

AEEGSI consultation document n. 684/2016 on further reviews to the electricity imbalance settlements

EFET response – 15 December 2016

Introduction: regulatory stability is key to a well-functioning market

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide comments to the AEEGSI consultation document n. 684/2016 on further reviews to the electricity imbalance settlement scheme.

Overall, we discourage decisions that are detrimental to the reliability of the regulatory framework. In the last years, the Italian electricity imbalance settlement framework has been subject to very frequent amendments, leading to regulatory and economic uncertainty and deleterious for the correct functioning of the market. The regime provided by deliberation n. 444/2016 currently in place since 1st August was announced with only four days' notice; any new possible solution explored by the current consultation document, which deadline is set only two weeks before the start of the new year, would allow the same very short timing for market participants to adjust. EFET believes that these kind of short-notice changes are unacceptable as they represent a major regulatory risk for companies and ultimately are able to affect the attractiveness of the Italian market.

Moreover, we object the reasons behind a possible further modification to the current imbalance discipline: as AEEGSI claims in the consultation document, the transitory regime in place since 1st August -together with other proceedings- is already delivering clear positive results in terms of cost reduction. In summary:

- the deliberation n. 444/16 has discouraged bidding behaviour defined as 'non-diligent' by introducing a mixed single/dual pricing scheme for consumption units and "non abilitate" programmable production units;
- the deliberation n. 342/16 and annexed REMIT proceeding has impacted the bidding behaviour of 'Unita' Abilitate';
- The deliberation n. 609/16 has introduced the regime of 'essentiality' for the production units of Brindisi Sud e Fiumesanto starting from 1st of January 2017.

As noted by the Regulator, the first two measures contributed to a remarkable reduction of the *uplift*, which passed by over 5 €/MWh of April 2016 to be about 0,60 €/MWh in July and just over € 0,35/MWh in August 2016.

¹ 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

With these figures in mind, EFET struggles to see which objective the Authority intends to pursue by changing the method of calculation of the macro-zone imbalance with such a matter of urgency. We call for stability in the overall imbalance settlement procedure and we recommend the Authority to avoid introducing continuous adjustments, especially where non-justified by the evidence of numbers.

Transparency in the imbalance settlement should be guaranteed

EFET does not share the intention and the rationale behind the urgent change of the method with which aggregate macro-zone imbalances are calculated.

In response to Q1, the publication of the zonal sign on M+2 basis – also subject to ex-post verifications and changes because of the lack of proper metering - is not acceptable for the following reasons:

- **Lack of transparency:** the zonal sign would not be verifiable even ex-post, as aggregate imbalances of individual market participants are not made public.
- **Increase of the risk level:** the delay in the publication of the imbalance settlement would make any form of cost containment and optimisation impossible.
- **Information asymmetry:** this solution would generate a strong information asymmetry between market parties, as some may have privileged access to distribution measures (both injection and withdrawal).
- **Non-compliance with EU regulation:** the publication of the zonal imbalance sign on M+2 would not be in compliance with EU Regulation n. 543/13, Art. 17.2, g), according to which the full imbalance volume in a given area should be published within 30 minutes of the end of the operations. We recommend to follow the best practices of Germany (15 minutes settlement) and France (30 minutes settlement) where the imbalance sign is published respectively few and twenty minutes after the delivery period.

Moreover, the proposal to 'freeze' the imbalance sign by ruling-out ex-post adjustments would actually clash with the objective of cost-reflectiveness pursued by the Authority, as it would not help to make the zonal sign consistent with the actual physical system imbalance.

As a further reflection, EFET believes that in order to guarantee full transparency, AEEGSI should require GSE and AU to publish respectively their production and consumption data plus imbalance amounts per zone and possibly per injection point.

Conclusions

EFET believes that the evidence in terms of reduction of the *uplift* value, realised by the new imbalance regime put in place by 1 August 2016 and by REMIT monitoring, shows that there is no urgency for AEEGSI to intervene with further short-noticed regulatory measures.

EFET appreciates the intentions of the Italian regulator to update the current regulatory framework in order to find a permanent solution likely to provide more transparency and trust in the overall imbalance framework. However, the possible future introduction of a nodal pricing approach would represent a significant innovation in Europe. Besides ensuring compliance with the future EU Balancing Network Code, all the implications on day-ahead and intraday market coupling and cross-border balancing (TERRE) should be carefully evaluated in order not to hinder the development of a single market as designed in the EU Target Model.

We believe that market participants would need more than a year of parallel run to compare the new imbalance prices with the current ones and hence evaluate the impact of such a reform. A start of a new regime in 2019 seems therefore in our view the most appropriate solution. Last, we believe that a cost-benefit analysis should be performed in order to quantify and justify benefits arising from any new imbalance price settlement reform.