SOUTH GAS REGIONAL INITIATIVE

MARKET CONSULTATION ON THE DEVELOPMENT OF GAS INTERCONNECTION CAPACITY BETWEEN FRANCE AND SPAIN

SYNTHESIS OF RESPONSES

A- Questions regarding possible transmission access scheme

Question 1 and 2

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).*

Answers

The answers regarding the preferred transportation scheme for the Eastern axis are mixed. A majority of shippers would agree to a mix solution between the two first schemes (Spain <> TIGF <> GRTgaz South versus Enagas <> GRTgaz South) under certain conditions, whereas 3 shippers reject such a solution. 5 shippers propose organisation schemes based on an increased cooperation between TIGF and GRTgaz (cf. Answers to question 4).

5 shippers support the three-steps option (Spain <> TIGF <> GRTgaz South) whereas 5 other shippers are in favour of a direct link between Enagas and GRTgaz South.

Some shippers prefer one solution but also sometimes support another one, if certain conditions were to be met. This explains why the same shippers might be quoted twice hereunder.

7 shippers out of 13 would agree to the mix solutions under certain conditions: **BP**'s support of mix solution will depend on relative costs involved and whether other benefits would apply such as operational security. **E.ON** prefers a mix, if it was possible, due to the fact that it would allow more flexibility to shippers and provide with an alternative supply route. If it was impossible to merge the French zones in the shorter term (i.e. by 2013), **EDF** is in favour of the simplest and most economic solution, and would favour a mix of the direct link and of the three-steps option, if the unification of the GRTgaz's and TIGF's balancing zones was possible in the horizon of the investments proposed by 2013. **ENI** would support the mix too, as would improve the competition, prices and the diversification of the supply points in the GRTgaz South area. **GDF SUEZ** would support a breakdown of capacity between these two options in the case the tariff for the direct interconnection is lower than the tariff for the three step system. **Shipper 2** would support a mix of different schemes based on the preference

for maintaining as much flexibility as possible. **Snet** will support this alternative solution, if it doesn't create a distortion between the two interconnection points.

3 shippers reject the mix solution. For **Gas Natural Commercialisation**, the mix would bear more complexity than advantages. Just as well, for **Shipper 4**, a mix of the two schemes would make the entry-exit schemes in France's natural gas transportation system unnecessarily complex. **Iberdrola** states that the mix will certainly complicate the open seasons products definitions and the allocation procedures.

5 shippers are in favour of the 3 steps "Spain <> TIGF <> GRTgaz" option: In the case only one direct interconnection is chosen, **E.ON** would prefer the three-step-entry system. **GDF SUEZ** is in favour of the three-step transportation scheme, if the two tariffs are equal. **Iberdrola** prefers the three-step entry-exit system Spain < > TIGF < > GRTgaz, in order to have access to clients and to the underground storage reservoirs in the TIGF zone. **SNET** is favourable for a three-step entry-exit system Spain <> TIGF <> GRTgaz for the following reasons: 1) this is the only scheme that is respecting the entry-exit market structure, 2) the direct interconnection Enagas <> GRTgaz South will eventually penalize the end customers of TIGF. **Shipper 4** regards the three step entry-exit system Spain<>TIGF<>GRTgaz as the best scheme, for the following reasons: 1) It allows for simplicity and transparency of the tariff structure; 2) It allows additional optionallity; 3) Using a direct interconnection Enagas<>GRTgaz, on the contrary, raises several significant issues: a) any future developments will require similar tailor made arrangements; b) it creates several uncertainties in its implementation, regarding the role of TIGF, the maintenance, the balancing, the breakdowns, the type of contracts between GRTgaz and TIGF.

5 shippers are in favour of a direct link between Enagas and GRTgaz: **BP** states that a direct link could help to optimise gas flows regionally across the three systems, though it could be achieved in a virtual sense if there is adequate capacity to move gas through TIGF. **ENI** is in favour of a direct link as it would improve the competition in the GRTgaz South area. **Gas Natural Commercialisation** argues that, from a practical point of view, a direct link would make the shipping of gas between Spain and North-West Europe simpler. **Shipper 2** would therefore prefer the direct solution, as, in principle, they have a preference for a reduction of interfaces. **Shipper 3** explains that the direct connection to GRTgaz would allow transporting gas to North and Centre of France by reducing the balancing zones to cross.

Poweo, as well as Shipper 1, estimate that the solution should be the most economic one.

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Enagás notes that the transportation scheme and the type of capacity products depend essentially on the decisions to be adopted in France. Enagás highlight that, in relation to the capacity products offered and the overall design of the open seasons, the number of contractual points between Spain and France is irrelevant.

