



## **Consultation Document no. 02/2014**

**First indications about the creation of the mineral-oil logistics Platform as per art. 21, para. 1 of Legislative Decree**

## 1. Foreword

Legislative Decree no. 249 of 31 December 2012 (hereafter: Legislative Decree 249/2012) transposed Council Directive 2009/119/EC of 14 September 2009, imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products. The Decree has the objective of strengthening national legislation on emergency oil stocks, as well as of enhancing competition in the oil sector, by widening opportunities for offering and procuring logistic services and oil products.

In particular, as part of the pro-competitive measures introduced by Legislative Decree 249/2012, GME was entrusted, *inter alia*, with the task of developing, organising and managing a mineral-oil logistics platform (art. 21, para. 1, Legislative Decree 249/2012) to facilitate the trading of logistic capacities in the short, medium and long term.

With a view to setting up the mineral-oil logistics platform, art. 1, para. 2 of the Ministerial Decree of 9 August 2013 provides that *the platform shall operate under principles of neutrality, transparency and competition, in order to provide all interested with a venue where to post and trade the capacities available in the short, medium and long term, together with the related economic conditions, taking into account the related functional constraints, including through the use of standardised models.*

The logistic capacities to be traded on the platform are those *concerning the storage or transit of gasolines/petrols, gas-oils, biofuels and kerosene-type jet fuels* under art. 2, para. 1 of the Ministerial Decree of 9 August 2013.

In implementing the above provisions under the guidelines issued by the Ministry of Economic Development, GME started a process aimed at analysing and acquiring a greater understanding of the possible models of organisation and operation of the platform, taking into account the following principles and considerations:

- reducing transaction costs for oil logistics contracts concluded between participants, by identifying: i) the “typical” features of the (standard) service, to be taken as reference for trading on the platform; and ii) one or more minimum sets of contractual conditions to be used by participants, with a view to ensuring the maximum comparability of orders entered into the platform;

- specifying admission requirements, i.e. requirements to be met by parties wishing to participate in the trading platform, as well as obligations/rights arising from transactions on the platform;
- possibly developing a system to cover obligations acquired by participants on the platform;
- possibly developing books where to post trading orders, taking into account other parameters in addition to the conventional price/volume ones, e.g. geographic location, possibility of benefiting from additional optional services at separately quoted prices, etc. In this way, the matching of trading orders would not be automatic, but it would take place only through the so-called direct “catching” of the order by the interested counterparty (catching mode);
- setting up different systems for posting orders and for trading, to best respond to the potentially different needs of participants.

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This consultation document that GME has prepared is a first survey on the creation of the mineral-oil logistics platform. The document is chiefly aimed at gathering comments and inputs from interested parties about the possible models of organisation and operation of the above-mentioned platform.

Interested parties should send in their comments in writing to GME - “**Legale e Regolazione**” (Legal & Regulatory Office) – by **30 May 2013** at the latest (end date of the consultation) in one of the following ways:

- by e-mail to: [info@mercatoelettrico.org](mailto:info@mercatoelettrico.org)
- by fax to: **+39-06-80124524**
- by mail to: **Gestore dei mercati energetici S.p.A.**  
**Largo Giuseppe Tartini, 3-4**  
**00198 – Rome - Italy**

If you want us to keep all or part of your documents confidential, please specify which parts of your documents are to be kept confidential.

## **2. Proposed solutions**

Based on the considerations described above, an order-posting platform might be the mineral-oil logistics market model that best responds to the needs and features of the sector. The document describes different possible levels of development and application of the platform, which may be taken into consideration, depending on the extent of standardisation of the service and on the contractual conditions to be referred to when specifying the order.

GME would manage the above-mentioned trading platform, in its different configurations, without playing the role of central counterparty<sup>1</sup> to the related transactions.

### **3. The order-posting platform**

Order-posting platform generally means a platform where participants enter sell or buy orders for the service in anonymous form and other participants may express interest in buying or selling the product covered by the order. After expressing interest in an order, the names of and the data about the two counterparties are made known. The negotiation of all operational and contractual aspects that are not specified in the order and the subsequent possible conclusion of the logistic service contract are handled between the parties outside the platform.

The platform may facilitate the meeting of demand and supply via the identification and posting of the main features of the offered service (e.g. type of service, duration, availability, type of product that may be stored, mode of delivery of the product, price, other special contractual conditions). These features enable: i) the participant wishing to offer a service to describe it in a concise but comprehensive way; and ii) the participant wishing to procure a service to easily identify it.

In this way, a participant wishing to offer a particular service may reach the range of interested parties easily and at moderate costs, while a participant interested in a particular service may identify it easily and possibly compare the orders entered by each participant.

A first mode of implementation (Level 1), corresponding to a minimum level of standardisation of contractual conditions, might identify a minimum set of service features that participants should describe and with respect to which they should express their sell and buy orders. For instance, the orders posted on the platform should include:

- description of the offered service
- type of product that may be stored
- availability and duration of the contract
- procedures and time limits for invoicing and payment
- zone to which the depot belongs
- mode of delivery
- other contractual clauses.

