

## **AEEGSI consultation document n. 316/2016 on the review of the electricity imbalance settlement framework**



### **EFET comments – 18 July 2016**

#### **Introduction**

The European Federation of Energy Traders (EFET<sup>1</sup>) welcomes the opportunity to provide comments to the AEEGSI consultation document n. 316/2016. In the last years, the Italian electricity imbalance settlement framework has been subject to frequent amendments, leading to regulatory and economic uncertainty, detrimental for the correct functioning of the market. EFET therefore advocates for the implementation of a permanent solution likely to provide more transparency and trust in the overall imbalance settlement procedure in line with the prescription of the EU Guidelines on Electricity Balancing once adopted.

As it is clear from AEEGSI's evaluations, the incorrect record of system flows in the valorisation of imbalance prices has undermined the smooth functioning of the single pricing system, and consequently leading to high dispatching and system costs. In fact, the systematic distortions in the determination of the aggregate imbalance sign arise from offers accepted in the MSD to deal with system security or network congestions, often independent of the actual imbalance of production and consumption units. Also, the imbalance calculation method based on simplifications (such as static geographical macro-zones defined a priori and irrelevance of inter-zonal flows) proved to be the real cause of price signals inconsistent with the value of balancing energy exchanged in real time.

Therefore, in our view, AEEGSI should strive finding a structural solution able to solve the current system's flaws and able to ensure that the imbalance settlement delivers adequate and transparent price signals for balancing positions. In this context, we look forward to further actions following-up on the proposals presented already three years ago in the consultation document n.368/2013. We appreciate the intention of the Regulator, made explicit at par 2.30 of the current consultation paper, to start monitoring nodal prices on the MSD and we suggest making the results of these analysis fully available to market participants. We deem it also important that specific simulations are run by the Italian Regulator and TSO for the whole year 2017, allowing market participants to compare these new prices with the current ones. Moreover, an ex-post computation for at least 2015 and 2016 would be necessary. We also suggest to carefully assess the potential introduction of nodal imbalance prices in the context

<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)

of the implementation of the TERRE project and to evaluate potential implications on forward markets, day-ahead market coupling and intraday.

Lastly, EFET highlights that the balancing market design must preserve existing well-developed markets in all timeframes and foster the development of new ones: it is of utmost importance that AEEGSI, Terna and GME take immediate steps to implement the CACM Guideline and replace the national intraday auctions with a continuous market with the possibility to trade and re-nominate until H-1, in coordination with the introduction of options in MSD as foreseen in AEEGSI consultation 557/2013/R/eel. We understand from the current consultation paper that the Authority is investigating the possibility of introducing a closure of the market gate intraday closer to real time and we look forward to seeing concrete developments in this sense.

Below, we have provided our feedback to the specific questions.

**Q.1 Si ritiene che la banda proposta dall’Autorità consenta agli utenti del dispacciamento di poter gestire il proprio portafoglio, nel rispetto dei principi di diligenza, perizia, prudenza e previdenza immanenti nell’erogazione del servizio di dispacciamento? La banda è altresì coerente con le finalità riportate al punto 4.10?**

EFET understands that AEEGSI intends to implement a mixed single-dual pricing scheme for both consumption units and non-programmable renewables sources. First of all, we object the idea to put on almost 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 is 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* – in the market is to prioritise those actions aimed to offer the best chances for the efficient management of the actual production.

Second, we believe that the proposed thresholds values of +/- 2.5%, above which a dual pricing scheme would be triggered also for the ‘Unita’ non Abilitate’, are extremely low – especially having in mind the lack of an efficient and close to real time intraday market, as already mentioned above.

We also highlight that a move to dual pricing would go contrarily to what is currently contained in the draft EU Balancing Network Code, which clearly prefers single pricing over dual pricing. Single price is already applied in many European countries (Germany, Belgium, Netherlands, UK, Switzerland) and is currently under consultation in France. Moreover, among the most developed electricity markets, Italy would be the first country to be switching from a single price to an actual dual price system.

