

ARERA Strategic Plan 2019-2021

■ EFET comments

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide comments to the ARERA Strategic Plan for 2019-2021. We have provided our detailed feedback concerning proposals related to our main area of interest i.e. the electricity and gas markets.

OS.16. Integration of electricity markets across Europe

a. Intraday market

We support the aim of achieving more integrated power markets across Europe. After having almost completed the integration of forward and day-ahead markets, reaching this target largely depends on the successful integration of intraday markets across Europe. The implementation of an intraday continuous trading market in line with the EU Target Model has been delayed for long: we believe that it is now time for all Institutions responsible for the functioning of the electricity market to urgently take concrete steps to ensure that the Italian borders join the XBID project on 1 January 2020 at the latest.

A solution for the coordination between intraday and balancing and ancillary services market must be finally found and disclosed: in our view, Terna should avoid constraining market participants operations in the intraday market. If some constraint in terms of reserve margins is deemed to be necessary, the associated cost opportunity should be remunerated, for instance via option contracts as it was initially suggested by the Regulator. Finally, we recall that the European Target Model for intraday, as foreseen by the Capacity Allocation and Congestion Management Guideline (CACM GL), clearly defines implicit allocation, continuous trading, re-nominations until H-1 of delivery as the pillars of cross-border intraday trading. The centrality of continuous trading should be preserved, as this ensures the quick reaction to unexpected events via rapid decision-making and is crucial to manage generation intermittencies and load volatility into wholesale electricity markets. Last, the possibility of portfolio bidding should be introduced in the intraday market, as well as in other markets.

b. Imbalance settlement scheme

We support a permanent solution for the imbalance settlement able to provide cost reflective imbalance price signals and trust in the overall imbalance framework. A possible future introduction of a nodal pricing approach was envisaged by ARERA already for some time: while we are open to see a concrete proposal in that regard, we generally harbor concerns about nodal pricing models. A move to nodal pricing would represent a significant change in Italy as well as in Europe. In any case, we strongly underline that for any significative change to the imbalance settlement principles, market participants would need

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

more than a year of parallel run to compare any new imbalance framework with the current one and hence evaluate the impact of any reform. We expect the full implementation of the EU Electricity Balancing Guideline Regulation.

c. Clean Energy Package

Capacity mechanism

EFET believes that a well-functioning pan-European market remains central to macroeconomic efficiency and is a key component to ensuring security of supply. First, we recommend to clarify the status of the pending Italian capacity mechanism, as to provide transparent information to all the market concerning the future power market design, as this has the potential of influencing prices of long-term contract already under negotiation. The scheme notified to European Commission should be published in order share with the stakeholders the modified rules before its approval.

Second, we recall our core belief: 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 design a capacity mechanism which reacts upon undistorted price signals and allows the most efficient solution to be provided by the market. We believe that, in order to make sure that the impact of the Italian capacity mechanism on the energy markets is minimized, it is essential that the strike price level (prezzo d'esercizio) is set well above any normal and tight market conditions and therefore above the costs of the most expensive resource in the market. This price should in fact be set at a level which would be reached only in case of severe scarcity.-Therefore, we suggest that the strike price is set at the value of lost load. Differently and with a strike price calibrated on the variable costs of an open cycle gas turbine (85-90 €/MWh currently), there is a high risk that this would act as an implicit price cap to the electricity market, hindering the free formation of prices; ultimately this will also prevent any scarcity price signal and fail to provide the right price signals for the emergence of flexibility. We therefore recommend MiSE to carefully reflect over the potential negative impact on the wholesale electricity market represented by a strike price set at a low level.

Role and responsibilities of electricity transmission system operators (TSOs) and distribution system operators (DSOs), particularly regarding ownership and operation of storage facilities

EFET acknowledges that electric storage will be an important pillar of the future electricity market and enabler of flexibility provided also by renewable energy sources. Current unbundling rules provide for the separation of regulated monopoly system operation from all the other competitive activities in the sector, ensuring that Transmission System Operators (TSOs) and Distribution System Operators (DSOs) act as neutral facilitators of the market.

We would like to underline the importance of the strict separation of competitive commercial activities from monopolistic system operation activities: as we understand that Terna launched several pilot projects on electricity storage, in this respect we recall the principles enshrined in the recast Electricity Directive that TSOs, like DSOs, shall not be

allowed to own, manage and operate electricity storage facilities, unless of market failure. Storage assets – in the same manner as generation assets or demand-response capacities – should never be considered as part of a network unless they can only be used for purposes strictly related to the secure grid functioning. We believe that system operators who see the need to rely on storage capacity to perform their duties should procure this capacity from market participants, who are best placed to provide cost-efficient storage solutions.

