

Paris, 18 June 2009

## **Synthesis of responses to the public consultation on the access to natural gas transmission networks in France and on the development of gas interconnections with Spain**

Between 5 May and 29 May 2009, the CRE (*Commission de Régulation de l'Énergie* – French Regulatory Energy Commission) organised a public consultation on access to the natural gas transportation networks in France and the development of the gas interconnections with Spain.

The CRE received 42 contributions (see list in the appendix), broken down as follows:

- 19 were received from shippers, including Uprigaz and EFET;
- 12 were received from final industrial consumers, including Uniden;
- 7 were received from gas infrastructure operators;
- 4 were received from other stakeholders in the market, including AFG.

The first lesson of this public consultation was the unanimously positive response of the market to the new structure put in place since 1 January 2009: the merger of the three balancing zones in the north has improved market liquidity across the zone and has led to more vigorous competition, to the benefit of consumers. The great majority of respondents also shared the analysis of the difficulties identified concerning access to the transmission network in the South of France as presented in the consultation document.

In addition, the majority of market players expressed themselves as:

- in favour of the ultimate establishment of a single market zone for gas transmission in France;
- against the maintenance of the existing tariff structure.

A small majority of the market stakeholders, made up of approximately half of the shippers and all the final industrial consumers, was favourable to the merger of the North and South zones on the GRTgaz network as described in the report of the Concertation Group, which would be of a nature to develop competition by creating economic conditions of equal access for all suppliers in the South of France. These stakeholders believe this solution to be realistic on the 2011 timescale. They consider that the obstacles identified can be overcome by in-depth analyses and a modification of the regulations currently in effect.

In contrast, the other half of the shippers and the gas infrastructure operators were either opposed to this solution, or were very reserved as to its feasibility, believing that it presents difficulties and risks in terms of its operational, legal and political implementation and that it would tend to reduce the appeal of the storage infrastructures and LNG terminals in France.

The market stakeholders were divided as to the organisation of the three-zone structure, as described in paragraph 4.2 of the public consultation document:

- half of the shippers, as well as a majority of the gas infrastructure operators, favoured this solution, which is more realistic in terms of timetable and would improve transportation conditions on the transmission networks in France while encouraging movement towards greater regional and European integration of the gas markets. This solution would help develop competition in the south of France by facilitating exchanges between the TIGF and GRTgaz South zones and by simplifying the development of interconnections with Spain;
- if the merger of the North and South zones should fail to take place, some of the shippers who were in favour of the merger would consider this solution to be an acceptable alternative as long as certain observations and propositions concerning the practical terms of its implementation were taken into account;
- the final industrial consumers were in favour of this arrangement, but only if it were implemented alongside the merger of the North and South zones;
- the majority of the contributors who expressed themselves as in favour of this solution or who did not oppose it said they would wish to see implementation as soon as possible or by 2011.

The market stakeholders were also divided about the proposed system of conditional capacities on the North-South link, while a majority of them was in favour of a mechanism of releasable capacities for the regulated LNG terminals in order to facilitate competition and provide better access to the South of France.

Concerning the tariff changes, a majority of the market stakeholders was opposed to an increase in the charge on the North-South link, which would accentuate the difference in the cost of access to the south between the shippers entering from the North zone and those entering directly via the LNG terminals.

Concerning the capacities marketed in the framework of the France/Spain Open Seasons, most of the market stakeholders were in favour of the long term commercialisation of the new capacities created between balancing zones in France, with the other capacities continuing to be sold on a short and medium term basis.

**Question 1 : What is your experience of the implementation on 1 January 2009 of the new transmission structure with three balancing zones?**

**The overwhelming majority of the market stakeholders considered that the implementation of the new transmission structure with three balancing zones on 1 January 2009 represented real progress, enabling improved market liquidity in the greater North zone and leading to increased competition and competitiveness among shippers in this zone.**

**A majority of the market stakeholders, shippers and consumers principally, considered that this change had not solved the problem of access to the South of France, which was principally due to the difficulty of obtaining access capacities to this region.**

**Concrete proposals for improvement were put forward concerning the North-South link, consisting especially in the implementation of a prorata temporis system for intra-day re-nominations and the inclusion of customer portfolios in the allocation criteria for North > South capacities.**

Shippers (15):

The 13 shippers who expressed views on the merger of the North H, East and West balancing zones in a greater North zone, considered this change as a real step forward that had enabled:

- improved liquidity at PEG North, according to 5 shippers, and a deepening of the market, according to 1 shipper;
- simplified operational management of transportation by the shippers, according to 5 shippers, especially in terms of management of the daily imbalance accounts, according to 1 shipper;
- increased competition and competitiveness among shippers in this zone, according to 2 shippers;
- simplified access to a greater North zone, according to 3 shippers;
- improved fluidity towards the south through the Use-It-Or-Lose-It (UIOLI) principle, according to 3 shippers, associated with better daily optimisation of existing capacities thanks to the implementation of the new nomination rules on the North-South link, according to 2 shippers;
- simplification and improved transparency of transportation costs, according to 1 shipper;
- more secure supplies for France, the Iberian peninsula and Central Europe, according to 1 shipper;
- better legibility of the flows transported on the French networks thanks to the single North/South and South/TIGF links, according to 1 shipper;
- significant development of the wholesale market at PEG South, in particular, the short term market, according to 1 shipper.

However, 13 shippers considered that this change had not solved the problems of access to the South of France related to:

- the difficulty of obtaining access capacities to the South zone via the North-South link, according to 7 shippers, with availability to access being strongly impacted by maintenance operations and by the mode of sale by OSP, according to 1 shipper, or the difficulty of obtaining physical access capacity from the Fos terminals, according to 1 shipper;
- the complexity and problems of the operational management of access to the South zone, especially including the obligation of nomination on the North-South link, according to 3 shippers;
- the availability of major quantities of interruptible capacities each day on the North-South link, according to 4 shippers, and the difficulty, for new suppliers, of understanding the operation of these capacities, according to 3 shippers;

- the existence of a tariff barrier for alternative suppliers, who do not have access to the South zone in the same economic conditions as the historical operators, according to 1 shipper;
- greater difficulty filling storage facilities in the South zone, due to the modification of the attribution rules governing storage rights enacted 1 April 2009, according to 1 shipper;
- the absence of any joint commercialisation of daily capacities at the TIGF-GRTgaz interface, according to 1 shipper.

