2nd questionnaire on transition costs

Bidding zone review

final

Authors

14 March 2023

Privileged and Confidential

# Introduction

The methodology for the bidding zone review process[[1]](#footnote-2) (hereafter Methodology) asks for the evaluation of the transition costs occurring from a bidding zone reconfiguration. This questionnaire is supplementing the first questionnaire (conducted from 6 September 2022 to 14 November 2022) to collect more data to establish a quantitative basis for the estimation of transition costs. As set out in the methodology, it does so for each bidding zone and bidding zone reconfiguration. As such, it informs the bidding zone review *transition cost* criterium.

### Relevant bidding zone configurations

As established in the ACER decision 11-2022[[2]](#footnote-3) on the alternative bidding zone (BZ) configurations from August 8th 2022 and the subsequent decision for the BZ review region Central Europe to analyse the fallback configurations for Germany, the following reconfigurations will be evaluated[[3]](#footnote-4) for the first step of the BZ review:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Identifier (according to ACER decision) | BZRR | Number of BZs per Member State | Source (ACER’s algorithm/TSOs) | Reference in ACER decision 2022-11 (Annex I) |
| 2 | CE | DE2 | Modified version of Spectral P1 | p. 5 |
| 5 | CE | FR3 | Spectral P1 | p. 8 |
| 6 | CE | IT2 | k-means | p. 9 |
| 7 | CE | NL2 | Spectral DIRC | p. 10 |
| 8 | Nordic | SE3 | Spectral P1 | p. 11 |
| 9 | Nordic | SE3 | Modified version of Spectral P1 | p. 12 |
| 10 | Nordic | SE4 | Spectral P1 | p. 13 |
| 11 | Nordic | SE4 | Modified version of Spectral P1 | p. 14 |
| 12 | CE | DE3 | Fallback configuration for configuration 3 | p. 15 |
| 13 | CE | DE4 | Fallback configuration for configuration 4 | p. 16 |
| 14 | CE | DE5 | Fallback configuration for configuration 1 | p. 17 |

The combinations for central Europe to be analysed in a second step as set forth in ACER decision 11-2022 are not known yet and cannot be found in the cost table to be filled out.

You can also open this table to a new tab to facilitate filling out the questionnaire on the following pages.

### What do we mean with transition costs

The definition of transition costs is set forth in article 15.11 (a) of the Methodology. Transition costs:

* Are one-off costs, expected to be incurred in case the BZ configuration is amended;
* Shall relate to adaptations that are inherently and unambiguously related to a specific BZ configuration change;
* Shall not relate to adaptations that are, in general, necessary to ensure sufficient flexibility of the systems to cope with a variable number of BZs due to a potential amendment of the BZ configuration in the future;
* Shall include an estimation of the cost of amending existing contractual obligations incurred by market participants, NEMOs and TSOs. Such estimation shall reflect the expected implementation timeline for an eventual BZ change, and the fact that when deciding on the implementation date, Member States are required to balance the need for expeditiousness with practical considerations, including forward trade of electricity.

Transition costs arise for different reasons, such as changes to business processes or adjustment of private contracts, and they are incurred by different actors, such as retailers, grid operators, traders or power exchanges. The purpose of this questionnaire is to gather empirically estimates of the different transition costs from different stakeholders. In subsequent steps these estimates will be analysed and extrapolated based on the received information to quantify transition costs for the reconfiguration of bidding zones.

**Examples** of transition costs include:

* re-structuring of teams responsible for specific bidding zones;
* re-negotiation of on-going contracts; and
* costs of adapting existing IT processes to specific BZ configurations.

Transition costs do **not include**:

* IT investments necessary to introduce flexibility of the IT systems in general; or
* a devaluation of assets due to price changes.

