CNE

3th CEER-NARUC ROUNDTABLE

GAS MARKET

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Overview of Spain's gas sector

- Late development of the industry, compared to the rest of Europe, due to:
  - High dependency on imports.
  - Low density of population 78 inhabitants/km^2 (coastal areas and Madrid 625 inhabitants/km^2).
  - Mild weather conditions.
- High dependence on LNG (50 % of imports)
- Extraordinary growth in recent past and (expected) near future:
  - New areas: North and West of Spain.
  - New Markets: Power utilities.
- Natural gas share in primary energy demand is still half the EU average in 1999 (11% vs 22%)
- Forecast for 2010 shows an important reduction of the gap (17% in Spain vs 26% in EU)

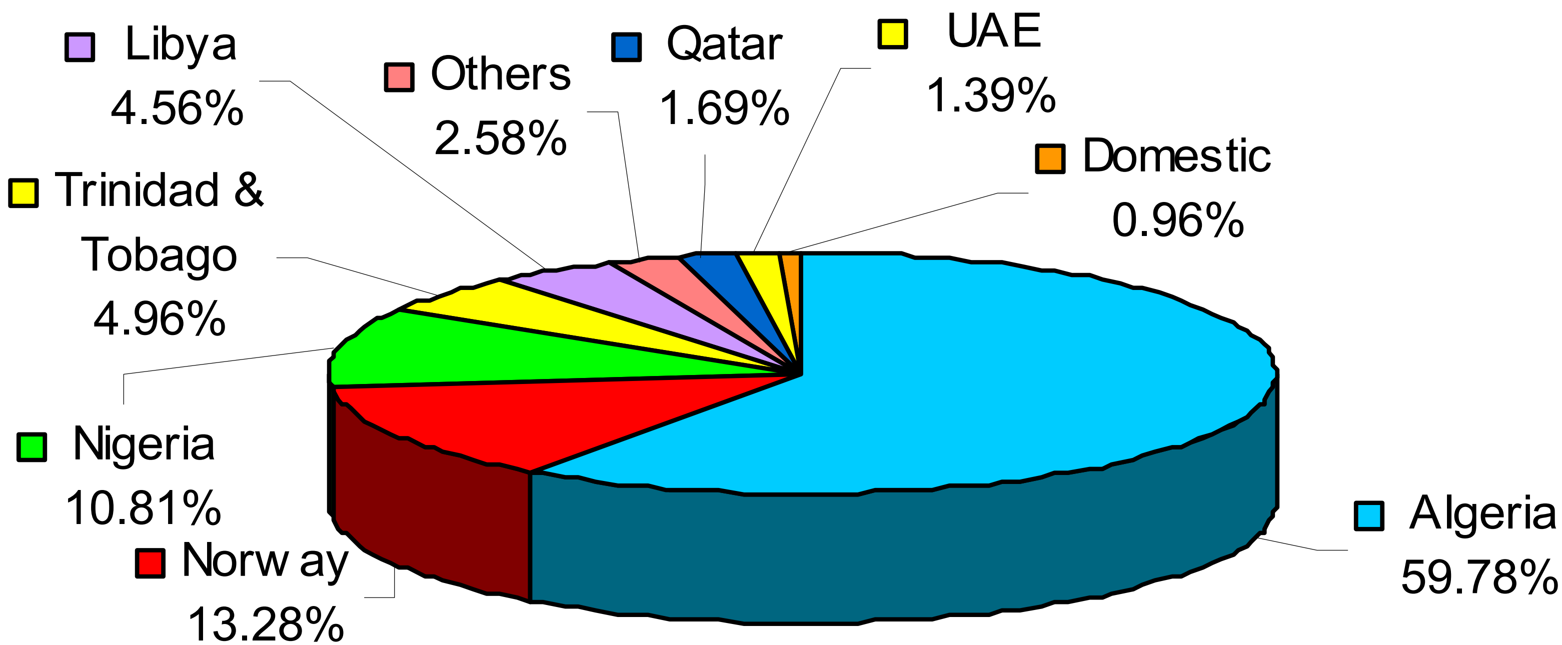
Overview of Spain’s gas sector

Structure of the Industry: high degree of concentration as a result of the history

- Imports and high pressure transmission were developed by state owned company Enagas.
- Local distribution companies were privatised concentrated around Gas Natural group.
- In 1993, Enagas has been fully privatised and integrated in Gas Natural group.
- Enagas was concessionaire of transmission and industrial sales for the most of the country (except Gas Euskadi).
- Gas Natural is the dominant group in distribution

Overview of Spain's gas sector

Supplies origin by country (%) - 2000



Source: Ministerio de Economía. Boletín Estadístico de Hidrocarburos (Diciembre de 2000)

Spanish Network

May - 2001

Hydrocarbons Act 34/1998

In October 1998 the Spanish Parliament enacted the new Hydrocarbons Law with the main principles and issues:

- ✔ Introduces competition in the gas industry and a new, and more opened market regulation
- ✔ Makes distinction between regulated and non - regulated activities
- ✔ Unbundling of activities:
  - Accounts unbundling of regulated activities: Regasification, Storage, Transmission and Distribution in 1 year
  - Legal unbundling between regulated activities and retailing companies (2 years)

Hydrocarbons Act 34/1998 (Cont.)

