November, 2008

Development of gas interconnection capacity between France and Spain – Market consultation

1. Objective

The development of gas interconnection capacity between France and Spain is a priority objective of the ERGEG South Gas Regional Initiative (S GRI), led by the Spanish Energy Regulator (CNE). The enhancement of gas interconnections is a key factor for the development of the internal European gas market, as well as for security of supply and for competition in the region. The development of new capacities is foreseen by 2013 and 2015. The investments will be carried out on the basis of open seasons aiming at evaluating shippers' needs and at allocating capacity.

With reference to the new capacity to be developed by 2013 and 2015, regulators have decided to launch a preliminary market consultation in order to get the market views regarding the definition of the products to be offered during these open seasons.

2. Background

The South Gas Regional Initiative (S-GRI) was created by ERGEG with the aim of developing a regional gas market integrating France, Portugal and Spain, as a step towards a single European gas market.

The first priority identified by the S-GRI is the need for increasing the cross border interconnection capacity.

As of today, there are two interconnection points on the Western side of the border between France and Spain, at Larrau and Biriatou. A creation of a third point is foreseen in Catalonia, at Le Perthus (MidCat project). The development of interconnection capacity was addressed in February and June 2007 in a joint investment plan published by Enagás, TIGF and GRTgaz. The following steps were proposed:

- Allocation of existing and committed capacities from April 2009 to March 2013 at Larrau through an Open Subscription Period (OSP) procedure, to be concluded by December 2008;
- Development of new interconnection capacities at Larrau by 2013 that could reach 165 GWh/d in both directions.
- Development of the MidCat interconnection by 2015.

At Larrau, a coordinated OSP procedure is currently carried out by TIGF and Enagás to allocate 80% of the available commercial capacity for long term requests (more than 1 year and up to 4 years). The remaining 20% will be allocated for short term capacity (1 year or one season) afterwards. Short term capacity is also going to be allocated every year (2009, 2010 and 2011). Available capacities are synthesized as follows:

Direction	Capacity	Date
France ⇨ Spain	13 GWh/day	from 1st April 2009
	22.5 GWh/day	from 1st April 2012
Spain ⇨ France	30 GWh/day in winter	from 1st November 2010
	50 GWh/day in summer	from 1st November 2010

Table 1: capacity currently being allocated at Larrau OSP

3. Development of new interconnection capacity between France and Spain

In order to assess the demand for new capacity and to gather long term firm commitments from the shippers, two open seasons are going to be organized. Open seasons will be conducted by French and Spanish TSOs on the basis of a Memorandum of Information describing the projects and giving all the information needed by shippers to make their decisions. The planned open seasons will comply with ERGEG GGPOS, although some characteristics still have to be defined.

The investment decision by French TSOs will depend on the level of capacity booked under firm long term commitments (at least ten years). In Spain, the gas system will be strongly reinforced with investments which are already decided and included in the national investment plan for 2008-2016 In the case of MidCat interconnection, investments in Spain are conditioned to the actual investments in France.

