

**“Assessment of Capacity Allocation Mechanisms and Congestion Management
Procedures for Effective Access to Storage and Proposals for the Amendment of the
GGPSSO”**

- EDP Gás and Naturgas Energia Comercializadora Response -

A. General Comments

EDP, as an Iberian utility company, is both a large consumer of natural gas, for its production purposes in combined cycle power plants, as well as a supplier of natural gas in the Iberian Peninsula, considers storage capacity to be a relevant tool to improve its flexibility as well as a necessary infra-structure to ensure market security of supply.

In fact, taking into account that gas fired power plants are growingly being used as conventional backup for renewable energy, particularly in the Iberian Peninsula, and considering existing market regulation in certain markets that specify obligations to retails companies in what concerns the maintenance of gas reserves, we consider of utmost importance that the attribution of storage capacity is done in such a way that ensures its optimisation and provide market agents with a flexibility tool to help them cope with market requirements.

B. Specific Questions

1. To what extent do you agree that auction is the best allocation mechanism for storage and what will be the implications?

The definition of storage allocation mechanisms should take into account the characteristics of each specific market, namely in terms of regulation, national legislation, market organization and security of supply rules.

For countries like Spain and Portugal, where retail companies have to maintain certain levels of strategic reserves to ensure security of supply, and last resource suppliers have to comply with a regulated tariff, the attribution of storage capacity for this purpose should be based on the sales volumes of each retail company.

The remaining storage capacity, purely for commercial purposes, can then be allocated via auction mechanisms or on a “first come first served” basis.

2. In your opinion what are the most important aspects regarding transparency that should minimally be addressed by SSOs for both CAM and CMP?

We consider the provisions identified in the “Guidelines for Good TPA Practice for Storage System Operators (GGPSSO)” sufficient to ensure transparency in the attribution of storage capacity and to manage congestion.

3. In your opinion what are the most important when designing UIOLI (including products and contracts) as to leave a storage user the flexibility to use its storage capacity when needed?

First of all, the capacity allocated to strategic reserves should be dealt separately from the commercial storage capacity.

For the commercial storage, UIOLI mechanisms should be well balanced in order to ensure that new agents have access to storage but, at the same time, that this storage capacity can be used as a flexibility tool by retail and/or power companies in the optimisation of their daily activities.

Finally, rules established for the use of storage capacity, including UIOLI mechanisms should take into account, and even improve when possible, the physical constraints of the infra - structure in terms of injection and extraction capacity.

- 4. In your opinion what extent should offered services and term & conditions on secondary markets be standardised as to improve secondary trade of storage capacity? Is standardisation a way forward to enhance liquidity of secondary markets? What aspects of secondary markets (products, contracts, etc) are the priorities to be harmonised?**

Standardised services can be provided in order to facilitate activity, and liquidity, in the secondary market. Nevertheless, standardisation should not constraint the flexibility that can be offered to the agents of the market that should be allowed to trade specific products, adapted to their precise necessities.

- 5. In what extent to you agree that (next to probability of interruption) pay-as-used can be applied as a pricing strategy for storage prices that are not regulated and what other pricing strategies would be suitable? How can pricing strategies incentivise new investment in storage and efficient use of storage?**

In general terms, pricing for storage capacity should be flexible in order to permit market agents to use it in an efficient way and should also be stable in order to guarantee that storage operators receive adequate remuneration.

One other way to incentivise new investments in storage is to permit the development of private infra-structures, outside TPA arrangements, by agents that are willing to invest.

- 6. In your opinion to what extent do you consider that combined products (i.e. storage services offered at virtual hubs) of storage and transport facilities are a useful and efficient service?**

All products are good provided that they respond to market agents needs. In these sense, it is important that further to customised products, agents and operators are free to negotiate tailored products, adapted to theirs specific needs.

7. In your opinion what market mechanism (incentive) should be in place to stimulate a storage user to offer unused capacity on the secondary market?

A liquid secondary market, with a large number of agents trading capacity, can ensure other agents that if they offer their unused capacity on the market, they will receive adequate compensation and moreover that he will be able to buy back capacity whenever he needs it.

8. In your opinion to what extent is the (cross-border) offering of storage products/combined transport-storage products useful to market parties and what should these products look like?

In general terms, these products may improve market flexibility and facilitate the logistics management of the agents.

9. To what extent do you consider the proposals will facilitate allocation and congestion management of storage capacity? What other measures should be in place?

We believe that the proposals referred in the consultation document may contribute to the facilitation of allocation and congestion management of storage capacity. Nevertheless it is important that the rules are properly adapted to each market characteristics. This could be improved by ensuring the participation of all market agents, including shippers, in the definition of national rules.

9.1 In particular, what possibilities do you see to enhance efficient use of storage, reserved for public service obligations like e.g. strategic storage or other reserved storage? Under which conditions would additional use of such storage as (interruptible) short-term product or remarketing on secondary market be acceptable? Could you give examples from your day-day experience?

AS a general rule, It is important that the mechanisms implemented to manage allocation and congestion management of storage capacity guarantee the balance between its use as an instrument to ensure security of supply as well as a mechanism to improve market flexibility.

9.2 In particular what best practice for CAM and CMP should be in place for specific cases when parts of LNG terminal facilities potentially function as storage capacity? Could you give examples from you day-day experience?

Storage at LNG terminals should be possible provided that it does not hinder its main role as regasification plants, ensuring adequate capacity to receive, store and regasify LNG.

10. To what extent would you agree NRA should be endowed with additional competences in developing CAM and CMP?

NRA's have a more in depth knowledge of national markets organisation and requirements in what concerns storage usage and should thus have an active role in the definition and implementation of CAM and CMP mechanisms.

On the other hand, in order for an European internal gas market to be achieved, a minimum harmonisation level of the access rules to storage should be ensured.

In this context, we believe that NRA's should follow guidelines established at EU level and have a certain degree of freedom to adapt them to the specific characteristics of their national markets. This adaption should be done with the participation of all market agents.