation:
 - Present an **overview of the comments/feedback** received during the public consultation process as interpreted by Elia.
 - Provide a **first clarification about some of the design aspects** that – based on our interpretation of the feedback received – may have not have been well understood by the stakeholders or not sufficiently well explained in the design note.
 - Based on the comments received, present **first updated proposals on some main principles** already
- Elia's final positioning towards all of the different comments is **out of scope** of the current presentation. This feedback will only be provided at a later stage.

Different comments from stakeholders can be categorized in the following topics

- 1) **Auction format** – *Sealed bid vs. Descending clock*
- 2) **Pricing rule** – *Pay-as-cleared (PAC) vs. Pay-as-bid (PAB)*
- 3) **Bidding requirements**
- 4) **Auction clearing** – *Objective, constraints and tie-breaking rules*
- 5) **Opt-out**
- 6) **Transparency**

1) Auction format

In general, stakeholders agree on the design choice for Sealed bid

Elia Proposal: Sealed bid

- **CREG** and **Febeliec** actively support our choice for sealed bid.
- **FEPEG**, although not opposing to sealed bid, states that Elia's arguments not to choose for a descending clock auction are incomplete and not in line with FEPEG's own research. **FEPEG** questions whether the management of grid constraints could be the main driver to propose a single-round sealed bid, as is also the case for Ireland.

--> The Elia proposal (Sealed Bid) remains also after the public consultation.

2) Pricing rule

Different opinions among stakeholders on PAC vs. PAB

Elia Proposal: Pay-as-bid (PAB) during two initial auctions, pay-as-cleared (PAC) during all subsequent auctions

On PAC vs. PAB in general

- **CREG** and **Febeliec** only support PAB, as PAC leads by definition to paying inframarginal rents, which in a CRM context are to be seen as windfall profits.
- **FEBEG** opposes to the initial PAB auctions and pleads for PAC from the start.

On the organization of a PAB Y-4 auction and PAC Y-1 auction for the same delivery period

- **CREG** is concerned about potential strategic behaviour that this may induce.
- Also **FEBEG** points out the unwanted distinction following this proposal

2) Pricing rule

Different opinions among stakeholders on PAC vs. PAB

Elia Updated Proposal: Switch from PAB to PAC over time retained in proposal, but the number and schedule of PAB auctions is still under consideration

- Proposal to switch from PAB to PAC over time is retained
 - The proposal in our view best integrates the advantages of both approaches
 - By going to PAC over time, it allows to better tend to a price of 0 €/MW when missing money disappears

- However, the exact number and schedule of PAB auctions will be determined by considering also the pre-delivery monitoring design and its implications on the expectancy to clear new capacity:
 - For instance, if new capacity that has been selected in the Y-4 auction does not materialize (which becomes clear at some point during pre-delivery monitoring), this capacity may have to be re-auctioned in another Y-4 or Y-1 auction. Therefore, the main reason to rely on PAB in the first Y-4 auctions (i.e. new capacity more likely to clear the auction) can remain valid in subsequent auctions as well.
 - In any case, the idea remains to organize a fixed number of PAB auctions according to an upfront determined schedule

3) Bidding requirements (1/3)

Several requests for clarification/justification/motivation + suggestions to improve

Elia Proposal: main elements include only indivisible bids, mutually exclusive bids allowed, linked bids allowed across CMU subject to same signed technical agreement

