

Endesa answer to the public consultation on the study about models for the integration of the Spanish and Portuguese gas markets in a common Iberian Gas Market

Endesa welcomes the opportunity to express our views about the CNMC, ERSE and ACER public consultation document on the study about models for the integration of the Spanish and Portuguese gas markets and the way forward with the goal of setting an Iberian natural gas market.

We consider that full market integration, as foreseen in the “market area” model, should be the long term objective for the integration of the Spanish and Portuguese market.

Having said this, and due to “market area” model requires a very high level of harmonization, we agree with the implementation of the wholesale market with implicit allocation as a first step towards the full integration through the gas “market area” model in the longer term. After this first step, and in order to guarantee that further integration continues to be pursued, we consider it is fundamental the definition of a common calendar / roadmap between Spain and Portugal, identifying the main regulatory aspects to be harmonized and corresponding implementation dates, towards the final full integration.

Finally, we consider that the process for the integration of the Spanish and Portuguese gas markets should not undermine or delay the regulatory changes in Spain to increase the liquidity of the Spanish gas market (the size of the Spanish gas market is significantly bigger than the Portuguese one). The integration of the markets should not be an obstacle to increase the liquidity of the Spanish gas market.

Questions to Stakeholders

Question 1:

Would you agree with the analysis made on current market situation and on the major issues affecting the creation of an Iberian market?

- Yes. We agree with the analysis made on current market situation made in the Annex 2 about the Iberian infrastructures, the Spanish gas market and Portuguese gas market.

We also agree, as highlighted in the KEMA study, that it is expected that the benefits of the merger of the Portuguese and Spanish markets may increase if the TSOs coordinately optimize the use of the infrastructure to avoid additional investments.

We consider that the existing physical interconnection between Portugal and Spain is sufficient, as indicated in the data provided in the consultation document that shows a relevant infra-utilization of interconnection capacity in the last few years. Nevertheless, if it is considered to be relevant to undertake the development of further interconnection infra-structures, the decision procedure should be subject to public consultation, supported by a cost benefit

analysis identifying the economic impact on market stakeholders of the new infra-structure, and should be based on market mechanisms, like open season.

Question 2:

Do you agree with the implementation of the wholesale market with implicit allocation of capacity as a step for market integration, but aiming for an even more integrated market in the longer term?

- Yes. We agree that the implicit allocation may promote market liquidity on the Iberian gas market and it can represent a first step for a future market integration through the gas market area model in the longer term.

Question 3:

What are the most important aspects to take into account and to harmonize from a regulatory point of view for the creation of the wholesale market with implicit allocation?

- The implicit allocation model doesn't require a high level on harmonization of national legislations, so the implementation could be fast. As main aspects we would highlight:
 - The amount of capacity (or which percentage of the capacity) should be needed or reserved for the implicit allocation procedure at the Virtual Interconnection Point (VIP) between Spain-Portugal in both directions.
 - The implicit allocation model does not require removing the Entry – Exit tariffs at the Spain – Portugal interconnection, but an alignment of cross-border tariffs would be highly desirable.
 - Another point that should be discussed is if makes sense to have entry-exit tariffs between Spain and Portugal. We consider that Entry - Exit tariffs should be neutral (removed) in both directions for a shipper.
 - The “gas year” and “gas day” definitions should be harmonized in both countries.
 - A common gas exchange platform is necessary.
 - The implementation of the European network codes (Balancing, Tariffs and Interoperability) should be made in both countries in a coordinated manner.
 - The weight of the CCGT installed capacity and the potential impact in the gas sector in the Iberian peninsula is very significant. So, the coherence and coordination between gas and electricity markets is needed in issues as gas/electricity day, renomination times or capacity booking.

Question 4:

Which is the best model for the integration of Iberia in the longer term? Market area model, trading region or others?

- As previously indicated, in our opinion, the best model for the integration of the Iberian gas market in the longer term is the market area model:
 - A single wholesale market with a single virtual trading point.
 - A single balancing system (with a single balancing entity and balancing rules).

Question 5:

When and how the Balancing Network Code and the Interoperability Network Code should be implemented to contribute to the goal of the Iberian market?

- In our opinion, the implementation of the Balancing Network Code and the Interoperability Network Code should be made in a coordinated manner between the two countries.
- We agree with the timetable envisaged by the Spanish Ministry and we consider that the same schedule could be used for the implementation of the Iberian gas market.

Question 6:

Identify any issue you think is important to achieve Further integration. How would you set the timing and prioritization for the discussion/implementation on these issues?

- While the implicit allocation of capacity model is not regulated (in place), the option of having two independent markets without implicit capacity allocation mechanism could be considered as a “zero step”.
- We consider that the process for the integration of the Spanish and Portuguese gas markets should not undermine or delay the regulatory changes in Spain to increase the liquidity of the Spanish gas market (the size of the Spanish gas market is significantly bigger than the Portuguese one). The integration of the markets should not be an obstacle to increase the liquidity of the Spanish gas market.