



Consultation Document 04/2012

PHYSICAL FORWARD GAS MARKET

October 2012

TABLE OF CONTENTS

TABLE OF CONTENTS	2
1. FOREWORD	3
2. THE CURRENT DESIGN OF GAS MARKETS AND PLATFORMS ORGANISED AND MANAGED BY GME	4
3. THE PHYSICAL FORWARD GAS MARKET	5
3.1. GENERAL ASPECTS	5
3.1.1. The new configuration and the rules of operation of the regulated gas market.....	5
3.1.2. Participation in the market.....	7
3.1.3. Posting of guarantees to cover the values of orders and transactions concluded in the M-GAS 7	
3.1.4. Exclusion from the market, disciplinary measures, complaints and disputes	7
3.2. OPERATION OF THE FORWARD GAS MARKET	8
3.2.1. Products of the MT-GAS and trading period	8
3.2.2. <i>Entry of orders into the MT-GAS</i>	9
3.2.3. <i>Management of the guarantee system</i>	12
3.2.4. <i>Time limits for settlement of payments</i>	13
3.2.5. <i>Market information</i>	13
3.2.6. <i>Error management</i>	13
3.2.7. <i>Default procedure</i>	14

1. FOREWORD

On 1 June 2011, Legislative Decree no. 93 was approved. The Decree (published in “Gazzetta Ufficiale” no. 148 of 28 June 2011 - “Supplemento Ordinario” - hereafter Legislative Decree 93/11) implemented Directives 2009/72/EC, 2009/73/EC and 2008/92/EC concerning common rules for the internal market in electricity, in natural gas and a Community procedure to improve the transparency of gas and electricity prices charged to industrial end users, repealing Directives 2003/54/EC and 2003/55/EC. In particular, with a view to favouring the liquidity of the gas market, article 32, para. 2 of the Decree establishes that: *within six months of the date of enforcement of this Decree, “Gestore dei Mercati Energetici” (referred to in article 5 of Legislative Decree no. 79 of 16 March 1999 - GME) shall take over the management of physical forward markets of natural gas. To this end, “Autorità per l’Energia Elettrica e il Gas” (the electricity & gas regulator – AEEG) shall lay down regulatory provisions enabling GME to carry out such activities and to act as a central counterparty to the trades of participants in the above markets, as a user at the “Punto di Scambio Virtuale” (Virtual Trading Point – PSV) holding an account thereon and as a user of the natural-gas balancing market.*

By agreement with the relevant institutions, GME has prepared this consultation document concerning a forward market design proposal, with a view to gathering comments and inputs from interested parties on the related organisational and operational procedures.

Interested parties should send in their comments in writing to the “**Unità Legale e Regolazione**” (Legal & Regulatory Office) of GME within **12 November 2012** at the latest (end date of the consultation):

- preferably, as an attached file to the following e-mail address info@mercatoelettrico.org
or
- by fax to **+39-06-8012-4524**
or
- by mail to **Gestore dei mercati energetici S.p.A.**
Largo Giuseppe Tartini, 3-4
00198 – Roma

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

2. THE CURRENT DESIGN OF GAS MARKETS AND PLATFORMS ORGANISED AND MANAGED BY GME

Article 30, para. 1 of Law no. 99 of 23 July 2009 concerning provisions on development and internationalisation of companies, as well on energy matters (published in the “Gazzetta Ufficiale” no. 176 of 31 July 2009 – “Supplemento Ordinario” – hereafter Law 99/09), provides that: *Gestore del Mercato Elettrico (referred to in article 5 of Legislative Decree no. 79 of 16 March 1999 – now Gestore dei Mercati Energetici S.p.A. – GME) shall be vested with the economic management of the natural gas market on an exclusive basis. GME shall organise the natural-gas market under principles of neutrality, transparency, objectivity and competition. The natural-gas market rules, prepared by GME, shall be approved by a Decree of the Minister of Economic Development, after seeking the opinions of the relevant Parliamentary Commissions and of the “Autorità per l’Energia Elettrica e il gas” (electricity & gas regulator – AEEG).*

