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**Subject: Public consultation on the governance framework for the European day-ahead market coupling**

## **1. INTRODUCTION**

Market coupling is the method chosen to integrate European wholesale electricity markets. It is the key element in the target model<sup>1</sup> for capacity allocation and congestion management which has been developed in the context of the Florence forum which involves all main stakeholders including the Member States. Market coupling means that the cross-border flows at the day-ahead stage are determined by using the price signals in the day-ahead spot markets in each Member State. This enables an efficient European wide price formation mechanism and optimised use of the transmission grid through a strong interaction between price zones. Regarding the time-table for implementing market coupling, Heads of States have set a target date 2014 for a fully functioning electricity market in their meeting in February 2011.<sup>2</sup>

The third internal market package<sup>3</sup> includes the mandate for creating the necessary legal framework for market coupling implementation. The Agency for Cooperation of Energy Regulators (ACER) has been responsible for preparing framework guidelines on capacity allocation and congestion management.<sup>4</sup> ACER adopted those guidelines on 29 July 2011. The European Network of Transmission System Operators for Electricity (ENTSO-E), having all EU TSOs as members, is responsible for developing network codes following the framework guidelines by ACER. Power Exchanges are represented through the Association of European Energy Exchanges (Europex). Although not being provided with legislative tasks in the third package, they have a key role in implementing market coupling. Regarding the governance part of the market coupling the Commission has taken the responsibility of studying the need for binding legislation in view of a

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<sup>1</sup> The electricity market target model includes besides the day-ahead market coupling, the intra-day, balancing and cross border forward markets.

<sup>2</sup> <http://www.european-council.europa.eu/council-meetings/conclusions.aspx>

<sup>3</sup> [http://ec.europa.eu/energy/gas\\_electricity/legislation/third\\_legislative\\_package\\_en.htm](http://ec.europa.eu/energy/gas_electricity/legislation/third_legislative_package_en.htm)

<sup>4</sup> [http://www.acer.europa.eu/portal/page/portal/ACER\\_HOME/Public\\_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework\\_Guidelines\\_on\\_Capacity\\_Allocation\\_and\\_Congestion\\_M/FG-2011-E-002%20\(Final\).pdf](http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Public_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework_Guidelines_on_Capacity_Allocation_and_Congestion_M/FG-2011-E-002%20(Final).pdf)

possible legally binding guideline on this topic.<sup>5</sup> The governance framework is the subject of this public consultation.

## **2. IMPLEMENTING MARKET COUPLING**

There has been good progress in implementing the target model on a voluntary basis in North Western Europe (NWE) and as bilateral projects on a semi-voluntary bases in the Iberian Peninsula (Spain and Portugal), in Italy and Slovenia as well as in the Czech Republic and Slovakia. The project Price Coupling of Regions (PCR) is working on an algorithm that enables a European wide day-ahead market coupling. ACER has formally requested ENTSO-E to validate that the solution for a European day-ahead algorithm proposed by the Price Coupling of Regions (PCR) project meets the TSO capacity allocation requirements.

However, implementation arrangements in these coupling projects are different, not least regarding the governance solutions. Joining these market coupling initiatives in a single coupling and extending the coupling to cover the whole Europe will probably be difficult without a European framework because of multiple jurisdictions and different regional implementations. In particular, increasing number of parties in interregional solutions might be challenging. For example, in spite of power exchange consolidation, the number of parties and potential contracts between parties in the NWE coupling project is substantial.

Additionally, several other issues need to be tackled before a European solution is achieved. Some major issues are listed in the following:

- (1) Some countries lack entirely an organised day-ahead spot market, or the market is not working well enough that it could be coupled to others.
- (2) Existing diverging market and governance frameworks make it more difficult to implement market coupling across the entire EU. This applies to regulators, TSOs and power exchanges. Even if the core tasks within each group are the same, additional tasks might vary considerably. Furthermore, depending on national regulations the relationship between the TSO and the Power exchange regarding capacity allocation and congestion management might vary.
- (3) Level and type of regulation of power exchanges is different depending on the Member State. The alternatives are (i) no regulation, (ii) power exchanges operating under financial regulation, (iii) power exchanges operating under energy regulation and (iv) power exchanges operating under both regulations. Differences occur also on the identification and treatment of power exchanges' costs related to market coupling.
- (4) Market coupling is a real time process and thus needs a sufficient level of harmonisation between coupled markets to be operational and to be sufficiently