1 shipper considered that access to the North B zone constituted an economic handicap for alternative suppliers, who must pay an excess charge for such access.

1 shipper regretted that the ex-post imbalance circulation algorithm had been eliminated.

3 shippers proposed the following improvements concerning the North-South link: the implementation of a prorata temporis system on capacities allocated in the framework of intra-day renominations, according to 2 shippers, and the implementation a minimum rate of use of North-South link capacities according to 1 shipper.

#### Final industrial consumers (9):

5 final industrial consumers, including Uniden, considered the implementation of the new transmission structure on 1 January 2009 as positive. It had led to the creation of a real market in the greater North zone, open to competition with an increased offer from new suppliers.

4 final consumers observed that competition had lessened in the South or in the TIGF zone. They pointed out that suppliers who did not have access to gas in the zone concerned were not competitive, and in consequence there are not enough of them in the zone. According to 1 final consumer, this situation was due to the lack of access capacity to the South zone.

The latter consumer observed that, since the opening up of the markets, the network structure had led to very great disparities in natural gas access conditions, depending on the geographical location of the sites. Thus, a difference of several €/MWh had sometimes been observed between prices in the two zones, to the detriment of the South zone, at sites that were otherwise comparable in terms of volumes and consumption profiles.

1 final consumer said they had not noticed any significant effect in the greater North zone. According to this consumer, liquidity at PEG North remained low and the volumes handled on Powernext were very limited and insufficient to ensure the supply a single major site in France.

#### Gas infrastructure operators (4):

4 gas infrastructure operators considered the implementation of the new transmission structure on 1 January 2009 as positive. It had allowed:

- easier and more direct access to PEG North from Montoir, according to 1 operator, who noted that his customers increasingly cite upgrading through structural operations at PEG for cargos that may be discharged. In addition, this operator had observed a significant increase in the number of requests for feasibility;
- the arrival of 8 new shippers in the GRTgaz South zone, according to 1 operator;
- a real opening up of the market in the TIGF zone (on 1 April 2009, 24% of the volumes sold for Public Distribution, and 38% of the volumes sold to industry had suppliers different from those in 2004), according to 1 operator;
- a reinforcement of the structural role of the North-South link, according to 1 operator, due especially to the implementation of a system of nomination on the link in order to optimise the use of the available capacities. According to this operator, the short term UIOLI mechanism thus put in place had shown its efficiency, with the rate of use of the link being over 90% since the 1 January 2009 (peak at 99% in February);
- success in weathering the major operational crises that had occurred since implementation, according to 1 operator;

- the implementation of more varied and flexible storage offers in each of the zones, in particular in the GRTgaz South zone, to respond to different customers needs, according to 1 gas infrastructure operator;
- the proper operation of capacity sales, thanks to coordination between GRTgaz and TIGF, and the simplification of operational management by the shippers, according to 1 gas infrastructure operator.

1 gas infrastructure operator pointed out that the activity of "newcomer" suppliers in the TIGF zone did not seem limited by their access to transmission entry capacities from GRTgaz.

1 gas infrastructure operator underlined the negative impact of the changes of certain transmission tariff terms on conditions of access to storage capacities in the GRTgaz South zone.

1 gas infrastructure operator wondered about the usefulness of maintaining the commercialisation of one, two, three and four year capacities at the interface between GRTgaz and TIGF, which made the process cumbersome. According to this operator, shippers had been satisfied with a simpler approach at the OSP at the Larrau point (one 10-year product, one 1-year product).

#### Other market stakeholders (2):

1 market stakeholder saw this change as real progress enabling improved liquidity at the PEG North, with increased competition and competitiveness among shippers on this zone as well as the simplification and improved transparency of transmission costs.

1 other market stakeholder considered that the current situation in the South hampered the development of liquidity in this region. Above all, it made discussions about the interconnection with Spain enormously complicated, and diminished hope of a significant short-term improvement of liquidity in France, in particular in the South.

#### **Question 2 : Do you agree with the analysis of the difficulties identified in accessing the gas transmission network in the south of France? Have you identified other constraints?**

**The overwhelming majority of shippers and final industrial consumers shared the analysis of the difficulties identified as regards access to the transmission network in the South of France. Several stakeholders insisted on the competitive disadvantage suffered by alternative suppliers in this region, given the difference in the cost of accessing the south between shippers entering from the North zone and those entering directly via the LNG terminals in the South zone. This was due principally to the lack of available capacities on the North->South link and at the Fos LNG terminals, and was accentuated by a pro rata allocation mechanism, which generated a scarcity effect.**

**The infrastructure operators and certain shippers were more moderate with respect to this analysis, or disagreed with it, especially as regards the difficulties of access via the Fos LNG terminals.**

#### Shippers (14):

The overwhelming majority of shippers, i.e. 13 shippers out of 14 who expressed an opinion, agreed with the analysis of the difficulties identified in accessing the gas transmission network in the South of France.

1 shipper pointed out that there were real physical difficulties of access in the South of France. According to this shipper, the implementation of combined cycles in the South of France would lead to additional demand for access capacities from the suppliers involved. These needs could not be covered by the current system of North > South capacity allocation, which would result in the rationing of the capacity allocated to each new incomer.

3 shippers pointed out that there were real economic difficulties of access to the South of France, due to differences in access costs as compared with the historical operators. According to those shippers, these differences create a competitive disadvantage for alternative suppliers in the South of France, which prevents these alternative suppliers of competing fully with Total and GDF SUEZ. According to 1 shipper, this disadvantage can be assessed as approximately the price of the North > South capacity (i.e. approximately €0,6 /MWh). This would be worsened under the terms of the CRE proposition, which would lead to an increase in the North/South charge (€0,75 /MWh). These values exceed the expected sales margins in the final market. Such a disadvantage is incompatible with the opening up of the gas markets and the development of competition. It must therefore be eliminated at the earliest opportunity. This shipper explained this competitive disadvantage as follows:

- on the one hand, the supply of gas imported to the South zone via gas pipeline is encumbered by the cost of the North->South link. The putting into service of the Fos Cavaou terminal would mean that the historical stakeholders, who hold most of the long term capacities, could supply the greater part of their needs in the South by LNG and thus limit provision by gas pipeline to the North zone. The alternative suppliers however would still have no choice but to use the North->South link to meet their South needs;
- on the other hand, although the future development of entry capacities from Spain in 2013 may create new accesses to the South zone, available in principle to all suppliers, these accesses will nonetheless remain clearly more expensive than direct access to the South zone via the Fos terminals.