**Q.2 Si concorda con l’introduzione di verifiche a consuntivo standardizzate basate su confronti differenziati per mese e per zona di mercato? Si ritiene coerente prevedere come soglia massima di tolleranza per le verifiche a consuntivo un valore pari al doppio della banda relativa all’applicazione dei prezzi duali?**

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**Q.3 La definizione di una taglia massima per le unità di consumo è ritenuta una misura aggiuntiva o alternativa rispetto alle verifiche a consuntivo?**

EFET does not share the Authority's analysis and its intention to perform additional ex post verifications, in order to mitigate any opportunistic conduct by market participants linked to a distorted use of the band applied to the program of consumption units. A dual pricing scheme applied to the imbalances above the thresholds would *de facto* be already penalising. Therefore, we do not see the reason and the need for extra monitoring.

Moreover, additional verifications based on different criteria checked ex-post could introduce uncertainty and unpredictability imbalance costs estimates, since a dual pricing applied to the whole imbalance amount could be triggered.

We instead could agree with the introduction of ex ante definition of maximum sizes for consumption units as an alternative measure to the introduction of thresholds. A cap based on the installed load could be introduced analogue to the margins currently applied to production units.

**Q.4 Si concorda con l'applicazione di una valorizzazione "dual pricing" a prezzi medi? Motivare la risposta**

If a mixed single-dual pricing scheme is implemented, we agree that the average price of MB offers should be considered, as a more cost reflective solution compared to the marginal price.

**Q.5 Si condivide l'intenzione di mantenere l'analogia fra gli sbilanciamenti per le unità di consumo e gli sbilanciamenti per le unità di produzione non abilitate?**  
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**Q.6 Si condivide l'intervento proposto?**

We believe that, given most of the RES-E intermittency and lack of possibility to trade close to real time, the peculiarity of renewable energy units should be somehow preserved. Whether the possibility to keep applying a single price scheme for the whole amount of imbalanced energy is deemed not possible by AEEGSI, we suggest to implement much higher thresholds differentiated per source, in order to reflect the different forecasting possibilities; also, we believe that the regulatory framework should grant the possibility to aggregate, at least per source, relevant units for the calculation of the imbalance settlement. EFET would be open to discuss the revised values of these thresholds.

This is also necessary to preserve and further incentivise the role of traders managing renewable asset portfolios, alternatively to the GSE's "ritiro dedicato": 'RES-E traders' are helping the Italian electricity market to develop by providing liquidity to short-term markets. For this reason, market participants who, following del. n. 522/2014, have opted for the option to fully bear the imbalance exposure (vs. the system with bands) should not be put at a competitive disadvantage through an excessively penalising imbalance scheme.

**Q.7 Si condivide l'utilizzo del costo effettivo della regolazione secondaria per la determinazione dei prezzi di sbilanciamento?**

EFET believes that the imbalance price, for all types of units, should reflect the actual value of real-time balancing power and that each operator should contribute to balancing costs proportionally to the amount of imbalance ascribed to him.

In general, EFET favours marginal pricing for the settlement of imbalances. However, we also believe that the imbalance settlement should be linked to the cost of activating balancing energy, which is currently often not the case in the Italian market because of the system's structural flaws. Therefore, in this context we would deem justified the proposal to shift from marginal to average prices, until the current distortions are removed and a truly cost-reflective balancing market is in place. MB average price in fact reflects the actual cost incurred by the system.

As a second best, we suggest considering the application to 'Unità Abilitate' of the average price of tertiary reserve activations and the average price of the secondary reserve activations taken separately.

**Q.8 Si condivide la decorrenza della nuova regolazione a partire da gennaio 2017? Si riterrebbe invece preferibile una implementazione immediata a partire da agosto 2016 prevedendo per le unità di produzione non abilitate e le unità di consumo una banda opportunamente "ampliata" per poi procedere con la banda di regime a partire da gennaio 2017?**

New measures should be introduced with sufficient notice: given that we are already in the second half of 2016, we believe that implementing the new rules in January 2017 would be too early to ensure smooth adaptation to the new mechanism. Additionally, the implementation of a new regulation should follow at least 6 months the publication of the AEEGSI's decision to give enough time to market participants to possibly renegotiate contracts with final customers.