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<sup>5</sup> To help the Commission in the study of the governance framework and a possible legally binding guideline on governance, a group of experts was established which includes the regulators, power exchanges and TSOs.

reliable and to ensure that the resulting use of transmission capacities does not jeopardize the security of the power system.<sup>6</sup>

- (5) The aim of market coupling is to integrate markets, which includes both the need for efficient allocation of capacity and efficient price formation. There has been differing views among stakeholders on which of these aspects should be guiding. This issue is relevant since it indicates different assignments of roles and responsibilities between stakeholders.
- (6) No sufficiently concrete legislation has been in place setting requirements and determining responsibilities for implementing the target model. This situation will now change when the network codes are developed. The network code on capacity allocation and congestion management will define the high-level technical and business process requirements of market coupling, as well as determining indicative deadlines for implementation. However, the allocation of roles and responsibilities in market coupling will need regulatory guidance.

### **3. POLICY OPTIONS FOR GOVERNANCE OF MARKET COUPLING**

#### Challenges in governance of market coupling

The subject of this public consultation is the creation of a governance framework which enables an efficient market coupling system based on a sustainable and efficient organisational structure. The framework needs to be robust to provide legal certainty, allow extension to EU wide coupling, enable quick implementation and enable future changes. Various types of changes to the market coupling arrangements need to be possible in a robust and efficient process. The following features are particularly important:

- timely and rational decision making
- interoperability between coupled markets
- development of the markets
- involvement of stakeholders
- funding, cost sharing and cost recovery
- regulatory oversight (e.g. with a view to ensure non-discrimination, transparency, and cost efficiency)

For market coupling to function, a coherent set of detailed rules is necessary. The current thinking is that legally binding instruments following the third package should also address the governance of market coupling, in addition to the above mentioned network codes addressing the functioning of the coupling. Issues which probably need to be covered outside the network code by a separate governance arrangement are:

- (1) Roles and responsibilities of parties involved in market coupling.
- (2) How the detailed rules of market coupling are agreed upon and amended when necessary.

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<sup>6</sup> Local arrangements in the beginning of liberalisation helped to speed up opening the markets. Now the market integration has come to a stage in which it is necessary to standardise products, market rules and business processes if further integration of the market at the European scale is pursued.

- (3) Procedures of entry and exit of a party including the rights and obligations.
- (4) How to solve disputes.
- (5) How liabilities are set between parties in market coupling.
- (6) How to involve stakeholders in the governance of market coupling.
- (7) Regulatory oversight structures.
- (8) Cost sharing principles.

However, it is generally acknowledged that including all necessary details in a network code or legally binding guideline is not efficient. Thus the governance framework should include a governance arrangement which enables the necessary flexibility regarding decisions, such as on day-to-day operation of the market coupling and on future changes to the rules.

### Policy options

Four options have been identified for the governance framework of market coupling:

**Option 1:** Continuing the current voluntary approach (no additional EU action).

This option would rely on voluntary processes such as the Florence forum to achieve consensus between relevant parties for market coupling and for its governance arrangements. Some governance issues could be addressed in the capacity allocation and congestion management network code but no comprehensive legally binding governance framework is proposed in this option. A number of contractual arrangements, or direct energy regulations, would be put in place, tailor made for the region and country in question.

**Option 2:** Creating a European governance framework through a legally binding guideline which supports maintaining the diversity of local market coupling governance arrangements including the relation between TSOs and Power exchanges.

This option supports maintaining local or regional market regulation specificities and aims at achieving the minimal level of harmonisation of coupling arrangements in order to achieve a European wide price coupling. This option can be developed in several ways. One possibility would be to expand the existing market coupling arrangements. These arrangements can include single or multiple contracts between parties which can be single organisations or for example joint-ventures of TSOs and Power exchanges, direct Regulation and licensing of PXs. As local governance solutions vary between countries and regions, tailor made solutions need to be found for aligning these different local arrangements whilst ensuring also the needed level of harmonization for successful implementation. The European governance framework would be legally binding which would force Member States to join the coupling but with a wide choice regarding the local governance arrangements.

**Option 3:** Creating a European governance framework through a legally binding guideline which strives for a high level of harmonisation of local market coupling governance arrangements including the relation between TSOs and Power exchanges.

