

AEEGSI consultation n. 163/15 on the review of the imbalance price mechanism



EFET comments, 08 May 2015

GENERAL COMMENTS

EFET¹ welcomes the opportunity to answer this consultation on such an important topic for energy traders as the electricity balancing regime. An efficient imbalance settlement is an essential prerequisite for a sustainable development of the energy market, and all the updates thereof shall be the result of an open and transparent procedure allowing the active participation of all interested parties.

In Italy in the recent years, the imbalance settlement framework has been subject to frequent amendments: we understand that AEEGSI has had to adopt such changes to avoid high dispatching costs for end users (that however have never been explicitly assessed and published), but this situation has made the overall settlement framework uncertain, making it difficult for market participants to develop an efficient bid strategy.

We believe that before partially amending again the electricity imbalance regime in Italy, it would be important to wait until the issuance of the European Balancing Network Code (BNC). Indeed as stated by AEEGSI itself in this consultation document, with the publication of the final version of the BNC it might be necessary to amend again the relevant regulation with the consequence of bringing further uncertainty and unpredictability for traders. Moreover, according to the ruling of “Consiglio di Stato” - providing for the abolition of deliberation n. 342/2012- no urgency and emergency situation exists in relation to imbalance rules: therefore it is not necessary to provide additional amendments, since an effective need for changes will already arise in order to align the Italian regulation to the European provisions.

In any case, any amendment to the current imbalance settlement method should be announced with a reasonable notice to market participants -taking into account that contracts already concluded could need to be amended- and should definitely not be applied retroactively as happened in the past.

We have provided below our comments to the specific question posed by the consultation document:

¹ EFET, 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

Q2: *si condivide la necessità di eliminare tutte le offerte accettate per motivi non dipendenti dallo sbilanciamento complessivo del sistema elettrico?*

In principle, imbalance prices should reflect the costs incurred in balancing the system. However, such a proposal is based on the theoretical hypothesis that Terna would procure the resources to solve congestions on MSD ex-ante, while procuring balancing energy only in the Balancing Market (MB). In our opinion this approach is not realistic as Terna can and in fact procures balancing resources on MSD ex-ante and vice-versa procures resources for other services on MB. Moreover, the proposals developed in order to apply the theoretical principle lack of clarity and we are skeptical about their effectiveness.

Q3: *Si condivide la Soluzione A individuata dall'Autorità?*

An accounting system able to track the scope of any negotiation carried out in the MSD could be, again from a theoretical point a view, an efficient mechanism to individuate those bid/offers which are not related to the macro-zonal imbalance. We stress that this mechanism must be clear, precise and well defined - also in accordance to the principle of legal certainty and transparency; the current proposal lacks of any detail concerning the “conventional criteria” according to which the MSD negotiations would be segregated. Additionally, market participants should be provided with at least two years of historical data in order to understand the implications of such a mechanism.

Q4: *Si condivide la Soluzione B individuata dall'Autorità?*

Such a proposal is based on the theoretical hypothesis that Terna would procure the resources to solve congestions on MSD ex-ante, while procuring balancing energy only in the Balancing Market (MB). However, in our opinion this approach is not realistic as Terna can and in fact procures balancing resources on MSD ex-ante and vice-versa procures resources for other services on MB. Moreover, such a solution could give Terna excessive discretionary power in deciding how to distribute the procurement of resources between MSD and MB. Finally, the analysis provided in the DCO lacks of clarity and supportive data in order to justify the removal of MSD ex-ante as the best proxy to exclude offers not related to real-time balancing. For those reasons we oppose such a proposal.

Q5: *Si condivide la proposta dell'Autoirtà di eliminare il riferimento ai prezzi di MGP dal meccanismo di calcolo dei prezzi di sbilanciamento applicati alle unità non abilitate?*

We would like more clarity about how the imbalance price would then be calculated in case of absence of accepted offers on the MSD (no MSD price): If the reference to MGP is eliminated, another solution or reference should be found. Moreover, as we estimate that the solution could have a very limited impact, we would like more specifications about the purpose of such a proposal.

Q6: *Si condivide la necessità di applicare anche alle unità non abilitate un meccanismo di prezzi di sbilanciamento duali qualora gli aggiustamenti introdotti non risolvano a pieno le distorsioni sopra descritte?*

We strongly object the idea to put on the same footing the “Unitá abilitate” and “Unitá non abilitate”: as long as there is no intraday continuous trading possibility or the chance to negotiate bilateral intraday transactions within one hour prior to delivery, it would be unfair to charge penalising prices for the imbalance of the “Unitá non abilitate”. EFET therefore believes that the best way to integrate these units – non-programmable RES-E *in primis*- should be to prioritise those actions aimed to offer the best chances for the efficient management of the actual production. On this respect, it’s fundamental to grant producers the opportunity of optimising their portfolio as close to the time of delivery as possible, for instance through the implementation of a continuous trading intraday market. Therefore, together with the reform of the balancing market, EFET calls for a quick implementation of a continuous trading intraday market in line with the Target model proposed by ACER in the Capacity Allocation and Congestion Management (CACM) Framework Guidelines, as it represents the best tool to deal with current market features.

Final remarks

We take the chance to suggest AEEGSI to evaluate a transition from the current central-dispatch to a self-dispatch model. EFET is traditionally in favour of 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. Centralised dispatch, as the one current in force in Italy, shall be used only when dealing with specific local network constraints, since it significantly affects the freedom of the market participants.

We also would like to take the chance to suggest the evaluation of production and consumption aggregation on a zonal basis in order to create value for the system .

As already expressed in the past, we would like to suggest AEEGSI to seek a stronger cooperation with market participants by establishing a working group with all the interested operators. This would help to increase the quality of participation in the consultation process and would be instrumental in obtaining shared workable solutions. EFET offers its expertise and is available to engage in a constructive dialogue with the relevant parties in this process.