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GAS NATURAL FENOSA COMMENTS TO ACER CONSULTATION ON A BRIDGE TO 2025

ELECTRICITY

Gas Natural Fenosa would like to note that there are several initiatives on board with potential important impact in the energy sector. Some of these initiatives are developed in the energy and climate policy framework, others in the European Energy Security Strategy and others relate to the well functioning energy markets. These initiatives can no longer be addressed individually. On the contrary, they should be analysed taking into account their links and interaction, as well as the implications and their economic impact.

Considering the increasing and important role of gas fired power plants in an electricity market with high RES penetration, it should be stressed that many units are facing different important problems across regional markets. For this reason, we believe that the back-up system requirements should be quantified and the reliability service should be adequately remunerated. Further RES penetration will require having generation capacity able to accommodate increasing output of intermittent RES.

- ✓ The Renewable Energy Directive has been implemented in Member states via support schemes and other special treatment such as priority dispatching. The RES have benefited from such advantages and, although their costs were higher, they have displaced other forms of energy, such as CCGTs, in a non-competitive manner and have increased end consumer prices. In fact, subsidized RES and inefficient dispatch has put thermal generation and security of supply at risk. For example, CCGTs do not recover operational & investment costs. There is a security of supply risk in the medium term if thermal generation plants close and there are not new investments due to the current EU energy policy framework. The loss of these units as well as the lack of an appropriate framework for new investors could even jeopardise the future achievement of climate and energy targets.
- ✓ Therefore, the reliability service costs should be taken into consideration when deciding on further RES development.

It should be noted that it is not always possible today to absorb the renewable energy production at certain times in some Member States due to a lack of electricity interconnection. Therefore we consider that before establishing further climate targets, an agreement needs to be reached to develop a minimum capacity interconnection level between Member States.



GAS

The gas market is evolving towards the new regulatory framework that the network codes provide. For this reason, we consider that the priority should be to focus on the network codes and their proper implementation and to check the outcomes before new regulatory proposals are on board.

To integrate gas markets should be one of the main objectives which we share. We consider that the integration of markets should be wider and not just limited to the hubs. It can occur that wholesale gas markets are integrated and at the same time entry barriers persist in national markets that difficult the development of competition.

The uncertainty around gas demand and supply is a major issue. There are contradictory messages from the institutions that on the one hand recognize the role of gas in a low carbon economy but on the other hand ask for a reduction on gas use as in the European Communication of the European Commission on *“There is a significant cost-effective potential for renewable electricity and renewable heating to **further reduce natural gas use** in a number of sectors by the end of this decade.*

Notably, a fuel-switch to indigenous renewable heating sources can displace significant amounts of imported fuels.”

There is a growing potential role of gas in the transport sector. Natural gas is a real alternative to oil, especially for maritime and road freight transport and we also think that natural gas for vehicles should become the recommended urban fuel for passenger cars, light duty vehicles, urban buses and garbage trucks. These developments, however, require further political support fostering investment in infrastructure, at least until a certain market share of NGVs has been reached.

Further interaction between the gas and the electricity market is expected. We are well aware of the difficulties that CCGTs are experienced. As mentioned in the electricity sector we consider that the service provided by CCGTs should be remunerated. Attention should be paid to avoid cross subsidies between the electricity and the gas sector, for example by setting variable tariffs to CCGTs and also to take of pay clauses of gas supply contracts for power generators.

INFRASTRUCTURES

We share ACER view that infrastructure is the backbone of efficient European energy markets. However, the current framework does not address properly the situation of peripheral member states.

For gas:

The current framework requires decisions in gas interconnections driven by the market. However, the market is at the moment under strong uncertainty: the demand is not clear but also the regulatory framework might be detrimental for long term decisions (for example if access tariffs are lower for the short term compared to the longer term).

We would like to ask ACER to react to this new context and change its approach towards investments in interconnections. It might be the case that investments have to be approved due to its benefits (positive cost/benefit analysis) and not due to the market players acquiring binding long term bookings.

In addition, we would like to express our concern for decisions of NRAs that are just inward looking. It is the case that some NRAs when having two alternatives which are equivalent for the national market but



not for the neighboring one, makes a decision without considering the effect in potential interconnection projects in neighboring countries.

