

Italian power market: towards the achievement of the EU Target Model



EFET position paper – 16 October 2014

1. Scope of the document

The scope of this document is to identify the main differences between the current Italian electricity market design and the European electricity Target Model presented during the 17th Florence Forum in December 2009. ACER and ENTSO-E through the Framework Guidelines and Network Codes respectively should by the end of 2014 have implemented the electricity Target Model. There are delays and legal challenges, but EFET expects the European Commission, ACER and ENTSO-E in combination to continue setting the rules for the establishment of a European integrated internal electricity market.

Our gap analysis should contribute to identify the electricity market design elements which need to be amended or further developed in Italy. The object is firstly better to align the Italian electricity market design with the EU Target Model and secondly to accelerate the integration of the Italian wholesale market in the wider European one.

2. Executive Summary

The Italian electricity market is one of the biggest markets in Europe. In order to achieve a secure, efficient and competitive European internal market, its integration is of high importance.

Concerning the **forward** market, the Central South Europe region has achieved a good level of harmonisation of auction rules for long-term cross-border transmission capacity allocation. The main remaining obstacles to an efficient cross-border forward market in the region are:

- A lack of transparency regarding capacity calculation and the resulting determination of NTC/ATC values at the Italian borders, and
- Firmness rules on the Italian borders, which do not recognise the fully essential relationship between the electricity price spread on the day of any curtailment and the compensation due to the transmission right owner.

In order to improve both transparency and firmness we propose Terna to evaluate the introduction of periodic buy-back auctions. These would allow market participants correctly to price scarcity information based on a specific TSO request. Transmission rights should be tradable on a secondary trading platform, as already envisaged, and traders should be given the opportunity to “slice and dice” the yearly and monthly rights.

Regarding the **day-ahead (DA)** market, EFET looks forward to the prompt achievement of fully harmonised price coupling of the day-ahead markets of Italy and Slovenia with the NWE area. Key topics to be discussed are:

- The cash settlement, which is not aligned with the common European standard
- The correct functioning of the market coupling with the integration of the PUN calculation.

Some of the most crucial steps that need to be taken to align the Italian market design to the EU Target Model relate to the **intraday (ID)** timeframe. Currently, the cross-border ID design is based on two sessions of explicit auctions in D-1 and D. This set-up is far from a near-to-real-time continuous trading with implicit capacity allocation as stipulated in the Target Model. The ID market is of utmost importance for an efficient electricity market, as it should be designed to allow market participants to balance their positions and consequently contribute to minimising the costs related to the procurement of ancillary services. EFET calls for urgent and appropriate steps by AEEGSI, GME and Terna to move towards the Target Model of continuous intraday trading with implicit capacity allocation.

The European **system balancing** landscape is currently rather heterogeneous, with different TSO and regulatory approaches (e.g. central dispatch vs self-dispatch, advance reserve procurement vs short term calls). Consequently balancing products, procurement methods and imbalance settlement pricing vary widely. The Italian balancing regime is based on a central dispatch model. This renders an exchange of balancing service across national borders more challenging. EFET recommends pursuit of efforts at a European level to harmonise balancing products and other relevant balancing market design elements, in order to improve efficiency in the internal power market close to real time and make cross-border balancing markets possible on a decentralised basis. The bottom-up approach of ENTSO-E based on pilot projects is a valuable start and we acknowledge that Terna is involved in the “TERRE project”. It is however important that the different pilot projects are coordinated and open to stakeholder involvement. As a next step, regulators and TSOs need to adopt a more concerted approach to harmonised products and services.

3. Forward Markets

3.1 The Target Model for Forward Markets

The European electricity Target Model addresses forward markets with the objective to enhance the competitiveness and the integration of the European electricity markets, to create a level-playing field across Europe and stimulate new market entry. In order to achieve these objectives, forward markets should be complemented by the development of forward transmission capacity markets able to provide market participants with the long-term hedging solutions necessary to manage their exposure to both volume (liquidity) and price (cross-border price differentials) risks where they are entering wholesale and retail markets across borders.

Therefore the “Long Term” European Target Model presented by the Project Coordination Group (PCG) during the 17th Florence Forum in December 2009 envisages the following provision:

- TSOs should sell/offer/issue transmission capacity on a forward basis through transmission rights (TR) which could be either physical (Physical Transmission Rights - PTR) or financial (Financial Transmission Rights - FTR):
 - the amount of sold/offered/issued capacity should reflect the available physical capacity;
 - the amount of capacity should be maximized across all timeframes;
 - TRs should be Use It Or Sell It (UIOSI), in case of PTRs.
- Transmission rights could be sold/offered/issued at regional basis and should be granted as options, in case of PTRs and either as options or obligation, in case of FTRs.
- A secondary market for trading of transmission capacity rights should be established and market participants should be given the option to “slice and dice” PTRs should be tradable until the nomination deadline while FTRs until the day-ahead market gate closure.
- Financial firmness of transmission rights should be ensured.
- Harmonisation of transmission capacity access rules, IT interfaces etc. should be addressed at European level.

ACER confirmed the PCG’s approach in its Framework Guidelines on Capacity Allocation and Congestion Management which the European Network Codes on Capacity Allocation and Congestion Management should comply with. As regards forward markets, CACM Guidelines foresee the following:

- Implementation of PTRs as option and subject to UIOSI or FTRs in terms of options or obligations on all European borders and definition of a harmonized set of rules for all borders.
- Establishment of a single European platform for the allocation of long-term transmission rights (PTRs and FTRs) with the possibility to keep regional platforms as a transitional arrangement.
- Harmonisation of nomination rules, deadlines and processes.
- Definition of UIOSI requirements for PTRs establishing the automatic resale (in the daily auction) of non-nominated capacity rights which entitle market participants to receive the PTRs resale value¹.
- Calculation of the amount of long-term capacity rights on the basis of the available technical capacity for each timeframe. NRAs will approve the volume of yearly capacity rights as well as the principle for capacity splitting across different timeframe.
- Provision of a single European platform for secondary trading.

The upcoming European Network Code on Forward Capacity Allocation (FCA NC), now under ACER review, should ensure adequate implementation to the ACER FGs provisions.

3.2 EFET general position on long-term capacity allocation

EFET believes that all TSOs should offer forward (i.e. longer than day-ahead) transmission rights between all bidding zones. The sale of transmission rights is a fundamental part of the business of TSOs and a service that their customers – generation, trading and retail supply businesses – need in order to be able to compete properly in all bidding zones of the internal electricity market.

