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

Evaluation of responses of the public consultation

March 2015

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Executive summary

The purpose of this paper is to summarise the views expressed by the respondents in regard to the public consultation on the *Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market*.

The aim of this study is to analyze 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.

In order to assess the feasibility of developing a gas hub, the study analyzes different aspects of the current gas market situation in Spain and Portugal, including the volume of gas consumption, imports, the level of concurrence and prices in the gas market, as the most important factors. The study covers three different models of market integration: "Market Area Model", "Trading Region Model" and "Market with Implicit Capacity Allocation", and its possible application to the Iberian gas market, comparing the advantages and disadvantages for each model.

During June and July 2014, CNMC and ERSE celebrated a public consultation on *Study about models for integration of the Spanish and Portuguese gas markets in a common Iberian Natural Gas Market*. The draft study posed questions to stakeholders, in order to provide input on the study.

As a result of the public consultation 23 responses were received. The purpose of this paper is to summarize the views expressed by the respondents of the public consultation. Chapter 3 and 4 provides a list of the respondents and a detailed evaluation of the responses received. In addition, this paper provides the evaluation of the comments received and indicate the main changes in relation to the document.

The comments received have been considered in order to establish the final document.

1. Introduction

1.1. Background

This document presents and discusses the opinions received during the public consultation regarding the 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.The proposed Iberian gas hub is expected to introduce a objective price reference for the gas traded on the Iberian market. In combination with sufficient capacity of interconnections with France, this should contribute to integrate the Iberian gas markets with those in Central Europe and to allow LNG access to Central European countries.

In order to assess the feasibility of a gas hub, the study analyzes different aspects of the current gas market situation in Spain and Portugal, including the volume of gas consumption, imports and the level of concurrence and prices in the gas market, as the most important factors.

The study covers three different models of market integration: "Market Area Model", "Trading Region Model" and "Markets with Implicit Capacity Allocation", and its possible application to the Iberian gas market, comparing the advantages and disadvantages of each model.

- In the **Market Area Model**, the adjacent transmission networks that are situated in the same geographical area, well interconnected, are forged into a single entry/exit system.
    - The market area includes all gas transmission systems of participating countries (one single market area).
    - The market area enables a single wholesale market with a single virtual point.
    - The market has a single balancing system (with a single balancing entity and balancing rules).
- In the **Trading Region Model**, the adjacent transmission networks that are situated in the same geographical area, well interconnected, are forged into a single entry/exit system.

  The main difference is that the Trading Region has two end-user balancing zones. Each national end user balancing zone includes all end users of each balancing zone, and the balancing in each end user zone is performed according to the respective national rules [unbalances are managed by the National balancing entities].
- **Wholesale market with implicit allocation of capacity**

  In this model, gas and capacity are allocated simultaneously via a gas exchange or a gas trading platform.

  An implicit allocation mechanism will allocate cross-border capacity on the basis of the bids and offers to buy and sell gas on the functioning gas exchanges on either side of the border. Thus, capacity allocation, and gas flow, will follow the market signals.

1.2. Objective and Purpose of this paper

The purpose of this paper is to summarise the views expressed by the respondents in regards to the 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*. In addition this paper provides the CNMC and ERSE evaluations of the comments received and indicate where changes have been made.

The public consultation on Iberian Natural Gas Market was carried out through a dedicated questionnaire on the Spanish and Portuguese Energy Regulators website. The deadline for responses was 15th September 2014.

It need to be pointed out that the respondents' views presented in this document are a summary of the comments given. The full comments from each stakeholder can be found at Annex 1.

2. Questions for Public Consultation

In the public consultation, CNMC and ERSE seek comments from stakeholders on the way forward with the goal of setting a common Iberian Natural Gas Market. This consultation must take into account the South Gas Regional Initiative Work Plan and all the developments that have been achieved since the beginning of the South Gas Regional Initiative.

Stakeholders are asked to have in mind both, the need for short term concrete positive developments in the market integration of the wholesale gas markets of Portugal and Spain, and the longer term, including the necessary steps to reach those goals, taking into account the current regulatory framework in both countries.

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?

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?

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?

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

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?

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?

All interested parties were invited to provide comments to the consultation paper by 15th September 2014, to mibgas@cnmc.es and

mibgas_models@erse.pt. establishing that all comments received will subsequently be published on the Agency's website.