GRTgaz supports, for the Eastern axis, an entry-exit system with direct interconnection Enagas<>GRTgaz. This scheme also anticipates a potential evolution of the French Market design, namely a merge of TIGF and GRTgaz South market zones into a single large South zone. On the contrary, **TIGF** is in favour of the three-step option and of merging the 3 connections on the French side (Biriatou, Larrau and Perthus) into one single exit point, since it will maintain the existing entry-exit system and the economic balance of transport in the Southwest of France. **GRTgaz** thinks that a mix of schemes is structurally made possible thanks to the two different corridors envisaged. For **TIGF**, a mix of the two schemes would make the entry-exit schemes in France's natural gas transportation system unnecessarily complex.

Question 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)?

Answers

In case the mix solution was chosen, shippers propose various figures for the mix option or propose different mechanisms for determining this mix.

The following mixes between the 3 steps and the direct link options for the Eastern axis are supported, should a breakdown of capacity be applied:

- 50 / 50 (**E.ON**),
- 40 for TIGF connection/ 60 for GRTgaz connection (**GDF SUEZ**),
- 30 for GRTgaz connection / 70 for TIGF connection/ (**ENI**),

For **BP**, these figures would be ascertained as an industry aggregate, e.g. through a coordinated open season. If a mixed solution was applied, **Gas Natural Commercialisation** and **SNET** would recommend the capacity to be broken down according to the investments realised by each TSO and **Iberdrola** thinks that TIGF percentage should be higher. **Shipper 2** believes there should not be a preset proportion for the mix of different schemes. In this matter, **SNET** wishes that a transparent and clear methodology is established by each TSO, in order to assess the investments that are directly related to the creation of the new interconnection point in Le Perthus. **Shipper 1** underlines that the solution should represent the economic optimum.

Question 4

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

Answers

5 shippers propose organisation schemes based on an increased cooperation between TIGF and GRTgaz in order to commonly market and manage the capacity and/or to create a single interconnection point between Spain and France. 3 of them recommend a merger of French zones.

Shipper 1 and **Gas Natural Commercialisation** propose a single commercial management of TIGF and GRTgaz networks combined with the creation of a single commercial interconnection between Enagas and France (Larrau + Perthus). For these 2 respondents, the possible developments currently under study in the French working group “Evolution of network’s contractual structure” need to be taken into account.

Poweo and **Total** also believe that the mid-term objective should be to have a unique entry/exit point between France and Spain; in its view, it is the best solution to avoid contractual congestion at the interconnection and operational complexity. For Poweo, in any case, on the mid-term an ISO system would be a good solution in order to reduce the operational complexity between GRTgaz and TIGF.

EDF express the need for unifying the balancing zones in France as a first step and the transformation of the Spanish TPA in an entry/exit system. It also supports the subsequent merger of the Spanish and French zones. For **Poweo**, an entry-exit system has also to be put in place in order to have a unique contractual point between France and Spain.

Shipper 2 would encourage the development of a bi-directional capacity product which would give shippers the option, close to the start of a given time period, to select the flow direction during that period.

Question 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)?

Answers

Synthesis of answers to Question 5 and 6

4 shippers expect costs and services for the 2 axes to be different and recommend that the respective tariffs should be different. 2 of them fearing the consequences of different tariffs would nonetheless accept such a difference. On the contrary, 4 shippers fear that different tariffs between the axes will disadvantage the most expensive of the two axes. These shippers recommend the equality of the tariff for the 2 axes or at least some adjustments to avoid too big differences.

4 shippers fear or seem to fear a distortion between the Western and the Eastern axis. In their view, if the tariffs are different between these two axes, the cheaper one will attract more shippers, thus potentially leading to a decrease of the utilisation of the other. At the end, the customers of the more expensive axis would be disadvantaged. These shippers who fear a distortion between the Western and the Eastern axis tend to recommend the equality of the tariff for the 2 axes or at least some adjustments to avoid a too big distortion. 2 other shippers also fear such a distortion but would accept different tariffs. 3 shippers expect costs to the shippers for the 2 axes to be different. These shippers recommend that the respective tariffs should be different.

Gas Natural Commercialisation estimates that, in case of a direct link between Enagas and GRTgaz, there should be no competition between the 2 routes and that the tariffs should thus be set equal. Just as well, **Iberdrola** thinks that both tariffs should be equal to avoid favouring one French zone (TIGF or GRTgaz) over another. **Shipper 2** also believes that the two tariffs should be the same - irrespective of the routing of the gas - as the same purpose is being served. **Shipper 4** believes that the transportation cost between Enagas and GRTgaz should be the sum of the tariffs Enagas<>TIGF+TIGF<>GRTgaz, although it does not do not regard a direct interconnection Enagas<>GRTgaz as appropriate.

