

ACER Consultation on methodology & assumptions in the BZR process

A Eurelectric response paper

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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Topic 1: Pan-European consistency of the methodology

A bidding-zone review methodology must take account of existing regulatory work on the topic, and the reality of the European network, while achieving the necessary standard of European harmonisation.

1.1.1 Please rate your degree of agreement or disagreement with the following statements: 1- Strongly disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly agree.

1. The assumptions and the methodology for the bidding-zone review must remain pan-European to the extent possible. Further consistency between regions must be ensured in the methodology included in the Proposal.

Answer: 5 – Strongly Agree

NOTE ACER does not want an explanation for the answer – The following needs to be added in the further comments box:

To 1.1.1.1

CACM and Regulation 2019/943 are applicable in all of Europe and the goal should remain to apply common principles and foster market integration at European scale. Eurelectric has always regarded bidding zones as a regional subject, but as the grid and the market are connected across all borders and the configuration of bidding zones may likely be best decided without frontiers in mind, it is hard to see how assumptions and or the methodology could be not European.

The potential definition of bidding zone review regions raises questions about the governance of borders between the bidding zone review regions, which would not be challenged by choice (unlike other borders). Also, which entity would decide or intervene in the assumptions, expert-based configurations, and recommendations within each bidding zone review region?

2. While the proposal may accommodate regional aspects when duly justified, pan-European principles that aim to maximise European welfare should be ensured, e.g. concerning capacity calculation principles. In this regard, the methodology should be consistent with recommendations and decisions of ACER regarding capacity calculation (e.g. the ACER Recommendation on capacity calculation and the ACER decision on the Core capacity calculation methodology).

Answer: 4 – Agree

To 1.1.1.2

Eurelectric supports the first sentence of the statement.

The European principles for cross-zonal exchange capacity calculation and congestion management should indeed aim to maximize European welfare, but this is not to be achieved by applying the ACER recommendation and the decision mentioned in the item, which mainly aim to mitigate discriminations between internal and cross-border trades, but resort to arbitrary provisions without well-founded economic justification (e.g. the 70% threshold).

Eurelectric recommends that up-to-date capacity calculation approaches are considered in the simulations performed as part of the bidding zone review to assess some of the quantitative bidding zone review criteria. From this perspective it is equally important to simulate up-to-date approaches for efficient redispatching and countertrading for example.

Furthermore, Eurelectric believes that the definition of bidding zones should aim at designing a simple market to ensure maximum competition, true borderless trade and operational simplicity. So far the approach seems to disregard the immense technical challenges to manage capacity calculation and congestion management on a large number of borders, even in real time. These should not be ignored in the debate.

1.1.2. Please detail below which aspects of the Proposal adequately ensure overall pan-European consistency of the bidding-zone review methodology and *should therefore be retained* in the final methodology.

The bidding zone review is mandated by regulation 2019/943 and CACM which are applicable in the EU. Eurelectric strongly advises against cherry picking of certain elements.

In fact, if certain countries or regions were allowed to derogate from requirements in CACM, then the conclusion should be that BZ reviews should perhaps not be done at all. The amended TSO proposal for the review methodology leaves too much room for regional or even national interpretation.

1.1.3. Please detail below which aspects of the Proposal hamper overall pan-European consistency of the bidding-zone review methodology, and *should therefore be amended* in the final methodology.

Eurelectric would strongly advise against a cherry picking and options to derogate from the calculation on an individual or regional basis. Examples are:

Article 4-4

Unclear what the exact definition of structural congestions is in the proposal. Furthermore, it is unclear what “that have an impact” means. What is regarded as “impact”?

Article 5-3-a

It is unclear why taking the 220 kV grid into account would lead to less representative results. Why is this in the proposal?

Article 5-f

Standard sensitivity calculations should always be part of an assessment. There shouldn't be an opt-out for that.

