

Consultation Document 04/2015

PROPOSED AMENDMENT OF THE BILLING AND PAYMENT TIMING ON THE GAS MARKET

1. Introduction

Further to the DCO no. 01/2015, where GME showed a first proposal to amend the settlement rules on the gas market (MGAS), this consultation shall be submitted to the Market Participants in order to propose them an updated version of the proposal already mentioned with the above DCO, in order to harmonize the billing and payment cycle of the MGAS with the timing and the manner prescribed for the Electricity Market (ME) and the PCE as part of the DCO no. 07/2014.

In particular, the proposal set out below – by introducing a payment schedule on a weekly basis on the natural gas market, henceforward named as $W + 1$ – would allow a further step forward in the process of harmonization of the standards between the different rules, at least with reference to those areas whose provisions can be applied in a transversal manner to the different markets of GME.

In addition, this proposal is intended to meet the needs expressed by Market Participants in response to the DCO 422/2015 / R / gas, namely promoting the new system of balance also through the reduction of the "financial stress" related to guarantees that the Market Participants has to submit to GME, taking measures such as reducing the payment cycle.

Indeed, it is recalled that the implementation of a reduced settlement cycle, compared to the current timing, would result in a significant benefit to the Market Participants in terms of lower total charges related to their participation in the market, thus reducing the exposure of each of them to GME in terms of guarantees.

For completeness, it should be noted that the comments contained in this document refer to the guarantee scheme currently in force, but remain valid, *mutatis mutandis*, even in the presence of the future integrated guaranty system referred to in the DCO 05/2014.

Stakeholders are invited to submit their comments with reference to the operating methods described in the document.

Such comments must be received, in writing, by GME– Relazioni Istituzionali e Comunicazione, no later than Friday 11 December, the end date of this consultation, by one of the following ways:

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Fax: 06.8012-4524

mail: Gestore dei mercati energetici S.p.A.



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Those wishing to safeguard the confidentiality or secrecy, in whole or in part, of the documents sent are required to indicate which parts of their documents shall be treated as confidential.

2. Proposal for a regime solution for the harmonization of the billing and payment

The proposal aims at reducing the settlement cycle applied at the day-ahead market (MGP-GAS), the Intra-Day Market (MI-GAS) and the futures gas market (MT-GAS), from a monthly basis (M + 1) to a weekly one (W + 1).

The implementation of the settlement cycle on a weekly basis will evolve while leaving unchanged the invoicing and payment timing for the Market Participant unbalanced net position registered at PSV (Virtual Trading Point). Indeed, billing and payments of these items, attributed to the Defaulting Participant, will continue to be managed according to the schedule identified for this purpose in the DTF rev.1 MGAS 10, that is three months later the imbalance on PSV (M+3)¹. In addition, the determination of fees and fund contributions as well as any penalties applicable to Defaulting Participants will maintain the current invoicing and payment timing, which is referred to the calendar month.

Similarly to what described in the DCO no. 7/2014, the implementation of this proposal leads to a more efficient guaranty system, because the financial resources provided by the Participants to secure the transactions made by them on the market, will be immobilized for a shorter period than the current one, thus reducing considerably the duration of exposure to the risk.

The *settlement* model proposed by GME for the gas market is based on the following principles:

- a) the calculation of the balance of the items to be settled is made and notified on a weekly basis;
- b) consequently the settlement of payments relating to net obligations and claims held to GME occurs weekly;
- c) the settlement of payments related to net obligations towards GME is via the instrument SEPA² Direct Debit Business to Business (hereinafter referred to as SDD B2B), while the settlement of payments related to the net credit positions is carried by GME through the SEPA Credit Transfer *Urgent* or *Priority* settled with value of the same date;

¹ This will be at least until the go live of the new Balancing System provided in accordance with the Resolution of 07/10/2015- 470/2015/R/gas.

² Acronym for Single Euro Payments Area.

