

Greece - Italy incremental capacity proposal

■ EFET comments – 18 December 2017

The European Federation of Energy Traders (EFET¹) thanks Snam and Desfa for the opportunity to provide comments on the consultation on incremental capacity project between Greece and Italy. However, we believe the real need for such a project should be better explored, also considering the uncertainty of the gas supply scenario after 2019, when many long-term contracts in Europe will expire.

First, we have strong reservations that the project proposed can be considered within the scope of Regulation 2017/459 as the definition of incremental capacity (art.3.1) strictly refers to an **interconnection point (new or existing)** and by no means it refers to the development of a pipeline interconnecting two member states. It must be highlighted that the requests received by Snam and Desfa appear to have been formulated correctly addressed as they simply asked for capacity at entry points (in Italy and Greece). The fact that the two countries may be connected by pipeline projects being developed by legal entities different from the two TSOs has little bearing in justifying the realisation of an entirely new pipeline, unless it can be demonstrated that the developers of alternative projects have formally refused to cooperate on a viable alternative solution.

Second, we believe that - whatever the interpretation made by the TSOs - the Demand Assessment Report (DAR) had to conclude that no incremental process should be launched, considering that other projects able to meet the incremental capacity requests are ongoing. Instead, there is no mention at all about potential additional demand being satisfied by ongoing, yet not developed infrastructure projects. The 2017 DAR says that “*In the TYNDP 2017 issued by ENTSOG and in the Southern Corridor Gas Regional Investment Plan (GRIP), there are two projects that make available an interconnection between Greece and Italy via Turkey*” but it inexplicably concludes that “*taking into account that Greece and Italy are not interconnected at the moment, **an incremental capacity project will be initiated***”.

To further reinforce this point, we note that Desfa and Snam included the two projects in their national development plans. For example, DESFA mentions the Komotini - Thesprotia project in its 2016-2017 Plan, which includes an interconnection point to Poseidon (offshore line) project proving that they are ready to implement the measures necessary to facilitate the connection to the national network.

It also worth remembering that SNAM has currently in place an Open Season process launched in September 2016 after having received a First Request for access to the National Gas Pipeline Network in accordance with AEEGSI Resolution ARG/Gas 2/10. Once again, in the DAR this is not mentioned at all. However, looking at DARs by other TSOs in Europe, Open Seasons already planned and new capacity already planned have been regarded as good reasons not to launch other incremental processes.

Third, we believe the proposal contains significant flaws and lacks key details. In particular:

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

- **Cost assumptions.** Given the size of the project and the potential impacts on the Italian and Greek systems, it is crucial that the assumptions underpinning the cost of the project are fully outlined. The very brief and vague analysis published by the TSOs to justify the final figures of € 2.5bn and € 4bn for the two versions of the investment is, in our view, inadequate. Cost assumptions should ideally be certified by an independent auditor to solidify confidence in the project economics. Furthermore, there is no details on how the financial burden will be shared between the two countries.
- **Level of the f-factor.** Considering that as mandated by art 8.8 of the CAM 10 % of the capacity must be allocated on short-term basis, our understanding is that the f – factor should at least be equal to 0.9 if not higher, while we do not see any justification for the decision of the TSOs to set the f-factor at 0.8.
- **Assessment of potential under-utilisation.** NC CAM mandates to take into consideration the potential under-utilisation of existing infrastructure, but from the limited documentation provided it appears that no analysis was performed. At p. 17, TSOs affirm that it is not possible to assess if this new project could eventually lead to a decrease in the rate of utilisation of existing or already planned infrastructure but no evidence is provided to support this statement.

In light of the above, we therefore strongly request that a thorough, transparent cost/benefit analysis is performed by an independent party before TSOs submit their final proposal to NRAs.

For this purpose, it is worth remembering that the inability of the Greek system to bear the risks related to a new regulated infrastructure has been clearly stated by NRAs of Italy, Greece and Albania in the “*Joint Opinion of the Energy Regulators on TAP AG’s Exemption Application*”, saying that “ (...) *Clearly, the size of the TAP project, especially compared to the national markets of Greece and Albania, is such that volume or other risks cannot be borne by the users of the national gas systems i.e. under a regulated TPA regime, without undermining the viability of the corresponding national systems*”.

Moreover, it is important to underline that, also with an f factor equal to 1, such a project would generate risks for the Italian and the Greek systems. This mainly because:

- The lifetime of the infrastructure can be longer than the duration covered by shipper’s commitments,
- Bank guarantees can hardly cover the very long period (15 – 20 years) and, in case shippers are not able to pay the risk of collecting money would therefore fall on the TSOs and its users. Given the level of financial security some market participants are requested by SNAM and DESFA when booking yearly capacity, the request for a bank guarantee covering only 20% of maximum yearly transportation charge (p. 12), seems therefore unreasonably low.

In general terms, giving access to new sources of gas backed by strong commercial interest is key to support a diversified EU gas market. Projects that are not supported by commercial interest will have their costs socialised and consequently increase transmission tariffs paid by network users. We do not therefore support projects that are not backed by a positive cost-benefit analysis. Such projects would be counterproductive for European gas market integration.

At European level and throughout the Quo Vadis study and Tariff Network Code discussions, EFET has repeatedly expressed concerns about assets that are currently stranded and potential new infrastructure that is not underwritten by the market which may add to tomorrow’s stranded assets. Where such projects are proposed on security of supply or other non-commercial grounds, it is essential that they are accompanied by a thorough Impact Assessment including cost-benefit analysis showing the

quantified benefits of the proposed investments and how its costs will be recovered. The assumed duration of the benefits and the amount of financial support being sought should also be shown.