

Public consultation

3 June 2010

Public consultation on the rules for the sale of transmission capacity at the link between the GRTgaz North and South balancing zones and at the interconnection between GRTgaz and TIGF as of 1 April 2011

The main aim of this public consultation is to collect comments from market players on the sale procedures proposed by GRTgaz to the French Energy Regulatory Commission (Commission de Régulation de l'Energie - CRE) following consultation work conducted over the first half of 2010 on the capacity allocation rules for the North to South link of the GRTgaz balancing zones as of 1 April 2011.

As this work has not highlighted any difficulties concerning capacity allocation at the interconnection between the GRTgaz South and the TIGF balancing zones or at the South to North link of the GRTgaz balancing zones, there is no plan to modify the rules for selling these capacities.

Following this consultation, CRE will issue a deliberation in July 2010 on the rules for selling capacity. In line with the allocation rules currently in force, the aforementioned capacity is set to be sold from 21 August to 30 September 2010.

The parties concerned are asked to answer the questions in this document, **by 18 June 2010 at the latest** (after this date, contributions cannot be taken into consideration).

I. Background

1) The North to South link between GRTgaz balancing zones

As of 1 January 2009, access to the French natural gas transmission network is organised into three balancing zones operated by two transmission system operators, TIGF in South-West France and GRTgaz for the rest of mainland France.

Despite improvements made to this new organisation, access to the South of France remains difficult for shippers who do not have a supply from the Fos LNG terminals.

With the exception of LNG supply, most access capacity to the GRTgaz South balancing zone and the TIGF balancing zone depends on the North to South link between GRTgaz balancing zones. The North to South link was used to 96 % of firm capacity in 2009. Since the beginning of 2010, use dropped reaching today roughly 91 % due to the round of tests at the Fos Cavaou terminal and its partial start-up on 1 April 2010. Bringing the Fos Cavaou terminal fully on stream and the development of entry capacity from Spain will contribute to diversifying supply conditions for the South of France and thereby reduce capacity congestion at the North to South link by 2013 and 2015.

The latest allocations to date on the GRTgaz North to South link, made on a pro rata basis for periods of 1, 2, 3 and 4 years, have resulted in capacity requests that largely exceed available volumes. In its deliberation dated 15 October 2009 concerning the rules for allocating link capacity from the GRTgaz North balancing zone to the South balancing zone, CRE introduced a new allocation procedure applicable to annual capacity sold for the period from 1 April 2010 to 31 March 2011 with a view to ensuring a minimum allocation for shippers with limited capacity requirements. CRE also requested that the 'Concertation gaz' initiative be continued to define the allocation rules for future annual and multiyear (2, 3 and 4 years) capacity available as of 1 April 2011.

Feedback on the capacity allocated over this period has been positive. The rules have enabled shippers with limited capacity requirements to access the quantity of capacity they require with sufficient visibility while larger quantities of capacity were allocated to shippers with more significant requirements.

2) Capacity sold on the GRTgaz North to South link

(i) Sale of annual and multiyear (2, 3 and 4 years) capacity

The technical transmission capacity on the North to South link breaks down into 230 GWh/d of firm capacity and 220 GWh/d of interruptible capacity. Each year, 20 % of technical firm and interruptible capacity is sold as annual capacity, i.e. 46 GWh/d of firm annual capacity and 44 GWh/d of interruptible annual capacity.

In addition, the remaining available technical capacity, less reservations related to transportation contracts held by incumbent operators, is sold each year as multiyear capacity over 2, 3 and 4 years proposed in three equal shares.

Part of the firm technical link capacity is reserved in the long term in compliance with transportation contracts signed by incumbent operators. These capacities of 87 GWh/d currently reserved in the long term will be reduced to 77 GWh/d as of 1 November 2011 at the term of an incumbent transit contract. In accordance with the allocation rules currently in force, these additional available capacities will be put up for sale as multiyear capacity in 2011.

The project to develop interconnections between France and Spain provides for the sale of firm capacity as of 1 December 2015 at the link between the GRTgaz North and GRTgaz South zones. The volume of capacity proposed for sale as part of this project from North to South corresponds to 160 GWh/d of long-term capacity, i.e. 80 % of newly created capacity. In addition, 40 GWh/d of capacity will be proposed on short-term, i.e. 20 % of newly created capacity. The phase of binding request submissions for this Open Season has been launched and the results are expected in mid-July 2010.