BP has concerns that the tariff for new capacity will significantly exceed the costs of construction, and holders of capacity at the interconnector will pay disproportionately for the support of the networks on either side. In its view, if tariffs are set to be unequal, then the holders of capacity in the cheaper pipeline will obtain an advantage - so the initial allocation mechanism will be of prime importance. For BP, it is an anomaly of the entry-exit system that it tends to result in overcharging for shorter distances and undercharging for longer distances. Therefore to pass through multiple smaller entry-exit systems between Peg North and the Spanish market (i.e. a small distance through TIGF and a small distance through GRTgaz) could be structurally more expensive than going a long distance through GRTgaz only, despite travelling the same distance. Effectively, this is a form of bypass that will disadvantage TIGF users. There may need to be some form of adjustment factor to avoid this becoming distortive.

Whereas **SNET** also does not want the tariff structure to create any distortion in the market structure of the south of France, i.e. between the two axes, it could assume a tariff a little bit lower on the direct interconnection, given the needed cost reflectivity of tariffs.

For **E.ON**, the tariff for a direct interconnection between GRTgaz Sud and Spain should be lower than the tariff for a transportation route also interconnecting the TIGF zone, as they assume that direct interconnection shall be less cost intensive. On the contrary, **Shipper 1** expects a tariff for the direct link lower than the sum of the tariffs Spain-TIGF and TIGF-GRT Gaz, given that there is less flexibility. In the limit, the direct tariff might be equal to, but never higher than, the sum of intermediate tariffs. Just as well, for **GDF SUEZ**, the tariff applicable to Enagás <> GRT Gaz should be lower than the sum of the tariffs Spain <> TIGF plus TIGF<> GRT Gaz, as the value for the shippers as well as the costs are lower. **Poweo** also believes that tariffs at interconnections must be differentiated and reflect the investments costs, to avoid distortion between costs and tariffs.

EDF is in favour of tariff additivity.

For **ENI**, tariffs on the two corridors should result from the relevant Open Seasons.

Shipper 2 wishes the tariff structure to be transparent and to reflect the bi-directional nature of the interconnection capacity, i.e. efficiency savings because of backhaul volumes should be factored in.

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Enagás believes that allocation procedures and tariff levels/structures at each point, and not the transportation scheme, are the relevant issues, together with which balancing areas are being connected through these points.

In **GRTgaz's** view, as long as TIGF and GRTgaz South are not merged, the services proposed on both axes would not be the same. In consequence, it would be logic that the price for going to, or coming from, GRTgaz should be not the same on both routes. In **TIGF** view, for the case of gas imported from Spain to be consumed in France, a lower tariff for the direct link gives to GDF Storages an economic advantage over TIGF Storages. TIGF thinks that it is not the role of transport tariffs to alter competition between infrastructure operators.

Question 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?

According to **BP**, different investment costs, different cost bases between TSOs, and different pricing methodologies may drive different primary capacity costs. As the transportation capacity markets at the Spanish-French border has not reached the liquid level which allow convergence in prices, it might be necessary to use interruptible products to help approximate this. **GDF SUEZ** also wants the expected difference of costs between the Eastern axis, which will be more expensive, and the Western Axis to be reflected in the tariff of each axis. **Poweo** believes that tariffs at interconnections must be differentiated and reflect the investments costs. **Shipper 1** understands that it is not a pre-requisite that tariffs for the two axes are equalized, although it tags the French practice of similar entry costs for similar geographical areas as a useful reference for the future interconnections.

For **E.ON**, in case the transportation route is connected with the TIGF zone, there should be no price difference for the Western or Eastern axes. However, in case of the mixed solution there should be a difference in the overall transportation price between the direct connection Spain and France and the three-step scheme. **Gas Natural Commercialisation** and **Total Gas and Power** are also in favour of tariff equality between the Western and the Eastern axis. **Iberdrola** believes that the overall price for both axes should be equal. For **Shipper 2**, given that the same market is served the overall tariffs for the eastern and Western axis should be the same. For **SNET**, in case of a three step system, on the French side, the new TPA tariff should based on the equity of all entry tariffs in France; so overall price for western and eastern corridor should be equal to this national entry tariff. In case of a mix solution, on the French side, there could be a little reduction on the tariff of the direct interconnection. On the Spanish side, SNET considers that there is not enough transparency and visibility on the TPA tariffs to be able to answer the question.

For **ENI**, the price should be the results of the Open Season Procedure.

EDF wants the 2 axes to be considered as one single interconnection. In its view, the French and Spanish systems should thus converge.

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GRTgaz states that the price of Eastern axis should be lower than the price of Western axis, given that the services are different for the 2 axes. For **TIGF**, the overall price in France and Spain should be equal to avoid underuse of one axis or another.

B- Questions regarding the coordination of Open Seasons

Question 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?

Answers

A large majority of shippers is in favour of the carrying out the open season 2015 for the Eastern axis even if the Western axis was not developed due to the lack of subscriptions in the open season 2013.

