

**Proposed amendments to the Regulations of
the Gas Balancing Platform (PB-GAS)
under art. 5 of AEEG's Decision ARG/gas 45/11**

- *Data and information about PB-GAS participants (amendment to art. 21); criteria for determining the remuneration price (amendment to art. 33); cancellation and repeat of the PB-GAS sessions affected by material errors (addition to art. 34) -*

1. Foreword

With its Decision ARG/gas 145/11 of 28 October 2011, “Autorità per l’energia elettrica e il gas” (the electricity & gas regulator, hereafter called “AEEG”) approved the Regulations of the Gas Balancing Platform (PB-GAS) under article 5 of its Decision ARG/gas 45/11, as subsequently amended and supplemented (hereafter called “the Regulations”).

Article 3, para. 3.6 of the Regulations provides that *“GME may propose amendments hereto and notify them to the parties concerned by posting them on its website or by other suitable means, allowing at least fifteen days for submission of comments, if any. Taking into account the comments received, GME shall submit the proposed amendments (and their rationale) to AEEG for approval”*.

GME has prepared this consultation document about proposed amendments and additions to the Regulations, with a view to gathering comments and inputs from interested parties. The proposed changes concern: a) the revision of actions undertaken by GME after verifying, on a daily basis, whether participants meet the authorization requirements; b) the adoption of a different criterion to determine the remuneration price resulting from the PB-GAS market sessions; c) the cancellation and consequent redetermination of the results of a session of the PB-GAS, if GME or Snam Rete Gas (hereafter called “SNAM”) have - within the scope of their activities of definition, loading and processing of data instrumental for the execution of the PB-GAS - committed material errors impairing the correct determination of its results.

In particular, the amendments and additions described in the following paragraphs respond to the following respective requirements:

1. overcoming the operational inflexibilities observed in the application of art. 21, para. 21.3 of the Regulations, which specifies the actions undertaken by GME after verifying the fulfilment of the authorisation requirement for participating in the PB-GAS;
2. redressing operational malfunctions arising from the mechanism currently used to determine the remuneration price, as per art. 33, para. 33.2 of the Regulations and as graphically shown in Annex C thereof, which shows the clearing volumes and prices in the different cases of intersection between the aggregated demand curve and supply curve;
3. on a precautionary basis, adding a specific provision to art. 34 of the Regulations enabling GME – also at the request of SNAM – to cancel a session of the PB-GAS, when material errors have been committed by SNAM or GME itself in their activities of definition, loading and processing of data instrumental for the execution of the market session, and consequently to redetermine the results of the market session affected by said errors on the same day as the one of the cancelled PB-GAS session.

Interested parties should send in their comments in writing to the “**Unità Legale e Regolazione**” (Legal & Regulatory Office) of GME by **5 July 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 comments confidential, please specify which parts of your comments are to be kept confidential.

2. CRITICAL ASPECTS IN THE APPLICATION OF ART. 21, PARA. 21.3 OF THE REGULATIONS AND PROPOSED AMENDMENT

After the take-off of the PB-GAS Platform, some operational inflexibilities arose in connection with the application of article 21, para. 21.3 of the Regulation.

To better describe the above operational malfunctions, it is worth recalling that art. 21, para. 21.1 of the Regulations provides that: *“To verify the fulfilment of the authorisation requirement (authorised user as per art. 1, para. 1 k) of AEEG’s Decision ARG/gas 45/11), GME shall - under the procedures and within the time limits established by GME and Snam Rete Gas in an appropriate agreement - daily acquire from Snam Rete Gas the updated list of authorised users; for each user, the list shall include at least the following data:*

a) identification data;

b) code assigned by Snam to the authorised user.

Conversely, the next para. 21.3 of the same article establishes that: *“If the Participant is no longer an authorised user, as notified by Snam Rete Gas to GME under para. 21.1 above, he/she may not submit bids/offers into the PB-GAS until he/she reacquires such status. If, after five consecutive sessions of the PB-GAS, the Participant has not reacquired the above status, GME shall exclude him/her from the PB-GAS and notify the matter to AEEG”.*

Under the latter provision, if for five consecutive sessions participants are no longer present in the list of authorised users transmitted by SNAM to GME, GME will not only technically inhibit all of their trading activities on the PB-GAS, but also exclude them therefrom (notifying the matter to AEEG, considering that participation in the PB-GAS is mandatory). Therefore, to be able to trade on the PB-GAS again, the participants involved will have to file a new participation application.

