

Consultation document: weekly gas-balancing session as per AEEG's Decision ARG/gas 165/09

Art. 4 of Decision ARG/gas 165/09, adopted by "Autorità per l'energia elettrica e il gas" (Italian electricity & gas regulator, hereafter "AEEG") and concerning *urgent measures for updating the rules on natural-gas balancing and storage services under Law Decree no. 78 of 1 Jul. 2009*, provides that AEEG shall - with a subsequent Decision - define the criteria for the management of a centralised electronic platform - whose organisation shall be assigned to "Gestore dei mercati energetici S.p.A." (hereafter "GME") - for the weekly sale of natural-gas quantities pertaining to each of the days of the immediately preceding week.

Pending the adoption of the aforesaid Decision by AEEG, GME submits this consultation document to all interested parties, in order to collect comments and elements of reflection about some aspects regarding the operation of the weekly natural gas-balancing platform to be established.

The outcomes of the consultation may represent useful elements of collective reflection to be submitted to the attention of AEEG, which may hopefully take them into account upon defining the criteria for the management of the platform referred to in art. 4 of the above-mentioned Decision ARG/gas 165/09.

After summarising the reference regulatory framework, the following paragraphs describe the procedures under which GME may organise and manage the weekly balancing session in compliance with AEEG's Decisions ARG/gas 165/09 and ARG/gas 150/10.

Interested parties are invited to provide their comments and proposals, in writing, to GME **by 20 November 2010 at the latest** (end date of this consultation).

Parties wishing to safeguard the confidentiality of the documents provided to GME, in full or in part, must specify which parts of such documents are to be kept confidential by GME. Interested parties may send their comments to the address indicated below by using only one of the following means: i) preferably, by e-mail (attaching the file with the comments); or ii) by fax; or iii) by mail.

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Summary of the reference regulatory framework

On 5 Aug. 2009, “Autorità per l’energia elettrica e il gas” (Italian electricity & gas regulator, AEEG) began a process of consultation (consultation document DCO 28/09) about possible *urgent measures for updating the rules on natural-gas balancing and storage services under Law Decree no. 78 of 1 Jul. 2009*.

Among the measures outlined in the consultation document, AEEG submitted to the attention of interested parties its intent to introduce:

- a) a session for registration of transactions at the “punto di scambio virtuale” (virtual trading point - PSV) on a weekly basis; the session would be dedicated to the sale of natural-gas quantities pertaining to each of the days of the immediately preceding week;
- b) an electronic platform with a central counterparty for the trading of the natural-gas quantities referred to in para. a) above.

In accordance with the aforesaid DCO 28/09 and based on some comments on the matter received from interested parties, AEEG issued specific provisions on weekly balancing (AEEG’s Decision ARG/gas 165/09 of 2 Nov. 2009).

For the purposes of this consultation, we report the provisions of articles 3 and 4 of the above Decision, involving: *i.* the introduction, at the PSV, of a weekly balancing session, during which all the parties authorised to operate at the PSV may register transactions for the sale of natural-gas quantities pertaining to each of the gas-days of the previous week (hereafter “transactions”); *ii.* the introduction of a centralised electronic platform dedicated to the trading of the aforesaid natural-gas quantities; “Gestore dei mercati energetici”

(GME) shall manage the platform - given its responsibilities for the management and organisation of the natural-gas market pursuant to art. 30 of Law 99/09 - and play the role of central counterparty of the transactions thereon.

To this end and with particular regard to the introduction of the weekly balancing session, AEEG entrusted the company Snam Rete Gas with the preparation of the necessary modifications to the PSV Conditions, so as to permit both the registration of the transactions directly concluded by operators and - through GME - the registration of the transactions made by operators on the electronic platform managed by GME.

As to the creation of the electronic platform, instead, AEEG postponed the definition of the criteria for its operation to a subsequent Decision.

AEEG's Decision ARG/gas 150/10 of 28 Sep. 2010, concerning *additional rules on the regulated capacity and gas market, as per AEEG's Decision 22/04 of 26 Feb. 2004*, completed the current reference regulatory framework.

With the above Decision, AEEG approved the modifications made by Snam Rete Gas to the PSV Conditions. Among the modifications, it is worth mentioning those made by Snam Rete Gas in compliance with the aforesaid provisions of art. 3 of AEEG's Decision 165/09. In particular, a 5th session was introduced into the PSV system. This session should take place on Wednesday of each week, from 8:00 to 16:00, and be dedicated to the registration of daily transactions made to balance the natural-gas positions in respect of the gas-days of the week immediately preceding the week of registration.

In line with its explicit provisions, AEEG also established that GME might transfer to the PSV - during the corresponding PSV sessions - the net positions resulting from transactions concluded by participants on the platforms organised and managed by GME.

Upon the publication of its Decision ARG/gas 150/10, AEEG reiterated that the balancing session, as outlined in its previous Decision ARG/gas 165/09, should continue until the take-off (scheduled for 1 Apr. 2010) of the economic merit-order balancing, as per Legislative Decree 130/10.

Requirements for participating in the weekly gas-balancing sessions

All parties authorised to operate at the “punto virtuale di scambio” (virtual trading point - PVS) may participate in the weekly balancing session in point.

Operation of the balancing session

Under AEEG’s Decision ARG/gas 165/09, GME shall play the role of central counterparty of the transactions concluded by participants during the weekly gas-balancing session.

A possible timetable for the trades may be as follows: every Wednesday of each week; opening of the session at 8:00 and closing of the session at 15:00.

⇒ *Do you agree on the above timetable or do you prefer to advance the opening time of the session to 8:00 of Monday of each week and to set the closing time of the session to 15:00 of the immediately following Wednesday?*

As regards the trading mechanism, we propose to divide the session into two sequential stages. In the first stage, the trading will be continuous. In the subsequent (second) stage, the trading will take place under the auction mechanism. All the unexecuted bids/offers included in the order book at the closing time of the related session will flow into the closing auction. According to the proposed timetable, the continuous-trading session may close at 14:00 and be followed by the opening of the auction sitting, which would end by 15:00. The determination of the results of the continuous trading and of the closing auction and their publication will take place by 15:30. At the same time, GME will transfer to the PSV the balance of all transactions concluded by each participant on the weekly balancing platform.

⇒ *Do you agree on the choice of dividing the weekly gas-balancing session into two stages (continuous trading and closing auction) or do you prefer a single trading mechanism? If you are in favour of a single trading mechanism, which one do you prefer: continuous trading or auction trading?*

In the balancing session, participants may trade different gas quantities for each of the gas-days of the immediately preceding week (seven order books, with related closing auction, for each gas-day).

During continuous trading, participants may submit:

- a) bids/offers with negative or zero price limit;
- b) demand bids or supply offers without price limit, if no supply offers or demand bids with price limit are present in the order book, respectively.

During auction trading, participants may submit demand bids and supply offers with prices greater than or equal to zero.

- ⇒ *Given the transitional nature of the weekly balancing session, do you deem it useful to introduce additional types of orders of execution of the transactions (e.g. execute or cancel or valid until cancellation, if the duration of the session exceeds one day)?*

Guarantee system

Considering the risks falling on GME as central counterparty of the transactions concluded on the platform, participants wishing to submit demand bids will be required to post adequate guarantees to cover the entire value (increased by VAT) of their bids.

The guarantees may be posted in the form of bank guarantees or of non-interest bearing cash deposits.

Invoicing and settlement of payments

The invoicing period for the payables/receivables resulting from the weekly balancing session will be the calendar month. Payments will be settled by the end of the month following such period.