

EFET response to DG ENER on Italian market reform plan



EFET response – 31 July 2020

The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments to DG ENER consultation on the Italian Implementation Plan for the requirements set in article 20 of Regulation 2019/943 on the Internal Electricity Market (IEM).

Markets can provide the right amount and type of generation capacity to meet demands from users, if they are well designed, free of regulatory distortions and sufficiently connected to the EU electricity network. We acknowledge that capacity mechanisms can be introduced to address residual adequacy problems that cannot be solved by removing distortions.

We recall our core belief: capacity mechanisms, where implemented, should be carefully designed in order not to interfere with the free formation of price signals in the energy markets. With this respect, EFET recommends the Italian and EU institutions to design a capacity mechanism which reacts upon undistorted price signals and allows the most efficient solution to be provided by the market.

The Italian Implementation Plan consultation document is a good overview of the measures that Italy is planning to adopt in order to eliminate market distortions, also in light of Article 20.3 of Regulation (EU) 2019/943 - which will contribute to reducing adequacy issues in the medium to long term and to integrating renewable energy sources into the system. The priorities should be:

- Promote European market integration and ensuring cost-efficient and market-based procurement of balancing and ancillary services;
- Removing price caps;
- Increasing interconnection and internal grid capacity;
- Removing regulated prices.

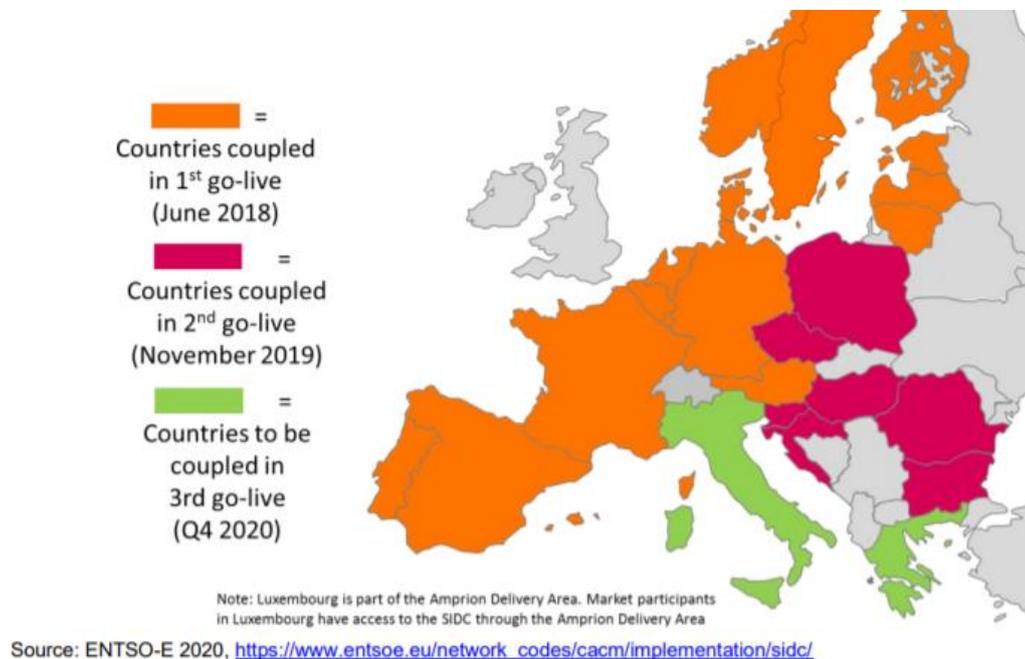
Promote European market integration and ensuring cost-efficient and market-based procurement of balancing and ancillary services

The integration of the Italian electricity market with the Single Intra-Day Coupling (SIDC) is a key component for completing the European Internal Energy Market. With the rising share of intermittent generation in the European generation mix, connecting intraday markets through cross-border trading is an increasingly important tool for market parties to balance their positions closer to real time and across borders.

* 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. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

First and foremost, we would like to recall that the CACM Regulation’s main priority for intraday is to ensure efficient, non-discriminatory access to cross-zonal capacity through implicit continuous trading. Hence, the completion of the XBID project and the participation of all Italian borders to it should be considered the priority for the region. The continuous intraday market – as defined as the target model in CACM – is best suited to deliver a real-time price signal and allow market participants to continuously optimise the dispatch of their production and consumptions units. This simplifies market entry for new competitors and it minimises the volume and cost of TSO balancing activity. A liquid continuous intraday market will become increasingly vital, as intermittency becomes more important in European electricity systems¹.

