



**ANALYSIS OF CROSS BORDER TRANSMISSION GAS  
TARIFFS BETWEEN  
PORTUGAL AND SPAIN  
- SUMMARY OF THE COMMENTS RECEIVED -**

July 2012



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## 1 INTRODUCTION

The work plan of the South Gas Regional Initiative (SGRI) for 2011-2014 includes a joint study of CNE and ERSE on the cross border tariffs of gas interconnections between Spain and Portugal. This study was presented through a public hearing and on stakeholder meetings.

The present document summarizes the comments received by regulators to the public hearing on cross border tariffs in the gas interconnections between Spain and Portugal.

The document supporting the public hearing presented a review of the gas tariff systems of Portugal and Spain and left 5 questions to stakeholders regarding tariff harmonization and market integration.

**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?

**Question 2:** How do you think that transmission network costs should be allocated at cross border IP (both in Spain and Portugal), taking into account the defined principles (coherence, transparency, cost recovery and cost reflectiveness, etc) and the starting situation of the regulatory tariff framework in both countries?

**Question 3:** 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?

**Question 4:** How would you implement the proposed step-wise approach, aiming for a more integrated market in the longer term?

**Question 5:** Would you identify new issues you think are important to create a favourable cross border trade environment? How would you set the timing and prioritization for the discussion on these issues?

Market agents responded to the questions raised by regulators. These comments are published on regulators' and ACER web sites<sup>1</sup>.

The following chapter presents a summary of the answers of the stakeholders to each question presented in the public hearing.

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<sup>1</sup> Any comment marked by a stakeholder as confidential was kept private.



## 2 SUMMARY OF COMMENTS RECEIVED IN THE PUBLIC HEARING

Regulators received 14 comments from 16 different stakeholders (see Table 2-1).

A large share of the stakeholders in the gas markets of Portugal and Spain participated in the public hearing: shippers, suppliers and TSO's.

**Table 2-1 – List of stakeholders participating in the public hearing**

<b>Company</b>	<b>Type of agent</b>
AGN – Associação Portuguesa das Empresas de Gás Natural	Association of gas companies
BP	Supplier
Cepsa	Supplier
Enagas	TSO
Endesa Portugal and Endesa Spain	Supplier
EDP Gás and Naturgás Energia comercializadora	Supplier
E-ON	Supplier
GALP	Supplier
Gas Natural Fenosa	Supplier
Iberdrola	Supplier
INCOGAS	Supplier
REN Gasodutos	TSO
SEDIGAS – Asociación Española del Gas	Association of gas companies

Note: 1 comment received was marked as confidential.

In the next tables, comments received are presented, organized by each question raised in the public hearing.

## 2.1 REMARKS TO THE CONTENT AND PROCESS OF THE PUBLIC HEARING

This point reflects the remarks made on the public hearing process and on the public hearing document, published by regulators.

Remarks to the content and process of the public hearing	
Topic	Summary of comments
<b>On the public hearing process</b>	1 respondent said that SGRI public consultations should follow CEER's guidelines on public consultation practices, reserving an 8 week period for stakeholder to comment on any proposal by regulators.
<b>Link of the the public consultation to the market evaluation by regulators (Gas Target Model)</b>	An assessment of national markets in the perspective of European market integration shall be done by regulators by the end of 2012, according to the CEER's Gas Target Model. This assessment should identify options to develop a function integrated market. Regulation harmonization between Portugal and Spain, including regulatory concepts, tariffs and operational procedures, transparency and absence of cross-subsidization between activities and countries, can be seen in this context.
<b>Harmonization with France</b>	Some stakeholders propose that the harmonization effort done for the interconnections between Spain and Portugal should be repeated for the interconnections between Spain and France. This would promote the gas supply of Europe through the Iberian Peninsula and a greater use of the existing infrastructures.



## 2.2 COMMENTS ON 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?

Question 1 of the public consultation asked stakeholders to formulate an opinion on the joint study made by CNE and ERSE about the gas tariff systems and the case study analysis on the cross border tariffs. It also asked about the relevance of this topic as justification for the low level of market integration.