4 shippers thought that the lack of firm capacities on the North-South link, combined with the capacity allocation mechanism based on OSP, had created a scarcity effect that was prejudicial to all the shippers, as well as a fragmentation of capacities:

- on the one hand, demand had outstripped supply;
- on the other hand, the capacities had been redistributed to a larger number of shippers, not all of whom had immediate need of capacity, which made the assembly of supply for large volumes difficult.

1 of these shippers added that this mechanism was not suited to new shippers with growth-based portfolios as it did not allow for gradual growth in the gas volumes delivered and encouraged reserving capacities on an annual basis. This situation resulted in a loss if the capacity was not used or resold.

4 shippers pointed out that interruptible capacities were not a very interesting product for many shippers who were seeking long-term access to the French market, as they did not provide security of supply for their final customers; it so happens that these capacities turn up in large quantities on the North-South link. According to 1 shipper, this situation arose from the dependence of North-South link capacities on gas supplies at other entry points on the network, in particular in the North zone.

1 shipper added that the short term UIOLI mechanism put in place on the North-South link was inefficient, due to the possibility of intra-day re-nomination, without consideration of prorata temporis rights. Short term UIOLI capacities acquired for one gas day have a very low value as they can be lost entirely right up to the end of this gas day in the event of re-nomination by the shipper who initially held the capacity.

3 shippers pointed out that the liquidity of the wholesale market in the South of France was very low on the spot market and non-existent on the futures market. This constituted an additional difficulty for shippers whose only possible supply model was at PEG, and did not make it easier to manage variations in final customer consumption (variation in customer portfolios, climate hazards etc.).

1 shipper underlined the necessity of investing in the North-South link so that access to the South zone, or even the merger of the North/South zones, might be physically possible on a longer timescale.

2 shippers added that, even if the situation had improved in the North, serious obstacles remained to the creation of a liquid gas market:

- little capacity was available for newcomers at the different entry points;
- the liquidity of the wholesale market remained very limited relative to markets such as TTF (although it had increased in recent months especially thanks to the merger of zones, the creation of Powernext Gas and the appearance of Market Maker).

According to 1 shipper, this situation had persuaded a certain number of stakeholders to operate in futures markets other than PEG. Thus, if the liquidity of the French market remained low and logistical restrictions on access were not lifted, there was a significant risk that the French market would become less attractive than others in terms of investment (gas infrastructures, electrical generation, gas consuming industries). According to 1 shipper this situation could have a negative impact on the South zone by limiting the possibilities of transit towards the South allowed by the diversity of access that existed previously.

1 shipper explained that access to the Fos terminals was extremely limited for newcomers because a large part of the long-term capacity was reserved by GDF-Suez and Total and the size of vessels admitted at Fos Tonkin was limited. This shipper explained that access to North→South capacity is also limited for newcomers, because a large part of this capacity is reserved in the long term by GDF-Suez, with the rest of the capacities being sold without reference to the long term capacities giving access to the zone that were held by GDF-Suez and Total.

1 shipper considered that the problem of access to the South of France arose from the reliability of the transmission capacity and had nothing to do with the availability of regasification capacities at Fos:

- maintenance operations on the North-South link had been abnormally frequent;
- interruption forecasts had been alarmist and too conservative on the part of GRTgaz which had failed to play its role of informing users of the network;
- splitting the Centre storage group in two had caused implicit North/South transmission capacities to disappear while retaining the constraints of withdrawal.

1 shipper considered that no objective analysis of the use of capacities allocated to the shippers that could be used to substantiate the difficulties put forward by some regarding access to the transmission network in the South of France, had been presented. According to the analysis of this shipper, most shippers did not fill the capacities that they had been allocated, although they were nonetheless able to base their subscriptions on the forecast interruptible capacities that GRTgaz publishes on day d-3. The interruptible quantity actually available is definitely known on day d-1 between 15h00 and 16h00. This shipper pointed out that his access capacities to the South zone did not enable him to attain stock targets on 1 November, even though other shippers had not subscribed all the volumes available.

#### Final industrial consumers (11):

All 11 of the final industrial consumers who expressed themselves, including Uniden, agreed with the analysis of the difficulties identified regarding access to the gas transmission network in the South of France.

All emphasised the absence of competition on the South zone and the difficulty of finding suppliers capable of guaranteeing flexible and competitive supply for larger sites.

5 final industrial consumers, including Uniden, pointed out that the situation of scarcity in which the South zone finds itself had been clearly demonstrated or even, according to 3 consumers, including Uniden, aggravated by the mechanism of redistributing certain capacities in the framework of the 2008 OSPs. Capacities were in fact spread in small quantities over a large number of shippers. Because of this, none of the attributed shippers was able to supply the totality of the needs of a large-sized site. In the same way, consumers who participated in these OSPs were not even able to obtain capacities sufficient to supply their own sites. The capacity allocation mechanisms were therefore unsuitable.

3 final industrial consumers, including Uniden, stressed that the excess costs in the South zone were sometimes very high in comparison with the North zone, indicating a lack of access to the South zone for non-historical stakeholders.

1 final industrial consumer regretted that at this time there were no suppliers willing to ensure a balancing function at PEG South, which would enable the market to be opened to smaller suppliers.

#### Gas infrastructure operators (5):

1 gas infrastructure operator considered that the size of the real North > South capacity deficit was difficult to quantify:

- on the one hand the allocation prorata to capacity requested rule had led shippers to inflate their demands artificially to offset the risk of shortage;

- on the other hand, although short term UIOLI had been used well on the North->South link, this was thanks to a small number of shippers, which indicated that most shippers held capacities adapted to their needs.

However, this gas infrastructure operator added that the possibilities of arbitrage were effectively limited in terms of entry points and that link capacity needs could increase as the market continued to be opened up in the South zone. In addition, this operator considered that no longer taking the geographical distribution of storage rights into account and the separation of the former Centre PITS into two contractual entities had also reinforced the role of the North->South link.

1 gas infrastructure operator considered that the difficulties identified by the Concertation Gaz working group on this issue did not arise from access to the TIGF zone.

