

Public consultation on the high-level approach for the identification of alternative bidding zone configurations to be considered for the bidding zone review

Fields marked with * are mandatory.

This consultation is addressed to all interested stakeholders.

Replies to this consultation should be submitted by **3 August 2021, 23:59 hrs (CET)**.

Questions should be addressed to ACER-ELE-2020-001@acer.europa.eu.

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* Is your input into this consultation confidential?

- Yes
 No

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Related documents

- [Regulation \(EU\) 2019/942](#) of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators ('ACER Regulation')
- [Regulation \(EU\) 2019/943](#) of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) ('Electricity Regulation')
- [Regulation \(EU\) 2015/1222](#) of 24 July 2015 establishing a guideline on capacity allocation and congestion management ('CACM Regulation')
- [Regulation \(EU\) 543/2013](#) of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council Text with EEA relevance
- [All TSOs' proposal for the methodology and assumptions that are to be used in the bidding zone review process and for the alternative bidding zone configurations to be considered in accordance with Article 14\(5\) of Regulation \(EU\) 2019/943 of the European Parliament and of the Council of 5th June 2019 on the internal market for electricity](#)
- [ACER Decision on the methodology and assumptions that are to be used in the bidding zone review process and for the alternative bidding zone configurations to be considered](#) (ACER Decision 29-2020)
- [ACER Guidance Note on Consultations](#)

Introduction

This consultation aims to gather views and information from stakeholders on the high-level approach for the identification of alternative bidding zone (BZ) configurations to be considered for the bidding zone review (BZR) process, pursuant to Article 14(5) of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity ('The Electricity Regulation').

This consultation follows the one launched in April 2020, whose scope was to gather views and information from stakeholders on selected aspects of the proposal developed in accordance with the above-mentioned article.

The definition of alternative BZ configurations has proven a difficult aspect of the proposal. In particular, the proposal did not include any alternative BZ configuration for Central Europe. In light of the insufficient technical information available for ACER to take an informed decision on alternative BZ configurations, with its Decision 29-2020 (the 'Decision'), issued on 24 November 2020, ACER adopted a pan-European BZR methodology and requested Transmission System Operators (TSOs) to carry out a Locational Marginal Pricing (LMP) simulation. Based on the results of this LMP simulation, ACER will be able to take a separate decision on alternative BZ configurations at a later stage.

When it comes to delineating BZs, there are at least two possible approaches. A first approach is a top-down (expert-based) one, whereby experts propose alternative BZ delineations, which could potentially yield more efficient outcomes than the current BZ configuration (the status quo). Based on available data and, whenever feasible, by performing certain market/network simulations, those alternative delineations are then confirmed or refined and finally prioritised. A second approach is a bottom-up (model-based) one, whereby LMP simulations are performed with a view to clustering nodes into BZs. Subject to certain delineation constraints, the clustering exercise yields alternative BZ configurations. By requesting TSOs to perform a LMP simulation, ACER intends to adopt a model-based approach for identifying alternative BZ configurations, as further elaborated in this document.

Taking stock of lessons learnt from previous BZR, ACER is gathering views from stakeholders in an attempt to identify improvements to the high-level approach for the identification of alternative BZ configurations to be considered for the BZR.

In the following, the context of this public consultation is first presented. Subsequently, the general approach is described and the detailed process explained in detail. At the end, the questions for consultation are listed.

Context

Background

Pursuant to Article 14(5) of the Electricity Regulation, ENTSO-E, on behalf of all TSOs, published and submitted to regulatory authorities on 7 October 2019 a proposal for the methodology and assumptions that are to be used as well as for the alternative BZ configurations to be considered for the BZR process. Regulatory authorities identified shortcomings in the proposal. In particular, the proposal did not include any alternative BZ configuration for Central Europe. Regulatory authorities requested that TSOs amend the proposal before 20 February 2020. ENTSO-E, on behalf of all TSOs, published and submitted to regulatory authorities on 18 February 2020 an amended proposal. By letter of 13 July 2020, the Chair of the Energy

Regulators' Forum, on behalf of all regulatory authorities, informed ACER that they were unable to reach a unanimous decision on all TSOs' updated BZR proposal and that the updated BZR proposal was considered as referred to ACER as of 7 July 2020, pursuant to Article 14(5) of the Electricity Regulation.

