

Consultation of the Autorità per l'Energia Elettrica e il Gas on the electricity balancing regime



EFET Task Force Italy response¹ – 16 October 2013

GENERAL CONSIDERATIONS

EFET 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 AEEG has had to adopt such changes to avoid high dispatching costs for end users, but this situation has made the overall settlement framework uncertain, making it difficult for market participants to develop an efficient bid strategy.

EFET therefore appreciates the intentions of the Italian regulator to update the current regulatory framework in order to find a permanent solution likely to provide more transparency and trust in the overall settlement procedure. Current imbalance prices, although linked to the dispatching market results as in many other European countries, do not reflect the real imbalance signals in all configurations: high imbalance prices do not always correspond to a production shortage, and vice versa.

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. Centralized dispatch, as the one current in force in Italy, shall be used only when dealing with

¹ The European Federation of Energy Traders (EFET) is a group of more than 100 energy trading companies from 27 European countries dedicated to stimulate and promote the development of a sustainable and liquid European wholesale market throughout Europe. 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. More information at: www.efet.org.

specific local network constraints, since it significantly affects the freedom of the market participants.

According to our general position, both solutions put forward by the regulator would not bring full satisfaction to market participants:

- the “dynamic zonal system”, by introducing balancing zones with variable boundaries, creates much uncertainty for market participants, and would leave a far too large discretionary power to the TSO;
- the nodal system confirms the actual centralized dispatch approach, not allowing market participants to bid into the balancing market on a portfolio basis;

EFET believes that one important element of solution has been omitted from the regulator’s proposal, namely the progressive extension of the balancing obligations of traditional power generation to renewable energy production.

Nonetheless, given the options put forward in the consultation document and the current market environment in Italy, and while EFET has traditionally opposed moves towards nodal pricing at the European level, we believe that the nodal approach proposed by AEEG in this consultation document is the least harmful solution. Despite the fact that it does not allow portfolio bids, it should appropriately help imbalance prices reflect the real network constraints: high prices should only arise at the nodes with a shortage of electricity, while nodes with an excess of production will have lower prices.

The introduction of a nodal approach, nonetheless, represents a significant innovation in the European panorama: balancing through specific nodes would not be compatible with TSO practices in most other EU countries. All the implications on market coupling and cross-border balancing should be carefully evaluated in order not to hinder the development of a single market as designed in the Target Model.

Before approving the new approach, we deem it important that specific simulations are run by the Italian TSO: nodal prices shall be worked out at least for the entire year 2014 (if the final proposed model is finalised and ready before the end of 2013), allowing market participants to compare these new prices with the current ones. Moreover an ex-post computation for 2013 and for 2012 (according to MSD results) would be necessary. One year of testing is the minimum period needed to evaluate such a model, taking into consideration the specificities of the grid in the different periods of the year.

Moreover we hope that a specific working group could be established between Terna and market participants in order to share and discuss the simulation results and to build the new framework taking into account both system and market participants’ needs. EFET will be glad to participate to such a working group.

SPECIFIC ISSUES

While the nodal approach could be the least harmful solution for the issues currently faced in Italy, EFET would like to flag a number of general concerns with regard to the dynamic zonal model: this model is not transparent and leaves a large discretionary power to the TSO which would be called to decide whether a specific MSD bid is accepted for balancing purposes (and thus

considered while computing the imbalance fees) or only for network constraints (and thus excluded).

EFET also finds objectionable the specific disposition forcing market participants to program injection and withdrawal as diligently as possible, minimising program errors: violations will be notified by Terna to the AEEG. The bid strategy followed by the market operator does not always minimise program errors, but it is generally aimed to minimise the risk and maximise the income. For example if high imbalance prices are expected, the market participants tend to overestimate load or underestimate production in order to guarantee a positive imbalance settled at high price rather than a negative one.

Finally, while EFET welcomes the introduction of virtual bids as a further instrument for market participants to develop flexible bidding strategy, we would like to raise our concerns with regard to the lack of operational details in the AEEG proposal, which does not allow market participants to properly evaluate its full benefits. Also, we would like to note that virtual bids are more a financial instrument than a physical one, thus we would suggest trading them on the derivatives market IDEX.