

LTTRs Remuneration in case of decoupling

Initiatives developed in the last months



LTTRs remuneration in case of decoupling

Latest decoupling events have had a very strong impact on tariff payers

Decoupling	LTTR CI*	SA CI	LTTR to MPs
07/06/2019	1,7 M€	716 k€	19,6 M€
04/02/2020	62 k€	26 k€	208 k€
13/01/2021	454 k€	268 k€	4,0 M€
Total	2,2 M€	1,0 M€	23,9 M€

CI: Congestion Income
SA: Shadow Auction
MPs: Market Participants

TSOs held a workshop with the regulators to discuss short-/medium-term measures to mitigate the impact

The workshop from 23 April focused on:

- **The remuneration issue:** where TSOs proposed different alternatives to mitigate the impact of the current LTTR remuneration in case of decoupling. One of them being the extension of the current cap in the Harmonized Allocation Rules for its application in case of decoupling. This extension of the cap to decoupling incidents was part of the public consultation held during May and has been **submitted by TSOs to ACER as part of the proposed amendment.**
- **The fallback issue:** where TSOs presented and discussed different pan-EU alternatives and proposals for improvement to the current fallback mechanism.

LTRRs remuneration in case of decoupling

Agreed conclusions and next steps

- TSOs propose a burden sharing mechanism (between tariff payers and market participants) and to have a fairer mechanism in case of decoupling
- EC / some NRAs consider that the option proposed within the HAR update deteriorates the quality of the hedging as compared to today

TSOs and regulators came up with the following initiatives

INITIATIVE 1

External independent econometric assessment of the Shadow Auction mechanism



INITIATIVE 2

Trial process requesting Market Participants to update the Shadow Auction bids daily



Initiative 1 – Econometric-based assessment of Shadow Auctions

Econometric assessment - Motivation (1/3)

ACER and NRAs request

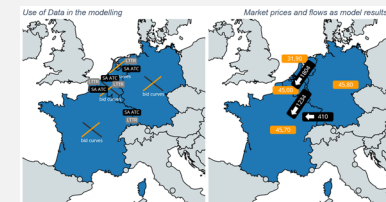
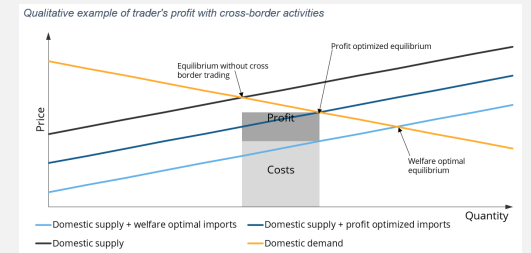
To produce a written econometrics-based argumentation on whether there is a concrete design flaw in the SA mechanism.

All TSOs' initiative

To seek for an external assessment from a group of researchers from Ulm University, who focused on:

- An econometric model (Cournot model), implemented and tested in GAMS, **simulating a shadow auction situation** and modelling behaviours of the traders.
- **Public or easily accessible data for CCR Core+** without using fundamental power plant data or a network model
 - Market coupling data from **JAO and ENTSO-E website**
 - Market data restriction to **aggregated bid curves** published by **market operators** publicly or commercially available
- Simulator tool **modelling of electricity traders with cross-border activities** (maximizing their profit considering cross-border transactions and LTRs in the SA).

Excerpt from the methodology



Initiative 1 – Econometric-based assessment of Shadow Auctions

Econometric assessment - Description (2/3)