Market participants need these hedging instruments to achieve efficient cross-border competition along the whole electricity value chain and for all timeframes. Where market participants hold transmission rights, they

¹ The resale value should amount to either the price of the initial auction in case of explicit daily capacity allocation or the day-ahead price differentials between two zones in case of implicit capacity allocation (market coupling).

can compete in neighbouring forward wholesale markets while managing their geographical exposure to volumes and price risks. Forward transmission rights are therefore essential to all market players (generators, traders, suppliers and final customers) and contribute to ease cross-border competition, rationalise price signals, provide additional transparency and therefore increase liquidity on the market and facilitate market entry.

Therefore EFET is in favour of the definition of a common market design at European level for the long-term timeframe with the extension of PTRs and FTRs issued by TSOs on all European borders. Physical Transmission Rights (PTRs) based on the "Use It or Sell It" principle or Financial Transmission Rights as options (not obligations) are the long-term hedging products which should be offered by TSOs between all bidding zones across the EU. Option products give the maximum flexibility for companies to compete across borders and avoid creating new barriers to entry to cross-border market participants. The introduction of FTRs as obligations can be evaluated at a second stage when day-ahead market coupling will be implemented and after a successful experimentation.

EFET believes that, if applied across Europe, the adherence by TSOs to the following principles would promote an efficient market design and facilitate cross-border electricity competition:

- TSOs shall auction physical transmission rights or financial rights with equivalent effects (subject to successful experimentation).
- TSOs shall auction the maximum of available capacity over appropriate timeframes.
- Transmission rights must be firm.
- TSOs must not discriminate against holders of transmission rights purchased in advance of day-ahead and intra-day timeframes (implementation of UIOSI principle).
- Transmission rights need to be fungible in a secondary, traded market.

Moreover, in order to achieve a well-functioning European forward market able to ensure liquidity and non-discriminatory access to all market players, the harmonisation of auction rules at EU level should be considered as a priority and should concentrate on the following issues:

- Product definition (PTRs with UIOSI or FTRs as option) with maturity aligned with the forward electricity products.
- Clear and separate definitions and procedures with respect to "Firmness", "Force Majeure", "System Emergency".
- Secondary market rules.
- Fall back procedures.
- Financial guarantees and payment deposits.
- Operational procedures (e.g. auction timing and deadlines, IT systems etc.).

In addition, EFET wishes to express its position on the following specific issues related to cross-border capacity allocation in the forward timeframe.

CAPACITY CALCULATION

The current capacity calculation process in Europe is not transparent enough. The NTC/ATC approach is used but information about grid models, reliability margin, operational security constraints etc. are not made public. It is then difficult to evaluate if capacity calculation is properly coordinated between TSOs and compliant with the new rules of the NC CACM and Forward Capacity Allocation.

- *Transparency should be ensured by the TSO on the methodology and data used to carry out capacity calculation.*
- *Stakeholders should be informed and involved in the definition of the capacity calculation methodology.*

CAPACITY ALLOCATION – CAPACITY PRODUCTS

The only successful forward rights existing today are PTRs with UIOSI which are directly related to the actual cross-border available transmission capacity. Depending on the exact definition and successful experimentation of FTRs and also depending on the successful extension and functioning of market coupling, some evolution may come in the future towards the introduction of FTRs as options. On the contrary, the introduction of FTRs as obligations may pose problems to market participants since their financial exposure would be consistently increased due to the obligation to pay negative price differences when occurring. The need to manage this higher counterparty risk would entail the implementation of costly solutions, such as in-house guarantee systems or the appointment of a central clearing house. All these elements may contribute to create new barriers to market access, so reducing market liquidity.

TSOs should allocate to market participants the maximum amount of capacity expected to be available in a given hour of a given day, well in advance of the D-1 timeframe. Auctioning at least one year-ahead a significant portion of the available capacity (and most of the remainder monthly or quarterly) would be in line with common term-sales arrangements, and would thus help develop liquidity in a traded secondary capacity market.

The market preference is for allocating base product. It is important that a relevant amount of capacity is offered through "pure" base load products because this serves as an important price signal for commercial purposes and as an index in commercial retail formulas. Other products (peak etc.) can be allocated to market participants if additional capacity can be made available through those products.

In case of allocation of multiple-year products the possibility of capacity hoarding by some market operators should be avoided through a well-balanced splitting of available interconnection capacity between different timeframes.

- *PTRs with UIOSI should be selected as the transmission rights to be allocated on Italian borders, at least in this first phase. The introduction of FTRs as options should be carefully assessed once market coupling will be implemented on all Italian borders.*
- *Yearly and Monthly base products are the most suitable for market participants.*

SECONDARY TRADING

Liquid secondary markets for capacity would enable TSOs to buy back in the market any proportion of rights they turn out to have oversold in advance, for example in order to manage unexpected operational circumstances which can be identified in advance. Therefore, buy-back auctions may allow to correctly price the scarcity information sent to the market by a specific TSOs request. This could help decreasing capacity holders exposure in case of a reduction of available capacity, allowing them to receive a compensation which better reflects the actual market conditions compared, for instance, to a reimbursement amounting to the marginal price of the initial auction at which the curtailed capacity was allocated. However, this buy-back

measure is a market activity which should be used in extraordinary situation and should be monitored by the involved NRAs and ACER.

Clear rules for secondary markets should allow TSOs to inform the market and thereafter arrange a transparent auction to buy back capacity as soon as they realize that too much capacity has been allocated.

- Transmission rights should be exchangeable on a secondary trading platforms and traders should be given the opportunity to “slice and dice” the available yearly and monthly rights.
- The introduction of specific buy-back auctions should be evaluated.

NOMINATION RULES

It is of utmost importance that nomination rules and procedures be harmonised across different borders, since the regulation currently in force are rather heterogeneous. The harmonisation of these rules could substantially improve commercial operation, especially for market participants active in different European countries.

- EFET advocates for the harmonisation of nomination timing, format and aggregation rules (i.e. the methods for the nomination of capacity allocated in different timeframes).
- The creation of a centralised nomination platform, as for auctions, may consistently enhance the outcome of the harmonisation of rules for long term capacity allocation, while further simplifying commercial operations.

BIDDING ZONES

The occasional re-delineation of bidding zones is a basis risk for market participants that cannot be hedged. This may have a strong impact on price differentials among different markets, therefore on the actual value of financial or physical transmission rights. Any re-delineation of bidding zones should be justified by a thorough cost-benefit analysis.

Possible revision of bidding zones should be started sufficiently in advance. In case of re-delineation of bidding zones, legal certainty of existing (long term) contracts, including already allocated transmission rights has to be ensured in order to guarantee the stability of contractual obligations in the electricity markets. For this reason, we think that the implementation of the revision of zones should start sufficiently in advance to ensure a lead-time longer than the longest forward product available in the market, i.e. at least four years. In any case, any re-delineation of bidding zones should enter into force at the beginning of the year in order to facilitate/avoid the amendment of existing contracts' clauses.

