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**Naturgas Energia, company integrated in EDP group, Response to ERGEG 'Principles' Consultation on: Capacity Allocation & Congestion Management in Natural Gas Transmission Networks**

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Naturgas Energia, company integrated in EDP Group, welcomes ERGEG's initiative on this very important subject. Overall, we believe that internal gas market would benefit from the implementation of the majority of the proposals contained in this paper.

Regarding developed ERGEG's principles, we want to remark the interesting on TSO-incentives, which should go further and use stronger wording on this issue. On the other hand, statement made in G2.1, about whether or not there should be separate definition of transit capacity or not, requires clarification. Finally, in our opinion the reference to "10-25 percent of technical capacity" for short-term capacity is a bit arbitrary.

**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. However, while electricity and gas markets share a large of number of characteristics, care should be taken (in section 1.2.2 when making one-for-one comparisons.

In our opinion, gas market has an important difference that it is essential to consider, storage capacity. It gives flexibility, and it has to be used.

**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 approach.

It is essential that all capacity unused, none allocated and none nominated, can be offered to shippers who are interested in using it. So for us, it is basic to get a real, liquid and transparent **secondary market** what gives economic signals to shippers for offering unused capacity (For example pay tariff per used capacity if you offer your unused capacity in the secondary market)

**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)?**

Firstly, we have to say that we do not share that view. It can work in certain context. For example if you analyze the development of the Spanish gas market in the last ten years, where FCFS has been applied the number of new shippers has increased in an important way and they have gotten a relevant market share. Furthermore, FCFS allocation method is also cheaper and easier to implement.

On the other hand, we recognize that, in practice allocation using FCFS does not appear to be appropriate where there is contractual congestion.

So in these cases, we think that it could be good to allocate capacity using market mechanisms (auctions or Open Seasons). But in this case, it could be important to control or limit dominant market participants in order to get a non discriminatory mechanism and balance between dominant and non-dominant participants.

**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)?**

It is very important to be offered different capacity products (type and duration) because they give the flexibility that shippers need. In our opinion, in order to avoid capacity underutilization or hoarding, it is important shippers feel that there are capacity products which permit to fit their supply compromise with their contracted capacity, without having a long term capacity contract, many times higher than their needs.

Market participants should be able to hedge volume and price risks by locking in the price for transporting their gas in similar timescales (multi-annual contracts, annual, month(s) ahead, day ahead... and potentially even intraday). We are in favour of long term subscriptions as capacities are mainly used to supply customers or end users and to fill up storages, whose related contracts are on an annual or multi-annual basis. A small part of short-term products will be useful to offer punctual flexibility in case of peak demand, arbitrage opportunities... In our view, a good balance could be 80 % multi-annual, annual or seasonal products, 10 % monthly products and 10 % daily products.

Where possible, bundled products are an improvement as they facilitate cross-border booking of capacities.

The offer of interruptible products is also a good way to improve the full use of capacity. But shippers need to be able to estimate the risk of interruption; therefore TSOs must explain precisely in which cases these capacities will be interrupted.

**5. What is the role of secondary capacity trading?**

In our opinion secondary capacity trading market it is essential in order to stimulate competition and to promote European single market. On the other hand, it is too a very useful tool for shippers in order to adapt their capacities to their needs and to release unused capacities.

As we said before, all capacity unused, none allocated and none nominated, can be offered to shippers. In this context, it is basic to get a real, liquid and transparent **secondary market** what gives economic signals to shippers for offering unused capacity.

We think secondary market helps to maximize the use of facilities capacity.

Regarding its development, some measures could be put in place to encourage and to ease the development of this secondary market:

- All the TSOs should propose a Web platform where shippers can post anonymously offers and demands of capacity;
- TSOs should charge a limited fee for such a service;

- Shippers must have the choice either to transfer the usage (lend it) or the whole property of the capacity (sell it);

**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?**

Overall, we agree with the proposed measures.

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

Most of the proposals will be beneficial provided that they are preceded by the implementation of comprehensive, easily-accessed transparency arrangements.

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

As a general comment, we would like to point out that we consider of utmost importance that similar rules are developed for access to LNG terminals and gas storage infrastructures.

In fact, we can certainly affirm that in what concerns the access to the Iberian Peninsula gas market, flexibility rules in the allocation of capacity in LNG terminals and storage as well as fair and transparent congestion management procedures applicable to these infrastructures are crucial for the increase in market liquidity.

Specifically in what concerns the questions placed in the consultation document, we would like to point out question number 8, concerning the protection of the needs of shippers performing supply activities. These shippers need to have access to both stable and firm capacity as well as the possibility to release, in a temporary or definitive basis unused capacity, due to market fluctuation, so we would like to see more focus on measures to promote secondary market of capacity.

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

See answer to question 6 above.

The measures that improve the utilisation of capacities will also enhance the liquidity of the market. Liquidity is necessary on the short term (spot market) but also on the forward markets, hence shippers must be able to book capacity on a monthly and yearly (and even multi annual) basis.

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

Compatible booking and operational procedures between adjacent systems are essential to get a real European single gas market. This is the way to optimise the use of the networks and the capacity offered.

Incompatible booking products and different procedures between two adjacent systems can create financial and operational risks for market operators and have a negative impact on the market functioning (liquidity, security of supply,...). For example, if the allocation method on one side of the border is FCFS and on the other side a booking period, shippers are not sure to be able to book the same capacity on both sides of the

border. So, as we say before, compatible booking procedures are crucial to facilitate the optimal use of cross-border capacities.

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

Comprehensive, easily-accessed transparency arrangements are a pre-requisite.

Beyond transparency, the proposals referred to above in question 10 are very important. We would like to see further development of both bundled products and compatible booking and operational procedures.

Finally, as it could be argued that the benefits of such products and procedures are self-evident, arrangements should be made to implement these improvements without delay (i.e. there is no need to wait for more guidelines on this). While this may require harmonisation of selected definitions and national rules, the benefit of these common products and procedures far outweigh the cost.