

**ARERA consultation document n. 429/2018 on the incentive scheme applied to SNAM
Rete Gas in the gas balancing regime****EFET response – 10 September 2018****Introduction**

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide comments to the consultation document n. 429/2018 on the incentive scheme to be applied to SNAM Rete Gas in the context of the balancing regime.

As a general feedback, while we feel that some of the proposals go in the direction in terms of ensuring the full application and conservation of the spirit of the BAL NC, we would like to give voice again to some of our concerns and requests already expressed in the past:

- A serious analysis on whether ownership of storage by SNAM is still truly needed should be performed by ARERA. This is necessary in order to possibly free-up resources for shippers and create a proper balancing market in line with the spirit of the EU Code. Currently the Italian balancing regime is still experiencing a very central role of the TSO, something that has been also highlighted by the recent ACER Report on the implementation of the Balancing Network Code.

The ownership of storage capacity by SNAM was partially accepted by EFET as a transitory measure for the first years of implementation of the new regime. However, we recall that access to storage by the TSO constitutes a balancing service under art. 8 of the BAL NC and should therefore be implemented only after proving that short term standardised products are not likely to provide the response necessary to keep the transmission network within its operational limits" (art. 8.1 BAL). Balancing services should also be procured through a "transparent and non-discriminatory public tender procedure" (art. 8.3 BAL) and their need should be reassessed annually (art. 8.6 BAL).

- Referring to par. 4 of the consultation document, we still believe that ARERA should design a symmetrical reward/penalty scheme and implement the same philosophy for penalties: if no cap for rewards is established, the floor for potential penalties should also be removed.

Therefore, it would be useful if - within the next consultation- ARERA could perform a detailed analysis on SNAM performances during the last regulatory period.

Overall, we believe that the incentive scheme should encourage the TSO to promptly provide all the information enabling shippers to foresee and correct their own imbalance primarily through the balancing market, thus minimizing the intervention of the TSO as set out by the BAL NC.

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

In fact, according to ACER Report on the implementation of the Balancing Network Code, shippers' imbalances in Italy are the most prominent in Europe probably due to the insufficient accuracy of the information available to network users, such as forecast data on non-daily metered off-takes, at least until the settlement gas reform will be implemented by 1 January 2020 (Resolution 72/2018/R/gas).

Below, some further feedback in response to the specific questions asked by the consultation.

S1: *Si ritengono condivisibili i suddetti orientamenti?*

Considering the positive trend on the performance of the incentive I1, ARERA could consider to strengthen the parameters and further reduce the target value at 4,5%. Furthermore, we support an incentive scheme for demand forecasting extended beyond D-1, and that considers forecasts on D at 9:00 AM for traders. Such forecasts should be subject to a lower target value as the TSO has almost all the data available.

With specific reference to SNAM's proposal to modify the performance of indicator p1, at the moment it is not fully clear what the new methodology would imply. We highlight that the incentive p1 would be calculated as an error in forecasting the expected imbalance of the system rather than a consumption forecast error, in line with other EU countries.

Moreover, it would helpful to clarify why, as it emerges from the analysis, in several days the behaviour of the TSO does not reflect the physical status of the system.

Last, referring to the incentive I3, EFET suggests to fix new parameters, in case the storage capacity assigned to SNAM for "operational balancing" will be removed starting from 2020, as anticipated by DCO 347/2018/R/gas and recommended by the recent ACER Report on the implementation of the Balancing Network Code.

S2: *Alla luce dei risultati presentati, si ritengono necessarie ulteriori integrazioni/modifiche al sistema di incentivazione?*

Please refer to our remarks in the introduction to this document. Furthermore, ARERA's analysis acknowledges that the spread between the SAP and the SMP buy or SMP sell is partly influenced by the fact that the TSO continues to be more than a residual player in the balancing regime. However, this observation leads to no recommendation. For consistency with what is being observed, the incentive P2 could be adjusted by considering a weight linked to the level of the TSO's intervention in the market, considering volumes as well, as the TSO sometimes intervenes with significant quantities. Moreover, we agree with ARERA's view on lowering the neutrality value with the aim of making it more challenging for SNAM to reach. Yet, it would be more appropriate to set it at 1,5% based on SNAM Rete Gas performances (0,7% and 1,2% for the last two gas years).

As expressed above, we support greater symmetry between rewards and penalties. Caps should be considered as it happens in the UK. For instance, the British scheme has a cap for demand forecasting of £10m and a floor of -£1.5m. Also, residual balancing is subject to a cap of £2m and a floor of -£3.5m.

S3: *Si ritiene appropriata la durata del terzo periodo di incentivazione?*

Having in mind the implementation of the gas settlement reform, we share the proposal to extend the duration of the incentive scheme to 31st of December 2019. For the future, we would like ARERA to consider a longer period when the MGAS will reach full maturity, as it happens with the UK where the incentive scheme coincides with the regulatory period.