This option prescribes how to join the market coupling and thus harmonises the coupling arrangements of the European wide market coupling. This option can be developed in several ways, for example through a single contract or multiple contracts between parties which can be single organisations or joint-ventures of TSOs or Power exchanges and through direct regulation. However, all parties need to adopt the common solution. The main options for the arrangement discussed until now are (i) contractual framework (called Option 3.1 from here onwards) and (ii) directly regulated framework (Option 3.2). In Option 3.1 the governance would be based mainly on contracts between the entities involved such as for example in the CWE market coupling. In this Option the Power exchanges could provide the necessary power exchange functions through a service contract. In Option 3.2 the governance would be based on regulation such as for example in the Iberian electricity market. In this option power exchanges could directly perform functions necessary for market coupling, without a necessity to have contracts with TSOs. A further sub-option is to allow a choice between these frameworks (Option 3.3). This Option 3.3 is between Options 2 and 3 as it supports different local governance arrangements, but with a higher degree of harmonisation and without allowing as wide a choice as in Option 2.

**Option 4:** Creating a European governance framework through a legally binding guideline including creating a new regulated entity to perform the tasks of market coupling.

This option centralises the functions of market coupling to a single entity which is for example owned jointly by the TSOs and the power exchanges. This option would in practice mean creating a single European power exchange for day-ahead spot trading including market coupling.<sup>7</sup> Local power exchanges could still manage the customer interface and offer customers other trading services but without the ability to independently control and be liable towards their clients or users for the core-task of solving the spot market. Regulation and governance of this entity needs to be organised at the European level. This could be achieved by increasing the powers of the ACER or the Commission regarding the regulatory decisions. The operational decisions would be made in the board of this single entity.

#### Additional options

Additional options are independent from the main options but might well have an influence in the details of the governance arrangement.

#### 1. Allowing or excluding local competition in market coupling

Competition between power exchanges in a member State can be allowed or excluded. Some directly regulated or licensed power exchanges have a monopoly for day-ahead market, some others are the only ones to successfully operate as PX in a given hub. However, in some countries competition between day-ahead power exchanges exists. An important issue is the automatic pooling of liquidity as consequence of market coupling when there are competing exchanges participating in the coupling from the same price area.

#### 2. Mandatory or voluntary participation in market coupling

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<sup>7</sup> Several different options regarding which tasks and responsibilities such an entity would take on can be considered.

The framework for participation of power exchanges in the market coupling scheme can be mandatory or voluntary. If there is no mandatory participation, target of integrating the European market might not be achieved. Thus to fulfil the target of integrating the European electricity markets, the participation of at least one power exchange in the coupling should be ensured for example by a designation process. Then the question remains in countries with several power exchanges whether all power exchanges should join the coupling and if yes, how this can be achieved.

### 3. Use of joint-ventures and contractual arrangements

All options leave room for the use of joint-ventures and contracts between parties, more freely in Options 1 and 2, and in a more restricted manner in Options 3 and 4 in which the governance arrangement will be more prescriptive.

## 4. PRELIMINARY CRITERIA FOR CHOOSING BETWEEN GOVERNANCE OPTIONS

Preliminary criteria for choosing between governance options are presented in the following list. This public consultation seeks advice whether these criteria are the correct ones and how they should be weighted for choosing the final option.

- Quality of the market coupling. It is important that the market coupling system results in efficient capacity allocation and price formation. Reliability should also be at a high level, incidents might be very costly as they influence electricity flows and prices in the whole Europe.
- Efficient change management. Updating and improving the price coupling solution is a continuous process. Efficient, timely and robust change management and decision making will be a key to a successful solution.
- Speed, ease and cost of implementation. A target date for coupling of the whole Europe is 2014, thus pragmatic solutions based on existing arrangements might be necessary, however while ensuring that disproportionate complexity is avoided.
- Tools for regulatory oversight of the involved entities both for market and network issues. Market coupling is overseen by the NRAs with some role for the ACER regarding dispute settlement and market monitoring.
- Interference with national rules. The European solution should not lead to unnecessarily big changes in the functioning of the local electricity markets.
- Operating cost efficiency. Costs of market coupling should be reasonable and shared between the parties in a fair manner.
- Extendibility. The chosen governance solution should allow for and facilitate the inclusion of new markets (including the relevant stakeholders) in the market coupling process.

## 5. QUESTIONS FOR PUBLIC CONSULTATION

- (1) Is the problem definition correct?

