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Contribution of VERBUND AG to the ACER Consultation
"The influence of existing bidding zones on electricity markets"

VERBUND welcomes the possibility to comment on ACER's consultation on the influence of existing bidding zones on the electricity market. In the following, please find our comments on the questions set out in the consultation document.

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?*

When considering changes in the current design of the bidding zones, VERBUND favors an expansion of the current bidding zones, as this corresponds best with the principle and objective of a single, integrated European electricity market.

Market splitting should only be used as a means of last resort. Market splitting leads to market concentration and decreased liquidity. In addition to that, there are less incentives for transmission grid investments as transmission system operators realize additional revenues from congestion management in fragmented markets.

VERBUND is of the opinion that – apart from extending bidding zones - also Intraday and balancing markets should be further developed. The increasing costs of re-dispatching should be covered – as they are today – by network tariffs.

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?*

An expansion of the current bidding zones could contribute to an increased efficiency of the European electricity market. This corresponds with the objective of an integrated European electricity market.

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?*

No. The optimal use of the existing transmission grid infrastructure can rather be achieved by expanding the current bidding zones than by further splitting the market. Market splitting cannot increase the effectiveness of load-based capacity allocation mechanisms.

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 common bidding zone with Germany (comprising a total demand of 600 TWh per year) is of central importance for VERBUND. The border between the Austrian and the German market is open, there are no capacity congestions. This has contributed to the development of active trading activities between the two markets, to the benefit of both countries. By now, the German/Austrian market is the bidding zone with the highest liquidity and turnover in Europe. Given the large number of market participants and the high liquidity, wholesale prices cannot be influenced by individual market participants.

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?*

Studies show that market splitting has negative consequences on market concentration and market liquidity. Investments in transmission infrastructure would be hindered.
Liquidity on futures/forward markets could be increased by the following measures: expansion of the bidding areas, investment in network infrastructure.

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?*

The price-zone Germany/Austria with its high liquidity provides for sufficient possibilities for market participants to hedge against price risks. High market liquidity is a precondition for low transaction- and hedging costs.

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?*

In order to compensate for the increasing volumes of highly volatile renewables in the system, new flexible generation capacities will be needed in the long term. However, because of the increasing volumes of subsidized renewables in the system with priority access to the grid, the merit-order-model does not deliver adequate price- and investment signals. The reason for this development is the massive over-subsidization of renewables, not the existence of bidding zones.
In order to establish a functioning internal electricity market, price signals have to reach all market participants without distortion. A new market design, which allows for functioning electricity markets in a system with a high share of renewable energy, is indispensable for the future.

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?*

Due to the high liquidity and the large number of market participants in the bidding zone Austria/Germany, there are no dominant positions of market participants which could be abused.

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?*

N/A

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?*

N/A

Vienna, 25 September 2013