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## **MARKET INTEGRATION - THE ROLE OF BIDDING AREAS\***

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### **ABSTRACT**

The change of the European energy market as envisioned in the Commission's 20-20-20-goals will put strain on the transmission network. Heavily varying generation capacity in different areas/regions makes the occurrences of congestion more likely. This calls for changing congestion management regimes. Thus, increasing amounts of intermittent sources may require smaller bidding areas to be applied within various parts of Europe. In this paper we focus on the role of bidding areas for integration on wholesale level. The Nordic Countries, Denmark, Finland, Norway and Sweden have developed a common wholesale market with the power exchange Nord Pool Spot at the center stage. To reflect and manage physical transmission congestions the spot market is divided into bidding areas. Sweden has since liberalization been defined as one bidding area but is to be divided into four areas. Areas reflecting physical transmission constraints have been in use in a flexible manner within Norway for several years. Historically different Norwegian cities may therefore have belonged to larger or smaller bidding areas at different points in time. The purpose of this paper is to test if dividing a market into several bidding areas impedes market integration. The test has been conducted by applying a cointegration model on data from the Nordic electricity market. The study has been divided in two parts. In the first we test for a common Nordic Market, and in the second we test if the split of an area into smaller areas deteriorates market integration

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