Press Release

GME'S NEWSLETTER – New issue now on line

Rome, 20 January 2011 – The new issue of the Newsletter of Gestore dei Mercati Energetici (GME) is now downloadable at www.mercatoelettrico.org

The newsletter opens with **an analysis on the take-off (1 Jan. 2011) of Market Coupling between Italy and Slovenia**, which makes it possible to allocate the daily physical rights of interconnection between the two countries in an implicit way, through the resolution of the respective day-ahead energy markets managed by GME and BSP (Slovenian power exchange). The launch of the project marks the completion of the initiative which was started in 2008 by GME, Terna, Eles, Borzen (Slovenian Market Operator) and BSP and which received institutional support from the Italian Ministry of Economic Development and the Slovenian Ministry of Economy, as well as from the respective regulators (AEEG and AGEN-RS). In this framework, GME and BSP adopted a common matching algorithm, which replicates the matching rules of the respective markets and takes into account a grid model representing the structures of both the Italian and Slovenian power grids. In the first 3 days of operation, the Italy-Slovenia market coupling had a smooth performance, allocating an hourly average capacity of 29 MW (2,080 MW in total). Owing to the limited interconnection capacity which was allocated and to the persistent differential of generation costs on the two borders, price convergence was only achieved in 17% of the hours, with average prices in the three days of 65.71 €/MWh for the northern Italy zone and of 42.95 €/MWh for the BSP one. Nevertheless, the coexistence of two different methods of allocation (daily implicit auction on the BSP-Slovenia transit and periodical explicit auction on the Slovenia-northern Italy one) pointed to the higher efficiency of the market coupling mechanism. In particular, in the first case, the utilisation of capacity resulting from market coupling systematically reflected the changes in the price spread between the two borders: in the import direction in the hours when the spread was positive (83% of the hours) and in the export direction when the spread zeroed as a result of the alignment of Slovenian prices with Italian ones (17% of the hours). Conversely, in the second case, the allocation of capacity resulting from the explicit auction proved to be altogether indifferent to changes in the price spread, with a net result observed on the Slovenia-northern Italy border which was constantly in the import direction.

As usual, the new issue of the newsletter comes with **yearly data on trades in the electricity market for 2010**, technical commentaries on national and European power exchanges and environmental markets and sections devoted to the analysis of trends in the Italian gas market and to the review of those in the main European commodity markets.

GME's new publication also features an in-depth contribution by **Lisa Orlandi from RIE** on the trend of oil prices. According to the expert from RIE, *at the end of 2010, the price of oil exceeded $ 90/bbl, a level which does not absolutely reflect the current real fundamentals of the market*. Orlandi points out that *a similar average level of prices was recorded as far back in time as in December 2007, one year before the break-out of the Great Crisis. Nonetheless, the comparison between the two years (pre- and post-crisis) highlights the different weight of their underlying drivers.* In brief, in 2007, *it was just the expectation of recovery of consumption - regardless of its actual occurrence - that had re-attracted the attention of financial investors in the oil commodity, sustaining its prices in spite of a well-supplied market.* Conversely - stresses the expert from RIE - *if it is true that,* in December 2010, *the price spikes beyond $ 90/bbl had a contingent nature (harsher temperatures in the northern hemisphere), it is also true that they were compounded by an already high price level, driven by factors exogeneous to the real market* and *by the significant weight of the financial component.* For 2011, concludes Orlandi, *the real situation is still not alarming. Demand is certainly expected to rise but at a rate which is practically half the one of 2010 (+1.6% vs. 2.8%)"*. Hence, *over a 12-month timeframe, the demand-supply situation will hardly be affected.*

Gestore dei Mercati Energetici S.p.A.
Relazioni Istituzionali e Comunicazione
Tel. +39 06 8012 4522
Fax. +39 06 8012 4519
relazioni.istituzionali@mercatoelettrico.org
www.mercatoelettrico.org