

16th March 2012

EFET Comments on the CASC public consultation

on a Cross-border Intraday interim solution on the Italian borders

While EFET welcomes the introduction of a mechanism for allocation of cross border transmission capacity at the Italian northern borders, at the same time we would like to highlight that the proposed scheme should be considered as an **interim solution** and represent a first step towards the implementation of the European Target model.

Indeed, the target model proposed by ACER in the Capacity Allocation and Congestion Management (CACM) Framework Guidelines clearly defines implicit allocation (first-come-first-served), re-nominations till h-1 the hour h of delivery, continuous capacity allocation and bilateral trading allowed using intraday capacities as the pillars for cross-border intraday capacity allocation.

Additionally, it is important that this interim period will be as short as possible and in any case in line with the European target to have a **European Intraday market within 2014**.

It's crucial that the next key steps towards this goal are taken as soon as possible: as agreed at the AESAG working group held on the 18.11.2011, the NRAs should consult the stakeholders in order to define all the necessary steps needed to implement the Intraday Target Model also in the CSE region. It is essential that market participants are effectively involved in a comprehensive debate.

EFET believes that an **efficient and timely intraday market** is determinant to allow market participants to optimize their portfolios during the day of delivery, as well as having the possibility to take into account relevant changes in fundamentals which rest unknown at the time of the gate closure of the day-ahead market session. This is a crucial aspect in particular to allow market mechanisms for integration of renewable intermittent generation into wholesale electricity markets.

EFET would like to emphasise its concern about the proposal of postponing the **gate closure of the Italian Day Ahead Market** and its results; we urge therefore the GME and other Italian institutions to evaluate carefully the proposal and its impacts and to adequately consult market participants.

EFET believes this proposal should be discussed in a regional context: a lack of coordination may have extremely negative consequences, by causing additional distortions and drops in the electricity market liquidity. EFET suggests therefore that this issue is discussed and evaluated in the next stakeholders meeting of the CEER Regional Initiative for Central South Europe.

In the following parts, the EFET comments on specific topics are listed.

1. Equal treatment of cross border traders in the ID and postponement of the XBID 1 auction

1.1. Cross border traders should be able to bid into MI1-4 like other Italian market participants

Market participants who trade across the Italian borders should be able to bid into all GME's intraday market sessions – just like other Italian market participants.

EFET does not see a reason for which cross border traders should be restricted to MI 2 and MI 4. Traders need to be offered a way to obtain and use capacities to bid into GME's MI1. The most pragmatic way is to introduce an additional cross border capacity intraday auction before MI1 and at the same time the MI sessions should be postponed. Nonetheless, in case EFET proposal cannot be accepted, at least the participation of cross border traders to the MI1 session should be allowed, in continuity with the current rules. Similarly, traders should be able to use the capacity obtained in the first intraday capacity auction either to bid both into GME's MI2 and MI3, or before each of the national ID auctions for the allocation of the XB capacity takes place.

1.2. Need for the 1st XB ID auction to be held later

It is critical that the first intraday capacity auction is held later than 14:15 on D-1 and that the GME's intraday market sessions are adjusted to allow this postponement. We see as well critically tight that the deadline for nomination of daily capacity could be shortened from 13:45 to 12:45. Results of Market coupling in the CWE area are not available until 12.40, therefore such a short deadline line would be unfeasible. We urge therefore to maintain the current deadline.

The need for XBID 1 auction to be held later than proposed in the afternoon of D-1 is necessary so that it can be really qualified as "intraday", because:

1. By definition, the benefit of intraday capacity allocation consists in allowing market participants to adjust their position close to real-time, in response to unexpected events like outages and to accommodate renewable and intermittent generation. This purpose would be defeated if intraday capacity allocation for the first half of the day is carried out too far from real-time. Unexpected events happening after 14.15, in fact, could not be taken into account. Intraday markets usually start quite late in D-1 in other countries (5 to 9 pm).
2. It should allow the Day-Ahead process to work properly and the intraday market to start after this process is completed. A later XBID1 auction will allow traders to nominate daily capacity and to accurately value and bid for the intraday capacity, taking into account the results of the day-ahead process in neighbouring countries. This is an essential component of the intraday markets. (E.g. in France traders can notify RTE of day-ahead exchanges (NEBs) until 16:30 on D-1).

