Consultation Document no. 1/2025

ELECTRICITY MARKET

Introduction of the Market for the trading of PPAs (MPPA)

CONTENTS

1. INTRODUCTION

The Legislative Decree no. 199 of 8 November, 2021 (Legislative Decree 199/2021) – implementing Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources – published in *Gazzetta Ufficiale della Repubblica italiana - Serie Generale* no. 285 of 30 Nov. 2021, introduced the provisions related to **long-term contracts for the purchase and sale of electricity from renewable sources** into the Italian legislation.

Article 28 of Legislative Decree 199/2021, as recently supplemented by Law no. 20 of 28 February, 2025[1], repealing the previous provisions on long-term trading of renewable energy - set forth in article 18 of the Decree issued by the Minister of Economic Development on 4 July, 2019 in *Gazzetta Ufficiale della Repubblica italiana* no. 186 of 9 August 2019 – in particular provides that

- paragraph 1: *(…) with a view to ensuring the gradual start of long-term trading of renewable energy, Gestore dei Mercati Energetici – GME S.p.A. (hereafter GME) shall put in place an electronic bulletin board aimed at facilitating the meeting of parties potentially interested in entering into such contracts. In compliance with personal data protection legislation, participants in the bulletin board shall register the data regarding the contracts which is necessary to ensure maximum transparency of results and monitoring, for the purpose of implementing the regulated market referred to in paragraph 2;*
- paragraph 2: *(….) the Ministry of Ecological Transition (now Ministry of Environment and Energy Security) may provide GME with guidelines for developing a regulated market platform, with voluntary participation, for long-term trading of renewable energy. The rules governing this market platform shall be approved by a decree of the Minister of Ecological Transition, after seeking the opinion of ARERA, under article 5, paragraph 1 of Legislative Decree no. 79 of 16 March, 1999;*
- paragraph 2 bis: *a decree of the Ministry of Environment and Energy Security, adopted in consultation with the Minister of Economy and Finance, shall provide the terms and conditions under which, within the limits of paragraph 2 ter, GSE shall acquire the role of guarantor of last-resort and manage counterparty default risks in long-term renewable energy contracts, in accordance with market principles, criteria of default risk minimisation, the guarantee system referred to in the second clause of this paragraph, as well as the operational procedures of the*

[1] Conversion of Law-Decree no. 208 of 31 December 2024 (regarding urgent measures to address situations of particular emergency, and to implement the National Recovery and Resilience Plan), as amended, into law.

planned mechanism, including those for utilising the resources allocated for the guarantee, also in view of the expenditure limit referred to in the same paragraph 2 ter (…);

- paragraph 2 ter: *(...) the costs arising from paragraph 2 bis, within the limit of €45 million per year, for each of the years from 2025 to 2027, shall be covered by utilising a share of the revenues from the emission allowances auctions (related to the same years) of the CO_2 , as set forth in article 23, paragraph 7 of Legislative Decree no. 47 of 9 June 2020, which is allocated to the Ministry of Environment and Energy Security (…).*

On April the 26th, 2022, following the implementation of the provisions of article 28, paragraph 1 of Legislative Decree 199/2021, GME launched the **PPA Bulletin Board**, consisting, *inter alia,* of the following two section:

- ***Notice section,*** where Market Participants wishing to enter into long-term contracts of sale/purchase of electricity from renewable sources may: *i*. anonymously and non-bindingly publish their sale or purchase notices; *ii*. view such notices and possibly express interest in concluding contracts outside the platform;
- ***Contract registration section***, where sellers fulfil the obligation to register long-term renewables electricity purchase agreements concluded bilaterally with the buyer outside the PPA platform.