In the evaluation of redefinition of zones, it should be finally taken into account that merging bidding zones is more desirable than splitting an existing zone, at least in terms of integration of energy markets. However, merging bidding zones means that existing congestions between two areas are relieved and a single market clearing price can emerge. Thus, existing transmission rights/forward hedging products aimed at covering price differentials between the previously separate areas become useless and market participants should be adequately compensated if the merger happens before their expiration.

The impacts of a possible bidding zone re-delineation on the market should be thoroughly discussed with market participants based on a complete market analysis and taking into account of the access to liquid markets in all bidding zones.

- Possible revision of bidding zones should be started sufficiently in advance to ensure a lead time of at least four years.
- Existing contractual obligation should be safeguarded in case of revision of existing bidding zones.

CAPACITY ALLOCATION PLATFORM

EFET supports the creation of a single auction platform as envisaged in the CACM Framework Guidelines and draft Forward Capacity Allocation Network Code as a valuable solution to enhance market integration by reducing regulatory and technical barriers that may prevent market operators from being active at European scale. Moreover, the opportunity to create a single nomination platform along with the auction platform should be duly investigated as a further contribution to the internal market integration. However, we think that a gradual approach in the transition from regional platforms to a single European one could be the best solution to trigger a smooth harmonisation process without undue effect on market operations.

We believe that, during a first transitional phase, existing regional platforms (e.g. CASC.EU and CAO) should extend their scope to borders on which the allocation of long term interconnection capacity is not carried out by any auction platform (e.g. in south-east Europe). In the meantime, a progressive harmonisation of auction rules in force within existing regional auction platforms should be pursued.

3.3 The current situation in the Central-South Region (CSE)

The Central-South Region (CSE) has achieved a good level of harmonisation of auction rules for long-term cross-border capacity allocation through the extension in 2009² of the services offered by the auction platform managed by CASC.EU to capacity allocation on all the Italian borders. After CSE TSOs joined CASC, a common set of auction rules for Central West Region (CWE), Central South Region (CSE) and Switzerland has been adopted ensuring a more consistent set of operational procedures and a unique IT system for the whole region.

3.4 Assessment of specific market design features in the Central-South Region

	Current design	EU Target Model
Capacity Calculation Method	NTC	NTC
Capacity Allocation	<u>Yearly, monthly and daily</u> (where market coupling is not implemented) <u>explicit capacity auctions</u>	Explicit Capacity Auctions

² On May 19th, 2010 a Memorandum of Understanding was signed by the TSOs of the CSE region and CASC.EU.

Available Transmission Rights	PTR with UIOSI	PTR with UIOSI or FTR (options or obligations)
Secondary Trading	<ul style="list-style-type: none"> • Capacities allocated through Yearly and Monthly Auctions can be transferred • Resale of capacities is possible coming from Yearly Auctions to Monthly base Auctions • Resale of capacities in the daily auctions are performed through the application of the Use-it-or-Sell-it principle 	A secondary market for trading of transmission capacity rights should be established and market participants should be given the option to “slice and dice” the allocated capacity.
Firmness of cross-zonal capacity	<ul style="list-style-type: none"> • Held capacity (yearly and monthly) can be reduced before nomination for reasons linked to the safety of the power system or in the event of Force Majeure before nomination³ • Reduced capacity is reimbursed at a value equal to the marginal price of the initial auction in which capacity was allocated⁴ • Capacity allocated through Daily Auctions is considered firm • Exchange schedules are firm unless in case of Force Majeure⁵ (reimbursement of the initial price paid) 	<ul style="list-style-type: none"> • ACER Framework Guidelines specify that TSOs may only curtail previously allocated transmission rights in cases of an emergency situation or force majeure • ACER FG foresee that: • <i>Physical</i> firmness shall be ensured after nomination. Financial firmness is accepted, though physical firmness is preferred. • Compensation at full day-ahead market spread. In the event of curtailment, and in normal circumstances, the Framework Guidelines envisage compensation at day-ahead spot market spread without any caps. Caps on compensation may be introduced with specific risks (e.g. DC cables) and shall be subject to NRAs’ approval before nomination deadline. • Compensation in case of Force Majeure should correspond to the initial price paid in the auction.

³ On the French-Italian border, in direction from France to Italy, held capacities can be reduced until the programming authorisations are sent. After they have been sent capacity can be curtailed only in case of Force Majeure.

⁴ A coefficient equal to 110% on France-Italy border, in direction France to Italy, is applied in the calculation of the value of reimbursement in case of curtailment due to reasons linked to the safety of the power system.

⁵ On the Austrian-Italian border the Austrian TSO can modify the nominations received also if all the available measure put in place cannot guarantee the Exchange Programs.

Nominations	Different nomination procedures in force for each TSO.	Harmonisation of nomination procedures on borders on which PTRs are offered.
Bidding Zones	National market is subdivided in zones based on power transmission limitations between zones: <ul style="list-style-type: none"> – 6 geographic zones – 4 national virtual zones 	The NC CACM defines a process to assess and to redefine bidding zones configuration. The assessment of the current delimitation of bidding zones in Central Europe is being carried out by ENTSO-E and ACER which have recently published the technical report and the market report respectively. Italian bidding zones internal configuration is not part of ENTSO-E’s project.
Auction Platform	Regional auction Platform managed by CASC.EU.	Establishment of a single European Auction Platform.
Remuneration of PTRs	Day-ahead auction price is remunerated in case of PTRs re-sell. Day-ahead market spread remuneration of PTRs on Italy-Slovenia border.	Remunerated price is the day-ahead market spread between the two markets on borders where market coupling is implemented.

3.5 Conclusions on Forward Capacity Allocation

EFET believes that, compared to day-ahead and intraday timeframes, the current capacity allocation rules in force on all Italian borders (for yearly and monthly timeframes) are generally in line with the provisions of the European Target Model for electricity markets thanks to the harmonisation of auction rules carried in the framework of CASC. Nevertheless, we believe that further harmonisation of auction rules at European level is needed as a tool to facilitate the access to forward electricity markets with possible significant benefits on liquidity and competition. Integration of CASC rules on firmness and compensation of PTRs is still needed: compensation on Italian borders is now set at day-ahead allocation price, but as soon as market coupling is implemented, compensation shall be set at market spread.

As regards the Italian market, we finally wish to highlight few topics to be taken in due consideration for the implementation of the FCA Network Code provisions, besides what we already expressed in the previous paragraphs:

1. Need to keep on maximising the allocation of the available cross-border capacity through base-load products.
2. A partial merger of Italian bidding zones (e.g. a reduction to 2 or 3 zones) together with the suppression of price dualism resulting from the coexistence of a single national purchase price (PUN) and several zonal selling prices would have a positive effects on market liquidity while improving the liquidity of forward markets with increased hedging opportunities.

