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# Comment on the Draft for the Amendment of Electricity Network Access Regulation

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## 1. Preliminary remark and summary

EEX welcomes and supports the initiative of the Federal Ministry for Economic Affairs and Energy (BMWi) for the preservation of a uniform German bidding zone on the power market by amending the Electricity Network Access Regulation (StromNZV). Positive is also the fact that BMWi generally advocates large and liquid bidding zones.

The current German-Austrian power market at EEX has the highest liquidity of all power markets in Europe and, for this reason, it is used as a reference throughout all of Europe. The exchange market price signal forms the basis for short-term dispatch as well as long-term hedging and investment strategies of all players on the power market.

In the past, EEX has repeatedly spoken out against any split of the established German-Austrian bidding zone on the power market. Therefore, it is regrettable that the BMWi initiative came this late in the process and, therefore, can no longer have any influence on the decision to split off the Austrian part of the current joint German-Austrian bidding zone as of 1<sup>st</sup> October 2018.

In view of the recent uncertainty among the market players as a result of the approved and pending split-off of the Austrian market area, we consider the envisaged amendment of StromNZV to be an important signal intended to strengthen the market players' confidence in the continued existence of a uniform German bidding zone and, as a result, the confidence in a well-functioning power market 2.0. In this respect, it is important that BMWi further clarifies how the amendment of StromNZV relates to the bidding zone configuration currently under discussion in the framework of the Clean Energy Package at the EU level.

Preventing any unilateral amendments of the bidding zone configuration is important since this constitutes an elementary aspect of the market design with the market's confidence hinging on the fact that bidding zone adjustments are only effected in accordance with a clear and transparent process and by including all relevant market players.

However, a legally defined uniform bidding zone must consider physical realities. In order to ensure the synchronisation of demand and supply and, in connection with this, a strong price signal for the liquid German power market also in the long run, consistent further grid expansion will be absolutely necessary. Temporarily, congestion management measures, such as e.g. redispatching, are sensible since the advantages of working wholesale markets based on a uniform bidding zone outweigh the costs of congestion management measures. Moreover, the need for, and costs of, such measures decline with increasing grid expansion.

In the long run, the aim of establishing the largest possible and, hence, also cross-border bidding zones should still be pursued. This is because even bigger quantities of renewable energy sources can only be efficiently integrated into a market-based power market 2.0 through the use of the largest possible bidding zones with the highest liquidity.

## 2. Comments on the Draft Amending the Electricity Network Access Ordinance (StromNZV)

### a) Split of Germany into several bidding zones entails high risks

Any split dividing Germany into two or more bidding zones would constitute a case of serious market intervention and entail a number of negative consequences both for the energy industry and for the consumers. This, e.g., includes:

- Division and reduction of the existing liquidity on spot and derivatives markets
- Exposing market participants with open derivatives contracts to an underlying risk since the underlying of their long-term derivatives contracts is lost before the product falls due
- Market concentration into smaller price zones and market power of individual market players
- More homogenous generation structure than in a larger price zone – which would result in price fluctuations that are hard to foresee
- An intra-German split would lead to different market prices and different fees, such as the EEG levy, e.g. for southern and northern Germany

A look at the Scandinavian power market, where a split into several price zones was carried out in Sweden in 2011, helps in assessing the effects of such a split: Since then, liquidity has declined significantly, for example, the volume of futures contracts cleared via an exchange has reduced by 20 percent. And in the case of the so-called EPADs (Electricity Price Area Differentials) permitting hedging between the prices in the individual small zones and the system price, the decline in Sweden was even higher than 40 percent.<sup>1</sup> The example of Sweden shows that achievements of liberalisation – first and foremost a liquid market and a strong price signal – might be jeopardised by price zones which are too small.

