CONSULTATION RESPONSE

EFET
European Federation of Energy Traders

22 January 2024

EFET response to ARERA on the implementation of a neutrality charge to cover storage of last resort costs

This response is part of our wider advocacy against similar measures being implemented across Europe, which can be found HERE

Key messages

- **The de-linking of prices at adjacent hubs increases market fragmentation** - This had previously been emphasised as a key concern of the European commission Quo Vadis study on the gas market regulatory framework in 2018 that identified that distortive Interconnection Points (IPs) tariffs created barriers to trade, reduced efficiency in balancing and acted against market integration
- **Poorly integrated markets deliver less liquidity** - More expensive capacity resulting from implementing neutrality charges hence raises the threshold of price spreads that must be reached before it is economic to transport gas between neighbouring markets
- **EU Regulation 2022/1032 on storage filling expressly prohibited the collection of compensation from cross-border transmission tariffs** and required that the cost of national storage obligations should indeed be covered by consumers or citizens from the same Member State
- **Tariff and regulatory context which, once defined for a certain period, should remain stable** - The introduction of the proposed fee, starting from 1 April 2024 with annual adjustment, is not considered in line with the principles of stability and regulatory certainty, which is required for market participants to take buying/selling position on the market
- **More transparency is needed** - The amount of the financial resources recovered through the partial sale of last resort volumes and the resources to be recovered should be disclosed. These elements would allow to better understand the quantification of the CRV_{OS}
- **Further action should be taken to mitigate the level of costs that must be recovered** - This includes monetisation of the gas that has been acquired by SNAM and GSE and is being held in storage, which can be offered to market participants as a title transfer in store
- Ultimately, we urge that the costs associated with the gas storage filling volumes contributed by the last resort entities continue being **recovered by selling the procured gas and borne by the domestic exit points in Italy**, as is already the case today

Detailed remarks

1. A Neutrality Charge at Italy's Interconnection Points may protract the spillover of the measure in neighbouring Member States, increasing prices

We understand that ARERA's proposal has been developed as a reaction to the decision of Germany to implement a Neutrality Charge (NC) at cross-border Interconnection Points (IPs). However, as we already witness other Member States considering the implementation of similar charges on interconnection points, such a chain reaction would only threaten supply security across Europe and fragment the single market.

We point to the fact that, following public consultation procedure and the release of the pertinent ACER – CEER views on the draft bill[1], Regulation (EU) 2022/1032 ultimately rules out the recovery of storage compensations from IP tariffs[2].

More broadly, storage levies charged on all gas exiting a given grid go against the spirit of an internal market for gas and weaken the position of the EU on the global market – as such, levies charged at IPs should not be considered under any circumstances. Their existence will undermine the willingness and ability to trade gas or offer solidarity between Member States, leading to market fragmentation, high spreads and an upward pressure on prices.

Therefore, the attempt to transfer the weight of the neutrality charge onto cross-border exits may result in increased prices paid by end customers in Italy.

2. The proposed neutrality charge will have a lasting, negative effect on the attractiveness of the Italian gas market

From a commercial perspective, imposing a NC at cross-border IPs would likely discourage gas re-exports through the Italian gas network, reducing throughput and, in consequence, the transmission services revenues from the sale of exit capacity.

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[1] ACER and CEER views on the proposal for a regulation amending Regulations (EU) 2017/1938 and (EC) n°715/2009 relating to the access to gas storage facilities. Par 4 e): *"Financial compensation should be collected in a non-discriminatory way and not from cross-border transmission tariffs. The cost of national storage obligations should indeed be covered by consumers or citizens from the same MS."* https://www.ceer.eu/documents/104400/-/-/71ed6155-e199-07e1-b564-3e7064d6fea9

[2] Art. 6b of Regulation 2022/1032: *"Member States shall take all necessary measures, including providing for financial incentives or compensation to market participants, to meet the filling targets set pursuant to Article 6a. When ensuring that the filling targets are met, Member States shall prioritise, where possible, market-based measures […]Measures taken pursuant to this paragraph may, in particular, include:[…] (k) collecting the revenues needed to recover the capital and operational expenditures related to regulated storage facilities as storage tariffs and as a dedicated charge incorporated into transmission tariffs collected only from exit points to final customers located within the same Member States, provided that revenues collected through tariffs are not larger than the allowed revenues."*

Specifically, the storage neutrality charge at the level set by ARERA may ultimately hinder gas exports, as trades will be most convenient only in case of an increase of the Italian spread versus prices in foreign hubs. In this respect, we note a negative effect in terms of the possibility of Italy to become a central gas hub for Europe.

Liquidity on the market is established over time and is built on trust, which can be easily undermined through interventions, such as the storage of last resort measure.

Neutrality charge considered under this consultation, that propose to introduce such charge starting from April 2024 (with unprecedented short notice considered the value considered), can only exaggerate the problem, generating losses for shippers who have invested in export capacities from Italy, and in general for those operators who already made commercial decisions relying on a known and shared tariff framework.

The perception of regulatory instability, alongside increased network use costs, will have a lasting negative effect on the performance of the Italian gas hub.

Furthermore, the application of this charge equally to storage exit points would be inconsistent. In fact, this would lead to at least two distorting effects:

i. an unforeseen additional cost for storage capacity conferred on a multi-year basis

ii. as regards storage auctions, the Neutrality Charge would presumably translate into an equal reduction in the value assigned by operators in the bidding phase (bid of storage auctions), this would entail the need for equal socialization through the CRV^{OS} fee. In other words, an application also to storage would be both inefficient and ineffective

3. Costs of the market intervention should be minimized and recovered inside Italy

As foreseen by ACER and CEER in their *views on the proposal for a regulation amending Regulations (EU) 2017/1938 and (EC) n°715/2009 relating to the access to gas storage facilities*, compensation should not be collected from cross-border transmission tariffs, but covered instead by consumers or citizens from the same Member State.

We therefore suggest maintaining the mechanism currently in place and, where possible, to resort to general taxation when considering financing of the storage of last resort measure.

Further action should be taken to mitigate the level of costs that must be recovered. This includes monetisation of the gas that has been acquired by SNAM and GSE and is being held in store.

We would suggest it is more economic to offer the gas as a title transfer in store, rather than withdraw and sell at a suboptimal time or perhaps incurring re-injection costs. It should be clear whether sales of gas in store would include storage capacity rights or whether these should be acquired separately.

The regulatory provisions in force (Legislative Decree 18/10/23, n. 145) provides a deadline for reselling the volumes purchased until 15 October 2024.

The associated revenues from the transfer of ownership will reduce the amount of funds that need to be collected to cover the loss incurred through non-market-based storage filling.

4. Going forward, market-based mechanisms should be favoured over interventionist storage of last resort solutions

As already argued by EFET in the case of other Member States (see EFET position on French storage service of last resort), we suggest that market-based solutions be prioritised as default measures to stimulate injections for compliance with the revised EU Security of Supply Regulation.

In order to ensure greater cost containment for the gas system, as well as to minimise market distortions, we propose that, if the winter/summer spread levels prove to be insufficient for the achievement of intermediate storage targets in the future, the storage service of last resort be replaced by an auction mechanism.

During such auctions market participants could voluntarily offer individual commitment to inject into storage, ensuring that filling targets are met (see EFET letter of March 17th 2023). Such amendments would also help preserve the attractiveness of the Italian gas hub, reassuring shippers that interventions to the market are truly treated as a last resort measure.

Contact

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