

## ARERA consultation document n.182/2018 on the implementation of the EU Tariff Network Code

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### EFET response – 31 May 2018

#### General comments

The European Federation of Energy Traders (EFET<sup>1</sup>) has for long committed to working with ENTSOG, ACER and the Commission in order to achieve a EU Tariff Network Code (TAR NC) that enhances the level of transparency and promotes cross-border trade and market integration. We therefore expect the full and correct implementation of the Code by Member States, aimed at reaching the required levels of clarity, efficiency and harmonization.

We agree with the objectives set out by ARERA. As general comments, we predict that the fifth tariff period will be characterized by profound changes in the gas sector. Therefore, additional and pro-future elements are needed by traders to make rational choices (revenues and capacity for the period 2020-2023). Therefore:

- we stress the need to better involve stakeholders in the implementation of the Code, especially on fundamental matters such as the decision between the “Matrice” or the “CWD” methodology
- In view of the next consultation document, we would like to request the translation in English at least of the main parts of the document, as required by Art 26.1. of the TAR NC which requires by national regulatory authorities (or the transmission system operator) to do so “to the extent possible, in order to render more effective the consultation process”
- Finally, starting from the assumption that the commodity has a preponderant weight compared to transportation costs, we believe it makes sense to favor competition on the commodity rather than the logistic costs, by harmonizing tariffs for efficient use of all infrastructures.

#### S 1. Osservazioni in merito agli obiettivi dell'intervento dell'Autorità

EFET agrees with the objectives, as also identified by the EU Regulation 460/2017.

#### S 2. Osservazioni in merito al trattamento delle reti regionali

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<sup>1</sup> 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](http://www.efet.org)

EFET simply highlights that in order to pursue the reduction of costs at entry points, if regional networks are to be included it makes more sense to go further than the 40/60 entry/exit split and adopt at least a 28/72 split.

Furthermore, we wonder how the inclusion of regional networks should be connected with other ARERA's consultation documents such as the one about the reform of the booking of capacity at city gates, which is due to start within the same time framework.

### **S 3. Osservazioni in merito alle tematiche connesse al trattamento delle reti regionali.**

We would like to ask for clarifications on the three clusters for the reduction of the regional tariff according to the distance from the network for redelivery points with distance of less than 15 km, in case regional networks will be excluded. ARERA proposes the cluster distance, but there is insufficient disclosure of how such discount will be calculated.

In addition to this, we consider distance discounts as a critical point even in case regional networks will be included. There are other examples, such as the UK, where distance discount is considered for efficient market investments closer to the national network. In this respect, we believe that the distance discount should be allowed in any case in order to guarantee cost reflective tariffs.

### **S 4. Osservazioni in merito al perimetro di applicazione e al driver del corrispettivo per la copertura dei costi variabili.**

Fundamentally, EFET would agree with the hypothesis n.2 presented by the consultation document. In fact, these costs do not depend on distance and capacity involved; therefore, these would be better remunerated with a variable revenue component. Moreover, the hypothesis 2 would maintain the share of variable costs as they are to date in force.

At point 9.9 and 9.10 we would disagree to apply the variable charge also to exit points towards storage fields because it would represent an additional burden for storage owners. Furthermore, that mechanism would affect the price formation in the storage auctions and eventually the market.

As per the introductory paragraph, the final decisions should be communicated with large notice as to guarantee the maximum degree of predictability and transparency of the process.

### **S 5. Osservazioni in merito all'istituzione di un corrispettivo complementare per il recupero dei ricavi.**

and

### **S 6. Osservazioni in merito al perimetro di applicazione e al driver del corrispettivo complementare per il recupero dei ricavi**

In our view, the introduction of a new variable component for revenues' recovery ( $CV_{FC}$ ) should not involve additional costs at entry points: EFET has for long regarded the shift of the application of the CVs downstream of the PSV as a significant step towards a more predictable and liquid Italian gas market. In fact, CVs applied at entry points distort price signals in the market, jeopardizing liquidity and the efficient development of the Italian gas market. As per the variable charge, we recommend that

this new component should be set with large advance-notice and recovered on multi-year basis, if needed.