### b) The power market 2.0 needs a liquid spot and derivatives market.

Having the largest possible bidding zone with the highest possible liquidity is of fundamental importance for the success of the power market 2.0 since only a lastingly stable bidding zone configuration will create the required level of trust among the market participants. Therefore and, in particular, against the recent uncertainties among the market players as a result of the approved and pending split-off of the Austrian market area, the envisaged amendment of StromNZV constitutes an important signal. It helps to strengthen the market participants' trust in the continued existence of a uniform German bidding zone and, as a result, in a working power market 2.0. This applies, in particular, to strong price signals and high liquidity both on the short-term power markets and on the longer-term derivatives markets to enable hedging and provide incentives for investments in necessary flexible capacities.

### **c) Large, cross-border bidding zones as the target model**

Initially, the amendment of StromNZV pursues the aim of preserving a uniform German bidding zone. Moreover, the fact that BMWi does not only want to prevent a split but expressly also does not exclude an expansion beyond the territory of Germany is also positive.

Economically, and as seen from the perspective of the players on the power market, there are many aspects which suggest that, in the long run, larger bidding zones in Europe should be aimed at instead of smaller bidding zones. Since these bigger zones are best suited to provide a large number of market participants and a correspondingly high level of liquidity. As a result, they ensure that trading participants can quickly and effectively respond to changes in production and consumption at all times and that they can hedge in the long run. Therefore, this would also bring us closer to the long-term aim of an integrated European internal market and Germany and, so far, Germany/Austria have played a special role in this as a core zone within Europe.

For this reason, BMWi should also expressly advocate large and liquid bidding zones as the target model for the European power market design in the framework of the Clean Energy Package at the European level.

### **d) Importance of congestion management and grid expansion**

The preservation of the uniform bidding zone requires congestion management measures and, in particular, redispatching because of the - as yet - insufficient grid expansion. At the same time, a uniform bidding zone leads to more efficient market results and, hence, economic advantages, while, concurrently, costs are incurred for redispatching.

So far, the debate strongly emphasises the costs of redispatching, while the importance for the function of spot and derivatives markets and the energy industry advantages are not focused on to the same degree. For example, the functioning wholesale markets based on the liquid German-Austrian bidding zones have ensured that the demand and, as a result, the costs for reserve power and balancing energy have continuously declined over the last few years.<sup>ii</sup>

Therefore, it should be pointed out in the further debate that redispatching is a normal element of a liberalised power market and that its amount can be expected to decline significantly with increasing grid expansion.<sup>iii</sup>

In order to ensure well-functioning wholesale markets based on a power market 2.0 in the long run, further consistent grid expansion is an absolute necessity since the synchronisation of supply and demand and, in connection with this, a strong price signal for the liquid German power market can only be ensured in this way in the long run.

### e) Need for a coordinated and transparent process for bidding zone configuration

Irrespective of the envisaged amendment of StromNZV, there are further regulations and processes at the European level which also focus on the evaluation and configuration of bidding zones.

This leads to high levels of uncertainty on the market and, as a result, to additional costs if the decision-making process is not perceived as being clear, while the different processes are seen as not being in line with each other.

The confidence of the market hinges on the fact that bidding zone changes are always carried out in accordance with a clear and transparent process including all relevant market players.

Therefore, BMWi needs to clarify how the amendment of StromNZV relates to the bidding zone configuration currently under discussion in the framework of the Clean Energy Package at EU level.

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<sup>i</sup> Cf. EFET, A reality check on the market impact of splitting bidding zones, [http://www.efet.org/Files/Documents/Electricity%20Market/General%20market%20design%20and%20governance/EFET-memo\\_Swedish-zones-reform.pdf](http://www.efet.org/Files/Documents/Electricity%20Market/General%20market%20design%20and%20governance/EFET-memo_Swedish-zones-reform.pdf)

<sup>ii</sup> Cf. BNetzA, Monitoring report 2016

<sup>iii</sup> <https://www.unendlich-viel-energie.de/netzausbau-schafft-platz-fuer-mehr-erneuerbare>