

Annex 4: fall back options

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1 Contents and purpose of this document

This document is the report from MDWS on the analysis of the different options that have been envisaged for fallbacks.

The option proposed by MDWS to JPB/JSC is the "shadow explicit auction" option, which is described in the document "Fallback arrangement".

2 Requirements to be imposed on the fallback arrangement

The following requirements are considered by the project partners in the rest of this note. In any case, the final acceptability of the fallback solution is up to the regulators.

1. Minimal market disturbance:

1.a Ideally, the fallback procedure should allow market participants to trade-out positions like they would normally do in a coupled situation i.e. with the best use of the cross-border transmission facilities. This would provide the right prices with a minimal market disturbance. ¹

This implies that:

1.b: The market participants must be allowed to update their order book when they are informed that a fallback procedure is triggered.

1.c: The timings are as close as possible to usual timings.

2. The simpler the better, as well for market participants as for MC operators:

A procedure that is both sophisticated and seldom used is error-prone. The fallback procedure must be easy to carry out, both for the market participants and for the TSOs and PXs operators. By definition, a fallback procedure must be as risk-free as possible, as it has no fallback itself.

The fallback procedure should especially be kept simple if it was considered as a temporary solution.

3. Daily schedule compatibility:

The fallback procedure must fit into the CWE daily schedule² (nominations, network security checks...).

¹ Given the unexpected situation, are participants really in a position to do this or do they prefer to balance in each hub without trying to use the capacity? In the TLC fallback real cases, only a few participants actually used the capacity. In addition, in case of an explicit allocation of capacity, this criterion means that each PX must close its order book at a different time, so that the results of the previous PX is known before bids are firm. Is this realistic ?

² tighter than the TLC daily schedule

4. Network security compliance:

The fallback procedure may not jeopardize the network security.

5. CWE planning compliance:

The development of the fallback procedure may not delay the CWE project. However CWE should not be launched without an adequate fallback in place.

6. Law compliance:

Needless to say, the arrangements between the CWE parties must comply with national laws and EU regulations as far as possible, taking into account the exceptional character of fallback situations. For instance the cross-border capacity allocation in fallback situation should, if possible, remain market-based.

7. Cost:

Both investments and operational costs must be taken into account. A cost/utility analysis will guide the choice, given the probable low frequency of using the fallback arrangements.

3 Implications of the requirements

In order to satisfy the above requirements, the following possibilities appear to be ruled out:

- a flow based fallback solution: in fallback situations, only border per border ATCs should be allocated [see requirements 2 and 5]
- a fallback procedure that would depend
 - on the causal event
 - or on the moment in the daily schedule when it is triggered (therefore no partial decoupling even if the fallback is known in D-2 for instance) [see requirements 2 and 5]
- allowing more time to perform the MC operations (or equivalently retry the MC at a later time: the deadlines that are defined in the fallback schedule are, by definition, the latest possible limits that are compatible with requirements 3 and 4.

4 Other projects potentially impacting the fallback solution

At least two other projects may influence the decisions in the fallback framework:

- the long term auctions and the creation of CASC,
- the “enduring IDXB”: this platform will provide a way of allocating the capacity in intraday and therefore may turn out to be a very promising MC fallback mechanism; however
 1. it will probably not be operational before the start of the CWE MC, thus requiring at least an interim solution in the meanwhile,

2. details of this future option are still too uncertain to enable us to take any decision on its basis.

5 What fallback solutions remain possible?

Taking into account the observations in the previous paragraphs, three main fallback options, all with different variants, were analysed. They are described below. First in this chapter the descriptions of the three main options and several sub options are given and then, later in the document, a comparative table is proposed. Based on the elements mentioned and the results from the market consultation performed in May, one of the options is proposed to the JSC to be included in the implementation study.

Option 1: the market participants, after being informed of the decoupling situation, can use the current “border per border” IDXB mechanisms³.