ARERA should also clarify how the costs currently covered by the 'CV<sub>FG</sub>' and the 'Elemento Phi' supplementary variable charges will be treated. Similarly to all other variable charges, EFET believes they should be levied at exit points downstream of the PSV.

### **S 7. Osservazioni in merito alla ripartizione entry/exit.**

EFET generally favours a reduction of costs at entry points because of the benefits this would bring to liquidity and competitiveness of the Italian wholesale gas market. However, it should be clarified which are the policy objectives that the tariff regulation intends to pursue. In other words, ARERA should clearly state what the reformulation of tariffs intends to achieve. If the objectives are the increase of liquidity and competitiveness, then the reduction of entry/exit split will help in this sense and is welcome.

### **S 8. Osservazioni in merito alle metodologie dei prezzi di riferimento, e in particolare in merito alla coerenza delle ipotesi proposte con gli obiettivi da perseguire di cui al punto 2.4.**

In order to be able to have a comprehensive view on the different options and hence be able fully evaluate the implications, we feel that some more technical details over the methodologies should be disclosed. In particular:

- With specific reference to future simulations of the “Matrice” methodology, it should be clarified whether the flow scenario that will be considered for the definition of tariffs for the first year will be maintained for the regulatory period 2020-2023: the ARERA consultation document suggests so, however the flow scenario for 2020 is not specified
- In any case, the ‘flow scenario’ that reflects the use of the transmission system according to likely supply and demand patterns is irrespective of whether the capacity is contracted at that entry point and that exit point as stated by TAR NC. Therefore, the fact that the capacity have not yet been contracted by traders cannot be advanced as an argument
- A tariff simulator enabling network users to calculate the transmission tariffs applicable for the prevailing tariff period (2020-2023) should also be included. In fact, the simulation run by Snam is only available for 2018 and is not sufficient. The excel simulator made available in the last months simulates only the 2018 and 2019 tariffs. We recommend striving to provide a simulation for the years post 2020 as well. Also, a “CWD” or “Matrice” simulator tool, depending on the methodology adopted, would be necessary. In this respect we would like to stress that this is in fact an explicit requirement imposed by the TAR Network Code.
- We wonder if and which capacity scenario has been taken into consideration for the period 2020-2023, especially given the planned investments such as the TAP pipeline, the long-term contracts expiration or the penetration of, for instance, biomethane. The role of Italy as exporting market does not seem having been considered despite Snam is investing to foster it.

Overall, at the moment it is not fully clear what a CWD methodology would imply. Inputs and flows to be used with a CWD methodology need to be explained thoroughly in order to fully understand the implications of the application of a 'Matrice' or a "CWD" methodology.

**S 10. Osservazioni in merito agli aggiustamenti dei corrispettivi di trasporto relativi a impianti di stoccaggio.**

EFET agrees with the 50% discount as set by the TAR NC. An increased discount will have tangible impacts on the entry/exit point of the Italian transmission network with highly uncertain market benefits for storage users.

As a general comment, while on the one hand we support the application of the TAR NC provisions for promoting the use of storage, on the other we believe that the current storage capacity allocation mechanism is already sufficiently in favour of Italian storage allocation, although the relevant regulatory framework often suffers from a lack of stability, being the storage rules issued and revised on a year by year basis.

**S 11. Osservazioni in merito agli aggiustamenti dei corrispettivi di trasporto relativi impianti di Gnl.**

EFET agrees with ARERA on the need to apply a different discount regime for storage and LNG, as the latter competes with gas from other sources and should not be given unjustified competitive advantages.

However, with a view to promote supply diversification, competition between suppliers and the efficient use of existing infrastructure, ARERA should look at an optimal level of discount for LNG terminals that promotes usage of existing facilities and reduce cost recovery by regulated infrastructure operators.