

## Draft Italian Energy and Climate Plan



### EFET reaction – 3 May 2019

The European Federation of Energy Traders (EFET<sup>1</sup>) welcomes the opportunity to provide comments to the draft National Energy and Climate Plan. We have provided our detailed feedback concerning proposals related to our main area of interest i.e. the electricity and gas markets, as well other miscellaneous questions.

#### ***Electricity market: EFET comments***

##### **Long-term instruments: Power Purchase Agreements (PPAs)**

PPAs are already an existing form of contract between two counterparts for the purchase of the electricity production. We acknowledge their vast potential in facilitating the market-based development of further RES capacity.

We highlight that EFET is very active in promoting the usage of PPAs: we are currently developing a standard corporate PPA agreement (CPPA), that will be published in the coming months: as for the already existing EFET Master Agreement, which stipulates the conditions upon power and gas contracts of purchase/sale negotiated bilaterally, the CPPA standard will provide for legal certainty and will ensure smooth operational processes. The standard will contain credit clauses enabling the management of counterparty risk.

At the same time, we stress that PPAs are market-based instruments that do not necessarily need any particular regulation or intervention. Terms should be left to the free negotiation of the stipulating parties. Involvement of a state entity as a counterparty or guarantor to these contracts is also not necessary in our view.

Overall, EFET is one of the most appropriate stakeholders to be involved in future discussions and will be happy to provide its expertise on the subject.

##### **Role and responsibilities of electricity transmission system operators (TSOs) and distribution system operators (DSOs), particularly regarding ownership and operation of storage facilities**

EFET acknowledges that electric storage will be an important pillar of the future electricity market and enabler of flexibility provided also by renewable energy sources. Current unbundling rules provide for the separation of regulated monopoly system operation from all the other competitive activities in the sector, ensuring that Transmission System Operators (TSOs) and Distribution System Operators (DSOs) act as neutral facilitators of the market.

We would like to underline the importance of the strict separation of competitive commercial activities from monopolistic system operation activities. As we understand Terna has launched several pilot projects on electricity storage, we recall the principle enshrined in Art. 36 and Art. 54 of the recast

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<sup>1</sup> The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org)

Electricity Directive preventing TSOs and DSOs to own, develop, manage or operate energy storage facilities, allowing only for limited derogation to such a principle. Storage assets – in the same manner as generation assets or demand-response capacities – should never be considered as part of a network unless they can only be used for purposes strictly related to secure grid functioning. We believe that system operators who see the need to rely on storage capacity to perform their duties should procure this capacity from market participants, who are best placed to provide cost-efficient storage solutions.

### **Intraday market**

The implementation of an intraday continuous trading market in line with the EU Target Model has been delayed for long. We believe that it is now time for all institutions responsible for the functioning of the electricity market to urgently take concrete steps to ensure that the Italian borders join the XBID project during the first quarter of 2020.

A solution for the coordination between the intraday (MI) and the balancing and ancillary services (MSD) markets must be found. In our view, Terna should limit constraints on the operations of market participants in the intraday market as much as possible. If some constraint in terms of reserve margins is deemed to be necessary, the associated opportunity cost should be remunerated, for instance via option contracts as it was initially suggested by the Regulator.

Finally, we recall that the European Target Model for intraday, as foreseen by the Capacity Allocation and Congestion Management Guideline (CACM GL), clearly defines implicit allocation, continuous trading and re-nominations until H-1 of delivery as the pillars of cross-border intraday trading. The centrality of continuous trading should be preserved, as this ensures quick reaction to unexpected events via rapid decision-making and is crucial to manage generation intermittenancies and load volatility. The introduction of market makers and liquidity providers could be evaluated on a voluntary and commercial basis as a mean to improve liquidity.

### **Transition to self-dispatch**

EFET traditionally favors a self-dispatch model, where operators can freely choose to activate a plant, a combination of plants, or use procured power to respond to balancing needs. Central dispatch, currently in force in Italy, shall be used only when dealing with specific local network constraints, since it significantly reduces the freedom of the market participants.

EFET supports a swift orderly transition from central dispatch to self-dispatch, provided that future grid developments, as described in Terna's development plan, will truly solve the congestion issues that still affect the Italian network. In this respect, investment projects that favour price convergence between internal price zones should be prioritised and internal zones mergers should be promoted where possible. Authorisation procedures should be accelerated as investments are necessary to solve bottlenecks and ultimately overcome the PUN.

In fact, the current splitting of the Italian market in multiple bidding zones, together with the existence of a system price like PUN, represents a peculiarity compared to most other European markets, mainly due to the configuration of the Italian network. In view of the growing integration of markets in Europe, mainly thanks to the day-ahead market coupling and the cross-border intraday project (XBID), and considering the constraints that the integration of the PUN calculation in the EUPHEMIA algorithm represent, the future elimination of PUN is welcome. On such aspect, we regret that a recent Regulator's decision will introduce the new zone "Calabria" from 2021 as it might increase market fragmentation and reduce liquidity.

