EFET European Federation of Energy Traders

EFET response to AEEG DCO 330/2013/GAS "*Criteri per la determinazione delle tariffe per l'attività di trasporto e dispacciamento del gas naturale per il quarto periodo di regolazione*" – determinazione dei corrispettivi tariffari.

EFET[1] welcomes the opportunity to provide further input on the determination of the gas transportation tariffs for the fourth regulatory period (2014-2017). EFET appreciates the willingness of the AEEG to ensure greater transparency in the process of determining tariffs, providing for the publication by Snam Rete Gas of all the relevant information for the tariffs' calculation.

As stated in response to the DCo 164/2013/GAS, we agree with AEEG that "*the convergence between European and Italian tariff criteria is an essential prerequisite for the development of an internal energy market*" and we welcome the reference to the EU Framework Guidelines on Harmonised Tariff Structures currently being finalised by ACER, which will result in an EU Network Code (Tariffs NC). We believe that this is important in light of the expected implementation of the Tariffs NC by the end of 2017. We are convinced that taking into account the main provisions defined in the Framework Guidelines from this stage will facilitate a smoother transition and an easier implementation.

Therefore, we welcome the further details provided with the current consultation on the specific aspects of the tariff structure, which are indeed very relevant for the day-to-day business of EFET members.

- **Capacity fee covering operating costs (S1)**

EFET welcomes the re-orientation towards capacity charges of all costs that are not driven by the volumes of gas actually shipped, as foreseen in the Tariff Framework Guidelines. We note, however, that such a fundamental change must be introduced with a longer advance notice period; otherwise, in an initial period, this change may reduce the competitiveness of the Italian wholesale gas market by increasing the initial cost (capacity fee) to be incurred to deliver gas at the PSV for those shippers holding long-term capacity contracts.

In order to mitigate this negative effect, we propose AEEG to consider a change in the entry/exit split to favour cross border trading and the alignment of prices between adjacent hubs. The costs associated with the estimate gas flow in peak consumption should be allocated predominantly to *exit* points.

Taking into account that gas flows at the entry points are mainly characterized by stability and that the related investment on the gas transmission network is not "dedicated", as for exit points, we consider that an entry-exit split providing a greater share in cost sharing for exit points could be appropriate, especially in those systems like Italy where the centre of greater consumption is geographically dislocated with respect to the position of some entry points.

[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 120 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Furthermore, EFET believes that the introduction of a solely capacitive tariff along with the new capacity allocation methodologies, as proposed in the consultation 317/2013 in consistency with the CAM Network Code and the CMP Guidelines, significantly reduces Snam's entrepreneurial risk and the incentive for the TSO to provide an accurate forecast of the expected booked capacity. For this reason we suggest to significantly reduce the *equity risk premium* (ERP), hence limiting Snam's revenues.

Furthermore, the introduction of capacity charges regardless of gas flows makes it even more essential to introduce a modification of the criteria currently used by Snam Rete Gas to curtail nominations at entry points during scheduled maintenance or interruption of import pipelines. Under these circumstances, it would be appropriate to eliminate the rule provided by the Network Code that envisages a pro-rata curtailment of nominations of all network users, irrespective of their will to import of gas in that period[2]. This kind of provisions artificially limits supply to the Italian market and consequently increases wholesale market prices.

- **Matrix methodology/virtual point based methodology (Ref. S3)**

AEEG proposes two methodologies, one with an 'extended matrix' and the other based on a 'reduced matrix'. The extended matrix methodology appears to be the preferable option. However, further transparency on the calculation method should be provided. Also, a reference scenario for the simulation of gas flows should be evaluated, taking into account *an average of days of peak flow*, rather than based on the *single maximum peak day* (in January) because this seems a more plausible situation. The result should then be checked with the network's portability.

Moreover, the current Framework Guidelines on rules regarding harmonised transmission tariff structures provide for NRAs to publish all relevant information to be used for at least two methodologies, as well as the cost allocation test and its outcome. NRAs shall also publish for public consultation a detailed explanation why a cost allocation methodology is selected: this would be important in order to highlight the impact that the proposed methodologies will have on the evolution of tariff levels. In particular, EFET believes that projected tariff evolution should always be shown at individual entry/exit point level, as to enable network users individually to understand exactly how they will be affected by each methodology.