### 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?

Topic	Summary of comments
<b>Regulators' overview of the Iberian transmission systems and its regulatory framework</b>	<p>Generally, stakeholders welcomed the characterization of the regulatory framework of gas systems in Spain and in Portugal.</p> <p>In spite of some remarks on the details of the case studies, comments appreciated the analysis made by regulators on cross border costs applied to suppliers.</p> <p>The study was found very useful.</p>
<b>Additional case studies were suggested</b>	<p>Most of the comments acknowledged the case studies and the assumptions made by regulators. However, many of them suggested that additional case studies should have been included, namely, smaller supplier portfolios (corresponding to new entrants, rather than the incumbents in each market). This is particularly relevant when determining the average LNG regasification costs and the load factor for the use of the interconnection capacity.</p> <p>Some respondents said that the case studies' assumptions were questionable and did not allow for taking conclusions on cost barriers.</p> <p>Two respondents commented that case studies could be used to investigate why LNG terminal at Sines is not used more, especially when cross border costs are relevant. The Portuguese regulation for LNG swaps should be analyzed.</p> <p>One respondent pointed out that the mechanism of "trocas regladas" was not considered in the analysis and, in particular, if such mechanism allows the entrance of new operators.</p>
<b>Additional costs could have been considered in the case studies</b>	<p>Some comments say that suppliers face costs other than cross border tariffs when contracting with customers. These other costs can also be a factor when end-user price comparison is in mind.</p> <p>Balancing costs for example, can be different for suppliers with small consumption portfolio, who face limitations to the tools they can use for balancing.</p> <p>Costs related to security of supply obligations could also have been included in the price comparison.</p> <p>One respondent said that LNG regasification costs should not be included in the analyses since they can be considered a cost for importing gas (such as international pipelines are).</p>
<b>Tariff pancaking</b>	<p>Most comments agree that cross border tariffs impose a cost which can difficult market integration across the border (barrier to purchasing gas on the neighbouring country) and that the cost is significant in the context of wholesale gas price.</p> <p>Other two comments disagree on the definition of tariff pancaking because, they say, double tariff (cross border transmission tariff) does not mean undue tariff pancaking, if one considers that two transmission systems are being used by shippers. These comments regard double tariff as a just payment for the use of double transmission systems and their costs, as long as both tariff systems are cost reflective.</p>

**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?**

**Other issues affecting cross border trading**

Some respondents refer additional issues that affect gas trading across the border between Spain and Portugal. For these respondents, the regulatory framework applied to gas infrastructures (pipelines, underground storage facilities or LNG terminals) should be harmonized. Capacity reservation, tariff structure and price variables, operational and logistical aspects are also issues needing harmonization.

1 stakeholder identifies that (at least part of) the cost difference of regulated tariffs in the transmission systems of Spain and Portugal derives from different levels of investment made and of infrastructure utilization. This would thus suggest that cross subsidies should be avoided.

**2.3 COMMENTS ON QUESTION 2: HOW DO YOU THINK THAT TRANSMISSION NETWORK COSTS SHOULD BE ALLOCATED AT CROSS BORDER IP (BOTH IN SPAIN AND PORTUGAL), TAKING INTO ACCOUNT THE DEFINED PRINCIPLES (COHERENCE, TRANSPARENCY, COST RECOVERY AND COST REFLECTIVENESS, ETC) AND THE STARTING SITUATION OF THE REGULATORY TARIFF FRAMEWORK IN BOTH COUNTRIES?**

Question 2 asks stakeholders on how to integrate cross border tariffs in the transmission tariff system and how this global transmission tariff system affects the costs for crossing the IP. The proposals must take into account the present regulatory framework so that clear steps forward can be designed from the starting point.

Question 2: How do you think that transmission network costs should be allocated at cross border IP (both in Spain and Portugal), taking into account the defined principles (coherence, transparency, cost recovery and cost reflectiveness, etc) and the starting situation of the regulatory tariff framework in both countries?

