

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

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Dear colleague,

Request for amendments to the algorithm proposal, the day ahead products proposal, the intraday products proposal and the backup proposal

Request for the Agency to adopt a decision on the day ahead and intraday minimum and maximum price proposals

On 14 February 2017, we¹ received the following proposals from all Nominated Electricity Market Operators (NEMOs) in accordance with Articles 36(3), 37(5), 40(1), 41(2), 53(1) and 54(2) of the guideline on Capacity Allocation and Congestion Management (the CACM Regulation):²

- price coupling algorithm and continuous trading matching algorithm ('the algorithm proposal')
- products that can be taken into account by NEMOs in single day-ahead process ('the day ahead products proposal')
- products that can be taken into account by NEMOs in intraday coupling process ('the intraday products proposal')
- harmonized maximum and minimum clearing prices to be applied in all bidding zones which participate in single day-ahead coupling ('the day ahead minimum and maximum price proposal')
- harmonized maximum and minimum clearing prices to be applied in all bidding zones which participate in single intraday coupling ('the intraday minimum and maximum price proposal')
- back-up methodology ('the backup proposal')

All NEMOs were required to collectively develop and submit each proposal to all Regulatory Authorities for approval. The proposals were submitted to us by the two NEMOs designated in Great Britain (GB), EPEX SPOT SE and Nord Pool AS.

This letter sets out our decisions, pursuant to Article 9(12) of the CACM Regulation, to request an amendment to the proposals, except for the day ahead and intraday minimum and maximum price proposals for which we request the Agency for the Cooperation of Energy Regulators (Agency) to adopt a decision. This letter then outlines the necessary next steps that must be taken.

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.

Background

The CACM Regulation requires the competent Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach an agreement and take decisions within six months following receipt of the proposals by the last Regulatory Authority. The Agency confirmed that the algorithm, day ahead and intraday minimum and maximum price, and backup proposals were received by the last Regulatory Authority on 17 February 2017. A decision is therefore required for each of these proposals by 17 August 2017. The day ahead and intraday products proposals were received by the last Regulatory Authority on 16 February 2017. A decision on these proposals is therefore required by 16 August 2017.

Each proposal includes a proposed timescale for its implementation and a description of its expected impact on the objectives of the CACM Regulation, in line with Article 9(9) of the CACM Regulation.

Proposal	Summary
Algorithm	<p>The algorithm proposal consists of a main document and two annexes:</p> <ul style="list-style-type: none"> • The "All NEMOs' proposal for the price coupling algorithm and for the continuous trading matching algorithm, also incorporating TSO and NEMO proposals for a common set of requirements, in accordance with Article 37(5) of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management." – the main body of the algorithm proposal; • The "Proposal for a common set of requirements for the day ahead price coupling algorithm" – this is the Annex I; and • The "Proposal for a common set of requirements for the continuous trading matching algorithm" – this is the Annex II. <p>The main body of the algorithm proposal sets out a high level description of the day ahead and intraday algorithm, as well as principles for performance and change management.</p>
Day ahead products	The proposal describes the products that should be accommodated in the day-ahead algorithm.
Intraday products	The proposal describes the products that should be accommodated in the intraday algorithm.
Day ahead minimum and maximum price	The proposal defines the minimum and maximum clearing prices to be applied in all bidding zones which participate in single day-ahead coupling. The values proposed must take into account an estimation of the value of lost load in order to fulfil the general objectives of the CACM Regulation, which include ensuring fair and orderly price formation, and effective competition in the generation, consumption, trading or supply of electricity. ³
Intraday minimum and maximum price	The proposal defines the minimum and maximum clearing prices to be applied in all bidding zones which participate in single intraday coupling. The values proposed must take into account an estimation of the value of lost load in order to fulfil the general objectives of the CACM Regulation, which include ensuring fair

³ Article 3 of the CACM Regulation

	and orderly price formation, and effective competition in the generation, consumption, trading or supply of electricity. ⁴
Backup	The backup proposal aims at reducing the risk of market disruption if no results are available from the Market Coupling Operator functions by establishing measures preventing or mitigating the occurrence of an incident during the execution of a normal procedure.

