Implementation questions regarding the Market Correction Mechanism (Council Regulation 2022/2578)

A Eurelectric paper

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Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Power & Gas Interactions

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Article		Questions
Art 2 - Definitions	*6. 'reference price' means, insofar as available, the daily average price of:* • *the LNG Northwest Europe Marker price assessment defined as the daily average of 'Daily Spot Northwest Europe Marker (NWE)' administered by Platts Benchmark B.V. (the Netherlands) and the 'Northwest Europe des – half-month 2' administered by Argus Benchmark Administration B.V. (the Netherlands); with a conversion of LNG price assessments in USD per Metric Million British Thermal Units (MMBtu) into EUR per MWh, on the basis of the European Central Bank's ('ECB') Euro foreign exchange rate and a conversion rate of 1 MMBtu to 0.293071 kWh;* • *the LNG Mediterranean Marker price assessment defined as the daily average of 'Daily Spot Mediterranean Marker (MED)' administered by Platts Benchmark B.V. (the Netherlands), and of the daily average of 'Iberian peninsula des – half-month 2', 'Italy des - half-month 2' and 'Greece des - half-month 2' administered by Argus Benchmark Administration B.V. (the Netherlands); with a conversion of LNG price assessments in USD per MMBtu into EUR per MWh, on the basis of the ECB's Euro foreign exchange rate and a conversion rate of 1 MMBtu to 0.293071 kWh;* • *the LNG Northeast Asia Marker price assessment defined as the daily average of 'LNG Japan/Korea DES 2 Half-Month' administered by Platts Benchmark B.V. (the*	**How exactly this reference price calculation should be made? Will it be an average of all products, weighted average by geography, by term, by volume? Or other type of calculation?**

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	Netherlands), and 'Northeast Asia des (ANEA) - half-month 2' administered by Argus Benchmark Administration B.V. (the Netherlands); with a conversion of LNG price assessments USD per MMBtu into EUR per MWh, on the basis of the ECB's Euro foreign exchange rate and a conversion rate of 1 MMBtu to 0.293071 kWh; • *the front-month NBP derivative settlement price, as published by ICE Futures Europe (the United Kingdom); with a conversion of Sterling pence per therm into EUR per MWh, on the basis of the ECB's Euro foreign exchange rate and a conversion rate of 1 therm to 29.3071 kWh;* • *the price of the daily price assessment carried out by ACER pursuant to Article 18 of Regulation (EU) 2022/2576;*	
Art 4 - Market correction event	1. *" The MCM for the front-year TTF derivative settlement price shall be activated when a market correction event occurs. A market correction event shall be considered to occur when the front-month TTF derivative settlement price, as published by ICE Endex B.V. (the Netherlands)* *(a) exceeds EUR 180/MWh for three working days;* *and (b) is EUR 35 higher than the reference price during the period referred to in point (a)"*	**Does it mean that the 2-conditions are for the same three consecutive days of the same period?**
	5. *"As from the day after the publication of a market correction notice, market operators shall not accept and TTF derivatives market participants shall not submit orders for TTF derivatives that are due to expire*	**With regards to the set of maturities subject to the price cap, does it mean that all TTF derivatives products in the entire spectrum from month-ahead to year-ahead**

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	in the period from the expiry date of the front-month TTF derivative to the expiry date of the front-year TTF derivative with prices of EUR 35 above the reference price published by ACER on the previous day ('dynamic bidding limit'). If the reference price is below EUR 145/MWh, the dynamic bidding limit shall remain at the sum of EUR 145 and EUR 35"	**products (i.e. included quarterly, seasonal, balance-of-year products, etc.) are covered by the MCM?**
	7. "Once activated by ACER, the dynamic bidding limit shall apply for a minimum of 20 working days, unless suspended by the Commission in accordance with Article 6 or deactivated in accordance with Article 5(1)."	**Does it mean for 20 consecutives, working days (i.e. ≈a month)?**
Article 5 Deactivation of the MCM	*1. "The dynamic bidding limit shall be deactivated, 20 working days from the occurrence of the market correction event in accordance with Article 4(5) or afterwards, if the reference price is below EUR 145/MWh for three consecutive working days"*	**This provision is quite unclear (the meaning of the word "or afterwards" is quite confusing): does it mean:** ◦ **that the MCM will apply during 20 days, whatever the – price – scenario (i.e. out of system events requiring suspension of the mechanism as set by art. 6)?** ◦ **or do that the MCM could be deactivated per anticipation before the 20-day period if the – LNG – reference price quotes below 145 €/MWh during 3 days within this 20-working day period?**
Article 6 - Suspension of the MCM	*2. "On basis of the monitoring referred to in paragraph 1, the Commission shall suspend the MCM at any time by means of an implementing decision, where unintended market disturbances or manifest risks of such disturbances*	**During periods of activation of the MCM, how the EC intends to take into account the climate over/under consumption stemming from the weather hazards, such as**

