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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	28 November 2024
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2024) 539 final
Subject:	Annex to the Proposal for COUNCIL DECISION on the position to be taken on behalf of the European Union within the EU-UK Specialised Committee on Energy of the EU-UK Trade and Cooperation Agreement

Delegations will find attached document COM(2024) 539 final.

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ANNEX

ANNEX

to the

Proposal for COUNCIL DECISION

on the position to be taken on behalf of the European Union within the EU-UK Specialised Committee on Energy of the EU-UK Trade and Cooperation Agreement

ANNEX

Recommendation …/2024

of the Specialised Committee on Energy established by Article 8(1)(l) of the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part

of …

to each Party concerning the preparation of technical procedures for the efficient use of electricity interconnectors

The Specialised Committee,

Having regard to the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland of the other part (the 'Trade and Cooperation Agreement'), and in particular Article 311(1) and (2), Article 312 (1) and (2), Article 317 (1), (2) and (3), and Annex 29 thereof,

Whereas:

(1) Pursuant to Article 8(4), point (a) of the Trade and Cooperation Agreement, the Specialised Committee on Energy (the 'Specialised Committee') has the power to monitor and review the implementation and ensure the proper functioning of the Trade and Cooperation Agreement in its area of competence. Pursuant to Article 8(4) point (c), it has the power to adopt decisions and recommendations in respect of all matters where the Trade and Cooperation Agreement so provides or for which the Partnership Council has delegated its powers to that Specialised Committee pursuant to Article 7(4), point (f). Pursuant to Article 329(3) of the Trade and Cooperation Agreement, it shall make recommendations as necessary to ensure the effective implementation of the Chapters for which it is responsible.

(2) Pursuant to Article 312(1) of the Trade and Cooperation Agreement, the Specialised Committee, as a matter of priority, shall take the necessary steps in accordance with Article 317 to ensure that Transmission System Operators ('TSOs') develop arrangements setting out technical procedures in accordance with Annex 29 within a specific timeline.

(3) On 7 February 2023, the Specialised Committee adopted Recommendation No 1/2023 for each Party to request its respective TSOs to provide the additional information as set out in Annex II to Recommendation No 1/2023 within five months of the date of request made by each Party.

(4) The European Union and United Kingdom TSOs provided that additional information to the Parties in response to their respective requests, and the respective EU and UK regulatory authorities provided opinions to the Parties in relation to that additional

information, in July 2023. The Specialised Committee welcomed these important contributions to the implementation of the Energy Title of the Trade and Cooperation Agreement at the Specialised Committee meeting on 9 November 2023.

(5) Both EU and UK TSOs and regulatory authorities have identified significant risks of market manipulation associated with the Preliminary Order Books approach to the operation of day ahead electricity trading arrangements based on the concept of Multi-Regional Loose Volume Coupling ('MRLVC').

(6) Both EU and UK TSOs and regulatory authorities have identified that the potential benefits of the Common Order Book approach to MRLVC will depend on the resolution of a number of fundamental design challenges. Further specific work to develop a robust design for MRLVC following a Common Order Book approach is needed before any decision on implementation can be made. This design will, among other requirements, need to ensure secure and efficient operation of the respective EU and UK electricity wholesale markets, and address any trade-off between the efficiency of MRLVC and the secure and efficient operation of the EU and UK electricity wholesale markets. Thorough consultation, assessment, and testing of the mechanism will also be required ahead of any implementation decision. Moreover, the Specialised Committee noted that development of the design must be consistent with the process set out in Article 312(1), 312(2) and 317 of the Trade and Cooperation Agreement and requirements set out in Annex 29.

(7) Both the 2021 cost-benefit analysis ('the 2021 CBA') and the 2023 additional information prepared by EU and UK TSOs have found that the efficiency of MRLVC will depend to a significant extent on the accuracy of the bordering bidding zone net position forecaster. Further specific work to develop and confirm the validity of the concept of this forecaster is needed before a decision on implementation can be made. The Specialised Committee notes that EU and UK TSOs proposed a phased approach to the development of the forecaster in their report, beginning with an initial prototype design and validation phase.

(8) Both the EU and the UK have ambitious goals to unleash the offshore renewable energy potential in the North Seas to enhance access to affordable energy and advance their transitions towards climate neutrality. Pursuant to Article 321 of the Trade and Cooperation Agreement the Parties shall cooperate in the development of offshore renewable energy by sharing best practices and, where appropriate, by facilitating the development of specific projects. The EU and UK TSOs identified in their report that the future development of offshore hybrid projects will require electricity trading arrangements that support efficient pricing and capacity utilisation. The Specialised Committee acknowledged that further consideration needed to be given to ensuring EU-UK electricity trading arrangements support their ambitions for the rapid development of renewable energy projects in the North Seas.

(9) The 2021 CBA identified a single Great Britain clearing price at the day-ahead timeframe as an assumption in all MRLVC design options under consideration. The UK published its consultation response on re-coupling relevant Great Britain auctions for cross-border trade with the EU at the day-ahead timeframe in August 2023. The UK's analysis showed the majority of respondents were supportive of the proposals

set out in the consultation. The UK has since engaged with the Specialised Committee and presented the outcomes of the consultation.