Our decisions

We have reviewed the proposals submitted to us in line with the requirements of the CACM Regulation, the wider objectives of the Regulation (EC) No 714/2009, and our statutory duties and obligations. In making our decisions we have considered the justification provided, simultaneously with the submission of the proposals, for the inclusion or exclusion of views resulting from the stakeholder consultation undertaken by NEMOs.⁵ We have also consulted GB stakeholders about these proposals through the Joint European Stakeholder Group.⁶

As required by Article 9(1) of the CACM Regulation, we have consulted, and closely cooperated and coordinated with other Regulatory Authorities in order to reach agreement on these proposals.

Algorithm, day ahead products, intraday products and backup proposals

At the meeting of the Energy Regulator Forum on 18 July 2017, all Regulatory Authorities found agreements on the algorithm, day ahead products, intraday products and backup proposals. These agreements are attached as annexes to this decision letter and constitute the reasons for our decisions.

In line with these All Regulatory Authority agreements, we hereby adopt the following decisions to:

1. Request GB NEMOs to amend the algorithm proposal in line with the all Regulatory Authority agreement annexed to this letter;
2. Request GB NEMOs to amend the day ahead products proposal in line with the all Regulatory Authority agreement annexed to this letter;
3. Request GB NEMOs to amend the intraday products proposal in line with the all Regulatory Authority agreement annexed to this letter;
4. Request GB NEMOs amend the backup proposal in line with the all Regulatory Authority agreement annexed to this letter.

Day ahead and intraday minimum and maximum price proposals

Regulatory Authorities have not been able to reach an agreement on the day ahead minimum and maximum price proposal. For that reason, on 18 July 2017, all Regulatory Authorities agreed to request the Agency to adopt a decision on the day ahead minimum and maximum price proposal, pursuant to Article 9(12) of the CACM Regulation.

Although all Regulatory Authorities reached an agreement as to how the intraday minimum and maximum price proposal should be amended, we consider it necessary to ensure consistency of the processes of the two highly related proposals (day ahead and intraday minimum and maximum price proposals). We thus agreed to request the Agency to adopt a

⁴ Article 3 of the CACM Regulation

⁵ <http://www.europex.org/external-consultations/all-nemos-consultation/>

⁶ More information about JESG is available here: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/European-network-code/Joint-European-Stakeholder-Group/>

decision on the intraday minimum and maximum price proposal, pursuant to Article 9(12) of the CACM Regulation.

In line with these All Regulatory Authority agreements, we hereby adopt the following decisions to:

5. Request the Agency to adopt a binding decision on the day ahead minimum and maximum price proposal in line with the all Regulatory Authority agreement annexed to this letter;
6. Request the Agency to adopt a binding decision on the intraday minimum and maximum price proposal in line with the all Regulatory Authority agreement annexed to this letter.

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for these proposals as the proposals merely relate to the parameters and processes necessary for the implementation of the single day ahead and intraday market coupling, which constitutes the objective of the CACM Regulation and was as such already subject to an impact assessment. Moreover, the proposals in themselves do not constitute a significant change to the existing GB requirements and arrangements. Accordingly, we consider that an impact assessment is unnecessary.

Next steps

Algorithm, day ahead products, intraday products and backup proposals

In accordance with Article 9(12) of the CACM Regulation, GB NEMOs must make the amendments to the above proposals necessary to address the points set out in the all Regulatory Authority agreements and re-submit the amended proposals to us within two months of this decision.

Day ahead and intraday minimum and maximum price proposals

In accordance with Article 9(12) of the CACM Regulation, all Regulatory Authorities request that the Agency adopts a decision concerning the day ahead and intraday minimum and maximum price proposals within six months of this decision.

If you have any queries regarding the information contained within this letter, or the all Regulatory Authority agreements in the annexes please contact David McCrone at david.mccrone@ofgem.gov.uk.

Yours faithfully,

Mark Copley
Associate Partner, Wholesale Markets