

## **CNMC and ERSE public consultation on the Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market**



### **EFET comments - 15 September 2014**

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the opportunity to comment on the integration of the Spanish and Portuguese gas markets.

#### **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?**

In general we consider that the analysis made on both issues is correct and identifies the most relevant aspects that may affect the implementation of the various integration models.

Having said this, we also think that is important to emphasize that:

- Market integration is positive for both countries since Portugal does not fulfill the minimum requirements in terms of size, sources and market players to implement a national organized market on its own and Spain has to gain in terms of market liquidity with the integration with the Portuguese market.
- The weight of the CCGT installed capacity and the potential impact in the gas sector in the Iberian peninsula is very significant. So, the coherence between gas and electricity markets is needed in issues as gas/electricity day, renomination times, capacity booking or balancing system.
- The existing physical interconnection between Portugal and Spain is sufficient, based on the data provided in the consultation document that shows a relevant infra-utilization of interconnection capacity in the last few years. Considering this information, the implementation of any of the models will not be negatively impacted by this factor. Nevertheless, and if in any case it is considered to be relevant to undertake the development of further interconnection infra-structures, the decision procedure should be subject to public consultation, supported by a cost benefit

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<sup>1</sup> The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at [www.efet.org](http://www.efet.org).

analysis identifying the economic impact on market stakeholders of the new infrastructure, and be based on market mechanisms, like open season.

**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?**

We consider that full market integration as foreseen in the “market area model” should be the long term objective for the integration of the Spanish and Portuguese market.

Having said this, we agree with the implementation of the wholesale market with implicit allocation as a first step towards full integration.

Nevertheless, and in order to guarantee that further integration continues to be pursued, we consider to be fundamental the definition of a common timetable between Portugal and Spain, identifying the major stepping stones and corresponding implementation dates, towards the final implementation of a full integration solution. The wholesale market with implicit allocation should be considered one of this stepping stones, towards the final goal.

**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?**

We agree that this particular integration model is the one involving fewer requirements in terms of regulatory harmonization between the adjacent market areas. However, this should not stop national regulatory authorities from developing a continuous effort to ensure a full regulatory harmonization between both countries.

We also consider important to highlight that the regulatory harmonization between both countries, should aim at guaranteeing that the same best practices, like absence of cross-subsidization between activities, transparent cost allocation and definition of tariffs per activity, are applied.

In this context, we consider most relevant to:

- Ensure that European network codes already in implementation phase or scheduled to be implemented in the near future, such as the NC on Balancing Regime, CMP NC, NC on tariffs or NC on Interoperability, are implemented coordinately (both in calendar and in content) in both countries;
- Ensure the full implementation of mutual acknowledgment of commercialization licenses;
- Establish a single booking and nomination point of contact between TSOs and shippers in what regards interconnection capacity booking and usage to avoid the necessity of double procedures by shippers, with both TSOs, to ensure access to interconnection capacity;
- Establish a common operation framework of the Iberian gas system, ensuring a full coordination between Spanish and Portuguese system operators or TSOs.

- Establish a common framework with the aim to provide a consistent view of the Iberian gas infrastructure and signal potential gaps in future investment in the same way that Spanish Energy planning process or European TYNDP
- Align basic concepts as “gas year”, nomination schedules, etc;
- Consider the importance and potential impact of the electricity sector in the gas market, taking into account the gas fired power capacity installed, and analyze the possibility of alignment of both “gas day” and “electricity day”, for nomination and capacity booking purposes.

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

As previously referred, we don't see any reason why we should not aim at full market integration, ensured by the “market area model”, in the long term.

This is not however incompatible with a “step by step” approach, that could be initiated immediately, with the implementation of the “wholesale market with implicit allocation” model that would be progressively developed towards the final objective.

**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?**

We consider that both NCs should be implemented coordinately (both in calendar and in content) in both countries. In this way, the Spanish Ministry and regulatory body CNMC have presented in the Iberian Gas Hub Development Working Group an implementation plan with explicit stepping stones applied during 2015-2016. So, a common decision on this should be taken by the Spanish and Portuguese regulatory bodies as soon as possible with the aim to ensure coherence, and in this sense it would be desirable that the Portuguese regulator would join the working group.

As for the way in which the Balancing Network Code should be implemented, we would like to stress the need for proper information to be provided to market operators regarding their inputs and off-takes on the gas day. In this regard, according to our understanding, the progressive decrease of current tolerances (and application of subsequent imbalance charges) should only be applied in case sufficient information is provided. Moreover, such imbalance charges should only be linked to the incipient Iberian hub providing that sufficient liquidity is assured.

**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?**

Apart from an immediate alignment, mostly for practical operational purposes, between the regulatory framework of both countries, further integration requires a broader regulatory harmonization between regulatory models and tariffs rules, aiming at guaranteeing that the same best practices, like absence of cross-subsidization between activities, transparent cost allocation and definition of tariffs per activity, are applied.

The timing for discussion of these issues will depend on the time frame established by national authorities for the achievement of a more ambitious integration between the markets. Nevertheless we believe that regulators and stakeholders should first focus on the alignment of concepts and issues previously identified namely interoperability issues and simplification of interconnection capacity booking procedures, and in the full implementation of the various network codes, ensuring once again alignment and coherence between both countries.

Furthermore, we also consider of utmost importance for the integration of the Iberian market the improvement of market liquidity that can be achieved by an effective interconnection with north European gas hubs like NBP, Zeebrugge, TTF, Peg Nord or NGC/Gaspool.

Finally, we consider that the process for the integration of the Spanish and Portuguese gas markets should not undermine or delay the regulatory changes in Spain to increase the liquidity of the Spanish gas market. The integration of the markets should not be an obstacle to increase the liquidity of the Spanish gas market.