2 gas infrastructure operators did not agree with the analysis of the absence of available capacities and considered that the difficulties of access to the Fos LNG terminals were unfounded, because:

- Elengy indicated having significant regasification capacities free from 2010 at the Fos Tonkin terminal;
- the 'med-max' vessels admitted at Fos Tonkin were currently underused due to the recent commissioning of several new vessels;
- several customers of Fos Cavaou had explicitly asked for permission to discharge vessels carrying less than 100,000 m3 LNG.

1 gas infrastructure operator stressed that the discussions of the Concertation Gaz working group highlighted the key contribution of Fos Cavaou to gas supplies in the South zone, to the decongestion of the North-South link, and the consequent deepening of the market in the south of France. According to this operator, the success of the June 2007 sale of regasification capacities at Fos Cavaou enabled supply to the south of France to be opened up to four new shippers. Another gas infrastructure operator added that, because of the business cycle, the delay in putting Fos Cavaou terminal into service generated a need for additional North > South capacity for shippers who were counting on this resource.

1 gas infrastructure operator considered that the links with Spain, if they were established, would procure a new source of supply to the South of France and complement already existing points.

1 gas infrastructure operator observed that the shippers had major and specific difficulties as regards access to storage located in GRTgaz South zone, because of:

- the scarcity of North-South link capacities and their attribution independently of the subscription of storage capacities;
- the increased cost of access to storage (increase in the price of the North-South link and in the storage entry/exit price), as a consequence of the tariff changes associated with the new structure.

#### Other market stakeholders (1):

1 market stakeholder agreed with the analysis of the difficulties identified in accessing the gas transmission network in the south of France



**Question 3 :** *What is your opinion of the proposal of the Concertation Gaz Working Group to merge the North and South zones on the GRTgaz network? How do you rate its feasibility?*

A small majority of market stakeholders, made up of approximately half of the shippers and all the final industrial consumers, was favourable to the merger of the North and South zones on the GRTgaz network, which would be of a nature to develop competition by removing physical constraints and by creating equal economic conditions of access for all the suppliers in the South of France.

Half the shippers and the final industrial consumers judged this solution to be realistic on the 2011 timescale; they believed the obstacles identified could be overcome by in-depth analyses and a modification of the regulations currently in effect.

In contrast, the other half of the shippers and the gas infrastructure operators were either opposed to this solution, or very reserved as to its feasibility, since it presented difficulties and risks in terms of operational, legal and political implementation and would be of a nature to reduce the appeal of the storage infrastructures and LNG terminals in France.

The two shippers who were committed to deliver the gas flows necessary to balance the network to Fos were not in favour of this model, while several stakeholders who supported the model stressed that any commitment on their part must needs be voluntary.

Moreover, the transporter concerned, GRTgaz, was opposed to this solution until the investments to develop the North > South capacities had been carried out. GRTgaz declared that it would be unable to implement this solution in 2011.

Shippers (16):

The shippers were divided on this question.

8 shippers were in favour of the proposal of the Concertation Gaz Working Group relative to the merger of the North and South zones on the GRTgaz network, which would be of a nature to develop competition by eliminating restrictions on physical access and by creating equivalent economic conditions of access for all suppliers.

Of these, 6 shippers confirmed the feasibility of this solution and the absence of major obstacles to its rapid implementation on a 2011 timescale:

- concerning flow commitments:
  - the system could be adjusted so that the North/South merger would be based on a commitment by the shipper who holds most of the capacities at Fos and more widely in France (as it happens GDF SUEZ), without making shippers holding more marginal capacities bear the burden of the constraints (i.e. Total), according to 1 shipper;
  - such flow commitments were not new in sector contractual practice, according to 2 shippers: they already existed in Germany for gas and in France for electricity (rapid and complementary reserve mechanisms), and the array of possible options would certainly allow a suitable solution to be found during the detailed design phase;
  - the implementation of flow commitments should be matched, either by an incentive mechanism so that minimum flows would be respected, according to 1 shipper, or by remuneration to offset the loss of flexibility caused by nominal flow guarantees, according to another shipper;
  - these flow commitments must be assumed voluntarily and be freely consented to by the operators concerned, according to 1 shipper;
- concerning the framework of the missions and powers of the CRE:
  - paragraphs 1 and 2 of Clause I of Article 28 of French Statute n° 2000-108 dated 10 February 2000 relative to the modernisation and development of the public electricity service stipulate that the organisation of a truly competitive natural gas market in France is part of the mission of the CRE. The implementation of this organisation can necessitate regulatory changes, which is the case with the proposed merger of the North and South zones by 2011. Thus, if the CRE did not effectively have the power to

decide such changes, it was quite within its role and its rights to propose them to the Minister for Energy in order that the latter might take whatever action should be necessary, according to 2 shippers;

- the legal constraints evoked by the CRE must be clearly identified and submitted if necessary to the public authorities, but can in no case call into question the implementation of this solution, according to 1 shipper;
- concerning the consequences on tariffs of the abolition of the charge on the North-South link:
  - the issue was identical to that of the abolition of the charge on the GRTgaz South / TIGF link proposed by the CRE, according to 2 shippers;
  - solutions could be found, according to 1 shipper;
  - the benefits of the merger, both in terms of the operation of the overall gas system and of stimulating competition, would compensate for the tariff re-adjustments induced, according to 1 shipper;
- concerning the modification of the organisation and operation of the gas system liable to have consequences on roles and responsibilities:
  - the changes to the role of GRTgaz as regards the permanent monitoring of the French gas balance (comparable to the role of RTE), associated with appropriate legal mechanisms, would mean that the interdependence of the market stakeholders could be overseen effectively and any congestion and problems of security of supply could be anticipated more accurately, according to 2 shippers;
  - all the issues that the merger North/South might generate could be resolved by co-operation between the operators of storage facilities, operators of LNG terminals and the transmission system operators, according to 1 shipper;
- concerning investment in the networks:
  - the mechanisms proposed for the North/South merger were not designed to be permanent, either in principle or at the levels necessary for the 2011 timescale, and would therefore not replace investment in the networks by the transmission operators. They represented a transitory arrangement designed to be phased out gradually while awaiting the arrival of investment, the aims of which was to promote the development of competition in the South zone in the very short term and the possibility in the medium term, of arbitrage by the transmission operators between investment and contractual commitments, according to 3 shippers;
  - these mechanisms, which would not require major investment, meant that the tariff for access to the transmission network would not increase for the final consumer, according to 1 shipper.

