

Consultation document 01/2015

PROPOSAL TO CHANGE BILLING AND PAYMENT TIMING ON THE GAS MARKET

1. Introduction

In the implementation of the provisions set out in article 30 of law 99/09 and article 32 of Leg. Decree 93/11, GME (Manager of Energy Markets) has been entrusted with the organisation and management of the wholesale market for natural gas (MGAS) whose current configuration includes the spot market for natural gas (MP-GAS) – which, in turn, is structured in day-ahead and intraday markets – and the futures market (MT-GAS) in which, from 2 September 2013, annual (calendar and thermal), half-yearly, quarterly, monthly and BoM (balance of month) products are negotiable by continuous trading.

Within the improvements aimed at making the market more efficient and economic as a whole, GME, in carrying out its role as market operator and continuing the solution envisaged for the electricity market with regard to DCO no. 07/2014, proposes a change in the current monthly settlement rules. In particular, the proposal set out below which, through the introduction of a weekly billing and payment timing for the natural gas market as well, would mean a step forward in the process of harmonizing legislation between different Regulations/Frameworks at least for those areas whose provisions can be applied more widely across the different markets of GME.

The implementation of a reduced settlement cycle with respect to current timings would also mean a significant benefit to the participants in terms of lower overall charges arising from participation in the market by reducing individual exposure towards GME in terms of guarantees.

For the sake of clarity, it should be pointed out that the points made in this document refer to the currently applicable guarantee system, but, with appropriate adjustments, they will still apply to a future integrated guarantee system referred to in DCO 05/2014 as well.

Interested parties are invited to comment on the operational methods described in this document in addition to the insights from S.1. to S.2. in particular, which are available for consultation.

Any comments should be sent in writing to GME - Institutional Relations & Communications (“Relazioni Istituzionali e Comunicazione”) - by 25 May 2015 at the latest, closing date for this consultation, in one of the following ways:

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fax: 06.8012-4524



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

Viale Maresciallo Pilsudski, 122-124

00197 - Roma

Anyone wanting to maintain secrecy and confidentiality, for whole or part, of the documentation sent, must specify which parts of the documentation are to be considered confidential.

2. Proposal to change the timing of billing and payment

The planned proposal will shorten the cycle of settlement of payments adopted by GME on the day-ahead market (MGP-GAS), the intra-day market (MI-GAS) and the futures market (MT-GAS) which would pass from the current M+1 to settlement on a weekly basis.

The adoption of a weekly billing and settlement timing will happen anyway without changing the timing for billing and payment currently envisaged for the management of cash flows linked to imbalances by GME following registration at the PSV (Punto di Scambio Virtuale – Virtual Exchange Point) of the net balances of operators arising from defaults of the latter. Indeed, the billing and the relevant payments of these transactions by the defaulting operator will continue to be managed, if necessary, according to the timing indicated in DTF rev. 1 MGAS 10, or M+3. Moreover, the determination of any fees and contributions, in addition to any penalties that may be applied to the defaulting operators, will not be reverted to weekly management and, therefore, the billing and payment timing will remain the current one, namely the calendar month.

By implementing this proposal, a more efficient guarantee system will be created, since the financial resources required by participants to post guarantees for their transactions on the market will be immobilised for a shorter time than at present, which considerably reduces the duration of GME's risk as central counterparty. Hence, this solution also positively responds to the participants' need for a less costly guarantee system.

The settlement model assumed by GME for the gas market is based on the fact that:

- a) the balance of payables/receivables to be settled will be calculated and notified on a weekly basis;
- b) consequently, the settlement of payments for net and credit positions held towards GME will take place on a weekly basis as the related balance to be settled becomes available;
- c) the non-interest bearing cash deposit is, for the PA operators, the only form of guarantee permitted to operate on the gas market. Vice versa, the non-PA operators can continue to post financial guarantees in the form of non-interest bearing cash guarantees and first demand bank guarantees;
- d) payments, both those by GME to operators and those by non-PA operators to GME, shall be done by large-value bank transfer (BIR) or similar procedures. If the banking rules do permit

a large-value bank transfer (BIR), then the payment can be made under the “urgent bank transfer” (bonifico urgente) procedure. In the case of a PA purchasing operator, the payment to GME should be done using a non-interest bearing cash deposit by the same operator;

- e) invoices for settlements shall be issued on a weekly basis in accordance with the provisions included in Law no. 244/2007 and the acts transposing them if the purchaser is a PA operator;
- f) in keeping with the provisions of the current Regulation for natural gas, GME shall make payments to its net creditors only after having collected payments from its net debtors.

With regard to point a) above, the plan put forward by GME provides that at the end of a calendar week (W), starting on Monday (T-6) and ending on Sunday (T), the net balance of the accounts to be delivered from T-6 to T (see figure 1) shall be determined in the night batch.

