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EFET response to ARERA consultation on the long-term procurement of electricity storage

EFET welcomes ARERA consultation 393/2022 on the guidelines and procurement clauses to help the Transmission System Operator (TSO) ensure a fair tendering procedure for electricity storage. In our response, we flag issues on the proposed framework that should be tackled to ensure an efficient procurement of storage needs.

Key messages

#1 - Terna shall not own, develop, manage or operate energy storage facilities

The system operator may extraordinarily develop storage assets (in case the storage need is not covered throughout the whole tendering process) only under the following conditions:

- Before organising a 2nd round of auctions, Terna and ARERA open a **mandatory public consultation** on the conducted tender process, subsequent results and potential amendments to the rules
- After amending the rules and in case of non-successful 2nd round of auctions, ARERA evaluates **alternative mechanisms to cover flexibility needs** (including but not limited to storage)
- The **European Commission and ACER shall be notified** on the decision to grant a possible derogation together with relevant information about the request and the reasons for granting the derogation according to Art. 54 of Directive (EU) 2019/944

#2 - The proposed design on the long-term procurement for electricity storage resources is excessively regulated

Despite the capacity being tendered through a market mechanism, the management and operations of the storage asset is extremely regulated. The mechanism provided for by Art. 18 of Legislative Decree 210/2022 should be designed with the aim of creating a regulatory and remuneration framework that guarantees the development of a minimum storage capacity considered necessary to achieve RES penetration objectives.

#3 - Remove constraints on the ancillary services (MSD) offers

The new mechanism should limit negative impact on the functioning of the spot electricity markets while preserving their efficiency and competitiveness. We believe that the constraints imposed on the new storage capacity contracted under this mechanism do not stimulate the use of the best technologies. The imposition of the described constraints would also have distorting effects on the operation of MSD by displacing the offers of market participants, thus reducing the significance of the price signals deriving from this market.

For these reasons, ARERA should consider defining loosen economic constraints on the offers made on the MSD by the holders of storage assets (e.g. the introduction of a strike price for upward offers, in a similar manner to the one envisaged in the UVAM pilot project, and of a floor price for downward offers, while considering a regular review of these parameters according the actual trend of MGP / MSD prices).

The possibility for the market participant to maintain a certain share of the positive margins should be preserved, as it can constitute an incentive for the optimal use of storage assets to the benefit of the power system.

#4 - An independent study is necessary to guarantee an unbiased revision of the mechanism

The Rules (Disciplina) and the Study will be defined by same entity (Terna) who may intervene directly in the event of failure of the mechanism. To this end, it is considered essential that:

- ARERA exercises a significant oversight and monitoring over the activities delegated to the TSO according to art. 54 of Directive (EU) 2019/944.
- The Ministry consults RSE (Ricerca sul Sistema Energetico) for the evaluation of both the proposed temporal progression of the requirements - as already envisaged pursuant to Article 18, paragraph 1 - and all the other elements proposed by the Terna

#5 - Non-authorised assets should be allowed to participate in the mechanism

Non-authorised assets should have the possibility to qualify with authorised assets and participate to the auctions subsequently to the “authorised assets only” auction (which is the only option currently foreseen in the consultation) with a mechanism similar to the one implemented in the capacity market.

Detailed messages

Criteria and conditions of standard contract for the procurement of storage capacity

- Q1. Si condividono gli orientamenti dell'Autorità circa i criteri e le condizioni per l'individuazione dei parametri contrattuali standard?*
- Q2. Si condivide, in particolare, l'esigenza di svolgere procedure competitive distinte per tecnologia, nel caso in cui le tecnologie di riferimento in grado di soddisfare il fabbisogno si differenziassero in modo significativo dal punto di vista dei parametri tecnici e/o dei tempi di realizzazione e/o delle vite utili?*

The auction design should avoid any discrimination between different storage technologies. The two technologies mostly considered in the consultation document (BESS and PHS) have different characteristics in terms of technical parameters, construction times, lifetime, cost structures. Furthermore, dynamic evolution of construction costs over time should be considered.

