

**Introduction of a Forward Electricity Market**  
**Presentation of Proposed Amendments**  
**to the Integrated Text of the Electricity Market Rules**

*(under Article 3, para. 3.4, Integrated Text of the Electricity Market Rules)*

**1. Foreword**

With a decree of 19 December 2003 (published in “Supplemento Ordinario, Serie Generale, Gazzetta Ufficiale” no. 301 of 30 December 2003), the Minister of Productive Activities approved the Integrated Text of the Electricity Market Rules (hereinafter the “Electricity Market Rules”), as amended and supplemented by a Ministerial Decree of 15 June 2007 (published in “Supplemento Ordinario” no. 148, “Gazzetta Ufficiale” no. 150 of 30 June 2007), and with the urgent amendments adopted by “Gestore del Mercato Elettrico SpA” (hereinafter “GME”) on 4 May 2007, under Article 3, para. 3.5 of the Electricity Market Rules. These amendments were finally approved by a Ministerial Decree of 8 January 2008 (published in “Gazzetta Ufficiale” no. 29 of 4 February 2008).

To meet a requirement that has long been expressed by operators, i.e. trading electricity over wider timescales than those allowed by the present market model, GME has prepared the following proposal of amendments to the Electricity Market Rules. The proposal is submitted to interested parties for consultation, in accordance with article 3, para. 3.4 of the Electricity Market Rules. The proposal is aimed at introducing a Forward Electricity Market (hereinafter “MTE”) into the present configuration of the Electricity Market, which consists of the Day-Ahead Market (MGP), the Adjustment Market (MA) and the Ancillary Services Market (MSD) (jointly called “IPEX”).

The role of the MTE within the Electricity Market stems from its typically “physical” nature in the new market design. This nature is justified by: i) the dispatcher’s obligation/right to inject/withdraw the traded electricity into/from the power grid; and ii) the need to establish a close co-ordination with the rules governing the activities that are typical of dispatching.

The need for this co-ordination may be met by integrating the MTE with the existing platforms (IPEX and PCE - Forward Electricity Account Trading Platform). But the design activity which is required for the start of the physical forward market can only be carried out by GME. Indeed, GME has been assigned with the role of scheduling co-ordinator of the power system, i.e. the party vested with the management of the IPEX and PCE platforms, through

which operators record their physical injection and withdrawal schedules and acquire, among others, the right of use of the power grid.

In view of the above, GME proposes the following amendments to the Electricity Market Rules.

## 2. Why should GME manage the MTE?

A physical forward market involving delivery/withdrawal obligations has the same characteristics as an electricity market, because:

- the object of the contracts is only the physical transfer of electricity from the selling operator to the purchasing operator;
- this transfer takes place upon the conclusion of a trade through the concurrent recording of delivery/withdrawal on the PCE;
- the delivery/withdrawal obligation implies that participation in this market is open only to operators who can deliver/withdraw on the PCE the electricity that has been traded in the forward market.

Furthermore, as emphasised in the Foreword, a forward market involving electricity delivery/withdrawal is actually a physical electricity market, because the delivery/withdrawal recording activities should be carried out in compliance with the rules governing dispatching activities.

In this connection, it is worth stressing that a physical forward market should be managed by GME for two main reasons:

- GME is the scheduling co-ordinator of the power system (i.e. the party managing the platforms - IPEX and PCE - through which operators record their physical injection and withdrawal schedules and acquire, among others, the right of use of the power grid), i.e. the party capable of guaranteeing that the integration between the forward market and the existing platforms maximises system efficiency and minimises the operational impact and the costs that such integration implies;
- as the physical forward market is actually an electricity market, GME is the only party to which - under the current regulatory framework - the management of such market may be assigned. Indeed, Article 5 of Legislative Decree no. 79 of 16 March 1999 provides that GME is vested with “the economic management of the electricity market”, i.e. “the management of electricity demand bids and supply offers and of all the ancillary services”.

