

S U C C E S S

S T O R Y

# How MEDREG Assisted Israel's Gas Regulatory Agency in Establishing a Gas Distribution Framework for Residential Use



**MEDREG**



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## ABOUT NGA

NGA is the **Israeli Natural Gas Authority** that was established in 2003 as a result of the legislation of the Natural Gas Industry Act (2002). Along with the regulatory and commercial issues, such as the issuing of

tariffs and licenses, NGA deals with engineering, safety supervision and outline planning.

NGA is one of MEDREG's 27 members.



## CHALLENGE

In the light of the recent gas discoveries in the Eastern Mediterranean region and the expected growth in gas consumption in Israel, **the country is preparing to supply natural gas to its domestic consumers** in the coming years.

**atural gas** (either in the form of compressed natural gas (CNG) or liquefied natural gas (LNG)) **and to electricity**. Today, about 70% of the electricity in Israel is generated by natural gas; therefore, the concept of "electric cars" is almost equal to the "natural gas cars".

**The Israeli NGA was faced with some challenges to apprehend and initiate the transition process towards the liberalisation of its natural gas retail market.** More specifically, the regulator **lacked some knowledge and experience** that is required to carry out tenders **for distribution licensing, set tariffs of distributed natural gas and set up Distribution System Operators**. The regulator was also in need of suggestions and advice on how to manage the **consumers' connections and switching**, as well as how to anticipate or deal with the frequently encountered legal regulatory issues.



However, the Israeli gas distribution system is now in its preliminary stage of development and connects approximately 100 consumers, who

are mostly small and medium sized factories. The Israeli government has recently issued a very challenging policy to **connect most of the planned neighbourhoods to natural gas** (instead of the incumbent liquefied petroleum gas (LPG)) **and convert most of the transportation sector to nat-**



## INITIATIVE

The regulator approached MEDREG for technical assistance to understand how to set up an efficient gas supply for its domestic consumers.

MEDREG responded to this pressing need by setting up a study visit in 2018 to the fellow members who had undertaken

lessons it had drawn from undertaking the transition towards a liberalised gas market.

The CNMC presented the procedures currently applied in Spain in terms of switching suppliers and bills and the collection of data on consumption, contracts and other consumer tools to identify the best gas supplier option as a way to inspire its Israeli fellow.

This study visit was followed by a similar encounter in Ankara with EMRA, MEDREG's Turkish Member, in order for the NGA to be supplemented with a non-EU perspective of the good practices and pitfalls to avoid that had been shared by the Spanish Gas Regulator.

The Turkish regulator presented its new natural gas market structure as well as its liberalisation process and described the new distribution tenders and each step of the procedures, starting from the formation of the tender commission to licensing.

This latter topic was particularly relevant for the Israeli gas regulator with regard to its newly planned distribution tenders. EMRA further shared its experience in setting up the natural gas tariffs and protecting the consumers. The distribution tariffs were analysed and evaluated in detail as requested by the NGA with a view to investigate and identify the suitable options for their ongoing tenders.

The study visit saw lively and constructive exchanges between the three MEDREG members on various technical and administrative issues.



A group photo of the NGA's study visit to the Spanish National Commission on Market Competition (CNMC), 8 and 9 May, Madrid (Spain)

similar gas reforms and who were able to share their experience and practical knowledge with the NGA about the processes required to supply gas to domestic consumers.

The NGA's study visit started in Madrid with the Spanish National Commission on Market Competition (CNMC) on 8th and 9th May 2018 and was followed by a two-day meeting with the Turkish Energy Market Regulatory Authority (EMRA) in Ankara on 10th and 11th May 2019.

