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Annual Report on the Monitoring of the EU Wholesale Electricity Market

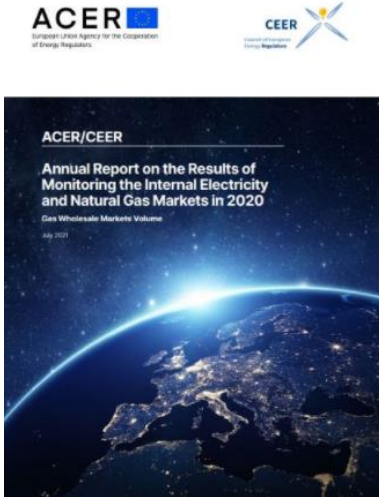
Introduced by Christian Zinglensen – Director, ACER

5 November 2021 / 11:00 – 12:00 CET

- Please be kindly reminded that the **webinar is recorded**
- You are welcome to ask questions at any time during the webinar **in the chat**:
 - When asking a question, please **be concise** and indicate the **topic of the question** (i.e. barriers, market coupling)
 - The Q&A session (20 min) will take place **at the end of the webinar**
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Gas Wholesale

6 July 2021



Electricity Wholesale Today

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Energy Retail and Consumer Protection

10 November 2021



- **Introductory remarks**

Christian Zinglensen, Director, ACER

- **Key findings from the Market Monitoring Report - Electricity Wholesale Volume**

Thomas Querrioux - Market monitoring, ACER

- **Focus: Efficient price formation and easy entry and participation for new entrants and small actors in wholesale electricity markets**

Cristina Vázquez – Market monitoring, ACER

- **Report recommendations**

Thomas Querrioux – Market monitoring, ACER

- **What is your view on how these findings relate to future EU policy challenges and priorities?**

Annamaria Marchi, deputy Head of Unit at DG Energy, European Commission

- **Q&A Session**

Christophe Gence-Creux, Head of Electricity Department, ACER

- **Conclusions**

Annegret Groebel – President, CEER

Key findings

Thomas Querrioux – Electricity Market Monitoring, ACER



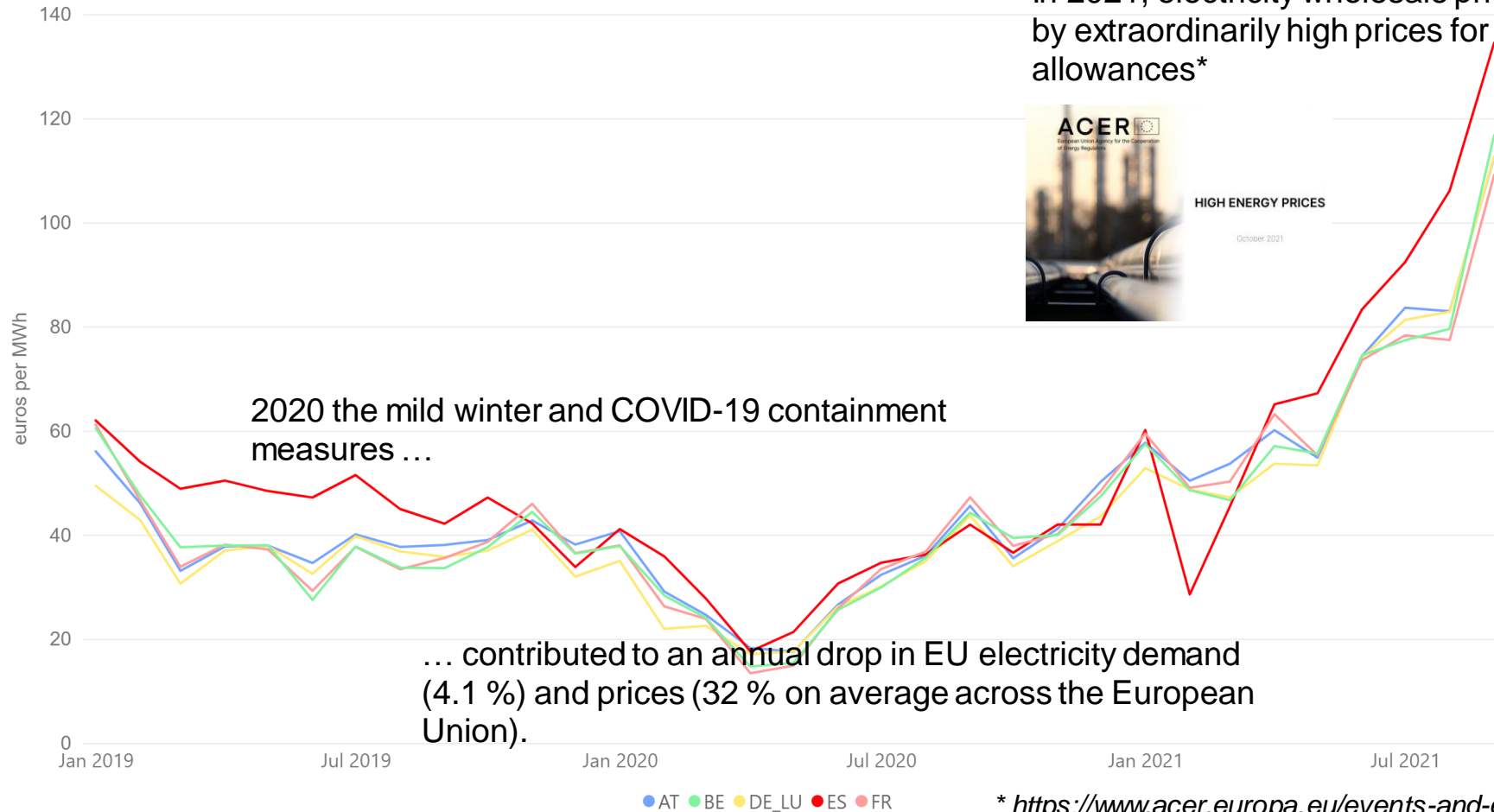
The 10th edition of the MMR Electricity Wholesale volume was released on 4 November.

