

Indexation 'promotes gas-to-gas competition'

The indexation of household gas prices in Italy to prices that form on the Dutch TTF hub has promoted gas-to-gas competition in the market, according to the head of Trading and Origination at the newly created Italian branch of GDF Suez, Christophe de Branche.

In a phone interview with Platts on Monday, de Branche said that reform had had an impact on prices as "instead of hedging oil and gas, we see more of a gas-to-gas competition."

Full indexation to spot gas prices that form on the Dutch TTF hub was implemented in Italy in October 2013, in compliance with a regulation of the energy authority AEEG.

The aim of the reform was to lead to a reduction of household gas tariffs in Italy, as TTF prices have been generally lower than those of the Italian PSV market, and to promote the renegotiation of gas import contracts, which in Italy are still mainly linked to oil prices.

De Branche said that the reform may not remove price volatility but added that from a trading point of view "it doesn't make a difference if we have to trade oil or gas, what we want is to be able to provide hedging solutions."

Hedging for third parties such as industrial customers is among the main activities of GDF Suez's new trading office in Italy, according to the CEO of trading, Edouard Neviaski.

Neviaski told Platts Monday that the decision to open this new branch was prompted by the fact that "GDF Suez Trading wanted to extend its activity in this country to better service the group's portfolio of assets" and also to develop its activity with "external clients, such as mid-size utilities, distribution companies and industrial customers."

France-based GDF Suez announced on January 23 it had opened a local gas and power trading branch in Italy which would trade "physical and financial gas and power in Italian markets, respectively the PSV (Punto di Scambio Virtuale) and PUN (Prezzo Unico Nazionale)."

"In Italy, gas and power markets are mainly physical markets, with large volumes, and they are developing" from a trading point of view, he said.

"Given the nature of the market and the way it develops, mostly on an OTC basis, there are lots of small players you need to be in contact with," he added.

GDF Suez's portfolio includes 1.4 million end-customers in Italy to which the company sells around 4 billion cubic meters of gas per year and 1 TWh of electricity.

According to the company's website, GDF Suez is among the biggest electricity generators in Italy, with about 4.4 GW of installed capacity.

The most recent annual report published by the energy authority AEEG also showed that the company was the ninth largest importer of gas to Italy, with 742 million cubic meters imported in 2012.

Gas balancing price spike increased volatility

Asked about the evolving regulatory framework in Italy, with the recent start of a new import-based gas balancing platform (so-called G-1) which saw a price spike at the end of November amid less flexible than expected import resources, de Branche said that "in November we've seen a big spike which brought volatility on the short term and also on the front-month" adding that "it is an issue for our clients, who want to be protected from that."

Another development seen recently in the Italian gas market is the inception in September of a regulated gas platform for trading of forward contracts, which the AEEG aims to take as reference for household gas tariffs in the future, once the platform has reached sufficient liquidity.

Asked whether he expected this to happen in the near future, de Branche said he doubted it due to the high cost of collateral required for companies to participate.

"The regulated forward platform was launched a few months ago to get an index and facilitate access to the PSV, but participating is quite costly, a number of players cannot afford it."

He said "GDF Suez Trading is ready to participate, if we find enough liquidity" but "for the time being, the efficiency of the platform is not yet here."

Market coupling may impact north zone

Regarding the opportunities that may come from the Italian power market joining the price coupling of regions system, he said that "there are delays in the agenda, it's difficult to say whether Italy will be able to join before the end of 2014."

"After, there will be an impact on zonal prices, for example on the north of Italy, which could maybe be able to export [electricity] to foreign countries."

He said that from a trading point of view "we're interested in any new interconnection which will increase trading and arbitrage opportunities."

Asked about the bearish trend in power prices and whether he expected it to stabilize, he said the market's conditions were changing, which was affecting prices.

"We are seeing a bearish trend, but that happens normally at the beginning of the year, it's difficult to say whether the trend is to stabilize."

"Both consumption and generation are lower, and there's also an impact coming from the end of the green certificates [incentive system] which will be at zero from 2015. That does impact the PUN," he said, referring to the Prezzo Unico Nazionale — or single national purchasing day-ahead price — that settles on the Italian power exchange IPEX.

The "green certificates" scheme in Italy is a form of incentive to the production of electricity from renewable sources. — *Beatrice Bedeschi*