We believe that the economic parameters used in the auction procedures should be defined by taking into account the different characteristics of the participating technology: for this reason, in the sequential auction design, the reserve price of the auction dedicated to hydro pump storage should be defined taking into account the cost structure of this technology (given the longer investment lead time).

Rights and obligations for standard contract for the procurement of storage capacity

- Q3. Nel caso di impianti caratterizzati da una vita utile superiore alla durata del periodo di consegna, si condivide l'opportunità di prevedere negli schemi contrattuali quanto indicato al punto 2.23?*
- Q4. Si condividono gli orientamenti dell'Autorità circa l'obbligo di rendere disponibile a soggetti terzi la capacità contrattualizzata per l'esercizio, sui mercati dell'energia, di prodotti di time shifting attraverso il meccanismo di pooling sopra descritto?*
- Q5. Si condividono gli intendimenti dell'Autorità in merito agli obblighi di offerta sul MSD da parte dei titolari delle risorse di stoccaggio?*

No further comments.

Guarantees and penalties

Q6. Si condivide l'impostazione che si intende adottare in relazione ai criteri relativi al sistema di garanzie?

Q7. Si condividono gli orientamenti dell'Autorità circa il sistema di penali da applicare in caso di violazione degli obblighi contrattuali?

No further comments.

Competitive procedures – Participation criteria

Q8. Si condivide il contenuto del presente documento per quanto attiene ai requisiti di partecipazione alle procedure competitive?

Q9. Si condividono gli intendimenti dell'Autorità circa la definizione della domanda nelle procedure concorsuali e la valorizzazione di eventuali extra-prestazioni fornite dalla capacità contrattualizzata?

Q10. Si condividono gli orientamenti dell'Autorità in relazione ai criteri di selezione delle offerte e di formazione del prezzo da applicare nelle aste di approvvigionamento di capacità di stoccaggio?

No further comments.

Transparency obligations

Q11. Si condivide quanto illustrato nella sezione 2.d rispetto agli obblighi di Terna in tema di trasparenza?

Duration of the consultation

Given the complexity of the mechanism, we consider it essential that the duration of Terna's consultation referred to in point 2.64, letter a) is at least **60 days** instead of 30 days.

Terna study on storage technologies

It is essential that Terna's study relating to electricity storage technologies is published and subject to public consultation.

Considering that the results of the study will define the main part of the Rules (Disciplina), the technical and economic parameters are intertwined and will impact the design features of future plants, we believe that a period of **one year** is necessary between the entry into force of the relevant legislation and the organization of the first auction in order to allow operators to identify the most suitable areas and the technical parameters of the projects.

The significance of this report requires an exchange between the system operator and the market participants, during the consultation process, on the actual reasons for the lack of offers in the competition procedures (including third-party investors in auctions).

Transparency on the result of auction process

Following the tendering process, Terna will have to inform ARERA with regards to:

- The results of the **successful** tendering process (specifying details of the chosen participant as well as the overall participation by market parties, financial aspects and specifications of the facility); or
- The results of the **unsuccessful** tendering process (specifying the number of participants and the reason(s) for not awarding the contract). The system operator should also provide the NRA details of results which show that only unduly high offers were received, or not on time or in an unacceptable form.

In order to guarantee an open process, the system operator should also make the results of the tendering process – anonymised where necessary – publicly available to all other market participants.

Upon receipt of this information, the NRA will review and decide whether the market test has been successful. In doing so, the NRA should, as an independent assessor, review the pricing and cost structure in order to determine whether an offer has correctly been deemed unduly high and therefore been unsuccessful in the tender process. There should be no competition of the cost between offers by market parties and the system operators themselves.

Consultation on GME regulation

GME regulation for the organization and operation of the time shifting product exchange platform should be defined and consulted as soon as possible, in addition to the storage capacity procurement mechanism described here. Therefore, ARERA should also **specify the transparency obligations of GME**.

Relation of the mechanism to the capacity market

Q12. Si condivide l'esigenza espressa dall'Autorità di raccordare i diversi segmenti di approvvigionamento a termine presenti nel disegno di mercato italiano?