3. Harmonisation of nomination rules on all the Italian borders and in all directions.

4. Day-Ahead Market

4.1 The Target Model for day-ahead markets

The European Commission has set the goal of completing the single European integrated power market by the end of 2014. For the day-ahead timeframe, a coupling of markets throughout Europe is planned by the end of 2014/ early 2015.

At the 17th Florence Forum, The Project Coordination Group (PCG) presented a Target Model (TM) proposal for the day-ahead market which consists in the implementation of a single price coupling all over Europe based on Flow-Based capacity calculation method.

The TM foresees that one single matching algorithm will establish prices and volumes across all borders between the “PX market areas” and/or bidding areas.

Concerning capacity calculation the TM is the “Flow-Based capacity calculation”, which, as already mentioned will serve as the basis for the implicit allocation (market coupling). Capacity calculation will be based on a common grid model, which is a set of coordinated processes characterised by tight cooperation and coordination between TSOs.

In its Framework Guidelines on Capacity Calculation and Congestion Management (CACM), ACER defines the following market design key principles, which are the corner stones of the rules defined in the NC CACM:

- Flow Based (FB) or ATC method for capacity calculation shall be used. FB is to be preferred in cases where transmission networks are highly meshed (e.g. CWE).
- The capacity calculation method shall be made publicly available. The Common Grid Model, the security assessment methods, the level of security margins and where applicable, the critical branches, shall be clearly and thoroughly explained.
- Available maximum flows (for FB) or available transmission capacity (for ATC) shall be reassessed sufficiently often within the intraday timeframe.
- One or more common grid model(s) suitable for community-wide application shall be established.
- When delineating bidding zones, the TSOs shall be guided by the principle of overall market efficiency. CACM NC shall foresee stable and robust zones over time.
- TSOs shall implement capacity allocation in the day-ahead market on the basis of implicit auctions via a single price coupling algorithm which simultaneously determines volumes and prices in all relevant zones, based on the marginal pricing principle.
- Reduction of allocated capacity may only be used in emergency situations and *Force Majeure*, and when all other means are exhausted (reduction of allocated capacity shall be a last-resort measure).

4.2 Assessment of the Italian day-ahead market design features

After the completion of the NWE day-ahead market coupling project, the SWE (Iberia-NWE) moved ahead towards the Target Model and went live in May 2014.

Day-ahead market coupling at the Italian northern borders is planned to be ready to go live February 2015. A proper inclusion of market participants at the various stages of the project through consultations, workshops and advisory group meetings would have been needed and we think would be useful in the future work.

The current day-ahead market setup foresees that only the Italian and Slovenian day-ahead markets are coupled, while explicit day-ahead auctions take place at the other Italian borders in order to allocate PTRs.

The Italian power market is subdivided in several zones, based mainly on physical transmission limits between adjacent zones. Within this zonal system there are asymmetric prices. The offer side is remunerated based on the zonal price whereas the demand side is paying a single system price (PUN).

	Current design	EU Target Model / FG CACM / Draft NC CACM
Day-ahead market model	Physical DA auction market / pool	DA price coupled power exchange auction
Capacity Allocation	IT-SI: Market coupling (Price Coupling) <u>All other IT borders:</u> explicit DA auctions	Market Coupling (Price Coupling)
Capacity Calculation Method	coordinated NTC	Flow Based, in exception cases coordinated NTC
Cash Settlement	Month + 2 Cash settlement	D + 2 cash settlement
Comments	<p><i>The IT-SI DA markets are coupled, while all the other Italian adjacent markets need to be coupled. Market coupling implementation on Italian borders is foreseen by the end of 2014</i></p> <p><i>Today the capacity calculation process is not transparent. The NTC/ATC approach is used but information about the grid model, reliability margins, operational security constraints etc. is not made public. We cannot judge if capacity calculation is appropriately coordinated between the TSOs. The lack of relevant capacity calculation information hinders improving efficiency and competition, and is not compliant with the NC CACM.</i></p> <p><i>Cash settlement process needs to be aligned with the D+2 common rule across Europe</i></p> <p>→ <i>Transparency regarding capacity calculation by TSOs needs to be enhanced.</i></p>	

	<p>→ <i>Revision of settlement rules needs to be implemented</i></p> <p>→ <i>Stakeholders should be thoroughly informed about coupling projects' actions and time schedules, and they should have the possibility to express their opinion at an early stage.</i></p>	
Zones	<p>National market is subdivided in zones based on power transmission limitations between zones.</p> <ul style="list-style-type: none"> – 6 geographic zones – 4 national virtual zones 	<p>The NC CACM defines a process to assess and to redefine bidding zones configuration.</p>
Supply and demand price	<p>Supply price = zonal price</p> <p>Demand price = unique system price = weighted average of zonal prices</p>	<p>Supply and demand face the same price</p>
Comments	<p>From a process point of view, the assessment and the re-delineation of zones should follow the NC CACM rules. As provided in the NC, the assessment criteria of an alternative bidding zone configuration should focus on overall market efficiency and ensure the stability and robustness of bidding zones.</p> <p>→ <i>Bidding zones review process by AEEGSI and TERNA should be thoroughly discussed with market participants based on a complete market analysis and taking into account of the access to liquid markets in all bidding zones</i></p> <p>From a content point of view, the current splitting of the Italian market represents a discrepancy compared to most other European markets and it may hinder the coupling with the other adjacent markets, due to more complex capacity calculation needs. The integration of the PUN calculation in the EUPHEMIA algorithm may cause delays in the delivery of market results.</p> <p>→ <i>The process of moving from a national multi-zonal delineation to a larger national zone should be assessed in order to avoid possible delays of the coupling process. Market participants should be appropriately informed and consulted.</i></p>	
PX	<p>GME = pool = Central counterparty</p> <p>Physical and financial settlement</p> <p>Not mandatory, OTC transactions are allowed</p> <p>Hourly blocks possible</p>	<p>The PX shall be responsible, among others to perform the tasks of the Market Coupling operator</p>
Power pricing principle	<p>Marginal pricing</p>	<p>Marginal pricing</p>
Comments	<p>Setup, role, products offered and pricing principles are in our view allowing the coupling of the Italian market with other markets.</p>	

<p>Firmness of cross-zonal capacity</p>	<p>Daily capacity on all Italian borders allocated via daily auctions are firm except in case of <i>Force Majeure</i>.</p>	<p>The ACER FG foresee the possibility for TSOs to curtail cross-zonal capacity only in case of <i>Force Majeure</i> or Emergency Situation [paragraph 3.3]. By contrast, the draft CACM Guidelines (29.07.2014) state that TSOs have the “entitlement” to curtail (unbounded) as well as in the event of an ES or for FM.</p>
<p><i>Comments</i></p>	<p>A unique situation (<i>Force Majeure</i>), with the same definition all over the coupled region, triggering a curtailment of cross-zonal capacity after DA gate closure is in EFET view the best solution.</p> <p>→ <i>It seems that the current Firmness provision on Italian borders is preferable compared to the provision in the NC</i></p>	

4.3 Conclusions on day-ahead market

From our perspective there is not a magnitude of technical and market design gaps hindering the coupling of Italy to the CWE/NWE day-ahead markets. The main elements which still have to be assessed are:

- The cash settlement, which in the Italian case is not aligned with the common rules used across Europe
- The correct functioning of the coupling considering the integration of the PUN calculation
- The need of closer coordination with the other TSOs and also more transparency towards market participants on capacity calculation methods, models, parameters in both cases NTC/ATC.