- d) in line with what is currently the case, GME pays its net creditors only after the final receipt of the amount due from net debtors;
- e) non-interest-bearing deposit in cash will be for Participant of Public Administration (PA) the only form of guarantee permitted to operate on the gas market. Non-PA Participants will continue to submit financial guarantees both in the form of non-interest-bearing deposit in cash and through a bank guarantee on first demand;
- f) the settled positions billing takes place on a monthly basis in arrears.

With regard to item a), the proposal provides that at the end of a calendar week (W), which runs from Monday (T-6) to Sunday (T), it is determined in the overnight *batch* (between Sunday and Monday) the net balance of the items to be delivered from T-6 to T (See Figure 1).

In this way, the next morning (on Monday), the Market Participant net buyer can immediately get feedback from GME on the balance to settle, making the necessary liquidity for the purpose of the charge available on his/her/its account in a timely manner.

The current activities of provision of communications of pro-forma invoices about the items subject to settlement during the billing process will be reformulated to make it compatible with the new timing suggested. Consequently, any dispute as to the settlement operations will be disseminated on the basis of the evidences of weekly balances of the transactions, within a period of time set and in any event within the same day of arrangement of the payment, while the complaints of the invoicing will take place downstream the completion of the monthly billing, referred to in item f).

In the hypothesis that W + 1 on the MGAS is started prior to W + 1 on the ME, which would retain monthly timing of settlement, the two different settlement cycles will coexist - at least during a first phase - by determining two separate balances, one for the MGAS and one for the ME. In a second phase, in the same week including the settlement of the ME (monthly) and the settlement of the MGAS (weekly), the *settlement* of the two balances will converge in order to get a net balance between ME and MGAS. In the regime phase, following the entry into force of the weekly payment even on the ME, the Participants presenting positions both on the ME and on MGAS will systematically benefit of the netting through the determination of a single weekly balance.

In relation to the items b) and c), it is expected, only in the event of payment of the Participant net debtor towards GME, the use of the payment instrument identified by the European Union, the SDD B2B³, allowing

³ Instrument already implemented in Europe on similar markets.



to place inside SEPA countries⁴ collections based on a prior agreement (the so-called mandate⁵) between the debtor and creditor. It is therefore necessary that the service is provided by the debtor's bank⁶.

The SDD B2B consists essentially in a permit (the so-called mandate) issued by the debtor to the creditor to withdraw the funds, through his/her/its bank (i.e. the creditor bank), directly from the account of his/her/its debtor.

With regard to the activation of the payment instrument, GME, as entity creditor, shall:

1. collect and preserve the mandates signed and submitted by all Participants to the MGAS;
2. make a transmission test of the SDD B2B channel against banks identified by the Participants in the mandate so as not to encounter any hindrance at the first pay date with weekly settlement.

At the operational level, GME assumes to test this channel previously with respect to the go live of the new settlement cycle proposed by the transmission of a first nominal charge of 1 €, which also contains details of the mandate, to the banks identified in the documentation referred to in item 1. After ensuring the success of such a charge with banks of all Participants who are already allowed to operate on the gas market:

- The channel will be considered open;
- The amount used in the test will be returned by GME to the Participants via SEPA Urgent Credit Transfer.

In particular, this type of activation allows, among other things, to positively detect the existence of the mandate by the banks involved, for whose effect for the subsequent flow of charge, they will have to be managed only with the cases relating to any unpaid amount or revocation.

A feature of the *direct debit* by SEPA refers to the fact that the charge is made by the bank (treasurer bank of GME) to the account identified by the debtor (the Market Participant of GME) on the day arranged by the requesting user (GME) with the clause "subject to". In particular, the success of the operation is ensured by the bank after two working days from the billing date, perfecting, therefore, only at that time the crediting of the amount to the account of GME. It follows that GME will not proceed to the release of the guarantees until the risk of insolvency cannot be regarded averted without exception (See Figure 2), making use of the existing instruments for the management of default, if the charge arranged by GME through the SDD B2B is not successful.