10 shippers are in favour of carrying out the 2015 open season even if the Western axis is not developed due to a lack of subscription in the 2013 open season: **BP**, **E.ON**, **EDF**, **ENI**, **Gas Natural Commercialisation**, **Iberdrola, SNET, and Shippers 1, 2, 3 and 4**. These shippers are in favour of it because the products are different. They argue that the demand for the Western and the Eastern axes might be independent. The 2015 open season would give shippers the possibility to access the Eastern part of Spain. These shippers argue that their interest for the Western or the Eastern axis depends on the location of their demand.

GDF SUEZ, which does not clearly express a preference, notes that, if there are no requests for the Western axis, it would be surprising that request for the Eastern axis are received. In that case, a new round should be held for the Western axis.

Shipper 4 is clearly against holding a 2015 open season in case the Western axis is not developed.

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Enagás is in favour of carrying out the two open seasons. **GRTgaz** would support to keep carrying out the 2015 open season because investment program associated to the development of capacities on the Western axis is largely independent from the investment program associated to the creation of new capacities on the Eastern axis. On the contrary, for **TIGF**, if there are not enough subscriptions for the Open Season in the Western axis in 2013, it probably means also that there is not enough interest in carrying out the Open Season for the Eastern axis for 2015.

Question 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?

Answers

7 shippers are not in favour of simultaneously holding the open seasons whereas 3 shippers want the open season to be held simultaneously. In the latter case, 2 shippers wish conditional bids to be possible.

ENI thinks it is more appropriate to carry out the open seasons in two different phases: the open season for the Eastern axis should be carried out just after the publication of the results of the Western axis open season. **SNET** prefers the open season 2013 to occur first and then the open season 2015. **Iberdrola** would like to have the Eastern axis open season after the Western axis one, as its commercial operation date is two years later, and the closer the open season to the COD, the more information shippers would have. **Shipper 1** would see some difficult problems of consistency in having the two open seasons simultaneously, but they would not completely rule out this possibility as long as: 1) Adequate coordination is assured and 2) the timeline of each axis remains independent and unaffected. **Shipper 4** estimates that simultaneous open seasons would add to much capacity in the same time. In his view, adding capacity step by step is preferable. **Gas Natural Commercialisation** is opposed to simultaneous open seasons because the products offered are not the same. It proposes to bundle the capacity at Larrau and Perthus and to offer a unique product Spain <> France with a build up in 2013 and 2015. The developments would then depend on the answers received. **GDF SUEZ** is in favour to launch at first the Open Season for the Western axis, whom the cost of development is the smallest. Then, after the end of this process and if shippers need additional capacities, the Open Season for the Eastern axis could be launched. **Shipper 3** prefers not developing the open seasons simultaneously, which will allow shippers to assess first open seasons results, with a better participation in the second open season.

Though in favour of consecutive open seasons, **BP** also think that consecutive open seasons would allow parties a second shot if they were unsuccessful in the first round.

BP is in favour of simultaneously holding the open seasons, as long as conditional bidding is included, such that a party may register an interest in the Western route or the Eastern route but not both, and the preferences would help indicate where capacity is most valued. **E.ON** also prefers to carry out the open seasons simultaneously. In this case, it would like to have the possibility to communicate bids for different scenarios. This would cover the case that one of the axes - the Western or Eastern - would not be developed due to a lack of subscription. **Shipper 2** believes that should be considered to launch both open season processes at the same time to be able to coordinate efforts and to gauge shippers' interest for these two options at the same time.

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Enagás recommend assessing market demand simultaneously in the Western and Eastern axes. Enagás agrees to carry out a first round where shippers would be asked for binding requests for the Western corridor and, if possible, also for binding requests in the Eastern corridor. For **GRTgaz**, the only way to assure the simultaneity of information is to carry out both open seasons, Western and Eastern axis, at the same time. **TIGF** is in favour of carry out simultaneously a binding open season in the western Corridor and a non binding open season for the eastern corridor. But, in its view, the separation of the two open seasons could be a way to accelerate and guarantee the development of interconnection capacities.

Schedule

2 shippers (**BP** and **E.ON**) want the open seasons to be held as soon as possible.

SNET wants the open season 2013 to be held in Q2 2009 and the open season 2015 in Q3 2009.

GDF SUEZ would like that the Open Season for the Western axis takes place in 2009 and ends before the end of this year and that the Open Season for Eastern axis takes place in 2010.

Iberdrola suggests to set the Eastern axis open season latest possible.

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From **Enagás** point of view the most relevant issue is ensuring the scheduled infrastructure investment is not delayed. **GRTgaz** wants the open seasons to be launched in 2009.

C- Questions regarding tariff visibility

Question 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.

Answers

Shipper's satisfaction is mitigated regarding tariff visibility in France and Spain respectively. To enhance this visibility, half of the shippers call for a longer tariff visibility and 3 shippers require a tariff band to be given during the open season.

