

Auction process

Overview Public Consultation

21/11/2019 | Glenn Plancke & Pieter-Jan Marsboom

Topics discussed today

- 1) Auction format – *Sealed bid*
- 2) Pricing rule
- 3) Bidding requirements → Only linked bids
- 4) Auction clearing – *Objective & tie-breaking rules & grid constraints* → *At the end*
- 5) Opt-out
- 6) Transparency

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

Elia Updated Proposal: Pay-as-bid (PAB) during all auctions (i.e. both Y-4 and Y-1) related to two initial delivery periods, pay-as-cleared (PAC) during all subsequent auctions

- 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

- Relating the organization of PAB auctions to delivery periods accounts for the fact that new capacity that has been selected in the Y-4 auction but does not materialize (which becomes clear at some point during pre-delivery monitoring), may have to be re-auctioned in the Y-1 auction related to this delivery period. Therefore, the main reason to rely on PAB in the first Y-4 auctions (i.e. new capacity more likely to clear the auction) would remain valid in subsequent Y-1 auctions related to the same delivery period as well.

3) Bidding requirements – linked bids

- **FEBEG** raises several questions on the linked bids proposal
 - FEBEG asks for a general justification of the proposal to allow linked bids for CMUs that are covered by the same technical agreement
 - *On the one hand, Elia wants to allow linked bids among bids that are related to CMUs that are established on the same geographical site, between which there is a link of necessity and technical coherence and which, because of their installed capacity, do not have the possibility of being aggregated*
 - *On the other hand, Elia also wants to be sure that projects related to new/additional capacity have been studied and approved by Elia (i.e. hold a signed technical agreement) and that there is a link between the bidding and the signed technical agreement (therefore, linking might be necessary) to be able to evaluate grid constraints*
 - Does the expression “signed technical agreement” include existing connection contracts? → *Only an extension of an existing connection contract requires a technical agreement*
 - 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?
 - *From a bidding point of view, linked bids will be allowed if related to CMUs that are established on the same geographical site, between which there is a link of necessity and technical coherence and which, because of their installed capacity, do not have the possibility of being aggregated*
 - *From a grid constraint point of view, only the additional capacity will be evaluated.*
 - 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)? → *The law obliges eligible production capacity holder to prequalify, but not to participate in the CRM. However, such decision has to be notified to Elia before the auction, in line with the opt-out stipulations.*
 - FEBEG claims that each bid should be able to be linked → *Elia does not agree, to avoid market power abuse*
- **FEBEG** argues that the bid price or the capacity contract duration of two linked CMUs should be allowed to be different
 - *Under consideration. Elia is in principle not against allowing such freedom, but will analyse whether such freedom does not result in unwanted strategic behavior*

5) Opt-out

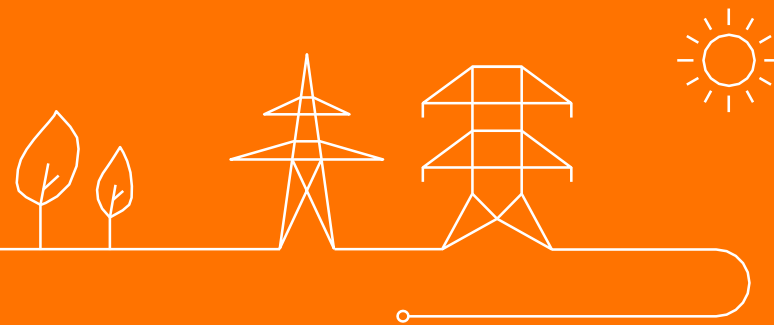
Elia considers that its proposed principles regarding the treatment of opt-out volumes provided a sufficiently balanced set of principles and proposes not to alter the initial proposal.

Febeliec is concerned about potential gaming with opt-out volumes, i.e. strategic maintenance and bidding behavior to the detriment of CRM efficiency

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.

- As a main principle, secondary market participation should be allowed to a maximum extent possible to ensure liquidity, while obviously avoiding double counting of capacity – meaning that capacity that is already counted upon to contribute to adequacy should not at the same time be allowed to participate in the Secondary Market as well.
 - Especially given the important switch to ‘option 1’ of the secondary market, concerns on ensuring liquidity in the secondary market have raised. Further limiting liquidity seems therefore not favorable.
 - Proper rules will be put in place wrt the capacity that can participate in the secondary market, to ensure that double counting is avoided.
- More generally, not providing access to the secondary market to those volumes may be perceived as creating a barrier to participate in the CRM

Auction clearing - Grid constraints



Principles

- External constraints are constraints from 3rd parties, for example resulting from within other grids or from primary fuel limitations, which are not related to the public electricity transmission grid.
- Any constraint on individual level should be tackled via CRM PQ process, any constraint from combinations can be solved via grid constraints.
- Elia shall not calculate itself any external constraints in Calculation Phase, but shall take them into account during the Application Phase for a specific CRM auction, provided they respect the validation process. Elia can accommodate grid constraints from third parties to the extent:
 - *They are defined by the Third Party within the appropriate legal & regulatory framework*
 - *They are provided on time & following the format specified in relation to the Auction Process & Rules*
 - *In any case, Elia cannot be held responsible for the correctness of these 3rd party constraints*

Process

- Before Calculation Phase (between 15/06 – 15/09), relevant regulator must indicate towards Elia which distinct external constraint types from 3rd party should be facilitated in CRM Auction
- Until 15/09, any validated external constraints should be delivered to Elia by designated 3rd Parties in right format
- In Application Phase (between 15/09 - 30/09), Elia bundles all constraints & mathematically translates for application in Auction Algorithm
- Asap after 15th of September (no later than 30/09), bundled constraints (incl. reasons) are delivered to relevant regulator for information - facilitating auditability

⇒ Proposal will be described in this way by Elia in the Market Rules –
⇒ including methodology, format & timings for electricity transmission grid constraints

Auction clearing - Grid constraints

► clarification points

Febeliec

- Q: DSR vs Demand clarification and interaction 'freeze period'?
- A: Elia - for public electricity transmission grid constraints - only considers additional capacity (without an existing or not fully covered in an existing connection contract), to be in line with e-law & FGC. Since grid capacity is being auctioned (connection contracts), Elia must consider full technical injection/offtake capacity in calculation process. Freeze period clarification is out of TF CRM scope – refer to Belgian Grid.

Febeg

- Q: 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)?
- A: No bias nor any external costs will be included in the goal function – total cost selection only on CRM bid prices. Grid constraints – like mutual exclusive bidding by client - can result in paradoxically rejected bids – in case they become binding in CRM clearing.

Fluvius

- Q: Need for DSO-grid constraints in primary & secondary market – also on existing connection capacities & linked to DSR.
- A: See previous slide - Elia only wants to facilitate in primary auction – provided validated by relevant regulator & in line with relevant grid codes
Elia highlights that technology neutrality is to be warranted & that for public transmission grid only additional capacity can constitute CRM grid constraints.
No grid constraints in secondary market, since it is continuous & should hence be managed during CMU PQ.