This implies that:

- There is no day-ahead capacity allocation;
- the first gate of the IDXB allocation mechanism is too late to enable market parties to balance their portfolios in D-1 with XB arrangements;

Therefore, in order to balance their position in D-1 (legal obligation in some countries), the participants can only resort to their “local” hub, through a local fixing of the PXs (the local PXs re-open their order books) or through bilateral last-minute contracts.

Balancing obligations in day ahead in the different countries are as follows:

In Belgium, the balance obligation is included in the Grid code (which necessitates a royal decree for any modification) and in the Elia’s ARP contract. At 14h, market parties must have nominated balanced day-ahead schedules to Elia. After this gate closure, parties are only allowed to modify their schedules if they have been requested so by Elia, to correct an imbalance.

In the Netherlands, the balance obligation is not included in the Grid Code but in the Balance Responsible Party contract. At 14h, market parties must nominate balanced schedules, but they are authorized to send other nominations afterwards, provided they stay balanced (meaning that TenneT checks this balance each time new schedules are sent).

In France, there is no balance obligation in day ahead.

In Germany there is a balance obligation in place which is fixed in the German law (StromNZV § 5).

Option 1b: the allocation of the day ahead capacity is done using the tools that are currently in place at the different borders. This could be done at the price making mechanism currently used at the different borders. This would make it necessary to keep the current mechanisms in operation. The timing would probably be similar to option 3 and thus could turn out to be not feasible.

In general one could conclude that it is not feasible to execute an auction within 30 minutes using tools which are not used every day.

³ the details of which are outside the scope of the CWE project

Option 2: the daily cross-border capacity on each CWE border is allocated by CASC, free of charge and equally between all interested parties.

In practice,

- All participants that are interested in receiving some XB capacity in fallback situations are invited to register beforehand (once a month/year ?). Should MC fallback occur, the available XB capacity will be equally shared between these registered participants.
- After being informed that the CWE MC fails to operate, participants are allowed to update their order books and, after a local fixing on basis of the updated order books, participants nominate according to the results of this fixing and registered participants may use their daily capacity for cross-border nominations. Participants will bid on the exchanges knowing the capacity they have.

In this option, the cross-border capacities must be expressed as ATCs instead of flow based parameters. This implies that TSOs must send ATCs to the system/entity in charge of the allocation mechanism (CASC). TSOs/CASC may have to publish this available capacity to participants and will inform each participant of the capacity it receives.

However this solution is not market based.

Option 2b (suggested by the market participants during the consultation):
option 2 with a distribution to parties who have explicitly asked for capacity the day of decoupling ("requesting parties"). This variant for option 2 would require that (1) a system is built to enable parties to send a request for capacity in day-ahead, in case of decoupling, and (2) also more time (additional window for the market parties to send a request). This would still be without any payment for the allocated capacity. This variant of option 2 is considered as valuable. The feasibility should be checked by CASC WG, especially in terms of available operational resources in day-ahead (at the beginning, CASC main activities will be yearly and monthly ones)

Option 2c (suggested by the market participants during the consultation):
an adapted fall back option 2 using the price spread between the PXs clearing prices for payment of the allocated capacity, the available capacity would be equally shared under the registered parties taking into account, if possible, the maximum requested capacity by each registered party. For the use it or sell it would be paid on the same price spread.

This option cannot be considered as a real market based solution, since the quality of the price signal in this case would be low.

Option 3(a) : the daily cross-border capacity on each CWE border⁴ is allocated using the explicit auctions operated by CASC.

In practice, the market parties are informed that the CWE MC fails to operate and daily auctions of capacity are performed by CASC. The market parties may send bids for the explicit auctioning of the XB capacity on each CWE border to CASC. After the GCT, CASC executes the auctions and makes the results available to the winning parties.

The parties are allowed to update their order books and a local fixing is run by PXs using these updated order books.

Participants thus bid on the exchanges knowing the capacity they have, and nominate their exchange programs to the TSOs according to the acquired capacities.

In this option again, the cross-border capacities must be expressed as ATCs instead of flow based parameters. This implies that TSOs must send such ATCs to the system/entity in charge of the explicit auction (CASC). CASC will have to publish this available capacity to participants before opening the auction.

