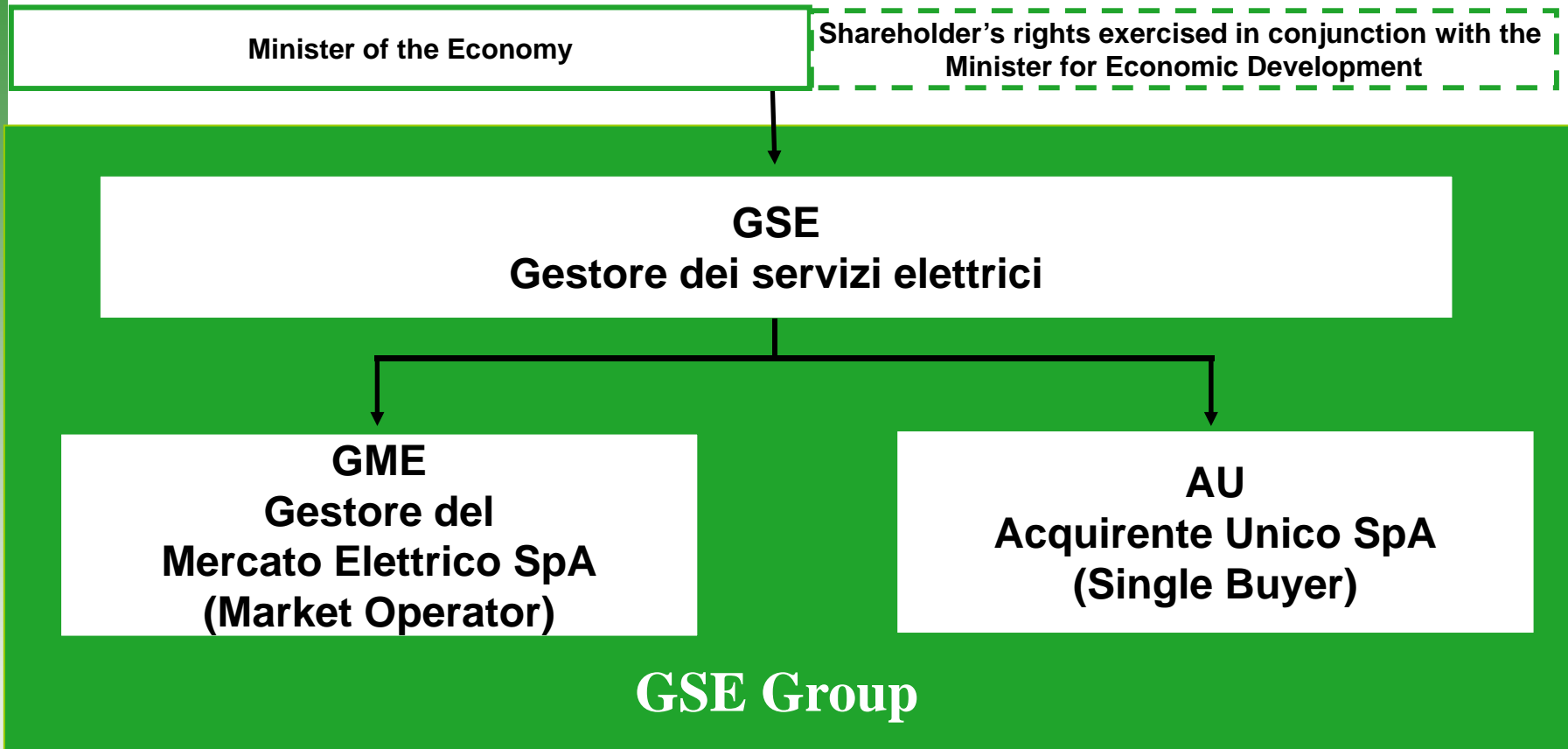


# The reform of the Italian Electricity Market

*Fabrizio Carboni*  
*EMART - Barcelona*  
*18 November 2009*

## About GME



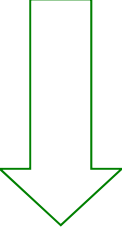
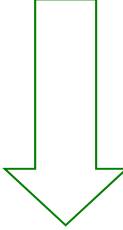
*Electricity Market rules are approved by Minister for Economic Development, after hearing the Italian Energy Regulator (AEEG)*

