Consultation questions

*In responding to the public consultation, please specify whether the answer is general or whether it is related to a specific bidding zones (please specify which one). Wherever possible, please justify your opinion with qualitative or quantitative arguments or some references. In particular, we welcome any comments on the following questions:*

**Response prepared by the Spanish Electricity Industry Association (UNESA) referred to the MIBEL market.**

**Iberia**

UNESA welcomes the opportunity to participate in the consultation on the configuration of bidding zones. Our responses will make reference mainly to the situation of the Iberian peninsula, where two zones (Spain and Portugal) currently exist, but the interconnection is seldom saturated, in order to explore the possibility of joining both zones together.

The Iberian peninsula is currently divided into two bidding zones, corresponding to Spain and Portugal, under the operation of REE and REN respectively. The annual demand in Spain is 248 TWh, while in Portugal is 49 TWh and the mixes are not so different, except for the nuclear production, which in Spain averages 22% of the total energy supply.

Since the beginning of the Iberian Market (MIBEL) in 2006, increased price convergence has lead to a situation in which currently (2013) less than 11% of the hours show a price spread. In these hours, the amount of energy that would have to be redispatched to achieve a single price averages just 259 MW. The bigger differentials arise in periods with very high hydro and wind production (as it was the case in March 2010, January 2012 and April 2013), because of the high penetration of these technologies in the Portuguese generation mix and the combined effect of interconnection capacity reductions.

The forward markets quote only products indexed to the Spanish price. In 2010 and for the first time, forward trading volumes outweighed the physical demand, reaching as much as 272 TWh in 2012. There are no similar hedging opportunities in Portugal, where suppliers partially hedge using the products linked to the Spanish price and accepting the basis risk. REE auctions CfDs twice a year, but the amount is just 400 MW and the product is not traded in secondary markets.

Introducing a single price zone in Iberia with a coordinated redispatch procedure right after the day-ahead market will have the following benefits:

* It eliminates the basis risk when trying to hedge Portugal in the forward markets, fostering competition in the supply business in Portugal.
* It will further improve competition in the Iberian market, with the main utilities having a smaller share of the production in the integrated area.
* It will not introduce any of the distortions mentioned in the article referred in the consultation[[1]](#footnote-1), as the costs of redispatch will not be socialised among the countries, bearing each TSO the cost of the redispatching needed in its own area.
* The coordination of the redispatch actions will eliminate some distortions, as it is the case for the preventive capacity reductions introduced by the TSOs in the day-ahead market during the periods of high hydro production.

*1) How appropriate do you consider the measure of redefining zones compared to other measures, such as, continued or possibly increased application of redispatching actions or increased investment in transmission infrastructure to deal with congestion management and/or loop flows related issues? What is the trade-off between these choices and how should the costs attached to each (e.g. redispatching costs) be distributed and recovered?*

The issue of unintended power flows has to be tackled by redispatching and/or grid reinforcement, whatever costs less. Taking into account the target of achieving an European integrated electricity market, grid reinforcement, based on a cost-benefit analysis so as to represent clear benefits and not an excessive burden on end consumers, should be the preferred solution.

Assignment of costs across borders is a difficult issue. Investments and redispatch costs impact mainly on the consumers of the area where they take place, and each NRA may have a different view on the desired amount of investment and security of supply.

Redispatching ends up in the same physical dispatch as price zones. However, the economic flows differ. Static efficiency can be equally achieved, the distinction has more to do with the incentives in the long term (dynamic efficiency) and with some energy policy decisions, as nodal pricing has an impact on the demand side incentives.

*2) Do you perceive the existing bidding zone configuration to be efficient with respect to overall market efficiency (efficient dispatch of generation and load, liquidity, market power, redispatching costs, etc.) or do you consider that the bidding zone configuration can be improved? Which advantages or disadvantages do you see in having bidding zones of similar size or different size?*

In the Iberian peninsula, merging both countries in a single price zone will have the benefits mentioned in the introduction. It may well be the case for other smaller zones in Europe.