In terms of planning, CASC will start operating explicit auctions by the end of 2008, and daily explicit auctions later in the course of 2009.

Option 3b: same as 3a but with auctions operated by TSOs border per border.

Compared to 3a, the participants would send bids to different auction operators as designated by each pair of TSOs. The timings could be different from one border to another.

Option 3c (suggested by the market participants during the consultation):
Fallback using shadow explicit auctions.

This option is described in details in the document "fallback arrangement".

6 Daily schedule in case of fallbacks

The table below shows the different constraints and hypothesis taken into account in the daily schedule, and the consequences in case of fallbacks:

- decision on fallbacks not know before 13h05 (see business processes)
- 15h30 being the latest time to receive cross-border nominations in France
- 1h required by market parties between the publication of the market results and the cross-border nominations
- 30 minutes needed to publish market results after the matching
- 30 minutes needed for market parties to bid on the power exchanges after an allocation of capacity (in line with the feedback from the Market Participants, see Q6 & Q9 in Annex 2).

⁴ "CWE borders" are F-B, B-NL, F-DE and DE-NL, the auctions taking place for both directions

Process	Belgium	The Netherlands	Germany	France
Decoupling decision	13h05	13h05	13h05	13h05
Allocation process : -information -allocation specifications -bidding -calculation of results				
Allocation results publication	13h30	13h30	13h30	13h30
PXs gate closure - Market results (*)	14h	14h	14h	14h
Market results publication(*)	14h30	14h30	14h30	14h30
Cross border nominations	16h30	16h30	15h50	15h30
Other TSOs daily processes (UCTE, intraday capacity calculation, margins calculation)				

(*) for GCT and market results publication, power exchanges make their best efforts to coordinate.

An important constraint when discussion on timings possible in the daily schedule is the obligation in some of the markets to have balanced energy schedules in the day ahead planning phase, this obligation will consume some time during the day ahead planning.

7 Comparison of the options

The table below presents the analysis of the compatibility of the different options with the predefined requirements:

	Option 1 (IDX)	Option 2/2b/2c (pre-defined key)	Option 3a/3b (explicit auction)	Option 3 c (shadow explicit auctions)
Requirement 1.a (minimal market disturbance)	no	yes	yes	yes
Requirement 1.b (updating order books is possible)	yes	yes	yes	yes
Requirement 1.c (timings of information provision to the market is as close as possible to usual timing)	best	average	worst	Average
Requirement 2 (the simpler, the better)	yes Simplest	yes The participants would have to sign specific contracts to be authorized on the allocation mechanism. Relatively simple but requires coordination between PXs and CASC in terms of timing.	yes Known by the actors the participants have to sign specific contracts to be authorized on the allocation mechanism	yes Known by the actors : the participants have to sign specific contracts to be authorized on the allocation mechanism Relatively simple but requires coordination

			Less simple than the 1 and 2; also requires some coordination between the PXs and CASC, in terms of timing.	between PXs and the fallback operator in terms of timing.
Requirement 3 (daily schedule compatibility)	yes	To be checked	no	To be checked
Requirement 4 (network security compliance)	yes	yes	yes	Yes
Requirement 5 (CWE planning compliance)	Yes	To be checked, mainly depending on TSOs subproject	To be checked, mainly depending on TSOs subproject.	To be checked, mainly depending on TSOs subproject
Requirement 6 (Law compliance)	No but this is the fallback of a market-based mechanism, and as such necessarily downgraded. Market parties consultation (answers to Q7 (see annex 2)) suggest that option 1 is not compliant with this requirement from market participants' point of view	No if we <u>must</u> have a market-based approach. It should be possible to convince regulators that this is the fallback of a market-based mechanism, and as such necessarily downgraded. Market parties consultation (answers to Q7 (see annex 2)) suggest that option 2 is not compliant with this requirement from market participants' point of view	yes	Yes

Requirement 7 (Project and operational Costs)	[Insignificant]	[moderate] - To be checked with TSO WG	[probably high cost/benefit ratio] Check with TSO WG	To be checked with TSO WG
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- Table 1: compliance with requirements