- (2) Do you agree that governance of market coupling shall be addressed in a legally binding guideline?
- (3) Which is your preferred option? Why?
- (4) What are in your view the main impacts of different options? Can you provide elements for assessment of impacts of the different options?
- (5) Are the criteria for a good solution as presented in the list right? Do you have other criteria to add?
- (6) Is the proposed timeline for the network codes and guidelines as presented in Annex 1 sufficient?
- (7) If you think that governance of market coupling shall be addressed in a legally binding guideline, is the relation between this guideline to the related network code as presented in this paper correct?
- (8) What should be the cost sharing solutions of market coupling, between countries and between TSOs and power exchanges, both regarding the initial investment costs and the operation costs?
- (9) Which aspects of market coupling do need specific regulatory oversight?
- (10) What differences do you see between the need of governance arrangements for organising intra-day trade compared to the day-ahead market coupling? Should a legally binding guideline on governance also cover the intraday timeframe?

Deadline for public consultation: 29 February 2012

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All replies are published in full unless you indicate that the whole submission or a part of it is confidential.

## **Annexes**

1. Timetable for network codes and guidelines
2. Options paper

# Annex 1

## EC / ACER / ENTSOE 3-year work plan ELECTRICITY 28 October 2011

Deliverable	Scoping Phase		ACER FG draft		ENTSO-E code drafting		ACER evaluation	Comitology	2011				2012				2013				2014				
	Start	End	Start	End	Start	End			Start	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>Products/legislation relevant for effective implementation of the IEM</b>																									
FG on capacity allocation and congestion management			Q1/11	Q2/11																					
NC on capacity allocation and congestion management <sup>1</sup>					Q3/11	Q3/12	Q4/12	Q1/13																	
NC on forward markets <sup>2</sup>					Q4/12	Q3/13	Q4/13	Q1/14																	
Regional progress, setup and testing (incl. AESAG process and Regional Initiatives Work Program)																									
EC comitology guideline on governance <sup>3</sup>								Q2/12																	
FG on grid connection <sup>4</sup>			Q2/11	Q2/11																					
NC on grid connection <sup>5</sup>					Q3/11	Q2/12	Q3/12	Q4/12																	
NC on DSO and industrial load connection					Q1/12	Q4/12	Q1/13	Q2/13																	
FG on system operation <sup>6</sup>			Q2/11	Q4/11																					
NC on operational security					Q1/11	Q4/12	Q1/13	Q2/13																	
NC on operational planning and scheduling					Q2/12	Q1/13	Q2/13	Q3/13																	
NC on load-frequency control and reserves					Q3/12	Q2/13	Q3/13	Q4/13																	
NC on operational training																									
NC on requirements and operational procedures in emergency																									
FG on balancing	Q3/11	Q4/11	Q1/12	Q2/12																					
NC on balancing <sup>7</sup>					Q4/12	Q3/13	Q4/13	Q1/14																	
EC comitology guideline on transparency								Q1/12																	
FG on Third Party Access	Q3/12	Q4/12	Q1/13	Q2/13																					
NC on third party access																									
NC on data exchange and settlement																									
Possible Guidelines/FG on incentives to TSOs to increase cross-border	Q3/11	Q1/12																							
Possible Guidelines on investment incentives to TSOs	Q3/11	Q1/12																							
EC Comitology Guideline on tariffs	Q3/11	Q1/12																							

### LEGEND

FG Framework Guideline  
NC Network Code

Common scoping discussions  
ENTSO- E work  
ACER work

ACER evaluation of NC  
Comitology process (including EC input to Comitology)  
ACER consultations  
ENTSO-E consultations

### COMMENTS

- CACM NC includes Capacity Calculation, Intraday Platform and Day Ahead issues; beginning of formal 12 months NC period started with within Q3/11
- <sup>2</sup> Q3/2013
- <sup>3</sup> Approved guidelines will be available on the end of Q3/12
- <sup>4</sup> Unofficial work of ERGEG, then shortened 3 months by ACER
- <sup>5</sup> Parallel FG/NC work is a (well reasoned) exception.
- <sup>6</sup> FG on SO starts in late Q2/11 and will be completed in the beginning of Q4/11; All NCs include information exchange
- <sup>7</sup> Due to the interdependencies the formal work starts only after the DA and ID NCs will be accomplished and after the start of NC on load-frequency control and reserves

Preparatory work including codes consistency work

<b>Other Deliverables currently particularly uncertain or perceived as lower priority</b>																									
Deliverable	ACER FG draft		ENTSO-E code drafting		ACER evaluation	Comitology	2011				2012				2013				2014						
	Start	End	Start	End			Start	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
NC on connection procedures																									
NC on HVDC connection																									
FG on energy efficiency regarding networks																									
NC on energy efficiency regarding networks																									

### LEGEND

FG Framework Guideline  
NC Network Code





**EUROPEAN COMMISSION**  
DIRECTORATE-GENERAL FOR ENERGY

Directorate B - Security of supply, Energy markets & Networks  
**B.2 - Electricity & Gas**

Brussels, 6 December 2010  
D(2010)

This paper is presented by the chair of the AHAG governance working group to the Florence forum 13-14 December 2010.<sup>1</sup> Members of the working group have reserved their position regarding the detailed content of this paper.

