

GAS NATURAL FENOSA GROUP ANSWER TO THE “PUBLIC CONSULTATION ON INTEGRATION MODELS FOR IBERIAN GAS MARKET”

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?

The analysis of the various integration models is quite correct. Nevertheless the current report, and referring mainly to its description issues, presents some contradictions compared with CNMC opinion as well as with general opinion of shippers operating within Spanish market, and that is because of the fact that this market is at a higher Competition level than those of other European countries. In fact, it contradicts the analysis made by CNMC on its last report on wholesale gas market supervision dated on July 31, 2014, where it says the following:

“ 3.5. Secondary Gas Market in Spain.

The volume of gas which is negotiated by shippers on OTC daily market within the Spanish gas system is an example of the positive evolution of a liberalization model.

The number of active shippers on OTC market reaches to 40... in 2014.

The total amount of negotiated energy by march 2014 amounted to 36.581 GWh. The volume of negotiated energy in the market is equivalent to 137,0% of demand in that month.”

Considering that the existing physical interconnection between Portugal and Spain is sufficient, based on data provided in the consultation document that shows a relevant infra-utilization of interconnection capacity in the last few years, the implementation of any of the three modes proposed will not require the development of further interconnection infrastructures in the short 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?

As a previous step to Market Area Model, it can be feasible the implementation of an integration model with daily and intra daily gas between two virtual hubs with implicit associated capacity, the so called “Market Model with Implicit Allocation Capacity”, provided that the capacity price is the regulated daily spot.

We think that it is appropriate to reserve a 20% of capacity for this market.

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?

- To harmonize border tariffs on both sides. Nowadays, border tariffs from Portugal to Spain are zero.

- Unify contracting flexibility rules ~~Unification of codes for flexibility of contracts~~ and payment of capacity booking for both countries.
- Unification of balancing codes, that is, imbalance charges and flexibilities.
- To harmonize gas day and nomination schedule.
- To eliminate crossed subsidies in Spanish tariffs.
- To unify quality of information provision, schedules and calendars.

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

Of all Models that have been proposed, we think that “Market Area Model” is the model that can be considered as a long term objective (maximum market integration). On the other hand, this would require a great harmonization level, together with the lack of physical restrictions and just a single Operation Manager to handle both Spanish and Portuguese systems.

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 it has been remarked, a certain degree of harmonization is required for the Iberian market to work properly. The implementation of the balancing network code in both countries should be used to put in place such harmonization. According to the Spanish Ministry and CNMC sources, the final date for the full transposition of the balancing network code has been set by October 2016. This could be a suitable tentative date for integration. A common decision on this should be taken by Spanish and Portuguese regulators as soon as possible with the aim to ensure the coherence.

In addition to this, it is highly advisable not to start the test period for the integration on winter time, since on those months operational purposes are usually more complicated.

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?