

ACER



European Union Agency for the Cooperation
of Energy Regulators

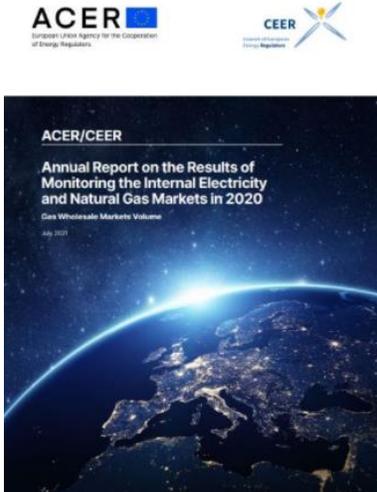
ACER's Market Monitoring Report

Key Findings

Council Energy Working Party
Brussels - 16 November 2021

Christian Zinglensen, *Director at ACER &*
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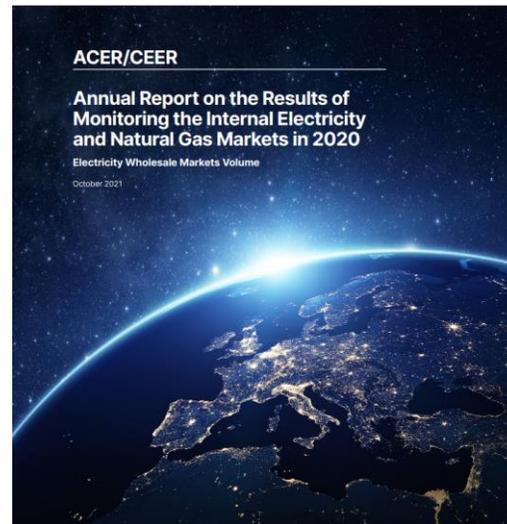
Gas Wholesale
6 July 2021



Electricity Wholesale Today

ACER 
European Union Agency for the Cooperation
of Energy Regulators

CEER 
Council of European
Energy Regulators



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

EU DAY-AHEAD MARKET COUPLING IN 2010 (LEFT) AND 2021 (RIGHT)



