



DELIBERATION NO 2017-171

Deliberation by the French Energy Regulatory Commission of 13 July 2017 concerning the report on the implementation of TIGF's investment programme for 2016 and approving its amended investment programme for 2017

Present: Jean-François CARENCO, Chairman, Christine CHAUVET, Catherine EDWIGE, Hélène GASSIN and Jean-Laurent LASTELLE, commissioners.

1. BACKGROUND

Pursuant to the provisions of 2° of Article L.134-3 and of II of Article L.431-6 of the French Energy code, gas transmission system operators (TSOs) must forward their annual investment programmes to the French Energy Regulatory Commission (CRE) for approval. Within this framework, CRE "*ensures that the investments required for the proper development of the networks, and for transparent and non-discriminatory access to them are made*".

With regard to the investment programme for the year 2016:

- in the deliberation of 17 December 2015, CRE approved TIGF's investment programme for 2016;
- in the deliberation of 15 December 2016, CRE approved the update of TIGF's 2016 investment programme, and requested the operator to present, for mid-2017, the definitive report on the implementation of its 2016 investment programme.

With regard to the investment programme for the year 2017:

- in the deliberation of 15 December 2016, CRE approved TIGF's investment programme for 2017, and requested the operator to present, for mid-2017, a report on the status of implementation mid-year of the investment programme for the year 2017.

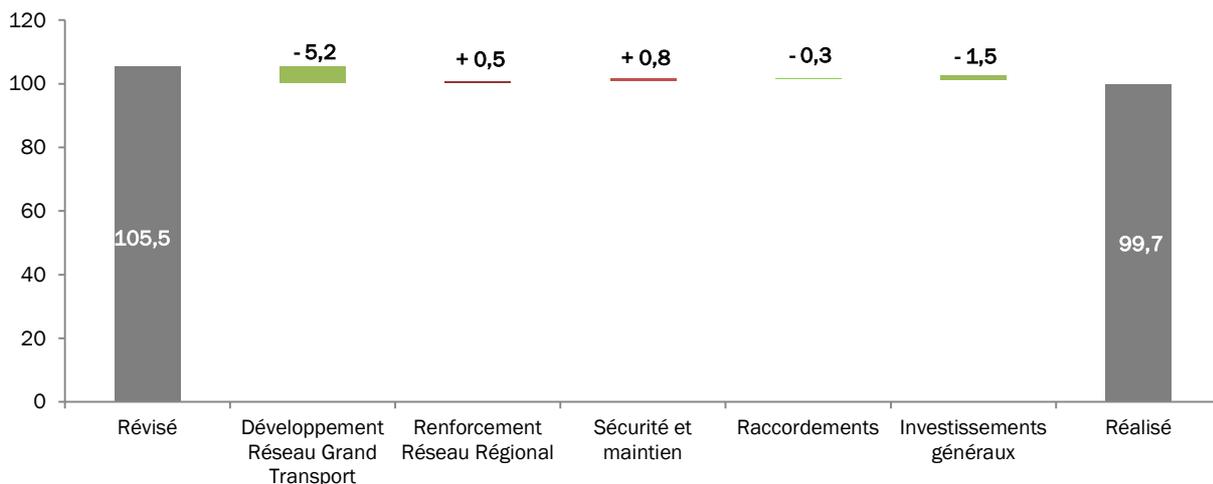
On 31 May 2017, TIGF forwarded its amended investment programme for 2017 and was interviewed by CRE's Board on 6 July 2017. TIGF presented the differences observed between the investment levels approved and the actual investments made for 2016 on the one hand, and the updated forecasts for 2017 on the other hand.

2. CRE'S OBSERVATIONS OF THE REPORT ON THE IMPLEMENTATION OF THE 2016 INVESTMENT PROGRAMME

2.1 Analysis of the differences between the revised budget and actual expenses for 2016

The investment expenses approved for 2016 totalled €110 M. During work to prepare the tariff for the use of gas transmission networks¹ (ATRT6), TIGF forwarded to CRE a revised amount of €106 M. Real expenses for 2016 amount to €100 M, i.e. -5% compared to the revised budget.

Breakdown of the differences in €M between the revised trajectory and the actual trajectory of investment expenditure for 2016



Source: TIGF, analysis: CRE

The differences between actual expenses and the revised budget are mainly related to expenses postponed from 2016 to 2017.

- concerning the Gascogne-Midi project, TIGF was forced to postpone the purchase of pipes to 2017. This postponement meant a drop in expenses by €10 M for this project in 2016. This drop is partly offset by a €4 M increase in expenses, related to the anticipation of operations following a re-planning of the project.
- there was an increase of almost €1 M for safety and maintenance expenses. This is due to the progress in work to move infrastructure in an urban area, imposed by the authorities in Bordeaux.
- there was a drop by €1.4 M in general investments due, on the one hand, to the postponement to 2017 of expenses for adapting premises and roads, and on the other hand, to the postponement to 2017 of expenses related to Information Technology systems (IT).