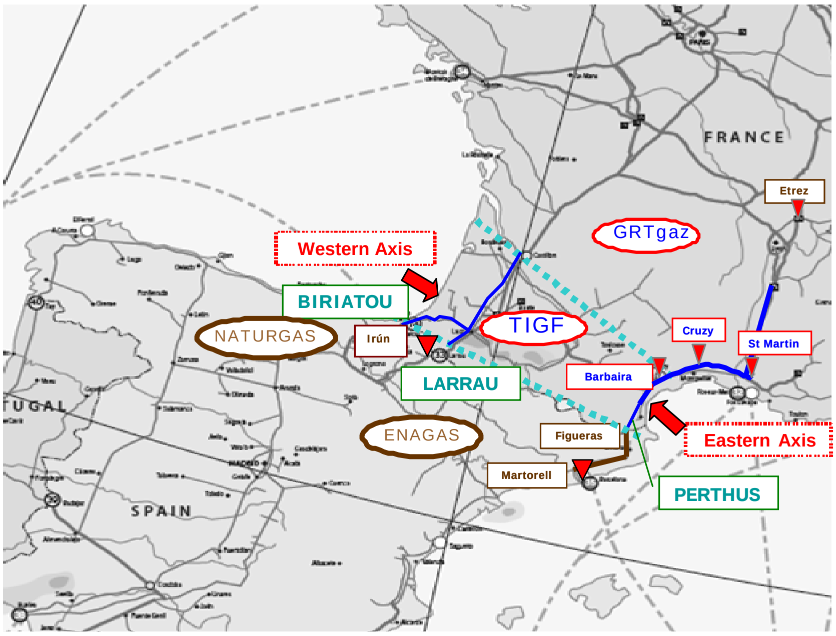


Figure 1: specific reinforcement associated with French and Spanish interconnection capacity (France)

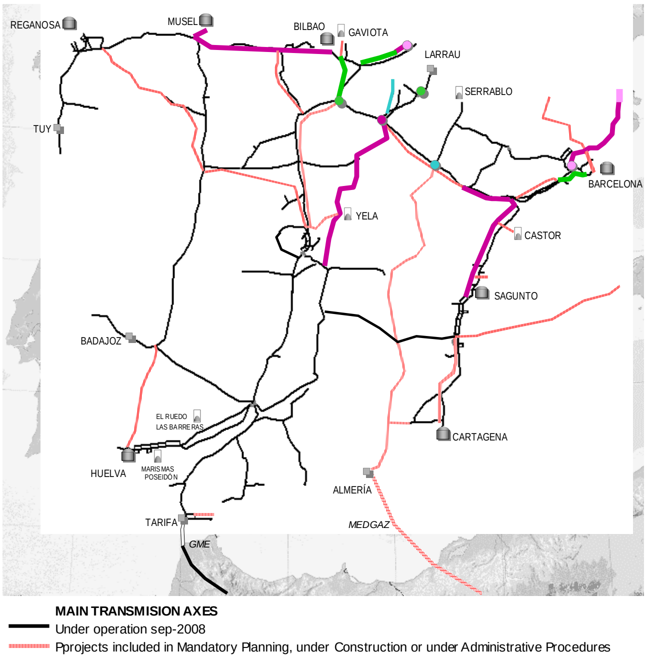


Figure 2: specific reinforcement associated with French and Spanish interconnection capacity (Spain)

3.1. 2013 - Open season for the development of new capacities at Larrau (Western axis)

The total capacity on the Western axis, at Larrau, available by 2013 could amount to 165 GWh/day (5 Bcm/year) in the two directions. The total cost in France is estimated at 550 M€. The total cost in Spain, most of them already being built to increase the three interconnections, is estimated at 1,337 M€. The planned investments are:

Zone	Technical description
TIGF zone	60 km of 32’’ (Lussagnet - Lacq) and 70 km of 36’’ (Lussagnet - Captieux) pipelines Reinforcement of existing compressor stations (Lussagnet, Sauveterre, Mont) Arcangues-Coudure II and III pipelines
GRTgaz zone	New compressor station Chazelles
Spain	New compressor station Irun

Table 2: Investments related to new capacity at Larrau in 2013

The Open Season to allocate the capacity is planned to be carried out in 2009; and capacity requests sent by applicants will be binding.

The capacity offered in the open season will amount to 80 % of the available capacity (approximately 165 GWh/d minus the capacity already booked). The remaining 20 % will be sold as short term product (one year duration).

Allocation rules could be based on pro-rata mechanisms, although other market mechanisms might be applied in the future if considered appropriate.

It will be possible to book capacity from Spain to GRTgaz North and from GRTgaz South to Spain. The interconnection capacity will be allocated in three different procedures performed at the same time: OS for Spain <> TIGF and for TIGF <> GRTgaz South and OSP for GRTgaz South => GRTgaz North. These procedures will include existing capacity currently allocated through OSPs.

