



Mark Copley
Ofgem
9 Millbank
London
United Kingdom

30 January 2015

Dear Mark

APX response to open letter on implementing EU Network Codes

Introduction

We welcome the proactive and consultative approach taken by Ofgem to facilitate efficient implementation of the anticipated European Network Codes and Guidelines. You will be aware that APX has previously raised concerns that some parts of the CACM Guideline lack clarity or are unnecessarily complicated.

We are concerned about the implications of the CACM Guideline. APX has devoted a huge amount of effort and resources to driving European market integration. The successful implementation and operation of market coupling projects has resulted in significant public interest benefits.

We appreciate the opportunity to comment on the proposed process for GB NEMO designation, which is helpful to form a common understanding of the requirements. Our intention in providing feedback is to ensure that the GB process to designate NEMOs will be timely and robust.

Background to APX and Market Coupling

APX has 70 members in Great Britain. Our members have access to three liquid market segments, a market coupled day-ahead auction, a twenty-four-hour intraday market trading half-hour products and prompt market. We anticipate continued growth in membership, active participation and volumes traded across all our UK markets.

APX has successfully operated robust market coupling solutions since the launch of the first market coupling for the Dutch, Belgian and French spot power markets in 2006. The success of this early initiative led to further expansion, as it provided an early blueprint for Multi-Regional Coupling (MRC), in which the Price Coupling of Regions (PCR) systems calculate the day-ahead price in 17 countries, and allocates transmission capacity on 40 bidding zone borders.

APX has successfully operated a market coupled day-ahead auction in the UK since 2011. In April 2011, APX implemented an "embedded" price coupling solution for the BritNed cable which connected the APX UK day-ahead auction with CWE market coupling.

APX is also playing a leading role in a process to contract with Deutsche Börse AG (DBAG) to develop and build a cross-border intraday (XBID) system to form the backbone of a European-wide intraday trading system.

We expect to be able to continue with the existing initiatives until the mandated EU-wide day-ahead and intraday coupling solutions have been implemented in line with the CACM Guideline requirements. The market coupling solutions currently in operation were implemented with the approval of the relevant regulatory authorities.

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Feedback on proposed NEMO designation process

Overall approach

We support Ofgem's guiding principles that it will make only changes where needed, and where changes are made, that these changes will be restricted to the minimum necessary to ensure compliance. This represents a pragmatic approach.

In relation to the steps set out in the open letter, any information submitted by APX as part of the designation process will be commercially sensitive and should remain confidential. We note that applications in similar designation processes are not made publically available by Ofgem.

In that respect, we question the value added of the proposed 28 day consultation on the draft decision, as market parties will not have access to the necessary information to have an informed view on the capability of an applicant to perform NEMO functions. We also note that the CACM Guideline does not require the regulatory authority to consult on its decision, and that similar designation decisions have not previously been consulted on.

We believe that an additional step should be included in the designation process, whereby candidates are able to discuss their applications for designation with Ofgem before they are submitted. The deadline to discuss the proposed applications should be 30 March, following which application can be finalised and submitted. This should help to facilitate a more efficient process.

Finally, we would also like to understand Ofgem's view on whether UK legislation will need to be amended for NEMO designation and would welcome clarity on the applicable appeals process.

Designation criteria

The open letter explains that the provisions of the proposed CACM guideline can only take effect following the conclusion of a series of steps. As mentioned above we expect to be able to continue with the existing day-ahead and intraday market coupling initiatives until the mandated EU-wide day-ahead and intraday coupling solutions have been implemented in line with the CACM Guideline requirements.

We understand this to mean that, the regulatory authority, in evaluating a NEMO's designation application will need, on some criteria, to assess a candidate's capability (and commitment) to perform certain functions, or the candidate's capability (and commitment) to demonstrate certain arrangements (e.g. with respect to cost segregation) by the time mandated EU wide solution will be implemented.

Our application for NEMO designation will therefore be to demonstrate our capability to perform the NEMO functions required by the CACM Guideline. While the current day-ahead and intraday regional initiatives may form the basis of the future CACM mandated EU wide solutions, they are not currently one and the same. This will be reflected in our application for NEMO designation.

The current GB arrangements for day-ahead market coupling, governed by the GB Framework Agreement between APX, NPS, BritNed and NGIL, may provide a starting point for implementation of GB day-ahead market coupling as required by the CACM Guideline. However, we note that these arrangements are not yet the CACM Guideline mandated solution and there may be scope for the arrangements to be improved.



As required by the CACM Guideline, and highlighted in the open letter, we intend to cooperate with TSOs to develop proposals for cross-zonal capacity allocation and other necessary arrangements if more than one NEMO is designated and/or offers trading services.

Kind regards

A handwritten signature in blue ink, appearing to read 'AClaxton'.

Andrew Claxton
Director of Business Development