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EFET recommendations on XBID go-live in Italy and at its borders

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European-wide intraday coupling is a key component for completing the European internal energy market. With the rising share of intermittent generation in the European electricity mix, connecting intraday markets through cross-border trading is increasingly important to enable market participants to balance their positions across borders close to real time.

In this context, the XBID go-live in Italy will contribute to further integrate the Italian electricity market and its borders in the Single Intraday Coupling (SIDC), increase the overall efficiency of trading close to real time and facilitate cross-border trading.

The European Federation of Energy Traders (EFET)[1] is committed to the development of continuous cross-border intraday trading via the XBID platform. We welcome the planned expansion of this project to the Italian peninsula, as already expressed in our previous responses[2].

In this position paper, however, we highlight the barriers that all foreign market participants will face in accessing the Italian intraday market should the project proceed as currently designed. The proposed Italian intraday market rules, in conjunction with the replacement of explicit intraday capacity auctions by implicit auctions and continuous trading, would prevent market participants without generation or client portfolio in Italy from taking positions – including across borders – in the Italian intraday market.

The objective of this paper is to propose readily implementable solutions until a reform of constraints applicable to the Italian intraday market is enacted.

We therefore propose the introduction of new Virtual Trading Units in Italy to improve the market design by reducing market distortions, mitigating the differential treatments at the Italian borders and removing restrictions to market access.

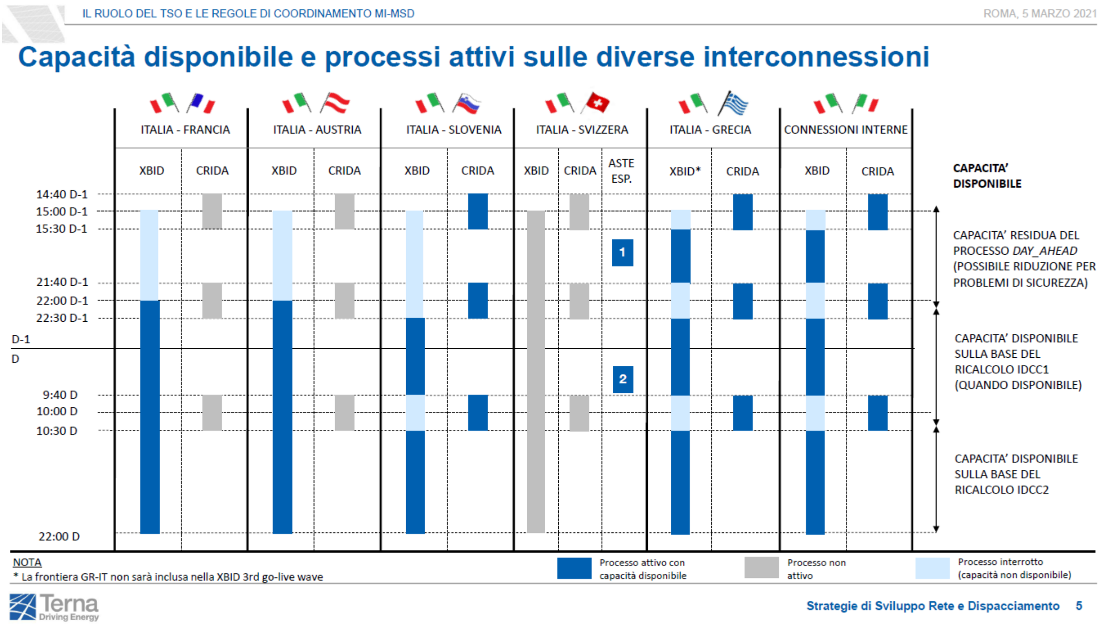
We also take the opportunity of this paper to reiterate our concerns with other elements of market design proposed for the go-live of XBID in Italy and at its borders.

[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. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries.

[2] EFET response to Terna consultation on MSD-ID coordination, EFET letter on clarifications and recommendations on Italy joining XBID, EFET response to GME consultation on SIDC implementation in Italy, EFET open letter on SIDC in Italy and other improvement suggestions for the functioning of GME

Background

On 5 March 2021, GME and Terna organised a workshop on the integration of the Italian electricity market with the European SIDC and the new intraday (MI) / ancillary services market (MSD) coordination rules. Terna presented the future capacity allocation tools at the different Italian borders to market participants, as depicted in the slide below:



Restrictions to cross-border trading at all borders

At the planned go-live of LIP 14 in September 2021, explicit intraday capacity auctions will cease to exist at the French-Italian, Austrian-Italian and Slovenian-Italian borders as they are going to be replaced by implicit continuous trading (complemented by CRIDAs at the Slovenian-Italian border).

Consequently, there will be no opportunity to create margins on the UPV/UCV in the intraday timeframe by purchasing explicit cross-border capacity in intraday. Current Italian market rules restrict participation to the intraday market to those participants who have a physical portfolio in the country or can justify the purchase of transmission rights in the intraday explicit auction.

With the replacement of the existing explicit auctions by implicit solutions (continuous trading and, where applicable, CRIDAs), no transmission rights will be issued by the TSOs anymore at the Italian borders for intraday, hence restricting the ability to trade on the Italian intraday market only to those holding a physical portfolio in the country.

As a consequence, market participants without physical assets or clients in Italy will be unable to access the Italian intraday market if the project goes as planned without adjusting the Italian intraday market design – unless there are margins left from day-ahead or long-term capacity which is highly unlikely.

