



Consultation Document no. 03/2014

First indications about the creation of the Platform for trading liquid oil products to be used for transport purposes as per art. 22, para. 1 of Legislative Decree 249/2012

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 market platform for wholesale trading of liquid oil products for transport purposes (art. 22, para. 1, Legislative Decree 249/2012).

With a view to setting up the 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 sell and buy orders concerning liquid oil products to be used for transport purposes (...)*.

The liquid oil products for transport purposes that may be traded on the platform are *gasolines/petrols, gas-oils, biofuels and LPG* 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 market, taking into account the following principles and considerations:

- reducing transaction costs for contracts of sale/purchase of oil products 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 the orders entered into the platform;
- specifying admission requirements, i.e. the requirements to be met by parties wishing to participate and use GME’s 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;

- defining geographic points to which sell/buy orders may refer, given the impact that the geographic location of the service/product may have on the cost-effectiveness and usability of the offered service;
- possibly developing books where to post orders, which may be matched not only under the conventional price/time priority approach, but also through the so-called direct “catching” of the order, regardless of its merit order (in assessing sell orders, buying participants might consider not only the geographic location, but also the availability of and the price quoted for optional additional services);
- given the nature of the product to be traded, there are objective difficulties in creating a market where GME plays the role of central counterparty, as it happens today in other markets managed by GME. Nevertheless, it will be useful to explore this assumption for the future, possibly after a first stage of operation of the platform.

This consultation document that GME has prepared is a first survey on the creation of the platform for trading liquid oil products to be used for transport purposes. 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**
- 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. Market models

The development of a mere order-posting platform might be an applicable market model. However, based on the previous considerations and, in particular, on the purpose of reducing transaction costs, an order matching book without central counterparty has been assumed as possible market model for liquid oil products to be used for transport purposes. This trading system would involve the identification of a standard contract, for each product to be traded, with a number of predetermined contractual elements, including but not limited to: the features of the product to be traded; the time elapsing between the closing of the transaction and the withdrawal/delivery of the product; the procedures and time limits for invoicing and payments. Based on the above contractual clauses, participants would enter sell and buy orders for a product, specifying the required parameters (e.g. volume offered, price, zone where the delivery point is located), which might be automatically matched under the price/zone of delivery criterion.

Another assumption concerns a trading system where other clauses/services, typical of the supply side, may be added to the standard contract. On this assumption, a book (possibly not differentiated in terms of zone of delivery) might be created, where a participant would select orders to be executed not on the basis of the best price but on the basis of other decision-making criteria, e.g. the zone of delivery, or anyway of specific clauses/services typical of the supply side (catching mode).

3. Market structure

Considering the structure of the sector of liquid oil products to be used for transport purposes, the zone where the systems of delivery of oil products are located might be a discriminating element in the selection of sell orders by buying participants. Hence, the trading system might be divided, for each of the liquid oil products for transport purposes tradable on the platform, according to the location of the points of delivery.

With regard to the characterisation of the product to be traded, a single assumption has been made for the time being: the seller delivers the products to be traded (gasolines/petrols, gas-oils, biofuels, LPG) to the buyer on tank trucks at the point of exit from the depots. In this way, the participants in the trading system would be the owners of fuels inside the depots as potential sellers and interested parties as potential buyers. The number of these participants and of their potential transactions makes the

assumption of holding down transaction costs, through trading platforms such as the proposed ones, more practicable.

Where deemed appropriate, other solutions might be envisaged, e.g. introducing a product to be delivered at points “upstream” of the depots, e.g. ships. This might decrease the number of trades and increase the unit volumes traded.

For each zone,

- 1 book would be created for each of the oil products for transport purposes tradable on the platform.

Do you deem it useful to consider other modes of delivery in addition to tank trucks? If your answer is yes, which are the modes of delivery that are most frequently used in the wholesale trading of oil products to be used for transport purposes?

