

## ENAGAS Winter Plan



### EFET comments – 07 June 2019

The European Federation of Energy Traders (EFET) would like to provide comments to ENAGAS Winter Plan. 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 gas supplies in Iberia<sup>1</sup>.

Generally, we are not supportive of the Winter Plan as an administrative tool to ensure security of supply. We consider that well designed mature markets are the best alternative of delivering Security of Supply (SoS) in the most efficient manner both for known demand peaks as well as unexpected shocks. 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).

At a high level, to develop the market sufficiently to remove the need for a Winter Plan, and the liberalisation of the stockholding obligations, we consider that the following key market design deficiencies should be addressed, to ensure the efficient utilisation of the infrastructure by the market, allowing price signals to act as the key driver for supply to address shocks. Those identified key market deficiencies are:

- **Underground storage** – EFET is of the view that there shouldn't be Strategic Storage Obligations, however, the priority access to underground storage capacities should be maintained for the "strategic storage obligations" only, as long as this obligation remains in place. The allocation of the capacity exceeding "strategic storage obligations" should be done through competitive auctions, where the price is set by the market. To achieve these, the price ought to be set at zero or close to zero. Another key change is the short-term (quarterly, monthly, daily and intraday) capacity products that need to be made available, as well as, ensuring that there is flexibility to counterflow.
- **FR-ES interconnection capacity availability** – An effective Use-It-Or-Lose-It mechanism needs to be ensured to allow that existing interconnection capacity is fully utilised. This ought to enable the interconnection to flow more effectively to reflect price differentials between Iberia and the rest of Europe.
- **Non-EU interconnections** – There ought to be improved transparency on capacity allocation and utilisation at all the entry points, also through graphic representation.

<sup>1</sup>[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](#).

- **LNG market design** - There are several issues affecting the effective operation of the LNG market, the main issues are the fragmentation of the LNG market in several LNG terminals leading to low liquidity, the operational complexity and the relatively high tariff costs compared to other western European countries.
- **Removing any price limits** - It is also key that prices are allowed to fluctuate freely to signal scarcity at times of need, in order for to enable the market to react and address any supply needs. Price limits as such that exist in MIBGAS which create a floor and cap in relation to prevailing market prices.

Nonetheless, acknowledging the existing market challenges we consider that the existing Winter Plan framework, in its current form, is not necessarily fit for purpose even as an interim measure. We consider these are the main deficiencies:

- **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 states<sup>2</sup>.

As already stated in several occasions, we believe that market forces are most suited to respond to security of supply concerns and represent the most efficient means to deliver it. Storage obligations imposed on market participants represent a key barrier to the development of a secure, liquid and competitive gas market in Spain.

- **Optimised obligation profile** – The current obligation does account for the seasonality during the period of the SoS challenge it seeks 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 obligation** – Currently, this 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 currently on consultation, 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 market to provide the most cost-efficient option as well providing a naturally diversified portfolio of supply increasing the resilience of the system.

<sup>2</sup> As stated in Regulation 2017/1938

- **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 requirement is announced sufficiently in advance.

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.

To recap, we do not think that an obligation such as the Winter Plan is required in a matured well-functioning gas market. Therefore, we consider that the Ministry and CNMC should remove the regulatory market design deficiencies to enable the market's self-compliance with SoS. In the interim, we consider the Winter Plan should at least be revised to reduce the burden on market participants, which can be reflected on lower costs to final consumers.