# The Italian Electricity Market: main features and key figures

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- 3 spot markets in day-ahead stage
  - Day-Ahead market (GME as counterpart)
  - Adjustment Market (GME as counterpart)
  - Market for dispatching services (Terna as counterpart)
- Platform for registration of OTC contracts
- Forward Market
- Day –Ahead and Adjustment Markets:
  - Based on market splitting algorithm
  - Bids/Offers per generation unit
  - Binding schedules of generation plants as market outcome
  - $\cong$  230 TWh traded on DA market on yearly basis (70% of total Italian consumption)
  - 160 market participants

# The Italian Electricity Market: outlook at November 2008

	<i>Day - Ahead</i>	<i>Delivery day</i>	<i>Month ahead</i>	<i>2 months ahead</i>	<i>Year</i>
MGP: DA Market	○				
MA: Adjustment Market	○				
MSD: Market for Dispatching Services	○				
PCE - Platform for scheduling of OTC deals	○		○	○	
MTE - Forward Market (only daily, weekly, monthly products)	○		○		
					
		<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 0 auto;">                     No intraday Market                 </div>			
					
				<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 0 auto;">                     No Yearly products listed on MTE                 </div>	

## The Italian Electricity Market: major topics of the electricity reform

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The Electricity Reform was approved by Parliament (Law Decree on 29 November 2008, Law on 2 January 2009, Ministerial Decree on 29 April 2009), introduced the following reforms

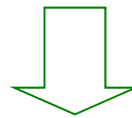
- Market transparency (publication of bids and offers after 7 days)
- Market for dispatching services (more market sessions, market session in D, bids/offers reflecting different dispatching services)
- Intraday Markets
- Forward Market
- Market integration
- Introduction of Pay as Bid in DA market

## The Italian Electricity Market: major topics of the electricity reform

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- **Market transparency (publication of bids and offers after 7 days)**



***entered in force on 29 Apr 2009***

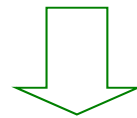
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***to enter in force on 1° Jan 2010***

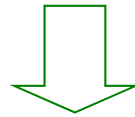
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## The Italian Electricity Market: major topics of the electricity reform

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- Market for dispatching services (more market sessions, market session in D, bids/offers reflecting different dispatching services)
- **Introduction of Pay as Bid in DA market**