3. Outcome of the public consultation. Summary of Responses received

As a result of the public consultation 23 responses were received from the following types of stakeholders: energy supply companies [9 responses], TSO [5 responses], industry associations [2 responses], consumers associations [1 response], authorities [1 response] and Market Operators [5 responses].

Table 1 provides a list of the respondents and table 2 an overview of the respondents by countries of origin.

Table 1 - Overview of respondents

	Organisation	Abbreviated name	Country of origin
	Respondent Group – Energy Supply Companies		
1	Cepsa Gas Comercializadora	CEPSA	Spain
2	EDP Group	EDP	Portugal
3	Endesa	ENDESA	Spain
4	Eni Spa-Eni Trading and Shipping	ENI	Italy
5	Galp Energía	GALP	Portugal
6	Gas Natural Fenosa Group	GNF	Spain
7	GDF Suez Energía España	GDF	Spain
8	Iberdrola	IBERDROLA	Spain
9	Unión Fenosa Gas Comercializadora	UFG	Spain
	Respondent Group – TSO		
10	ENAGAS GTS	ENAGAS GTS	Spain
11	ENAGAS S.A.	ENAGAS	Spain
12	Regasificadora del Noroeste, S.A.	REGANOSA	Spain
13	Redes Energéticas Nacionais, SGPS, S.A.	REN	Portugal
14	Transport et Infraestructures Gaz France	TIGF	France
	Respondent Group - Industry Associations		
15	Union Professionnelle des Industries Privées du Gaz	UPRIGAZ	France
16	Associação Portuguesa das Empresas de Gas Natural	AGN	Portugal
	Respondent Group - Consumers Associations		

17	Associação Portuguesa para a Defesa do Consumidor	DECO	Portugal
	Respondent Group - Authorities		
18	Commision de Regulation de L´Énergie	CRE	France
	Respondent Group – Market Operators		
19	European Federation of Energy Traders	EFET	EU
20	OMIClear C.C., S.A.	OMIC	Portugal
21	OMIP - Operador do Mercado Ibérico de Energia -Pólo Português, S.G.M.R., S.A.	OMIP	Portugal
22	OMIE- Operador do Mercado Ibérico de Energia -Polo Español, S.A.	OMIE	Spain
23	Sociedad Promotora Bilbao Gas Hub, S.A.	IBGH	Spain

Table 2 - Overview of respondents - Country of origin

Country of origin	Number of respondents
Spain	11
Portugal	7
EU	1
France	3
Italy	1

4. Analysis of the responses

CNMC and ERSE have evaluated the responses provided in the public consultation, primarily in terms of applicability and consistency.

These document summaries the respondent's views and the CNMC and ERSE evaluation of the comments received.

Where the issues raised prompted a change to the final advice document, CNMC and ERSE has reflected this in the comments.

In cases where respondents have requested amendments but CNMC and ERSE does not find that changes are necessary, an explanation has been included.

4.1. Brief summary of responses and main changes in relation to the final advice

As a result of the evaluation of comments received, it can be highlighted the following general comments:

- Nearly all respondents agree that market integration is positive for both countries since Portugal does not fulfil the minimum requirements in terms of size, sources and market players to implement a national organized market on its own and the Spanish market will improve in terms of market liquidity with the integration with the Portuguese market.

- All respondents consider important to highlight that the regulatory harmonization between both countries, should aim at guaranteeing that the same best practices are applied; therefore a stronger coordination between Enagas and REN is required from the beginning..

- Naturally this harmonization has to be developed in accordance with the medium-long term objective of a Common Energy Market, so the European Directives and Regulations – notably the CAM, CMP, Tariffs, Balancing and Interoperability - must be considered whenever they are approved.

- A common remark made is to assure that European network codes already in implementation phase or scheduled to be implemented in the near future, such as Balancing CMP, tariffs and Interoperability NC, should be implemented co-ordinately in both countries.

- Any solution for the future should be compatible with the integration of the Iberian market within the rest of Europe.

- The best model is a trade-off between the degree of integration, the timing to achieve the goal and the cost of implementation.

Finally, as a remarkable change in the document, we have added the description of the satellite model to the final document, as another possible tool for market integration and connection.

