

Storage in Italy

Autorità per l'energia elettrica e il gas
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Why is access to storage important for the Italian gas market?

- The availability of flexibility mechanisms is essential to enter and to operate in the gas market: operators have to adapt supply to foreseeable variations in demand and respond to fluctuations of demand with adequate supply
- Failure to provide flexibility services required by the market can adversely affect the opening of national markets and the creation of the internal market
- Storage is the main tool providing flexibility services in Italy

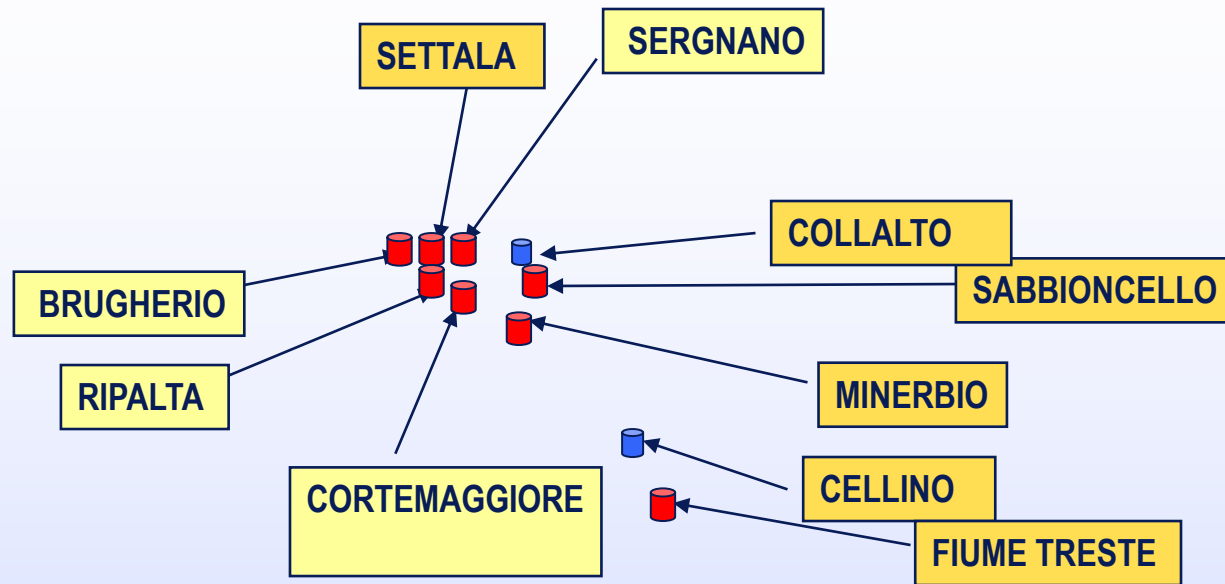


Main features of the Italian gas storage sector

- *10 depleted fields for a total of approximately 15,5 Bcm of working gas (including 5.1 Bcm for strategic storage)*
- *2 storage companies, with Stogit controlling 96% of Italian storage capacity*
- *strong role of storage for balancing in the forthcoming market for balancing*



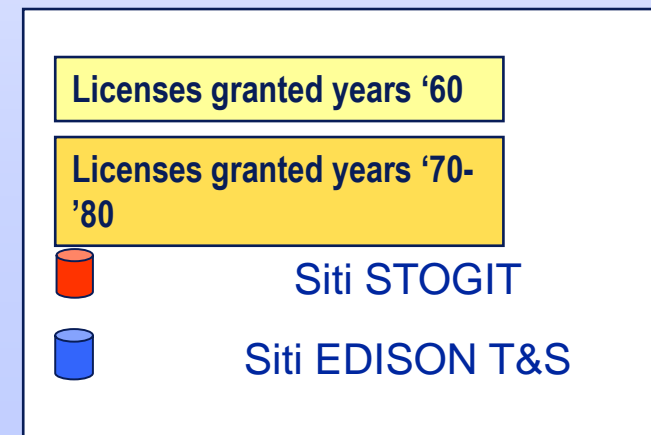
Storage availability in Italy



10 depleted fields

Total Working gas 15 Bcm

96% hold by Stogit /eni group



Storage capacity in Italy

Year	Space (excluding strategic storage) (Bcm)
2001	6,5
2002	7,4
2003	7,4
2004	7,7
2005	7,8
2006	8,3
2007	8,8
2008	8,8
2009	9,2
2010	9,6

