

AEEGSI consultation document n.714/2016 on the introduction of market mechanisms for LNG capacity allocation

EFET response – 17 January 2017

EFET¹ welcomes the opportunity to provide a feedback to the AEEGSI consultation on the introduction of market mechanisms in the LNG capacity allocation process. Below, we have provided our detailed answers to the questions.

Q1. Si condividono le tempistiche prospettate per il conferimento della capacità long term?

In general, we believe it is appropriate to align the allocation of regasification capacity to the allocation procedures of transmission capacity. The alignment is needed at least with respect to the product duration, provided that the appropriate congestion management procedure are in place and long-term bookings are not introduced at the detriment of short term and spot deliveries.

Q2. Si ritiene opportuno prevedere forme di coordinamento nelle tempistiche e nella gestione delle procedure di allocazione?

In line with the above response, EFET is generally in favour of coordinating the allocation procedures as long as the capacity made available to the market is maximised and no uncertainty, other than the conventional risk inherent to a market based allocation procedure, exists for the terminal users. Equally, the use of the auction mechanisms foreseen in the CAM Network Code, both for long-term (ascending clock and marginal price) and short-term (pay as bid) capacity, added to managing auction on PRISMA, would very much allow a harmonisation of all existing allocation procedures. Differently -and although in the long-run this may favour the emergence of an LNG hub- structural (e.g. difference size of allowed cargoes, gas quality specifications) and commercial differences (e.g. WRT liabilities and loss of revenue clauses) among the different terminals would limit the possibility to bundle the allocation procedures at all terminals. Moreover, under the current legislative framework, the AEEGSI needs to provide harmonised general terms and conditions applicable at all terminals within Italy. By having those in line with international standards, the efficiency of the LNG market would definitely improve.

Q3. Si condividono le modalità di determinazione del prezzo di riserva sopra prospettate?

We understand the AEEGSI proposal as the following:

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

1. If at the time of an auction the 'fattore di copertura' is already at 0, i.e. the terminal has already made a return beyond the given percentage of the allowed revenues by selling its services, the proceeds of the auction would constitute revenues for the terminal beyond the guaranteed one. As such, these would have no impact on the degree of socialisation of the terminal costs. Therefore the reserve price could be freely set by the terminal operator, although at a level lower than the regulated tariff;
2. If at the time of an auction the situation is: $0 < \text{fattore di copertura} < \text{max}$, i.e. the terminal has earned only a fraction of the given percentage of the allowed revenues by selling its services, the proceeds of the auction would contribute to further reducing the 'fattore di copertura'. Therefore, any additional amount of capacity allocated would increase the supplies to the market and reduce the level of socialisation of the guaranteed revenues of the terminal. In this case it would make sense to offer regasification capacity at a reserve price ≥ 0 ;
3. On the basis of the above, the regulatory intervention of AEEGSI would be limited to setting the reserve price for case 2 and such price would have to be market-based. As such, the calculation would take into account the expected spread between the LNG price delivered ex-ship into the Italian market and the PSV price at a given future point in time. However, as forward indexes for Italian LNG are not available beyond 2 months, the Regulator suggests:
 - a. Reserve price based on the regasification tariff for capacity ≥ 1 year;
 - b. Reserve price based on forward price indexes for capacity < 1 year, but not spot;
 - c. Reserve price = 0 for spot capacity.

As for long-term capacity, allocation, we notice that on the basis of the proposal, the general outline seems unable to promote long term (≥ 1 year) capacity booking and it fails to attract liquidity defying the very objective of the reform. In order to increase terminals utilisation and make Italy an attractive destination for LNG delivery, the reserve price should to the maximum possible extent reflect the marginal costs only (losses, fuel, entry capacity to the transmission system), leaving the correct valuation of the capacity to the market. In any case and as a minimum, the reserve price should allow LNG deliveries to compete both with piped gas (a reference to the spread with the TTF could be used) as well as with LNG deliveries to other European markets. AEEGSI could also consider introducing ad hoc open season procedures for the allocation of capacity for timeframes longer than 2 years. This would allow treating separately capacity products which price cannot be based on forward price curves. In these cases, an administered discount on the regulated tariff may be applied.

As for less than 1 year capacity, EFET agrees that the reserve price should be based on market criteria, as proposed by the Authority.

Nonetheless, AEEGSI should make sure that no additional costs are put on the transmission system beyond those covered by the existing 'fattore di garanzia'.

Q4. Ritenete preferibile che, in alternativa al criterio a), possa essere definito un prezzo di riserva pari al costo medio pluriennale della capacità di rigassificazione?

EFET prefers criteria a).

Q5: Ritenete condividibile che la rendita d'asta debba essere restituita al sistema?

This would balance the benefit of the socialisation of the unrecovered costs via the transmission charges.

Q6: Ritenete che l'eventuale rendita d'asta possa essere destinata a stabilizzare i ricavi delle imprese di rigassificazione, nei casi in cui all'interno dell'orizzonte pluriennale coperto dalle aste si registri un'alternanza di anni in cui la rendita da congestione è positiva e il terminale riesce a coprire interamente i propri costi riconosciuti ed anni in cui la rendita è nulla?

We believe that the mechanism of the guaranteed revenues already provides LNG terminals with sufficient protection from market risk.