

To: *ERGEG* European Regulator's
group for electricity and gas

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Edison S.p.a. comments on the ERGEG consultation papers “Secondary markets: the way to deal with contractual congestion on interconnection points”

Please find enclosed Edison's comments on the present process.

Regards



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Secondary capacity market is an issue being discussed in most of the gas related organisations (GIE, EASEE – gas, EFET etc) and this reveals, on one side the trust the operators have in this mechanism to resolve congestion problem. On the other, such an attention shows the necessity to improve and implement this instrument, to use it as an effective congestion management tool.

For this reasons, Edison welcomes the decision of ERGEG to cope with the developing of secondary capacity markets, as well as the opportunity to contribute to this review as part of the public consultation process.

DISCUSSION POINTS

Please comment whether you feel the outcomes of the qualitative and quantitative study on the performance of the secondary market in the North-West gas Regional Energy Market of the Gas Regional Initiative reflect the performance of the secondary markets in the whole of Europe

As far as from its recent experience abroad, Edison believes that the outcomes of the study on the performance of the secondary market in the North-West gas Regional Energy Market reflect correctly the performance of the secondary markets in the whole of Europe too: active secondary markets – when exist - are illiquid, firm UIOLI has never been applied and interruptible capacity is the principal congestion management procedure.

Moreover, also in Edison's opinion, it is true that primary capacity right owners see other uses for capacity rights than offering them on the secondary market. Regarding this last point, and in particular the reasons why shippers don't offer capacity on the secondary markets, Edison believes that the main motivation should be envisaged in the various shortcomings on the secondary markets.

After all, it is unreasonable to think that, with a well functioning secondary market, a shipper would prefer not to offer its "unneeded" capacity, even if facing with low prices on the primary market. Shortcomings are definitely the main reason not to



participate to the secondary market and not to use it as a tool to resolve market congestion.

Ergeg identifies the following main shortcomings:

- non-transparency on available capacities, prices and capacity products,
- the lack of anonymity in trading,
- the lack of coordination between markets on the same interconnection points
- irregular trade (no concentration of supply and demand on fixed times);
- lack of standardized contracts;
- a relatively long ratification time of a transaction by the TSOs.

All the factors identified above contribute in deterring operators from trading on the secondary markets. Among them, Edison would like to stress the **non transparency one**: a better information about the capacity utilization rate at the interconnections would be a first “reasonable” step to implement (as an example, the TSO could communicate the rate of utilization of at the entry points the day ahead). It is a fact that today, operators don’t know most of the time the amount of available capacity at the interconnections.

Finally, Edison suggests the idea to extend the research on secondary markets already done in the North West to the rest of Europe, not only considering the present consultation, but also by submitting the same questionnaires already utilized with the Nord - West to the interested stakeholders and by realizing interviews with them.

In this way, a certain uniformity in the data collection would be achieved.

Please advise on how you suggest to improve the secondary market design for transportation capacity products (e.g. week/month/season/year(s))

Edison believes that increasing the number of products offered (weekly/monthly/seasonally) is an essential condition to make the secondary market more attractive, such as the possibility to exchange both interruptible and continue capacity. As a method of facilitation, a central market place should be organized (in



different locations), taking care of the coherence (in terms of time table and ties) of all the operations that an operator has to make along the entire gas value chain.

Such a system should facilitate market development and ensure that products (both long and short term) and segments of products (comprising shorter contract periods and/or smaller amounts than the original purchased capacity) available on the primary market, are also made available on the secondary market

In addition, a framework of standard terms and conditions that shippers need to sign before they are eligible to use the capacity trading system should be implemented, also to make the capacity readily available. Such terms and conditions have the scope to standardise the rights and obligations of the parties with regard to the provision, trade and use of the capacity and ensure that participating stakeholders have appropriate financial strength to trade in the system. On the contrary, only when the process is concluded there could be the evidence the transaction can not conclude for whatever reasons (for example because the seller don't have all the capacity sold or the buyer is not able to meet its financial commitment).

The trading mechanism of secondary capacity rights could be thought as the following:

- First step: submission of **anonymous** bids/offers by market participants (anonymity must be guaranteed until the end of the transaction)
- Second step: matching of the offers
- Third step: stipulation of **standardised contracts** between the two parts with an automatic notification of the transaction to the TSO.

Please comment on the possible ideas to enhance UIOLI provisions. Which possible (positive) incentives are there for shippers to offer capacity on the secondary market?

The main difficulty to apply the UIOLI provisions is to prevent hoarding for anti-competitive reasons. Additionally, a stricter application of UIOLI could affect contractual flexibilities and liabilities of the shipper and limit its contractual



opportunities. As a consequence, in Edison's opinion, it is strongly preferable the creation of positive incentives for shippers to offer capacity on the secondary market. As said before, the main incentive is the creation of a secondary market characterized by well defined and clear rules. Once the shortcomings - correctly identified by ERGEG – are filled up, it is unreasonable to think that a shipper would prefer not to offer its “unneeded” capacity.

Please, comment on the further thoughts on the way forward

Edison strongly supports Ergeg's idea of improving the secondary market design. Once done, we think that operators – as “rational” operators- would be automatically encouraged to trade their “unneeded” capacity on it.

Moreover, generally speaking, positive incentives are highly preferable to negative ones (like the UIOLI mechanism) and in our opinion, if correctly defined, they are also sufficient to increase the offer of “unneeded” capacity on the secondary market.