

**REQUEST FOR AMENDMENT BY ALL NRAs AGREED  
AT THE ENERGY REGULATORS' FORUM**

**ON**

**ALL NEMOs' PROPOSAL FOR  
THE PLAN ON JOINT PERFORMANCE OF MCO  
FUNCTIONS (MCO Plan)**

**26.09.2016**

## I. Introduction and legal context

This document elaborates an opinion of all regulatory authorities, agreed at the Energy Regulators' Forum on 13 September 2016, on the **All NEMOs' Proposal for the Plan On Joint Performance of MCO Functions (MCO Plan) in accordance with Article 7(3) of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management** (hereafter referred to as the "MCO Plan Proposal").

This agreed opinion of all regulatory authorities shall provide evidence that a decision does not, at this stage, need to be adopted by ACER pursuant to Article 9(11) of the Regulation 2015/1222<sup>1</sup>, and is intended to constitute the basis on which regulatory authorities will each subsequently make national level decisions to request an amendment to the MCO Plan Proposal submitted by NEMOs under Article 9(6) of the Regulation 2015/1222.

The legal provisions that lie at the basis of the MCO Plan Proposal and this all national regulatory authority agreed opinion of the MCO PLAN Proposal, can be found in Article 3, Article 7 and Article 9 of the Regulation 2015/1222.

### Article 7 of Regulation 2015/1222:

1. *NEMOs shall act as market operators in national or regional markets to perform in cooperation with TSOs single day-ahead and intraday coupling. Their tasks shall include receiving orders from market participants, having overall responsibility for matching and allocating orders in accordance with the single day-ahead coupling and single intraday coupling results, publishing prices and settling and clearing the contracts resulting from the trades according to relevant participant agreements and regulations.*

*With regard to single day-ahead coupling and single intraday coupling, NEMOs shall in particular be responsible for the following tasks:*

- (a) *implementing the MCO functions set out in paragraph 2 in coordination with other NEMOs;*
- (b) *establishing collectively the requirements for the single day-ahead and intraday coupling, requirements for MCO functions and the price coupling algorithm with respect to all matters related to electricity market functioning in accordance with paragraph 2 of this Article, and Articles 36 and 37;*
- (c) *determining maximum and minimum prices in accordance with Articles 41 and 54;*
- (d) *making anonymous and sharing the received order information necessary to perform the MCO functions provided for in paragraph 2 of this Article and Articles 40 and 53;*
- (e) *assessing the results calculated by the MCO functions set out in paragraph 2 of this Article allocating the orders based on these results, validating the results as final if they are considered correct and taking responsibility for them in accordance with Articles 48 and 60;*
- (f) *informing the market participants on the results of their orders in accordance with Articles 48 and 60;*

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<sup>1</sup> Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, hereafter referred to as the " Regulation 2015/1222"

- (g) *acting as central counter parties for clearing and settlement of the exchange of energy resulting from single day-ahead and intraday coupling in accordance with Article 68(3);*
- (h) *establishing jointly with relevant NEMOs and TSOs back-up procedures for national or regional market operation in accordance with Article 36(3) if no results are available from the MCO functions in accordance with Article 39(2), taking account of fallback procedures provided for in Article 44;*
- (i) *jointly providing single day-ahead and intraday coupling cost forecasts and cost information to competent regulatory authorities and TSOs where NEMO costs for establishing, amending and operating single day-ahead and intraday coupling are to be covered by the concerned TSOs' contribution in accordance with Articles 75 to 77 and Article 80;*
- (j) *Where applicable, in accordance with Article 45 and 57, coordinate with TSOs to establish arrangements concerning more than one NEMO within a bidding zone and perform single day ahead and / or intraday coupling in line with the approved arrangements.*

**2. NEMOs shall carry out MCO functions jointly with other NEMOs. Those functions shall include the following:**

- (a) ***developing and maintaining the algorithms, systems and procedures for single day-ahead and for intraday coupling in accordance with Articles 36 and 51;***
- (b) ***processing input data on cross-zonal capacity and allocation constraints provided by coordinated capacity calculators in accordance with Articles 46 and 58;***
- (c) ***operating the price coupling and the continuous trading matching algorithms in accordance with Articles 48 and 60;***
- (d) ***validating and sending single day-ahead and single intraday coupling results to the NEMOs in accordance with Articles 48 and 60.***