**Subject: Options paper for day-ahead electricity market governance guideline**

## **1. OBJECT AND SCOPE**

The object of the day-ahead<sup>2</sup> electricity market governance guideline is to create a framework and the necessary rules to achieve a European wide day-ahead market coupling using implicit auctions for optimising the use of the transmission system and for influencing positively the liquidity, price formation and transparency of the European power market.<sup>3</sup>

Day-ahead market coupling shall be a high quality single price coupling and it shall be implemented at reasonable costs. The market coupling shall be implemented according to the requirements of the relevant Framework Guidelines and network codes, In particular the Capacity Allocation and Congestion Management Framework guideline and the codes to be prepared following this guideline, tentatively the Capacity calculation network code, Day-ahead network code and Intra-day network code, are relevant for the market coupling. These codes will be prepared in parallel to the development of this governance guideline which allows ensuring the consistency between this guideline and the network codes.

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<sup>1</sup> This paper has been prepared in the Day-ahead Governance working group which is one of the three working groups in the Ad Hoc Advisory Group, initiated by Florence forum and chaired by ERGEG. The other two working groups are Intra-day and Capacity calculation.

<sup>2</sup> Inclusion of intra-day under the same governance structure is an option. A decision on this will be made when drafting the governance guideline depending of the progress regarding the solution on intra-day solution.

<sup>3</sup> Some elements of market coupling should be considered as public service.

The market coupling system shall be established through co-operation between TSOs and Power exchanges (PXs). The TSOs and PXs participating in the system need to have a smooth and efficient cooperation according to their different responsibilities and tasks. TSOs and Power exchanges can use agents or subcontractors for the tasks in their responsibility. The day-ahead electricity market governance guidelines shall provide a clear and robust basis for defining generally the responsibilities of the actors and entities involved and the interaction between them.

In addition to and in line with the governance guidelines and the relevant network codes on capacity calculation and day ahead market, TSOs and Power exchanges shall establish operational arrangements for the proper functioning of the market coupling. These arrangements shall be enforced through binding detailed operational rules between the parties which shall be subject to approval by ACER, after consultation with stakeholders.

These operational arrangements shall be implemented by TSOs and PXs through the two possible parallel ways which shall be defined in detail in the operational rules:

- Through binding agreements between TSO(s), PX(s) and possible service providers in their respective areas, subject to approval by the NRAs and ACER.
- Directly imposed by the national regulation<sup>4</sup>, in case the TSOs and PXs are directly regulated under the national legislations.

Options for relation between TSOs and Power exchanges:

1. One contract between a TSO body and a Power exchange body

This option requires that both TSOs and PXs create a single body that is able to sign a single contract for the market coupling.

2. Framework agreement between TSOs and Power exchanges supplemented by bilateral agreements at local or regional level

3. Task for Power exchange given directly in the national legislation

This option is valid if the PXs are established and regulated through national legislation. To reach the same situation in all Member States does not seem realistic.

*There is not yet agreement on the preferred option at the working group level. A combination of these options is explored to organise the cross-border cooperation in such a way that it allows for an efficient and timely implementation of market coupling in Europe.*

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<sup>4</sup> This can also be a combination of provisions in National regulations and Licence or Concession rights.

## **2. DEFINITIONS**

TSO

Power exchange (Entity running an organised day-ahead spot market)

Agents or subcontractors

Day-ahead spot market

Market coupling system

Price zone

Single price coupling

Implicit Auction

Flow based

ATC based

Market result

Single price coupling algorithm

Day-Ahead Network code

Intraday Network code

Capacity Calculation Network Code

Operational arrangement

Market Coupling Contractual Agreement

Common Costs

Firmness

Bidding zone

## **3. FUNCTIONING OF THE DAY-AHEAD MARKET COUPLING**

The market coupling system shall be composed of a coordinated capacity calculation system<sup>5</sup> and a price coupling system, and the necessary ancillary systems and services for example for data input, data output, system back-up, accounting, monitoring, clearing and shipping purposes. The market coupling system shall be specified in the relevant network codes.