(10) In the light of progress achieved to date by the TSOs, and the additional information provided in response to Annex II to Recommendation No 1/2023, the Specialised Committee on Energy should address the Parties to ensure that the TSOs commence a next phase of work. This work should focus on addressing the fundamental design issues which have been previously highlighted to satisfy the Specialised Committee's obligations under Article 312(1) of the Trade and Cooperation Agreement.

(11) The Specialised Committee noted that the Parties expect a phased approach to the development of technical procedures for MRLVC, starting with an initial concept-validation phase. In light of findings from the TSOs' report submitted in July 2023, additional analyses are necessary and should be included in the concept validation phase. This concept-validation phase should inform and support the development of a single set of draft technical procedures for MRLVC in line with Articles 312(1) and 317(2) of the Trade and Cooperation Agreement.

(12) Any decision by the Specialised Committee on the implementation of technical procedures for an MRLVC solution following a Common Order Book Approach, pursuant to Article 317(4) of the Trade and Cooperation Agreement, should be supported by stakeholder consultation, robust periods of testing, and an updated cost benefit analysis.

HAS ADOPTED THIS RECOMMENDATION,

Article 1

The Specialised Committee acknowledges that the Preliminary Order Books approach is not a viable way forward for the further development of a Multi-Regional Loose Volume Coupling ('MRLVC') solution and recommends that it not be pursued further by the Parties.

Article 2

The Specialised Committee recommends that each Party requests its respective TSOs for electricity and, for the Union, the ENTSO-E facilitating the work of EU TSOs, to jointly commence an initial concept-validation phase prior to producing the single set of initial draft technical procedures for MRLVC in accordance with Annex 29 of the Trade and Cooperation Agreement and with supporting analysis, comprising:

(a) An optimal operational timeline combining the operations of the MRLVC, the EU Single Day-Ahead Coupling, and the Great Britain wholesale electricity market arrangements under a Common Order Book approach, including the optimal validation and fallback arrangements. The optimal operational timeline should promote the robust and efficient use of interconnectors while minimising risks for the secure operation of the EU and UK electricity wholesale markets and taking into account possible market developments up to 2030-35. The operational risks linked to that timeline on both the EU Single Day-Ahead Coupling and the Great Britain wholesale electricity market should be assessed and, to the extent possible, quantified. A range of options for operational timelines should be included in the

supporting analysis to support the identification and assessment of the validity of an optimal timeline.

(b) A draft tender specification for a prototype for a bordering bidding zone net position forecaster. This draft tender specification should include a detailed description of requirements, including the following:

- The methodology (e.g., statistical and/or deterministic) to be employed;
- Specific outputs that would be required from the forecaster;
- How the forecaster will incorporate future market developments, including the future introduction of new bidding zones whether onshore or offshore;
- How outputs from the forecaster will be inputted into wider MRLVC processes;
- Any other key requirements identified through the work set out under subparagraph (a) and Article 3.

This draft tender specification should be accompanied by the following:

- Information on how the tender would be issued and governed, including consideration of ownership and intellectual property rights;
- A detailed breakdown of anticipated timings and costs;
- Any relevant issue related to administrative functions required to address UK and EU system interdependencies in the implementation of an MRLVC solution.

Article 3

1. The Specialised Committee recommends that the Parties request their respective TSOs for electricity, and, for the Union, the ENTSO-E facilitating the work of EU TSOs, to produce a joint report for the Specialised Committee investigating any barriers to the delivery of joint and hybrid offshore projects that may result from existing trading arrangements or MRLVC, and any specific changes needed to existing trading arrangements or specific requirements of the design of MRLVC needed to deliver efficient electricity trading that supports the delivery of joint and hybrid offshore projects.
2. The TSOs joint report should investigate the impact of both existing trading arrangements and an MRLVC solution on joint and hybrid projects, over the medium term (2030-2035 horizon), with a particular focus on:

- the scope of the application of the trading modalities, and whether and how the performance of capacity allocation may be affected;
- how these trading arrangements could operate with different market designs, in particular offshore bidding zones; and
- whether there may be sufficient clarity in the business case for infrastructure investment,

The TSOs joint report should take into consideration:

- the nature and scale of possible offshore renewable energy infrastructure developments across the North Seas in the medium term, including possible hybrid interconnectors, energy islands, meshed grids and offshore electrolysers;
- possible mechanisms of price formation;
- the complementary role of forward and intraday trading arrangements;
- impact on the accuracy of bordering bidding zone forecasts; and
- any specific adjustments that may be required in the design features of these trading modalities, within their general confines, to help address any identified barriers and or requirements in the development and operation of joint and hybrid offshore projects to deliver efficient trading arrangements.

Article 4

The development of the work recommended under Articles 2 and 3 should involve regular oversight and input by the Parties. It may also involve the TSOs engaging with wider stakeholders that may include regulators, nominated electricity market operators/power exchanges, and academia.

Article 5

The Specialised Committee recommends that the Parties coordinate their communication with their respective TSOs for electricity and, for the Union, the ENTSO-E facilitating the work of EU TSOs with respect to Articles 2 and 3 and request them to complete the work listed under those Articles within 11 months of the adoption of this Recommendation.

Article 6

The Specialised Committee recommends that the Parties request their respective TSOs for electricity and, for the Union, the ENTSO-E facilitating the work of EU TSOs to request an informal opinion of the UK national energy regulators and ACER regarding their work completed with respect to Article 2 and Article 3, to be delivered within one month of the delivery of the TSOs joint report.

[Done at [XX], [DATE]]