

**EFET response to DCO 270/2013/R/GAS  
on the implementation of European rules on Capacity Allocation Mechanisms and  
Congestion Management Procedures**

## General comments

The European Federation of Energy Traders (EFET)<sup>1</sup> supports the on-going efforts of the Italian Regulatory Authority for Electricity and Gas (AEEG) to ensure that the EU Network Codes for gas are implemented in a timely and effective manner in Italy. Thus, we generally favour the approach adopted by AEEG in DCO 270/2013/R/GAS. In particular, we welcome:

- Measures to ensure that the capacity is offered in line with the products and allocation procedures foreseen by the Network Code on Capacity Allocation Mechanisms (CAM NC) as early as possible.
- Simplification of the requirements for access to capacity allocation procedures.
- Implementation of an oversell and buy-back (OSBB) mechanism to maximise the availability of firm capacity.
- Implementation of capacity surrender and long-term use-it-or-lose-it (LT UIOLI) measures, as foreseen by the Guideline on Congestion Management Procedures (CMP).

EFET, however, does not consider the implementation of day-ahead use-it-or-lose-it (DA UIOLI) or short-term use-it-or-get-paid-for-it (UIOGPFI) to be appropriate in the form outlined by AEEG. The current proposal undermines the firmness of capacity rights for shippers. It would introduce an element of uncertainty for shippers who may be prevented from re-nominating upwards if their capacity has been reassigned. Such developments may also have a major impact on the effectiveness of within-day balancing as envisaged both by the EU Balancing Network Code (see our response to Q7 for more details) and by AEEG in relation to the forthcoming introduction of the D-1 balancing session.

As no obligation is imposed on AEEG by the CMP Guideline until 2016, we recommend postponing the implementation of day-ahead UIOLI until a thorough cost-benefit analysis and a wider stakeholder consultation have been conducted.

The section below provides comments on specific issues raised by AEEG.

## Capacity Allocation Mechanisms (CAM)

**Q1.** EFET agrees, in principle, with the approach adopted by AEEG for the allocation of competing capacities, provided that it does not result merely in an increase of the transmission tariff for the shippers who win the auction. The allocation process should be accompanied by procedures for triggering incremental capacity if market participants signal such a need.

**Q2.** EFET supports the simplification of requirements to participate in capacity allocation processes proposed by AEEG. We agree with AEEG that the requirement to obtain import authorisation (and consequently have an import contract in place) is incompatible with the allocation of bundled capacity. Such a requirement is, indeed, a peculiarity of the Italian

---

<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).

market and constitutes a barrier for some market participants, particularly those active in short-term trading, where capacity is normally acquired before the commodity.

For the sake of simplicity and consistency, we also suggest removing this requirement for the allocation of non-bundled capacity, in contrast to point 3.34 of DCO 270/2013/R/GAS. In the same vein, we recommend removing the requirement for declaring the origin of the imported gas.

**Q3.** We recommend that AEEG, as well as Snam Rete Gas, consult market participants on the issue of capacity calculation. This is a key prerequisite for ensuring transparency and keeping market participants up-to-date about the fundamentals of the system.

An accurate and transparent assessment of capacity at interconnection points is crucial for the correct implementation of an OSBB scheme. In this relation, please refer to our [comments on the proposed amendments to the SNAM Rete Gas Network Code](#).

**Q4.** EFET supports the alignment of allocation procedures at entry points connected to non-EU countries. All changes in allocation procedures should be adopted in agreement with regulators in neighbouring markets and taking into account the interaction between the proposed changes and the situation in the upstream system, both with regard to allocation rules and availability of capacity. In this regard, we would encourage more active cooperation of AEEG with interconnected TSOs and National Regulatory Authorities (NRAs).

#### **Congestion Management Procedures (CMP)**

**Q5.** EFET supports the proposal to return both the reserve price and the potential premium that could result from the reallocation of surrendered capacity to the primary capacity holder. We understand the use of the term “reserve price” as including possible multipliers and seasonal factor. In short, market participants whose surrendered capacity has been reallocated should receive the full amount paid for that capacity by the market participant who buys that capacity (minus the fee set by AEEG).

