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Appendix(es)

Subject **FluxSwiss response to ARERA consultation 512/2018/R/gas**

FluxSwiss welcomes the opportunity to submit its comments to the consultation process launched by ARERA for the definition of the regulatory criteria for the natural gas transmission and metering service for the fifth regulatory period (DCO 512/2018/R/gas). As a Swiss TSO our observations on the proposed approach are mostly focused on the expected tariff evolution at the Interconnection Point of Passo Gries between Switzerland and Italy. Therefore we are hereby providing some general comment to the consultation document.

1. **Entry tariffs:** According to the indicative charges for the year 2020 which would be determined by applying the methodology set out in art. 8 of the TAR NC (not considered for implementation), the proposed methodology based on the CWD and 28/72 entry/exit split appears to penalise the entry points from the North (especially the entry tariff at Passo Gries) in favour of the entry points from the South.

For instance, if we consider the relative competitiveness of entry Passo Gries with respect to the entry tariffs from the South (measured as the difference in absolute terms between the most expensive entry tariff at Mazara del Vallo and the entry tariff at Passo Gries) we can observe the following:

- Passo Gries is currently cheaper than Mazara for 2.8 €/year/Sm³/d based on tariffs for 2018 and its relative convenience is going to increase up to 3.1 €/year/Sm³/d according to the already approved tariffs for 2019;
- If art. 8 of the TAR NC with the 50/50 entry/exit split were applied, the difference between entry Mazara and entry Passo Gries would increase up to 4.2 €/year/Sm³/d as from 2020;
- If ARERA proposed methodology were applied the difference between entry Mazara and entry Passo Gries would drop down to 2.4 €/year/Sm³/d as from 2020.

Furthermore, the entry tariff at Passo Gries is bound to be heavily affected by the new proposed methodology: the increase in 2020 tariffs compared to the 2019 tariffs would equal

- 123% at entry Passo Gries,
- 37% at entry Tarvisio and,
- 3-4% only at entry Mazara del Vallo and entry Gela.

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Our understanding of the Italian market is that the entry points from the North (Passo Gries and Tarvisio) are located closer to the barycentre of the Italian domestic consumption (Po Valley) and this makes us interrogate ourselves on the cost reflectivity of this new rules compared to the previous ones. As this new methodology may endanger the competitiveness of the route connecting the Italian PSV with the most liquid European hubs, FluxSwiss would favour the confirmation of the current matrix-based methodology or, as a second best, the plain application of art. 8 of the TAR NC.

2. **Exit tariffs:** The increase of exit tariffs from the Snam grid at the Interconnection Points with Switzerland and Austria due to the new cost allocation methodology and the introduction of short term multipliers on exit points would result in remarkable logistic costs for Reverse Flow from Italy to Northern European markets.
FluxSwiss is surprised by the introduction of such a measure, which could reduce the potential export flows towards Germany & Switzerland. In this perspective, this measure is contrary to the efforts made by all involved TSOs (Snam Rete Gas included) to realise the Reverse Flow project connecting Italy with Western European markets.
3. **Spread:** in terms of spread, FluxSwiss understands that the shifting of variable costs from entry to exit points may reduce the PSV price but it is hard to assess the overall effect on the future spread, which will depend on the specific marginal source setting the Italian wholesale price. In this respect, since Passo Gries is a relevant source of flexibility for the Italian market, FluxSwiss deems that a reduction of the entry tariff, instead of an increase as proposed by the methodology, would foster market liquidity and cross border trading.

In conclusion, FluxSwiss welcomes ARERA's effort for the definition of transparent criteria and simulation tools of future transportation tariffs but expresses its preference for a methodology which would not endanger the competitiveness of the Transigas route to Italy, providing flexibility to the Italian gas market through access to Northern European hubs.

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