Do you deem it effective to divide the depots based on their location, i.e. into representative geographic areas? If your answer is yes, which zones do you consider as representative?

Trading mechanism

- Continuous trading in anonymous form, with automatic matching of orders based on the price/time priority, or
- Trading in anonymous form, with the option for the buying participant to select the order best responding to his/her/its needs (catching mode) and not necessarily associated with the best posted price, among the orders posted on the platform and ranked in increasing price order.

The matching is binding between participants only with regard to the obligations set out in an appropriate Regulation issued by GME and accepted by participants upon the market admission procedure.

Participants would directly handle obligations arising from the matching of orders, from invoicing and payments.

In your opinion, which of the above trading mechanisms is the most suitable to represent participants’ needs? Which datasets should be visible on the platform in order to favour trades?

3.1.1. Matching book: contractual conditions and general operational procedures

Generally, the contractual conditions that might be included in the standard contract¹ associated with a given service and posted on the platform, might concern, among others:

- identification of the time interval elapsing between the conclusion of the transaction and the delivery/withdrawal of the product, e.g.
 - delivery of the product on the day/s following the one on which the trade has been concluded. The goods are delivered ex works (depot). The goods must be delivered by loading them onto the tank truck.
- single pricing methodology, e.g.:
 - unit price in €/m³ (delivered at point of origin/destination)
- determination of the time limits for invoicing and settlement of payments between the parties, e.g.
 - invoices will be issued on a daily basis, upon delivery of the product and subject to VAT², where chargeable, based on the data provided by the participant for each product and on which GME will not carry out any substantive verification;
 - the final payment (in settlement) will be made with value date n days from the date of the invoice via bank transfer;
 - if the date of payment falls on a Saturday or on a mid-week holiday, the payment will be made on the previous working day; if it falls on a Sunday, the payment will be postponed to the following working day;
- definition of a mechanism to guarantee obligations resulting from order matching;
- quality of the product conforming to the quality specifications required for the Italian market:
 - the quality of the product will be guaranteed by a declaration of conformity to the relevant product specification. The quality will be verified at the request of the participant, through product analyses conducted in qualified laboratories;
- the volume specified in ambient temperature-compensated litres will be the one indicated in each AAD/SAAD³ or in the tax document accompanying each shipment;
- definition of the seller's obligation to provide all the necessary documents (e.g. tax documents, etc.) for the transport of fuel in the cases required by law;
- ownership of the product and related risks:

¹ GME would merely check whether the contract presented by the participant corresponds to the standard contract.

² Under art. 22, para. 5 of Legislative Decree 249/2012, transactions concluded on the oil platform shall not be subject to excise duties or to the identification of the obliged party mentioned in Legislative Decree no. 504 of 26 October 1995.

³ Accompanying document for duty-suspended goods under excise control (AAD Administrative Accompanying Document) and simplified accompanying document for duty-paid goods (SAAD Simplified Accompanying Administrative Document).

- the ownership of the product and of the related risks will be transferred from the seller to the buyer when the goods cross the flange of the loading or unloading hose of the transport vehicle of the buyer being loaded at the establishment of the seller.

Which of the above conditions may be included in the standard contract? 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?

3.1.2 Order book in catching mode; contractual conditions and general operational procedures

If the participant is offered the option to define other contractual conditions, in addition to the those of the standard contract, on which (and on the relevant documents) GME will not carry out any substantive verification, the assumed platform is the one where the participant may select orders to be executed not on the basis of the best price, but under other decision-making criteria, e.g. the zone of delivery, or anyway on the basis of specific clauses/services that are typical of the supply side (catching mode). In this case, all the contractual conditions underlying each contract to be traded must be defined in a comprehensive way by the selling participant and posted on the platform.

In your opinion, does the catching-mode trading platform respond to participants' needs? Do you think that all the contractual conditions underlying each contract may be published?

4. Conditions of the proposed solution: microstructure

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 to be traded/notification of the ATECO code

Requirements for trading on the platform;

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