# Response ID ANON-25D1-M484-9

Submitted to Public consultation on Bidding Zone Review
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## Introduction

## General Questions

1 Please provide your name, your company name, address, as well as contact details for questions (e-mail and telephone number).

Name::
Vidushi Dembi

Company name::
WindEurope

Address::

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Contact details, phone::

2 As what kind of organisation do you qualify?

Other::
Industry Association

## Transition cost study

1 On costs

a. Do you consider the estimated range of transition costs reasonable and feasible? Please indicate why or which part of the estimate of transition costs you consider (not) reasonable. Please specify in your answer if you are referring to all configurations or to a specific one:

The study comports a certain number of limitations reducing its reliability, such as:
• Limited response to the questionnaire and thus limited dataset available for a quantitative analysis
• Exclusion of an outlier response based only on the estimate provided.
• Study seems to show limited interactions with respondents to understand their estimations.

We appreciate the efforts undertaken by TSOs and the supporting consultant to improve data quality and availability. Nevertheless, as outlined in the transition cost report, the provided estimations are merely ballpark figures and therefore we are not in a position to judge if these are reasonable and take note that there is a high uncertainty in the results provided. In addition, we see limitations in the transition cost definition provided for in the bidding zone review methodology as this excludes cost incurred due to significant changes in asset value and investment cost increase due to the inherent uncertainty of the bidding zone delineation. Both significantly impacting the energy transition and the EU's ability to meet net zero goals.

b. Which mitigation measures, e.g. by TSOs, regulators, policy makers or NEMOs, could decrease transition costs in general? Do you have experiences from previous bidding zone reconfigurations?:

Sufficiently long lead times and visibility on implementation timelines can mitigate some of the transition costs. Still, transition cost levels should not be underestimated, and it should be duly investigated if alternative means to a bidding zone configuration exists, e.g. improved TSO-TSO and TSO-DSO cooperation, grid reinforcements and cross-border redispatch.

c. Considering the impact of the lead time on the transition costs: What mitigation measures to decrease these costs do you consider reasonable and feasable and how much, in your estimate, would they decrese the costs (in %)?:

d. Do you expect other type of transition cost that are not covered by the definition used in the study which was based on the bidding zone review methodology?:

• The impact of a change in BZ configuration on asset valuation is also an important transition cost that should be reflected.
• The report doesn't consider asset value depreciation or negative impact on the investment framework and future investment decisions.
• And financial costs for those assets affected especially those where FID have been made with a PPA which cannot be upheld with a new bidding zone split. The financial costs are not only borne by the assets in the impacted bidding zone but also neighbouring bidding zones - Denmark is a good case for this. Also this will lead to increase in cost CfDs for the governments.
• Balancing costs faced by BRPs would increase in smaller bidding zones
• The new basis risk created for long-term contracts and especially PPAs (including on existing PPAs) has not been considered.
• The forward-looking nature of the BZR is limited as it takes only 2025 as the time horizon.
• Overall, Bidding zone studies focus on money saved, but a simulation of how much it's going to cost to deploy / relocate renewables with the new configuration hasn't been studied.

2 Implementation and timeline

a. What do you consider an appropriate minimum implementation lead time of a new bidding zone configuration? Please explain why you consider this to be a minimum:

• Sufficient lead time (around five years) is needed to mitigate the risks for all the parties involved.
• Implementation lead-time for BZ reconfiguration should be at least as much as the duration of forward contracts. This would provide enough time to resolve contractual renegotiations, adjustments to business processes and IT adaptations, and allow the delivery of existing forward contracts

b. What are practical considerations that impact the minimum implementation lead time?:

• Sufficient lead time is necessary to at least:
o Renegotiate / adjust existing contracts
o Implement business processes and adapt IT systems
o Transition to forward contracts that reflect the new BZ configuration
• Most importantly the lead time would have to account for changes to legislation for governments to compensate as they see fit.

c. What is your experience of previous bidding zone reconfigurations on the implementation and timeline?:

d. Are there any other potential changes in the market design that could affect the transition costs of a bidding zone reconfiguration or the implementation and timeline? Why and how would they affect the transition costs and the implementation and timeline?:

• We have new developments, the Electricity Market Design reform, the Action plan on Grids which will significantly alter the grid and markets situation from what is assessed
• The assessment considers the grid status of 2023 and many important projects like interconnectors are not yet on the grid, so the assessment is not updated for the future
• The current bidding zone review has 2025 as a target year. This in itself does not take into account already expected market developments such as: the implementation EU market reform, implementation of flow-based market coupling and the balancing market platforms in the Nordics as well as the completion of the German action plan to comply with the EU capacity allocation rules. All of them are expected to contribute to an improved supply and demand balance, reducing the need for bidding zone adjustments.