Article 6-1-c

This article gives the option for choosing a market coupling algorithm. The algorithm that is used should be used. This shouldn't be an option.

Article 6-2

This article leaves the resolution for the calculation open. This shouldn't be the case.

Article 6-3

The VoLL to be used is not defined. This should be the VoLL defined according to Regulation 2019/943.

Article 7-3 and 7-4-d

There are no criteria for the simplification of the calculation.

Article 7-5

This article leaves the criteria for the different forms of calculation open. These should be set in this proposal.

Article 9-4

Criteria for seasonal influence on the technical capacity is not defined.

Article 9-6

This is only a recommendation for a calculation. There should be clear criteria for “simplification”.

Article 10-3

TSOs can opt out from a full simulation based on unclear criteria.

Article 12-4

This leaves too much room for individual decisions for TSOs to opt out on the calculation of topological measures.

Article 13-4 (6b)

This gives a possibility to analyse only the day-ahead timeframe. It should be required that the analysis is always done in all timeframes (balancing, intraday, day-ahead, forward).

1.1.4. Please add any comment on the need to ensure pan-European consistency.
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The pan-European bidding zone delineation principles should be sufficiently harmonised so that too small bidding zones (e.g. less than 2 GW of generation capacity or peak demand) do not cause distortions in capacity calculation, which could result in volatile and unpredictable price fluctuations in small bidding zones, and in low liquidity for zonal price hedging. It is also to be noted that transparency requirements at bidding zone level (e.g. day-ahead bid/offer curves) might lead to competition issues in case of very small bidding zones with resources.

From this perspective, the bidding zone review should also target the possibilities to merge the smaller of the existing bidding zones.

Topic 2: Transparency and stakeholders' engagement

In the context of a bidding zone review, aimed at assessing existing bidding zones against possible ones in order to better ensure the abovementioned objectives, Article 14(3) of Regulation (EU) 2019/943 sets that the review should involve 'affected stakeholders from all relevant Member States'.

1.2.1 Please rate your degree of agreement or disagreement with the following statements: 1- Strongly disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly agree.

1. Maximum transparency must be guaranteed at all stages of the bidding zone review. In particular, all data, assumptions and relevant parameters used in the review should be published, subject to confidentiality issues and aggregation.

Answer: 5 – Strongly Agree

To 1.2.1.1

Eurelectric is concerned that ACER even considers for such a sensitive issue to allow data, assumption and relevant parameter to remain intransparent. CACM is very clear on the set of criteria to be used. So far the last BZR has not yet fully defined all of them, but it is discomforting that all the support and advice by stakeholders is not used to finalise that work.

Eurelectric recommends that the simulation tool used for the assessment is open source. It should be possible for all stakeholders to run simulations on its own and propose (with an appropriate governance) improvements in the tool and/or perform their own sensitivity analysis. This scenario runs could in turn provide information to TSOs on what the market anticipates in the future.

2. There is a need for enhanced involvement of stakeholders during the bidding zone review process. This involvement should be described in the methodology.

Answer: 5 – Strongly agree

To 1.2.1.2

The first BZ review did an excellent job of involving all relevant stakeholders. With regards to other ENTSO-E projects, it was very integrative. Also all relevant scientists and consultants in that area were included. The teams were very international, and results were communicated appropriately. What did remain poorly transparent and incoherent was the activity of ACER and the involved regulators. Even today, Eurelectric cannot understand how and why the so-called “expert scenarios” were picked and not updated even after critical feedbacks.

To address this issue, Eurelectric proposes that the methodology defines at least two levels of stakeholder involvement:

- Stakeholders involvement in the governance: the critical decisions related to the bidding zone review should be discussed and approved by an advisory committee including representatives of the impacted industry (generators, retailers,...) and representatives of the Member States. This would allow for a consideration of all views in the governance process and facilitate mutual understanding around critical decisions.
- Information of the stakeholders, and consideration of their proposals with public workshops after each stages of the process (i.e. collection of inputs and assumptions, first round of assessment of LMPs and identifications of structural congestions, first results of the assessment of expert-based configurations), and public consultation at each critical stages (i.e. collection of inputs, numerical and qualitative results, recommendations).

