



**PUBLIC CONSULTATION BY THE
ENERGY REGULATION
COMMISSION REGARDING THE
TARIFFS AND ACCESS
CONDITIONS ON THE NATURAL
GAS TRANSMISSION NETWORKS**

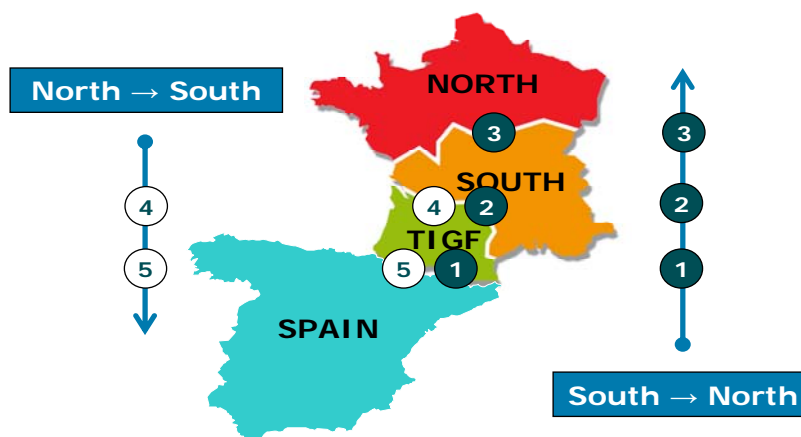
ENAGÁS COMMENTS

6th September 2010

1 Background.

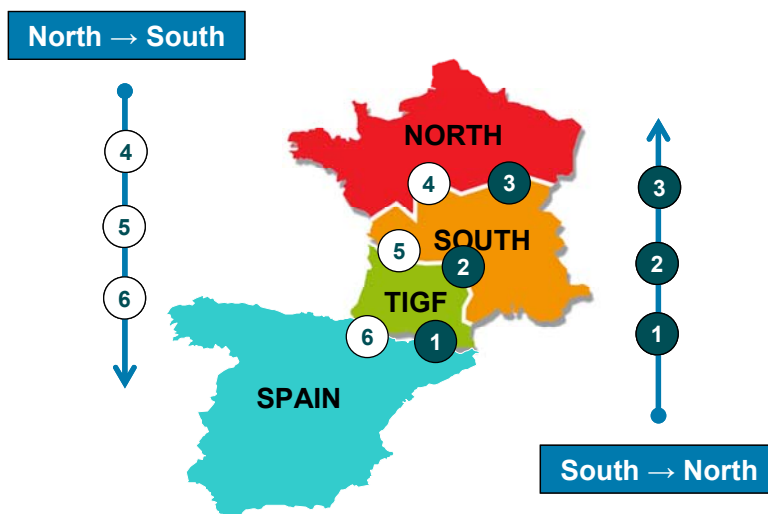
1. Enagás welcomes CRE's initiative and their invitation to provide comments.
2. The enhancement of gas interconnections is a key factor for the completion of the internal European gas market. In particular, the development of high-capacity international connections between France and Spain will contribute to enhance security of supply and to foster gas trade and consequently market liquidity and competition. To achieve this objective it must be ensured that transmission corridors allowing for the flow of gas between the South of Spain and the North of France in both directions are developed. In this context, the development of gas interconnection capacity between France and Spain is a priority objective of the ERGEG South Gas Regional Energy Market, fully supported by Enagás. In order for the project to be successful, investments and allocation procedures at the border must be coordinated with investments and allocation procedures at interconnection points between balancing areas within the two countries.
3. The development of additional capacity is foreseen by 2013 (Larrau) and 2015 (Biratou). The investments are being carried out on the basis of the coordination of Open Seasons and Open Subscription Periods to evaluate shippers' needs, obtain firm commitments and allocate capacity.
4. It should be noted that all related investments on the Spanish side are fully defined and already committed, or depend on an investment to be decided in France, since they are included in the Mandatory Planning 2008-2016. On the other hand, in France OSs are needed to proceed with the investment. Although OSs are not required in Spain for the investment decision, are being jointly conducted by Enagás for coordination, and the regulatory framework has been adapted by the Ministry of Industry, Tourism and Trade to allow for the harmonisation of allocation procedures.
5. The allocation of existing and committed capacities from April 2009 to March 2013 at Larrau through an Open Subscription Period (OSP) procedure has been successfully concluded by December 2008. Long-term demand for capacity has been several times higher than the capacity offered, which is a clear indication of the underlying demand for new capacity.
6. In 2009 Enagás, GTRgaz, Naturgás and TIGF carried out an Open Season for the development of new gas interconnection capacity between France and Spain after 2012. This process also included the allocation of capacities between GRTgaz South and TIGF in both directions and from GRTgaz South to GRTgaz North. The OS constituted a great success taking into account that capacity demand was significantly higher than the capacity offered.

Figure 1: 2013 Interconnection Points.