In a general sense, and given that part of the capacity to be started up as of 1 April 2011 will be sold for period of up to 4 years, i.e. up to 31 March 2015, it is important to note that the commitments corresponding

to capacity reserved at the interface between TIGF and GRTgaz South or at the link between GRTgaz North and GRTgaz South become null and void should the organisation of French balancing zones change.

(ii) Capacity put up for sale as of 1 April 2011

As of 1 April 2011, the following capacity will be proposed for sale:

(GWh/d)	Annual	2, 3 and 4 years
Firm	46	32 (10.6 by maturity)
Interruptible	44	42 (14.1 by maturity)

As of 1 November 2011, 10 GWh/d of firm capacity and 15 GWh/d of interruptible capacity, spread over maturities of 2, 3 and 4 years, will also be proposed for sale due to the aforementioned term of the transit contract signed by the incumbent operator.

(GWh/d)	2, 3 and 4 years
Firm	10 (3.3 by maturity)
Interruptible	15 (5 by maturity)

3) Consultation work

In its deliberation dated 15 October 2009, CRE asked that the work of the Concertation gaz working group be continued to define the allocation rules of annual and multiyear capacity that must apply to capacity sold as of 1 April 2011.

Upon the request of market players, the Concertation gaz "Capacity Allocation" working group has focused on studying three allocation principles. In addition to the "pro rata" principle already used and which was studied in order to identify possible room for improvement, the "needs-based" and "auction" principles were also studied. For this purpose, the work was organised among three sub-groups, each focusing on an allocation principle. Eight meetings were held between 28 January and 30 April 2010. The work resulted in the creation of three summary information sheets, one for each principle. The consultation work led GRTgaz to draw up an allocation rule proposal sent to CRE on 25 May 2010.

The rules proposed by GRTgaz and the information sheets created by the working group can be consulted in the appendix of this document or on the Concertation gaz website: www.concertationgaz.com.

II. Consultation on the allocation rules proposed to CRE by GRTgaz

1) Allocation rules proposed by GRTgaz

In view of the three principles studied, GRTgaz decided to base its proposal on the pro rata allocation principle. The allocation rules proposed by GRTgaz cover all sales of capacity, annual and multiyear, firm and interruptible, at the North to South link between GRTgaz zones as of 1 April 2011 and subsequently.

For annual capacity, the rules provide for a pro rata allocation in two phases, each of 23 GWh/d for firm capacity and each of 22 GWh/d for interruptible capacity.

The first phase is open to shippers with a licence to supply end users and to shippers who are end users themselves and who have signed a connection contract. Shippers taking part in the first phase can base their capacity requests on the “guaranteed allocation” option. The application of this option means that the participant’s request cannot exceed 2 GWh/d. The participants who select this option are given priority for allocated capacity over participants who have not applied the option but in turn relinquish the right to take part in the second phase. If the total capacity requested by all participants who have opted for the “guaranteed allocation” exceeds the capacity put up for sale in this phase, requests will be allocated on a pro rata basis.

The second phase is open to all shippers, with the exception of those who selected the “guaranteed allocation” option in the first phase. It is broken down into several successive allocation rounds, each for at least 5 GWh/d.

As regards multiyear capacity, the proposed allocation rules provide for successive allocations on a pro rata basis through several rounds. Each maturity of firm or interruptible capacity is put up for sale in successive rounds, each for at least 5 GWh/d.

In line with the current rules, GRTgaz proposes to sell multiyear capacity first, followed by annual capacity. With a view to improving capacity allocation visibility, GRTgaz proposes to sell multiyear capacity successively, beginning with the longest maturity period. In addition, GRTgaz proposes to inform participants of the total volume of capacity requested and the number of requests received following each phase or round.

2) Difficulties related to the implementation of a “needs-based” allocation principle

The “needs-based” allocation principle was considered by the “contractual network structure” working group in the first half of 2009 and by the “capacity allocation” working group in the second half of 2009, with regard to the sale of North to South link capacity for the period from 1 April 2010 to 31 March 2011. However, it was deemed necessary to conduct an in-depth study of this principle so that a well-informed position could be taken on the feasibility and relevance of its implementation.

The “needs-based” allocation principle aims to allocate capacity on the North to South link that is proportionate to the supply requirements, calculated in a transparent manner, of each shipper on the GRTgaz South and TIGF balancing zones. Each shipper’s requirements are assessed according to the portfolio of end users that the shipper supplies on the GRTgaz South and TIGF balancing zones, its injection capacity in the south’s storage, and the shipper’s portfolio of entry and exit capacity over both of these zones: entry capacity reserved on the North to South link, regasification capacity on the Fos LNG terminals, entry/exit capacity from and to Spain, production at Lacq. In addition, the option of considering transactions at the South and TIGF title transfer points (PEG) in the calculation of each shipper’s requirements has led to two variations of the simulation.