Most important in our view is the involvement of market participants in the development project, which should lead to coupling the Italian day-ahead market to NWE. Market participants require a higher degree of information disclosure concerning intermediate steps and request appropriate involvement in order to contribute with their expertise to the development of potential solutions.

5. Intraday Market

5.1 The Target Model for intraday markets

In the framework of the European Electricity Target Model, a key role is played by the development of and efficient intraday markets, which are supposed to be structured by 2014. The basis target is an enhanced continuous implicit allocation model delivering a sound price signal for capacity reflecting physical congestions.

The envisaged model, as presented by the Project Coordination Group (PCG) during the 17th Florence Forum in December 2009, relies on the following pillars:

- Ease of use, in terms of transparency, accessibility, ready-implementation and user-friendliness of the system.
- Efficiency, i.e. trading closeness to real time, flexibility and fast-matching (30 sec).
- Social welfare maximisation, in terms of full and efficient use and allocation of cross border intraday capacity.

Moreover, the PCG identified two different layers of the intraday Trading Model, the first being the inter-regional cross-border intraday trading solution. The second, optional layer consisted of an intra-national/regional intraday trading solution. The PCG underlined the following basic principles to streamline the process of defining the relevant trading solution:

- Non-interference with any other already existing regional or interregional development program;
- Market-based matching, on an implicit and continuous basis;
- Inclusion of cross-border OTC bids in the trading platform
- Complex products should be tradable (block bidding) on the platform.

Intraday continuous trading gives to market players the possibility to adjust their position as closest as possible to real time and allows a better adaptation to the intermittent RES output. Intraday continuous trading is also important for market development since it reduces TSOs network balancing activities and their related costs and it provides with price signals for investments into more flexible generation capacity.

An exception to continuous trading could be made in cases where there is a “significant” increase of available capacity compared to the day before and regional auctions may be set to complement implicit continuous allocation mechanisms. Where appropriate, specific national/regional intraday trading solutions could be developed, as long as they prove to be compatible with the inter-regional Target Model. The ACER CACM FG stated that *“The CACM Network Code(s) shall also envisage that, where there is sufficient liquidity, regional auctions may complement the implicit continuous allocation mechanism. Where implemented, implicit auctions should have adequate bidding deadlines to provide the necessary flexibility to the market and be coordinated with, and linked to, the pan-European target model”*.

The overall objective of the intraday cross-regional roadmap is to implement the intraday Target Model on all borders in Europe by the end of 2014, through the implementation of a number of cross-regional roadmaps aimed at:

- identifying key milestones at EU and regional level;
- communicating European and regional priorities;
- increasing consistency across the regions and pave the way for the completion of the Internal Electricity Market by 2014;

ACER further defined the model’s features, underlining that the key feature of an intraday market is to enable market participants to trade energy with flexible mechanisms and as close to real-time as possible. Continuous trading enables market participants to react quickly to unexpected events, such as power plants outages for instance, and allow them to be balanced as close as possible to the delivery moment. This is not possible with a centralised auction system with intervals of several hours in between sessions and where no action can be taken.

Finally, the current draft of the ENTSO-E CACM Network Code allows for additional arrangements in addition to the implicit continuous allocation of capacity in the intraday timeframe:

Complementary regional auctions can be approved by NRAs if certain conditions are met:

- regional auctions shall not have an adverse impact on the liquidity of the pan-European Intraday solution;
- all Cross-Zonal Capacity shall be allocated through the Capacity Management Module;
- the regional auction shall not introduce any discrimination between Market Participants from adjacent regions;
- the timescales for regional auctions shall be consistent with the pan-European Intraday solution to enable the Market Participants to trade as close as possible to real-time;
- National Regulatory Authorities shall have consulted the Stakeholder Committee.

As an interim step, explicit allocation of capacity can be provided via the Capacity Management Module if required by the involved NRAs. Explicit allocation should be phased out when sophisticated products will be available on the intraday platforms meeting the specific needs of market participants.

4.2 EFET TF Italy position on the Intraday Target Model

EFET TF Italy deems of utmost importance the implementation of a sound and efficient intraday market, considering this nowadays represents:

- a relevant opportunity for the operators to balance their own portfolio, as an efficient intraday market allows them to fine-tune trading positions in the day of delivery, taking benefit from a better set of information;
- a stimulus for demand-side market participation;
- a tool to reduce system costs, as intraday markets will contribute to reducing TSO's balancing actions in real time.

Continuous trading in efficient and timely intraday market represents the best solution for market participants, as it provides them with a broader set of tools to deal with current market features, such as RES intermittent output⁶. Intraday market integration is necessary in order to enhance market liquidity and promote an efficient deployment and use of renewable sources, since it allows market participants to balance their portfolio after the day-ahead gate closure, with a significant gain in terms of timeliness and efficiency. Similarly, it could play a relevant role in reducing the system balancing costs borne by the TSO and transferred to final customers, and in letting the market providing a sounder price signal for investments in flexible generation capacity.

EFET supports the development and the implementation of cross-border capacity allocation mechanisms based on continuous allocation. The key advantage of this approach is the ability to react quickly to events in this phase of the market via rapid decision-making. This is not achievable with centralised auctions with intervals of several hours where no action can be taken.

⁶ As an example, wind power output forecasts are reliable only on a 4 hours horizon. Therefore, they can only be dealt with a continuous intraday market framework.

4.3 The current situation – focus on the Italian borders

The deployment of the Intraday Target Model included a pilot project in the NWE, followed by a full-scale implementation in 2013. However, a delay in the NWE pilot project - due to difficulties in reaching an agreement on which of the existing platforms would serve as a basis for the development of the European central platform – has postponed the implementation of the new model. As of April 2014, the Early Start Agreement has finally been signed with Deutsche Börse which was selected as supplier of the platform (“DBS” platform) through a European tender process in mid 2013. The implementation of the Target Model appears quite heterogeneous across Europe, as few countries are already fully compliant with it. At present, many countries actually do not have the operational and regulatory environment allowing intraday trading at all during the last hours before real time, either within the zone or across borders (some borders can still not be accessed in intraday and many borders require nominations five to eight hours ahead of real time). These operational constraints prevent market participants from efficiently rebalancing their positions between zones, or benefitting from the liquidity of neighbouring markets.

