

IBERDROLA COMMENTS ON THE ERGEG PUBLIC CONSULTATION “CAPACITY ALLOCATION AND CONGESTION MANAGEMENT IN NATURAL GAS TRANSMISSION NETWORKS” (MARCH 2009)

1. Introduction

This paper describes Iberdrola’s position on the ERGEG public consultation document related to “Capacity allocation mechanisms and congestion management procedures”.

Iberdrola welcomes the opportunity to provide its view on these important issues. In this respect, we believe that both physical and contractual congested interconnections are a major hindrance for internal markets creation and for new entrants to participate.

Solving physical congestions is not in the scope of this ERGEG consultation document and it is only possible by investing in new infrastructures. Therefore, we consider that priorities at European level should be focused on the target of 10% of interconnection capacity agreed by the European Council in March 2007.

On the contrary, approaching to solving contractual congestions and increasing the interconnections utilization rates could be done without additional investments just by adopting new regulation initiatives, as the ones proposed by ERGEG.

2. ERGEG questionnaire

1. Do you agree with the problems that ERGEG has identified with capacity allocation and congestion management? Are there other aspects that should be taken into account?

Overall, we agree with the problems identified by ERGEG. The scarcity of available capacity at interconnection points is an important barrier for new entrants and it can hinder the development of trade and the creation of a single market in Europe.

Considering this situation, we believe that some rules on CAM and CMP proposed should be implemented in current contractual congested cross-border interconnection points.

2. The scope of ERGEG’s principles and of the derived proposals covers bringing capacity to the market where there is currently contractual congestion. Do you agree with this approach?

Yes, we agree with this general approach. But we want to highlight that there is no need to implement these new mechanisms of CAM and CMP in the interconnections that are not contractually congested.

Anyway, we consider that there are also some interconnections physically congested in Europe, as they are fully contracted and their utilization rates are high. Therefore, new infrastructures investments are urgently needed. We think that solving these situations is as important as solving the contractual congested ones, and cooperation between adjacent NRAs and TSO need to be even more enhanced.

3. In principle, European regulators consider FCFS allocation potentially discriminatory. Do you share this view? What do you think about the proposed mechanisms (OSP with subsequent pro-rata allocation or auctioning)?

In interconnection points where there is a contractual congestion First Come-First Served allocation methodology could be considered potentially discriminatory. In other cases, where there is enough available capacity, we believe that FCFS methodology can be a proper allocation mechanism and the enhancement of CAM and CMP is not recommended.

Anyway, there should be a limit for this FCFS allocation mechanism in order to avoid creating a contractual congestion in the future, for example if the available capacity is less than an pre-established percentage of the total interconnection capacity (i.e. 15%, 20%, etc) then FCFS allocation mechanism could be potentially discriminatory and should be substituted by other CAM.

4. In your view, what is the future importance of the proposed capacity products (firm, interruptible, and bundled) and of the proposed contract duration (intra-day up to multi-annual)?

We think that bundle - long term - firm capacity products are highly recommended and should be enhanced in order to facilitate stable and lasting new entrants to markets.

5. What is the role of secondary capacity trading?

The development of secondary capacity markets is a key factor for promoting the liquidity of gas markets and for maximizing interconnections utilization rates. Moreover, it is an important issue for shippers because they can get the flexibility of access that they actually need.

Nevertheless, in order to promote the liquidity of secondary capacity markets it is essential to apply some UIOLI mechanisms that encourage shippers to release the capacity they don't plan to use in secondary markets.

Finally, enhancements of booking platforms are needed to facilitate and support the secondary capacity trading. It is also important to establish joint platforms between adjacent transmission system operators.

6. How do you assess the proposed measures to enhance the availability of firm capacity and to improve short-term and long-term congestion management?

We think that the proposed measures to improve long-term congestion management should be enhanced over the short-term measures. Especially taking in to account that by short-term measures, freeing up capacity only for the next day is meant.

7. What are your views on the proposals? Do they address the problems? Will they lead to more effective capacity allocation methods being developed?

