

Terna consultation on Frequency Containment Reserve (FCR) procurement

Brussels, 29 May 2025

Executive summary

To minimize the costs of procuring resources, facilitate the participation of all available resources and ensure a better European harmonization of the FCR markets, we suggest Terna to:

1. Anticipate the auction before the Day-Ahead Gate Closure Time
2. Align the reserve price cap ("premio di riserva") with the opportunity cost at the time of the auction
3. Clarify the methodology for the progressive reduction of volumes procured without remuneration
4. Enable free participation and remuneration of storage assets under the MACSE
5. Allow market participants to participate in market procedures on a portfolio basis
6. Implement control and transparency tools
7. Anticipate the full switch to market-based procurement

Detailed messages

1. Anticipate the FCR auction before the Day-Ahead Gate Closure Time

We disagree with the proposed timing of the FCR auctions and, in particular, Terna's proposal to schedule the spot auction after the MGP session.

Our preferred approach is to retain the current regulatory framework (TIDE Art. 3-15.2.3), which requires Terna to **procure Frequency Containment Reserve (FCR) through a spot market procedure with a GCT set before the Day-Ahead Market (MGP)**, thereby ensuring the proper sequencing of market operations.

We stress that this decision would be in opposition with the current practice at the European level: the FCR Cooperation - the largest FCR market on the continent - currently operates a daily spot market, with the GCT at 8:00 a.m. on D-1 (several hours earlier than the GCT of the SDAC).

The adoption of timing (GCT on D-1 before the SDAC GCT) compatible with those currently used by the FCR Cooperation could facilitate a potential future participation of Terna in this platform.

This would further increase liquidity through the possible involvement of foreign portfolios, with potential benefits in terms improved capacity allocation across all energy and service market segments and therefore of average procurement costs for the service.

If FCR bands are procured after the day-ahead market (MGP), market participants may face difficulties in sourcing energy volumes that are consistent with their awarded FCR obligations, due to limited flexibility in the subsequent market stages.

Additionally, any risks related to the potential increase in pre-MGP procurement costs are fully manageable and controllable through the reserve premium. Terna also has the option to perform redispatching actions on the Integrated Scheduling Process if sufficient volumes offered at a price lower than or equal to the reserve price are not available.

2. Align the reserve price cap ("premio di riserva") with the opportunity cost at the time of the auction

To best represent the maximum opportunity cost associated with the capacity reservation for FCR provision, we suggest aligning the cap for the upward service to:

1. Maximum price cap in force on the DA Market (i.e., the price cap applied in the Single Day-Ahead Coupling – SDAC);
2. Alternatively, in case our preferred option is not considered (namely, FCR auction before DA GCT), the maximum price cap between the Intraday and MSD ex-ante markets

3. Clarify the methodology for the progressive reduction of FCR volumes procured without remuneration

Terna is encouraged to provide further clarification - ideally through a dedicated consultation - on the methodology and criteria for the progressive reduction of FCR volumes mandatorily provided free of charge. The document lacks sufficient detail on how this reduction will be implemented, making it challenging for market participants to assess its potential impact.

4. Enable free participation and remuneration of storage assets under the MACSE

The free participation of MACSE units into the FCR market would benefit its liquidity and ensure harmonisation of FCR procurement across EU electricity markets, which is an important step toward a more integrated and efficient balancing market.

As stated in point 1.4 (page 4) and 3.1 (page 6) of the document, *"the auction excludes storage systems contracted under the MACSE competitive procedures, for which the obligation to provide FCR regulation bands free of charge will remain in force"*.

CONSULTATION RESPONSE



This obligation would significantly reduce the volumes procured through the market. As a counterproposal, we suggest that - for the purposes of the FCR markets - MACSE plants are treated like other units, participating with an obligation to offer (which can also provide a price signal on the opportunity cost of these resources) and managing with Terna the return of the economic transactions from the MACSE mechanism.

5. Allow market participants to participate in market procedures on a portfolio basis

Compared to a unit-based participation model, market participants gain the ability to reduce the risk of unavailability in providing the service, thereby increasing the volumes made available to Terna and limiting activation costs. In addition, market participants should be allowed to submit block bids, characterized by distinct quantities and increasing prices.

6. Implement control and transparency tools

To ensure confidence in the procurement and activation of the FCR service, it is important that Terna provides appropriate transparency and oversight measures. In particular, stakeholders would benefit from greater clarity on how Terna intends to use the Integrated Scheduling Process (ISP) in relation to FCR procurement, to ensure that the process remains aligned with the principles of non-discrimination, proportionality, and market efficiency.

7. Anticipate the full switch to market-based procurement

We encourage Terna and ARERA to develop a more ambitious timeline for the complete switch to FCR procurement through market procedures, as the full implementation is currently foreseen to take place only from 1st August 2028

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