

## Terna consultation on Italian capacity market



### EFET response – 24 May 2021

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the opportunity to provide comments to Terna consultation document on capacity remuneration mechanism for the first implementation phase with delivery in 2024 and 2025.

We recall our core belief: capacity remuneration mechanisms (CRMs), where implemented, should be designed so as to limit their impact on the energy-only market as much as possible, have a sunset clause, take account of all capacities, be market based, respect the principles of technological neutrality and keep the long-term objective of European harmonization.

Please find below our general remarks and our comments on the main modifications in the proposal.

#### Participation of foreign market participants in the Italian capacity market

Even though we appreciate Terna's effort to include foreign market participants, the Italian capacity market is still lacking physical participation for foreign generation capacity. Furthermore, we understand that with the current design there is a different treatment in terms of obligations required for local units (delivery obligation and pay-back obligation) and foreign units (only payback obligation). As EFET, we insist on two fundamental principles, namely:

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

In particular, direct participation of foreign market participants must be guaranteed in order to comply with Article 26.1 of Regulation (EU) 2019/943:

*“Capacity mechanisms other than strategic reserves and where technically feasible, strategic reserves shall be open to direct cross-border participation of capacity providers located in another Member State, subject to the conditions laid down in this Article.”*

<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. 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](http://www.efet.org)

Firstly, we advise Terna to comply with ACER latest methodologies and common rules for cross-border participation in capacity mechanisms<sup>2</sup>, and to finalise the agreement with the neighbouring TSOs in order to guarantee effective physical cross-border participation of foreign market participants.

Secondly, we envision a future wider reform to ensure a smooth transition from the current Italian capacity remuneration mechanism towards a “full-availability” model, with the main objective of aligning the different obligations between foreign and local market participants.

### **Ensure technological neutrality**

CRMs must not create unnecessary distortions in the market and capacity providers should be selected through transparent, non-discriminatory and competitive processes, regardless of their location.

We urge Terna to guarantee effective, not just theoretical, technological neutrality of all capacities (all generation sources, DSR and storage, including across the borders), without discrimination between new and existing facilities.

Discriminations should be avoided under different aspects:

- Calculation of adequate derating factors: the average availability of each technology should be calculated and updated based on historical data. Clear evidence should be made available to market participants;
- Capacity obligations to offer in the market in line with the characteristics of each resource: it is important to take into account the specific aspects of the Non-Programmable Renewable Energy Generators (“*Fonti Rinnovabili Non Programmabili*” - FRNP). FRNP’s operators are not in control of renewable energy sources, hence it would be more appropriate to remove capacity obligation for FRNP when the energy source is clearly not available. Similarly, the need for storage for adequate periods of charge and discharge must be taken into consideration;
- Consistency between capacity obligation to offer on the market and payment obligation: the so-called “*Corrispettivo Variabile*” should be calculated with respect to the hours in which offer obligation is requested and the reference price should be consistent with the market related to the offer obligations. A possible option could be using the hourly zonal price registered in the Day-ahead market (MGP) as reference price, instead of the Ancillary Service Market (MSD) price, for resources that are not able to participate to MSD.

Those aspects have been only partially addressed in the proposed modification to the “*Disciplina*”: we therefore urge Terna to publish the updated “*Disposizioni Tecniche di Funzionamento*” in order to enable a comprehensive evaluation of the proposed mechanism by the market participants.

<sup>2</sup> [ACER decision on common rules for cross-border participation in electricity capacity mechanisms](#)

### **Publication of the national resource adequacy assessment**

Any decision to implement or maintain any form of remuneration scheme to reward the availability of generation capacity should be taken only after a thorough capacity adequacy assessment performed at both regional and EU level, in compliance with Art. 21 of the Regulation (EU) 2019/943.

According to ARERA Resolution 507/2021, Terna was expected to launch a public consultation and submit to the authority a study on Reliability Standard (*“standard di adeguatezza” - RS*) by May 3, 2021, including the related variables: Value of Lost Load (*“valore dell’energia non fornita” - VOLL<sub>RS</sub>*) and the Cost of New Entry (*“costo del nuovo entrante” - CONE<sub>RS</sub>*).

Therefore, we encourage Terna to launch the public consultation on RS, VOLL<sub>RS</sub> and CONE<sub>RS</sub> as soon as possible.

### **Harmonisation of CO<sub>2</sub> emission limits with Regulation (EU) 2019/943**

EFET appreciates that the proposed emission requirements are aligned with the ones foreseen by Art. 22.4 of Regulation (EU) 2019/943. Emissions requirements for existing facilities must be compliant with the European thresholds (550 gCO<sub>2</sub> per kWh produced or, alternatively, 350 kgCO<sub>2</sub> on average per year per installed kW), whilst new production facilities are required to comply to the first criteria (550 gCO<sub>2</sub> per kWh).

### **Publication of the auction calendar**

We ask Terna to include a timeline for the publication of information concerning the auctions: this would significantly increase the transparency allowing capacity providers to make justified investment or exit decisions. Furthermore, the auction calendar should be complemented with clear information on the methodology to determine the minimum capacity to be auctioned for each session, coherently with the resource adequacy assessments.

### **Alternative proposal for the calculation of CDP by Terna**

EFET appreciates Terna’s goal to simplify the CDP calculation, however we believe that the new proposal could distort the competitive context. The derating factor standardization might not properly evaluate the real performances of the generating unit.

We consider that the regulation in force is more appropriate to guarantee a high level of precision for the CDP calculation. Therefore, we support maintaining the current CDP calculation method also for the delivery years 2024-2025.