TF CRM preferences

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REstore comments

21 June 2019

<u>**Key points**</u>
- REstore favors the pay-as-cleared option rather than pay-as bid
- For the strike REstore underlines the "must have" is to get a price that is high enough to not force certain participants to payback revenues they have not earned on the energy market
- Regarding payback exemption, REstore asks Elia to further assess whether it is really needed and legitimate
-> REstore would therefore prefer Option 2 with several strikes prices and no payback exemption, with an acceptable Option 4 (still having multiple strike prices).

1. REstore favors the pay-as-cleared option rather than pay-as bid

Even though the CRM is by nature a different product than other market products well known and for which pay-as-cleared appears to be the best options (CRM is here to fill a missing money issue, on top of market revenues), REstore believes pay-as-clear should also be implemented in the CRM considering the 3 points below:

(i) CRMs are proven to be very complex mechanisms once implemented, with auctions results that are very volatile and difficult to analyze. Ensuring sufficient transparency on the offer curve and the price formation, and putting all participants on the same level of information will therefore be even more important than for other products.

(ii) The CRM will cover a full year period, with therefore a limited number of auctions being organized, leading to an important impact for market participants in case of unexpected auction result. Also, it will take a lot of time to get enough auction results for everyone to grab enough experience to well understand the market functioning (unlike products with daily auctions where impact of losing an auction is limited and experience is gathered much quicker);

(iii) Pay-as-cleared also ensures market participants will propose bids based solely on their costs, leaving it to the clearing to decide whether they will earn more revenues. With a pay-as-bid mechanism, these additional expected revenues would be included in the bid prices, making more difficult to assess the reasonable aspects of the bids offered.

2. For the strike REstore underlines the "must have" is to get a price that is high enough to not force certain participants to payback revenues they have not earned on the energy market

As an active demand response aggregator, REstore underlines that the strike price must absolutely be designed to ensure all MWs engaged in the CRM will start to payback CRM revenues only when they are effectively earning revenues on the energy market. With a price set too low, some DR MWs would be in a position to payback CRM revenues without having earned on the energy market. Also, as an experienced market player in Belgium and other countries, we do underline the price level of 225€/MWh presented in the last TF CRM does not reflect by far the opportunity costs of some DR MWs that are already active in the Belgian market. Thus, such an example of highest strike price would not respect this principle.

Having several strike prices rather than one is a less important design choice according to REstore, as long as the principle detailed above is fulfilled. However, at this point the concerns that have been raised by some market parties on the negative impacts that several strike prices could have on the functioning of the wholesale market remain unclear and would deserve further clarifications to be confirmed as blocking this option. Indeed, to fulfill the principle 1 (set a strike price that ensures there is no payback when there are no revenues on the market), it will have to be set high enough (possibly several thousand of euros per MWh). If a unique strike price is chosen, then all MWs with low activation costs might be in a position to never payback any CRM revenues, despite seeing the reference price going way beyond their short-term marginal costs, therefore lowering the essence of the reliability option mechanism.

3. Regarding payback exemption, REstore asks Elia to further assess whether it is really needed and legitimate

On this topic as well REstore considers that additional elements would be needed to demonstrate the need of such a payback exemption based on the volumes sold in forward products rather than in day-ahead, forward products that only reflect expected and not realized price spikes. At this stage, some arguments have been presented in both directions, both in favor or against a possible exemption of payback. Given that hedging strategies on the market belong to the individual choice of the market parties, REstore does question whether it is up to the CRM to cover participants against the risks of individual choices.