CRE Public Consultation n°2019-013

New tariff for the use of natural gas transmission networks GRTgaz and Teréga

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MIBGAS

INTRODUCTION

MIBGAS is responsible for the management of the Spanish Organized Gas Market, being required to undertake the necessary and appropriate duties for its due and proper operations and the economic management of its services, upholding the principles of efficiency, effectiveness, transparency, objectivity, non-discrimination and independence.

MIBGAS thanks the CRE the possibility to express its opinions in the consultation process nº 2019-013 regarding the tariff of natural gas transmission networks of GRTgaz and Teréga.

MIBGAS COMMENTS

Regarding the use of regulatory tools to improve the internal EU markets

MIBGAS believes that one of the key targets of the European gas regulation, under the responsibility of the European bodies, EU authorities and the NRAs, should be the European energy market integration, and its proper functioning.

Having an appropriate gas market functioning is essential for having a competitive EU energy market. Furthermore, gas will continue having a key role for EU energy consumers in next decade. Consequently, it is crucial for the EU competitiveness to have a liquid and competitive gas market throughout all European market zones.

In order to improve EU gas market functioning, some regulatory actions could be reinforced or developed. Particularly, those directed to increase market competition and gas market liquidity, such as: (1) decreasing cross border tariffs, (2) increasing interconnection capacity level, or (3) promoting competition and market liquidity.

(1) **Decreasing cross border tariffs.** Cross border capacity charges are a barrier to trade and can be discriminatory to EU consumers located to either side of one border. Mirroring electricity regulation, where cross border tariffs were prohibited by EU legislation, can be a good regulatory practice. Agreements to reduce or abolish cross border tariffs between the concerned NRAs (supported by ACER) should be developed where needed. Consequently, inter-TSO compensation mechanisms can be developed for further market integration.

    The Gas Market Monitoring 2018 report, and also the Quo Vadis EU gas market study of February 2018, show the existing wide range of tariffs throughout the European borders, with clear outlayers exceeding 3 €/MWh for day-ahead capacity contracts (for instance the transit France to Spain).

    NWE developed market zones, where the prices show the greatest degree of convergence and correlation, benefit from the low level of tariffs at the IPs. However, this is not the case for SWE, where not only the market fundamentals, but also the higher tariffs, affect the price differences, notably unfavorable for SWE zones.

    Cross-border tariffs, especially in markets with lower liquidity that lack strong and continuous price signals, act as markups, added to the reference prices of neighbor zones (where markets are mature). Therefore, they play a crucial role in price formation mechanisms for peripheral markets.

A high tariff between market zones disables or minimizes the possibility of arbitrages (cross-border trading) in situations of market distress, and creates artificial differences in price levels when the market fundamentals diverge. This impacts not only the wholesale gas price, but also other related markets, such as the power market, where CCGTs are often the marginal price driver.

(2) **Increasing interconnection capacity.** Although this issue is out of the scope of this consultation, it is worth mentioning that the availability to interconnection capacity is essential to reduce price market spreads. When contractual congestion occurs, a complete and exhaustive application of Congestion Management Procedures should be applied to every interconnection and monitored by concerned NRAs and ACER. Physical congestion should trigger new infrastructure reinforcements.

(3) **Promoting competition and liquidity.** Reaching a liquid gas market is essential for the competitiveness of the EU industry. Regulators could develop active measures to improve market functioning, eliminating or enforcing the mitigations of existing barriers. Clearly the barriers created by cross border tariffs affect the aggregated liquidity of all market zones.

Regarding the gas-power sector coupling and the cross-market effect of tariffs

Considering the increasing importance of natural gas in a scenario of transition to a low carbon economy, higher use of renewables, and a fast coal-to-gas switching, the coupling of gas and power prices will clearly see an intensification. Every effect in the gas wholesale price will create a side effect in power wholesale prices and vice versa.

As a consequence, high gas cross-border tariffs will impact immediately in power prices, and this effect should be taken into account at the time of designing the cost recovery mechanism through tariffs, calculating the social welfare maximization, and other cost-benefit analysis (CBA) in investment decisions.

MIBGAS believes it is very soon to know the future and possibilities of sector coupling. Particularly, trying to guess what could be the rightest model design and its regulation. Consequently, a more pragmatic approach would be to make mirroring exercises about good regulation taken from the other sector (i.e. elimination of internal cross border tariffs), and, meanwhile, their minimization.

Madrid, October 3rd 2019