4.2 Evaluation of Responses

In this chapter the answers are summarised specifying the type of respondent and CNMC/ERSE comments.

General remarks:

Respondent's feedback	CNMC / ERSE comments
Nearly all respondents agree that **market integration is positive for both countries** since Portugal does not fulfil the minimum requirements in terms of size, sources and market players to implement a national organized market on its own, and the Spanish market will improve in terms of market liquidity with its integration with the Portuguese market. Some respondents have remarks about the integration' models.	**Agree.** We have moved those comments to the specific section of the questionnaire, mainly to the Question 2: implementation of the wholesale market with implicit allocation of capacity as a step for market integration and Question 4: best model for the integration of Iberia in the longer term

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?

Respondent's feedback	CNMC / ERSE comments
In general, most respondents [AGN, CEPSA, CRE, GDF Suez Energía España, Gas Natural Fenosa Group, ENDESA, REGANOSA, OMIC, OMIP, OMIE, EDP Group, IBERDROLA, Iberian Gas hub, REN, DECO, Eni Group, EFET, UFG, UPRIGAZ] **basically agree** that the report gives a clear and comprehensive insight of the Spanish and Portuguese natural gas markets' current situation and identifies the most relevant aspects that may affect the implementation of the various integration models. Two respondents indicate that small number of European experiences to contrast suggest **a careful approach to the matter** [ENAGAS, ENAGAS-GTS]. One respondent [Iberian gas Hub] state that some key features of the Iberian gas market, that differ from the French experience of Implicit Allocation Model implementation, have not been sufficiently	**Noted.**

highlighted. Many respondents also present some **remarks, which are indicated bellow**	
- **Coherence between gas and electricity markets is needed** [GALP Energía, EFET, OMIP, AGN] in issues as gas/electricity day, renomination schedule, capacity booking or balancing system.	**Noted**. This aspect should be taken into account in the development of the regulation, but is out of scope of this document. As pointed out, the importance of the combined cycle plants in the Iberian Peninsula is relevant. NRAs consider that the implementation of the European Network Codes, namely CAM NC, already achieved, the Balancing NC scheduled for 2016 and the Tariffs NC (under discussion) will contribute to this alignment, facilitating short-term transactions and hub to hub trading.

- **Infra-utilization of interconnection between Portugal and Spain**
  - [AGN, GALP, EFET, EDP, ENDESA]: any decision should take into account the fact that the existing physical interconnection between Portugal and Spain is sufficient, based on the relevant infra-utilization of interconnection capacity in recent years. The development of new infrastructures should be subject to public consultation; a comprehensive cost benefit analysis and probably an “open season” mechanism should be considered.
  - [REGANOSA] Plenty of cross border capacity remain available either on short or on long term basis that indicates a relative low level of decoupling.
	Noted. Regarding the development of further interconnection infrastructures, the decision procedure should be supported by a cost benefit analysis identifying the economic impact on market stakeholders, and should be based on market mechanisms.
	The future decisions regarding the interconnection infrastructures shall also consider the recent developments in this area, in particular the PCI list, the new CBA methodology, the standard cost studies, the Ten year network development plans, which will ensure bigger transparency in these decisions.

- **The analysis does not include data for 2013 and first half 2014** [CRE, CEPSA]
  - CRE is of the opinion that the creation of an efficient virtual hub in the Iberian Peninsula and, as a preliminary step, in Spain, is absolutely necessary, in particular in the current context of big differences between prices of gas imported by pipeline to the North of the Europe and LNG imports to the South.
  - REN said there were some aspects that could be clarified, namely the average utilization rate of the interconnection points. The utilization rates should be assessed per flow direction, and not considered the overall transmission capacity in both directions. When considering market integration analysis within a market region, it should be looked at peak utilization rates not only at average rates. REN highlighted that linepack storage should not be considered as a storage facility, as it is meant for keeping the transmission network operational.
	Agree. A functioning market in Iberia will provide price transparency about the situation of the Spanish market to all participants, thus providing market signals to the transit' flows across the Pyrenees.
	
	With regard to the data presented, NRAs consider that they enable a correct characterization of the systems ensuring proper assessment.

