



Consultation document no. 01/2020

**Market platform for long-term trading of energy
from renewable sources
(PPA Platform)**

1. Foreword

By decree of 4 July 2019 - published in the Official Gazette no.186 of 9 August 2019 (hereinafter: Decree) – on *incentives for the electricity produced by on shore wind, solar photovoltaic, hydroelectric plants and plants fuelled by sewage treatment gas*, the Ministry of Economic Development, in line with the European objectives of supporting the production of electricity from plants powered by renewable sources, provided for the establishment of a **Market Platform for long-term trading of energy from renewable sources (PPA Platform)**, entrusting its management to Gestore dei Mercati Energetici SpA (GME).

In particular, Article 18 of the Decree establishes that by 180 days from the date of entry into force of the same Decree, GME, on the basis of the criteria provided therein, shall define a proposal for the functioning of the PPA Platform to be submitted for public consultation in order to prepare technical rules of this platform, and that, this rules shall be approved with the modalities of art. 5, paragraph 1, of legislative decree no. 79/99 and subsequent amendments and additions (hereinafter: Legislative Decree 79/99).

In order to implement the above provisions, GME shall publish this consultation document in order to illustrate to interested parties the proposal of the model identified for the functioning of the PPA Platform and to collect any comments from interested parties.

All interested parties may make their own comments with reference to the information contained in this document.

These comments must be sent in written form to GME - **Governance**, no later than **14 February 2020**, corresponding to the deadline for closing this consultation, in one of the following ways:

- e-mail: **info@mercatoelettrico.org**
- fax: **06.8012-4524**
- post: **Gestore dei mercati energetici S.p.A.**
Viale Maresciallo Pilsudski, 122 - 124
00197 – Roma

Parties wishing to safeguard the confidentiality or secrecy, in whole or in part, of the documentation sent are required to indicate which parts of their documentation are to be considered confidential.

2. Proposed operating model of the PPA Platform

The model proposed by GME for the launch of the PPA Platform provides for the establishment of a specific sector within the current setting of the electricity market.

Consequently, the technical rules of this upcoming platform would be contained within the integrated text of the electricity market rules pursuant to art. 5 of Legislative Decree 79/99.

More specifically, the hypothesised operating model, in compliance with the criteria established by the Decree, is characterised by the following organisation and management principles:

- **participants admitted to trading:** parties who have acquired the qualification of participant of the electricity market may submit bids/offers on the PPA Platform. In particular, in line with the provisions set out in the Decree, electricity market participants who are producers of energy from renewable energy plants having all of the following characteristics, may access the platform as sellers:
 - the plants must be newly built, completely rebuilt or reactivated, subject to an upgrade or refurbishment, as defined by the decree of 23 June 2016;
 - the plants must be operational starting from 1 January 2017;
 - the plants do not benefit from incentives on the energy produced.

The possession of these requirements is to be communicated to GME by Gestore dei servizi energetici - GSE S.p.A., which, pursuant to art. 18, paragraph 4, of the Decree must communicate to GME the names of the producers who have requested and obtained, for PPA Platform access purposes, the qualification of the plant.

In compliance with the provisions of art. 18, paragraph 3 of the Decree, the bids/offers on the platform may also refer to plants that have not yet been built or have been built but not yet operational. With regard to the latter plants, GSE shall check the requirements for this purpose and communicate to GME the corresponding names of the producers who may access the PPA Platform pursuant to the aforementioned art. 18, paragraph 4, of the Decree.

On the other hand, traders, wholesalers or large end consumers of electricity may participate in the platform, once qualified as participants in the electricity market.

As for the provision pursuant to art. 18, paragraph 5 of the Decree, establishing that participation in the platform may take place both individually and in associated form through aggregators, it should be noted that this aspect would not be relevant for the purposes of operations on the platform, as taking place before this activity. In fact, what is relevant for the purpose of submitting bids/offers is the declaration issued by the participant to GME, certifying the entitlement to submit bids/offers in relation to one or more offer points.

