

Deliberation of the Commission de régulation de l'énergie of 19 April 2011 deciding on the modification of GRTgaz's 2011 investment programme

Attending the session were: Philippe de Ladoucette, President, Olivier Challan Belval, Frédéric Gonand, Jean-Christophe Le Duigou, Michel Thiollière, commissioners.

1. Background

The Commission de régulation de l'énergie (CRE) approved GRTgaz's 2011 investment programme in its deliberation of 16 December 2010. It observed that GRTgaz had decided not to include the project to reinforce the current gas pipeline of the Artère du Rhône (ERIDAN project) in its 2011 investment programme. This omission was due to insufficient market demand to develop a new interconnection with Spain at Perthus and to extend the operating period of the Fos Tonkin LNG terminal, two upstream projects requiring the strengthening of gas transmission facilities of the Artère du Rhône.

Today, the development of gas transmission capacities in Western Europe on a North-South axis would enable French and European customers to benefit more from liquefied natural gas (LNG) supply sources from France's coast and Spain.

Today, congestion between the North and South of France limits the volume of LNG shipped from Southern Europe to the north of France and Europe. This congestion is notably the result of the low capacity of the current gas pipeline of the Artère du Rhône (a diameter of 600 mm for more than 200 km between Saint-Avit and Saint-Martin-de-Crau).

The ERIDAN project was launched by GRTgaz on 2 February 2011. It comprises:

- the installation of a new pipeline of a diameter of 1,200 mm covering approximately 220 km for an estimated €417 M;
- the adjustment of the Saint-Martin-de-Crau and Saint-Avit interconnection stations for approximately €50 M and €17 M.

The ERIDAN project will strengthen GRTgaz's network core in the south of the territory. It will create 120 GWh/d of entry capacity in the South zone. It will also promote the subsequent development of new gas infrastructure in the South zone (LNG terminals, storage facilities, interconnections).

2. GRTgaz's request

In a letter dated 15 February 2011, GRTgaz requested CRE to modify its 2011 investment programme in order to launch the ERIDAN project under remuneration conditions that comply with current tariff provisions.

To justify this request, GRTgaz highlighted the following:

- the very favourable context of the ERIDAN project which would receive a European subsidy of €74 M allows an investment of €80 M related to the non-renovation of the Bégude compression station to be saved and avoids €22 M in operating expenses per year related to the maintenance costs for this station, motor energy expenses and intraday flexibility needs;
- local approval and the safeguarding of the pipeline route obtained following a public debate that ended in November 2009;
- the benefits of the ERIDAN project for:
 - the French market by developing the fluidity of the zone and facilitating the merger of the North and South zones in the eventually;

- the European market by contributing to the development of the North-South corridor in Western Europe.

GRTgaz has stated that given these elements, near economic balance is ensured for the ERIDAN project and the impact on the transport tariff is limited to 2% by 2017. If the project is postponed, GRTgaz evoked:

- the rise in the cost of the project due to the loss of the European subsidy and the necessary rehabilitation of the Bégude compression station to meet regulatory obligations;
- the risk of exceeding the deadline for the completion of the project in the event that the pipeline route is modified.

3. Synthesis of the public consultation

Taking into account the cost of the project (484 M current euros), its possible effects on tariffs and the exceptional nature of GRTgaz's request, CRE consulted market players from 18 March to 1 April 2011 on the importance of the project and the terms of its possible approval.

Twenty-six contributions were received from:

- 14 shippers: Alpiq, BP, Direct Energie, EDF, ENI, E.ON, Gas Natural, GDF-Suez, Gazprom Marketing & Trading, Poweo, Statoil, Statkraft, TGP, UPRIGAZ;
- 6 infrastructure operators: Elengy, Enagas, Géométhane, Fos Faster, STMFC, TIGF;
- 4 industrial clients: INEOS, Novacarb, Rio Tinto, UNIDEN;
- 2 other entities: CNE (the Spanish regulator); AFG.

The great majority of contributors (18) supported CRE's preliminary analysis of the importance of the ERIDAN project for the proper functioning of the French market and for integration in the European gas market. Many players also underlined the difficulty of securing an infrastructure project in the Rhône Valley.

Significant support (15 players) was given to the approval of this project without a tendering procedure. However, two concerns frequently arose:

- the need for a commitment from GRTgaz's to merge the North and South zones as soon as possible based on the mechanisms defined within the framework of Concertation Gaz;
- minimisation of the project's impact on tariffs

Several players did not agree with the questions asked or did not express an opinion, due to a lack of sufficient detailed figures on the costs and benefits of the project.

4. CRE's analysis

a) *The regulatory framework*

The law of 3 January 2003, amended by the law of 7 December 2006, defines CRE's power of approval as follows: *"The investment programmes of natural gas transmission system operators are subject to the approval of the Energy Regulation Commission which ensures the provision of the necessary investments for the proper development of the grids and that access to them is transparent and non-discriminatory. The Energy Regulation Commission can only refuse to approve an annual investment programme on grounds arising from the missions assigned to it by law."*

Under these conditions, the launch of the ERIDAN project in 2011 requires the modification of the 2011 investment programme approved by CRE on 16 December 2010.

b) *A major project for the proper functioning of the market and the security of French and European supply*

ERIDAN is a network core infrastructure required for all subsequent projects to create firm entry capacities in the South zone (LNG terminal, interconnection, storage). Given the changes forecast in the gas market, the probability of the development in the medium term of at least one of these projects is high. The completion of ERIDAN will therefore facilitate the investment decisions of the initiators of such projects.

Moreover, the European Commission supports this investment with a considerable subsidy. It will contribute to the development of the North-South corridor in Western Europe which has been identified as a priority and a requirement for the integration of the south of France and the Iberian Peninsula into the core of the European gas market¹.

