



**Consultation paper no. 01/2018**

## **Market for Certificates of release to consumption of biofuels**

## 1. Foreword

With Decree of 2 March 2018, on *“Promoting the use of biomethane and other advanced biofuels in the transport sector”* (hereinafter: Inter-ministerial Decree of 2 March 2018), published in the Official Gazette General Series n. 65 of 19 March 2018, the Minister of Economic Development, in agreement with the Minister for the Environment and the Protection of Land and Sea and with the Minister of Agricultural, Food and Forestry Policies, amended and integrated, among other things, the previous provisions adopted with Ministerial Decree of 10 October 2014 on *“Updating the conditions, criteria and methods for implementing the obligation to release biofuels for consumption, including advanced ones”*.

The provisions introduced by the Inter-ministerial Decree of 2 March 2018 include, for the purposes of this document, Article 11, paragraph 1, subpara. r), which integrates Article 6 of the Ministerial Decree of 10 October 2014, stipulating that *“In addition to the GSE computer portal [...] CICs are also traded on the exchange venue organized by Gestore dei Mercati Energetici, as referred to in Article 5 of Legislative Decree of 16 March 1999, no. 79 (GME), according to a set of operational rules, proposed by GME and approved by Decree of the Director General of the Directorate General for Security of Supply and Energy Infrastructure (DGSAIE) of the Ministry of Economic Development”*.

In order to implement the aforementioned provision, GME identified a possible model for the operation of the CIC market, detailed in this Consultation Paper and submitted for public consultation in order to collect comments from the stakeholders.

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All interested parties can therefore provide their comments with reference to what is described in this document.

These comments must be sent in writing to GME - **Governance Department**, no later than the **11<sup>th</sup> of May**, the closing date of this consultation, by:

- e-mail: [info@mercatoelettrico.org](mailto:info@mercatoelettrico.org)
- fax: **06.8012-4524**
- post: **Gestore dei mercati energetici S.p.A.**  
**Viale Maresciallo Pilsudski, 122 - 124**  
**00197 – Roma**

Parties wishing to safeguard the confidentiality or secrecy, in whole or in part, of the documentation submitted are required to indicate which parts of their documentation are to be considered confidential.

## 2. Introduction

As known, the Certificates of biofuels injection for consumption (hereinafter: CIC) have been introduced into the national legislation with the primary aim of verifying the fulfillment of the Community obligation, of release for consumption in transport, of a minimum share of biofuels by petrol and diesel suppliers (so-called Obligated Entities<sup>1</sup>).

Under this scope, Article 6 of the Ministerial Decree of 10 October 2014 - on "*Updating the conditions, criteria and procedures for the implementation of the obligation to release biofuels for consumption, including advanced ones*" - provides that the Gestore dei Servizi Energetici - GSE S.p.A. shall release a number of CICs according to the amount and typology of biofuels or advanced biofuels injected for consumption.

Obligated Entities who had not physically injected their own quota of biofuel obligations may therefore fulfill their obligations either by purchasing CICs from other Obligated Entities in excess of certificates, having introduced more biofuels than their own minimum quota, or from other parties that, under the current legislation, are entitled for the issuance of CICs as producers who have injected biofuels for consumption.

To this end, GSE provides a dedicated computer portal (i.e. BIOCAR platform) where both the CICs issued and those transferred between parties are recorded on each account owned by the admitted parties.

More generally, it should be noted that the CIC mechanism has been amended by the Inter-ministerial Decree of 2 March 2018, with the provision of additional measures to support the use of biomethane, including advanced biomethane and other advanced biofuels, within the transport sector.

In particular, given the specific purposes of this Consultation Paper, it should be noted that the Inter-ministerial Decree of 2 March 2018, in Article 11, paragraph 1, subpara. r) - integrating the provisions referred to in Article 6 of the Ministerial Decree of 10 October 2014 - provides that "*In addition to the GSE information portal (i.e. BIOCAR), CICs are also traded on the exchange venue organized by Gestore dei Mercati Energetici, as referred to in Article 5 of Legislative Decree 16 March 1999, no. 79 (GME), according to a set of operational rules, proposed by GME and approved by Decree of the Director General of the Directorate General for Security of Supply and Energy Infrastructure (DGSAIE) of the Ministry of Economic Development*".