1.2.2. Please detail below which aspects of the Proposal adequately ensure transparency and stakeholders' engagement, and *should therefore be retained* in the final methodology.

Stakeholders are hardly mentioned in the methodology. Also many of the assumptions are not publicly available. This should be improved.

1.2.3. Please detail below which aspects of the Proposal hamper transparency and stakeholders' engagement, and *should therefore be amended* in the final methodology.

The word "publish" is only mentioned once in the proposal, referring to the publication of the methodology. There are no proposals for interactions with stakeholders in the different steps of the BZ review mentioned in the methodology except for article 13-2-8-c. However, it is unclear what "other relevant stakeholders" exactly are.

1.2.4. Please add any comment on the topic of transparency and stakeholders' engagement.

Stakeholder involvement is needed in all the steps in the review. Eurelectric proposes to have a similar process as the last BZ review with a stakeholder group of representative organisations advising the team performing the review. The stakeholder group should discuss:

- Assumptions on demand and generation (including weather dependency)
- Assumptions on network development
- Possible simplifications
- (expert based) scenarios
- Other subjects relevant to the calculations

Obviously the stakeholder group should also be involved in the assessment of the result and the weighing of the criteria. The assessment should be complemented by a broader European consultation.

Topic 3: Need to ensure a conclusive bidding zone study

The steps and descriptions included in the methodology should be sufficiently clear and precise to ensure that the bidding zone study delivers an outcome that allows for an informed decision on whether to maintain or change the bidding zone configuration.

1.3.1 Please rate your degree of agreement or disagreement with the following statements: 1- Strongly disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly agree.

1. Quantifiable, possibly monetised criteria should be the focus of the bidding zone review.

Answer: 2 – Disagree

To 1.3.1.1

All criteria (at least those mandated by CACM), both quantifiable and qualitative, monetized or not, should be focus of the study.

Indeed, it is all the more important to keep multiple criteria as many aspects still cannot be monetized and may be subject to different interpretations by stakeholders and Member States. From this perspective, new criteria such as operational complexity, or volumes of welfare redistribution among stakeholders in different Member States could be included as well.

2. The assumptions and data used as inputs for the bidding zone review should be, as much as possible, checked against reality; the methodology should be based on realistic expectations about the future.

Answer: 5 – Strongly Agree

To 1.3.1.2 The data should be consistent with network development planning and adequacy assessment. The assumptions in these analyses should comprise the best knowledge based on public information. Consistency makes the analyses more understandable.

It is also key that the simulation tool is back tested and compared with observations during previous years. The first bidding zone review primarily did not address this aspect sufficiently. Before starting the assessment phase, the dataset and models should prove to be consistent in terms of modelling the physics (at least for historical situations).

3. While methodological simplifications may be necessary to enable a timely delivery of the bidding zone study, they should not decrease the quality and relevance of the underlying analysis and indicators. In general, methodological simplifications should be sought when they are not expected to impact the results of the study.

Answer: 3 – Neither agree nor disagree

To 1.3.1.3

In principle we disagree with methodological simplifications, it is unclear how could they not impact the results? Nevertheless, should that be the case, those simplifications shall not decrease the quality and relevance of the underlying analysis and indicators. This has to be ensured.

It is also unclear what kind of simplifications are meant in the methodology. The review is about the technical capabilities of the European network. Simplifying that in a model would very quickly lead to the loss of options in the operation of the network (e.g. poor consideration of non-costly remedial actions). Perhaps some of the input of the network users could be simplified, but it must

be ensured that consistency with network development analysis and adequacy analyses remains intact.

