EFET European Federation of Energy Traders
SO YOU CAN RELY ON THE MARKET

Amstelveenseweg 998
1081 JS Amsterdam
+31 20 520 7970
secretariat@efet.org
www.efet.org

Terna's report on the review of the Italian internal bidding zones

■

EFET comments – 16 April 2018

GENERAL CONSIDERATIONS

The European Federation of Energy Traders (EFET[1]) welcomes the opportunity to provide a feedback to the review of the Italian internal bidding zones, according to the EU CACM Guideline.

As a first general comment, we believe that the review should pay specific attention to market efficiency criteria reflecting market liquidity, competition and robustness of price signals. Liquid wholesale markets are key to manage and reduce risks for market participants, and thus to allow for timely investments in generation, storage and demand response. By lowering risks and thereby risk premiums, liquid wholesale markets bring down financing costs for investments. This results in a general increase in socio-economic welfare. A stable configuration of bidding zones should produce reliable price signals, and, especially in the case of larger zones where many generators and suppliers are active, underpin competition between market participants across all timeframes of the market.

We believe that a bidding zones merger scenario, such as the proposed '2 zone continentali' would be the most appropriate in order to pursue the effective integration of the Italian electricity market in the European market. The forthcoming implementation of European projects, such as the intraday cross-border projects (XBID) or the TERRE project on the cross-border exchange of replacement reserves, plus the implementation in the future of flow-based market coupling, call for larger and more liquid market zones with an increased level of competition compared to today's situation.

Our preferred option is to maintain the current configuration until the conditions to transition to the '2 zone continentali' configuration materialise. This should take place ideally in 2021 or after. Although we acknowledge that investments in the grid might be needed to fully merge zones in Continental Italy, we encourage Terna to prioritise the interventions on the grid needed to the effective transition to this configuration, ideally by 2025, when most of the interventions foreseen by the TYNDP will be completed. Whether for some reason ARERA and Terna consider that a review of the zones is necessary in the immediate, we stress that the option chosen should be the one that has the least impact. Our view is that the 'AEEGSI's option is the one that would involve the least impacts. Terna's preferred configuration, involving the additional bidding zone 'Calabria' would instead involve significative impacts to the market structure. Also, having in mind the grid development plan, we do not fully understand the

[1] [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

rationale of adding another bidding zone. The other options involving a split of Sicilia and Sardegna are not acceptable for us, as they would further fragment the market.

IMPLEMENTATION TIMELINE

Nonetheless, all configurations identified by the study would impact and bring consequences for market participants in terms of costs and in terms of positions already taken in forward markets. As said above, we are convinced that whichever modification of the current configuration should not be implemented at least before 2021. In any case, ARERA and Terna should allow at least 24 months from the date of approval and the implementation of a new set-up should be applied at the beginning of the calendar year. Such a lead time is crucial for market participants who take positions on the PUN for Y+1 and Y+2. As a reconfiguration of bidding zones will affect PUN prices, implementation of changes without sufficient notice may lead to increased uncertainty that will negatively impact liquidity and raise hedging costs for suppliers, generators and large consumers.

In addition, we underline that the planned national capacity mechanism is likely to modify the equilibrium of the market and, therefore, a change of the zonal configuration in this delicate moment should be avoided. Moreover, market participants need time to perform their own analysis and simulations of the effects of a new zonal structure.

ENGAGEMENT WITH MARKET PARTICIPANTS

In any case and before taking a decision, we suggest Terna and ARERA to allow more time for discussion and engagement with market participants. For the current and the next iteration of the internal bidding zones review, we recommend Terna and ARERA to make extensive use of expertise that market participants can bring to the table. To this purpose, we recommend that we and other representative organisations are more closely involved with the project team, ideally via a stakeholder group, and included more closely in the decision making process.

SPECIFIC COMMENTS ON THE STUDY

We appreciate the fact that Terna made use of the criteria listed in article 33 of the CACM Guideline to analyse the effect of bidding zones changes. However, we request further clarification about the principles for the weights choice which have been assigned to the evaluation criteria.: for instance, the weight assigned to network security criteria, as well as the importance of the scenario ‘2020 as is’, is in our view excessive. Moreover, it gives marginal importance to market efficiency indicators and bias the analysis and, thus, the final recommendations. We suggest Terna to perform an analysis that presents results linked to each different zonal configuration according to different weights applied to each indicator: for instance, we would be curious to see which results would derive from reducing the weight of Cindex (linked to operational security) and even slightly increasing indicators related to market efficiency such as RSI, CPMindex and LIQ index. Overall, we believe that a thorough analysis of market efficiency, including effects on competition and liquidity, in different bidding zone configuration scenarios should be performed assigning an upgraded weight to those indicators.

Moreover, we notice that the study assumes that bidding strategies of market participants will not change with a different zonal configuration. This assumption is somehow questionable and the results of the study might then be skewed.

Finally, we understand that the study does not take into account the coal phase-out at 2025, as foreseen by the National Energy Strategy (SEN). We would have expected instead a sensitivity analysis of the phase-out on the zonal structure, given the remarkable amount of GW still on-line.

FINAL RECOMMENDATIONS

EFET favours a transition to the configuration ‘2 zone continentali’ as soon as viable, ideally in or after 2021. We believe that no additional modifications should be implemented; too frequent modifications are costly and impact market stability and price signals deriving from forward markets. Whether ARERA and Terna consider an intermediate change to be absolutely necessary (because of reasons that would have to be disclosed) the ‘AEEGSI option’ is the only one which could be accepted, as it would minimise the short-term consequences for market participants.