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<sup>1</sup> Entity responsible for the payment of excise duty on petrol and diesel released for consumption on the national territory.

In order to implement the aforementioned regulatory provision, GME has identified a design model for the new market for the exchange of CICs, in line with the design currently adopted for other markets, where GME already organizes trading of certificates issued in order to support the production or use of energy from renewable sources and the implementation of energy saving measures.

In this approach, the venue for CICs trading would be placed within the broader set of environmental markets, currently organized by GME, and would adopt the same main features, described in detail below, including the role for GME of central counterparty in the negotiations.

### **3. Proposal for a design model for the management of the CIC market**

The organization of the market identified by GME for CICs trading will be provided with a system of bids/offers based on **order books**, each corresponding to one of the specific typology of CIC issued by the GSE.

Trading procedures organized by type of certificate allow participants – as a feature of market operation - to assign different economic values to CICs according to the different classification of biofuels entitled for the emission of certificate.

In order to ensure registration into the BIOCAR portal of all the transactions that take place on the market, the proposed design model provides that, among the operational requirements, admission to submit bids/offers on the trading system, is granted only pursuant to the ownership of an **active property account on the BIOCAR** portal, where the amount of certificates belonging to each participant is recorded.

In particular, mandatory ownership of a property account on the BIOCAR portal is functional, on one hand, to verify for each submission of sell order the actual availability of the relative certificates on the account of the offering party, and on the other to provide a system for the registration of all tradings of certificates occurred on the market.

In order to perform the availability check of certificates before trading execution and execute the update of the accounts after each trading session, an exchange of information flows between GSE and GME will be implemented and made operational.

With regard to trading procedures, as provided on the other environmental markets organized by GME, trades will be executed in each order book, according to the **continuous trading** model, i.e. through the

automatic combination of purchase and sale orders, with the possibility of submitting new orders continuously during the trading sessions.

In order to ensure successful execution of transactions, **GME** will operate as the **central counterparty of the transactions**. This feature, while ensuring certainty to trades, represent an incentive to participate in the market by the interested parties and, therefore, a measure capable of attracting liquidity and, indirectly, promoting the development of the certificates system itself.

In particular, **delivery of the certificates** purchased on the market will be guaranteed by the prior availability check that GME will carry out on the account of the party submitting the sale order. To this end, certificates belonging to each participant submitting sell orders will be made "unavailable" for the entire duration of the market session.

With reference to the **successful payment of the countervalue of the transactions, such** will be ensured under the provision that each buying party will have to establish a non-interest bearing cash deposit on a GME account, to fully guarantee the purchases resulting from the execution of buying order on the market, with the possibility of pay-back, upon request of the participant, for any excess part of the deposit considering its net position. GME, at the end of each trading session:

1. will invoice every debtor party, on the working day following the reference session, the amounts relating to the purchase resulting from the transactions concluded;
2. will communicate to each creditor party, no later than a working day following the closure of the reference session, the amounts resulting from the sale transactions concluded, in order to allow the party to make available the corresponding invoice to GME on the SetService platform normally within two working days following the closing day of the reference session.

As part of the consequent settlement activities, GME will ensure that the receivables due from its net debtor participants are repaid by using the guarantee deposit previously established by the buying parties and, in case of invoices received via the SetService platform, that the payment of the amounts due to their net creditor parties is made on the third working day following the reference session.

With reference to the **timing of trading sessions**, a calendar for their execution will be provided on an annual basis. The number and frequency of sessions will take into account general market conditions. In this regard, additional sessions - different from those usually scheduled - will be eventually organized if needed, before the expiry of the obligation, in order to allow the Obligated Entities to purchase the CICs necessary for compliance purpose and, to those having CICs in excess, to sell them in the organized market.

The participation to the CIC market will be voluntary and will imply the payment of fees that will be set by GME in compliance with the general principles of process effectiveness and economic efficiency, and disclosed to participants in view of the operational go live of the market.

The rules for admission, participation and functioning of the regulated CICs market, as well as the provisions relating to the invoicing and payments of transactions and fees due to GME, will be governed by a specific Regulation that, as described in the introduction, pursuant to of the aforementioned Inter-ministerial Decree of 2 March 2018, will be prepared by GME and approved by "*Decree of the Director General of the Directorate General for Security of Supply and Energy Infrastructures (DGSAIE) of the Ministry of Economic Development*".