

THE PHYSICAL FORWARD ELECTRICITY

MARKET DESIGN

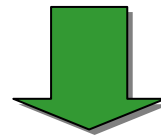
REGULATORY FRAMEWORK

*Rome - Milan
1-2 April 2008*

- ❑ Why a Forward Electricity Market
- ❑ Physical nature of the Forward Electricity Market
- ❑ Evolution of the Italian Electricity Market model:
 - ❑ regulatory framework and GME's role
- ❑ The Forward Electricity Market rules:
 - ❑ Market Participants
 - ❑ How to participate
- ❑ Other amendments
- ❑ Authorisation process

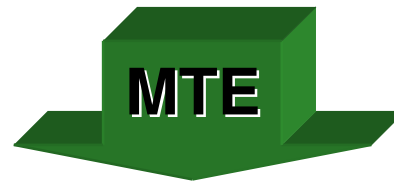
- ❑ GME has proposed a physical Forward Electricity Market (**MTE**) to meet the requirements expressed by operators:
 - ❑ trading of electricity over a longer period of time than the day-by-day period of time in the current market model
 - ❑ forward trading of electricity in a regulated market/*multilateral system*
 - ❑ delivering/withdrawing electricity, during the “delivery period”, at the price that has been determined upon the conclusion of the purchase/sale transaction during the “trading period”
 - ❑ for buyers, covering the risk of price volatility in the procurement of electricity
 - ❑ for sellers, obtaining revenues from sales that are fairly stable over time

- The model of the **MTE** involves
 - trading of contracts whose object is only the **physical** transfer of electricity from the seller to the buyer
 - that the **physical transfer of the volumes of electricity traded** takes place upon the conclusion of the transaction in the MTE through the recording of the respective purchase/sale transactions on the Forward Electricity Account Trading Platform (PCE)

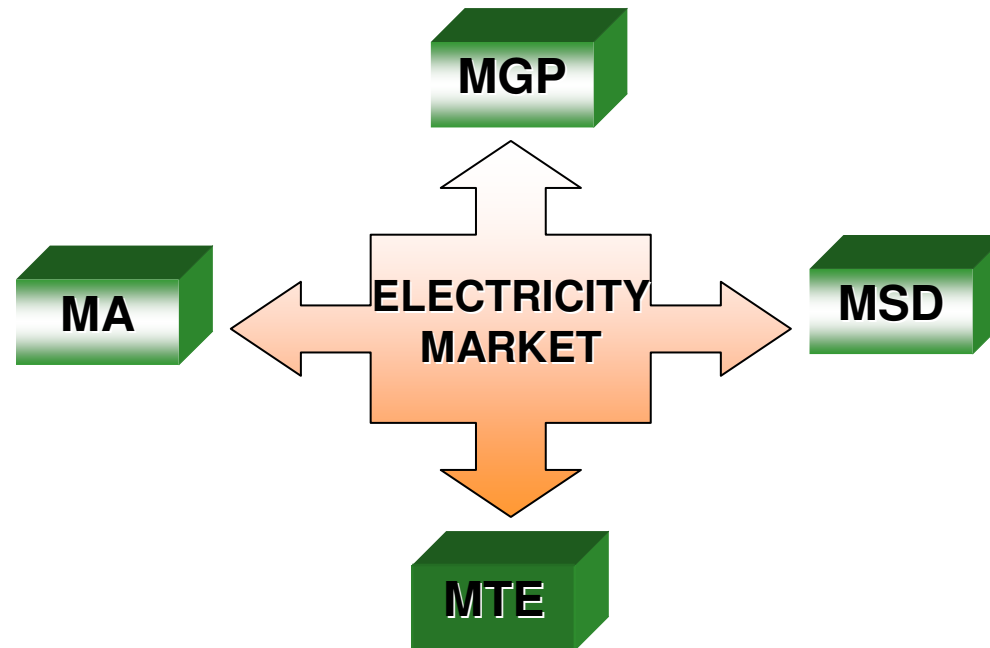


Obligation of delivering/withdrawing the electricity traded

Evolution of the Italian Electricity Market model (1)



completes the design of the Italian Electricity Market



Regulatory Framework

..... the same as the one of the Electricity Market!