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<sup>1</sup> The platform would be remunerated through the application of appropriate fees for the services provided by GME.

For some of the above aspects, the platform might offer the option of “filtering” some of the above-mentioned order requirements, so as to facilitate the search for and comparability of orders.

The posted orders would not be binding for participants: if a counterparty expressed interest in a given order, the two counterparties would define specific contractual clauses on a bilateral basis, taking into account requests for particular contractual conditions or additional services not included among the listed ones (e.g.: penalties, product quality, etc.) for the possible subsequent conclusion of the contract.

A subsequent step towards a higher degree of standardisation of contractual clauses, under which participants would offer their services (Level 2), might involve GME’s identification of a number of logistic services, by identifying their main features (e.g.: service description, contract duration, procedures and time limits for invoicing and payments, availability, type of product that may be stored, mode of delivery of the product, etc.), based on which participants would express their orders. In this case, too, the posting of orders by participants does not represent a commitment to trade, but only serves the purpose of identifying possible interested counterparties, with whom/which to define other detailed aspects not specified in the order and possibly conclude the related contract.

The identification of one or more predetermined sets of contractual clauses reduces transaction costs, to the extent that it does not compel participants to assess, for each contract, the effects of the different contractual clauses defined by the different participants, and facilitates the comparability of orders. The wider the set of predetermined contractual conditions (including all the main features of the service), the easier will be for participants to compare orders and trade (in the extreme case in which predetermined contractual conditions could be identified for all the aspects of the service - thus completely identifying the service contract - the price would be the only discriminating element among orders for each type of offered service/product). On the other hand, with respect to the above-described benefits, the use of predetermined contractual conditions limits to some extent the freedom of each participant to define clauses responding to specific requirements, and it may turn out to be difficult in case of specificities of the services offered by each participant.

On one hand, this critical aspect might be solved by defining multiple sets of predetermined contractual conditions, each corresponding to a specific service. On the other hand, this solution would compel participants to make a potentially time-consuming assessment of all of these conditions.

A further option for developing the platform (Level 3) might involve one or more sets of contractual clauses, each defining a logistic service in a comprehensive way, as in the previous case. However, in this case, selling participants would take on the obligation to provide the service on the conditions specified in the order, if the order were selected by a buying participant.

A selling participant wishing to enter an order should identify the set of contractual clauses characterising the offered service and specify the related specific conditions in the order. In addition to the set of all the clauses making up the contract, the set of contractual clauses should include the parameters to be specified in the order by the participant (e.g. price, location and technical features of the depot). Hence, the buying participant could select the order that best responds to his/her/its needs (catching mode) among the orders posted on the platform and ranked in increasing price order.

After the matching of trading orders, participants would acquire the obligation to meet all the commitments made. These commitments should thus include systems covering non-compliance with the obligations arising from order matching.

With a view to making the order-posting platform an effective venue, capable of minimising transaction costs and time, what is the level of standardisation of contractual conditions based on which the service expected by market participants is to be offered? What is the level of development of the platform that best meets market requirements? Do you deem it useful to make contractual conditions known via the platform, regardless of their level of standardisation?

The different levels described above are not necessarily alternative. For instance, the platform might provide participants with the options of: i) entering orders for services whose features would be defined upon entry of the order (low level of standardisation, Level 1); and, at the same time, ii) entering orders for services whose contractual conditions would be defined by GME with the support of participants and published on the platform.

#### 4. Characterisation of the traded services

If the selected configuration of the order-posting platform were Level 1, a number of features of the service that participants should specify upon entry of the order (service type and duration, availability, type of product that may be stored, mode of delivery and redelivery of the product, procedures and time limits for invoicing and payments, etc.) should be defined. A minimum compulsory set to be published might be identified and the participant might optionally add other conditions.

For the **transit service**, the set of minimum conditions for the proposed service might include, for instance:

- the definition of the technical features of the service, e.g.:

- the transit service means the receipt (ex works/depot), storage, handling and redelivery of the products.  
It thus excludes services for transport to and unloading of the product into the depot for transit and/or storage purposes, e.g. freight, port/railway/tank truck services.  
It might include some accessory services, e.g. addition of additives, dyes, blending/mixing etc.
- availability of the storage service
- duration of the product storage service, e.g. 30 days from the date of introduction of the product into the depot
- type of product that may be stored
- type of storage: mixed or segregated
- mode of delivery and redelivery of the product
- zone to which the depot belongs
- contractual duration of the transit service
  - date of effect and validity of the contract, e.g.:
    - half-yearly (6 months from the contract start date)
    - yearly (12 months from the contract start date)
- the quality of the product, delivered by the depositing party and redelivered by the receiving party, must conform to the quality specifications required for the Italian market:
  - for products delivered, the quality characteristics must be those required by the owner of the storage facility;
  - for products redelivered, the quality must be guaranteed by the owner of the storage facility.
- determination of the price and of the time limits for invoicing and settlement of payments between the parties.