1 shipper, among the 8 in favour of this merger, considered that the flow commitments mechanism could prove costly and inflexible, that it should therefore be examined in greater detail, and that pre-requisites should be established concerning the geographical balancing mechanism:

- since the flow commitments mechanism at Fos could prove expensive and inflexible, it would be preferable to take all the entry/exit points into account, simultaneously or not; this mechanism would be more flexible and would reveal the 'real' physical price of congestion;
- a geographical balancing market would necessitate pre-requisites such as an incentive mechanism to share costs, which would encourage GRTgaz to use this mechanism only when necessary. It would also require a sufficiently large number of market players, accurate information on gas flows and the existence of a back-up mechanism for GRTgaz in the event of physical problems on the network.

1 shipper, among the 8 in favour of this merger, considered nonetheless that the proposition could have been more ambitious, with a view towards a merger of the 3 balancing zones in France. This shipper added that an approach giving priority access to capacities to shippers who already have customers could be an obstacle to the arrival of newcomers.

8 shippers came down clearly in favour of the proposition to establish a three-zone structure, or were opposed to the merger of the North and South zones of the GRTgaz network. According to 6 shippers, this merger necessitated changes to the regulatory framework, and would present difficulties not only of operational implementation, but also of a legal and political order:

- concerning the geographical balancing market:
  - this mechanism would necessitate the use of storage facilities, which, under certain conditions, could endanger full compliance by the suppliers concerned with their Public Service Obligations, or even lead to the transfer of these obligations among the suppliers. According to 1 shipper, the implementation of such a solution would also necessitate a revision of the rules concerning Public Service Obligations, or even the redistribution of responsibilities among the different stakeholders in the gas supply chain, by transferring a part of the PSOs and supply tasks from the shippers to the network operators, including those of last resort;
  - this short-term balancing mechanism by requisite use of storage facilities would weaken their management and represent a potentially very high and uncontrollable cost for GRTgaz, the shippers and thus the customer final. In fact this solution would bring about a detrimental de-optimisation of the storage facilities, according to 1 shipper;
  - such a mechanism would require changes in the regulations and create unacceptable operational and economic risks, according to 1 shipper;
- concerning flow commitments at Fos:
  - this mechanism would impose major constraints on the shippers who hold these capacities (losses of flexibility in the programming of the vessels fleet) and would make this terminal less attractive. In addition, the LNG producers give priority to the search for purchasers capable of increasing the value of their production as much as possible by sharing sales margins and ensuring the widest possible access to the different international marketplaces. The type of system envisaged would put the contractual relations established with certain LNG suppliers at risk and could more generally call into question relations with countries/companies that supply LNG. This would be damaging for the whole of France at a time when competition between countries/terminals in Europe is tough. Any financial compensation that might be envisaged could only partially compensate for the prejudice undergone, according to 1 shipper;
  - this mechanism would result in penalising offers to the customers, by making it impossible for the French market to integrate economic gas value criteria in any decision to import LNG. In addition to this, according to 1 shipper, the contractual structure of the LNG supplies would not allow the chained commitments envisaged to be put in place;
- concerning investments:
  - 2 shippers explained that they were not in favour as such a merger would require huge investments leading to the creation of overcapacities that would ultimately be under-used. According to those shippers, the 2 separate zones should be linked via capacities that would be sufficient to ensure that the current bottleneck disappeared. In addition, the putting into service of Fos Cavaou and the development of the Franco-Spanish interconnections should contribute to a change in the physical flows and must thus be taken into account in the investment hypotheses envisaged.

1 shipper, among the 8 opposed to the merger, considered that short-term improvement should take priority through arrangements that would incite better use of existing capacities and, in the medium term, investments in the North zone.

2 shippers, among the 8 opposed to the merger, indicated that they nevertheless remained in favour of a simplification of the tariff model, especially by a progressive reduction of the number of zones, where this would make economic sense.

#### Final industrial consumers (12):

All 12 of the final industrial consumers who expressed themselves, including Uniden, were in favour of the proposal of the Concertation Gaz Working Group relative to the merger of the North and South zones on the GRTgaz network, which would tend to develop competition, improve liquidity and create a portfolio effect. In addition, according to 1 final industrial consumer, this merger would also increase security of supply across all of France, allow access to offers from suppliers having entry capacities from the north, reduce balancing costs (by reducing the impact of over and under-consumption) and increase the transparency of market prices by creating a wider zone of exchange.

Furthermore, among these consumers, 7 final industrial consumers, including Uniden, wanted this North/South merger to be completed by the continued optimisation of the interconnection between GRTgaz south and the TIGF zone consisting in the abolition of the link capacity charge between the GRTgaz zones and the TIGF zone. 5 final industrial consumers, including Uniden thought that revenue lost by the GRT would be compensated by a new tariff system, while the cost of North/South transit would be maintained at its current level in order to avoid the transit being subsidised by French consumers.

4 final industrial consumers including Uniden considered the implementation of a mechanism of flows commitments from Fos was appropriate:

- this mechanism would allow the overall French gas system to function correctly. In addition, this minimum flow guarantee would result in no loss of revenue for these companies, rather, at the most, the loss of certain opportunities related to giving up the diversion of cargoes towards other regions of the world. Finally, these minimum flow requirements would be lifted as soon as the physical capacities between the North and South zones of the GRTgaz network became adequate. 2 consumers, including Uniden thought that this mechanism would have the advantage of encouraging the historically integrated companies to invest as quickly as possible to eliminate these constraints;
- according to 1 final industrial consumer, the fact that the implementation of this mechanism might be legally difficult should not constitute a reason not to proceed, to the detriment of the consumers;
- it would therefore be appropriate to define a system that would allow such minimum flows to be guaranteed. It was important that consumers should not be burdened with excess cost, with operators being encouraged to invest as quickly as possible in the infrastructures necessary to eliminate the existing congestion between the North and South zones, according to 1 final industrial consumer.

1 final industrial consumer considered that a solution that, with little or no investment, would lead to a result comparable to that obtained after an investment of €2bn (which would ultimately be paid by the consumers) must obviously be given priority.

