

SEDIGAS COMMENTS TO THE SOUTH GAS REGIONAL INITIATIVE

SEDIGAS, Asociación Española del Gas, is the association of the stakeholders of the Spanish Gas Industry. It includes supply, traders, transmission, regasification, storage and distribution companies.

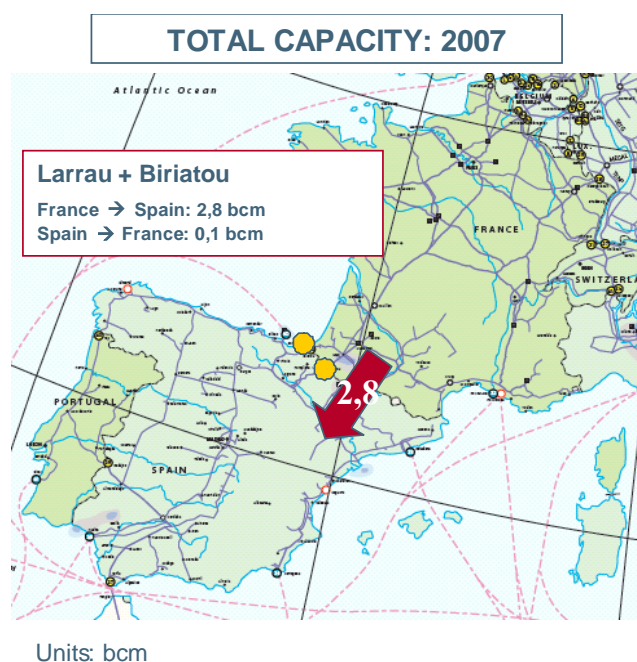
It has been a year since this Initiative started and we consider it is time to evaluate the achievements reached so far.

1. Isolation of the Iberian Peninsula and importance of the interconnection

Interconnections play a key role for the integration of regional markets; they also increase competition and improve security of supply.

The Iberian Peninsula does not have the needed interconnection capacity with the rest of Europe. This situation has been acknowledged by the European Commission in the document *Prospects for the internal gas and electricity markets*.

Spain, and the Iberian Peninsula generally, dramatically lacks cross-border interconnections, with the consequence that the Iberian market is practically isolated from the rest of Europe. [...] For gas, there is also a crucial need for more developed interconnection capacities, especially from France but also North Africa.



The development of this interconnection will provide the European market with an increase of the diversification and security of supply.

2. Progress so far

The need of further investments in interconnection has been identified as priority one for the South Gas Regional Initiative. However and after one year of discussions, new decisions on further investments in the French side have not been taken.



Source: ERGEG South Group Initiative

To achieve the 6,9 bcm (France to Spain) and 6,3 bcm (Spain to France), additional capacity between TIGF and GRTGaz should be developed. If this is not the case, capacity would be limited to approximately 5 bcm.

Achievements so far:

- Guyenne 1:** This investment will increase the capacity just between TIGF and GRT Gaz networks. It was decided by French Operators (belonging to vertically integrated groups), before the S-GRI was launched, in order to accommodate the flows of Fos LNG plant and most of this capacity would be reserved for GdF and Total as main users of the LNG plant of Fos Cavaou; this situation will difficult new entrants the access to capacity reservations. Therefore, a total capacity of 30 GWh/d, with only 15 GWh/d available to new entrants, will be available to the market once the infrastructures are put into operation (according Ergerg-SGRI document dated 6th February 2007). An OSP will be launched in 2008. to allocate the remaining capacity not reserved for the main users of Fos Cavaou plant.
- Larrau A and B:** will increase the capacity between Spain and France at Larrau up to 100 GWh/d as common value (165 GWh/d in Spanish side). The available capacity will be 100 GWh/d from Spain to France and 18,5 GWh/d from France to Spain. An OSP will be launched in 2008.

Therefore the common value would be:

WINTER	FR → ES	ES → FR	SUMMER	FR → ES	ES → FR
Δ Guyenne 1	240	15	Δ Guyenne 1	95	20
Δ Larrau A & B	18,5	110	Δ Larrau A & B	18,5	100
Common Value	18,5	15	Common Value	18,5	20

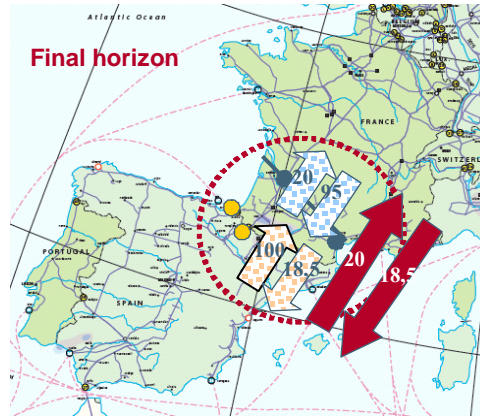
Units: GWh/d

WINTER:



Units: GWh/d

SUMMER:



Units: GWh/d

Final Horizon: When Guyenne 1 and Larrau A & B are put into operation following the planification.