The European Commission launched in 2009 an infringement procedure against Italy with regard to the adoption of regulation n. 1228/2003 on the integration of regional markets, highlighting (among others) the absence of intraday cross-border capacity allocation mechanism. As a result, Terna, together with TSOs of Austria, France, Switzerland and Slovenia, elaborated Intraday Access Rules for the related borders,

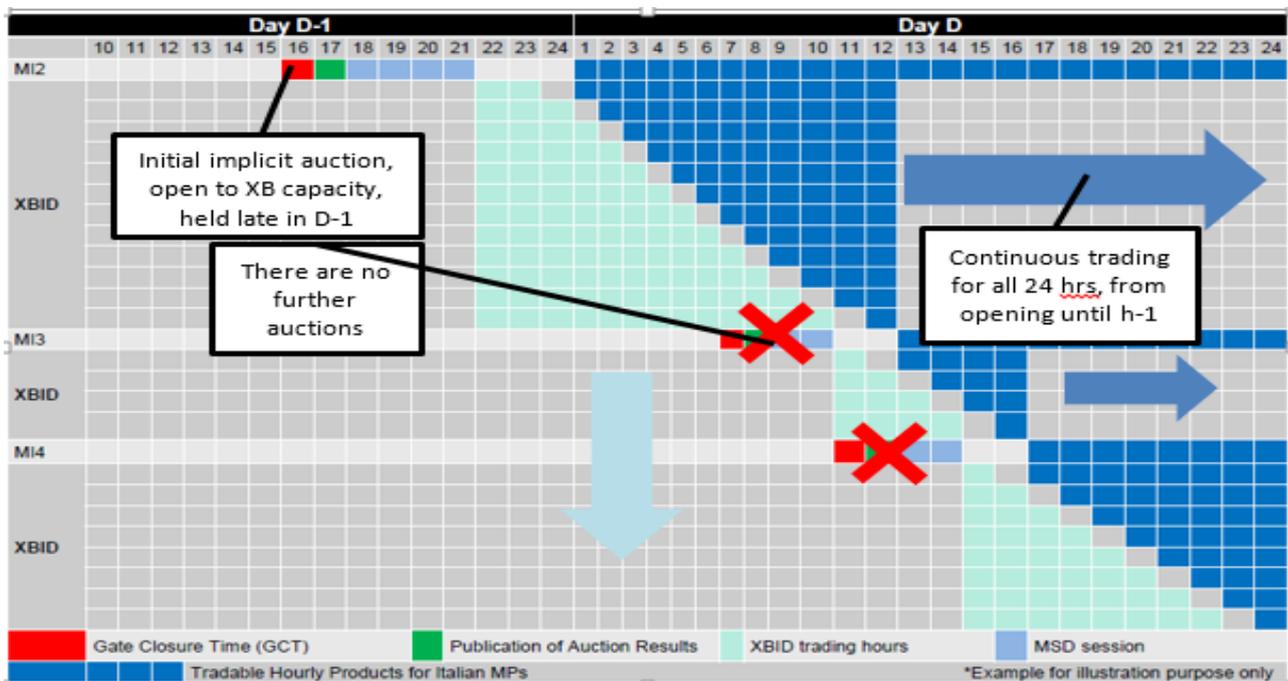
based on explicit auctions. AEEGSI approved the Access Rules with deliberation 179/2012. The current mechanism has to be considered as a “first step” (driven by the infringement procedure) towards the implementation of a well-functioning cross-border intraday market. AEEGSI has formally asked Terna to provide a roadmap for the implementation of rules compliant with the Target Model (due by November 2012, but not finalised yet).

Currently, intraday trading at the Italian borders (excluded the Italy-Greece interconnector) is based on explicit auctions for the allocation of the available transmission capacity. Physical Transmission Rights (PTRs) for cross-border capacity are auctioned by CASC.EU S.A. on a daily basis, following the previous day-ahead auction sessions. Auctions are structured as single-round closed explicit auctions, settled at marginal price, and take place on D-1 at 14:10 (XBID1) and D at 10:40 (XBID2). The relevant delivery hours are comprised between 00:00/24:00 and 16:00/24:00, respectively, and are therefore closely linked to the MI2 and MI4 intraday market sessions. Considering that the XBID nomination deadline is set at 15:30 CET D-1, the current configuration excludes MI1 and MI3 from intraday cross-border trading. The most urgent thing is to review the current XBID sessions in order to allow cross-border trades to participate to all the MI sessions and then to actively prepare for the implementation of continuous trading as soon as possible.

As expressed in the EFET response to GME’s proposal on GCT shift, the current XBID1 and the nomination deadline for XBID1 capacities need to shift forward, so to make participation possible in the MI1, MI2 and MI3. Although we strongly welcome the recent proposal by GME of introduction of an additional MI session and the later closure of the MI2, the Capacity Allocation and Congestion Management Framework Guidelines define implicit allocation (first-come-first-served), re-nominations until h-1, and continuous capacity allocation as the target model for intraday. The allocation of intraday capacity via two auctions per day is not sufficient and does not allow market participants to adjust their balances close to real time, nor to respond to the changing tightness of energy markets expressed through market price signals.

Therefore, EFET advocates for the replacement of national intraday auctions with a continuous market. This can be done through the implementation of the already existing DBS platform, for the continuous explicit and implicit allocation of intraday capacities at this border, with a continuous update and publication of the available and nominated capacities. Our proposal⁷ consists in a single introductory auction, open to cross-border trading, which runs for all the 24 hours of day D, based on the capacity available after the Day-Ahead Spot auction. This would allow capacity to be priced in case of congestion during the auction and covers capacity allocation both between the Italian zones and cross-border capacity. There should be no discrimination between domestic generation/production units and cross border units. If capacity is still available after the initial auction, then remaining capacity is allocated implicitly on a first-come-first served basis using continuous trading.

The switch to the final Target Model platform would then be managed automatically through an updated version of the coupling software.



Tab.1: XBID continuous trading market EFET proposal

4.4 Conclusions on Intraday Markets

In summary, EFET considers intraday markets to be a fundamental part of the electricity Target Model and therefore urges TERNA and AEEGSI to start the implementation process of continuous coupling in intraday based on the Target Model and hence carefully designed in order to avoid barriers to trade in the form of neutralisation lead time greater than an hour or restriction to the products available for trading (such as not allowing to trade all intraday hours) in order to ensure the highest synergies with the other markets.

⁷ For more information please refer to “EFET comments on GME and TERNA cross-border intraday continuous trading (XBID) draft proposal”, 19 May 2014.

The current status of the implementation of a cross-border intraday market solution on the Italian borders, in the light of the European Target Model, is still far from fully applicable as explained in our letter of 19 May 2014⁸.

