

ACER

 Agency for the Cooperation
of Energy Regulators

The Director

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By e-mail only

Subject: Bidding zone configuration review

Dear Sirs,

As you know, the Agency has been tasked, by Article 34(1) of Commission Regulation (EU) 2015/1222 (the “CACM Regulation”), to assess the efficiency of current bidding zone configuration every three years and to draft a market report evaluating the impact of the current bidding zone configuration on market efficiency. The Agency should also request ENTSO-E to draft a technical report on current bidding zone configuration. If the technical or market report reveals inefficiencies in the current bidding zone configuration, the Agency may request, pursuant to Article 34(7) of the CACM Regulation, TSOs to launch a review of the existing bidding zone configuration in accordance with Article 32(1) of that Regulation.

Following ENTSO-E’s technical report of January 2014 on the bidding zone configuration, the Agency released its Report on the influence of existing bidding zones on electricity markets in March 2014¹. In this report, the Agency concluded that the existing bidding zone configuration has been affecting:

- the efficient dispatch of generation and social welfare, which are both affected by preventive congestion management (cross-zonal capacity calculation and allocation) and curative congestion management (remedial actions) (p. 7 - 11);
- the distribution of social welfare due to the potential discrimination of market participants located at different geographical points in the network (p. 8);
- the signals and incentives to invest in both transmission and generation (p. 17 - 18); and
- the liquidity - possibly in the day-ahead, but in particular in the forward markets - where larger bidding zones offer more hedging opportunities than small bidding zones, creating an unequal playing field between market participants (p. 11 - 14).

Since this market report, the Agency has continued to identify market inefficiencies arising from the existing bidding zone configuration throughout 2015 and 2016. In the ACER/CEER Annual Report on the results of monitoring the Internal Electricity and Gas Markets in 2015 (MMR 2015)², the Agency highlighted in particular significant reductions of cross-zonal capacities and identified a problem of discrimination between internal and cross-zonal exchanges as a direct consequence of the inefficient existing bidding zone configuration.

The current bidding zone configuration is the same as the one under assessment in the market report and in the MMR 2015. Their findings on the inefficiencies of the existing bidding zone

¹ Report R_2014_E_01 of 7 March 2014:

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Report%20on%20Bidding%20Zones%202014.pdf

² See e.g. Chapters 3 and 4 of the Electricity Wholesale Market Volume of the 5th ACER Market Monitoring Report:

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202015%20-%20GAS.pdf

configuration are still valid and hold true for the current situation. Therefore, a further market report on the impact of current bidding zone configuration on market efficiency would only confirm those findings.

Accordingly, the Agency hereby confirms that, according to its assessment of the efficiency of the current bidding zone configuration, the latter manifests inefficiencies.

To overcome those inefficiencies, the Agency requests, pursuant to Article 32(1)(a) and Article 34(7) of the CACM Regulation, all TSOs of Austria (Austrian Power Grid AG, VÜEN-Vorarlberger Übertragungsnetz GmbH), Belgium (Elia System Operator SA), the Czech Republic (ČEPS a.s.), Denmark (Energinet.dk), France (Réseau de Transport d'Electricité), Germany (50Hertz Transmission GmbH, Amprion GmbH, TenneT TSO GmbH, TransnetBW GmbH), Hungary (MAVIR ZRt), Italy (Terna Rete Elettrica Nazionale S.p.A.), Luxembourg (Creos Luxembourg S.A.), the Netherlands (TenneT TSO B.V.), Poland (Polskie Sieci Elektroenergetyczne), Slovakia (Slovenská elektrizačná prenosová sústava, a.s.) and Slovenia (ELES, d.o.o.) to review the bidding zone configuration in that area in accordance with the process in Article 32(4) of the CACM Regulation.

As part of the early implementation of the CACM Regulation, the TSOs, under ENTSO-E's coordination, have been working on a pilot project on the assessment and review of the bidding zone configuration. TSOs and regulatory authorities should exploit synergies arising from capacity allocation and congestion management projects contributing to the development of the internal market in electricity and should draw on the experience gained, respect the decisions made, and use solutions developed as part of those projects, as expressly acknowledged also in Recital (25) of the CACM Regulation. Therefore, the work of the pilot project should form the basis for and be integrated into the requested review of the bidding zone configuration. We would also encourage continuing the coordination on the project between involved TSOs/ENTSO-E and involved NRAs/Agency and strengthen this if needed.

Please do not hesitate to contact me or Mr Christophe Gence-Creux (christophe.gence-creux@acer.europa.eu, tel: +386 (0) 820 53 407), Head of the Electricity Department should you have any questions regarding this letter.

Yours sincerely,


Alberto Pototschnig

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*Cc: Mr Klaus-Dieter Borchardt, Director, DG Ener, Directorate B, European Commission
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