Explanatory note on UIOSI with flow-based market coupling

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This note explains that the UIOSI ("Use It Or Sell It") compensation mechanism for the non-nominated long term capacity rights won't change with flow-based market coupling, even if market results are "non-intuitive": the compensation will be against the positive "day-ahead spot market spread". Market participants are **not** expected to pay out the negative spread.

UIOSI principles

A market participant may decide not to fully use the long-term capacity right ("programming authorization") he has previously bought (during yearly or monthly explicit auctions or using the secondary market). The capacity which is not nominated is then freed up and automatically resold to the daily implicit allocation process.

The non-nominated programming authorizations for yearly and monthly capacities after the nomination deadline are financially compensated to the Participant. This compensation is equal to the automatic "resale" of this non-nominated part to the daily allocation. This means that the market participant will be compensated with the "day-ahead spot market spread" on the relevant border.
The "day-ahead spot market spread" is defined as the importing market hourly price minus exporting market hourly price (provided this spread is positive), being considered the importing and exporting markets the ones that correspond respectively to the destination and the origin of the energy transaction.

Resale costs and congestion revenue

The costs related to the compensation of UIOSI ("resale cost") are fully covered by the congestion revenues generated by the daily implicit allocation. This is valid as long as the daily offered capacity is higher than the long-term capacity, which will always be the case with flow-based market coupling.

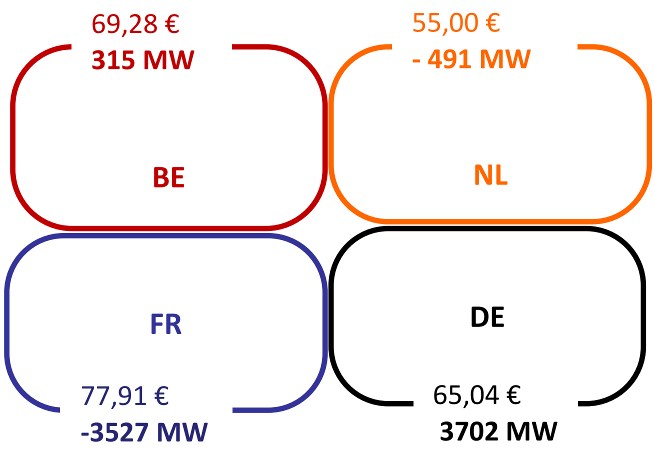
UIOSI and (non-)intuitiveness

Some questions have been raised by market participants about the link between this UIOSI compensation and the fact that flow-based may result in a "non-intuitive" situation. A non-intuitive situation is a situation in which either the most expensive area exports or the cheapest area imports (more information on non-intuitiveness can be found in the "intuitiveness report"[1])

For market participants, the fact that market results are intuitive or not doesn't impact the compensation of the resale costs (UIOSI). The compensation is only a function of the market spread at the relevant border, while the (non-)intuitiveness of a situation is also dependent of the net positions of the markets (import or export levels).

[1] The report can be found on http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/Documentation under the heading "Intuitive Report"

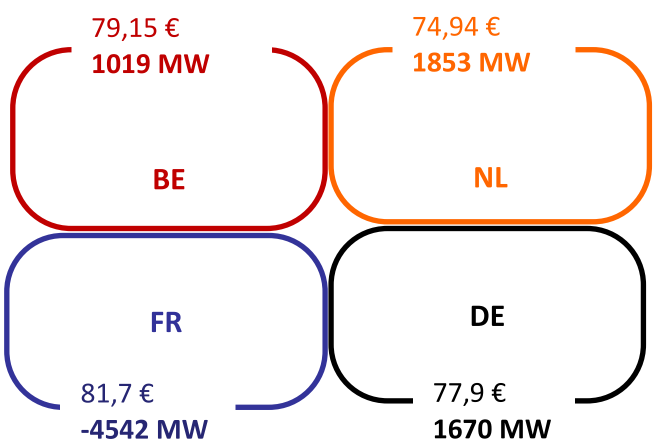
As an example, let's take one of the last non-intuitive situations from the 2013 parallel run (December 13th, hour 21).



In this case, the Netherlands are importing energy while having the cheapest price in the region. This doesn't affect the compensation of the non-used long term rights (UIOSI). The market participants would be reimbursed for the non-nominated programming authorisations in the following directions:

NL=>BE: with a spread of 69,28 – 55,00 = 14,28€
BE=>FR: with a spread of 77,91 – 69,28 = 8,63€
DE=>FR: with a spread of 77,91 – 65,04 = 12,87€
NL=>DE: with a spread of 65,04 – 55,00 = 10,04€

The previous hour (December 13th, hour 20) was an intuitive situation.



The Netherlands also have the cheapest price, but this time without importing energy. The market participants would be reimbursed for the non-nominated programming authorisations in exactly the same directions as for the non-intuitive example. Only the spreads are different (as the situation is less constrained, the prices are closer to each other, implying smaller spreads).

NL=>BE: with a spread of 79,15 – 74,94 = 4,21€
BE=>FR: with a spread of 81,70 – 79,15 = 2,55€
DE=>FR: with a spread of 81,70 – 77,90 = 3,8€
NL=>DE: with a spread of 77,90 – 74,94 = 2,96€

Conclusions

This illustrates that the intuitiveness of market results doesn't affect the UIOSI compensation mechanism. Market participants will still be compensated with the day-ahead spot market spreads on the relevant borders. Additionally, as long as the TSOs offer more capacity to the daily allocation than for the long-term auctions, they have the guarantee that the resale costs will be smaller than the congestion revenues generated by the day-ahead market coupling.