Topic	Summary of comments
<b>An European regulatory framework</b>	<p>Some comments identified the gas Directive and Regulations as the first priority for the development of the regulatory systems in Portugal and Spain.</p> <p>Across the comments, it was also common the reference to a needed coherence with the network codes of ENTSOG under discussion.</p>
<b>Tariff principles and methodology</b>	<p>Most comments recognized the basic principles of tariff methodology determined by the European gas Directive and Regulations (and included in the regulators’ study). Tariffs and tariff methodology must be non-discriminatory, transparent, objective and cost reflective, avoiding cross subsidies between activities and between countries. A majority of respondents mentioned that cross border cost allocation at the IP should result from a coherent, global and harmonized transmission tariff methodology in Spain and Portugal.</p> <p>Stakeholders say there should be a common tariff methodology between the Portuguese and Spanish systems. Nevertheless, tariffs could present specificities.</p> <p>One agent comments that in the design of a new general tariff methodology, there should be a close cooperation between regulators and TSOs in both countries, in order to avoid significantly different regimes.</p> <p>Most comments favoured tariff structure harmonization such as entry-exit prices proportion, capacity/commodity split (so that cost signal related to capacity investment is reinforced), price variables for capacity charging (reserved capacity in Spain vs 12-month maximum in Portugal), or treatment of backhaul flows</p> <p>Three respondents said that tariff methodology should put away discounts present today in cross border tariffs.</p> <p>Several respondents refer to the present tariff system in Spain and Portugal. In Spain, they proposed that transmission and distribution tariffs be separated and tariff additivity be implemented. This way, tariffs would be cost reflective and transparent (avoiding cross subsidies between activities and between countries). They also argue in favour of allocating each activity’s (infrastructure) costs to its tariff, namely with LNG regasification, in order to provide efficient price signals and fair cost allocation. In Portugal, several agents appoint that other equally important issues should be reviewed, like inexistence of short term cost-reflective access tariffs and year-average peak capacity payments. It was commented that the transmission tariff system in Spain should be replaced by a fully decoupled entry-exit</p>

**Question 2: How do you think that transmission network costs should be allocated at cross border IP (both in Spain and Portugal), taking into account the defined principles (coherence, transparency, cost recovery and cost reflectiveness, etc) and the starting situation of the regulatory tariff framework in both countries?**

tariff system, independent from contractual gas transport route.

**Iberian entry-exit zone**

Some stakeholders are in favour of creating a trading region with a single entry-exit price zone, and with no “economic interconnection points”. This would strongly contribute to a fully functioning Iberian Gas Market, according to these comments.

In this Iberian entry-exit zone, capacity reserve price would be the only entry price into the transmission system of both countries, paid at the entry point into the integrated transmission system. Users would also pay, if applicable, their country’s underground storage and distribution tariffs.

One respondent even favours the existence of a unique exit transmission tariff.

One comment underlines the need to comply with the goal of a functioning internal market by 2014.

**Separate cost recovery in each country**

All stakeholders value the absence of cross subsidies between countries. Hence, each country’s costs should be accounted for separately and full cost recovery should be guaranteed in each country’s tariff system.

Many commented that some of the costs are related to security of supply decisions (like the existence of overcapacity in some infrastructures). These should be recovered through end-user access tariffs, at national level, and should not affect the efficient pricing of infrastructure use. This way, infrastructure use would be optimized.

**Cross border tariff elimination**

Some respondents support the elimination of cross border tariffs entirely, or at least a reduction of those tariffs, as it would contribute to market integration and competition at wholesale level.

However, several of those also comment that cross subsidies between Spain and Portugal must be avoided and that price signals should keep promoting an efficient use of the gas infrastructures.

Some alternatives are discussed on how to shift costs away from the cross border tariffs. A consensus exists around a sound tariff methodology that eliminates cross subsidies between activities (stakeholders expect that this alone would reduce cross border tariff prices). Secondly, several comments mention that costs related to security of supply decisions could be removed from cross border tariffs. Finally, some of the respondents comment on further ways to reduce cross border tariff costs.

On this last topic, some respondents are open to consider the transfer of costs to the entry points into the Iberian transmission system, if this is made carefully (transparently and harmonized) and not creating cross subsidies. These comments say they preferred this to some kind of inter-TSO compensation mechanism because the later does not provide efficient price signals to the network users. This cost transfer should be neutral for the exporting country, in the sense that shippers importing gas from that country would still pay the use of the gas infrastructures (at the entry points rather than at the IP). Exit prices to end-users would need to be reduced in the exporting country.

Other respondent favours a compensation scheme between TSO (recovered through end-user access tariffs).

Another answer mentions that an (efficient) cross border tariff should be kept while two balancing zones exist in the Iberian peninsula.

The example of the electricity market is referred to by some stakeholders on the topic of cross border tariff elimination.