Para. 2 of the same article stipulates that: *within six months from the date of enforcement of this Law, GME shall take over the management of natural-gas demand bids and supply offers and of all related services under the economic merit-order criterion.*

In implementing the above provisions under a gradual approach to the design of natural-gas markets and in accordance with the guidelines given by the Ministry of Economic Development, GME:

- ✓ launched the Platform for the trading of bids/offers of natural gas (P-GAS) on 10 May 2010, in compliance with the Ministerial Decree of 18 March 2010; the provisions governing the Platform are laid down in the P-GAS Regulations, approved by the Ministry of Economic Development on 23 April 2010; on this Platform, importing parties fulfil with their obligation to bid referred to in article 11, para. 2 of Law no. 40 of 2 April 2007 (Imports’ Segment);
- ✓ integrated the provisions of the P-GAS Regulations on 11 August 2010 (approval by the Ministry of Economic Development on 10 August 2010), under the Ministerial Decree of 6 August 2010, by introducing a second segment into the P-GAS, where natural-gas producers fulfil their obligation to bid referred to in article 11, para. 1 of Law no. 40 of 2 April 2007 (Royalties’ Segment);
- ✓ launched the Spot Gas Market (consisting of the Day-Ahead Market, MGP-GAS, and of the Intra-Day Market, MI-GAS) on 10 December 2010, under art. 30, para. 2 of Law 99/09; the provisions governing this market are contained in the Gas Market Rules, approved by the Ministry of Economic Development on 26 November 2012, after seeking the opinion of AEEG, as subsequently amended and supplemented; in this market, participants may purchase and sell volumes of gas pertaining to each gas-day;
- ✓ in implementing AEEG’s Decision 66/2012/R/GAS, amended the P-GAS Regulations (approval by Ministry of Economic Development on 9 March 2012) on 7 May 2012, by introducing a third segment of the P-GAS (Segment as per Legislative Decree 130/10) with effect on 7 May 2012; on this Segment of the Platform, “investors” bid the volumes of gas made available to them as part of the virtual storage service under article 11, para. 1 of

Legislative Decree no. 130 of 13 August 2010¹ on measures for increasing the competitiveness of the natural-gas market and transferring the resulting benefits to final customers in accordance with article 30, paras. 6 and 7 of Law no. 99 of 23 July 2009.

As part of the gas market design, GME also launched the Gas Balancing Platform (PB-GAS) on 8 November 2011, in compliance with article 5 of AEEG's Decision ARG/gas 45/11 of 14 April 2011 (AEEG's Decision ARG/gas 45/11), as subsequently amended and supplemented. On this Platform, the authorised users referred to in article 1, para. 1 k) of the same Decision (users of storage services, except for transmission companies and for users of the strategic storage service alone) daily enter demand bids and supply offers concerning their storage resources, in accordance with the PB-GAS Regulations, approved by AEEG on 28 October 2011 with its Decision ARG/gas/145/11 and as subsequently amended and supplemented.

3. THE PHYSICAL FORWARD GAS MARKET

3.1. GENERAL ASPECTS

3.1.1. The new configuration and the rules of operation of the regulated gas market

The current design of the markets and platforms is bound to evolve towards more mature scenarios, taking into account the above-mentioned regulatory provisions on the introduction of a physical forward market of natural gas. In particular, article 32, para. 2 of Legislative Decree 93/11 provides that *Gestore dei mercati energetici, referred to in article 5 of Legislative Decree no. 79 of 16 March 1999 (.....) - GME - shall take over the management of physical forward markets of natural gas and that, to this end, Autorità per l'energia elettrica e il gas (electricity & gas regulator – AEEG) shall issue regulatory provisions enabling GME to carry out such activities and to act as a central counterparty to the trades of participants in such markets, as a user at the “Punto di Scambio Virtuale” (Virtual Trading Point – PSV) holding an account thereon and as a user of the natural-gas balancing market.*

Pending the above regulatory provisions permitting the take-off of the physical forward gas market, GME has launched a consultation with interested parties on a forward market proposal. The organisation and operation of the proposed forward market are described in this consultation document.

