

ACER

Agency for the Cooperation
of Energy Regulators



Bidding zone review methodology

Update and indicative list of possible amendments

**MESC meeting
17 June 2020**

ACER

- **Recent developments**
- ACER's views on possible improvements to the methodology
- Next steps

Background

- Most TSOs resubmitted the package (methodology and configurations) on 18 February, latest TSO's submission on 7 April
- No configurations submitted for Central Europe
- NRAs have informally expressed their intention to refer the decision of the approval/amendment to ACER
- Expected date for referral is early July
- ACER is expected to issue a decision in October
- ACER aims to decide by the legal deadline or with a slight delay (2 months max.), due to the disruptions related to Covid-19.

- ACER conducted a public consultation from 1 to 24 April (deadline extended)
- 35 replies were received (available at ACER's website)
- Some of the main comments refer to:
 - » The need to clarify the scope of the scenarios (e.g. target and weather year and of the input data (e.g. network data and granularity of generation data))
 - » Divergent views with regards to:
 - Allowing a regional approach in the methodology
 - How to simulate cross-zonal capacity within the BZ review (e.g. i) refine Vs. simplify; ii) fulfil the 70% CEP target in all cases Vs align with linear trajectories)
 - » Recurrent comments on:
 - The need to further clarify the assumptions and process to estimate redispatch costs.
 - The relevance of properly considering DSR
 - The relevance of market liquidity in all timeframes and not only in the day-ahead timeframe
 - » Need to increase pan-European consistency and coordination within the BZ Review
 - » Need to increase transparency and stakeholders' engagement within the BZ review
 - » Relevance of nodal price simulations to propose alternative bidding zone configurations

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Disclaimer

These set of slides do not represent the final proposal of ACER in case of referral.

They represent an ACER's suggestion following discussions among Regulators with a view to support the decision making process.

As such, they may be considered as a good indication of the amendments that ACER intends to incorporate in case of referral.

The proposals included in these slides are based on:

1. ACER's previous internal work to identify areas of improvement to the BZ review process.
2. Discussion among Regulators and with TSOs over the last few months.
3. The consultancy study on market liquidity and transaction costs in a BZ review context.
4. The various stakeholders' opinions on the methodology for the BZR, including various position papers uploaded for the MESG meetings.
5. The public consultation held in April.

Possible changes in the methodology include:

- With regards to scenarios
 - » Clarify the target year (3 years after the BZ review starts)
 - » Harmonise the weather years (at least same 3 years for all regions, some regions may use more if deemed of added value)

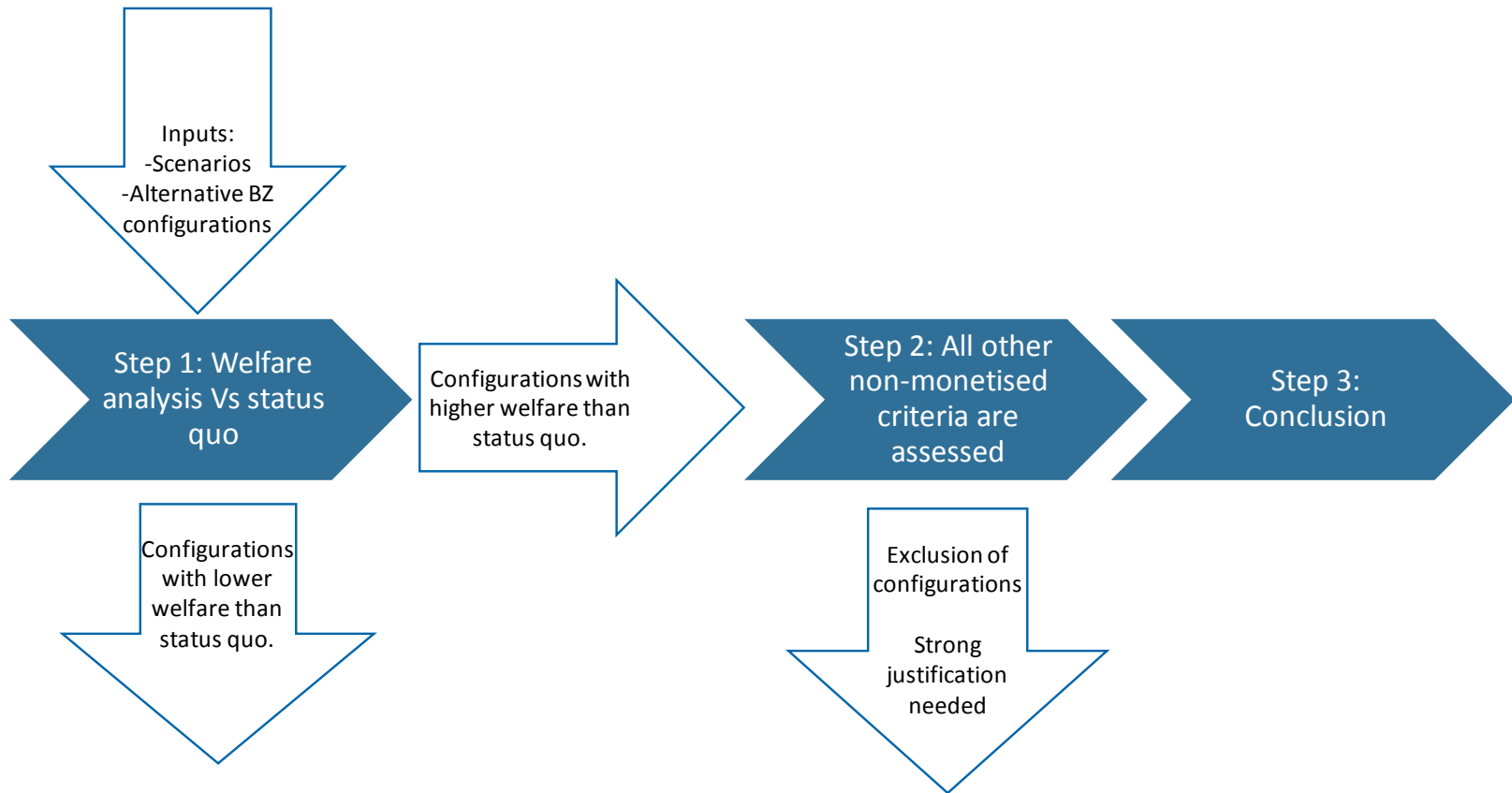
- With regards to the regional approach
 - » The definition of regions (BZRRs) proposed by TSOs would be respected (no BZ in more than one BZRR)
 - » But EU welfare is still to be sought, hence computed within regions

