

SNAM PROPOSAL FOR THE IMPLEMENTATION OF THE BALANCING NETWORK CODE IN ITALY

MODALITA' DI ATTUAZIONE REGOLAMENTO (UE) N. 312/2014

“Implementazione del codice di rete europeo relativo al bilanciamento del gas nelle reti di trasporto”

EFET comments



14 November 2014

GENERAL COMMENTS

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide its comments on the SNAM proposal for the implementation of the Gas Balancing Network Code (BAL NC) in Italy, dated July 2014. We appreciate the efforts carried out by the TSO and by AEEGSI in integrating the current national balancing discipline towards the implementation of the EU Regulation 312/2014. As we have already highlighted in the past, a transparent process and clear deadlines are essential in the path towards the full implementation of the BAL NC in Italy.

We would like to draw the attention upon some key issues, which in our view are of utmost importance for an optimal implementation of the BAL NC:

The final balancing market structure should be detailed and market participants should be regularly updated and involved

EFET would like to stress that a substantial involvement of network users is key in this context. The target of October 2015 must be supported by a plan detailing key milestones and regular periodic updates on the status of the implementation process. EFET notes that the current consultation by SNAM is very generic as it only provides a high-level description of TSO's operational rules. The lack of information on the market-related aspects makes it difficult, at this stage, to assess the impact of the reform.

We would like to encourage AEEGSI, SNAM and GME to present a comprehensive consultation detailing their proposals on how the balancing market will work by October 2015, in particular regarding the integration process of nomination/renomination sessions, operational rules and

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

the trading platform features (such as order books, watch lists, merit order rules, automatic orders...). For a truly effective implementation, the process should take the point of view of the users or 'clients' of the transportation and balancing system i.e. the shippers, therefore it is in this perspective that the reform plan should be shared. Any phase-in for specific part of the network code (e.g. cross border re-nominations within day, operational balancing, etc.) should be planned and shared with market participants.

We suggest that AEEGSI and SNAM provide a regularly (monthly or bimonthly) updated report on progress achieved, while seeking stakeholders' engagement. We see this issue as particularly relevant for the transparency of the process, to meet expectations and especially as it regards changes in IT systems and processes: companies would need enough time to test the new tools in order to allow a smooth transition to the new regime. We recommend a proper trial phase, which should start well ahead of October 2015.

A timely establishment of the integrated platform is fundamental

EFET understands that GME is required to present a proposal about the integration of balancing markets (PB-gas D+1 and D-1) in the gas market M-Gas, as required by Resolution 446/2013/R/GAS. We want to stress the importance that a consultation on the design of the exchange platform is issued with matter of urgency and a final decision is taken soon after the consultation and the engagement of stakeholders. Nevertheless, in order to improve liquidity in the Italian system, the possibility to use already existing European providers of this service should also be considered and carefully assessed.

Still in relation to the new trading platform, it is even required to address the issue concerning changes to the guarantees system arising from the switch in the role of central counterparty from SNAM to the platform operator. In this respect, EFET believes that this change should not create additional burdens on operators for participation in the market, taking into account not only the risk of duplication of the guarantees provided, but also the different type of guarantees that can now be provided for the two different parties².

Measurement units should be harmonised also for storage products

SNAM indicates the integration into systems of measurement units provided by the BAL NC (kWh) for the submission of transactions, the provision of information to users as well as in the processes

² Currently, unlike the provisions for participation in the GME platforms, the type of guarantee that a shipper can provide to Snam Rete Gas to hedge its exposure to the system also include gas in storage and rating.

of nomination/re-nomination, allocation and billing. However there is no indication whether this process will equally concern storage services. The forthcoming process should also be an opportunity to introduce additional within day re-nomination windows for storage withdrawal/injection capacities. We thus recommend that a full harmonisation should also involve storage products.

The criteria for SNAM to intervene in the market should be clarified

EFET appreciates the choice of not introducing within-day obligations, as they would not be necessary in the Italian system. Nevertheless, there is no clarity in SNAM's proposal around the criteria the TSO should follow to decide if and when to take an action on the balancing market. In particular, further details are needed on:

- The definition of the "thresholds", in terms of overall system imbalance, triggering SNAM's bids/offers on the balancing market (in some systems these thresholds are based, for instance, on linepack levels).
- The criteria for SNAM to price its offers to sell and purchase balancing gas, which should fully reflect market prices and not be based on regulated caps and floors, provided potential market power issues are considered and addressed.
- How to ensure that SNAM's interventions in the market are efficient and limited to what is strictly necessary to keep the system in balance.

