

VIK, the German association of industrial energy intensive consumers, welcomes the Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity as an essential part of creating an internal energy market in Europe. VIK has supported the European goal of creating an integrated energy market from the beginning. It is essential for European industrial consumers that Europe creates a level playing field where consumers can purchase electricity at competitive non-discriminatory prices. Competitive commodity prices can only be achieved by competition in a well organized, transparent, and liquid market.

In creating such an integrated market, it is important to take into account the achievements reached so far. This is especially valid with regard to the bidding and price zones. While the overall aim is to create larger zones, ultimately leading to one single zone, it is important not to fall back behind what has been achieved up to now. Therefore, on the path to only one single zone, it is essential that existing zones will be integrated into larger price zones. It would be a significant step backwards to split up existing price zones. This has to be avoided, since it would reduce liquidity, thus weakening functioning markets.

That means: Although introducing new market zones might be justified from the Capacity Allocation and Congestion Management point of view, it usually has negative impacts on electricity market functionality and competition, especially when it means that existing zones would be split up, destroying functioning markets.

For example, the German single price zone has been extended to Austria in the past. This is an example of successful integration of existing zones. Splitting up such a zone, possibly even in more than two smaller zones, would clearly be a step backwards with respect to the overall goal of market integration. Moreover, in Germany, recently, steps have been taken by the regulator to create a more integrated balancing market, by enforcing stronger cooperation between the four balancing zones. This has led to an increase in liquidity in the balancing market as well as a reduction in balancing costs. Such achievements would be thwarted if the market would be split up.

Therefore, VIK advises against changing existing zones without an in-depth analysis on the local and overall effects. It is important to create zones not solely according to network topology. Instead, the definition of a bidding zone should be on the basis of the most economical solution. In some cases this might be network topology. But it could also be the case that – maybe with some investments – another solution becomes more appropriate. Estimations of the overall socio-economic benefits of new bidding zones should be taken into account. Zones should be defined on the basis of creating the

greatest social welfare for the market as a whole. In that sense, it is also important to consider criteria like market power.

Regarding the process of establishing new and integrated zones, the TSOs should make proposals, which have to be approved by each affected national regulatory authority. Furthermore, these zones should be stable for a certain period. A continuous process of yearly adjustments of the defined zones will lead to an extremely unfavorable investment climate. Without a clear and robust price signal, which is provided by existing spot markets today (e.g. EPEX spot), future investments in generation capacity may not happen at all.

To conclude, VIK strongly believes that the socio-economic benefits of a very liquid single pricing zone clearly dominates other considerations, and a possible splitting-up of existing zones into several smaller zones would have negative consequences on all market participants. Therefore, zones that are already integrated and have developed a liquid market must be maintained and not be split up, while temporary bottlenecks within such zone should be solved by redispatch, and structural congestion by investments in grid capacity.