For **E.ON**, the transparency is sufficient in France and an outlook on possible tariff developments for the coming years would be welcomed. For **SNET**, the visibility should be given on the evolution of tariff levels at the interconnection points on a 10-year period. In its view, tariff visibility on the Spanish side should be increased, in duration and in transparency, in order for them to take part to the binding open season. For **BP**, the overall visibility is not sufficient. **Shipper 1** explains that, in the open season, the shipper is requested to take long-term commitments without having certainty on which will be the evolution of the tariff along time, because transport tariffs are fixed annually by the Governments[1], which cannot be deemed as predictable, given the technical complexity of tariff revisions. For **Iberdrola**, at present, there is no information about what tariffs will be applied or even about what tariff structures will be established for the new capacity.

The large majority of respondents state that enough tariff visibility should be provided by TSOs and NRAs. This is because shippers should be able to estimate their commitments in order to present their binding bids within the open season. **GDF SUEZ** remains that, according to the GGPOS, indicative values and underlying methodologies regarding tariffs should be contained in the information memorandum of open seasons. **Shipper 3** considers it worthy that TSOs publish tariffs on their web page before the open seasons.

6 shippers call for a longer tariff visibility. **EDF** is in favour of longer tariffication periods, as **Gas Natural Commercialisation** and **Shipper 1**, who also wants the possibility to review the tariffs every 5 years. **SNET** considers that a visibility should be given on the evolution of tariff levels at the interconnection points on a 10-year period. In its view, the visibility could be given using the same

[1] In Spain only. In France, CRE proposes TPA tariffs for a 4-years period.

mechanism as the ones created in the 2009 French TPA tariff: extension of the tariff lifetime, with a fixed definition of the trajectory of TSOs authorized incomes on the period. Just as well, for **Shipper 4**, the tariff should meet the following tests: 1) the tariff structure and evolution rationale should be known at the time of the open season; 2) all tariffs for connection between the two markets (France and Spain) will evolve in the future in a similar way, avoiding one capacity to become uncompetitive due to uneven regulatory changes to tariffs. For **BP**, ideally, the shipper should be able to fix a tariff for the length of the commitment. At least, there should be some forward transparency of methodologies. This is necessary to allow shippers to make a sensible evaluation of the two alternatives. **E.ON** would welcome an outlook on possible tariff developments for the coming years.

3 shippers require a tariff band to be given. **GDF SUEZ** wants the indicative values given in the information memorandum to be as precise as possible, for example with no more than 20 % difference between the lower and the higher price of the bracket. **Iberdrola** requests that shippers need to have, before making the decision about their open season binding requests, at least a tariff band within which the fee to be charged in the future for the new capacity will be located. **Shipper 2** also calls for a tariff band for the non-binding phase and requires the tariff to be set for the binding phase of open seasons.

In **ENIs** opinion, the expected tariff level should allow shippers to estimate their commitments in order to present their binding bids in the procedure.

Poweo considers that there is no need for long term tariffs, given the commitment of regulators and TSOs to guarantee fair and non discriminatory access prices. Moreover, in its view, long term tariffs prevent regulation evolutions and could create a coexistence of different tariffs for the same services.

Shipper 4 thinks tariffs structure should abode by the principle “one tariff for one service”. Therefore, any exit at a specific point should carry the same tariff. Furthermore **Shipper 4** would propose one tariff for all exits and one price for all entries between the two countries. It considers that the tariff structure and evolution rationale should be known at the open season time.

According to **BP**, improvement would be possible through a transparent formula based on actual costs and a reasonable rate of return.

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GRTgaz remarks that, in this particular case, the marginal development cost of capacity is very high. Therefore, the ratification schemes chosen by NRAs will have a great influence on the capacity prices at the interconnection. In **TIGFs** view, the tariff predictability didn’t seem so far to be a real problem for shippers, who proved to be able to commit themselves for long periods without knowing precisely the level of tariff they would have to pay. It considers that the establishment of rules for tariff methodology and the commitment of not changing the rules are the best way to give visibility.

Question 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?

Answers

A majority of shippers is in favour of 10-years commitments.

The following durations for shipper’s commitment are recommended:

- For **BP**, a variety of terms should be available, with the shortest no longer than 5 years.

- **Gas Natural Commercialisation**, **Iberdrola**, **Shipper 2** and **Shipper 4** are in favour of a 10 year commitment.
- **Shipper 1** is in favour of a commitment of 10 years at least.
- **Shipper 3** and **Iberdrola** propose 10 years as a maximum.
- In **E.ONs**, **EDFs** and **SNET**s views, a binding request for long-term capacity for a period of 10 - 15 years would be sufficient. For **SNET**, in any case, the duration of binding requests made by shippers should not be greater than the tariff visibility.
- For **ENI**, the possible range of duration of the shippers' commitments could be reasonably set, in our opinion, between a minimum of a month and a maximum of 20 years.

