

AEEGSI consultation document n. 713/2016 on the Italian capacity mechanism



EFET response – 10 January 2016

General comments

The European Federation of Energy Traders (EFET¹) thanks AEEGSI for the opportunity to provide an input on its consultation on the planned capacity mechanism in Italy.

EFET remains convinced that a well-functioning pan-European market remains central to macroeconomic efficiency and is a key component to ensuring security of supply. An undistorted, well-functioning and competitive market also provides the energy price signals that will trigger efficient dispatch and investment decisions by all market participants, which will in turn reduce costs for end-consumers.

In our view, the decision to establish a new capacity mechanism or maintain an existing one should be based on a pan-European capacity adequacy assessment taking account of all capacities (generation, DSR and storage, including the contribution from neighbouring countries). Moreover, capacity mechanisms, where implemented, should be carefully designed in order not to interfere with the free formation of price signals in the energy markets. With this respect, EFET recommends the Italian Institutions to closely follow the design principles for capacity mechanisms that the EU Commission has laid out as part of its 'Winter Package'.

In general terms, we believe that regulatory risk should be minimized and all the specifics of the mechanism must be clearly defined well before the first auctions. All administratively determined outcomes need to be well understood and transparent to avoid damaging the integrity of price formation.

Below we have provided our feedback on the specific questions which are relevant for EFET.

Feedback on the consultation questions

Q1. *Si condivide che la tecnologia di punta nel sistema elettrico sia rappresentata da impianti di generazione elettrica di tipo turbogas a ciclo aperto alimentati a gas naturale?*

EFET believes it is essential that the strike price level is set well above any normal and tight market conditions and therefore above the costs of the most expensing capacity in the market. This price should in fact be set at a level which would be reached only in case of severe scarcity. Given that the load will also be entitled to participate to the MSD and to the capacity scheme, EFET believes it is necessary to calibrate the strike price level on the demand side response rather than on the peak unit generating costs. Therefore, we suggest that the strike price is set at the value of lost load. The value of lost load used for the calculation of adequacy for the demand curve should be

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

defined by looking at the values in place in other European markets, e.g. 18.000 £/MWh in UK, 26.000 €/MWh in France, 36.800 €/MWh in Denmark. The alignment would be in accordance with the recent deliberation n. 627/2016/R/eel, which indicates that the value of lost load used for the cost-benefit analysis for the national development plan shall be defined in between 20.000 €/MWh and 40.000 €/MWh.

Q2. *Si condivide la metodologia sopra illustrata per la definizione dei capex e degli opex?*

Whether the cap is set at VOLL, it is necessary to translate the fixed costs of a consumption unit which takes part to the mechanism (UC Abilitata) into MW, also in order to calculate the maximum premium into EUR/MW: we believe that a good proxy to represent interruptible demand's fixed costs could be the reserve price of the "interrompibilità istantanea" or "d'emergenza" auctions, respectively equal to 135.000 €/MW/year and 90.000 €/MW/year.

Differently, since the capacity mechanism could see 11 auctions with 10% reduction of the premium at each auction, a maximum cap of 75.000 EUR/MW/year could potentially lead to very low premiums and would not be proper cap.

Q3. *Si ritiene che il premio massimo applicato alla capacità nuova sia adeguato a favorirne la partecipazione, agevolando lo sviluppo tecnologico?*

We recommend AEEGSI to follow the UK example from the very beginning of the Italian capacity market: in UK the cap on the premium for new capacity is higher than the one for existing capacity. New capacity faces more uncertainty which should be then taken into account while setting the cap.

Q4. *Si condivide l'orientamento sopra espresso in merito alle tempistiche per la comunicazione dei valori dei premi massimi?*

We believe there is no reason to shorten the timing and hence we do not share the proposed publication schedule: as expressed in the introductory paragraph, it is fundamental that all details are disclosed to the public as soon as possible. The proposed timing is not acceptable, for the following reasons:

- it exposes market participants to high uncertainty and risk;
- it influences price formation on wholesale forward market;
- It impacts the hedging strategies of market participants.

We stress that all details must be disclosed to the public and should not be a matter of private communication between AEEGSI and Terna.

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Q7. *Quale delle seguenti due opzioni si ritiene preferibile con riferimento alle unità di consumo abilitate? a) l'esonero dal pagamento della quota di corrispettivo variabile ascrivibile a MGP e la definizione del corrispettivo di raccolta al lordo delle restituzioni ascrivibili a MGP; oppure b) il pagamento del corrispettivo variabile comprensivo di MGP e MSD e la definizione del corrispettivo di raccolta al netto delle restituzioni ascrivibili sia a MGP che a MSD*

EFET believes that option b) is preferable for establishing the financial obligations of consumption units (UC) that take part to the capacity mechanism. Option b) in fact provides for similar financial obligations for both UC and UP, hence avoiding discrimination between units.

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