|  |  |  |
| --- | --- | --- |
|  |  |  |
|  |
| **The Czech Republic´s contribution to the ACER´s public consultation: The influence of existing bidding zones on electricity markets****30th September 2013**This contribution was prepared by the Ministry of Industry and Trade (MIT) of the Czech Republic.We welcome the consultation on the influence of existing bidding zones on electricity markets as the opportunity to express our position to the important issues and possibility to see opinions of electricity market participants in Europe. We consider this discussion to be a part of the implementation of the effective internal electricity market and one step towards the overall efficiency of electricity delivery. The benefit from this consultation is also the open description of the problems in the consultation document. The review and redesign of bidding zones cannot remedy all problems of the present electricity market and shall be therefore one of measures for the correction of present market failure.In the CZ view the most important in this public consultation is to focus effort on removal of the barriers for smooth implementation of the internal electricity market, first and foremost the unplanned loop flows in the CEE Region. Loop flows are the long term and not yet solved problem also in the discussion about the method for calculation and allocation of cross-border capacity.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? Answer generally to all zones:1. The right configuration of bidding zones is an important condition for the overall efficiency of electricity delivery. The other measures, with the exception of areas with very limited cross-border interconnections (perhaps under 10 percentage of load consumption), cannot offer the same benefit for efficiency of delivery and market at comparable costs.
2. The compromise between optimal configuration of bidding zones and other measures shall be based on the costs and benefits assessment of different options, according to the extent of the use of specific measures. It means, for example comparison of the investment costs for elimination of bottleneck (or at least partial increase of capacity) and redispatching costs for the lifetime period of the considered investment. The decisive criterion must be the price of electricity paid by consumers for the commodity plus regulated payments.

Regarding the decision of the Commission of 14.4.2010 related to the subdivision of Sweden to smaller bidding zones (Case 39351 – Swedish Interconnectors), we consider the redispatching to be the measure to be used to maintain reliable operation of the electricity system and not for supporting market transactions. The redispatching costs shall be born by the originator of the problem (polluter pays). It means that also in the case of the cross-border redispatching, the cost shall be born by the operator of the respective system, which caused the problem. 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? 1. Answer related to the CEE and DE/AT bidding zone:

The current configuration of bidding zones in the CEE region, where DE and AT form one common bidding zone, does not fulfil conditions for the overall market efficiency. Among others, it has the following negative:* as a result of the trading, not respecting congestions inside the zone, it causes loop flows through neighbouring zones, thus reducing cross-border trading, for example across the borders CZ-DE and CZ-AT;
* thus discriminating market participants in the neighbouring zones;
* will increase the volume of the remedy measures, including costly ones (redispatching), thus will further decrease the overall efficiency of electricity delivery;
* it enforced investment into PST (Phase-shifting transformers) to maintain the security of system operation.

It should therefore be reviewed and implemented the re-configuration of bidding zones.1. General answer:

We deem the most important is not the comparable size of bidding zones, but equal positions of the market participants in neighbouring zones, including final consumers.For market integration we consider necessary to interconnect markets on the basis of market coupling, rather than connecting bidding zones into the great whole.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? Answer related to CEE and DE/AT bidding zone:1. The current configuration of bidding zones in the CEE region does not allow the optimal use of existing transmission infrastructure due to large loop flows and all the disadvantages associated with unplanned loop flows.
2. Flow-based calculation should include all bottlenecks affecting the capacity allocation. If the calculation includes only borders of the bidding zones the configuration of bidding zones has of course the impact on the capacity allocation. Therefore it is necessary to include at least all state borders, also if they are inside the same bidding zone, in the flow-based capacity calculation. The inclusion of all bottlenecks in the calculation, including bottlenecks within the system of particular states, will limit the effect of configuration of bidding zones on flow-based calculation and capacity allocation.

Flow based capacity calculation and allocation (FBA) is highly sophisticated and exact method. Large bidding zones, if other parameters remain the same, bring larger volume of loop flows. Loop flows are not the subject of allocation in FBA and they are taken in account inside the reserve for inaccuracy and randomness in FBA calculation of capacities. This leads to a substantial reduction in the accuracy of the FB calculations and reduction of available capacities. Theoretical benefits of FBA method, compared to NTC (Net Transfer Capacity) method, can not be used.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? Answer related to CEE and DE/AT bidding zone:1. Market participants in the CZ bidding zone are in the disadvantageous position in the use of cross-border capacities compared with participants in DE/AT bidding zone. Loop flows caused by transactions in DE/AT zone are preferentially treated at the current capacity allocation from other transactions. The higher costs of electricity transmission due to higher costs for the necessary redispatching will mean higher transmission price paid by CZ customers, compared with price paid in case of better configuration of bidding zones.
2. Yes, loop flows across the CZ transmission system, which are caused by common DE/AT bidding zone, reduce the cross-border transmission capacity available for electricity trading.

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? The implementation of the implicit allocation of the day-ahead and intra-day capacities can bring higher benefit for liquidity of day-ahead and intra-day markets than only re-configuration of bidding zones. The rules valid in respective biding zone have naturally also impact on the market liquidity. The re-configuration of bidding zones can bring boost in the process of day-ahead markets coupling in CEE/CWE regions and also integration of intra-day cross-border market. Decrease of cross-border capacities caused by loop flows originated in big bidding zones leads up to the decrease of potential export/import, which decrease the liquidity on local markets and support the increase of market power. At the FBA together with the connection of markets by Market coupling is no reason to have bidding zones larger than the area of one state.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? N/A from the MIT position7) 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? 1. General answer:

Non-adequate price signals for investment into generation are at present principally the result of the overall distortion of the market and not of bidding zones configuration.1. Answer related to CEE and DE/AT bidding zone:

Non-adequate price signals for investment into the transmission capacity in some parts of the CEE region are the result of current configuration of bidding zones. The loop flows across neighbouring zones, without paying the associated costs inside the DE/AT zone, decrease the pressure on investment into transmission capacity inside this zone.Clear regulatory framework and its long term stability is the most important condition for creation of right price signals for investments.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? Answer relates to the CEE region:CZ is the part of the electricity market in multiple and strong interconnected transmission systems in the CEE and CWE regions. Prices of electricity are therefore very tightly linked to EEX prices. In addition, the Market coupling CZ-SK-HU increases the volume of trade and market liquidity. Therefore the market power is not important issue in bidding zones of the CEE region.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? Answer general:The basic criterion for configuration of bidding zones should be the overall efficiency of electricity delivery and equal treatment to market participants in neighbouring bidding zones. Regarding the configuration of bidding zones, the possibility of effective use of the existing infrastructure with the highest benefit for consumers, i.e. minimise loop flows, maximise market liquidity, should be taken i.a. in account. Bidding zones should not have internal congestions – see the Swedish experience and Commission decision of 14.4.2010.10) 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? General answer:National Regulatory Authorities should take in account mainly:* operational cost of infrastructure, i.e. as low as possible necessity of redispatching in the operation of the system,
* the aim to decrease as much as possible (or to zero) the influence of bidding zones to neighbouring zones,
* ensure the equal treatment to market participants, i.e. avoid the discrimination of market participants in comparison with market participants from other bidding zones.

The review and redesign of the bidding zones cannot remedy all problems of current market with electricity and shall be therefore one of measures for correction of current market distortion. |
|  |
|  |
|  |
|  |  |
|  |