GDF SUEZ imagine that there could be some financial incentives for long term commitments, e.g. over 10 years.

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Enagas notes, that, during the past discussions in the S-GRI framework, 10 years have been considered as a maximum, not as a minimum, and reminds that some investments in France have already been developed without long-term commitments, as it has been the case of the investments necessary to unify the three northern balancing zones. For **GRTgaz** and **TIGF**, duration of 10 years should be considered as a minimum.

Guarantee

For **BP**, the guarantee should depend on the ability of the TSO to recover the revenues in case of default. The guarantee should also be no higher than necessary or it will raise barriers to competition. This means that the TSO should not have guaranteed revenues such that it has no incentives to remarket capacity or to guard against default. A credit mechanism that allows TSOs to recover the costs of the investment, but not the revenues should be sufficient.

Shipper 4 considers that the guarantee must not be a barrier to flexibility and market dynamism.

E.ON believes that shippers should provide the relevant TSO with a financial guarantee at the amount of the transportation costs for six months based on the transportation tariffs applicable in the period of the binding phase. **EDF**, **Gas Natural Commercialisation** and **Shipper 4** want the guarantee to be the same as for the open season at Taisnières.

For **E.ON** and **EDF**, shippers shall not provide a financial guarantee in case it possesses a sufficient credit rating from a rating agency. **Shipper 2** believes that each shipper's creditworthiness should be the decisive factor in determining the need for financial guarantees.

For **GDF SUEZ**, the mechanisms already in place in the TPA rules of the three TSOs seem sufficient to back the commitment of the shippers.

For **Poweo**, as it is not possible for a TSO to cover the total risk incurred by the default of a shipper, there is no point asking financial guarantees to shippers.

Iberdrola refers to the common practices in the gas industry regarding guarantees.

Question 11

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

Answers

For some shippers, security of supply should be taken into account when dimensioning transmission and storage infrastructures. Most of the shippers consider security of supply as crucial. However, there is no concrete proposal on how to finance extra capacity for security of supply reasons.

For **Gas Natural Commercialisation**, security of supply should be taken into account when dimensioning the infrastructures and choosing the allocation rules. **Iberdrola** considers the security of supply criteria to be almost as important as the open season results. **Shipper 3** considers security of supply criteria of upmost importance. For **E.ON**, **Poweo** and **Snet**, security of supply criteria should always be taken into account when developing infrastructures. In **E.ONs** view the construction of the Easter axis is crucial for security of supply. EON estimates that expected mid-term physical flows through the interconnection should be analyzed in order to develop the necessary additional security infrastructures (storage) and that the reservation of long-term interconnection capacity between France and Spain should have a sufficient impact on the security of supply for the relevant markets. For **Shipper 4,** security of supply is a key element to consider, it thinks that this open season is likely to increase security of supply in Spain, but not in France as the French market would be losing some of its "pipeline gas" to Spain. France will have a theoretical better access to Spanish LNG terminals although, in practice, this access is actually never used as the gas flow at Larrau is never significantly stopped. The group Spain+France will be more balanced, and increase its security of supply. **ENI**s opinion is that SoS is a key issue for every infrastructure investment.

For **GDF SUEZ**, **Iberdrola**, **Shipper 1** and **EDF**, is clear that the expansion of interconnection capacity will improve security of supply.

For **BP**, bidders for capacity must understand if additional capacity will be created to meet security of supply objectives, and how costs of any additional capacity will be recovered.

For **Shipper 2**, Infrastructure investment into security of supply is for the EU Member States to decide.

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In **Enagás'** view, the construction of extra-capacity over shippers' request is highly convenient for Security of Supply reasons. As shippers are not prone to pay for extra capacity over their needs, NRAs should find ways to ensure that the required level of investment is met through a regulatory framework. For **GRTgaz**, another source of financing would be required for developing additional capacities for increased Security of Supply needs. For **TIGF** and **GRTgaz**, the development of interconnections contributes in itself to the security of supply. **TIGF** considers that, in any case, the investments must remain market based.

D- Questions regarding capacity products and Open Seasons' design

Question 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?

Answers

A vast majority of shippers is in favour of setting aside a share of the developed capacity for short term bookings. Shippers recommend various splits between long term and short term capacity. Some of them propose introducing also medium term capacity booking. Many shippers highlight the need for effective UIOLI mechanisms.

The following split between long term and short term are considered to be appropriate:

- 75 / 25 (**BP**),
- 70 / 30 (**E.ON, Shipper 2, Shipper 4**),
- 25%-30% for short term contracts (**Shipper 3**)
- 20% maximum reserved for short term contracts (**SNET**)
- 60% for long term contracts (> 10 years), 20 % for medium term contracts (4 years) and 20% for short term contracts (2 year or less) (**GDF SUEZ**),

Iberdrola would like to have the choice between 1 year and less contracts and contracts of more than 10 years. In its view, more flexibility is needed.