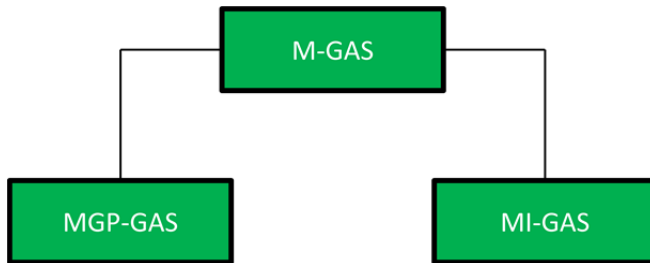
Before entering into the details of the market design proposal, it is worth stressing that the solution envisaged by GME is in line - albeit with some differences explained below - with its experience in electricity markets. Indeed, in reorganising the latter markets, GME added the forward electricity market to the existing spot electricity markets.

In effect, also with regard to the gas trading systems, GME plans to introduce a physical forward market (hereafter MT-GAS), which will integrate the spot gas market in the gas market (M-GAS) design, so as to achieve a new market configuration consisting of the spot market (day-ahead market and intra-day market) and of the physical forward market.

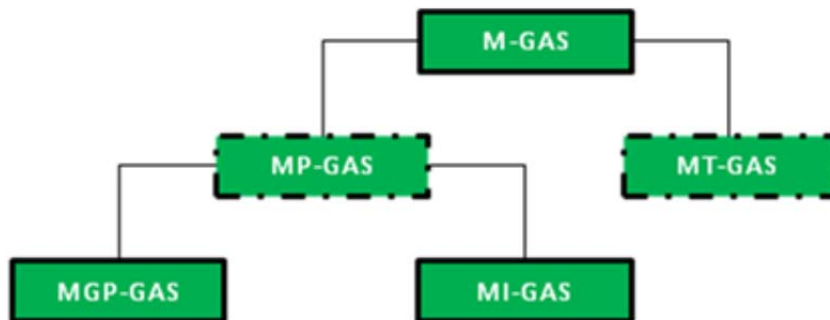
¹ It is worth recalling that the participating investors may fulfil their obligation to bid also or alternatively in the MGP-GAS in accordance with AEEG's Decision 67/2012/R/GAS.

* * *

Current configuration of the M-GAS



Configuration resulting from the proposed introduction of a physical forward market (MT-GAS)



* * *

In pursuing this objective and according to art. 30 of Law 99/09 and to art. 32, para. 2 of Legislative Decree 93/11, GME will issue an Integrated Text of Gas Market Rules. This text will incorporate both the rules governing the spot gas market (now included in the Gas Market Rules, in the version approved by the Ministry of Economic Development on 26 November 2010, as subsequently amended and supplemented) and those governing the physical forward markets referred to in article 32, para. 2 of Legislative Decree no. 93 of 1 June 2011.

This solution is consistent with the aims pursued by the law-makers of developing a forward gas market as a natural evolution of the current M-GAS design, while streamlining operational and regulatory procedures. Indeed, general rules will apply in both the spot market and the forward market, whose participants will only be required to acquire or to have the status of M-GAS participants, regardless of the fact that they intend to trade in the spot gas market (MP-GAS) or in the MT-GAS. As pointed out later, these rules concern in particular the requirements and procedures for participation in the market, the posting of guarantees to cover the value of orders and transactions in the market, the provisions on exclusion from the market, as well as disciplinary measures, complaints and disputes.

Conversely, the issuing of ad-hoc rules on participation in and operation of the forward gas market (namely those regarding the posting of financial guarantees) would represent a mere duplication of operational procedures, potentially making the overall regulatory design too heavy and involving excessive and unjustifiable procedural, operational and economic burdens on participants.

3.1.2. Participation in the market

Thanks to an Integrated Text of Gas Market Rules – a natural evolution of the Gas Market Rules already in force and including not only the current rules of operation of the spot market but also those, to be adopted, of the forward market –, participants that are already authorised to trade in the M-GAS (gas market participants) will be automatically recognised also in the MT-GAS. In effect, in this case, participants that are now active on the M-GAS platform - which will include both the current spot market and the forward market in the new configuration - will not be required to resubmit a market participation application. In practice, they will only have to file a request with GME integrating their previously submitted participation application with the names of the parties authorised to access the MT-GAS on their behalf.