With its Decision 29-2020 (the 'Decision'), issued on 24 November 2020, ACER decided on the BZR proposal as far as the methodology and assumptions for the BZR process are concerned and adopted a pan-European BZR methodology, referring the decision on alternative BZ configurations to a later stage.

Legal framework

Pursuant to Article 14(1) of the Electricity Regulation, "*Bidding zone borders shall be based on long-term, structural congestions in the transmission network. Bidding zones shall not contain such structural congestions unless they have no impact on neighbouring bidding zones or, as a temporary exemption, their impact on neighbouring bidding zones is mitigated through the use of remedial actions and those structural congestions do not lead to reductions of cross-zonal trading capacity in accordance with the requirements of Article 16. The configuration of bidding zones in the Union shall be designed in such a way as to maximise economic efficiency and to maximise cross-zonal trading opportunities in accordance with Article 16, while maintaining security of supply*".

In addition, Article 33 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management ('the CACM Regulation') includes a list of minimum criteria that the BZR shall consider.

While the BZR study has to consider all the criteria listed in the CACM Regulation, the following three elements are explicitly mentioned in the Electricity Regulation as objectives to be pursued when delineating BZs. Moreover, these three elements can be quantified and, as such, more efficiently compared. These elements are:

- Minimisation of structural congestions within BZs;
- Maximisation of economic efficiency;
- Maximisation of cross-zonal trading opportunities.

A fourth element mentioned in the Electricity Regulation is security of supply, which is difficult to quantify during the identification of alternative BZ configurations. This element will however be considered during the BZR study as envisaged in the CACM Regulation.

General approach

The approach to identify alternative BZ configurations depends on the available data.

As reported in paragraph 150 of the Decision, results derived from LMP simulations are adequate to inform on the decision on alternative BZ configurations and in particular on the three objectives derived from Article 14(1) of the Electricity Regulation.

With regard to the objective ‘Minimisation of structural congestions within BZs’, LMP simulations shed light on whether BZs contain structural congestions or not. In particular, LMP simulations, together with clustering and flow decomposition techniques, allow establishing a cause-effect relationship between physical congestions and the network areas that, by exchanging energy, significantly contribute to such congestions. This is in line with Article 2(4) of the Electricity Regulation that describes congestion as “*a situation in which all requests from market participants to trade between network areas cannot be accommodated because they would significantly affect the physical flows on network elements which cannot accommodate these flows*”. How the results of the LMP simulations and clustering techniques can be combined to identify the relevant network areas contributing to congestions is further described in the following section.

With regard to the other two objectives to be pursued when delineating BZs:

- Maximisation of economic efficiency: The results derived from LMP simulations provide a good opportunity to incorporate the economic efficiency criterion in the identification of alternative BZ configurations. While economic efficiency will be more accurately modelled in the BZR study itself, it is possible to use a proxy for economic efficiency when defining alternative BZ configurations. For example, a more efficient dispatch is expected to be attained when there are no or very limited nodal price differentials within a BZ. This is because the absence of nodal price differentials suggests that intra-zonal congestions are not expected to severely constrain the results of the market.
- Maximisation of cross-zonal trading opportunities: First, the minimum 70% target introduced in Article 16(8) of the Electricity Regulation is a binding requirement to be satisfied as of 1 January 2026, which could lead to a BZ change if not met, pursuant to Article 15(5) of the Electricity Regulation. Second, such minimum target is easier to meet when the flows that do not result from capacity allocation, i.e. loop flows and internal flows, consume a relatively small share of the capacity of network elements. In this context, a flow decomposition analysis is an adequate tool to identify whether alternative BZ configurations are able to limit the amount of flows that do not result from capacity allocation and to achieve the legally required targets.