We suggest, as foreseen both in the BAL NC and in point 5 of Resolution 446/2013/R/GAS, the introduction of a mechanism able to incentivise the TSO's performance. Such mechanism should take into consideration the efficiency of SNAM's balancing interventions, namely based on the ability to minimise the balancing costs while ensuring the maintenance of the system security and limiting the impact of its interventions on the market price. Examples of such mechanisms can be found for example in the UK system³.

Locational products, line-pack and other balancing services should be contracted in a transparent and non-discriminatory manner

EFET recalls the importance for the future balancing mechanism to comply with the definition of locational products in the BAL NC. Locational products as defined in the BAL NC are indeed different from the current interpretation of locational products exchanged in the D-1 session. It is of paramount importance that SNAM clarifies:

- Whether locational products will be defined and managed (which zones/points could be activated as locational products? Will they refer to single entry/exit points or geographical areas?)

³ Back-up information can be provided upon request

- The triggers for the TSO to use any locational products if needed in the Italian system. We remind, in fact, that in the BAL NC locational products are intended as tools to be used by the TSO in case of networks with internal congestion.

EFET notes that, according to Article 9 of the BAL NC, locational products are to be used only when title products are not sufficient to keep the transmission network within its operational limits. These circumstances do not seem to be in place in the Italian network, which is highly meshed network with no physical congestion.

The offer of a line-pack flexibility service should be revised in order to comply with BAL NC provisions and consistently with the review of all other flexibility products currently offered in the D-1 session (with particular reference to SNAM's injection/withdrawal available capacity and additional injection/withdrawal storage capacity made available by Stogit). It should also be clarified whether the TSO will have any obligation to reintegrate line-pack and over which timeframe. This is an important aspect which is strictly related to SNAM's intervention in the market.

EFET would like to see much more transparency in the so called 'balancing services' ('Servizi di bilanciamento') described in paragraph 2.3.3 of the consultation, such as the contracts SNAM holds with Stogit for storage services. These arrangements are likely to have a considerable effect on the balancing actions and therefore on the balancing price. The compatibility of such services with the BAL NC should be assessed, having to regard the conditions outlined in Article 8 of the NC.

Information provision and incentive mechanisms

EFET recalls the importance for network users to access timely and reliable information on the within-day evolution of gas injection/withdrawal and system imbalances. Publication by SNAM of near real time actual physical flow data at all relevant points and hourly updates of system imbalance information has been a legally binding requirement for over three years⁴, but is still not being met. The importance of National Regulatory Authorities ensuring TSO compliance with these obligations was stressed by the European Commission recently at the 26th Madrid Forum and we trust this leads to AEEGSI taking swift action to ensure SNAM's compliance with these obligations as soon as possible. Accurate information concerning both the forecast of NDM⁵ offtakes and metered inputs and offtakes of IDM/DM⁶ points should also be provided during the gas day. In order to facilitate the forecasts of their daily allocation, network users should have access to more information useful to adopt the same methodology used by SNAM in

⁴ Articles 3.3.(1)(e) and 3.4 (5) amending Chapter 3 of Annex I to Regulation (EC) No 715/2009

⁵ Non Daily Metered (NDM) offtakes

⁶ Intraday Metered (IDM)/ Daily Metered (DM) offtakes

the monthly gas allocation (M+1, definitive balance sheet). Therefore we suggest that SNAM publishes in advance some of the information already used in its balancing activities, such as i.e. once a year per each redelivery point, the annual consumption by the profiles (PROF) listed in the Resolution 229/12. Moreover, with reference to NDM points, there must be consistency between the criteria used by SNAM to forecast their offtakes and the criteria then used within the settlement procedure: the simple provision of more frequent within-day updates of NDM offtakes forecast would not represent a real improvement if the forecast is based, as of today, on the static load profiling criteria. Therefore, a general evolution of the settlement system, based on the introduction of dynamic load profiling (as imposed by Article 42(2) of the BAL NC) is a key prerequisite. In order to stimulate the responsible parties to provide accurate information on IDM/DM and NDM off-takes, an incentive mechanism could be introduced in accordance with Article 39 (4) of the BAL NC. This mechanism could be envisaged as a joint mechanism providing rewards and penalties to the TSO and to DSOs, based on the yearly achievement of certain performance levels. The incentive mechanism could be designed on the basis of the following performance targets:

- **Distribution Network Operators:** minimum share (%) of redelivery points for which the DSOs provide the TSO with data on the customer’s annual consumption and static load profile.
- **Transmission System Operator:**
 - o minimum share (%) of IDM/DM points for which the user is provided with within-day metered data on off-takes.
 - o maximum variance (%) between the daily forecast of NDM off-takes (provided with regularity by the TSO during day D-1 and D, on the basis of dynamic load profiles) and the metered data.

