ERSE consultation document n. 90 on the market rules for negotiating products with delivery on Virtual Trading Point (VTP) on the MIBGAS platform

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EFET response – 17 July 2020

The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments on the market rules for negotiating products with delivery on Virtual Trading Point (VTP) on the MIBGAS platform and associated procedures.

We appreciate to further contribute to the implementation of Commission Regulation (EU) No 312/2014 (BAL NC) and the development of the short-term gas market in Portugal, having in mind our experience in reviewing several European gas hubs in our EFET 2019 Gas Hubs Benchmarking Study[1,2].

EFET has long been a stakeholder actively promoting the development of liquid and efficient natural gas markets in the Iberian region, advocating for the integration of Portugal to the single market through MIBGAS as an important part. Therefore, we fully support ERSE, MIBGAS and all the relevant Iberian stakeholders involved in this project to take a first key step in implementing the BAL NC and the VTP including the use of MIBGAS' platform by the end of 2020 and to speed up the process as much as possible. We also ask for complete alignment to the BAL NC where at all possible, and in the case of Portugal even closer alignment with Spain.

We understand and we support that the Portuguese market rules will largely reflect the current Spanish rules in MIBGAS. We argue that the Portuguese rules should exactly mirror the Spanish rules and take the PVB as a model. This is of utmost importance in order to facilitate the future market integration, which will also increase liquidity.

However, we expected more transparency from the Iberian institutions, so we suggest:
- To have a complete and public implementation timeline with the expected milestones for the full integration and implementation of the BAL NC in Portugal by the end of this year;
- To publish the full MIBGAS set of rules proposed to ERSE;
- To publish any change in the market rules in Spanish, Portuguese and English if the Iberian market wants to develop further;

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[1] EFET Gas Hubs Benchmarking Study reflects specifically the design of the virtual trading points in each market: https://efet.org/Files/Press%20statements/20191104_PR_EFET%20European%20Gas%20Hubs%20Benchmarking%20Study-%206th%20Edition_1.pdf

[2] See also EFET letter to MIBGAS on Portugal integration and BAL NC implementation

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- To clearly map, where possible, the key characteristics between the Spanish and Portuguese system to identify the difference – potentially through a table.
- To engage with market participants in few months with a webinar open to all interested stakeholders at least with English subtitles/dubbing.

ACER report on *"Enabling short-term gas markets after interim balancing measures"* highlighted that Portugal is behind in the overall implementation of the BAL Network Code[3]. Among the main remarks, the lack of a balancing or trading platform and of STSPs, which, despite being designed, cannot be used in the absence of a platform.

Therefore, we welcome this consultation and below you will find our response to your detailed questions:

Chapter 4.1 - TSO

> *Q1: Considering the volume associated with the operating gas in Portugal of 390 GWh, and the experience acquired in Spain, what do you consider to be the appropriate maximum and minimum time interval for the execution of a purchasing program by the TSO?*

We would welcome to have the same parameters applied in Spain. However, considering the existing COVID situation, that has created few disruptions in the market functioning, we would suggest that the TSO establishes a programme for the gas acquisition allowing its completion until the end of next gas year (30th September 2021).

This schedule would create enough flexibility so as not to hinder the proper development of the necessary complementary regulation and IT systems that we deem could be completed by the 2020/21 gas year at the latest, allowing for the full implementation of the BAL NC from this date.

> *Q2: Considering the distribution/allocation used by TSO in Spain, in the acquisition of 'filling gas'' in monthly products (50%), daily and intraday products (25% in each*), does it seem appropriate to use this same approach in order to guarantee price predictability and competitiveness in its formation, through a competitive auction mechanism? Or would it be preferable to have a major concentration of purchases on daily and intraday products?*
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> ** In the Portuguese case, considering a volume of 390 GWh, which corresponds to 0.6% of the national consumption of natural gas, for an acquisition over 12 months, we have a distribution of 16.25 GWh / month in the monthly product and 8.125 GWh / month in each daily and intraday product.*

We agree with the breakdown of products to acquire 'filling gas" proposed for Portugal because it is identical to the one applied in Spain, in line to our standpoint of reaching regulatory harmonisation between the two countries.

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[3] See also [ACER report on enabling short-term gas markets after interim balancing measures](#)

> *Q3: In order to mitigate an acquisition price formation concentration of "operating gas" in the monthly product, does the solution of dispersing risk by dividing the volume associated with that product in two independent auctions, lagged in time, seem appropriate? For example, could the realisation of an auction be considered 15 days before the start of the month's delivery and another 30 days before the start of the month's delivery?*

The proposal to perform the gas acquisition in two different auctions seems adequate, in order to mitigate some risks of price volatility. Nevertheless, we recommend that the auctions programme should be known with sufficient notice, in order to incentivize the participation of shippers.