**3. *By eight months after the entry into force of this Regulation all NEMOs shall submit to all regulatory authorities and the Agency a plan that sets out how to jointly set up and perform the MCO functions set out in paragraph 2, including necessary draft agreements between NEMOs and with third parties. The plan shall include a detailed description and the proposed timescale for implementation, which shall not be longer than 12 months, and a description of the expected impact of the terms and conditions or methodologies on the establishment and performance of the MCO functions in paragraph 2.***

**4. *Cooperation between NEMOs shall be strictly limited to what is necessary for the efficient and secure design, implementation and operation of single day-ahead and intraday coupling. The joint performance of MCO functions shall be based on the principle of non-discrimination and ensure that no NEMO can benefit from unjustified economic advantages through participation in MCO functions.***

**5. *The Agency shall monitor NEMOs' progress in establishing and performing the MCO functions, in particular regarding the contractual and regulatory framework and regarding technical preparedness to fulfil the MCO functions. By 12 months after entry into force of this Regulation, the Agency shall report to the Commission whether progress in establishing and performing single day-ahead coupling or intraday coupling is satisfactory.***

*The Agency may assess the effectiveness and efficiency of establishment and performance of the MCO function at any time. If that assessment demonstrates that the requirements are not fulfilled, the Agency may recommend to the Commission any further measures needed for timely effective and efficient delivery of single day-ahead and intraday coupling.*

6. *If NEMOs fail to submit a plan in accordance with Article 7(3) to establish the MCO functions referred to in paragraph 2 of this Article for either the intraday or the day-ahead market timeframes, the Commission may, in accordance with Article 9(4), propose an amendment to this Regulation, considering in particular appointing the ENTSO for Electricity or another entity to carry the MCO functions for single day-ahead coupling or for intraday coupling instead of the NEMOs.*

**Article 3 of Regulation 2015/1222:**

This Regulation aims at:

- (a) *Promoting effective competition in the generation, trading and supply of electricity;*
- (b) *Ensuring optimal use of the transmission infrastructure;*
- (c) *Ensuring operational security;*
- (d) *Optimising the calculation and allocation of cross-zonal capacity;*
- (e) *Ensuring fair and non-discriminatory treatment of TSOs, NEMOs, the Agency, regulatory authorities and market participants;*
- (f) *Ensuring and enhancing the transparency and reliability of information;*
- (g) *Contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union;*
- (h) *Respecting the need for a fair and orderly market and fair and orderly price formation;*
- (i) *Creating a level playing field for NEMOs;*
- (j) *Providing non-discriminatory access to cross-zonal capacity*

**Article 9 of Regulation 2015/1222**

1. *TSOs and NEMOs shall develop the terms and conditions or methodologies required by this Regulation and submit them for approval to the competent regulatory authorities within the respective deadlines set out in this Regulation. Where a proposal for terms and conditions or methodologies pursuant to this Regulation needs to be developed and agreed by more than one TSO or NEMO, the participating TSOs and NEMOs shall closely cooperate. TSOs, with the assistance of ENTSO for Electricity, and all NEMOs shall regularly inform the competent regulatory authorities and the Agency about the progress of developing these terms and conditions or methodologies.*
2. (...)
3. (...)
4. (...)
5. *Each regulatory authority shall approve the terms and conditions or methodologies used to calculate or set out the single day-ahead and intraday coupling developed by TSOs and NEMOs. They shall be responsible for approving the terms and conditions or methodologies referred to in paragraphs 6, 7 and 8.*
6. *The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities:*