In **ENIs** view, the most appropriate share is the one resulting from market needs deriving from the commitments stated by the shippers participating in the open season.

4 shippers (**EDF**, **E.ON**, **Gas Natural Commercialisation**, **Shipper 1, BP**) insist on the fact that effective UIOLI mechanisms and secondary markets should also be put in place. In this case, **Gas Natural Commercialisation, Shipper 1** would agree with selling 100% of the capacity on a long term basis, since short term contracts is less effective for the infrastructure's optimization.

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For **GRTgaz**, a maximum of 10% of new developed capacity should be reserved for short-term contracts at each interconnection. For **TIGF** a ratio of 80/20 seems to fit shippers expectative.

Question 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?

Answers

A large majority of the shippers is in favour of the pro-rata allocation methodology. Most of the shippers also support applying the same rules for the 2 open seasons. Many shippers want to give the priority to the requests with the longest period and starting at the earliest date. 2 shippers insist that the type of capacity required (e.g. multi-annual flat) should be the type of capacity allocated.

E.ON, **Iberdrola**, **Poweo**, **SNET** and **Shipper 4** prefer an allocation on pro-rata basis, with a priority for longest requested periods and for the earliest starting date. **E.ON** wishes no caps on capacity assigned to the same company in case there will be also capacity offered on a short term basis. **Shipper 4** also recommends splitting capacity into a 10, 5 and 1 year tranches.

BP believes that open seasons are best for allocation of new capacity; auctions for existing capacity that is constrained and First Come First Served for capacity that is not constrained. If capacity can only be constructed in discrete amounts, then subsequent rounds can be used to identify non-firm interest.

ENI believes that, in case of congestion, the best methodology is the auction: the capacities allocated result from the most profitable combination of shipper's requests and the corresponding monthly price

is the so called System Marginal Price. In **Poweo's** view, regular auctions could be an option for short term capacities.

Gas Natural Commercialisation proposes to give the priority to commitments offering the best risk cover, and then a priority for longest requested periods and for the earliest starting date. **Shipper 1** deems the allocation rules of similar recent process (Open Season Belgium-France, for example) adequate: priority for higher volumes and longer terms. **GDF SUEZ** is in favour of giving priority to the requests with the longest period and not establishing a cap on capacity.

For **SNET**, an additional criteria could be to give priority to shippers having delivery capacities (or potential capacities linked to connection of new delivery points) in the output balancing zone of the request. For **SNET**, a cap on capacity assigned to the same company could be defined (e.g. 20%), as non-hoarding mechanism.

Shippers want the same rules to be applied for every product (**Gas Natural Commercialisation**), in both corridors and flow senses (**Shipper 1**, **Iberdrola**, **SNET**), on the both corridors (**GDF SUEZ**), in both corridors, at all interconnection points and in both directions (**E.ON**).

EDF wishes that the products requested, e.g. flat multi-annual capacity, are effectively the products allocated. For **Iberdrola**, it is important to make very clear which is the exact quantity over which the pro-rata will be made: over the available annual flat capacity, over the available multi-annual flat capacity, or over the available seasonal capacity.

Iberdrola thinks that firstly, gas corridors (same capacity requested at all sides) should be allocated and states that no cap should be established.

For **Poweo**, allocation rules have to be similar, timing for requesting commitment to shippers has to be consistent and timeline of the project has to be shared and agreed by both TSO and Regulators. This is a major point to avoid any mismatch in the development of capacities and useless investment.

BP insists that regulators should make sure that small players and new entrants who will tend to book shorter term commitments are not permanently excluded.

Shipper 2 points out 2009 Energginet DK open season as a reference for establishing open season rules.

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GRTgaz and **TIGF** support the pro-rata allocation rule, although auctions could be considered for GRTgaz, but this method requires thinking over the global tariff model. GRTgaz is in favour of giving priority to the earlier starting date and to the longest period request. Moreover, GRTgaz and TIGF support same allocation rules on every point, every direction and every corridor, without any consideration on corridors. TIGF supports no priority at all.

Question 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?

Answers

A large majority of shippers consider 2 phases as the optimum. A large majority is also in favour of having the possibility of totally or partially renouncing the capacity allocated.

A large majority considers, explicitly (**E.ON**, **Gas Natural Commercialisation**, **GDF SUEZ**, **SNET**, **Iberdrola** and **EDF**) or implicitly (**Shipper 1**) 2 allocation phases as the optimum.