3 Please provide any other practical considerations on transition costs and implementation and timeline and comments you may have on the transition cost study

Please provide any other comments:

• A choice to change the bidding zone configuration should be made on a solid basis. Here, the study does not provide this due to insufficient data and qualitative elements.
• It is not clear how the conclusions of this study are integrated into the broader bidding zone review process, or how transition costs are weighted against the other parameters studied.
• Green transition needs high levels of investment on both generation and demand side and without stability these investments are likely to be delayed.
• Bidding zone studies focus on money saved, but a simulation of how much it's going to cost to deploy renewables with the new configuration hasn’t been studied.
• Renewables are bound by the location. Renewable assets cannot change their locations easily based on the bidding zone reconfiguration. So we end up in two situations:
1) what we save from the bidding zone reconfiguration, we will pay because of this location dependency of the renewables.
The split of bidding zone brings consumer benefit primarily through a reduction in price - which comes about through a reduction in revenue to dominantly renewable assets. If we don't want significantly higher investment costs going forward, there must be significant recognition of the loss of value to existing assets.
2) Bidding Zone split will lead to for instance in Germany with all offshore wind assets in the north and demand centres in the south, separated by different bidding zones. This will negatively impact market liquidity.
• Given the increase in demand and supply in the future, we are going to need the grid anyway regardless of whether we split the bidding zones or not, so the bidding zones reconfiguration might just be adding costs to the process.
• A change of bidding zones right now, risks putting a break on decarbonization: changing bidding zones can have significant negative financial impacts on existing fossil-free energy generation as well as storage assets, create new complexities, and increase uncertainty for future investments.
• The forward-looking nature of the BZR is limited as it takes only 2025 as the time horizon.

## Liquidity and transaction cost study

1 On the impact of bidding zone reconfigurations on liquidity and transaction costs

a. What do you perceive to be the impact of the proposed bidding zone reconfigurations on liquidity and transaction costs in comparison with the status quo configuration?:

Three parameters are used for the study of liquidity and transaction costs, but only the one on market size seems to have a direct link with market liquidity. The other two do not seem to be relevant indicators.

--> Market concentration: Lack of transparency regarding the calculation methodology and data. The market concentration data is provided to the authors of the study by the TSOs and integrates cross-zonal capacity, leading to the (counter-intuitive) result that smaller bidding zones have lower levels of market concentration because of a higher level of import capacity. This disregards the actual ownership of capacity providing the cross-zonal capacity,

leading to dubious dynamics where assets owned by the same company but ending up in different bidding zones would result in a lower level of market concentration in case of a bidding zone split. Moreover, in the forward market timeframe, the assumed levels of available interconnection capacities are a major overestimation. Conclusion seems unreliable as it can't constitute an indicator for assessing liquidity.

--> Price correlation: The reasoning on its use as indicator for market liquidity seems flawed. It is based on the ability of market participants to use the liquidity of other bidding zones to mitigate a lack of liquidity in its own bidding zone through the practice of proxy-hedging. Higher correlation leads thus to lower risks when performing such proxy-hedging. This of course assumes that a neighbouring bidding zone has a (more) liquid market available to perform such proxy-hedging actions. However, these proxy-hedging opportunities were already available before a bidding zone reconfiguration, and most improvements in price correlation are actually due to the split bidding zones having high price correlations with the other bidding zones with which they were previously sharing a single bidding zone.

i. Remarks to the conclusions on the short-term timeframe:

ii. Remarks to the conclusions on the long-term timeframe:

c. What is your experience of previous bidding zone reconfigurations on the impact on liquidity and transaction costs?:

d. What effects on intra company transactions do you expect from a bidding zone reconfiguration?:

