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A2A Trading response to “European Energy Regulation: A bridge to 2025“

A2A Trading welcomes the opportunity to express its opinions and some considerations about the main regulatory issues that ACER will work on in the next months/years .

1. Electricity wholesale markets

A2A Trading agrees with ACER about the main issues the electricity market is facing:

- Final implementation of the Target Model with the full adoption of market coupling across all the main interconnected European markets. This should work as a “market integrator” for all the other regional markets, mainly for East and South-East Europe.
- Development of intra-day market as near as possible to real time (the current level reached in the Central West Europe seems to be satisfactory) for all the European markets.
- Common European balancing target model, taking into consideration that RES have still different treatment in different countries. One of the goal should be to find a common principle to apply all over Europe: each market participant must be responsible for his unbalances. Different degrees of premium/penalties have to be decided by each single country.
- We totally agree that demand and generation must be able to compete on a non-discriminatory level playing field over wholesale and service energy markets. This must be true both for the remuneration as for penalties. The process to let demand participate in an active way to the market has just started and it will take time. In the meantime flexibility must be guaranteed to the system and generation units seems to be the more suitable solution. Initiatives to promote and enhance flexible generation are, in our opinion, welcomed.
- Common rules on capacity management: calculation of cross-border capacity, allocation procedures, firmness and refund mechanism in case of curtailments. ACER and NRAs should check that TSOs adapt rules and their behavior in order to be compliant to the common rules.
- ACER should take in serious consideration the development of a third market (energy,



services and CAPACITY) in order to keep “alive” conventional generation which is no more able to compete with feed-in-tariff-generations in a no more, “de-facto”, energy-only-market structure.

- We suggest to add some actions directed to give an impulse to the use of electricity with a double goal: sustain the electric consumption and consequently the electric markets and use electricity in substitution of fossil fuel (oil, coal and gas) that Europe is importing and that so many problems are currently causing. One of the measure which could be taken is to enhance the penetration of electric vehicle and related infrastructure.

2. Gas wholesale markets

A2A Trading agrees with ACER about the main issues mentioned in the gas market analysis. We think it is increasingly important to develop a flexible gas market strictly connected with flexible electricity generation (CCGT mainly). Until now the two markets, for many different reasons, have been developed independently, neglecting the strong influence between each other. If we really think a common target model for energy market in Europe is the right solution, we can't help working on gas and electricity in a coordinated way.

For example in Italy to use CCGT just for flexible supply (some hours a day following the rumps) is not compatible with the lack of flexibility of gas capacity tariff which has an yearly payment based on the maximum capacity used on a daily basis. In other words, a CCGT has to mediate between the cost of capacity for transportation gas calculated on the maximum capacity used in one day, and that will be paid for all the year, and the remuneration of flexible services for few hours a day. In this way it is not economic to use the full capacity of the plant for flexibility.

3. Infrastruture investment

In our opinion investment in new infrastructure should be carefully evaluated and a “cost effectiveness” criteria must be applied when deciding which one to promote. In a period in which sensitivity on energy prices is high, it is unthinkable to increase the final cost of energy for the end client with higher general system costs. New investments, unless for supporting new technologies or system security, should be based on a cost-benefit analysis.



4. Consumers, retail markets and the role of DSOs

We are worried, looking at the Italian situation without knowing if this can be generalized also for other countries, about the systematic reduction of consumption connected to the distribution grid and the consequent increase of “general cost” related to transmission, distribution, dispatching etc. which must be recovered by means of the “regulated” business. The recent economic crisis on one side and the growing “self-consumption” impulse on the other, are reducing the electricity consumption on the grid. It means that starting from the same cost of investment, the cost per unit (kWh) is indefinitely increasing. We are conscious there is not an easy solution to this phenomenon, nevertheless we invite ACER to think about it and discuss with NRAs in order to find a common guideline.

In our opinion the participation of household in demand response is not the solution for an effectiveness energy cost reduction. Taking into account the cost of infrastructure, aggregators, real-time measurement and settlement services it seems quite hard to have a positive economic results. It could be useful to promote some test on a limited portion of clients in order to be able to evaluate advisedly the investments.

Thank you for the opportunity to share with you our considerations on some of the issues you mentioned in the document.

A2A Trading srl



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