2.2 Conclusions of the audit commissioned by CRE for the Adour pipeline project

In addition, the Adour pipeline was commissioned on 15 December 2015. This project, whose initial approved budget was €130 M, enabled the creation of 60 GWh/d of firm entry capacity towards France, and 60 GWh/d of interruptible exit capacity towards Spain at the Biriadou interconnection. Following the announcement by TIGF in 2015, of a 23% increase in the cost at completion, CRE commissioned an external firm to audit the management of the project by TIGF and to ensure that the TSO had been cautious and efficient. Following delays experienced by one of the companies hired by TIGF, the operator had to take measures to strengthen the teams leading the project, to enable the infrastructure to be commissioned as close as possible to the initial date scheduled. The auditor noted that *“The quick pace made necessary to comply with the main objective of commissioning the project (December 2015) required up to 650 people working simultaneously”* and that *“according to these elements, the additional cost generated can be estimated between €20 and €25 M.”*

¹ CRE deliberation of 15 December 2016 deciding on the tariff for the use of GRTgaz's and TIGF's natural gas transmission networks

In addition, “this increase is due to the difficulty in executing the EPC (engineering, procurement and construction) contract and the acceptance by TIGF to bear a portion of the costs caused by failures in the pipe welding process”.

CRE considers that based on the audit, it can be concluded that TIGF used additional resources and accepted to bear certain extra costs in order to maintain the commissioning date for the Adour pipeline.

Moreover, the Adour pipeline project is the culmination of an interconnection development programme between France and Spain, and CRE noted that TIGF generally complied with, or even made savings compared to the forecast budgets, for the other projects commissioned at the French/Spain border (see Annex).

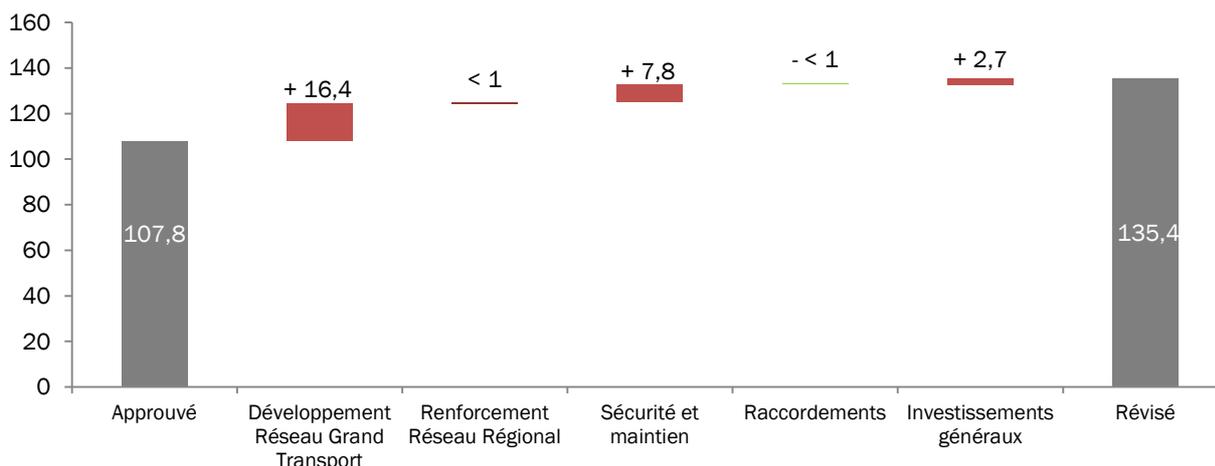
Therefore, CRE considers at this stage, that TIGF’s management of the Adour pipeline project was not inefficient.

3. CRE'S OBSERVATIONS OF THE REPORT ON THE IMPLEMENTATION OF THE 2017 INVESTMENT PROGRAMME

3.1 Analysis of the differences between the approved budget and the budget estimated for 2017

The investment expenses approved for 2017 totalled €108 M. Early June, TIGF forwarded to CRE a revised trajectory of its expenses, which total €135 M, i.e. +26% compared to the approved budget.

Breakdown of the differences in €M between the approved and revised trajectories of investment expenditure for 2017



Source: TIGF, analysis: CRE

Of the total difference, €16 M comes from an increase in investment expenses for large-scale transmission. Because of the difficulties encountered by TIGF regarding the supply of pipes for the Gascogne-Midi project, TIGF placed a new order for pipes amounting to €19 M (of which €10 M postponed from 2016 to 2017). Despite these difficulties, the operator does not anticipate any changes in the project’s cost at completion.