- (a) *the plan on joint performance of MCO functions in accordance with Article 7(3);*
  - (b) (...)
  - (c) (...)
- 7. (...)
- 8. (...)
- 9. *The proposal for terms and conditions or methodologies shall include a proposed timescale for their implementation and a description of their expected impact on the objectives of this Regulation. Proposals on terms and conditions or methodologies subject to the approval by several or all regulatory authorities shall be submitted to the Agency at the same time that they are submitted to regulatory authorities. Upon request by the competent regulatory authorities, the Agency shall issue an opinion within three months on the proposals for terms and conditions or methodologies.*
- 10. *Where the approval of the terms and conditions or methodologies requires a decision by more than one regulatory authority, the competent regulatory authorities shall consult and closely cooperate and coordinate with each other in order reach an agreement. Where applicable, the competent regulatory authorities shall take into account the opinion of the Agency. Regulatory authorities shall take decisions concerning the submitted terms and conditions or methodologies in accordance with paragraphs 6, 7 and 8, within six months following the receipt of the terms and conditions or methodologies by the regulatory authority or, where applicable, by the last regulatory authority concerned.*
- 11. (...)
- 12. *In the event that one or several regulatory authorities request an amendment to approve the terms and conditions or methodologies submitted in accordance with paragraphs 6, 7 and 8, the relevant TSOs or NEMOs shall submit a proposal for amended terms and conditions or methodologies for approval within two months following the requirement from the regulatory authorities. The competent regulatory authorities shall decide on the amended terms and conditions or methodologies within two months following their submission. Where the competent regulatory authorities have not been able to reach an agreement on terms and conditions or methodologies pursuant to paragraphs (6) and (7) within the two-month deadline, or upon their joint request, the Agency shall adopt a decision concerning the amended terms and conditions or methodologies within six months, in accordance with Article 8(1) of Regulation (EC) No 719/2009. If the relevant TSOs or NEMOs fail to submit a proposal for amended terms and conditions or methodologies, the procedure provided for in paragraph 4 of this Article shall apply.*

Article 7(3) of Regulation 2015/1222<sup>2</sup> requires that eight months after the entry into force of this Regulation all NEMOs shall submit to all regulatory authorities and the Agency a plan that sets out how to jointly set up and perform the MCO functions, including necessary draft agreements between NEMOs and with third parties. The plan shall include a detailed description and the proposed timescale for implementation, which shall not be longer than 12 months, and a description of the expected impact of the terms and conditions or methodologies on the establishment and performance of the MCO functions. As the Regulation 2015/1222 has been published in the European Journal on 25 July 2015, entry into force of this Regulation was on 14 August 2015 (20 days after publication). According to Article 9(6)(a) of the Regulation 2015/1222 this proposal shall be subject to the approval of all NRAs.

## II. The MCO Plan Proposal

The all NEMOs' MCO Plan proposal was received by all NRAs on 15<sup>th</sup> April 2016, within the deadline stated by Article 7(3) of the Regulation 2015/1222 GL (8 months after entry into force of the Regulation). According to Article 9(10) of the Regulation 2015/1222, all NRAs have to approve or request amendments of the proposal by 6 months after receipt of the proposal. If we take the date of 15<sup>th</sup> April 2016 for all NRAs, this would be 15<sup>th</sup> October 2016.

The main points of the proposal are repeated in the following bullets:

1. The MCO Plan proposal contains the general principles for the NEMO cooperation and establishes an All NEMO Committee.
2. The proposal contains a section about the day ahead cooperation and describes the implementation of the day ahead MCO Function (hereafter the DA MCO Function), the price coupling algorithm and products, the day ahead MCO Function systems, the governance and financial issues.
3. The proposal contains a section about the intraday cooperation and describes the implementation of the intraday MCO function, the delivery of the intraday MCO function, the continuous trading matching algorithm and products, the governance and the budget and cost reporting.
4. Attached to the proposal, three annexes provide summaries of the Interim NEMO Cooperation Agreement, the day ahead contracts and the intraday contracts.

## III. All NRAs' position

According to Regulation 2015/1222, the scope of the MCO Plan is threefold:

1. Describing in detail how all NEMOs will jointly set up and perform the MCO Functions in compliance with Regulation 2015/1222 prescriptions (i.e. which is the target model for single day ahead and intraday coupling);
2. Proposing a timescale for implementation where all necessary steps to jointly set up the MCO Functions (i.e. how to achieve the target model) are listed, specifying for each step the corresponding time reference coherently with the deadline envisaged by Regulation 2015/1222 (twelve months after the approval);
3. Describing the expected impact of the terms and conditions or methodologies (as referred to art. 9) on the establishment and performance of the MCO Functions, taking into consideration possible contingencies.

The structure of the MCO Plan should strictly reflect the above-mentioned segmentation, avoiding any confusion between enduring and interim solutions.

NRAs expect that the MCO Plan structure reflects the abovementioned topics for DA and ID. Any description of existing projects should be contained in a supporting document (i.e. documents not subject to NRAs approval) without any reference in the proposal to the supporting document. Any reference to the existing projects in the MCO Plan should be made using the same wording as Regulation 2015/1222 (recital 28): "existing methodologies".