Lastly, ERIDAN is necessary for the merger of GRTgaz's North and South zones. This merger will enable:

- comparison between various supply sources (Norway, Russia, the Netherlands and the Mediterranean Basin);
- concentration in the same marketplace of over 90% of French consumption and the emergence of an attractive gas price that benefits customers.

Therefore, ERIDAN has many advantages for the natural gas market both at the national and European level.

c) Part of the cost shared in the tariff for the use of the GRTgaz network

ERIDAN is not launched by an Open Season procedure and therefore, there is no guarantee of the subscription rate of the commercial capacity developed.

Consequently, if no infrastructure project is developed in the south of France, the cost of the project for GRTgaz may not be completely covered by the new income and savings generated. Part of the ERIDAN cost would therefore have to be shared in the GRTgaz tariff.

In this instance, by 2016-2017, the rise in the gas transport tariff² due to the ERIDAN project would be between 2% and 3% according to estimates.

	Assumptions	
	Favourable	Unfavourable
Costs of the ERIDAN project:	€484 M	
Operating expenses of the new pipeline:	€8 M/year	
Costs avoided:		
<i>Non renovation of the Bégude station</i>	€80 M	
<i>European subsidy</i>	€74 M	
<i>OPEX savings</i> <i>Bégude maintenance</i> <i>Fuel gas</i> ³ <i>Intraday flexibility</i> ⁴	€22.5 M/year €4.5 M/year €2 M/year €16 M/year	€13.5 M/year €4.5 M/year €1 M/year €8 M/year
Additional income (120 GWh/d) ⁵ :	€6 M/year	0
Maximum increase of GRTgaz tariff in 2016-2017	2%	3%

d) Tariff framework applicable to the ERIDAN project

The order of 6 October 2008 approving the tariffs for the use of natural gas transmission networks proposed by CRE provides that "investments creating additional transmission capacity on the main network or reducing the number of balancing zones receive a bonus of 300 basis points in relation to the Regulated Assets Base return rate applied for 10 years".

¹ See the communication by the European Commission on its priorities in terms of infrastructure for 2020 and beyond.

² As a reminder, for an individual client who uses gas heaters, the transportation portion represents approximately 5% of his final invoice. The maximum increase of his invoice will therefore be between €0.04 and €0.06 /MWh.

³ The favourable assumption does not take into account any additional compression needs related to the intraday flexibility service.

⁴ Difference related to the valuing terms of the intraday flexibility purchased by GRTgaz: at the price published by Storengy for the favourable assumption and at the price of the intraday flexibility used in the GRTgaz tariff for the unfavourable assumption.

⁵ Difference related to the assumption of the subscription of the 120 GWh/d created by ERIDAN: 100% subscription for the favourable assumption and no subscription for the unfavourable assumption.

The explanatory statement of CRE's tariff proposal of 10 July 2008 specifies that the granting of this bonus is justified by the contribution of this type of investment to strengthening the security of supply and the development of competition by improving the access of new players to the French market.

Taking into account the limited volume of capacity immediately created by the project (120 GWh/d) compared to its cost and the lack of market demand for this capacity to date, CRE considers that the criterion regarding the creation of capacity does not allow for the granting of the 3% bonus.

However, it recognises that this project is a necessary requirement for the merger of the North and South zones on the GRTgaz network. It would suppress congestion within the South zone and significantly reduce the number and frequency of congestion scenarios between the north and south of France. It could allow the merger of the North and South zones to be envisaged based on contractual mechanisms under satisfactory economic conditions.

Nevertheless, the ERIDAN project alone does not enable the merger of the North and South zones because of continuing congestion on other points of the GRTgaz network. CRE therefore considers it necessary for an exhaustive study to be conducted to analyse the feasibility and cost of the different possible means of merging GRTgaz's North and South zones.

On condition that this study is completed by the end of 2011, the ERIDAN project will meet the second criterion defined by the current tariff for the granting of the 3% bonus over 10 years.

Lastly, CRE has recently launched work on the development of the regulatory framework applicable to gas and electricity infrastructure, aimed in particular at encouraging operators to better control investment costs. For gas transmission networks, the result of this work will be taken into account for the next tariff period as from April 2013 (ATRT5). Incentive regulation mechanisms to reduce investment costs which will be defined for ATRT5 will apply to the ERIDAN project given its considerable cost and commissioning forecast for 2016.

5. Decision

CRE approves GRTgaz's request to launch the ERIDAN project to construct a gas pipeline in the Rhône Valley starting in 2011, provided that the granting of the European subsidy is confirmed.

GRTgaz's 2011 investment programme, approved by CRE on 16 December 2010, is therefore modified and totals €565 M (instead of €563 M) in the event of an investment decision by Dunkerque LNG in 2011, or €484 M (instead of €482 M) in the event of the contrary. The other investments forecast for 2011 in the deliberation of 16 December 2010 are not modified.

The ERIDAN project will receive the 3% bonus for 10 years for a maximum amount of 484 million current euros.

The allocation of this bonus moreover depends on the completion by GRTgaz of an exhaustive study on the feasibility and cost of the different possible means of merging GRTgaz's North and South zones. This study will be entrusted to an independent firm, with a steering committee made up of GRTgaz, DGEC and CRE. It must be submitted before the end of 2011.

The incentive regulation mechanisms to control investment costs which will be selected by CRE for the following tariff period (ATRT5) will apply to this project.

Lastly, CRE highlights the exceptional nature of this decision related to the specific context of the ERIDAN project. It reaffirms that the booking of long-term capacity by market players remains the most important criterion for the decision to strengthen French gas transmission networks.

Paris, 19 April 2011

For the Energy Regulation Commission,

The President

Philippe de Ladoucette