

**PROPOSAL ON THE ORGANIZATION
AND PRINCIPLES OF OPERATION
OF THE IBERIAN GAS MARKET (MIBGAS)**

CRE Response to the CNE and ERSE Public Consultation Paper,

CRE welcomes the CNE and ERSE public consultation on the organization and operational principles of the Iberian gas market (MIBGAS).

Establishing well-functioning regional gas markets is key to the development of a wider European market. This has led CRE to actively participate both in ERGEG's North West and South gas regional initiatives. In this last initiative, which encompasses the French, Portuguese and Spanish markets, CRE and CNE have been fully committed to facilitating the development of new interconnection capacity and the improvement of interoperability between Spain and France.

In order to develop, MIBGAS must take into account the European dimension of the gas market and, more specifically, gas exchanges with France. CRE therefore considers that the development of MIBGAS must take place within the framework of the South gas regional initiative and is pleased to participate in this consultation.

CRE has four main comments corresponding to the themes mentioned in the consultation document.

Section 2.1: Definition of the institutional framework and basic operational principles of MIBGAS

The regulations which will apply to the Iberian gas market should be adaptable to changes in market circumstances. Such flexibility is difficult to achieve when regulations are enshrined in national law. Instead, most of the detailed regulations applicable to the gas market should be directly modifiable via regulatory decisions, with only basic policy objectives covered through primary legislation. Such a move would give increased powers and independence to Iberian regulators as foreseen by the European Commission in its third energy package.

Section 2.3.3. Interoperability and compatibility of technical processes and norms

ERGEG, the European Commission, as well as the Madrid Forum, have indicated that EASEE-gas's interoperability protocols for high pressure transmission systems should be implemented throughout the EU. Such protocols facilitate day-to-day exchanges of gas between systems and member states. In addition, and this is crucial, they provide shippers and investors the confidence needed to finance new interconnection infrastructure. Common protocols can therefore make an important contribution both to competition and to security of supply. So far, EASEE-gas protocols regarding nomination and matching including the gas day (CBP 2003-002/01), as well as units (CBP 2003-001/01) and message transmission (CBPs 2003-

003/01, 2007-001/01 and 2007-003/01) have been adopted by French TSOs. However, they have not yet been implemented in Spain.

Section 2.3.5 Joint planning and reinforcement of interconnection and storage capacity

ERGEG's Guidelines for Good Practice on Open Seasons mention that testing market demand is a necessary condition for bringing forward new infrastructure. If market demand is not tested, the risk is that too little capacity will be built, or that consumers and/or taxpayers will have to pay for stranded assets. The consultation document suggests that Spain and Portugal intend on jointly planning interconnection and storage capacity levels inside MIBGAS. If mandatory planning continues to be used, the process should at least include a formal consultation of French stakeholders, since investment decisions on the Iberian peninsula may affect interconnections with France.

Section 2.4 Considerations regarding the supervision and development of the Iberian gas market

One of the defining characteristics of the Iberian market is its reliance on LNG. The Iberian peninsula has a number of LNG terminals and LNG trading at these terminals is quite dynamic.

However the Iberian market should aim at developing a fully-functional virtual gas hub. We believe that liquidity in Spain and in the Iberian peninsula could be increased substantially by introducing a set of measures common to other virtual hubs in the EU, including the NBP, the TTF and French PEGs. Experience with electricity wholesale markets confirms that such measures are key to boosting liquidity at hubs.

- 1) It should be possible to separately book entry and exit capacity into and out of MIBGAS.
- 2) Actual firm entry and exit capacity levels should be clear. Any congestion on the transmission network or at LNG terminals must be clearly identified.
- 3) Transmission capacity should be freely tradable. The consultation document suggests that CNE and ERSE plan on introducing secondary trading of capacities in Spain and Portugal, consistent with the Gas Regulation. The consultation document only refers to tradable entry capacities. It is essential that export capacity also be tradable.
- 4) As long as nominations match, the transmission system operator must ensure the firmness of transactions at the virtual hub, independently of network conditions.

In addition, more transmission capacity needs to be built, given that new LNG terminals that have recently been built in Spain have increased congestion inside the transmission network. This would help reduce constraints shippers currently face due to a lack of flexibility.

If the above measures are put into place, we are confident that a liquid hub will progressively emerge and that market prices will develop naturally, without the compulsory reporting measures foreseen in the consultation document.

Section 3 Action plan for the creation and development of MIBGAS

In order to integrate markets, arrangements introduced on the Iberian peninsula must be compatible with those decided in the South gas regional initiative. CRE finds the measures outlined in the consultation document very interesting and is willing to be involved in the process, with the objective of increasing gas flows and trade between the Iberian peninsula and the rest of Europe.