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CC : *Sonya Twohig, Martin Clark*

Brussels, 29 November 2017

Subject: ENTSO-E's informal survey on the impact of the bidding zone review on transaction/transition and liquidity costs

Dear Laurent,

I am contacting you regarding the informal ENTSO-E surveys on the review of bidding zones' configuration under CACM guideline implementation. EURELECTRIC was consulted on these as member of the ENTSO-E Bidding Zones Study Stakeholder group but did not take part in the consultation. With this letter, I would like to explain you why.

In general, we call for capacity allocation and congestion management to be tackled in a more holistic manner in the European debate. All available solutions/tools to solve congestions should be assessed on an equal basis; bidding zone reconfiguration is only one of them.

We believe that **the impact of the bidding zones' reconfiguration on market efficiency, liquidity and the long-term value of existing assets should be considered with due care** to avoid creating any uncertainty. This process should also follow on from an informed debate between all relevant stakeholders. In this process, we believe that the process followed unfortunately did not assess the situation in a sufficiently appropriate manner and that the involvement of stakeholders was wrongly planned.

The impact of the bidding zones' review on transaction/transition costs and on liquidity costs should be looked at in an integrated way. It should not be extrapolated from some individual responses without clear guidance on how to assess/compute those costs and how to guarantee that the individual input can be added up. The risk otherwise is to collect "apples and pears" (i.e. some not comparable data) and to proceed to an assessment on the basis of a potentially incomplete dataset as market parties may be reluctant to disclose what is strategic and confidential. Additionally, we are neither competent nor well positioned to assess the transaction/transition costs borne by third parties such as governmental institutions, banks or any other institutions of a similar nature.

Given the relevance of transaction/transition costs and of liquidity costs when considering the opportunity to change the bidding zone configuration, **we believe that a more structured process is needed. ENTSO-E should perform itself an assessment of the impact of the bidding zones' reconfiguration for both types of costs, using a fully transparent methodology with clear assumptions and results.** As a starting point, an analysis document should be drawn up (potentially with the help of an external consultant) and members of the ENTSO-E's Bidding Zone Study Stakeholder Group should be invited to react to it.

In addition to this general comment on the process, we kindly refer to the input we provided back in August 2018 to the [ENTSO-E survey on market efficiency with regard to bidding zone configuration](#).

In particular, regarding transaction/transition costs, EURELECTRIC recalls its recommendation in response to Q38 of the consultation:

“More importantly, the assessment should consider transition costs in the form of windfall profits and stranded costs triggered by the potential change of bidding zone configuration. Indeed, stranded costs are likely to lead some investors (for example investors in private interconnectors or in non-subsidized renewable energy generation) to bankruptcy, and the stranded costs are then likely to be indirectly socialised.

EURELECTRIC considers that the cost-benefit analysis framework should monitor, with a small granularity, the shift in energy market revenues resulting from the targeted change in bidding zone configuration. An index of transition costs could then be the cumulated stranded costs/year (decrease in energy market revenues) and the cumulated windfall profits/year (increase in energy market revenues).”

Hence, in EURELECTRIC’s view, some of the transition costs could easily be assessed on the basis of the same scenarios and assumptions that were considered in the economic assessment.

EURELECTRIC considers also that an independent body under strict rules of confidentiality could be requested to evaluate other transitions and transaction costs, based on expertise and experience from previous decisions on the bidding zone configuration, and concertation with a wide range of stakeholders and not only among the advisory committee. Those should encompass at least:

- *“allocation of new transmission capacities between bidding areas (day-ahead, month-ahead, year-ahead);*
- *IT costs for market participants (e.g. power-exchange, traders, suppliers, etc.);*
- *Contract re/negotiation among power exchanges and TSOs;*
- *necessary adjustments in IT systems and interfaces between market participants in the new control areas;*
- *new valuation of contracts/positions;*
- *costs for renegotiation of power contracts if the reference location of price changes or is not accepted by contract parties any more”.*

Should you have any questions, please do not hesitate to approach Charlotte Renaud (crenaud@eurelectric.org; + 32 2 515 10 55) and Ioannis Retsoulis (iretsoulis@eurelectric.org; +32 2 515 10 22).

Yours sincerely,



Kristian RUBY
Secretary General