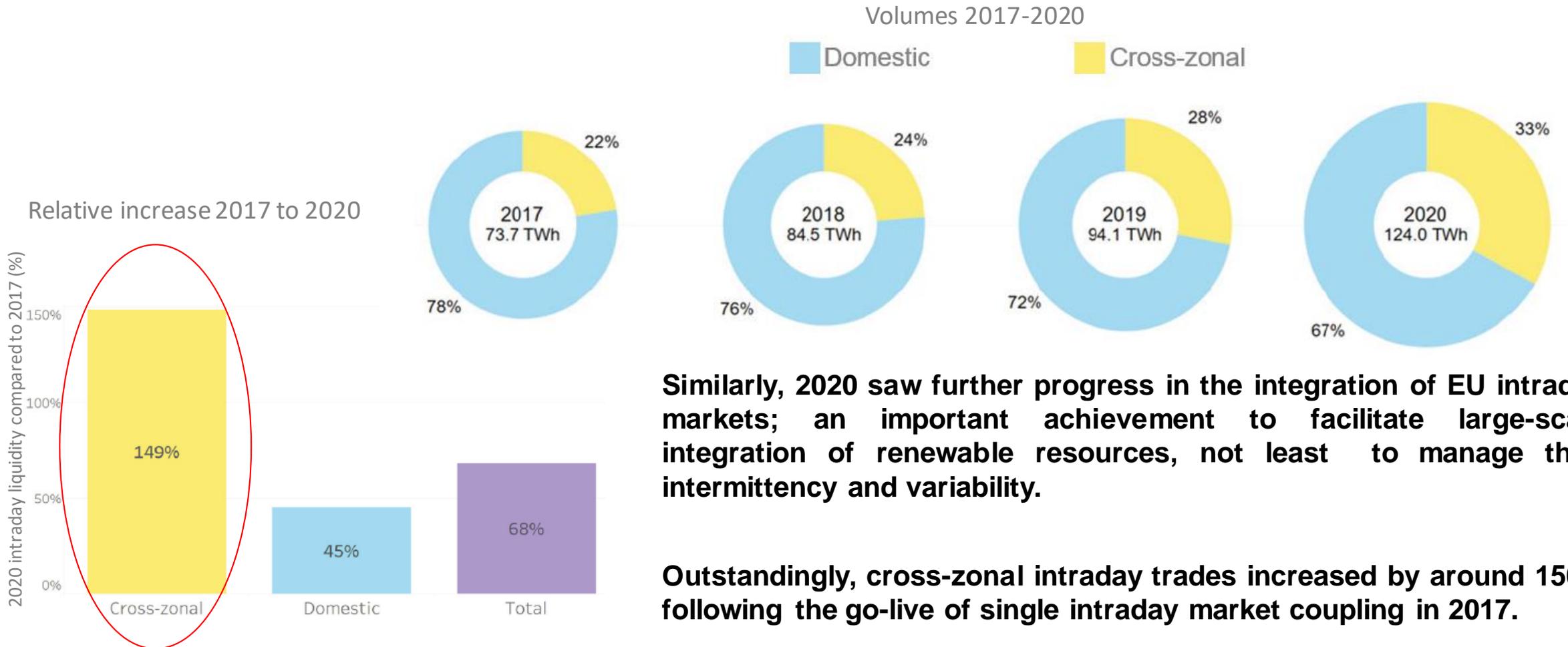
Source: NEMOs



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.

In 2020, despite the pandemic, market integration progressed

EVOLUTION OF INTRADAY TRADE IN EUROPE (% AND TWH)



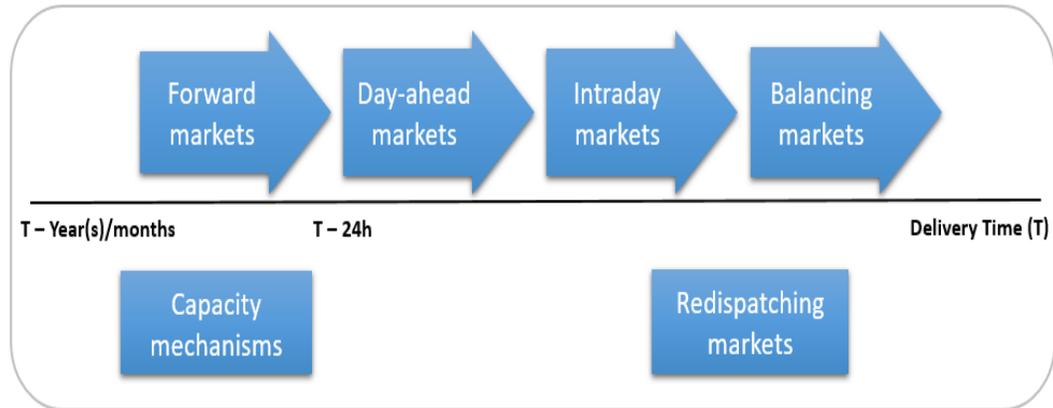
Similarly, 2020 saw further progress in the integration of EU intraday markets; an important achievement to facilitate large-scale integration of renewable resources, not least to manage their intermittency and variability.

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

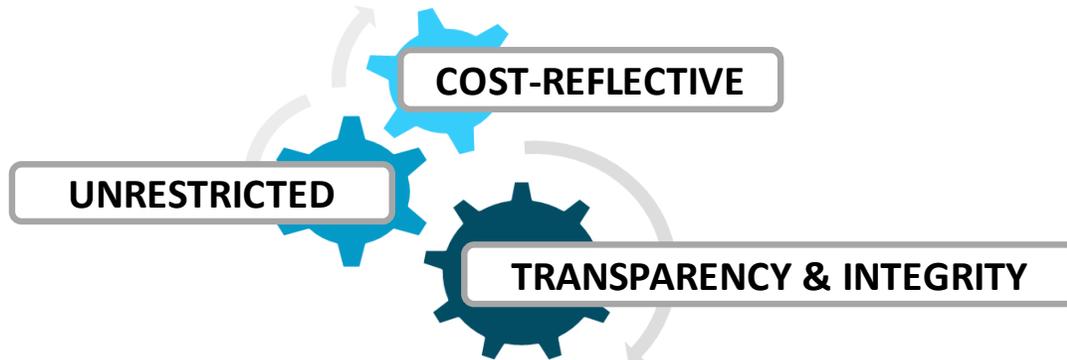
Focus: barriers to efficient price formation and easy market entry and participation

A wide scope to identify barriers ...

