

# Response to the common consultation of CNMC and ERSE on integration models for the Iberian Gas Market

**Enagás GTS comments**

**Enagás-GTS**

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## 1. Introduction

Enagás GTS welcomes the Regulators opportunity to contribute to the public consultation on the Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market, as well as the deep detail given to the study together with the practice cases and the experiences in market integrations search.

Enagás GTS response to this consultation is not confidential.

## 2. Executive Summary

Enagás GTS considers that the integration of Spanish and Portuguese Markets should be developed in different phases, leading gradually to greater regulatory and operational harmonization.

Firstly, before considering the integration of both markets, these two markets should be consolidated independently; note that in the Spanish side, market rules and organized gas hub creation requested by the European Commission is still under definition and implementation. On the other hand, it is understood that Portugal has no structural conditions to create stand-alone wholesale market, which is the main reason that leads to the integrated market creation.

Once taken into account this need of maturity or consolidation of these markets independently, **if NRA's consider that the integration of the two markets is required, and that the alternatives are based just on these three models**, Enagás GTS understands that the process should be implemented with caution, through **three different stages**:

### **1<sup>st</sup>. Phase: Wholesale market with implicit allocation:**

If the integration is required, the first stage for its implementation could be the wholesale market with implicit allocation, given the lesser degree of regulatory harmonization and lower degree of interconnection needed. However, the implementation of this model involves a number of challenges in terms of operative and management issues, which must be carefully analyzed. Therefore, Enagás GTS proposes that the initial amount of capacity reserved for the implicit allocation should be set at 5% and could progressively increase year after year only if the market shows interest. This capacity should never exceed the 20% of the total capacity of the interconnection, achievably after several years.

### **2<sup>nd</sup> Phase: Trading Region Model**

The second phase of implementation could be the Trading Region Model, in which a single trading region with two end-user balancing areas would be created. This stage could not be implemented in the short term as it requires, apart from a higher regulatory harmonization, a greater interconnection capacity. This means that the construction of the 3<sup>rd</sup> Interconnection should be ready for the implementation of this Trading Region Model. An important aspect of this model is that it needs to solve the exiting tariffs between Portugal and Spain removal. This is the key point, and may need a deeply study on cost allocation to contemplate which of the two countries is the main beneficiary.

### **3<sup>rd</sup> Phase: Market Area Model**

Finally, the Market Area Model is seen by Enagás GTS as a non very realistic model, and it could only be implemented at very long term. It requires a fully

regulatory harmonization hardly achieved while been two different countries with two different regulators. The creation of a cross-border market area will require much time, resources and the creation of a single entity to perform the balancing system. From the point of view of infrastructures, this model would also require the development of the 3<sup>rd</sup> Interconnection to ensure maximum interconnection capacity inside the Iberian Gas Market, as well as the interconnection tariffs removal, which would allow for greater liquidity in the trading and balancing management.

### 3. Questions

#### **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?**

- Regarding the current market situation, Enagás GTS agrees with the main analysis, but would just like to remark a few aspects:
  - o Spain and Portugal haven't decided to use PRISMA as the capacity booking platform. At present, Portugal and Spain are considering whether or not to use PRISMA as capacity booking platform. (4.1. progress table, page 32 "Capacity booking through an IT platform" of the document)
  - o Main figures and numbers shown in the Public Consultation are updated at the end of 2012. Most of them remain currently in the same values as in 2012, but, due to its relation with the scope of the study, Enagás GTS would like to highlight that the capacities between Spain and Portugal (Table 7 page 50) are currently offered and allocated in a Virtual Point: *VIP Ibérico*.
  - o ...
- Regarding the major issues affecting the creation of an Iberian market, the small number of European experiences to contrast involves dealing with more caution and margin all the affections of the creation of the single market.

#### **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?**

Considering that the implicit allocation model does not require a high level on harmonization between Spanish and Portuguese legislation, nor more interconnection capacity, at a first stage, it should be the fastest and the easiest model to be implemented.

