

Eurelectric views on key market coupling priorities

MESC conference on future electricity market challenges

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Market coupling relies on an enabling policy environment

1. Preserve and strengthen market-based electricity pricing

- **The European target model has shown its value:** the priority consists in improving a market design that has shown to deliver under (i) self-dispatch, (ii) portfolio-based bidding, (iii) marginal pricing, (iv) technological neutrality and (v) market-based system services.
- **Support schemes need to complement rather than distort wholesale market functioning:** public support is needed to cover investment gaps but can distort wholesale market prices and incentives if not well-designed (e.g. negative prices caused by ill-designed CfDs).
- **Negative prices and/or price spikes are useful market signals:** address the root causes rather than suppressing those prices.

2. Create a market framework that facilitates and optimises investments

- **Predictable market rules are key:** debates about ad hoc market interventions (inframarginal rent taxes, price caps, design overhaul with low market acceptance etc.) hurt investor confidence and proper market signalling.
- **Free functioning of markets is key to reach optimal investment:** access to a broad range of tools (spot and forward markets, PPAs, CRMs, and targeted public support such as CfDs) is key, and undue regulatory distortions should be avoided.

3. Deepen European market integration and governance

- **Prioritise projects reaping net benefits:** the welfare gains of projects need to be assessed across timeframes, and possible side-effects must be addressed before go-live.
- **Effective governance arrangements support better delivery:** thorough involvement of market participants as formal design partners rather than consulted stakeholders, and clear allocation of responsibilities for market coupling projects.
- **Transparency supports well functioning markets:** full transparency on market inputs and outputs will improve market outcomes.

Market coupling relies on an enabling policy environment

4. Address grid and locational challenges pragmatically

- **Nodal pricing would create massive uncertainty:** more targeted investment signals e.g. through connection charges or targeted bidding zone reviews can achieve similar objectives while preserving market confidence.
- **Congestion management needs to support wholesale markets:** coordination of remedial actions will be key to lowering system costs and increasing cross-zonal capacities. Local flexibility markets should not negatively affect wholesale markets.

5. Enabling energy transition and resilience through market and infrastructures readiness

- **Market coupling infrastructure needs to match electrification ambitions:** robustness of market coupling systems and fallbacks need to be assessed in light of market integration and electrification objectives.
- **Sufficient cross-zonal capacity also requires physical grid build-out:** faster expansion including tackling bottlenecks within bidding zones requires anticipatory investments, streamlined permitting, faster grid connections, and continued digitalisation.

Network codes: key messages

01 CACM GL

Market coupling is a European success story

- The core market architecture works.
 - Priority lies on extending best practices, completing key projects and improving delivery.
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- ✓ Continuous improvement of market coupling systems and fallback arrangements.
 - ✓ Improving TSO coordination action and CZC availability.

02 FCA GL

Diagnosis before prescription

- Liquidity pools and a broad range of hedging products are available.
 - Full analysis of root causes of perceived hedging insufficiencies before prescriptive proposals.
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- ✓ LTTR design needs to support MPs' overall hedging strategy.
 - ✓ Build policy in line with expressed, not presumed, market needs.

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A sound foundation for the future

- Market infrastructure is under completion.
 - Next step should be to leverage this maximally to build more integrated, more liquid and broadly participated markets.
 - Make future-proof checks on products, MP requirements and transparency.
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- ✓ Build on efficient balancing platforms for liquid and transparent balancing markets.
 - ✓ Achieve a more seamless market where BSPs/BRPs compete on the same footing.

What are the key challenges for EU spot markets?

Remaining market coupling benefits are held back by lack of coordination and transparency



- **Lack of cross-zonal capacity:** unequal progress towards the 70% target in day-ahead and issues resulting from uncoordinated capacity calculation approaches between regions and across timeframes.
 - ⚠ The possible side effects of market coupling projects (flow-based) must be anticipated and mitigated – benefits of projects cannot be considered in isolation.



- **Lack of transparency:** publication of market inputs and outputs is unequal across geographies and timeframes, impacting market participants' ability to optimise their portfolios and destroying value.
 - ⚠ Market participants need to understand TSO assumptions reducing CZC and to have access to harmonised, easily accessible and complete market data.



- **High-value projects progress too slowly:** implementation of e.g. remedial actions coordination is delayed by cost considerations.
 - ⚠ Pragmatism should be considered. Could requester-pays principle be a way to start things up?



- **Coupling infrastructure faces performance challenges:** algorithm limitations in DA & ID increase risk of decouplings, while fallbacks still need improvement.
 - ⚠ Maintaining trust in Europe's reference electricity markets is crucial to Europe's electrification strategy.
 - ⚠ Market participants' optimisation tools should not be restricted to accommodate new projects without a full assessment.

Proposals to future-proof spot markets



Lack of cross-zonal capacity

- **Implement FB in IDAs**, ensuring that potential impacts on IDC and BAL are accounted for and minimised through accompanying measures.
- **Move to 30' IDCZGCT** to improve RES integration.



High-value projects progress too slowly

- **Implement sharing of remedial actions** (ROSC, RDCT) to reduce the cost of congestions.
- **A transparent comparison of fallback alternatives** has not been conducted, two years after the last decoupling incident.
- **Harmonise fallbacks at least at CCR level** to ensure a single and economically relevant price in case of decoupling.



Lack of transparency on market inputs/outputs in some markets

- **Transparency on capacity calculation** (inputs, remedial actions, capacity reductions).
- **Publish quarterly RCC reports** on cross-zonal capacity reductions.
- **Improve communication on incidents** and improve nomination arrangements.
- **Implement mandatory testing** of new solutions with MPs.



Coupling infrastructure performance challenges

- **Involve MPs in the scoping and design** of a future-proof IT infrastructure (scalability, resilience). A future-proof coupling infrastructure is MPs' top priority.
- **Ensure corrective measures are proportionate**, temporary and activation conditions are shared and justified.
- **Optimise SIDC performance and minimise continuous trading suspensions.**

Looking ahead: how to further increase the value of market coupling

- **Geographical extension of market coupling:** SDAC/SIDC expansion will support the energy transition and provide additional flexibility.
- **Implement net welfare testing:** a holistic assessment of projects' effects across timeframes needs to be conducted for new projects.