Additionally, for the year 2008, “Autorità per l’Energia Elettrica e il Gas” (AEEG - the Italian electricity & gas regulator) recognised GME as Qualified Market Participant, i.e. as a party which may hold a forward electricity account on the PCE and record purchase and sale transactions on

such account, although not having generating/consuming units for a corresponding injection/withdrawal capacity.

### **3. MTE Participants**

As the MTE is a market making part of the electricity market, it is open to all operators that have already been admitted to IPEX.

However, the obligation of delivering/withdrawing an amount of electricity corresponding to the transactions concluded in the MTE is fulfilled by recording such transactions on the PCE. Consequently, a pre-requisite for trading in such market is to hold at least one forward electricity account on the PCE (on which such transactions will be recorded).

### **4. MTE Operation**

In the forward market with delivery/withdrawal obligation, each purchase/sale transaction that is concluded should result into the concurrent recording of one purchase/sale transaction on the PCE.

This feature of the MTE implies that:

- the types of contracts that are traded should be compatible with the recordings allowed on the PCE;
- to be entered into the order book, each trading order or proposal that an operator wishes to submit into the forward market should be verified to be technically adequate with respect to the guarantees and to the physical margins of the forward electricity account<sup>1</sup> that such operator has posted and holds on the PCE, respectively.

With regard to the traded contracts, Article 49.4 of AEEG's Decision 111/06 stipulates that the delivery/withdrawal period of a purchase/sale transaction recorded on the PCE should end before or on the sixtieth day following the day of recording of the transaction. Under this provision, the delivery period and trading period of the contracts which may be traded in the forward market should not exceed one month<sup>2</sup>.

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<sup>1</sup> AEEG determined that the electricity sales/purchases recorded on a forward electricity account should not exceed a maximum limit corresponding to the injection/withdrawal capacity of the consuming/generating units held by the operator involved; this capacity is defined by Terna.

<sup>2</sup> The delivery period corresponds to the days and hours during which the electricity underlying a contract should be delivered. The trading period corresponds to the period prior to the delivery period, during which the contract may be traded. In this way, a contract with a delivery period of one month may be negotiated from the sixtieth day prior to the last day of delivery, thereby complying with the provisions of AEEG's Decision 111/06.

*Question for consultation no. 1: Considering the period of time for recording transactions on the PCE that is established in AEEG's Decision 111/06, do you deem it useful to trade not only monthly contracts but also contracts of lower duration (weekly, daily)?*

*Question for consultation no. 2: What types of contracts should be traded (base-load, peak-load, off-peak, ...)?*

*Question for consultation no. 3: Considering the need both for having a wide range of tradable contracts and for increasing liquidity through the trading of a limited number of contracts, what contracts should be chosen for the initial stage of the MTE?*

After receiving an order submitted into the MTE, GME will check:

- whether the operator is entitled to use the specified forward electricity account;
- whether the margins of the forward electricity account specified in the order are sufficient for recording the related transaction on the PCE. These verifications will ensure that no operator may trade in the MTE volumes of electricity that exceed its generation/consumption capacity;
- in the case of a purchase proposal, whether its value is lower than or equal to the residual amount of the financial guarantee that the operator has posted in the MTE, i.e. the amount of the guarantee that has not been used for previous transactions/purchase proposals;
- in the case of a sale proposal, the adequacy of the financial guarantee will not be verified in MTE. However, if the sale proposal refers to an injection account, GME will verify the adequacy of the financial guarantee as specified for these cases on the PCE.

The proposals in the order book will be matched on the basis of their price and, if their price is equal, on the basis of their time of entry. In particular, upon matching of proposals in the MTE, the following commercial transactions will be recorded on the PCE:

- a sale transaction on the forward electricity account specified by the selling operator in its proposal; the counterparty will be the forward electricity account of GME, as Qualified Market Participant;
- a purchase transaction on the forward electricity account specified by the purchasing operator in its proposal; the counterparty will be the forward electricity account of GME, as Qualified Market Participant.

