

April 24th, 2020

UFE's answer to ACER's consultation on the methodology and assumptions that are to be used in the bidding zone review process

I. Bidding zone review: Methodology

Topic 1: Pan-European consistency of the methodology

1.1.1. Please rate your degree of agreement or disagreement with the following statements:

1- Strongly disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly agree.

The assumptions and the methodology for the bidding-zone review must remain pan-European to the extent possible. Further consistency between regions must be ensured in the methodology included in the Proposal.	4
While the proposal may accommodate regional aspects when duly justified, pan-European principles that aim to maximise European welfare should be ensured, e.g. concerning capacity calculation principles. In this regard, the methodology should be consistent with recommendations and decisions of ACER regarding capacity calculation (e.g. the ACER Recommendation on capacity calculation and the ACER decision on the Core capacity calculation methodology).	1

1.1.2. Please detail below which aspects of the Proposal adequately ensure overall pan-European consistency of the bidding-zone review methodology and should therefore be retained in the final methodology.

In UFE's view, there are no aspects explicitly ensuring overall pan-European consistency. The methodology in itself should ensure it, but there are many points where TSOs or regions can derogate from the methodology.

1.1.3. Please detail below which aspects of the Proposal hamper overall pan-European consistency of the bidding-zone review methodology and should therefore be amended in the final methodology.

The all TSO proposal introduced Bidding Zone Review Regions which potentially hinder the pan-European approach. Especially where the assessment criteria leave room for (regional) interpretation, it will be inevitable that regions will come to different outcomes. Instead of a review per bidding zone review region, the review should be conducted considering much larger regions, potentially the whole EU.

If BZRRs must be retained, then additional cooperation and coordination between BZRRs must be ensured and the different assessment criteria for must be applied in the same way across the different BZRRs.

It would also be necessary to think twice of how the borders between bidding zone review regions should be defined, because these borders would in such a case de facto never be challenged in the bidding zone review process.

1.1.4. Please add any comment on the need to ensure pan-European consistency.

We disagree with the idea that the BZR should necessary be consistent with ACER decision and recommendation on capacity calculation, as by definition the 70% rule is not motivated by economic efficiency. Proper capacity calculation (including security checks by TSOs) would be more useful to provide an adequate picture of – future - possible situations.

Topic 2: Transparency and stakeholders' engagement

1.2.1. Please rate your degree of agreement or disagreement with the following statements:

1- Strongly disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly agree.

Maximum transparency must be guaranteed at all stages of the bidding zone review. In particular, all data, assumptions and relevant parameters used in the review should be published, subject to confidentiality issues and aggregation.	5
There is a need for enhanced involvement of stakeholders during the bidding zone review process. This involvement should be described in the methodology.	5

1.2.2. Please detail below which aspects of the Proposal adequately ensure transparency and stakeholders' engagement and should therefore be retained in the final methodology.

In UFE's view, the proposal hardly features any safeguard to ensure transparency and stakeholders' engagement.

1.2.3. Please detail below which aspects of the Proposal hamper transparency and stakeholders' engagement and should therefore be amended in the final methodology.

The current methodology does not require the engagement with stakeholders in the process of conducting a bidding zone review. UFE believes stakeholders' engagement should be explicitly mentioned in the methodology.

Engagement with stakeholders should be pursued on EU-level as well as on regional level in order to coordinate the various bidding zone reviews, also across different bidding zone review regions.

UFE recommends that the simulation tool used for the assessment is open source. It should be possible for all stakeholders to run simulations on its own and propose (with an appropriate governance) improvements in the tool and/or perform their own sensitivity analysis. This could also give insights for TSOs as they could see what scenario's market parties are considering.

1.2.4. Please add any comment on the topic of transparency and stakeholders' engagement.

Stakeholder involvement is needed in all the steps in the review. UFE proposes to have a similar process as the last BZ review with a stakeholder group of representative organisations advising the team performing the review.