The “needs-based” allocation principle was studied based on the assumption that capacity contracts already in force will not be re-examined. Enforcing the termination of contracts in force would be problematic for legal reasons. Furthermore, the “needs-based” allocation principle must be updated several times a year to be consistent with requirements which change according to the market. The working group approved the notion of an allocation procedure coordinated with the procedure for storage rights made up of three allocations on 1 April, 1 July and 1 November each year.

The definition of the method used to calculate each shipper's requirement has raised a number of questions about both technical issues and the principle itself. The work aimed to find a consensus concerning the specific methods to be used to determine supply requirements. Such a consensus was difficult to find due to the complex nature of the issue and as some members of the working group opposed the principle that capacity contracts already in force would not be re-examined. As a reminder, during the public consultation launched in 2007 by CRE putting in place the current three-zone transmission network, a great majority of those who submitted a response refused to re-examine contracts signed by incumbent operators. Participants in the working group expressed strong and differing opinions on the relevance of the "needs-based" allocation principle.

CRE believes that the work conducted has highlighted several important reservations on the possible implementation of the principle.

Firstly, the "needs-based" principle does not encourage investments or capacity reservation on the other entry points of the South and TIGF zones: France-Spain Open Season, release of capacity at Fos Cavaou as part of GDF Suez commitments. It can therefore be concluded that this principle does not contribute to securing supply in the South of France. Moreover, it is not compatible with the European guidelines that will be made compulsory as part of future network codes by 2012.

Secondly, the implementation of the "needs-based" allocation principle would have negative repercussions on the development of the wholesale market in the South of France, regardless of whether or not transactions at title transfer points (PEG) are considered in the calculation of requirements. If such transactions were considered, buyers would be deterred from purchasing as their allocation of North to South capacity would be reduced accordingly. If these transactions were not considered, sellers would be deterred from selling, as they would no longer be sure of having the North to South capacity required for the transaction.

Thirdly, the application of this method would lead to a significant loss of visibility for shippers. Each shipper's allocation would be revised upwards or downwards several times a year according to external factors such as the start-up of a combined cycle power plant in the South of France or the availability rate of the Fos Cavaou terminal. Subsequently, as capacity would be no longer allocated for periods exceeding a few months, such an allocation principle would put a stop to the sale of annual and multiyear capacity and to the visibility afforded by these allocation periods.

Lastly, the methods of calculating requirements are based on necessary approximations and compromises. The specific methods used to determine the requirements of each shipper could therefore be criticised beforehand and disputed afterwards.

In view of these points, CRE plans to follow GRTgaz's proposal to dispense with the "needs-based" allocation principle in the allocation rules.

Q1 Are you in favour of the proposal to not include the "needs-based" allocation principle in the allocation rules?
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3) Introduction of an auction principle by 2012

Unlike the "pro rata" and "needs-based" allocation principles, the "auction" allocation principle was studied for the first time by the Concertation gaz "capacity allocation" working group. The implementation of auctions would involve modifying the tariff for the use of gas transmission networks, which could only be introduced for the allocation of capacity beginning on 1 April 2012 at the earliest.

The consultation work on auction-based allocation is part of a European movement. The ERGEG¹ is preparing to publish its framework guidelines in June 2010 concerning the allocations of gas transmission capacity at interconnections. These guidelines state that the standard method for allocating existing capacity must be based on an auction mechanism. Failing this, the guidelines specify that the implementation of a pro rata principle may be authorised for an intermediary period if market conditions do not guarantee a satisfactory result from an auction system. These framework guidelines are set to be

⁽¹⁾ ERGEG: *European Regulators' Group for Electricity and Gas*

applied by European transmission operators as a “network code”, which will be binding and appended to the European gas regulation by 2012.

The work conducted by Concertation gaz has highlighted that an auction-based allocation principle would enable capacity to be allocated to players at its highest value, thereby guaranteeing better economic efficiency of the allocation and giving clear signals on the need for new capacity. In addition, it has emerged that allocations by auction of capacity for a given maturity period is only appropriate provided that the wholesale markets located on each side of the sold capacity have sufficient liquidity for the maturity in question. For these reasons, only annual capacity on the North to South link could be auctioned in the timeframe considered.