In the case of Participant PA purchaser, GME will fulfill the related obligation by using up the non-interest-bearing deposit pledged in cash by him.

⁴ Including, in addition to European Union countries, also Switzerland, Iceland, Norway, the Principality of Monaco and Liechtenstein (provided that the transactions are carried out in EUR).

⁵ The mandate expires automatically after 36 months from the date of the last collection made by SDD B2B.

⁶ The activation of the SDD B2B instrument, unlike the SEPA Direct Debit Core intended for *consumers*, is not, in fact, mandatory for banks, although on 16 October 2015 3,355 banks, including 556 Italian banks, appear to have activated the SDD B2B (data source: <http://www.europeanpaymentscouncil.eu/>).

For any SDD B2B service costs, each Participant will have to make the necessary checks with his/her/its bank.



Conversely, the settlement of payments by market net creditors will be made by GME with the SEPA Credit Transfer *Urgent* or *Priority*, both instruments allowing settlement on the same day of execution of the payment order (similar to the current "urgent wire transfer").

With reference to item d), the assumed model of *settlement*, in line with what is currently the case, provides that GME collects the due payments in advance by the debtors, in order to be always able to pay the creditors.

In order to prevent further misalignment in the settlement timing, it is expected that the charges made by GME to the Participants net buyers and the credits made by GME to the Participants net sellers⁷ fall within the same calendar week (W+1).

It is expected, therefore, to place the banking transactions as soon as the supporting computer systems draw up and make available the balance, that is on Monday of W + 1. In this way, the next day (Tuesday), it will take place the withdrawal from the bank account on which there is the authorization to charge (See Figure 1). However, as discussed previously in relation to items b) and c), the payment will be considered consolidated on the banking channels on Friday morning. GME, therefore, only then will release the corresponding guarantees (See Figure 2) and will proceed to the payment of its creditors Market Participants.

In order to maintain constant the principle that debit payments are arranged every Tuesday by the Market Participants and the payments of the credit Market Participants are arranged every Friday by GME, it will be expected that - in presence of the public holidays in the week of settlement W+1 - the settlement cycle is postponed by one week compared to the standard timing (See Figure 3 and Figure 4).

With regard to item e), subject to the provisions of Law no. 244/2007 on electronic invoicing, in order to reconcile the above mentioned provisions with the proposal to reduce the timing of the *settlement* on the MGAS, without that this precludes the participation in the gas market of public administrations participants (PA Participant), it will admitted to the latter only the submission of guarantees in the form of non-interest bearing cash deposit to be pledged to GME.

With regard to item f), it is expected that all transactions on the gas market and financially settled in the same calendar month will be billed on a monthly basis through the issuance by the Participant (and GME for its active transactions) of one or more deferred invoices bearing the date of the last business day of the month, in accordance with Article 21, paragraph 4 of Presidential Decree of October 26, 1972, no. 633. Where a purchaser is a PA Participant, the billing will follow the same schedule in compliance with the provisions of Law no. 244/2007 and related implementing provisions.

