Press Release

GME'S NEWSLETTER - New issue now on line

Rome, 10 November 2009 - The new issue of the Newsletter del Gestore del Mercato Elettrico (GME) is now downloadable from www.mercatoelettrico.org

The newsletter opens with a contribution by **Tullio Fanelli, Commissioner of "Autorità per l'Energia Elettrica e il Gas"** (AEEG - the Italian electricity & gas regulator), who makes a comprehensive and detailed analysis of the electricity market and of the opportunities offered by regulated markets in terms of transparency.
In the opinion of Fanelli, the reform of the Italian electricity sector *stemmed from: i) the urgent need to build power plants with private capital, thus filling the gap of capacity, which structurally undermined the security of supplies; and also i) the target of increasing efficiency*. The need was then overcome thanks, among others, to a thorough reorganisation of the sector and, namely, to the creation of a regulated spot market. The spot market - recalls Fanelli - *provided operators who were building more efficient and less costly plants with the certainty of selling in the market, without having to divert individual customers from the incumbent operator.*
AEEG's Commissioner stresses that, in order to respond to the need for favouring the achievement of other important goals (e.g. the provision of a price reference for long-term contracts) and solving the issues of the sector, *first IDEX and finally the new MTE were put in place. The MTE may - through physical delivery - become a concrete and recognised reference for the market and thus provide price signals that are reflective of the underlying fundamentals.* Nevertheless, adds Fanelli, *the crisis has sparked serious doubts about the efficiency of markets, highlighting the issue of public intervention in the economy again*. In particular, *great uncertainty reigns about the real division of roles and risks between Governments and private operators in the market.*
From this standpoint, *regulated markets that are managed by public entities may be an effective instrument. If the central counterparty* - writes Fanelli - *is a public entity with high authoritativeness, financial capability and institutional stability, then regulated markets may be established where the public role may be played in a transparent way. With well-defined goals corresponding to clear expected benefits for the community* - reiterates Fanelli - *the public central counterparty may take on a share of the*

counterparty risks, promoting those investments that private operators, failing public intervention, would not make.

A first example of this intervention approach, underlines Fanelli, *was the take-off of the new forward market in the electricity sector*. Fanelli thinks that this model *may be replicated in many sectors, such as oil and natural gas.* In the latter sectors, *new long-term regulated markets may be created in order to efficiently achieve the goals of supply adequacy and price stabilisation.*

As has become customary, the new publication reports **the summary data of the Electricity Market for the month of October** and the **Fuel Market** section, which analyses oil and fossil fuel price trends in the international market. The new issue also comes with the usual technical commentaries on European and national power exchanges and environmental markets and with an analysis of two-rate time-of-use electricity prices for household customers and their advantages by **Clara Poletti from IEFE**.

As Poletti explains, in spite of i) the very early *consultation that AEEG opened on the switching to the so-called "two-rate time-of-use tariffs" for household customers in the universal-serviced market, on regulated terms and conditions,* ii) *meetings with consumer associations, and* iii) *information obligations imposed on providers, the reform had a first postponement in August 2009, when AEEG decided to move the date of effect of two-rate time-of-use tariffs for household customers to 1 April 2010.*

However, the debate on the matter has not yet reached a common position, concludes Poletti: *on one hand, the creation of intelligent grids, in which smart consumers quickly adjust their consumption on the basis of variations in the prices recorded every day in the power exchange and, where cost-effective, resell their electricity in the market; on the other hand, the fear of the effects of a price that is defined on ex-ante basis and averaged on large subsets of hours. It would instead be urgent to reshape the debate along common lines.*

The newsletter also features a contribution by **Energy Advisors**. This contribution gives insight into the confusion arising in the bilaterals market after the innovations that the Development Law of July 2009 introduced into the Green Certificates scheme. Energy Advisors feels that *the confusion is actually due to the different ways in which many analysts and the great majority of electricity producers calculate the transfer of the cost of the certificates to final prices*. In the opinion of Energy Advisors, it all *revolves around the year of "accrual" of the obligation. Analysts, especially financial ones, tend to consider the year when the obligation arises (thus the year in which the non-renewable electricity is injected into the grid) as the year of accrual.* Actually, *things are going differently. The great majority of producers do not set aside any fund in the year in which the obligation arises, but directly charge the costs to the following year.* This choice - observes Energy Advisors - *has become a consolidated practice, accepted by auditing firms and explicitly endorsed since 2002 by what was previously called Ministry of Productive Activities and in practice also by AEEG. From this* *viewpoint, the Development Law does not introduce any change but, in our opinion, strengthens the thesis in favour of the solution adopted by producers.*

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