3.2. 2015 - Open season for the development of the Eastern axis

By 2015, the creation of a new interconnection point across Catalonia on the Eastern axis ("Artère du Rhône" - MidCat Project) has been proposed. The foreseen transportation capacity of the MidCat pipeline is the following:

Direction	**Capacity (*)**
France ⇨ Spain	180 GWh/day (aprox 5.5 bcm/y)
Spain ⇨ France	230 GWh/day (aprox. 7 bcm/y)

(*) Note: according to TSOs' joint investment study published on ERGEG web page

Table 3: new capacity at Perthus (Catalonia) in 2015

As mentioned in GRTgaz ten-year investment statement, this project is foreseen to be combined with an increase of capacity between GRTgaz South and GRTgaz North by 200GWh/day (approx. 6 Bcm/year) in the two directions. Total costs in France are estimated at 1,250 M€. Total cost in Spain, most of them already being built to increase the tree interconnections, is estimated at 1,337 M€. Indicative figures of capacity are presented in the Appendix.

Zone	**Technical description**
France	- Midcat 120 km + reinforcement of existing compressor station at Barbaira - Trebling of Lupiac – Barran (28 km) ("Artère de Gascogne") - Compressor station at Etrez and Saint-Martin de Crau - Doubling of "Artère du Rhône" - Doubling « artère du Midi » (180 km DN 900) - Compressor station at Montpellier
Spain	- 164 km 36'' pipeline between the Barcelona region (Martorell) and Figueras (construction already planned not bound to OS results) - Compressor station at Martorell - 36'' pipeline from Figueras to French/Spanish border-

Figure 6: infrastructures and investments included in the MidCat project

The Open Season for the development of this axis will be carried out in 2009. It will be organized in two phases (a non binding phase for assessing market demand for new capacity and a binding phase for long term capacity bookings).

It will be possible to book capacity between Spain and GRTgaz North in both directions. The interconnection capacity will be allocated in different procedures performed at the same time.

4. Capacity products design

The design of future interconnection capacity products between France and Spain is conditioned by two key elements:

(a) Access to the French transmission system, two options are under study concerning the Eastern axis:

- Three-step entry-exit system Spain < > TIGF < > GRTgaz South
- Entry-exit system with direct interconnection Enagas < > GRTgaz South

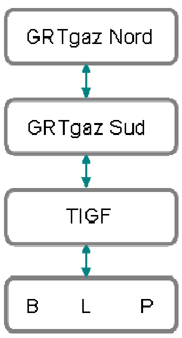
A mix implying a breakdown of capacity between the two options (Enagas < > TIGF and Enagas < > GRTgaz South) could be studied.

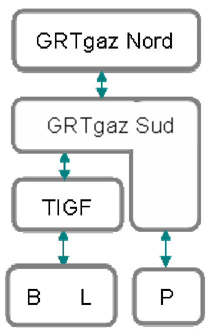
The first option keeps the French market structure as it exists. This option would give access to TIGF's network and underground storage facilities; it would imply crossing two different balancing zones for shipping gas between Spain and GRTgaz North. The second possibility would allow shippers to go through only one balancing zone, GRTgaz South, between Spain and GRTgaz North.

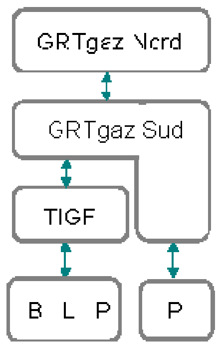
(b) Regarding the capacity products at the Spanish-French border: there are two possible options:

- "Spain[1] <> TIGF" if the three-step entry-exit system Spain < > TIGF < > GRTgaz South is chosen and
- "Spain[2] <> TIGF" and "Enagas[3] <> GRTgaz", if entry-exit system with direct interconnection Enagas < > GRTgaz South, or the mix of the 2 transmission access scheme, is chosen.

These different options are presented hereunder:

<table>
<tr><th>Three-step scheme
Spain < > TIGF < > GRTgaz</th><th>Direct liaison
Enagas < > GRTgaz</th><th>Possible mixed solution (at Perthus: Spain < > TIGF + Enagas < > GRTgaz) – This solution has not been studied by TSOs</th></tr>
<tr><td>


1 One capacity product (Spain <> TIGF) between the balancing zones.</td><td>


2 Two capacity products (Larrau & Biriatou vs. Perthus between the balancing zones</td><td>


3 Two capacity products (Spain <> TIGF and Enagas <> GRTgaz Sud) between the balancing zones</td></tr>
</table>

Nota: The capacity allocation between the balancing zones will be carried out simultaneously

Figure 7: Different options regarding capacity products design for the open season 2015.

