

OMIClear's answers to the Public Consultation "Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market"

1. Introduction

This document presents the answers and opinion of OMIClear C.C., S.A. (Iberian Energy Clearinghouse) to the questions raised by CNMC, ERSE and ACER through the Public Consultation "Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market".

OMIClear wants to thank ACER, ERSE and CNMC for the possibility of expressing our opinions regarding this important issue.

2. General comment

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 already provide their services in both countries.

Following the experience in the Iberian power market and the "Gas Target Model" the development of an integrated wholesale Iberian gas market (is an important goal.

In our opinion, the development of such Iberian gas hub would benefit from the creation of an organized market that would facilitate the trading of short and long term gas products in transparent and not discriminatory conditions for all participants. Such organized market would also help to promote and reinforce the liquidity of the wholesale gas market. As it is well known, both Portugal and Spain are already collaborating in the implementation of the different aspects needed for the creation of such an organized market. The development of such organized market would also be a factor to reinforce the integration of the Spanish and Portuguese gas markets.

The establishment of an adequate procedure for managing the Spain-Portugal gas interconnection would be also a key element to facilitate the effective market integration between the two countries and and the promotion of a liquid wholesale Iberian gas market.

The focus of the Public consultation "Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market", addresses this issue. The document adequately presents 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 alternative 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 and comments to the particular questions raised in the public consultation

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. OMIClear considers the document summarizes the main elements that should be taken into account for the discussion of the integration of Spanish and Portuguese wholesale gas markets and presents the main alternatives in a clear way.

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?*

OMIClear considers that the implementation of the wholesale market with implicit allocation of capacity would be a very important step forward for the creation of the integrated Iberian Gas Market. The implicit allocation would promote market liquidity and would represent a new approach to the development of a wholesale gas market facilitating wholesale price transparency (that would also reinforce and promote liquidity in the wholesale gas market).

It should be stressed that with enough capacity 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.

The implicit allocation of capacity through an organized gas market exchange allows for the fast implementation of an integrated market, and at the same time will facilitate a smooth and non-disruptive path for arriving to the final objective, that should be the Market Area Model.

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 (e.g. the definition of gas day, 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 (regulated prices should not interfere with the development of the wholesale gas markets and the development of liquidity).

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, ...). Currently and taking into account the characteristics of the Spanish and Portuguese markets we consider that the Trading Region Model, if ever implemented, could have the risk of being a step backwards with regards to the Model of implicit allocation of capacities.

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 this process 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 should be clearly established.

Priorities should be clearly identified in order to also allow for work to be done in parallel allowing the possibility for the Iberian Gas Market to 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.

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?*

To reach a complete integration, regulation in both countries probably would need to be harmonized as much as possible, although special care should be taken to identify those issues for which 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.