

CACM 2.0: Eurelectric key proposals for the revision of electricity market integration rules

A Eurelectric position paper

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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After ten years of successful market integration, **we welcome the European Commission's intention to consolidate the achievements and to address uncertainties in the current CACM Regulation**, making it future proof to upcoming market innovations. Our key policy recommendations for the CACM 2.0 comitology process are based on extensive market experience and feedback from Eurelectric's broad membership.

1. Staying on course with the current target model for short-term markets

The European target model for short term electricity trading should continue to allow market participants to optimise their trading portfolios, preserving essential SDAC and SIDC functionalities.

- ✓ **Stakeholder involvement for methodology development**, testing and relevant market coupling processes helps translate market experience into functioning regulation.
- ✓ **Ensure evidence-based, realistic objectives and a thorough involvement of market participants** regarding design changes.
- ✓ **Preserving portfolio bidding**, which proved its efficiency in delivering economic optimisation to the electricity system.
- ✓ **Safeguarding continuous trading as the primary tool** for intraday trading by avoiding to enshrine intraday auctions as a mandatory element of the design and by minimizing their impact on continuous trading.
- ✓ **Avoiding rushing the introduction of new functionalities** in the target model without a proper assessment of all their potential impacts.
- ✓ **Moving forward with the coordination between TSOs** in terms of capacity calculation both between and within CCRs, e.g., coordination of remedial actions, AHC, etc.

2. Ensuring market coupling remains reliable, understandable and at the service of the electricity system

The integration of national electricity markets creates opportunities for market participants to allocate resources in a more efficient way. However, these developments also generate additional complexity for utilities' forecasting activities, elevating the need for transparent and predictable market coupling.

- ✓ **Full transparency from market operators and TSOs on market results, market functioning and capacity calculation inputs and other TSO actions** affecting available cross-zonal capacity (allocation constraints, individual validation assessments).
- ✓ **Improved fallback procedures** to minimise uncertainty and negative impact in case of system failure.
- ✓ **Developing and enriching the product catalogue** to manage a wide range of physical realities.
- ✓ **Ensure that market operation is efficient, innovative and inclusive** of market participants' considerations, safeguarding competition and transparency to deliver market coupling projects in due time.

3. A pragmatic approach to market coupling harmonisation and its extension to new geographies

Market coupling should allow for pragmatic solutions where they do not undermine the objectives of the internal electricity market.

- ✓ **Allowing NTC capacity calculation** where it remains relevant.
- ✓ **Encouraging participation of third countries** in market coupling and accounting exchanges with third countries in the compliance with the 70% rule.
- ✓ **Ensuring that streamlined bidding zone reviews** follow a robust cost-benefit and efficiency analysis.

Annex: Eurelectric key amendments to CACM 2.0

1. Staying on course with the current target model for short-term markets

Stakeholder involvement for methodology development, testing and relevant market coupling processes helps translate market experience into functioning regulation.

Ensure evidence-based, realistic objectives and a thorough involvement of market participants regarding design changes.

Article 9(1)(n) – Consultation

the draft of the final bidding zone review report

Justification: Eurelectric supports public consultations on all relevant steps of bidding zone reviews, including on the draft final review report, allowing stakeholders to share their views before the report is published.

Article 21(1) – Annual work programme

The Single Market Coupling Operator shall prepare a draft annual work programme for market coupling related projects to be implemented during the subsequent three years and submit it to the Joint Steering Committee for approval. Prior to the approval, this draft annual work programme should be subject to a stakeholder consultation organised by the Joint Steering Committee. Prior to the voting, the Joint Steering Committee shall be able to provide opinions and comments on the draft documents as well as propose and vote on amendments to the proposed draft documents.

Justification: Market participants should be involved in the review of the work program. Eurelectric considers that market participants' involvement in market operation, from the design to the implementation stages is key both to ensure realistic objectives are set and a well-functioning coupling based on operational experience. Eurelectric has made several suggestions on the draft in that direction, notably with regards to its involvement (e.g., Art. 9(1)(n), Art. 21(1)):

- In the definition of the annual work program,
- In the MCO decision body,
- During public consultation processes (in general as well as specifically for all parts of the bidding zone review),
During the implementation of new terms and conditions through regular information on progress made by regulated entities and through adequate testing both in terms of content and duration
- etc.

Art. 33(2)(c) – 33(3) – Capacity calculation methodology

Eurelectric reiterates its support to maximising available transmission capacity for cross-zonal trade, since this will increase the welfare benefits of market integration. When it comes to the obligation under Art. 16(8) of the Electricity Regulation (EU 2019/943) to make minimum levels of capacity available for cross-zonal trade (MACZT or 70% minRAM obligation), its application across trading timeframes should be subject to a cost-benefit analysis.

