

## **Public consultation on the influence of existing bidding zones on electricity markets**

### **CEDEC Response**

CEDEC, the European Federation of Local Energy Companies, represents the interests of local and regional energy companies.

CEDEC represents 1500 companies with a total turnover of 120 billion Euros, serving 85 million electricity and gas customers & connections, with more than 350.000 employees. These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers. As such, CEDEC members are active traders of electricity in European wholesale markets.

**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?**

In order to complete the European internal energy market in the most efficient way, CEDEC believes that appropriate investments in transmission infrastructure are necessary to fundamentally overcome or relieve congestion and/or loop flows.

In the meantime, bearing the cost for curative short term measures, such as redispatch or countertrading in case of danger for the operational security is less invasive and less costly than creating smaller bidding zones, especially if zones are split several times. We consider it necessary to not only take into account the costs for TSOs but also the additional effort and expenses for all market participants, which may hinder market development and competition. The arising costs for remedial measures of the TSOs should in turn set proper incentives for appropriate investment in transmission infrastructure.

Intensified cooperation of TSOs might be more appropriate in tackling challenges by loop flows and temporary congestion than a division of bidding zones.



**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?**

CEDEC believes that the CWE price zones, especially the German/Austrian zone have accomplished sufficient liquidity. In our members' view, the size of a bidding zone directly relates to market efficiency. A splitting of any zone would certainly reduce liquidity, create market power issues and thus results in less competition and higher prices for end-users.

While being aware of the fact that some markets in Europe work less efficiently, in CEDEC's view, this problem will not be overcome by splitting markets and well-functioning zones.

In fact CEDEC is concerned that more and smaller bidding zones would entail high entry barriers in retail markets. For instance, traders would have to deal with several market places, leading to increased administration effort, costs and processes. Moreover smaller bidding zones could lead to higher complexity, as it is the case today in Italy, where the wholesale market is referred to the National Unique Price (PUN), while generation is related to zonal prices. Hence, when trying to hedge a position, it is necessary for traders to use an additional financial instrument which covers the price difference between single price and zonal price

**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?**

CEDEC is in favour of awaiting the results of the on-going implementation of flow-based capacity allocation methods before considering further methods for optimal use of existing transmission infrastructure.

**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?**

The current structure of the CWE region is welcomed by CEDEC members. We do not see any hindrance or discrimination and would like to stress that these positive conditions for all market participants and overall welfare should not be altered.

**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?**



The creation of smaller bidding zones would reduce liquidity for trading products concerning all time frames, i.e. long-term and short-term products and consequently have negative effects on public welfare.

CEDEC believes that a frequent bidding zone reconfiguration would in particular pose additional and unpredictable risks for investors and thus severely influence and reduce for example necessary investments in generation. Moreover, there is a concern that hedging possibilities would be substantially reduced for all long-term contracts.

**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?**

Considering the CWE market, there are currently sufficient possibilities to hedge prices up to 2 -3 years. Prerequisites such as bigger bidding zones, stable regulatory frameworks and homogenous market rules would contribute to the necessary confidence of market participants to create hedging opportunities over longer time frames.

**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 interconnected?**

CEDEC does consider market power to be an important issue. However, in the CWE region, members are not aware of any problems with regard to market power in the bidding zone and believe that any splitting of existing bidding zones would risk resulting in higher market power in the newly-created zones. Instead, merging other bidding zones with the CWE zones would reduce the risk of market power by creating more competition and additional chances for trading. We therefore recommend to analyse this proposal.

**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?**

CEDEC companies are particularly concerned about the risk that TSOs might underestimate the costs of a splitting of bidding zones which would have to be borne by market participants and its resulting effect on end user prices and welfare.



**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?**

CEDEC considers it essential that market participants are provided with the necessary information evolving during the whole review process in due time, specifically with the reports of activity 1 and 2. Bearing in mind that grid enforcement often takes much longer than the bi-annual re-assessment, there should be a revision of the timelines in the CACM Network Code.

As is mentioned in the consultation document, the European Target Model foresees a zonal approach in dealing with congestions rather than a nodal approach which is considered as a rather theoretical concept. We propose to stick to the zonal approach, thus, to focus on the analysis of bidding zone enlargements instead of a division.

In conclusion, CEDEC is generally in favour of enlarging bidding zones rather than splitting them. We perceive considerable uncertainty of market participants caused by this consultation and the anticipated effects that would be implied by market divisions.

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