Nevertheless, it very often happens that, already in the 24 hours following exclusion from the PB-GAS, the participants involved are entered again into the list of authorised users. However, as they have been excluded from the PB-GAS, they can trade thereon only after filing the documents required for new admission to the PB-GAS with GME.

The reasons for this alternating presence or absence in the list of authorised users transmitted by SNAM to GME are related to: i) the contractual relationship existing between the user and the balancing operator; and, in particular, ii) the fulfilment or non-fulfilment by the user of the requirements laid down in the Network Code, requirements that the user must meet to continue to trade on the PB-GAS that GME organizes and manages on behalf of SNAM.

In particular, the Network Code stipulates that SNAM *“informs the Shipper, first by fax then by letter, of the loss of requirements as well as the deadline from which the termination of the Contract will be effective if the Shipper does not restore the requirements within the time limit set out below. (...)The Shipper must restore the requirements, **no later than one calendar week after the date (inclusive) of the communication regarding loss of requirements”**.*

It follows that the user will be present in the list of authorised users transmitted by SNAM to GME only if he/she/it meets the above requirements. Thus, the user will be present in the list only after honouring his/her/its obligations towards SNAM.

It goes without saying that, under both art. 21, para. 21.3 of the Regulations and the Network Code, it may easily happen that, in the period that the user has available to honour his/her/its obligations towards SNAM (see Network Code, (...) **no later than one calendar week after the date (inclusive) of the communication regarding loss of requirements**), the deadline of the **five consecutive sessions of the PB-GAS** may expire (see art. 21.3 of the Regulations); after such expiration, GME will exclude the participant from the PB-GAS.

As extensively described above, as a result of the combination of the above provisions, if GME has already excluded the user from the PB-GAS, the user will have to resubmit the application for participation in the PB-GAS. Moreover, the user might be subject to the penalties inflicted by AEEG because: in the meantime, the procedure of admission of the participant to the PB-GAS might not have been finalised and the user might not be readily in the position to enter bids/offers into the PB-GAS.

Considering i) the frequent recurrence of the alternating presence or absence of one or more participants in the list of authorised users and ii) the aforementioned operational complexities that this presence or absence causes to the process of admission to the PB-GAS, GME proposes an amendment based on the elimination of the exclusion provision from art. 21, para. 21.3 of the Regulations, as shown in the following tables of proposed amendments/additions.

In this regard, it is worth pointing out that the above amendment would not impair the proper operation of the PB-GAS: even after eliminating the provision that participants not qualifying as authorised users (based on the data provided by SNAM) are excluded from the PB-GAS, such participants would be technically inhibited from trading on the PB-GAS as of the time of the loss of the above qualification.

3. CRITICAL ASPECTS IN THE APPLICATION OF ART. 33, PARA. 33.2 OF THE REGULATIONS AND PROPOSED AMENDMENT

Since 1 April 2012, some operational malfunctions have been observed in the application of art. 33, para. 33.2 of the Regulations and, consequently, of Annex C thereto; the latter Annex graphically shows the various assumptions of operation of the mechanism used to determine the remuneration price for valuing accepted bids/offers.

To better explain the issue and the proposed remedies, it is worth recalling the content of art. 33, para. 33.2 of the Regulations. In explicitly transposing art. 7, para. 7.4 of AEEG's Decision 45/11, art. 33, para. 33.2 provides that: *"the remuneration price of the volumes of combined bids/offers is equal to: i. the price associated with the bid/offer of Snam Rete Gas, if the volumes of the Participants' bids/offers which have been accepted are lower than those associated with the bid/offer of Snam Rete Gas; ii. the price of the latest accepted bid/offer of a sign opposite to the one of the bid/offer of Snam Rete Gas in all other cases"*.

Since 1 April 2012, with the lapse of the transitory provision of art. 51 of the Regulations (transposing art. 13, para. 13.2 of AEEG's Decision ARG/gas 45/11), the rule for matching SNAM's bid/offer has taken into account all the bids/offers submitted by participants, whatever their sign, and not only those of a sign opposite to the one of SNAM's bid/offer¹. Within this new system, the application of art. 33, para. 33.2 of the Regulations (determination of the results of the PB-GAS) has in some cases produced results that were inconsistent with the basic principle, under which "all supply offers with a price lower than the clearing price and, likewise, all demand bids with a price higher than the clearing price are accepted"².