Forward Allocation of Electricity Transmission Rights

We expect the full implementation of FCA Regulation, maximisation of the capacity and limitation to the persistent curtailment (programmable and non-programmable) on electricity transmission rights. We encourage ARERA to pay more attention on such issues and making the exchange operations easier for market players as this could contribute to increased liquidity in Italian power forward and future contracts and less isolation for the Italian zones.

OS.20. Regulation by objectives and costs

a. Storage regulated access regime

We have really appreciated ARERA's initiative of organizing a dedicated working group on storage (GES) to discuss a set of new products to be launched in the withdrawal season 2018-19 and injection season 2019-20. We welcomed the test of an incentive mechanism to be applied to storage operators, even though we believe that the introduction of new storage products should be carried out carefully in order to effectively enhance the flexibility of the Italian gas market and free-up resources for shippers, not only in case of stress of the system.

EFET would encourage SSO to keep working on improving their offered services, especially if available on a short-term basis, making them more flexible and more in line with the need of the market.

OS.22 National market design specificities and coherence with the European rules

a. Transition to self-dispatch

EFET believes that the integration of electricity markets at regional level should be the minimum target that ARERA should pursue in cooperation with neighbouring NRAs as well as TSOs and Power Exchanges. The Italian electricity market has indeed some peculiarities, most of all the regional configuration with a system price and the central dispatch system. EFET truly believes that in order to achieve an effective integration with other markets in Europe, it is time to overcome those specificities and annexed limitations.

In particular, regarding the dispatch system we believe that with the increasing penetration of decentralised renewables, central dispatch shall be used only when

dealing with specific local network constraints, since it significantly affects the freedom of the market participants. EFET would welcome a swift orderly transition from central dispatch to self-dispatch, with the condition that the future grid development, as anticipated in Terna's development plan, will truly solve the congestion issues that still impact the internal network. With this respect, investment projects that favour price convergence between zones should be prioritised and internal zones mergers should be promoted when possible. We regret, in this sense, the recent addition of the zone "Calabria" from 2021.

Authorisations procedures for the necessary infrastructure interventions, should be accelerated, as investments are necessary to overcome some bottlenecks and ultimately the PUN. In fact, the current splitting of the Italian market in multiple bidding zones, together with the existence of a system price like PUN, represents a peculiarity compared to most other European markets, mainly due to the configuration of the Italian network. In view of the growing integration of markets in Europe, mainly thanks to the day-ahead market coupling and cross-border intraday project (XBID) and considering the constraints that the integration of the PUN calculation in the EUPHEMIA algorithm represent, the future elimination of PUN may be welcome.

Overall, we call on a swift transition to self-dispatch and internal zones mergers accompanied by the introduction of portfolio bidding, which is the standard solution in most of the EU power markets.

b. Natural gas market decarbonization

EFET closely looks at the development of biomethane in Italy. Within the framework of the incentive scheme launched by the Ministerial Decree of 2 March 2018, GSE was assigned a central commercial role: we regret that this limits the possibility for traders to make competitive offers to withdraw biomethane and at the same time limits development of a market open to the participation of pure commercial entities. Similarly, we regret to see the TSO Snam, a regulated entity with different risk profile, is allowed to be increasingly involved in investment into this particular commodity. We firmly reaffirm that unbundling provisions must be respected also in the gas sector. This is of particular relevance for new technologies, such as power-to-X and for biomethane: whether the political ambition is for hydrogen or biomethane to play a considerable role within the overall energy mix, it should still be up to the market to decide on the related investments into these particular solutions and by no means up to the TSO.

As for the role of traders in the development of biomethane, we wish that at the very least a market for CICs could be established, where traders would be allowed to perform transactions on the CIC platform.

Last, we believe that tradability across borders of GOs - and more in general of 'green' certificates should be enabled. To this scope, we invite to finalise the necessary reciprocity agreements with other Member States. Also, it would be important that in establishing a registry for guarantees of origin for biomethane, the system is open to all forms of renewable gas as well as to low carbon content gas to move towards a perfectly integrated trading environment for environmentally friendly energy solutions.

c. Entry-exit system and gas transportation costs

We would be curious to receive more details regarding the idea of overcoming the entry/exit system at European level.

