

Montel German Energy Day

# Retaining a single price zone: Could Brussels force a market split?

Marcus Bokermann, 24 April 2024

Europe has the most developed energy markets

## Integrated energy markets are key to our global competitiveness

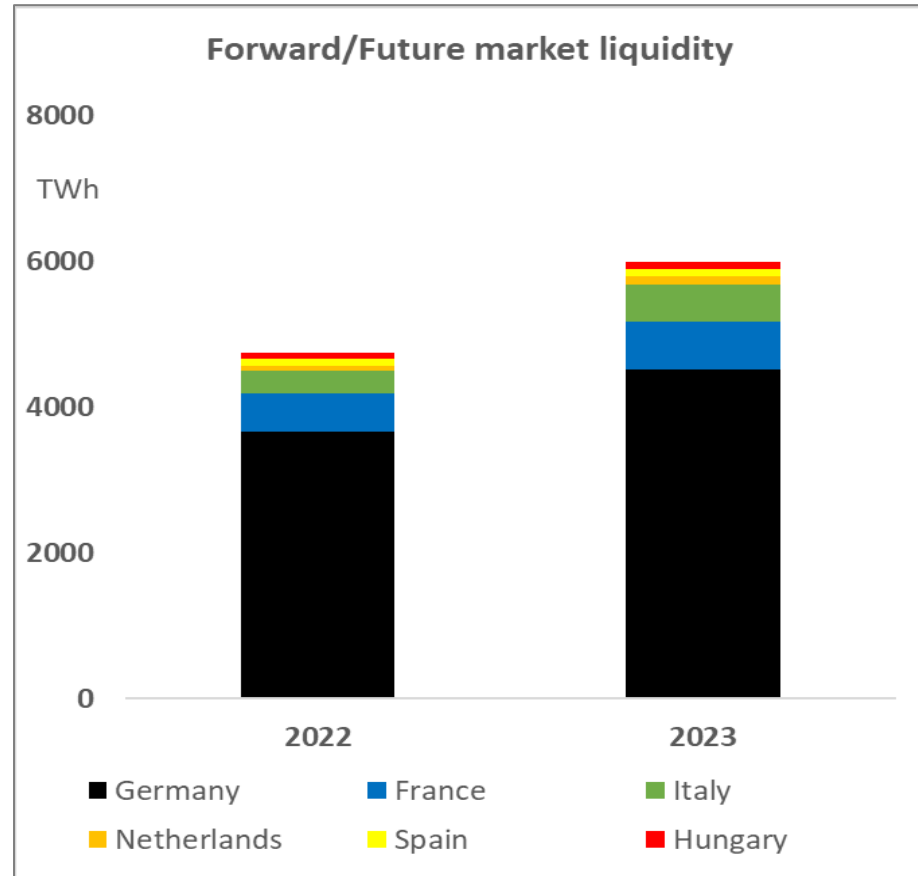
- We have spent decades developing efficient, continent wide markets. Those markets have stood the test of time and helped Europe navigate through several crisis
- According to ACER cross-border trade alone delivered welfare gains of ~34 billion euros in 2021
- Working together means less capital needs to be invested in additional power plants, and less fossil fuel needs to be burned than if each EU country optimizes its system domestically
- So far focus was on short term markets. Now it is time to emphasize forward market progress



German market used for proxy hedges by many

## The German power market is the center of gravity for liquidity

- Europe wide-markets for electricity allow companies to manage price and volume risks
- To keep costs for hedging on a sound level a robust and liquid market is key
- Prerequisites for liquid markets are:
  - stable regulatory framework,
  - transparency, reasonable entry barrier,
  - robust underlying and a sufficient size
- That kind of system encourages hedging and risk management – leading to a reduction in volatility and a more secure system overall
- We can improve by strengthening the grid as well as capacities between countries and ensuring common rules for those capacities



## Bidding Zone Review – a bit of background

# Aim to check options to increase economic efficiency & cross-zonal trade without risking grid security

- A number of European Member States, due to loop flows and congestions being put to their border, are in favour of a split of the German bidding zone
- In August 2022, the European regulatory authority ACER has taken a decision that for France, Germany, Italy, the Netherlands and Sweden, alternative bidding zone configurations must be investigated in the second EU Bidding Zone Review





Two documents are important in this context - #1

## The framework: EU Regulation on the internal market for electricity

- If a bidding zone review were to recommend a split of a bidding zone member states can choose an action plan or to adjust accordingly
- Also after the action plan, a decision about bidding zones is up to the member states themselves, but only if the 70% rule is met!
- If the 70% rule is violated by a member state, discussions with the neighboring countries shall be initiated with the aim to find a common agreement
- In case no common resolution to maintain a given bidding zone setup is reached, the matter shall be escalated to the European Commission
- Eventually it is up to Brussels to take a decision at this stage – which might be forcing a German market split!

