

From: Jerome Le Page <j.lepage@efet.org>
Sent: Thursday, 20 June 2019 15:47
To: TaskForce CRM <taskforce.CRM@elia.be>
Subject: Re: TF CRM Your preference is requested

Dear Martine,

Many thanks for reaching out to us with those questions on the strike/reference price and the clearing algorithm. You will find below the suggestions of EFET with regard to these two subjects:

- Strike and reference price: we have a strong preference for **option 3 "One single Strike price formula & Fix % payback obligations exemption"**:
 - One strike price formula: the two options on the table or either a single or multiple strike price(s). The strike price aims to determine the point as of which the payback obligation kicks in (as it is considered that above that strike price, asset owners would make windfall profits from the CRM).
 - A single strike price formula would guarantee the **level-playing field** between all participants in the CRM. All participants would have the same incentives in the CRM.
 - A single strike price formula would **improve the clarity of the price signal** coming from the CRM. A single strike price formula will support the liquidity of the CRM, i.e. that sufficient capacity will participate in the CRM. This clear price signal is not only of value for the primary market: it will also **guarantee the vitality of the secondary market for CMUs**. Indeed, implementing several strike prices in a concentrated market like Belgium will lead to less liquid secondary markets as CMU's with lower strike prices will have difficult access to liquid secondary products as CMU's with higher strike prices will not be willing to take over pay back obligations at a lower strike price.
 - A single strike price formula would **limit the impact of the CRM on the energy-only market**: indeed, multiple strike prices risk increasing the price level on the CRM, and lower the relevance of the Belgian electricity market.
 - Fixed percentage payback obligations exemption:
 - The exemption ratio covers any capacity that is not able to capture price spikes targeted by the payback obligation. This could happen in case capacity is already sold on the forward markets, as the 'reference price' (so the price looked at to assess what revenue market participants captured and where scarcity is signaled) is the day-ahead market. Therefore, capacity sold on the forward markets should be exempted from the payback obligation. If this would not be taken into account, it would open market participants to sizable risks of having to reimburse revenue that was earned in the first place. As the capacity market is already subject to certain constraints (i.e. price caps) that prevents market participants to fully price this in the capacity bid, this would eventually be detrimental to the forward markets. A fixed percentage payback obligation is the only option which would target the excessive profits the way a strike price is intended to, without affecting the functioning of forward markets.
- Clearing algorithm: we have a strong preference for a **Pay-as-Cleared** mechanism, for the following reasons:
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- Transparent and clarity of the price signal. This limits barriers of entry for new and smaller (potential) participants as they will have the same price information as everyone else. PAB does not provide any market clearing signal, favouring the larger participants who will have more information than the rest.
- Coherence with the reference market, the energy-only market.
- Simplicity for market participants to understand, for TSOs/NRAs to implement, to manage, to monitor.
- Level-playing field for all participants
- Transparency of bidding behaviour.

I remain at your disposal should you of the “Follow-up Committee” have questions or comments.

Best regards,

Jérôme Le Page

Director for European Electricity Markets



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