### How we are going to treat and process the data

The transition cost evaluation used in the assessment of BZ configurations will greatly depend on the results of the two questionnaires on transition costs. Cost estimates are based on the cleaned data from the previous questionnaire, complemented, as the case may be, with the additional responses received with this second questionnaire. Specifically, the data from both questionnaires is checked for robustness by standard methods like a comparison to benchmarks, matching techniques and statistical techniques. Please note that some of the questions are included to control for and test confounding factors and are not included as transition costs themselves. The total cost per market participant group, bidding zone and bidding zone reconfiguration is then extrapolated by scaling the cost estimates based on various market metrics. Due to the remaining uncertainty following from this approach, the cost estimates are depicted as a range. In addition, the relative importance of the different transition cost categories is evaluated and the impact of a change in lead time for the different market participants is analysed. Therefore, all responses are highly appreciated, and additional written remarks are requested.

We would like to make the respondents aware that the **data submitted will not be shared with any market participant**. However, **anonymised versions** of this questionnaire might be shared with the responsible national regulatory authorities and/or ACER.

The next section will provide an overview of the cost categories used for the questionnaire. Afterwards, the questionnaire itself is structured as follows: The first sub-section enquires about the background and market role of the recipient. The second section covers the actual cost estimates. The third and last section addresses the effects of intra-company transactions on liquidity, a topic not directly related to transition costs, but relevant for the overall BZ review.

In case of questions, please contact Gjorgji Shemov (gjorgji.shemov@entsoe.eu).

# Cost categories

The table below provides an overview of the different cost categories assessed and provides several practical examples to facilitate filling out the questionnaire.

You can also open this table to a new tab to facilitate filling out the questionnaire on the following pages.

|  |  |  |
| --- | --- | --- |
| * 1. **Cost category** | * 1. **Definition** | * 1. **Transition cost examples** |
| * 1. Changes to internal **business processes and IT systems** | Costs incurred by changes to organization and coordination specifically attributable to BZ reconfiguration | * Adapting existing IT systems to specific BZ configurations * Costs associated to the efforts (FTE) linked to changing of processes like for example:   + splitting or merging teams that are responsible for a specific BZ   + changing trading or algorithmic trading processes   + going through the process of revaluating assets   + adopting portfolio optimisation processes   + adopting processes around the payment of renewable subsidies like feed-in-tariffs   + testing changed processes   + informing employees about the changed processes * changes to other ongoing exchanges between market participants and TSOs and public bodies, for example balancing and electricity balancing accounts |
| * 1. Adjustment to or termination of **contracts and regulation** | * 1. Costs incurred by amending existing contracts to BZ reconfiguration including legal costs | * Re-negotiation, or termination of contracts, depending on their complexity. Particularly, if the reference location of price changes or is not accepted by contract parties anymore (incl. GOs, PPAs, legal arrangements) * Re-drawing of legislation, for instance contracts/legislation that refer to a single bidding zone, that does not exist anymore after a BZ reconfiguration * Possible costs, because electricity sold forward is affected (will apply mainly in case of shorter lead times) |
| * 1. Adjustments of processes with **NEMOs**, **TSOs and public bodies** | * 1. Costs incurred by adapting interaction with NEMOs, TSOs or public bodies | * Reporting obligations that must be adjusted to be specific for each new BZ |
| * 1. **Additional costs** | * 1. Any costs directly related to the BZ configuration not covered by any of the categories above | * Any examples not covered above |

# Questionnaire

* 1. **General questions**

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

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Company name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Address: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Contact details, e-mail: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Contact details, phone: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. As what kind of organisation do you qualify?  
     
    Generator or storage operator  
    Large-scale industrial consumer  
    Energy trader

Retailer  
 Aggregator  
☐ NEMO, clearing house, derivative exchange or delegated operator  
☐ Ministries or National Regulatory Authority  
☐ TSO  
☐ DSO  
Other: \_\_\_\_\_\_\_\_\_\_\_\_\_

* 1. In case you qualify as a generator or storage operator, consumer, energy trader or retailer/aggregator, what are your generated, consumed or throughput quantities in 2021 in TWh per BZ?

