ACER’s Market Monitoring Report

Key Findings

Council Energy Working Party
Brussels - 16 November 2021

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Introduction

One report – three volumes

Gas Wholesale
6 July 2021

Electricity Wholesale
Today

Electricity Wholesale
Today

Energy Retail and
Consumer Protection
10 November 2021

The 10th MMR Electricity Wholesale volume was released on 4 November.

It consists of three parts:
- Market trends (generation, demand, prices),
- Internal electricity market (cross-zonal exchanges, liquidity, efficiency),
- Energy Community countries outlook.

The volume also includes an assessment of current challenges to market integration and recommendations to overcome them.
In 2020, despite the pandemic, market integration progressed.

The integration of Europe’s national markets via market coupling optimises the use of resources across Europe. Market coupling has significant progressed over the last decade.

Source: NEMOs
In 2020, despite the pandemic, market integration progressed.

Similarly, 2020 saw further progress in the integration of EU intraday markets; an important achievement to facilitate large-scale integration of renewable resources, not least to manage their intermittency and variability.

Outstandingly, cross-zonal intraday trades increased by around 150% following the go-live of single intraday market coupling in 2017.

Source: ACER based on NEMOs

Note: this slide focuses on trade through single intraday coupling.
Focus: barriers to efficient price formation and easy market entry and participation
A wide scope to identify barriers …

Significant barriers remain with regard to the efficient formation of electricity wholesale prices and to the easy entry of new and small market participants.
All MSs have some barriers ...

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<th>BARRIERS TO EFFICIENT PRICE FORMATION</th>
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<td>Limited competitive pressure and/or liquidity in wholesale markets</td>
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While MSs perform satisfactorily in some areas, relevant barriers to price formation and new entrants still widely apply

Note: “High” refers to a significant barrier with a score \( x \leq 0.2 \), “moderate” \( 0.2 < x \leq 0.4 \), “light” to a score \( 0.4 < x \leq 0.6 \) and not restrictive to \( x > 0.6 \). NA (not available) refers to Member States where it was not possible to assess the barrier due to insufficient data available. None (not applicable) refers to Member States where the barrier does not apply, e.g. if no capacity market was operational, if there were no price interventions in the retail price settings, etc.
From barriers… to recommendations…

MSs/NRAs to consider:

- Urgently transpose the Electricity Directive, defining proper **national legal frameworks for new and small players**
- Review potential **restrictive requirements** and design features of **capacity mechanisms**
- In line with the Electricity Directive, **protect vulnerable consumers while ensuring free price formation**
- Speed-up the **roll-out of smart meters** and **reduce taxes and levies** in the electricity bills to incentivize new entrants, including demand response

TSOs:

- Increase **cross-zonal capacity** and perform a sound **bidding zone review**
- Review potential **restrictive requirements** and design features of **balancing markets**
- Increase their levels of **transparency in information sharing**
Two key monitoring topics

- 70% cross-border capacity
- Adequacy in the context of security of supply
Introduction of the “Minimum 70% target” (70% of the physical network capacity shall be made available for cross-zonal trade)

Electricity Cross-border Committee detected the need for a harmonised approach to implement and monitor the 70% target.

It requested ACER to issue a Recommendation on the implementation and monitoring of the 70% target.

- Recommendation issued in 2019 approved by NRAs at the Board of Regulators
- Monitoring started in 2020 and will continue until 2025 and beyond
Moving forward towards the 70% target

- The 70% target is binding since 2020, while allowing for gradual implementation (action plans, derogations) until 2025 upon Member States decision.

- A coordinated approach to monitoring and compliance with the 70% rule, based on ACER’s recommendation, is key.
Significant improvements are needed to meet the 70% target set in the CEP that applies since 1 January 2020.

For effective market integration, it is crucial to meet the 70% target. Various options enable to meet this goal: TSOs’ remedial actions, investments and/or bidding zone reconfiguration.

Source: ACER elaboration based on TSOs data

Dedicated reports on the 70% target available at: https://www.acer.europa.eu/en/Electricity/Market%20monitoring/Pages/Cross-zonal-capacity-70-target.aspx

DC interconnectors are not included in this figure. The Nordic and Baltic regions are not included due to lack of data. Results for the Nordics will soon be published by ACER.
The Clean Energy Package aims at addressing system adequacy needs in a coordinated manner.

**Overview of Capacity Mechanisms in Europe (Left) – 2020 and Associated Costs (Right) – 2019 - 2022 (Million Euros)**

The costs of capacity mechanisms across the EU are increasing, which warrants attention. A coordinated approach to adequacy minimises risks of over- or under estimation of adequacy needs, and enables entry of new market players.

Interruptibility schemes should preferably be integrated within existing markets, in particular when these markets include cross-border participation.

