

Italian Borders consultation on intraday coupling model

■ EFET response – 13 January 2017

Introduction

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide its views on a possible model for the intraday coupling at the Italian borders, developed by PXs/NEMOs and the TSOs of the region.

As a first note, we reiterate our skepticism over the introduction of complementary regional intraday auctions besides the Target Model solution, based on a continuous trading mechanism. While we acknowledge that the CACM Guideline opens the doors to both regional auctions and to a single methodology for pricing intraday cross-zonal capacity, this solution risks reducing the efficiency of XBID, which is a corner stone of the CACM. Our reluctance to see regional auctions implemented is mainly due to the major impacts this would have on continuous trading: first, it risks splitting liquidity and hampering the development of an efficient continuous intraday trading in Italy; second, this would raise questions on how available cross-zonal capacity is allocated between the two mechanisms. We stress that complexity in the design of cross-border intraday markets should be avoided in order to attract market participants and foster liquidity.

Therefore, in the first place we would like to understand the fundamental rationale for capacity auctions from an overall welfare perspective.

EFET comments on the two options proposed

If the TSOs, NRAs and PXs/NEMOs of the Italian Borders will decide to implement the model of implicit regional auction(s) complementing continuous trading, **a single introductory auction run for all the 24 hours of day D**, based on capacity duly recalculated for the intraday timeframe, would be sufficient to allow capacity to be priced in case of congestion during the auction.

EFET does not support the model presented as Option A as retaining six auctions, four of which purely internal, is simply not acceptable: this model would bring complexity to the XBID project architecture and would fragment continuous trading in five time windows.

The model presented under **Option B represents instead a more suitable alternative**. However, we would like to underline a number of downsides linked to this proposal as well as some questions:

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

- In our view three complementary auctions are still too many. More in detail, we would like to ask for a clarification on the rationale behind having a MI1 purely Italian auction in D-1 so far from real-time. We also highlight our opposition to any arrangement that restricts participation to certain segments of the market to national participants only;
- The lead time between MI1 and MI2 seems excessively wide. In particular, we struggle to understand why the recalculation of intraday capacity takes so long and hence the gate closure of MI2 auction would be only at 22:00 of D-1. This way, XBID continuous trading would not be available before the auction results are published at 22.30; similarly, hours 12-24 could not be traded before 8:00 of day D. In our view, the gate closure of the “Regional Coupling Auction” in D-1 (MI2) should be earlier than 22:00 (to avoid interference with continuous trading and split liquidity), still allowing for the possibility to trade all the 24 hours of day D;
- From the models presented we understand continuous trading on XBID solution will not be interrupted. We emphasize that the XBID standard solution, namely continuous trading, must be preserved and by no means should XBID be interrupted at both sides of a border. Also, we request confirmation that XBID will not be affected at the other borders of bidding zones sharing a border with Italy;
- We would like to ask for clarification on whether regional auctions will be managed within the XBID project platform;
- We still expect a solution will be found to integrate Switzerland in the single EU-wide intraday coupling via the XBID (either via political agreement or by mean of a voluntary initiative of NRAs and TSOs in parallel). Should the access of Switzerland to the XBID be delayed, it must be ensured that on the Swiss-Italian border cross-border intraday capacity is still allocated via implicit auction or, as a last resort, via existing explicit auctions.

Conclusions

Whether implicit regional auction(s) complementing continuous trading are deemed useful to increase the overall welfare, **EFET favours a model with a single opening auction run for all the 24 hours of day D available for both the internal Italian market (all internal zones) and cross-border trading**. The auction should be based on the capacity duly recalculated for the intraday timeframe, after the day-ahead spot auction. To this scope, it is therefore essential that TSOs take steps to progress on capacity calculation for intraday in order to identify the additional capacities that could be made available to the market. The process must be fully transparent and should allow market participants to understand all the inputs used by TSOs for the capacity recalculation process and to evaluate how TSOs actions impact ID cross-border capacity (i.e. TSOs triggering remedial actions in the intra-day time frame).

Between the two models presented in the consultation paper, **EFET clearly favours the Option B**: nonetheless, this solution could be further improved and some clarifications are indeed needed in order to ensure the smooth and efficient development of intraday cross-border power markets at the Italian borders. EFET is available to discuss these ideas further in details and remains committed to working for the accomplishment of the Intraday Target Model.