Storage available capacity for the thermal year 2011-2012 has increased to 10,5 Bcm (15,6 including strategic storage)



Legislative framework: decree n.164 of 2000

- Regulated tariffs for:
 - ✓ *storage used by gas producers*
 - ✓ *strategic storage*
 - ✓ *modulation (daily, seasonal and for demand peak)*
- Legal separation of storage from supply and distribution but not from transport
- Storage activity can be carried out on the basis of concessions (maximum 20 years) and selections granted by the Ministry of Industry



Facilities regulation

- **Italian law establishes three main instruments to ensure non-discriminatory access to gas facilities:**
 - I. network code (storage code; LNG terminal code)** regulated by AEEG: AEEG adopts general rules – the facility operator submits a code proposal – AEEG approves the code if it is coherent with its general rules ad Italian legislative framework **regulated tariffs** by AEEG;
 - II. obligations on operators to:** (a) allow suppliers access to the facilities; (b) provide connections to the network to users requesting them;
 - III. regulated tariffs** by AEEG



Network code

- Network codes shall be drafted by facility operators on the basis of **AEEG rules** and include:
 - ✓ Conditions and criteria to be followed by facility operators, in order to satisfy requests for access to facility services (transmission, distribution, storage, regasification services)
 - ✓ Technical and commercial conditions for supply, including rights and obligations of facility operators and facility users
- **Network codes include:**
 - ✓ **general clauses of the** transmission (distribution, storage, regasification) **contract** between operator and users
 - ✓ **procedures (pre-contractual)** to be followed by users to conclude specific contracts with operators



Regulation of Storage (I)

- Complete regulation of **storage services** was implemented by AEEG in 2005 (resolution n.119/05).
- Resolution n.119/05 provided:
 - ✓ Rules for mandatory services:
 - specific storage capacity allocation mechanisms based on strict priorities (in order to ensure (a) strategic reserve – (b) modulation of delivery to domestic customers)
 - balancing fees to ensures prompt replenishment if more capacity is used than booked (and penalties for unauthorised use of the strategic reserve)
 - Obligation to transfer the capacity and the injected gas from one user to another when the end-customer switches supplier



Regulation of Storage (II)

- Resolution n.119/05 provided also:
 - ✓ Rules for special services:
 - **obligation to offer** a number of special services, for example: (a) interruptible capacity (within modulation services); (b) permission to exchange capacity and/or injected gas to compensate for system imbalances;
 - **permission to offer** other special services through the optimisation of storage facilities (regulated tariffs provided incentives for investment on optimisation) → criteria:
 - prices for special services have to cover only costs; they are not yet covered by regulated tariffs;
 - conditions for supplying special services have to be established by the storage code and approved by AEEG



Tariff regulation for storage

First regulatory period (2002-2006) (I)

TARIFFS

- Regulated TPA for basic storage services: established by law, consistent with market conditions (no real alternatives to storage services)
- Market solution: free tariffs for new storage sites and new storage 'products' (i.e. other than modulation, strategic and production storage)
- Uniform regulated tariff for all the storage company's sites:
 - ✓ *no new entrants expected in the regulatory period (who could take advantage of a competition with the existing most costly sites)*
 - ✓ *these sites have very different costs, so single tariffs means a lighter administrative burden: otherwise there will be excess demand for less costly sites requiring allocation procedure for each site*
- Due to the relevant differences in terms of geological conditions, size and type of sites no benchmarking exercise is possible: tariffs are therefore based on each company's balance sheets



Tariff regulation for storage

First regulatory period (2002-2006) (II)