In order to complete the regulatory framework governing the trading of long-term renewable energy contracts, the Ministry of Environment and Energy Security adopted a decree (Ministerial Decree no. **152 of June 20th** hereinafter Decree) jointly with the Ministry of Economy and Finance, pursuant to article 28, paragraphs 2 and 2 bis of Legislative Decree 199/2021. The decree has:

- provided GME with specific guidelines for designing and implementing a market dedicated to the trading of PPA contracts (hereafter MPPA), to be introduced within the Electricity Market (hereafter also ME) organised and operated by GME under article 5, paragraph 1 of Legislative Decree no. 79 of 16 March, 1999;
- established that GME shall design the operational model of the MPPA to be functionally integrated with the Forward Electricity Market (MTE), and submit it for public consultation in compliance with the Integrated Text of the Electricity Market Rules (hereinafter ME Rules);
- set out the criteria, terms and conditions, under which GSE shall act as guarantor of last resort for long-term renewable electricity contracts traded in the MPPA;
- provided that, within one hundred and twenty days from the entry into force of said Decree, GSE shall – after a consultation process – submit a proposal to the approval of the Ministry of

Environment and Energy Security; such proposal, formulated jointly with GME for the parts falling under GME's responsibility, shall concern operational rules in the following areas:

- the procedures for defining the requirements for parties wishing to buy and sell PPA contracts and the limits to tradable volumes, as well as for monitoring compliance therewith;
- the procedures for defining and periodically updating the reserve prices at which GSE, when acting as guarantor of last resort, shall step into the PPA contract;
- the procedures under which GSE shall step into the dispatching contract of the selling defaulting counterparty;
- the contractual scheme governing the relationship between GSE, when acting as a guarantor of last-resort, and the counterparty concerned;
- the procedures for checking the correspondence between the volume of electricity injected into the grid by the seller, under the PPA contracts traded in the MPPA, and the volume of electricity actually generated from renewable sources.

With reference to the procedure for the implementation of the provisions set forth in Article 28 of Legislative Decree No. 199/2021, outlined in Article 3, paragraph 2, of the Decree, GME has received specific indications from Ministry of Environment and Energy Security to promptly initiate a public consultation procedure on the proposed operating model of the MPPA, in order to favour a rapid implementation of the provisions set forth in Article 28, paragraphs 2 and 2-bis, of Legislative Decree 199/2021 and considering the commitments made in reform No. 4 - REpowerEU Chapter of the PNRR.

In light of the received guidelines as well as with the indications recently given by the Ministry of Environment and Energy Security GME hereby submits this consultation document to inform and collect feedback from stakeholders on the proposed MPPA operating model. The document describes the **design of the market for the trading of PPA contracts (MPPA) proposed by GME.**

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Please submit your comments in writing to GME – **Governance** by **July 18th 2025** at the latest (end date of this consultation) in the following way:

- by e-mail to: **info@mercatoelettrico.org**

Parties wishing to keep all or part of their comments confidential should specify which part of their comments are to be kept confidential.

2. DESIGN OF THE MPPA

2.1. Guidelines given to GME

GME has formulated the operating model of the market for the trading of Power Purchase Agreements (MPPA) -described in this consultation document- in accordance with the guidelines received from the Ministry of Environment and Energy Security (Decree adopted jointly with the Ministry of Economy and Finance). In particular, as detailed further below, the market design proposal developed by GME is based on the following key regulatory principles:

- the MPPA will be organised and managed as part of GME's Electricity Market and it will be functionally integrated with the Forward Electricity Market (MTE); in other words, the rules of the MPPA will be an integral part of the Integrated Text of the Electricity Market Rules, as per article 5, paragraph 1 of Legislative Decree no. 79 of 16 March 1999. Consequently, the functional scope of the current MTE will be redefined and divided into two markets: the market of forward contracts, called MCT (for trading the current forward energy contracts being now traded in the MTE); and 2) the market of PPA contracts, called MPPA, specifically dedicated to the trading of long-term contracts of purchase/sale of electricity from renewable sources with delivery obligation (identified as PPAs). Therefore, given this new organisation of forward markets, the reference in the following paragraphs to the functional integration between the MPPA and MTE should be understood as the integration between the MPPA and the MCT;
- the purchase/sale contracts traded on MPPA will be standardised with a duration of a minimum of five (5) years and up to a maximum of ten (10) years;
- the positions relative to each year of the contracts traded on MPPA will be progressively transferred to the MCT, starting from the time when contracts referring to the same year are traded in the MCT, i.e. immediately after trading in MPPA, if the contract pertaining to the first year of duration of the PPA is already listed in the MCT;
- each PPA contract will be traded between counterparties which have previously selected each other on MPPA and that are clearly identified; default will be managed separately for each contract;
- sell orders may be submitted into MPPA only by owners of renewable energy (RES) plants (already in service and/or authorised) that meet the eligibility criteria defined by GSE in its *Regole Operative* (GSE's operational rules);