Nevertheless, the management of the implicit capacity should be carefully analyzed, so if its implementation is finally required by the NRA's, it should be done step by step, starting with a 5% of the total capacity reserved for implicit allocation and increasing gradually only if the markets shows interest. This amount of the total capacity should not exceed, after several years of implementation, the 20% of the whole capacity.

**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?**

Although implicit allocation model does not require a high level on harmonization of national legislations, some aspects have to be taken into account:

- Implicit capacity allocation process, nominations, etc.
- Coexistence between explicit and implicit allocations, in terms of timetable, ...
- Possible interaction with CMP mechanisms.
- Tariffs applicable to the implicit capacity allocation
- To determinate the capacity booking platform to be used.
- The progressive amount of interconnection capacity reserved for implicit allocation
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**Question 4: Which is the best model for the integration of Iberia in the longer term? Market area model, trading region or others?**

In the very longer term, the Market Area Model can be considered the objective for the Iberian gas market, although a legal and regulatory alignment and better interconnected transmission networks are required between Spain and Portugal. Therefore, for achieving this Market Area Model, the process should be developed in three stages:

- **1<sup>st</sup>. Phase: Wholesale market with implicit allocation:**

If the integration is required, the first stage for its implementation could be the wholesale market with implicit allocation, given the lesser degree of regulatory harmonization and lower degree of interconnection needed. However, the implementation of this model involves a number of challenges in terms of operative and management issues, which must be carefully analyzed. Therefore, Enagás GTS proposes that the initial amount of capacity reserved for the implicit allocation should be set at 5% and could progressively increase year after year only if the market shows interest. This capacity should never exceed the 20% of the total capacity of the interconnection, achievably after several years.
- **2<sup>nd</sup> Phase: Trading Region Model**

The second phase of implementation could be the Trading Region Model, in which a single trading region with two end-user balancing areas would be created. This stage could not be implemented in the short term as it requires, apart from a higher regulatory harmonization, a greater interconnection capacity. This means that the construction of the 3rd Interconnection should be ready for the implementation of this Trading Region Model. An important aspect of this model is that it needs to solve the existing tariffs between Portugal and Spain removal. This is the key point, and may need a deeply study on cost allocation to contemplate which of the two countries is the main beneficiary.

- **3<sup>rd</sup> Phase: Market Area Model**

Finally, the Market Area Model is seen by Enagás GTS as an excessively utopian model, and it could only be implemented at very long term. It requires a fully regulatory harmonization hardly achieved while been two different countries with two different regulators. The creation of a cross-border market area will require much time, resources and the creation of a single entity to perform the balancing system. From the point of view of infrastructures, this model would also require the development of the 3rd Interconnection to ensure maximum interconnection capacity inside the Iberian Gas Market, as well as the interconnection tariffs removal, which would allow for greater liquidity in the trading and balancing management.

**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?**

- The implementation period should take into account the time required for approving the national regulations and the development of IT systems needed to implement these Network Codes.
- Depending on the selected model, the implementation of the Network Codes should be different:
  - o Wholesale market with implicit allocation: Will require harmonized implementation to allow the allocation of this implicit capacity.
  - o Trading Region Model: Balancing Network Codes and Interoperability Network Code should be implemented in a harmonized way in both countries. Additionally, Tariffs Network Code should be commonly implemented.
  - o Market Area Model: Implicit Balancing Network Codes and Interoperability Network Code should be uniquely implemented



in in both countries. Additionally, Tariffs Network Code should be commonly implemented.

**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?**

Depending on the final model for the integration of the Iberian market in the longer term:

- To carry out a cost benefit analysis to assess the viability of improving the degree of interconnection of the existing pipelines, in order to discard some of the models.
- The removal of the transport tariff between Spain and Portugal needed in some of the models, which will need to design a cost allocation mechanism to assign each cost to each beneficiary.
- The legal and regulatory alignment needed between Spain and Portugal, including the agreement on a single balancing entity and balancing rules.