**Source:** NRAs.

**Source:** ACER calculations based on NRAs data.
Recommendations
Recommendations - overview

1. Implement re-dispatching and countertrading methodologies.
2. Amend cross-border capacity calculation methodologies, in line with the Clean Energy Package
3. Sound and neutral bidding zone reviews.
4. Finalise market coupling (flow-based projects in Core and Nordic regions)
5. Finalise the common grid model methodologies
6. Implement the Electricity Balancing Guideline
7. Pan-European intraday auctions for pricing cross-zonal capacity
8. Improve forward markets (cross-border hedging tools)
9. Remove wholesale price restrictions
10. Ensure that requirements for prequalification and aggregation enable the entry of new actors
11. Transposition of the Electricity Directive (definition and roles of new market players)
12. Protect vulnerable consumers without interfering with free price formation
13. Roll-out of smart meters
14. Reduce non-contestable charges in electricity bills
15. TSOs to increase transparency
16. Robust adequacy assessments at the EU and national levels
17. Only capacity mechanisms where needed
18. Dedicated interruptibility schemes only when no alternative market for demand response
Thank you for the opportunity. Looking forward to the discussion.
Barriers analysed in the 2020 MMR

BARRIERS TO EFFICIENT PRICE FORMATION

Upcoming MMRs:
- Distortions due to support schemes
- Distortions due to capacity mechanisms
- Market integrity issues
- Insufficient market transparency
- Issues related to network tariffs

2020 MMR:
- Price limits
- Restrictions in balancing markets
- Limited competitive pressure and liquidity
- Insufficient cross-zonal capacity
- Bidding zones not reflecting structural congestions

2020 MMR:
- End-user price interventions
- Low incentive for dynamic retail contracts
- Insufficient information provided by system operators

BARRIERS FOR NEW/SMALL ACTORS

2020 MMR:
- Lack of a proper legal framework
- Restrictions in balancing markets
- Restrictions in capacity mechanisms and interruptibility schemes
- Low competitive pressure in retail markets

Upcoming MMRs:
- Complex administrative and financial requirements
- Lack of incentives for non-wire alternatives

Note: Methodological study defining the barriers and indicators:
Efficient price formation: the most common barriers...(1/2)

Limited competitive pressure and/or liquidity in wholesale markets

- Market concentration still high in several cases
- A share of the electricity is subject to some type of wholesale price regulation rather than to market prices, in FR, RO, IE and IT, which may discourage investments in new cost-efficient technologies.

Insufficient capacity available for cross-zonal trade

- The TSOs of the so-called Core Region (particularly DE and PL), and those in IT, BG, HR, HU and RO need to make the biggest efforts to meet the minimum 70% capacity target, required by the Clean Energy Package.
End-user price interventions

- > 50% households with price some type of price regulation
- Most consumers with regulated prices are not necessarily among the most vulnerable ones

Dynamic prices should be a consumers’ choice, but often limited incentives

- Often a low roll-out rate of smart meters
- Often, the energy component represents a limited share (on average only around one third) of the electricity bill
New entrants and small actors: the most common barriers...

- **Lack of a proper legal framework**
  - Main roles and responsibilities for new entrants (aggregators, energy communities, etc), not always defined
  - New players often not eligible to participate in many market segments

- **Limited competitive pressure in the retail market**
  - Often highly concentrated retail markets
  - Often low entry/exit activity

- **Restrictive requirements in balancing markets**
  - Products not suitable for new entrants, e.g:
    - bid size higher than 1MW (RO, CZ, BG, PT, FR)
    - procured only in very long periods (year or month-head) (LT, SK, SL, HR, CZ, HU)

End-user price interventions and a limited incentive to contract dynamic prices may also hinder participation of new and small market players
Some barriers specific to some MSs…

- Bidding zones not reflecting structural congestions (DE)
- Some design features of balancing markets impacting price formation (HR and SK)
- Restrictive requirements to participate in capacity mechanisms and interruptibility schemes (DE, FR, GR)
- Insufficient information provided by system operators (Baltic, SE and IE TSOs)
Back-up slides
• Supporting the integration of **energy markets** in the EU (by common rules at EU level). Primarily directed towards transmission system operators and power exchanges.

• **Contributing to efficient trans-European energy infrastructure**, ensuring alignment with EU priorities.

• Monitoring the well-functioning and transparency of energy markets, **deterring market manipulation** and abusive behaviour.

• Where necessary, **coordinating cross-national regulatory action**.

• Governance: **Regulatory oversight is shared** with national regulators. **Decision-making** within ACER is collaborative and joint (formal decisions requiring 2/3 majority of national regulators). **Decentralised enforcement** at national level.