• Intra-company transaction costs would increase for most proposed bidding zone reconfigurations, as smaller bidding zones means that volumes that previously were netted within the portfolio, may now have to be transacted through the market to gain access to cross-zonal capacity.
• It will also bring additional administrative costs to handle the additional products and financial flows correctly.
• Balancing risks faced by BRPs will increase in smaller bidding zones

e. Do you think that after a reconfiguration, the hedging opportunities would or would not suffice in certain alternative configuration(s)? Please specify the respective alternative configuration(s) you are referring to and explain how you come to this conclusion. Does it differ under current market design or with mitigation measures in place? If so, please specify.:

Insufficient hedging opportunities will come from a split in certain configurations (notably Germany). Generally, more bidding zones will mean less possibility for hedging for the market participant.
The report shows that liquidity in Germany will be reduced by a potential split. Today, the German liquid future market provides proxy hedging opportunities for surrounding bidding zones which – with a split of the bidding zone – will subsequently be reduced. In addition, the hedging opportunities within the smaller German bidding zones will be reduced given the lower diversity in market participants requiring potential introduction of a system price, like in the Nordic market, or as investigated by the European Commission the introduction of virtual hubs. It is not proven that these would be more efficient as keeping the status quo. We also remain concerned about the view that liquidity losses caused by a bidding zone split can necessarily be compensated by higher cross-zonal capacities. While it is already not certain that a new bidding zone configuration resulting in higher cross-border capacities will ensure more hedging opportunities that fit market participants' needs, there is also no reason to assume that higher cross border capacities will compensate for the liquidity losses incurred in one or more of the markets that have been split.

f. Do you expect additional impacts of the proposed bidding zone reconfigurations on liquidity and transaction costs that were not addressed in the draft report?:

A broader view of liquidity should include elements such as:
- bid-ask spread
- time to maturity

## 2 On mitigation measures

i. on short-term markets :

Reduction of market size will lead to reduction in liquidity

ii. on long-term markets:

Reduction of market size will reduction in liquidity, and in hedging opportunities

i. On short-term markets:

ii. On long-term markets (Footnote 2):

i. What changes in the distribution of liquidity risk do you expect to result from a change in bidding zone configuration and how would it affect different market participants? Please give an example. :

ii. Do you think there are risk exposure shifts that need to be mitigated? If so, which mitigation measures do you consider to be reasonable and feasible?:

d. Which mitigation measures both generally and against shifts of risk exposure do you consider to be not reasonable or feasible?:

## 3 Practical considerations

a. Which practical considerations do you think could affect the impact of a bidding zone reconfiguration on liquidity and transaction costs?:

## 4 Please provide any other comments you may have on the liquidity and transaction cost study.

Please provide any other comments:

• Limited assessment of liquidity (volume aspect only). A broader view should include elements such as open interest, bid-ask spread and time to maturity.
• Lack of assessment of the impact on other bidding zones than the one whose reconfiguration is considered e.g. proxy-hedging activity).
• It would have been interesting to assess the impact on transaction costs for market participants managing a geographically dispersed portfolio.
• It is not clear how the findings of this study are integrated into the broader process of bidding zone review or how transition costs are weighted against the other parameters studied.
• In case Offshore Bidding Zones are developed in future, they will have a big impact on how markets operate, but this is not at all considered in this assessment.
• The study on market liquidity and the costs also does not consider the impact of cross border interconnection. This is important for an optimized European market and efficient renewables integration.
• EU Green Industrial Deal that aims for cost competitive energy supply to industry. But after the bidding zone split in Germany the industry in the south would not see cost competitive energy price levels

## Further questions

1 In the course of the BZR, as foreseen in ACER decision 11-2022, TSOs will also investigate two combinations of bidding zone reconfigurations for Central Europe. What do you consider to be the impacts of more than a single bidding zone reconfigured at the same time in terms of:

a. Liquidity and transaction costs:

b. Transition costs:

c. lead time:

d. any additional practical considerations:

2 Considering the different potential reconfigurations: Are you of the opinion that any implementation of a reconfiguration assessed in this bidding zone review should be undertaken simultaneously or stepwise? If stepwise, then how should the steps be defined?

