

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

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Dear colleague,

Approval of the Market Coupling Operator Plan

On 13 April 2017, we¹ received an amended proposal for the Market Coupling Operator Plan (MCO Plan). The proposal was prepared by all Nominated Electricity Market Operators (NEMOs), in accordance with Article 7(3) of the guideline on Capacity Allocation and Congestion Management (CACM Regulation)². It was submitted to us by the two NEMOs designated in Great Britain (GB), EPEX SPOT SE and Nord Pool AS.

This letter sets out our decision to approve the MCO Plan proposal, pursuant to Article 9(12) of the CACM Regulation, and outlines the necessary next steps that must be taken.

Background

The MCO Plan is the first proposal that all NEMOs were required to develop collectively and submit to all Regulatory Authorities and the Agency for the Cooperation of Energy Regulators (Agency). The MCO Plan sets out how NEMOs will jointly set up and perform the MCO functions. These functions comprise of³:

- a. developing and maintaining the algorithms, systems and procedures for single day-ahead and intraday coupling;
- b. processing input data on cross-zonal capacity and allocation constraints provided by coordinated capacity calculators;
- c. operating the price coupling and continuous trading algorithms; and
- d. validating and sending single day-ahead and intraday coupling results to NEMOs.

GB NEMOs first submitted the MCO Plan proposal to us on 14 April 2016. We reviewed the proposal submitted to us in line with the requirements of CACM Regulation, the wider objectives of the Regulation (EC) 714/2009, and our statutory duties and obligations. In

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

² [Commission Regulation \(EU\) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management](#). The CACM Regulation came into force 14 August 2015. It aims to maximise the efficient use of interconnection and facilitate greater cross-border electricity trade, through market coupling in the day-ahead and intraday timeframes. Market coupling should make sure power is produced where it is most efficient and used where it is most valued, to lower prices for consumers and support secure and sustainable supply.

³ Article 7(2) CACM Regulation

making our decision we consulted with stakeholders⁴. Following consultation with all Regulatory Authorities, we requested that GB NEMOs resubmit an amended proposal for the MCO by 15 December 2016, pursuant to Article 9(12) of the CACM Regulation. The requested amendments were set out in the all Regulatory Authority agreement⁵, published as an annex to our decision on the MCO Plan⁶.

On 14 December 2016, GB NEMOs submitted to us an amended proposal for the MCO Plan. Following review of the amended proposal and consultation with the other Regulatory Authorities, we concluded that NEMOs omitted important parts of the requested amendments set out in the all Regulatory Authority opinion. In particular:

- provisions restricting NEMOs' liability on delivering the MCO Functions were not completely removed;
- provisions introducing cost-related contingencies were still found; and
- provisions introducing or implying a possibly differentiated treatment among NEMOs were not duly justified against the objectives set forth in Article 3 of CACM Regulation.

Therefore, on 14 February 2017, we adopted a decision⁷ requesting, for the second time, that GB NEMOs resubmit an amended proposal for the MCO Plan.

Our Decision

We have reviewed the amended proposal for the MCO Plan, submitted to us by GB NEMOs on 13 April 2017. We are comfortable that the amended proposal addresses the amendment requests detailed in the original all Regulatory Authority agreement⁸.

We have consulted and closely cooperated and coordinated with all Regulatory Authorities to reach an agreement on the amended proposal for the MCO Plan. The all Regulatory Authority agreement, reached on 16 June 2017, is attached as an annex to this decision letter and constitutes the reasons for our decision.

In line with this all Regulatory Authority agreement, we hereby approve the MCO Plan submitted to us by GB NEMOs, EPEX SPOT SE and Nord Pool AS.

For the avoidance of doubt, the approval of the MCO Plan, including its annexes, does not entail the approval of the contracts between NEMOs and with third parties.

Decision to not undertake an Impact Assessment

As set out in our consultation on the first MCO Plan proposal, we have not undertaken an Impact Assessment, because the proposal does not constitute a significant change to existing GB arrangements. In line with the requirement of the CACM Regulation to build on existing solutions where possible, NEMOs collectively proposed to adapt and expand the existing solution in the day-ahead timeframe and the one currently being developed for the intraday timeframe in order to deliver single day-ahead market coupling and single intraday market coupling respectively.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/consultation-market-coupling-operator-plan-proposed-all-nominated-electricity-market-operators>

⁵ https://www.ofgem.gov.uk/system/files/docs/2017/02/all_nra_position_paper_mco_plan.pdf

⁶ <https://www.ofgem.gov.uk/publications-and-updates/request-amendment-market-coupling-operator-plan-submitted-all-nominated-electricity-market-operators>

⁷ https://www.ofgem.gov.uk/system/files/docs/2017/02/decision_on_the_amended_all_nemo_proposal_for_the_mco_plan.pdf

⁸ https://www.ofgem.gov.uk/system/files/docs/2017/02/all_nra_position_paper_mco_plan.pdf

We have not seen any evidence to suggest that expanding the existing solution for day-ahead market coupling and the one being developed for intra-day coupling would not be appropriate or that there is a credible alternative to delivering the MCO functions. In the absence of a credible alternative, we do not believe that performing an Impact Assessment would better inform our decision.

Next Steps

In accordance with this decision, the MCO Plan will take effect in GB from 26 June 2017. As such, GB NEMOs must publish the MCO Plan on the internet in line with Article 9(14) of the CACM Regulation, and must meet the implementation deadlines required by Article 5 of the MCO Plan.

If you have any queries regarding the information contained within this letter or the all Regulatory Authority agreement in the annex please contact marcelo.torres@ofgem.gov.uk.

Yours faithfully,

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