CONSULTATION RESPONSE

EFET
European Federation of Energy Traders

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EFET response to ARERA consultation on new tariff regulation criteria for the liquefied natural gas regasification service for the 6th regulatory period

The Authority provides elements of continuity in the new tariff regulation criteria for the liquefied natural gas regasification service for the sixth regulatory period (6PR GNL) with respect to the previous regulatory period.

Even though we share ARERA analysis of the reference context of the LNG regasification sector - namely a gas market characterised by high and volatile prices together with a load factor of the regasification infrastructure reaching almost saturation, we disagree with the solution proposed to take into account the new market conditions for the upcoming regulatory period.

In fact, since to date the regasification terminals allowed revenues are partially covered (α equal to a maximum of 64%), in this scenario, we believe that ARERA proposal to change the formula for the coverage factor does not reward initiatives to make new regasification capacity available and to promote competition in the Italian market.

Key messages

#1 - ARERA proposal does not incentivise the availability of more regasification capacity

ARERA proposal to modify the formula of the coverage factor ("fattore di copertura") does not reward initiatives to make new regasification capacity available and promote competition in the Italian market.

In fact, if the partial coverage of the allowed revenues will be confirmed, ARERA proposal maintains the same investment risk while foreseeing a refund in case the actual revenues are higher than the recognized revenues.

Having more regasification capacity with the same demand would mean increasing the competitiveness of the auctions and lowering the allocation prices. This brings benefits to the Italian gas market not only in terms of diversification and security of supplies, but also to final consumers.

#2 - Keep the balance between risks and opportunities

Regasification is a regulated sector with lower guarantees - only 64% of recognized revenues - compared to transportation and distribution - where 100% of recognized revenues are guaranteed.

Therefore, considering that the balance between benefits for the system and infrastructure costs (hence investment risk) should be maintained, we see the following options:

- Provide a total coverage of the regasification costs (100%) and a consequent full refund to the system in the event that the actual revenues exceed the recognised revenues
- Given the partial coverage of the regasification costs (64%), maintain symmetrical benefits for market participants (e.g. up to 136%) in case the actual revenues exceed the recognised revenues

If the mechanism of the revenue coverage factor guaranteed the totality of the costs recognized by the regulation, like the other regulated services and in the event the terminal achieves revenues higher than the allowed revenues, we recommend ARERA to introduce the return to the system of a share of over revenues through a corresponding payment to the CSEA.

In this scenario, the sharing opportunity should be evaluated according to the overall level of revenue coverage of each terminal and according to the size of the over revenues earned by the terminal over those approved by the ARERA.

#3 - Align the duration of the revenue coverage factor to the useful life of the plant

There is a misalignment between the duration of the useful life of the regasification plants (25 years) and the duration of the coverage factor (20 years). This element also reduces the deployment of new regasification capacity.

#4 - Increase transparency around tariffs change

For all tariffs components of a terminal that are adjusted following a temporal lag from the moment in which the underlying cost have emerged, it would be appropriate to have a regular monitoring of the revenue gap with periodic publication (e.g. every 6 months) so that market participant can have a sense of how tariffs will change.