To introduce the MTE, GME has proposed a number of amendments to the Integrated Text of the Electricity Market Rules, under art. 3, para. 3.4 of the same Rules



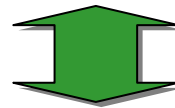
Indeed, under art. 5 of Legislative Decree no. 79 of 16 March 1999, GME is “vested with the economic management of the electricity market”, i.e. “the management of electricity demand bids and supply offers and of all the ancillary services”



In the current regulatory framework, GME is the only party which may be assigned with the management of a physical forward market with obligation of delivering/withdrawing the electricity traded

GME's role

- ❑ GME is the **scheduling coordinator** of the power system, i.e. the party managing the platforms (PCE and IPEX) through which Market Participants record their physical injection and withdrawal schedules and acquire the right of use of the power grid
- ❑ under AEEG's Decision 350/07, GME is a "**Qualified Market Participant**", i.e. a party holding a forward electricity account on the PCE (on which purchase and sale transactions may be recorded), although not having generating/consuming units for a corresponding injection/withdrawal capacity

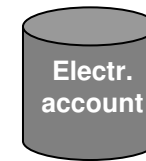
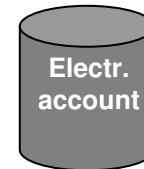


- ✓ CENTRAL COUNTERPARTY OF TRANSACTIONS IN THE **MTE**
- ✓ CENTRAL COUNTERPARTY OF RECORDINGS ON THE **PCE**

Electricity Market Participant



+



..... Market Participants

As the MTE is part of the Electricity Market, the current IPEX Participants may forward trade electricity, provided that they hold at least one forward electricity account on the PCE

..... How to participate

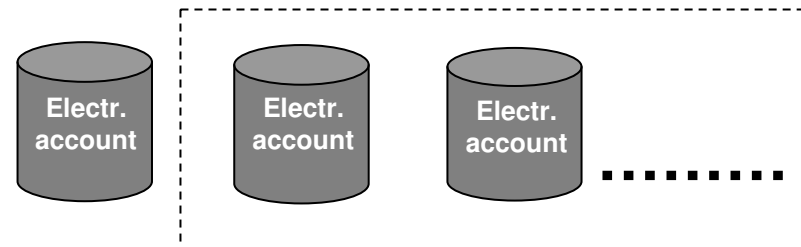
New Operator



By filing an application for participation in the Electricity Market



To participate in the MTE, applicants must hold at least one forward electricity account on the PCE



..... Participation requirements

To make the admission procedure more flexible and harmonise its rules with those adopted in the main European markets, GME has proposed other amendments. One of them concerns the declaration of no criminal conviction to be enclosed to the participation application. Only the legal representative of the applicant company is now required to issue this declaration.

..... On-line complaints

Another amendment to the Electricity Market Rules concerns the abolition of on-line complaints. In particular, under GME's proposal

- ✓ the protection of Market Participants remains unaltered, as they have the option of submitting off-line complaints
- ✓ the time of gate closure is postponed, in line with the one of the main European countries

..... **Validity and effect of amendments**

At the end of the consultation process, the amendments to the Electricity Market Rules will be submitted to the Minister of Economic Development for approval, after hearing the opinion of AEEG (under art. 3.4 of the same Rules)

..... **Start of operations in the MTE**

After the Minister has issued the Decree of approval, the Electricity Market Rules (as amended and supplemented) will be published on GME's website and trading in the new market will start

www.mercatoelettrico.org

Gestore del Mercato Elettrico SpA
Viale Maresciallo Pilsudski, 92 - 00197 Roma
tel. + 39 06 8012.1 fax +39 06 8012 4102

info@mercatoelettrico.org