In particular, in some sessions of the PB-GAS in the period from May to August 2012, the following abnormal events arose upon the determination of market results:

- a)** failed acceptance of demand bids with a price higher than the clearing price;
- b)** failed acceptance of supply offers with a price lower than the clearing price.

¹ Until 31 March 2012, GME combined SNAM's demand bid or supply offer only with bids/offers of opposite sign entered by participants.

² Supply offers and demand bids with a price equal to the clearing price may be accepted for the entire or partial volume offered, or rejected depending on the ways in which demand and supply curves intersect and on the priority order assigned to bids/offers with the same price.

As substantiated by quantitative analyses conducted by GME, if the bid/offer acceptance rule of art. 33, para. 33.2 of the Regulations had been based on the least-cost criterion - under which the remuneration price would have been equal to the least cost (determined on the basis of demand bids and supply offers verified to be valid and technically adequate by GME) to satisfy an increase in gas withdrawal - rather than on the current criterion, the results of the PB-GAS would have been consistent with the above-mentioned principle (acceptance of all supply offers with a price lower than the clearing price and, likewise, acceptance of all demand bids with a price higher than the clearing price).

Hence, taking also into account the results achieved in the above-mentioned GME's simulations and positive opinions received about the application of the least-cost criterion in the electricity market, we propose - as envisaged by AEEG in its Consultation Document DCO 218/2013/R/GAS - to amend art. 33 of the Regulations as shown in the tables below and, accordingly, to change Annex C thereto, which graphically shows the various cases of determination of the results of the PB-GAS.

4. CRITICAL ASPECTS DUE TO THE LACK OF A PROVISION ON CANCELLATION AND CONSEQUENT REPEAT OF A SESSION OF THE PB-GAS AND PROPOSED ADDITION

With a view to guaranteeing the execution of PB-GAS market sessions, GME and SNAM – each within the scope of its responsibilities – carry out activities of definition, loading and processing of data and information that are instrumental for determining the results of each session. With regard to these activities, the current Regulations do not contain any explicit provision that allows GME to manage and redress situations where GME or SNAM have committed material errors impairing the good outcome of a session of the PB-GAS.

In fact, the possible errors which may arise in connection with the results of a session of the PB-GAS are related to the operational procedures of management and utilization of gas in storage within the balancing system – pursuant to AEEG's Decision ARG/gas 45/11. Under this decision, if the balancing operator has made gas movements at the storage facilities to offset the overall system imbalance in real time, then, on the day after the physical network balancing, the balancing operator must commercially allocate (under the merit-order criterion) the volumes of gas in storage moved on the previous day to the various authorised users that are held to enter demand bids or supply offers into the PB-GAS. In particular, in the corresponding session of the PB-GAS, SNAM (as balancing operator) must enter a demand bid or supply offer corresponding to the overall system imbalance for each gas-day, in accordance with art. 28 of the Regulations and notify GME – under art. 31 thereof – of the overall daily minimum and maximum purchase and sale limits for the volumes that each authorised user is required to offer on the PB-GAS, depending on the volume of gas in storage that he/she/it has available.

Considering that the balancing operator’s activities of definition, compilation and loading of such data and information, in preparation for the execution of the PB-GAS, may be affected by material errors and that GME may, within the scope of its responsibilities, commit material errors in the activities associated with the execution of the PB-GAS, the need arises, on a precautionary basis, for introducing a specific provision into art. 34 of the Regulations. This provision would - under the above-mentioned circumstances - enable GME to cancel the PB-GAS session affected by errors and to repeat the session on the same day as the one of the cancelled session. Also SNAM may notify GME of the need for repeating the market session whose results are altered by material errors and, anyway, GME will timely notify participants thereof.

The addition of this provision would cause no prejudice to participants in the PB-GAS or to the overall balancing system. Additionally, subject to the current physical network balancing criteria, this provision would make it possible, even in spite of errors by GME and/or SNAM, to preserve an adequate commercial allocation of the flexible resource traded on the PB-GAS, already physically moved by the balancing operator on the previous day.

To enable readers to more immediately understand what has been described so far, the following tables show the proposed amendments to article 21, para. 21.3, and to article 33, para. 33.2, as well as the proposed addition to art. 34 of the Regulations.