- **Liquidity** [CRE, CEPSA]
  - CEPSA: The integration of the two Iberian markets by itself might not be sufficient in order to achieve a reasonable level of liquidity, regardless of the chosen method. In fact, both markets show similarities in their supply patterns, with a significant weight of LNG and a large deficit of interconnection capacity with Northern Europe. Therefore, improving interconnections with the main European Hubs should become the first priority as an efficient way for enhancing liquidity in the Iberian market.
  - CRE encourages CNMC and ERSE to implement a market structure that would ensure that transactions are concentrated on the virtual hub. Benefits would be huge in terms of transparency, price discovery and risk management.
  - UFG and Iberdrola – These respondents don't agree with the considerations about lack of liquidity and transparency in the Iberian wholesale gas markets. In their opinion, the market works reasonable well, and the development of the Iberian Hub will enhance it.
	Partially Agree. The CNMC has also recommended several measures to the Spanish Government to enhance the liquidity of the gas market, like buying the cushion gas though the daily market.
	ERSE recognizes the need to improve the capacity in the Pyrenees VIP. This will help to strengthen the competitiveness of the Iberian market, allowing that several gas sources, Algeria, LNG, and Northern gas, to compete with each other.
	Nevertheless, NRA´s consider that the price transparency would be improved in the two Iberian markets with the implementation of the wholesale market with implicit allocation of capacity.

- **Spain and Portugal haven't decided to use PRISMA as the capacity booking platform** [ENAGAS GTS].	**Noted.** CEER position is to recommend the use of PRISMA as the standard capacity booking platform. Currently the decision to use PRISMA has

	already been taken by the TSOs in both countries

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?

Respondent's feedback	CNMC / ERSE comments
A majority of respondents [Unión Fenosa Gas, DECO, EDP Group, Gas Natural Fenosa Group, AGN, ENDESA, GDF Suez Energía España, OMIC, OMIE, OMIP, EFET, REGANOSA, Enagas GTS, UPRIGAZ, CEPSA] **agree** with the implementation of the **wholesale market with implicit allocation as a first step towards full integration**. Other respondents [IBERDROLA, GALP Energía, Iberian Gas Hub, Eni Group, REN, TIGF] indicate that the implementing of IAM is not necessarily better or more adequate than the **Trading Region Model**. The most adequate model to start and develop a liquid Iberian gas hub is an adapted Trading Region Model, with the appropriate adjustments to account for the current reality of the Iberian gas market. Two respondents [TIGF, UPRIGAZ] think that the short term priority of Iberian Peninsula could be to create a Virtual Trading Point in Spain in order to introduce a transparent market price. However UPRIGAZ is not advocating for one specific model of integration. TIGF thinks implicit Allocation is more an optimization between two existing markets than a real mechanism for the market integration process. Enagas Transporte **does not consider** neither that implicit allocation is an appropriate model for the creation of an organized wholesale market nor that could be an interim step towards a proper form of market integration between Portugal and Spain. The model has been only tried within France as a mechanism to enhance capacity allocation between existing hubs. The implicit allocation model will	NRAs **agree** with most stakeholders opinions. The implicit allocation would promote market liquidity and would represent a new approach to the development of a wholesale gas market facilitating wholesale price transparency. Considering that the implicit allocation model does not require a high level on harmonization between Spanish and Portuguese legislation, at a first stage, it can be the easiest model to be implemented. Further developments, like the creation of a single entry and exit zone and a single balance zone are very complex. The implicit allocation model is a first step towards risk management and price discovery. It is also considered that a greater degree of integration of markets requires a commitment, at Government level (international agreements), that NRA´s cannot replace. NRAs **take note** of the preference for the trading region model, also for the shorter term, expressed by several stakeholders.

result in inefficiencies, superfluous costs and it will retard the establishment of a liquid hub in Spain. Many respondents also present some **remarks, which are indicated below:**	NRAs recommend to continue to work in the harmonization of regulation in order to allow faster progress to a high level of market integration. The implementation of implicit allocation model does not prevent to evolve to other models with stronger harmonization. In relation to costs, it has not been identified any higher implementation' costs in comparison to other models.