3.1.3. Posting of guarantees to cover the value of orders and transactions concluded in the M-GAS

The advantage of a market design including both the spot market and the forward market and of a single body of rules covering both trading platforms lies in the utilisation of an integrated guarantee system. As it happens in the electricity market, the system will cover both spot and forward transactions. The resulting operational, procedural and economic benefits to participants are significant. Indeed, the latter will post a single financial guarantee (non-interest bearing cash deposit and/or first-demand bank guarantee) and have the option of sharing it between the MP-GAS and the MT-GAS to cover the financial obligations arising in such markets.

For the procedures concerning the operation and management of the guarantee system, see para. 3.2.3 below.

3.1.4. Exclusion from the market, disciplinary measures, complaints and disputes

Just as the provisions on market participation, also the general rules on exclusion from the market, disciplinary measures, complaints and disputes – without prejudice to any regulatory provisions made necessary in some cases by the distinctive features of the spot or forward market - will remain practically unaltered with respect to those in the current version of the Gas Market Rules. As previously mentioned, the only requirement for the application of these rules will not be the admission to the MP-GAS and/or MT-GAS but the status of participant in the M-GAS, which includes both.

3.2. OPERATION OF THE FORWARD GAS MARKET

3.2.1. Products of the MT-GAS and trading period

The contracts tradable in the MT-GAS will be standardised, with a conventional quantity of 1 MWh/day-gas² and a base-load type (1 MWh for each day of the delivery period) with the following delivery periods:

- ✓ **half-yearly contracts:** the winter half-year (from October to March) and the summer half-year (from April to September);
- ✓ **quarterly contracts:** the first, second, third and fourth quarter of each year;
- ✓ **monthly contracts:** each of the calendar months;
- ✓ **BoM (Balance-of-Month) contracts:** the set of the gas-days of a single month in respect of which delivery has not yet taken place.

The minimum tradable volume will be equal to 1 (one) contract.

In particular, under the market design proposal, the following contracts will be simultaneously traded: 1 BoM contract, 3 monthly contracts, 4 quarterly contracts and 2 half-yearly contracts. However, an additional half-yearly contract to be simultaneously traded or, as an alternative to half-yearly contracts, a type of contract with yearly delivery period might be introduced.

GME will organise an order book for each type of contract and each delivery period.

After the expiration of their trading period, forward contracts will be governed by a cascading mechanism. Under this mechanism, at the end of the session of the last day of trading, the positions held on each contract will be replaced by equivalent positions on contracts with shorter maturity, in particular:

- ✓ the position held on a half-yearly contract will be replaced by equivalent positions on monthly and quarterly contracts;
- ✓ the position held on a quarterly contract will be replaced by equivalent positions on monthly contracts;
- ✓ the position held on a monthly contract will be replaced by equivalent positions corresponding to a daily contract and to a BoM contract covering the days missing until the end of the reference month, respectively;
- ✓ the position held on a BoM contract will be replaced by equivalent positions corresponding to a daily contract and to a BoM contract covering the days missing until the end of the reference month, respectively.

The daily contracts (resulting from the application of the cascading mechanism to the BoM contract) will be transferred to and consequently traded in the MGP-GAS, in accordance with the procedures set forth in the current Gas Market Rules. At the end of the related trading period in the MGP-GAS, GME will determine, for each participant, the net delivery position for the gas-day covered by such contracts; the delivery will take place by registering the above-mentioned net position on the PSV.

² Gas-day is defined as a period of time beginning at 06:00 of each day and ending at 06:00 of the following day.

Thus, for each gas-day, the net delivery position³ will be given by the sum of purchase and sale transactions⁴ concluded on any contract concerning such gas-day.

As a result,

- ✓ if the net position is higher than zero, GME will register a sale transaction on the PSV, in the account that the participant holds at the PSV;
- ✓ if the net position is lower than zero, GME will register a purchase transaction on the PSV, in the account that the participant holds at the PSV.

3.2.2. Entry of bids/offers into the MT-GAS

Transactions in the MT-GAS will take place under the continuous-trading mechanism.