- in order to facilitate the trading of products on the platform, the definition of "standard" contracts is proposed. The contracts must have:

- baseload-type load profile, which would make these contracts compatible with those listed in the forward electricity market (MTE) favouring a possible off-set of portfolio positions;
 - time duration [min 5; max 10 years];
 - obligation of physical delivery of the underlying energy of the contract.
- **trading method:**
- minimum trading tick: 1 contract/product;
 - marginal auction mechanism;
 - the sales offers would be submitted with the indication, by the bidder, of the related auction-base price;
 - the purchase offers would be submitted at a price equal to, or greater than, the auction base price of the product(s) being traded;
 - both sale and purchase offers would be subject to verification of financial adequacy in relation to an annual time horizon (see Guarantee System below);
 - the bids/offers would be displayed on the trading book without indication of the bidder, thus guaranteeing the anonymity of trading.
- **central trading counterparty:** by acting between the seller and the buyer, GME would prevent counterparties from being exposed to the risk of insolvency, ensuring the successful completion of the contracts concluded on the platform. In particular, the role of central counterparty played by GME is aimed at ensuring - limited to each year in relation to which the financial adequacy checks have been positive (see Guarantee System below) - *i)* that the seller obtains the corresponding economic value of the sale of the energy supplied, and *ii)* that the buyer receives the purchased energy.
- **guarantee system:** given that the costs for the guarantees that participants - be they sellers or buyers - would have to bear for their own exposures could be unsustainable in consideration also of the extended time horizon of the contracts, a rolling guarantee calculation system is proposed with the aim of measuring the extent of the guarantees not on the entire duration of the contract, but on fractions of this duration, according to a "fair" time period of one year. Moreover, the calculation of the guarantees based on an annual horizon would allow a functional integration of the PPA Platform with the MTE market, favouring the use of the guarantees given for participation in this market also for the coverage of the exposures taken on the PPA Platform, in addition that any off-set of PPA contracts with contracts, having the same duration and profile, concluded on the MTE by the same participant.

Consequently, due to this functional integration, it would be verified that participants, for trading on the PPA Platform, have provided on the MTE, pursuant to the integrated text of the electricity market rules, financial guarantees - alternatively or cumulatively, in the form of a first-demand bank guarantees, according to the models envisaged, or in the form of cash - sufficient to cover the exposures to be taken on this platform.

With specific reference to the products traded on the PPA Platform, the calculation of guarantees would be carried out as follows:

- pre-trading phase: before the bids/offers are admitted to trading, GME would verify that the guarantees of the MTE are adequate in relation to the value of the penalty that GME would apply in the event of non-execution of the traded transactions on the PPA Platform; only in the event of a positive outcome would the offers be sent to the trading book;
- trading phase: within a defined period, following the conclusion of the transactions on the PPA Platform, GME would verify that the buyer and the seller have adequate guarantees on the MTE (same criteria as for MTE contracts) limited to the first year (A) of the PPA contract traded in the auction and:
 - o in case of a positive outcome on both counterparties
 - GME would become the trading counterparty of the transaction for the year (A), ensuring, for that year, the successful completion of the delivery and payment of the related value;
 - the transaction would be transferred to the MTE¹ for year A only
 - o in case of a negative outcome, even on a single counterparty, the transaction for the year (A) would not be considered successful and, consequently, the transaction would be considered not positively concluded. In this case, GME:
 - would communicate to the performing counterparty and to the failing counterparty the failure of the the financial adequacy check and the non-definitive nature of the remaining transaction;
 - would apply to the failing counterparty a penalty for failing incompleting the transaction, to be paid to the performing counterparty
- post-trading phase: before the start of the following year (A+1), GME would carry out new financial adequacy checks on all transactions concluded on the PPA Platform in relation to the guarantees of the buyer and seller on MTE relating to that year (A+1):
 - o in case of positive outcome
 - GME would also become the trading counterparty of the transaction for the year (A+1), ensuring for this year the successful completion of the delivery and payment of the related value;
 - the transaction would be transferred to the MTE only for the year (A+1)
 - o in case of a negative outcome even on a single counterparty, the transaction for the year (A + 1) would not be considered successful and, consequently, the transaction related to the remaining portion of the entire multi-annual contract to be traded in auction would be considered not positively concluded and the related penalties would apply to the failing counterparty.

The same activities related to the verification of the capacity of the guarantees would be replicated in each of the following years up to the last year of the contract concluded on the PPA.