It consists of three parts :

- market trends (production, demand, prices),
- internal electricity market (capacity, liquidity, efficiency),
- Energy Community countries outlook.

The volume includes in its executive summary an assessment of current challenges to market integration and recommendations to overcome them.

Average Day-Ahead prices in Europe (euros/MWh)



In 2021, electricity wholesale prices increase pushed by extraordinarily high prices for gas and emission allowances*

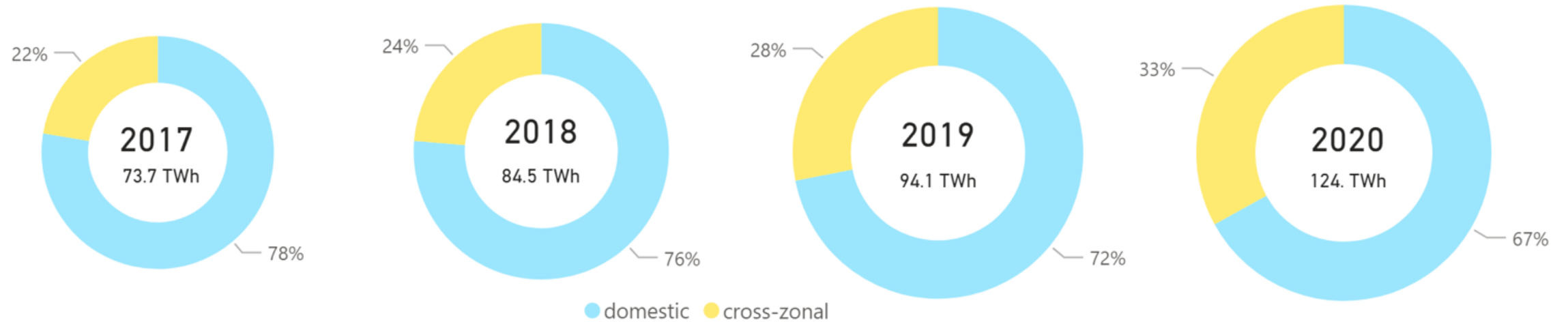


Source: ACER calculations based on ENTSO-E data.

* <https://www.acer.europa.eu/events-and-engagement/news/europes-high-energy-prices-acer-looks-drivers-outlook-and-policy>

In 2020, despite the pandemic, market integration progressed.

Share of continuous ID-traded volumes (intra-zonal vs. cross-zonal) in Europe and yearly continuous ID-traded volumes (% and TWh)



Source: NEMOs and ACER calculations

In 2020, despite the pandemic, market integration progressed.

EU day ahead market areas coupled in 2010 (left) and 2021 (right)



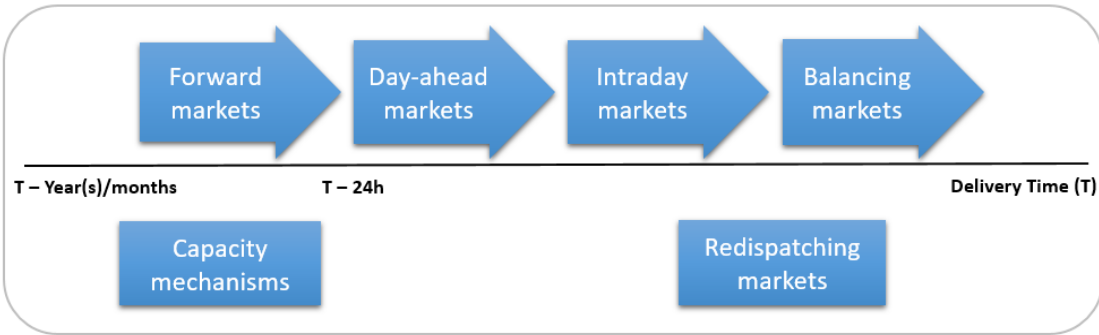
Source: NEMOs

Focus: barriers to efficient price formation and easy market entry and participation

