

TenneT: PC_2020_E_08 - Public Consultation on the methodology and assumptions that are to be used in the bidding zone review process and for the alternative bidding zone configurations to be considered – remarks regarding section Conclusion 3. Please provide any further comment

Conclusion

3. Please provide any further comment

General remark:

We appreciate the cooperative work regarding the bidding zone review and the all TSOs' proposed methodology elaborated within ENTSO-E. We support all the statements mentioned in the all TSOs' answer to this public consultation. In addition, we would like to complement it with some remarks highlighting some national specificities, as in Germany we are already in the middle of the energy transition, which, according to the TYNDP, goes hand in hand with higher planned/needed grid investments than in any other member states.

Summary:

First, we would like to emphasize that a refinement of the CACM criteria for a bidding zone review may be needed, as they have been defined and adopted in a period before the Green Deal discussion. In view of the current European focus on CO₂ emission and climate neutral targets, the assessment should give highest priority to the impact of adjusted bidding zone configurations on the achievement of these European targets. For this purpose, the examination of bidding zone configurations should especially consider the integration of renewable energy systems as well as the effects on CO₂ emissions, even if these are not explicit CACM requirements.

We would like to highlight that the investigation of system costs, especially related to the integration of renewable energy systems (RES), and market costs should have the same relevance as redispatch costs. Additionally, we would like to underline the importance of the consideration of market liquidity (as it is, beside many other effects, key for an efficient RES integration) and its monetization in the analysis (even if this is a challenging task). Besides market liquidity, another important criterion is the stability and robustness of bidding zone configurations, which greatly influence uncertainty for investors (especially in RES) who are known to be risk averse and therefore probable to demand additional risk premiums if the bidding zones are likely to be frequently reconfigured. In addition, all aspects of transition costs should be taken into account in order to assess whether redesigning the bidding zone configuration will result in a net welfare gain. More details are provided below (under section "More details and clarifications on the points above"), taking into account our experience of the German grid.

Moreover, we believe that in order to fully support the European ambitions, the decision concerning an alternative bidding zone configuration should be based on a comprehensive analysis beyond a short-limited time-period or single scenario. We understand that the CEP requires the analysis of a period of at least one year on a 3-year ahead horizon (y+3). However, it should be also taken into account that the CACM guideline requires the inclusion of scenarios

which consider a range of likely infrastructure developments throughout a period of 10 years. In any case, the final recommendation concerning the optimal bidding zone configuration should contemplate specific aspects aligned with European targets. Particularly regarding the German case, considering the strongly needed and enormous planned grid investments, as well as the comprehensive energy system change to become CO₂ neutral, the analysis of a single scenario or simulation year does not allow for a thorough conclusion. Congestions along potential new configuration borders would very likely disappear or move to another area in the following years due to the constant optimization and expansion of the German grid. Therefore, in order to assess whether bidding zone configurations are robust to upcoming network development, we would like to insist on the necessity to consider several scenarios for the bidding zone review at least by means of sensitivities as suggested in the proposal for the BZR methodology drafted by the TSOs.

Finally yet importantly, in case ACER decides to investigate alternative configurations in the Bidding Zone Review Region Central Europe, we would like to emphasize the necessity that these configurations should reflect the European scope of the review and not to focus on individual countries separately.

More details and clarifications on the points above:

Given ACER's focus on redispatch costs, we became concerned about a possible imbalance of the evaluation of different costs, considering that other system and market aspects are of equal relevance. Furthermore, the effects on the energy transition and the market for renewable systems (impacts on RES costs and total energy turnaround) should be considered in the assessment of alternative bidding zone configurations: systems with high penetration of intermittent renewable energy, such as wind and PV, have electricity production mainly driven by local weather conditions; consequently, smaller bidding zones with very high penetration of intermittent renewables would have a significant amount of hours during the year in which negative electricity prices occur. Firstly, this would lead to very high transfer payments, e.g. under the current market premium regime in Germany (possible increase on top of the already high payments of about €26 billion per year in 2020, according to the prognosis of the German EEG-Umlage 2020 – see slides 8 and 15 of the document: <https://www.netztransparenz.de/portals/1/2019-10-15%20Ver%c3%b6ffentlichung%20EEG-Umlage%202020.pdf>). Secondly, already planned or realized RES projects could suffer a massive negative impact (e.g. the cancellation of large wind-offshore projects seems very plausible), as they have been awarded on different expectations regarding market prices in the tendering procedure. Considering that Germany has already more than 120 GW of installed RES and more than 200 GW planned to be installed, financial risks for renewable systems should be avoided. Inadequate bidding zone configurations could not only lead to very high costs for existing RES, but also significantly endanger the expansion and development of future renewable energy systems. In order to successfully achieve the proposed European CO₂ targets, efficient integration of renewable energy systems and a reliable framework for investments of such systems is necessary. Therefore, an impact assessment of overall system costs is essen-

tial, while conclusions taken mainly based on redispatch costs can be premature and possibly underestimate significant risks.

The integration of more RES, necessary for the achievement of the proposed European CO₂ targets, leads to the need of grid expansion, independently of the bidding zone configuration. Considering the investment sums and construction time plans of such projects, distributed across several years and the extensive lifetime of grid elements, limiting the analysis in the bidding zone review to a single scenario is improper to represent reality. With the aim to achieve a comprehensive study, it is crucial for the methodology to consider not only Pan-European consistency, but also relevant regional specificities, especially related to grid expansion. As part of the needed system transformation to support the energy transition, German TSOs will invest around €80 billion in network expansion until 2030 (as stated in the German Action Plan, according to Art. 15 of Regulation (EU) 2019/943). Germany's renewable energy generation (around 120 GW) represented more than 50% of production in the first trimester in 2020 and is planned to be further expanded to more than 200 GW. Considering the current relevant planned investment on German grid infrastructure, the analysis of the potential benefit of alternative bidding zone configurations before the completion of ongoing projects is highly questionable. We want to highlight, that a thorough analysis should allow for evaluating not only one focus year. In the German case, we see three important time horizons:

- Short-Term (up to 2024): Congestions in the German grid are prominent, considering the nuclear phase-out and HVDC projects still in the planning phase. These expected congestions are the reason for ongoing large AC grid reinforcement and expansion projects.
- Mid-Term (2024-2030): A significant reduction of congestions is expected due to the ongoing HVAC and HVDC grid expansion projects (e.g. commissioning of Ultratnet in 2024 followed by the other large HVDC projects), the gradual coal phase-out and the implementation of transmission line temperature monitoring systems as well as PSTs.
- Long-Term (after 2030): An (already now starting) assessment of whether the proposed climate and CO₂ goals are reached with the currently planned grid expansion projects should be then performed, considering that we might face then new challenges.

The timeframe of the BZR methodology shall therefore be compatible with the establishment of measures that contribute to the reduction of grid congestion combined with crucial actions foreseen in the member states for the European CO₂ targets achievement and the successful implementation the European Green Deal.