The measurement conventions adopted in the MT-GAS will be the same as those in the spot market:

- a) the unit of measurement for gas volumes will be the MWh/day, without decimals;
- b) the unit of measurement for monetary quantities will be the Euro, specified with two decimals;
- c) the unit of measurement of unit gas prices will be the Euro/MWh, specified with three decimals.

Participants must enter their trading orders by specifying at least the following data:

- a) identification code of the participant entering the bid/offer;
- b) type and period of delivery of the contract;
- c) type of order (demand bid/supply order);
- d) volume offered;
- e) unit price for the volume offered.

Participants may enter trading orders in the following ways:

- *Valid until cancellation*: the bid/order is executed, even in part, for the available volumes and on the price terms specified by the participant. Any unexecuted volume will be repropose in the order book until the end of the session, when it is automatically cancelled;
- *Valid until expiration*: the bid/offer is executed, even in part, for the available volumes and on the price terms specified by the participant. Any unexecuted volume will be repropose in the order book until the expiration indicated in the bid/offer, when it is automatically cancelled;
- *Execute and cancel*: the bid/offer is executed, even in part, for the available volumes and on the price terms specified by the participant. Any unexecuted residual volume will be automatically cancelled;

³ For instance, if a participant has concluded a transaction of purchase of the “winter half-year” product for a volume of 1 MWh and has subsequently concluded a transaction of sale of the daily product pertaining to gas-day 1 January for a volume of 2 MWh, then the net position that GME will register on the PSV, in accounts held by the participant and pertaining to gas-day 1 January, will be a sale transaction for a volume of 1 MWh.

⁴ In the calculation of the net delivery position, purchase transactions are considered to have a negative sign, while sale transactions are considered to have a positive sign.

- *Execute or cancel*: the bid/offer is executed only for the entire volume and on the price terms specified by the participant. If, when the bid/offer is entered into the order book, this is not possible, then the bid/offer will be automatically cancelled;
- *All or nothing*: the bid/offer is executed only for the entire volume and on the price terms specified by the participant. If this is not possible, the bid/offer will remain posted in the order book until it is executed and anyway until the end of the session, when it is automatically cancelled.

With regard to the types of bids/offers “valid until cancellation” and “valid until expiration”:

- partial execution of a bid/offer with a price limit gives rise, for the unexecuted part, to a bid/offer that remains posted in the order book with the same price and time priority as the original bid/offer;
- partial execution of a bid/offer without a price limit gives rise, for the unexecuted part, to a bid/offer that remains posted in the order book with the price of latest concluded transaction and the same time priority as the original bid/offer.

Upon entry of bids/offers, the market information system will validate them and check their technical adequacy before transferring them to the order book. In particular, the system will ensure that:

- the participant has not been suspended;
- based on the latest data provided by Snam, the participant is authorised to operate at the PSV;
- the price limits and volumes are respected;
- the available amount of the guarantee is sufficient⁵ (see para. 3.2.3);
- the bid/offers has been entered under the above procedure and contains all of the above data.

The information system will return the outcome of the validation and technical adequacy verifications of bids/offers and:

- if the outcome is negative, it will reject the entry of bids/offers into the order book, specifying the reasons for the rejection;
- if the outcome is positive, it will enter the bids/offers into the order book.

⁵ The available amount of the guarantee is checked for each participant and each product only in respect of demand bids and supply offers with higher price priority (bid/offer *n*). If the bid/offer *n* is being matched, GME will verify the next bid/offer in terms of priority.

In the order book, bids/offers that have been verified to be valid and technically adequate will be ranked in decreasing price order (demand bids) and in increasing price order (supply offers). If bids/offers have an equal price, they will be ranked on the basis of their time of entry. Bids/offers without a price limit will have the maximum price priority.

During the session of the MT-GAS, transactions will be concluded through automatic matching of bids/offers that have been verified to be valid and technically adequate and that are included in the order book and ranked on the basis of priority criteria.

For each concluded transaction, the price will be the one of the bid/offer having time priority.

Demand bids and supply offers will not be matched, if they have been submitted by the same participant.

