

STUDY ABOUT MODELS FOR INTEGRATION OF THE SPANISH AND PORTUGUESE GAS MARKETS IN A COMMON IBERIAN NATURAL GAS MARKET

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?

In general terms, we agree with the analysis accomplished in the study in relation with the Spanish and Portuguese natural gas systems and infrastructures, as well as with the regulatory progress followed by both countries along the last years, in the frame of the European Union and in the particular context of the South Gas Regional Initiative.

Nonetheless, we do not fully agree with certain considerations about lack of liquidity and transparency in Iberian wholesale gas markets, which undermines an efficient allocation of resources, risk hedging and entrance of new agents (stated on chapter 3, page 12 of the document). In our view, currently, the market works reasonably well, and the development of the Iberian Hub (in which the whole sector is working on) will enhance it.

We find appropriate the description of the different integration models considered, and the identification of their main features, advantages, constraints and requirements, together with the implementation viability of each of them, taking into account the characteristics and situation of both markets. In this sense, we support a progressive approach towards an effective integration, according to the particular circumstances in Spain and Portugal at any time.

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 are fully aligned with the development of the European gas internal market, for which a scheme based on regional integrations that may run in parallel is very positive. Thus, in the context of the SGRI, the integration of Spain and Portugal in the Iberian market is interesting, and a progressive convergence of these countries starting with the proposed Implicit Allocation Capacity mechanism makes sense, since it fits the initial goals of the integration while can be reasonably well implemented.

In fact, the undertaking of the Hub that the Spanish Government underpins with an Iberian dimension, with contribution of all sector agents and entities, foresees such implicit allocation of capacity to allow cross border transactions.

We understand the IAC as the first step towards a further integration in the long run. However, we point out that any additional measures or steps must always take into account the situation in each of Spanish and Portuguese energy sectors at every moment, keeping in mind that the final objective is the effective integration of the Iberian market with the rest of Europe through France, rather than achieving the best theoretical model between Spain and Portugal.

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 study states the most relevant milestones made by Spain and Portugal from the regulatory point of view so far, necessary for the integration. Nevertheless, the implementation of the IAC requires the continuation of this harmonization process which shall include, among others, the following aspects:

- Reservation of certain interconnection capacity for IAC at VIP. Definition of fees allocation mechanism of this reserved capacity if not used
- Full implementation of (harmonized) CAM (with short term products). Harmonization of products to be negotiated at both sides of the border (unique market)
- Allocation of virtual capacity (flexible and swift, removing viability analysis)
- Interconnection fees definition
- Adoption of CMP in Portugal, harmonized with Spanish one so that underused booked capacity becomes available for IAC
- Harmonization of technical rules for system operation (nominations, renominations, etc)
- Gas day definition (at least at interconnection points)

Additionally, the Iberian Gas Hub development, with common platform and rules, as it is being designed, is essential.

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

It is necessary to acknowledge the peculiarities of Spanish and Portuguese energy markets, and the features and potential benefits of their integration as well. The study remarks that these benefits in the case of the Iberian market are limited, mainly due to the low level of gas prices for end consumers. The main target in the short term is to increase market competitiveness and liquidity, what can be mainly achieved through the gas hub creation.

From a conceptual point of view, the full integration of both markets would be the last goal in a longer term. The study recaps that most of the stakeholders expressed the will to go forward with the merger of entry-exit zones and even balancing regime in the public consultation that took place

in 2012 (chapter 4.2). However, the document also describes the legal and regulatory duties/obstacles that these more advanced models (market area and trading region) would have to overcome. We agree with such considerations, so we believe a progressive approach whose second stage (after full implementation of IAC and further regulation packages), would consist on a trading region development is the most appropriate path. Afterwards, a market area model (or others) could be considered in case favorable conditions were given.

In our opinion, the important thing is that the integration model in place is the most efficient at every moment, considering situation and constraints of both countries (and markets), and having in mind that the integration of the Iberian market with the rest of Europe is the last and most important goal.

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 above in the previous question, the main action at the moment is the Iberian gas hub development, for which it is necessary to make progress in the required regulatory issues listed before (Q3). Adoption and implementation of NC of balance and interoperability will contribute to market development and improvement. In this regard, we think that both regulation elements must be transposed in a coordinated manner (in time and content) in both countries (always aligned with European requisites), so that the harmonized result allows progress towards enhanced integration.

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?

We believe a progressive integration approach is the most suitable scheme, as suggested before. Therefore, we find relevant to have a clear road map with certain level of flexibility to help Spain and Portugal to comply with. The way forward should focus on those detailed regulatory matters that need to be defined or reviewed aiming the gas hub development, rather than pointing at beyond steps. Regulatory harmonization is the key issue in such process, engaging those aspects listed in response to Q3, and probably others like:

- full alignment of licensing procedures, with mutual acknowledge of trading licenses, contracts standardization, single competent authority for permits, etc
- scheduling and nomination procedures
- allocation and balancing procedures
- capacity allocation and secondary markets

Additionally, some independent steps need to be made in each market related with the new NC of tariffs to implement the entry-exit model and the negotiation virtual point, eliminating the prior viability analysis. All this

based on transparency and non discriminatory principles, and avoiding disrupting market unity and equilibrium from a geographical point of view.

Finally, we would like to remark that, as stated in the consultation paper, the Iberian market has limited benefits due to its own nature as an energy island in relation with the rest of the continent, and to the fact that there is no material domestic hydrocarbon production (apart from the price level considerations already stated in the study). Thinking in the global scope of the European gas target model, the integration of Spanish and Portuguese markets is a necessary step but clearly insufficient without a real integration with Europe, which represents the true added value for the internal market.

There is no doubt about the potential mutual benefits of the integration of the Iberian Peninsula with the rest of Europe in terms of energy security and competitiveness. Some considerations are included in the document about the French market and the integration of its three zones. It mentions that *“CRE has confirmed its will to seek the consolidation of the marketplaces as soon as possible, aiming at the creation, in the long term, of a unique France PEG by 2018 and an intermediate step of merging the GRTgaz South and TIGF PEGs on 1 April 2015”*. This will require additional investments, apart from market mechanisms, to remove certain physical bottlenecks and congestions, what should definitively incorporate the Midcat project execution, qualified as a Project of Common Interest by the European Union. In this regard we apply for ACER’s assistance in such matter, using existing tools and measures to underpin interconnection projects justified by positive Cost Benefit Analysis (CBA)¹.

¹ ACER has recently adopted a decision about a cross-border cost allocation (CBCA) on a PCI, the Gas interconnection Poland Lithuania (GIPL), based on a CBA. In this case, preliminarily, the Agency concluded that the overall economic benefits delivered by GIPL to the involved countries are twice as high as its costs. After that, a regulatory decision will make possible the development of such project, which will contribute to the development of the internal market.

<http://www.acer.europa.eu/Media/News/Pages/ACER-adopts-a-decision-on-the-allocation-of-costs-for-the-Gas-Interconnection-project-between-Poland-and-Lithuania.aspx>