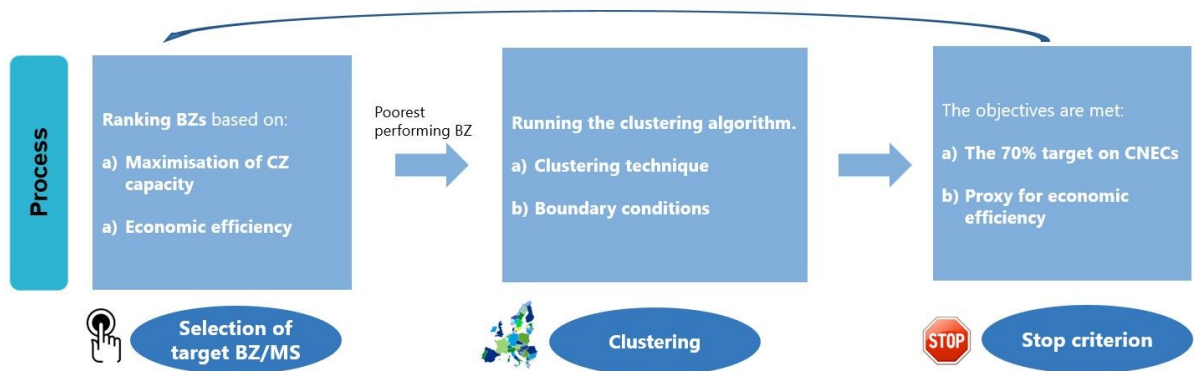
As a summary, results derived from LMP simulations, complemented with flow decomposition analyses, will be used to assess whether different alternative BZ configurations contribute to the objectives envisaged in the Electricity Regulation for the design of BZs. This includes the presence, or the lack thereof, of structural congestions within BZs and the maximisation of economic efficiency and cross-zonal trading opportunities.

In the following, the detailed process leading to the definition of alternative BZ configurations is presented.

Detailed process

The process proposed to identify alternative BZ configurations is an iterative one that comprises three steps: i) the selection of the target BZ/Member State (MS), ii) the clustering and iii) the stop criterion, as presented in Figure 1. An additional fourth step that is not part of the iterations is also required to combine the identified individual alternative BZ configurations to study their joint impact. For the sake of clarity, an individual BZ configuration refers to e.g. the split of a given BZ A into two BZs A1 and A2, while an alternative BZ configuration may consider the joint impact of such split with another individual BZ configuration, e.g. the merge of BZ B and BZ C into a single BZ. This fourth step is described at the end of this section.

Figure 1 – High-level approach for the definition of alternative BZ configurations



The process is designed in such a way that each iteration focuses on one single BZ or one single MS, based on the ranking built in the first step ('the selection of the target BZ/MS'), as further described below. This is an important feature of the process as it imposes the MS borders as a boundary condition to the process. In practical terms, this implies that both splits and mergers of BZs as alternative configurations are possible as long as the new BZ remains within existing MS borders, with the only exception of maintaining already existing BZs comprising more than one MS (essentially Germany and Luxembourg).

This choice does not exclude the possibility for mergers beyond MS borders in future BZR. However, such a possibility is not considered for this BZR for the following reasons. First, in light of the Electricity Regulation, the main trigger and objective of a BZR is to address structural congestions and/or facilitate the attainment of the minimum 70% target. In view of the significant presence of congestions in Europe and the significant efforts still needed to meet the 70% target, it seems efficient to focus on configurations that help to meet this target. Second, it was found that it would be difficult to reach an agreement on which mergers to prioritise, if any, and to introduce specific arrangements that MS mergers would entail. Hence, as the number of configurations to be studied needs to remain limited, it is efficient to focus on alternative configurations for which an agreement is likely to be found.

The iterative process is conducted separately for each area where a joint LMP analysis is carried out by the TSOs. In the following, each step is presented in detail.

The first step, 'the selection of the target BZ/MS', aims to identify the BZ (or the MS to which the BZ belongs when several BZs belong to the same MS, as further elaborated below) that is selected in each step for the identification of alternative configurations in such BZ. Such identification is based on a ranking built on the following two indicators:

- Amount of burdening internal flows and loop flows per BZ on relevant network elements; and
- An indicator on economic efficiency, as further detailed below.

With regard to the first indicator, the amount of burdening internal flows and loop flows per BZ is derived from a flow decomposition analysis. An internal flow or a loop flow caused by a given BZ is considered to be burdening if it is in the same direction as the sum of all internal flows and loop flows on the considered network element. Flow decomposition is performed on all cross-zonal network elements as well as internal network elements used in capacity calculation, based on best available data and computational capabilities. This analysis covers the most recent three years (i.e. 2018, 2019 and 2020) of the latest ENTSO-E's technical report on structural congestions and other major congestions as well as the target year of the BZR, i.e. 2025. The lower the amount of burdening internal flows and loop flows on network elements originated in a given BZ, the higher the BZ scores with regard to this indicator.

With regard to the second indicator, different indicators, which can be used as a proxy for economic efficiency, are currently being considered. An example of this could be the dispersion of nodal prices. In such a case, the lower the dispersion of nodal prices in a given BZ, the higher the BZ scores with regard to this indicator.