Main assumptions and scenarios

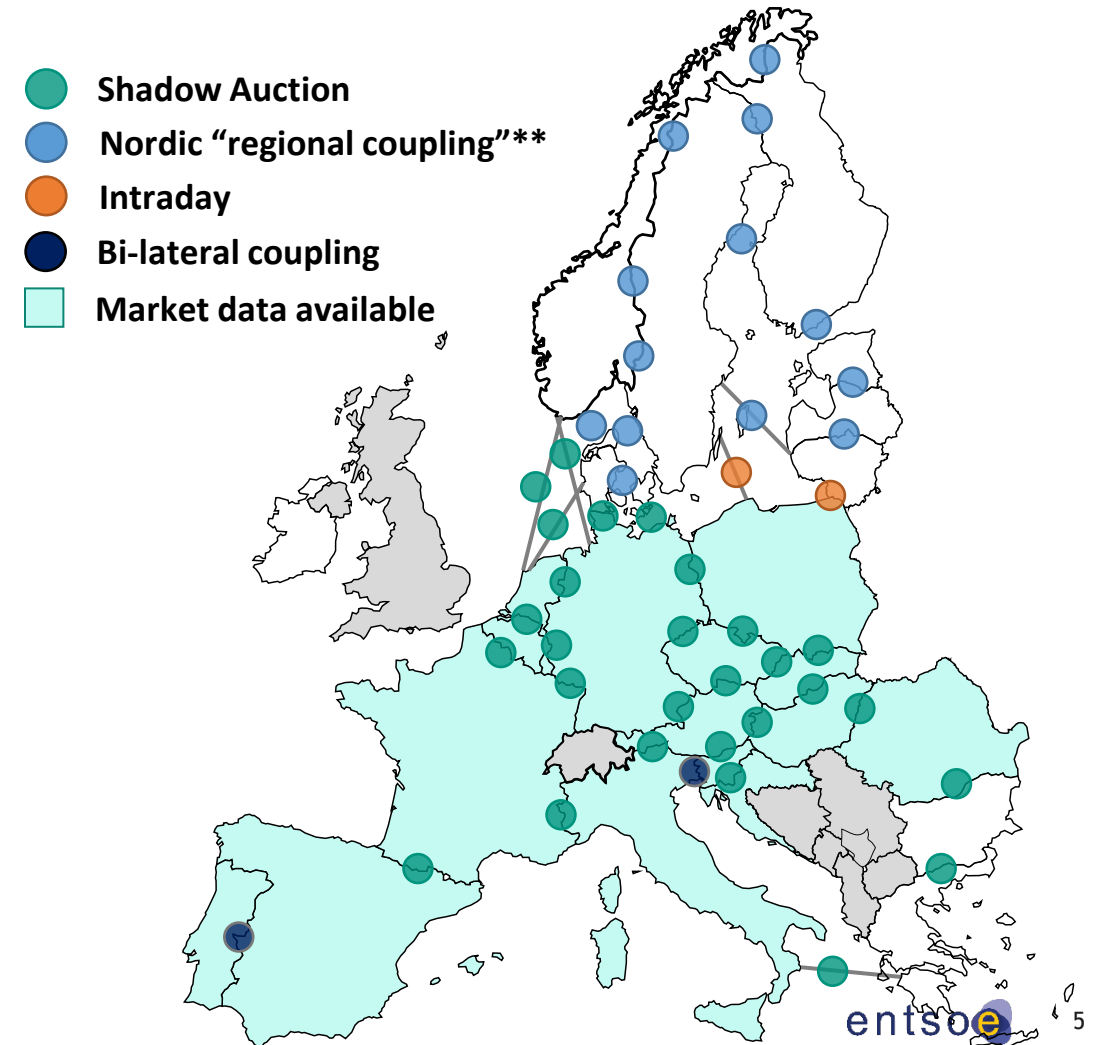
- Cournot-Nash-Equilibrium with **Shadow Auctions, ATC and bid curves** as main data basis
- Performed for up to 10 days in 2020 with the hour 14:00 – 15:00 used as data basis
- **Various scenarios** (e.g. welfare optimal vs multiple traders approach) allow the analysis of welfare and distributional effects



TSOs appreciate the cooperation of the following NEMOs for facilitating the relevant bid curves for the study:

- BSP, Slovenia
- CROPEX, Croatia
- HUPX, Hungary
- OPCOM, Romania
- OTE, Czech Republic
- OTKE, Slovakia
- TGE, Poland

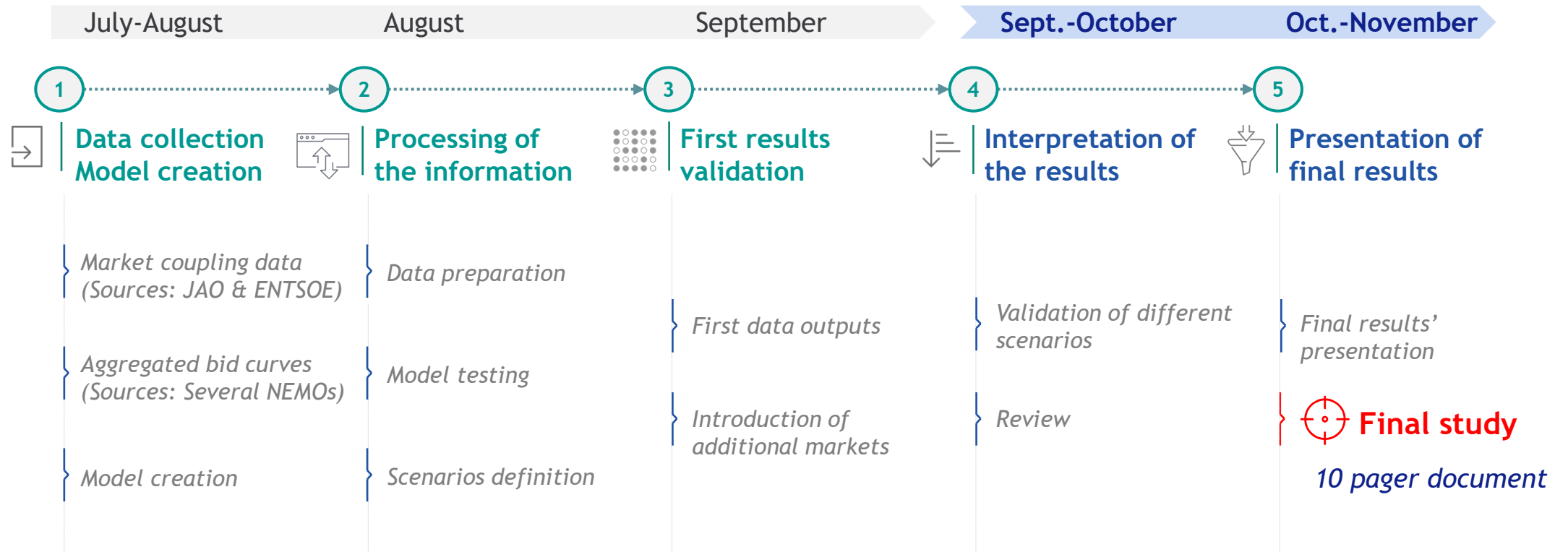
Fallback mechanisms' status as of ICP go-live (June 2021)