#### Gas infrastructure operators (6):

All 6 of the gas infrastructure operators who expressed themselves were opposed to the proposal of the Concertation Gaz Working Group relative to the merger of the North and South zones on the GRTgaz network, this solution being considered as unsound and resulting in the decreased appeal of the French gas market, particularly as regards French storage infrastructures and LNG terminals:

- concerning flow commitments at Fos:
  - this mechanism would lead to a decrease in the value of LNG terminal access capacities, according to 3 gas infrastructure operators: by reducing the flexibility offered by LNG, which could ultimately have a negative impact on the price of gas to the final consumer, according to 1 operator, by limiting the historical French terminals to just their traditional role of volume supply and by leaving aside their growing role as an arbitrage tool, according to 1 operator. 1 operator thought it could endanger future investments in the terminals by deterring subscribers from making long term commitments;
  - the LNG terminal operators would have no data that would allow them to judge the daily relevance of the level of flow requirement, according to 1 gas infrastructure operator;

- the LNG terminal operators would have no way of enforcing compliance by their customers, given that the management of these quantities depends very much on factors over which they have no control, either upstream or downstream of the terminal, according to 2 gas infrastructure operators;
- application would mean a contractual revision, the difficulty of which seems to have been overlooked by the working group, according to 1 gas infrastructure operator;
- concerning geographical balancing:
  - the absence of local production on the GRTgaz network means that this mechanism would be unsuitable and potentially costly for the final consumer, according to 1 gas infrastructure operator. This mechanism, derived from that used in electricity transportation where generation is local (i.e. a shipper possesses both the commodity and the corresponding capacity in proximity to the need expressed by the network operator) could ultimately be envisaged in the United Kingdom or in other countries where significant local generation is distributed across the country;
  - this mechanism would create additional constraints on the future development of storage supply by necessitating the maintenance of a strong geographical character in the storage structure; storage customers would thus be confronted with new restrictions in the use of storage facilities, according to 1 gas infrastructure operator;
  - it would lead to a decrease in the appeal of French storage facilities by reducing the flexibility provided by storage for market needs in order to meet transmission needs, according to 1 gas infrastructure operator;
  - compliance with public service obligations (PSOs) in the framework of this mechanism remains to be analyzed; the proposed adaptations appear difficult to implement and their feasibility needs to be confirmed, according to 1 gas infrastructure operator;
- this merger would give rise to major investments to avoid destroying existing firm capacities and increasing the cost of the development of subsequent capacity. In addition, the elimination of fees on the North-South link would not allow additional costs to be recovered, would lead to substantial tariff increases at the interconnections and would artificially reduce the price of frontier to frontier transit relative to the price of transmission to consumers in France, according to 1 gas infrastructure operator;
- this solution raised a number of technical, regulatory and economic questions and uncertainties, according to 2 gas infrastructure operators;
- it would necessitate major modifications to the information system of GRTgaz that would be incompatible with commissioning in April 2011, according to 1 gas infrastructure operator.

1 gas infrastructure operator thought generally that it was not healthy that the constraints of the gas transmission system should be transferred to the users of other infrastructures (storage and terminals). According to this operator, it would be preferable for transmission congestion to be identified and dealt with as such, either by making the necessary investments, or by adapting the modes of selling capacities.

#### Other market stakeholders (2):

1 market stakeholder was in favour of the proposition of the Concertation Gaz Working Group relative to the merger of the North and South zones on the GRTgaz network, which would tend to develop competition by removing constraints on physical access and by creating economic conditions of access equivalent for all suppliers.

1 market stakeholder was in favour of any solution that sought to fluidify the North-South link, but stressed that merging the zones at any price might create a risk of increased rigidity that was the opposite of the desired objective, and that the flow commitments mechanism especially might congeal flows to the point of reducing flexibility available for the wholesale market.

**Question 4 :** *What is your view of the arrangement based on adjustments to the three-zone structure described in paragraph 4.2? If this arrangement were adopted, do you think it should be applied from 2011, or do you think it would be better to wait until 2013?*

The market stakeholders were divided about the solution involving adjustments to the three-zone structure.

Half of the shippers, as well as a majority of the gas infrastructure operators, favoured this solution, which they saw as more realistic in terms of timetable and which would improve transportation conditions on the transmission networks in France while moving towards greater regional and European integration of the gas markets. This solution would help develop competition in the south of France by facilitating exchanges between the two TIGF and GRTgaz South zones and by simplifying the development model of interconnections with Spain.

In addition, if the merger of the North and South zones should fail to take place, some of the shippers who were in favour of this merger considered this solution to be an acceptable alternative as long as certain observations and propositions concerning the practical terms of its implementation were taken into account.

Some of the shippers and industrial consumers judged that this solution did not address the principal problem, which was access to the south of the country.

The final industrial consumers were in favour of this arrangement, but only if it were implemented alongside the merger of the North and South zones.

Most of the contributors who expressed themselves in favour of this solution, or who did not oppose it, said they were in favour of implementation as soon as possible or as from 2011.

TIGF and its shareholder were opposed to this solution and wished the current structure to be maintained on a sustainable basis.

#### Shippers (16):

*Concerning adjustments at the interface between the GRTgaz and TIGF networks:*

11 shippers were in favour, or did not oppose, the adjustment consisting in the elimination of the charge at the GRTgaz/TIGF interconnection:

- there are no more physical constraints between the 2 zones, according to 1 shipper;
- it would simplify exchanges between the 2 zones, according to 4 shippers;
- it would represent a first step towards interoperability and simplify the emergence and the liquidity of the wholesale market in the South of France, according to 1 shipper;
- the tariff distribution, which implied a rise in charges, would have to be taken into account on all the interconnection points with other networks, including entry/exit points with other countries, according to 1 shipper;
- combining operations on the TIGF and GRTgaz South zones was a priority, according to 1 shipper. He added that he strongly recommended the progressive implementation of a system managed by several GRTs, which he considered as a step towards the complete integration of the markets and a way of improving security of supply. This shipper was nonetheless in favour of the flow commitments mechanism, which he considered would improve the necessary degree of flexibility; such a mechanism should however only be temporary, until investment was fulfilled;
- this tariff distribution should be transparent, non-discriminatory and justified by the investments carried out by the GRTs, according to 1 shipper;
- the increase in the charge at the North-South link would only be acceptable for shippers who transported gas from the GRTgaz North zone to customers in the GRTgaz South zone if they could benefit from competitive supplies from Spain, according to 1 shipper;

- this could only be envisaged if certain changes in the charges proposed were modified, according to 1 shipper. This shipper thought that the tariff distribution proposed in its present state would aggravate discrimination between the suppliers being supplied from Fos and the others if the two zones remained.