In Madrid, the CNMC welcomed its Israeli peer and provided an overview of the current state of play of its gas market before addressing the concrete management of household gas consumers. Through interactive and substantial exchanges, the Spanish energy regulator explained the



## KEY RESULT

Based on the positive experiences of the Spanish regulator, CNMC, and the Turkish regulator, EMRA, **the study visit addressed the regulation of natural gas distribution from the providers, the household connections to the natural gas distribution networks** and the following areas in particular:



A group photo of the NGA's study visit to the Energy Market Regulatory Authority of Turkey (EMRA), 10 and 11 May, Ankara (Turkey)

- The general rules commonly used in the natural gas markets
- The regulatory requirements that natural gas providers must comply with in other countries
- The functions of “last resort” suppliers
- The policies regarding the replacement of natural gas providers in Spain and Turkey as per European regulations
- The regulatory issues regarding the deep connections and the contradiction between the licensee’s obligation

## IMPACT

The valuable information that NGA gained during the study visit has **enabled the Israeli regulator to make informed decisions** regarding the further **development of the natural gas market in Israel** in many respects.

Both the workshops in Madrid and in Ankara **brought a lot of internal discussions,**

to connect remote consumers and the commercial profit of the licensee

- Licensing and or registration of the eligible shippers (mostly in Spain) as a part of the effort to protect the consumers and, on the other hand, not to impose additional bureaucratic burden on those dealing with gas marketing
- Fruitful contribution of the local authorities (mostly in Turkey) to the development of the distribution network (one of the most significant obstacles in Israel)
- Issues of mutual setoffs and income allocation between the TSOs and DSOs -both the Spanish and the Turkish models might be relevant to the Israeli regulatory system.

Furthermore, the following **commercial issues related to the sale of natural gas** were also presented and explained:

- How the commercial rates of other natural gas sales are structured
- What types of documents are used in such networks
- How contracts for new distribution tenders are set up
- How new distribution networks are developed

The various presentations are available on [MEDREG’s website](#) under the events section.

**and as a result, a few very important decisions were taken:**

- In order to save the liberal and unbundled regulatory framework but also to incentivize distribution licensees, the government decided to **invest about €150M in the distribution infrastructure**, providing long term bridging loans to the licensees.



- Similarly, in order to develop the residential sector in the same liberal manner, the government decided to **invest between €20M and €30M in the distribution infrastructure inside the newly planned neighborhoods**. However, due to the data provided by the CNMC regarding the average use of natural gas by the households in the Southern areas of Spain (where the temperatures are similar to the Israeli ones), the investment is defined as a “pilot” project since the residential consumption in Israel might appear to be very small.
- Although both the Spanish and the Turkish models of the TSO-DSO-regulator relations cannot be directly mimicked in the Israeli regulatory practice, the idea of **using the Israeli Transmission System Operator (INGL) as a contributor to the development of the distribution networks** was retained.
- The highly problematic issue of deep connections has recently experienced a

new lead, partially due to the discussions with the CNMC and EMRA. Instead of the previous policy of mandatory installations of distribution pipelines, notwithstanding the lack of commercial logic, today the approach is of a **much more limited and modest installation obligation**.

- **Some of these regulations will be included in the new round of amendments of the Natural Gas Act.**

In the future, the Israeli Natural Gas Authority would like to pursue its cooperation with MEDREG in order to deepen its regulatory staff’s knowledge about other topics, such as insurance requirements, which help to guarantee the safety of supply to the households connected to the natural gas networks. The gas regulator is also keen to explore the educational requirements for engineers and the other professionals who work in the natural gas sectors.



“ Thanks to MEDREG’s support, we exposed ourselves to the mature market of Spain and the newly established and flourishing market of Turkey. It has been a very important experience for the Israeli natural gas industry, which is now entering into the stage of natural gas penetration to the residential sector. There are very few countries that possess a developed

natural gas regulation and similar climatic conditions to those of Israel, so the chance MEDREG provided us to have long and fruitful workshops with the regulators of Spain and Turkey was extremely valuable. ”

Mr Constantine Blyuz  
Deputy Director of the NGA





## MORE INFORMATION ABOUT THIS SUCCESS STORY

For more information, visit MEDREG's website and read the news story about the study visits:  
[www.medreg-regulators.org](http://www.medreg-regulators.org)

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