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* 1. In case you qualify as a generator, consumer, energy trader or retailer/aggregator, what is your annual turnover per BZ?

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* 1. In case you qualify as a generator or storage operator, what is your installed capacity per BZ?

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1. Have you been affected by a past BZ reconfiguration in a way that incurred transition costs?  
    Yes  No
   1. If yes, please note the specific reconfiguration that affected you:  
        
        
      \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
   2. If yes, was your main area (the area where you are most active in in terms of generated/ traded/ throughput/ consumed/ overseen volume) of business subject to reconfiguration or have you been affected by a reconfiguration outside your main area of business?  
        
      \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
   3. If yes, what was the lead-time for this reconfiguration and how did the lead-time affect your transition costs?  
        
      \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

* 1. **Estimates of transition costs for BZ reconfiguration**

In the file below, please share your estimates of the transition costs per cost category you expect to incur in case of a BZ reconfiguration. Please indicate whether you expect your costs to vary across countries and the proposed BZ reconfigurations. If this is the case, please provide your cost estimates for each proposed BZ configuration in the Excel file provided for download further below on this page.

Please provide a **lump-sum cost estimate** in the column/field “**total personnel costs**”. Please specify additionally, if possible, these **transition costs in terms of full time equivalents (FTEs)** for new and existing staff. Please further estimate, if possible, the **average FTE** cost for the respective cost category. In case no FTE cost is provided, a country standard rate will be assumed. Transition costs that are not personnel costs shall be included in the column/field “**other cost**”.

In the column/field on the estimate of the share of transition costs independent of company size, please insert your estimation of the share of costs that are **“fixed” costs of a BZ-split**, i.e. which are not dependent on company size.

For your cost estimates, please assume a **lead-time of three years**, meaning that affected entities will have three years of time between the announcement of the BZ reconfiguration and the actual reconfiguration to adjust their operations.

Please provide a clear description of the cost items and corresponding cost estimates in the cell/field “**description of the cost**” for both personnel costs and other costs.

Any cost item for which a clear description is not provided, may be disregarded.

Please fill out the cost estimates in terms of “**2022 Euros**”, meaning that you estimate what your costs would be based on the prices of goods and services in 2022. This means that you do not need to make your own estimation with regards to what the prices of, say, IT services will be in the future. Compass Lexecon will then be using consistent inflation assumptions for the different cost estimates.

**Please see below an overview of all cost estimates and further information that you will be asked to provide below on this page.**

You can also open this table to a new tab to facilitate filling out the questionnaire in the following sections.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Personnel costs** | | | | **Other** | **Estimated share of transition** | **Description of the cost** |
| **costs independent of** |
| **company size** |
| **Transition cost category:** | **Transition cost** | **Total personnel costs** [EUR] | FTE  (**existing staff**)  [total #] \* | FTE  (**new staff**)  [total #] \* | **Cost** per FTE  [EUR / #] \* | **Other cost** (in total during lead time) [EUR] | [%] | [text] |
| **sub-category:** |
| Changes to internal and external **business processes** and **IT systems** | IT Systems |  |  |  |  |  |  |  |
| Business Processes |  |  |  |  |  |  |  |
| Adjustment to or termination of **contracts and regulation** | Re-negotiation, or termination of contracts, depending on their complexity |  |  |  |  |  |  |  |
| Re-drawing of legislation |  |  |  |  |  |  |  |
| Other transition costs attributable to adjustment to or termination of contracts and regulation |  |  |  |  |  |  |  |
| Adjustments of **processes with TSOs and public bodies** | Reporting obligations that must be adjusted to be specific for each new BZ |  |  |  |  |  |  |  |
| Other costs attributable to adjustments of processes with TSOs and public bodies |  |  |  |  |  |  |  |
| **Additional costs** | Any examples not covered above |  |  |  |  |  |  |  |
| Notes: | \* The columns on existing and new number of FTE [#] and cost per FTE [EUR / #] are optional and can be given in addition to total personnel costs [EUR]. | | | | | | | |
| In case the cost sub-category is not applicable to you, please insert "NA". | | | | | | | |
| Please explain the exact costs in the column “description of the cost”. | | | | | | | |
| FTE = Full Time Equivalents | | | | | | | |
| BZ = Bidding Zone | | | | | | | |

