Amstelveenseweg 998
1081 JS Amsterdam
The Netherlands
T: +31 20 520 79 70
info@efet.org
www.efet.org

Principles for optimal gas storage services in Italy

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EFET position paper - 07 December 2015

Background

Storage is the main source of flexibility in the gas market and plays a major role to balance gas supply and demand and thus maintain system security.

The integration of gas storage into the market and the management of storage assets according to commercial logic help improve both liquidity and supply security. On the other hand, making storage less attractive to commercial players has the effect of reducing storage subscriptions and the level of gas in store, thus making supply security more expensive to achieve.

It is therefore necessary to ensure that all storage capacity is made available to the market and storage operators provide the services that market participants need. This becomes even more crucial in light of the implementation of the EU Balancing Network Code, according to which shippers will be responsible to balance their own positions primarily through intraday markets.

However, the use of storage capacity in Italy is still heavily constrained by rigid injection-withdrawal profiles, which artificially restrict the use market participant can make of their gas stored in Italian storage sites. Italy also maintains a sizeable amount of "strategic stocks" held by Stogit and paid by shippers through a levy at entry points.

While these measures are implemented with the objective of maintaining security of supply, EFET believes they are not always justified and may in some cases run counter to the stated policy objective. **The most efficient way to maintain supply security is to allow the market to determine the most efficient means of its provision**. Gas storage must be an attractive commercial proposition for market players who may therefore ensure that storage capacity is appropriately booked and filled. Storage capacity offered with products that do not respond to market participants' needs is less valued by the market and will lead to a greater requirement for cross-subsidisation through transportation costs borne by end customers (e.g. through the levy of the CRVos variable charge).

We therefore call on MSE, AEEGSI and Stogit to initiate a review of the Italian storage market with the aim of consolidating the progress made in recent years and removing

remaining restrictions that prevent storage from fully contributing to the flexibility of the Italian gas market.

Principles for optimal gas storage services

A. Storage auctions

Italy has made significant progress with regard to the competitive allocation of storage resources, removing barriers to entry and introducing auctions. Such innovations – which EFET welcomed at the time of their introduction in 2013 – have proved to be a success and are now being replicated in other European countries.

EFET strongly supports:

- Market mechanisms for the efficient allocation of storage capacity via auctions, open to all market participants;
- Transparency and predictability of the rules: clear view on volumes, products and reserve price and no unexpected change after the process has started;
- Multiple auctions throughout the year to allow for a better profiling of market players' storage position and ensure an overall more efficient allocation process;
- Reserve price reference to the market.

B. Storage products

As currently structured with capped monthly withdrawal capacity, storage products undermine the possibility for shippers to follow market price and to cope with balancing requirements. This not only discourages shippers from booking storage capacity increasing system charges, but also collides with the obligation for shippers to balance their portfolios, as imposed by the EU Balancing Network Code.
With reference to the EU Balancing Network Code implementation, EFET is seriously worried by the restrictions to the intraday nomination proposed by Stogit last September. The combination of the repeal of the D-1 session and the flexibility boundaries suggested by Stogit put very much at risk both the value and the booking prospects for storage in Italy. Before accepting any argument in defense of such boundaries based on technical or physical constraints, any potential alternative solution must be explored. In any case only a thorough impact assessment could justify any form of restriction of permissible injection or withdrawal rates. The proposal introduces limitations that EFET deems problematic and not in line with the EU Balancing Network Code. We also recall that in the EU countries the vast majority of storage sites from depleted gas fields have no

artificial constraints on intraday injection and withdrawal (please see Annex 1 to this paper).

EFET strongly supports:

- Multiannual products with market-based reserve price.

- Storage products with withdrawal concentrated in single winter months or quarters. This could also better respond to market's needs and potentially benefit winter security of supply.

- Storage products with more flexible withdrawal profiles for the "*servizio di punta*". This would allow market participants to make use of the capacity booked and avoid the frequent distortions witnessed in recent years during early cold snaps. As we acknowledge such proposals raise concerns about system security by Authorities, we propose to market such products starting from smaller volumes, so that their value to market participants and systemic impact can be assessed. We believe that the volume previously assigned to SNAM for "operational balancing" and to industrial consumers under Decree n. 130/10 could serve as a good test for such new products.

- Daily and weekly storage products that reflect the "*punte tecniche residue di sistema".*

- Transportation tariffs relating to entry/exit from storage in line with injection/withdrawal profile of the relevant storage product. We recommend to reduce these tariffs as much as possible in order to give more competitiveness to storage products. This path has been followed in other EU countries, where the impact of this tariff is lower.

C. Secondary Market

EFET strongly supports:

- The review of the current SBU platform to introduce a platform for secondary market for bundled and unbundled storage capacity, easy to access and free of charge.

- The removal of charges on transfer of gas in store between shippers.

- The availability of intra-monthly transfer of storage capacity.

D. Strategic storage

The volume and overall cost of strategic stocks have to be duly justified at the beginning of every gas year, with reference to quantified benefits. Furthermore, EFET believes that any interventionist measure in the name of Security of Supply should be fully transparent and the least distortive (including clarity on how strategic stocks would be used and how costs will be allocated).

EFET proposes that the levy to recover this cost should be moved to exit points (for the same reasons as CVos, CVbl, etc.). Any storage fee at import and production points reduces spreads for importers and producers, thus making the Italian market less attractive.

E. Gas pledged to third parties

EFET encourages all parties to find a solution on this topic, after a consultation by Snam and Stogit was issued in January 2015 on the "new *servizio di custodia* and *servizio di pegno irregolare*". The possibility of offering gas as a pledge to third parties would represent a step forward in the development of the Italian gas market, as it would provide market participants with an additional instrument for their trading activities – hence adding liquidity to the market. This measure could increase competitiveness and appetite for storage itself and could enhance participation by small and medium companies which face a more difficult access to credit.

ANNEX 1

Storage sites from depleted gas fields in EU with no artificial constraints on intraday injection and withdrawal

OMV Storage (Austria): no monthly limitation on injection/withdrawal, no limitation to intraday renomination (see Chapter 4 of GT&C).

https://www.omv.com/SecurityServlet/secure?cid=1255760429901&lang=en&swa_id=76150859760.6581&swa_site

https://www.omv.com/SecurityServlet/secure?cid=1255766756307&lang=en&swa_id=76150859760.6581&swa_site

Taqa (the Netherlands): the only limitation relates to injection/withdrawal curves and nil inventory at the end of the contractual period (see Chapter 3 of SSSA).

http://www.gasstoragebergermeer.com/wp-content/uploads/2014/01/SSSA_execution_version.pdf

E.on Gas Storage (cavity and porous rock storage facility - Germany): the only limitation relates to injection/withdrawal curves (see link below) and nil inventory at the end of the contractual period (see Articles 10 and 11 of GT&C).

https://www.eon-gas-storage.de/cps/rde/xchg/egs/hs.xsl/3051.htm?rdeLocaleAttr=en

https://www.eon-gas-storage.de/cps/rde/xbcr/egs/150331_GTCS.pdf

Centrica (UK): standard storage service with Within-Day and Day-Ahead option with injection and withdrawal profiles.

http://www.centrica-sl.com/index.asp?pageid=49