- **CREG** asks Elia to motivate why divisible bids are not allowed, as these may facilitate auction clearing. → *Divisible bids would make the auction clearing (rules) complex. However, indivisible bids in combination with mutually exclusivity of bids provide an alternative for divisible bids*
- **Febeliec** asks Elia to specify the max “*bid price cap*” that will apply to multi-year capacity contracts (vs. intermediate price cap for 1-year capacity category) → *For multi-year capacity contracts, the Global Auction Price Cap applies*
- **Febeliec** asks for a justification regarding the cap of 25MW on bids for a portfolio of aggregated capacities → *There is no cap on bid for aggregated CMU, there is only a rule that a DP with full schedule (~ 25 MW) has to participate as individual CMU*
- **Febeliec** asks what the consequences are when a capacity holder does not participate to the auction with its Eligible volume (although supporting this rule, preventing physical capacity withholding) → *Under consideration*
- **Febeliec** proposes to rephrase design proposal #5, stating that it should not be a requirement to link all CMUs covered by a signed technical agreement, when there is a separate technical agreement for each CMU → *Idea is indeed that linking of bids is not mandatory but allowed. However, linking of bids should be done such that proposed capacity projects in the auction comply with a “signed technical agreement” corresponding to this project. The rule shall be reformulated*
- **Febeliec** asks Elia to correct its design proposal on mutually exclusive bids, regarding what bids can be part of such set of mutually exclusive bids → *The rule shall be reformulated such that it is more clear*

3) Bidding requirements (2/3)

Several requests for clarification/justification/motivation + suggestions to improve

Elia Proposal: main elements include only indivisible bids, mutually exclusive bids allowed, linked bids allowed across CMU subject to same signed technical agreement

- **FEBEG** states that a bid is only valid for the specified contract duration, so “preferred” should be removed from design proposal #3 → *Agreed, 'preferred' is confusing. It is not the idea that the auction algorithm adapts the chosen duration*
- **FEBEG** asks to clarify the difference between design proposal #3 and #4, wondering whether it should not be the case that the volume of each bid shall be equal to the Eligible Volume → *No, smaller volume bids are allowed, as long as entire Eligible Volume is offered in the auction in some way. E.g. CMU with Eligible Volume of 100MW, Bid 1 = 100MW and Bid 2 = 90MW, Bids 1 & 2 being mutually exclusive*
- **FEBEG** raises several questions on the linked bids proposal → *Under consideration*
 - FEBEG asks for a general justification of the proposal to allow linked bids for CMUs that are covered by the same technical agreement
 - Does the expression “signed technical agreement” include existing connection contracts?
 - How will Elia consider a site for which a connection contract is available for the existing capacity while a new technical agreement is agreed or connection contract signed for additional capacity?
 - Is it possible to offer a CMU included in an existing connection contract but not the other CMUs included in the same connection contract (while they remain in the market)?
 - FEBEG claims that each bid should be able to be linked → *Not agreed*

3) Bidding requirements (3/3)

Several requests for clarification/justification/motivation + suggestions to improve

Elia Proposal: main elements include only indivisible bids, mutually exclusive bids allowed, linked bids allowed across CMU subject to same signed technical agreement

- **FEBEG** argues that the bid price or the capacity contract duration of two linked CMUs should be allowed to be different → *Under consideration*
- **FEBEG** asks if it is correct that there is no limit on the number of mutually exclusive bids? FEBEG is in favour of no limit on mutually exclusive bids. → *There is a disclaimer in the design note*
“Notwithstanding restrictions on the number of sets of mutually exclusive Bids and/or restrictions on the number of Bids within such a set following algorithm complexity considerations.”

4) Auction clearing (Objective and tie-breaking rules)

Different opinions among stakeholders

Elia Proposal: Max. social welfare + grid constraints + carbon emissions as tie-breaking rule

- **Febeliec** and **CREG** do not agree with the proposal to maximize social welfare. **Febeliec** claims that the only valid element is to maximize consumer surplus.
- **Febeliec** and **BBL** argue that longer-term contracts may lead to higher cumulative cost of CRM. **Fluvius** and **CREG** suggest to add contract duration as tie-breaking rule (preferring shorter-term contract).