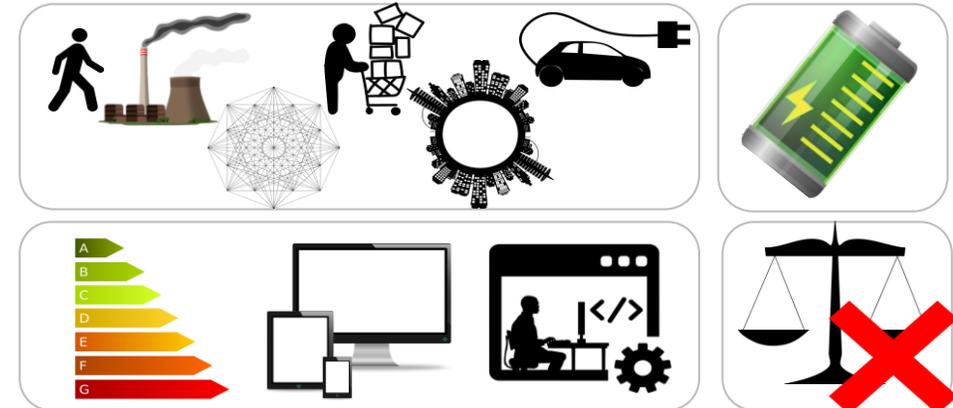
PRICE FORMATION



BARRIERS TO EFFICIENT PRICE FORMATION



NEW ENTRANTS AND SMALL ACTORS



BARRIERS FOR NEW ENTRANTS AND SMALL ACTORS



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 ...

| BARRIERS TO EFFICIENT PRICE FORMATION | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Price limits and restrictions on features of imbalance settlement | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Limited competitive pressure and/or liquidity in wholesale markets | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Insufficient cross-zonal capacity | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Bidding zones not reflecting structural congestions | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Restrictive requirements in prequalification and/or the design of products for balancing | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| End-user price interventions | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Limited incentive to contract dynamic retail prices | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Insufficient information provided by system operators | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |

| BARRIERS TO ENTRY AND PARTICIPATION FOR NEW ENTRANTS AND SMALL ACTORS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Restrictive requirements in prequalification and/or the design of products for balancing | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Lack of a proper legal framework to enable new entrants and small players | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Restrictive requirements to participate in capacity mechanisms and interruptibility schemes | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Limited competitive pressure in the retail market | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| End-user price interventions | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Limited incentive to contract dynamic retail prices | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |
| Insufficient information provided by system operators | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK |



While MSs perform satisfactorily in some areas, relevant barriers to price formation and new entrants still widely apply

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
-

Minimum 70% target: Background and ACER's role

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**

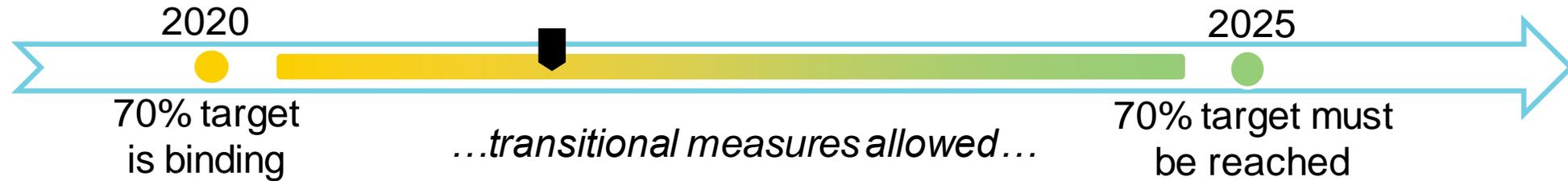


It **requested ACER to issue a Recommendation** on the implementation and monitoring of the 70% target



- **Recommendation issued in 2019** approved by NRAs at the Board of Regulators
- Monitoring started in 2020 and will continue until 2025 and beyond