We would also recommend as part of the long term market design objectives and ways to improve the integration of intermittent Renewable Energy Sources:

- a clear alignment of intraday gate closures H-1 or less, as required by the Target Model;
- the activation of balancing energy by the TSO only after intraday market gate closure (as long as it does not restrict the use of the most efficient resources for balancing);
- the introduction of portfolio biddings in the market, as it would improve market liquidity;
- the removal of any cap and/or floor constraint on the market.
- the obligation to sell RES electricity in the D-1 and intraday markets in each bidding zone, together with the obligation to be Balance Responsible Party and to face imbalance settlement prices for imbalanced positions which may be caused by forecast deviations or any other reasons;
- real time information on RES production in each bidding zone and the differences between the actual production and the one sold in the D-1;
- updated forecasts of RES production for the remaining hours of the day of delivery.

5. Balancing Market

5.1 The Target Model for Electricity Balancing

The EU Target Model envisages a common cross-border balancing market, with full harmonisation of technical and organisational aspects.

The Target Model, proposed by the Project Coordination Group (PCG) during the 17th Florence Forum, to deliver the vision relies on a TSO-TSO model with a Common Merit Order (CMO) by the year 2015. The PCG suggested following key roadmap principles:

- Pilot projects (Social welfare gains – demonstrated in cost-benefit analyses);
- Harmonisation of gate closures and technical characteristics like imbalance and settlement;
- The introduction of cross-border intraday trading supports progress in cross-border balancing;
- Case-by-case (in a feasible “area”) development of multiple TSO cooperation (ending in coordinated system operation).

In line with PCG’s proposal, ACER’s Framework Guideline on Electricity Balancing provides, among others, the following key market design principles for the development of the Network Code:

- Standardisation of balancing energy and balancing reserve products is required.
- Harmonisation of the pricing method for balancing energy products, which shall be based on marginal price (pay-as-cleared) unless TSOs provide all NRAs with a detailed analysis demonstrating that a different pricing method is more efficient.
- Balance Responsible Parties shall have the opportunity to place and/or update their bids as close to real time as possible and at least up to one hour before real time.

⁸ EFET comments on GME and TERNA cross-border intraday continuous trading (XBID) draft proposal.

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/87EJBGWBY9PKAE4Q/EFET-comments-to-the-GME-TERNA-XBID-proposal.pdf

- TSOs shall allow the participation of balancing resources to provide balancing energy, without having a contract for reserves (at least for Replacement Reserves and manually activate Frequency Restoration Reserves).
- Netting of system imbalances: TSOs shall coordinate in order to minimise counteracting activation of balancing energy between control areas, taking into account cross border capacities.
- Exchanges of balancing energy are to be based on a TSO-TSO model with a common merit order list but TSO to BSP (Market Participants) should be allowed until the common merit order list is in place and demonstrates its full efficiency for all categories of products,
- Standard features for the exchange of balancing energy shall be defined in order to ensure compatibility between the different implementation projects. TSOs involved in different cross-border balancing projects shall work in close coordination so that these projects remain compatible and in order to ensure efficient convergence between them.
- Common principles for the procurement of reserves shall be defined (non-discriminatory, fair, objective, transparent, market based, etc.).
- Timeframes and duration of reserve procurement shall be defined so that it facilitates the participation of new entrants, demand response and renewable generators as well as small generators.
- TSOs shall be obliged to accept as many reserves as offered by the market in all timeframe and to rank them according to prices and systems needs in a non discriminatory manner. Long-term procurement shall be thoroughly justified to NRAs.
- Following models for exchanging reserves shall be defined and allowed:
 - bilateral reserve trading model in case of exchanges of reserves between two adjacent areas in which reserve procurement processes have been integrated and harmonised or not;
 - multilateral reserve trading model for exchanges of reserves between two or more adjacent areas in which procurement process have been harmonised and integrated or not;
- TSOs are not allowed to reserve cross-border capacity for the purpose of balancing but should rather use statistical analysis for assessing the amount that can be procured from adjacent systems,
- The implementation of a method which combines cross border capacity activation for balancing purposes and cross-border capacity allocation for other electricity market purposes shall be allowed.
- The BRP shall be incentivised to be balanced in real time with a broad harmonisation of imbalance principles.
- The imbalance settlement period shall not exceed 30 minutes. However, in case a TSO provides a detailed cost-benefit analysis to its NRA, the NRA may decide to have a longer imbalance settlement period.
- Imbalance pricing shall at least include the costs of activated balancing energy in the imbalance settlement period.

5.2 EFET general position on EU Electricity Balancing

An efficient balancing market is particularly important for the development of liquid wholesale markets, ensuring generation adequacy and supporting the EU targets for penetration of renewable generation.

As renewable penetration grows, it is important that all market participants are given the maximum incentive and opportunity to balance their positions in day-ahead and intraday markets, therefore a clear distinction between intraday markets, balancing mechanisms and system operation actions are of utmost importance.

Below are some of the key market design principles/features upon which the future EU Balancing Market should be based on:

- High degree of harmonisation and strong cooperation between TSOs is essential.
- Load entities, storage and RES generation should have balancing responsibility and should have the possibility to participate to the Balancing Market.
- EFET supports uniform/marginal pricing. Price methodology for balancing energy should however not undermine intraday markets since there is a possibility that pay as cleared might be a disincentive to trade in the intraday market, which needs to be considered carefully. Compared to pay as bid, a system with marginal price provides for more efficient dispatch, it facilitates the preparation of bids and therefore it also supports the participation of small providers. Moreover, it provides accurate price signals to balance responsible parties.
- Gate closure times should be harmonised and set as close to real time as possible. EFET recommends that gate closure should be set not more than one hour before real time. There should be a clear distinction and no interference between the intraday market and the balancing market;
- EFET supports the development of pilot projects based on bilateral/multilateral TSO to TSO models with a common merit order. Yet, it is important that such projects contribute to a wider reflection on the common balancing market and that they facilitate the inclusion of new control areas.
- In relation to the reservation of cross-border capacity for balancing, EFET strongly opposes any ex-ante reservation of cross-border transmission capacity by TSOs, neither directly, nor indirectly (such as through market participants). Therefore, TSOs shall use the transmission capacity available after intraday gate closure.
- The imbalance settlement pricing method should be market-based and set correct incentives for BRPs to be fully balanced in real time. EFET advocates an imbalance settlement charge based on the marginal price. This pricing should be symmetric and should reflect the marginal cost of the actions taken by the system operator to balance supply and demand in operational timescale.
- The imbalance settlement period shall not exceed 30 minutes.
- Transparency, together with specifically accurate and timely information about settlement details is essential. Initial imbalance prices should be published immediately after the trading period, whereas second and confirmatory settlement details should be published about three days later.

