

AEEGSI consultation document n. 277/2017 on the review of the imbalance settlement regime



EFET response – 22 May 2017

General comments

In recent months and years the imbalance settlement regime have been subject to frequent, often short-noticed, amendments: EFET understands that AEEGSI had to adopt such changes to avoid high dispatching costs for end users and to counteract behaviours of some market players deemed not to be in line with a good conduct in the programming phase. In general, we believe that the imbalance price, for all types of units, should reflect the actual value of real-time balancing power and that each market participant should contribute to balancing costs proportionally to the amount of imbalance ascribed to him. A permanent solution aimed at implementing these objectives would therefore receive a positive feedback from us.

At current stage we still perceive a lack of coherence and clarity amongst the different regulatory interventions set out by AEEGSI: first of all, we would expect the Regulator to set a timeline and do its best to stick to it, in order to provide the market with reliable information. In addition, we observe that the timeline for the possible introduction of a nodal pricing approach to imbalances, often re-called as the future “permanent” target solution, seems not to be respected: previous del. n. 800/2016 foresaw the publication by the Authority of a specific consultation at beginning of 2017 with an in-depth study on nodal pricing, the publication by the Authority of the final orientations by July 2017 and the start of the new regime in January 2018.

Second, regarding the transitory regime outlined in this consultation, as the same AEEGSI claimed in its documents, the adjustments set by del. n. 444/2016 and in place since 1st August - together with other proceedings such as the one launched by del. n. 342/2016 - are already delivering clear positive results in terms of cost reduction. Considering that at the moment Terna has not yet published the necessary data for the analysis of the algorithm, new measures proposed to start by 1 July would again introduce uncertainty and significant modifications to the imbalance regime, impacting all market participants at short notice. Given the above, we do not fully acknowledge the urgency of changing the method of calculation of the macro-zone imbalance within the summer period, without giving the opportunity to market participants to run tests through a parallel run and without the necessary time to adapt contracts and modify commercial clauses with their business partners. Therefore, **we recommend that the Authority postpones the starting date of the**

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proposed modifications to 1 January 2018, in order to ensure a smooth transition to the new regime, and foresees a period of parallel run, which the market absolutely needs to evaluate the consequences of these modifications. We believe that the regulatory framework should be more stable over time and that decisions that are detrimental to its reliability should be avoided.

Moreover, despite the good intention to ensure immediate compliance with the indications set by the recently approved EU Electricity Balancing Guideline, AEEGSI seems to have a 'cherry-picking' approach when it comes to compliance with EU rules:

- First, the Regulator should ensure compliance with currently applicable EU Regulation n. 543/13 according to which the full imbalance volume in a given area should be published within 30 minutes of the end of operations. We believe that the publication by Terna of the imbalance volumes in its control area within 30 minutes should be a prerequisite for the start of the new transitory regime. We appreciate that, as we understand it, a solution to anticipate the publication of this data is being investigated, but the information provided is too general and with no clear timeline. Overall, we do not consider the effort displayed to be enough and in our view the new regime should not start before Terna accomplished this task.
- Second, the application to all 'unità abilitate' (and potentially UPV and UCV) of imbalance prices based on the average price of activated balancing energy (as suggested in the Balancing Guideline) instead of the actual marginal price, could be considered by AEEGSI as a more cost-reflective solution and in line with the target of providing a price signal consistent with the energy value.

Last, we believe that the Regulator should prioritise the actions aimed at giving generators – especially non-programmable renewables - the opportunity to optimise their portfolio as close to delivery time as possible, through the implementation of a continuous trading intraday market. Therefore EFET calls for a quick implementation of a continuous trading intraday market in line with the Capacity Allocation and Congestion Management (CACM) Regulation, as it represents the best tool to deal with current market features, such as RES intermittent output. We acknowledge the efforts of the Italian institutions, together with neighbouring countries counterparts, in designing cross-border intraday markets at the Italian borders as part of the Local Implementation Plan n.14 within the XBID project, which however in our understanding will not be launched before Q1 2019.

1. Si condividono le modalità con cui l'Autorità intende utilizzare fin da subito il segno preliminare disponibile in D+1 come parametro rilevante ai fini del settlement senza procedere ad alcun ricalcolo nel mese M+1?

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EFET believes that this is not the most crucial matter: as anticipated above, the priority is to ensure compliance with EU Regulation n. 543/13, Art. 17.2, g, according to which the full imbalance volume in a given area should be published within 30 minutes of the end of operations. We recommend following the best practices of Germany (15 minutes settlement) and France (30 minutes settlement) where the imbalance sign is published respectively few and twenty minutes after the delivery period.

Not publishing such data would also imply the possibility for certain market participants with access to distribution networks to access more information in real time than the rest of the market. It is therefore of fundamental importance that the imbalance volume and the data used to calculate it (i.e. interzonal exchanges, exchanges at the borders, etc.) are published at least with the current timing (H+1).

We highlight that final data for settlement purposes published on calendar D+1 (and not on “working day” (giorno lavorativo) D+1 in order to include week-ends within the same time-lag) can be seen as an improvement, but cannot replace the publication of reliable provisional data in H+1.

Q.2 Si condivide l'introduzione dei corrispettivi di non arbitraggio macrozonale?

We do not have any particular objections. We agree with the proposal.

Q.3 Si condivide il percorso prospettato e le tempistiche di implementazione delle nuove misure?

On top of the motivations presented in the introductory paragraph, EFET does not share the intention to start with the new regime by 1 July for the following reasons:

- **No historical data on flows between macro-areas** has been disclosed: that makes it impossible for market participants to evaluate the algorithm and to understand the consequences of the new methodology. With this respect, we highlight that the same EU Regulation n.543/2013, at Art. 12, 1 (g) and 2(f) prescribes that “*physical flows between bidding zones per market time unit (...) shall be published (on the ENTSO-E’s transparency platform) for each market time unit as closely as possible to real time but no later than one hour after the operational period*”. In our view, imbalance-related data from Terna should be published close to real time as soon as possible;
- **More clarity on the zonal exchanges** should be given: which lines would be involved (380 kW, 220 kW etc.)?
- **Cost-reflectiveness issues:** despite allocating the quantities to the correct macro-area, prices would remain accounted for in the wrong area, generating erroneous and not cost-reflective price signals. For example, if Terna accepted offers in the area SUD that were

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- then transferred to NORD because of a shortage (NORD is short), the SUD price would still be affected by the bid price for NORD, while NORD would not "see" the price even if it is the area which is actually short. If a market participant had historical data, it might evaluate the impact that this could have, beyond verifying that it has correctly interpreted the algorithm. Again, this shows the importance for market participants to access all useful data;
- Market participants need **sufficient time to run tests through a parallel run**: the choice of not allowing tests under the justification that this would 'further postpone the date of application of the new imbalance sign determination mode is questionable as in fact market participants will be left completely blind. Nevertheless, postponing the starting period from 1 May, as previously foreseen, to 1 July does not add any value until significant data is made available to market participants;
- The **commercial issues** behind such a short-notice, caused by very significant modification of the imbalance regime, have not been duly taken into account: companies need time to update contracts with their counterparties, as the regulatory environment in which they operate will drastically change.

Furthermore, we seek clarification on whether secondary reserve negotiations will enter again into the computation of imbalance prices.

For the reasons expressed above, we recommend that the Authority postpones the starting date of the new regime to 1 January 2018, in order to ensure a smooth transition, allows time for adaptation and foresees a parallel run.