

EFET response to the AEEGSI Dco n. 373/2014/R/gas “Integrazioni alla disciplina del bilanciamento di merito economico”

05 September 2014

GENERAL COMMENTS

The European Federation of Energy Traders (EFET) welcomes the opportunity to comment and provide its views on the revised discipline of the D-1 balancing session. We intend to support the full implementation of the Balancing Network Code (BNC) in Italy through the promotion of a market based balancing regime which shall promote liquidity. We appreciate the efforts carried out by the AEEGSI in integrating the current national balancing discipline towards the implementation of the EU Regulation 312/2014. However, we believe that interim measures, including those proposed by this consultation document, should be consistent with respect to the final target (i.e. the implementation of the scheme to BNC) in such a way as to ensure the programmability of the interventions and a clearer identification of what will be the path that the system will need to follow to get the target model. In this context, the necessary changes aimed at improving and optimizing the current balancing system for the next winter, on one hand should not be a potential source of uncertainty for shippers and market distortions, and on the other hand should give way to the TSO to concentrate its resources to ensure the full implementation of the BNC.

We would like to stress that the distinction between D-1 balancing and intraday balancing is a peculiarity of the Italian market. The lack of the within-day re-nomination possibility, which in other systems is normal practice, is a key obstacle to the implementation of a fully functioning market based balancing regime in line with the EU Balancing Network Code. Currently the lack of possibility to re-nominate does not provide them with all the instruments to be fully balancing responsible. Shippers should be responsible for balancing their positions and should be able to optimise their positions within the day. They should have visibility of their imbalance position within the gas day and should be able to find the information about the state of the system (long / short). Therefore, the information made available by the TSO to the users is fundamental.

As for the D-1 balancing session, the experience gained from the introduction of locational market, substantially separated from the intra-day market, shows that the operating logic of the current model are such that the wholesale market is moving according to the balancing actions of the TSO and not vice-versa (as the NCB model), thus generating the risk that D-1 prices affect prices at the PSV, even in absence of actual critical conditions of the system. With reference to this aspect, many of the sessions were often mistakenly activated and updates to the information

system have led to market disruptions which contrast with the principle of full information transparency for the scope of clear price formation. For the same reason the activation of D-1 session could lead to speculative behaviours.

As regards the price formation mechanism in the D-1 session as well as the provision of resources subject to constraints, EFET believes that the zonal price is inconsistent with the principle of having a market price that is key to the development of a liquid market with a reference price. In addition, these prices do not reflect the zonal congestion, but artificially alter the merit order of the sources by introducing cost functions whose value is not clear.

We believe that further regulatory intervention, potentially creating uncertainties and generating distortions with possible negative economic consequences for all operators, should be avoided, as they are likely to divert from the objective of the BNC implementation.

EFET wishes that besides the next consultation on Snam proposal for the implementation of the BNC, also the proposal prepared by the GME, as required by Resolution 446/2013/R/GAS, about the integration of balancing markets (PB-gas G+1 and G-1) in the gas market M-Gas, will be consulted.

SPECIFIC QUESTIONS

***S1.** Si ritiene corretto includere nel termine M l'incertezza che deriva dalla possibilità di rinomina intra-day degli operatori o si ritiene che tale incertezza dovrebbe essere esplicitata con un termine separato nell'equazione?*

The current parameter M is now set equal to zero because of the inability of Snam to determine its value. We believe that this parameter should be published in order to determine the uncertainty in the system withdrawal forecast (e.g. as a percentage of error in Snam forecast of parameter "P" of the equation).

On the other hand, we believe that intraday re-nominations may lead to significant changes to the daily system balance: on this basis it will be very difficult for Snam to forecast the system imbalance. We therefore believe that the introduction of a re-sizing of the parameter " M ", or another appropriate parameter, cannot represent an efficient solution to overcome the risk of the formation of imbalance prices related to interventions of the TSO in the D-1 session which are not necessary.

Overall, the ex-ante estimate of the impact of re-nomination on the gas day balancing is far too uncertain and also for this reason the balancing according to the EU network code should be implemented as soon as possible.

S3. *Si condivide la necessità di modificare le modalità di determinazione del termine R previste nel Codice di Rete di SNAM?*

As regards the proposal for the parameter "R", it should be specified that the transactions previously concluded by shippers on the locational market must necessarily correspond to a physical delivery of the same amount to the PSV, without any subsequent correction. Concerning the proposed amendment, we agree with the need to consider for the calculation of the SPS only the quantities actually required for the reinstatement of storage, freeing up resources for the balance of the gas-day in which the delivery at the PSV takes place.

S4. *Si ritiene che la formula proposta garantisca, nel caso di volumi offerti inferiori alla domanda, una miglior valorizzazione delle prestazioni di stoccaggio utilizzate oltre i limiti contrattuali rispetto al caso attuale in cui il prezzo di remunerazione è posto pari all'offerta del responsabile del bilanciamento?*

In general, EFET does not agree with the proposal and we reiterate that, in case of congestion or shortage of the system, the market dynamic should determine the value of such a shortage.

The introduction of the formula proposed, although we understand it is aimed at mitigating the impact of shortages when the system is not undergoing a "real" emergency, is a further element that imposes a complex formula, potentially able to generate distortions, arbitrages and, generally, lack of transparency of the markets – in particular considering that such a price would not be known to market players in advance.

