

AEEGSI consultation n. 30/2016 on storage service rules for storage year 2016/2017



EFET response – 15 February 2016

Introduction

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to comment on AEEGSI's DCO n. 30/2016/R/GAS on storage service rules for storage year 2016/2017. As a general remark, we would like to highlight the need and importance for market players to have a clear view on how the European Balancing Network Code will be implemented before the first storage auction takes place. The role that storage will play in the new balancing regime may have an impact on market players' choices and therefore it is of utmost importance that the new rules are presented before any storage capacity is allocated.

Consultation questions

Q1. Si condivide che le modalità di conferimento attraverso il sistema di aste sequenziali siano confermate anche per il 2016?

We support AEEGSI's proposal to confirm most of the rules for the allocation of storage capacity that applied in the previous storage year. This would provide a more stable and predictable regulatory framework for the Italian gas market, especially if, before the allocation process starts, Stogit and AEEGSI were to make a clear and transparent disclosure of the volumes, products and reserve price applied. In particular we discourage any unexpected change once the process has started or within the storage year.

EFET has already drawn attention to the issue of commercial vs. technical available storage capacity and has presented some reform proposals to allow the storage service to take part to the new balancing system in the most efficient way². We recommend again all the Institutions involved in the management and regulation of the Italian storage service to consider the experimental introduction of new storage flexible products. In particular, in order to ensure greater flexibility than the limits to the daily withdrawal capacity defined by the MiSE, we suggest removing the daily constraints to take advantage of the possibility to modulate between weekdays and weekends, while respecting the constraint on a monthly basis; This is crucial to allow storage play a

¹ EFET, 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

² See EFET position paper, "[Principles for optimal gas storage service in Italy](#)"

significant role in the new balancing regime and maximise flexibility available for shippers to balance the system.

Q2. Il calcolo dei prezzi di riserva secondo i criteri descritti è condivisibile? Come ritenente debbano essere calcolati i costi connessi allo stoccaggio di gas e agli oneri finanziari legati all'immobilizzazione?

First of all, we believe that AEEGSI and Stogit should at least provide additional and precise information on how the components used in the formula are calculated. This would allow market players to take commercial decisions in a more clear and predictable environment. We also seek clarification on what are the relevant benchmarks used by the AEEGSI to calculate the "oneri finanziari" applied to the calculation of the reserve price.

Second, we propose that products with monthly injection are auctioned without a reserve price, allowing shippers to make negative bids. Such a design would maximise the level of gas in store and enhance system security as the injection capacity related to these products will be lost if not allocated in these auctions.

Third, for the prudential valorisation of the reserve price, we propose to adopt the minimum between the winter-summer spread of the two relevant markets (TTF and PSV): this way, a shipper purchasing gas from only one of the two hubs is insured against the risk of paying storage capacity more than its intrinsic value.

Furthermore, we highlight the uncertainty related to the cost of transportation to and from storage, which is not known for Q1 2017. We recommend reducing these tariffs as much as possible in order to increase the competitiveness of storage products. For example, this path has been followed by Bundesnetzagentur in Germany and in other countries, where the impact of these tariffs on the final cost of storage is lower. In line with the above, the European Commission has recently proposed to introduce a 50% default discount to these tariffs within the framework of the European Network Code on Tariffs.

Q3. Come si ritiene debba essere calcolato il prezzo di riserva per la procedura di conferimento della capacità per il servizio di stoccaggio pluriennale?

Due to the absence of transparent market prices on PSV for the Y+1 storage year, we believe that the reserve price for the multi-year product should take as a reference for the second year TTF summer/winter spread (i.e. S17/W17 TTF spread). We also suggest to include as a corrective for the volatility of the spread on a year ahead basis an additional -15%, to remunerate for the additional risk on the volatility of the year-ahead summer/winter spread.

Finally, we believe that, as suggested by the AEEGSI, there must be a corrective factor to account for regulatory risk, including the cost of transportation to and from storage and fuel gas (e.g. CPU increased more than +20% in the past two years), and any other

change of the regulatory framework affecting storage use and value (e.g. changes affecting 130/10 Storage after only two years from its allocation).

Q4. Esistono altri correttivi, oltre a quelli proposti, che possono essere introdotti?

