ENDESA COMMENTS TO THE PUBLIC CONSULTATION ABOUT CROSS BORDER TRANSMISSION GAS TARIFFS BETWEEN PORTUGAL AND SPAIN

4th February 2012

We appreciate from ENDESA the work done in analyzing the cross border gas transmission tariffs between Portugal and Spain, and regarding its harmonization. We also welcome the dialogue with stakeholder with the aiming of setting a common proposal for cross border transmission tariffs harmonization.

We consider of the utmost importance to create a single balance zone between Spain and Portugal.

We would like this study to be made also with France and Spain. The elimination of pancaking effect with France would boost the position of the Iberian Peninsula as an entry point of gas to Europe.

Question 1: Would you agree with the analysis made on current market situation and on the major issues affecting cross border trade between Portugal and Spain?

We agree with the analysis and in general we consider it is an excellent document. We would like to mention just two aspects of minor importance:

- Regarding regasification access tariffs in Spain, the variable cost of ships discharge has not been considered.
- There is an inconsistency in the analysis when considering the portfolio effect. In the scenario ES → PT it has been taken into account the portfolio effect in the entry to the Spanish gas system, but not in the exit from Spain to Portugal nor in the entry to Portugal. If the use of the entry is the same as the exit and at the exit point has not been taken into account the portfolio effect, then at the entry point it should not have being taken into account.

The analysis reflects the additional cost that penalizes the gas supply to a costumer in the neighboring country. Extra cost of 3 €/MWh (more than 10% of the gas cost) is a barrier to the natural gas trading between both countries and can make no competitive shippers' activity of supplying gas from the neighboring country.

Removing this barrier (pancaking effect) will help the integration of both markets and the development of MIBGAS.

Question 2: How do you think that transmission network costs should be allocated at cross border IP (both in Spain and Portugal), taking into account the defined principles (coherence, transparency, cost recovery and cost reflectiveness, etc) and the starting situation of the regulatory tariff framework in both countries?

We consider it is very important to have in Spain a full entry-exit access tariff system with decoupled entries and exits.

It is also important to take into account that measures to eliminate the "pancaking effect" will increase the use of infrastructures. This increase in the use of infrastructures will increase the revenues for transmission operators. Thus, the elimination of pancaking effect is good for shippers and transmission operators. Moreover, Spain being used as an entry point of gas to Europe, the use of facilities will be increased and therefore the incomes will increase.

We consider that it can be useful to see how pancaking effect has been eliminated in the European electricity sector.

Finally, we would like to highlight the need to accelerate the development of the Iberian Gas Market and comply with the 2014 EU target.

Question 3: Which do you feel are the most important aspects where harmonization (apart from the cross border tariffs harmonization) can contribute significantly to short term market integration?

We considered that the most important aspect is the merge of the Spanish and Portuguese gas systems in a single balancing zone.

Question 4: How would you implement the proposed step-wise approach, aiming for a more integrated market in the longer term?

The final goal is the elimination of pancaking effect between Spain and Portugal.

Interim measures before having an integrated gas market:

- Increase the discount when exporting from Spain and importing into Portugal.
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Interconnections should be treated as a virtual point.

Question 5: Would you identify new issues you think are important to create a favourable cross border trade environment? How would you set the timing and prioritization for the discussion on these issues?

At this moment there is a lack of transparency in the capacity booked for transits Maghreb-Portugal in a exclusively way and its utilization / underutilization. This capacity is out of the general access regime implemented in the Spanish gas system and exempted from regulated access tariffs. This situation is discriminatory and against competition, because other players importing gas in Spain and exporting to Portugal have to pay access tariffs ,and creates an asymmetry that has no place in the existing EU regulation.