

**REQUEST FOR AMENDMENT BY THE ITALY NORTH
REGULATORY AUTHORITIES**

OF

**THE ITALY NORTH TSO PROPOSAL FOR THE
FALLBACK METHODOLOGY**

01 August 2017

I. Introduction and legal context

This document elaborates an agreement of the Italy North Regulatory Authorities, agreed on 31 July 2017 at Italy North Energy Regional Regulators' forum, on the Italy North TSO proposal for the fallback procedures, submitted in accordance with Article 44 of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management (CACM).

This agreement of the Italy North Regulatory Authorities shall provide evidence that a decision on the fallback procedures does not, at this stage, need to be adopted by ACER pursuant to Article 9(11) of CACM. It is intended to constitute the basis on which the Italy North Regulatory Authorities will each subsequently request an amendment to the fallback procedures proposal pursuant to Article 9(12) of CACM.

The legal provisions that lie at the basis of the fallback procedures, and this Italy North Regulatory Authority agreement on the fallback procedures, can be found in Article 3, 8, 9, and 44 of CACM. They are set out here for reference.

- **Article 3 of CACM:**

This Regulation aims at:

- (a) Promoting effective competition in the generation, trading and supply of electricity;*
- (b) Ensuring optimal use of the transmission infrastructure;*
- (c) Ensuring operational security;*
- (d) Optimising the calculation and allocation of cross-zonal capacity;*
- (e) Ensuring fair and non-discriminatory treatment of TSOs, NEMOs, the Agency, regulatory authorities and market participants;*
- (f) Ensuring and enhancing the transparency and reliability of information;*
- (g) Contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union;*
- (h) Respecting the need for a fair and orderly market and fair and orderly price formation;*
- (i) Creating a level playing field for NEMOs;*
- (j) Providing non-discriminatory access to cross-zonal capacity*

- **Article 8 of CACM:**

TSOs' tasks related to single day-ahead and intraday coupling

1. In Member States electrically connected to another Member State all TSOs shall participate in the single day-ahead and intraday coupling.

2. TSOs shall:

[...]

- (i) establish and operate fallback procedures as appropriate for capacity allocation in accordance with Article 44;*

- **Article 9 of CACM:**

1. *TSOs and NEMOs shall develop the terms and conditions or methodologies required by this Regulation and submit them for approval to the competent regulatory authorities within the respective deadlines set out in this Regulation. Where a proposal for terms and conditions or methodologies pursuant to this Regulation needs to be developed and agreed by more than one TSO or NEMO, the participating TSOs and NEMOs shall closely cooperate. TSOs, with the assistance of ENTSO for Electricity, and all NEMOs shall regularly inform the competent regulatory authorities and the Agency about the progress of developing these terms and conditions or methodologies.*

[...]

5. *Each regulatory authority shall approve the terms and conditions or methodologies used to calculate or set out the single day-ahead and intraday coupling developed by TSOs and NEMOs. They shall be responsible for approving the terms and conditions or methodologies referred to in paragraphs 6, 7 and 8.*

6. (...)

7. *The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities:*

a. (...)

b. (...)

c. (...)

d. (...)

e. *the fallback procedures in accordance with Article 44;*

f. (...)

g. (...)

h. (...)

8. (...)

9. *The proposal for terms and conditions or methodologies shall include a proposed timescale for their implementation and a description of their expected impact on the objectives of this Regulation. Proposals on terms and conditions or methodologies subject to the approval by several or all regulatory authorities shall be submitted to the Agency at the same time that they are submitted to regulatory authorities. Upon request by the competent regulatory authorities, the Agency shall issue an opinion within three months on the proposals for terms and conditions or methodologies.*

10. *Where the approval of the terms and conditions or methodologies requires a decision by more than one regulatory authority, the competent regulatory authorities shall consult and closely cooperate and coordinate with each other in order reach an agreement. Where applicable, the competent regulatory authorities shall take into account the opinion of the Agency. Regulatory authorities shall take decisions concerning the submitted terms and conditions or methodologies in accordance with paragraphs 6, 7 and 8, within six months following the receipt of the terms and conditions or methodologies by the regulatory authority or, where applicable, by the last regulatory authority concerned.*

[...]

11. TSOs and NEMOs responsible for establishing the terms and conditions or methodologies in accordance with this Regulation shall publish them on the internet after approval by the competent regulatory authorities or, if no such approval is required, after their establishment, except where such information is considered as confidential in accordance with Article 13.

- **Article 44 of CACM:**

Establishment of fallback procedures

By 16 months after the entry into force of this Regulation, each TSO, in coordination with all the other TSOs in the capacity calculation region, shall develop a proposal for robust and timely fallback procedures to ensure efficient, transparent and non-discriminatory capacity allocation in the event that the single day-ahead coupling process is unable to produce results.

The proposal for the establishment of fallback procedures shall be subject to consultation in accordance with Article 12.