For the **storage service**, the set of the minimum conditions of the order might include, for instance:

- definition of the service, e.g.:
  - storage service means the receipt (ex works/depot) and the holding of the products in storage.  
It thus excludes services of segregated storage, addition of additives, different modes of loading.  
It might include some accessory services, e.g. holding on consignment, technical verifications on the quality of the product, cargo insurance.

- type of storage: mixed or segregated
  - type of product that may be stored
  - availability of the service
  - mode of delivery and redelivery of the product
  - zone to which the depot belongs
- contractual duration of the storage service
    - date of effect and validity of the contract, e.g.:
      - two-year duration (24 months from the contract start date)
- the quality of the product, delivered by the depositing party and redelivered by the receiving party, must conform to the quality specifications required for the Italian market:
    - for products delivered, the quality characteristics must be those required by the owner of the storage facility;
    - for products redelivered, the quality must be guaranteed by the owner of the storage facility.
- determination of the price and of the time limits for invoicing and settlement of payments between the parties.

Which of the above-mentioned elements might make up the minimum set of contractual conditions to be published? Are there any other conditions that might be included into the minimum set?

Do you think that the above elements, where included into the contractual conditions, may be made known? Do you think that the data are adequate? Are there other elements not reported above that should be included among the contractual conditions to be made known when specifying the order?

As to the configuration described as Level 2, GME should identify the type of service, providing the description and other contractual features thereof (contract duration, procedures and time limits for invoicing and payments), based on which participants would post their orders.

In this sense, the transit service order might consist of the following elements:

- name of the depot; available capacity (tonnes);
- type of product that may be stored
- mode of delivery and redelivery of the product
- zone to which the depot belongs



- price for volumes redelivered every month (€/tonne) and/or price per volumes delivered and held in storage, e.g. 1 month (€/tonne)
- possibly, price for each of the accessory services offered (€/tonne), if they are not included among the standard accessory services
- start date of service availability (considering the time needed for finalising contractual procedures)
- contract duration
- model contract for the order
- details of the possible licence of the VAT/excise warehouse

As is obvious, the selling participant may define additional contractual conditions not included in the minimum set and applicable to the service being traded.

Do you think that these minimum contractual conditions may be standardised in order to make the orders entered into the platform comparable? Which of the above contractual conditions cannot be made homogeneous and why? Are there any other contractual conditions not reported above that might instead be standardised?

With regard to the storage service order, the following elements might be identified;

- name of the facility
- type of service by type of product
- mixed or segregated service (where not defined in the standard contractual conditions)
- available capacity (tonnes);
- mode of delivery and redelivery of the product
- zone to which the depot belongs
- price for the stored volumes (€/tonne/month)
- start date of service availability (considering the time required for finalising contractual procedures)
- contract duration
- model contract for the order
- details of the possible licence of the VAT/excise warehouse

As is obvious, the selling participant may define additional contractual conditions, not included in the minimum set and applicable to the service being traded.

Do you think that these minimum contractual conditions may be standardised in order to make the orders entered into the platform comparable? Which of the above contractual conditions cannot be made homogeneous and why? Are there any other contractual conditions not reported above that might instead be standardised?

Finally, with regard to the configuration of the order-posting platform described as Level 3, a comprehensive and predetermined set of contractual conditions would be identified, based on which participants would enter their sell orders, while buying participants would be able to select one or more trading orders among those posted on the platform (not necessarily the most cost-effective ones). The matching of orders would imply the seller's commitment to meet the contractual obligations acquired, on the economic conditions specified in the order. To guarantee the obligations acquired by participants, a system would be put in place to discourage non-compliance with contractual obligations. As is obvious, the offering participant may add optional services to the service defined by the contract.

As regards the assumption of implementing an order-posting platform that involves the matching of sellers' orders via order catching, which are, in your opinion, the minimum contractual conditions for the storage and transit services that may be standardised? Which of the above contractual conditions cannot be made homogeneous and why? Are there any other contractual conditions not reported above that might instead be standardised?

## **5. Microstructure of the proposed solutions**

### Role of GME:

- operator of the platform;
- no central counterparty role;
- participants would directly manage obligations resulting from the matching of orders, as well as from invoicing and payments.

Requirements for admission to the platform; e.g.:

- registration with the C.C.I.A (Board of Trade, Industry and Handicraft) for marketing the products being traded/notification of the ATECO code

Requirements for trading on the platform; e.g.:

- registration with the Reach system

Are the above admission and trading requirements sufficiently complete to favour the trading of the service? Are there other requirements that are customarily applied between the parties?

Trading platform:

web-based, accessible via digital certificate

2 types of participants:

Sellers

Buyers