

To:

Alberto Pototschnig,
Christophe Gence-Creux
ACER

Cc:

Konstantin Staschus,
Marta Mendoza-Villamayor
ENTSO-E

Matti Supponen
European Commission

Monday, 31 August 2015

Subject: EFET concerns over the functioning of the Bidding Zones Stakeholder Advisory Group

Dear Mr Pototschnig, dear Mr Gence-Creux,

Like all parties involved in electricity trading in Europe, the European Federation of Energy Traders (EFET) is closely following and participating to the ongoing debates concerning the review of bidding zones. As you know, EFET in principle favours stability in the configuration of bidding zones along the lines of long-standing structural congestions. This certainty and continuity are essential to underpin liquidity, investments and competition in all bidding zones, including in the crucial forward timeframe. This is also the reason why we favour larger bidding zones, as they allow for more liquidity and competition – at wholesale and retail levels – over smaller, inevitably less liquid zones.

We insist in parallel on the axiom of maximisation of the allocation of transmission capacity across interconnections in all timeframes between all bidding zones, as foreseen in Article 16.3 of Regulation (EC) No. 713/2009. We remain confident that the Agency will be minded to ensure the full implementation and enforcement of this axiom, with no exceptions.

In this context, we harbour concerns regarding the bidding zone review process foreseen under the new CACM Guideline (Commission Regulation (EU) 2015/1222 of 24 July 2015). In particular we feel that **the scope and direction of the study into revised configurations being conducted currently by ENTSO-E is increasingly taking a turn for the worse.**

As repeatedly expressed by EFET, any review of bidding zones and any possible decision to change their configuration is of utmost importance for the market activities of our members. EFET has therefore tried to be active and constructive in this discussion. In our view a review must entail a balanced assessment of all relevant criteria regarding overall market efficiency in different bidding zone configuration scenarios and not only a day-ahead congestion management optimisation as proposed by the ongoing study.

We have always emphasised the **importance of liquid wholesale markets, including trading of forward products**. We also insist that the impact on retail markets should be properly assessed. The recent ENTSO-E proposal to organise only a telephone conference on this topic seriously fails to meet market expectations and the expected quality standards of the study. We believe that if ENTSO-E lacks the adequate competence to run this part of the study, ACER should take the lead and hire a consultant.

After the publication of the ENTSO-E Technical and Market Report last year, we concluded that there is still insufficient understanding of how to measure the overall efficiency of the current bidding zones. It is, for example, relatively easy to quantify loop flows, however it is still unclear how their incidence relates to overall market efficiency at regional level. This type of analysis will be necessary before proposing any redelineation of the current bidding zones. It is therefore important for the ENTSO-E study not to focus only on the main areas of interests for TSOs.

One of the topics, discussed in the Bidding Zones Stakeholder Advisory Group in the second half of last year, was the selection of potential new bidding zone configurations to be analysed. EFET insisted and received confirmation from ENTSO-E that the proposed scenarios should not be considered as “*all or nothing*” packages but as an aggregation of individual studies which were grouped in order to simplify calculation times. We also suggested the addition other, more realistic scenarios to the four already proposed by ENTSO-E. The additional hypothetical configuration adjustment we suggested involved merging some existing zones and/ or the creation of larger zones or only studying the most adequate split in areas where a request for splitting was expressed in order to avoid any unnecessary split. Our suggestions were all rejected by ENTSO-E on grounds of “the additional workload” involved.

At the meeting of the Stakeholder Advisory Group on 19 June 2015, stakeholders were then informed without any prior notice or consultation that nonetheless **ENTSO-E will be adding a fifth scenario at the request of ACER and certain NRAs**. To our consternation it involves fragmentation rather than merging or enlargement of zones. As a result, only one – rather limited – merging scenario will be analysed, out of five.

The Stakeholder Advisory Group had received no prior notification of this request, and consequently never had a chance to give advice on the merits and justification of adding a fifth scenario. Indeed up to date no detailed information on this new hypothetical configuration and the supposed justification for it has been shared with stakeholders. **It is now increasingly clear that the general orientation and focus of the study is biased towards splitting bidding zones.** In our opinion however, an additional splitting scenario should not have been envisaged without disclosing the necessary justification, and after having shared the NRA request with the Advisory Stakeholder Group to enable a proper discussion. A more balanced approach between merging and splitting would also be needed in order to bring some objectivity to the study.

At the Stakeholder Advisory Group meeting in June, ACER/ NRA representatives expressed their opinion that ACER and the NRAs enjoy full discretion, based on the CACM Guideline, to make ad hoc interventions in a review process as they choose. EFET objects to this attitude and to the ensuing biased orientation of the study, which undermine the legitimacy of the consultation process. In our view **the Stakeholder Advisory Group must be put in a position to perform its advisory role in all aspects of the study and before regulators and TSOs take a bilateral decision.** The process of setting the scope of a study into possible bidding zone should be fully transparent. The Stakeholder Advisory Group will be disheartened and impaired in its intended functions if it is systematically ignored and by-passed in such a manner again.

Yours sincerely,



Jan van Aken, Secretary General