Then, BZs are first ranked according to each of the two indicators and then a single ranking is built by combining the positions of each BZ in both rankings, while considering that the two proposed indicators are equally important for the purpose of the aggregated ranking. At each iteration, the geographic area where alternative BZ configurations are investigated is the BZ which performs the worst in the aggregated ranking. If the MS already includes multiple BZs, the identification of alternative BZ configurations for the MS as a whole may be investigated. This allows the possibility of considering mergers of BZs within MSs that currently comprise more than one BZ. When a MS with multiple BZs is selected for the first time in step 1, then the algorithm would seek to identify two BZs within the MS. If the MS is selected again in a subsequent step 1, then the algorithm would seek to identify three BZs within the MS and so on.

The second step corresponds to the application of a clustering algorithm, aiming to group nodes into BZs. Additional considerations regarding this step are as follows:

- First, this step is based on the results of the LMP simulations, which is solely conducted for the target year of the BZR, i.e. 2025.
- Second, currently two types of clustering methods, namely graph-based and constrained clustering, are being considered for the selection of the most adequate clustering algorithm. The final selection will depend on the outcome of the consultancy study on the matter.

- Third, the identification of sub-BZs within a BZ is subject to an additional boundary condition: the size, in terms of total generation and consumption of the newly identified BZs, should not be too different. This is needed to mitigate the issue related to the so-called flow-factor competition that could arise in case of very diverse BZ sizes.

The third step, the 'stop criterion', aims to determine whether the iterations for the identification of additional BZ configurations should continue or not. In line with the objectives envisaged in the Electricity Regulation, the iterations stop when the following two targets are simultaneously met:

- For all the considered network elements and market time units, the share of internal flows and loop flows taken together is lower than or equal to 23% of the thermal capacity of the network element. This value is obtained by assuming a 10% share for reliability margins and a contribution of this share in the ratio 20/70 to internal flows and loop flows.
- The indicator used as a proxy for economic efficiency reaches the target for all considered BZs. For example, if the dispersion of nodal prices is considered as a proxy, the target would be set to a residual value.

If, after each iteration, the stop criteria are not met, then the process restarts from step 1, to identify a new BZ to be selected for the identification of alternative configurations in such BZ. For each step, a new list of BZs is used as an input. Such list comprises: i) the BZs of the status quo, except those that were altered in previous iterations and ii) the BZs proposed in any of the previous steps. For MSs with multiple BZs, the BZs to be considered in each step are the ones identified during the latest iteration when the MS was selected in step 1.

The fourth and final step concerns the combination of the identified alternative BZs into alternative configurations to be studied. A list of maximum 10 alternative configurations per bidding zone review region is envisaged. This list includes a limited number of:

- Individual alternative BZ configurations;
- Combination of two individual alternative BZ configurations;
- Combination of three (or more) individual alternative BZ configurations

selected among all possible combinations of individual alternative BZ configurations that lead to the highest incremental improvements for the considered indicators.

Questions

Topic 1: Main objectives for the identification of alternative bidding zone configurations

Article 14(1) of the Electricity Regulation establishes that “*Bidding zone borders shall be based on long-term, structural congestions in the transmission network. Bidding zones shall not contain such structural congestions unless they have no impact on neighbouring bidding zones or, as a temporary exemption, their impact on neighbouring bidding zones is mitigated through the use of remedial actions and those structural congestions do not lead to reductions of cross-zonal trading capacity in accordance with the requirements of Article 16. The configuration of bidding zones in the Union shall be designed in such a way as to maximise economic efficiency and to maximise cross-zonal trading opportunities in accordance with Article 16, while maintaining security of supply*”.

1.1. Do you agree that the identification of alternative bidding zone configurations should mainly seek the following three objectives: 1) Minimisation of structural congestions within bidding zones; 2) Maximization of economic efficiency and 3) Maximisation of cross-zonal trading opportunities?

at most 1 choice(s)

- Strongly disagree
- Disagree
- Neither agree nor disagree
- Agree
- Strongly agree

1.2 Please provide any comments on the main objectives to be considered when identifying and prioritising alternative bidding zone configurations.