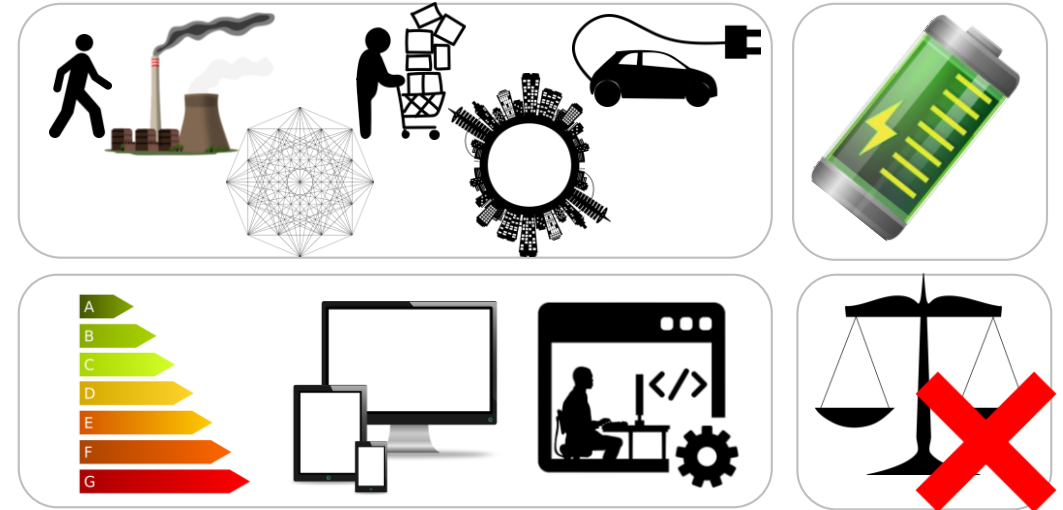
Cristina Vázquez – Electricity Market Monitoring, ACER

A wide scope to identify barriers...

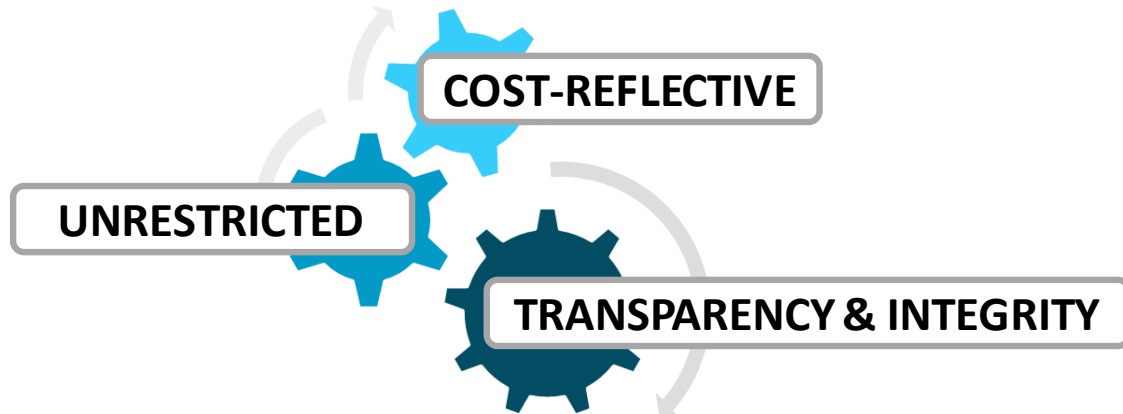
PRICE FORMATION



NEW ENTRANTS AND SMALL ACTORS



BARRIERS TO EFFICIENT PRICE FORMATION



BARRIERS FOR NEW ENTRANTS AND SMALL ACTORS



Barriers analysed in the 2020 MMR

BARRIERS TO EFFICIENT PRICE FORMATION

Upcoming MMRs:

- Distortions due to support schemes
- Distortions due to capacity mechanisms
- Market integrity issues
- Insufficient market transparency
- Issues related to network tariffs

2020MMR:

- Price limits
- Restrictions in balancing markets
- Limited competitive pressure and liquidity
Insufficient cross-zonal capacity
- Bidding zones not reflecting structural congestions

BARRIERS FOR NEW/SMALL ACTORS

2020MMR:

- End-user price interventions
- Low incentive for dynamic retail contracts
- Insufficient information provided by system operators

2020MMR:

- Lack of a proper legal framework
- Restrictions in balancing markets
- Restrictions in capacity mechanisms and interruptibility schemes
- Low competitive pressure in retail markets

Upcoming MMRs:

- Complex administrative and financial requirements
- Lack of incentives for non-wire alternatives

To a greater or lesser extent all MSs have some barriers ...

BARRIERS TO EFFICIENT PRICE FORMATION																												
Price limits and restrictions on features of imbalance settlement	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Limited competitive pressure and/or liquidity in wholesale markets	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Insufficient cross-zonal capacity	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Bidding zones not reflecting structural congestions	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Restrictive requirements in prequalification and/or the design of products for balancing	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
End-user price interventions	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Limited incentive to contract dynamic retail prices	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Insufficient information provided by system operators	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK

BARRIERS TO ENTRY AND PARTICIPATION FOR NEW ENTRANTS AND SMALL ACTORS																												
Restrictive requirements in prequalification and/or the design of products for balancing	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Lack of a proper legal framework to enable new entrants and small players	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Restrictive requirements to participate in capacity mechanisms and interruptibility schemes	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Limited competitive pressure in the retail market	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
End-user price interventions	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
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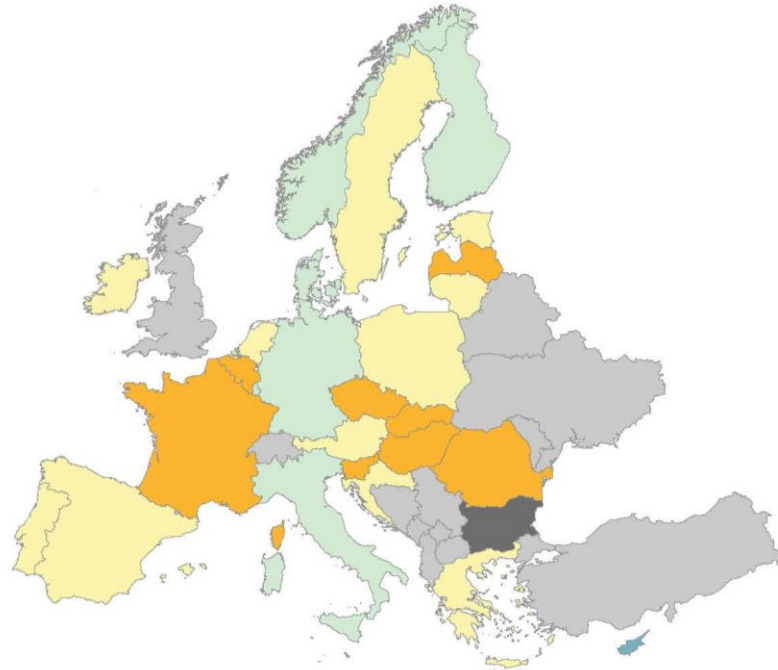
Despite some MSs overall performance looks satisfactory, in some cases severe underlying restrictions may still apply

