



Union Française de l'Électricité

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UFE answer to the consultation on the first edition of the bidding zone review

UFE welcomes this opportunity to comment on a key dimension of the design of European electricity markets. UFE acknowledges the difficulty of performing a task such as the bidding zone review. Not only the assessment is intrinsically complex, but this first edition has to be carried out in a context of ongoing major changes on key aspects such as capacity calculation or redispatching and countertrading methodologies.

Therefore, given the many uncertainties on future operation conditions on the one hand, and the very significant impacts of any change in the bidding zone configuration on market players on the other hand, UFE deems appropriate the careful approach used by TSOs and the recommendation, in absence of strong evidence in favour of an alternative configuration, not to change the current configuration at this stage. The option of changing the bidding zone configuration should indeed never be considered lightly, and adopted only if the new configuration is stable and brings long term benefits.

That being said, UFE believes the bidding zone review is an important exercise, and would like to propose some improvements for the future editions. UFE underlines that the results appear extremely sensitive to some key assumptions, and that it is therefore crucial to base the assessment on a robust set of scenarios.

From this perspective, UFE deems absolutely necessary that, especially when studying “expert based” configuration, each bidding zone splitting (or merger) hypothesis is studied one by one. Scenarios combining several splits (or mergers) can indeed hide very different trends: the overall impact on social-economic welfare could be positive, but several of the splits included in the scenario could still have a negative impact taken individually. If each hypothesis is not studied independently from the start, UFE considers that at least each scenario showing an overall positive impact on social welfare should then be broken down into sub-scenarios, where the impact of each split would be studied independently. Overlooking such a basic rule could lead to extremely detrimental results, on the sole basis of arbitrary modelling choices.

Regarding the identification of the splitting hypotheses to be studied, UFE believes a set of “screening indicators” should be developed. Such indicators would be useful in limiting the number of scenarios to study, while avoiding as much as possible arbitrary modelling choices from the start. UFE considers in particular that the costs of managing congestions (e.g. yearly redispatching and countertrading costs) in each bidding zone would be a sound indicator to use.

UFE also notes that the grid scenarios have a major impact on the results, which are therefore highly dependent on the chosen horizon of time and planning hypotheses used by TSOs regarding new transmission projects. UFE therefore stresses the importance to use transparent and time consistent grid scenarios for the exercise (e.g. ensuring that TSOs have a common understanding of the definitions of project status such as “planning” and “designing and permitting”, listing of new commissioned projects).

In terms of criteria to be used to assess the various bidding zone review scenarios, UFE considers that the provisions of the CACM network code do not mean that each of the criteria listed in the code should be assessed one by one or on equal footing, as some could be redundant or less relevant than others.

UFE stresses that any change in the bidding zone configuration not only has a very significant economic impact for the assets located in the concerned zones, but also creates transaction costs for all market players. Given the magnitude of the potential impacts, even the review process by itself generates risks. When it comes to a possible future bidding zone review process, UFE therefore believes it should only be triggered when the evaluation methodology will be robust enough. In particular, before any future review is officially launched:

- the model should be backtested and prove to be robust with past data;
- the evaluation criteria and scenarios to be studied should be discussed with stakeholders well in advance, as the 15 months duration foreseen by the CACM network code is very short for such a structural topic.

Finally, UFE underlines that changing the bidding zone configuration is not the only tool to achieve the objective of efficient congestion management at European level. The countertrading and redispatching methodologies, as well as the related cost-sharing methodologies, will (and should) be instrumental in this respect.