- **Limited amount of the total capacity to be offered in IA** [REN, Enagas GTS, Gas Natural Fenosa Group]
  - REN considers only small fixed percentage of the existing capacity for day-ahead and within-day should be offered. For the longer term trade and integration of the wholesale market, capacity should be bought separately because this is never a spot decision. As a possible first step for future market integration, rules that support the model should be commonly agreed between NRAs, Competent Authorities of Spain and Portugal and the TSOs.
  - [Enagas GTS, Gas Natural Fenosa Group] consider that should be done step by step, starting with a 5% of the total capacity and increasing gradually only if the markets show interest. It is appropriate to reserve a 20% of capacity for this market.
	Agree. The implicit allocation mechanism can co-exist with explicit auctions that allow traders to buy cross-border capacity in advance, as regulated in the CAM Network Code and it is one of the possible mechanisms for short term allocations of the interconnection capacity, according to article 12 of Regulation (EC) nº 715/2009. The capacity allocated by this mechanism can vary from a minimum (to be decided) to a maximum (all available capacity at the interconnection point).
	The amount of interconnection capacity reserved for implicit allocation can be increased progressively, and the model consider only daily capacity products.

- **The short term priority of Iberian Peninsula could be to create a Virtual Trading Point in Spain** [TIGF, Enagas Transporte] - TIGF: The short term priority of Iberian Peninsula could be to create a Virtual Trading Point in Spain in order to introduce a transparent market price. Implicit Allocation is more an optimization between two existing markets than a real mechanism for market integration process.	**Agree.** To create a Virtual Trading Point in Spain in order to introduce a transparent market price. This is compatible with the creation of an Iberian market and it has an actual institutional support by both countries.

- Enagas Transporte would advocate for a parallel development of hubs in each market, **allowing Portugal to function as a <u>satellite market</u>**.	**Noted.** <u>We will include in the document the description of the Satellite Market Model from the GTM-2 as another possible option for the integration of Spain and Portugal.</u> This model is already operational with the integration of some villages from Vorarlberg and Tirol regions (which are not connected with the Austrian transport grid) with the German gas market area (NetConnect). According to the draft GTM-2, the satellite market is recommended for small markets, with no significant imports of gas but from the feeder, which is not exactly the case of Portugal.

- **Cost-Benefit Analysis before deciding** [AGN, Enagas Transporte]
  - AGN reflects the process would benefit from a more complete analysis and comparison between the IACM and TRM.
  - Enagás Transporte recommends making a proper Cost-Benefit Analysis before deciding on the implementation of the model.
	Noted. The cost of implementation of a simple integration model would be relatively small. In such simple integration model, we think the benefits of market integration clearly overtake the possible associated costs. In any case, it is important to remember that some developments are needed to the implementation of all new gas Network Codes (Interoperability, Balancing, etc.).
	More advanced models could require major adaptations of the IT systems. In these cases, cost benefit analysis is required.

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?

Respondent's feedback	CNMC / ERSE comments
In general, most respondents [Enagas GTS, CEPSA, ENDESA, GALP Energia, EFET, UPRIGAZ, OMIC, OMIP, REGANOSA, GDF Suez Energía España, AGN, EDP Group] agree that the **implicit allocation model does not require a high level of harmonization** of national legislations. However, they mention the main aspects to be taken into account.	**Agree.** The implicit allocation model does not require a high level of harmonization of national legislations, so the implementation can be faster.
Implementation of European network codes. - A general remark made by most of the respondents is to ensure that **European network codes** already in implementation phase or scheduled to be implemented in the near future, such as Balancing, CMP, tariffs and Interoperability NC, **should be implemented co-ordinately in both countries** (in calendar and in content). - Align basic concepts as "gas year", "capacity booking periods", nomination schedules, etc. - Enagas Transporte considers that work should focus only on the implementation of network codes; no further work should be done for the implementation of implicit auctions.	**Agree**. The implementation of European network codes, in a coordinate way, will facilitate the creation of the Iberian Gas Market. Naturally this harmonization has to be developed in accordance with the medium-long term objective of a Common Energy Market, so the European Directives and Regulations – notably the CAM, CMP, Tariffs, Balancing and Interoperability - should be considered whenever they are approved. However, the efforts to ensure the implementation of network codes should not stop national regulatory authorities to continue working – in parallel- on the Iberian market integration.
Interconnection tariffs with the implicit capacity allocation model - Border tariffs (entry –exit tariff at the interconnection): **a zero interconnection tariff should be targeted in both direction of VIP** [CEPSA, ENDESA, EDP Group, REN, Gas Natural Fenosa Group]. - Both countries should ensure that no distortion of prices is promoted. Interconnection fees, if	**Noted.** It is necessary to analyze the interconnection tariff in order to assure they do not create distortion of the markets. CNMC and ERSE have launched a public consultation on the harmonization of the