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<sup>5</sup> Capacity calculation system can perform also other capacity calculation tasks such for monthly or yearly capacity calculation.

A coordinated capacity calculation system shall be developed and used to determine the available transmission capacity for cross-border trade for the market coupling. A price coupling system shall be developed and used to determine the price for each bidding zone based on the energy bids<sup>6</sup> sent by market participants, respecting the capacity information calculated on the previous point. The price coupling system shall be based on single price coupling algorithm which shall determine prices in a single calculation operation and shall determine a single price per bidding zone. Capacity shall be allocated based on the results of the price coupling calculation.

The market coupling shall deliver a high quality result measured in terms of price formation, efficient allocation and utilisation of cross border capacity and overall social welfare. Quality requirements and measurement of results shall be described in the operational arrangements and approved by ACER.

The market coupling system shall include a fall-back solution, in case the system is not able to deliver completely or for a certain bidding zone the expected results in a predefined time.

A common time-table for the single price coupling shall be established in the operational arrangements.

The necessary details of the capacity calculation method, the single price coupling algorithm and the process of the market coupling shall be established in the operational arrangements and published by the TSOs and PXs.<sup>7</sup>

#### **4. DESIGNATION OF THE PARTIES INVOLVED IN THE COUPLING**

##### TSOs

All EU TSOs, except those without any interconnection to any other TSO, shall participate in the market coupling system. These TSOs will be required to comply with the necessary requirements such as coordinated capacity calculation with a common European or regional grid model, as defined under the relevant network codes and the operational arrangements established under the governance guideline, and participation in the governance structure and necessary agreements.

The market coupling system may initially develop in appropriate regional initiatives, which shall in all cases ensure compatibility with and lead to the extension of a market coupling system implemented at a European level.

##### Power exchanges

Member States, except those without any interconnection to any other Member State, shall designate one or more PXs to participate in the market coupling system. These PXs will be required to comply with the necessary requirements such as single matching, as defined under the relevant network codes and the operational

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<sup>6</sup> Block bids shall be feasible.

<sup>7</sup> It is discussed whether the algorithm developed and utilised for the price coupling system should be public open source code.

arrangements established under the governance guideline, and participation in the governance structure and necessary agreements.

Where a PX has been established by national law or via licensing or via concession rights for the purpose of operating a day-ahead market, the Member State shall nominate this PX to participate in the market coupling.

Where no PX has been established by national law for the purpose of operating a day-ahead market, Member States shall establish transparent criteria for the designation of one or more PXs to participate in the market coupling, and the associated terms and conditions of such participation.

The Member State shall also establish rules on how this designation shall be reviewed and how new merchant exchanges can have access to the market coupling system, without undue barriers but without unfairly benefiting from the already existing liquidity. For reasons of efficiency, Member States may limit the number of exchanges to participate in the market coupling system. However, the general principles of competition and open access to the market coupling system shall be upheld for the sake of efficiency.

In case no PX arranges a day-ahead organised spot market in the bidding zones of a Member State, the Member State shall foresee national measures for the establishment of such an exchange, or make arrangements which allow for PX coverage of these bidding zones.

#### Options for participation of PXs in the market coupling

##### 1. Free participation

This option means that participation in market coupling is voluntary. This is in practise the current situation even if one could argue that the requirements of congestion management guidelines for efficient allocation of cross border capacity calls for market coupling.

##### 2. Mandatory participation for all Power exchanges

This option requires binding legislation at the European level.

##### 3. Member state nominates one or several to participate

A Member State shall nominate a PX which takes care of the coupling in its territory and can choose whether it reserves the access to market coupling for efficiency reasons for example for the existing power exchange.

*The most realistic option for the working group is Option 3. This allows the Member States to have different approaches, from allowing full competition to restricting participation to the existing PXs.*

A power exchange participating in the coupling needs to fulfil requirements such as unbundling, independence of the parties trading in the PX, anonymity, participant information protected by a code of conduct, non-discriminatory bid collection, technical requirements to send bids to price coupling, participation in the governance structure and necessary arrangements.

The regulatory authorities shall adopt a decision on the certification of the PX(s) with regard to the fulfilment of the requirements provided in this Governance Guidelines, the relevant network codes and the operational arrangements. The regulatory authorities may request from the PXs any information relevant for the fulfilment of their tasks under these guidelines and the related provisions.