One stakeholder says that “zeroing” the cross-border tariffs would most likely be a deceptive if not erroneous option. Taking into consideration the different cost structure of the national

**Question 2: How do you think that transmission network costs should be allocated at cross border IP (both in Spain and Portugal), taking into account the defined principles (coherence, transparency, cost recovery and cost reflectiveness, etc) and the starting situation of the regulatory tariff framework in both countries?**

systems, the amounts now recovered at the “Border Entry Tariffs” would have to be computed either in the “Country Entry Tariff” and/or in the “Country Exit Tariffs”.

Another stakeholder believes that no provisional measures as regards tariffs at IPs should be adopted unless strong evidence was found of incorrect cost allocation. There would be a risk of introducing a new cross-subsidy in the system, detrimental to national users of one of the countries.

## 2.4 COMMENTS ON QUESTION 3: 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?

Although the main topic of the public consultation is cross border tariffs between Spain and Portugal, regulators also asked the stakeholders their views on the other aspects contributing to the goal of market integration. The work plan 2011-14 of the South Gas Regional Initiative includes several tasks to be developed in parallel which contribute to market integration in the Region. Stakeholders already approved those tasks.

Regulators acknowledge that cross border tariffs issue cannot be seen alone. Instead, it must be analyzed together with other issues. For example, pricing of capacity goes next to capacity availability and allocation. Hence, stakeholders were called to identify the relevant issues to be dealt with in the short term, targeting the achievement of concrete results.

**Question 3: 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?**

Topic	Summary of comments
<b>Priorities of S-GRI WP2011-14</b>	<p>Generally, stakeholders identify the priorities already agreed in the SGRI work plan for 2011-2014 as the first step in the short term. Harmonization of CAM, CMP and balancing rules apart from the cross border tariffs harmonization were listed as the main focus of the harmonization efforts. Network planning was also identified in the same way.</p> <p>Several respondents ask for the implementation of the common licensing procedures for suppliers in the MIBGAS area, as proposed by regulators.</p> <p>3 respondents defend the transposition of the 3<sup>rd</sup> energy package and the corresponding network codes of ENTSOG under development.</p>
<b>Short term measures</b>	<p>Several short term measures, apart from the cross border tariffs harmonization, are mentioned by stakeholders in order to improve the market environment between Spain and Portugal. These include regulatory and operational level proposals.</p> <p>On balancing procedures:</p> <ul style="list-style-type: none"> <li>Improvement of updated information on balancing positions on the Portuguese side. Stakeholders said that it should be recognized that balancing tools available in Portugal are scarce (or costly) for new entrants using only the interconnection. Some mitigation measures could be designed.</li> <li>Harmonizing nomination procedures and creating national balancing points.</li> <li>Harmonizing the gas day (and the gas year).</li> </ul> <p>On capacity allocation:</p> <ul style="list-style-type: none"> <li>Allocation of capacity at a virtual interconnection point (aggregating Tuy-Valença and Badajoz-Campo Maior IP). This could bypass some potential technical restrictions at Tuy.</li> <li>Reserving part of the interconnection capacity for short term contracts and increment TSO actions in providing flexibility to market agents (for example, increasing operational capacity reserves for TSO).</li> </ul>

**Question 3: 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?**

Harmonizing capacity reservation arrangements. Presently capacity is paid according to reservation, in Spain, and to the 12-month maximum, in Portugal.

Long term capacity contracting, binding to network operators as well as to shippers (long term capacity is an efficient signal for new investment planning). This would be accompanied by harmonized congestion management procedures.

On cooperation between TSO:

Developing operator balancing arrangements.

Harmonizing communication protocols and data formats.

Harmonizing contract rules or clauses.

**Longer term goals**

As seen before (Question 2), several stakeholders propose the elimination of capacity booking at the IP.

One respondent points to the merger of the two balancing zones.

One respondent proposes to adopt harmonized open season procedures to decide on new interconnection investments.

One respondent proposes the harmonization of the roles played by shippers/suppliers as gas importers or retailers (managing TPA to distribution networks or the switching process).

## 2.5 COMMENTS ON QUESTION 4: HOW WOULD YOU IMPLEMENT THE PROPOSED STEP-WISE APPROACH, AIMING FOR A MORE INTEGRATED MARKET IN THE LONGER TERM?

Regulators proposed that regulatory harmonization should be built on small steps of measures aimed to produce concrete results in the short term. On Question 4, it was asked stakeholders to identify such measures and to prioritize them, designing a path for market integration to be developed by regulators and TSO.

### Question 4: How would you implement the proposed step-wise approach, aiming for a more integrated market in the longer term?