**Please answer the following questions**

***Note:* *For questions that allow you to provide different information per BZ, please download the Excel file here to provide your answers.***

* + 1. Please indicate which of the following proposed BZ reconfigurations (as listed in ACER decision 11-2022 Annex 1) would affect you

☐ DE2 (2)

☐ FR3 (5)

☐ IT2 (6)

☐ NL2 (7)

☐ SE3 (8)

☐ SE3 (9)

☐ SE4 (10)

☐ SE4 (11)

☐ DE3 (12)

☐ DE4 (13)

☐ DE5 (14)

* + 1. If you were affected by proposed BZ changes in more than one country, do you expect to incur different costs across countries?

☐ Yes ☐ No

* + - 1. If yes, please provide a reasoning why costs would be or would not be different depending on the country

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* + - 1. If yes, please fill in the Excel file, enter your cost estimates for each relevant BZ reconfiguration in a separate tab in the file, and upload the file again at the end of this section.
      2. If no, please give your cost estimates for a BZ reconfiguration in questions 4-11.
    1. If you were affected by more than one proposed BZ reconfiguration within one country, do you expect to incur different costs depending on the specific BZ reconfiguration?

☐ Yes ☐ No

* + - 1. If yes, please provide a reasoning why costs would be or would not be different depending on the BZ configuration
      2. If yes, please fill in the Excel file, enter your cost estimates for each relevant BZ reconfiguration in a separate tab in the file, and upload the file again at the end of this section.
      3. If no, please give your cost estimates for a BZ reconfiguration in questions 4-11.
    1. Please indicate your estimated costs and further information for **IT systems** per proposed BZ configuration
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for IT systems to be independent of company size [%]
      3. Please provide a reasoning for the indicated personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **business processes** per proposed BZ configuration
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for business processes to be independent of company size [%]
      3. Please provide a reasoning for the indicated personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **re-negotiation or termination of contracts, depending on their complexity**, per proposed BZ configuration
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for re-negotiation or termination of contracts to be independent of company size [%]
      3. Please provide a reasoning for the indicated numbers of personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **re-drawing of legislation** per proposed BZ configuration (note: questions i, ii, iii are optional)
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for re-drawing of legislation to be independent of company size [%]
      3. Please provide a reasoning for the indicated numbers of personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **other transition costs attributable to adjustment to or termination of contracts and regulation** per proposed BZ configuration (note: questions i, ii, iii are optional)
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for other transition costs attributable to adjustment to or termination of contracts and regulation to be independent of company size [%]
      3. Please provide a reasoning for the indicated numbers of personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **reporting obligations that must be adjusted to be specific for each new BZ** per proposed BZ configuration
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for reporting obligations that must be adjusted to be specific for each new BZ to be independent of company size [%]
      3. Please provide a reasoning for the indicated numbers of personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **other costs attributable to adjustment of processes with TSOs and public bodies** per proposed BZ configuration
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for other costs attributable to adjustment of processes with TSOs and public bodies to be independent of company size [%]
      3. Please provide a reasoning for the indicated numbers of personnel and other costs

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* + 1. Please indicate your estimated costs and further information for **any examples not covered above** per proposed BZ configuration
       1. I expect to bear total personnel costs in the amount of [EUR]

Total personnel costs under (a.) are broken down into (i, ii, iii); to be answered if possible:

* + - * 1. number of existing staff [FTEs] (total number)
        2. number of new staff [FTEs] (total number)
        3. costs in the amount of [EUR per FTE]
      1. I expect to bear other costs in the amount of [EUR]
      2. I expect a share of transition costs for any examples not covered above to be independent of company size [%]
      3. Please provide a reasoning for the indicated numbers of personnel and other costs

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* + 1. Please indicate which of the following developments in costs you would expect from a lead time of more than three years until the BZ reconfiguration?