- **Multipliers and alternative approach (S7 and S8)**

Concerning the proposed multipliers, whilst we understand the need to struck a balance between ensuring that a sufficient amount capacity is booked for the long and the short term, the proposal to increase the multiplier for *daily capacity* to 1.5 (from the current monthly 1.4 re-proportionated on a daily basis) is likely to negatively affect the allocation of daily capacity

[2] More precisely, in EFET's opinion, if a maintenance is planned and the total capacity is expected to be reduced by x% but the actual nominations are below (100-x)% of the total capacity, no curtailment on shippers' nominations should occur. Curtailing of the individual nominations on a pro-rata (of the booked capacity) basis should occur only in the event that actual aggregate nominations exceed the remaining firm capacity during maintenance.

and the benefits that the Italian market has experienced after the introduction of day-ahead capacity allocation in particular at Tarvisio/Arnoldstein.

The alternative approach proposed by AEEG to apply the capacity charge on the *maximum* capacity used during the year does not appear reasonable. On the contrary, it seems rather peculiar in the European context and it does not provide any type of incentive to optimise the utilisation of cross border capacity according to the needs, therefore EFET does not support it. Furthermore, the alternative method seems equally questionable with regard to exit points, because it does not represent a solution to provide more flexibility to the network users and it could penalize customers with a variable consumption profile.

- **Allocation of fuel gas, unaccounted for gas and losses (S13 and S14)**

EFET has raised concerns about the method to allocate fuel gas to network users during the current regulatory period[3]. Indeed the requirement to modify the nominations at the entry points by a *percentage* (between 0.003% and 0.13%), creates fractions that are not tradable at the PSV. These fractions create a fictitious imbalance, in particular for those shippers/traders not having storage capacity, which can be settled only through the balancing market, although these fractions are not due to proper imbalances. Again, this creates additional risk and operational burden to importers selling gas at the PSV. According to the analysis performed by EFET, there are no similar cases in north-west Europe about the allocation of fuel gas in kind to shippers.

In consideration of the elements above, we urge AEEG to revise the mechanism by requiring to Snam Rete Gas to supply the gas needed for these purposes through market mechanisms, namely via tenders. This is a mechanism widely used in Europe and it may allow AEEG to introduce *market based* mechanisms to ensure efficiency in the supply of fuel gas.

Moreover, EFET companies would ask for more transparency on the values assumed, also with reference to past Gas Years, by fuel gas, unaccounted for gas and losses. Similarly to what is proposed by the AEEG in the previous consultation document on gas losses, we believe it would be appropriate to define incentivizing mechanisms for the TSO aiming at achieving a progressive minimization of all these quantities, to bring them to an expected value around zero, in order to empower both the TSO and the owners of the city gates in their activities.

- **Additional Variable charges**

We noted that the consultation paper 330/2013 does not mention the intentions of AEEG regarding the *supplementary charges*[4]. Such charges *are required* to be paid by shippers to flowing gas into Italy and therefore they should be taken into account by AEEG when determining the overall tariff levels, even though they are not revenues for the TSO.

The supplementary charges have been increasingly used as a quick fix to solve issues totally unrelated to gas flows into the Italian system. Therefore EFET urges AEEG to remove, together with the variable charges, also these additional 'duties' based on the

[3] See attached documents

[4] *'Componenti tariffarie relative agli oneri aggiuntivi'*

volumes flowed at the entry points. Indeed these charges have a damaging effect on cross-border trading, liquidity and competitiveness of the PSV. A significant distortion is also introduced in the competition in the wholesale market between market participants vertically integrated that can pass-through these additional charges to end users and those market participants active only in the wholesale market.

In particular, importers selling gas at the PSV are highly exposed to these additional charges. We would like to emphasize that contractually – we refer primarily to EFET master agreements widely used across Europe – market participants *cannot* pass-through these additional charges to their counterparties.

The negative effect is exacerbated also in reason of the method used to introduce and update such charges. Indeed, where the *base* transportation tariffs are calculated and updated on a yearly basis – in consistency with contractual commitments of market participants – the *supplementary* charges are updated on a quarterly basis and can be introduced *at any point in time*. The main consequence is that market participants willing to flow gas to the PSV will do that only with if the market price will be high enough to consider transportation costs *and* an additional *market premium* due to high risk of operating in such an environment. This has obviously detrimental effects on the overall welfare achievable in the Italian wholesale market.

Hence, EFET believes that it is far more appropriate that funds that need to be recovered for various reasons are applied to exit points associated with end users. The introduction of such change should be deliberated sufficiently in advance with respect to the beginning of the Gas Year, in order to allow operators a correct transposition in supply contacts related to the same Gas Year.