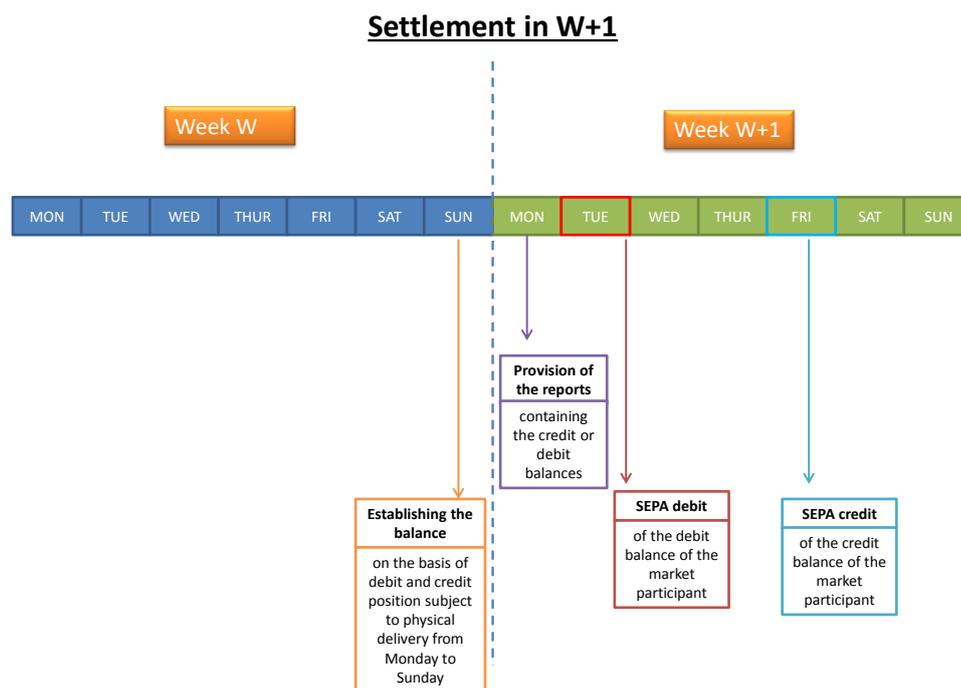
⁷ In the event that the debit and credit payments were interspersed from Saturday or Sunday or from further planned festivities scheduled, the Net Selling Participant would be impacted by the disadvantage of having to wait two non-working days (namely the day/s of additional holidays) before accessing the availability of liquidity resulting from the net amount being sold and consequently he/she/it will lose the corresponding currency days on the amount of credit days boasted.

In this way, the billing day will be after⁸ the operations of collection and payment of receivables and payables settled in the same month. The financial settlement, therefore, will no longer result in the issue/receipt of invoices, but will only take place on the basis of a notification⁹ sent by GME on a weekly basis.

In order to allow that the issuance of each monthly bill is an expression of weeks where the settlement cycle of net debit or credit balances takes place, so that the balances invoiced are always those settled in the reference invoice month, it will be scheduled appropriate timing of settlement (See Figure 3). In particular, if the financial cycle of receipts/payments was to be made in one week between one month and the next one, it will be expected that the settlement will be postponed by a week compared to the standard timing¹⁰.

The following diagram is intended to outline the application of the above principles:

Figure 1 Timing of the weekly settlement



⁸ The only case in which the billing day is not later, but coincides with the day of collection/payment (Friday), occurs when the latter is the last working day of the month.

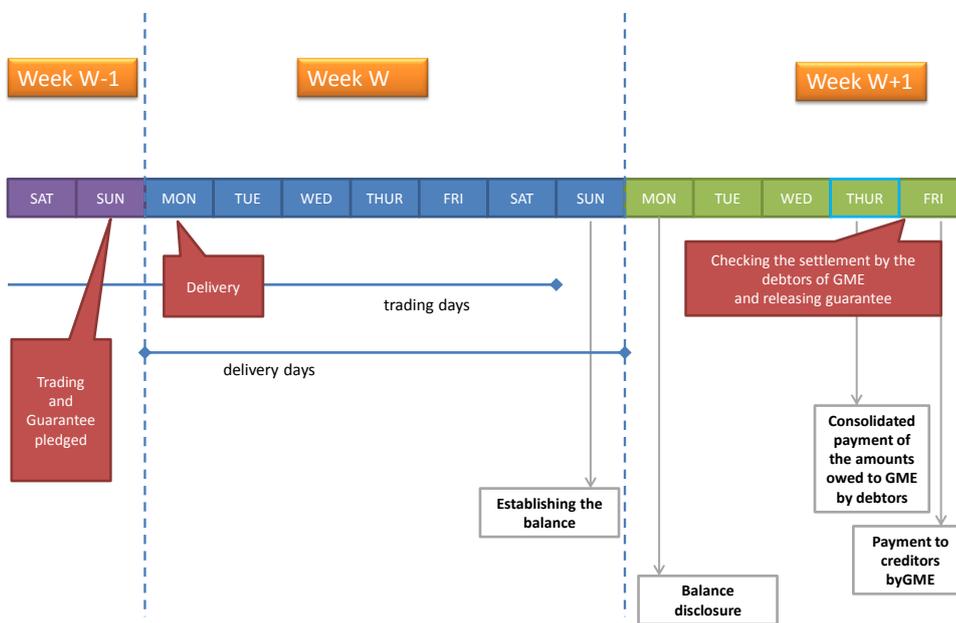
⁹ It will contain details of the transactions subject to settlement, similar to what happens now with the balance to be settled.