Justification: Limits to cross-zonal transmission capacity are implemented to preserve operational security. The closer we move to real-time, the higher the risk that the 70% minRAM requirement jeopardises operational security, since time to implement remedial actions virtually increasing capacity is shorter. We therefore believe that the adverse effects of re-offering virtual capacities provided for the day-ahead in intraday close to intraday gate closure time (GCT) should be assessed.

Art. 72(2) – Monitoring of the implementation of SDAC/SIDC

Within six months after the entry into force of this regulation, ACER, in cooperation with regulatory authorities, shall ~~establish a methodology setting the rules for~~ update its guidance regarding the monitoring of the compliance of TSOs with the requirement to guarantee that at least 70% of interconnection capacity is made available for cross-border trade [...].

Justification: Some flexibility should be maintained in the monitoring of the 70% rule to adjust methodologies to national specificities. For this reason, we underline that the CACM Guideline should not be leveraged to change the monitoring framework foreseeing that methodologies are established at national level.

Preserving portfolio bidding, which proved its efficiency in delivering economic optimisation to the electricity system.

Art. 46(2) – Products accommodated by the market coupling system

(d) are able to accommodate locational information.

Justification: Eurelectric reiterates its support to the current target model grounded in decentralised dispatch and portfolio-based bidding. A provision such as Art.46(2)(d) should only apply in central dispatch systems. As regards alignment of CACM 2.0 with the upcoming NCDR, we remain concerned about the forwarding of bids between local and spot markets. If the provision is nevertheless kept, we suggest the following amendment and a Recital¹ to ensure a consistent interpretation:

(d) Where applicable, are able to accommodate locational information to ensure interoperability with local markets, implemented pursuant to Article 32(1) of Directive (EU) 2019/944.

Safeguarding continuous trading as the primary tool for intraday trading by avoiding to enshrine intraday auctions as a mandatory element of the design and by minimizing their impact on continuous trading.

Art. 41(1) – General provisions for market coupling

(b) single intraday coupling for the intraday timeframe, consisting of ~~both~~ the intraday continuous trading which may be complemented by an efficient number of intraday auctions not interfering with both day-ahead and continuous trading.

Justification: Eurelectric reminds that the Electricity Regulation does not mandate the introduction of intraday auctions. We suggest wording to clarify that they remain optional. Besides, Eurelectric proposes systematically preceding references to IDAs with the mention 'if applicable', in order to prevent CACM from permanently embedding these auctions into the market design."

Furthermore, intraday auctions lead to interruptions of continuous trading and can restrict the availability of cross-zonal capacity. Their impact on SDAC/SIDC should be reviewed regularly to avoid negative effects on the efficiency and market liquidity of continuous trading, which needs to remain the main market for intraday trading.

With regard to SIDC timelines and procedures we propose to amend article 50(6) [...]:

The suspension of the cross-zonal intraday continuous trading shall be limited to the extent possible and shall not exceed 10 minutes.

¹ Recital: *Local markets, which are implemented to procure flexibility services to solve physical congestion and voltage issues, in line with Article 32(1) of Directive (EU) 2019/944, should be interoperable with wholesale markets. This interoperability should rely on innovative, smooth and efficient solutions reflected in terms and conditions of those local markets, by avoiding overcomplexity in the handling of market participants' orders, particularly when entering in aggregation, by guaranteeing interoperability among NEMOs within the same bidding zone, and without negative impact in market performances and cross-border trades.*

Avoiding rushing the introduction of new functionalities in the target model without a proper assessment of all their potential impacts.

Art. 23(1) – Market Coupling Operator tasks

(i) performing the co-optimised allocation process set out in Article 40 of Regulation (EU) 2017/2195 for the single day-ahead and if relevant single intraday coupling.

Justification: Eurelectric proposes to delete this reference, since the possibility to implement co-optimisation is already codified in the EBGL and can be pursued via the new Art. 23(1)(a) CACM. The operation of co-optimisation can also be defined further in a Union-wide methodology. Most importantly, co-optimisation remains a theoretical concept the feasibility of which has not been validated.

2. Ensuring market coupling remains reliable, understandable and at the service of the electricity system

Full transparency from market operators and TSOs on market results, market functioning and capacity calculation inputs and other TSO actions affecting available cross-zonal capacity (allocation constraints, individual validation assessments).