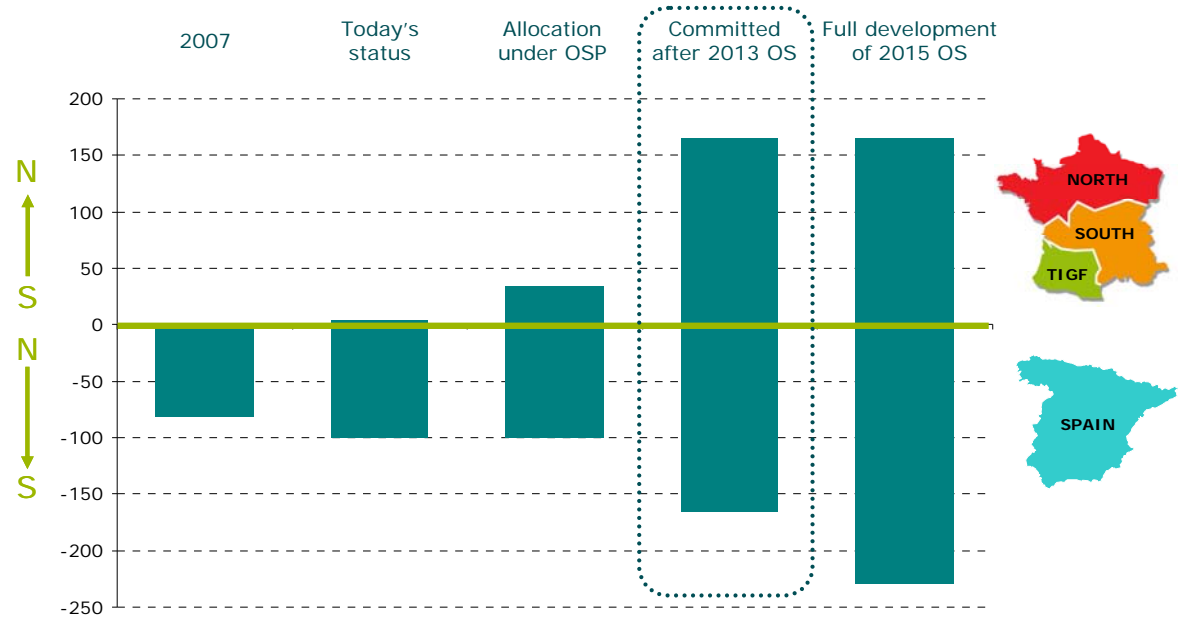
7. By mid 2010 a new OS process has been carried out by Enagás, GTRgaz, Naturgás and TIGF to further increase interconnection capacity between the balancing areas detailed below.

Figure 2: 2015 Interconnection Points.



8. The final results of both OS processes will significantly improve the integration of the Iberian and European gas markets as well as the security of supply. They are a good example of regional cooperation by regulators, governments, TSOs, the European Commission and shippers.

Figure 3: Increased of physical capacities.



2 Comments.

Stable and predictable framework for stakeholders

9. Stakeholders require regulatory visibility in order to engage in long-term contracts that allow the development of new capacity. Given the difficulty to understand in detail the operational constraints and underlying economics of a neighbouring gas system, Enagás is not in a position to favour any particular structure for the French gas system, as long as the decision is taken in due time and the outcome is an stable and predictable framework which do not put at risk the contracts already signed in the context of the OS.

Merge of balancing zones, tariffs and costs allocation

10. Enagás fully agrees with merging of balancing zones as competition will be fostered and, thus natural gas prices will decrease. Balancing zones should be merged as long as competition benefits offset infrastructure costs. However, CRE is not proposing a merge of two balancing zones.
11. The removal of the interconnection tariff between TIGF and GRTgaz South maintaining two balancing zones is not equivalent to the unification of both balancing zones. It should be implemented only if required as an interim step for the full unification of both balancing areas, and the roadmap for the full unification should be clearly established in advance. Otherwise, the proposal would not be justified. In Enagás experience, the full benefit of a reduction of balancing areas is achieved through the development of infrastructures to eliminate internal congestions, which is the only solution to provide a stable market structure in the long-term.
12. The proposed market structure eliminating the tariff between GRTgaz South and TIGF will require compensating TSOs for their loss of revenue at the interface between the networks. These losses of revenue could be recovered by increasing tariffs at other interconnection interfaces. Thus, the proposed market structure is not a merge of balancing zones but essentially a reallocation of costs.
13. In this context, attention should be paid to cost allocation. New costs should not be unduly charged on gas flows between countries, but borne by all system users which benefit from this solution (e.g., increasing exit charges, from the transmission network to distribution networks). In particular, the sentence included in section 3.3.1 of the Consultation Document “the charge of the TIGF tariff for exit towards Spain would be increased identically” could be interpreted as an intention not to distribute costs throughout the whole system according to the entry-exit model of each area but to bear the costs to users of the IPs between France and Spain.
14. Enagás considers that tariff proposals should be consistent with the terms and conditions applied to capacity sold in the Open Season carried out in 2010 by

Enagás, GTRgaz, Naturgás and TIGF. This means that for capacities sold in 2010 between Spain and France the entry charge in France should be the equalised tariff. Consistently, this should not prevent to charge a premium over the equalised tariff in other entry points in France in order to make a right allocation of investment costs if new investments are carried out to increase import capacity in other points, as would have been the case between Spain and France if shippers had expressed their willingness to pay for more capacity at a price higher than the equalised tariff.