4. The current TSOs' proposal to assess market liquidity mainly focuses on possible changes of liquidity in day-ahead markets. While liquidity of day-ahead markets is important, an assessment of liquidity impacts across all timeframes should be included. In particular additional indicators to capture the impact of a bidding zone reconfiguration on forward markets liquidity in a holistic manner should be considered.

Answer: 5 – Strongly Agree

To 1.3.1.4

We fully agree that liquidity must be assessed. On forward markets, it is even more essential than on the day-ahead market, because it has an impact on hedging possibilities and thus on investment risk, with a resulting effect in terms of welfare creation or destruction – and not only in terms of welfare transfers (by the way it is not clear whether OTC trades are targeted – for the day-ahead auction, the concept of liquidity would need to be further defined, since this term is usually used for continuous markets).

Assessing liquidity is a complex task and requires further work as well as a thorough methodological investigation. In that perspective, the first elements presented by ACER at the last MESC on the interim results of a study commissioned to DNVGL are far from being conclusive.

Liquidity should also be assessed in the light of entry barriers for market parties. For retail only companies liquidity is essential especially in the context of innovative products as time dependent pricing and peer to peer contracts.

5. In the first bidding zone review pursuant to CACM, significant efforts were put in simulating cross-zonal capacity calculation in a very detailed manner. In view of the 70% minimum target of crosszonal capacity envisaged in the CEP, which will be taken into account in the bidding zone review, the role of capacity calculation may be less crucial than in the first bidding zone review. As a consequence, some simplifications in simulating cross-zonal capacity calculation should be envisaged, which would allow to increase the efforts on other important aspects of the review.

Answer: 1 - strongly disagree

To 1.3.1.5

We do not agree with the proposed simplification, in particular if the potential need for redispatching and countertrading is an important dimension of the short-term efficiency assessment.

In addition, the capacity calculation used in the study should reflect the practices by TSOs based on the capacity calculation methodology applied at regional level.

From this perspective the capacity calculation modelled in the study should be decoupled from the legal requirements stemming from the CEP, in particular the application of the 70% threshold, which is arbitrary and has no well-founded economic justification.

6. The current TSOs' proposal for the simulation of short-term welfare effects seems to exclusively rely on the changes in generation dispatch and related costs, while demand-side response is mostly disregarded. Given that a bidding zone configuration may have relevant impacts on the patterns of day-ahead market prices, DSR (including day-ahead demand elasticity) should be more robustly considered.

Answer: 5- Strongly agree

To 1.3.1.6.

In principle, Eurelectric considers that all relevant resources should be considered on an equal footing. A realistic demand-side response volume should be considered in the study, and modelled with the same care as generation technologies.

The analyses should be in line with the assumptions in the Network and Adequacy studies. Consistency with demand, supply and network developments is essential to understand the results and also prevents double work.

7. The current TSOs' proposal for the simulation of short-term welfare effects seems to highly depend on the difference between the costs of scheduling generation (and residually demand) units in day-ahead markets and the costs of (re)scheduling generation (and residually demand) units in the re-dispatching timeframe. Some assumptions included in the Proposal such as considering full crosszonal coordination for re-dispatching or the insufficient consideration of the difference between the costs incurred in dayahead and the re-dispatching timeframe may lead to conclude that all alternative bidding zone configurations deliver the same shortterm welfare results as the status quo configuration. Such strong assumptions should be revised and aligned with the envisaged reality for the time horizon of the study as much as possible.

Answer 4 - agree

To 1.3.1.7

Assumptions should be in line with the expected practices in the target period, in the same way as for capacity calculation. RD & CT should be coordinated at CCR level, but this requirement might be achieved at different degrees by 2025.

It might thus be necessary to refine this assumption at regional level.

One should not confuse the redispatching and countertrading costs with the loss of welfare that is to be assessed. The costs of the remedial actions is merely an economic transfer between TSOs and the market participants. There is a loss of welfare if the final dispatch obtained with self dispatch (up to balancing) plus redispatching does not lead to the least cost.