- buy orders may be submitted into the MPPA only by holders of withdrawal points that meet the eligibility criteria defined by GSE in its operational rules;
- GME will act as a central counterparty on MPPA;
- transactions and the maintenance of open positions acquired on MPPA will be allowed only after successful verification of the adequacy of the guarantees provided by Market Participants in the MPPA to cover the exposure associated with each PPA contract;
- the exposure associated with each contract for both buyer and seller will be determined – by applying the criteria currently adopted in the MTE (future MCT) – as a portion of the value of each year covered by the same contract; this portion will decrease as the duration of the contract increases, and it will be periodically re-evaluated to reflect the evolution of prices until physical delivery;
- in the event of default by one of the counterparties to a PPA contract - and limited to the residual duration of the contract not being transferred to the MCT - GSE, when acting as guarantor of last-resort, will acquire the relevant position, unless the non-defaulting counterparty waives the continuation of the contractual position. In particular:
    - ✓ if the buying counterparty is in default, GSE will pay to the non-defaulting counterparty of the MPPA the reserve price indicated in GSE’s operational rules;
    - ✓ if the selling counterparty is in default, GSE will receive from the non-defaulting counterparty of the MPPA the reserve price indicated in its operational rules, and it will take over the electricity produced by the RES plant associated with the PPA contract, succeeding the selling counterparty in the related dispatching contract.

2.2. Parties eligible for trading on MPPA

MPPA will be part of the Electricity Market (ME). Therefore, all parties having the status of ME Market Participants and meeting the requirements to trade PPA contracts on MPPA may take part therein. In particular, under GSE’s operational rules, such parties must be enabled by GSE to trade on MPPA as sellers or buyers.

GSE will provide GME with a list of selling and buying Market Participants which are enabled to trade on MPPA, after verifying their compliance with the relevant obligations set out in the GSE’s operational rules. GSE will notify GME if a MPPA Market Participant losses such qualifications.

2.3. TRADABLE PRODUCTS ON MPPA, PREFERRED COUNTERPARTIES AND TRADING PROCEDURES

Considering the required integration of the MPPA with the market of forward contracts (MCT), as specified in the guidelines received by GME (see paragraph 2.4), the products/contracts tradable on MPPA must have the following features:

1) they will only refer to "green electricity" that the seller is required to produce from RES plants. In particular, each contract must explicitly indicate the energy source used to generate the electricity covered by the contract. Pursuant to the Decree, with a view to achieving procurement purposes and minimising the risk of speculative strategies, the sale of electricity from RES plant that is already covered by previously traded contracts will not be permitted on MPPA.
2) they will have a standardised profile, i.e. baseload and peakload.

The Decree provides that the contracts to be traded on MPPA shall have standardised features similar to, or at least consistent with, those traded on MCT. With regard to the latter aspect, GME considers it appropriate -at least in the initial phase-, to allow the trading of baseload products only, so as to concentrate liquidity on a limited range of products.

Question for consultation S1 – *Do you agree with the proposal to initially introduce only standard baseload products, in order to concentrate liquidity on MPPA, or do you believe it is preferable to introduce also peakload products?*

The duration of the contracts may range from a minimum of 5 (five) to a maximum of 10 (ten) years. With a view to concentrating liquidity on a small number of contracts, GME proposes initially to allow trading of PPA contract with a delivery period of 5 (five), 7 (seven), and 10 (ten) years, respectively. For the purposes of contract standardization and to ensure full integration with the MCT, the duration of the delivery periods will be aligned with the calendar years and will therefore start on 1st January of the first delivery year and end on 31st December of the final delivery year.

Question for consultation S2 – *Do you agree with the proposal to introduce standard contracts with delivery periods* of *5 (five), 7 (seven), and 10 (ten) years*, *or do you believe, at least initially, trading* *should be limited to contracts with a single delivery period? In the latter case, which duration do you consider most appropriate?*

Alternatively, do you prefer, starting from the go-live of the MPPA, to trade contracts with any duration equal to all the delivery periods from 5 to 10 years?

