

“Models for Integration of the Spanish and Portuguese Gas Markets in a common Iberia Natural Gas Market”

Comments from AGN – Portuguese Natural Gas Association

AGN welcomes this public consultation as it targets the design of the future gas market in Iberia that is key to achieve the integration of the European Energy markets as a whole.

In past consultations, AGN already expressed its full support to the integration of the Portuguese and Spanish Gas markets, and highlighted its importance for consumers and operators in both countries.

As main principles already expressed in the past, it is AGN’s opinion that:

- The model for an integrated Iberian gas market including Portugal and Spain should be a single price zone, without physical restrictions or logistic barriers, where each country infrastructure is supported by its users;
- Costs and revenues remain within each system. In any scenario of tariff reduction or even tariff elimination at the border, it is fundamental to recognize how cost recovery will occur. The future cost allocation methodology should signal to the market the effective capacity, cost and utilization criteria of the infrastructures, reflecting the real access costs incurred. Again, cross subsidization between countries or consumers should be avoided.

AGN proposed a step approach to promote an integrated market in the long term:

1. Reduce price constraints to gas flow at the Portuguese/Spanish border, give incentives to proper access to this interface;
2. Setting of proper tariff system and cross border capacity allocation according to “Gas Directive” and the “Third Energy Package”;
3. Development of an integrated Iberian gas market including Portugal and Spain and HUB implementation;
4. Full implementation of the European market model with a possible entry-exit Iberian Zone (the relation and connection with the South of France should also be addressed);

It is AGN’s opinion that some adequate regulatory harmonization between both countries should be implemented prior to the creation of an organized gas market. The last should be developed under already having the integrated Iberian gas market including Portugal and Spain as an objective. It is essential that the process is attended by regulators, network operators and agents of both countries users to create an efficient model, compatible with the process of creating an effective market.

A step approach with a transparent and agreed schedule (between stakeholders) is key to achieve those objectives with success and minimal disruption.

Answers to the “Questions for the Stakeholders”:

Question 1) Would you agree with the analysis made on current market situation and on the major issues affecting the creation of and Iberian market?

The analysis provided is perceived by AGN as correct, nevertheless some issues should be underlined:

- Market integration is valuable for both markets, adding dimension, liquidity and deepness to the resulting market. These characteristics are critical to achieve a relevant and useful market;
- Through the data provided in the consultation document it becomes evident that there is significant potential to use the existing interconnection capacity. However, if in the future, there is the need to lay down new infrastructures to support the interconnection between markets, this should be subject to public consultation, a comprehensive cost benefit analysis and probably an “open season” mechanism should be considered;
- The potential weight of CCGTs in the electricity production mix (of both countries) can be very significant, therefore it is very important to take into consideration the need to “synchronize” both systems and guarantee flexibility to respond to market needs.

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?

AGN considers that the integration of the Portuguese and Spanish Gas markets should aim at its full integration (having implicit the future Single European Gas Market as main goal). AGN believes that the implicit allocation of capacity can be a step towards a more integrated market. In the event that this type of mechanism is adopted, clear measures should be taken in order to limit disruption to capacity agreements already in place.

Notwithstanding the above, it seems the process would benefit from a more complete analysis and comparison between the implicit allocation of capacity and the trading region model.

A common and complete schedule towards full market integration should be designed and agreed by the stakeholders of both markets.

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?

As previously stated, AGN believes in a fully integrated gas market between Portugal and Spain, which implies regulatory harmonization between both markets. In the step approach towards an integrated market, regulatory and legal harmonization should take into account the future regulations of the Single Energy Market – namely the European Network Codes. That would assure that all the changes will be solid steps into the future. All the logistics issues must also be harmonized like gas year,

capacity booking procedures, nomination schedules, implement a single window when dealing with issues that imply both TSOs, etc. Finally, similar rules must be established concerning security of supply and strategic reserves.

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

AGN believes that the Iberian market should be fully integrated, and we believe that the Market Area Model should be the one adopted to ensure that integration. Nevertheless, AGN recognizes that a step approach should be adopted in order to ensure a gradual adoption of new rules, and to start collecting some of the benefits of integration for consumers and operators.

The market area model is the one that gives the biggest return to consumers and better transparency for the market. More, it is the one that best answers the principles for the Single Energy Market.

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?

The mentioned codes are very significant to develop an integrated iberian gas market including Portugal and Spain. Finally, both should be implemented as soon as possible (taking into account the time needed to adapt information systems and procedures in the various agents).

The Balancing Network code should be implemented in both countries in parallel assuring that competition is not distorted. The Interoperability code will harmonize operational concepts between markets that will streamline and expedite the integration of both markets, allowing the implementation of procedures that will not be country specific (like today).

The Portuguese and Spanish regulators should agree to a common schedule and best practices to assure a transparent and quick implementation.

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?

Like as been said, to achieve further integration it is very important to harmonize the regulatory framework in both countries, and align all the operational issues (already mentioned). The tariffs rules and regulatory models should fully comply with European directives and best practices, namely avoiding cross subsidization between activities and transparent cost allocation.

The timing and prioritization should be defined taking into consideration the final objectives to be achieved, this schedule should be common, proposed by the national regulators and authorities from both countries and discussed between stakeholders.