We ask ARERA to clarify the interaction between the consulted mechanism for the long-term procurement of electricity storage and the capacity market, in particular on the possibility for market participants to access both mechanisms or the eventual exclusiveness of the new mechanism for bidding storage capacity.

It should also be noted that the storage assets subject to the mechanism now under discussion will have different obligations than the ones applicable in the capacity market and therefore may not fully guarantee the adequacy service procured through the capacity market.

Therefore, we suggest a careful and public assessment of the contribution of the existing and future storage resources to adequacy in order to adapt the overall adequacy requirements.

Criteria and conditions of time shifting products

Q13. Si ritengono condivisibili gli orientamenti dell'Autorità circa la costruzione dei prodotti di time shifting?

We generally seek more clarity on how the time shifting products will work. In particular, details are needed on the rights connected to the purchase of such products and on the meaning of "exercising" them.

Competitive procedures organized by GME for sale of time shifting products

Q14. Si condividono i criteri e le condizioni sopra illustrati in merito alle procedure competitive organizzate dal GME?

We generally agree with the proposed market structure. However, we do not deem necessary the introduction of a system of minimum prices, decreasing with shorter product duration, which risks having the opposite effect.

We do not agree with the possibility to have dedicated auctions for market participants with predefined RES contracts: this would unnecessarily fragmentate liquidity and hamper competition.

Q15. In particolare, è condivisibile l'introduzione di vincoli alle quantità assegnabili ai singoli operatori di mercato?

No further comments.

Rights and obligations on time shifting products

Q16. Si condividono gli orientamenti dell'Autorità in relazione ai diritti e agli obblighi degli assegnatari dei prodotti di time shifting?

With the information provided, it seems reasonable to manage the rights associated with time shifting products with dedicated "*virtual units*". However, lack of details prevents from having a comprehensive assessment of the proposal.

Therefore, the following aspects should be clarified:

- Constraints on buy and sell offers related to time shifting products on the energy markets
- Interaction with PCE (the role of bilateral contracts is not clear) and relevant energy market segments (e.g. MGP, MI, LTS)

In this respect, it would be beneficial to organize a **webinar with stakeholders** to better explain the proposal and the functioning of time shifting products.

Fees: settlement between Terna and users of the withdrawal dispatching

Q17. Sono condivisibili i criteri per la determinazione del corrispettivo a copertura dei costi per l'approvvigionamento a termine della capacità di stoccaggio (sezione 4)?

Q18. Diversamente da quanto prospettato nella sezione 4, si ritiene preferibile che l'onere netto annuo sostenuto da Terna nell'ambito del sistema di approvvigionamento a termine della capacità di stoccaggio sia ripartito tra gli utenti del dispacciamento in prelievo in funzione, parzialmente o integralmente, della potenza di prelievo o in base all'energia prelevata che maggiormente gode dei benefici degli stoccaggi?

No detailed comments.

Criteria and conditions for Terna's development of electricity storage capacity

Q19. Si condividono gli orientamenti dell'Autorità circa i criteri e le condizioni per lo sviluppo diretto della capacità di stoccaggio da parte di Terna?

Only in case the whole tendering process (2nd round auctions) has not been successful and following ARERA evaluation on **alternative mechanism to cover the storage need**, may the system operator develop an electricity storage facility.

In case a system operator is allowed to own, develop, manage or operate a storage facility, the following principles must be maintained in order to limit any negative effects on the market:

- The electricity storage facility may only be used for the specified cases as determined by the Electricity Directive 2019/944 and confirmed in the NRA approval

CONSULTATION RESPONSE



European Federation
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- The storage facility may not be used in the market by the system operator
- The NRA must conduct a public consultation on existing energy storage facilities in order to assess the potential availability and interest of other parties in investing in such facilities in accordance with Art 54(4) of the Electricity Directive. Where the market has indicated an interest, the TSO must phase-out the system operators' activities within 18 months as set out in the Electricity Directive