#### Criteria for regional extension

Member States which do not have yet the necessary market conditions for participating in the market coupling system shall develop the market conditions in order to participate as soon as possible, in any case before 2015. The operational arrangements shall include transparent and non-discriminatory rules for how a Member State or a third country can enter the market coupling system.

#### Management of costs and financing

The general principle shall be that the market coupling system is operated on a cost basis approved by the NRAs. The common costs of the market coupling system shall be kept as low as possible, consistent with the need to uphold the requirement to deliver an efficient and robust market coupling, and be published by the administrative committee in an annual report of the market coupling system. This guideline will establish the basis for sharing common costs between the relevant parties.

Financing of the market coupling<sup>8</sup> shall be arranged based on subsidiary in one of the following ways:

- from the trading fees applied on all exchange members who benefit from the market coupling and possibly from a contribution by TSOs for which the exchanges transform available capacities into optimal export/import flows. This contribution of TSOs shall be included in network tariffs and be subject to approval by the NRAs.
- In the case of Power Exchanges regulated under the national legislations, financing shall be established according to the provisions established in the national legislation.

## **5. TASKS FOR THE TRANSMISSION SYSTEM OPERATORS**

TSOs participating in the market coupling shall establish what requirements the single price coupling algorithm need to comply with for the purposes of allocation of cross-border capacity. These requirements by the TSOs shall take into account

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<sup>8</sup> Cost sharing has been only shortly discussed in the working group and requires further work.

the requirements from market participants and other stakeholders, they shall be non-discriminatory and they shall be subject to approval by the NRAs and ACER.

TSOs participating in the market coupling shall establish the coordinated capacity calculation system. The system shall be capable to optimise the capacity offered to the market via the price coupling. Details will be described in the capacity calculation code.

TSOs shall specify the requirements of the market coupling system ensuring fair and non-discriminatory access to day-ahead cross-border capacity for all market participants. The TSOs participating in the market coupling shall make day-ahead capacity available exclusively through the single price coupling. However, in the case of more than one PX participating in a given bidding zone, TSOs need to ensure non-discriminatory and fair access to day-ahead capacities for each participating PX.

The capacity for day-ahead market coupling shall be irrevocable when allocated through the market coupling system. Capacities shall be firm after nomination of cross-border flows. Rules for the application of firmness regimes for market coupling and the associated TSO cost recovery arrangements shall be defined in Day-Ahead Network Code and other relevant codes.

TSOs participating in the market coupling shall organize the collection of congestion rents through the clearing process of the Power exchanges participating in the market coupling system. Congestion rents shall be distributed according to transparent and non discriminatory criteria established in the day-ahead network code.

## **6. TASKS FOR THE POWER EXCHANGES**

Power exchanges designated by the Member States for the purpose of participating in the market coupling system shall establish and support a single price coupling algorithm. The design and operation of the price coupling algorithm shall be fully transparent to all market participants in the public domain in accordance with its status as a public service activity. The main principles of the single price coupling algorithm shall be part of the operational arrangements and approved by the NRAs and ACER and be open in a non discriminatory manner for new designated entrants to participate. The process of accession to the market coupling system shall be overseen by the administrative committee set up for that purpose. PXs must provide TSOs participating in the market coupling, for the optimisation of their grid investments and allocation tasks, with the necessary data so that they can calculate the effect of different capacities on prices and welfare. This provision of data shall be specified in the operational arrangements and be subject to confidentiality arrangements.

Power exchanges nominated by the Member States for the purpose of participating in the market coupling system shall commonly operate the single price coupling algorithm using all bids from all participating power exchanges. All parties to the Market Coupling System shall pay due attention to fallback and downgraded arrangements (backup and decoupled solutions) in order to ensure the availability of prices everyday even in case of unavoidable and exceptional decoupling.

Options how single matching will be organised

1. Through a new matching entity

A new organisation will be established for doing the single matching.

2. Through sharing the task between participating Power exchanges

Central matching will be organised through cooperation between PXs.

*Option considered most feasible by the working group is Option 2.*

Power exchanges designated by the Member States for the purpose of participating in the market coupling system shall match and clear bids and offers using the capacities provided to the market coupling. Market price calculation in the organised markets leads to the resulting net capacity position in each bidding zone. TSOs and other capacity providers will assign a capacity position counterparty. For providers of capacities within a synchronous region, the capacity providers concerned shall arrange for the collection of the respective congestion rents through their assigned capacity position counterparty in each of the PX markets. The congestion rents collected result from exchanges and price differences between bidding zones.

