

Consultation on Italian market reform plan

Comments by Elettricità Futura

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General Comments

The European Commission launched the consultation on the Italian market reform plan on the 1st July 2020, after Italy submitted its planned reform measures to the Commission on the 25th June 2020. This consultation is welcomed by Elettricità Futura, the leading Italian Association representing major players in the national electricity supply industry, including electrical energy generators from Renewable Energy Sources (RES) as well as traditional sources, traders and DSOs. Elettricità Futura hereby provides comments on behalf of his membership base.

Specific Comments

The Italian electricity system has undergone substantial changes over the past years, with a sizeable reduction in programmable thermoelectric generation capacity and a significant development of less predictable variable energy sources at the same time. This has led to severe concerns over the present and future system adequacy. The TSO already reports episodes of resource shortage at demand peak and warns of greater shortages in the future. To tackle such a situation, a mechanism must necessarily be put in place to provide the right signals to invest and/or divest in generation capacity. This is considered essential to preserve quality of service and avoid frequent, undesirable situations that call for distributed power cuts. The absence of long-term price signals in the energy markets hinders the possibility of putting in place investments in new as well as existing capacity. Such price signals are necessary in order to assure an appropriate, economically efficient level of capacity and achieve the desired quality of service and adequacy level in the electricity system.

Elettricità Futura is convinced that the full sweep of measures and market reforms put in place in Italy are key to support the transition towards a complete decarbonisation of the electricity system. According to our view, the list of measures and the execution timeline proposed by Italy in its implementation plan can contribute towards the removal of existing market failures. Nevertheless, these measures alone might not be sufficient to mobilise the needed investments to preserve system adequacy level in the short and medium terms.

The Italian National Energy and Climate Plan (NECP) foresees a swift phase-out of coal-fired generation plants by 2025 and the consequent expected decommissioning of capacity, with a risk of accelerating the decrease in the margins of adequacy and levels of system security. Moreover, the increasing penetration of non-programmable renewable sources induces higher volatility in the spot market price and a general decrease of the average energy price. Consequently, the risk perceived by companies is bound to increase and lead to a lack of investment in new power plants, as well as in the maintenance of existing flexible capacity.

In conclusion, Elettricità Futura supports the contents of the Italian market reform plan and agrees with the statement in this plan that any market price increase due to the inadequacy of plant capacity would not be sufficient to promote investments in the short and medium terms. In order to let investors put in place their financial resources, market price increase due to plant capacity shortfall should be structural and, to a certain extent, predictable. The Capacity Market should therefore be maintained for the forthcoming years as an essential tool to guarantee security of supply by providing the right long-term price signals. The first two “mother auctions” were completed for the delivery years 2022 and 2023, stimulating new investments in gas-fired plants, storage and renewable sources. However, around 7 GW of coal-fired capacity is set to be phased-out by 2025 in accordance with the Italian NECP and it will be necessary to provide stability through long-term price signals by enabling new Capacity Market auctions for delivery in 2024 and beyond, in a perspective of technological neutrality.