4) Auction clearing (Objective and tie-breaking rules) Different opinions among stakeholders

Elia Updated Proposal:

Objective function: max. social welfare

Tie-breaking rules: 1) ↓ CO2 emissions 2) ↓ capacity contract duration 3) random selection

- The objective to maximize social welfare is in Pay-as-Bid equivalent to Max. Consumer Surplus
 - Since the first auctions will apply a PAB pricing rule, there is no (explicit) producer surplus, so maximizing social welfare is equal to maximizing consumer surplus
 - It will be further investigated if the objective to maximize social welfare is also appropriate under a PAC pricing rule, but this will be done in the context of auction rules of later years.
- An additional tie-breaking rule is introduced, namely to select the solution with the lowest capacity contract duration, in case solutions are equivalent in terms of social welfare and in terms of CO2 emissions

4) Auction clearing (Grid constraints) Different opinions among stakeholders

Elia Proposal: Max. social welfare + grid constraints + carbon emissions as tie-breaking rule

- **Fluvius, Fluxys, CREG, Febeliec** and **FEBEG** ask to be more specific on the facilitation of external constraints.
 - CREG asks for all constraint information in the algorithm (DSO, gas, ...)
 - FEBEG asks whether these external constraints can interfere with the TSO grid constraints, or the other way around.
 - Fluxys wants gas grid constraints for identification of projects as being mutually exclusive □
 - Fluvius finds it problematic that grid constraints will only apply to “additional” capacity. Fluvius requests to foresee, as a last resort, the means to apply a limit on the amount of DSR-based capacity that is selected in the auction clearing and also request also to apply grid constraints in secondary market.
 - BBL asks to give priority to technologies with a lower CO2 emission factor, in light of ensuring grid feasibility and the revision of the Federal Grid Code.
- **Febeliec** points out that no grid constraints should apply to demand/market response, as they are always entitled to reduce their consumption to zero. Febeliec also notes that the difference between the demand unit and the demand response capacity should be considered.
- **Febeliec** also asks to clarify how the freeze period w.r.t. the interaction between CRM bidding and EDS requirements would be applied to demand and demand side response. In general, Febeliec regrets that the illustrations only refer to generation and do not provide any clarity concerning demand and demand side response (nor storage).

4) Auction clearing (Grid constraints) Different opinions among stakeholders

Elia Proposal: Max. social welfare + grid constraints + carbon emissions as tie-breaking rule

- **Febeliec** and **FEBEG** plead for transparency on the methodology and the related information not only for the regulator but also the grid users.
- **FEBEG** asks to ensure that for all grid constraints (also the external constraints), ex ante information is available on the drivers for these external constraints and the resulting grid constraints are objective, transparent and subject to audits.
- **FEBEG** asks, on the statement that “... *application of grid constraints could result in a selection that minimizes total cost for society, with some unselected Bids with unity prices cheaper than the marginal selected Bid...*”:
 - Does it mean that cheaper bids in the auction might be rejected because they would be more expensive from a total cost for society perspective (if we would include grid adaptations to facilitate this connection)?
 - Can it then also be concluded that the CRM cost would be higher due to the cheaper bids which were not selected? In this case, the higher CRM costs should be justified by documented lower cost for society.

5) Opt-out

Elia Proposal: Distinction between capacity with/without closure notification. Capacity without closure notification able to indicate IN/OUT in terms of adequacy contribution

- **Febeliec** is concerned about potential gaming with opt-out volumes, i.e. strategic maintenance and bidding behavior to the detriment of CRM efficiency
- **CREG** questions whether stakeholders can assess IN/OUT properly. **FEBEG** questions legal value of motivational letter.
- **CREG** argues that OUT should not be given secondary market access, as despite the fact that this would increase secondary market liquidity, CREG fears that this opens opportunities towards strategic behavior associated with potential market manipulation.
- **FEBELIEC & CREG** asks explicitly for transparency on the subject.
- **FEBEG** asks why fast-track prequalification has to make an IN/OUT choice, being an administrative burden, while in any case not being able to participate to the secondary market or be obliged to act according to their IN/OUT choice

6) Transparency

- **FEBEG** would welcome additional information on the validation of auction results
- **FEBEG** asks which information will be shared on paradoxically rejected bids (following application of grid constraints)?
- **FEBEG** asks if information will be shared also on the volumes with choice OUT vs IN?