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MINISTERIO PARA LA TRANSICIÓN ECOLÓGICA

Distribution sector reform in Spain

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Juan Sánchez-Peñuela

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I. Market growth 2002-2008

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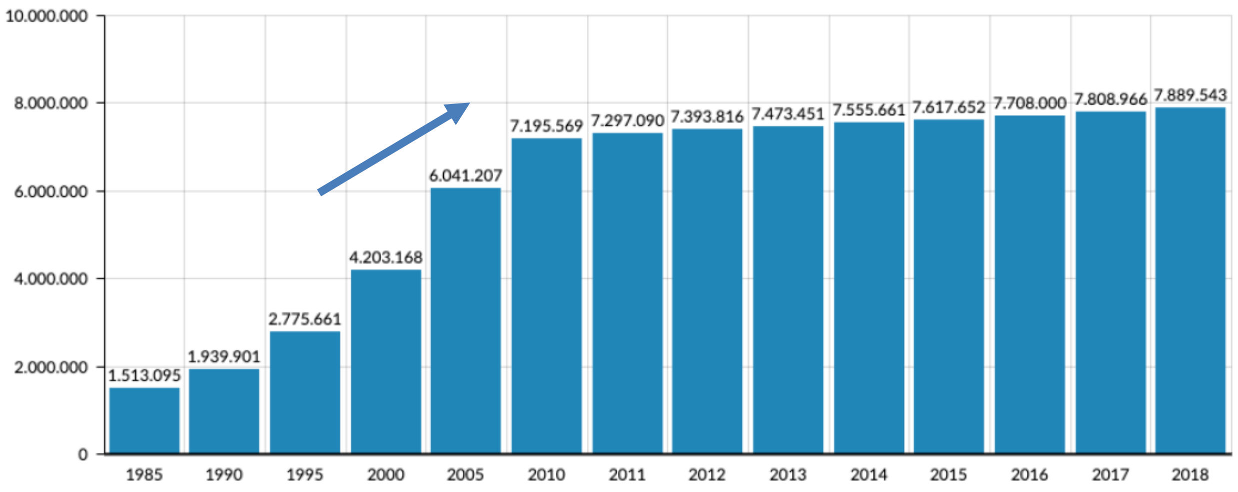
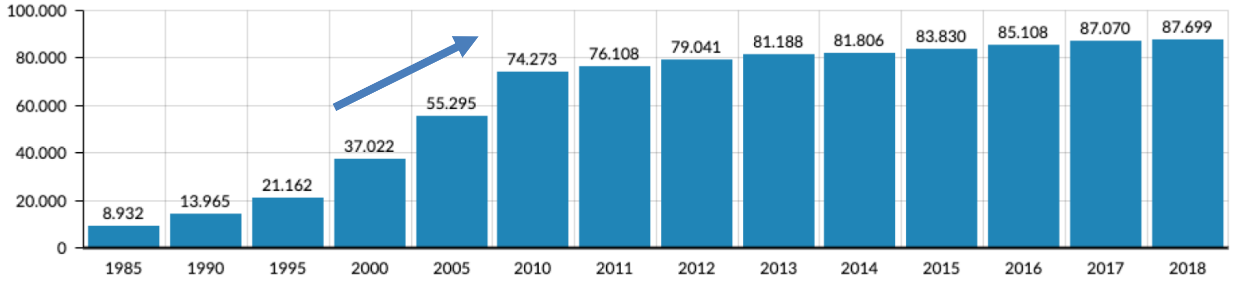
Distribution reform took place in a context of accelerated market growth…



From 4 to 7 million consumers (2002-2008)

Number of gas consumers (source: Sedigas)



From 40,000 to 70,000 km of gas networks (2002-2008)

Length of transmission & distribution networks (source: Sedigas)

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II. Distribution activity in 2002

✓ ***Law 34/1998 of the Hydrocarbons sector***

Liberalisation of the market

Activity separation (transmission / regasification / distribution / shipping)