14.6.2019

EN

Official Journal of the European  
Union

L 158/54

### **REGULATION (EU) 2019/943 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**of 5 June 2019**

**on the internal market for electricity**

**(recast)**

**(Text with EEA relevance)**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE  
EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,  
and in particular Article 194(2) thereof,

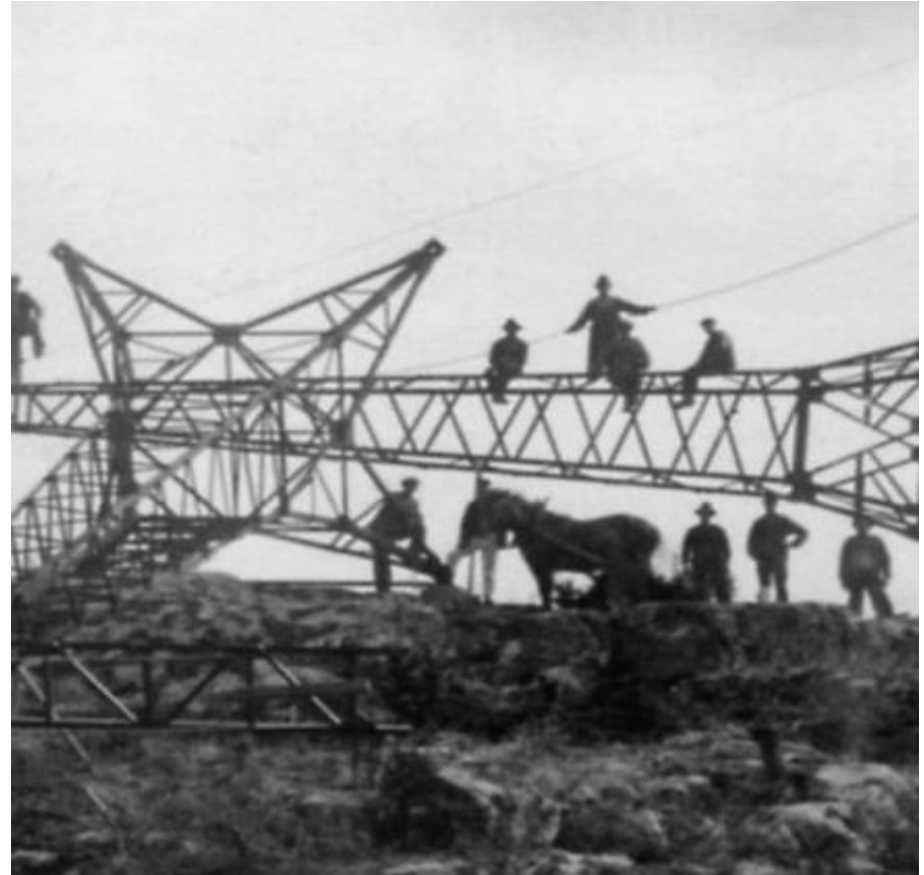
Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national

Detour deep-dive available cross-border capacity

## The seventy percent criteria is seen as an important cornerstone

- Is deemed as a necessity to successfully accomplish the energy transition
- With that security of supply is improved by utilizing/optimizing the grid infrastructure
- It contributes to more competitive prices and lower price volatility
- Facilitates the flexibility which is urgently needed given the rise of intermittent production
- Ensures a level playing field for trading within a country as well as with respect to cross-border trading