Initiative 1 – Econometric-based assessment of Shadow Auctions

Econometric assessment - Next steps (3/3)

Timeline



First results are expected to be presented in the Pentilateral Coordination Group meeting with the regulators on 5 October. Final study expected by end of October / beginning of November.

Initiative 2 – Trial process

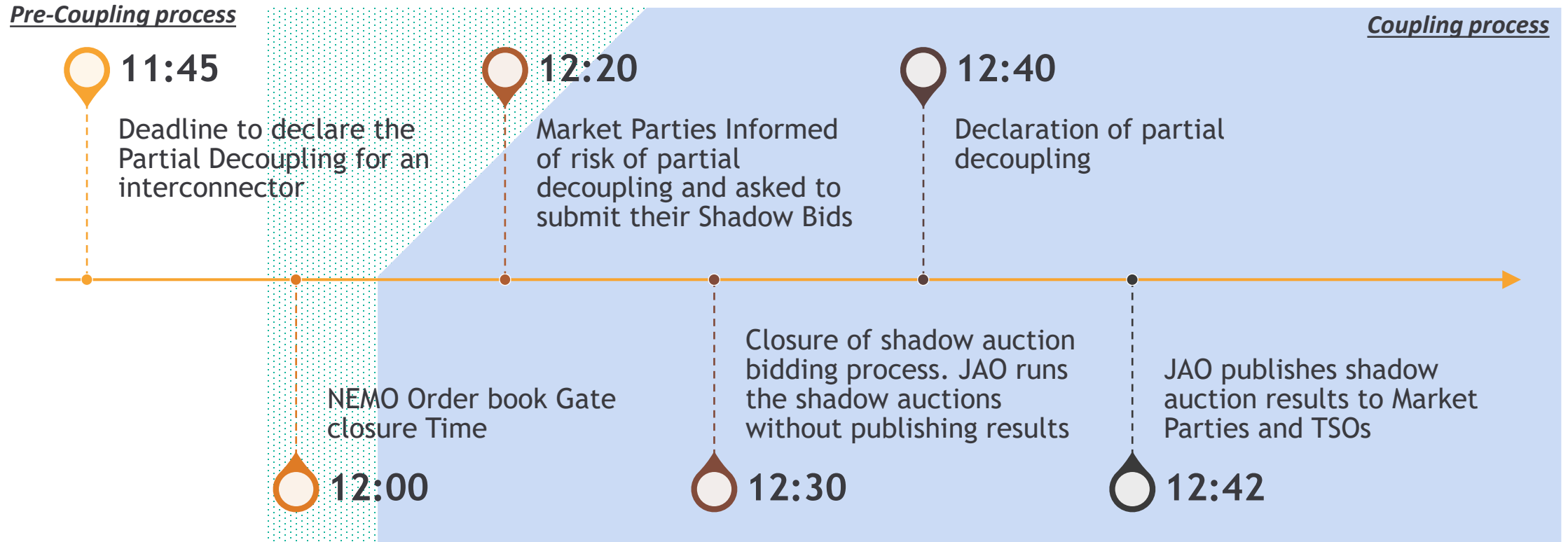
Trial process parallel requesting Market Participants to update the Shadow Auction bids daily (1/5)

- Participation of Market Participants to Shadow Auctions in the decoupling incidents very low
- **NRAs asked TSOs to propose/implement improvements to the Shadow Auction process which can be implemented “ASAP”** (e.g. without any changes to relevant regulations, no significant implementation efforts on Market Participants, TSOs etc. side)
- TSOs and JAO proposed a **pragmatic “add-on” process starting at 12h to notify all Market Participants** eligible to participate to Shadow Auctions to update their bids on a daily basis. This process was triggered irrespective of a decoupling risk.
 - **TSOs and NRAs hoped that this voluntary improvement of communication between TSOs and Market Participants would lead to daily bid updates of Market Participants and therefore an improvement of Shadow Auction results.**

