POSITION PAPER

Eliminating the PSV-TTF spread: distortive measures with unproven benefits

Energy Traders Europe's considerations on the draft Energy Decree

Energy Traders Europe wishes to share its views on the proposal currently under discussion regarding the **elimination of the TTF-PSV spread** (also defined as *spread cap*), included in the draft *Decreto Energia*. While we fully acknowledge the importance for the Italian industry to secure stable and affordable gas supplies, we consider that the proposal, in its current form, entails significant risks. In particular, we caution against State interventions that may have unintended consequences – including supply shortages, and thus higher costs for both natural gas and electricity generation – and that present elements of dubious coherence with EU legislation.

Key Messages

1. The effectiveness of this mechanism in reducing prices is uncertain, while it may create unintended distortions in the market and put additional costs on consumers.
2. The proposed measures discriminate against certain importers and ignore market friendly alternatives which may contribute to liquidity and security of supply for the Italian market.
3. The proposed measures may impact the balance of neighbouring countries and, if at all, should only be introduced subject to prior coordination with relevant authorities at European level.
4. The proposed measures are not supported by a legal assessment of conformity with EU law or a market impact assessment.

Background

According to the draft measure, the elimination of the TTF-PSV spread would take place through one of two alternative options:

a. **Negative *entry* capacity tariff at Passo Gries**;
b. **"Liquidity service":** a mechanism under which the TSO would contract, through competitive procedures, market operators that commit to submit **daily sales offers on spot markets at a price equal to *TTF + X*** (with X being a fee designed to mitigate the risk of market price volatility), in exchange for a **premium**. The selected operators would have to

transfer to the TSO any revenues exceeding that offer price and inject the contracted volumes at entry points designated by ARERA.

The rationale behind this proposal is that by applying a *spread cap* to certain volumes entering the Italian hub from northern routes and that are now prevailing marginal sources, it is assumed that the current marginal source would be priced at a lower price without changing the supply sources merit order, thus effectively aligning the hub's marginal price with the TTF.

Detailed Comments

Legal Considerations

We note that both measures, which resemble the "Liquidity Corridor" project considered in 2017, interfere with the general rules for tariff setting and, in our view, are inconsistent with both *Regulation (EU) 2017/460* (TAR NC)[1] and *Regulation (EU) 2024/1789* (Gas Regulation)[2]. Moreover, in assessing the potential implications of these measures, we consider many of the arguments set out by the *Autorità Garante della Concorrenza e del Mercato* (AGCM) in its Opinion dated 8 November 2017[3] still fully relevant.

First, as established in the **Gas Regulation**, competence for setting tariffs lies with the national regulatory authority. The Decree Law in question interferes with this principle by requiring ARERA to unilaterally amend the tariff at a single interconnection point and a remodulation of transport tariffs.

Second, with regard to consistency with the **TAR NC**, we note the following:

- **Article 6(3)** provides that the same reference price methodology shall be applied to all entry and exit points within a given entry-exit system, including entry-exit points with non-EU countries, subject to the exceptions set out in Articles 10 and 11.
- **Article 6(4)** allows adjustments to the application of the reference price methodology, but none of the cases identified therein is applicable to the present situation.

[1] Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

[2] Regulation (EU) 2024/1789 of the European Parliament and of the Council of 13 June 2024 on the internal markets for renewable gas, natural gas and hydrogen, amending Regulations (EU) No 1227/2011, (EU) 2017/1938, (EU) 2019/942 and (EU) 2022/869 and Decision (EU) 2017/684 and repealing Regulation (EC) No 715/2009 (recast)

[3] *Autorità Garante della Concorrenza e del Mercato* (AGCM), 8 November 2017. Parere in merito alle problematiche concorrenziali rilevate in materia di misure per la riduzione del differenziale del prezzo all'ingrosso del gas naturale tra Italia e Nord Europa.

- **Article 7** requires that the reference price methodology (i) reflect the actual costs incurred for the provision of transmission services; (ii) ensure non-discrimination and avoid cross-subsidisation (sub-paragraph (c)); and (iii) not distort cross-border trade (sub-paragraph (e)).

Finally, obliging offers at TTF+X could raise concerns under EU rules on transparency, integrity, and market distortion. We draw the attention on the considerations expressed in **AGCM's opinion of 8 November 2017 on "*Competition issues identified in relation to measures aimed at reducing the wholesale gas price differential between Italy and Northern Europe*"**, which, in our view, are still relevant today. **The opinion condemned the proposed Liquidity Corridor on two grounds**: (i) it imposed **additional costs on final consumers**, while the benefits appeared merely potential; and (ii) it disproportionately **distorted competitive dynamics in the wholesale gas supply market** in Italy.

In this respect, we share the opinion's **conclusion** that the issue the measure sought to address should be resolved through more proportionate, and less unilateral alternative interventions.

