

Italian National Energy Strategy (SEN)

■ EFET comments – 1 August 2017

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide comments to the Italian National Energy Strategy plan. We have provided our detailed feedback concerning proposals related to the electricity and gas markets as well other miscellaneous questions.

Electricity market: EFET comments

Capacity market

EFET believes that a well-functioning pan-European market remains central to macroeconomic efficiency and is a key component to ensuring security of supply. In our view, the decision to establish new capacity mechanism, should be based on a pan-European adequacy assessment methodology taking account of all providers (generation, DSR and storage, including the contribution from neighbouring countries). Moreover, 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. Therefore, any discrimination between technologies and capacities should be avoided.

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. Given that the demand will also be entitled to participate to both the balancing and ancillary services market (MSD) and the capacity mechanism, EFET believes it is necessary to calibrate the strike price level on the demand side response rather than on the peak unit generating costs. Therefore, we suggest that the strike price is set at the value of lost load. The value of lost load used for the calculation of adequacy for the demand curve should be defined by looking at the values in place in other European markets, e.g. 18,000 £/MWh in UK, 26,000 €/MWh in France, 36,800 €/MWh in Denmark. The alignment would be in accordance with the recent AEEGSI decision n. 627/2016/R/eel, which indicates that the value of lost load used for the cost-benefit analysis for the national development plan shall be defined in between 20,000 €/MWh and 40,000 €/MWh.

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,

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

hindering the free formation of prices; ultimately this will also prevent the emergence of any scarcity price signal in the day ahead and the ancillary services markets and fail to incentivise the development of demand response and its participation to the capacity mechanism. 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.

Last, we recommend caution on the idea of applying an emissions performance standard (EPS) to the Italian capacity mechanism. A capacity mechanism shall constitute an additional tool to ensure security of supply and not a tool to promote decarbonisation. Moreover, decarbonisation targets shall be pursued via the EU ETS, hence the carbon price signal deriving from it should not be diluted by overlapping measures.

Role and responsibilities of electricity transmission system operators (TSOs) and distribution system operators (DSOs), particularly regarding access to storage

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. The question of the strict separation of competitive commercial activities from monopolistic system operation activities becomes of high relevance with the increasing penetration of intermittent renewable generation and other flexibility sources., posing high challenges in terms of grid stability.

We understand that Terna launched several pilot projects on electricity storage: in this respect, we recall the principles enshrined in the draft recast Electricity Directive that TSOs, like DSOs, shall not be allowed to own, manage and operate electricity storage facilities. 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). 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. No exemptions from the principle of non-ownership and non-operation by system operators should exist.

RES financial support and introduction of long-term instruments

Important lessons can be drawn from the support level granted to the RES investments over the years: the pursuit to achieve their national renewable targets has led many Member States, including Italy, to establish generous support schemes, increasing the energy costs for end consumers. Different schemes guaranteeing relatively high rates of return for investment in RES technologies have resulted in investment driven by subsidies rather than market rationale regarding network topology, demand, cost reduction and the link between production rates and location of technologies. EFET believes that given generous financial support must be critically reassessed and gradually phased out. Where financial support is still considered necessary, it must not distort the well-functioning of the energy market. Phasing out these ill-designed schemes should, however, follow a process that guarantees that support granted to existing investments in renewable technologies is reformed in a way that incentivise their full integration in the wholesale market and avoids retroactive withdrawal of support without an

alternative solution. Moreover, a detailed CBA supporting the target set at 48/50% of the final consumption at 2030 should be performed, taking into account the constant reduction of investment and

operating costs. Finally, in general EFET supports a robust reform of the EU ETS aimed at strengthening the carbon price signal, as we are convinced that this is key to drive long-term investments and help the phase-out of financial support for renewables.

In a current market situation where renewables are becoming more and more cost-competitive, we welcome the initiative of the Ministry for renovating its approach to support schemes in order to provide a correct incentive for the development of a scalable pipeline of new projects. However, we highlight that PPAs are already today an existing form of contract between two counterparts for the purchase of the electricity production: PPAs as such do not need any institutional central buyer (i.e. GSE/AU) and should not be regulated, but terms should be left to the free negotiation of the stipulating parties. To avoid any confusion, we suggest to use a different name to define the “risk mitigation scheme” suggested in the document, “CfD” being one of the options.

Overall, we feel that the proposal related to so-called in the SEN “PPAs for renewable generation” should be further clarified. EFET is one of the most appropriate stakeholders to be involved in future discussions and will be happy to provide its expertise.

Transition to self-dispatch and potential elimination of PUN

EFET traditionally favors 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. Centralised dispatch, as the one current in force in Italy, 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. 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.