We would like to suggest the maintenance of the rule identified by Res.552/2013 (TTF + 4 €/GJ). It could represent a more appropriate temporary solution in order to limit the charges related to a lack of availability of resources on the D-1 session: it is in fact a certain rule, which does not require the availability of additional information on the state of the system and especially linked to market benchmarks. This way, Snam could focus on the implementation of the BNC, through the improvement of information transparency in regard to the technical withdrawal capacity and to the hourly withdrawal capacity of the TSO.

S6. *Si ritiene che l'algoritmo descritto sia efficace al fine di perseguire gli obiettivi e i vincoli sopra descritti?*

EFET shares the optimisation through the merge of line-pack and additional storage resources. However, we would like to ask for some exemplification of the algorithm: it is not clear, for

instance, why the cost function should be different for the two resources (3.12), if, as described in par. 3.13, the user will not submit separate bids for the same resource.

We wish that this arrangement could be valid only for the winter of the Thermal Year 2014-2015: from next year with the implementation of hourly balancing as foreseen by the EU Network Code, hourly availability of line-pack resources, as is already the case in other European countries, will be an important element of flexibility for users and will then be used as a single bidding resource. Moreover, given also that the current structure of the balancing market as well as any further changes represent purely temporary solutions in order to implement the BNC from next October 2015, we do not consider a priority to implement the proposed change. There should be more focus on greater transparency in relation to the availability of resources subject to constraints (Snam's injection/withdrawal capacity, additional withdrawal capacity from Stogit and line-pack) for the locational market. In fact, despite the Resolution 422/2014/R/GAS is already oriented in this direction, we would have found it useful and appropriate that Snam and Stogit proceeded to the implementation of the relevant provisions in time for the conclusion of the present consultation, in order to allow operators to evaluate the proposals contained in the DCO facing a more complete picture.

57. Si ritiene che gli indicatori proposti possano essere sufficienti e significativi, almeno in prima applicazione, per migliorare la qualità delle informazioni rese disponibili da Snam?

Shippers should be given the possibility to adjust their programs accordingly to the best available information and estimates. Despite Snam and Stogit efforts, we note that the quality of forecast and the quantity and quality of information currently made is currently still insufficient with a negative impact on the market efficiency.

EFET appreciates the efforts towards the enhancement of available information published by Snam and the suggestion to introduce incentives to monitor Snam's performance and reward or penalize good/poor performance. We consider that Snam's performance (for example with respect to timely and comprehensive publication of information and quality of demand forecast) should be compared to the performance of best practices of TSOs across Europe. For example, the existing target error with respect to D-1 demand forecast set by Ofgem to incentivise National Grid Gas is 2.75%. We note that Snam's demand D-1 error has been consistently much higher than that and, in quite a few occasions, errors around 12-13% have triggered D-1 market sessions which subsequently turned out to be unnecessary.

The approach and incentives suggested by the AEEGSI are a positive start. However, we believe that more is needed to promote transparency and that the proposed indicators could be improved: these do not consider neither the deviations of imports nor, for example, the deviation between the SPS published at 20 h (D-1) and the real deviation determined in D+1 (SCS). This is the best indicator that can give evidence of Snam's performance. This observation should be done weekly and not detected as compared with the previous thermal year¹, as it is proposed.

Moreover, with particular reference to the TSO, we believe that incentive mechanisms should refer not only to the information and data made available to operators for balancing purposes, but also to the actions made by the TSO on the balancing market. We would therefore suggest, as foreseen both in the NCB and in point 5 of Resolution 446/2013/R/GAS, the introduction in the short term of a mechanism to stimulate the transporter to take efficient balancing actions, or actions such as to minimise the balancing costs while ensuring the maintenance of the security of the system. With the implementation of the BNC, such incentive schemes for the TSO should converge towards the model proposed in the Article 11 of the BNC.

S10. Si concorda col dimensionamento del premio e delle penalità?

EFET agrees with the proposal to reduce the premium (or to increase the penalty) in the case Snam does not comply with the publication timing. We do not share the proposal to set a maximum amount allowed for bonuses and penalties, because to date there is no estimate on how much it could amount. We would like to point out that any costs relating to the application of rewards/penalties for the TSO should not be passed on network users (and therefore on transportation tariffs).

S13. Si ritiene appropriato l'affidamento al GME della raccolta ed elaborazione dei dati di monitoraggio?

EFET shares the growing need, with reference to the current balancing market set-up, of a system of market monitoring in order to detect any improper behavior. However, we believe that in the next future, with the implementation of the BNC, the rules of the balancing market should be such as to make not possible for operators to put in place market abuses.

¹ We believe that calculating the reduction of the forecast error on withdrawals by a thermal year to another, may not be directly related to improvements in the TSO performance, but also to different kind of cyclical factors.

With the full implementation of the REMIT Regulation, the Authority should carefully assess the need to maintain a system of market monitoring for specific purposes not covered by the REMIT Regulation.

EFET considers sufficient the first set of indices for the purpose of market monitoring and that is appropriate to entrust the GME to collect and process such data. However, we believe that the various monitoring activities of the market should not require a duplication of the data reported by operators and therefore should not constitute an additional burden of reporting activities already foreseen in the context of the completion of the REMIT Implementing Acts.