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CONFIDENTIAL

Geneva, 6 July 2026

Dear Sir or Madam,

Re: Consultation 198/2026/R/gas – Implementation of the “Liquidity Service”

Vitol thanks the Authority for the opportunity to take part in the consultation in question and submits its detailed observations on questions S1–S12, set out in the pages that follow. **[Omitted]** We present them from the perspective of a shipper who has been physically bringing gas into Italy every day for many years, and in understanding the objective of the measure: to artificially compress the PSV–TTF spread and to integrate the Italian market with northern Europe.

The PSV/TTF spread is the price of distance, in other words the cost of crossing several networks and paying several tariffs, one on top of another, in absence of alternative import infrastructure solutions. Whilst the objective of reducing these costs is understandable, the approach proposed raises significant concerns, both legally and operationally. One consideration runs through all our responses: a subsidy may add supply – though we are not convinced this is the case when it comes to the liquidity service – but only at the cost of efficiency and possible litigations.

Several of the choices in the proposal have our support. We share the principle of clawing back the surcharge, which removes excess profits and returns value to consumers through the transport tariff (S4); the architecture of the penalties, which we back in principle (S6); the opening of participation in the volumes auction (S3); and the logic of the selection formula, which rewards the greatest compression of the spread for every euro spent (S10).

Three sets of concerns, however, lead us to invite the Authority to reflect more carefully before introducing the service.

First, market design. Grafting a mandatory daily auction onto an already liquid continuous market risks fragmenting liquidity rather than increasing it, pushing operators towards the OTC market and draining the PSV forward market. The unintended consequence would be fewer representative indexes, with the unwanted effect of triggering renegotiation clauses in indexed contracts (S1–S3, S8).

Second, legal compatibility. [Omitted].

Third, effectiveness. The volatility fee is the principal lever, but baseload volumes normally require prices above TTF to reach Italy: it is therefore unlikely that the mechanism will deliver its full theoretical benefit, and on some days the benefit may be nil or even bring costs with no benefits. Additionally, the implementation of the mechanism falls after the annual CAM auctions in July, which risks depriving Italy of some of its otherwise cheapest baseload supply (S8–S9, S11) to deliver to subsidized volumes.

Hence our principal recommendations to ensure long term commitments continue taking place (S4) are: i) to keep the auction only insofar as the subsidy is active (S2); ii) to ensure a non-discriminatory design across entry points and sources, respecting capacity already allocated, with remedies for the disparity of terms on Swiss transit (S5, S7); iii) to introduce safeguards for the liquidity of the continuous market and full transparency on the settlement pricing methodology, with an appropriate fallback rule (S3); iv) to

improve the penalty system by excluding force majeure and events on the Transitgas side beyond the shipper's control, while keeping the guarantee proportionate (S6–S7); and v) to recalibrate the caps so that they reflect the tails of volatility (S9).

Notwithstanding the above we maintain our general concerns and doubts about the ability of the subsidy to deliver on its intended objectives.

[Omitted].

On the structural Italy–Germany integration envisaged for the future (S12) we share the ambition, but the binding constraint is consent: there is no EU–Switzerland agreement on gas, and the gain for Italy is in part a loss for other countries so an agreement may simply be difficult to reach.

We trust that these observations will be of use and remain available for any further discussion. We thank the Authority for its attention.

Yours faithfully,

Davide Rubini
Head of Regulatory Affairs
Vitol

RESPONSE TO THE CONSULTATION

Observations of Vitol

ARERA Consultation 198/2026/R/gas – Implementation of the “Liquidity Service”

Consultation document: 198/2026/R/gas (issued for consultation on 3 June 2026).

Deadline for responses: 6 July 2026.

Prepared by: Davide Rubini, Head of Regulatory Affairs, Vitol – 20 June 2026.

Premise

The PSV-TTF spread is the price of distance in the absence of alternative import infrastructure solutions. To import gas from Northern Europe means crossing several networks and paying several tariffs, one on top of another – so-called pancaking. That cost is passed onto the marginal gas and, from there, onto almost all the volumes consumed in Italy.

Vitol understands the aim of the Authority’s intervention – to compress that spread and to integrate the Italian market with the European one – but we have strong reservations on the ability of the liquidity service to deliver on its objective and on the legal viability of some of its proposed features. We thank the Authority for the opportunity to contribute and offer the observations that follow from the perspective of an operator who has been physically bringing gas into Italy on a daily basis for many years.