## 7. **DECISION MAKING FOR THE DAY-AHEAD MARKET COUPLING**

### Operational arrangement between participants in the market coupling system

TSOs and Power exchanges participating in the market coupling system shall establish detailed operational rules for the proper functioning of the market coupling as far as these are not detailed in the relevant network codes.

The operational arrangements need to provide mechanisms for:

- Detailed description of roles and responsibilities
- Communication and technical (IT) interfaces
- Functional requirements of market coupling system (capacity calculation and price coupling)
- Procedure for extension and access of new entrants on MC
- Common procedures, fallback and decoupling situations
- Change control, incident management, performance management
- Timetable for operations, publications and transparency
- Other operational requirements



## Creation of an administrative committee for the operational arrangements supporting the market coupling system

An administrative committee shall be established by the participating TSOs and Power exchanges to manage the market coupling system. The administrative committee shall be concerned with day to day administrative functions and management of market coupling operations. Its membership shall be representative of the interests of the different parties. Its terms of reference shall primarily ensure the neutral and non discriminatory administration and its efficiency in operation. The administrative committee will be chaired on a rotational basis by the elected representatives of the participants. Its membership shall be similarly appointed. Detailed rules for the tasks of the administrative committee will be established in the operational arrangements and will be subject to approval by NRAs and ACER.

These may (non exhaustively) include the following:

- Establishment of the Committee
  - Develop Terms of Reference,
  - Appointment and election of committee representation
- Financial and budgetary tasks for common costs
  - Supervision associated with the common costs for adaptation, extension, development, maintenance and operation of the market coupling system
  - Develop common cost budget for following years
  - Prepare regular report on common costs issues for ACER and NRAs
- Operational rules, procedures, and documentation tasks
  - Monitor compliance with operational rules & procedures
  - Identify need for change in the operational rules & procedures
  - Maintenance and change management of the Operational rules & procedures
  - Ensure proper maintenance of the related documentation material
- Accession process to the market coupling system
  - Establish provision of services to new entrants (lead/godfathering party(ies), provision of documentation, simulation facilities, etc)
  - Establish rules for common cost sharing, licences.
  - Establish assurance methods for compliance with requirements towards new entrants.

- Communication and reporting tasks
  - Organise the provision of information (for example algorithm design, data and financial information) following the principles of these guidelines and other legal prescriptions
  - Organise joint communication about changes, developments, achievements of the price coupling, including press releases etc
  - Ensure proper communication in the case of incidents
- Technical issues
  - Ensure the Management and maintenance of any common assets or processes for the correct operation of the market coupling system, including proper documentation, change management, cost sharing etc
  - Assess proposed changes in the price coupling system with respect to performance, costs, impact
  - Develop consistent European procedures, in accordance with local procedures, report conflicts and need for change, document these procedures
  - Test procedures

#### Creation of an advisory body for the market coupling

An advisory body shall be established at the European level to provide an appropriate forum for wider market participant and stakeholders input for the operation, development and extension of the market coupling. The advisory body shall be composed by x members from TSO:s, x members from Power exchanges, x members representing traders, x members representing generation companies, x members representing industrial consumers, x members representing small supply companies, x members representing household customers, one member representing European Commission, one member representing ACER and two members representing NRA:s. Rules for the setting up and the tasks of the advisory body will be established in the annex of the governance guideline.

#### Options for stakeholder involvement

1. Through an advisory body

A permanent body is established for key stakeholders.

2. Through stakeholder consultations for any changes

Stakeholders are involved through consultations when rules are changed.

3. Through Florence process

Including stakeholder consultation as a permanent item on Florence agenda.

*Preferred option is Option 1 (it does not prevent using also Options 2 and 3)*

## 8. REGULATORY OVERSIGHT

### Approval of rules

All rules for the market coupling system, excluding the network codes established under Regulation No 714/2009 which will follow the procedure defined in the Regulation, shall be submitted to the NRAs and to ACER for approval. NRAs and ACER shall assume the power to ask for the submission of the draft rules in due time.

NRAs shall assume power to approve the rules for financing the market coupling referred to under chapter 4.

### Monitoring of operation

ACER and NRAs shall monitor the implementation and functioning of the market coupling system. The TSOs and Power exchanges participating in the market coupling shall provide the NRAs and ACER all information necessary for monitoring the functioning of the market coupling.

### Dispute settlement

ACER shall be the dispute settlement body for the market coupling.

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