For regions where a need to activate costly remedial actions would generate a loss of welfare, then this loss should be characterized and duly justified. Eurelectric considers by the way that in such a case, there would be an urgent need to revise the methodology for regional coordinated redispatching and countertrading.

1.3.2. Please detail below which aspects of the Proposal adequately ensure the bidding zone review to be conclusive and **should therefore be retained** in the final methodology.

Some criteria might be considered as non-relevant. For example, network security should be a given for all calculations. It is difficult to understand why this should differ depending on the bidding zone configuration.

On the contrary, effect on operational complexity and speed should be added. All other criteria mentioned in the proposal are relevant.

Future grid development need to be considered with a long-enough time horizon in order to avoid short-term bidding zone changes that cause market distortions.

1.3.3. Please detail below which aspects of the Proposal prevent the bidding zone review from being conclusive and *should therefore be amended* in the final methodology.

Distribution of RA costs and congestion rents lead to the fact that TSOs (and NRAs) have diverging interests in the conclusions. It might be necessary to assess this dimension and publish the results as part of the quantitative assessment to raise awareness and avoid disputes when they are not necessary.

Article 13-2 (8 c iii) "In case several configurations can be recommended after steps 1 to step 3(ii), then the configuration with the highest monetized benefit shall be the final recommendation by the TSOs."

This would allow only the configuration with highest monetised benefit to be the final recommendation if several cases can be recommended. This does not take into account the different impacts of the non-monetised criteria. Thus it should be amended so that the final recommendation should be based on a balanced view between the monetised benefits and the non-monetised criteria.

Article 13-4 (15) "The assessment of this criterion shall be based on an analysis of the reserve requirements per bidding zone for each configuration"

The adequacy of the required reserves in each, and especially small bidding zones should be analysed as well.

1.3.4. How do you think that the inclusion of experts' views should be organised and could help ensure a conclusive bidding zone review?

Experts views should not only cover electricity market input. The discussion on BZ is broader than that. There are also spatial planning and political views that are important. Stakeholder groups should also be able to forward proposal for experts for the assessment of the results.

Eurelectric would like to highlight the need to implement a clear governance and transparency on the way experts view are considered.

1.3.5 Please specify how specific the final recommendation of the TSOs should be: TSOs should specify whether the bidding zone configuration should be maintained or changed and in case of the latter, specify their preference for one alternative bidding zone configuration. TSOs should specify whether the bidding zone configuration should be maintained or changed and then present a number of possible options, highlighting the benefits and shortcomings of different options, subject to the considerations of other aspects (e.g. implementation timeline, minimum 'lifetime' of the alternative bidding zone configuration to ensure the benefits exceed the transitional costs, measures to mitigate certain impacts, etc.). Other possible ways of presenting the final recommendation.

The process should follow the established process of CACM, which ACER has no mandate to change

Option 2: TSOs should specify whether the bidding zone configuration should be maintained or changed and then present a number of possible options, highlighting the benefits and shortcomings of different options, subject to the considerations of other aspects (e.g. implementation timeline, minimum 'lifetime' of the alternative bidding zone configuration to ensure the benefits exceed the transitional costs, measures to mitigate certain impacts, etc.).

Eurelectric highlights that the status quo is one possible conclusion which is perfectly admissible, and that may result from the inability to identify a BZ configuration that would rank better than the

current one on all criteria (possibly weighted). Such a case should not be considered as an “inconclusive BZR”, and TSOs should not strive to reduce the number of dimensions of the review (since BZ configuration is a complex topic which indeed encompasses numerous dimensions) for the sole sake of providing a unequivocal recommendation as regards BZ.

We would also like to highlight that any option should be accompanied by thorough consultation of all affected stakeholders.

