

Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market

OMIP Comments

Lisbon, 15th September, 2014

1. Introduction

Portugal and Spain are two leading countries in the building of the Internal Energy Market by implementing regional integrated markets as a first step towards that goal of the European Union. Effectively, the Iberian Electricity market (MIBEL) project is a successful case study of a regional initiative and a model for the European electricity market integration.

The document “Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market” published by ERSE, CNMC and ACER comes in line with the two Iberian countries efforts to build a regional energy market and addresses analysis of possible models for the integration of the gas wholesale markets of Spain and Portugal, including the feasibility for the development of a common Iberian Gas Hub.

OMIP welcomes the opportunity to take part in the consultation process of integrating the Portuguese and Spanish Natural Gas (NG) markets.

2. General comments

Notwithstanding the differences between electricity and gas (namely storage), their common features have led Natural Gas Markets to be developed based on models conceptually similar to those applied for electricity. It seems therefore appropriate to build the market integration process using, mutatis mutandis, solutions that have proven to deliver sound results in the integration of electricity markets across the EU.

In the case of the Iberian Peninsula, that approach seems to be appropriate either in the case of the technical solutions of the market model, like the issues raised in the discussion paper, as well as the institutional framework.

That approach has been followed by the Governments of Portugal and Spain at the last Iberian Summit of June 4, 2014 (just two days before the release of ERSE/CNMC/ACER discussion paper), by taking the decision of starting a project to build the Iberian Gas Market very much in line to the one followed, with success, to build the Iberian Electricity Market:

"Reaffirming the commitments made in the last Portugal-Spain Summits and with a view to the completion of the internal energy market, both Governments agreed to initiate the work with a view to creating an Iberian Gas Market (MIBGAs) in the coming months. These works must consist in the immediate creation of technical working groups and in the preparation of an international treaty between both countries. The creation of MIBGAs and the strengthening of the Iberian electricity

Market (MIBEL) will position the Iberian Peninsula as an alternative cost effective energy supply for Europe”.

The design process of the MIBGAS set by the two Governments follows very closely the MIBEL. We believe that the teachings and the experience gathered with the model and the process of the MIBEL should be embedded in the MIBGAS. In particular, the institutional framework designed for the MIBEL, who has proved to be adequate for the integration of the electricity markets of the peninsula, which constitute an excellent example in the context of the construction of the internal energy Market of the European Union, should serve as a model for the structure to deploy to MIBGAS.

3. Comments on questions raised

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 discussion paper raises the most relevant issues that must be addressed in the construction of an Iberian Gas Market, from economical and technical points of view. Effectively, the following subjects, included in the paper, will have to be managed in stronger or lighter harmonized way depending on each subject, in order to achieve a good overall final solution, considering both the degree of integration and the time needed to get results.

- Market integration models applicable
- Tariffs harmonization (namely transport tariff and pancaking)
- Agents licensing and mutual recognition
- Network and infrastructures access
- Balancing regimes harmonization
- Nomination procedures
- Security of supply harmonization

In our view, in parallel with the previous list of topics (and probably others) the institutional framework design and responsibilities must be also carefully taken into account, namely:

- Regulation
- Harmonization in the development of legal modifications with market impact
- Market supervision
- Network and System operation coordination
- Market operation model

As previously pointed, the model implemented by the two Governments for the Iberian Electricity Market is a good basis for the gas market which should be built on the good results achieved in electricity.

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 fully agree with the proposal of starting the gas market integration in the Iberian Peninsula by implementing an implicit capacity allocation model, keeping in mind a more ambitious goal of achieving a deeper integration in the long term.

The implicit capacity allocation model will be associated to the implementation of a spot market which will strongly promote the price discovery in the Iberian gas market, based on sound transparency and integrity criteria.

Moreover, the implicit capacity allocation model proposed allows to achieve significant “quick-wins” in terms of integration results, keeping opened the various alternatives presented for a deeper (and certainly longer) integration process.

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?

In our opinion the aspects to harmonize should be the ones strictly needed for the functioning of a sufficiently liquid spot market, keeping in mind the global and more ambitious objective of deeper and stronger integration. I.e. the solution achieved must implement a satisfactory first phase (implicit capacity allocation), without jeopardizing the more advanced solution.

Therefore, the following topics are important to address:

- Spot market model
- Institutional framework (market operation, supervision)
- Capacity allocated to the implicit mechanism and explicit auctions
- Measures to prevent the holding of capacity (capacity acquired in explicit auctions and not nominated or released to the market)
- Pancaking in transmission tariffs
- Liquidity promotion measures

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

The best solution is a tradeoff between two conflicting goals: degree of integration vs timing to achieve the goal.

It is therefore our opinion that an analysis should be carried out in order to assess if the implementation of a Market area solution is feasible within a reasonable timeframe. If not, the trading region model could be decided as pragmatic approach to the integration of the Portuguese and Spanish gas markets.

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?

OMIP has no specific comments on this topic. However, as a general comment, the restrictions on futures codes and other rules should not delay the launching of concrete initiatives that enhance the market activity, like the implicit capacity allocation.

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?

As previously stated, we believe that the institutional framework necessary for the functioning of the Iberian Gas Market should be established and follow the approach used in the MIBEL project. That project has delivered sound results and it is a good basis for the building of an Iberian integrated gas market.