In this way, the following morning (Monday), GME can generate and issue the relevant notifications, as well as generate and issue the GME invoices on the MeSettlement platform. Conversely, the final deadline for the upload of the receipts issued by the participants will be fixed before 6pm on the day after the notifications are issued (Tuesday).

The current activity of providing participants with pro-forma invoices concerning the settlements to be made during the invoicing process shall be reformulated to make it more compatible with the new timeframes planned. As a result, any claims about the settlement procedures will have to be transmitted within a set timeframe and, in any event, on the same day established for the notifications, presumably within two hours of publication of the invoices and receipts.

With regards to letters b) and d), the payments both by the net debtor participants and by GME will be done by large-value bank transfer (BIR) or similar procedures. The settlement of the amounts shall take place on the same day as the one of execution of the payment order (method similar to the current “urgent bank transfer”).

S.1 Do the timeframes envisaged by GME give the participants enough time to make claims about the settlements? Alternatively, what other timeframe would be possible?

With regard to point c), subject to the provisions of Law no. 244/2007 regarding electronic invoicing, in order to reconcile these provisions with the proposal to reduce the timing for settlements on MGAS without precluding participation in the gas market by operators in public administration (PA operators), the latter will only be allowed to present guarantees in the form of a non-interest bearing cash deposit to be paid into the current account held by GME in the treasury accounts.

With reference to letter e), all the operations carried out on the gas market will be billed on a weekly basis, and no longer on a monthly basis where one or more invoices are issued by the participant (and by GME for its active transactions) prior to the settlement of payments in accordance with the combined provisions of article 6, paragraph 4 and article 21, paragraph 4 of D.P.R. no. 633 of 27 October 1972 (decree of the



president of the Republic).

As for point f), the settlement model envisaged, in line with what currently happens, provides that GME shall pay its creditors only after having collected payment from its debtors.

To avoid the misalignment of settlement timing, both the payments made by GME to the net selling participants and the credit transactions made by the net buying participants to GME will take place in the same calendar week (W+1).

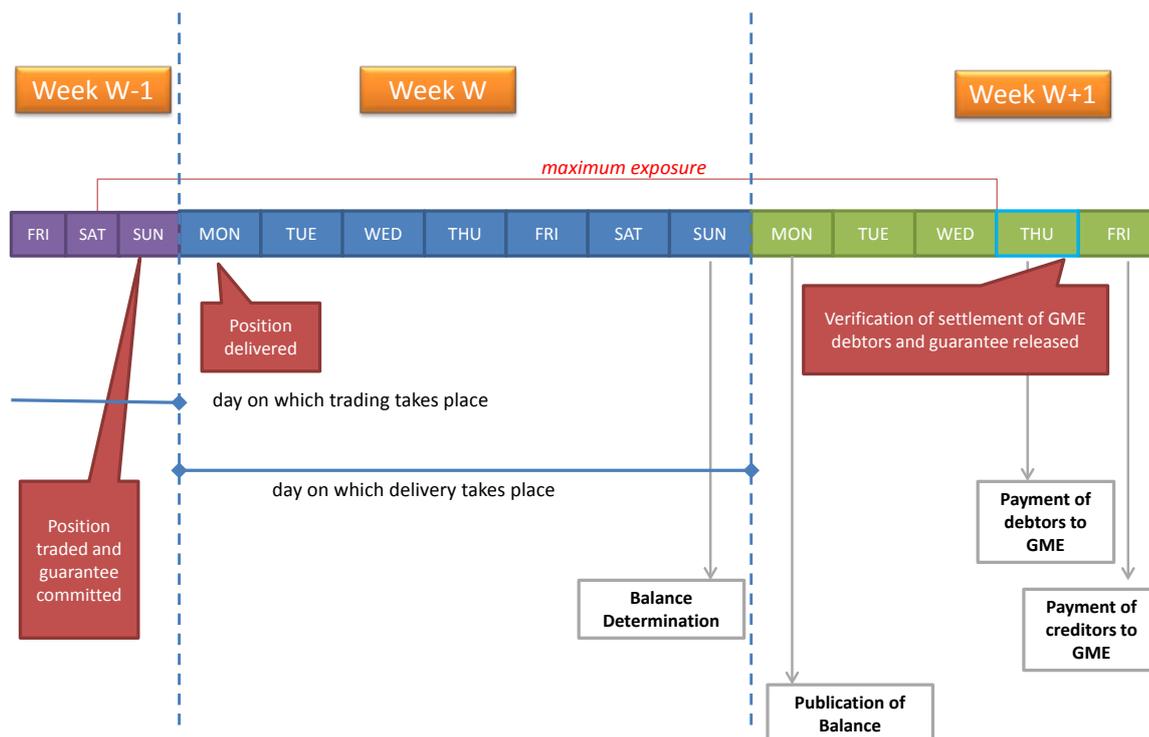
Hence, it is expected that GME will receive payment from the participants by Thursday morning of W+1 and, only after having checked that payment has been made with the bank, will GME release the guarantees and thus, increase the market participant's available guarantee amount (see figure 2 and figure 3). The following day, GME will then pay the creditor participants.