¹⁰ This case study appears where the last day of the month is the working Tuesday, Wednesday or Thursday. So, if the last day of the month is the working Monday or Friday or Saturday or Sunday, the settlement would follow the standard timing.

In order to understand the level of the guarantee to be pledged so as to cover the transactions that are weekly settled, here following is exposed a graphic example.

It is assumed the most severe scenario in terms of level of guarantee, where the position is traded on the MGAS on Sunday of the week W-1¹¹ and will be delivered on Monday of the week W. Considering, however, the most favorable scenario, where the position is traded on Saturday of the week W and will be delivered on Sunday of the same week W, the guarantee would remain pledged for just 6 days.

Figure 2 Timing of the guarantee to be granted with weekly settlement



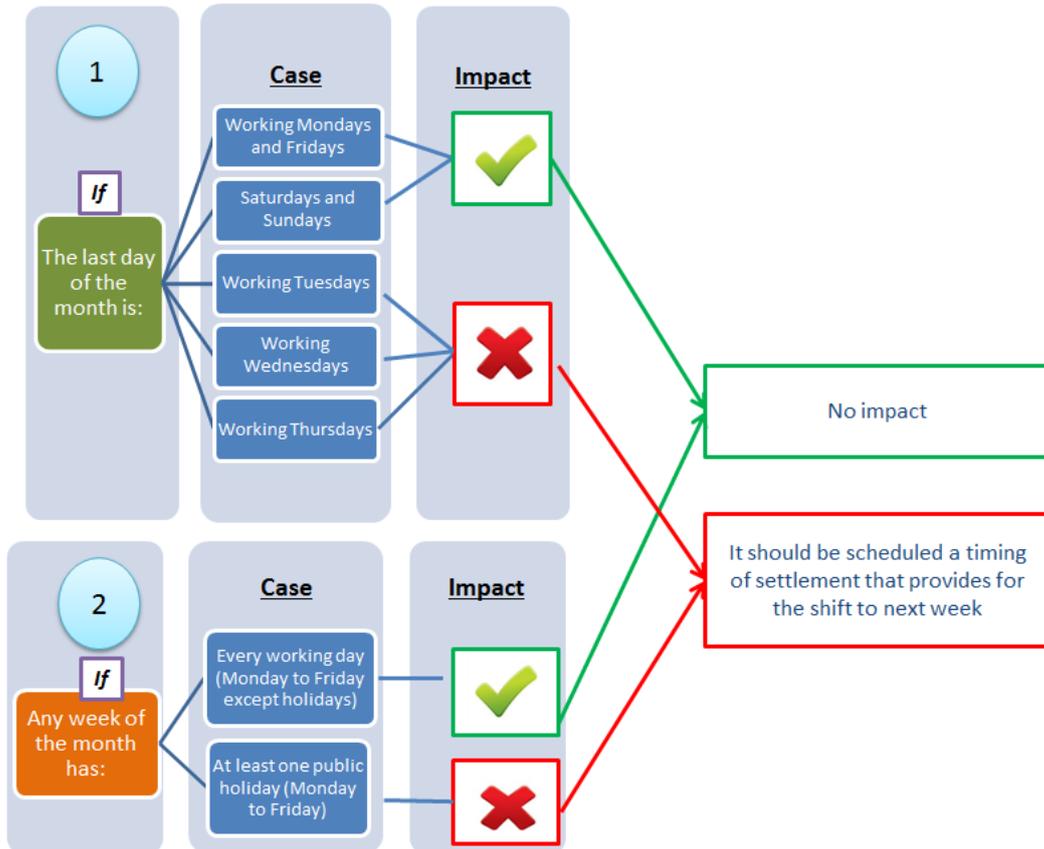
The following figure shows a schematic view of the circumstances that lead to a different scheduling¹² of the settlement timing, compared to the standard that provides that "every Tuesday debit payments are made by Market Participants and every Friday credit payments are made by GME."