It is also necessary to stress that this method of sale could lead to a number of risks: the potential inflation of capacity prices could lead to increases in gas prices in the South of France. Also, it must be ensured that no player could abuse their market power in this event. An appropriate framework for the auction mechanism would have to be drawn up in order to control these risks. Some levers are already being discussed in Concertation gaz such as the introduction of a market power limitation criterion (i.e. maximum share of capacity allocated by shipper) or a ceiling price.

In addition to these initial points of analysis, the possible introduction of an auction mechanism requires the establishment of some key parameters that are covered by the transmission transportation tariff such as the level of the reserve price and the allotment and management method for differences in revenue of transmission system operators caused by the auction mechanism. The specific method of a possible introduction of this mechanism must be studied further by the working groups.

In view of these points, CRE plans to ask Concertation gaz to further its work on the issue with the aim of introducing an auction mechanism for the one-year period starting from 1 April 2012, limited to annual capacity on the North to South link.

Q2 Are you in favour of the continuation of work with a view to introducing an auction mechanism for annual capacity sold on the GRTgaz North to South link in April 2012?

4) Allocations based on the pro rata principle

(i) Annual capacity: two phases of equal proportions with the “guaranteed allocation” option whereby each request is limited to 2 GWh/d

The proposal submitted by GRTgaz is described in point II.1) above.

The working group focused its discussions on two issues: on one hand, the possible introduction of several successive rounds in order to improve shipper visibility of allocations, on the other hand, the sizes of the two existing phases of sale and the level of capacity to be applied to the “guaranteed allocation” option.

Most participants in the working group believed that the possible introduction of several successive allocation rounds could afford shippers more visibility during allocations. However, the participants had differing opinions regarding the two allocation phases, some were in favour of the simple elimination of the two differentiated allocation phases, while others were in favour of a higher capacity reserve for the first phase (75 %) coupled with a guaranteed allocation level increased to 2.5 GWh/d.

CRE believes that the feedback on allocations made for the 1 April 2010 to 31 March 2011 period based on allocation rules with two phases and the guaranteed allocation option limited to 1.5 GWh/d was positive. Out of 19 shippers who submitted requests for firm capacity, 8 shippers opted for the guaranteed allocation option, requesting the maximum authorised capacity of 1.5 GWh/d. The balanced distribution between shippers who used the option and those who did not shows that setting the maximum guaranteed allocation level at 1.5 GWh/day was relevant and enabled shippers with limited capacity requirements to access the necessary quantity of capacity with satisfactory visibility while higher quantities of capacity were allocated to shippers with greater requirements. In addition, the increase to 2 GWh/d of the level of guaranteed allocation automatically leads, in case of numerous capacity requests, to reduce the firmness of the proposed product by the application of a pro rata rule.

As regards the second allocation phase, the subdivision into several rounds of capacity sales would enable shippers to reach the level of allocation they require more effectively, by authorising them to withdraw from the allocation process at the end of each round. Moreover, the balanced sizing of the two allocation phases seems appropriate as it provides for a proportionate distribution among shippers opting for the “guaranteed allocation” and those who do not.

It should be noted that the principle of breaking away from the guaranteed allocation system by introducing an allocation of all available capacity in several rounds (for example 9 rounds of 5.11 GWh/d for the 46 GWh/d of firm annual capacity) was given rise to much discussion in the working group meetings. Such a method would have the advantage of affording more visibility to shippers, enabling them to better organise the capacity that they are allocated at the end of the procedure. However, it would have the disadvantage of creating conditions enabling shippers to request the maximum amount of capacity in each round without taking excessive risks related to over-allocation. The implementation of this principle could therefore give rise to allocations that lack in efficiency and do not reflect the real requirements of each shipper.

In view of these points, CRE plans to implement the rules proposed by GRTgaz concerning annual capacity, with the exception of the maximum guaranteed allocation level, which it intends to keep at 1.5 GWh/d.

Q3 Are you in favour of the application of the rules proposed by GRTgaz concerning the sale of annual capacity and in particular the two equal phases of sales coupled with the guaranteed allocation option limited to 2 GWh/d? Are you in favour of maintaining the maximum guaranteed allocation level to 1.5 GWh/d?

(ii) Multiyear capacity: successive allocations in several rounds

The proposal submitted by GRTgaz is described in point II.1) above.