[1] Biriatou, Larrau and Perthus together
[2] Biriatou and Larrau together
[3] Perthus

5. Market consultation

In order to assess market needs with regard to the development of new interconnection capacity between France and Spain, Regulators have decided to prepare a questionnaire.

The questionnaire is divided in four parts:

- Questions regarding possible transmission access scheme
- Questions regarding coordination of open seasons
- Questions regarding tariff visibility and degree of required commitments
- Questions regarding capacity products

Respondents are invited to send their contributions at rpg@cne.es, benoit.esnault@cre.fr, alexandre.soroko@cre.fr, bmm@cne.es

If not requested responses should be made public.

5.1 Consultation schedule

Public consultation	
14 November 2008	Launch of the public consultation (4 weeks)
12 December 2008	Public consultation deadline
January 2008	Publication of the results of the consultation - S GRI Stakeholders group meeting
February 2009	Design of the capacity products to be offered to the market in the open seasons 2013 and 2015

5.2 Useful documents online:

ERGEG website public consultation:
http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/South

Spanish national electricity and gas investment plan 2008-2016
http://www.mityc.es/NR/rdonlyres/69C43BE5-9613-49AD-B29C-0D69743771D2/0/Planificacion_20082016.pdf

10 year development statement of GRTgaz for 2008-2017:
http://wwww.grtgaz.com/en/home/major-projects/10-year-development/

10 year development statement of TIGF for 2008-2017:
http://www.tigf.fr/pageLibre0001089b.htm

6. Questionnaire

Interested parties are invited to answer the following questions. Please, justify and detail as much as possible all your answers.

<u>Questions regarding possible transmission access scheme</u>

Transmission scheme:

1. For the Eastern axis on the French side, what transportation scheme would you prefer?
   - Three-step entry-exit system Spain < > TIGF < > GRTgaz
   - Entry-exit system with direct interconnection Enagas < > GRTgaz

2. If a mix of these two schemes was possible, implying a breakdown of capacity between the two options (Spain < > TIGF and Enagas < > GRTgaz South), would you support it? (This option is not included in TSOs studies so capacity could change slightly).

3. If you consider that the breakdown of capacity between the two first solutions is appropriate to satisfy your shipping needs, what would be the better “mix” (proportion)?

4. Would you prefer a different transportation scheme not specified in the consultation document? Which one? Please explain in detail your proposal.

Tariff structure:

5. In case of a direct interconnection between Enagas and GRTgaz South, what kind of tariff structure would you prefer? Do you think that the tariff applicable to the Enagas < > GRTgaz direct interconnection should be equal to the sum of the tariffs Spain< > TIGF + TIGF < > GRTgaz (i.e. Spain < > TIGF < > GRTgaz = Enagas < > GRTgaz)?

6. Taking into account both TPA tariffs in Spain and in France, do you think that the overall price for the Western and the Eastern axes should be equal?

<u>Questions regarding the coordination of Open Seasons</u>

7. In case the Western axis was not developed due to a lack of subscriptions during the open season 2013, would you support to keep carrying out the 2015 open season and, possibly, develop the Eastern axis?

8. Would you prefer to have the open seasons for the Western and Eastern axes carried out simultaneously? What would be your favourite time schedule?

Questions regarding tariff visibility

9. Tariff visibility: Considering limitations on tariff predictability, what level of tariff visibility would be appropriate for you to take part in the open seasons? Do you consider that the current tariff visibility is sufficient? How could it be improved? Please, explain your needs for price clarity

10. Binding request: What would be the right duration of the commitments by shippers (e.g. 10, 15, 20 years) to ensure a balanced trade-off between economic feasibility of the project and shippers' obligations? What kind of financial guarantee should the shippers give to back their commitments?

11. Security of supply criteria: Should security of supply be taken into account when designing gas interconnection infrastructures between France and Spain?

Questions regarding capacity products and Open Seasons' design

12. Capacity split: In your opinion, what share of the available capacity should be reserved for short term contracts and for long term contracts? Should it be the same capacity, or the same percentage of capacity, at each interconnection?