Article 3, paragraph 5 a) of the Decree provides that: *each PPA contract shall be traded between counterparties which have* ***previously selected each other on MPPA;*** *such counterparties shall be clearly identified; and default shall be managed separately for each contract.* To comply with this provision, an appropriate feature will be introduced in the MPPA to enable Market Participants to establish in advance a mutual preference relationship between them.

Consequently, trades on MPPA will be allowed only between Market Participants which have a "relationship of preference" between them (**preferred counterparties**).

To establish a "relationship of preference", each buying or selling Market Participant must send a request to be designated as a "preferred counterparty" to one or more selling or buying Market Participants with whom it wishes to enter into possible PPA contracts. In particular, the MPPA information system will allow the requesting Market Participant to: *i.* view the "list of Market Participants" (the buying Market Participant will view the list of selling Market Participants and, vice versa, the selling Market Participant will view the list of buying Market Participants); for each Market Participant, the list will show the company name, the registered office, and the VAT number; *ii.* select Market Participants with which to establish a preference relationship; and *iii.* send the request for designation as a "preferred counterparty". The system will also enable the requesting Market Participant to provide the recipients of the request with additional information, by keying in a free-text message. The selected Market Participants will receive the requests of designation as "preferred counterparties" through an internal messaging service of the MPPA. After viewing the data of the requesting Market Participant (company name, registered office, VAT number), they may, at their sole discretion, decide to "accept" or "reject" the request, within the deadline specified by the requesting Market Participant. The acceptance of a request of designation as a "preferred counterparty" will establish a two-way "preference" relationship between the two Market Participants, until cancellation of the same request by either Market Participant. Hence, the requesting Market Participant will view the name of the Market Participant accepting its request in the list of preferred counterparties, and the accepting participant will view the name of the requesting participant in its list of preferred counterparties. Each counterparty may at any time cancel the "preference" relationship before trading. In the latter instance, the "preference" relationship terminates automatically without requiring confirmation by the other party. The termination of the preference relationship will be notified through the MPPA internal messaging service.

The option of establishing a preference relationship beforehand allows Market Participants to manage "at their sole discretion" the residual counterparty risk falling of the non-defaulting counterparty, in compliance with both of the following provisions:

- article 3, paragraph 5 e) and f) ofthe Decree, providing that GME shall require both the buying and selling Market Participant to post guarantees in order to cover the exposure associated with each PPA contract, and that such exposure shall be defined under the criteria currently adopted in the MTE (future MCT); as a result, the exposure and the required guarantee shall be equal to a share of the value of each year covered by the contract; this share will decrease as the duration of the same contract increases, meaning that these guarantees will not cover the counterparty risk entirely, considering the goal of making the market less burdensome and thus more accessible (see para. 2.5);
- article 4, paragraphs 1 and 2 of the Decree, providing that, unless the non-defaulting counterparty waives the continuation of the contractual position, GSE shall take over the positions of the defaulting counterparty, limited to the residual duration of the contract not being transferred to the MTE (in the future MCT), by applying a reserve price to the non-defaulting counterparty; this price shall be defined under the criteria indicated in GSE's operational rules and it may be different from the price at which the PPA contract has been originally traded on MPPA.

In accordance with the above provisions, it is clear that part of the default risk may be transferred to the non-defaulting counterparty, whenever the reserve price at which GSE steps in differs from the price at which the PPA contract has been traded.

It follows from the above that any party wishing to trade in MPPA will be able to select the counterparties which they consider most reliable, because the default of a counterparty may have an impact on the non-defaulting counterparty.