However, this should be done by minimising market impacts and with sufficient time lag between the approval and implementation dates, in order to preserve regulatory stability. It is also crucial to retain a financial index replicating the PUN, so that market participants can hedge their forward exposure to the zonal prices

Before final decisions are made, an allocation methodology for cross-zonal capacity within Italy should be approved and the role of hedging instruments such as CCC should be assessed to avoid adverse impact on market participants. EFET highlights the importance of timely information and consultation with market participants through all steps of this delicate process.

Gas market: EFET comments

Liquidity corridor project

We have provided a detailed feedback on the proposal in the attached file “EFET statement on the gas liquidity corridor project”

Shift downstream of the variable charges

EFET would like to point out that one of the reasons behind positive spreads between PSV and other hubs can be found in high variable entry costs (such as the CV, CVFG, Phi and CST). Whereas some costs are directly related to use of transmission services (such as the CV), other fees simply act as an unnecessary transaction cost between hubs, impacting liquidity at the PSV. These costs are better placed downstream of the PSV, since this would directly target the beneficiaries/causers of the fees.

Market-making activities on the MGAS

EFET supports the introduction of a market maker as a mean to promote liquidity on the MGAS. We agree with the introduction of the market-making activity to the G+1 product as proposed by GME in its recent consultation document, as it will favour the creation of a transparent price in the prompt market, which will act as reference price also for the forward one. However, in order to facilitate the entrance to new actors, market-making to other products, like M+1 product, should be incentivized separately and could be introduced in the initial phase. Besides market-making, we have repeatedly stressed that, in our view, facilitating trading from an operational point of view is key for the development of liquidity. We believe that liquidity could be boosted by the integration of the MGAS book in other commodity trading portals, such as Trayport, and by implementing the integrated management of guarantees (power and gas): these two developments should be a priority for GME.

Introduction of LNG auctions

EFET welcomes the introduction of market-based mechanisms in the allocation of regasification capacity. We support coordination of the allocation procedures of regasification and transmission capacity, as long as the capacity made available to the market is maximised and no uncertainty, other than the conventional risk inherent to a market based allocation procedure, exists for the terminal users. The use of the auction mechanisms foreseen in the CAM Network Code, both for long-term (ascending clock and marginal price) and short-term (pay as bid) capacity, added to managing auction on PRISMA, would allow a harmonisation of all existing allocation procedures. AEEGSI could also consider introducing ad hoc open season procedures for the allocation of capacity for timeframes longer than 2 years.

Moreover, we underline that, in order to boost the efficiency of LNG terminals, AEEGSI needs to provide harmonised general terms and conditions applicable at all terminals within Italy and in line with international standards.

Storage service improvements and new LNG terminals

The National Energy Strategy 2017 foresees the development of new storage capacity and a new floating LNG terminal subject to a regulated regime that guarantees the full return on the investment.

On storage, we believe that priority should be given to the improvement of the flexibility of current capacity: the use of storage capacity in Italy is still heavily constrained by rigid injection-withdrawal profiles, which artificially restrict the use that market participants can make of their gas stored. In our view, the most efficient way to maintain supply security is to allow the market to determine the most efficient means of its provision; this could be done by allowing storage to be an attractive commercial proposition for market players and responding to market participants' flexibility needs. Therefore, we call MiSE to initiate a review of the Italian storage service with the aim of removing restrictions that currently prevent it from fully contributing to the flexibility of the Italian gas market.

On LNG, EFET calls for caution when promoting investment that are not underwritten by the market and not necessary in terms of diversification of sources and security of supply.. 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 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 booking are secured, such investment plans should be reconsidered.

Miscellaneous

Removal of regulated tariffs for Italian electricity and gas protected customers (regime di tutela)

EFET supports the removal of the 'regime di tutela', which after several postponement of the date of application, is now set for 1 July 2019. In our view, measures aiming to remove the protected market will bring benefits both to market participants and to final consumers. On one side, removing regulated tariffs for household and small industrial consumers will make the Italian market more attractive to foreign market participants, sending a positive signal for new market entry and for investment. On the other side, greater competition between suppliers will grant greater freedom of choice to final consumers, leading to a positive effect on energy prices in the long run. The whole process will enhance competition in the Italian energy market, and will improve market transparency and liquidity. However, to ensure its successful implementation, it is necessary that the Government and the Italian Regulator find appropriate mechanisms for the transition towards the new framework. In any case, EFET does acknowledge the legitimacy of price protection measures in favour of the most vulnerable members of society, but we believe that the target can be better achieved through the implementation of effective social policies rather than via energy price regulation.

More transparency in decision making-process and use of English

EFET highlights that, at least for matters of cross-border relevance, it should be foreseen the translation into English of consultation documents and regulatory decisions by all relevant Italian Institutions. A widest communication with stakeholders through the English translation will encourage the participation of foreign companies with interests in the Italian market in the process.