1.3.6. *Please add any comment on the topic of ensuring a conclusive bidding zone review, which adequately supports the decision making process.*

Besides the impacts on the different timeframes of the wholesale power market, the impacts on consumer choices and consumer trust in the retail power market, as well as the impacts on investors’ trust in the predictability of the power market regulative framework need to be considered in the decision making process.

A list of other criteria that should be considered in the evaluation:

- market simplicity (understanding of price formation on the wholesale market, easy of CZ trade, also in real time)
- Operational complexity: Many smaller bidding zones increase considerably the calculation complexity and speed. This has a strong negative impact on the demand for more operational speed in especially the short term markets.
- Retail simplicity (are retail prices explainable, are cross country energy communities possible, can retailers easily expand in the market). Complexity is a barrier for entering the market.
- Balancing resource provision in each bidding zone
- Consistency/stability of investment signals. Investments are not driven by current price levels but by the expectation of future prices affected by regulatory uncertainties. As a general rule, all types of regulatory uncertainties that investors cannot hedge against tend to deter investment by increasing the risk level of projects.
- Legal feasibility: there could be a bunch of legal feasibility issues. The legislation defined at national level differs from a Member State to another. For example, merging bidding zones could introduce a distortion between suppliers or customers governed by different legislations within a newly created bidding zone.
- Price equalization: it is implemented by some Member States or groups of Member States to pursue the political objectives of ensuring equal treatment of their citizens and land use planning could be jeopardized by the bidding zone review process.
- Technical feasibility: in case of BZ splitting inside a country, Eurelectric acknowledges that keeping a single price on consumer side at country level is not completely impossible – this is for example the case in Italy – but the algorithmical requirements to allow this on wholesale market (e.g. use of the PUN product in Italy) are known to be very challenging in terms of complexity. Therefore, one cannot take for granted that such an approach would be technically feasible on a large scale.

2. Definition of alternative Bidding Zone configurations

The definition of alternative bidding zone configurations to the existing ones has proven a difficult aspect of the Proposal. In particular, the Proposal does not include any alternative bidding zone configuration for Central Europe.

2.1 *According to the Article 14(1) of Regulation (EU) 2019/943, “Bidding zone borders shall be based on long- term, structural congestions in the transmission network.” Moreover, the same article mentions that “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 order to delineate bidding zones, there are at least two possible approaches. A first approach is a top down (expert-based) one, whereby experts propose alternative bidding zone delineations, which could potentially yield more efficient outcomes than the current bidding zone configuration (the status quo). A second approach is a bottom up one (model-based) where locational marginal pricing (LMP) simulations are performed with a view to clustering nodes (e.g. based on similar marginal prices) into bidding zones. TSOs informed ACER that persisting problems with data input and modelling impede the possibility of using model-based approaches for the upcoming bidding zone review.

Given the above and the difficult to reach agreements, configurations were not submitted for several regions, including regions where structural congestions persist. In view of this, an expert-based approach (possibly supported by some elements of modelling) seems the main option available to propose bidding zone configurations for the upcoming bidding zone review. In the absence of a model-based option, ACER believes that some quantitative aspects should still be considered when considering alternative bidding zones, namely:

- An identification of the network elements, which are more frequently congested and lead to costly remedial actions the most.*
- An identification of the geographical areas (bidding zones) which contribute the most to congestion on network elements. These areas could be a bidding zone where the congested element is located (in case of congestions caused by internal exchanges mainly) or other bidding zone (in the case of loop flows).*
- (If available), a LMP simulation to support the expert-based delineation of bidding zones (e.g. to confirm, refine and/or prioritise the delineation of the previously defined expert-based configurations).*

<i>Please provide your views on the relevance of the above-proposed principles, which aim to support an expert based delineation process.</i>

We agree with ACER’s proposal to mix expert-based delineation with elements of model-based delineation which corresponds to Art 14(1) of the CEP: frequent congestions (expected to remain by the target year) and associated costs for solving them and which BZs have the biggest impact on those congestions.

