

Paris, 15 September 2014

CRE welcomes the opportunity to comment on the study conducted by the Spanish and Portuguese regulators on the integration of gas markets in the Iberian Peninsula, and strongly supports CNMC and ERSE initiatives towards the creation of organised gas hubs and greater integration. CRE would like to provide a general comment on the creation of an Iberian gas hub and to answer questions 1 and 6.

## General comment

CRE is of the opinion that the creation of an efficient virtual hub in the Iberian Peninsula and, as a preliminary step, in Spain, is absolutely necessary, in particular in the current context of big differences between prices of gas imported by pipeline in the North of the European market and LNG imports in the South. CRE would like to remind that important efforts have been made to increase the interconnection capacities between Spain and France, the purpose being to reach a level of integration consistent with the market model developed in the framework of the Third legislative package. Like other member states in North-West Europe, France applies the model of entry-exit zones with virtual hubs, centralizing transactions on the PEGs. As a result, there is a strong relation between wholesale prices and the use of interconnection points (both internal and cross-border).

Recent market developments have shown that market players present on the LNG chain have had strong incentives to substitute LNG by pipeline gas in order to maximise the value of their import contracts. In France, the result has been that flows between PEG Nord and PEG Sud have been maximised, the Nord-Sud link being used at a 93% rate in 2013 and even 97% since the beginning of 2014. This situation has been reflected in wholesale prices on PEG Sud, leading to high spreads with PEG Nord.

In this context, since the raise from 100 GWh/d to 165 GWh/d of interconnection capacities from France to Spain in April 2013, flows to Spain have increased and thus contributed to the tension on the PEG Sud. The absence of day-ahead spot prices in Spain has led to a lack of transparency regarding the organisation of flows by market players. In addition, it has not allowed the market to proceed with arbitrages between the Iberian Peninsula and France, in particular when prices peaked at PEG South during the winter 2013-2014.

CRE would like to urge CNMC and Spanish stakeholders to set the objective of establishing a reliable day head price reference in Spain, and to take all appropriate measures toward this goal.

## **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?**

CRE agrees with the statements about the Iberian market and the need to create a liquid virtual hub and suggests to extend the analysis to 2013 and the beginning of 2014, to also address the period after the increase of capacity at the interconnections with France.

Regarding transactions on wholesale markets, CRE encourages CNMC and ERSE to implement a market structure that would ensure that transactions are concentrated on the virtual hub. Benefits would be huge in terms of transparency, price discovery and risk management. That would contribute to reach an efficient use of the interconnections thanks to market signals.

**Question 6: Identify any issue you think is important to achieve further integration.**

As mentioned before, the current absence of a day-ahead price reference is detrimental to the development of market integration, not only between Iberian countries but also with France.

With the purpose of creating an efficient virtual hub, special attention should be given to the role of the interconnections with the French market. PEG Sud and PEG TIGF are going to merge by April 1, 2015, thus reaching a higher level of liquidity. In this perspective and to improve the management of the interconnections, CRE insists on the following aspects:

- Improvement of the flexibility of nomination procedures : CRE sees the switch from monthly nominations to firm day ahead nominations, with possibility of firm intraday re-nominations as a necessary step forward;
- Tariffs for short term capacity products should be designed carefully, not to prevent cross-border market arbitrages. CRE is concerned by the current levels applied which are very high, especially in winter. According to the tariff structure in Spain, the multipliers for short term capacity products from Spain to France are the following :

	<b>Multiplier / annual tariff</b>
Winter month	<b>2.86</b>
Summer month	<b>1.43</b>
Winter day	<b>4.35</b>
Summer day	<b>2.61</b>

In order to develop the fluidity of trades at the French – Spanish border and to allow shippers active on the Spanish market to move gas to France during episodes of high prices on PEG Sud, lowering down these multipliers would be necessary. As a reference, the ACER framework guidelines on the harmonisation of tariff structures recommend a maximum level of 1.5 on average;

- Spanish and Portuguese transmission operators should confirm their participation to PRISMA to ensure consistent capacity allocation procedures for shippers in the South gas region.

Finally, the full implementation of the network codes on capacity allocation mechanisms and balancing should help creating a virtual hub in Spain and Portugal. CRE encourages CNMC and ERSE to implement these codes as early as possible.