*3) Do you deem that the current bidding zones configuration allows for an optimal use of existing transmission infrastructure or do you think that existing transmission infrastructure could be used more efficiently and how? Additionally, do you think that the configuration of bidding zones influences the effectiveness of flow-based capacity calculation and allocation?*

It is not the case in Iberia, where loop flows are minimal. There is a net flow of power north to south both in Spain and Portugal, but it cannot be regarded as a loop flow and it tends to decrease as more photovoltaic generation is set up in the south.

*4) How are you impacted by the current structure of bidding zones, especially in terms of potential discrimination (e.g. between internal and cross-zonal exchanges, among different categories of market participants, among market participants in different member states, etc.)? In particular, does the bidding zones configuration limit cross-border capacity to be offered for allocation? Does this have an impact on you?*

Not in general. Only during periods of high hydro production, there is preventive curtailment of interconnection capacity, due to the lack of a coordinated REE-REN redispatching procedure. The merging into a single price zone with a coordinated redispatching mechanism will eliminate the problem, as the resources on both sides of the interconnection would be available to solve the bottlenecks.

*5) Would a reconfiguration of bidding zones in the presence of EU-wide market coupling significantly influence the liquidity within the day-ahead and intraday market and in which way? What would be the impact on forward market liquidity and what are the available options to ensure or achieve liquidity in the forward market?*

We expect no major improvements in the day ahead or intraday timeframes, but a significant improvement in the liquidity of forward markets could be envisaged, as Portuguese participants may find useful to hedge more once the basis risk disappears. The same applies to other areas in Europe reduced in size where liquidity can improve by merging with larger ones.

*6) Are there sufficient possibilities to hedge electricity prices in the long term in the bidding zones you are active in? If not, what changes would be needed to ensure sufficient hedging opportunities? Are the transaction costs related to hedging significant or too high and how could they be reduced?*

Hedging is not a problem in Spain, but is a little bit more difficult in Portugal. Transaction costs are not significant.

*7) Do you think that the current bidding zones configuration provides adequate price signals for investment in transmission and generation/consumption? Can you provide any concrete example or experience where price signals were/are inappropriate/appropriate for investment?*

We operate under a zonal price model, not a nodal one. Congestion within Spain and Portugal is dealt with by redispatching and the consumers pay a flat tariff for the whole country.

The zonal price model has provided enough incentives to invest in in generation capacity The construction of 25.000 MW of CCGTs in Spain is the evidence

*8) Is market power an important issue in the bidding zones you are active in? If so, how is it reflected and what are the consequences? What would need to be done to mitigate the market power in these zones? Which indicator would you suggest to measure market power taking into account that markets are interconnected2?*

Market power, as CNE pointed out in its latest report on competition in the electricity sector[[2]](#footnote-2), is not an issue for MIBEL.

*9) As the reporting process (Activity 1 and Activity 2) will be followed by a review of bidding zones (Activity 4), stakeholders are also invited to provide some expectations about this process. Specifically, which parameters and assumptions should ENTSO-E consider in the review of bidding zones when defining scenarios (e.g. generation pattern, electricity prices) or alternative bidding zone configurations? Are there other aspects not explicitly considered in the draft CACM network code that should be taken into account and if so how to quantify their influence in terms of costs and benefits?*

We adhere to most of the conclusions of the study carried out by Frontier Economics and Consentec dated October 2011 (“Relevance of established national bidding areas for European power market integration – an approach to welfare oriented evaluation”) and support the general principle “the bigger, the better”. The improvement in competition and liquidity of spot and forward markets and better opportunities to hedge brought by bigger price zones should prevail unless redispatching costs become prohibitive.

*10) In the process for redefining bidding zones configuration, what do you think are the most important factors that NRAs should consider? Do you have any other comments related to the questions raised or considerations provided in this consultation document?*

Refer to the answer to question 9.

1. Scott M. Harvey and William W. Hogan, Nodal and Zonal Congestion Management and the Exercise of Market Power, January 10, 2000 [↑](#footnote-ref-1)
2. See “Informe sobre la evolución de la competencia en los mercados de gas y electricidad. Periodo 2008-2010 y avance 2011”. CNE, 13th September 2012. [↑](#footnote-ref-2)