4999 character(s) maximum

The three objectives as outlined in Article 14(1) are relevant. However, as ACER acknowledge in the described approach, these three elements are explicitly mentioned in the Electricity Regulation as objectives, while recital 19 of the same Regulation states that “Bidding zones therefore should be defined in a manner to ensure market liquidity, efficient congestion management and overall market efficiency”. In our view, it is challenging to separate the Article 14(1) objectives and the CACM criteria. Market efficiency, as defined in CACM, is an important objective that additionally needs to be considered when delineating BZs. The analysis of market efficiency (including competition and liquidity) should consider not only day ahead markets, but also other timeframes, e.g. also for long-term hedging/trading markets.

Topic 2: Indicators for the selection of the target bidding zone/member state

To ensure that the objectives listed in Topic 1 are met, and based on the data available to ACER, the following indicators are proposed:

- The amount of internal flows and loop flows contributing to congestions, per bidding zone and on network elements included in capacity calculation, for the maximisation of cross-zonal trading opportunities; and

- The dispersion of nodal prices, i.e. assessing the level of homogeneity of nodal prices within the same bidding zone, for the maximisation of economic efficiency.

2.1. Do you agree with the proposed indicators?

at most 1 choice(s)

- Strongly disagree
- Disagree
- Neither agree nor disagree
- Agree
- Strongly agree

2.2 In light of the objectives listed in Topic 1, please indicate other possible indicators for the selection of the target bidding zone/member state.

4999 character(s) maximum

On the dispersion of nodal prices, it would be useful to know the source and the details of the data provided by relevant TSOs and made available to ACER in order to assess the value of the corresponding indicator. We recommend developing an additional indicator to also take into account an objective of market efficiency (see our response to Q1). We refer to our response to the ACER consultation on the BZR methodology (24 April 2020) for recommendations on how to operationalise the measurement of market efficiency, including liquidity: <https://www.europex.org/consultation-responses/acer-consultation-on-the-bidding-zone-review-methodology/>

We also question the approach which selects individual target bidding zone/member state on which to run the clustering algorithm. We recommend an alternative European approach which considers configurations per Bidding Zone Review Region (BZRR), also allowing mergers (i.e. allowing multiple Member States (MS) / Bidding Zones (BZs), and adjacent borders relevant for the scope of SDAC, SIDC and balancing markets (e.g. Norway), to be targeted by the clustering algorithm and removing the boundary condition of member state borders), rather than using the indicators to select an individual BZ / MS. Please see our response to question 3.1.

Topic 3: Boundary conditions for the clustering algorithm

The high-level approach is designed in such a way that each iteration focuses on one single bidding zone or one single member state, based on the ranking built in the first step ('the selection of the target bidding zone/member state'). In practical terms, this implies that both splits and mergers of bidding zones as alternative configurations are possible as long as the new bidding zone remains within existing member state borders, with the only exception of maintaining already existing bidding zones comprising more than one member state.

3.1. Do you agree that member state borders should be considered as boundary condition for the clustering algorithm?

at most 1 choice(s)

- Strongly disagree
- Disagree

- Neither agree nor disagree
- Agree
- Strongly agree

3.2 Please indicate other possible geographical boundary conditions for the clustering algorithm, including pros and cons of such approach.

4999 character(s) maximum

We recommend exploring configurations per BZRR, also allowing mergers (i.e. deprioritising the boundary condition of member state borders), rather than selecting an individual BZ / MS, and running the algorithm. This proposed approach will only result in BZ splits, except in the few cases where there are already multiple BZs within a MS (Sweden, Italy etc.) and already strong fundamental indications of increased overall market efficiency etc. in case of a merger of BZs within one MS. It is understandable that Member State (MS) borders, and adjacent borders relevant for the scope of SDAC, SIDC and balancing markets (e.g. Norway), normally should still be recognised, as well as network topological constraints (i.e. the zones must comprise an electrically connected subset of the grid). However, the possibility of mergers between MS, or parts of MS, must not be excluded at this LMP modelling stage. The feasibility of political agreement on such configurations is a second step which should not limit the fundamental analysis in this first step.

Some alternative regional configurations may be able to solve congestions and also score highly on other important aspects of the CACM Article 33 review criteria, including market efficiency. Taking into account this additional objective, we both strongly recommend and expect that mergers are included as possible configurations.