We suggest that the multi-year auction should have a 2+2 years format: the bid should consist in a commitment to the immediate two following storage years. Then, after 2 years, shippers should have the option to hold the capacity for the other 2 following years (at a price to be calculated by the AEEGSI by December 2017 on similar market based criteria), or instead release it. In fact, a firm commitment to hold capacity for 4 years entails a very consistent risk factor for shippers.

Q5. Si condividono gli orientamenti espressi per la gestione delle congestioni contrattuali in stoccaggio funzionali all'avvio del nuovo regime di bilanciamento?

We appreciate that this consultation makes the proposal on storage congestion management much clearer than what had been previously announced in Dco n. 187/2015. We consider day-ahead storage auctions as much easier to implement than the introduction of auctions alongside continuous trading. However, we would appreciate having more details on the timing of these day-ahead auctions.

Ideally the capacity should be allocated through the European trading platform for storage capacity "Store-X" as soon as day-ahead products will be allocated.

In general, we stress again that it is important that re-nomination of storage is as flexible and efficient as possible; in all European systems, storage is one of the main sources of flexibility providing most of the gas used for balancing purposes.

Q6. Si condivide che nella prima sessione del mercato day-ahead la capacità primaria dell'impresa di stoccaggio sia offerta ad un prezzo nullo? E per quanto riguarda il prezzo di offerta nella seconda sessione?

We agree with AEEGSI's proposal to auction these products with a zero reserve price in order to maximise capacity bookings. There is no risk that a zero reserve price reduce commercial interest in monthly and annual capacity offered in the sequential auctions at the beginning of the year as these products are fundamentally different from the ones allocated in day-ahead auctions. Consequently, Stogit's revenues will not be negatively impacted.

Q7. Si condividono le tempistiche per lo svolgimento della procedura day-ahead? In caso contrario, come si ritiene opportuno organizzarle, tenendo anche conto delle tempistiche di programmazione della punta di iniezione?

As stated in response to Q5, we suggest that the timing of day-ahead auctions is defined carefully, having in mind that said capacity can be instrumental to enable the Shipper's

balance on the following day, with storage being an alternative to day ahead capacity on import. Given that the first session of the day-ahead auctions allocates firm capacity, we suggest to set this first session after the closing of the last renomination window in D-1.

In this respect, we agree with the possibility of anticipating the last term for the renomination in D-1 to 7pm, like described in the new Stogit proposal on renomination timelines published by AEEGSI on 9 February. Concerning the second auction related to interruptible capacity, this should take place before 9 pm of D-1, in between the penultimate and final re-nomination windows.

Q8. Si condivide di sostituire il meccanismo della deliberazione 353/2013/R/GAS con quanto proposto?

In general terms, we believe that the introduction of overnominations on an intra-day basis should be evaluated once the Authority and Snam Rete Gas will have clarified the full regulatory framework of the Balancing Network Code and all the resources that both TSO and shippers will have to balance their positions.

As for the capacity of del. 353/2013, EFET understands that, due to technical reasons, a portion of withdrawal/injection capacity is determinable only in the very short term and has to be released on day-ahead basis. We suggest, however, that the other part of withdrawal/injection capacity that is determinable on a week-ahead basis should be allocated to users, according to a known function, with the current system.

We suggest the re-nominations should not be accepted on a pro rata basis as suggested at par. 3.15 b) of the consultation document, but should instead be accepted on a first-come first-served basis. A pro-rata mechanism such as the one proposed by AEEGSI is deemed to be prone to gaming and excessively favors players already holding a large amount of capacity.

Q9. Si condivide la proposta di uniformare il corrispettivo tariffario per il calcolo della penale di mancato rispetto dei profili di giacenza? In caso contrario, quale soluzione potrebbe essere adottata?

We support this proposal.

Moreover, for what concerns the penalties related to minimum injection profiles, we suggest the introduction of the same criteria provided by del.119/05 (paragraphs 15.7, 15.16) referring to penalties applied to those who exceed the maximum storage level. Similarly to these, we suggest, also for minimum injection profiles, penalties being enforced to the user only if, at the end of each month of the injection phase, the stock level of the system is lower than the minimum stock allowed.

Q10. Si condivide la proposta descritta? In caso contrario, quale soluzione potrebbe essere adottata?

We support this proposal.