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Long Term Flow Based Auction: actions to take before go-live to ensure a smooth transition

MESC meeting – 5 July 2023

LTFBA will lead to borders with low volumes/no LTTRs allocated

- Allocating LTTR with Flow Based auction implies a **competition between borders** based on the bid price.
- This is due to the **choice to maximize auction surplus**, whether or not this increases social welfare (design choice – not a “fatality”)
- This competition implies that some borders get **low/zero LTTRs**
  - ✓ If a border has a low spread at the moment of the auction, it will get low/zero volumes allocated, unless market participant bid way higher than the market price
  - ✓ This ignores the main risk MPs hedge with cross-zonal capacity: the risk of spread volatility

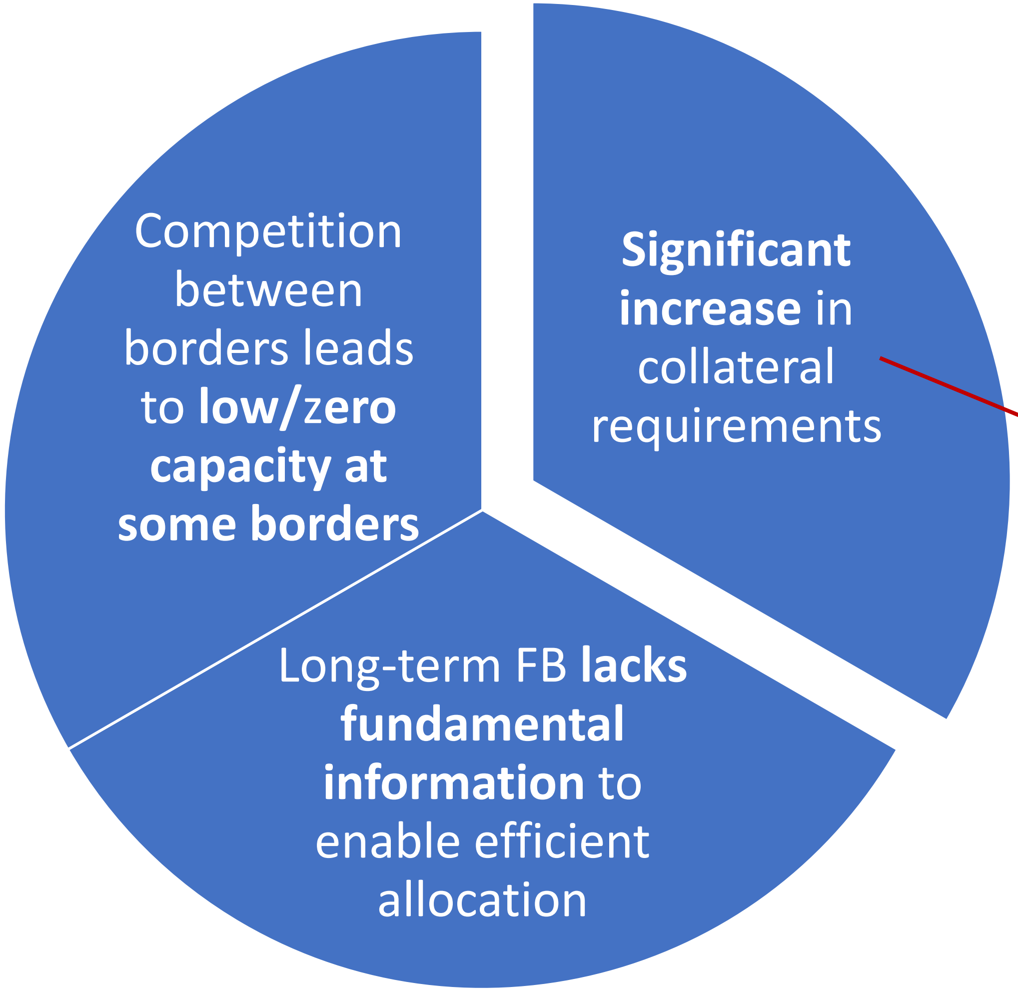
How can this negative impact be mitigated ?

- **Option 1: modify the optimization function**
  → competing based on the extrinsic value/time value
- **Option 2: ensure a minimum volume to be allocated at each border**
  → ”insurance” that no border gets isolated

Technical solutions exist and can be implemented

We urge TSOs and ACER to consider a mitigation measure prior to the go live

LTFBA will lead to an important increase in collateral requirements



HAR under consultation by ENTSO-E does not seem to address the issue:

It caps collateral, but the **requirement remains high**

- The **forward spreads** should be used for setting the cap (rather than DA spreads)
- The **payment periods** can be rearranged to ensure that the collateral is released

Still this system might **trigger sub-optimal bid filtering**

- The constraint should be integrated into the optimisation algorithm – **selecting the best/optimal combination of bids**