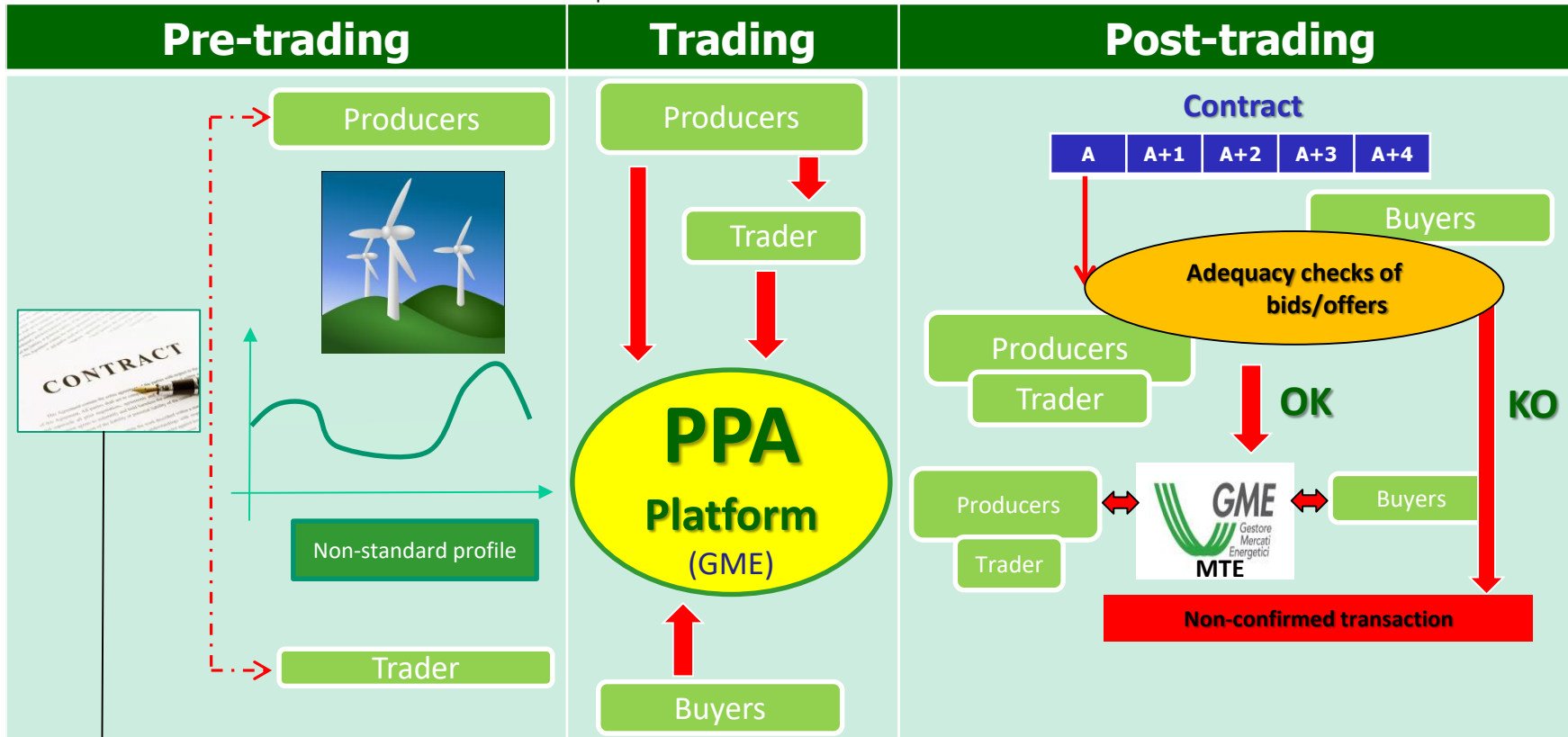
¹ Obviously, once the transaction has been transferred to MTE, with reference to the management of the guarantees, the recalculation/update modalities and procedures provided for in this segment would apply.

- **invoicing and payments:** considering the functional integration of the PPA Platform with the MTE market, the invoicing and financial settlement of these transactions would take place in M+2, according to the same procedures and times adopted for MTE.

The invoiced value subject to regulation by GME will be equal, for each product traded, to the product between the amount and the trading price, increased by the VAT rate, where applicable

- **OTC clearing:** the registration of PPA contracts concluded over the counter in the PPA Platform is also proposed. In this case, the contract profile whose registration is requested by the OTC counterparties should be compatible with the standard contract profile traded on the GME platform. Following the registration on the PPA Platform, GME would act between the counterparties of the contract, taking their role as central counterparty in the terms described above.

Producers sell energy directly into PPA platform with a standardized profile. Differences between produced energy and sold energy will be managed through negotiation of other products listed into the market.



Producers conclude agreement with market participants/traders providing for:

- Mandate for selling energy producers by a generation plant
- Sales of energy produced by a generation plant
- Terms and conditions for settlement of differences between produced energy and sold energy as resulting from the «standardized» profile corresponding to contracts traded on the PPA platform.