Such an approach seems appropriate, in particular, for capacity allocated through auctions. It would help to avoid potential distortion of secondary markets. As to the timing for claiming back the capacity that has been surrendered, the primary holder should be allowed to claim back the capacity at any time with the exception of the time when the capacity is auctioned.

We seek clarification on how surrendered capacity will be reallocated, particularly in relation to the type of products and the timing of the allocation procedure. This is important, because it will affect the likelihood of having the capacity reassigned, as well as its price.

Full transparency and stakeholder consultation are needed. A market participant should know at the time of surrendering capacity when and in what form that capacity will be reallocated. Market participants should be able to indicate whether any surrendered capacity which is not reallocated should be offered at the next auction, or whether such capacity should be returned to them. As envisaged by the merit order of Art. 2.2.2, Paragraph 4 of Annex 1 to Regulation 715/2009, it would be appropriate to give priority to such procedures, rather than to apply "use-it-or-lose-it" mechanisms.

It would be acceptable to pay a fee to cover administrative costs in case of capacity release. Such a fee should be applied only if the surrendered capacity has been reassigned and should be sufficiently low not to discourage market participants to relinquish unused capacity. When setting the fee, AEEG should take into account the fact that market participants are unable to access liquid secondary market yet and surrendering capacity may be the only mechanism to reallocate previously acquired capacity.

**Q6.** EFET supports the measures proposed by AEEG, provided that the “reasonable conditions” at which capacity should be offered are properly assessed. Since the main purpose of these measures is to alleviate contractual congestion, the utilisation of capacity has to be carefully assessed by TSOs. It should also be evaluated by regulators, in consultations with market participants, taking into account the capacity made available to third parties through transparent and non-discriminatory procedures.

We agree with the proposal of AEEG to impose “balance penalties” that do not discourage long-term bookings by market participants. Prices at the relevant hubs should be taken into account to avoid unreasonable penalties for not using the transportation capacity in situations where it would clearly be uneconomical. AEEG could take capacity away from a market participants for a limited period of time, rather than for the full duration of the capacity contract as suggested in point 4.26 of the DCO.

As argued for the surrender of capacity, EFET would like to clarify how capacity, which is taken away will be reallocated and through what types of capacity products. We support the *ad hoc* approach based on the existence of congestion, introduced AEEG, but we believe stakeholders should be consulted and complete information should be published in advance.

**Q7.** We disagree with the proposal to implement short-term UIOGPFI for the release of capacity from 1<sup>st</sup> October 2014. UIOGPFI is a feature of markets with a gate closure at the day-ahead stage, such as the electricity markets. In markets functioning on a continuous trading basis — as is the case with most EU gas markets — this would be very uncommon and would *de facto* result in the introduction of a short-term UIOLI mechanism. This may have major repercussions for the effectiveness of within-day balancing, envisaged by the EU Balancing Network Code.

UIOGPFI makes it impossible for the primary holder of capacity to re-nominate upwards within-day the entry capacity that has not been nominated by the deadline of the initial nominations. This threatens the firmness of capacity rights and restricts access to the hub. It may also lead to a situation where market participants systematically nominate more than the capacity they need and re-nominate downwards within-day to avoid being unable to re-nominate upwards when needed. Moreover, the proposed mechanism could generate negative effects when applied to unbundled capacity, if the same rule is not applied on the other side of the interconnection point.

Furthermore, the measures on DA UIOLI contained in Guideline on CMP (to be implemented only from 1 July 2016) are much more limited than those outlined by AEEG in this DCO. They foresee restrictions of re-nomination rights only in cases of well-defined conditions of congestion.

EFET, therefore, recommends postponing the implementation of short-term UIOGPFI until a thorough cost-benefit analysis and a wide stakeholder consultation has been conducted. We believe AEEG should adopt these measures only in cases of critical conditions of congestion. It is important to consider, in the first place, measures that address contractual congestion without undermining the full right of market participants to re-nominate their capacity. Thus, it would be more appropriate to introduce a scheme where the non-nominated capacity can be re-allocated, subject to possible re-nomination by the primary holder.

**EFET Task Force Italy**

**29<sup>th</sup> July 2013**