Several concerns, however, run through all our responses. A subsidy can at times add supply, but often only at the cost of efficiency and the risk of litigation. Beyond that, the proposal falls short of its own ambitions and, in our view, rests on legally fragile foundations.

Summary of Vitol’s position

In summary, Vitol:

- **understands the objective** – to reduce the pancaking premium and bring the Italian market closer to the European one – but doubts that the proposed mechanism will deliver it, and warns that a subsidy which compresses the signalled price without adding real supply shifts costs rather than removing them;
- **flags three categories of risk:** market design (fragmentation of liquidity, less representative indices, triggering of renegotiation clauses); legal incompatibility **[Omitted]**; and potential incompatibility with European and Italian law **[Omitted]**; and effectiveness (the volatility fee is unlikely to deploy its full benefit, and the timing disadvantages the cheapest baseload supply);
- **calls for targeted improvements** – a non-discriminatory design across entry points and sources, adequate safeguards for the continuous market, a more proportionate and legally sound penalty regime, and caps recalibrated to reflect actual volatility – rather than abandonment of the objective.

Responses to the consultation questions (S1–S12)

S1 – A new marginal-price auction and the new IGI index

The Authority proposes a new uniform marginal-price auction within the MGP-GAS, in the 17:15–17:30 window, and provides that its clearing price become the new IGI index – today calculated as the arithmetic mean of the continuous Day-Ahead/Week-End trades in the same interval (§3.3; §3.6–3.7; note 3). The presumed merit is that a single clearing price, formed on the maximum tradeable volume, offers a more robust and less manipulable PSV/IGI reference.

The proposal raises a structural risk for all market operators. During the auction window the underlying TTF may move, meaning that volumes offered can no longer be perfectly hedged – an issue of particular relevance given the market's current exposure to headline volatility. Inserting an auction into an already liquid continuous market therefore risks pushing market participants who are not selected by the liquidity mechanism towards the OTC market, or to trade at a different time of day. If that happens, the IGI settlement price would fail to represent the actual balance between supply and demand. *[Omitted]*.

The decision to link the outcome of the auctions to a price index should be carefully evaluated under all possible legal angles.

S2 – Temporary or permanent auction

The Authority sets out two options: to make the auction a permanent component of the MGP-GAS, or to let it cease together with the service (§3.6–3.7).

The auction is conceived as a vehicle for delivering a temporary subsidy: it is the subsidy that justifies its existence. To make it permanent is a structural decision that should rest on evidence, not on the inertia of having introduced the measure. If the subsidy ends but the auction remains, the market bears the costs – migration towards OTC and reduced index representativeness – without even the questionable benefit of the subsidized volumes to offset them. *[Omitted]*.

At a minimum, Vitol recommends that the auction run only for as long as the service is active, and that any decision on permanence be deferred until after an ex-post review of its effects on liquidity, hedging and index representativeness.

S3 – Open participation and the reference TTF index

The Authority proposes open and multilateral participation in the auction – not reserved to the selected operators alone – through the platforms already in use (Trayport and GME), with unexecuted orders passing into the auction. As reference benchmark for the offer of the subsidized volumes, it identifies the Day-Ahead and Week-End TTF published by ICIS (Netherlands section), observed on the auction day (§3.5–3.6; §3.10–3.12).

The opening of participation and the reuse of existing platforms are sound choices: in theory, a deeper and more competitive auction brings the clearing price closer to the real value. In practice, however, the most likely outcome is the opposite. Liquidity cannot be created by decree: it must be attracted. Superimposed on an already liquid continuous market, a mandatory daily auction is more likely to fragment liquidity than to increase it, producing a less representative index.

On the choice of benchmark, Vitol supports the use of a transparent, intraday and well-governed reference that explicitly ties Italian supply to the European price. It must be acknowledged, however, that anchoring the index to TTF, imports Dutch price formation directly into Italian marginal price, which is not necessarily correct. In the current context, a reference to the German hub (THE) might, in fact, prove more appropriate for the pricing of marginal volumes. The use of THE as reference would also better reflect the essence of the decree, i.e. to bring prices paid by the Italian industry closer to those paid by the EU industry.

At a minimum, Vitol recommends full transparency on the settlement price methodology, with a fallback rule for cases where sufficient quotations are unavailable.