Note: "High" refers to a barrier score ≤ 0.2 , "moderate" to $0.2 < x \leq 0.4$, "light" to $0.4 < x \leq 0.6$ and not restrictive to $x > 0.6$. NA (not available) refers to Member States where it was not possible to assess the barrier due to insufficient data available. None (not applicable) refers to Member States where the barrier does not apply, e.g. if no capacity market was operational, if there were no price interventions in the retail price settings, etc.

Efficient price formation: the most common barriers...(1/2)



Limited competitive pressure and/or liquidity in wholesale markets

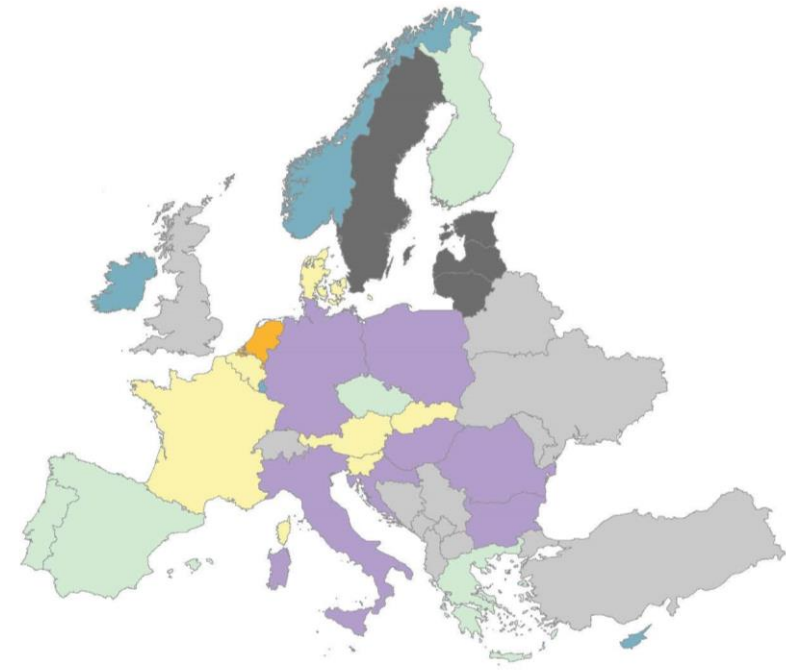


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- Most have a high market concentration
- Some production required to be sold at regulated prices in FR, RO, IE and IT

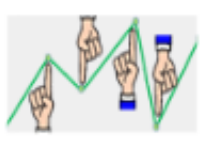


Insufficient capacity available for cross-zonal trade



Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- The TSOs of the Core Region (particularly DE and PL), and those in IT, BG, HR, HU and RO need to make the biggest efforts to meet the minimum 70 % target

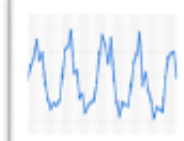


End-user price interventions

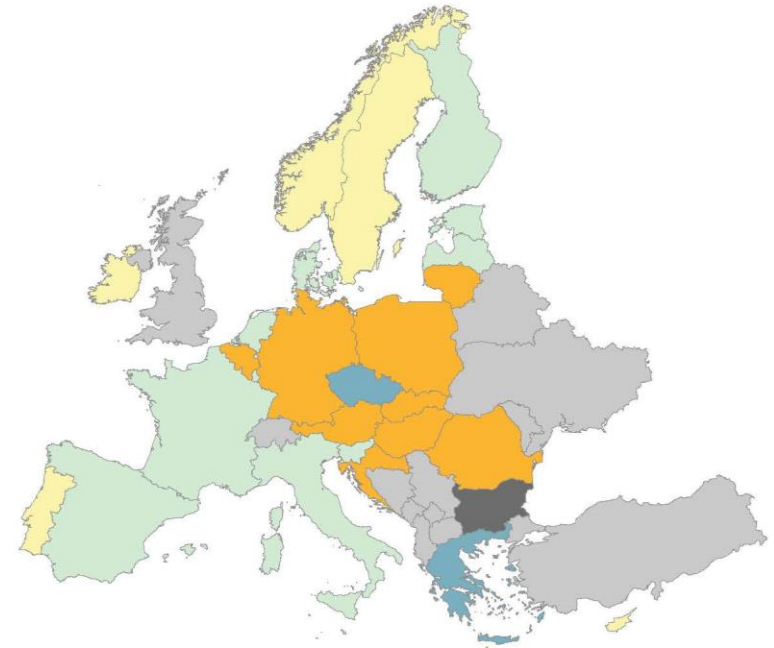


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- > 50% households with price intervention
- Most consumers with price intervention are not defined as vulnerable



