



**“Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market – Public Consultation”**

- Comments from EDP Group –

Following the public consultation held in 2012 on the “Analysis of Cross Border Tariffs between Portugal and Spain”, EDP Group companies, operating on both Iberian markets, welcome this new initiative from the regulators, as they consider that the ideas and suggestions that will arise from this process will represent a major contribution for the development and consolidation of an Iberian Gas market.

As we have done in previous consultations, prior to our answer to the questions proposed in the consultation document, we would like to clarify what, in our opinion, the Iberian integrated market should be.

In this context, we consider that the major goal to be achieved with a market integration process in the long run is the completion of a fully functioning Iberian Gas Market, where, ideally, shippers are free to choose any of the entries in the Iberian system, paying the respective tariff, and take the gas in any of its exit/consumption points, also paying the corresponding tariff, operating in an integrated Iberian entry-exit system. This corresponds to the “Market Area Model” analyzed in the consultation model.

Regulation harmonization, including regulatory concepts, tariffs structure and operational procedures, transparency and absence of cross-subsidization between activities and countries, sustainability of each country infra-structures are, in our opinion, the major stepping-stones of this process of Iberian integration and, we have to acknowledge, will not be possible to attain in the near future and without fully engagement from regulators, governments and market stakeholders in general.

Thus, it is fundamental that the majority of market stakeholders agree on what the final integration model should be, and that the corresponding implementation timeframe and responsible entities involved are well identified.



**Answer to the “Questions for the Stakeholders”:**

**Question 1) Would you agree with the analysis made on current market situation and on the major issues affecting the creation of and Iberian market?**

In general we consider that the analysis made on both issues is correct and identifies the most relevant aspects that may affect the implementation of the various integration models.

Having said this, we also think that is important to emphasize that:

- Market integration is positive for both countries since Portugal does not fulfill the minimum requirements in terms of size, sources and market players to implement a national organized market on its own and Spain has to gain in terms of market liquidity with the integration with the Portuguese market;
- The weight of the CCGT installed capacity and the potential impact in the gas sector in the Iberian Peninsula is very significant, and not comparable to any other region in Europe, and should be carefully taken into account in what concerns the design of market rules. .So, the coherence between gas and electricity markets is essential namely in issues like gas/electricity day, renomination schedules, capacity booking or balancing system.
- The existing physical interconnection between Portugal and Spain is sufficient, based on the data provided in the consultation document that show a relevant infra-utilization of interconnection capacity in the last few years. Considering this information, the implementation of any of the models will not be negatively impacted by this factor. Nevertheless, and if in any case 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 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?**

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, we agree with the implementation of the wholesale market with implicit allocation as a first step, easier to implement, towards full integration.

Nevertheless, and in order to guarantee that further integration continues to be pursued, we consider to be fundamental the definition of a common timetable between Portugal and Spain, identifying the major stepping stones and corresponding implementation dates, towards the final implementation of a full integration solution. The wholesale market with implicit allocation should be considered the first of this stepping stones, towards the final goal, and other more advanced intermediate steps, like a trading area model, would be welcome as soon as conditions are met in both countries.

**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?**

We agree that this particular integration model is the one involving fewer requirements in terms of regulatory harmonization between the adjacent market areas. However, this should not stop national regulatory authorities from developing a continuous effort to ensure a full regulatory harmonization between both countries.

Moreover, it should also be kept in mind that the integration of the Iberian gas markets should also guarantee future further integration with the rest of European markets, aiming at a single European gas market.

Finally, we also consider important to highlight that the regulatory harmonization between both countries, should aim at guaranteeing that the same best practices, like absence of cross-subsidization between activities, transparent cost allocation and definition of tariffs per activity, are applied.



In this context, and considering the immediate regulatory alignment to ensure the implementation of implicit allocation of interconnection capacity, we consider most relevant to:

- Ensure that European network codes already in implementation phase or scheduled to be implemented in the near future, such as the NC on Balancing Regime, NC on tariffs or NC on Interoperability, are implemented in both countries in a similar manner;
- Ensure that a similar regulation is applied in issues not covered by European Network Codes such as capacity booking or use in various other points apart from Interconnection points with other European entry-exit systems, like LNG Plants, LNG-Transmission points, underground gas storage etc.
- Ensure the full implementation of mutual acknowledgment of commercialization licenses;
- Establish a single booking and nomination point of contact between TSOs and shippers in what regards interconnection capacity usage to avoid the necessity of double procedures by shippers, with both TSOs, to ensure access to interconnection capacity;
- Establish a common operation framework of the Iberian gas system, ensuring a full coordination between Spanish and Portuguese system operators or TSOs;
- Establish a common framework with the aim to provide a consistent view of the Iberian gas infrastructure and signal potential gaps in future investment;
- Align basic concepts as “gas year”, “capacity booking periods”, nomination schedules, etc;
- Align strategic stocks maintenance obligations;
- Consider the importance and potential impact of the electricity sector in the gas market, taking into account the gas fired power capacity installed, and analyze the possibility of alignment of both “gas day” and “electricity day”, for nomination and capacity booking purposes.



**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 referred, we don't see any reason why we should not aim at full market integration, ensured by the "market area model", in the long term.

This is not however incompatible with a "step by step" approach, that could be initiated immediately, with the implementation of the "wholesale market with implicit allocation" model that would be progressively developed towards the final objective. Another intermediate step could be the implementation of the "trading region".

We recognize that the market area model full implementation is very ambitious and requires full alignment and engagement not only between regulators and market users but also between the governments.

Nevertheless, if we do not aim at the highest possible integration solution we will not succeed in the implementation of an integration solution that ensures benefits for the Iberian market.

**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?**

As mentioned in answer to question 3., many of the mechanisms and requirements established under the Interoperability NC, once implemented, will be very helpful in terms of simplification of market access by shippers, since they will harmonize basic operational concepts between both markets – "gas day", "gas year", "combustion temperature", nomination schedules, etc.

Regarding the Balancing NC, once implemented in a similar manner in both markets, will ensure a common set of rules for balancing and corresponding penalties, and, since most of the correction mechanisms foreseen in this NC are market based mechanisms, it will also contribute for market liquidity.

Thus, we consider that both NC should be implemented as soon as possible and following a similar time frame in both countries. In this way, Spanish regulators (Ministry/CNMC) have presented in the Iberian gas Hub Development Working Group an implementation plan with explicit stepping stones to be applied during 2015-2016. So, a common decision on this should be taken by Spanish and Portuguese regulators as soon as possible in order to ensure its coherence.



**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?**

Apart from an immediate alignment, mostly for practical operational purposes, between the regulatory framework of both countries, further integration requires a broader regulatory harmonization between regulatory models and tariffs rules, aiming at guaranteeing that the same best practices, like absence of cross-subsidization between activities, transparent cost allocation and definition of tariffs per activity, are applied.

Timing for discussion of these issues will depend on the time frame established by national authorities for the achievement of a more ambitious integration between the markets. Nevertheless we believe that regulators and stakeholders should first focus in the alignment of concepts and issues previously identified namely interoperability issues and simplification of interconnection capacity booking procedures, and in the complete implementation of the various network codes, ensuring once again alignment and coherence between both countries.

Furthermore, we also consider of utmost importance for the integration of the Iberian market the improvement of market liquidity that can be achieved by an effective interconnection with north European gas hubs like NBP, Zeebrugge, TTF, Peg Nord or NGC/Gaspool. This will imply the promotion of adequate transport capacity not only at the Spanish-French border, but also, as may be required, between French zones up to the PEG Nord zone.