

EFET response to the Enagas consultation on the Winter Plan 2020/2021



EFET response – 29 May 2020

The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments to Enagas consultation on the future Winter Plan 2020/21 and we would like to restate our position and provide input on the potential proposals which Enagas has been discussing at the *Comité de Seguimiento del Sistema Gasista*. EFET is committed to the creation of an attractive, transparent and competitive European gas market and it has been advocating for market-based mechanisms to ensure sufficient and reliable gas supplies in Iberia for a long time¹.

As previously stated, we are not supportive of the Winter Plan or Strategic Reserves obligations (from here on Security of Supply obligations) as administrative tools to ensure Security of Supply (SoS). We consider that well designed mature markets are the best alternative for delivering SoS in the most efficient manner both for foreseeable demand peaks as well as for unexpected ones. Therefore, we consider that the aim of the Ministry and through its new competencies the CNMC should be to remove the need for such administrative arrangements in the medium-term (2 to 3 years).

In relation to this, at the end of last year, we had a conference call with an Enagas representative where we raised the need to reform existing obligations. An action was agreed by Enagas to create a working group under the NGTS in early in 2020 to discuss the matter further. We would welcome any updates from Enagas on initiating the discussion on the reform of SoS or any updates on the future of these obligations as we would be interested in taking part.

Going into the specifics of the SoS frameworks, we believe that in general any imposed obligation should be neutral in relation to the impact on the ability of market players to compete. With the view of maximizing flexibility and efficiency in the procurement of reserves, cross-border access to flexibility should be facilitated: hence, reserved storage capacity (i.e. for the Winter Plan LNG storage and underground storage for the Strategic Reserves) in a

¹[EFET letter ENAGAS and MITECO on future Winter Plan and strategic reserves](#), [EFET comments to ENAGAS Winter Plan](#), [EFET comments to Miteco consultation on gas and storage charges](#), [EFET comments to Miteco consultation on gas strategic reserves](#), [EFET statement in reaction to Minetad Gas Winter Action Plan 2017-2018](#), [EFET letter to ENAGAS on proposals for the Gas Winter Action Plan 2017](#), [EFET letter to Enagas on the Winter Outlook](#).

* 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. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

neighbouring EU country should also be considered valid in order to fulfil these obligations. Therefore, reserved withdrawal capacity from both underground storage and regasification plants could be also considered as an alternative to fulfil the obligations.

Proposal for 2020/21 for Winter Plan obligation

We consider that the current utilisation levels of LNG terminals continued supply glut of the global LNG markets provide the perfect opportunity to reduce the Winter Plan obligation to zero. Supporting of this proposal, is that it is clear from current and expected gas flows to Spain plus the expected reduction in the demand for natural gas there is no better macroeconomic framework to implement this reduction.

The reduction will free capacity to facilitate more efficient allocation for LNG services dependent of LNG tank capacities, such as bunkering and LNG reloading for delivery to other markets, whilst maximising regulated revenue recovery.

In the absence of our preference for the removal of the winter plan requirement, over the years we identified key areas where design could be improved:

- **Winter Plan's non-compliance with EU regulation** – EU legislation has provided some clear principles to be followed in order to maximise the efficiency of SoS obligations. Market participants ought to be allowed to comply with their obligations through gas held in other member states².
- **Optimised obligation profile** – The current obligations do account for the seasonality during the period of the SoS challenge they are seeking to address. The requirement should be dynamic over the required period i.e. being at its highest during the coldest month, with a gradual increase and decrease in either side of this period.

Making the obligation more dynamic has several benefits:

- Reduced costs – This will be due to:
 - A comparatively lower and more efficient gas reserve requirement, and
 - gradual stock change reducing its impact on market prices.
- Optimised utilisation of assets – The capacity taken by the asset will be lower, providing the market to deal with any SoS challenges without the need for strategic reserves or the winter plan reserves to be used.
- **Flexibility to deliver the obligations** – Currently, the Winter plan obligation can only be fulfilled by holding LNG in tank. In the context of increasing LNG utilisation and the further increase to be expected following the CNMC's LNG market reform where we are awaiting the publication of the decision, we consider that market participants must be given more freedom to fulfil their requirements by holding gas in underground storage, both in Spain and in other EU member states. Market participants should not be burdened by further requirements linked to how they will deliver the obligation and should have flexibility to change the way they meet it during the period it remains in place. However, they should be able to reasonably show how they intend to satisfy the obligation and make gas available on request. Providing this flexibility, will enable

² As stated in Regulation 2017/1938

market to provide the most cost-efficient option as well providing a naturally diversified portfolio of supply increasing the resilience of the system.

- **Practical administrative improvements** – In order to enable the most efficient procurement of the necessary gas, it is of paramount importance that the magnitude of the requirements is announced sufficiently in advance. For example, Enagas' reduction of the Winter Plan requirement from 3.5 to 2.5 days as from 09/11/2019, albeit welcomed, it was not provided with sufficient prior notice to the market.

If this is not the case, the requirement is likely to lead to market participants having to pay higher prices to fulfil their obligations, prices which will not only affect the gas market but the related power market as gas fuelled power becomes more often the marginal fuel. Also, it will continue to distort the gas market with a higher impact expected this year due to the high levels of LNG tank capacity demand expected for this winter

To recap, we do not think that the SoS obligations are required in a matured well-functioning gas market. Therefore, we consider that the Ministry, Enagas and CNMC should remove the regulatory market design deficiencies to enable the market's self-compliance with SoS. In the interim, we would encourage that Enagas takes this opportunity to reduce to zero the Winter Plan obligations, and to implement the suggested improvements.