Article		Questions
	occur that negatively affect security of supply, intra-Union flows of gas or financial stability ('suspension decision'). In the assessment, the Commission shall take into account whether the activation of MCM" *(...)* *(b) occurs during a period where the mandatory demand reduction targets pursuant to Article 5 of Regulation (EU) 2022/1369 are not met at Union level, negatively affects the progress made in implementing the gas savings target pursuant to Article 3 of Regulation (EU) 2022/1369, taking into account the need to ensure that price signals incentivise demand reduction, or leads to an overall increase in gas consumption by 15 % in one month or by 10 % in two consecutive months compared to the respective average consumption for the same months during the five consecutive years preceding 1 February 2023, on the basis of data on gas consumption and demand reduction received from Member States pursuant to Article 8 of Regulation (EU) 2022/1369*	in cold snap periods (for which the daily gas consumption can be temporally 25% higher than the daily average consumption for that month)? Or should the monitoring of the consumption will not take into account any climate correction?
	(...) *(f) affects the validity of existing gas supply contracts, including long-term gas supply contracts.*	In practical terms, how this impact on existing gas contracts would be assessed? Timewise, how this impact on the validity will be processed with a 20 working days periods, and which contracts would be considered as instrumental enough to justify a full suspension of the MCM? Assuming that the cap would be extend to other VIPs (i.e. beyond TTF) would it be limited to the VIP to which those LC contracts are indexed to?

Article		Questions
Article 8 - Effects assessment		**The MCM should enter into force as of 15 Feb. Considering that reports from ESMA and ACER shall be submitted to the Commission by 1 March 2023, before final decision from the EC by 31 March, how the case of VTPs others than TTF will be considered? Does it mean that:** ○ **only the TTF is subject to the cap as from 15 Feb?** ○ **then, the other VTPs – potentially proposed by ACER on 1 March could be subject to the MCM, i.e. as from 2 March?** ○ **and that part of those VTPs could be hereafter withdraw from the LCM scope as from 1 April, should the EC take a decision of exclusion of part of those VTPs by 31 March?**
Art 9 – Extension of the MCM to derivatives linked to other VTPs	1.(...) In the event that the application of the MCM to derivatives linked to other VTPs leads to significant negative effects on financial or gas markets pursuant to the criteria set out in paragraph 2 of this Article, the Commission shall, exceptionally, exclude certain derivatives from the scope of application of the MCM.	**Will there be any indication on what is considered significant negative effects on financial or gas markets? In relation to the rest of the art 9(1), we would need more insight about how these criteria are going to be calibrated/considered.**

Article		Questions
Art 12 – Entry into force	*4. This Regulation shall not apply to the following:* *(a) TTF derivative contracts concluded before 1 February 2023;* *(b) buying and selling of TTF derivatives in order to offset or reduce TTF derivatives contracts concluded before 1 February* *2023;* *(c) buying and selling of TTF derivatives as part of a CCP default management procedure, including OTC trades registered* *in the regulated market for clearing purposes.*	In the case b), Does this imply that there will be two prices? How does it would work in practice? How can this affect to the offset of positions? What happens in cases, for example, in which we have a long position, we buy contracts, making longer the position and after some time we sell contracts? How the offset will be made ?
Draft ACER & ESMA reports	*It seems that ESMA considers that implementation of the MCM would lead to a risk of increased margin call on VTPS which would be included in the cap mechanism. However, ESMA does not provide significant input to describe such a risk:*	Can ESMA give further details or analysis on how the MCM could / will increase margin calls on the involved markets? Should a cap of gas price not lead to limiting the amount of margin call for a transaction of that capped VTP? Should several VTPs be subject to the MCM, would there be any competition between capped VTPs with regards to their margin calls in order to save their attractivity vis-à-vis market participants?

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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