We believe that Italy should bring up to speed its intraday market reform as it is already among the last European countries to join the cross-border intraday project. The project has been delayed in Italy several times. Only this year it has been postponed from June 2020 to Q4 2020 and now to Q1 2021. Therefore, we strongly recommend the Italian market to join the SIDC by Q1 2021 at the latest as Italy and Greece are the only two EU countries not coupled as of July 2020. We encourage Italian institutions, to take the lead, involve stakeholders in a coordinated fashion and have the detailed provisions by the second half of 2020 for the transitory period, including the details on the IT infrastructure built for XBID (LTS and Nomination Platform). Italy should clarify the milestone needed to reach the target design. It is essential to make the technical specifications of the platforms (both LTS and Nomination Platform) available to market participants as soon as possible and at least 6 months before the go-live date of Q1 2021 to settle all necessary internal procedures. We encourage the European institutions to watch over the process.



The Italian balancing reform (TIDE²) is another crucial aspect to guarantee for European market integration. We believe that the target of introducing a 15-minutes imbalance settlement period (ISP) set by the European Balancing Guidelines (EBGL) by January 2021 is not analysed in

¹ See EFET paper [Towards an efficient intraday market design in electricity](#)

² See also [EFET response to ARERA consultation on the electricity market reform \(TIDE\)](#)

detail in the consultation paper. A properly designed imbalance regime is key to remove market distortions and we expected greater analysis in the consultation document.

Given the difficulties of joining XBID and introduce an Intraday Market to H-1 (since 2010), we have reason to believe that there a high risk that the 15mins ISP might be delayed. Also, we do not see how it would fit SIDC starting in Q1 2021 and introducing the 15mins ISP, including the consequences on the evolution for ID products. Moreover, it is not clear if portfolio bidding might be available from January 2021 or already when Italy might join SIDC Q1 2021. The reforms should start on the same date or even before for portfolio bidding in order to give market players enough time to test their systems.

In addition, continuous cross-border intraday trading with coupling products with lower granularity, e.g. 15-minute, would make the market design even better suited for RES generation. Technologies and services such as demand-response and storage, which are particularly suited to absorb the effects of RES generation intermittency, also benefit from continuous trading and shorter granularity. Safeguarding and improving the efficiency of continuous trading would contribute to the development of these activities.

In general, we recommend a more detailed timeline/roadmap with a clear milestones and accountable parties to develop the proposals more in detail. The timeline provided in the consultation is too general and it makes very difficult for market players to estimate regulatory risk when they enter e.g. balancing contracts for a period between Jan-2020 and Dec-2022.

We ask for greater clarification in the BSP/BRP relationship and whether the single price will be extended to the BRP.

Removing price caps

We would like to also make reference to articles 20(2) and 20(3) of Electricity Regulation 2019/943, where Member States also have a responsibility to do away with restrictions to wholesale price formation. Some of these restrictions may stem from the very NRAs that are expected to do away with them as per article 10(2). For example, we refer to provisions regarding harmonised clearing and bidding price limits at European level, and how non-harmonised limits may remain in certain European markets.

We stated several times that any measures restricting free price formation from the energy wholesale power and balancing market should be avoided. Italian wholesale electricity prices still face unjustified restrictions (€/Mwh 0 - 3.000). In Italy, such limitations persist today on the day-ahead, intraday and balancing market. These floors and caps should have been removed by the 1st of January 2020 as stated in art.10 of EU Regulation 2019/943:

- 1. There shall be neither a maximum nor a minimum limit to the wholesale electricity price. This provision shall apply, inter alia, to bidding and clearing in all timeframes and shall include balancing energy and imbalance prices, without prejudice to the technical price limits which may be applied in the balancing timeframe and in the day-ahead and intraday timeframes in accordance with paragraph*
- 2. NEMOs may apply harmonised limits on maximum and minimum clearing prices for dayahead and intraday timeframes. Those limits shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonised for the internal market and shall take into account the maximum value of lost load. NEMOs shall implement a transparent mechanism to adjust automatically the technical bidding limits in due time in the event*

that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required.

We believe that the integration of electricity markets at regional level should be the minimum target that Italy should pursue in cooperation with neighbouring NRAs as well as TSOs and Power Exchanges. The Italian electricity market has indeed some peculiarities, most of all the regional configuration with a system price and the central dispatch system. We truly believe that in order to achieve an effective integration with other markets in Europe, it is time to overcome those specificities and annexed limitations. In particular, regarding the dispatching system we believe that with the increasing penetration of decentralised renewable generation, central dispatch shall be used only when dealing with specific local network constraints, since it significantly affects the freedom of the market participants.