If public holidays fall on the Thursday and/or Friday of the settlement week W+, any transactions that are due will be postponed until the first working day whilst maintaining the standard timing between one transaction and another.

The following graphs exemplify in what way the guarantee posted to a participant might be used on trading instruments that are settled on a weekly basis.

Assuming the worst case scenario in terms of immobilization of the posted guarantee, i.e. trading¹ on the MGP on the Sunday of week W-1, a position to be delivered on the Monday of week W, the guarantees should be posted for no longer that 11 calendar days² (see Figure 2)..

Figure 2 Example of maximum timing of guarantees posted in case of weekly Settlement

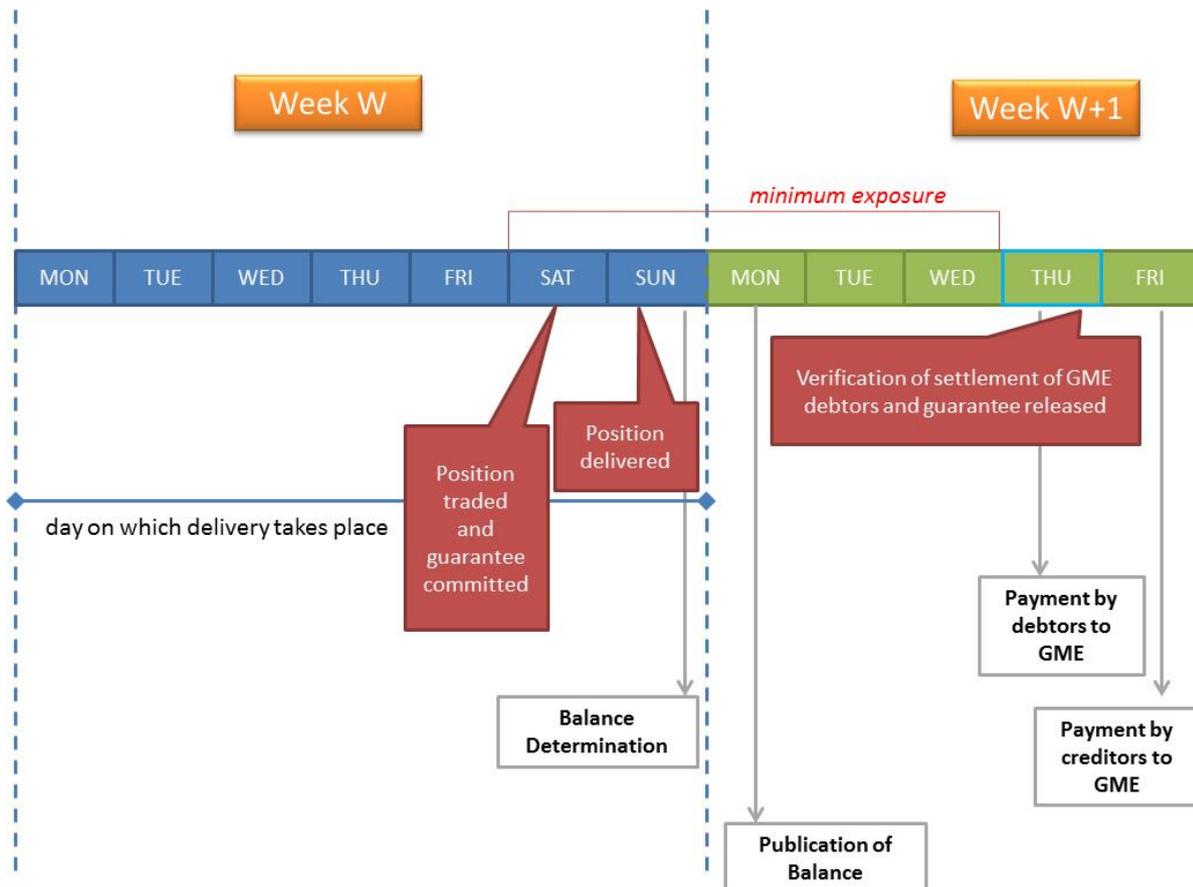


¹ This refers to the determination of the outcome of the session taking place with continuous trading up until 3 days before.

² In the current system, the guarantee must be posted and maintained for at least about 50 days and a maximum of about 80.

Considering, however, the best case scenario, i.e. trading on the Saturday of week W of a position to be delivered on Sunday, the market participants's guarantee would be immobilised at GME for only 5 days (see Figure 3).

Figure 3 Assumption of minimum timing of the guarantee posted with a weekly Settlement



S.2 What do you think the main advantages and disadvantages of the proposed solution are?