S4 – Clawback of the surcharge and settlement

The Authority proposes that, when the market clears above the operator's offer price, the operator retains its own offer price and returns the excess. The clawback – paid to Snam and settled monthly – is channelled through CSEA to reduce transport charges (§1.2(a)(3); §4.2–4.4; §11.3(b)). Verification is *ex post*, with compliance checks by GME and monthly settlement of flows (§3.12; §4.1–4.4; §6.4).

Vitol supports the principle. By removing excess profits on high-spread days and recycling that value to final consumers through the regulated transport tariff, the clawback operates as a redistribution rule: it does not distort prices, it corrects them. The settlement design built consistently with the existing processes of nomination, balancing and settlement – is equally sound.

S5 – A single entry point: Passo Gries

The Authority chooses a single physical entry point, Passo Gries, fed by the Swiss Transitgas backbone, for the application of the liquidity service, and opens access to the subsidy exclusively to the capacity on that pipeline that has not yet been booked at the start of the service (§5.1–5.5; §2.7; §2.11).

Vitol observes that a service so constrained introduces differentiated treatment to the detriment of importers active at every other entry point and erodes the value of capacity already booked by operators – regardless of where it is located. The discrimination is exacerbated by two further features: the absence of any compensation for holders of already booked capacity, whose position would be devalued by the subsidy; and the fact that Snam negotiates preferential access terms exclusively with Fluxswiss, rather than also engaging existing Transitgas capacity holders who may be willing to make their capacity available on the secondary market. **[Omitted]**.

We note that such restrictions would exclude precisely those sources which, on many days, could offer the greatest compression of the spread at the lowest cost, reducing the effectiveness of the subsidy. A measure conceived to add marginal supply should not exclude, by design, the most competitive marginal supply. [Omitted].

Finally, we observe a contradiction: the service excludes capacity already booked on the Transitgas pipeline, but not that already booked upstream of it without much explanation of the reasons underlying the choice. The fact that capacity upstream of Transitgas is allocated via regulated third party access – rather than negotiated access – is irrelevant in this context. [Omitted].

S6 – Penalties for non-performance

The Authority proposes two penalties (§6.1–6.5; §3.12; §4.1–4.4; §6.4):

- C1 – failure to offer, or an offer at a price higher than that committed: $C1 = Cr + 2 \cdot (P1 - P0)$, where Cr is the maximum unit premium, $P1$ the clearing price (or any lower offer price) and $P0$ the TTF index increased by the operator's volatility fee;
- C2 – failure to inject physically: commensurate with the balancing cost generated, in the order of $2 \cdot (SAP - \text{imbalance price for short users})$.

In terms of penalties proposed, we note that:

C1: Even with full operator diligence, C1 creates a structural exposure that is not tied to the operator's ability to manage volatility. The penalty is triggered whenever $P1$ exceeds $P0$, where $P0$ is defined as TTF plus the volatility charge Cv . The problem is one of timing: Cv must be set before the auction based on pre-17:30 TTF observations, while the TTF reference that enters $P0$ is only published after 17:30 – after the offer has already been submitted. The operator is therefore penalised against a price it could not observe at the time of acting. – any positive $P1-P0$ gap, however small, forces full repayment of that day's premium. This structural asymmetry is compounded by the illiquidity of the post-17:30 window: an operator selected in the daily auction must source volumes afterwards and hence will be exposed to a wide bid-ask spread, not necessarily covered by Cv – while an operator that hedges before the auction to avoid that exposure risks not being selected, leaving the operator to manage an unwanted position in those same illiquid conditions. The penalty is punitive in either scenario. We would also like to confirm that the $(P1-P0)$ term applies only when positive, with zero applied otherwise – preserving the incentive function and economic logic of the mechanism.

C2: For the volume non-delivery penalty, we believe there is a sign error in the formula: C2 is pegged to SAP minus the short-position imbalance price ($Psbil$), but $Psbil$ should by definition exceed SAP for short positions, making $SAP-Psbil$ negative – inconsistent with reflecting the system's actual additional cost from non-delivery. In our view, the correct formulation should be $Psbil-SAP$ instead.

The penalty regime must exclude any non-performance attributable to force majeure or to events on the Transitgas side – an operator cannot answer for a transit constraint entirely beyond its control. [Omitted].