### **Capacity mechanism**

EFET believes that a well-functioning pan-European market remains central to macroeconomic efficiency and is a key component to ensure security of supply.

First, we recommend clarifying the status of the pending Italian capacity mechanism in order to provide transparent information to all the market participants, as this has the potential of influencing prices of long-term contract already under negotiation.

Second, our core belief is that capacity mechanisms, where implemented, should be carefully designed in order not to interfere with free price formation in energy markets. We believe that, in order to make sure that the impact of the Italian capacity mechanism on energy markets is minimized, it is essential that the strike price level (prezzo d'esercizio) is set well above any normal and tight market conditions and therefore above the costs of the most expensive resource in the market. This price should in fact be set at a level which would be reached only in case of severe scarcity.–Therefore, we suggest the strike price to be set at the value of lost load (VOLL). If a strike price were to be set on the basis of the variable costs of an open cycle gas turbine (85-90 €/MWh currently), this would act as an implicit price cap to the electricity market, hindering the free formation of prices. Ultimately, this will prevent the emergence of any scarcity price signals and hinder investment in flexible resources (generation, storage, demand response). We therefore recommend MiSE to carefully reflect over the significant negative impact a strike price set at a low level would have on the electricity market.

Third, the mechanism should be fully open to all kind of market participants, including aggregators and balancing service providers.

Finally, EFET believes that the capacity market scheme notified to European Commission should be published so that all stakeholders are aware of the modified rules before their final approval.



## **Gas market: EFET comments**

### **Reduction of the price spread between PSV and Northern European gas hubs**

EFET understand that one of the goals of the PNIEC is a greater convergence between the reference gas price in Italy with that of northern European markets.

First, the modality of intervention for the partial or total reactivation of the TENP pipeline, which are briefly mentioned in the text, should indeed be clarified. We consider any potential investment or intervention on a foreign pipeline financed by the Italian system as unacceptable, as well as at risk of breaching EU state aid rules.

Second, in more general terms, we always recommend a cautious and transparent approach when proposing policy measures at National level that impact transportation costs across borders; in particular, we discourage measures prone to administratively alter the price formation at PSV.

### **Biomethane development**

EFET closely looks at the development of biomethane in Italy. However, within the framework of the incentive scheme launched by the Ministerial Decree of 2 March 2018, GSE was assigned a central commercial role, seriously limiting the opportunities for traders to make competitive offers to biomethane producers and consequently hampering the development of an open market for biomethane in Italy.

Similarly, we regret to see that TSO Snam, a regulated entity with a different risk profile, is allowed to be increasingly involved in investment into the biomethane supply chain.

We wish that at the very least a market for CICs could be established, where traders would be allowed to perform transactions on the CIC platform.

Last, we believe that the cross-border tradability of GOs (and more in general of 'green' certificates) should be enabled. To this purpose, we call for the finalization of the necessary reciprocity agreements with other Member States foreseen in the Ministerial Decree.

### **TSO's unbundling**

As per our comments above on the role of electricity TSOs, we firmly reaffirm that unbundling provisions must be respected also in the gas sector. This is of particular relevance for new technologies, such as power-to-X and biomethane: whether the political ambition is for e.g hydrogen or biomethane to play a considerable role within the overall energy mix, it should still be up to commercial entities to invest in particular solutions and by no means up to the regulated TSO.

### **Development of LNG**

We understand that the PNIEC assigns to LNG an important role in promoting the diversification of sources and security of supply.

First, as regards the existing infrastructures, their use should be optimized in order to attract more LNG cargoes in the Italian market, guarantee diversification and security of supply. Thanks to the impulse from MiSE, ARERA introduced market-based mechanisms for capacity allocation last year. EFET warmly welcomed this evolution but, on the basis of the experience gained, auctions should now be improved to make Italian regasification terminals more competitive. In particular, we suggest more

favourable and more transparent reserve prices are set in the capacity auctions for the regulated terminals.

Second, EFET supports a cautious approach when promoting investment that are not underwritten by the market. In the uncertain outlook for European gas demand in the mid- to long-term, EFET has warned against the risk of stranded assets which, within the framework of current entry-exit tariff regimes, may result in a vicious spiral of high tariffs that would further reduce demand and the competitiveness of gas vis-à-vis other energy carriers.

The decision to build new facilities, including small-scale LNG terminals, should therefore be taken only after a thorough cost/benefit analysis and after the results of calls for interest and open season procedures where market participants make binding commitments to use the infrastructure. If not enough booking are secured, such investment plans should be reconsidered.