Furthermore, according to our understanding of Regulation 2015/1222 the following topics have to be considered outside the scope of the MCO Plan and therefore completely removed:

- Provisions restricting NEMOs' liability on MCO Functions;
- Provisions on cost recovery, inasmuch as they have to be based on national approvals and/or agreements between NEMOs, TSOs and the competent regulatory authority (art. 76(2) and 76(3)) in combination with art. 9(8)e;
- Provisions on cost sharing referring to costs incurred prior to the entry into force of CACM, inasmuch as they have to be based on existing agreements between NEMOs and TSOs (art. 80(5));

- Provisions on cost sharing referring to costs not specifically related to the MCO Functions.
- All other provisions on costs as they will be treated in a separate position paper by NRAs.

## IV. Actions

Based on the above rationale, all regulatory authorities agree to request an amendment to the MCO Plan Proposal. This amendment should contain the following elements:

### Chapter on the governance structure

NRAs expect NEMOs to establish a clear, flexible and non-discriminatory governance structure.

In particular the overall governance structure should be described in only one chapter in order to add more clarity and overview. This will avoid any confusion between enduring and interim solutions.

Furthermore, for the sake of flexibility, the proposal on the governance structure should be limited to the description of the All NEMO Committee. It should not include the description of sub-committees eventually created by the All NEMO Committee. Without any reference in the proposal, a description of sub-committees NEMOs expect to establish should be contained in a supporting document.

Finally, in order to ensure non-discrimination, whereas sub-committees or other governance bodies are created by the All NEMO Committee, all NEMOs must be granted the same rights and obligations. In case a NEMO chooses to delegate its voting right to a representative, the voting preference of the serviced NEMO must be reflected transparently in the decision making process.

### A timescale for implementation

According to Regulation 2015/1222 recital 28 “The introduction of single day-ahead and intraday coupling [therefore] requires a successive alignment of the existing methodologies on capacity [calculation,] allocation [and congestion management]”.

It is well understood that the existing methodologies on capacity allocation are, for the Day Ahead Market, the MRC/PCR project and, for the Intra Day Market, the XBID project. NEMOs are requested to make reference to the abovementioned projects as the starting point of the timescale for implementation.

Moreover the alignment of the existing methodologies with Regulation 2015/1222 needs to be precisely described in the proposal, namely in the section devoted to the timescale for implementation.

However, all NRA's notice that the proposal does not include a proper timescale for the implementation. The proposal is thus not fully compliant with article 7(3) of the Regulation 2015/1222 which may form the basis for rejecting the proposal. All NRAs believe that this timescale should be incorporated into the proposal, in accordance with Article 7(3) of the Regulation 2015/1222 Regulation. Therefore NRAs request NEMOs to include in the MCO Plan milestones and dates (e.g. the entry into force of the ANCA), on the timescales for implementation of the MCO Functions.

The suggested base case scenario takes into account:

- Timely submission of each NEMO proposal.
- NRAs approval process of 6 months duration.
- No contingency occurs.

A clear and detailed description of how NEMOs will jointly set up and perform the “MCO Functions in compliance with art. 7(3) and with art. 7(2) of Regulation 2015/1222, which description is needed to assess whether the MCO Functions are implemented. Furthermore, the MCO plan mainly focus on agreements and contract change. The NRAs expect to see an exhaustive list of actions needed for NEMOs to be ready to perform the DA and ID MCO Functions within the deadline.

### **Impact assessment**

All NRA's notice that the proposal does not include a description of expected impact of the terms and conditions or methodologies on the establishment and performance of the MCO Functions (impact assessment).

The proposal is thus not compliant with article 7(3) of the Regulation 2015/1222 which may form the basis for rejecting the proposal. All NRAs believe that this impact assessment should be incorporated into the proposal, in accordance with Article 7(3) of the Regulation 2015/1222.

Terms and conditions or methodologies listed in Article 9(6) have not yet been approved by NRAs, thus NEMOs do not have full control of all the necessary steps of the implementation process.

In this context, NEMOs are expected to set out their expectations on the outcome of both, the approval processes and the substance of relevant terms and conditions and methodologies, and on other contingencies which may occur and their potential impact on the establishment and performance of the MCO functions. Finally, NEMOs are expected to indicate alternative timescales, if any.

### **Access to data**

The NRAs request that the MCO-plan provide access to necessary data for establishment of reference prices.

In markets consisting of several bidding zones the NEMOs may have an essential role in calculating robust reference prices which can be used in the financial electricity market. The possibility to perform this task must be reflected in the MCO Plan as this is part of ensuring fair and non-discriminatory treatment of TSO's, NEMO's and market participants (Article 3 (e), respecting the need for a fair and orderly market (Article 3 (h) and creating a level playing field for NEMOs (Article 3 (i).