Regarding the **trading mechanisms,** GME intends to introduce on MPPA **a market trading mechanism,** based on **auctions**, where the entry, modification, and cancellation of orders are performed during a sitting for collection of orders, at the end of which results will be determined by accepting buy and sell orders that have been submitted at consistent prices and valuing such orders at the marginal price. These auctions would be held, at the request of the selling Market Participant, according to a calendar defined by GME and previously made known to the Market Participants. Before each auction, Market

Participants, who have been enabled by GSE to act as sellers, will communicate to GME the type of product (and the related information) that they wish to sell. Thus, after ensuring that the sell orders are valid and adequate[2], GME will organise a trading session for each product offered for sale by each selling Market Participant: all buying Market Participants which have an active relationship of preference with the seller may take part in this session. Information regarding the name of the seller, the type of PPA, and delivery period will be made available by GME before the opening of the session for submitting purchase offers, in order to allow buyer Market Participants to evaluate the general characteristics of the contract. Therefore, the interested Market Participants will be able to request the seller to establish a relationship of preference, if not yet active. Additional information regarding the sale offer, including the starting price of the auction, will be made available only to the approved counterparties when the session for collecting purchase offers opens. The selling Market Participant would have the option of specifying a minimum volume that each buying Market Participant is required to offer. In any event, a buy order, having a price consistent with the starting price and deemed to be valid and adequate[3], will be accepted under the merit order criterion, starting from the order with the highest price and proceeding in non-increasing price order. If the price is equal, buy orders will be partially accepted under a *pro quota* criterion, consistently with the constraint regarding the minimum volume to be offered. At the end of the auction, the selling counterparty will receive information about the volumes bought by each buyer and the name of each buyer.

Question for consultation S3 – *Do you agree with the proposal to disclose the auction starting price (among the data concerning the contract to be traded) only to those Market Participants with whom there is a mutual relationship of preference. In addition, what level of publicity should be given to the information relating to the PPA offered by the seller on MPPA, in order to balance the need to maintain an adequate level of confidentiality regarding commercially sensitive aspects with the need*

[2] A sell order is deemed to be valid and adequate for a trading session if, *inter alia*: the market participant is not suspended from the ME or PCE; the market participant is entitled to register transactions on the PCE in respect of the forward accounts that it holds; the market participant is enabled to submit the specific types of sell orders based on the latest information obtained from GSE; and the sell order is guaranteed.

[3] A buy order is deemed to be valid and adequate if, *inter alia*: the market participant is not suspended from the ME or PCE; the market participant is entitled to register transactions on the PCE in respect of the forward accounts that it holds; the market participant is enabled to submit the specific types of buy orders based on the latest information obtained from GSE; the market participant is included in the list of preferred counterparties associated with the participant submitting the sell order; the unit offer price is higher than or equal to the starting price; and the buy order is guaranteed.

to ensure a sufficient level of transparency so that interested Market Participant can establish a relationship of preference with the seller and submit a purchase offer?

In addition to PPA market trading, the MPPA will consent the negotiation and registration of bilateral transactions concluded out of the MPPA (OTC clearing) , so that two counterparties may register, on the MPPA, a PPA contract whose terms (duration, price, volumes) have already been defined off the market, thereby relying on the central counterparty service offered by GME and posting the guarantees in favour of GME as referred to in the ME Rules. However, the counterparties wishing to use the OTC Clearing functionality, must have been priorly enabled by GSE to act as sellers and buyers on the MPPA, and the type of PPA contract to be registered must be consistent with those tradable on the MPPA and compliant with GSE's operational rules, considering that such counterparties would potentially benefit from the role of GSE as a guarantor of last-resort. It is understood that the mutual relationship of preference between two counterparties requesting the registration of a bilaterally contract shall be deemed automatically fulfilled.

In both facets of market trading and bilateral transaction registration, the seller will have to specify which plant or plants are associated with the PPA it is intended trade on the MPPA.

In both facets, the minimum volume to be offered will be equal to 1 MW per contract/product, with a minimum tick of 1 MW (which is the standard applied on the main European forward markets), whereas the minimum price tick will be equal to 0.01 €/MWh. However, the volume covered by the contract (in MWh) will be equal to the product between the volume covered by the order (in MW) and the number of market time interval (¼ h) corresponding to the duration of the contract[4].

Both orders entered under the negotiation on MPPA and the requests for registration entered on MPPA (OTC Clearing), with reference to the bilateral trading of PPA contracts will only be allowed if they have been successfully verified by GME to be financially adequate (see para. 2.5).