The stakeholder group should discuss:

- Assumptions on demand and generation (including weather dependency);
- Assumptions on network development;
- Possible simplifications;

- (Expert based) scenarios;
- Other subjects relevant to the calculations.

Obviously, the stakeholder group should also be involved in the assessment of the result and the weighing of the criteria. The assessment should be complemented by a broader European consultation.

Topic 3: Need to ensure a conclusive bidding zone study

1.3.1. Please rate your degree of agreement or disagreement with the following statements:

1- Strongly disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly agree.

Quantifiable, possibly monetised criteria should be the focus of the bidding zone review.	2
The assumptions and data used as inputs for the bidding zone review should be, as much as possible, checked against reality; the methodology should be based on realistic expectations about the future.	5
While methodological simplifications may be necessary to enable a timely delivery of the bidding zone study, they should not decrease the quality and relevance of the underlying analysis and indicators. In general, methodological simplifications should be sought when they are not expected to impact the results of the study.	5
The current TSOs' proposal to assess market liquidity mainly focuses on possible changes of liquidity in day-ahead markets. While liquidity of day-ahead markets is important, an assessment of liquidity impacts across all timeframes should be included. In particular additional indicators to capture the impact of a bidding zone reconfiguration on forward markets liquidity in a holistic manner should be considered.	5
In the first bidding zone review pursuant to CACM, significant efforts were put in simulating cross-zonal capacity calculation in a very detailed manner. In view of the 70% minimum target of cross-zonal capacity envisaged in the CEP, which will be taken into account in the bidding zone review, the role of capacity calculation may be less crucial than in the first bidding zone review. As a consequence, some simplifications in simulating cross-zonal capacity calculation should be envisaged, which would allow to increase the efforts on other important aspects of the review.	1

<p>The current TSOs' proposal for the simulation of short-term welfare effects seems to exclusively rely on the changes in generation dispatch and related costs, while demand-side response is mostly disregarded. Given that a bidding zone configuration may have relevant impacts on the patterns of day-ahead market prices, DSR (including day-ahead demand elasticity) should be more robustly considered.</p>	<p>5</p>
<p>The current TSOs' proposal for the simulation of short-term welfare effects seems to highly depend on the difference between the costs of scheduling generation (and residually demand) units in day-ahead markets and the costs of (re)scheduling generation (and residually demand) units in the re-dispatching timeframe. Some assumptions included in the Proposal such as considering full cross-zonal coordination for re-dispatching or the insufficient consideration of the difference between the costs incurred in day-ahead and the re-dispatching timeframe may lead to conclude that all alternative bidding zone configurations deliver the same short-term welfare results as the status quo configuration. Such strong assumptions should be revised and aligned with the envisaged reality for the time horizon of the study as much as possible.</p>	<p>1</p>

1.3.2. Please detail below which aspects of the Proposal adequately ensure the bidding zone review to be conclusive and should therefore be retained in the final methodology.

We disagree with ACER's view that the hypothesis of full cross-zonal coordination should be revised. Although this is clearly not today's reality, the methodologies on cross zonal redispatching and countertrading should actually enter into force before any bidding zone reconfiguration. It is therefore appropriate to take them into account and to suppose that this coordination exists in order to evaluate the potential additional benefits of a bidding zone reconfiguration, on top of the methodologies which should apply in any case. Any other approach would create some artificial benefits in favor of bidding zone reconfiguration, which is not the right tool to solve the (current) lack of coordination in terms of redispatching and countertrading.

As mentioned above, we also disagree with the idea that the BZR should be consistent with ACER decision and recommendation on capacity calculation, as by definition the 70% rule is not motivated by economic efficiency. Proper capacity calculation (including security checks by TSOs) would be more useful to provide an adequate picture of – future - possible situations.