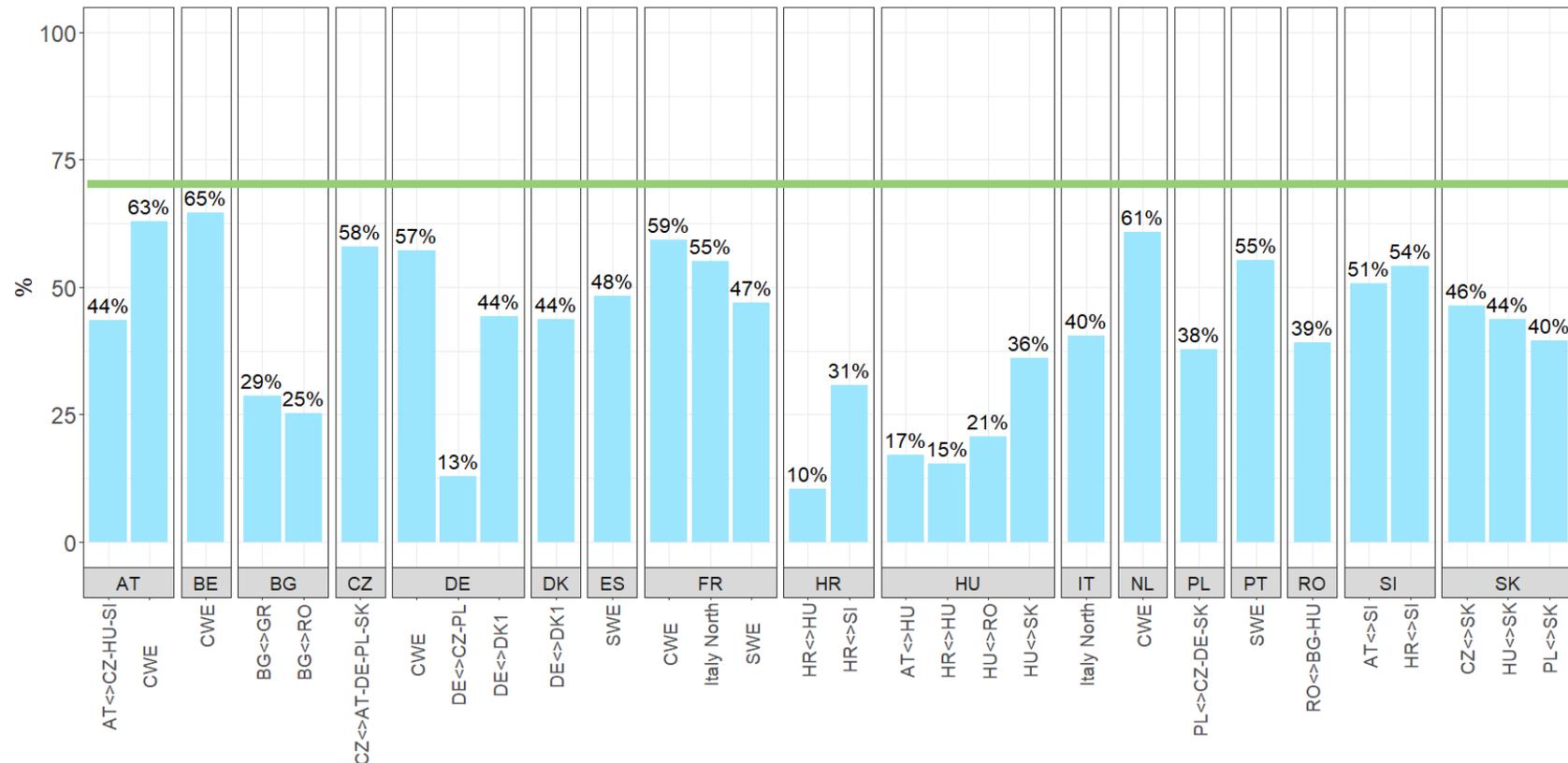
Moving forward towards the 70% target



- 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

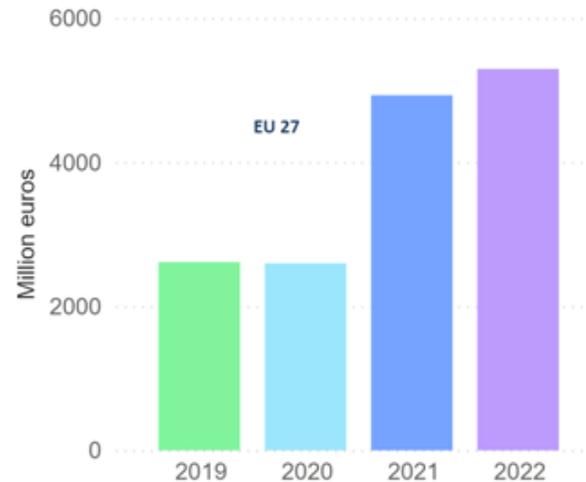
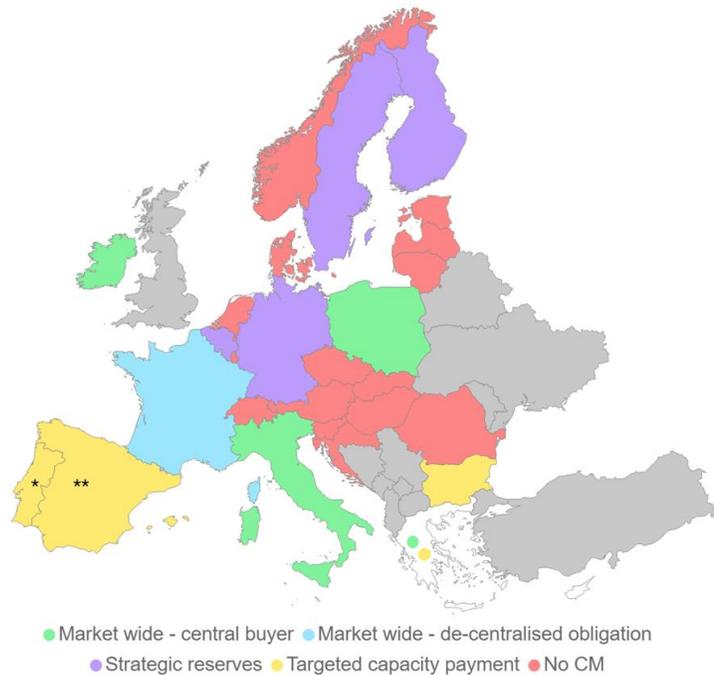
AVERAGE MARGIN AVAILABLE ON (AC) INTERCONNECTORS WHERE THE MINIMUM 70% TARGET IS NOT REACHED – 2020 2ND SEMESTER



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.

The Clean Energy Package aims at addressing system adequacy needs in a coordinated manner