For **E.ON** and **EDF**, shippers should have the possibility to indicate below which percentage of the requested capacity or below which they would renounce the allocated capacity. **ENI**, **Gas Natural Commercialisation**, **Shipper 1** and **SNET** propose that shippers have the possibility to renounce to a part or to the totality of the capacity allocated during the first phase. For 2 shippers, this renouncement should be limited to, for example, 20% (**Iberdrola**) or to the amount of capacity that has not been allocated to the other shippers (**GDF SUEZ**). In the latter case :1) Shipper A and B want to release 10 GWh/j of capacity; 2) Shipper C has been allocated for 30 GWh/j when its demand was 35 GWh/j; 3) Then Shipper A and B can release 35 - 30 = 5 GWh/j of capacity. For **Iberdrola**, shippers should also have the possibility to renounce to part of the capacity allocated in the second phase, to let shippers get a capacity as similar as their request.

Shipper 4 believes renouncing capacity should not be allowed. In its view, allowing it would create the wrong incentives on capacity requirement submissions.

For **E.ON**, **Iberdrola** and **Shipper 1,** shippers shall have the possibility to communicate their binding interest in additional capacity in case capacity has been given back by other shippers. This capacity should then be allocated on a pro-rata basis.

For **BP**, one mechanism worth considering is the charging of option fees for registration of firm interest. If an option is converted to a firm booking, the option fee could be refunded. If a bidder withdraws, the fee is sacrificed.

Shipper 3 considers recommendable the possibility of renouncing to 50% of the initially committed capacity.

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For **GRTgaz**, the allocation procedure should be organized in only one phase and the shipper would be allowed to specify pre-defined cases for renouncement. **TIGF** recommends two phases of allocation, with the possibility of a partial renouncement between them.

E- Additional comments

EDF wants the Spanish and French transmission systems to converge before the shippers commit themselves. It means that, for EDF, the Spanish side gas has to decide, before the open season, to implement an entry/exit TPA system by the entry into operation of these investments. This is today the main concern of EDF with regards to the projected open season. **Poweo** believes that the mid-term objective should be to have a unique entry/exit point between France and Spain; it is the best solution to avoid contractual congestion at the interconnection and operational complexity. To fulfil this objective, an Entry/Exit tariff has to be put in place in Spain.

Gas Natural Commercialisation assesses that the capacity will be partly booked for transit needs. This will allow an economic optimisation, thanks to a high load factor, as well as a commercial optimisation, as the transit bookings will enable increased backhaul bookings.

Iberdrola does not support that the Open Season includes investments which are already decided. It therefore requests capacity already decided, e.g. on the Spanish side, or already in operation to be allocated in coordination with the open season but with different procedure, as no long term commitments should be required for this existing capacity.

Iberdrola remarks that the open season procedure has been imposed to shippers as the only way to go forward with the development of capacity at the border, as a result of the different investment decision processes applied in France and Spain. This is mainly because the open season is required in France for taking the decision to build new capacity at the border. Nevertheless, Iberdrola also wants the development of these strategic infrastructures for Europe not only to rely on open season results but also on other decisions made from a global EU point of view, considering issues like security of supply and diversification of supplies, as it is the main reason of the TEN development and in the spirit of the 3rd package.

Poweo asks NRAs to take into account the French working group set up in order to study the merger of GRTgaz North and GRTgaz South balancing zones. A first part of this study will be known in Q2 2009. He believes it would be inappropriate to launch an open season for the GRTgaz North <> GRTgaz South capacity before the conclusion of these studies. He is preoccupied that such an open season might foreclose the merger of the 2 zones. **GDF SUEZ DGI** considers that there should be taken into account the LNG terminal projects of Fos Cavaou and possibly Shipper 2 Faster before allocating the South <> North capacity.

BP states that capacity should not be mandatorily bundled on both sides of the borders, so that parties already holding capacity on one side of the border are not disadvantaged. **BP** also requests a common standard to be applied for reference temperature, which is still of 0 ℃, contrary to the rest of Europe, where it is 25 ℃. BP also asks for increas ing capacity availability in TIGF, since this would increase pipeline utilization across both systems.

For **EFET**, if capacity is not forthcoming in a timely way from TSOs, then Regulators should allow market participants or other unregulated entities to take the risk of building the needed interconnection capacity.

Enagas clarify in its response the capacities that will be developed in the western axes regardless the open seasons results.

Shipper 1 points out the delays in the development of the new capacity and the fact that demand was six time the capacity offered in the OSP, which should be a clear indicator of market needs.

18 answers were received, among them 5 are confidential. All respondents provided detailed answers, except EFET and GDF SUEZ DGI.

Type of respondent	Answer received	Confidential
Shippers	BP	NO
	E.ON	NO
	EDF	NO
	ENI	NO
	Gas Natural Commercialisation	NO
	GDF SUEZ	NO
	GDF SUEZ DGI	NO
	Iberdrola	NO
	Poweo	NO
	SNET	NO
	Shipper 1	YES
	Shipper 2	YES
	Shipper 3	YES
	Shipper 4	YES
Association	EFET	NO
TSO	Enagas	NO
	GRTgaz	NO
	TIGF	NO