existing, should be equal in both countries. - Gas entry fees and regasification fees should also be analyzed [OMIE]. - Ensure that a similar regulation is applied in other points apart from Interconnection points, like LNG Plants, LNG Transmission points, underground gas storage, etc…[EDP Group]	access tariffs in interconnection, in January of 2012. The comments received in this consultation asked for the removal of access cross border tariffs. CNMC and ERSE had worked in this issue. As a result of this work, since 2013, the exit tariff in Portugal is zero and had a significant price reduction in Spain. However, we recognize that further work could be needed.
Interconnection capacity reserved for implicit allocation - The level of capacity to be offered in an implicit model should be limited, with a gradual increase, as the model is tested and market participants require more capacity [REN, OMIP, CEPSA, ENDESA, Enagas GTS, Unión Fenosa Gas]. - For a start, the model shall consider only daily (day-ahead and within-day) capacity products. All other capacity products, as foreseen under Reg. 984/2013 (CAM NC) shall be allocated according to CAM rules. [REN] - It is fundamental to maximize the capacity made available under this model especially enhancing the CMP mechanism. Also, clear priority to short term capacity allocation under CAM or under Implicit Allocation will be necessary [Reganosa]	**Agree.** The amount of interconnection capacity reserved for implicit allocation can be increased progressively; the model consider only daily capacity products.
Market transactions - A common gas exchange platform is necessary.[CEPSA, ENDESA, Unión Fenosa Gas] - A market operator shall be designated, who will be responsible for the trading platform, both for access and management [REN] - Implicit transactions must be firm, having the same rights than any other capacity on each country. No discrimination may exist for such transactions and both countries should ensure that no distortion of prices is promoted [OMIC, OMIE].	**Agree.** The document already includes examples of functioning of the gas exchange platform with implicit allocations. Concerning explicit capacity allocation, in 2015, REN and ENAGAS have already chosen a common platform (Prisma).
Grid operation - To establish a common operation framework of the Iberian gas system, ensuring a full	**Agree.** We consider important to highlight that the regulatory harmonization between both countries should aim at guaranteeing

coordination between Spanish and Portuguese system operators or TSOs. [EFET, CEPSA, AGN, EDP Group, GDF Suez Energía España]. - All practical operational conditions in both countries should be harmonized, as gas day and nomination schedule [EFET, AGN, ENDESA, OMIC, GALP Group, EDP Group] - To establish a single booking and nomination point of contact between TSOs and shippers with regards interconnection capacity booking and usage to avoid the necessity of double procedures by shippers, with both TSOs, to ensure access to interconnection capacity [EFET, CEPSA, REN]. - Considering the importance of the electricity sector in the gas market, analyze the possibility of alignment of both "gas day" and "electricity day", for nomination and capacity booking purposes. [EDP Group; ENDESA; EFET]	that the same best practices are applied, and it require from the beginning a stronger coordination between Enagas and REN. A lot of work that would improve and streamline the processes has been done already. Naturally this harmonization has to respect the gas and electricity network codes.
Market licences - Ensure the full implementation of mutual acknowledgment of commercialization licenses [EDP Group, GALP Energía, EFET]	**Agree.** Traders should be able to operate in both countries. As a result of a proposal made by the Portuguese and Spanish regulators, following the public consultation on the harmonization of the licensing, in March of 2009, the Portuguese law has establish the mutual recognition of traders, subject to the existence of an international agreement. In Spain, there is an amendment in progress at the Parliament, in order to introduce the same measure in the Hydrocarbons Law.
Strategic gas stocks obligations - Similar rules must be established concerning security of supply and strategic reserves. [EDP Group, AGN]	**Noted.**
Future investment of the Iberian gas infrastructure - To establish a common framework with the aim to provide a consistent view of the Iberian gas	**Noted.** Regarding the development of further interconnection infrastructures, the

infrastructure and signal potential gaps in future investments. [EDP Group, EFET]	decision procedure should be subject to a cost benefit analysis identifying the economic impact on market stakeholders of the new infrastructure, and should be based on market mechanisms. The future decisions regarding the interconnection infrastructures shall also considered the recent developments in this area, in particular for the PCI list, the new model of CBA, the standard cost studies, 10 year network development plans, which will ensure greater transparency in these decisions.