This would have severe consequences in terms of **market liquidity**: preventing market participants without physical portfolio in participating to the Italian intraday market means losing market liquidity. Besides the question of unequal treatment, this situation would be detrimental to all markets of the region, even more so considering the new hybrid market model at zonal level which will include both intraday auctions and continuous trading and risks, as such, to threaten market liquidity.

Without amending the Italian intraday market rules, the proposed market design for the go-live of LIP 14 will have severe impacts on the future of the Single Intraday Coupling. Therefore, we propose below possible remedies to maintain market liquidity and at the same time ensure a fair and equal treatment of all market participants.

Recommendation to establish new Virtual Trading Units (UTV) in Italy

Until a more thorough reform of the Italian intraday market design constraints is enacted, we propose the establishment of new Virtual Trading Units in order to maintain the access of all actors to the Italian intraday market, including those who do not have assets or final customers in Italy.

The term "virtual" is used to refer to the fact that there are no physical margins related to those units and that trades are OTC physical deals: every sell (or buy) transaction will be closed by a buy (or sell) transaction, at the latest one hour before delivery. Market participants will close their position in the intraday market before the intraday gate closure time.

Furthermore, virtual positions are included in the same price determination processes as physical positions, contributing to increase market liquidity.

The proposed virtual unit should have the following characteristics:

- No physical asset or capacity shall be associated to this unit;
- Non-discriminatory market access must be ensured, hence the unit can be requested by any market participant;
- A financial guarantee shall be required so that GME and Terna can protect themselves against the risk of unpaid imbalances;
- Nomination shall not be needed as trading would be executed with the specified UTV unit-code in the relevant zone(s).

Virtual trading units have been adopted in other EU Member States for various purposes (e.g. France or Germany). In the context of the Italian intraday market, they will allow maintaining market liquidity by ensuring that foreign actors without physical portfolio can continue participating in the market. We expect that UTVs can be set up rapidly and without extensive technical effort considering the experience from other European TSOs and NEMOs.

We urge GME and Terna to promptly act to ensure non-discriminatory market access to the Italian intraday market before the go-live of XBID in September 2021 and consider the introduction of our proposal in order to comply with Regulation (EU) 2019/943 Art. 3 on the principles regarding the operation of electricity markets:

> *"barriers to cross-border electricity flows between bidding zones or Member States and cross-border transactions on electricity markets and related services markets shall be progressively removed"*

We are keen to collaborate with Terna and GME to develop this solution and we remain available for further discussion on the best way to implement this proposal.

Recommendation to implement continuous explicit trading at the Italian-Swiss border

The current implicit auctions at the Italian-Swiss border will be phased out with the go-live of LIP14 and the available intraday capacity between Italy and Switzerland will be offered to market participants via two explicit auctions from that point on.

EFET recommends a transition from the proposed auction-based allocation mechanism to a **continuous explicit capacity allocation at the Swiss-Italian border** as soon as possible.

Since continuous explicit capacity allocation is already in place at the German-Swiss, French-Swiss and Austrian-Swiss borders, this solution would be easily implementable at the Italian-Swiss border by replicating existing arrangements at the other Swiss borders[2].

Other remaining concerns

While we understand that the LIP 14 go-live has been postponed to address market concerns, we take the opportunity of this paper to recall two major remaining concerns with the market design for the go-live of XBID and CRIDAs in Italy and at its borders, as we know it today.

XBID suspension time for the CRIDAs

While we would have preferred a much simpler design without complementary regional auctions (CRIDAs) that would have guaranteed uninterrupted continuous trading in Italy and at its borders, we are conscious that the CRIDAs are set to be implemented in any case.

Nevertheless, EFET insists that the suspension time of XBID for the organisation of the CRIDAs be reduced from the planned 50 minutes to no more than 10 minutes as of the introduction of the auctions, in compliance with Art. 63.2 CACM GL.

Absence of CRIDAs at the Italian-French and Italian-Austrian borders

The current market design proposal for the go-live of LIP 14 foresees the implementation of CRIDAs only at the internal Italian borders, the Italian-Slovenian border and the Italian-Greek border. No CRIDAs will be implemented at Italian-French and Italian-Austrian borders, leaving Italy only partially coupled with these countries.

While we appreciate that cross-zonal capacity will always remain available at Italian-French and Italian-Austrian borders on XBID for transit trades via the Italy North bidding zone, the suspension of XBID in the Italian zones means that trading between, on the one hand, France or Austria and, on the other hand, Italian zones will be effectively impossible while the CRIDAs are taking place (no possible matching of French or Austrian offers with offers in GME's order book).

The same holds true for any trade between France or Austria, on the one hand, and Slovenia or Greece, on the other hand, as capacity at the Italian-Slovenian and Italian-Greek borders at this time will not be available on XBID, but only via the CRIDAs, to which French or Austrian counterparties will not have access.

[2] See Swissgrid webpage on congestion management

In summary, we understand that **the proposed design for the Italian CRIDAs will affect the level-playing field between market participants of the region and reduce possibilities for cross-border trade** in two ways:

- Impossibility to trade on XBID at the FR-IT and AT-IT borders due to the absence of Italian order book during the suspension of XBID within Italy;
- Impossibility to access the capacity at the FR-IT and AT-IT borders via the CRIDAs as they will be restricted to the SI-IT, GR-IT and internal Italian borders.

Beside our concerns with regard to fair competition between market participants, the proposed model will negatively impact market liquidity in the Italian market. Therefore, we request a revision of this model to ensure a fair and equal treatment of all market participants of the region at the go-live of XBID in Italy.