



Pentalateral Energy Forum  
Chairpersons Support Group 1  
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Via e-mail: f.deloof@benelux.int

Your reference  
Our reference           MPP-2015-00164  
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Date                       30 March 2015

Subject                    Response to the open issues in the flow based market coupling  
project

Dear PLEF SG1 co-chairs,

The MPP has always been a promoter of the CWE flow based coupling project. Now we are close to go live of the project we still see some open issues that emerged in the Flow Based User Group on 2 February, the PLEF SG1 meeting on 12 February and the CWE FB market forum on 6 March 2015. In order to speed up the process we would like to give our input regarding these open issues. However, we believe that none of these issues should be showstoppers for the go live of the FB mechanism. The insecurity of the delay is a larger market risk than these issues, which could be discussed and solved after go live. Therefore the MPP welcomes the announcement of the go live on May 20th.

### **Adequacy patch**

Flow Based aims at maximizing the day ahead welfare of the energy market, while respecting (simplified) network constraints. Bids compete based on their price and on their flow participation on bottlenecks, this is called the flow factor competition. Highest bids creating lowest congestion are the winners and contribute to highest economic surplus.

Moreover, MPP would like to stress that scarcity in a bidding zone will not be addressed with any market coupling algorithm (ATC or even FB). Indeed, the curtailing of orders during the day-ahead auction does not directly lead to a similar load-shedding in real-time. A well functioning market will address any scarcity issue in the most efficient way. MPP is of the firm opinion that the market coupling algorithm or market coupling process should not be changed for periods of (expected) scarcity. Besides and beyond the scarcity issue, MPP believes that there are still strong improvements



possible to the Flow Based methodology to make it more fair and efficient: in particular the methodology for modeling some essential parameters (GSK, BC) should be further improved.

As a representative for European market participants, MPP is in favor of this day ahead welfare maximization solution. Assuming that the FB algorithm is the right tool to meet this goal, the MPP is in principle not supporting the further addition of patches or any tuning of the model. Indeed, this embeds the risk of diverging from the optimal dispatch and might generate distortions or side effects that are not controlled nor known.

#### **Transparency on static grid data**

MPP welcomes the publication of static grid data. However, we would like to stress the lack of clarity on the planning for this publication.

#### **Long Term Allocation (LTA)**

Instead of LTA we prefer to refer to the long term market. Here we understand that the concern of the TSO is about the use of physical transmission rights, for which potential physical nominations have to be compatible with the flow-based domain and therefore might require artificial extension of the domain. As a result, some TSOs argue that the current LTA is inadequate for the flow based market coupling and that monthly allocation could be reduced on the BE-NL border. However, MPP would like to stress the importance for market players to have possibilities to take hedging actions in the forward market and believe that any reduction of month-ahead allocation would have negative impact on the market. Therefore, we support working urgently on this issue in close cooperation with market players. Flow based has been suggested as bringing "more" capacity to the market, therefore we would strongly oppose any reduction of offered rights, even as a temporary measure.

#### **Future planning and governance of the project**

Another issue is the planning of the project after go live. We would like to underline the need to have clarity on the planning of future modifications. In order to adapt and be prepared for such changes of the market design, the market needs sufficient time. Therefore, we welcome the initiative of launching a stakeholder group, and believe that any future modification should be debated and planned in such a group. MPP is willing to organize the first meeting close to the go live date. Last but not least, we would like to encourage the PLEF to take an active role in the governance and follow up of the project.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Ruud Otter', written over the text 'Yours Sincerely,'.

Ruud Otter

Chairman Market Parties Platform



A copy of this letter has been sent to:

- CWE Flow Based Project
- European Commission
- ACER