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EFET statement on the gas 'liquidity corridor' project

Reaction to the proposal of the Italian Ministry of Economic Development

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The European Federation of Energy Traders (EFET[1]) takes the opportunity to comment upon the proposal of a gas 'liquidity corridor', presented by the Italian Ministry of Economic Development (MiSE) as part of the draft National Energy Strategy plan for 2017.

As we understand that MiSE aims to introduce new legislation and launch the measure in the near future, we first highlight that a more transparent and consulted approach would have been required in order to assess carefully the proposal with all stakeholders who could be impacted by the measure. In this regard, we still believe there is a need for a thorough impact assessment, looking *inter alia* at the implications that the measure would have on other European markets and at its compatibility with existing EU rules on the internal energy market and state aid, as well as showing how the potential benefit for consumers has been calculated.

The stated intent of the 'liquidity corridor' is to lower gas prices for Italian final customers, by aligning the PSV and the TTF hub prices: according to MiSE's analysis, the TTF-PSV spread could be narrowed by providing access to capacity on the Transitgas pipeline at significantly reduced tariffs. According to the proposal, a regulated subject would buy back previously sold long-term transportation capacity rights from hub TTF to PSV, NCG to PSV and PEG Nord to PSV. The same regulated subject would then sell those rights on a spot basis via auctions with a reserve price which could be as low as zero; any losses incurred by the regulated subject in the acquisition and resale of the capacity would be socialised among end-users via a tariff component applied to the gas volumes taken from the national grid. In principle, the proposal does not exclude the application of the mechanism on other routes in the future.

As a different but related issue, EFET recognizes that transportation tariffs between major trading hubs in EU are generally higher than the price differentials between the hubs they connect. Price convergence has in part arisen because transportation contracts are regarded as a sunk cost, raising questions over how prices will be set when such contracts terminate, and how TSOs will recover allowed revenues if they are not renewed. The effect of setting tariffs to zero at other interconnection points(IPs) in Europe is to be discussed as part of the European Commission's Quo Vadis study.

Measures to tackle the issues described above should be taken via concerted action at the EU level after a thorough analysis of their impact on total EU welfare and their distributional effects across member states and players along the European gas supply chain.

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[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

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EFET, fears that a unilateral, non-market based initiative on one transportation route only would:

- Be highly distortive to competition between gas suppliers in that:
  - It would relieve selectively only certain network users from their long-term capacity commitments,
  - It would allow a discount on the transmission costs, deviating from the outcome of the tariff methodology otherwise applied to the whole national network;
- Have counterproductive effects on the reliability of the PSV, as price reference of the Italian wholesale gas market. The introduction of an unexpected regulatory measure forcing a sudden and administered modification of the price formation at PSV would discourage Italian and foreign market participants from using this index as a contractual reference for natural gas trading in the short and long term. The impact would be particularly severe should the measure be introduced from Gas Year ’17 as most players on the Italian market have largely defined their portfolio for that period.
- Potentially produce negative impacts on neighbouring hubs in terms of price alteration, which should be hence be considered and taken into account in the overall cost/benefit analysis;

Moreover, activities involving trading of capacity performed by SNAM Rete Gas or any other entity, should stay in the framework of relevant gas and trading legislation and competition law.

EFET therefore does not support undertaking any unilateral action and invites the Italian Ministry, authorities from impacted neighboring countries and European institutions to reflect carefully on the potential negative impacts and on the discriminatory aspect that such project would entail. Any potential proposal to reduce transmission costs at IPs and facilitate further market integration should be considered and assessed at EU level, for instance in the context of the 'Quo Vadis' study by the European Commission and subsequent EU initiatives.

EFET also notes that the goal of greater convergence between the reference gas price in Italy with that of northern European markets could be improved through promoting the implementation of EU Network Codes on Transitgas, where they are not currently applied, particularly in respect of congestion management, anti-hoarding measures and the setting of auction reserve prices for both long-term and short-term capacity.