

Minetad draft Gas Winter Action Plan 2017/2018

■ EFET reaction – 20 October 2017

Introduction

EFET¹ is convinced that a well-functioning market is the most suited mechanism to respond to adequacy and security of supply concerns. In this respect, market-based measures are in our view the most efficient means to deliver security of supply efficiently. As we repeatedly stressed² in the past, imposing strategic storage obligations on traders/shippers represents a key barrier to the development of a secure, liquid and competitive gas market in Spain: the current obligation to hold 2 days-worth of gas is an artificial restriction that prevent shippers to fulfill from the full delivery of gas to the system when mostly needed. Also, proper incentives to incentivise shippers to be balanced are already in place: such a cumbersome obligation drives the cost of security of supply higher than necessary, ultimately at the expenses of Spanish consumers.

Against this background and as we have already said in our previous statements on this matter, we believe that the storage obligation set out also in the current Winter Action Plan should be removed, as we consider that market dynamics are sufficient to ensure a sufficient gas supply.

Moreover, we call the attention of the lack of proper planning, as market participants will have no time to adapt and implement the Winter Plan if, as in our understanding, this will be approved at the end of October and would apply from 1st November. In fact, market participants not having LNG contractual arrangements in place risk suffering operational and financial burdens arising from the need to physically buy LNG capacity and from contracting access to the Terminals.

Hence, due to the very late timing, in reaffirming our position against storage obligations, we recommend to postpone the application of the new rules of the Action Plan 2017/2018 to next year and to maintain the arrangement already in place in the coming winter of 2017/2018.

Comments to the Winter Action Plan 2017/2018

We first highlight that we expected Minetad to disclose a more thorough analysis on the calculation of the factor used to set the obligations related to a domestic customer portfolio and/or to a power capacity portfolio. We recommend that decisions on possible future winter obligations are accompanied by a comprehensive study to be shared with the industry and with a view to present alternative options aimed at minimising the burden for both market participants and consumers.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

² Please see here our previous letters to Enagas and CNCM on the subject:

<http://www.efet.org/Files/Documents/Downloads/EFET%20ENAGAS%20Winter%20Outlook%20letter.pdf>

<http://www.efet.org/Files/Documents/Downloads/EFET%20letter%20to%20ENAGAS%20on%20proposals%20for%20the%20Gas%20Winter%20Action%20Plan%202017.pdf>

Going into the proposal, we strongly oppose the obligation to store the natural gas exclusively in LNG tanks. Apart from our lack of understanding of the fundamental reason behind this restrictive solution, we stress that it would be highly discriminatory against:

- shippers that contracted their deliveries through a gas pipeline;
- shippers that have timely contracted underground storage capacity in view of the Winter Plan obligations as per the existing regime, who would now own capacity non-useable to absolve this scope;
- shippers that contracted gas at the Virtual Trading Point (PVB) and will have to bear extra costs for entering in the market through the LNG tanks;
- shippers without access to regasification capacity;
- suppliers to power plants: the measure risks altering the competitive dynamics in the power sector, by impacting the cost structure of one technology only.

In general, any imposed obligation should be neutral with regard to the ability of market players to compete. Even though we acknowledge that underground storage withdrawal capacity is very limited as compared to regasification plants, in our view those volumes should be also considered to fulfill the Winter Gas plan obligation. Ideally and following the example of France, also holding storage capacity (LNG or underground storage) in a neighbouring EU country should be considered valid in order to fulfill this obligation.

Moreover, we ask Minetad to clarify if some flexibility will be granted and stocks could be kept either via regasification plants or LNG cargoes: Article 4 says that stocks can be kept at regasification plants or LNG cargos within territorial waters, but on Article 2, only regasification plants are considered.

Other open issues

EFET asks for clarification on compliance with the Law as per Article 4: the article considers a bilateral supply contract with a third party as a mean to demonstrate compliance with the obligations, but it is not clear how relevant contractual information should be communicated and what values and contractual details should be shared with the System Operator. We stress that it must be ensured that commercially sensitive information is protected and by no means disclosed.

Regarding the calculation methodology, in the current Winter Plan only the actual entry capacity to Spain – netted by exit capacity – was computed in the calculation of the reserves. The proposed deletion of this disposition, would create a disproportionate burden on shippers that have and use significant export capacity from Spain. In our view, the existing arrangement should be maintained, avoiding to introduce any discrimination.

Last, from an operational point of view, the obligation for shippers to communicate to the system operator how and where gas is kept to comply with the Winter Action Plan obligations should be done on an ex-post basis, so to avoid posing potential limits to logistics optimisation.

Alternatives to respond to SoS concerns

Instead of imposing obligations on shippers, we see other measures as better suitable to respond to Security of Supply (SoS) concerns, such as:

- Balancing services: according to “Circular 2/2015, de 22 de Julio, Comisión Nacional de los Mercados y la Competencia, por la que se establecen las normas de balance en la red de transporte del sistema gasista” (<https://www.cnmc.es/expedientes/cirde00215>) – which transposes Commission Regulation EU No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks - , Enagas GTS may call for tender to acquire balancing services. Balancing actions have been effective to keep the system into security margins during the past month of January under strong gas demand and severe stress.
- Additionally, according to article 14 of Royal Decree 984/2015, where deemed necessary the Ministry is entitled to enable the GTS to trade gas products to ensure the correct performance of the gas system. The same mechanism is currently used to purchase the operation gas, the cushion gas for LNG tanks and the cushion gas for underground storage. Hence, it could be assessed whether winter gas reserves could fit into this category as well.

Final recommendations

As stated above and due to unfortunate timing, we strongly recommend Minetad postponing **the application of the new rules of the Action Plan 2017/2018 to next year and to maintain the current Plan. At the very least, the Ministry should consider introducing mechanisms to release reserves** if, based on weather predictions and analysis, these will not be necessary to ensure the security of supply. Another option is to mitigate the impact of the measure on shippers at least for the months of November and March, by reducing the required level of stored reserve. This approach would also have the merit of extending the period of time for purchasing LNG capacity useful for reserves, notwithstanding our negative evaluation on this specific point.