Limited incentive to contract dynamic retail prices



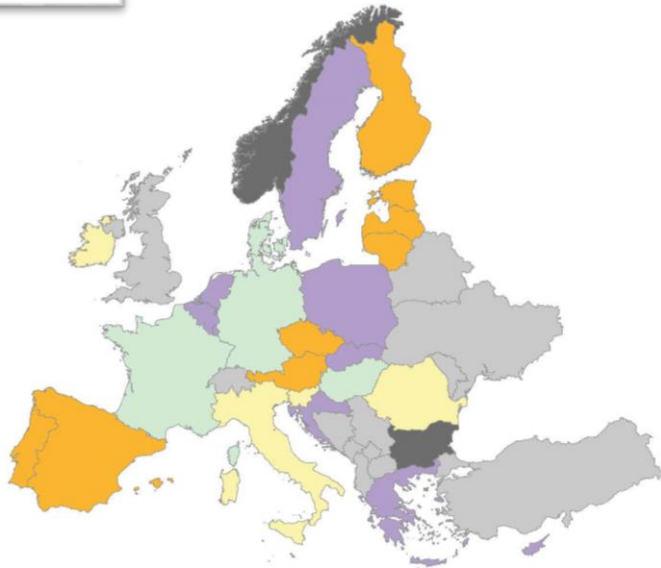
Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- All have a low roll-out rate of smart meters
- Most with a low share of the energy component in the electricity bills and a limited DA price differentials

New entrants and small actors: the most common barriers...



Lack of a proper legal framework

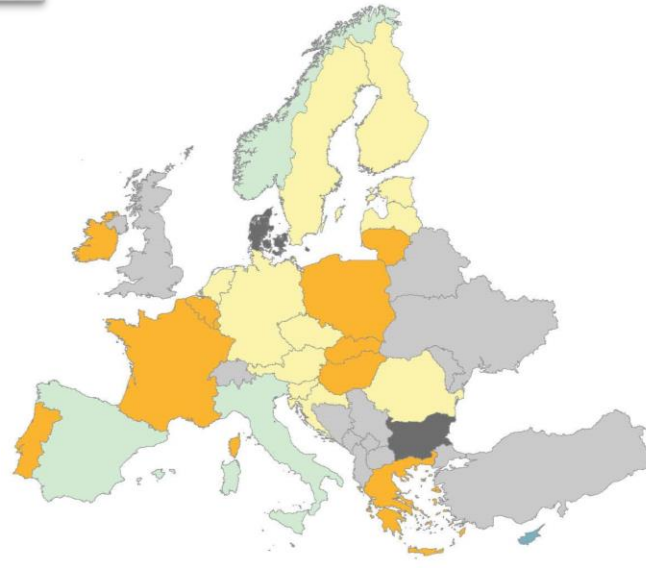


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA

- Main roles and responsibilities not defined
- Not eligible to participate in most market timeframes or provide TSO and DSO services



Limited competitive pressure in the retail market

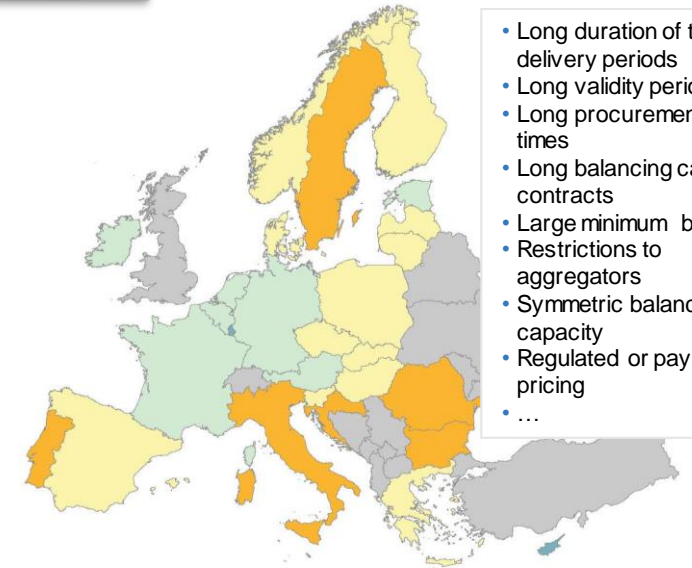


Barrier ● High ● Moderate ● Light ● Not restrictive ● NA ● None

- Most with highly concentrated retail markets
- Some with low entry/exit activity and negative correlation energy component of retail prices / wholesale prices



Restrictive requirements in balancing markets



Barrier ● High ● Moderate ● Light ● Not restrictive ● None

- E.g. Minimum bid size higher than 1MW (RO, CZ, BG, PT, FR)
- E.g. Balancing capacity products procured year or month-head (LT, SK, SL, HR, CZ, HU)

- Long duration of the delivery periods
- Long validity periods
- Long procurement lead-times
- Long balancing capacity contracts
- Large minimum bid sizes
- Restrictions to aggregators
- Symmetric balancing capacity
- Regulated or pay-as-bid pricing
- ...

End-user price interventions and a limited incentive to contract dynamic prices may also hinder participation of new and small market players

Less common barriers but also relevant in a lower number of MSs...