We also recommend a cautious approach when proposing policy measures at National level that impact transportation costs across borders, such as those proposed in the PNIEC: EFET understand that one of the goals of the PNIEC is a greater convergence between the reference gas price in Italy with that of northern European markets. In first place, the modality of intervention for the partial or total reactivation of the TENP pipeline which are briefly mentioned in the text should indeed be clarified by all Institutions. In any case, we deem any potential intervention on a foreign pipeline at the expense of the Italian system or damaging the functioning of the European internal market not acceptable at all. Second and more in general terms, we urge a transparent approach and, overall, discourage to take measures prone to administratively alter the price formation at PSV.

On the natural gas market and with respect to the completion of the reform of the transmission and balancing service at *city gates*, we have really appreciated ARERA's decision to postpone the reform to the next thermal year. We recommend a swift conclusion of the process to ensure the regulatory stability and the clarity necessary to manage in a transparent and reliable manner the contractual relations with end customers.

With specific reference to the implementation of the EU Tariff Network Code by 2020, since a number of adjustments will be needed in the transitory period, we believe that all the details over the new methodology should be disclosed with large advance to ensure a level playing field.

On a broader level we would like to signal that the market is still awaiting clarity around the applicability of the "prescrizione breve" to all contractual relationships in the value chain as provided for in the Legge Bilancio 2018, including with respect to invoices linked to the gas settlement procedure in order to guarantee the financial neutrality of network users.

d. New gas infrastructures

EFET supports a cautious approach when promoting investment that are not underwritten by the market. In the uncertain outlook for European gas demand in the mid - to long-term, EFET has warned against the risk of stranded assets which, with the current entry-exit tariff regime, result in a vicious spiral of high tariffs that further reduce demand and the competitive of gas vis-à-vis other energy carriers.

The decision to build new facilities, including small-scale LNG terminals, should be taken only after a thorough cost/benefit analysis and after the results of call for interest and open season procedures where market participants make binding commitments to use the infrastructure. If not enough bookings are secured, such investment plans should be reconsidered.

OS23 – Collaboration with other institutions on regulatory aspects, sustainability and circular economy

EFET supports an increased use of English for ARERA’s consultations and decisions, at least for cross border matters that involve the collaboration of TSOs, NRAs and market players. We also support an increased simplification of ARERA’s decisions as they recall several acts or laws that might not be accessible and do not facilitate market players understanding.

Audizioni periodiche ARERA, 8 Maggio 2019

Osservazioni e proposte EFET

Andrea Siri

Chairman EFET TF Italy

EFET

European Federation
of Energy Traders

SO YOU CAN RELY ON THE MARKET

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Presentazione dell'associazione



EFET promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles

EFET

- **Nata nel 1999**, EFET rappresenta oggi più di **120 società** attive nel commercio di energia, presenti in più di **20 paesi europei**;
 - Promuove e facilita il **commercio europeo dell'energia (gas ed elettricità)** attraverso il miglioramento delle condizioni di mercato in termini di apertura, trasparenza e liquidità.
- Attività principali, in Europa ed in Italia:
- Sostegno alla **liberalizzazione** dei mercati energetici;
 - Promozione del **mercato unico Europeo** dell'energia, integrato e interconnesso;
 - **Standardizzazione Legale** (Contratti EFET, CPPA).

Nel 2009 nascita della Task Force Italia. Continua e fattiva collaborazione con AEREA sin da allora.

Membri EFET



Utility italiane ed estere, oil & gas companies, banche ed istituzioni finanziarie, *trading houses* etc.

Osservazioni e proposte EFET

OS16 – Sviluppo di mercati dell'energia elettrica e gas sempre più efficienti e integrati a livello europeo

Riforma del dispacciamento e regolazione sbilanciamenti. Auspichiamo:

- maggior coerenza, continuità e chiarezza nei vari interventi regolatori e delle tempistiche per essi previste, anche con riferimento alla possibile introduzione di un approccio nodale al calcolo degli sbilanciamenti che dovranno avvenire, se perseguite, con largo anticipo e con un parallel run;
- piena applicazione delle disposizioni contenute nell'EU Electricity Balancing Guideline nel quadro della riforma del dispacciamento.