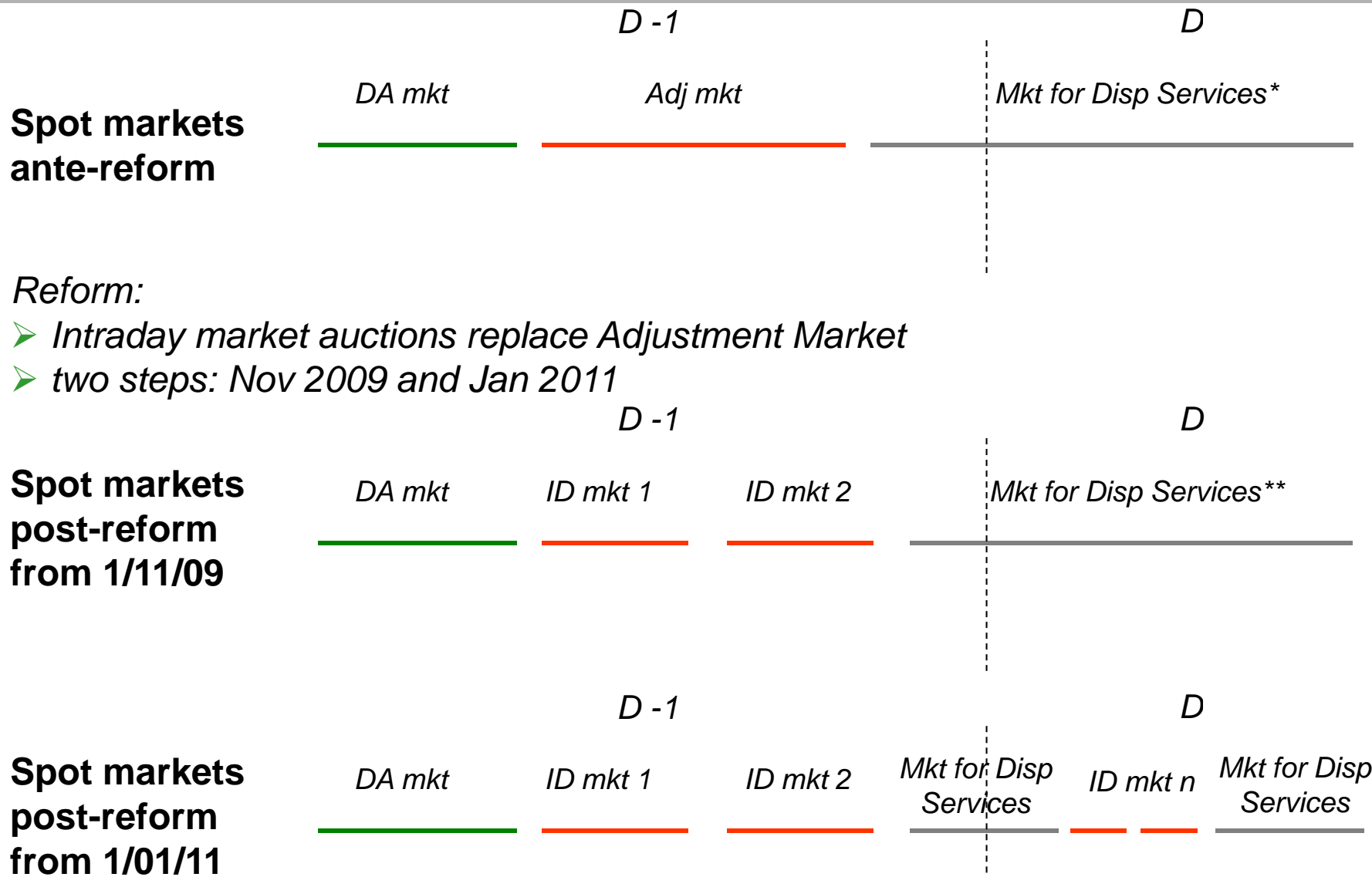


***starting from 2012, but only if needed and reform is not completed***

- Intraday Markets
- Forward Market



# The Italian Electricity Market Reform: Intraday Markets



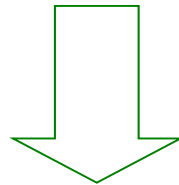
\*Bids submitted only in D-1, results communicated in D

\*\*Starting from 1 Jan 2010 bids will be submitted in D-1 and in D

## The Italian Electricity Market Reform: Forward Market

### *Reform:*

- *to list monthly, quarterly and yearly products in MTE*
- *to start a cooperation with Bit (the Italian Stock Exchange) for the delivery of energy derivatives*



### **MTE – starting from 2 November 2009**

- both baseload and peakload monthly, quarterly and yearly products listed
- obligation of physical delivery
- GME as central counterpart
- guarantee system based on bank letter of credit and cash deposit

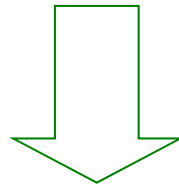
### **Cooperation with Bit – expected by end 2009**

- it will be possible to physically deliver, via GME's market, energy derivatives traded on Bit's market (Idex)
- physical delivery on monthly basis

# The Italian Electricity Market Reform: Market Integration

*Reform:*

- *to integrate the Italian electricity Market with other European Markets*



## **Italian – Slovenian Market Coupling**

- MoU signed by GME and Borzen in Q2 2008 and immediately joined by BSP SouthPool
  - Project supported by Governments of Slovenia and Italy
  - GME, Borzen and BSP elaborated a proposal for MC implementation, formally submitted to the TSOs (TERNA and ELES), Regulators and relevant
  - Italian and Slovenian Regulators established a joint WG in Q2 2009 involving
    - GME and BSP as PXs
    - Borzen as Market Operator in Slovenia
    - Terna and Eles as TSOs
    - Relevant Italian and Slovenian Ministers
  - Scope of the WG:
    - define a feasible solution, compatible with CS region
    - identify a roadmap
- enable extensions to other borders

## Italian – Slovenian MC: MC model and Major Regulatory, Legal, Technical and Implementation Issues

- PXs proposed two steps approach:

### First stage - initial model:

- MC concept: tight volume coupling (tentative to introduce directly price coupling, if technically feasible)
- Implicit auction of hourly products
- MC software based on GME's market splitting algorithm for coupling
- MC sw manages Italian zonal structure + Slovenian zone
- GME and BSP share relevant information in order to calculate cross border schedules on the Slo-Ita border
- Terna and Eles define ATC and act as Shipping Agent
- Locally, GME and BSP calculate national prices on the basis of cross-border schedules