Need of regulation development

Legal framework

✓ ***Distribution companies role***

Subsidiaries of vertically integrated companies

Selling gas to consumers (no third-party access)

✓ ***Regulated prices for consumers and distribution remuneration (since 1992)***

Regulated Price = Commodity cost (CMP) + Transmission remuneration (K1) + Distribution remuneration (K2)

K2 was inefficient:

- K2<< Real Distribution costs in expansion / warm areas
- K2>> Real Distribution costs in mature / cold areas

Real situation

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III. Roadmap 2000-2008

✓ ***Remuneration for Distributors (Orden ECO/301/2002)***

- Established by the Government in 2002
- Methodology ased on assets (RAB) before 2002 & incentives to expansion after 2002
- Distributors will not longer sell gas to consumers

✓ ***Unbundling from other activities (especially shippers) (amendments of Law 34/1998)***

- Separation between activities: Accounting & Legal & Functional (EU Directive 2003/55))
- Code of Conduct

✓ ***Free consumers…***

- Target: in 2008 only households will have voluntary access to regulated price
- Progressive "desregulation" of the rest of consumers (in order of decreasing gas consumption)

✓ ***… and shippers "in competence"***

- Third-party-access to distribution networks at a regulated tariff
- Auctions for accessing to the key supply contract to Spain (from Algeria)

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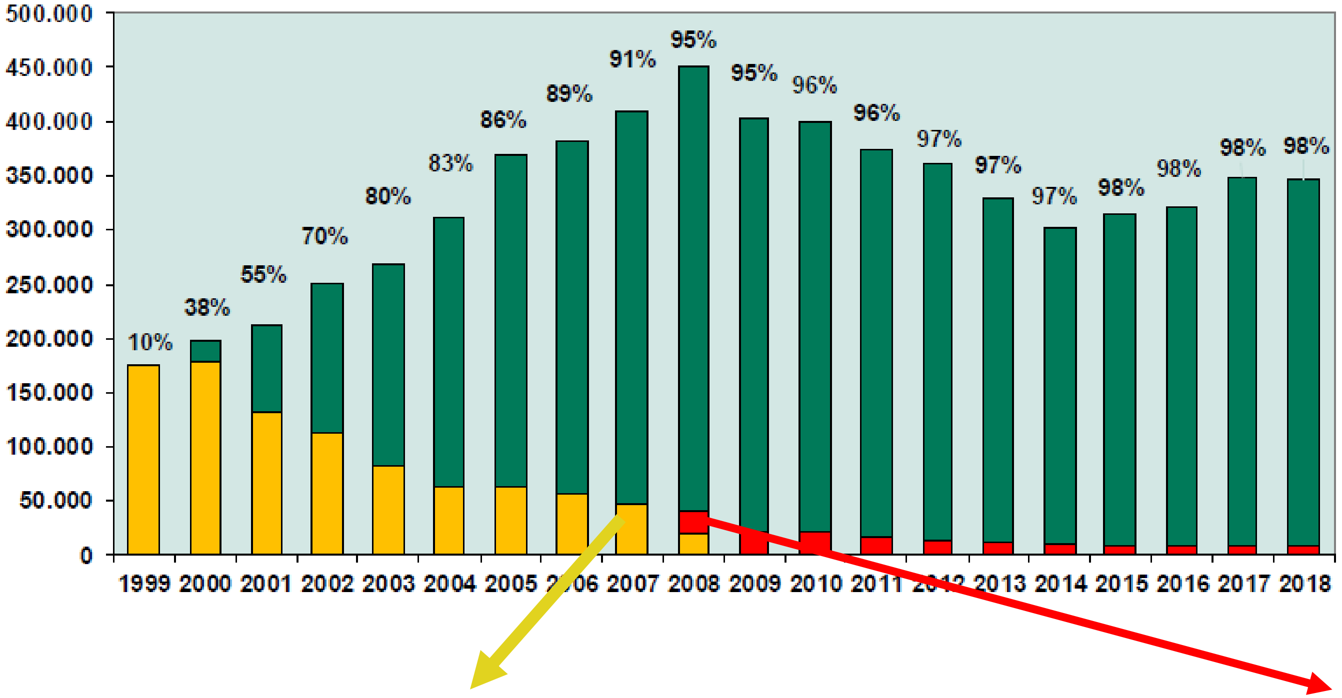
IV. Free consumer



