

The Organised Gas Market in Spain

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1. Introduction: Towards a gas exchange

Legislative developments over recent months reveal the substantial changes undergone by the gas industry in Spain, geared to the final tuning of an Organised Gas Market that will seek to reflect transparent pricing signals, facilitate the entrance of new market-driving suppliers and increase competition in the industry.

Within the gas market a distinction is usually drawn between the primary market, where transactions take place between supply-side gas producers and demand-side traders, and the secondary market, where transactions take place between traders and other suppliers. While in the first case, the market is usually of an international nature, the secondary market does have a clear regional dimension, including contracts of resale from traders to other suppliers and transactions made between suppliers to adjust their buy and sell positions in respect of end consumer supply needs. However, this secondary market in Spain, unlike what happens in other Member States, was not until recently an organised exchange, as transactions conducted thereon responded exclusively to bilateral long-term trading mechanisms between traders and its result did not reflect a gas reference price in the Spanish market.

To this end, Act 8/2015 of 21 May, amending the Hydrocarbons Act 34/1998, was passed,

leaving its regulatory implementation to Royal Decree 984/2015, of 30 October, regulating the organised gas market and third party access to the natural gas system's facilities. Subsequently, the Decision of the State Secretary¹ for Energy of 4 December 2015 approved the Market Rules, the Adherence Agreement and the Decisions of the Gas Market. These Rules were recently amended by the Decision of the State Secretary for Energy of 2 August 2016 approving the rules on the management of the gas system's guarantees.

2. Brief description of the characteristics and operation of the Organised Gas Market

The Organised Gas Market, which according to Royal Decree 984/2015 "*consists of short-term free and voluntary sale and purchase transactions of natural gas with physical delivery at the Virtual Balancing Point*", is created for the entire Iberian Peninsula (Spain and Portugal), remaining, therefore, subject to the same legislative framework in both countries, seeking a more dynamic and flexible market by increasing transparency in pricing and competition, increasing liquidity in the system, strengthening network interconnections with other States and facilitating access to new suppliers.

The fundamental concepts that define the operating model of the Organised Gas Market are as follows:

¹ *Translator's note:* EU translation for a "Secretario de Estado", equivalent to an 'Under Secretary of State' in the UK and an 'Under Secretary' in the US.

- i. Trading of gas, both at the Virtual Balancing Point (defined as the hub or location from which it is deemed that the gas has entered into the transmission and distribution system, being thereafter freely exchangeable without any restriction) and at a point or set of local points.
 - ii. Easy-access market where trading will be conducted *anonymously, freely and voluntarily*.
 - iii. Purchase of independent capacity for gas entries to and exits from the network.
 - iv. Short-term time horizon, as products are traded whose delivery horizon runs from the day itself until at least the end of the month following the completion of the transaction.
 - v. Daily balancing of transactions.
 - vi. Conclusiveness of transactions in the market, with delivery commitment.
 - vii. Participation of the transmission network's manager to perform balancing actions and ensure supply.
- a) *Participants in the Organised Gas Market*

The activity in the Organised Gas Market revolves around the figure of the Market Operator (MIBGAS) given its role as market manager, thereby ensuring the proper management and operation of the market and always *"abiding by the principles of efficiency, effectiveness, transparency, objectivity, non-discrimination and independence"*.

The entities with the possibility of acting in this market are the Market Operator, the traders and direct consumers, the System's Technical Manager (both

Enagás – Spanish – and REN - Portuguese); the transmission companies and distributors; Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES, statutory corporation responsible for maintaining the strategic reserves of oil products and controlling oil product and natural gas industry stocks in Spain), as well as any other participant conducting purchase and sale transactions with market participants.

The status of Market Agent granted by the Market Operator (for the Spanish market, the Portuguese market or both), the signing of a market rules adherence agreement, and the status of "authorised party" awarded by the System's Technical Manager once compliance with certain requirements has been confirmed.

Lastly, the Market Agents Committee, advisory body that has its own rules of procedure and is comprised of Agents, Market Operator, System's Technical Managers and the National Markets and Competition Commission² (CMNC), should be equally mentioned.

b) *Legislative structure*

Regulatory law passed by the Government aside, the Organised Gas Market is governed by Market Rules that are proposed by the Market Operator, submitted to the CNMC for a report thereon, and lastly approved by a decision of the State Secretary for Energy that is published in the Official Journal of Spain (BOE) and on MIBGAS' website.

Moreover, Market Decisions also approved by the State Secretary for Energy become a necessary instrument for the implementation and enforcement of the aforementioned Rules, as well as to detail the different processes and products in the market place.

² *Translator's note:* "Comisión Nacional de los Mercados y la Competencia", the Spanish competition and markets authority.

Lastly, the Market Operator, using its central position, and only where urgent and necessary, may issue Directions on the adopted Rules and Decisions, as well as User Guides, to ensure proper conduct of the Agents on the Market Platform. This power strengthens the regulatory and managerial role played by the Market Operator in the discharge of its duties and functions.

c) *Operation of the Organised Gas Market*

For its proper operation, the Market Operator provides a Market Platform on which the different Agents register, look up information on market transactions, trade products and access the results of the different trading sessions.

Agents make gas purchase or sale offers (directly or through a representative) that are stored in their Trading Portfolio, keeping one such portfolio for each gas system. Said offers must always maintain the same structure, specifying the type of product offered, its quantity, price, direction of order (buy or sell) and the terms applicable to the offer.

Trading in the market is structured into one of two types of Sessions: Auction or Continuous Market. In the first case orders to buy and sell gas can be issued up to the beginning of the same and the outcome of the match will determine the marginal price of each product and the quantity of product that is assigned to it. In the

electronic market matching is done instantly by introducing the offer as soon as there is a competitive offer in the opposite direction that meets the terms set when issuing the original offer.

d) *Guarantees and conflict resolution*

Royal Decree 984/2015 includes a system of guarantees concerning the purchase of access infrastructure capacity, market participation and/or settlement of imbalances that will be managed by the Guarantee Manager and the Market Operator. These guarantees are always verified in advance to an Agent transaction on the market in order to preserve the system's business and financial sustainability.

Market Agents can complain, in accordance with the Market Rules, against the results of the match before the Market Operator, which has the power to cancel, suspend or repeat the trading session. Similarly, they can lodge complaints regarding the results of capacity allocation, here directed to the System's Technical Manager.

Ultimately, the Market Rules provide for the possibility of persisting conflicts, related both to trading on the market and the settlement of imbalances, management of guarantees or access to infrastructure, to be resolved by the CNMC, whose decision represents the end of the administrative track, albeit with the possibility of applying for judicial review.