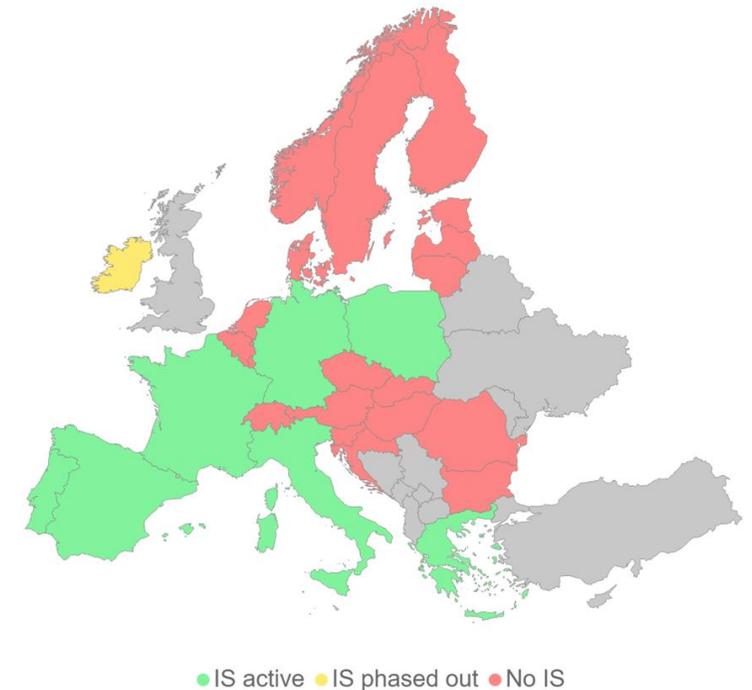
OVERVIEW OF CAPACITY MECHANISMS IN EUROPE (LEFT) – 2020 AND ASSOCIATED COSTS (RIGHT) – 2019 - 2022 (MILLION EUROS)



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 IN EUROPE AS OF END 2020



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

Recommendations

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)

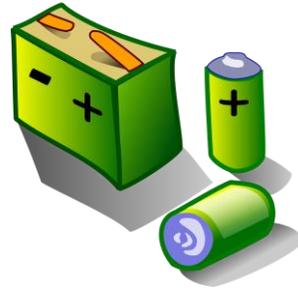
5. Finalise the common grid model methodologies

