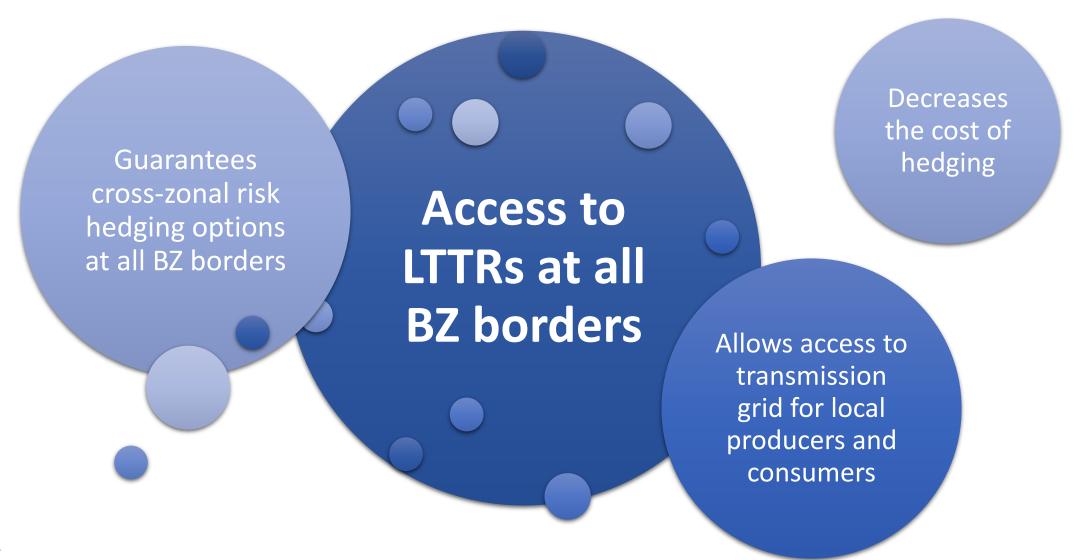




## The way forward for the allocation of LTTRs – reflections from the market

MESC – 25 February 2023

### 1. Getting the allocation of LTTRs right is important



## 2. Flow-based allocation of LTTRs presents significant drawbacks that have not been properly tackled so far

#### One single FB auction for **Problems:** all borders of a CCR **Problems:** - high collateral - some BZ isolated requirements in forward deoptimise bidding timeframe - proposed back-up solution is - higher hedging Concern 2: very high suboptimal (for costs **Concern 1**: borders compete MPs and TSOs) for capacity / low or no collateral requirements for availability of capacity at simultaneous capacity bids some borders at all borders

Concern not addressed so far

We commissioned a study to analyse the impact of

guaranteeing minimum LTTR volumes at all borders

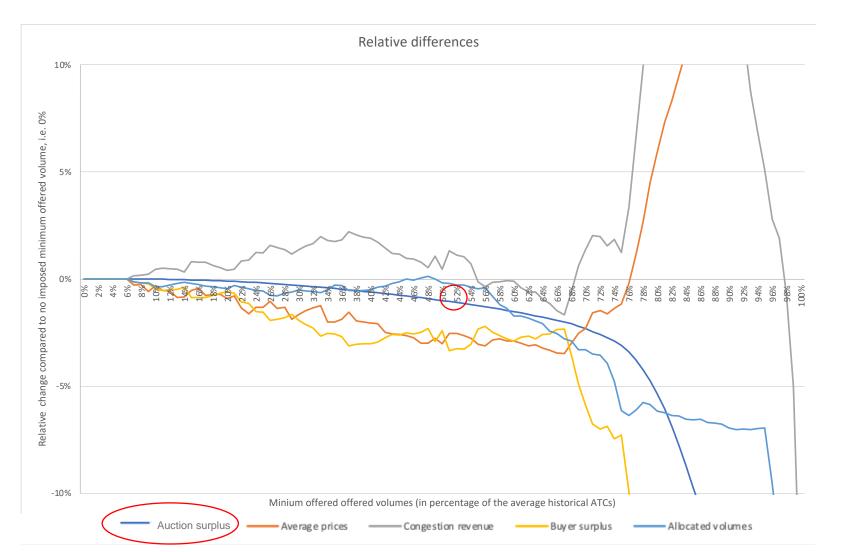
We advise developing the viable solution for bid filtering on market results before go-live

Concern recognised but

viable solution discarded for now

### 3. MPs are investigating the impact of minATC on FB results

Applying even sizeable Min ATC values has little impact on auction surplus and other indicators



# When at least 50% of historical ATCs are guaranteed at all Core borders:

- The average prices decrease by 3%
- The congestion revenue tends to increase by 1%
- The total allocated volume decreases by less than 1%
- The auction surplus decreases by 1%

#### 4. Next steps

### How does the Commission's upcoming impact assessment on the LT target model feed the discussion?

- → EC assessment should <u>put reliable numbers on the added-value of flow-based</u> (all things equal)
- → EC assessment should <u>look into the compatibility of flow-based with different market evolutions</u> (e.g. 3-year LTTRs allocated on statistical approach?)

#### What needs to happen in the meantime, before considering LT FBA go-live?

- → Develop a solution to <u>remedy the problem of 0 or low capacity volumes</u> at certain border (agree on a minRAM metric or another solution)
- → Make sure the <u>target solution for a collateral cap is finalised</u> (bid filtering on market results + cap calculated on forward spreads)

What is realistically feasible by November 2024?

Can we - right now - agree on a new deadline to get the work started toward a durable and value-creating solution?