	Efficient price formation	New and small market players
 <p>Bidding limits (Iberian and Italian DA and ID markets)</p>	✘	
 <p>Bidding zones not reflecting structural congestions (DE)</p>	✘	
 <p>Some design features of balancing markets impacting price formation (HR and SK)</p>	✘	
 <p>Restrictive requirements to participate in capacity mechanisms and interruptibility schemes (DE, FR, GR)</p>		✘
 <p>Insufficient information provided by system operators (Baltic, SE and IE TSOs)</p>	✘	✘

Some recommendations to take away...

MSs/NRAs:

- Remove **explicit wholesale price restrictions**
- Review potential **restrictive** requirements and design features of **capacity mechanisms**
- Urgently transpose the Electricity Directive defining proper **national legal frameworks for new and small players**
- In line with the Electricity Directive, **protect vulnerable consumers without interfering with free price formation**
- Speed-up the **roll-out of smart meters** and **reduce taxes and levies** in the electricity bills to incentivize demand response

TSOs:

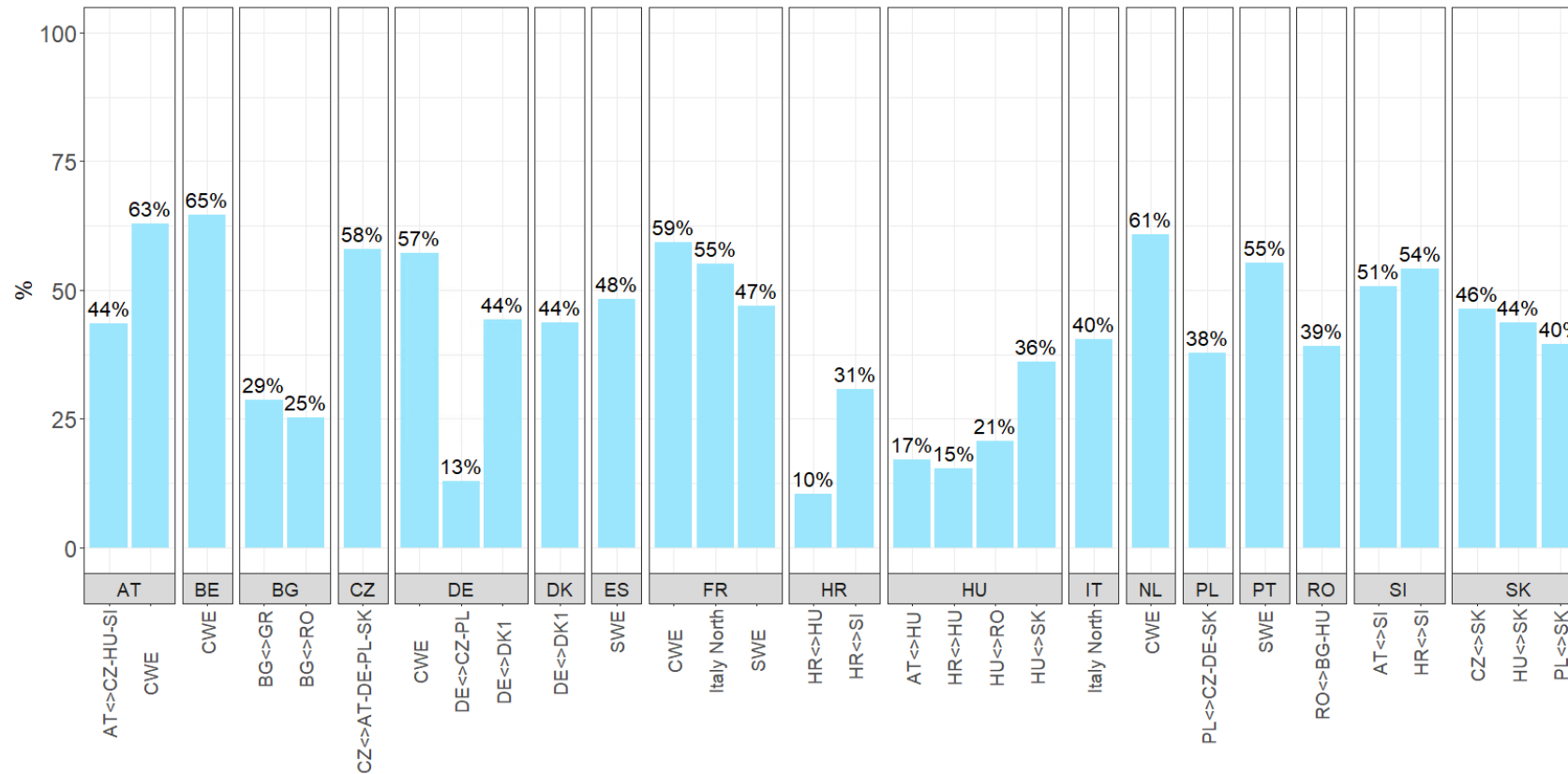
- Increase **cross-zonal capacity** and perform an unbiased, sound, technical and neutral **bidding zone review**
- Review potential **restrictive requirements** and design features of **balancing markets**
- Increase their levels of **transparency in information sharing**

Recommendations

Thomas Querrioux – Electricity Market Monitoring, ACER

The first group of recommendations aims at increasing the amount of cross-zonal capacity made available for trading

Average margin available on elements where the minimum 70% target is not reached – second semester of 2020