Your input:

3 Please share any additional practical considerations you may have (apart from the timeline and liquidity and transition costs which are covered by previous questions).

Your input:

--> It is most important for renewable assets to look at how the bidding zone configurations will alter the investments and therefore rollout of renewables in the future. For this, the three indicators on energy transition i.e. 1) Short term effects on carbon emissions, 2) short term effects on RES integration, and 3) Long-term effects on low-carbon investments should be the one highlighted and focused.
It doesn't seem that the two indicators that are being consulted on are the most representative ones for the future, at least in terms of investments in renewables and investment cost.

--> In general the Bidding Zone Review methodology lacks a holistic approach of considering the impact of one bidding zone split on other markets as it will happen in the real world, and rather considers each of the alternate configuration as a standalone case.

4 What effects on Power Purchase Agreements (PPAs) and other contractual arrangements not covered by the report on liquidity and transaction costs do you expect from a bidding zone reconfiguration?

Your input:

• Creating multiple bidding zones within countries will create a new basis risk for PPAs where the generating asset is in the same country as the customer load but in a different bidding zone. To date, there are limited ways to cover effectively this additional risk (both in terms of sufficient liquidity and appropriate granularity); this would increase the project risks, costs and thus the PPA price.
• It is of upmost importance that the impact on PPAs (existing and future) is carefully assessed before making any decision on a BZ split.
• PPAs with a renegotiation clause or the ability to withdraw would add financial costs to existing assets which suddenly are exposed to a larger degree of risk. Cross-zonal PPAs are extremely rare as both parties cannot get a fixed price (one party would have to cover the cross-zonal price spread).
• With smaller bidding zone regulatory support for investment decisions will be very crucial. A bidding zone split is essentially moving from more certainty around investments to better dispatch. In order to increase the certainty around investments one could imagine improving the ability to take FID in a Europe with smaller bidding zones.
• One improvement could be to facilitate cross-zonal PPAs by using the current FCA 2.0 review to implement longer duration FTR (15 years). This could be a huge help and would unlock investment decisions specifically in the Nordics and in a future hybrid grid.

5 What alternative policy measures could be implemented to achieve the potential benefits of a bidding zone reconfiguration?

Your input:

BZ split may make sense in case of comparably static load flow situation with dispatchable generation; overtime we can hope the generation and load to be in the same zone. But this is not how it will work for renewables which means we have heavily varying load flow situations. We have times in the zone

with excess generation, and other times it may be the opposite, and the only solution is enforcing the grids to balance the regions.

We can accept either the higher cost of transition or the cost of grid buildout, and we should strive for the overall least cost. The least cost system would be the one using the best sites for renewables and building grids accordingly. If we have a better grid, everything will work much better, more efficiently and cheaper for everybody. So we should focus more on areas such as better grid integration, long term grid planning and flexibility.

Now is not the time to further increase market uncertainty. First and foremost, the physical grid should be extended. After all, the lack of transmission capacity is causing structural congestions. Grid expansion also allows for efficient cross-border use of resources and will make the European internal electricity market more resilient. Furthermore, improved TSO-TSO cooperation, increasing demand response signals and making use of cross-border redispatch should be considered. Integrated and cross-vector infrastructure planning will allow for higher system flexibility and better use of resources.

The reconfiguration of bidding zones will bring more uncertainty for renewable projects and will rather slow down the energy transition owing to the uncertain effects. The biggest question is whether the bidding zone reconfiguration really will in fact help resolve congestion issues at all.

## Confidentiality Provisions

1 I want my answer to remain anonymous. If you tick this box, we will publish your comments but we will not publish your name and organisation.

I want my answer to remain anonymous.:
No

2 I do not want my answer to be published. If you tick this box, we will not publish your answer to this consultation but an anonymized version of your answer may be shared with EU and national authorities involved in the adoption process of the consulted document to ensure the performance of ENTSO-E legally mandated tasks.

I do not want my answer to be published.:
No

3 I agree to ENTSO-E's Consultation Hub privacy policy.

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Yes