



IBERDROLA RESPONSE TO ERGEG PUBLIC CONSULTATION ON ASSESSMENT OF CAM AND CMP FOR EFFECTIVE ACCESS TO STORAGE

8th October 2010

Iberdrola welcomes the opportunity to respond to ERGEGs Public Consultation on assessment of capacity allocation mechanisms (hereafter: CAM) and congestion management procedures (hereafter: CMP) for effective access to storage. We appreciate very much the excellent work developed by ERGEG over both, the previous publication of the existing Guidelines of Good Practice of Storage System Operators, and the proposed revision on the occasion of the coming into force of the Third Package in March 2011.

We agree that storage is the most important flexibility tool for market players in order to fulfill their consumers demand needs as to manage their suppliers gas deliveries. Any best practice that results implemented will be welcomed by market players.

We also support the proposed limited enhancement of the existing Guidelines and we are persuaded that it will improve the efficiency in capacity allocation and storage operation. Nevertheless, we want to highlight some points we are concerned about. For the purpose, we attach a brief annex of observations, organized according to the following index:

1. Capacity Allocation Mechanism in case of strategic storage obligations 2
2. Incumbents 2
3. Short term UIOLI 3
4. Specific rules for LNG terminals 3

1. Capacity Allocation Mechanism in case of strategic storage obligations

Capacity reserved for strategic storage obligations must not be subject to auction mechanisms. Users should have access to enough capacity to comply with their obligations at a regulated price.

It must be taken into consideration the double function of storage: a) commercial use, as a flexibility mechanism to match offer and demand and b) as strategic reserve at the disposal of National Governments to solve eventual crisis situations.

In the first case (a), storage operates as an alternative of any other flexibility sources as supply management, interruptible demand or production from LNG terminals. Therefore, setting prices through market criteria is efficient (if market conditions allows market mechanism).

However, in the second case (b), all the users have to fulfill the legal reserve obligation, which is why it makes no sense to measure their willingness to pay for the capacity. In this case, price must be set in an objective and non discriminatory basis, so as all the users pay the same price for the booked capacity. That price must be set in a regulated basis according to reasonable and non excessive profitability for the Storage System Operator (SSO).

As an example, we feel comfortable with the Spanish allocation mechanisms of the capacity dedicated to meet strategic storage obligations. Suppliers have the obligation to storage gas at underground facilities in a volume equivalent to 20 days of the annual volume supplied to their customers. At the same time, storage CAM provides to each agent exactly the capacity equivalent to the 20 days obligation at a regulated price. This is a *Capacity Goes With the Customer (CGWC)* mechanism. Thus, all the suppliers can fulfill the legal obligation and there are no cost differences between them. This mechanism is compatible with auctions. In Spain, auctions are used to allocate the rest of the storage capacity, non submitted to CGWC.

2. Incumbents

National Regulators should guarantee non discriminatory access, specifically when facilities are owned by incumbents

National regulators will guarantee that, at any time, the conditions established under Regulation 715/2009 on third party access to gas storage sites are fulfilled.

This will be carefully observed in those Member States in which the storage facilities are property of the incumbent agents. In this case, it must be specifically controlled that access to capacity will be done under non discriminatory conditions and also that the established prices reflects the real cost.

3. Short term UIOLI

As long as storage is a flexibility tool, primary users commercial rights must be respected in short term UIOLI mechanisms (by offering only day-ahead interruptible capacity)

It must be taken into consideration that storage capacity mainly provides flexibility to users, unlike pipeline capacity. Therefore, trying to maximize “used” capacity does not make sense because a storage facility is as useful when it is full (gas can be extracted), as when it is empty (gas can be injected).

According to Regulation 715/2009, SSOs could offer unused capacity on a day-ahead and interruptible basis, but it is important not to limit primary users rights, because it would limit the use of storage as a flexibility tool (the option to use it or not).

4. Specific rules for LNG terminals

LNG terminals storage is particularly related with LNG shipping logistics, so specific rules must apply

In our opinion, LNG tanks combine the function of introducing gas into the transmission network with LNG storage functions for shipping logistic purposes. It must be taken into account that spare space within LNG tanks is necessary to allow LNG cargos to be unloaded, and to storage the LNG for a long enough period of time before introducing it into the pipeline.

Nevertheless, it is difficult to calculate the proper users rights about LNG storage capacity. If rights are low, new entrants get damaged, because they have a lower demand so it is difficult for them consume the LNG unloaded from a vessel (e.g. standard 150.000 m³) in a short time. But if rights are high, there is a congestion risk at the terminals and the LNG stored would prevent the unloading of another user vessel.

One particular experience are the Spanish LNG storage rules, which we believe have avoided the risks of both situations. Users have the right to storage LNG for an unlimited period, but they can only storage LNG up to a maximum volume. The maximum volume is calculated according to the regasification capacity contracted by each agent (e.g. 8 days of their daily contracted capacity). In addition, users can deal with other users in order to limit the volume of stored LNG. This measure has allowed that different sized agents operate in the Spanish market without any congestion problems at the LNG terminals.

We conclude that LNG facilities can't be subject to the same rules that applies for gas storage so they must have different CAM & CMP rules.