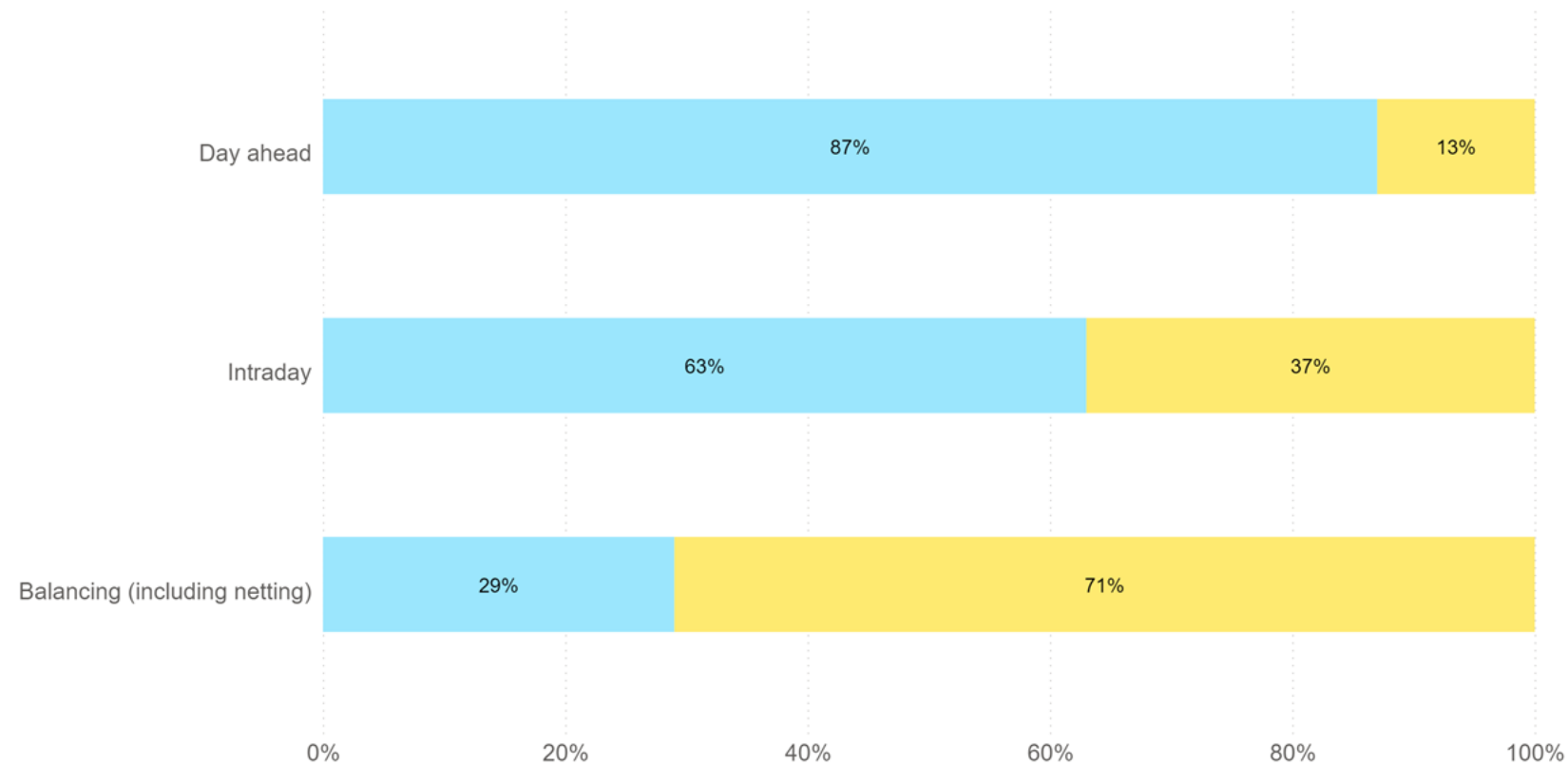


Source: ACER elaboration based on TSOs data and ENTSO-E transparency platform

[*https://www.acer.europa.eu/en/Electricity/Market%20monitoring/Pages/Cross-zonal-capacity-70-target.aspx](https://www.acer.europa.eu/en/Electricity/Market%20monitoring/Pages/Cross-zonal-capacity-70-target.aspx)

The second group of recommendations aims to ensure the effective completion of the integration progress across all market timeframes.

Efficient use of interconnectors in the different timeframes in 2020 (%)

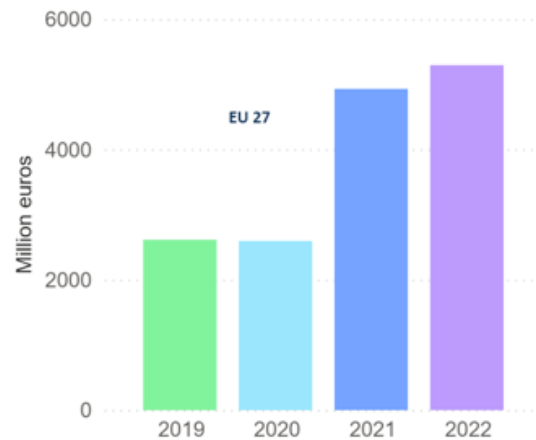
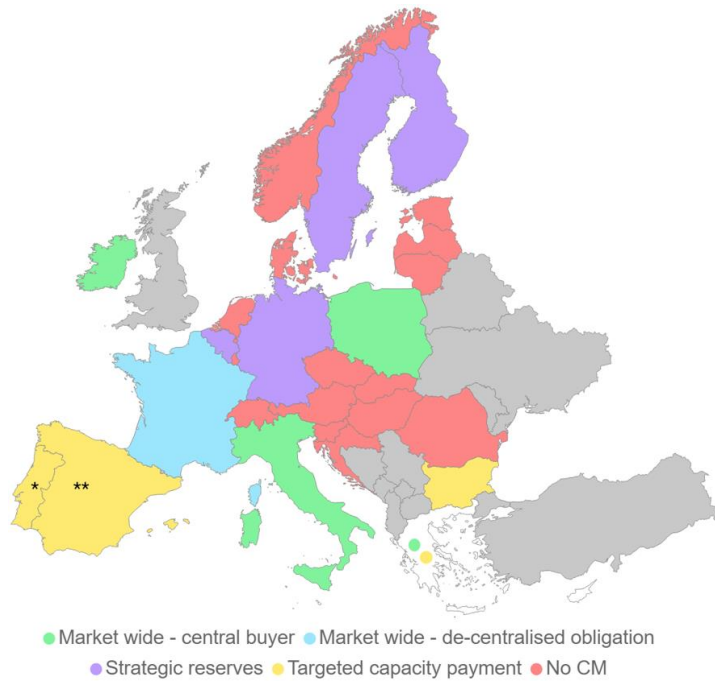


