

Portfolio-based bidding in the intraday electricity market: way forward for the Iberian region



EFET position paper – 10 October 2017

Introduction

The purpose of this EFET¹ position paper is to argue in favour of portfolio based bidding in an intraday continuous power market, by presenting the main advantages of this approach over single unit based bidding. We aim to explain why this solution should be the preferred and chosen one for all countries partners of the XBID project. This is particularly relevant for the Iberian intraday market where unit based bidding is still the rule and in view of the fact that the Iberian intraday market is expected to join to the first XBID go-live session, currently foreseen to take place in Q1 2018.

XBID project: the importance of intraday continuous trading

The establishment of a liquid and efficient continuous implicit intraday market (XBID) is one of the key objectives of the CACM Regulation. The XBID solution will enable market participants to adjust their positions and optimise their portfolios during the day of delivery, as well as give them the possibility to take into account relevant changes in fundamentals which remain unknown at the time of the gate closure of the day-ahead market session.

A continuous trading market in the intraday timeframe is also the best tool to integrate renewable generation in the wholesale electricity market, as the intermittent nature and unavoidable variations of wind and solar forecasts have generated a growing need for trading closer to real time (until H-1). This is essential in order to benefit from variations of generation output or to compensate for unexpected variations, with large volumes at stake compared to variations further ahead of real time (such as unplanned outages etc.).

Within the XBID project, market participants will have the chance to fine-tune the adjustment of their power portfolios not only from their domestic market but also from the neighbouring markets up to one hour before delivery, diminishing their risks of being out of balance and correspondingly helping lowering the balancing burden on grid operators.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Portfolio-based bidding vs. unit-based bidding

A continuous market is dynamic and fast-paced: it reflects the need for continual adjustment in the positions of different market participants caused by variations in the fundamentals near real time. Because of the need to react quickly to events and hence to place bids on the market, a unit-based bidding would be highly unfeasible in a continuous trading environment for the following reasons:

- It would not allow quick, reactive trading as it would require the immediate declaration of the production or consumption unit in question;
- It would be extremely complex and cumbersome for market participants, as it would prevent the simultaneous management on an aggregate basis of the production or consumption of several units in a portfolio;
- It would not allow a flexible bidding strategy;
- It would not attract liquidity and could even deter agents to participate in the continuous trading.

In our view, the opportunity to submit bids/offers on a portfolio basis ('portfolio bidding') is a precondition for the development of efficient intraday power trading. Portfolio bidding also allows market participants to establish a more flexible bidding strategy as, for instance, it grants producers the flexibility to nominate the quantities bought/sold in the intraday market in any of their units. A market participant allowed to trade on portfolio would then allocate the total amounts purchased or sold to the individual units of its portfolio only later in the nomination or 'scheduling' to the TSO: in other words, via the nomination process, a market participant transitions from the commercial to the physical phase, by committing its resources and making the physical execution of contracts traded on the market.

The Iberian case: unit bidding in a portfolio-based environment

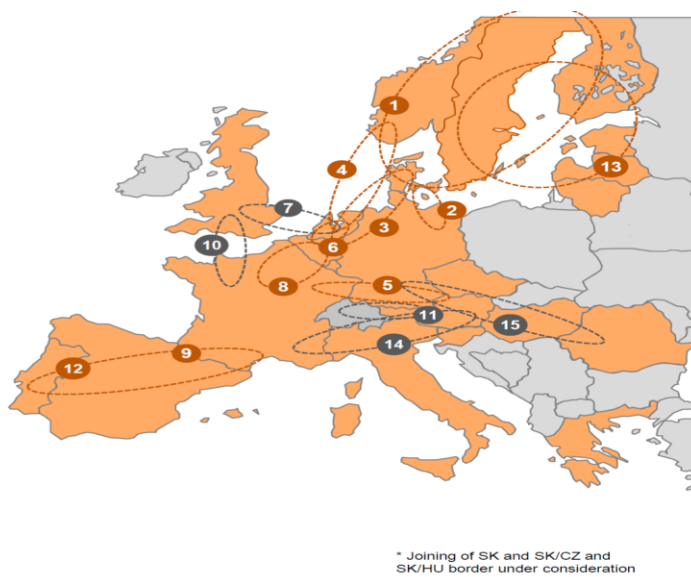
In our understanding, all main XBID project partners adopt a portfolio-based approach in the intraday market.