During the duration of the contract negotiated on MPPA or registered on MPPA (OTC Clearing), counterparties may revise the terms of the residual part of the contract that has not yet been subject to cascading on MCT (duration, volume, and price), provided that, such counterparties still qualify

[4] A non-leap year (365 days) consists of 35,040 imbalance settlement periods, each of ¼ h (96 ¼ h per day * 365 days). A leap year (366 days) consists of 35,136 imbalance settlement periods, each of ¼ h (96 ¼ h per day * 366 days). A 1-MW baseload contract for the 2027–2036 period (10 years), including 7 non-leap years and 3 leap years (2028, 2032, and 2036), corresponds to a volume of electricity equal to 87,672 MWh (1 MW*(35,040*1/4h * 7 + 35,136* 1/4h * 3).

under the financial adequacy requirements established by GME (see para. 2.5) and the other requirements: Market Participants are not suspended from the ME or PCE; Market Participants are enabled to submit buy or sell orders based on the latest information obtained from GSE; Market Participants are entitled to register transactions onto the PCE in respect of the forward accounts that they hold.

Pursuant to Article 5(3) of the Decree, GME will register on the PPA Notice Board the contracts concluded on the MPPA or concluded bilaterally outside the market and registered on the MPPA (OTC Clearing), as well as any subsequent amendments thereto.

As regards the procedures and time limits for acquiring and trading the Guarantees of Origin (GOs) issued in respect of the same energy source for generation of electricity as that used for executing the contracts traded in the MPPA, the reader is referred to *Regole Applicative* (application rules) issued by GSE under art. 17 of Ministerial Decree no. 224 of 14 July 2023.

Question for consultation S4 – *Do you agree with the proposal to introduce on the MPPA an auction trading mechanism with a marginal price?*

Do you agree with the proposal to allow on the MPPA the registration of bilateral transactions concluded outside the market (OTC Clearing)?

Do you agree to adopt a price tick for offers equal to 1MW?

2.4. MPPA: AN INTEGRAL PART OF MCT

Based on the requirement (indicated in the guidelines received from the Ministry of Environment and Energy Security) to ensure the functional integration of MPPA with the Forward Electricity Market (MCT), the proposed market proposal of MPPA provides that the portfolio positions related to each year included in the multi-year timeframe of PPA products will be transferred to the MCT as positions related to the corresponding yearly product traded therein. The transfer of positions to the MCT would take place, under a rolling mechanism, when the calendar year covered by a contract concluded on MPPA is traded in the MCT, i.e. immediately after the trading of the PPA, if the yearly contract is already listed in the MCT.

The transfer of the position held by a Market Participant is allowed provided that the guarantees requirements are positively verified (see para. 2.5) as well as further checks ensuring that the Market Participant is not suspended from ME or PCE; the Market Participant is enabled to submit a buy or sell

order based on the latest information received from GSE; and the Market Participant is entitled to register transactions into the PCE in respect of the forward accounts that it holds.
Therefore, the physical delivery of PPA contracts and the consequent registration on PCE will take place under the operational procedures established in the MCT (now MTE), by applying the related cascading mechanism. Consequently, the transfer of a position to the MCT will imply compliance with all the procedures and time limits for invoicing and payments applicable in the current MTE (i.e. settlement in M+2), and the related procedures and time limits for managing default.

Such transfer would provide Market Participants with the option of offsetting portfolio positions with positions of opposite sign possibly acquired in the MCT, by using the guarantees already posted for the ME and specifically allocated to the MTE (which can be used to cover exposures in both the MCT and the MPPA). As previously pointed out, to make this offsetting practicable, the features of the PPA contracts will be consistent with those of the products currently traded in the MCT.

Furthermore, with the integration of the MPPA with the ME, the PPA contracts concluded will be registered on the Forward Account Registration Platform (PCE) under the procedures and within the timings already established for the current MTE (future MCT), i.e. just before the start of the delivery period. In this way, the volumes registered by GME for the producer (commercial position of the producer) will be those specified in the contract. Moreover, if the entered volumes are different from the commercial position, the participant will have an imbalance with respect to the schedule, to be financially managed.

