

FOSTER COMPETITION AND INNOVATION THROUGH EUROPEAN ELECTRICITY MARKET COUPLING

POLICY RECOMMENDATIONS



BUILD ON MARKET COUPLING

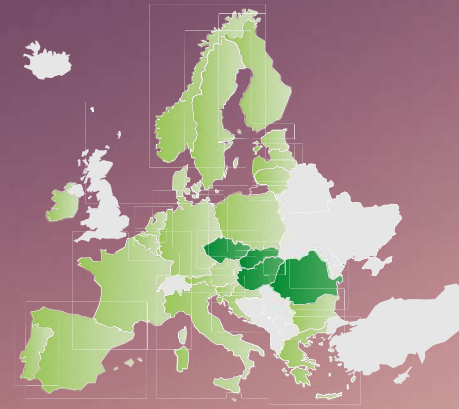
Build on the existing market coupling architecture to reduce time-to-market of new products and features.



ENABLE COMPETITION ACROSS EU

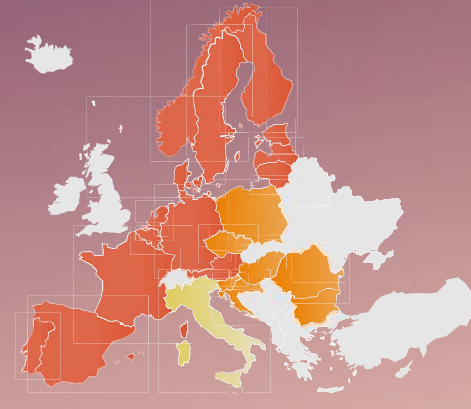
Enable competition between power exchanges across all EU Member States to provide the benefits of the internal electricity market to all European consumers.

Single Day-Ahead Coupling (SDAC)



■ Couple under SDAC (formerly MRC)
■ 4M Market Coupling members (connected to SDAC since June 2021)

Single Intraday Coupling (SIDC)



■ 1st wave – June 2018
■ 2nd wave – November 2019
■ 3rd wave – September 2021

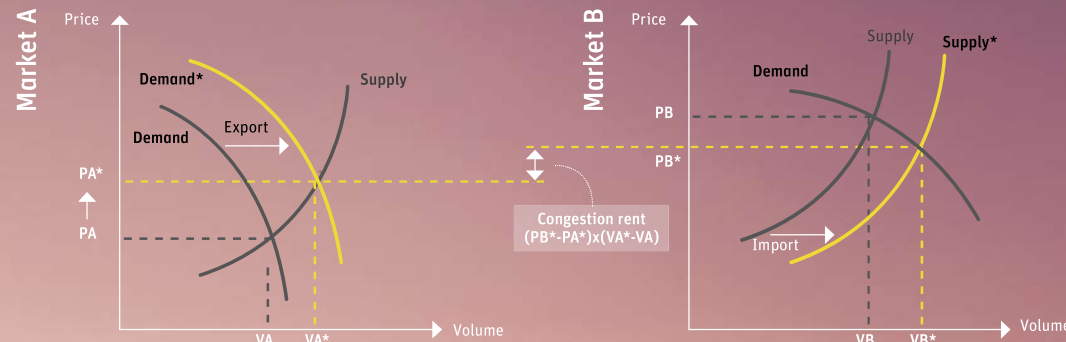
As of January 2022

European Market Coupling has been a reality for almost 15 years and brings considerable daily benefits for Europe's industry and end consumers.

The **Single Day-Ahead Coupling (SDAC)** couples the day-ahead markets of 27 countries. SDAC includes 61 bidding zones, 35 Transmission System Operators (TSOs) and 16 Nominated Electricity Market Operators (NEMOs). It covers countries representing 98.6% of the EU consumption.

The **Single Intraday Coupling (SIDC)** currently connects the continuous intraday markets of 23 countries. The integration of Greece and Slovakia is planned during 2022. SIDC includes 31 bidding zones, 32 TSOs and 10 NEMOs.

Market Coupling means that prices and power flows between countries are calculated at the same time in the most efficient way. Available cross-border capacity is used more efficiently and the price difference between two or more market areas is reduced.



Prices converge due to European Market Coupling:

In Market A, demand and supply meet at a lower price. In Market B, demand and supply meet at a higher price. With market coupling, in Market A, demand increases due to exports to Market B. In Market B, supply increases due to imports from Market A. The new equilibrium prices of the two markets converge: Prices increase in Market A and prices decrease in Market B.

Increase of economic efficiency and welfare due to market coupling:

In the example above, the seller in Market A can sell at a higher price (seller surplus) and the buyer in Market B can buy at a lower price (buyer surplus). In addition, a higher total volume can be traded as competitive sellers get access to additional markets and price-sensitive buyers have more options to choose. Cross-border capacities are used in an optimal way.

A congestion rent is generated which can be used by TSOs to reduce network tariffs or cover costs for grid investments to increase cross-border capacities.

European Market Coupling brings numerous benefits for Europe's industry and consumers:

- **Optimal use** of interconnectors facilitating congestion management
- **Smoothing effect** on negative or positive price spikes
- **Attenuation of extreme weather conditions**
- **Higher security of supply**
- **Optimization of use of resources**

The revision of the CACM Regulation - possible effects for the market:

Market Coupling started already in 2006 as initiative between power exchanges and TSOs. The EU Regulation 2015/1222

on Capacity Allocation and Congestion Management (CACM Regulation) set the existing market coupling into European legislation. It also provided a framework for power exchanges to extend their services to other European markets.

The CACM Regulation is currently under review. The current proposals put at risk the completion of the European Internal Energy Market and associated projects for several reasons:

- **Effectiveness, efficiency, and transparency** of the overall system is endangered by the creation of additional governance layers and intermediaries;
- **Safety of operations** is less resilient, as the governance options lead to the creation of a potential "single point of failure";
- **Significant transition costs** of a new setup divert resources away from critical projects aimed at making new trading products supporting the EU Green Deal

and 2030 Climate Target Plan; Longer time-to-market for innovations may from the proposed changes to market design

Therefore, the following aspects shall be taken into consideration for the revision of the CACM Regulation:

- **Ensure stability.** Market Coupling is already a reality, and a number of critical projects are underway.
- **Further develop the current architecture.** The goal is to improve efficiency, reduce time-to-market for projects, avoid escalations to regulatory authorities and provide more transparency.
- **Ensure the transition of monopoly NEMOs** to the competitive model. This increases trading opportunities for market participants, provides access to product innovation, reduces administrative burden.