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ACER consultation -The influence of existing bidding zones on electricity markets

The Danish Energy Association welcomes the opportunity to express our views to the consultation on bidding zones. Our specific comments are listed below after each question.

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?

It is important to distinguish between short term and long term congestion management.

Grid expansion is the long term congestion management tool and the only way to ensure an efficient use of resources.

Counter trade is a functional short term tool that further incentivizes the long term tool of expanding the grid. It is imperative that counter trade is carried out transparently as a market based solution.

Redefining bidding zones is a structural and fundamental change and should only be applied when transparent and market based counter trade cannot be carried out or when structural bottlenecks persist.

Interconnector capacity should be available to the market and it is imperative to remove the current practice of moving congestion to the borders. We consider this one of the key tasks of a European regulatory regime that supersedes the sub-optimisation of national interests. Making use of countertrade in the short and medium run and ensuring that a proper amount

of internal grid reinforcements are being carried out are elements that should be pursued to the widest degree possible to facilitate cross border trade.

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?

The planning and operation of the grid should rest on the underlying physics of the grid rather than geographical borders. Institutional and governance structures should follow.

Generally, the configuration of bidding zones should follow persistent structural congestion on a regional scale. However, existing bidding zones configuration could be efficient if congestion management was addressed from a market perspective and not national interest by moving internal congestion to borders.

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?

The current practice of reducing capacity on the interconnector between Denmark West and Germany shows a highly dysfunctional use of transmission capacity and that market functionality is obstructed in a non-transparent manner.

As stated earlier the problem could be relieved with a transparent, market based and cross border approach to counter trade in the short term leading to grid reinforcements in the long term. Improving the efficiency of the use of transmission is possible within the current configuration.

The definition of the zones may have lesser impact on the efficiency of the flow-based allocation method than for example the security margins applied within the zones. Thus we would urge ACER to supervise these.

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 bidding zone configuration itself does not limit cross border capacity, but rather the practice of not managing congestion where it occurs. Reliability margins and the trade capacity between bidding areas should be continuously monitored by the competent authorities to avoid disturbances of cross-border trade.

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?

We believe that liquidity comes from a combination of the trade within a zone and the cross border trade relating to that same zone. Naturally, a reconfiguration of bidding zones can influence liquidity in the day-ahead and intraday markets, but with a strengthened focus on achieving better market conditions for cross border trade, liquidity in these markets would not necessarily be improved or worsened to a critical extent.

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?

With the use of financial products based on the Nordic System Price, it is to a large extent currently possible to hedge electricity prices in the Nordic market. The model of hedging through a combination of the system price and CfDs is in general beneficent, however some bidding zones could benefit from enhanced liquidity regarding CfDs.

Hence, it could be beneficial having TSOs auction the underlying transmission capacity in order to advance the possibility for market actors to hedge their long term exposures. The auctioning of long term financial capacity would reduce transaction costs and bring the transmission outage risks back to the TSOs.

7) Do you think that the current bidding zones configuration provides adequate price signals for investment in transmission and generation/consumption? Can you provide any concrete example or experience where price signals were/are inappropriate/appropriate for investment?

As mentioned above, the current reductions of capacity on the interconnector between Denmark West and Germany as well as any other cases of moving congestions to borders is a market interference that creates distorted price signals thus giving rise to inappropriate investment signals. However, we do not see a reconfiguration of bidding zones as the solution to those problems.

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?

Market power is not a critical issue in the Nordic market.

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?

The review should focus on where the real congestions are, and thus if trade across zones are in any way hindered as a cause of congestion not being addressed adequately where it

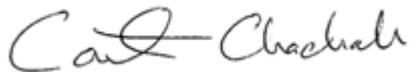
originates. The costs for counter trade and redispatch must be transparently accounted for. This must be analysed in conjunction with the used capacities at the borders.

The aim should be stable and robust bidding zones over time. The costs for counter trade and redispatch should together with the volumes be made publicly available – both current values and historical figures.

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?

The most important factor to consider is the transmission grid. The criteria to use when deciding when to use bidding zones, counter trade or redispatch should be clear and steer towards predictable bidding zone configurations. In addition, the criteria how to define the configuration must rest on predictable rules that secures that configurations are not arbitrary.

Yours sincerely
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