Long term proposals:

- **Secondary markets:** we fully support this mechanism but we think it should be complemented with long term UOLI procedures in order to promote the liquidity of these secondary markets. In addition, joint TSOs platforms are needed in every interconnection point.
- **Long term UIOLI:** we support this CMP, if:
 - The same criteria are applied at both interconnection sides.
 - Underutilization conditions that may cause a capacity withdrawal, are previously, clearly and reasonably established.
- **Dynamic interconnection capacity calculations:** we think that this is a good idea to determine accurately the capacity available and therefore to increase the capacity offered to shippers. It is important that adjacent TSOs make common calculations to arrive to one single value of available capacity at both sides.
- **Releasable capacity:** we support this option, especially at the congested interconnection points where few companies hold high percentages of the interconnection capacity in a long term basis. We believe that what should be taken into account is the percentage of the interconnection booked by a single company and not its size.
- **Overbooking and Capacity buyback:** we think that this could be a valid way for offering new capacity at interconnection points where no capacity is available, without any investment needed.

Anyway, the capacity offered above the physical capacity of the interconnection should be limited and carefully established according to NRAs criteria. It is important to reduce the frequency of the situations when TSOs have to buyback capacity from shippers, especially because it is not an interruptible product and shippers have commercial obligations so risks should be minimized.

In addition, we think that this is a fairly complex mechanism for the TSOs to apply. Its implementation could be very difficult in some of the actual contractual congested interconnection points.

- Enhance **adjacent TSOs cooperation** in the day by day interconnection operation: the last Russian gas crisis has revealed that the interconnection capacity could be increased above the theoretical, when adjacent TSOs cooperate. We believe that strong and complete Operational Balancing Agreements (OBA) should be established between adjacent TSOs in order to maximize bookable and operational capacity (even above the physical capacity) and to minimize commercial impacts of interconnection maintenance works on the shippers.

Short term proposals:

- **Firm day-ahead UIOLI:** we do not support the limitations on the renominations rights suggested in the document, because they would restrict the flexibility required by shippers to meet their clients consumptions needs, especially for markets with hourly balancing requirements.

8. Are the needs of shippers performing supply activities properly taken into account?

Shippers performing supply activities mainly need long term and firm capacity products to meet their clients requirements. This is why we believe than more regulatory efforts should be done to

increase the offer of this kind of interconnection capacity products rather than other day-ahead products.

9. Are the proposed measures suitable to facilitate development of liquid gas markets?

We generally agree that the proposed measures will facilitate the development of liquid gas markets. But we do n't want to lose the opportunity to draw your attention to physical congested interconnections that need urgently to be increased.

Especially, the Spain – France interconnection whose capacity is clearly insufficient to allow a single gas market in the South Region, and it is very far from the 10% of interconnection capacity agreed by the European Council in March 2007. In fact it only flows north-south given the south-north is not feasible what makes trade unavailable unless there is a counter flow entering into Spain. This counter flow is related with a long term supply contract in the hands of only one agent, in fact the incumbent. Commercial exports from Spain to France are theoretically feasible but subject to the behavior of one player.

First sight solution is increasing the capacity between both countries which is currently under discussion at European level. There's need of strong political support in order to consider Spain as a new gas entry point into the EU, taking advantage of the well diversified LNG and the Medgaz pipeline coming directly from Algeria. But before such strengthening is a reality, there is need of scrutiny on the current commercial not physical choice to trade through this tie line.

Additionally, Spain is a country which lacks of underground storage capacity and it is isolated from the rest of Europe. This has lead us to be an LNG market, something rare in the EU. Spain has a very liquid secondary market both off-shore to optimize spot LNG world-wide and on-shore with all players trading OTC every day. In order to encourage a future gas hub, Spain needs to improve its interconnection with Europe to have real alternative sources of gas to trade with; so far there is only LNG.

10. In your view, how important are compatible booking and operational procedures between adjacent systems?

Harmonization of booking and operation procedures between adjacent systems is a key for development of cross border trading and the liquidity in the European market.

Booking procedures must be coordinated in order to facilitate users to book capacity in more than one network. In that process network user should get a coordinated response from TSOs in order to reduce the risk bear by shippers when booking capacity in several networks (binding booking capacities in each interconnection point should be conditioning to the access to the full network).

Other issues that may need to be coordinated are: the type of products and services offered, calculation of capacity and maintenance operations.

11. Do the proposed measures increase the efficient use of the system? What aspects would you support and like to see further developed?

Yes, we think that the proposed measures would increase the efficient use of the contractual congested interconnections. Especially, we would like to see measures designed to free up long term capacity further developed, and prioritized over the day-ahead freeing up capacity measures.