September **2023**

UFE Response to All NEMO's consultation pursuant to Art. 12 of Commission Regulation (EU) 1222/2015 (hereinafter CACM) on amendments to the Algorithm Methodology for the price coupling algorithm and the intraday auction algorithm due to Co-optimisation

UFE welcomes the all-NEMOs Committee consultation according to Art. 12 of the CACM Regulation 1222/2015 on amendments to the Algorithm Methodology due to co-optimisation.

UFE understands the theoretical potential of co-optimisation to result in significantly higher welfare gains than other options of exchange of balancing capacity and sharing of reserves, because it would be less sensitive to forecasts quality of either market participants or TSOs. However, UFE has two major concerns regarding the implementation of co-optimisation.

Firstly, the Single Day-Ahead Coupling (SDAC) algorithm is already at its limit in terms of capability and UFE has concerns on the impact of co-optimisation on the performance of the algorithm and on the SDAC.

We understand that a Euphemia Prototype for co-optimisation taking into account the flow-based compatibility deterministic requirement can perform with 60' MTU data and one additional Balancing Capacity product besides the Day-Ahead (DA).
This roadmap study did not provide answers to our doubts on the feasibility of the target model for co-optimisation. Therefore, as underlined by the NEMOs, this initial simulation must be completed with 15' MTU data and multiple balancing market capacity products to be able to assess the Euphemia's real capability to incorporate co-optimisation.

Indeed, UFE is strongly opposed to any limitation such as the reduction in the variety of the energy products and bidding flexibility offered for the SDAC to accommodate the algorithmic complexity of co-optimisation; we also reject any negative impact on further evolutions of new products and services for the SDAC. UFE is also against any prolongation of time needed for calculation and results publication, which would come in addition to the prolongation that, according to NEMOs and TSOs, is already foreseen and unavoidable to accommodate the 15'

MTU.

Secondly, the better efficiency and added-value of a co-optimisation implementation, in comparison with the market-based alternative, remains uncertain. Indeed, its efficiency relies heavily on the quality of the balancing capacity bids.

With co-optimisation, the bidding strategy will be much more complex for every Market Participant, historic as well as newcoming. Many current national BC procurement (the same applies to future market-based implementations) are based on a sequential bidding process, where the SDAC happens after the procurement of balancing capacity. In order to replicate the current multi-stage decision process, market participants would need to use an infinite number of „if-then-clauses“, which would have to be modelled in their biddings and would hence require sophisticated linked-blocks products. Also, portfolio bidding would become almost impossible, as interdependencies between different assets would be almost impossible to reflect in addition to the BC – energy interdependencies.

This increased complexity may lead to a reduction of offered volumes or to risks mark-ups to compensate for an imperfect bidding strategy regarding the technical constraints of the assets, therefore to efficiency losses.

By the way, we would like to stress again the absolute need for available links between both energy and balancing capacity markets in order to avoid inefficiencies due to the concomitance of both markets, to reflect the technical constraints of interdependencies mentioned above. If no multilateral linking was allowed, this would lead to high inefficiencies. The process would then be equivalent to a co-clearing which is definitely not the goal of co-optimisation. As mentioned by the NEMOs, the added complexity introduced by the multilateral linking has not been estimated yet, so its feasibility remains unsure.

Moreover, when the assets can provide one or more of the products but only one at a time, the bidding strategy will rely on an opportunity cost, which will be derived from forecasts of the balancing capacity prices or the energy prices. Therefore, co-optimisation will be subject to inefficiencies due to inaccurate forecasts, as any BC market.

Thus, as the added value relies on the quality of the bidding of the market participants, UFE supports and stresses the importance of the proposal of NEMOs and TSOs to seek the feedback of market participants. The consideration of this feedback is imperative to conclude on the ability of co-optimisation to deliver its theoretical gains.

At last, as there is no legally binding deadline to implement this methodology and as numerous

concerns need to be dispelled, UFE urges not to define a deadline for the implementation at this time. The first priority on this subject should be to continue the R&D efforts to demonstrate the feasibility without drawbacks on the performance of the SDAC, as well the gains expected from the target-model of co-optimisation. UFE agrees with the identified subjects to be clarified by future R&D.

Besides, we perceive a lack of interest of TSOs towards this methodology and market participants have already multiple changes to implement resulting from recent legal evolutions.

If a deadline were to be defined anyway, the deadline of 1 January 2029 seems ambitious. From 1,5 to 2,5 years are expected to achieve the full implementation, when, as reminded in the explanatory note, the SDAC R&D pipeline is fully booked until at least the end of 2025. UFE supports postponing new simulations until after the evolutions of EUPHEMIA for a 15min MTU are fully stabilised. Consequently, only one year would be dedicated to the implementation of the methodology to fulfill the deadline.

If new articles covering co-optimisation were to be added to the Algorithm Methodology, some evolutions are suggested:

- 4.2: UFE supports having different MTUs for DAM and BCM, more specifically to have a BCM MTU at least twice longer than the DAM MTU.
- Annex I, Article 4A, 1.a): the clearing price for each BCM and MTU should be reported in “€ per MW and per MTU” as “€/MWh” is misleading.
- Annex I, Article 4A, 8.c): “Research shall include [...] linking of orders between the DAM and BCM with intertemporal links between all MTUs”.