Note: Intraday and balancing values are based on a selection of EU borders.

Source: ENTSO-E transparency platform and ACER calculations

The fourth group of recommendations aims to address adequacy concerns in an efficient manner.

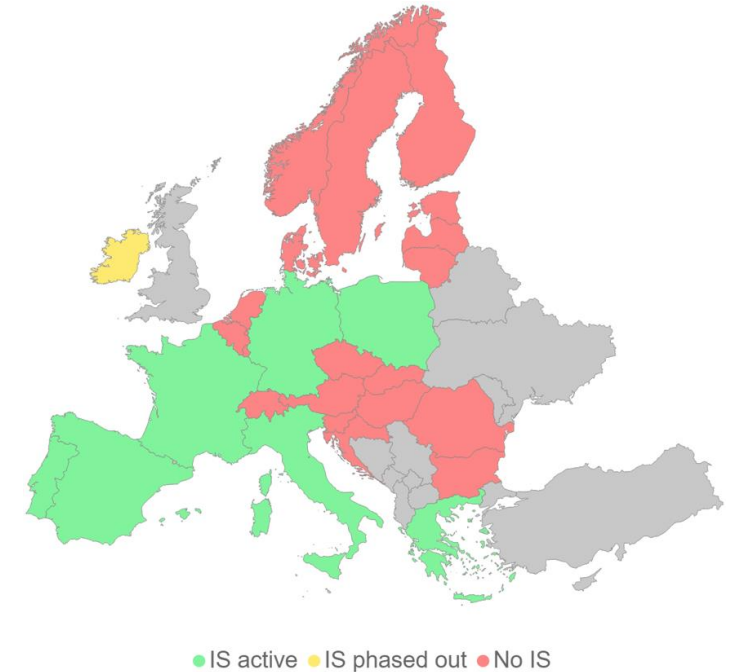
Overview of capacity mechanisms in Europe (left) – 2020 and associated costs (right) – 2019 - 2022 (million euros)



Source: ACER calculations based on NRAs data.

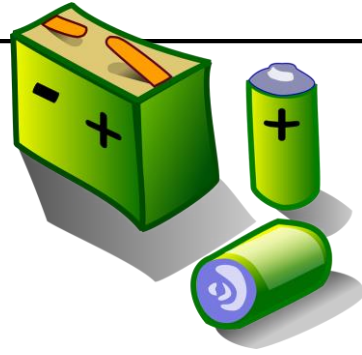
Source: NRAs.

Interruptibility schemes in Europe in 2020



Source: ACER based on information provided by the NRAs and, in case of France, by the TSO.

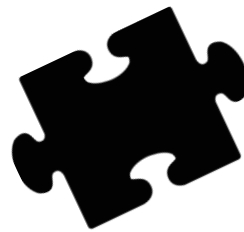
1. Implement re-dispatching and countertrading;
2. Amend capacity calculation methodologies (CEP);
3. Bidding zone reviews.



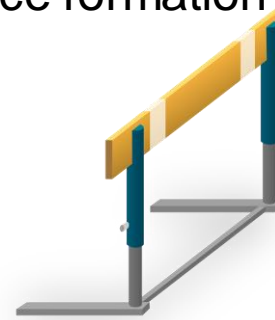
I. Increase the amount of cross – zonal capacity

II. Complete market integration accross all timeframes

4. Market coupling.
5. Common grid model methodologies
6. Electricity Balancing Guideline
7. Pan-European intraday auctions for pricing cross-zonal capacity
8. Improve forward markets



III. Remove barriers to market entry and price formation



IV. Efficiently address adequacy concerns



9. Remove wholesale price restrictions;
10. Review requirements for prequalification and aggregation,
11. Transposition of the Electricity Directive;
12. Protect vulnerable consumers without interfering with free price formation;
13. Roll-out of smart meters;
14. Reduce non-contestable charges in electricity bills;
15. TSOs to increase transparency.
16. Adequacy assessments at the EU and national levels;
17. Only capacity mechanisms where needed
18. Dedicated interruptibility schemes only when no alternative.

How these findings relate to future EU policy challenges and priorities?

Annamaria Marchi, deputy Head of Unit at DG Energy, European Commission

Q&A

Please submit your questions with your name and affiliation via the **chat function**.

Moderator: Christophe Gence-Creux, Head of Electricity Department, ACER

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Conclusions

Annegret Groebel – President, CEER

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