S7 – Guarantee, Swiss transit and timing

The Authority requires a participation guarantee commensurate with the cost of the transport commitments to be entered into, returned if the offer is not selected or once the commitments are signed (§7.4). It further requires Snam to agree in advance with the Swiss operator public and predefined terms

— price included — and participants to enter into capacity contracts on Transitgas consistent in size and duration (§7.1–7.4). It finally sets the calendar: first auctions in September 2026, service from 1 October 2026 (§7.5; §11.10–11.11).

On the guarantee, the measure is sound: it selects serious and reliable participants and discourages non-genuine offers. It must, however, be kept proportionate, since it weighs on working capital and may raise the barrier to entry.

It is on Swiss transit that Vitol's principal concern is concentrated. To ask Snam to pre-agree the terms with FluxSwiss — price included — and participants to subscribe corresponding capacity places Transitgas in the position of selling residual capacity on conditions that, in an ordinary market, would not be “in the money”; and it reduces the market value of the capacity already booked by others, who might find themselves out of the market relative to a PSV price level set administratively rather than on fundamentals. *[Omitted]*.

It must be noted that, should the holders of the already booked capacity be excluded *a priori* from access to the subsidy, one cannot expect them to use capacity already allocated — and simply absorb the costs tied to it, considering that they would require a spread high enough to cover the cost of the not yet booked capacity along the entire route.

Two remedies could neutralise the disparity: (a) to allow Snam to negotiate secondary capacity with the holders of capacity already booked; or (b) to establish that Snam obtain from FluxSwiss no conditions more favourable than those already offered to the current holders of its capacity. Remedy (b) would ask no more of Fluxswiss than its own contractual framework already requires: under the capacity-reservation agreements, surrendered capacity must be offered to the market at the same price as Fluxswiss's own available capacity. Aligning the terms obtained by Snam with those available to existing holders would therefore restore the contractual equilibrium rather than disturb it.

There is, finally, a cross-border dimension that needs considering. If the subsidised flows draw gas from a German market that is entering winter with below-normal storage, the effect would not be neutral for neighbouring consumers: at minimum, it would put upward pressure on prices in adjacent markets; at worst, it will give rise to security of supply concerns for German, and potentially Central European, consumers. Separately, the structure of the liquidity service – a subsidy selectively benefiting Italian consumers and financed through a mechanism that distorts cross-border flows, raises questions of compatibility with European internal market rules, including the State aid framework. Both dimensions warrant careful consideration. *[Omitted]*.

S8 – Premium, volatility fee, overall cap and offer structure

The Authority defines the architecture of the offer around four elements:

- **a unit premium (€/MWh)** — set at auction, financed by the sale of strategic last-resort gas and not charged directly to consumers, within an overall budget of €200 million (§1.2(a)(1); §1.4; §8.1(c); §9.3(b));
- **a volatility fee** — a small margin over TTF, with a cap proposed at €0.5/MWh — justified, only in part and over a limited time window, by the data for January 2025–February 2026, which in roughly two sessions out of three show a TTF range (16:00–17:30) below €0.5/MWh (§1.2(a)(2); §3.8–3.11; §8.2);
- **an overall cap on the sum (premium + fee)** — parametrised to the transport cost of the cheapest route plus the maximum fee (§8.3–8.4);
- **an offer structure** — admitting up to five cumulable offers, each with volume, fee and premium (§8.1; §8.5).

Vitol shares the architecture of the offer. A limited premium set at auction is appropriate: the lower the awarded premium, the greater the net benefit. The granularity of the offers improves price discovery and lowers the average cost of acquiring the target volume.

The volatility fee is, however, the principal lever on the spread, and it is here that the decisive caveat and the greatest risks for the Italian system are concentrated. The theoretical benefit – to subtract up to around €1.7–1.8/MWh from the Italian marginal price on import-driven days – is realised only if inframarginal supply finds the new price level attractive. But baseload volumes such as LNG or pipeline volumes from France, as a rule, require prices above TTF to reach Italy. It is therefore unlikely that the mechanism will ever deploy its full theoretical benefit; and if the subsidised volumes are not enough to cover demand, on a given day the benefit may be nil, because the marginal price remains set by non-subsidised supply. A subsidy can buy volumes, but it cannot buy the willingness of those who would not bring those volumes under any circumstances.