3 of these shippers, while affirming their preference for a merger of the North and South zones, considered this solution as an acceptable alternative, should the merger of the North and South zones not go ahead.

4 shippers were opposed to the adjustment consisting in the elimination of the charge at the GRTgaz/TIGF interconnection:

- the disappearance of this charge at the interface between GRTgaz and TIGF did not address the principal problem of competitive access to the south for newcomers and could in no case represent a solution in itself, according to 1 shipper;
- the removal of the charge did not correspond to the priority demand of the shippers and would result in important modifications to the tariff structure and to the conditions of access to the French gas system, according to 1 shipper; the calling into question of the tariff structure in effect since 1 January 2009 had created uncertainty which was preventing shippers from having the visibility necessary for to make long term commitments, thus compromising the proper operation of the market in general and the running of Open Seasons in particular;
- it did not seem fair to offset the disappearance of the South→TIGF charge by a rise in the charges on the two N→S & F→Sp, links, according to 3 shippers. The effect of this would be to increase the tariff for access to the South & TIGF zones from the North zone without increasing fluidity and unduly raise the price of supplying customers in the South from the North zone, according to 2 shippers. It also created discrimination between users of the network by making consumers present in the South of France pay a part of the transit to the TIGF zone and Spain, according to 1 shipper;
- the increase of €300 to €350/MWh/j/year in the TIGF→Spain charge did not seem sufficient to ensure that gas would no longer be shipped to the South, according to 1 shipper;
- a mechanism where the disappearance of a charge would be compensated by a modification of the terms at PIR (except North→South) and PITM would be more relevant, according to 1 shipper;
- an in-depth analysis of the capacity allocation system at the entry points of the South zone would be preferable, according to 1 shipper.

1 shipper indicated that there did not seem to be any problems of access to the TIGF zone and he thus considered this change unnecessary. According to this shipper, the decision to make such an adjustment should be taken by the network operators, as an inappropriate change could result in an increase in interruptions on certain links.

#### *Concerning the timescale for implementation:*

8 shippers were in favour of implementation as soon as possible or from 2011. In this case, the adjustment could necessitate modifications in 2013, when the capacities resulting from the Open Season will become available, according to 2 shippers.

1 shipper was in favour of implementation from 2013, in order to allow the time necessary for the infrastructure operators to adapt to the adjustment.

1 shipper considered that the network operators should fix the date of application.

#### *Others:*

1 shipper thought that the long-term capacities held by GDF SUEZ B3G on the North-South link should be put back on the market. In fact:

- these would afford GDF SUEZ B3G an additional capacity for arbitrage (possibility of supplying its South balance and its exports towards Spain from Fos or from the North);

- there was nothing to prevent GDF SUEZ B3G from reserving North-South capacity or having recourse to the market in the South (like other shippers) to manage its balance in the South;
- the long-term reservation of these capacities was inconsistent with the development of capacities from Spain towards France and the development of Spanish stakeholders on the French market.

1 shipper considered that the development of liquidity in the TIGF zone would only be possible by dealing first and foremost (before looking at the question of access costs) with the problem of harmonising the operating and contractual rules between the 2 GRTs, in particular as regards the 2 following points: the harmonisation of the TIGF balancing system with that of GRTgaz (creation of a balancing market, identical management of imbalance accounts, etc.) and the implementation in the TIGF zone of the same gas stock transfer rules during changes of supplier.

#### Final industrial consumers (10):

3 final industrial consumers were not in favour of adjusting the 3-zone structure, while the other 7 final industrial consumers, including Uniden, would be favourable if the adjustment were combined with the merger of the North and South zones:

- this solution would not settle the problem of competition and lack of liquidity in the South zone; it would even worsen the situation according to 3 consumers;
- the release of 100GWh/day was quite inadequate to meet the needs for access to the South zone, according to 5 consumers, including Uniden;
- the charge at the South > North link should on the contrary be reduced, or even abolished, in order to allow shippers to move product easily to the north when there were no takers in the south, according to 1 consumer;
- the increase in the charge at the North->South link would not increase available capacities and would tax consumers in the South zone, according to 1 consumer;
- the increase in the charges at the frontiers would have no effect, according to 1 consumer;
- there was a risk that the transit would be subsidised by the French consumers, according to 5 consumers, including Uniden.

1 final industrial consumer, without rejecting the solution, considered that it represented slight progress and could only be temporary, in the expectation of the merger of the zones, which was the only viable solution ultimately to develop competition in the south.

#### Gas infrastructure operators (5):

*Concerning adjustments at the interface between the GRTgaz and TIGF networks:*

3 gas infrastructure operators were in favour of an adjustment at the interface between the GRTgaz and TIGF networks consisting in the removal of the charge at this interface:

- there was no congestion between the GRTgaz South and TIGF zones, according to 1 gas infrastructure operator, who considered that implementation as of 2011 would be desirable;
- this adjustment would safeguard the implementation of proper tariff signals and the economy of the transmission system, according to 1 gas infrastructure operator;
- it would allow the Open Seasons to take place, thus improving competition in the South of France, and would consequently lower the prices paid by the final consumers, according to 1 gas infrastructure operator.

Among these gas infrastructure operators, 2 operators stressed that precautions must nonetheless be taken with regard to:

- the permanence of the removal of the charge at the interface between GRTgaz and TIGF and the nomination without restriction of reserve capacity, according to 1 gas infrastructure operator;
- the equitable distribution of increases in the other tariff terms, according to 1 gas infrastructure operator;



- the preservation of the economic balance of the different operators and the absence of distortion of competition or cross-subsidies between operators or between consumers, according to 1 gas infrastructure operator;
- the equalization of the interconnection and link tariffs in both directions, according to 1 gas infrastructure operator;
- the non-complication of the rules for operators and/or users, according to 1 gas infrastructure operator.