Capacity market. Auspichiamo:

- Un disegno del meccanismo che minimizzi l'impatto sulla formazione dei prezzi nei mercati dell'energia e dei servizi;
- l'introduzione di un prezzo d'esercizio (strike price) sufficientemente elevato da non costituire un 'cap' implicito al mercato ed idealmente tarato sulla domanda/valore dell'energia non fornita (VENF o VOLL).;
- Tempistiche di implementazione chiare e certe, condivisione dello schema a valle della nuova notifica alla Commissione Europea.

Capacità di interconnessioni elettriche. Auspichiamo:

- Massimizzazione capacità disponibile, limitazione dei curtailment sia programmati che di breve termine, semplificazione della gestione delle importazioni nel sistema di Borsa. Tali richieste se soddisfatte aiuterebbero certamente la liquidità;

OS16 – Sviluppo di mercati dell'energia elettrica e gas sempre più efficienti e integrati a livello europeo

Power Purchase Agreements (PPAs). Auspichiamo:

- Limitato intervento regolatorio in quanto strumenti essenzialmente di mercato;
- Piena disponibilità a collaborazione con EFET che sta sviluppando uno *standard corporate PPA agreement* (CPPA) flessibile da poter utilizzare in tutta Europa. Lo standard viene discusso in questo periodo con tutte le principali associazioni di rinnovabili europee e con una vasta platea di lenders.

Mercato Intraday. Auspichiamo:

- Un disegno integrato dei mercati in Europa. Dopo l'integrazione dei mercati day-ahead e forward e' urgente arrivare ad una piena implementazione del progetto XBID per l'intraday nel Q1 2020 al più tardi;
- Il *target model* europeo previsto dal CACM con chiusura all'H-1 con continuous trading e offerte per portafoglio.

Accumuli e prescrizione breve. Auspichiamo:

- Pieno rispetto delle normative sull'unbundling per TSO/DSO in quanto non dovrebbero essere, da normativa, proprietari, gestori ed operatori di accumuli se non in caso di fallimento di mercato;
- Applicazione della prescrizione breve ai TSO ed al settlement.

OS22 – Promozione di regole europee coerenti con le specificità del sistema nazionale

Transizione al self-dispatch. Auspichiamo:

- Una transizione ordinata dal central dispatch con un pieno sviluppo della rete per la risoluzione delle congestioni locali ed una fusione delle zone. Particolare attenzione è stata posta sulla recente decisione dell’Autorità circa l’aggiunta della nuova zona “Calabria” dal 2021: auspichiamo una maggiore integrazione delle zone italiane.

Regime di accesso allo stoccaggio. Auspichiamo:

- L’eliminazione delle restrizioni imposte dal MiSE che impediscono allo stoccaggio di contribuire pienamente alla flessibilità del mercato del gas italiano;
- L’introduzione di nuovi prodotti che aumentino la flessibilità dei profili di iniezione/erogazione, tema particolarmente rilevante con il regime di bilanciamento gas.

OS22 – Promozione di regole europee coerenti con le specificità del sistema nazionale

Trasporto Gas. Auspichiamo:

- Un approccio coordinato con le altre Autorità europee, in particolare Bnetza (Germania) ed E-Control (Austria) in quanto le tariffe hanno impatti transnazionali;
- Un approccio cauto circa l'introduzione di misure quali il prospettato 'corridoio della liquidità' proposto dal MiSE nella SEN e ripreso nel PNIEC, il quale riteniamo che possa avere un effetto fortemente distorsivo sui mercati e compromettere l'affidabilità del PSV quale riferimento di prezzo. I segnali di prezzo provenienti da mercati efficienti sono sempre un vantaggio soprattutto per i consumatori.

Decarbonizzazione Gas. Auspichiamo:

- Un mercato dei CICs per i traders e delle garanzie di origine (Gos) transnazionali per sviluppare appieno le potenzialità di soluzioni energetiche sostenibili.

OS23 – Collaborazione con altre istituzioni sui temi regolatori, di sostenibilità ed economia circolare

Per una miglior trasparenza, auspichiamo:

- Maggior uso della lingua inglese in delibere e consultazioni, almeno per le materie con impatto transfrontaliero, al fine di un maggior coinvolgimento nel processo degli operatori stranieri

Per una maggiore semplificazione, auspichiamo:

- Migliore leggibilità delle normative: ad oggi, le varie consultazioni e decisioni richiamano o modificano numerosi atti od allegati ad essi collegati, i quali non risultano direttamente accessibili, non facilitando la comprensione nell'immediato della normativa in questione.

secretariat@efet.org
www.efet.org

Grazie per l'attenzione

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