As regards multiyear capacity, the proposed allocation rules introduce a pro rata allocation in several rounds. In line with the current rules, GRTgaz proposes to apply successive sales rounds, starting with multiyear capacity, and the longest maturity period (4 years, 3 years then 2 years).

Most participants in the working group believed that the possible introduction of several successive allocation rounds could afford shippers more visibility during allocations. The group did not discuss the successive sale of capacity with various maturities.

CRE believes that the principle of allocating capacity in two phases with the guaranteed allocation option is not appropriate for the limited volumes sold as multiyear capacity. However, it considers that successive sales and the introduction of several rounds by maturity sold would improve visibility of the sales procedure.

In view of these points, CRE plans to implement the rules proposed by GRTgaz concerning multiyear capacity.

Q4 Are you in favour of the application of the rules proposed by GRTgaz concerning the sale of multiyear capacity?

(iii) Publication of information at the end of each round

In addition, GRTgaz proposes to inform participants of the total volume of capacity requested and the number of requests received following each allocation phase or round. When discussed by the working group, the participants were in favour of the principle. CRE believes that such a measure would improve visibility of the procedure and plans to implement the principle.

Q5 Are you in favour of the publication of information between rounds in order to improve visibility?

5) Allocation rules for capacity at the link between GRTgaz North and GRTgaz South from South to North and for interconnection capacity between TIGF and GRTgaz

As the consultation work has not highlighted any specific difficulties concerning capacity allocation at the South to North link of the GRTgaz balancing zones or at the interconnection between the GRTgaz South zone and the TIGF balancing zone in both directions, there is no plan to modify the rules for selling these capacities at this stage.

Q6 Are you in favour of maintaining the current rules for the sale of capacity at the South to North link between GRTgaz zones and at the interconnection between TIGF and GRTgaz?

6) Timetable for sales of capacity

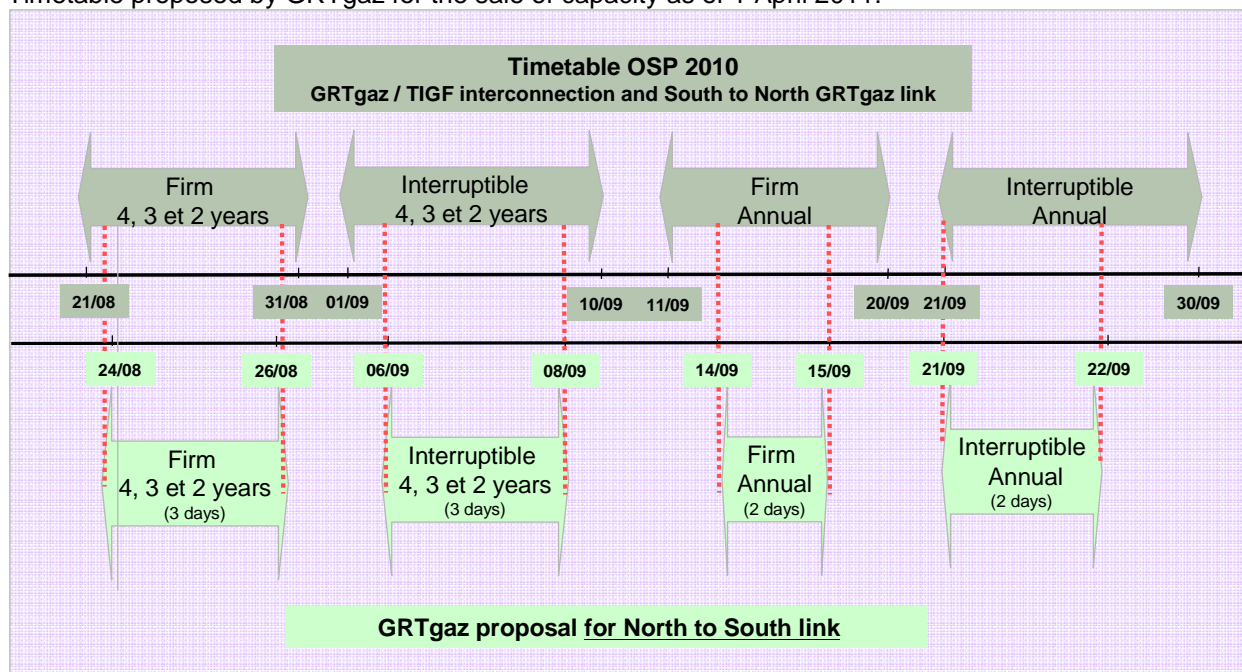
The timetable proposed by GRTgaz provides for capacity allocation on the North to South link in line with current timetables for the sale of capacity at the link between GRTgaz North and GRTgaz South and at the interconnection between TIGF and GRTgaz.