Topic	Summary of comments
<b>Step by step approach</b>	<p>Generally, stakeholders agree that the transition to a more integrated market should be done in incremental steps, starting from the basics which are the transposition of the 2009 gas Directive and European Regulations.</p> <p>Stakeholders also agree that short term measures can provide small and concrete improvements to market functioning while allowing for the European network codes to be further developed. This is important in order to build a market framework coherent with future European internal market.</p>
<b>Different levels of harmonization work</b>	Different comments by stakeholders identify harmonization measures to be implemented within the South Gas Regional Initiative. These measures are of different nature and scope. Some are operational and should be implemented by TSOs, others are regulatory and regulators must take those tasks in hands.
<b>Transposing EU Gas Directive and Regulations</b>	All stakeholders agree that any harmonization effort must start from the common base given by the European gas Directive and Regulations.
<b>New tariff system in SP and improvement in PT</b>	Some stakeholders require implementing a fully decoupled Entry-Exit system, avoiding cross-subsidies, with an additive tariff methodology.
<b>Harmonizing CAM&amp;CMP, Balancing</b>	Stakeholders suggest proceeding as planned in SGRI WP2011-14, incorporating the work of European network codes.
<b>Transitory market making measures</b>	Stakeholders require harmonization of nomination and renomination rules, capacity booking arrangements, improving OBAs, incentivising the use of LNG terminal at Sines, positive discrimination of new entrants (balancing rules) and development of 2 entry-exit systems with a virtual balancing point each (balancing hub).
<b>Reducing cross border tariffs SP-PT</b>	Stakeholders consider that cross border tariff is reduced firstly in result of a cost reflective tariff methodology, and secondly, through revenue compensation schemes (ITC mechanism, cost shifting to entry points, elimination of discounts).
<b>Eliminating cross border tariffs SP-PT</b>	Some stakeholders are in favour of eliminating cross border tariff (no economic border) and compensating revenues with alternative schemes (ITC mechanism or cost shifting to the entry points).
<b>VIP between SP-PT</b>	Stakeholders agree on managing interconnection capacity aggregating the two IP in one virtual interconnection point - VIP. Market agents book and nominate capacity at the VIP. TSOs operate so that VIP capacities are feasible. VIP capacities are no lesser than the sum of the IP capacities (see NC CAM).



**Question 4: How would you implement the proposed step-wise approach, aiming for a more integrated market in the longer term?**

<b>Single hub, two entry-exit zones</b>	Stakeholders explain that trading happens at the Iberian Hub and they do not “see” physical constraints at the IP. TSOs manage their 2 balancing zones in a coordinated way.
<b>Single hub, single entry-exit zone</b>	Stakeholders mention the need for full market integration at wholesale level, in one single balancing zone and one Iberian hub.

Ten stakeholders have answered this question. The next figure (Figure 2-1) presents the proposals of stakeholders in response to Question 4, aggregated in clusters of similar approaches. Strategies vary either in the number of steps proposed, time length of the process or in the final level of market and operational integration between the transmission systems.

There is clearly a common base of agreement on the implementation of the measures already included in the work plan of the regional initiative and also on the need to fully transpose the 3<sup>rd</sup> gas Directive and European Regulations. The review of tariff methodologies is also commonly referred to by stakeholders.

The majority of comments identify some transitory measures aimed to achieve short term concrete results. These measures try to optimize the use of current existing infrastructures and arrangements such as capacity booking and nomination.