We would welcome a swift orderly transition from central dispatch to self-dispatch, with the condition that the future grid development, as anticipated in Terna's development plan, will truly solve the congestion issues that still impact the internal network.

In this respect, investment projects that favour price convergence between zones should be prioritised and internal zones mergers should be promoted when possible. We regret, in this sense, the addition of the zone "Calabria" from 2021. Authorisations procedures for the necessary infrastructure interventions, should be accelerated, as investments are necessary to overcome some bottlenecks and ultimately 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.

We understand that this might be a legislative decision, however, in view of the growing integration of markets in Europe, mainly thanks to the day-ahead market coupling and cross border intraday project (SIDC) and considering the constraints that the integration of the PUN calculation in the EUPHEMIA algorithm represent, the future elimination of PUN may be welcome. Overall, we call on a swift transition to self-dispatch and internal zones mergers accompanied by the introduction of portfolio bidding, which is the standard solution in most of the EU power markets.

In order to assess the impact of the calculation of imbalance prices based on nodal balancing prices, more information and explanation about what meant by this concept is needed. What would be the actual nodal configuration used for computations? What is the evidence available insofar as to the geographical/service/perimeter configuration of such nodes? Simulated price data for at least 5 years should be made available following the work done by Terna on *Delibera 800/2016/R/eel*.

Preliminarily, we believe that an imbalance price set at node level increases the balancing risk. It may also give different incentive to market participants to be balanced and possibly to trade in the ID market. We therefore approve Italy's choice to adopt the "single pricing" criteria for the imbalance calculation of any kind of unit as the preferred methodology stated in the EBGL. In fact, it is the only method which respect the principle of cost reflectivity. Maintaining the "dual pricing" criteria only for the mandatory authorized units (*unità obbligatoriamente abilitate*) would be discriminatory for the market.

Increasing interconnection and internal grid capacity

Italy is well placed to reaching its interconnection targets as referred in point (d) of Article 4 of Regulation (EU) 2018/1999.

We highlight that the interconnection project expected to be up and running by 2020 on the French border through the 3-P HVDC "Piossasco-Grand'île" intervention has been delayed to mid-2021. Therefore, we ask for an update on such project in the National Development Plan (NDP) and any other delay that may arise.

Greater transparency on electrical curtailments, especially on Italian northern borders should be addressed.

Removing regulated prices for the retail market

According to Decree Law no. 162/2019 (so called "Milleproroghe"), converted into Law no. 8/2020, such reference prices will not be available as of 1st January 2021 for small enterprises and as of 1st January 2022 for households and microenterprises.

EFET welcomes the the full liberalization of the Italian market that will enable all customers to freely choose their supplier and will ensure the establishment of a level playing field among all market participants at all market levels (B2B and B2C) in the Italian market.

Conclusion

We understand that an electricity market based on spot prices may not be capable of providing an adequate price signal to investments in new production capacity if distortions are present, which by their nature have time horizons related to construction times and the return on long-term investments. In this market picture it becomes extremely difficult for market operators to plan investments in new and efficient generation capacity.

Efet hopes there will be developments in the capacity market scheme that will also take into account the evolution of foreign participation different from the current mechanism, which foresees a financial participation only from traders authorised to work on the day-ahead market without any specific "capacity" requirement³.

As far as cross-border participation to CRMs is concerned, we insist on two fundamental principles, namely:

- Effective direct participation of foreign asset owners/operators – generation, demand-response, storage – to CRMs, with appropriate incentives and/or obligations on TSOs, where this effective participation depends on them;
- Equal treatment of foreign and domestic capacities contributing to a CRM, with an attention to the specific rights and obligations of capacity providers in the CRM and, where relevant, related to energy market functioning.

³ See [EFET response to the ENTSO-E consultation on methodologies for cross-border participation to capacity mechanisms](#)

The measures and market reforms put in place across the entire value chain in Italy and described in the Italian market reform plan can surely help the transition phase to a full decarbonization of the electricity system. However, these measures risk being not sufficient to mobilize the right level of investment to preserve adequacy level in the short/medium term.

Given all the above, we believe that a not distortive and well-design Capacity Market could be a measure to support the existing plants to guarantee adequacy and stimulate suitable investments on new capacities.

Yet, we share the Commission's view that markets can provide the right amount and type of generation capacity to meet demands from users, if they are well designed, free of regulatory distortions and sufficiently connected to the EU electricity network.