- ✔ Third party access regulated
- ✔ Measures to improve security:
  - Minimum security stocks, equivalent to 35 days of consumption
  - Diversification of supply (from the same country < 60%)
  - Emergency situations
- ✔ Establishes a period of time for the elimination of the concession system

Successful impementation and the key factors leading to its success

Royal Decree - Law 6/2000

The new ROYAL DECREE-LAW 6/2000 introduces reforms in the Hydrocarbons Law 34/98 to improve the process of liberalisation. The aims of this decree are:

- ✔ To speed-up the liberalisation timetable
- ✔ To make easier the entry of new retailing companies
- ✔ To improve the operation of the gas system
- ✔ To encourage competition by limitation in Transmission System Operator shareholding

Royal Decree - Law 6/2000 (Cont.)

- Creates a new body: **Transmission System Operator (TSO)**
  - The TSO is the owner of the most of basic transport gas grid: ENAGAS, S.A.
    - Reduction to 35% the participation of the majority shareholder in TSO
    - CNE has to supervise the completion of this RDL limitation
  - Technical management of the gas system.
    - System reliability control
    - System use and stocks management
    - Proposal of network reinforcement

Royal Decree - Law 6/2000 (Cont.)

- **Eligible Customers:**
  - June 2000: *3 Mm^3(N)/year*
  - *January 2002: 1 Mm^3(N)/year*
  - January 2003: all consumers
  - All generation and cogeneration plants

- **Gas coming from Algeria by Magreb pipeline:**
  - ✔ 75% belong to Enagás S.A. for consumption in tariff
  - ✔ 25% must be for retailing companies with a maximum of $^1/_4$ of this part. The allocation procedure must be transparent and no discriminatory among traders

Royal Decree - Law 6/2000 (Cont.)

- **Market share limitation:**
  - ✔ Limits the share of the gas supplied by each company to a maximum of 70% of the national consumption in 2003
- **Limitation of shareholding participation in other operator:**
  - ✔ Limitation in 3% of shareholding participation in other operator of the same market or sector

Royal Decree - Law 6/2000 (Cont.)

Economic System:

- The model of payments for Third Party Access rates to Natural Gas networks, and the method for the calculation of tariffs will be:
  - Based on costs
  - Set up before first January 2001
  - Until the new economic system comes into force, a TPA tariff reduction (8%) was adopted

Settlements:

- Establishes that settlements of regulated activities will be proposed by the National Energy Commission

Gas Release Program: O. M. June 28th, 2001

The spanish gas release program determines the award procedure of the 25% of the Algerian gas contract through the Magreb's pipeline to the trading companies according to the Royal Decree-Law 6/2000

Main Characteristics:

- ✓ **Property transfer point**: Point of entrance to the Spanish Gas System.
- ✓ **Measure point**: Zahara de los Atunes (Cádiz)
- ✓ **Responsible for the measurement**: ENAGAS (Measurement protocol enclosed in the purchasing contract
- ✓ **Time**: From the adjudication date to January 1rst, 2004
- ✓ **Total Quantity to share**: 49,350 GWh (4.24 bcm)
- ✓ **Gas Price (*):** It will be determined quarterly according to the formula

$$\mathbf{P(\$/MWh)=8.1858 \times G/G_0+4.1074 \times LF/LF_0+3.4509 \times HF/HF_0- 1.0751}$$

G, LF y HF are the average of medium prices CIF in Geneve of the previous six months of the Gasoil, FO 1% and 3,5%, respectively G_0= 298,10 \$/Tm LF_0= 173,74 \$/Tm HF_0= 145,97 \$/Tm

If the price was lower of 5.449 \$/MWh, this value would be applied.

(*) All costs are enclosed: raw material, losses, necessary costs for setting at the entrance point. The payment of

Enforcing the legislation

Immediate Regulatory Agenda

- ✔ Royal Decree about TPA regulation and new economical system model.
  - First come – first served TPA
  - Two contracts to the transmission – distribution system: entry and exit points
  - Postage stamp in transmission – distribution system:
    - Capacity and commodity terms by level of pressure:
      - Above 60 bars,
      - Between 60 and 4 bars,
      - Below 4 bars

Enforcing the legislation

Immediate Regulatory Agenda (cont.)

- ✔ Royal Decree about TPA regulation and new economical system model. (cont.)
  - Keep part of the regasification plants capacity for short-term contracts
  - TSO must publish available capacities
  - There is no settlement procedure for regasification plants. Only for gas pipelines and storage facilities
  - Transmission system under compulsory planning (except regasification plants)

Enforcing the legislation

Immediate Regulatory Agenda (cont.)

- ✔ Network reinforces regulatory framework
- ✔ Supervision of ENAGAS S.A. shareholding reorganization
- ✔ Royal Decree with the rules to fulfill the obligation to maintain minimum security stocks
- ✔ Establishing the Network Code Rules
- ✔ Settlement procedures for regulated activities

C.N.E.

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END OF PRESENTATION