Documentation of the CWE FB MC solution as basis for the formal approval-request (Brussels, 27th February 2015)

Annex 16.21: Implementation of FTR Options and temporary LTA+ solution

Efficient price formation on the day-ahead market is essential to guarantee a level playing field between market participants, reduce the risk of market abuse, ensure reliable and transparent prices for contract indexation/settlement, etc.

The quality of price formation on smaller markets depends heavily on the liquidity provided by coupling with neighbouring markets – in particular, the blocks and smart orders requested by market participants require a high level of hourly liquidity.

Therefore, it is essential that day-ahead capacity is made available to the day-ahead market coupling ("DA MC"). This is taken into account by reserving some transmission capacity for the DA MC in long term capacity allocation. In addition, the relatively low level of nomination of long term capacity rights ("LT capacity rights") resulted until recently in additional capacities made available to the DA MC due to the use-it-or-sell-it principle ("UIOSI").

As market participants' bidding behaviour is uncertain, the risk of an unexpected increase in the nomination of LT capacity rights cannot to be ignored (e.g., exacerbating a shift to OTC leading to more nomination of LT capacity rights). Nevertheless, stress tests that were performed as part of the aforementioned adequacy study indicate that there is a lower risk of observing extreme prices and even demand curtailment under flow-based market coupling compared to ATC-based market coupling.

The risk of scarcity (e.g. on the Belgian market) and hence of curtailment on the DAM could incentivise market participants to nominate their LT capacity rights to make sure they get the energy in Belgium and avoid paying very high imbalance prices. The combination with current imbalance prices above the DAM maximum prices leads to a discrimination between using vs giving up LT capacity rights (at least from a hedging point of view).

Although the LT nominated capacity would evade flow factor competition (i.e. a core flow-based principle), it could in this particular case however even correspond to a relieving reduction of price-taking orders in the stressed bidding zone (e.g. on the Belgian market).

FTR Options mitigate the risk of having very limited capacity (potentially no capacity at all) made available to the DA MC, such risk being exacerbated by the adoption of the flow-based methodology. FTR Options would guarantee that a capacity at least equal to the allocated long term capacity rights will be available for DA MC. The absence of nomination of long term capacity rights would also remove the theoretical risk of market abuse related to the activation of the intuitiveness patch which has been shown in previous studies (cf. Intuitiveness Report).

FTRs shall be implemented (at least Belgian and Dutch borders) by 1^{st} of January 2016 subject to the outcome of the public consultation on the Auction Rules, NRA approval and MIFID clearance.

Until FTR Options are implemented, a temporary mitigation measure has been designed and can be triggered to provide a guaranteed minimum level of day-ahead capacity on particular borders.

The “LTA+” mechanism will be an additional guarantee that some capacity is made available for DA allocation. If needed, the “automatic LTA coverage” mechanism developed in the FB TSO - Common System to ensure that the LT domain is included in the FB DA domain will be applied taking into account a “LTA+X” value above the standard “LTA” value on the Belgium borders.

The threshold for the triggering of this LTA+ mechanism, means triggering both measures “solution BE-FR” **and** “solution BE-NL”, is defined as follows:

At least in one hour of a month M the LT nominations (LTN) have reached 80% of BE import LTA:

- $LTN_{FR \rightarrow BE} + LTN_{NL \rightarrow BE} > 0.8 * (LTA_{FR \rightarrow BE} + LTA_{NL \rightarrow BE})$

LTA is defined as: $LTA_{yearly} - Resale_{year\ to\ month} + LTA_{monthly}$

Solution BE-FR

In case of the above mentioned trigger, for 7 days following consecutive the trigger 200 MW will be added to LTA in the direction of Belgium (“LTA+X”, X=200MW). This value respects the rules splitting the allocation of capacity across the different timeframes (approved by the respective regulators).

Solution BE-NL

The monthly capacity for NL->BE border will be reduced with 165 MW and these 165 MW will be added as '+X' (“LTA+X”, X=165MW). Being a monthly process, it will be triggered by the 80% rule, applicable to the next monthly auction.