

Preface

The following document constitutes a statement by the relevant Regulatory Authorities on the currently ongoing instance of the bidding zone review. This statement is addressed to ENTSO-E and the relevant TSOs alike.

The Bidding Zone Review Process

Obligations

CACM Regulation tasks the relevant TSOs to carry out a bidding zone review, after such a review has been initiated. Although Regulatory Authorities see merit in setting up and conducting such a process under the umbrella of ENTSO-E and, thereby, making use of common resources and having one entity in place to, for example, sign contracts with third parties etc, Regulatory Authorities, by the same token, see a number of risks, such as unclear assignment of responsibilities, insufficient staffing and additional entities involved.

Timings and Delays

Since the launch of the pilot project in 2014, several delays with reference to the initial planning have been experienced. Only in a limited number of cases, Regulatory Authorities and stakeholders were informed by ENTSO-E/TSOs, either directly or through the Bidding Zone Stakeholder Advisory Group, about such a delay.

Despite the commitment of ENTSO-E/TSOs to provide the recommendation at latest on 21. March 2018, several points to be addressed and analysed during the bidding zone review process will eventually not be incorporated in full or dropped completely (e.g. model-based configurations).

Involvement of Regulatory Authorities

Regulatory Authorities appreciate all the materials received during the process. However, after the results of the model-based bidding zone configurations had been received by Regulatory Authorities, Regulatory Authorities individually posed questions to ENTSO-E/TSOs about both the methodology for capacity calculation, and the underlying assumptions and results of the model-based bidding zone configurations. Through the CACM Coordination Group, Regulatory Authorities requested in June 2017 ENTSO-E/TSOs to organize, together with the consultant involved in the process, a workshop to clarify some of these essential questions to the Regulatory Authorities. In the set of documents received in October 2017, ENTSO-E/TSOs either responded to these questions with general, vague and limited statements or did not respond at all. A follow-up workshop has been organized by ENTSO-E/TSOs only at the end of December 2017. Regulatory Authorities find such a response to the questions disappointing and request ENTSO-E/TSO to answer such questions in a more comprehensive and timely manner in the future.

Involvement of Stakeholders

The involvement of stakeholders was organised by setting up the Bidding Zone Review Stakeholder Advisory Group (SAG). This group comprises of representatives from traders, power generators, consumers, energy associations - and Regulatory Authorities and the Agency in an observer role. Generally, the establishment of a such a group with the purpose of giving advice to the process is appreciated.

In the earlier stages of the BZR, meetings between ENTSO-E/TSOs and the SAG were held on a regular basis roughly every six months. However, in the later phase of the review process, these meetings have become much less frequent. The last meeting was held only three weeks before the

start of the public consultation and, thus, did not allow for any material feedback that could reasonably be incorporated into the process, not mentioning the outcome of the review process.

According to CACM GL Art. 33 (1), during the bidding zone review process a number of aspects and criteria related to the bidding zone configurations shall be considered. ENTSO-E/TSOs put significant weight on the methodology for calculating cross-border capacities for the day-ahead time frame. Some stakeholders questioned whether the focus on a) cross-border capacities at the level of flow-based, and, b) the day-ahead timeframe is the almost only relevant criteria in the context of a study that is looking up to ten years ahead. Concerns regarding this aspect and suggestions to complement the criteria reflecting the functioning of forward markets were raised at the SAG, since their functioning is also a suitable indicator for the economic efficiency of bidding zone configurations, unless forward market issues would be addressed by other market design changes.

Submission of Documents to Regulatory Authorities for Consultation

Regulatory Authorities received a set of documents at the end of October 2017. The submission of these documents took place in line with CACM GL Art. 32 (4) (a). However, Regulatory Authorities have the following remarks:

The documents submitted were of overall poor quality and did not describe methodologies or assumptions at a level of detail, that would have allowed Regulatory Authorities to obtain a comprehensive picture of the exact assumptions taken and methodologies applied.

The timing of submission was - in the view of Regulatory Authorities – not chosen well. The three months granted to Regulatory Authorities by CACM GL Art. 32 (4) (a) to respond with coordinated amendments would put the date of the submission of such coordinated amendment at the end of January 2018. Considering a) the lead time required to incorporate coordinated amendments, b) the public consultation over at least one month and c) the deadline for the conclusion of the current instance of the bidding zone review process (i.e. 21 March 2017), it can be presumed that any coordinated amendments by Regulatory Authorities would not have made any significant impact on the ongoing bidding zone review process. Furthermore, CACM GL does not explicitly require the involved Regulatory Authorities to issue a formal decision on the submission. Taken together with the above, this might give rise to the debate whether the submission was only pro forma, where the inability of the involved Regulatory Authorities to request coordinated amendments would implicitly imply the agreement of Regulatory Authorities to the assumptions and methodologies.

By considering to the two points made above, Regulatory Authorities purposefully did not issue any coordinated amendments – even though this does not imply the involved Regulatory Authorities agree to the proposal. Furthermore, Regulatory Authorities request ENTSO-E/TSOs to put more effort into the content of the documents submitted to Regulatory Authorities and time the submission further ahead of the deadline for concluding the bidding zone review during future instances of the bidding zone review.

Model-based Configurations of Bidding Zones

Regulatory Authorities and ACER alike requested ENTSO-E/TSOs to study at least two bidding zone configurations based on nodal pricing and subsequent clustering performed in model environments (i.e. model-based bidding zone configurations). Regulatory Authorities appreciated the work done by ENTSO-E/TSOs and the results presented in June 2017.

However, Regulatory Authorities regret that ENTSO-E/TSOs decided to disregard the model-based configurations completely rather than improving on the underlying assumptions within a reasonable timeframe. As it currently stands, during the public consultation ENTSO-E/TSOs intend to ask

interested parties to provide their view on how different configurations compare to each other. By doing so, an inclusion of the model-based configurations would hardly have caused any additional efforts. Furthermore, stakeholders voiced several times their wish to maintain the path of studying the model-based bidding zone configurations – even if they would serve as a reference or benchmark for other (expert-based) bidding zone configurations to be analysed. The advantage of the model-based bidding zone configurations – admitting that even these configurations may be subject to certain bias – is that political borders should fade and congestions in the power grid should be made explicit and visible. In a study that has as its objective to compare different bidding zone configurations, model-based bidding zone configurations would have provided a valuable reference case.

Next Instance of the Bidding Zone Review

Purpose of the Review Process

Regulatory Authorities would like to recall that the bidding zone review process shall be conducted in an engineering- and science-oriented fashion. During the process, political views shall be put behind and the study shall be carried out based on the objective analysis of data, in particular when defining configurations of bidding zones based on models. The result of the bidding zone review process shall be a proposal, which shall be the base for subsequent discussions among Member States and/or Regulatory Authorities on whether the bidding zone configuration in place shall be adapted.

More In-House Competence

Regulatory Authorities suggest and would welcome if ENTSO-E/TSOs could take the experience gained in the currently ongoing review process and subsequently establish and build more in-house competence for running future instances of the bidding zone review process. Such a bidding zone review process may be launched every few years and, thus, preserving the knowledge and lessons learnt in one place would be beneficial.

Upfront Preparation of Future Instances of the Bidding Zone Review

In order to prepare well for any possible future instance of the bidding zone review, it is suggested to already now start working on the refinement of methodologies and assumptions to be used. While the currently ongoing instance of the bidding zone review is being concluded, lessons learnt and areas for improvements shall be gathered soon to feed the experience gained into any future instances of the bidding zone review process.