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EFET concerns about capacity reductions at the Italy North borders

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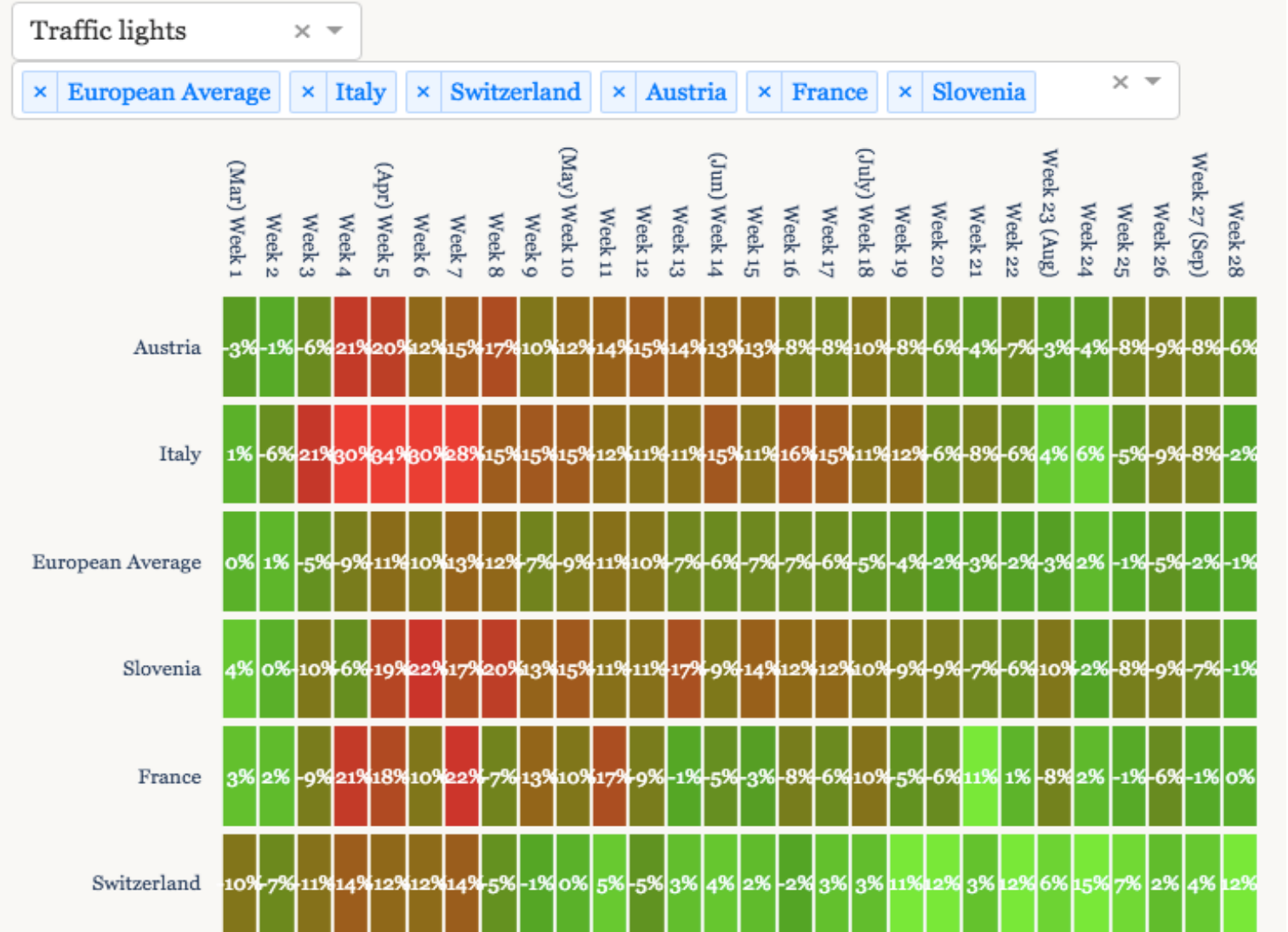
Why does EFET wish to discuss capacity reductions?

- Market participants observed significant cross-border capacity reductions at the Italy North borders in 2020:
 - 422 hours at 0 capacity FR>IT North
 - 408 hours at 0 capacity AT>IT North
 - 430 hours at 0 capacity SI>IT North
- EFET sought ***explanations*** from Terna on the capacity reductions; and ***additional information*** to assess if the measures were appropriate
- The exceptional circumstances of the Covid-19 crisis were put forward as an explanation, and compliance with the IT North CCM as a justification
- We are interested to dig deeper into these two aspects

The Covid-19 context in 2020

- Electricity consumption indeed dropped in Italy in 2020
- However, only 5 weeks show a significantly higher drop in Italian consumption compared to IT North neighbours
- IT North capacities were reduced to 0 well beyond this most critical 5-week period
- No other IT North neighbour reduced capacities to other countries to 0 in 2020

Change in 2020 consumption relative to 2019



Source: Bruegel electricity consumption tracker of Covid-19 lockdown effects (<https://www.bruegel.org/publications/datasets/bruegel-electricity-tracker-of-covid-19-lockdown-effects/>)

Capacity reductions at the Italian borders are recurrent

- Capacity reductions requested by Terna at IT North borders extend beyond the drop in consumption in 2020
- We have seen repeated capacity reductions over mid-seasons (spring and autumn) for many years
- Capacity reductions only affect the Italy North borders, but not the internal bidding zone borders within Italy

Are capacity reductions justified?

- Reminder of the main problems of capacity reductions:
 - Announced with too short notice and little coordination with neighbouring TSOs
 - Restrict cross-border trade
 - Generate uncertainty for cross-border transactions (including for hedging) with Italy in the spring and autumn
 - Potentially induce discrimination between market participants if they serve as a management tool for internal IT congestions (“pushing congestion to the border”)
- We agree that the Terna requests are compliant with the CCM
- But were these actions the least harmful to social welfare? And if not, is the CCM fit for purpose (and compliant with Regulation 2019/943)?
- Market participants, NRAs and EU authorities need more information to assess alternatives and take corrective action, if needed

Suggested way forward

- Disclose detailed information on how the allocation constraints are calculated
- Ensure transparency on the analysis of alternative remedial actions to the application of allocation constraints (and the ensuing cross-border capacity reductions)
- Provide more details on the (fear of) lack of XB redispatch potential and how this is taken into account in the decisions to reduce capacity
- Assess whether the IT North CCM is fit for purpose and complies with Regulation 2019/943 in letter, spirit and practice

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