The MCO plan and the operational agreements between NEMOs shall ensure access to necessary data to accommodate calculation of reference prices covering multiple bidding zones. The right for NEMOs to use the necessary data for this purpose without further separate agreements must be part of the MCO Plan and operational agreements as well.

Further the NRA's request clarity in the proposal that the MCO plan will facilitate efficient regional fallback procedures. Pursuant to Article 44 of the Regulation 2015/1222, it is a TSO task to develop regional fallback procedures. NRAs do not anticipate the content of this proposal, but merely request that NEMOs should not be able to deny access to order books with reference to the MCO-plan or other requirements.



## **Multi-NEMO Arrangements**

Arrangements concerning more than one NEMO in one bidding zone (Articles 45 and 57) may require changes to the day-ahead price coupling algorithm and continuous trading matching algorithm. NRAs request that NEMOs shall ensure that adequate measures will be taken to accommodate these changes and allow the operation of multiple NEMOs in one bidding zone. In particular, NEMOs are requested to elaborate such measures in the proposal for the algorithm (art. 37(2) Regulation 2015/1222). Such measures shall be considered as part of the base case scenario for the timescales for implementation of the MCO Functions.

## **Treatment of costs**

### **Cost recovery**

Any reference to cost recovery is out of the scope of the MCO Plan as it is subject to individual approval by each regulatory authority (art. 9(8)e) and art. 76(2) of Regulation 2015/) or has to be based on national agreements between NEMOs and the competent regulatory authority (art. 9(8)e and art. 76(3) of Regulation 2015/1222).

### **Historical cost**

Any reference to costs incurred prior to the entry into force of Regulation 2015/1222 is out of the scope of the MCO Plan, inasmuch as they have to be based on existing agreements between NEMOs and TSOs (art. 80(5)).

### **Starting date for cost categorization and sharing in line with the CACM**

NRAs acknowledge the existing methodologies and developments on capacity calculation, allocation and congestion management for the day-ahead and the single intraday coupling as the pan-European solution in the meaning of the Regulation 2015/1222 as soon as the MCO Plan is approved but latest from the 14<sup>th</sup> of February 2017 on.

All NEMOs shall bear the common, regional and national costs of establishing, updating or further developing and operating the price coupling algorithm and single day-ahead coupling and the continuous trading matching algorithm and single intraday coupling (Art. 76(1) Regulation 2015/1222). "The cost sharing principles shall apply to costs incurred from the entry into force of this Regulation" (Art. 80(5) Regulation 2015/1222 ).

NRA's consider that all costs incurred from the date of the MCO Plan approval (and from 14 February 2017 at the latest) shall be treated in accordance with the Regulation 2015/1222.

## **Language**

In order to ensure consistency with all other proposals, the following statement should be added to the text of the MCO plan:

"The reference language for the MCO plan shall be English. For the avoidance of doubt, where NEMOs need to translate this MCO plan into the national language(s) of the relevant NRA, in the event of inconsistencies between the English version published by NEMOs in accordance with Article 9(14) of the Regulation 2015/1222. Regulation and any version in another language, the relevant NEMOs shall be obliged to dispel any inconsistencies by providing a revised translation of this MCO plan to their relevant national regulatory authorities".

## **Draft agreements**

Article 73 of Regulation 2015/1222 requires draft agreements to be included and approved by NRAs. These are overarching structures of the specific contracts. Draft agreements form the basis of specific contracts which are not subject to approval and which are entered into with service providers. Therefore, names of service providers shall not be included in the draft agreements.

## **Description of existing projects**

The description of all facts, agreements and actions occurred before the entry into force of Regulation 2015/1222, as well as the description of the current situation and ongoing projects, except where relevant for the timescale for implementation, are outside the scope of the Plan, even though they represent a useful background and therefore they should be moved to supporting documents without any reference in the proposal.

## **Definitions**

Finally, NRAs deem that there is no need to redefine definitions already set out in the Regulation 2015/1222 and associated legislation and thus request NEMOs to make reference to existing definitions for consistency.

Definitions dealing with existing projects, including but not limited to agreements in place before the entry into force of Regulation 2015/1222 are not needed and thus are to be removed from the MCO Plan and eventually moved to a supporting document.