A LMP simulations (possibly simplified then given current difficulties in terms of data and model) could be useful to confirm the location of the structural congestions that are expected to remain by the target year.

2.2 *The Proposal envisages a locational marginal pricing (LMP) simulation as an optional element of the bidding zone review.*

2.2.1 *Should a LMP simulation be a mandatory element of this bidding zone review?*

Yes

To 2.2.1

As stated in the previous question – LMP simulations may be used as a valuable indicator of the realistic nature of the assumptions and models.

If these appear realistic, then LMPs could be used to complement expert-based delineations.

Furthermore, it might be necessary to assess to which extent the dispatch based on market prices deviates from the optimal one (and therefore assess a potential loss of welfare in the short term markets), including for critical situations (e.g. local security of supply issues) used for validation of the assumptions and model.

2.2.2 *Should a LMP simulation be used as an input for proposing alternative bidding zone configurations?*

It should be one of the inputs when setting final BZ delineations to be considered, but not the sole factor for setting it.

A pre-condition for using LMP as input is the full transparency on the assumptions, models, and LMPs calculated in the study.

Also, the backtesting should confirm that the simulations (and thus LMPs) are reliable.

2.2.3 *If so, how do you think a LMP simulation can be used to support the proposal of alternative bidding zone configurations? (Choice is highlighted)*

Only if the backtesting confirms that the simulations (and thus LMPs) are reliable.

It should be used to support the expert-based approach to delineate bidding zone configurations (i.e. the expert and model-based approach should complement each other).

Please specify

2.2.4 *Please indicate other possible benefits of including a mandatory LMP simulation during the bidding zone review*

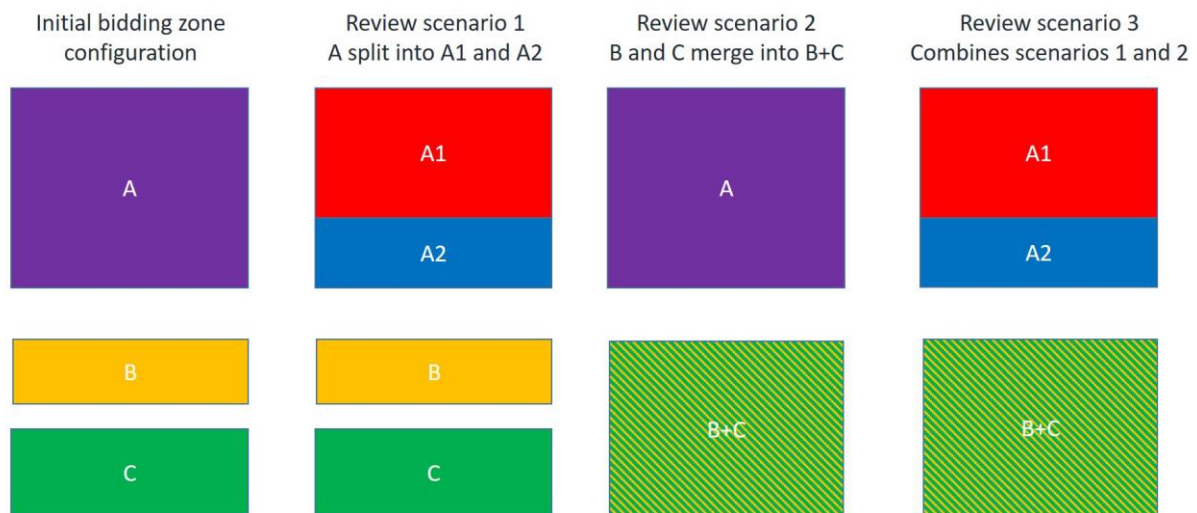
Actually it may also be used to assess the current situation in terms of economic welfare achieved with the existing bidding zone configuration, capacity calculation, and redispatching & countertrading approaches. This assessment would be based on the comparison of historical situations with the optimal dispatch based on the same inputs.