In general, the integration of MPPA into the electricity markets will have the following two main advantages:

1) **lower charges for Market Participants,** thanks to economies of scale and scope: a single Market Participation process; the option to offset physical commercial positions acquired in the year A+1 on PPA contracts with those acquired in the MCT; the option to use the guarantees already allocated to the MTE, and to allocate to the MTE the guarantees already allocated in other components of the energy markets;
2) **higher deterrence of potential default:** any default of a Market Participant having positions also in the MPPA would obey the relevant provisions laid down in the ME Rules (from enforcement of guarantees in the MTE to suspension/exclusion of the Market Participant from all the markets making up the electricity market or the gas market (if the defaulting Market Participant is also a gas market participant). These provisions will be applied on the basis of the extent of the contractual positions held and they will take into account the possible step-in of GSE as a guarantor of last-resort.

As a result of the integration of the MPPA with the MCT, the structure and extent of the fees applied to trades in the MPPA, as well as the related invoicing and payment procedures will be the same as those currently applicable in the MTE (future MCT).

2.5. CENTRAL COUNTERPARTY AND GUARANTEE OF TRANSACTIONS

In the MPPA, GME will act as a central counterparty in the transactions.

With a view to ensuring, on the one hand, the successful delivery of the electricity underlying the PPA contract traded in the market and, on the other hand, the payment of the related value, the MPPA market design involves the following rules with regards to guarantees to be posted in respect of PPA contracts (in line with the guidelines received from the Ministry of Environment and Energy Security):

- to submit orders on MPPA, Market Participants must post adequate financial guarantees in the forms and under the terms and conditions currently set forth in the ME Rules for participation in the MTE (future MCT);
- both sell and buy orders will be subject to a prior verification of the financial adequacy of the available guarantees of Market Participants, net of the maintenance margin (equal to 10%)[5]. In particular, GME will ensure that the guarantees of the Market Participant are sufficient to cover the exposure that such Market Participant would have towards GME in case of matching or selection of the entered order.
  The exposure will be determined taking into account two risk components, calculated with respect to the contract reference price, determined by GME (criteria similar to those currently adopted in the MTE):
  - a percentage expressing the volatility to which a Market Participant may be exposed if a position is closed (alpha parameter), to be applied with respect to a reference price determined by GME on all the electricity underlying the contract;
  - the related mark-to-market between the offered price and the reference price calculated by GME and applied over time to all the electricity covered by the contract.

For concluded transactions, the exposure of the Market Participant will be constantly revalued:

[5] GME would carry out this verification and the subsequent procedures for adjusting the exposure even for requests of registration associated with bilateral trading (OTC clearing).

- upon the expiry of each year, in order to apply, under a rolling mechanism, the alpha parameters on the residual years of the contract;
- in order to constantly update the reference price, with respect to which the mark-to-market and alpha parameters will be applied.

With regard to the alpha parameter, GME will apply

- for the contract year Y+1, a value equal to the one currently applicable in the MTE (10%);
- for the years following the first one, a fraction of the alpha parameter applied for the first year, with a decreasing trend according to the increase of the time remaining until expiry of the PPA contract; this fraction will be equal to 3% for the years Y+2 and Y+3, 2% for the years Y+4 and Y+5, and 1% for the years from Y+6 to Y+10.

  Thus, the total value of the alpha parameters applied is equal to 25%, i.e. 2.5% on a yearly average, of the overall value of a 10-year contract, and 20%, i.e. 4% on a yearly average of the overall value of a 5-year contract.

It follows that, if a 10-year (2027–2036) contract is concluded in 2026 for a volume of 1 MW (corresponding to 87,672 MWh) at a price of 75 €/MWh (for an overall value of €6,575,400), and if the reference price of such contract is also equal to €75/MWh, both the selling and buying Market Participant will have an exposure equal to zero for the mark-to-market component and an exposure of €164,385 generated by the alpha component (75 €/MWh * 87,672 MWh * 2.5%).

If the reference price increases to €80/MWh, Market Participants will be required to post guarantees in favour of GME to cover an exposure equal to the following figures:

- for the selling Market Participant, €613,000 (equal to 10% of the overall value of the contract), obtained from the sum of:
  - €438,000 for the mark-to-market component ((80 €/MWh – 75 €/MWh)* 87,672 MWh);
  - €175,344 for the alpha component (80€/MWh * 87,672 MWh*2,5%);
- for the buying Market Participant, the figure will amount to 175.344 (exclusively the alpha component); , since the reference price is higher than the trading price of the contract, no additional exposure arises from the “mark to market”.

