

**APPROVAL BY THE ITALY NORTH REGULATORY
AUTHORITIES AGREED AT ITALY NORTH ENERGY
REGULATORS' REGIONAL FORUM**

OF

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

11 January 2018

I. Introduction and legal context

This document elaborates an agreement of the Italy North Regulatory Authorities, agreed on 11 January 2018 at Italy North Energy Regulators' Regional forum, on the Italy North TSOs 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 make national decisions pursuant to Article 9(9) of Regulation 2015/1222 to approve the fallback procedures submitted by Italy North TSOs in accordance with Article 44 of Regulation 2015/1222.

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 Regulation 1222/2015. They are set out here for reference.

Article 3 of Regulation 2015/1222

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 Regulation 2015/1222

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 Regulation 2015/1222

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.

[...]

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

(...)

e) the fallback procedures in accordance with Article 44;

(...)

[...]

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 to 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.

[...]

14 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 Regulation 2015/1222

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 TSOs proposal

The Italy North TSOs proposal for fallback procedures 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 Regulation 2015/1222¹ 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.

Article 9(10) of Regulation 2015/1222 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 was therefore required by each Regulatory Authority by 22 August 2017. On 1 August 2017 Italy North Regulatory Authorities at the Italy North Energy Regulators' Regional Forum unanimously agreed to request an amendment to the proposal for fallback procedures submitted by the Italy North TSOs. On this basis each Regulatory Authority took individual decisions and sent the request for amendment to their respective TSO.

The amended Italy North TSOs proposal for fallback procedures was received Regulatory Authority of the Italy North Capacity Calculation Region on 17 November 2017. According to Article 9(12) of Regulation 2015/1222, a decision on the amended proposal was therefore required by each Regulatory Authority by 17 January 2018.

The amended proposal includes proposed timescales for its implementation and a description of its expected impact on the objectives of Regulation 2015/1222, in line with Article 9(9) of Regulation 2015/1222.

The Italy North amended proposal for fallback procedures is based on two different approaches:

- a) explicit day-ahead auctions (so called shadow auctions) on the Italy North-Austria and Italy North-France bidding zone borders, based on the Shadow Allocation Rules attached to the proposal itself; the procedure is initiated as soon as the NEMOs inform the TSOs that there is a risk that the single day-ahead coupling may be unable to produce results (or as soon as the TSOs are aware of this risk, in case there is a lack of information from NEMOs); in case the shadow auctions cannot be initiated or the auctions results are not available by 13.58, a reallocation of the day-ahead cross-zonal capacity to the intraday timeframe is also foreseen;
- b) local day-ahead market coupling on the Italy North-Slovenian bidding zone borders; the procedure is initiated as soon as the NEMOs inform the TSOs that there is a risk that the single day-ahead coupling may be unable to produce results (or as soon as the TSOs are aware of this risk, in case there is a lack of information from NEMOs); in that case, the local procedures set out by the local NEMOs apply. the local day-ahead market coupling is based MGP is based on the local spot market algorithm (i.e. the algorithm used by the GME before joining the single day-ahead coupling and currently used for intraday implicit auctions within Italy and on the Slovenian border); in case a partial decoupling is called due to reasons specifically related to the Italy North-Slovenia bidding zone border, explicit day-ahead auctions are performed on this border with the same rules as the Italy North-Austria and Italy North-France bidding zone borders.

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 Authorities position

According to Regulation 2015/1222, 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 requested the Italy North TSOs to

- a) amend the proposal for fallback procedures, making reference to a specific Annex containing the Shadow Allocation Rules and avoiding any reference to a specific version published on the Allocation Platform website;
- b) provide an assessment of the possible conflicts between fallback procedures and other subsequent processes, amending the proposal for fallback procedures accordingly;
- c) provide an analysis of using local market coupling instead of Explicit Day-Ahead Auctions, amending the proposal for fallback procedures accordingly.

The proposed amended fallback procedures based on explicit day-ahead auctions for Italy North – Austria and Italy North-France bidding zone borders and on local day-ahead market coupling for Italy North-Slovenia bidding zone border are robust, transparent for market participants, and allow a non-discriminatory capacity allocation.

However, as far as market efficiency is concerned, in general a joint allocation of capacity and energy would be the best solution. Unfortunately, according to the assessment provided by the Italy North TSOs in the amended explanatory note, such a solution is at this stage feasible only on the Italy North-Slovenia bidding zone border, where such a solution (local coupling) has been in force as a fallback procedure since February 2015 when Italy joined the single day-ahead coupling. On the Italy North –Austria and Italy North-France bidding zone borders, instead, only explicit day-ahead auctions could be implemented: nonetheless they still grant a good level of efficiency and transparency, since they allocate capacity to market participants according to their willingness to pay.

Furtherly, as regards the local coupling, Italy North NRAs want to underline that the order book of a given bidding zone cannot be used for several different local or regional market couplings; therefore, in case a local market coupling would be also proposed as a fallback solution in other CCRs involving one or several bidding zones of the Italy North CCR, further investigation would be needed to ensure cross-regional consistency, and the Italy North fallback methodology may have to be amended accordingly, pursuant to Article 9(13) Regulation 2015/1222.

Moreover the Italy North TSOs clarifies that no conflicts are possible between fallback procedures and the subsequent processes: in particular they amended the proposal for fallback procedures, stating that in any case shadow auctions results shall be provided by 13.58, otherwise the auctions are cancelled and the allocation of capacity is performed only in the intraday timeframe.

More importantly, the Italy North TSOs attached the shadow auction rules (2018 version) to the proposal for fallback procedures: in this way the proposal for fallback procedures directly incorporates the new version of these rules and shall not be amended to reflect any change in the shadow auction rules as published on the allocation platform website

Conclusions

The Italy North Regulatory Authorities have consulted and closely cooperated and coordinated to reach agreement that the Italy North TSO amended proposal for fallback procedures meets the requirements of Regulation 2015/1222 as such it can be approved by Italy North Regulatory Authorities.

Italy North Regulatory Authorities must therefore make their decisions by 17 January 2018, on the basis of this agreement in accordance with the two months deadline as set out in the Regulation 2015/1222. Following national decisions taken by each Regulatory Authority, Italy North TSOs will be required to publish the methodology on the internet in line with Article 9(14) of Regulation 2015/1222.