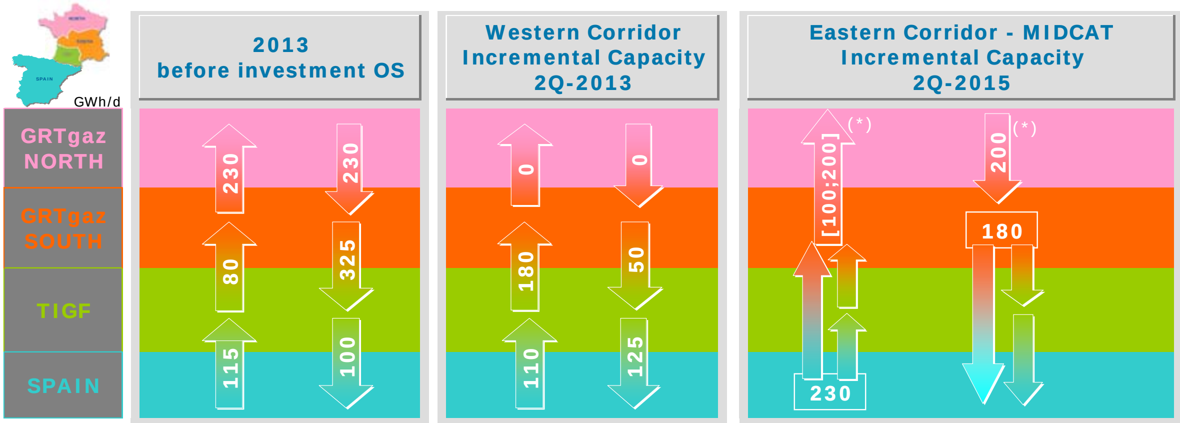
13. Allocation rules: What methodology (pro-rata, auctions, lottery, etc.) would you prefer in order to guarantee equal treatment and non discrimination? Dou you think it should be necessary to give priority to some requests? If so, on which basis? (i.e. gas corridors, longest requested period, earliest starting date, etc.? Should caps (percentage of the available capacity) on capacity assigned to the same company be established? What cap? Should the same allocation rules be applied (a) in both corridors (b) in all interconnection points (c) in both senses at each corridor?

14. Allocation phases: In your opinion, how many phases of allocation is the optimum? Do you think it would be preferable to have the possibility to renounce a) a part of the capacity allocated, b) the totality of the capacity allocated, c) both?

Additional comments

Please add any additional comment you would have on the development of interconnection capacity between France and Spain.

APPENDIX



Investments decided and not binded to OS	TSO
C.S. Navarra	ENAGAS
P.Tivissa-Paterna	ENAGAS
P. Tivissa-Castelnou	ENAGAS
P.Zarza de Tajo-Yela-Villar de Arnedo	ENAGAS
C.S.Villar de Arnedo	ENAGAS
P. Lemona-Haro	ENAGAS
Reinforcement C.S. Haro	ENAGAS
P. Vergara-Irún	NATURGAS
P. Captieux-Laprade	TIGF
C.S. Sauveterre	TIGF
Reinforce C.S. Lussagnet	TIGF
P. Artère de Beauce	GRTgaz

Investments BINDED to OS	TSO
P.Lussagnet-Lacq	TIGF
C.S. Mont	TIGF
P. Arcangues-Coudures 2 & 3	TIGF
P. Lussagnet-Captieux	TIGF
C.S. Chazelles	GRTgaz
Reinforce C.S. Sauveterre	TIGF
Reinforce C.S. Lussagnet	TIGF
C.S. Border (spanish side)	

Investments related to MIDCAT not binded to OS	TSO
P. Martorell - Figueras	ENAGAS

Investments related to MIDCAT BINDED to OS	TSO
P. Artère du Rhône	GRTgaz
C.S. At Etrez	GRTgaz
Additional C.S. at St. Martin	GRTgaz
P. Sp/Fr border - Barbaira	TIGF
Additional C.S. at Barbaira	TIGF

Investments related to MIDCAT Investments conditioned to the development of the french Infrastructure	TSO
C.S. Martorell	ENAGAS
P. Figueras-Sp/Fr Border	ENAGAS

Infrastructures and capacities related to planned open season
Indicative figures presented at the 6th SG meeting of the 21st May 2008