Gestore Mercati Energetici

Press Release

GME'S NEWSLETTER – New issue now on line

Rome, 12 November 2010 – The new issue of the Newsletter of "Gestore dei Mercati Energetici" (GME) is now downloadable at www.mercatoelettrico.org.

The newsletter opens with an analysis conducted by Energy Advisors on the proposals concerning electricity trade in the EU-27 that European regulators have put forward. In the opinion of Energy Advisors, *one of the most significant effects of the energy market liberalisation process, triggered by Directive 96/92/EC, has been the development of trade between the various countries of the EU-27*". This phenomenon explain Energy Advisors - *has been largely underestimated, because reference is usually made not to energy trade (sum of imports and exports) but to net imports/exports, i.e. to what may appear as the energy dependence of a single country.*

In this context, *after its cancellation of the nuclear option, Italy pursued an import policy based on long-term contracts.* This was the only way to cut the costs of the Italian electricity bill - emphasise Energy Advisors - showing that about 15% of our country's requirements are covered by imports. France, for instance, is on the opposite side, as it has *deliberately chosen to be a net energy exporter.*

Nevertheless - points out the consulting company - *net imports/exports suggest that the management of cross-border trade is absolutely marginal, but actually it is not so. In the past three years (2007-2009), electricity trade in the EU-27 accounted for almost 20% of overall generation, with volumes close to 600 TWh/year.* Moreover, the original national segmentation *has faded away and, in the EU-27, increasingly homogeneous markets are being created, not yet at continental but certainly at supranational level.*

It is against this background that European regulators (ERGEG) issued a document for consultation, i.e. the draft new guidelines for allocation of cross-border capacities and management of congestions. The document fits within the process which is expected to lead to the implementation of a European-wide Price Coupling system by 2015. In actual fact - argue Energy Advisors - *it is a statement of fairly general principles. It does not yet take a firm stand on an issue which is central to the European debate, i.e. a price coupling scheme resting on a Central Matching Unit (CMU) managed by the TSOs, or a price coupling scheme managed by the PXs under decentralised governance, as proposed by the Price Coupling of Regions (PCR).* But what seems to emerge - point out Energy Advisors - *is the propensity to realistically acknowledge that the PCR is actually prevailing*.

The PCR requires, however, *some harmonisation of price-setting rules […]; in effect, in the methods of allocation of interconnection capacity under implicit auctions, the allocation of "capacity" takes place "implicitly" through the energy market. Hence, it is impossible to identify the time at which the interconnection capacity is allocated after the setting of prices in the internal energy markets (the two processes are integrated). ERGEG wanted to clarify that the setting of prices in the markets participating in the coupling must be based on the "marginal pricing principle". Obviously* - conclude Energy Advisors - *the debate remains open on how to make this requirement compatible with Law 02/2009, which provides for introduction of the pay-as-bid into the Italian market beginning in 2012*.

The new issue of the newsletter comes with the usual technical commentaries concerning national and European power and environmental markets and exchanges, with the section devoted to the analysis of trends in the Italian gas market and with the one giving insight into the trends of the main European commodity markets.

As has become customary, the new publication also reports the summary data of the electricity market for the month of October and an in-depth contribution by Stefano Clò, from RIE, about the post-crisis climate targets and the positioning of ETS and non-ETS sectors.
Clò feels that, *as a result of the change in the economic and political context, it may be necessary to revise the targets which have been based on no longer valid scenarios. At the end of 2009, a new post-crisis trend scenario was developed. In this scenario, Italy is estimated to have a trend value of emissions of 530 Mtonnes in 2020, more than 100 Mtonnes below the value estimated in 2007 in support of the Climate Package. Under these new estimates, achieving the -20% emission target by 2020 will cost, at European level, 22 billion/year less than the 70 billion/year estimated prior to the crisis*. However, stresses the analyst from RIE, *the economic crisis reduced the impact of the ETS on companies' costs, but made European climate policies ineffective*. Faced with these unexpected changes - recalls Clò - *a European-wide debate is under way over the option of adopting an ex-post administrative measure, aimed at recreating, within the ETS, the scarcity of emission permits which is needed to sustain the CO_2 price,* while the European commission *expressed its intent to reduce the emission target to be reached by 2020 from -20% to -30% with respect to the 1990 emission levels.*
A more burdensome target, explains Clò, *would have immediate repercussions on the ETS, whose target would pass from -21% of the 2005 emissions to -34%,* at a cost of *33 billion/year more than in the current post-crisis emission scenario (or 11 billion/year more than in the pre-crisis scenario)*. Mr. Clo however warns that *actions taken while*

the ball is already rolling may lessen the credibility of regulation, inducing companies to adopt a cautionary behaviour.

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