☐ Same costs

☐ Lower costs

☐ Higher costs

* + - 1. If you expect higher or lower costs, please provide a reasoning why this would be the case

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* + 1. Please indicate which of the following developments in costs you would expect from a lead time of less than three years until the BZ reconfiguration?

☐ Same costs

☐ Lower costs

☐ Higher costs

* + - 1. If you expect higher or lower costs, please provide a reasoning why this would be the case

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* 1. **Effects of intra-company transactions on liquidity**   
     This section specifically applies to market participants with generation and retail positions that are currently within a single BZ, but which will be spread across different zones after the BZ reconfiguration is implemented.
     1. Do you have generation assets or hold retail positions that will be spread across different zones after the BZ reconfiguration?  
          
        ☐ Yes ☐ No
        + 1. If yes, assuming no changes to today’s market and portfolio landscape, how are the shares of generation or retail distributed across reconfigured zones in TWh per year?  
               
             \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
     2. Please consider the three exemplary market cases below and briefly explain what kind of decision making you would expect in each example. For your answers, consider a short- to medium-term of 4 to 5 years and a market without implicit BZ third-party access.
        + 1. After the BZ reconfiguration, 60 MWh of generation are in a bidding zone without a retail position. Will the market participant/you go through the market, which would increase market liquidity, adjust physical production or retail positions, or approach the reconfiguration through other means (such as buying cross-border transmission rights)?

**Positions in BZ 1 and 2 after reconfiguration**

|  |  |  |
| --- | --- | --- |
|  | BZ 1 | BZ 2 |
| Physical production position | 20 MWh | 80 MWh |
| retail position | 80 MWh | 20 MWh |

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* + - * 1. After the BZ reconfiguration a retail position of 20 MWh has no physical production position in the same BZ. Would the market participant/you withdraw the retail position from BZ 2, rely on the market (and own physical position in BZ 1) to supply the retail position, or approach the reconfiguration through other means (such as buying cross-border transmission rights)?

**Positions in BZ 1 and 2 after reconfiguration**

|  |  |  |
| --- | --- | --- |
|  | BZ 1 | BZ 2 |
| Physical production position | 100 MWh | 0 MWh |
| Retail position | 80 MWh | 20 MWh |

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* + - * 1. After the BZ reconfiguration, a production position of 20 MWh has no corresponding retail position in the same BZ. Would the market participant/you withdraw the production position, sell the generated electricity through the market, or approach the reconfiguration through other means (such as buying cross-border transmission rights)?

**Positions in BZ 1 and 2 after reconfiguration**

|  |  |  |
| --- | --- | --- |
|  | BZ 1 | BZ 2 |
| Production position | 20 MWh | 80 MWh |
| Retail position | 0 MWh | 100 MWh |

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* 1. **Additional remarks**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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1. ACER 29-2020: Methodology and assumptions that are to be used in the bidding zone review process in accordance with Article 14(5) of the Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity [↑](#footnote-ref-2)
2. ACER 11-2022: ACER’s Decision on the alternative bidding zone configurations to be considered in the bidding zone review process [↑](#footnote-ref-3)
3. Please see here for a detailed depiction of the reconfigurations:

   https://www.acer.europa.eu/sites/default/files/documents/Individual%20Decisions\_annex/ACER%20Decision%2011-2022%20on%20alternative%20BZ%20configurations%20-%20Annex%20I%20-%20rectified.pdf [↑](#footnote-ref-4)