¹¹ The maximum period of 12 days is relatively limited compared to the current one in which the guarantee is pledged for at least 20 days and a maximum of about 50 days.

¹² Annually GME will publish on its website the calendar of settlement.

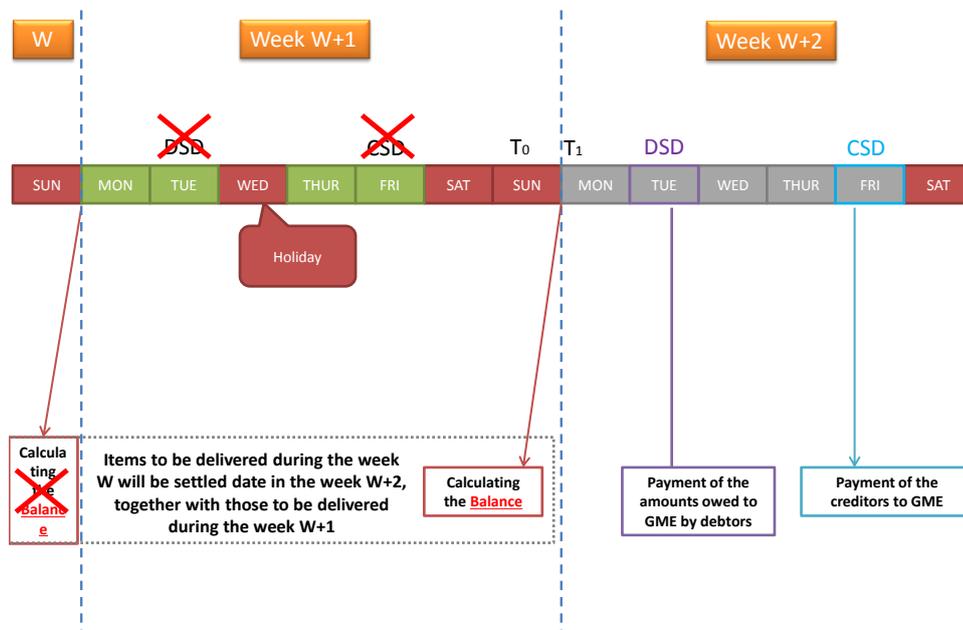
Figure 3 Extraordinary changes to the timing of weekly Settlement

2 DIFFERENT CASES INVOLVING AMENDMENTS TO THE SETTLEMENT TIMING (collections on Tuesdays and payments on Fridays)



In the cases of these conditions 1. The last day of the month is the working Tuesday, Wednesday or Thursday and 2. in the week there are one or more public holidays, it will be scheduled the shift of the payment cycle to the next week as graphically represented below:

Figure 4 Timing in the calculation of the weekly balance in the case of shift



The shift event from one week to the next one may be repeated n times as n is the number of consecutive weeks in which at least one of the events 1. and 2 occurs. Any shift adopted will obviously affect the timing of engagement of the guarantee exemplified above (see Figure 2).