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

Respondent's feedback	CNMC / ERSE comments
In general, a majority of respondents [EFET, AGN, ENDESA, OMIC, GDF Suez Energía España, EDP Group, Eni Group, Gas Natural Fenosa Group, OMIE, DECO, REGANOSA] aim full market integration, ensured by the **Market Area Model**, in the long term. Most of them also consider **this is compatible with a "step by step" approach.** Some respondents [CEPSA, Enagas GTS, OMIP] indicate that the Market Area Model could only be implemented in the very long term, if this option turns out to be less costly in terms of TPA costs overall. Several respondents [IBERDROLA, Iberian Gas Hub, REN, Unión Fenosa Gas, TIGF, GALP Energía] indicate that the most adequate model to start and develop a liquid Iberian gas hub is the **Trading Region Model** taking into account the current reality of the Iberian gas market. [Iberian Gas Hub] also propose some small adjustments to the model. Some respondents [OMIE, Omiclear] indicate that the Trading Region Model would be a step backwards with regards to the Model of implicit allocation of capacity. One respondent [Enagas Transporte] indicate that the analysis contained in the consultation is insufficient to answer this question. Enagás view is that NRAs should aim at implementing a trading region while performing a technical, regulatory and legal analysis of the possibility of merging zones in the long-term. Political barriers should not be underestimated. Other respondent [UPRIGAZ] is not advocating for one specific model of integration, so long as the Spanish and Portuguese stakeholders are committed to develop, as soon as possible, an effective and liquid Iberian hub and marketplace, allowing the emergence of a fully representative pricing of natural gas on the Iberian market. One respondent [OMIP] consider that the best solution is a trade-off between two conflicting goals: degree of integration vs. timing to achieve the goal. Any solution for the future should be compatible with the integration of the Iberian market with the French gas market and with EU integration [REN, CEPSA].	**Agree.** NRAs acknowledge that in the long term the Market Area Model is the model that more adequately satisfies the demands of the Energy Common Market. This would represent a fully functioning Iberian Gas Market, where shippers would operate in an integrated Iberian entry-exit system. We recognize that the implementation on the Market Area require a full alignment and engagement not only between market users and operators, but also between the government and regulators, so it can only be considered as a long term objective. NRAs agree that a gradual step by step implementation of the Iberian market, including implicit allocations and the trading region model, can be the better way to progress towards an integrated wholesale market.

Market Area Model will take too much time - Market Area Model is seen by Enagas GTS as an excessively utopian model that could only be implemented in the very long term. It requires a fully regulatory harmonization hardly achieved having two different countries with two different regulators. An important aspect of this model is that it needs to remove the exiting tariffs between Portugal and Spain. This is the key point, and may need a deep study on cost allocation to contemplate which of the two countries is the most benefited. - CEPSA insists that the most significant increase of market liquidity/price convergence should come out from coordinated inter-European hubs integration rather than from a full Iberian integration whose timing is not linked to the former. - OMIP considers that the best solution is a trade-off between two conflicting goals: degree of integration vs. timing to achieve the goal. Therefore the 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 a pragmatic approach for the integration of the Portuguese and Spanish gas markets.	**Agree.** NRAs acknowledge that Market Area Model and the Trading Region Model require substantial legal and regulatory alignment between the participating countries, so it is not realistic to have this model in place in the short term. A single entry-exit zone has to be addressed in both models, therefore the cross border tariffs shall be removed, which requires a deeper integration. In the Market Area model it is also necessary to integrate the balancing systems. The Market Area model can be considered as a long term objective for the Iberian gas market; the implicit allocation model and the trading region models can be intermediate steps in the way to this model.
3rd Interconnection between Portugal and Spain - [Enagas GTS] indicates that the construction of the 3rd Interconnection should be ready for the implementation of the Trading Region Model. - [ENAGAS GTS] An important aspect of this model is that it needs to remove the exiting tariffs between Portugal and Spain. This is the key point, and may need a deep study on cost allocation to contemplate which of the two countries is the most benefited. - [ENI] Any integration process has to be accompanied by a coherent and well-timed development of interconnection capacities capable to solve physical bottlenecks between the existing market areas, if any.	**Noted.** The integration model should be the most efficient at every moment, considering the situation and possible constraints of both countries. Regarding the development of further interconnection infrastructures, the decision procedure should be subject to a cost benefit analysis identifying the economic impact on market stakeholders