For all these reasons and due to the current situation, we believe that the ACER approach is not appropriate. Setting new incentives for the TSOs will not solve the underlying problem. In addition, we consider that more attention should be paid to guarantee that investment costs are efficiently incurred. We would like to propose that ACER prepares a benchmarking of unit costs of transmission assets.

For electricity:

The support schemes for RES have created important distortion in the electricity markets as acknowledged by ACER. These distortions are even more critical in markets that are isolated. In this regard we believe that a minimum interconnection capacity should be a prerequisite, not only for the development of the internal market, but also to comply with the energy and climate policy targets. In the case of Spain, it is not even possible today to absorb the renewable energy production at certain times due to a lack of electricity interconnection capacity.

As for the case of gas, we do not see that an incentive approach might solve the lack of investment in interconnection capacity but a mandatory approach.

CONSUMERS

Regarding the appropriate framework for energy consumers, we would like to stress that the main action should be to remove entry barriers to supply final consumers. A new supplier needs to have access to certain consumer information to be able to provide a sound commercial offer. Suppliers should have fair, open and equal access to the same standardised information to guarantee a level playing field among suppliers. In this regard, we welcome the recent consultation on data management issued by CEER. Our experience shows that this is one of the main barriers for switching. Therefore, we would like to recommend as a good practice the DSO consumer registry established in Spain.

Regulated end user prices act as a barrier for competition and they are one of the main distortions of the electricity and the gas markets. In addition, artificially low end-user regulated prices will potentially increase demand by end users and will ultimately be an obstacle to the EU objectives of climate change and security of supply. It cannot be stressed enough that if regulated prices persist markets will not be fully open and the liberalization process established in the gas and electricity Directives will not be achieved.

Regarding the regulatory actions proposed by ACER (3.26), we would like to highlight that:

- ✓ Removal of regulated end user prices should be a priority
- ✓ The switching period for gas and electricity does not have to be the same as smart meters for gas do not have a positive CBA in some Member States.
- ✓ Regarding prosumers, we would like to recall that they should bear their incurred costs such as the network costs when they are connected to the network. Cross subsidies should be avoided between these consumers and others.



Regarding demand response and the issue of communication infrastructure, attention should be paid if some of the responsibilities of the DSO are passed to a third party outside the energy sector. For example, the metering activity must remain the responsibility of the DSO. The losses in the distribution networks are assumed by the DSO as measurement differences: strong incentive for distributors in the form of investments and processes to ensure high quality indices. If the metering activity lies with a third party without responsibility for the losses of the distribution networks, the above mentioned incentive disappears. With regard to information management, large volumes of information are already handled; infrastructures are technologically highly developed with large investments in telemetry; and a third party do not gets added value and generates higher costs to the system. Furthermore, DSOs should play the role of “neutral market facilitator”.

Further clarification would be needed to ACER proposal (3.30) that “Regulators will also focus on actions taken centrally for the market to function” as the implications are not clear.

With regard to unbundling, we are concern about the ACER statement that “the most effective long-term model to deliver such an outcome is ownership unbundling”. We have serious doubts whether ownership unbundling would provide benefits and we are concern that ACER asks for ownership unbundling when there are important regulatory barriers that persist such as end-user regulated prices. We consider that the requirements in the Gas and Electricity Directives should be met with continued assessment and enforcement of existing rules. We do not see the role of the gas or the electricity DSO changing in such a way as to require changes to the unbundling rules, it should be enough with effective application of measures set out in the Third Package. No compliance in some countries should be dealt with the usual instruments, rather than forcing more drastic measures for all countries that might not benefit the consumer any more.

It is very important to emphasize the role of gas DSOs on the promotion of new supply points for the system. It should be taken into account that the share of supply points diverges among Member States and that there are considerable potential in some on them. Therefore, the DSO is interested in incorporating new supply points to the system to make profitable investments and is in a position to better assume this activity as it can establish a long term relationship.

Finally, regarding dynamic pricing, we would like to stress that the fixed costs should always be included.



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