#2 – Opinion of ACER published a few days ago

## Member states are far away to comply with the 70% rule

- On average the corridor for capacities been made available ranges only between 30-50%
- Costs in the EU to deal with congestions amounted to 4bn euros in 2022
- Essentially three instruments to achieve 70%:
  - Coordinated measures to provide relieve to congestions among TSOs
  - Targeted grid development within zones to mitigate congestions
  - Amendment of bidding zones
- Deadline to deliver on making 70% of the installed cross-border capacity available for cross-border trading is end of 2025

**OPINION No 02/2024**  
**OF THE EUROPEAN UNION AGENCY**  
**FOR THE COOPERATION OF ENERGY REGULATORS**

**of 10 April 2024**

**on the necessary developments for the fulfilment of the minimum cross-zonal capacity requirements**

THE EUROPEAN UNION AGENCY FOR THE COOPERATION OF ENERGY REGULATORS,

Having regard to Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators<sup>1</sup>, and, in particular, Article 15(3) thereof,

Having regard to Regulation (EU) 2019/943 on the internal market for electricity<sup>2</sup>, and, in particular, Article 16(8) thereof,

Whereas:

## A Traders perspective

# It is not the right time for an adjustment of the bidding zones

- We should await the implementation of already expected market developments<sup>1</sup>
- It is debated if the current action plan needs to deliver the 70% or if a new German action plan based on the upcoming result will do (+4y)
- A change right now, risks putting a break on decarbonization: changing bidding zones can have significant negative financial impacts on existing fossil-free energy generation, new complexity & increases investment uncertainty
- Thus any decision to adjust bidding zones should be made with consideration of broader political implications and the potential effects on consumers and the economy

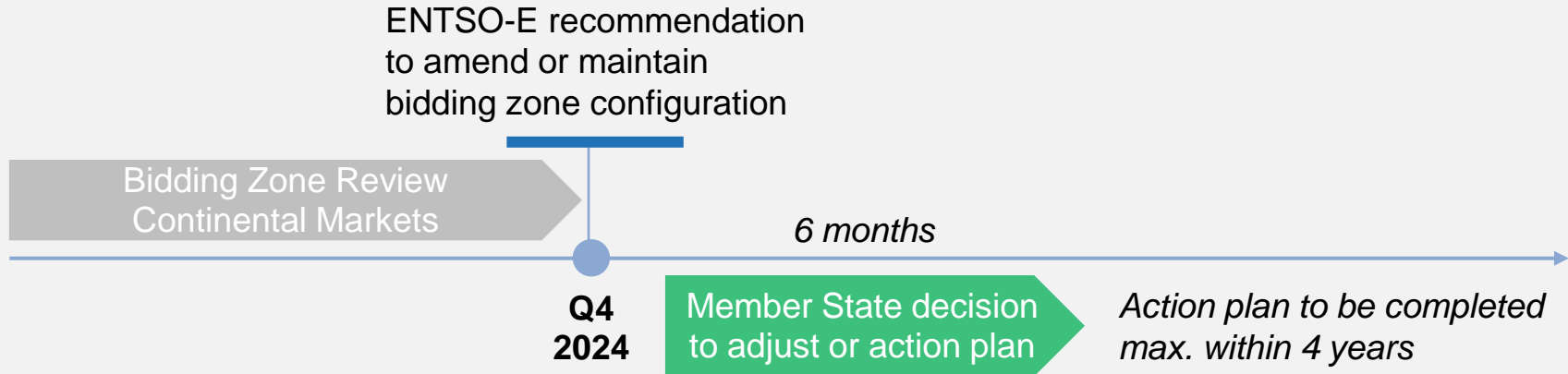


<sup>1</sup>Examples: EU market reform, implementation of flow-based market coupling and the balancing market platforms in the Nordics as well as the completion of the German action plan to comply with the EU capacity allocation rules are all to come in the near future. All of them are expected to contribute to an improved supply and demand balance, reducing the need for bidding zone adjustments.



## Timeline

# ENTSO-E to conclude bidding zone review at the end of the year



# What is at stake for energy & climate?



**#1**  
**Security, back  
on top of the  
agenda**



**#2**  
**Green Deal  
vs.  
Industrial Deal**



**#3**  
**Rise of the  
extremes**

Europe faces big energy challenges. The challenges of security of supply, of affordability and of decarbonization must be tackled hand in hand. The next parliamentary term could be decisive and the importance of the European Union playing a strong, central role cannot be overstated!

**Thank you!**