The possible configuration of the joint incentive mechanism for NDM off-takes is summarized in the following table:

	DSO provides the annual consumption and the static profile	DSO does not provide the annual consumption and the static profile
TSO provides an accurate dynamic NDM forecast	✓ PRIZE DSO ✓ PRIZE TSO	☒ PENALTY DSO TSO does not receive either a premium nor a penalty, due to the lack of data to be processed
TSO does not provide an accurate dynamic NDM forecast	✓ PRIZE DSO ☒ PENALTY TSO	

This incentive mechanism would help developing an efficient balancing system and decreasing the balancing charges due by network users; its financing could therefore be based on the

allocation of a dedicated sum of money, to be recovered via transmission tariffs (IDM points) and distribution tariffs (NDM points).

Pending the introduction of the mechanism described above, EFET considers appropriate that the AEEGSI defines the small adjustment taking into account the existing critical situation on information provision, in order to avoid an unfair disadvantage of shippers because of missing or incomplete availability of information about their imbalance position. This approach is also in line with the requirements of Article 22.6 of the BAL NC, which specifies that the small adjustment, although it should encourage network users to balance their inputs and off-takes, "*shall not result in network users' excessive financial exposure to daily imbalance charges*".

The transitional period

The presence of a D-1 session *de-facto* separated from the within-day market is not compatible with the introduction of within-day re-nomination cycles on pipeline interconnection points. Nevertheless, the possible postponement of the D-1 session after the last within-day re-nomination (in day D) would represent an additional source of complication and uncertainty for market participants and would introduce an element that is inconsistent with the target model to be implemented in October 2015. Further regulatory intervention, potentially creating uncertainties and generating distortions with possible negative economic consequences for all operators, should be avoided, especially during the winter season. Therefore, we suggest to postpone the introduction of within-day re-nomination windows after the winter.

CONCLUSIONS

EFET appreciates the efforts carried out by SNAM and AEEGSI in integrating the current national balancing discipline towards the implementation of the EU Regulation 312/2014. A transparent process and clear deadlines are essential in the path towards the full implementation of the BAL NC in Italy: we stress the importance that the target of October 2015 must be supported by a plan detailing key milestones of the implementation process. 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 should be accompanied by regularly updated reports on progress achieved.

We encourage the AEEGSI to present a comprehensive proposal of how a market-based balancing regime, consistent with provisions of the BAL NC, will work by October 2015, assuming the shippers' perspective. Shippers are the users of the transportation and balancing system, as they

should be responsible for balancing their positions and should be able to optimise their portfolio within the day. For this scope, EFET recalls the importance for network users to access timely and reliable information on the within-day evolution of gas injection/withdrawal and system imbalances. Market participants expect to have access to the best available information visibility on their unbalanced position within the day and to be provided with information regarding the status of the system (long/short). Publication by SNAM of near real time actual physical flow data at all relevant points and hourly updates of system imbalance is essential in this way. The TSO, during the gas day, should also provide with updated meter data on intra-daily metered points and an end of the day forecast for all other non-daily metered points on the national network. In order to stimulate the responsible parties to provide accurate information on IDM/DM and NDM off-takes, we suggest the introduction of an incentive mechanism, as described above in the text. Moreover, we would like to underline that the TSO should have a marginal role in balancing the system: therefore, it's fundamental that SNAM's constraints and modalities of intervention in the market are clearly defined.

EFET believes that the risks and burden associated with changes to the system of guarantees should be carefully evaluated and addressed. There is a risk of duplication of the guarantees that will have to be provided to SNAM and GME and the burden will be even increased if these will be several and different. We believe that the change to the new system should not create additional burdens on operators as to discourage participation in the market.

EFET renews its availability to cooperate with SNAM and other involved parties in this process, by sharing its members' knowledge and experience in various EU countries, where best practices are virtuously in place and which may represent a useful additional source at this stage.