It is worth underlying that, as the exposure calculation criterion is symmetrical for the buyer and seller, on a decreasing price reference scenario, an increase in the guarantees required to cover the net exposure would instead be applied to the buyer.

It goes without saying that, upon physical delivery, the guarantee posted only by the buyer should cover at least 100% of the value of the net debit position.

Finally, the same approach will be followed with regards to OTC Clearing functionality.

2.6. DEFAULT OF A MARKET PARTICIPANT AND ROLE OF GSE AS GUARANTOR OF LAST-RESORT

The causes of default in the MPPA will be as follows:

- a Market Participant holding a contractual position in the MPPA loses the qualification granted by GSE;
- the verification of technical adequacy for registering contractual positions on the MCT (see para. 2.4) is not successful;
- the Market Participant has not adjusted its guarantees covering the exposures acquired in the MPPA.

Given the integration of the MPPA into the ME, any default by a Market Participant in one of the segments of the ME other than the MPPA will constitute a cause of default by the same Market Participant also in the MPPA and vice versa: in other words, the Market Participant is declared to be in default in the ME. Therefore, if the Market Participant also takes part in the gas market, it will be declared to be in default also in the MGAS.

In all cases of default in the ME (thus, not only in the cases of default originating in the MPPA), if a Market Participant has open positions also in the MPPA, then, in order to ensure the physical execution of the PPA contract of the defaulting participant for the years not yet to be delivered on the MCT, GSE (in compliance with Decree) will succeed the defaulting participant – unless the non-defaulting counterparties waive to continue the contract before GSE steps into such contract. In this regard, in order to enable the non-defaulting counterparty to determine whether to continue the contract with GSE (residual contractual position in default in the MPPA which has not yet been subject to cascading on the MCT) or, as an alternative, to waive such contract, GME will notify such counterparty of the default. After receiving such notification from GME, the non-defaulting counterparty must communicate its decision.

Question for consultation S5 – *Do you agree with the proposal to provide the non-defaulting counterparty with the option to choose whether to continue the contract with GSE (residual contractual position in default in the MPPA that has not yet been subject to cascading on the MCT) or, as an alternative, to waive such contract?*

In the three cases of default listed above, GME will suspend the Market Participant. The duration of the suspension will be as follows:

- if the default has arisen in a market other than the MPPA and the Market Participant has no contractual positions in the MPPA, the suspension will last until the removal of its cause; six months after the date of suspension, if the cause of default is not removed, GME will exclude the Market Participant from the market;
- whatever the market where the default has arisen, if the Market Participant has contractual positions also on the MPPA, the suspension will have the following duration: a) a period of six months, if the residual contractual position is equal to one year; b) a period of six months, increased by one month for any additional residual year (up to a maximum of 15 months), if the contractual position exceeds one year.
  In case a), the suspension will be revoked six months after its start date, provided that the cause of default has been removed; six months after the date of suspension, if the cause of default is not removed, GME will exclude the Market Participant from the market.
  In case b), the suspension will be revoked only after the end of the entire suspension period, provided that, within six months of the start date of the suspension, the cause of default has been removed. Six months after the date of suspension, if the cause of default has not been removed, GME will exclude the Market Participant from the market, whatever the residual duration of the suspension period.

In addition to the above, with regard solely to the case of default resulting from failure to update the guarantees, if one of the non-defaulting counterparties decides to continue its contractual relationship with GSE, then GME will enforce the guarantees posted on the ME, previously allocated to the MTE. As a result, the amounts of the guarantees enforced by GME will be transferred to GSE. GSE will use such amounts to cover possible charges incurred to take over the position of the defaulting participant.

In all the three cases of default listed above and with regard to contractual positions in the MPPA, GME will apply to the defaulting participant a penalty of €2/MWh for each contract held by its contractual position in the MPPA. Such penalty will be transferred from GME to: GSE, if the counterparty of the defaulting participant accepts to continue the contract with GSE; the non-defaulting counterparty, if the same communicates their intent to close the contractual position.