An additional boundary condition of the clustering algorithm is introduced, according to which the size, in terms of total generation and consumption of the newly identified bidding zones, should not be too different. This is needed to mitigate the issue related to the so-called flow-factor competition that could arise in case of very diverse bidding zone sizes, as further elaborated below. The competitive position of one bidding zone with respect to the others in the access to cross-zonal capacity is determined by the zonal Power Transfer Distribution Factors (PTDFs). A so-called flow-factor competition issue arises whenever zone-to-zone PTDFs between two bidding zones are systematically larger than between any other pair of bidding zones. In those circumstances, the concerned bidding zones have fewer chances to access the available cross-zonal capacity and, under scarcity circumstances, this could in turn lead to security of supply issues.

3.3. Do you think that having bidding zones with homogenous size in terms of total generation and consumption should be an objective when identifying alternative bidding zone configurations?

at most 1 choice(s)

- Only for newly-defined bidding zones
- Always
- Never

3.4 Please provide any comments on this boundary condition.

4999 character(s) maximum

Topic 4: Combination of identified individual alternative bidding zone configurations to study their joint impact

An individual bidding zone configuration refers to e.g. the split of a given bidding zone A into two bidding zones A1 and A2, while an alternative bidding zone configuration may consider the joint impact of such split with another individual bidding zone configuration, e.g. the merge of bidding zone B and bidding zone C into a single bidding zone.

A list of maximum 10 alternative configurations per bidding zone review region is envisaged. This list includes a limited number of:

- Individual alternative bidding zone configurations;
- Combination of two individual alternative bidding zone configurations;
- Combination of three (or more) individual alternative bidding zone configurations.

selected among all possible combinations of individual alternative bidding zone configurations that lead to the highest incremental improvements for the considered indicators.

The need to set a limit to the maximum number of alternative configurations to be studied is derived from the time window available to transmission system operators to perform the bidding zone review. This is laid down in Article 14(6) of the Electricity Regulation, according to which “*On the basis of the methodology and assumptions approved pursuant to paragraph 5, the transmission system operators participating in the bidding zone review shall submit a joint proposal to the relevant Member States or their designated competent authorities to amend or maintain the bidding zone configuration no later than 12 months after approval of the methodology and assumptions pursuant to paragraph 5.*”

4.1. Please provide any comments on the approach to combine the incremental effects of individual alternative bidding zone configurations to study their joint impact.

4999 character(s) maximum

We in principle agree with the described approach. However, we would like to highlight that an alternative BZ configuration always impacts the efficiency of the whole integrated single European market for electricity. So, the impact goes beyond the concerned BZ. A joint impact assessment is therefore absolutely needed. To limit the review of alternative configurations to the respective BZ leads to an incomplete and potentially biased assessment. While we understand that the timeline can prove challenging to conduct an analysis with such an extensive scope, the potential impacts are too important to neglect them in the various scenarios.

Even when considering combinations of configurations, it is still key to evaluate if each delimited BZ as such

is market efficient and, among other aspects, that sufficient internal supply/demand competition combined with cross zonal capacity exists to ensure efficient price formation both in spot markets and for long-term energy hedging needs.

4.2. In your view, how many alternative bidding zone configurations per bidding zone review region should be analysed during the bidding zone review to ensure an adequate level of representativeness, while still allowing transmission system operators to comply with the timeline set out in Article 14(6) of the Electricity Regulation?

at most 1 choice(s)

- Less than 5
- Between 5 and 10
- More than 10

Topic 5: Other comments

5 Please provide any other comments on the high-level approach and add a sufficient explanation.

4999 character(s) maximum

The high-level approach should further clarify how the model-based approach will be used. For example, whether it will apply only to Bidding Zone Review Regions (BZRRs) where no configurations were agreed on i.e. Central Europe and whether in these cases, it will replace entirely the expert-based approach to developing alternative configurations. Coordination between regional modelling exercises should also be ensured, to avoid a fragmented national approach to developing alternative configurations.

We believe there is a risk in focusing more on certain objectives i.e. reducing congestions within bidding zones, when defining the boundary conditions for the clustering, which may prematurely conclude the outcome of the review itself. The configurations are a vital part of the bidding zone review and should be determined in an objective a way as possible. For example, the modelling should not exclude mergers from being assessed as alternative configurations – feasibility due to political or other reasons should be considered in a subsequent step.

Besides that, we also note that the LMP analysis is solely prepared and performed by the TSOs. Thus, they will collect and prepare the original data as well as derive and deliver the results after the LMP simulations. There might be a benefit to add a neutral third party, e.g. a qualified research/scientific institute, to the process, for instance to aggregate the data and/or to monitor the analysis. This could enhance the transparency and credibility of the review.

Contact

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