TSOs and JAO went live with this voluntary process enhancement on June 2nd 2021 in order to ensure a timely setup of this process also on the Market Participants side (if possible) before the go-live of the Interim Coupling Project on June 17th 2021 (or future go-lives)

Initiative 2 – Trial process

Trial process parallel requesting Market Participants to update the Shadow Auction bids daily (2/5)



Proposed voluntary processes

12:00h – JAO sends “reminder” to all Shadow Auctions Market Participants (daily process!)

12:01h – Market Participants update their (back-up) Shadow Auction bids

15:30h – JAO monitors Shadow Auction process (e.g. updates of bids, updates bids in case of decoupling)

Initiative 2 – Trial process

Trial process parallel requesting Market Participants to update the Shadow Auction bids daily (3/5)

Message sent to Market Participants by JAO

” We kindly remind you that you have the possibility of updating your shadow bids on the eCAT Platform, regardless of any risk of decoupling.

If you are currently not registered for shadow auctions but are interested in doing so, please visit JAO’s website to complete the relevant registration documents: <https://www.jao.eu/resource-center/registration>

This daily message is sent in the context of NRAs’ request to initiate a trial-run to proactively improve meaningful participation in Shadow Auctions as the main fallback for Single Day-Ahead Coupling.

”

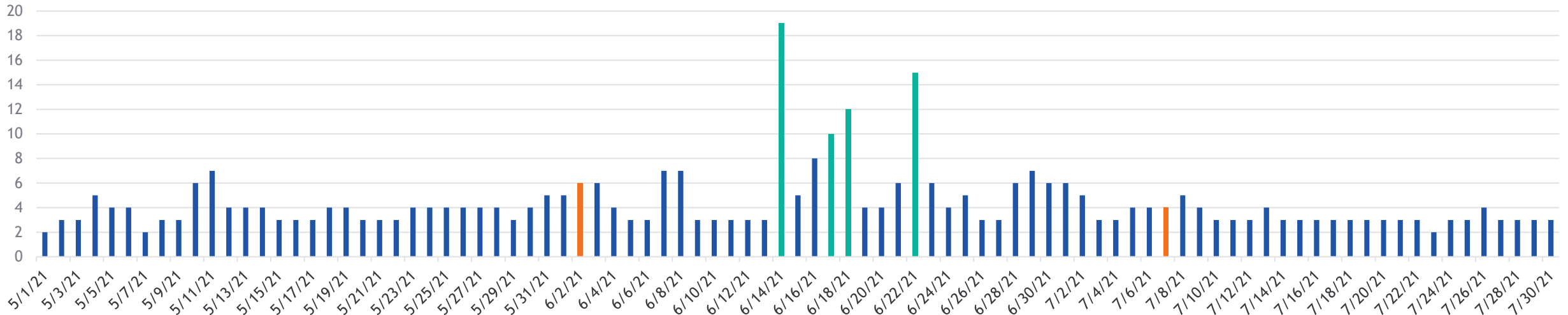
Initiative 2 – Trial process

Trial process parallel requesting Market Participants to update the Shadow Auction bids daily (4/5)

35 „reminders“ sent to Market Participants during trial process (Phase 1)

- On average 4 out of 152 Market Participants updated their bids; unfortunately no (positive) impact of ICP go-live was observed although many new Market Participants (32) joined the Shadow Auction process
- Quality of bids cannot be assessed, as bids are confidential and no decoupling were triggered within the period

Count of individual parties updating/creating shadow bids



02-Jun	Start of sending of daily messages
14-Jun	Delay in market coupling results - additional message sent at 12:30
17-18 Jun	Go-live ICP
18-Jun	Delay in market coupling results - additional message sent at 12:50
22-Jun	Delay in market coupling results - additional message sent at 12:30
07-Jul	Stop of sending of daily messages due to Microsoft blacklisting all JAO email exchanges

Initiative 2 – Trial process

Trial process parallel requesting Market Participants to update the Shadow Auction bids daily (5/5)

Study Summary

- No visible positive impact from daily reminder messages.
- Update of shadow bids only took place in the event of a real risk of decoupling but was limited to 19 Market Participants of potentially 152
- Market participants expressed frustration over the daily sending of reminders and requested JAO to stop
 - Ultimately, JAO was forced to stop due to Microsoft blacklisting JAO as a sender for all email communication
- JAO User Group feedback suggested to implement default/shadow bidding via **webservices** instead of via the user interface due to the high number of borders that will need to be updated
 - Technical feasibility will need to be assessed, but it should be considered as an option to facilitate the updating of shadow bids