- Regulated market
- Free market
- Regulated price for households

Evolution of gas sales (source: CNMC)

2006-2007: end of regulated tariffs for industrial consumers

01/07/2016: connected to P>60 bar

01/01/2007: connected to 60<P<4 bar

01/07/2007: rest of industrial consumers

2007-2009: definition of voluntary regulated price for households (P<4bar)

- *Supply by shippers (no distributors)*
- *Decreasing consumption threshold to access to regulated tariff*

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V. Conclusions

✓ ***Distribution companies***

- Regulated activity: stable framework for investments
- Specialisation towards network management (international expansion)
- Coordination with shippers (e.g.: gas measure) by using IT platforms

✓ ***Shippers***

- Increasing competence
- Information from distributors to facilitate switching

✓ ***Consumers***

- Compliance with calendar
- Industry: forced to contract in the free market
- Households: election between a voluntary regulated price (TUR) or free market

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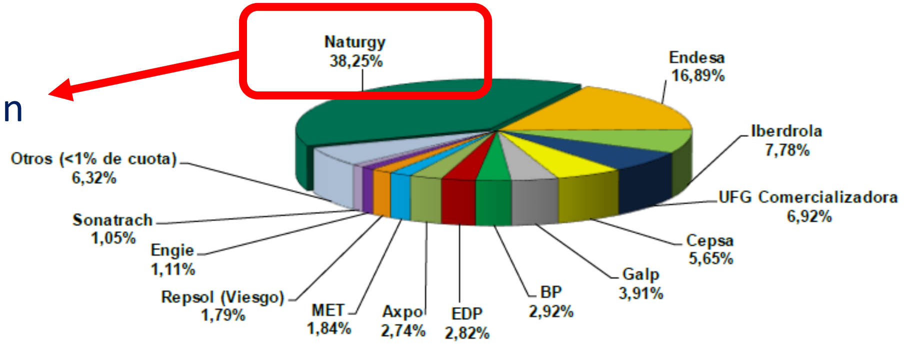
VI. Lessons learnt

✓ *Competence*

- Incumbent distributor & shipper remains in a dominant market position (40%)
    - Gas release programs?

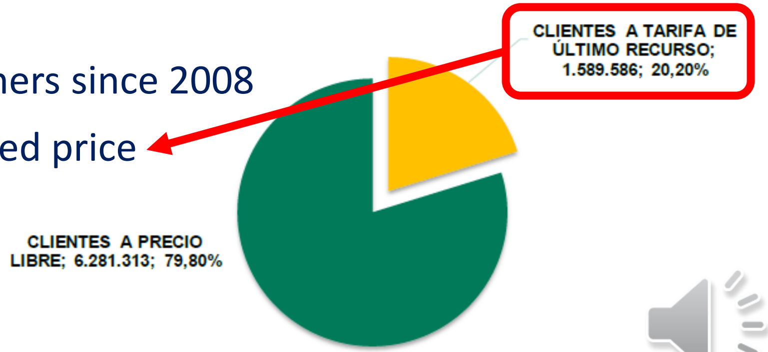


✓ *Distribution remuneration*

- Difficulties to establish a first and well-balanced methodology
    - Costs recognition & incentives for expansion

✓ *Regulated prices for households and vulnerable consumers*

- Difficulties to increase the number of free consumers since 2008
    - 1,6 M consumers (20%) continues at regulated price



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Thank you very much for your attention

Juan Sánchez-Peñuela
Deputy Director-General for Hydrocarbons
jbsanchez@miteco.es