

AGN contribution to the public hearing to the study

“Analysis of cross border transmission gas tariffs between Portugal and Spain”

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?

AGN acknowledges the effort made by the regulators in characterizing the Iberian market situation, and cross border tariffs, even though it is our understanding that the cases presented in the study are not fully representative of the current market situation, and that the cross border tariff is not the only issue that impacts cross border trade between Portugal and Spain. In this sense, future further consultation with the various stakeholders can contribute to achieve a better market representation.

AGN believes that to eliminate barriers to cross border trade a major regulatory harmonization is needed, namely regarding the tariff calculation methodology in both systems and logistic and operational procedures.

The tariff policies and calculation methodologies should be reviewed in order to reflect the principles pointed by EU in the Gas Directive, that is to say, they should be transparent, cost reflective, and avoid cross subsidies between clients, infrastructures and countries.

Q2. Establishing Transmission Network Costs

AGN considers that the first step to be considered is the necessary Regulatory Harmonization, especially in what refers the Capacity Reservation Mechanism and Congestion Management Procedures (incorporating the ongoing approval processes in the European Union for both CAM and CMP). Like has been said, any tariff mechanism must follow the principles presented in the Gas Directive.

The need for transparency and objectivity in the tariff calculation became more obvious, with the most recent tariff publications (ERSE for Gas Year 2011-12 and CNE for FY2012). In fact, for both systems a “reduced tariff for exportation” was published (30% discount ESP->PT; 50% discount PT->ESP). These “discounts” were apparently fixed at the Regulators’ discretion, therefore not following the transparency principle regarding its justification. Finally, AGN strongly recommends that any future regulatory arrangement must allow for tariff calculation principles that are cost reflective, stable, transparent, non-discriminatory and foreseeable in both countries.

The allowed revenues recovery for each TSO should be made through the tariffs applied to the respective users of each infrastructure. With this principle, each national tariff structure would more adequately account for the intrinsic features of each country, also avoiding discretionary arrangements. Namely, AGN notes the following:

1. In Portugal the tariffs are additive, being the approval process in Portugal according to the Gas Directive;
2. The infrastructure have different utilization rates in both countries, therefore a cross subsidization should be avoided;
3. In both countries there are past revenues under recovery, not linked to transportation costs, included in the tariffs;
4. No cross-subsidies between countries should apply in order that:
 - The tariffs should reflect the costs of each gas system, in order to guarantee their respective economic independence;
 - The tariffs are established by activity, without cross-subsidization between transport, LNG terminals or storage, and the Allowed Revenues calculation should avoid any deficit creation that would impact costs in future years, damaging transparency;
 - The Shippers should be given adequate price signals for the most adequate utilization of the infrastructures, preventing hoarding and/or congestion.

AGN admits that different methodologies could be considered for minimizing the noted tariff differential at cross-border, namely by “transferring” cost to system Entry Tariffs at the liquid exporting country. Such “migration” should signal adequate signs of infrastructure utilization, such as minimizing the transportation route, and avoiding the most congested entry points. Any cost transfer, should be carefully implemented in order to avoid cross subsidization.

Q3. 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?

Market integration is strongly dependent on the harmonization of cross border tariffs but also, and with the same relevance, on operational and administrative procedures and mechanisms such as capacity reservation concepts and rules, including congestion management, nomination schedules, balancing rules, allocations or communication with TSO's.

Thus, it is our opinion that, in order to guarantee the development of a fully integrated Iberian market, the harmonization process to be undertaken between the Portuguese and Spanish gas markets should simultaneously contemplate cross border tariffs as well as operational and

administrative rules and procedures applied at the existing cross border interconnection points.

Furthermore, and considering the broad objective of development of an European integrated market by 2014, as foreseen by the recent European directives and initiatives, namely the "Third energy package" and the "European gas target model", harmonization at Iberian level of the previously mentioned issues, should take into account, with the necessary adaptations to the Iberian specificities, the results of the European initiatives that are currently taking place regarding CAM - Capacity Allocation Mechanisms, CMP - Congestion Management Procedures, Balancing and Interoperability, namely the development of framework guidelines and network codes.

Finally, the already agreed single Iberian operating license should be fully operationalized.

Q4. How would you implement the proposed step-wise approach, aiming for a more integrated market in the longer term?

The internal and regional markets integration is the target behind all European endeavors so far, reflected not only in the sequence of the three gas directives already issued, but also through the creation of instruments and new European level organizations to set the rules and make the required reforms to accomplish the internal gas market operational.

At present, the market model is still being discussed in Europe. AGN recommends that any action should take into consideration the European gas market construction, not risking having a specific model in Iberia that might not match the future European wide market implementation.

Main principles must be agreed and set prior to any development. It is AGN's opinion:

- MIBGAS Model should be a single price zone, without physical restrictions or logistic barriers, where each country infrastructure is supported by its users, as specified in the proposed document.
- 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 proposes 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. MIBGAS creation 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)

Q5. Would you identify new issues you think are important to create a favorable cross border trade environment? How would you set the timing and prioritization for the discussion on these issues?

AGN believes that a large number of issues and steps to create a favorable cross border trade environment are already identified and reflected in this document. Nevertheless, we also consider that there are still issues of operational nature on both systems that still need to be addressed and improved.

Is AGN’s opinion that regulatory harmonization between both countries should be implemented prior to the creation of an organized gas market. The last should be developed under the “umbrella” of MIBGAS 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.

AGN is ready to contribute constructively to the implementation of MIBGAS, considering that is essential to discuss extensively the definition of the base market model.