

## **GME: electricity price on the Italian Power Exchange (Ipx) - down by 27% in 2009**

Rome, 14 January 2010 - This month, the Newsletter of “Gestore dei Mercati Energetici” - GME) reports and analyses the yearly data on market trading in 2009. In particular, the data infer that, out of 313.4 TWh traded in 2009, 213.0 TWh (68.0% of the total) flowed through Ipx, whose liquidity was down by only one percentage point from 2008. This decrease did not involve buy/sell transactions in neighbouring countries’ zones, which led to an increase of 82.0% in net imports. Also the number of Ipx Participants went up in 2009, reaching 165.

The yearly average purchasing price (“Prezzo Unico Nazionale” - National Single Price - PUN) was 63.72 €/MWh, down by 26.8% on 2008 and exceeding only the one of 2005 (58.59 €/MWh). This sharp decrease is connected not only with demand contraction but also with oil price trends. In 2009, the year-on-year Brent price was 61.90 \$/bbl (-36% from 2008, i.e. -32% net of the euro-dollar exchange rate variation), with a constantly upward growth trend (from 40 \$/bbl in January to 75 \$/bbl in December).

Monthly average purchasing prices on Ipx (PUN) progressively fell during the first six months of the year, passing from 83.45 €/MWh in January to 51.82 €/MWh in June (the lowest monthly average value in 2009), then recovered in Summer (60.50 €/MWh in July, 71.07 €/MWh in August) and went down again (53.93 €/MWh in November).

However, the most significant element of 2009 is the decline of the spark spread, i.e. of the margin between the PUN and the variable generation cost of a new combined-cycle entrant. Taking the variable generation cost (ITEC ccgt 53%) to be equal to 48.31 €/MWh (-32% from 2008), the spark spread is 15.41 €/MWh, with a small percentage decrease (-4%), but at its minimum level since 2005 and at its third decrease in a row. *This finding* - pointed out Massimo Guarini, GME’s Chief Executive - *suggests that prices decreased more than costs, highlighting more competition and less market concentration, thanks to increased supply and also to a renewed and, above all, more efficient power generating mix.*

At zonal level, the year 2009 confirmed the strong spreads between selling prices on islands (80.01 €/MWh in Sardinia, 88.09 €/MWh in Sicily) and those in continental Italy (59-62 €/MWh) owing to limits of interconnection with the continent and higher concentration of internal supply. It is worth mentioning that “Autorità per l’energia elettrica ed il gas” (AEEG, the Italian electricity & gas regulator) redefined the zones with effect from the beginning of 2009. As a consequence of this redefinition, as well as of the continuous entry into operation of new power plants, the southern zone



recorded the lowest selling prices in the system for the first time, with a yearly average value of 59.49 €/MWh.

The gap between Ipx and the other European exchanges was equal to +23.8 €/MWh, up from 2008 (+3.4 €/MWh). In 2009, radical contraction of demand (due to economic recession) and decline of variable generation costs (due to decrease in fuel prices) caused prices on the other European exchanges to sharply drop (down by 21-43%), especially in Spain and central Europe. The spread between the PUN and the purchasing price on the other European exchanges contributed to increasing imports (+5.6%), namely those on the exchange (+43.7%). The reduction of liquidity (higher abroad than in Italy) proved to be generalised in all European markets (values of -4% to -9%), with the single exception of the French power exchange (Powernext), where liquidity was up by 2%. In the ranking of exchanges in terms of traded volumes, Ipx confirmed to be no. 2 (213 TWh) after Nordpool (286.4 TWh).

Considering the various power generation technologies and the sharply rising sales by renewable power plants (accounting for 19.8%), the reduction of demand was absorbed by the drop of sales by combined-cycle plants (-12.1%) and pumped-storage plants (-16.0%), which account for 48.7% and 2.1% of the total, respectively. *Sales on Ipx in 2009 - said Guarini - substantiate the preliminary estimations that the Ministry of Economic Development has made known in the past few days; these estimations point to an increase of renewable power generation in 2009, demonstrating that the Italian energy policy is focused on deployment of renewables, in accordance - among others - with the indications of the European Union.*

In 2009, the environmental markets managed by GME saw the growth of the overall number of Green Certificates traded - 27,618,968 at a weighted average price (net of VAT) of € 87.99 Euro. Also the total number of Energy Efficiency Certificates traded, i.e. 2,335,314, was up; 973,250 of these certificates were traded in the 47 market sessions held by GME, showing reasonable market liquidity and a price of € 75 to € 85.

*The year that has just ended - commented Guarini - saw our constant efforts to meet our commitment to the evolution and reform of the power exchange. After fulfilling the requirements of the Ministerial Decree of 29 April 2009 on transparency of data concerning bids/offers in the energy markets, we introduced the Intra-Day Market (MI) - in lieu of the Adjustment Market (MA) - in Autumn; this market has an almost continuous trading frequency. No less important were our efforts for evolution and development of the Forward Electricity Market (MTE), where we introduced new types of contracts with longer maturities and we revised the related guarantee system. Then, the physical Forward Electricity Market (MTE) was functionally integrated with the derivatives market (IDEX), managed by "Borsa italiana". The year 2010 started with the incorporation of Terna's proposals (now already operational) regarding the*



*Ancillary Services Market (MSD). Our coming activities - first of all the implementation of the gas exchange - are equally challenging and call for our utmost efforts, so as to continue the role with which we are vested by law, with the will to factually contribute to developing an energy market which benefits all consumers. We will also devote our attention to the environmental markets and to projects of integration of the domestic market with foreign markets through market coupling initiatives.*

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