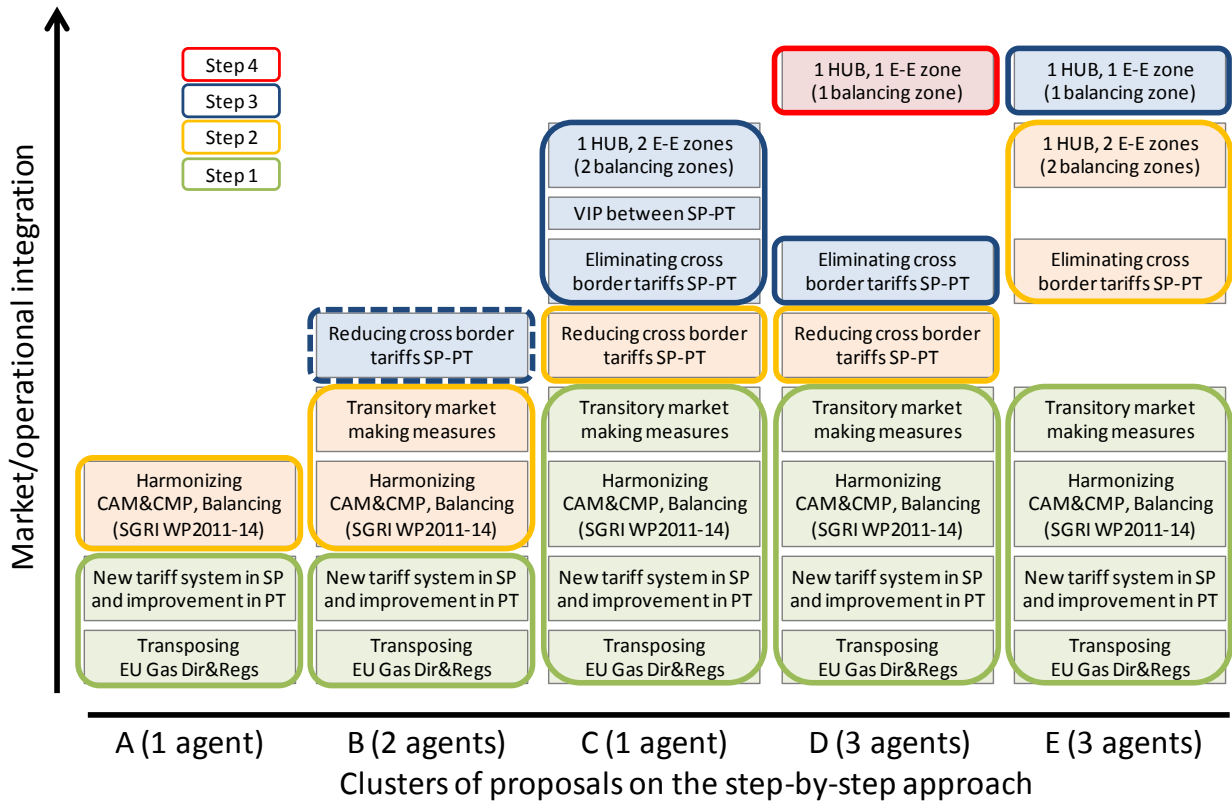
Proposals A (one agent) and B (two agents) point to the need of harmonizing CAM, CMP and balancing schemes and also the approval of a new additive tariff system in Spain. Proposal B also refers to the need of reducing cross border tariffs between Spain and Portugal.

Besides the aspects referred in the previous proposals, proposal C (one agent) asks for the elimination of cross border tariffs in the interconnections between Spain and Portugal. It also points to a market model with one common hub, two entry-exit zones and two balancing zones.

At last, proposals D (three agents) and E (three agents) ask for a fully integrated market model, with one common hub, one entry-exit tariff system and one balancing zone.

The most far reaching proposals point to the creation of a market area with a single entry-exit zone and a common balancing zone. Anyway, this would be the last step of a gradual integration process.

Figure 2-1 – Proposed strategies for a step-by-step kind of approach



Note: For strategy B the dashed line means that the stakeholder’s proposal mentions that such a step must be taken carefully in order to avoid cross subsidies between transmission systems.

**2.6 COMMENTS ON QUESTION 5: WOULD YOU IDENTIFY NEW ISSUES YOU THINK ARE IMPORTANT TO CREATE A FAVOURABLE CROSS BORDER TRADE ENVIRONMENT? HOW WOULD YOU SET THE TIMING AND PRIORITIZATION FOR THE DISCUSSION ON THESE ISSUES?**

Although the present public hearing is focused on the issue of cross border tariffs between Spain and Portugal, other relevant subjects can contribute to improve cross border market functioning in the context of the South Gas Regional Initiative. Regulators asked stakeholders to identify such aspects that were not yet included in the discussion agenda.