The recording of these transactions on the PCE will ensure that: i) the net position of the forward electricity account of GME (Qualified Market Participant) will always be equal to zero (purchases = sales); and, as a result, ii) GME will never have to make purchases or sales in the MGP in order to close positions opened by operators in the MTE. This process will also guarantee the anonymity of the forward market (each operator will see only GME as its counterparty, even for the transactions recorded on the PCE).

## **5. MTE Guarantee and Payment System**

The forward market with delivery/withdrawal obligation is independent of the Day-Ahead Market (MGP), because no positions that have been opened through forward contracts may be closed in this market.

The guarantee system is based on bank guarantees; the value of these guarantees covers the overall value of the net debit arising from transactions concluded in the MTE. Although this guarantee system is not in line with those commonly adopted in forward markets, it avoids interferences between the MTE and financial markets. Indeed, under the current regulatory framework, GME may not play the role of operator or central counterparty in financial markets. Therefore, for the time being, no guarantee system with regular margin recall may be introduced into the MTE.

Even if the MTE guarantee and payment system is separate from the ones of the other energy markets (MGP and MA-Adjustment Market), GME deemed it useful to provide operators with the option of posting a single bank guarantee; the amount of this guarantee may be allocated among the various markets and managed in a dynamic way depending on trading requirements.

Moreover, as the MTE is independent of the MGP and MA, its time limits for payment may be different from those applicable in such markets. .

*Question for consultation no. 4: What time limits for payment should be applied in the MTE?*

*Question for consultation no. 5: Considering the current guarantee system in the MTE (bank guarantees equal to the overall amount of the net debit) and on the PCE (towards both GME and Terna), if the time limit for recording transactions on the PCE were extended, would you deem it useful to introduce contracts with delivery periods of more than one month?*

## 6. Other Amendments to the Integrated Text

With the introduction of the MTE, GME has deemed it useful to make additional amendments to the Electricity Market Rules.

GME proposes to amend the part of the Electricity Market Rules which concerns the procedure of admission of operators to the market and, in particular, their obligation to enclose a declaration of no criminal conviction to their market participation application and agreement. Under the current rules, this declaration should be issued not only by the legal representative of a given company, but also by all of its Board Members. The proposed amendment restricts this obligation to the legal representative of the company. The proposal is aimed at making the admission procedure more flexible and at harmonising, to a certain extent, the Electricity Market Rules with the ones adopted in the other main European markets. This choice also reduces the difficulties that foreign operators face in submitting the above documentation. Indeed, GME is often required to evaluate this documentation under criteria of substantial equivalence and these criteria are, in most cases, not easy to apply.

GME also proposes to delete the provision concerning the publication of the “provisional” results of the MGP and the time limit of 30 minutes to make on-line complaints before the publication of the final results. This proposal originates from the following considerations:

- from the start of the electricity market, operators have very rarely used the option of lodging on-line complaints, given the short time window available, and these complaints have not been accepted so far;
- the elimination of on-line complaints would: i) reduce the time needed for publication of the MGP results, and ii) permit to postpone the gate closure, aligning it with the ones applicable in the main European markets;
- the postponement of the MGP gate closure would meet a requirement expressed by operators;
- operators would still have the option of making off-line complaints and, if their complaints are accepted, they would receive compensation as provided for in the Electricity Market Rules.

Finally, as part of the amendments to the Electricity Market Rules, GME has also deleted some of the Transitory and Final Provisions, which have become superseded and no longer applicable.

Click [here](#) to download the proposed amendments to GME's Electricity Market Rules.

To facilitate the reading, the strike-through text indicates the deleted provisions, while the italicised-bold text indicates the new proposed text.

Interested parties are thus invited to send their comments **within 20 April 2008**:

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