LIPs part of 1st go-live Q1/2018

LIP	Participants
1	Nordic Fingrid, EnDK, SvK, Statnett, Nord Pool, EPEX
2	Kontek EnDK, 50Hz, Nord Pool, EPEX
3	DK1/DE, DE/NL EnDK, TenneT NL & DE, Amprion, EPEX, Nord Pool
4	NorNed Statnett, TenneT NL, EPEX, Nord Pool
5	FR/DE, DE/AT Amprion, TransnetBW, APG, RTE, Swissgrid, EPEX, Nord Pool, Tennet DE
6	NL/BE Elia, TenneT NL, EPEX, Nord Pool
8	FR/BE RTE, Elia, EPEX, Nord Pool
9	FR/ES & ES/PT RTE, EPEX, OMIE, REE, REN, Nord Pool
12	Baltic Elering, Litgrid, AST, Fingrid (Estlink) Svenska Kraftnat (NordBalt), Nord Pool
13	

LIPs going live at a later stage

LIP	Participants
7	BritNed BDL, NG, TenneT NL, EPEX
10	IFA RTE, NG, Nord Pool, EPEX
11	AT/CH APG, Swissgrid, EPEX
14	INB ADMIE, APG, ELES, RTE, Swissgrid, Terna, BSP, EPEX, EXAA, GME, LAGIE, Nord Pool
15	DE-CZ, AT-CZ, AT-HU, HU-RO* 50Hertz, APG, CEPS, EPEX, EXAA, HUPX, MAVIR, Nord Pool, OPCOM, OTE, Tranelectrica, TTG



Germany, France, Switzerland, Belgium, Netherlands, Nordic and Baltic countries all have portfolio bidding in place. The only case of unit-based bidding is Italy: however, we highlight that at the beginning of the year the Italian Regulator² revealed its intention to shift to a portfolio-based approach in intraday and potentially also in day-ahead, in conjunction with the entry of the Italian borders region (LIP n.14) in XBID, currently foreseen in Q1 2019.

Instead, we understand that in the path toward the go-live of XBID, OMIE, CNMC and ERSE have made clear their preference for maintaining the current set-up based on unit bidding. This idea was recalled in the recent consultation run by the Spanish and Portuguese regulators on the complementary intraday regional auctions for the Spanish-Portuguese bidding zone border, where they declared that the Iberian market *“has been designed from the beginning as a physical market, and not as a market based on trading portfolio”*. With this in mind, CNMC and ERSE stated that *“there may be a need to assess the benefits of establishing a local link between each block bid submitted to the continuous trading, and the corresponding bidding unit”*.

EFET strongly opposes the idea of maintaining unit-based bidding in a continuous trading market for the following reasons:

- The XBID standard solution, namely implicit continuous trading, must be established in an efficient manner. As explained above, apart from being cumbersome from an operational point of view, unit based bidding is incompatible with the need for reactive trading; portfolio bidding will even become a necessity when - as we expect and strongly support - the number of Iberian complementary regional auctions will be reduced from the current six and continuous trading will clearly become the predominant solution. Indeed, from an operational point of view, continuous trading is impracticable in a unit-by-unit bidding basis, so the Authorities must ensure that bidding will be done in a portfolio basis as the number of regional auctions is being reduced;
- Unit-based bidding would actually prevent market participants not owning assets or catering to customers in the Iberian region from participating to the intraday market. This would constitute an undue discrimination against those market participants. Hence, we seek clarity from the Iberian Authorities on this point. In any case, we call for full access of all European market participants to the Iberian intraday market, in both continuous trading and regional auctions, without undue discrimination;
- Unit-based bidding risks endangering the smooth and efficient development of intraday cross-border power markets; market liquidity, also across the border with France, would likely be affected by this market design deficiency, thereby seriously undermining the overall scope of the XBID project. For instance, we wonder how market participants located in France would be able to participate at all in the Iberian regional auctions and purchase power to flow it into France, given that explicit cross-border auctions on the Spanish-French border will cease to exist and explicit access to capacity is not foreseen at this border. Also, we wonder if French market participants would actually be able to place bids on the XBID screen and flow power into Spain or, vice-versa, be allowed to ‘see’ bids coming from the Iberian side, having in mind that they do not own assets in the region;
- Overall, unit-based bidding in the Iberian region will be a unique case in self-dispatch Western European markets, making its design inconsistent with that of the other XBID project partners.

² AEEGSI consultation document n.798/2016, p. 12 <https://www.autorita.energia.it/allegati/docs/16/798-16.pdf>

Potential transparency concerns related to portfolio bidding have been adequately addressed in all these markets by direct nominations and scheduling to the TSOs, after the results of the intraday market are known. Further potential market power or market abuse concerns should be addressed through the market monitoring activities of both Regulators, potentially also under the existing EU regulation such as REMIT or MAR, but not by restricting market design as a preventive measure.

Recommendations for a sound Iberian intraday market design and for efficient cross-border intraday trading

In order for the XBID project to succeed and reap the full benefits of integrated intraday power markets, we believe that harmonizing bidding terms in interconnected markets is a pre-condition. This would facilitate bidding strategies from an operational point of view and avoid discriminating against certain categories of market players (i.e. 'pure traders'), which would result in greater liquidity in the market.

We believe that it is time that Iberian regulators take the initiative and favour the integration of intraday markets. In particular, **we urge the Authorities from the Iberian region as well as other parties of the XBID project to carefully consider all the reforms that are still needed to ensure a successful participation of Spain and Portugal in XBID, including an immediate transition to portfolio bidding and direct nomination to TSO.**

The absence of a reaction and not taking into consideration these critical market design reforms, will not only nullify the expected benefits of the continuous intraday market, but will also worsen the overall Iberian market conditions by reducing the number of market participants and its liquidity, effectively isolating it from the intraday market in the rest of Europe.