**Question 5: Would you identify new issues you think are important to create a favourable cross border trade environment? How would you set the timing and prioritization for the discussion on these issues?**

Topic	Summary of comments
<p><b>Common access platform</b></p>	<p>Stakeholders consider that harmonized procedures for capacity allocation and congestion management at the IP shall require a common platform for communication between market agents and TSOs. This would include a harmonization of data formats and communication protocols.</p> <p>This common platform would benefit from a harmonization of nomination procedures and schedules.</p> <p>One comment goes further proposing that this harmonization of data formats and communication protocols includes the billing and switching activities in the retail market.</p>
<p><b>Harmonization of security of supply obligations</b></p>	<p>Some stakeholders mention that, in an integrated Iberian market, security of supply obligations should be redesigned and harmonized. For example, strategic gas reserves parked at storage facilities could be harmonized (together with a coordinated operation of underground storage facilities).</p>
<p><b>LNG terminals and underground storage facilities</b></p>	<p>One comment says that during the integration of balancing zones of Portugal and Spain it could be desirable to integrate the management of underground storage facilities. For that, infrastructure tariffs should be harmonized and eventually a compensation mechanism (between facilities) could be created.</p> <p>The same stakeholder says that LNG terminals regulatory framework need not to be harmonized since they can be compared to costs of importing gas into the Iberian system (competing with long range international pipelines).</p> <p>Another comment suggests that these storage facilities should develop new flexibility services to be offered to the market. This would include cost reflective tariffs addressed to short term uses of the infrastructures (namely for Portugal).</p>
<p><b>Long term contracts</b></p>	<p>Some stakeholders comment that the long term contracts already signed must be handled in the new market framework, respecting their legal clauses but ensuring they do not become an obstacle to harmonizing cross border capacity allocation and tariffs. For that, transparency should increase on capacity booking and utilization for those gas transits.</p> <p>These contracts should be subject to capacity release (in case of underutilization).</p> <p>Some stakeholders propose that these contracts lose their priority status (being integrated in the regular TPA framework).</p> <p>One stakeholder defends long term contracts as an appropriate tool to improve network planning activity, to increase market based capacity trading, to allow the full implementation</p>

**Question 5: Would you identify new issues you think are important to create a favourable cross border trade environment? How would you set the timing and prioritization for the discussion on these issues?**

of network codes on capacity allocation and to protect cost recovery and fair cost allocation. This long term contracts for capacity rights should be binding to both operators and users alike. The stakeholder proposes that this binding “ship-or-pay” type contracts consider an 85% threshold for the “ship-or-pay” clause.

**Wholesale market hub**

One comment points to the creation of 2 hubs (in Portugal and in Spain), coordinated, in order to allow for the implementation of the balancing network code.

Many stakeholders refer to a wholesale market hub, of an Iberian nature, that should be established jointly and after the regulatory harmonization process. Some comment the possibility of adding to this hub the function of a balancing hub (for the single balancing zone).

**Balancing**

Balancing has been very much noted as a relevant topic for promoting cross border market integration. Several comments from stakeholders make different proposals on balancing.

Comments identify the growing need to match gas balancing procedures with the power market arrangements (including ancillary services market) and to involve generators in the balancing activities.

Some stakeholders also comment in favour of market based balancing mechanisms (as it is pointed by the Framework Guideline of balancing). Some added that this should be done in a joint balancing platform for trading balancing gas across the border or even in an integrated balancing zone.

Balancing arrangements in Portugal should consider the fact that suppliers with small consumption have more difficulties in balancing their gas and they incur in higher costs to do so.

Some stakeholders propose transitory measures to level the balancing costs among suppliers with different sizes, such as shipper-led cross-border portfolio balancing (allowing for imbalances netting across the neighbouring balancing zones) or setting higher tolerances for imbalances of smaller suppliers.

Some comments also incentivize TSOs to be more active in cross border balancing activities, provided that these procedures deal with operational constraints in the same way and are sufficiently transparent. This would result in providing higher flexibility to market agents.

**Interconnection capacity management**

One stakeholder prompts TSOs to develop coordinated tools to increase available capacity: oversubscription and capacity buy-back; interruptible capacity; backhaul capacity; and secondary market (incentives for UIOSI).

The same comment proposes that a common interconnection agreement was adopted.

Some stakeholders propose that capacity contracts should be harmonized.

### 3 SUMMARY OF PROPOSALS FROM MARKET AGENTS

From the comments received, stakeholders favour the adoption of transitory measures, either on the regulatory side or on the operational side that can produce results in the short term. These measures shall recognize the longer term objectives and act on concrete and punctual problems, in a coordinated way.

