



Answers from OMIE to the document
“Study about models for integration of the
Spanish and Portuguese gas markets in a
common Iberian Natural Gas Market”

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1 INTRODUCTION

This document presents the answers and opinion of OMIE (OMI-Polo Español S.A.) to the questions raised by CNMC, ERSE and ACER in the document “Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market”.

We want to thank ACER and both Iberian regulators for giving us the possibility of expressing our opinions regarding this important issue.

2 GENERAL OPINION OF THE DOCUMENT AND ISSUES DISCUSSED

Liberalization in the Iberian Gas Market is an established fact for some time already. Several suppliers are competing in both countries to gather clients and sell their different products. Most of the middle to big size companies are already providing their services in both countries. As it is the case in the electricity sector, both geographically and for the market functioning point of view, it seems completely logical to establish an integrated Iberian gas hub where all Iberian companies can compete in equal terms.

However, in our opinion, two main advances are needed to create and benefit from such Iberian gas hub. First, the creation of an organized market which facilitates the negotiation of short and long term gas products in transparent and not discriminatory conditions for all participants. Second, the establishment of an adequate procedure for managing the Spain-Portugal gas interconnection, facilitating the effective market integration between the two countries.

Regarding the first point, both Portugal and Spain are already collaborating in the implementation of the different aspects needed for the creation of such an organized market.

The document "Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market", addresses the second point, adequately presenting the issue from a general to particular perspective and presenting several alternative models of market integration between the two countries.

We consider that the issue is well presented and developed in the document. We also agree with the different market integration alternatives introduced and the analysis of their implications. Due to pragmatic and practical considerations, we also agree with ACER, CNMC and ERSE that the most promising one at this stage is the Integration based in implicit allocation of capacity. In this sense, we consider that the particular conditions of Spain and Portugal make them particularly adequate for this type of solution and that this model could be put into operation in a short period of time, allowing for the efficient integration of both countries into an integrated market, but not limiting at the same time the potential future full integration of both countries into a common Market Area Model when all conditions for its implementation are fulfilled.

3 ANSWERS TO THE PARTICULAR QUESTIONS RAISED IN THE DOCUMENT

3.1 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 believe that the document makes a fair analysis of the Iberian Gas Market situation. It could be of course argued that more information or additional analysis could be introduced to describe all details of the Iberian situation. However, in our opinion, we consider that the analysis performed and information presented are sufficient for the issue addressed and objective and scope of the document.

3.2 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?

We believe that, at this moment, the implementation of the wholesale market with implicit allocation of capacity is a very important step forward for the creation of the integrated Iberian Gas Market. Counting with enough capacity (and currently Spain-Portugal capacity is big enough) this method facilitates the realization of transactions between Iberian companies in a transparent manner, permitting the maximum utilization of the capacity in case the gas prices between the two countries diverge.

In order to have an efficient implementation of this model, it is important to provide enough interconnection capacity to the implicit allocation process and to adequately fix the eventual fee that could be introduced for the flows of gas through the interconnection. This fee, in case it exists, must be a compromise between the desired reimbursement of the infrastructure and network costs and the efficient integration of both countries into a common market with, hopefully, a common price for all participants.

Thinking about the future development of the market, we believe that the Market Area Model should be the final objective of the Iberian market integration. However, it is important to notice that, in case no fee is introduced for the implicit use of the interconnection, and enough capacity is allocated through it, from the market and price formation point of view, the behavior of the model with implicit allocation would practically deliver similar results to the Market Area Model, maintaining the possibility, if desired, of keeping two balancing zones and calculating unbalances in the two countries separately. In our opinion, this is an important advantage of this method as it will allow for the fast implementation of an integrated market, but will, at the same time, facilitate a smooth and non-disruptive path for arriving to the objective, the Market Area Model, when all the necessary works have been fulfilled.

3.3 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?

In order to have a full integrated market where all participants at both sides of the border compete in equal terms, all participants' conditions should be similar in both countries. However, as this could be very difficult, if possible, to achieve, and both countries have their particularities that cannot be avoided, we believe that, for developing an efficient integrated market, such full harmonization is not indispensable and the harmonization process should, especially at the beginning, be focused only in the most important aspects.

The following aspects are considered important for the efficient functioning of the market:

- From the practical point of view:

All practical operation conditions in both countries should be harmonized. An example of them could be the definition of gas day, gas quality conditions, measurement procedures, etc.

Nomination hours, procedures, etc., if possible, should also be harmonized.

- From the firmness of the transactions point of view:

Implicit transactions must be firm, having the same rights than any other gas entry on each country. No discrimination may exist for such transactions

- From the economic point of view:

Both countries should ensure that no distortion of prices is promoted. Interconnection fees, if existed, should be equal in both countries. Gas entry fees and regasification fees should also be analyzed.

3.4 Question 4: Which is the best model for the integration of Iberia in the longer term? Market area model, trading region or others?

In our opinion, the best model in the long term is the Market Area Model. In the Iberian case, we do not see any advantage in the Trading Region Model. On the contrary, we see many open points and complications that we believe are not needed (nomination of gas from the VTP to the end user zones, rules to allocate unbalances in the trading region, congestion management in the interconnection when necessary, potential need of creation of products for the VTP and for the end user balancing points, fragmenting the market and reducing market liquidity, ...). In fact, we believe that the Trading Region Model, if ever implemented, would be a step backwards with regards to the Model of implicit allocation of capacity.

3.5 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?

We would say that both codes should be implemented as soon as possible. Having said that, works can be done in parallel and a functioning Iberian Gas Market may

enter into operation before the full implementation of both codes. Again, a compromise must be reached between the benefits of a fast full implementation of both codes for the market and the required period of time for the need of adaptation of the systems and ways of operation of the participants. We believe that, in this process, a very important issue is the creation of a clear roadmap, known by all stakeholders, for the step by step implementation in Spain and Portugal of the different modifications associated to both codes.

3.6 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?

As said above, to reach a complete integration, regulation in both countries probably would need to be harmonized as much as possible. However, as also stated above, such harmonization is not indispensable for having a well-functioning integrated Iberian Gas Market.

In any case, whatever issue is considered, we believe that, unless strictly needed for starting the operation of the integrated market, it should not hinder or delay the market implementation. Discussions should be held in parallel to the market implementation process and, once the decisions are agreed, should be incorporated to the already in development, or functioning integrated market.