

EFET RESPONSE TO THE AEEG CONSULTATION DOCUMENT ON INTERCONNECTORS



31 January 2014

WHO WE ARE

EFET is an organisation designed to improve the conditions of energy trading in Europe and to promote the development of a sustainable and liquid European wholesale market.

We foresee sustainable energy markets throughout Europe, in which traders efficiently intermediate in the value chain on the basis of clear wholesale price signals, thereby optimising supply and demand and enhancing security of supply, to the overall long-term benefit of the economy and of society.

Within our organisation, Task Forces dedicated to specific countries operate. The present document is prepared by the group following the Italian Gas and Electricity Markets.

GENERAL CONSIDERATIONS

EFET welcomes the opportunity to answer to this consultation about the regulatory framework for interconnectors (i.e. new transmission lines) between Italy and foreign countries.

In general, according to the European regulatory framework, the transmission lines should be built in principle by TSOs on the basis of the ENTSO-E Ten Year Network Development Plan; merchant lines should be an exception for particular cases.

The regulation currently adopted in Italy for interconnectors seems not fully coherent with the European framework: first of all selecting industrial customers willing to finance a new line sounds quite strange because it's generally up to the TSO to bear the whole investment; moreover the selected industrial customers will be granted a TPA exemption (or an equivalent benefit) for the new transmission capacity.

While we understand that the proposed regulatory framework for interconnectors is a consequence of Law 99/09 introducing support measures for Italian based energy intensive customers by allowing them to anticipate benefits linked with the new interconnections and to procure electricity at a discounted price, a number of elements need to be carefully scrutinised in order to minimise the possible distortions of the measure to the wholesale electricity market.

TPA EXEMPTIONS

Law 99/09 grants all the industrial customers involved in interconnectors a special TPA exemption. Two possible solutions are available: reserving a quota of transmission capacity to be given free of charge to each selected customer (physical exemption); or allocating a quota of the overall income resulting from capacity auctions for each selected customer (financial exemption).

As a matter of principle, EFET would oppose both the solutions: TPA exemptions should be an exception, interconnection lines should be fully financed by TSOs, all the investments should be taken into account while defining the network tariffs and all the interconnection capacity should be allocated by means of market mechanisms, open to all interested parties.

Nonetheless, since a benefit must be introduced as a consequence of the current legislative framework, we suggest that the financial exemption is preferable: compared to the physical exemption, it would allow market distortions to be minimised and all market participants might benefit from the increase of transmission capacity. We therefore urge the Regulator to recommend the Italian Government to grant only a financial exemption for the interconnectors.

In the unfortunate case the Italian Government would nonetheless favour a physical exemption for specific customers, EFET would urge the Regulator to adopt at least the following criteria:

- a UIOLI principle is applied: all the reserved capacity not nominated before the day-ahead market is allocated within the market coupling or the daily auctions and the relevant revenues are used to reduce the dispatching tariffs for end users;
- the reserved capacity shall not be tradable within a secondary market.

While these elements may mitigate part of the negative effects this option may have on the market, we continue to insist that the physical exemption would be detrimental to liquidity and competition on the Italian wholesale market.

SPECIFIC ISSUES

The industrial customers selected to finance the new lines have been granted since 2010 the opportunity to import energy from foreign countries at an administered fee (about 4 €/MWh). This benefit will last until the end of 2015 (six years): the difference between the full capacity cost and the administered fee is covered by all end users. It's the so-called virtual import.

EFET welcomes the Regulator's intention to reduce the duration of the exemption for all the industrial customers benefitting from the virtual import: in our opinion the exemption period should not exceed 14 years (20 years as proposed by Law 99/09 minus 6 years of virtual import).