The current timetables for sales of capacity can be broken down into four stages of successive sales. As regards capacity available from 1 April of year “n”, capacity will be sold over these four successive stages in year “n-1” as follows: firstly, firm multiyear capacity between 21 and 31 August, then interruptible multiyear capacity between 1 and 10 September, then firm annual capacity between 11 and 20 September and finally interruptible annual capacity between 21 and 30 September. The proposal submitted by GRTgaz involves incorporating the timetable for the sale of capacity at the North to South link into these four steps, without modifying them.

GRTgaz proposes to sell firm multiyear capacity over three successive days within the period from 21 to 31 August corresponding to the sale of capacity for 4, 3 and 2 years respectively. Shippers would therefore be informed of allocated capacity before 31 August and would be able to make decisions with more visibility on their requests for firm multiyear capacity at the interconnection between TIGF and GRTgaz. Similarly, interruptible multiyear capacity would be sold over three successive days within the period from 1 to 10 September.

GRTgaz proposes to sell firm annual capacity over two successive days within the period from 11 to 20 September, with each of these days corresponding to an allocation phase. As for multiyear capacity allocations, shippers would be able to make decisions with more visibility on their requests for firm annual capacity at the interconnection between TIGF and GRTgaz. Similarly, interruptible annual capacity would be sold over two successive days within the period from 21 to 30 September.

Timetable proposed by GRTgaz for the sale of capacity as of 1 April 2011:



These points were not examined in detail by the working group. CRE believes that the proposed timetable has the advantage of improving shipper visibility with regard to the allocation procedure without having to modify the timetables for the sale of capacity on the South to North link and at the GRTgaz – TIGF interconnection point. CRE therefore plans to implement the new timetable proposed by GRTgaz for capacity to be sold at the North to South link without modifying the other timetables for sales of capacity.

Q7 Are you in favour of the timetable for sales of capacity proposed by GRTgaz for the North to South link?

Q8 Are you in favour of maintaining the current timetables for the sale of transmission capacity at the South to North link and at the GRTgaz - TIGF interconnection point?

Q9 Do you have any other comments on the capacity sale procedure proposed by GRTgaz?

III. Questions

CRE asks all parties concerned to submit their contribution, **on 18 June 2010 at the latest**:

- Via the CRE website, in the “Public Consultations” section, by using the “Contribute” form (you are able to attach a file),
- By email to the following address: webmestre@cre.fr,
- By post to: 15, rue Pasquier - 75379 Paris Cedex 08 – France,
- By meeting the Commission’s departments, contact the Division of Gas Infrastructures and Networks (telephone: +33.1.44.50.42.90).

The parties concerned are asked to answer the following questions, **stating, where necessary, whether their answers are confidential**. **If the submitting party does not clearly state that its contribution is confidential, its answers will be used in the summary published following the consultation.**

Q1 Are you in favour of the proposal to not include the “needs-based” allocation principle in the allocation rules?

Q2 Are you in favour of the continuation of work with a view to introducing an auction mechanism for annual capacity sold on the GRTgaz North to South link in April 2012?

Q3 Are you in favour of the application of the rules proposed by GRTgaz concerning the sale of annual capacity and in particular the two equal phases of sales coupled with the guaranteed allocation option limited to 2 GWh/d? Are you in favour of maintaining the maximum guaranteed allocation level to 1.5 GWh/d?

Q4 Are you in favour of the application of the rules proposed by GRTgaz concerning the sale of multiyear capacity?

Q5 Are you in favour of the publication of information between rounds in order to improve visibility?

Q6 Are you in favour of maintaining the current rules for the sale of capacity at the South to North link between GRTgaz zones and at the interconnection between TIGF and GRTgaz?

Q7 Are you in favour of the timetable for sales of capacity proposed by GRTgaz for the North to South link?

Q8 Are you in favour of maintaining the current timetables for the sale of transmission capacity at the South to North link and at the GRTgaz - TIGF interconnection point?

Q9 Do you have any other comments on the capacity sale procedure proposed by GRTgaz?

Useful links

- 1- GRTgaz website: <http://www.grtgaz.com>
- 2- Concertation Gaz website: <http://www.concertationgaz.com>
- 3- ERGEG website: <http://www.energy-regulators.eu>