Upon registration of the net position on the PSV, GME will check whether the following requirements are satisfied:

- a) the participant has not been suspended from the M-GAS;
- b) the guarantee covers the total value of the net position (in case of purchase);
- c) the participant is authorised to operate at the PSV, based on the latest data provided by Snam Rete Gas.

GME's information system will return the outcome of the validity and technical adequacy verifications and:

- a) if the outcome is negative, it will reject the registration of the net delivery position, specifying the reasons for the rejection and activating the default procedure (see para. 3.2.7);
- b) if the outcome is positive, it will allow the registration of the net delivery position, giving rise to the registration, on the PSV, of corresponding transactions having GME as a counterparty.

If the net delivery position is not registered (partially or totally) on the PSV, GME will assign a transaction of opposite sign in the M-GAS to the participant; this transaction will have:

- ✓ a volume equal to the net gas volume which has not been registered at the PSV;
- ✓ a price equal to the price resulting from the MGP-GAS, if the position is closed in this market, or to the price of the PB-GAS, if it is closed on this Platform.

Moreover, under the MT-GAS design proposal, each participant may register in the market the forward contracts that he/she has concluded bilaterally off the market, if these contracts correspond to the types covered by the MT-GAS. However, these contracts must satisfy all the validity and technical adequacy requirements as those covering bids/offers in the MT-GAS.

3.2.3. Management of the guarantee system

As mentioned in para. 3.1.3 above, the participant may use a single guarantee to cover obligations arising in the M-GAS, by specifying - for the transactions to be made in each market making part of the M-GAS - the share of the guarantee to be allocated to covering obligations in the spot market and the share to be allocated to the forward market.

To determine the available amount of the guarantee with respect to which GME will carry out financial adequacy verifications of the bids/offers and transactions made in the M-GAS, reference will be made to the following principles:

- a) the guaranteed amount of participants is decreased by 3% to cover default interest and penalties applied in case of late payment or redemption of the guarantees;
- b) the guaranteed amount of participants with users authorised to enter bids/offers into the MT-GAS will be further decreased by a given amount to cover the risk arising from partial coverage of the financial obligations arising therefrom;
- c) demand bids and supply offers entered into the MT-GAS are considered to be adequate, if the guarantees partially cover the financial obligations arising therefrom;
- d) demand bids entered into the MP-GAS are adequate, if the guarantees totally cover the payables arising therefrom;
- e) the registration of the net delivery position on the PSV (in case of purchase) is considered to be adequate, if the guarantees totally cover the related value;
- f) if the net delivery position cannot be totally registered on the PSV, GME may decrease the available amount of the guarantee in order to inhibit further trades by the participant and thus avoid their non-payment owing to insufficient amount in the registration account;
- g) offsetting of payables/receivables in the MT-GAS and MP-GAS.

In particular, in the structure of the guarantee system proposed for the market design, the available amount of the guarantee posted by the participant for the MT-GAS must cover:

- the maintenance margin, consisting of the set of the decreases of the guaranteed amount mentioned in subparas. a) and b) above;
- the total value of the net positions delivered on the PSV but not yet paid;
- the exposure on the traded contracts, calculated by considering partial coverage of the traded contracts only for the periods for which delivery has not yet taken place;
- the exposure on the bids/offers in the order book, calculated by considering partial coverage of the best bids/offers included in the order book and pertaining to the different types of contracts being traded;
- the exposure on the net positions still to be delivered, calculated by adopting a correction factor taking into account the volatility of the price with respect to which the exposure on the traded contracts has been calculated, as well as the presence of positions of opposite sign on different periods.

Upon entering a new bid/offer into the order book or requesting the registration of a net purchase position on the PSV, GME will check whether the available amount of the guarantee is sufficient to cover the exposure arising from such transactions. If the verification is not successful, the transaction will not be allowed.

3.2.4. Time limits for settlement of payments

In the MT-GAS, the time limits for invoicing and payments will be the same as those applied in the spot gas market, such as:

- ✓ The invoicing period for the billed payables/receivables is the calendar month;
- ✓ The invoicing and settlement of payments by and to GME will take place, for each invoicing period, by the end of the month following the last day included in the invoicing period.