II. The Italy North TSO proposal

The fallback procedures proposal was consulted on by the Italy North TSOs through ENTSO-E for one month from 17 November 2016 to 19 December 2016, in line with Article 44 and Article 12 of CACM.¹ The final Italy North TSO fallback proposal, dated 27 January 2017, was received by the last Regulatory Authority of the Italy North Capacity Calculation Region on 22 February 2017. The proposal includes proposed timescales for its implementation and a description of its expected impact on the objectives of CACM, in line with Article 9(9) of CACM.

Article 9(10) of CACM requires Italy North Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach agreement, and make decisions within six months following receipt of submissions of the last Regulatory Authority concerned. A decision is therefore required by each Regulatory Authority by 22 August 2017.

The Italy North fallback proposal, as understood by the Italy North Regulatory Authorities, is primarily based on explicit day-ahead auctions. In case these auctions cannot be initiated, a reallocation of the day-ahead cross-zonal capacity to the intraday timeframe is also foreseen.

¹ The public consultation held from 17 November 2016 to 19 December 2016 is available on the ENTSO-e website: <https://consultations.entsoe.eu/markets/channel-and-iu-da-proposals/>.

III. Italy North Regulatory Authority position

According to CACM, the proposal should provide robust and timely fallback procedures to ensure efficient, transparent and non-discriminatory capacity allocation in the event that the single day-ahead coupling process is unable to produce results.

The Italy North Regulatory Authorities are of the opinion that the proposed fallback procedures based on explicit day-ahead auctions are robust, transparent for market participants, and allow a non-discriminatory capacity allocation. They are also economically efficient in the sense that capacity is allocated to market participants according to their willingness to pay. However, due to the time interval between capacity and energy allocation, during which anticipations on the state of the electrical system in real-time can evolve, these explicit auctions remain less efficient than a local market coupling through which capacity and energy would be jointly allocated; since such a local market coupling already exists as a fallback on the Italian internal bidding zone borders, **the Italy North Regulatory Authorities would welcome a more detailed analysis from Italy North TSOs, in coordination with NEMOs, about the possibility and the opportunity to extend this local market coupling up to the Italy North bidding zone borders. The analysis should be included in the explanatory note; if it concludes that a local market coupling for the Italy North bidding zone borders would be feasible, the fallback solution proposed in the methodology should be modified accordingly.**

The Italy North Regulatory Authorities are also of the opinion that, in a normal situation, the proposed procedures provide a timely fallback. However, according to Article 4(2) of the proposal, day-ahead explicit auctions may be postponed in case fallback procedures cannot be initiated in time. Since no time limit for this deferral is indicated, and since the deferred auctions could potentially conflict with other subsequent processes (intraday cross-zonal gate opening, intraday complementary regional auctions, Integrated Scheduling Process run by Terna), the Italy North Regulatory Authorities would welcome a better description, in the explanatory note, of all relevant timings and interactions between processes, at both regional and pan-European levels. **Any possibility of conflict between fallback procedures and other processes should be prevented by adding appropriate provisions in the methodology.**

As a side remark, the abbreviations concerning TSOs in Article 2 of the proposal (Definitions) are neither used in the proposal nor in the explanatory note, and could therefore be deleted.

More importantly, the Italy North Regulatory Authorities are concerned about the reference made to the Shadow Allocation Rules in the proposal:

- first, these rules being currently in a process of amendment to incorporate the new Day-Ahead Firmness Deadline defined in accordance with Article 69 of CACM, the version referred to in Article 3(6) will be no longer valid once the amended rules enter into force. The proposal should therefore use the amended version of the rules as a reference;
- second, for the sake of harmonization with other Capacity Calculation Regions (notably the CORE region), the Italy North Regulatory Authorities request to have the whole Shadow Allocation Rules included in the methodology as an annex.

Conclusions

The Italy North Regulatory Authorities have consulted and closely cooperated and coordinated to reach agreement that **they request an amendment to the fallback methodology submitted by the Italy North TSOs pursuant to Article 44 of CACM**. The amended proposal should take into account the Italy North Regulatory Authority position stated above, and should be submitted by TSOs no later than 2 months after the last national decision to request an amendment has been made, in accordance with Article 9(12) of CACM.

The Italy North Regulatory Authorities must make their national decisions to request an amendment to the fallback methodology, on the basis of this agreement, by 22 August 2017.

List of Action points:

- Amend Article 3(6) of the Fallback Proposal, making reference to a specific Annex containing the Shadow Allocation Rules;
- Provide an assessment of the possible conflicts between fallback procedures and other subsequent processes by detailing the process chain in the amended Explanatory Note. Based on this assessment, amend the Fallback Proposal if needed.
- Provide an analysis of using local market coupling instead of Explicit Day-Ahead Auctions in the amended Explanatory Note. Based on this analysis, amend the Fallback Proposal if needed.