Market Considerations

From a market perspective, the measure might turn out to be **ineffective** in lowering prices, while generating **additional costs** for end-consumers as well as creating uncertainty and **unpredictable distortions** of normal market dynamics and of competition among different entry routes.

1. **Risks for the security and affordability of supplies**
   We remind that the PSV price, and therefore the spread to TTF, is *the* signal without which the Italian market would not be able to attract gas flows to Italy. While the *spread cap* is based on the assumption that the TTF-PSV spread is caused by the transport costs through the northern routes (via Tarvisio and Passo Gries IPs), there can be other factors making the PSV price at premium – namely, the need for the **Italian market to attract spot LNG cargoes[4]**. Arguably, the PSV-TTF spread is functional to attract LNG cargoes – considering that some Italian terminals are more expensive than others located in the Atlantic basin – or in general to ensure coverage of the costs of other supply sources subject to variations in other market benchmarks (e.g.: VTP, Brent, €/$, formulas indexed to Month Ahead market prices, etc.). The **potential elimination of the TTF-PSV spread[5] could therefore impact the volumes entering from other entry points**, as **LNG cargoes could be re-directed towards other destinations**, depending on the price signals coming from other European hubs. This circumstance

[4] ACER - Q2 2025 Monitoring Report, see page 12.

[5] Note: it is yet to be verified that applying the liquidity service to some volumes at the northern IPs would make the price at other entry points automatically converge, without causing changes the supply sources merit order.

would create **sudden need for gas supplies via pipeline** to cover the imbalance, thus increasing the costs to be borne by the system to secure additional volumes at TTF price through Tarvisio and Passo Gries IPs. This risk is heightened by Italy's strong reliance on LNG, also following the phase-out of Russian gas, making it crucial to remain an attractive market to safeguard security of supply.

2. **Risk of re-export**
The application of a *spread cap* at the northern IPs would provide for an economic **incentive to re-export gas – at least partially – towards adjacent markets that also price at higher premiums**, such as Austria or Slovakia, *de facto* undermining the effectiveness of the measure and the costs already borne by the Italian system to implement it.

3. **Marginal balancing risk**
Despite the maximisation of "incentivised" flows from Tarvisio and Passo Gries IPs, on a day-to-day basis the **system's marginal balancing source could still be represented by volumes that are not covered by the *liquidity service* mechanism[6].** In such a case, a different marginal source (e.g. LNG, or volumes from Passo Gries or Tarvisio outside the mechanism) could set a new, higher marginal price, thereby nullifying the intended effect of the measure despite the incurred expenditure for the measure.

4. **Impact on neighbouring countries**
By creating a preferential route for the Italian market, the proposed measures could **alter** the flows, therefore **the balance in neighbouring countries** including Germany and France. This may result in higher costs for these countries and recalls the burden imposed on other countries, including Italy, by the German storage neutrality charge.

Missing Design & Cost Recovery Details in the Liquidity Service

There is, finally, a list of more technical elements yet to be defined, which we wish to draw attention on. These include:

a. **Cost recovery** – The resulting system costs are intended to be recovered via additional variable fees applied to the withdrawal points (although it is not defined *which* exit points), on top of natural gas transmission fees; this **negatively affects energy affordability for end**

[6] In this respect, it should also be noted that there is significant difficulty in defining the appropriate daily volumes to be subject to this mechanism. If these are too low, non-selected operators holding capacity at the same IPs could still sell at PSV at a price equal to TTF + premium, which would then become the marginal price, thereby rendering the mechanism ineffective. If these are too high, the liquidity service would become disproportionately expensive.

consumers (including households, non-energy-intensive industries, and thermal power generation, for which these costs are amplified through the gas-to-power conversion efficiency, then passed on to the wholesale electricity, and ultimately to the electricity bills). Other possible options for system costs recovery might in any case **conflict with EU norms** (e.g. additional tariffs at IPs, as seen in the German storage neutrality charge case).

b. **Unresolved capacity issues** – It is not clear what happens to operators with booked capacity at Tarvisio and Passo Gries, which are not selected in the competitive process.

c. **Unclear attribution of last resort storage volumes** – There is no clarity on the mechanism, triggers, timing and rationale to assign the volumes stored as last resort storage to the operators selected in the competitive procedures.

d. **Unclear auction mechanism** – To date, it is not specified how the auction would work (e.g. what would be in the bid), which adds up to uncertainty for economic operators.

e. **Unclear auction participation rules** – The decree states that ARERA will decide at which points gas needs to be injected into the Italian system, it is still unclear if operators will need to already have capacity available at said entry points to take part in the auctions, which would distort participation in the auctions. The exclusion of certain entry points would be discriminatory and anticompetitive.

Energy Traders Europe is committed to contributing to a market-based solution that ensures affordability, competitiveness, and security of gas supply for Italy. We remain available to discuss these points further.

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