2.3 *When proposing bidding zone configurations, do you see the need to ensure that the incremental effects of combined bidding zone configurations are identified (see the example below)? Please, provide your views on possible pros and cons of such an approach.*

Yes – change in one configuration will affect others... If any configuration is preferable, effects on other zones should be fully analysed. It is needed as any change in configuration for specific BZ will impact the unchanged ones.

In the following example, from three existing bidding zones A, B and C, experts assess the split of a bidding zone “A” into bidding zones “A1” and “A2”, as well as the merger of bidding zones B and C. To assess potential incremental effects, the following three alternative configurations should be analysed:

1. Split into A1 and A2 only
2. Merger of B and C only
3. Split into A1 and A2 in combination with the merger of B and C



2.4 Which other criteria should in your view be considered when proposing alternative bidding zone configurations?

Market simplicity (understanding of price formation on the wholesale market, easy of CZ trade, also in real time)

Operational complexity: Many smaller bidding zones increase considerably the calculation complexity and speed. This has a strong negative impact on the demand for more operational speed in the short term markets.

Retail simplicity (are retail prices explainable, are cross country energy communities possible, can retailers easily expand in the market). Complexity is a barrier to enter the market.

Balancing resource provision in each bidding zone

As other criteria, the following could be mentioned:

Consistency/stability of investment signals. Investments are not driven by current price levels but by the expectation of future prices affected by regulatory uncertainties. As a general rule, all types of regulatory uncertainties that investors cannot hedge against tend to deter investment by increasing the risk level of projects.

Legal feasibility: there could be a bunch of legal feasibility issues. The legislation defined at national level differs from a Member State to another. For example, merging bidding zones could introduce

a distortion between suppliers or customers governed by different legislations within a newly created bidding zone.

Price equalization: it is implemented by some Member States or groups of Member States to pursue the political objectives of ensuring equal treatment of their citizens and land use planning could be jeopardized by the bidding zone review process.

Technical feasibility: in case of BZ splitting inside a country, Eurelectric acknowledges that keeping a single price on consumer side at country level is not completely impossible – this is for example the case in Italy – but the algorithmical requirements to allow this on wholesale market (e.g. use of the PUN product in Italy) are known to be very challenging in terms of complexity. Therefore, one cannot take for granted that such an approach would be technically feasible on a large scale.

Conclusion

3. Please provide any further comment

Eurelectric thanks ACER for organizing this consultation and allowing an extra week to prepare responses.

Eurelectric would also like to highlight the following dimensions of its response:

- A bidding zone review is a complex and far reaching challenge. It is essential to have all relevant stakeholders involved in every step. All decisions should be transparent and explainable. The current proposal needs serious improvements to ensure that.
- The bidding zone review is and must remain a multi-criteria analysis, where many important criteria (e.g. impact on financial markets, retail markets, impact on investors) cannot be easily quantified and monetized. Those are nevertheless relevant and should be considered on an equal footing in the recommendations.
- The assessment can only make sense if it is based on robust and realistic assumptions and models that accurately capture the physical situation in terms of security of supply.
- The LMP calculation is an important dimension of the bidding zone review, not only to support the design of alternative configurations but also to assess the efficiency of the current situations in terms of bidding zone, capacity calculation, and redispatching & countertrading practices.
- Capacity calculation and redispatching & countertrading have a strong impact on the economic welfare assessment. It is key that the approaches implemented in the bidding zone review reflect well the approaches applied in practice based on the CACM and SOGL methodologies. Applying the 70% approach in a straightforward way (which is purely theoretical as there are derogations on many borders as of 2020) would not be reflective of the practical approaches and could significantly distort the results.
- Eurelectric considers that the bidding zone review should be a pan-European exercise. If the review were to be split in regional exercises, the definition of the bidding zone review regions should be based on objective, duly-justified, criteria. There should also be full-consistency between regions in the assumptions, models and approaches.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



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