There is then a structural risk, proper to a mechanism that operates only on the day-ahead, through a dedicated auction that expresses the settlement price of PSV-indexed contracts: the drying-up of the PSV forward market. Operators would no longer be able to take a forward view founded on supply-and-demand fundamentals alone, with a possible reduction of the gas – and LNG in particular – bound for Italy. Conversely, a successful compression, by lowering Italian prices, may incentivise exports, eroding once again the benefit to Italian consumers.

In these considerations Vitol locates the root of its principal doubts about the usefulness and the unintended risks of the proposed regulatory design.

Vitol therefore invites the Regulator to reflect more carefully on the advisability of introducing it, especially in a market context marked by great uncertainty.

S9 – The calibration of the caps

The Authority proposes a cap on the volatility fee of €0.5/MWh and an overall cap on (premium + fee) parametrised to the cheapest route plus the maximum fee (\$3.8–3.11; \$8.2; \$8.3–8.4).

The cap of €0.5/MWh is not representative of the conditions in which the mechanism is the most needed. Calibrated on normal day movements, it risks being too low precisely on high volatility days when the spread is the widest and the fee should be doing most of the work. On the overall cap, calibration is the critical design choice: set too low, it discourages offers; set too high, it exhausts the €200 million budget too quickly.

Vitol recommends that the Authority: recalibrates the fee cap to better reflect the tails of volatility, possibly by including a conditional or indexed component; publish the calibration assumptions; and to foresee the flexibility to adjust the caps between the various auctions.

S10 – Premium and selection formula ($T = P + 3 \cdot C_v$)

The Authority proposes to rank the offers from the lowest T to the highest, with $T = P + 3 \cdot C_v$, accepting them in sequence until the target volume is reached or the budget is exhausted, with the possibility of partial acceptance of the last offer (§9.1–9.4). The weight of 3 on the fee deliberately favours low fees, because a lower fee aligns the PSV with the TTF.

Vitol supports the logic: the formula selects the offers that compress the spread the most for every euro spent, consistent with the aim of the measure. Partial acceptance of the marginal offer is also appropriate for budget and volume efficiency.

The weight of 3 is, however, a policy choice rather than a market datum: it prioritizes compression of the spread via the fee over the cost of acquiring the underlying transport capacity. If the true bottleneck is the transport premium, this weighting could systematically favor offers that improve the index without delivering proportionate volumes – costing more per MWh actually injected. The choice of weight therefore deserves explicit justification.

S11 – The requirement: priority to the annual product and the capacity of the Swiss route (~320,000 MWh/day)

The Authority defines the requirement within two constraints – the €200 million budget and the available capacity of the Swiss route, estimated at around 320,000 MWh/day. With the first auction it procures an annual service up to the spending limit, with quarterly or monthly products subordinately (aligned to the CAM products) and the power to differentiate the requirement across the year, for example towards winter (§11.1–11.12). The Authority's simulations indicate that the annual product offers a benefit comparable to or greater than the best mix of shorter products.

Vitol agrees that larger and sustained volumes deepen and prolong the compression, with the maximum benefit at the mid-winter peak. Two cautions, however.

The first: falling after the annual CAM auctions in July, recourse to shorter tenured products – more expensive – is a necessity, thereby increasing the level of the premium that will be demanded by market participants (cf. S7).

The second: the roughly 320,000 MWh/day are an estimate of the physical capacity available on Swiss transit. The capacity actually available to new entrants might, however, be smaller.

S12 – Structural Italy–Germany integration

Separately from the temporary service, the Authority envisages a structural integration of the Italian and German markets through the Swiss infrastructure, to be proposed to the MASE: in particular an “implicit” allocation at Passo Gries, jointly assigning transport capacity and the corresponding volume of gas, possibly at auction. The CAM Regulation (Regulation (EU) 2017/459) allows derogation from the ordinary capacity-auction rules where implicit allocation is used; and from 5 August 2026 Regulation (EU) 2024/1789 (Art. 70) extends the EU network codes to points with third countries, including Passo Gries (§12.1–12.8).

The binding constraint, however, is consent. There is no EU–Switzerland agreement on gas: Switzerland is physically integrated but not bound by EU rules. And the gain for Italy is, in part, a loss of congestion rent for Germany and for the Swiss operator. It is unlikely that the necessary German consent will be obtained without appropriate compensation. A structural solution that ignores the counterparty's interest will not be agreed: it will be contested.