5.3 Assessment on Italian Reserve & Balancing Market design features

The current Italian reserve and balancing market structure comprises:

- a. An ex-ante phase (MSD ex-ante):
 - Dedicated to the procurement of reserve, congestions relief, dispatching to take into account the best available estimation of load and RES production
 - Structured in 3 subsections, one at D-1 and two in D (without new submission of bids/offers).
- b. A within-day phase (MB, Balancing Market):
 - Dedicated to real time balancing and resolution of residual congestions;
 - Structured in 5 intraday sub-sessions with the possibility to submit new bids/offers (except for the first session).

Within the ex-ante phase there are 3 programming sessions and within the balancing phase there are 5 sessions.	Current Italian design	EU Target Model/FG Balancing/Draft NC
<i>Procurement Balancing Reserves (process integrated with the procurement of balancing energy)</i>		
Participation	<ul style="list-style-type: none"> • Generation (intermittent RES and small generation units under 10 MVA excluded) 	<ul style="list-style-type: none"> • Load, energy storage and generation (intermittent RES included)
Procurement Method	<ul style="list-style-type: none"> • Market based and Bilateral TSO-BSP contracts with specific generation units (unità essenziali) 	<ul style="list-style-type: none"> • Market based
Pricing	<ul style="list-style-type: none"> • Pay as bid 	<ul style="list-style-type: none"> • Marginal Price (exception allowed)
<i>Procurement of Balancing Energy</i>		
Pricing	<ul style="list-style-type: none"> • Pay as bid 	<ul style="list-style-type: none"> • Marginal price (exception allowed)
Activation mechanism	<ul style="list-style-type: none"> • Merit Order (taking into account technical and network constraints) 	<ul style="list-style-type: none"> • Merit Order (taking into account technical and network constraints)
Gate Closure Time	<ul style="list-style-type: none"> • Different Gate Closure times for each balancing phase (block of hours) 	<ul style="list-style-type: none"> • Balancing Gate Closure shall separate and be consistent with the timeframe for cross-border intraday from the balancing timeframe • At least one hour prior to real time
<i>Comments</i>	<p>In general the Italian TSO procures reserve and balancing services using market-based methods, considering the economic merit order of the bids.</p> <p>Grid situation, constraints and congestion play a relevant role in the activation function. We see a lack of transparency on these parameters and on the decision path that leads to the activation.</p> <p>Finally the TSO closes bilateral balancing services contracts with operators of generation units which are considered essential (must-run units) for the grid stability in specific local zones.</p> <p>→ <i>The goal should be that balancing services are procured only through a transparent, non-discriminatory, efficient market based method,</i></p>	

	<p><i>activated/chosen depending on an economic merit order. Technical and network constraints should play the least significant role possible in the activation of balancing services and, if considered, they should be transparent enough to enable Balance Service Providers understanding the activation function path.</i></p> <p>→ <i>Opaque, bilateral balancing services contracts between the TSO and some BSPs could have a discriminatory aspect and have a negative impact on the liquidity of the balancing market.</i></p>
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5.4 Conclusions on Electricity Balancing

Within the European electricity market, the cross-border exchange of balancing services is today at a starting phase with the development of regional projects and areas where balancing reserves and energy can be exchanged.

This bottom-up, regional project-based approach, consistent with the Target Model roadmap key principles, is valuable and can lead to a European-wide, harmonised and integrated balancing services market. For this reason, it is important that every single regional project is based on the ACER Framework Guidelines and the Network Codes EB and LFC&R whereas. The future integration with other regional balancing areas should be the guiding criteria of the development of coordinated regional balancing areas.

According to the information provided by ENTSO-E, Terna is involved in one regional pilot project for the development of coordinated balancing areas. The project, called TERRE (Trans-European Replacement Reserves Exchange) is aimed to exchange replacement reserves between the Italian, French and British TSOs through a TSO-TSO model (extension of the current BALIT system). EFET welcomes the initiative, but is nevertheless convinced that all relevant stakeholders should be properly involved early in the process for the definition of the basic features of this new system. Market participants' involvement and early consultation can help, in our opinion, to enhance transparency and for a wide understanding of the new mechanism while contributing to its proper design in line with the provision of ACER FGs and ENTSO-E NC. Regional meetings should be organised by TSOs in order to allow stakeholders to discuss in detail the design of each Pilot Project.

6. Conclusions

This paper has identified and highlighted the main differences between the current Italian electricity market design and the European electricity Target Model. Although some of the gaps are not related exclusively to the Italian case, but affect also other national electricity markets, our analysis should be seen as a contribution to identify the electricity market design elements for each timeframe which need to be amended or further developed in Italy.

We have recommended the different Institutions involved in the regulation and operation of the Italian electricity market to take appropriate steps to align the national electricity market design with the EU Target Model. In particular:

- we call Terna to improve the firmness regime conditions, by applying reductions reduction of allocated capacity only in emergency and *Force Majeure* situations, and when all other means are exhausted. We also ask to align the compensation rules for day-ahead transmission capacity curtailment with what envisaged by the ACER CACM Framework Guidelines, while keep on maximising the allocation of forward baseload capacity: EFET believes that calculation, publication and allocation of all available capacity in all directions and on all orders on a forward basis is an essential part of the “public services” activities of a TSO. TSOs should sell their products (interconnection capacity rights) in all the available volumes and at all the necessary timeframes, from forward to intraday. Finally, we ask for more transparency on the methodology and data used to carry out capacity calculation and an improvement in the quality of data provided: traders need to understand the logic of methods and models used to calculate cross-zonal capacity as this is vital for their cross-border commercial optimisation. On balancing regime, we appreciate and back Terna’s efforts in the regional Pilot project “TERRE” and we wish that an open discussion with stakeholders on future design of national and cross-border balancing markets could take place.
- EFET calls AEEGSI to coordinate with GME in aligning the cash settlement with the D+2 common rule across Europe in the outlook of the market coupling implementation. We acknowledge that GME recently consulted on a proposed temporary mechanism which will allow the coexistence of M+2 and D+2 settlement. We wish that the final solution for a D+2 settlement could be timely and adequately consulted by the end of 2014, to allow market participants a smooth adaptation of their IT system and procedures by the beginning of 2016.
- We would like to call GME and Terna to move towards the Target Model of continuous intraday trading with implicit capacity allocation. We believe that the aforementioned proposal presented by GME and Terna represent a step forward, but we recommend that regional auctions besides continuous trading should not introduce any discrimination between market participants from adjacent regions. We believe that the implementation of a continuous intraday market should be approached with particular matter of urgency: market participants will be enabled to refine their power portfolios not only from their domestic market but also from the neighbouring markets up to a point closer to real time, diminish their risks of being out of balance and correspondingly help to lower the balancing burden on grid operators.

EFET offers its expertise and would be pleased to discuss in more details the aforementioned issues with the Authority, GME and Terna.