There is also a drop of roughly €2 M for the Sauveterre compression station enhancement project within the framework of the Guyenne pipeline project. The cost at completion anticipated is therefore €3 M, i.e. €4 M less than expected. In addition, TIGF communicated a drop by €1 M for the STEP (South Transit East Pyrenees) project assessments.

With regard to “safety and maintenance” expenses, a modification in the multi-year schedule for reconstructing the Lacq-Lussagnet pipeline generates an increase in investment expenses for the regional network of €5.7 M: work, initially scheduled over 2016, 2017 and 2018, was concentrated heavily in 2017.

TIGF also observes an increase in investment expenses for the regional network linked to the reinforcement of cathodic protection systems following regulatory inspections, for the amount of €1.6 M.

With regard to general investments, TIGF expects a €2 M increase in property expenses, in particular because of the safety reinforcement of these sites.

3.2 Request for approval of the Capens-Pamiers project

In addition, TIGF requests the approval of the Capens-Pamiers project. This project involves the replacement of a pipe network in the regional network. The different inspections did not lift the uncertainty regarding the possible dilapidated state of the pipeline. TIGF thus considers that these pipes must be replaced, with a corresponding budget of €30.4 M.

CRE considers that this project is necessary for network safety reasons and therefore it approves its launch. It is also justified by an expected consumption increase in the region of Toulouse. In compliance with the tariff provisions in effect, CRE shall conduct an audit in the second half of 2017 to set the project’s target budget for the purposes of the implementation of the incentive regulation mechanism.

4. CRE’S DECISION

4.1 Decision related to the 2016 investment programme

CRE notes that the differences between the actual investment expenses and the investment programme approved for 2016 are mainly related to project savings and work postponement, which have no impact on the projects’ commissioning dates and cost at completion.

€M	Approved 2016	Revised 2016	Actual 2016
Development Large-scale transmission	49.2	47.8	42.6
Development Regional network	8.8	3.7	4.2
Safety and maintenance	34.2	34.8	35.6
Connections	4.1	3.3	3.0
General investments	13.3	15.9	14.5
Total	109.6	105.5	99.7

CRE notes that the implementation of TIGF’s investment programme complies with the programme approved.

Therefore, following its audit of the Adour pipeline project, CRE considers at this stage, that TIGF’s management of the project was not inefficient.

4.2 Decision related to the 2017 investment programme

CRE notes that the implementation of TIGF’s investment programme complies with the programme approved. It notes that the cost of these investments has been revised. Therefore, CRE approves the investment budget as revised for 2017.

Therefore, TIGF’s modified expenditure budget for 2017 totals €135.4 M, and breaks down as follows:



€M	Approved 2017	Revised 2017
Development Large-scale transmission	56.0	72.4
Development Regional network	1.9	2.8
Safety and maintenance	30.5	38.3
Connections	2.1	1.8
General investments	17.3	20.0
Total	107.8	135.4

Approval of the Capens-Pamiers project

CRE approves the reconstruction project for the Capens-Pamiers regional network. In compliance with the tariff provisions in effect, CRE shall conduct an audit in the second half of 2017 to set the project’s target budget for the purposes of the implementation of the incentive regulation mechanism.

The approval of the investment programme has no bearing on the tariff treatment of these expenses.

Any modification of the investment programme shall be submitted to CRE for approval.

The present deliberation shall be published on CRE's website and notified to TIGF. In addition, it shall be forwarded to the Minister for the ecological and inclusive transition and the Minister for the Economy and Finance.

Paris, 13 July 2017

For the Energy Regulatory Commission,
The Chairman,

Jean-François CARENCO



5. ANNEX

1.1 Main network development projects commissioned as from 2017 (> €20 M)

Project	Deliberation date	Date of the deliberation setting the target budget	Target budget	Cost at completion	Commissioning date
Gascoigne-Midi	30 October 2014	30 October 2014	€152 M	€152 M	2018
Reinforcement AGU compression station	15 December 2016	15 December 2016	€25.5 M	€25.4 M	2019
Reconstruction Capens-Pamiers	12 July 2017	Pending audit	To be determined	€30.4 M	2021

1.2 Cost at completion of projects related to Pirineos developments



	Estimation à la décision des projets M€	Coût Final M€
Réversibilité LACAL	7,7	5
Artère du Béarn	104	101,1
Canalisation Lussagnet Captieux (GIRLAND)	126,5	98,2
Renforcement de la compression de Sauveterre(GIRLAND II)	34,5	23
Artère de l'Adour	130	155
Investissements TOTAL	402,7 M€	382,3 M€

Source: TIGF