6. Implement the Electricity Balancing Guideline

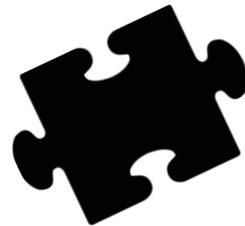
7. Pan-European intraday auctions for pricing cross-zonal capacity

8. Improve forward markets (cross-border hedging tools)

I. Increase cross – zonal capacity



II. Complete market integration accross all timeframes



III. Remove barriers to market entry and price formation



IV. Efficiently address adequacy concerns



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.**



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Annex



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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

2020MMR:

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

BARRIERS FOR NEW/SMALL ACTORS

2020MMR:

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

2020MMR:

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

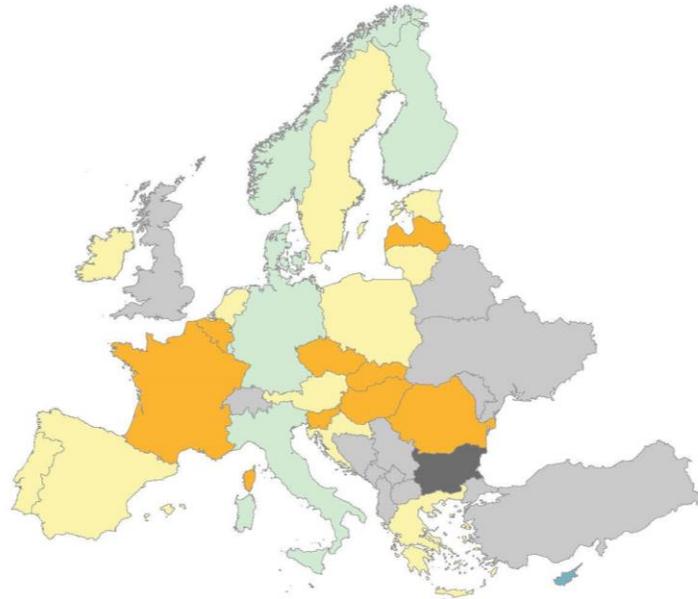
Upcoming MMRs:

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

Efficient price formation: the most common barriers...(1/2)



Limited competitive pressure and/or liquidity in wholesale markets

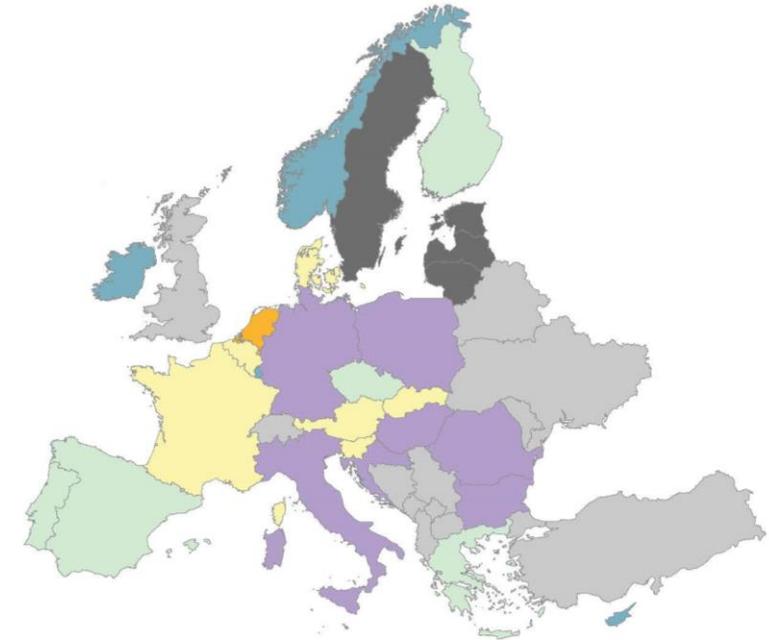


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- 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