INCENTIVES FOR NEW INCENTIVE

- 4 year exemption from tariff regulation:
 - ✓ *for new fields/sites and for not yet fully operational fields*
 - ✓ *for 'new' storage services*

ACCESS RULES

- Binding rules set by the regulators on the storage operators, e.g. special provisions for customers changing supplier
 - ✓ *storage capacity goes with the customers*
- secondary market for stored gas and capacity
- information for the shipper and for the Regulator
 - ✓ *e.g. communications of booked and used capacities*



Second regulatory period (2006-2010) (I)

- **Tariffs**: single tariffs at national level (with compensation between companies), in order to foster the development of new storage companies that typically have higher costs than the incumbent (best fields already occupied)
- Due to the inadequate level of competition in the market, and evidence of misuse of storage capacity, there is **a return to regulation**: the regulator approves tariffs **for new 'products'**; revenues from auctions for the allocation of additional peak capacity (in case of congestion) are granted to the company.

However, no available capacity → auction never implemented



Second regulatory period (2006-2010)

(II)

- **No main changes for access rules but**
 - ✓ *use of storage in winter allowed only under certain conditions (e.g. depending on shipper's gas in storage and according to specific profiles of use)*
 - ✓ *a new monthly service at auction price introduced by the regulator in late 2009*



General criteria for setting storage tariffs in the second period of regulation (confirmed for the third regulatory period, 2011-2015)

- The regulatory regime is for four years
- Tariffs are proposed by storage companies according to criteria fixed by the regulator and then approved by the regulator
- Tariffs based on costs resulting from balance sheets
- Allocation of total revenues to two parts, one relating to committed storage capacity charges (guaranteed) and the other to the variable charges applied to energy handled over the period (revenues depending on injected and withdrawn volumes)
- Variable charges are subject to a price-cap (now productivity is specific for each company)
- Incentives to the development of new storage capacity: higher remuneration rates than that applied to the existing capital for new investment



Total revenues

Capacity:

- capital remuneration
- allowed depreciation

Commodity:

- operating costs (revenues related to gas injected and withdrawn)

Capacity revenues are related to :

- storage volumes (surface assets e.g. monitoring wells, buildings + cushion gas)
- peak withdrawal capacity (50% of storage wells and flow lines + pseudo working gas + gas treatment stations)
- peak injection capacity (50% storage wells and flow lines + compressor stations)
- strategic storage (gas for strategic purposes owned by the storage company)



Recent changes in storage imposed by law (I)

- Decree 13 August 2010, n.130 aims at increasing the availability of storage services for industrial customers by promoting the realization of additional storage capacity
- This goal is mainly achieved through the following provisions:
 - ✓ *"Gas release" obligations for firms whose wholesale market share is over the 40% threshold; alternatively, a firm can commit itself to developing new storage capacity by 4 Bcm as long as it does not exceed the 55% threshold*
 - ✓ *Involvement in investment projects of individual energy intensive customers (2Bcm), groups of industrial or small and medium firms (1 Bcm), as well as electricity producers (1 Bcm)*
 - ✓ *Powers are delegated to the regulator to set up a regulatory framework to immediatly provide benefits for industrial customers, to mirror the advantage of effective storage capacity in summer; associated costs are recovered through transport and balancing tariffs on all gas customers*
 - ✓ *Possibility for other undertakings to apply the provisions set in the decree n. 130/2010 to develop new storage capacity*



Recent changes in storage imposed by law (II)

- Decree 1st June 2011, n. 93 implementing directive 73/2009/EC establishes that:
 - ✓ *Strategic storage is imposed under regulated conditions to all domestic producers and importers, on the basis of imported volumes and on the specific infrastructure used*
 - ✓ *Modulation storage is allocated first to households, hospitals, schools, prisons, and non domestic customer with yearly consumption under 50000 cm and it is subject to a regulated regime*
 - ✓ *Remaining storage is allocated according to rules defined by AEEG*



**Thank you
for your attention**

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