### Second stage – final model:

- Needs for improvements to the MC model (price coupling if not introduced at first stage)
- Needs for improvements to the MC software or changes in the MC algorithm and software use
- Needs to implement market participants request, such as introduction of block products

## Italian – Slovenian MC: Tentative roadmap of the project

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- PXs' proposal about market model was accepted by WG
- Since beginning of October PXs and TSOs have been running tests

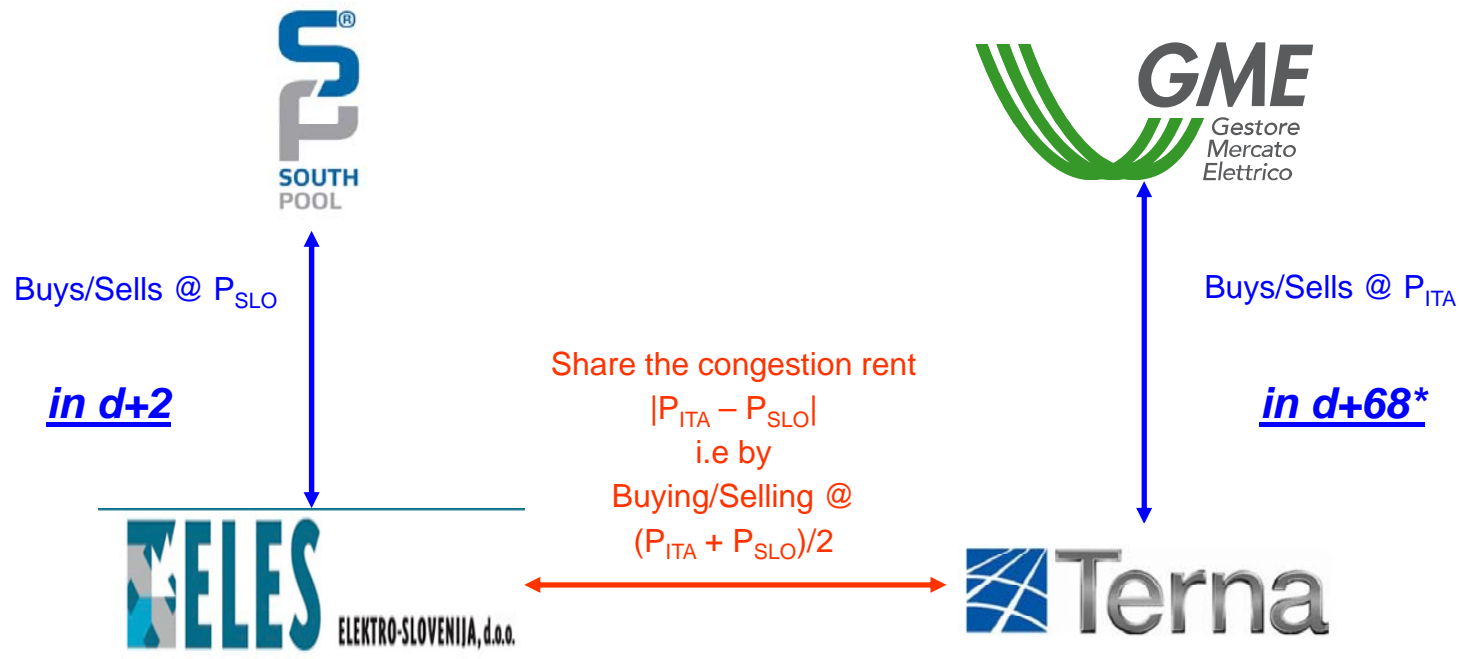
A PXs' proposal for a tentative roadmap

- Q1 2010: details of market model; first draft of contractual agreements
- Q2 2010: contracts finalised and drawn up
- Q2 2010: workshop with stakeholders
- Q2 2010: open test phase (involvement of stakeholders)
- Q3 2010: official start up of the MC

## Italian – Slovenian MC: Where are we? - Ongoing Activities within Slovenian – Italian WG

**Issue:** Adoption of MC on the Italian-Slovenian MC would raise financial costs/revenues due to different terms of payments:

- import from Slo to Ita arises costs to be borne by the Shipping Agent
- import from Ita to Slo arises revenues to be borne by the Shipping Agent

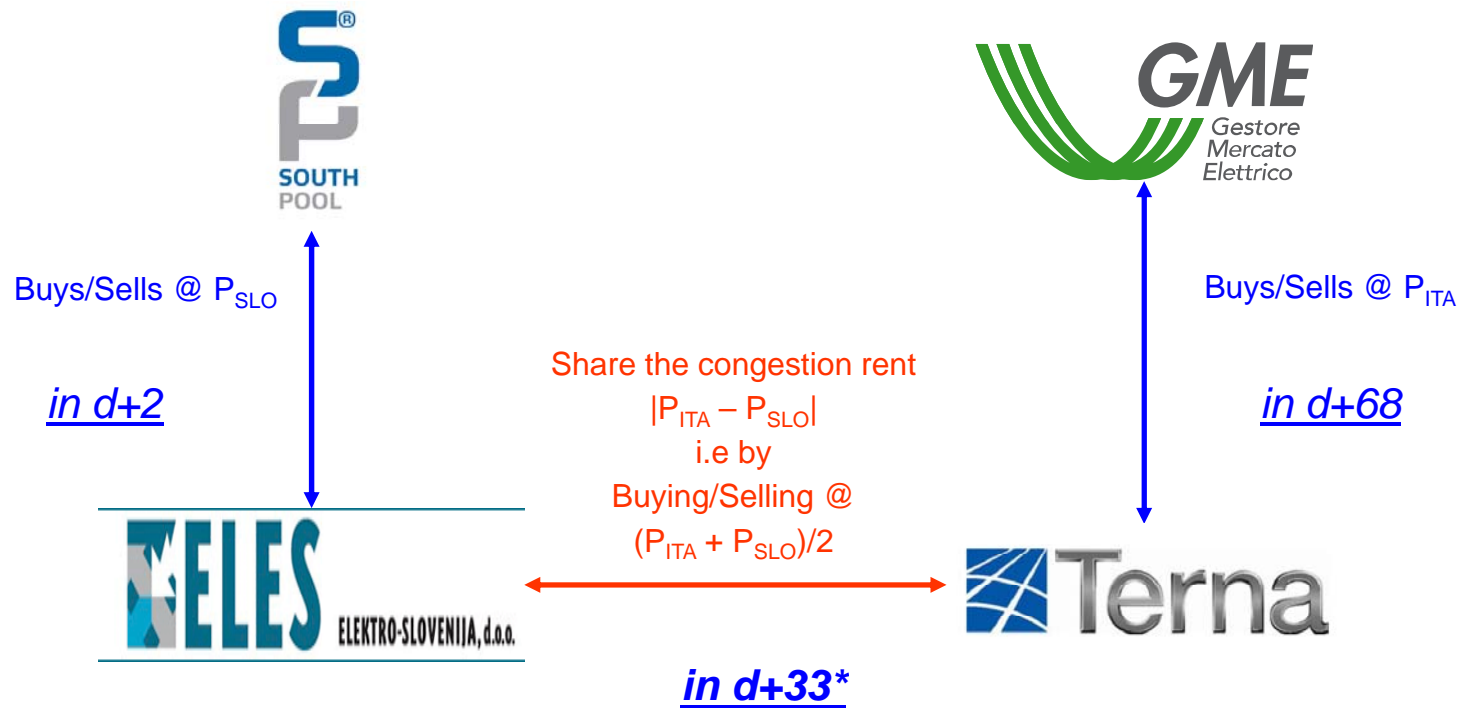


\*On average. Payments take place on 16<sup>o</sup> working day of the second month after the delivery month

## Italian – Slovenian MC: Where are we? - Ongoing Activities within Slovenian – Italian WG

### Solution: Payment terms

- GME pays (is paid by) Terna on 15th working day of the month  $m+2$
- Terna pays (is paid by) Eles on the 16th working day of the month  $m+1$
- Eles pays (is paid by) BSP on the 2° working day after delivery day