- [GALP, EFET, EDP, ENDESA]: any decision should take into account the fact that the existing physical interconnection between Portugal and Spain is sufficient.	of the new infrastructure, and should be based on market mechanisms,.

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?

Respondent's feedback	CNMC / ERSE comments
The majority of the respondents consider that the full implementation of Balancing Network Code [CEPSA, ENAGAS, SA, GALP GE; EDP, EFET, Endesa, Iberdrola, AGN, GDF Suez, REN] should be made soon as possible [CRE] or by 2016. Also, the majority of the respondents stated that this is an essential milestone in order to develop and achieve a liquid Iberian gas market. IberiangasHub and Reganosa stated that they expect the full implementation of Regulation n.º 312/2014 and the Interoperability Code before the end of 2015. ENI claims that the implementation should respect the deadlines provided in the European Regulations. Any delays must be reported in advance and transitional measures respected. ENAGAS GTS states that the implementation period should take into to account the time required for approving the national regulations and [OMIE] the developments of IT systems. Regarding the way the Balancing Code will be implemented, EFEF highlighted that it is an indispensable requirement to provide proper information to the market operators regarding their inputs and off-takes on the gas day. In this regard, the progressive decrease of the current tolerances (and application of subsequent imbalance charges) should only be applied if sufficient information is provided. Some respondents [AGN, Reganosa] also stress that the full adoption of the Interoperability Network Code is also a necessary condition for achieving an adequate level of coordination at the Iberian Peninsula.	**Agree.** The implementation of the Balancing Network Code is foreseen for 2016, in both countries. **Noted.** With regard to the quality of energy measurement and availability of the data, the NRA´s are aware of their importance to the proper functioning of the market and for the successful implementation of the balance NC. Therefore, regulatory changes are planned, during 2015, to accomplish it.

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?

Respondent's feedback	CNMC / ERSE comments
The main issues identified by the respondents to this question were: • Assess the institutional support for the creation of MIBGAS [CEPSA, DECO; OMIP] • Harmonize the licensing procedures in both countries [ENAGAS, S.A, ENI, UFG] • Implementation of the Tariffs rules and regulatory models according European Directives, to avoid cross subsidization between activities and transparent cost allocation [AGN,EDP, EFET, Iberdrola,UFG]. Removal of transport tariff between Spain and Portugal [ENAGAS GTS, DECO, Reganosa] and implementation of the entry-exit model, negotiation in the virtual point [Iberiangas Hub], removing the prior viability analysis [UFG]. • From an operational point of view, the majority of the respondents state that it should be ensured the adoption of a common trading platform for primary and secondary market, the development of operating procedures for the correct functioning of the gas market concerning the improvement of the quality of the consumption information to market participants, the full implementation of congestion management procedures, the improvement of flexibility in the nomination procedures and the harmonization of gas day [CRE, ENAGÀS SA, IberiangasHub, Reganosa,UFG, REN]. • Iberiangashub also stated it should be eliminated the capacity booking and the associated tariffs at the interconnection, considering the neutrality principle to be applied to TSOs. In turn, Iberdrola states that the stranded costs arising from security of supply decisions should not interfere with the trade, in order to achieve the maximum use of the infrastructures and suggest the removal of the historical contracts providing different access prices to the Portuguese market.	**Agree.** In general, NRAs agree with the issues listed by the respondents. Concerning the Tariffs rules, both NRAs are full committed to achieve a cost related regulation, in line with the best practices and the future Tariff NC rules, in order to avoid cross subsidizations between agents. Both NRAs are committed with the integration of Portuguese and Spanish gas markets, as a step towards the creation of an internal gas market. The NC are being implemented in due time and several initiatives are being developed as pilot projects that enable the anticipation of those rules. One good example is the CAM NC applied to VIP Iberico, since 2012/2013.