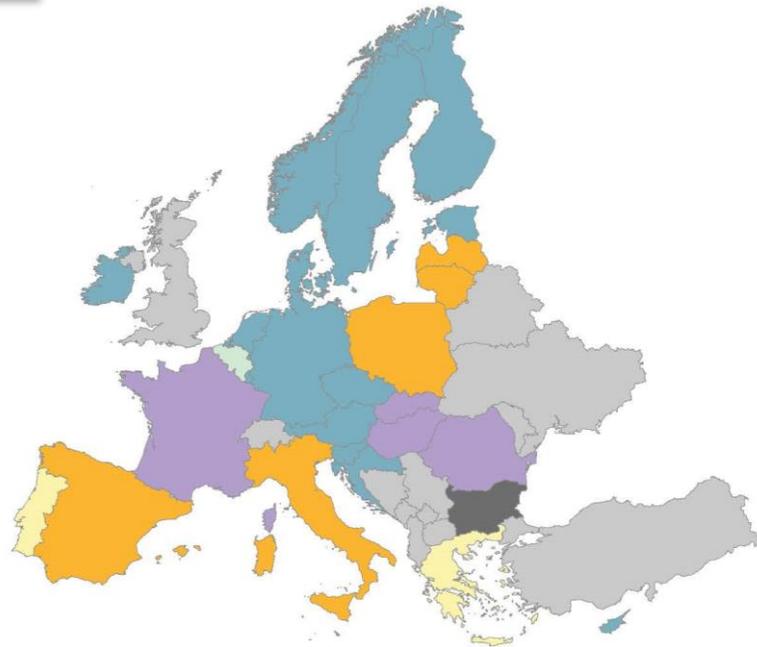
Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- 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

Efficient price formation: the most common barriers...(2/2)

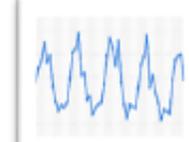


End-user price interventions



Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- > 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



Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- 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

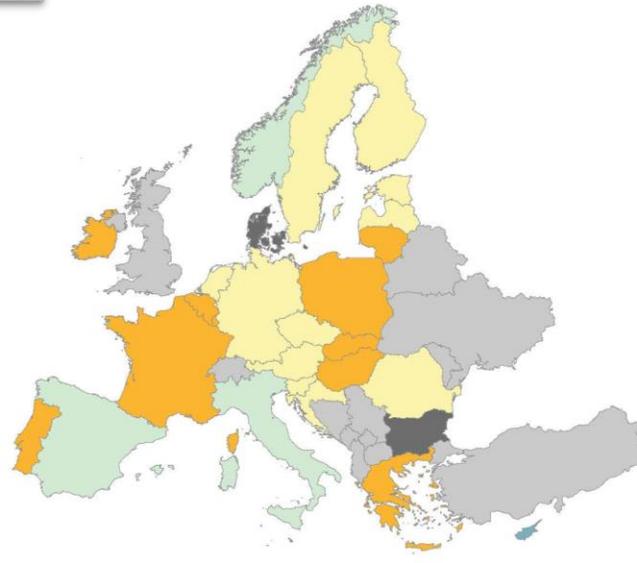


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA

- 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

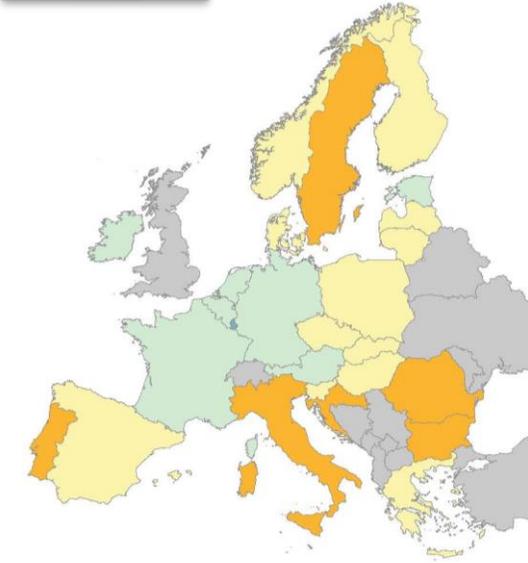


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- Often highly concentrated retail markets
- Often low entry/exit activity



Restrictive requirements in balancing markets



Barrier ● High ● Moderate ● Light ● Not restrictive ● None

- 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)

New and small entrants with difficulties to participate due to:

- Long delivery periods
- Long procurement lead-times
- Long balancing capacity contracts
- Large minimum bid sizes
- Restrictions for the participation of aggregators
- Symmetric balancing capacity
- Regulated or pay-as-bid pricing
- ...

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



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- **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, **detering 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.