- With regards to the network model
 - Same network model across all configurations and steps of the simulations.
 - Some harmonisation with regards to the consideration of voltage levels. (Inclusion/exclusions of certain voltage levels should be duly justified/subject to reality checks).
- With regards to capacity calculation
 - FB or NTC, as expected in the relevant CCR
 - FRM: 10% as a simplification unless it can be accurately simulated
 - Different regional NTC methods allowed subject to:
 - Fulfilment of 70% of MACZT (possibly allowing linear trajectories)
 - Aligning criteria for the selection of CNECs
- With regards to the consideration of DSR:
 - All types of currently existing DSR should be considered (explicit and implicit DSR, including a certain level of DA elasticity)

- Refining the simulation of RD costs (in combination with DA markets dispatch) is key:
 - » Inter-temporal constraints (e.g. start-up/shut down times of generation units) need to be simulated (currently they are an optional feature of the review)
 - » Non-costly RAs: considered through duly justified exclusion/inclusion of voltage levels and/or subject to reality checks.
 - » Level of cross-zonal coordination in RD, to be aligned with the expectations for the target year.
 - » Specific RD costs to be considered in the analysis (e.g. opportunity costs and costs of availability)

- Consideration of market liquidity/transaction costs
 - » The analysis should go beyond DA markets liquidity (i.e. beyond what is currently proposed)
 - » In particular, relevance of assessing the impacts of a BZ reconfiguration on forward markets liquidity/hedging opportunities.
 - » The assessment may require a holistic study (possibly coordinated among regions) including:
 - The expected evolution of trading volumes and bid-ask spreads
 - DA prices correlation analysis
 - » However:
 - Models to simulate the evolution of markets liquidity do not seem available
 - Monetising market liquidity changes in terms of welfare gains/losses does not seem obvious.

- Process to reach a conclusion of the BZ Review: Similar to TSOs' proposal, but clearer rules on how to accept/exclude configurations:
 - i. reality check/consultation
 - ii. experts/NRAs views



- With regards to the need for increased coordination among BZRRs:
Inclusion of provisions describing:
 - » The aspects for which coordination among BZRRs is expected
 - » Emphasis on coordination on publication/consultation.
- With regards to the need for enhanced stakeholders engagement:
Inclusion of provisions describing:
 - » The expected input from NRAs and stakeholders, including consultation
 - » Timeline for this input
- With regards to the need for enhanced level of transparency. Inclusion of provisions describing:
 - » The scope of the data (including assumptions) that are expected to be published (both input data and output data)
 - » Timeline for this publication (during and after the study)

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Possible planning if referred to ACER

<i>Activity-Milestone</i>	<i>Possible period/deadline</i>
Possible referral to ACER	7 July
Drafting proposed amendments to the methodology	July-August
Discussions with concerned parties	September
Approval process	September-October
Target approval date	7 October*

**A small delay (max. 2 months) due to Covid-related effects may be considered*

- In December 2019, NRAs requested data to support NRAs/ACER's decision on BZ configurations, by 31 March 2020. The data request included
 - Data on congestions and CGMs
 - Nodal price (LMP) simulations
- Delivering nodal price simulations was not feasible within the required timeline.
- Most TSOs delivered data on congestions/CGMs
- ACER is still expecting some TSO to deliver data. Some confidentiality issues have been raised.
- The public consultation indicated stakeholders' preference for LMP simulations to play a role when defining alternative BZ configurations.
- ACER is currently analysing possible options with regards to the next steps on configurations.
- The issue is more critical where configurations have not been proposed at all. ACER will inform on the next steps to define BZ configurations in due time.