3.2.5. Market information

With regard to the data and information about the MT-GAS, GME's proposal envisages the following information flows, in line with what is observed in the main forward gas markets in Europe:

- ✓ at the end of each market session, publication - on GME's website - of aggregated data on volumes traded in the session and on minimum and maximum prices recorded during it;
- ✓ after each matching, publication - in anonymous form in the MT-GAS information system, in the restricted access section of participants authorised to trade in such market - of the price and volume covered by the matching.

3.2.6. Error management

Under the proposed reorganisation of the natural-gas market, an error management procedure will be introduced, in line with what happens in the main European markets where bid/offer matching is based on the continuous-trading mechanism.

In particular, if a participant has made a clear material error in entering a bid/offer that has been matched, he/she may ask GME to activate the above procedure in order to cancel the concluded transactions.

The request for activating the procedure, to be timely submitted by the participant, must meet the following requirements:

- ✓ the price of the transaction for which the procedure activation is requested must be equal to a theoretical market price, decreased or increased by a specially defined maximum deviation threshold;
- ✓ the gas volume covered by the transaction for which the procedure activation is requested is at least equal to a specially defined theoretically applicable value;
- ✓ after receiving the activation request and checking whether the above requirements are satisfied, GME will notify the counterparty participants involved of the details of the

transactions for which the procedure activation has been requested, asking their permission to activate the same procedure.

The positive outcome of the error cancellation procedure is subject to the permission given by the counterparties involved. GME will notify the possible cancellation to the remaining participants who have submitted bids/offers in the same market session.

In these cases, the participant that has requested the activation of the error management procedure, regardless of its outcome, will be held to pay a fixed fee, whose amount will be determined prior to the take-off of the new market configuration.

3.2.7. Default procedure

Considering the new features of the M-GAS resulting from the introduction of the forward market described in this document, the following default procedure has been assumed:

A participant is in default if he/she is in at least one of the following situations:

- a) he/she has not made payments to GME within the time limits specified in the market rules;
- b) at the end of the trading period and after technical adequacy verifications (see para. 3.2.2), he/she cannot register the net delivery position on the PSV;
- c) he/she has not increased the available amount of the guarantees after GME has verified it as indicated in para. 3.2.3 above.

In cases of default owing to failure to pay or to increase the available amount of the guarantee, GME will:

- a) suspend the participant from the M-GAS;
- b) redeem the guarantees posted by the participant;
- c) close all the contractual positions of the defaulting participant through transactions of opposite sign with the same participant and conclude corresponding transactions in the MT-GAS and/or MP-GAS and/or the balancing system;
- d) may register the net delivery position on the PSV even for applicable periods for which delivery has not yet taken place; this aspect may be revised after the issuing of regulatory provisions enabling the take-off of the forward gas market, as per art. 32, para. 2 of Legislative Decree 93/11.

If the redeemed guarantees are insufficient to cover the debit of the defaulting participant or if the bank issuing the guarantee does not fulfil its obligations, GME will contribute to covering the debits of defaulting participants or the non-payments by the bank issuing the guarantee, by utilising its own funds for a maximum yearly amount allocated for such purpose.

If the own funds of GME are not sufficient to cover the debits of defaulting participants or the non-payments by the bank issuing the guarantee, as it happens in the electricity market, resort will be made, for the uncovered part, to a risk pooling mechanism. However, assessments are being made on the definition of own funds and on the risk pooling mechanism. These assessments may be completed after the adoption of the regulatory pre-requisites favouring the take-off of the MT-GAS as per art. 32, para. 2 of Legislative Decree 93/11.

Under the proposed default procedure, GME shall institute judicial proceedings to recover the amounts due by the defaulting participant or the issuing bank. Any amounts so recovered will be allocated to refunding the portion of debits covered by the assumed risk pooling mechanism.

In case of default owing to non-registration of the net delivery position, GME's proposal envisages the following actions:

- a) possibility of decreasing the available amount of the guarantee (see para. 3.2.3);
- b) assignment to the participant of a transaction in the MP-GAS, having a volume corresponding to the net gas amount which has not been registered on the PSV and a price equal to the reference price of the market on which the position is closed (MP-GAS or PB-GAS);
- c) application of a penalty for each MWh covered by the net delivery position not registered on the PSV.