Art. 11(3) – Publication of market-coupling related information

The methodology referred to in paragraph 1 shall include at least the requirements to publish the following information, which shall be made available in an easily accessible format covering a period of at least 5 years and shall include historical data:

- (a) information on capacity calculation provided by each Regional Coordination Centre:
 - i. capacity calculation inputs and common grid models, at least for a representative set of market time units*
 - ii. planned and ordered costly and non-costly remedial actions [...]**

Art. 36(4) – Allocation constraints

Each TSO proposing to use allocation constraints pursuant to paragraph 1(a) shall provide a detailed description of the allocation constraint including a mathematical description of the calculation process.

Art. 40(4) – Individual validation assessments

Validations by TSOs in accordance with paragraph 2 that result in reductions of cross-zonal capacities on the bidding zone borders belonging to several CCRs shall be applied in a non-discriminatory manner. This information shall be made available in an easily available format for at least 5 years.

Justification: transparency regarding all relevant capacity calculation inputs and remedial actions affecting available cross-zonal capacity is necessary for market participants to understand market results and to design effective trading strategies.

Improved fallback procedures to minimise uncertainty and negative impact in case of system failure.

Art. 49 – Single day-ahead coupling market coupling timings and procedures

(3) [...] The methodology should seek to provide a day-ahead reference clearing price consistent with market conditions.

(6) [...] As a last resort, and ensuring a single price per bidding zone as foreseen in paragraph 3, the fallback procedure may result in the organisation of trading or clearing with day ahead products or products with the same characteristics outside the single day-ahead coupling.

Justification: robust fallback procedures imply the existence of a single price per bidding zone that must be as representative as possible of market conditions. CACM 2.0 provisions need to enable such a solution by delaying market coupling timings where necessary, and by allowing for a local clearing

with SDAC price in case of partial decoupling. In this context, the concept of 'trading services' in Art. 49(4) needs to be clarified to allow for such a solution.

Conversely, we strongly oppose setting the gate closure time for the day-ahead auction at an earlier time. The disruptive nature of such a change for market participants' optimisation processes stands in stark contrast with the objective to maximise the efficiency of a more weather-based electricity system. Shortening the trading window will worsen the dispatch of assets, considering the interrelation with balancing capacity tenders and the late availability of forecasts used by market participants to align their bids with physical realities.

3. A pragmatic approach to market coupling harmonisation and its extension to new geographies

Allowing NTC capacity calculation where it remains relevant.

Art. 32(1) – Capacity calculation approach

*Where flows on bidding zone borders assigned to a capacity calculation region are not significantly impacted by exchanges on other bidding zone borders within or outside this capacity calculation region, subject to evaluation by the relevant regulatory authorities **at least every three years**, the coordinated net transmission capacity approach may ~~continue to~~ be applied.*

Justification: where bidding zones do not coordinate their capacity calculation with others yet, CACM should allow reliance on the Net Transfer Capacity approach. A regular review should however be conducted to assess the impact of this solution on other bidding zone borders' flows.

Encouraging participation of third countries in market coupling and accounting exchanges with third countries in the compliance with the 70% rule.

Art. 30 – Capacity calculation provisions for third countries

*(5) The capacity calculation methodology on bidding zone borders with third countries referred in paragraphs 1 and 2 above shall ~~not prioritise electricity exchanges with a third country at the expense of the EU internal electricity flows~~ **ensure the efficient use of cross-zonal capacity**.*

*(6) ~~When, pursuant to paragraph 3, the capacity calculation methodology applied on the borders with a third country has been approved by regulatory authorities of the relevant capacity calculation region and implemented, flows~~ **Flows** resulting from exchanges with ~~this third~~ **countries** calculated pursuant to Article 39(4)(e)(iv) shall be counted towards compliance with Article 16(8) of Regulation 2019/943, **except for flows that occur between third countries**.*

Justification: third-country flows should be used when they improve the efficient allocation of resources in the internal electricity market. We believe that the implementation of advanced hybrid coupling should help prevent undue prioritisation of third-country flows. Eurelectric however supports the coordination of capacity calculation with third countries as outlined in Art. 30 (2)–(3).

Finally, we believe that all flows resulting from exchanges with third countries should be counted towards achieving the 70% MACZT obligation, insofar as they do not occur between third countries.

Ensuring that streamlined bidding zone reviews follow a robust cost-benefit and efficiency analysis.

Art. 64 – Streamlined bidding zone review

We welcome the possibility for relevant Member States to object to a streamlined bidding zone review. In addition, it should be clarified that a streamlined process must not compromise the robustness of cost-benefit and efficiency analyses, taking into consideration impacts on interconnected bidding zones. Explicit reference to the assessment criteria established in the current bidding zone review methodology should be ensured.

For an extensive list of Eurelectric amendment proposals to CACM 2.0, please contact mschneider@eurelectric.org.

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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