

# 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

17<sup>th</sup> September 2014

## Index

Executive summary .....	3
1. Introduction .....	4
1.1. Background.....	4
1.2. Objective and Purpose of this paper .....	5
2. Questions for Public Consultation .....	5
3. Outcome of the public consultation. Summary of Responses received .....	7
4. Analysis of the responses .....	8
4.1. Brief resume of main changes in relation to the final advice .....	8
4.2. Evaluation of Responses .....	8

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

## Executive summary

The purpose of this paper is to summarise the views expressed by the respondents in regards of 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 for the development 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 "Market with Implicit Capacity Allocation", and its possible application to the Iberian gas market, comparing the advantages and disadvantages for each model.

On xx July 2014, CNMC and ERSE launched 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 we received 21 responses. 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 that have been made in relation to the document.

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

## 1. Introduction

### 1.1. Background

The aim of this document 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.

The proposed Iberian gas hub is expected to introduce a fairer 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 improve LNG access for Central European countries.

In order to assess the feasibility for the development 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 "Market with Implicit Capacity Allocation", and its possible application to the Iberian gas market, comparing the advantages and disadvantages for each model.

- In the **Market Area Model**, the adjacent transmission networks that are situated in the same geographical area and 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 region has a single balancing system (with a single balancing entity and balancing rules).

The implementation of the market area model may be considered better within a single jurisdiction (i.e. within a member state), because creating a cross-border market area that span more than one member state requires substantial legal and regulatory alignment between the participating countries.

Thus, this model can be considered as a long term objective for the Iberian gas market, as is not possible to develop a fully common regulatory framework for Spain and Portugal in the short term.

- In the **Trading Region Model**, the adjacent transmission networks that are situated in the same geographical area and that are 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 a member state, and the balancing in each end user zone is performed according to the respective national rules (unbalances are managed by the National balancing entities).

The creation of a cross-border market area for Spain and Portugal requires a minimum level of harmonization of key aspects of allocation and balancing is highly desirable, in order to not create distortion and different treatments among the two markets.

Developing the detailed rules of functioning of this model can be complex but the harmonization efforts may be higher for the Market Area Model.

- **Wholesale market with implicit allocation of capacity**

In this model, gas trade and allocation capacity are assigned 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 a functioning gas exchange 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 of the CEER public consultation on Regulating the Quality of Distribution Services. In addition this paper provides the CEER evaluation of the comments received and indicate where, in relation to the draft advice, changes have been made in the final advice.

The public consultation on ... was carried out through a dedicated questionnaire on the European Energy Regulators website. The deadline for responses was 31<sup>th</sup> January 2014. The views and comments received were furthermore discussed at a public hearing in Brussels the 28<sup>th</sup> April 2014.

CEER would like to point out that the respondents' views presented in Annex 3 are a reflection and summary of the comments given. A list of the respondents and an evaluation of the responses is also included. The exact comments from each stakeholder (except confidential material) can be found at CEERs website: [www.energy-regulators.eu](http://www.energy-regulators.eu), under Closed Public Consultations.

## 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 for 2011-2014 and all the developments that have been achieved since the beginning of the South Gas Regional Initiative.

Stakeholders are asked to have in mind 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, and also 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 are invited to provide comments to the consultation paper by 15<sup>th</sup> September 2014, to [mibgas@cnm.es](mailto:mibgas@cnm.es) and [mibgas\\_models@erse.pt](mailto:mibgas_models@erse.pt). 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 we received xx responses from the following types of stakeholders: energy supply companies (x responses), industry associations ( responses),), authorities (3 responses) and ...

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

	Organization	Abbreviated name	Country of origin
	<b>Respondent Group – Energy Supply Companies</b>		
1			
2			
3			
4			
	<b>Respondent Group – TSO and DSOs</b>		
	<b>Respondent Group - Industry Associations</b>		
	<b>Respondent Group - Authorities</b>		
	<b>Respondent Group – Market Operators</b>		

Table 1 - Overview of respondents – Respondent group

Country of origin	Number of respondents
E U	

Spain	
France	
Portugal	

Table 2 - Overview of respondents - Country of origin

## 4. Analysis of the responses

CEER has evaluated the responses provided in the public consultation, principally in terms of applicability and consistency. For each comment, the following evaluation template has been used:

Respondents had different options in regard with the questions posed in the consultation document and in addition they could insert a short comment on the rationale for their position. Some respondents also attached additional documents setting out their views or providing supporting published documents.

This document summarises the respondent's views and the CEER evaluation of the comments received. Where the issues raised prompted a change to the final advice document, CEER has reflected this in the comments. In cases where respondents have requested amendments but CEER does not find that changes are necessary, an explanation of our reasoning has been included.

Comments with which CEER agreed are reflected in the final advice (Ref. C13-RMF-57-03) in the cases when changes have been relevant to make.

### 4.1. Brief resume of main changes in relation to the final advice

As a result of the evaluation of the comments received, the following main changes have been made in the final advice:

- xxx

### 4.2 Evaluation of Responses

Below we present the consultation questions, a graphical overview of the answers, answers by type of respondent and CEERs positions.



**General remarks:**

Respondent's feedback	CNMC / ERSE comments
<p>Nearly all respondents agree that <b>market integration is positive for both countries</b> since Portugal does not fulfill the minimum requirements in terms of size, sources and market players to implement a national organized market on its own and Spain has to gain in terms of market liquidity with the integration with the Portuguese market.</p>	

**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
<p>In general, <u>most respondents</u> [Cepsa, CRE, GDF Suez Energía, Gas Natural Fenosa, ENDESA, Reganosa, <b>pending</b>] <b>basically agree</b> 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.</p> <p><u>Two respondents</u> indicate that small number of European experiences to contrast, involves <b>dealing with caution</b> [ENAGAS, ENAGAS-GTS]</p> <p>Many respondents also present some <b>remarks, which are indicated bellow</b></p>	
<ul style="list-style-type: none"> <li>• <b>Coherence between gas and electricity markets is needed</b> [GALP Energía, EFET] in issues as gas/electricity day, renomination times, capacity booking or balancing system.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Infra-utilization of interconnection between Portugal and Spain</b></li> </ul>	<p><b>Agree.</b> Regarding the development of</p>

<ul style="list-style-type: none"> <li>- [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 the recent years.</li> <li>- [Reganosa] Plenty of cross border capacity remain available either on short or on long term basis that indicates a relative low level of decoupling.</li> </ul>	<p>further interconnection infra-structures, the decision procedure should be subject to public consultation, supported by a cost benefit analysis identifying the economic impact on market stakeholders of the new infra-structure, and should be based on market mechanisms, like open season.</p>
<ul style="list-style-type: none"> <li>• <b>The analysis does not include data for 2013 and first half 2014 [CRE, CEPSA]</b> <ul style="list-style-type: none"> <li>- 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 in the North of the European market and LNG imports in the South.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Liquidity [CRE, CEPSA]</b> <ul style="list-style-type: none"> <li>- 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 relative 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.</li> <li>- 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.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Spain and Portugal haven't decided to use PRISMA as the capacity booking platform [ENAGAS].</b></li> </ul>	