When it comes to quantifiable/monetized indicators, there cannot be a general answer: quantifiable indicators are useful provided there are robust. If not, a qualitative indicator is always preferable to an insufficiently robust quantifiable indicator, as it avoids giving a false impression of exactness. In any case, the assessment should always be based on multiple indicators and criteria, as the decision cannot boil down to a single figure.

By definition – we cannot disagree with such statements -, we support the fact that the assumptions should be realistic and the appropriate simplifications can be performed provided they do not significantly alter the result.

We would like to underline that the purpose of the BZR is to assess potential future congestions, not past ones: assumptions about the future are therefore the ones that matter. However, any modelling used should always be backtested in order to check if it is actually able to reflect past congestions based on historical data. If not, the model should not be used.

1.3.3. Please detail below which aspects of the Proposal prevent the bidding zone review from being conclusive and should therefore be amended in the final methodology.

Article 5(2) of the Proposal should refer to structural congestion which are not expected to be overcome within 5 years as opposed to 3 years. This would be required to allow grid developments to come into effect, consider forward positions entered into by market participants and give certainty to investors.

The objective of BZRs is to understand network and market behaviour, and the effects of BZ configuration changes on them. Hence the objective should not be to model every aspect with full precision, but rather to focus the analysis on expected dynamics. This relates in particular to the efficiency of all market segments such as forward markets, intraday and balancing timeframes as well as on retail markets.

Another aspect that may lead to difficulties in being conclusive is that individual TSOs have an interest in the results. It is current practice that in the proposals TSOs make that they see each other as competitors and try to shift costs towards each other (or attract revenues). Harmonisation of regulation and allocation of costs and revenues on the level of at least a CCR (which performs a regional optimization) should lower this incentive. However, that is outside this methodology.



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1.3.4. How do you think that the inclusion of experts' views should be organised and could help ensure a conclusive bidding zone review?

UFE considers it difficult to grasp the idea of experts' views: who would be these experts and what would be the basis for their views? In that perspective, stakeholders' organisations (especially market representatives) should also be allowed to forward their view for analyses.

1.3.5. Please specify how specific the final recommendation of the TSOs should be:

- *TSOs should specify whether the bidding zone configuration should be maintained or changed and in case of the latter, specify their preference for one alternative bidding zone configuration.*
- *TSOs should specify whether the bidding zone configuration should be maintained or changed and then present a number of possible options, highlighting the benefits and shortcomings of different options, subject to the considerations of other aspects (e.g. implementation timeline, minimum 'lifetime' of the alternative bidding zone configuration to ensure the benefits exceed the transitional costs, measures to mitigate certain impacts, etc.).*
- ***Other possible ways of presenting the final recommendation.***

1.3.6. Please add any comment on the topic of ensuring a conclusive bidding zone review, which adequately supports the decision-making process.

Given the very significant impacts of any change in the bidding zone configuration on all players in the electricity sector, and in particular on consumers, UFE stresses the need to adopt a careful approach when assessing the topic. Even the mere possibility of bidding zone reconfigurations actually creates significant uncertainties and therefore risks for market players, and ultimately additional costs for end consumers.

The option of changing the bidding zone configuration should therefore never be considered lightly and adopted only if a new configuration is stable, brings long-term benefits which are significant enough to compensate for potential stranded costs. From that perspective, UFE believes a set of "screening indicators" should be developed to determine whether alternative configurations for a given bidding zone should be assessed or not.

Such screening indicators would be useful in limiting the number of bidding zones concerned by the review and the number of alternative configurations to study, while limiting arbitrary choices (UFE recalls that the geographical size of a bidding zone is not a meaningful screening indicator to use, as it does not give any indication on the level of structural congestion).

Consistently with the above-mentioned points, UFE supports the possibility for the TSO(s) of a given bidding zone to only submit the status quo configuration if sufficient justification is provided on the absence of structural congestions.

