

AESAG input to the Governance Guidelines

A EURELECTRIC response paper



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EURELECTRIC response to AESAG input to the Governance Guidelines

EURELECTRIC believes that the Governance Guidelines play an important role in establishing a proper legal framework for harmonised EU rules on roles and responsibilities among various involved parties in particular TSOs and PXs. Discussions over the last few years demonstrated that the clarification of these rules is absolutely vital for the successful deployment of a day-ahead price coupling mechanism across the EU and is in addition most necessary to speed up the process.

General comments

In this respect, we welcome the Governance Guidelines as we see it as an opportunity to solve these lengthy discussions and provide momentum to the process. We believe that the guidelines should be written in a prescriptive way with the intent to reach a clear and precise divide of responsibilities between TSOs and PXs and ensure a genuine involvement of market parties.

EURELECTRIC has been generally of the view that governance *per se* is not an issue requiring in-depth involvement from our side provided that the cooperation between TSOS and PXs is capable of delivering a robust, extendable and flexible mechanism in a timely fashion. We are currently still in the process of asserting the robustness of the system on the basis of the information contained in the draft guidelines, EUROPEX synthetic document on PCR and with the hope to shortly receive a summary of the APCA.

We believe the draft guidelines paper (or AESAG input) is a good basis to start with as it provides a solution for both day-ahead and intra-day and set firm deadlines for moving towards a more prescriptive form of cooperation, should the voluntary process fail. However, to turn it into a fully-fledged document, essential additional amendments need to be brought into the text in order to adequately reflect market needs. The **consultation with the market** on key operational aspects or changes is currently not spelled out in the guidelines so as the scope and role of the stakeholders Committee. Likewise, the fall back measures surrounding the day-ahead price coupling mechanism should be made transparent to the market and full clarity be given to the 'chain of responsibilities'. It is important that in case of market errors or failures, market and grid operators hold **liability towards the market** based on clear lines of responsibilities and compensation rules.

Consultation with market parties

We are pleased to note that the draft guidelines provide for the establishment of a Stakeholders Committee, - a point which has been called for by market parties on several occasions in the AESAG meetings, but would like to see more details on how this Stakeholders Committee will interact with the Operational Committee. It is our assumption that the Stakeholders Committee will act as the voice of the market and should be actively consulted on all essential or critical aspects regarding the capacity calculation, and the operation of the day-ahead price coupling mechanism and the continuous intraday platform.

Such representation of and consultation with market parties need to be ensured through the network code for Capacity Allocation and Congestion Management – currently under discussion-. Moreover the Stakeholders Committee should get actively involved and updated about any incidents that might occur during the daily operation of the market coupling and intraday platform and be able to request the Operational Committee to duly carry out investigations followed by remedy actions under the supervision of ACER.

There should be one Stakeholders Committee that represents the market at European level. To ensure full consistency with the market's representation in the Florence Forum and ACER Electricity Stakeholders Advisory Group, we believe the same form and structure should be used, i.e. the representation needs to be done via European Associations. In case of fundamental changes, a broad consultation of market participants should be provided.

Setting the provisions that guarantee a robust and reliable calculation of the single electricity price

Defining the liabilities of NEMOs/TSOs/MCOs vis-à-vis market participants is of key importance, considering that should something go wrong (e.g. in the price calculation), it is important to understand who holds responsibility for the process and should be accountable to institutional and market stakeholders. To this end, EURELECTRIC believes that an efficient liability regime should be based on four main pillars: incentives on the various involved parties to deliver robust market outcome, transparency about the responsibility chain, single point of contact for compensation and in-depth investigation where failures occur followed by clear remedy actions.

Firstly, a proper framework should be in place with the aim to incentivize all parties involved in the process to do their best endeavours for having all the operational processes ready to ensure a robust price calculation. In this respect, we suggest that the day ahead and intraday operation shall be monitored by ACER. In the event that a MCO does not deliver the right price results or the matching of intraday products, the MCO should have, together with the involved TSOs and NEMOs to justify the reason. Should the entity responsible for the wrong development of the price or process be recurrent, it will be withdrawn from this function until proven that it is in a position to reassume such responsibilities, and appropriate replacement (other NEMO, other MCO) will be determined in the mean time for that bidding zone (s).

Market participants shall be protected from events where a MCO miscalculates the price. To this end, the market participants should base on the standard contract with his PX and be able to be duly compensated by its PX regardless whether the price has been miscalculated by its PXs or other PXs. To this effect, PXs must therefore agree among themselves on practical details about the distribution of responsibilities and transfers of compensations from the different PXs to the market.

The functioning rules of the price coupling process should be clear to all, namely:

1. At each point in time, only one MCO – i.e. the Master - should calculate the price and should be responsible for the price outcome. The function of Master MCO might rotate but the one who is in charge should be transparently known, and should also assume accountability for its functioning.

2. The governance guidelines seem to suggest that NEMOS may recalculate their own price and compare it with the price obtained by the MCO. We believe that the consequences of such a validation process are not made clear in the governance guidelines (as might be the case in the PCR agreements). We see severe risks for the market if this issue is left opened (e.g. what will happen if prices do not match? Would the MCO have to re-run the process? , How many NEMOs have to disagree so that the MCO has to rerun the process?) since this could unduly delay the delivery of a final price outcome to the market. For the sake of clarity and with the view to enhance efficiency, we propose that in the event a NEMO disagrees with the MCO, the concerned NEMO will be de-coupled from the regional price coupling and have to calculate the price on its own. Where such errors happen, these should be communicated to ACER which in turn could supervise the investigation carried out by the Operation Committee or decide to make its own investigation.

Transparency

In the interest of transparency we believe the following information should be made publicly available:

- A status overview of NEMOs,
- The agreed cost-sharing principles between NEMO/TSO/MCO,
- All relevant data to market participants about the functioning of the common platform for DA and ID.

We have to move from National to European

We are concerned about the worrying tendency to move back to national practices. Market requirements must be equal for all parties; they should not be dependent upon every NEMO. Against this background, it is unclear to us how this wording should be understood *“NRAs taking into account the market situation of the NEMOs when deciding on the remuneration”*.

Moreover, it is not specified whether the costs incurred by TSOs to perform the European electricity market will be socialised across Europe. A single EU-wide mechanism should be designed to allocate costs proportionally to the benefit of the market coupling. At the same time, the costs proposed to be allocated in the form of trading fees and being applied by NEMOs should also be allocated through this European Grid tariff to all customers, and not solely to the market participants on the power exchanges. PX trading fees might actually create a barrier to ship energy via the market coupling process if it is operationally less costly for the market participant than shipping energy via physical transmission rights.

Fair competition

The principle of fair competition should always prevail and be clearly stated in the draft guidelines. In this sense, any new market operator has the right to become a NEMO, independently of the liquidity status of other (existing) NEMOs. Similarly, new and existing NEMOs should have equal rights and responsibilities.



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