

Consulta pública previa a la elaboración del real decreto por el que se establecen las metodologías de cálculo de los cargos del sistema gasista y de las retribuciones y cánones de los almacenamientos subterráneos de gas natural

■ EFET response – 31 May 2019

We consider that there are significant challenges associated to the operation of underground storage, which arise from an incomplete and inefficient regulatory regime alongside non-competitive tariffs. This issue has been partly referenced in recently submitted and published documents¹. Therefore, we welcome the opportunity to provide further views through this consultation response.

Specifically, our concerns are covered under three headings:

1. **Security of Supply (SoS) stockholding obligation** – The current SoS framework, which only enables this obligation to be fulfilled through underground storage stocks, unnecessarily limits the availability of underground operational capacity and volumes therein stocked. We support the repeal of this obligation. As a minimum, shippers should be allowed to comply with their obligation by holding other types of stocks, namely LNG stored in terminal tanks.
2. **Priority access to underground storage capacities** – The priority access to underground storage capacities should be maintained for the “strategic storage obligations” only, should these remain in place. The allocation process, giving priority access to shippers with local demand in an equivalent amount, creates an unbalanced situation detrimental to smaller shippers and traders. This does not only affect the efficient utilisation of the infrastructure for the benefit of the PVB and consumers through unnecessarily higher costs, but also acts as a barrier to entry for new shippers with no local demand. Moreover, it prevents market participants to correctly value flexibility which in some case may, in itself, lead to suboptimal utilisation levels;
3. **Wholesale market access to, and use of underground storage capacities** – Based on the priority access described above, only the unsubscribed capacity is made available to the market. However, the capacity is only available through bundled products with linear profiles and there is no availability of unbundled capacity. Moreover, the definition of the injection and withdrawal seasons limits the operations that shippers can undertake, hence limiting value of acquiring non-mandated capacities. Also, confirmation of counterflow operations are only communicated within-day exposing shippers to unnecessary risk of having to source gas elsewhere. Finally, currently short-term capacity is not marketed, as the needed legislation has not been published.

¹ EFET documents titled [Improving LNG logistics in Spain](#) and [EFET comments on strategic gas reserves](#)
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These concerns could be addressed through the redesign of the pricing and allocation methodologies. Ideally these would be reformed alongside with the needed reform of the Stockholding Obligations framework due to its impact on capacity availability. The revision of the allowed revenues for storage operators may prove the right opportunity to advance reform across these areas.

Effective regulatory frameworks addressing capacity pricing and allocation that could serve as a model for Spain have already been developed and implemented successfully in more mature gas markets such as France and Italy.

On that basis, to develop a new regime which addresses the issues above exposed we believe that:

1. **Implementation of competitive auctions to allocate capacity** – as we expect there not to be a Stockholding Obligations, the capacity should be commercialised as of the first auction for the relevant delivery year. All necessary information should be published, ahead of each auction date, to enable market participants to optimise their bidding strategy. This includes the volume of capacity auctioned by Enagas.

Specifically, we recommend the launch of ascending auctions with a pay-as-cleared pricing mechanism. The mechanism needs clearly defined and simple rules.

2. **Auction reserve price** - Determining the right reserve price will be key to the success of the auctioning mechanism. For efficiency and simplicity reasons, we suggest setting the reserve price at 0€/MWh or at the marginal cost of running the storage facility in order to maximise storage capacity sales in most foreseeable cases.

Alternatively, the storage auctions reserve price should be based on current market prices. A coherent reserve price could either be determined very close to the day of the auction to make sure the reserve price is commercially attractive at the time of the auction or be based on quoted market price prevailing on future specified dates.

If the reserve price for storage products is set at an appropriate level, shippers will enter in the auctions and bid up to the value they are willing to pay for such storage products, ensuring gas storage will be fully utilised and available for Spanish consumers.

3. **Cost recovery mechanism** – The cost recovery should firstly be driven by the revenue received from the auctions of the capacity. Any over or under recovery should be directly allocated to the exit tariff to final consumers. The rationale for this being that allocating capacities through the market will efficiently price the value and efficiently allocate competing capacities use in the system. Therefore if:

- a. **The recovered revenue exceeds the costs** – It signals to the market there is value and further investment might be considered. Also, it will subsidise end consumer tariffs.
- b. **The recovered revenue is below the costs** – It signals that there is more capacity that it may be necessary for average utilisation, whilst at the sometime encouraging additional entry of gas in to the system. As supply of gas increases

this should put downward pressure on prices PVB benefitting consumers directly through lower prices, and indirectly through higher SoS resilience.

4. **Providing flexibility around the injection and withdrawal seasons** - the regime should facilitate the underground storage role as a shipper's balancing tool by facilitating its market operation. To do this, it is indispensable that the injection and withdrawal seasons are flexible in favour of a market led operation. The lack of this ability reduces the value of underground storage, which reduces its utilisation.