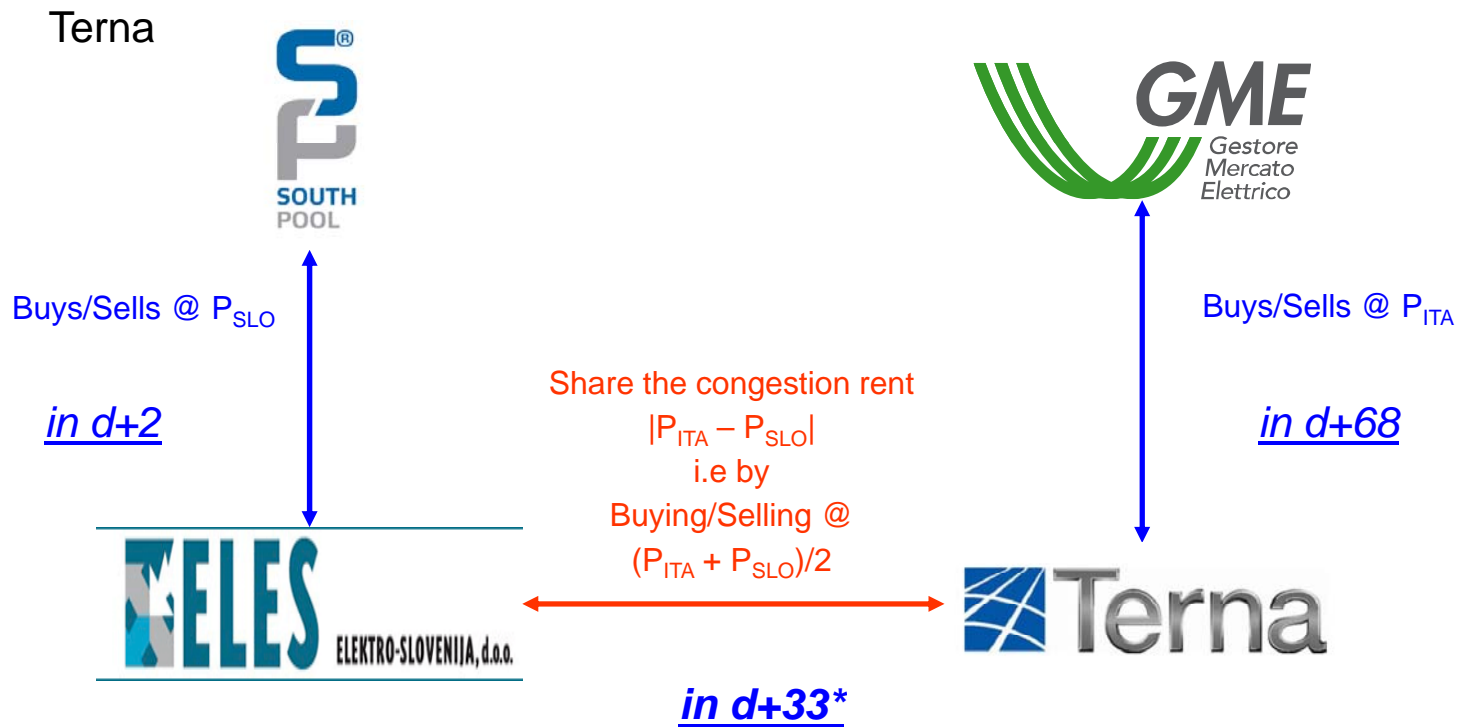


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# Italian – Slovenian MC: Where are we? - Ongoing Activities within Slovenian – Italian WG

**Solution:** Coverage of financial cost

- financial cost/revenue are covered by congestion rent
- open issues:
  - what to do if congestion rent is lower than financial costs
  - define appropriate interest rates to calculate financial costs/revenues of Eles and Terna



\*On average. Payments take place on 16<sup>o</sup> working day of the month after the delivery month



# The Italian Electricity Market: after the reform

	<i>Day - Ahead</i>	<i>Delivery day</i>	<i>Month ahead</i>	<i>2 months ahead</i>	<i>Year ahead</i>
MGP: DA Market	○				
IM: intraday Markets	●				
IM: intraday Markets		Jan 2011			
MSD: Market for Dispatching Services	Jan 2010				
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PCE - Platform for scheduling of OTC deals	○		○	○	
MTE - Forward Market (monthly, quarterly and yearly products)			○		Nov 2010
Iindex – physical delivery of energy derivatives			End 2009		
Italian - Slovenian Market Coupling	Q3 2010				

***Thank You for Your attention!***

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