Holding the first intraday capacity auction later in the afternoon D-1 notably requires that the current closing time of GME's second intraday session MI2 is moved forward. EFET suggests that the MI2 gate closure be brought forward to ca 17:00. A gate closure at 17:00 strikes us as feasible given that it would provide sufficient time for Terna to perform its functions related to the ancillary services market.

The first intraday capacity auction could then feasibly be held with a deadline at ca 16:20 on D-1.

2. Need for UIOSI principle

EFET would like to express a strong preference for capacity allocation based on use-it-or-sell-it (or use it or get paid for it), rather than the use-it-or-lose-it principle. The introduction of the UIOSI criteria will guarantee liquidity in the first auction also for the hours from 16:00 to 24:00; in fact if the criteria of UIOLI was implemented it is highly probable that market participants would wait for the second auction, having more information available, to buy the transmission capacity instead of buying it in the first auction with the risk to lose the cost paid. Moreover, the UIOSI criterion is normally often used in other explicit auctions, i.e. yearly and monthly.

3. Need to keep the publication of GME day ahead results at 10:30

The timing for publication of results of GME's day-ahead market needs to be well before 11:00 in order not to disconnect the Italian market from the Swiss market in Day-Ahead. As presented at the information forum for market participants held in Rome on 13 March 2012, the timings of the Italian day-ahead market would change in conjunction with the introduction of the intraday capacity allocation. Notably, the results of GME's day-ahead market would be published by 11:00 at the latest (currently 10:30). This clashes with the deadline to submit offers on EPEX Switzerland, which is also at 11:00. This will make it impossible for cross border traders to submit conditional bids in GME's day-ahead market for flows to Switzerland. Only unlimited bids will work as traders will not know the results of the GME market for any conditional bids until after the Swiss deadline. For this reason we suggest not to change the gate closure of the Italian Day Ahead market until the Price Coupling of Regions will not be implemented also for the Italian Borders.

4. Need for more GME intraday market sessions

EFET would also like to point out the need for more GME intraday sessions, with gate closures closer to the hour of delivery. There is in particular a critical need for a fifth GME intraday market session at ca 13:00 on D for the late part of the day around the hours 19-24. That would be needed for intraday cross-border trading during tight system conditions on one or the other side of the border and would therefore also be useful to improve system security.

5. Lack of fall back mechanism

EFET does not agree with the proposal that, in case the auctions fail, no fall back solution will be performed. It is our clear preference that a fall back solution, even a simple and very

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practical one, will be implemented. This could for example be the pro-rata model based on the quantities asked by the market participants before the failure of the process.

6. Operational aspects

6.1. Need for a longer bidding window

The 15 minute bidding window is too short. If there is a technical problem in the first auction there will be no time to fix it and as a result traders will have no access to the Italian market for the first half of the day (until the next auction).

6.2. Need for market participants to view file formats/schemas

Given the target start date in May 2012 and that market participants need to prepare their internal systems, market participants need to be made aware of the detailed operational arrangements that will be used. Market participants need to be made aware of what type of intraday bid files and intraday result files CASC will use.

6.3 Nomination principles (on the Swiss border)

The nomination arrangements on the Swiss border further strike us as involving an unnecessary “loop”. (Participants nominate to Terna. Terna communicates the intraday volumes to Swissgrid. Swissgrid then integrates these volumes into the market participants’ time series and sends the time series back to the market participants. Market participants need to integrate the revised times series, received from Swissgrid, in any further schedule messages in Switzerland.) Market participants would have more control of their nominations if they were to nominate the intraday capacity straight to Swissgrid, rather than sending the information to Terna, receiving the information back from Swissgrid integrated into existing time series, and then including that information in any further schedules to Swissgrid.

6.4 Nomination principles (A to A)

The A: A principle would limit the number of participants that could bid for intraday capacity. Therefore, in the interest of open access, non discrimination and competition, it would be better to allow for the A:N nomination principle.

7. Improving the interim model and going towards the target model: need for bilateral trading using XB ID capacity

As the Italian market moves towards the target model, we would also like to point out that bilateral trading would need to be allowed using the intraday capacity. This is currently not possible. In fact, transactions can only be nominated on the PCE until D-2. That would have to change in order to allow intraday bilateral trades.