That said, the need to hold one or two auctions should also be dependent on the volumes to be required. If the volumes are too small, it might discourage shippers participation all together. Therefore, a defined volume floor could be established to determine whether one or two auctions are held.

> *Q4: In order to ensure that the purchase price of the "operating gas" has a price in line with the market, which criteria are relevant for the definition of the reserve price and the respective price limits to be applicable to the auctions for the acquisition of the "operating gas"?*

If there is a reserve price, it should be published closer to the date of the auction, to reflect the conditions of the market at the moment of said auction; limits should not be pre-defined, they should ideally be zero, where the outcome of auction price formation process is the only determinant factor aside from volume.

Chapter 4.2 - Linepack

> *Q5: Do you consider a phased and planned reduction in the linepack flexibility as appropriate in the referred terms? What aspects should be considered in this reduction process?*
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> *Q6: Do you consider appropriate to acquire more experience in managing the network before a proposal is made to assign linepack flexibility? How do you use the current mechanism to manage your imbalances and how much is it important?*

Q5: Currently the TSO keeps an important volume of gas, that was made available for operation by the shippers, until the full implementation of the BAL NC. We consider that linepack flexibility should be available as any other capacity service where these are acquired through a competitive mechanism according to Art. 44 of the BAL NC[4].

Q6: As described above, we consider that if the linepack service is kept, this should be reformed to a pure market-based allocation in line with the BAL NC.

Q7: As stated above and in other public consultations, EFET favours a market-based approach for this type of operations, in order to have a level playing field for the different shippers.

As a general approach, we would suggest that the allocation of linepack should be done in different horizons in order to ensure a proper match with the needs of each shipper that might vary along the year, so an annual attribution with quarterly and monthly allocation of capacity could be considered (similarly to storage products). In evaluating the demands, the historic use of the system by each shipper, as well as their best estimations for future use should be considered in the definition of the maximum allowed quantity that each shipper is entitled to purchase.

Chapter 4.3.1 – Imbalance settlement price

We argue that strict adherence to the BAL NC (Chapter V) and alignment to the Spanish framework should be the first step in defining the imbalance price methodology.

In case there are no operations at the MIBGAS Portuguese Area, we would suggest considering for imbalance prices, the average of the last 2 days where such operations took place, as long as those operations were no more than 2 days old, with a small adjustment equal to the one applied in Spain (2.5%).

If there were not transactions in the past 2 gas days, we suggest applying the existing methodology, considering the reference price in Spain and the VIP's TPA costs, with a small adjustment.

Chapter 4.3.2 – System operation

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[4] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0312&from=EN

conditions of the national natural gas system? How could the TSO contribute to improve the conditions for managing the portfolio of each market participant?

TSOs could provide more complete and accurate information to market participants and could change some of the procedures in order to allow them to use the network in a more efficient way, namely:

- deviations between estimations of consumption and actual readings should be paid/received in gas and not in cash;
- daily information provided to market participants regarding consumptions of their clients should follow a robust checks process to avoid unnecessary physical movements of gas within each month and their correction at the end of that same month.

Ultimately, the TSO should be subject to effective incentives to facilitate all the information and accuracy of process to ensure their efficient operation and to facilitate the efficient interactions of shippers in the gas system.

Chapter 4.3.3. – Balancing actions

Q10: How would it be possible to implement a model of cross-border balancing actions for the TSO, as envisaged in the BAL NC? Do you find this tool useful in the context of the Portuguese market?

Q11: Do you consider necessary to contract compensation schemes as a transitory measure to standard short-term products? What kind of services would be desirable for the Portuguese market?

Q10. The Spanish gas system already implemented the BAL NC. It would be appropriate for the Portuguese TSO to create an implementation plan with several stages leading to the convergence between the models and ideally implementing cross-border trading opportunities. The interdependence and interaction of both markets is significant enough for accessing flexibility in managing balancing through cross-border actions.

We consider that allowing the TSOs, and particularly, the Portuguese TSO of having this extra alternative when balancing the system should allow for a relative reduction in balancing costs, and hence the costs of operating the Portuguese system which would ultimately be paid by consumers.

Q11 – In consideration of our previous answer, and our aim for the BAL NC to be implemented as quickly as possible and maximising the harmonisation with the Spanish system, we consider that transitory measures as proposed should be clearly known from the inception with an implementation plan. This was also highlighted in the ENTSOG BAL NC implementation and Effect Monitoring Reports through the years[5].

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[5] See ENTSOG reports on the implementation of the BAL NC here: https://www.entsog.eu/network-code-implementation-monitoring#implementation-monitoring-report-bal-nc