TITLE II

ADMISSION TO THE PB-GAS

Article 21: “Data and Information about PB-GAS Participants”

The text of Article 21, para. 21.3 is amended as follows:

Current text	New text
<p>(omissis) 21.3 If the Participant is no longer an authorised user, as notified by Snam Rete Gas to GME under para. 21.1 above, he/she may not submit bids/offers into the PB-GAS until he/she reacquires such status. If, after five consecutive sessions of the PB-GAS, the Participant has not reacquired the above status, GME shall exclude him/her from the PB-GAS and notify the matter to AEEG.</p>	<p>(omissis) 21.4 If the Participant is no longer an authorised user, as notified by Snam Rete Gas to GME under para. 21.1 above, he/she may not submit bids/offers into the PB-GAS until he/she reacquires such status. If, after five consecutive sessions of the PB-GAS, the Participant has not reacquired the above status, GME shall exclude him/her from the PB-GAS and notify the matter to AEEG.</p>

TITLE III
OPERATION OF THE PB-GAS

Article 33: “Results of the PB-GAS”

The text of Article 33, para. 33.2 is amended as follows:

<i>Current text</i>	<i>New text</i>
<p><i>(omissis)</i> 33.2 GME shall accept the technically adequate bids/offers entered by Participants in accordance with what is specified in Annex C and in such a way that:</p> <p style="margin-left: 40px;">a) the net value of the resulting transactions is maximum, provided that the gas volume of accepted supply offers is equal to the gas volume of accepted demand bids;</p> <p style="margin-left: 40px;">b) the remuneration price of the volumes of combined bids/offers is equal to:</p> <p style="margin-left: 80px;">i. the price associated with the bid/offer of Snam Rete Gas, if the volumes of the Participants’ bids/offers which have been accepted are lower than those associated with the bid/offer of Snam Rete Gas;</p> <p style="margin-left: 80px;">ii. the price of the latest accepted bid/offer of a sign opposite to the one of the bid/offer of Snam Rete Gas in all other cases.</p>	<p><i>(omissis)</i> 33.2 GME shall accept the technically adequate bids/offers entered by Participants and determine the corresponding remuneration prices in accordance with what is specified in Annex C and in such a way that:</p> <p style="margin-left: 40px;">a) the net value of the resulting transactions is maximum, provided that the gas volume of accepted supply offers is equal to the gas volume of accepted demand bids;</p> <p style="margin-left: 40px;">b) the remuneration price of the volumes of combined bids/offers is equal to:</p> <p style="margin-left: 80px;">i. the price associated with the bid/offer of Snam Rete Gas, if the volumes of the Participants’ bids/offers which have been accepted are lower than those associated with the bid/offer of Snam Rete Gas;</p> <p style="margin-left: 80px;">ii. the price of the latest accepted bid/offer of a sign opposite to the one of the bid/offer of Snam Rete Gas- the least cost - determined on the basis of technically adequate demand bids and supply offers - to satisfy an increase in gas withdrawal in all other cases.</p>

	<p>c) <i>except in the case referred to in para. 33.2</i></p> <p>b) <i>i., only the following bids/offers are accepted:</i></p> <ul style="list-style-type: none"> <li data-bbox="997 315 1445 472"><i>i. supply offers whose offered price is not higher than the price referred to in subpara. b) ii.;</i> <li data-bbox="997 483 1445 640"><i>ii. demand bids whose offered price is not lower than the price referred to in subpara b) ii.</i>
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Article 34: “Notification of the Results of the PB-GAS”

The following text will be added to Article 34:

	<p style="text-align: center;">New text</p> <p>(....)</p> <p>34.3 <i>If GME and/or Snam Rete Gas determine that that they have committed material errors in carrying out activities of definition, compilation, loading and processing of data and information instrumental for executing a session of the PB-GAS, GME shall, also at the request of Snam Rete Gas, cancel such session and determine its results again under Article 33 above, within the same day as the one of the cancelled PB-GAS session. GME shall timely notify Participants thereof.</i></p> <p>34.4 <i>GME shall publish and notify Snam Rete Gas of the results of the PB-GAS session mentioned in para. 34.3 above in accordance with the procedures and within the time limits specified in paras 34.1 and 34.2 above, respectively.</i></p>
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