When it comes to how specific the final recommendation should be, UFE considers that TSOs should present the benefits and shortcomings of each of the assessed configurations (including the status quo), but without necessarily making only a binary recommendation in favor of changing or not the bidding zone configuration, and even less so in favor of any of the alternative configurations. If none of the alternative configuration presents sufficiently clear and robust benefits over the long-term, UFE considers that the status quo should be maintained.

II. Definition of alternative bidding zone configurations

2.1. Please provide your views on the relevance of the above-proposed principles, which aim to support an expert-based delineation process.

In order to determine whether it would be relevant to study some alternative configurations of a given (group of) bidding zone(s) or not, UFE believes a set of “screening indicators” should be developed. Such screening indicators would be useful in limiting the number of bidding zones concerned by the review (i.e. the bidding zones for which alternative configurations could be proposed) and the number of scenarios to study, while limiting arbitrary choices (UFE recalls that the geographical size of a bidding zone is not a meaningful screening indicator to use, as it does not give any indication on the level of structural congestion).

2.2.1 Should a locational marginal pricing (LMP) simulation be a mandatory element of this bidding zone review?

YES NO

2.2.2. Should a LMP simulation be used as an input for proposing alternative bidding zone configurations?

YES

NO

2.2.3. If so, how do you think a LMP simulation can be used to support the proposal of alternative bidding zone configurations?

Results of LMP simulations may be used as a valuable indicator in order to assess the realistic nature of the assumptions and models used for the BZR. If those appear realistic, then LMPs could be used to complement expert-based delineations.

With regards to Question 2.2.2., results of LMP simulations should be one of the inputs when setting final bidding zones delineations, but not the only one. A pre-condition for using LMP's results as input is the full transparency on the assumptions, models, and LMPs calculated in the study. As stated above, the backtesting should also confirm that the simulations are reliable.

In a nutshell, LMP simulation can be used to support the proposal of alternative bidding zone configurations provided the simulations (and thus LMPs) are reliable. In that case, they should be used to support the expert-based approach so that the expert and model-based approaches would complement each other.

2.3. When proposing bidding zone configurations, do you see the need to ensure that the incremental effects of combined bidding zone configurations are identified (see the example below)? Please, provide your views on possible pros and cons of such an approach.

UFE deems it absolutely necessary that each bidding zone reconfiguration (merging and/ or splitting) hypothesis is also 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 reconfigurations included in the scenario could still have a negative impact taken individually.



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2.4. Which other criteria should in your view be considered when proposing alternative bidding zone configurations?

In terms of the evaluation criteria to be used to assess the various configuration alternatives, UFE considers that the provisions of Article 33 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. These indicators can also be complemented with other relevant dimension, e.g. the redistribution of economic welfare among generators and consumers in each BZ, or the redistribution of congestion rents and congestion management costs among TSOs. The resulting complexity of the market design should also be taken into account, especially since an increasing number of market players are facing difficulties to cope with the complexity of cross-border trade rules and processes. UFE underlines that the impact of alternative bidding zone configurations on all relevant countries (EU members but also very well interconnected third countries) should be adequately considered in the analyses.

3. Please provide any further comment

UFE reminds that modifying the bidding zone configuration is not the only tool for achieving the objective of efficient congestion management at European level. Actually, in the context of the Clean Energy Package, the 70% threshold means that the objective is de facto no longer to determine interconnection capacities (and, by extension, bidding zones) strictly based on economic efficiency and the physical status of the grid. The 70% rule will indeed likely lead to higher capacity levels and thus higher redispatching and countertrading costs compared to the economically efficient level (from that perspective, the higher the threshold, the more it leads towards a de facto merger of the concerned zones)

This state of play therefore strongly diminishes the relevance of any bidding zone change, as no configuration would in any case reflect the physical status of the grid. UFE would therefore invite ACER to focus its efforts on the economic efficiency of the redispatching and countertrading methodologies, as well as the related cost-sharing methodologies, which will become all the more important in this new context and should be implemented with no further delay.