It should be noted that this increase of capacity corresponds to investments already decided before the S-GRI was in place.

We welcome the fact that some interconnection capacity would be made available to the market. Even if it is very limited (just 15 and 18,5 GWh/d), it is a first step.

But, we have one main concern that we would like to point out. If the OSP of *Guyenne 1* and *Larrau A and B* are not launched simultaneously, that would imply serious risks for the shippers.

New decisions on further investments in the French side have not been taken yet

Spanish players have a strong interest in having the investments in place on time. The necessary infrastructures to increase the interconnection have been identified since the beginning of the S-GRI; but, no new investment decision in the French side has been made.

French Operators and the French Regulator consider open seasons as the only capacity allocation mechanism valid for investing in interconnection. If this is required as a pre-condition, then open seasons should be launched as soon as possible. Otherwise, there would be delays in the infrastructures and shippers would not be able to benefit of the increase of capacity in Larrau.

Regarding Biriadou interconnection, Enagás, Naturgas and TIGF have recently agreed on existing capacities that will be feasible thanks to Enagás best efforts to maintain a minimum pressure of 45 bar at Vergara (higher than the 40 bar required by the Network Code).

In the Spanish side, with the commissioning of the several phases of the Vergara-Irún pipeline duplication, capacities will grow in a very relevant manner. Nevertheless, until new infrastructures are developed in the French side (Arcangues-Coudoures pipeline duplication) capacities will remain at current values.

We would like to ask for a concrete report of the situation and progress and solutions envisaged for this project.

The efforts of the S-GRI should be concentrated, as a first step, in the investments planned for 2007-2011. Afterwards and as a second step, it would be the time to decide on the MidCat project.

Open seasons and open subscriptions

As mentioned before, the French Operators and the French Regulator require open seasons before deciding on investing. However, open seasons are not always applied in France; ie, investments needed in order to evacuate the gas of LNG terminals. This has been the case of *Guyenne 1* which was decided and approved without launching an open season.

In any case, the main Spanish TSO (fully ownership unbundled) is actively collaborating with the French Operators to draft OSP and OS rules, that have to be approved by the respective regulators, in order to comply with French Operators requirements.

We would like to ask for an equivalent approach to interconnections. Both, LNG terminal and an interconnection point are entry points to the French gas system. In both cases, it would be needed to evacuate the gas. Therefore we do not see why they are not treated in the same way.

This approach will simplify the investment decision process in France. Once the OSP for the increase of capacity in *Larrau A and B* of 100 GWh/d as common value is done, the investments associated to the evacuation of this gas could be decided automatically as it was the case for the LNG plant of Fos.

Other priorities

Other priorities have been identified such as transparency, interoperability, regulatory development. However, the most important issue is interconnection capacity; if interconnection highways are not built, no matter how much effort is made to improve the traffic lights that no result will be achieved.

3. Iberian Market

Regarding the situation within the Iberian market, the capacity interconnection between the Spanish and Portuguese gas systems is equivalent to the Portuguese gas consumption and new interconnections are under study, carried out by the Spanish and Portuguese TSO in coordinated manner.

Spanish and Portuguese TSO, both of them being nowadays ownership unbundled, provide a very large tradition of collaboration and cooperation.

Both governments, the Spanish and Portuguese, have committed themselves to speed up the integration of their respective markets going further than the Regional Initiatives setting up the MIBGAS.

4. Conclusions

- a) Spanish players want to express their interest in the reinforcement of the interconnection capacity between France and the Iberian Peninsula.
- b) We welcome the possibility to book capacity in *Guyenne 1* and *Larrau A and B* although we have some concerns about both OSP not being launched simultaneously.
- c) We want to express our concerns about the small progress of the new investments in interconnections. It is urgent that a final decision concerning the investments in

interconnection in the French side must be taken to have certainty about the commercial capacity available.

- d) If no additional capacity is developed between TIGF and GRT, an imbalance of the available capacities between Spain and France will exist.
- e) Spanish players consider one of their highest priorities to speed up the authorization and development procedures for infrastructures in Spain (Administrative licenses and authorizations) and France (steps required for the adoption of decisions) both to minimize delays and to comply with the plan included in the SGRI Document dated February 2007
- f) We consider that the treatment of all entry points in France should be equal and not discriminatory. Investment decisions that allow to evacuate the gas of the LNG plants are taken automatically but not for entries of pipeline interconnection.
- g) Full collaboration is provided by the Spanish TSO to assist the French Operators to justify the increase of capacity in the French gas system.
- h) On the other hand, the Iberian Gas Market is being promoted by the respective national authorities based on good capacity interconnection and a extraordinary TSO cooperation.