



# Letter to stakeholders

*Dear Stakeholders, NRAs, ACER and Commission,*

## **Energy crises, emergency measures, war and inflation were at the centre of every debate in 2022 and so was the role of the European internal electricity market.**

The invasion of Ukraine prompted the current energy crisis and highlighted the need to quickly adapt the electricity market to better support the green transition and offer energy consumers access to affordable renewable and non-fossil electricity.

In light of all this, ACER was tasked with analysing the situation and in April 2022, published its Final Assessment of the EU Wholesale Electricity Market Design in which it concluded that “while the current circumstances impacting the EU’s energy system are far from ‘normal’, ACER finds that the current electricity market design is not to blame for the current crisis. On the contrary, the market rules in place have to some extent helped mitigate the current crisis, thus avoiding electricity curtailment or even blackouts in certain quarters.”

2022 brought more questions than answers and policy makers and politicians faced the challenge of looking for measures and finding a solution, with the clear understanding that one size does not fit all. Emergency measures were adopted at national levels within a pan-European framework, set out in the RePower EU Plan. Now sights are set on the Electricity Market Design reform (EMD) launched by the European Commission with the aim of building a future-proof regulatory framework.

This reform process has not only helped to re-assess the current electricity market model. It has also assisted acknowledgment of the achievements of 25 years of successful electricity market integration led by NEMOs and TSOs, providing security of supply, driving decarbonisation and achieving affordable and competitive prices.

The NEMO Committee welcomes the fact that the EMD maintains the fundamentals of well-functioning short- and long-term markets, further incentivising the deployment of flexibility, bringing markets closer to real time and improving consumers’ rights and engagement. Furthermore, Recital 7 of the European Commission’s proposal indicates that “short-term markets and the pricing mechanism based on marginal pricing should be preserved, as they function well and provide the right price signals. Short-term (day-ahead and intraday) markets are well-developed, and they are the result of years of implementation of EU energy legislation”.

However, we are concerned that certain proposed amendments replacing the existing operational solution for the management of the Market Coupling by a Legal Single Entity might seriously alter parts of the existing short-term markets with significant negative consequences on the functioning of SDAC and SIDC and could be detrimental to market efficiency and its ability to incentivise decarbonisation at least cost. The NEMO Committee would like to encourage lawmakers (Member States and the European Parliament) to carefully assess these proposals and to ensure that the EMD is not perceived as a drawback to the functioning of short-term markets, the liquidity of long-term markets and the deployment of flexibility assets.

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*In the meantime, NEMOs have continued with their commitment to safeguard the operation of the day-ahead and intraday markets and to successfully run the internal electricity market together with TSOs, as established in the European Regulations.*

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In addition to this, NEMOs and TSOs have demonstrably gone beyond advocacy and have i) voluntarily implemented improvements in the joint governance body for SDAC and SIDC (Market Coupling Steering Committee – MCSC), with the Joint Qualified Majority vote to speed up decision making and avoid escalation to authorities; ii) created with stakeholders the Market Coupling Consultative Group (MCCG) with the objective of enhancing relations between NEMOs, TSOs and stakeholders and consulted market participants on issues related to the design, development, implementation and operation of SDAC and SIDC.

NEMOs have also addressed the price spikes that occurred in May and August 2022; by organising a public consultation and submitting to ACER in September 2022 a proposal for revision of the Harmonised Maximum and Minimum Clearing Price (HMMCP) methodologies. The general aim of the proposal was to reach a balanced approach between three main requirements: a) making the triggering of price limit increases less sensitive to occasional and non-structural events. b) minimizing the risk that the price limit set forth in the methodology becomes a “price-cap” limiting price formation and c) ensuring maximum transparency and ease of implementation of the new rule, with the goal of promoting reliable operation of day-ahead and intraday market coupling activities by NEMOs, TSOs and market participants.

After public consultation with interested stakeholders, assessment and adaptation, ACER published the new methodology in January 2023 (ACER decision 01/2023 and 02/2023).

The past year was also of paramount importance because of the completion of the European SDAC and SIDC markets, Europe has become the only integrated continental power market worldwide. In June 2022, the Flow-Based Market Coupling was launched in the Core region, thus enhancing energy transition. Simultaneously, the Multi NEMO Arrangement on the Northern Italian borders went live marking another milestone in the completion of EU Market Coupling. Finally, in November 2022 the integration of Greece and Slovakia into the SIDC meant that a single integrated European intraday market is now entirely complete.

The NEMO Committee is proud of these achievements and improvements, despite the difficult times and is ready for the new challenges and opportunities beyond the European Union that will be brought up with the implementation of the European Electricity market rules in the Energy Community (EnC) countries. These will further enhance energy cooperation between the EU, the western Balkans and the three eastern partners – Ukraine, Moldova, and Georgia.

We need to support expansion of the EU market coupling model beyond the European Union and help our neighbours to achieve a robust and affordable electricity market across the continent. But we will not be able to do so if, in the midst of the implementation process by EnC countries, unnecessary changes with significant practical consequences are introduced first in the EU legislation and then, as a consequence, in the “acquis communautaire” that these countries are aiming to adopt into their national legislations by the end of 2023.

The NEMO Committee offers its expertise and collaboration to the European Commission, ACER, the regulatory authorities, EnC and stakeholders to assess and respond to the questions and challenges posed by the EMD and the future integration of new countries into SDAC and SIDC.

Please, allow me to conclude by congratulating both NEMOs and TSOs on their hard work and commitment to successfully continuing to develop and run this one-of-a-kind European internal electricity market. More than 25 years after the liberalisation of the electricity sector, it has proved that market coupling is the best way to optimise the use of cross-border capacities and that decentralisation, together with strong cooperation, are necessary pillars to build a resilient and reliable energy system.



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in coordination with 