18 December 2019 – Brussels
19th MESC meeting

EFET considerations on the review of the algorithm methodology

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Is there really a performance problem, now or in the future?

The ACER consultation is based on the **assumption of looming performance problems with Euphemia in DA and XBID in ID**

- So far NEMOs have not indicated specific performance problems in XBID, and continuous update of Euphemia have improved performance
  => No indication from the NEMOs of performance problems for the moment
- The introduction of smaller granularity products (30, 15min products) could lead to more complexity
  => Has there been an assessment of the degree of complexity induced by the introduction of smaller granularity product? What is the effect of this on the performance of the algorithm (in quantifiable terms)?

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Looking at “complex products” without bias

The ACER consultation is based on the **assumption that “complex products” are a source of algorithm performance deterioration, and their removal is a go-to solution**

- Need to properly define “complex products”
  => We do not see block orders as complex products; their removal from traded products in SDAC/SIDC would lead to significant deterioration in market efficiency
- Can “complex” and smaller granularity products co-exist without endangering the performance of the algorithm?
  => Back to identifying the problem: need to assess the degree of complexity induced by the introduction of “complex” and smaller granularity products
  => If there is a performance problem, would this be mitigated by extending the Euphemia computation time from 10 to 20 minutes? Where are TSOs and NEMOs at in this discussion (started in 2018)?
  => If there is a performance problem, does switching to plain flow-based help?

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Avoiding market fragmentation with 15/30-min products

The ACER consultation **omits the question of cross-product matching in connection with the introduction of smaller granularity products**

- Until ISPs are aligned, cross-border transmission capacity can only be provided according to the longest ISP on the two sides of a given border
  => Risk of market fragmentation between different BZs/BZ borders
- Cross-product matching would avoid deterioration of liquidity
  => Need to ensure technical feasibility (NEMOs) and make it a mandatory feature of the methodology (ACER)
- With defined priority rules derived from PRB rules (for SDAC) and based on time stamps (for SIDC), no risk of discrimination
  => Methodology needs to refer to rules to be established by NEMOs

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EFET recommendations

- ACER needs to present a **proper identification and quantification of any current or future performance problem**
- If a performance problem, current or future, has been identified:
  - ACER should assess **which processes/products are the drivers of the problem**, without initial bias against "complex products"
  - ACER should **look at all possible solutions to resolve the problem**, and make use of the easiest solution with the most negligible effect on market efficiency – e.g. extending the Euphemia computation time, switching to plain flow-based
- ACER should **look beyond the problem of algorithm performance and ensure that cross-product matching is implemented to avoid market fragmentation** when introducing smaller granularity products

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