Stakeholders found those measures to be:

- Tariffs
  - Development of 2 entry-exit systems with a virtual balancing point in each zone (2 balancing zones)
  - Harmonizing capacity booking arrangements and tariff variables
  - Adjust cross border tariff in the short term with a cost reflective methodology (e.g. dismissing cross border tariffs from recovering costs related to security of supply, reduce tariffs applicable to backhaul flows, separate distribution from transmission costs)
  - Implementing a tariff split between transmission and distribution in Spain through an adequate additive tariff system.
- Capacity allocation
  - Harmonizing nomination and renomination rules
  - Allocating interconnection capacity at a virtual interconnection point
  - Reserving part of the interconnection capacity for short term contracts, in line with the CAM framework guidelines and draft network code
  - Making long term capacity contracts binding to users as well as for operators
- Balancing
  - Improving OBAs (operator balancing arrangements)
  - Improvement of the updated information delivered to market agents about their imbalance positions in Portugal
  - Harmonizing the gas day and the gas year
  - Harmonizing data formats and communication protocols
  - Positive discrimination of new entrants in the balancing rules
- Cooperation between TSO:
  - Developing operator balancing arrangements.

- Harmonizing communication protocols and data formats.
- Harmonizing contract rules or clauses.

#### 4 WAY FORWARD

Having analysed and described the comments received to the public hearing on cross border tariffs between Spain and Portugal, some conclusions can be summarized.

Comments by stakeholders confirm the tasks included in the SGRI work plan for 2011-2014. This work plan has a large acceptance and is being developed according to plan.

Another common opinion is that the full transposition of the 2009 gas Directive and European Regulations should be the basis for the regulatory harmonization to build on.

From March 2012, Spain<sup>2</sup> and Portugal<sup>3</sup> have already transposed the gas Directive. These transpositions are now starting producing their results in changing national regulatory framework where needed, in both countries.

Most respondents also point out that the current natural gas transmission tariff system in Spain should be replaced by a fully decoupled entry-exit tariff system, in which transmission tariffs are independent of the contractual gas transport route.

Several agents consider that some important issues should also be reviewed in Portugal, such as the inexistence of short duration access tariffs and the capacity concept adopted in access tariffs.

Regarding the methodology for the determination of an entry-exit tariff system in Spain, the Real Decreto-Ley 13/2012 of 10<sup>th</sup> of March assigns the CNE the duty of designing the methodology for the calculation of transmission and distribution tariffs, apart from the regasification toll, LNG storage fee and ship unloading toll.

Currently, the CNE is working on this. First of all, a public hearing will be held to get the opinion of the agents about several aspects of the methodology. Secondly, the CNE will develop the methodology step by step in accordance with EC provisions and taking into account the comments received. Finally, the proposed of allocative methodology will be sent for comments to the Consultation Board of Hydrocarbons and published through a Circular in Official Spanish Gazette.

Also in Portugal, ERSE will revise the several natural gas sector codes of her responsibility, namely the tariff code, the commercial relations code and the access code to the networks and other infrastructures. This will be an opportunity to progress on the Portuguese side towards tariff harmonization at the interconnection, namely the capacity price variable concepts, as well as other issues. This revision will be

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<sup>2</sup> Real Decreto-Ley 13/2012, of 30<sup>th</sup> of March.

<sup>3</sup> Decreto-Lei n.º 77/2011, of June, 20<sup>th</sup>.

performed under a public consultation process to be launched in the second semester of this year. The participation of all stakeholders is welcomed.

Stakeholders also agree that a convergent goal for the regulatory harmonization is needed, not only at the cross border level but also at European level. The European network codes under development should give orientations to the harmonization at the cross border level.

Harmonization of CAM, CMP and balancing rules apart from the cross border tariffs were listed as the main focus of the harmonization efforts, as well as the implementation of the common licensing procedures for suppliers in the MIBGAS area, as proposed by regulators. Regulators shall work on a common position on regulatory developments, considering the comments received in the present public hearing, the priorities set by the SGRI and the European Commission and the work happening around the network codes. This task is a deliverable included in the SGRI work plan.

While the Spanish Regulator is working on the methodology for the determination of an entry-exit tariff system in Spain, aimed at determining sufficient, non-discriminatory and cost-reflective tariffs, other tasks could be harmonized, e.g. the stakeholders point out the measures, apart from tariffs.

The present document shows the comments made by the stakeholders. Next, regulators shall build a common proposal on the steps to implement a more integrated market, namely on the issue of cross border tariffs in accordance with the Gas Target Model and the European Framework Guidelines on gas transmission tariffs. This task has been designated by VI.2 in the SGRI work plan 2011-14.