1 gas infrastructure operator was opposed to an adjustment at the interface between the GRTgaz and TIGF networks consisting in the removal of the charge at this interface. This operator considered that:

- access to the TIGF zone was not restricted: access to the South zone of the country was limited only by the existence of congestion between the GRTgaz North and GRTgaz South zones. The current tariff structure did not represent a brake on the development of the interconnection with Spain, the available capacities had allowed a real opening up of the market in the zone and the activity of the newcomers did not seem limited by their access to transmission capacities on entry from GRTgaz, since these suppliers held 23% of these capacities, while their market share was 12%;
- the operational feasibility of this proposition had not been studied and its consequences on the operation of the network, on interoperability agreements between transporters and on relations with the shippers had not been assessed;
- this adjustment would impact the value of the other entry/exits points on the network and thus modify the ATRT4 tariffs substantially, sending the wrong signal with regard to administrative, regulatory and tariff stability, and thus put a brake on long term investment decisions;
- this adjustment would tend to produce a de facto merger of the TIGF and GRTgaz South zones and handed TIGF the responsibility of ensuring the fluidity of the GRTgaz South zone without limits, which risked making consumers in the South West pay for investments carried out by TIGF to ensure this fluidity;
- the adjustment would present legal and operational risks, and appeared contrary to the principles set forth by the community authorities, to competition and non-discrimination rules and to the aims of the CRE.

1 gas infrastructure operator was very reserved as to the adjustment at the interface between the GRTgaz and TIGF networks consisting in the removal of the charge at this interface, associated with an increase of the tariff terms on the North/South link:

- it did not resolve the problem of access to the South zone: restrictions related to congestion on the North-South link and to the cost of transmission on this link would not be modified;
- the increase in the cost of transmission between the North and South zones could amplify the difficulties of access to the South of France;
- the overall increase in cost for shippers wishing to transmit load-balancing between the North and South zones would come on top of the increase of tariffs at PITS on the GRTgaz network, thus aggravating the issue of access to storage of the south, with possible repercussions on security of supply;
- the charge at the interface would no longer reflect the costs of transmission between the GRTgaz South and TIGF zones.

#### Other market stakeholders (3):

1 market stakeholder judged this solution to be preferable to the status quo and was in favour of implementation as of 2011.

1 market stakeholder considered that GRTgaz and TIGF should be able to propose joint services and cooperate to propose a single hub, as well as a single balancing model (while nonetheless retaining their legal independence) by taking inspiration from the model proposed by the 4 German electricity grid operators who organised in order to propose a single price zone to German and Austrian stakeholders.

1 market stakeholder was opposed to the adjustment consisting in the abolition of the charge at the GRTgaz/TIGF interconnection, on the grounds that this did not correspond to a priority demand of the shippers. In addition, it would result in major modifications to the tariff structure and to the conditions of access to the French gas system, creating uncertainty that would prevent shippers having the visibility necessary to make long-term commitments, thus compromising the proper operation of the market in general and the running of the Open Seasons in particular.

**Question 5: *In the hypothesis that the North and South zones of GRTgaz do not merge, would you prefer the solution of adjustment to the three-zone structure to that described in paragraph 4.2 or the maintenance of the current structure?***

**Most of the market stakeholders, shippers and final industrial consumers principally, were opposed to the maintenance of the current structure and would prefer the solution of adjustment to the three-zone structure if the GRTgaz North and South zones were not merged.**

#### Shippers (13):

11 shippers were opposed to the maintenance of the current structure.

Among these shippers, in the hypothesis that the North and South zones of GRTgaz were not merged:

- 6 shippers came down clearly in favour of the solution of adjusting the 3-zone structure;
- 3 shippers said only that it was necessary to implement arrangements that would avoid the status quo, without coming down in favour of adjusting the three-zone structure as described in paragraph 4.2.

1 shipper preferred the maintenance of the current structure, while awaiting the resolution of the issues that prevent the merger of the GRTgaz North and South zones.

1 shipper considered that an in-depth analysis of the capacity allocation system at the entry points of the South zone would be preferable.

#### Final industrial consumers (9):

9 final industrial consumers including Uniden were opposed to the maintenance of the structure current, thus to the status quo.

1 final industrial consumer judged that if the North and South zones of GRTgaz were not merged, it would be preferable to implement the solution of adjusting the three-zone structure as described in paragraph 4.2.

3 final industrial consumers including Uniden recalled that they would recommend the merger of the North and South zones in combination with the adjustment consisting in the removal of the charge at the interface between GRTgaz and TIGF.

#### Gas infrastructure operators (4):

1 gas infrastructure operator was opposed to the maintenance of the current structure, and came out clearly in favour of the solution of adjusting the 3-zone structure.

2 gas infrastructure operators preferred the maintenance of the current structure:

- with an adjustment of the North/South capacity allocation rules, consisting in giving priority to the customer portfolio in the South zone and the storage capacities acquired, according to 1 gas infrastructure operator;
- this maintenance was the basis of the administrative stability necessary for the planning of major investments to develop the fluidity of the networks, which ranged beyond strict public

service obligations, according to 1 gas infrastructure operator. According to this operator, the maintenance of the current contractual model was not only perfectly reasonable, but it was also the only model available for the development of the West route, the development of the Franco-Spanish interconnection being entirely feasible in the existing regulatory framework, i.e. with the existence of an independent TIGF zone and entry/exit tariff system.

1 gas infrastructure operator considered that it would perhaps be premature to envisage structural changes before gaining feedback on the operation of the markets with a better jobs/resources balance in the North and South zones.

#### Other market stakeholders (3):

1 market stakeholder was opposed to the maintenance of the current structure, thus to the status-quo, and expressed himself clearly in favour of the solution of adjusting the 3-zone structure if the North and South zones of GRTgaz were not to be merged.

1 market stakeholder considered that it was vital to simplify the transmission model in the region in order to develop a liquid gas market in the South European zone.

1 other market stakeholder wished to maintain the current tariff structure, this stability being a necessary condition to the running of the Open Seasons.

**Question 6 : *Do you think that the conditional capacities system described in paragraph 2.2.b provide an effective response to the problems some shippers face in accessing the south of the territory?***

**The shippers were divided concerning the system of conditional capacities proposed. Half of the shippers and one gas infrastructure operator were in favour while expressing the wish that additional analyses should be performed.**

**A majority of the final industrial consumers was opposed.**

**Among the other capacity allocation mechanisms mentioned, only the implementation of OSPs associated with allocation rules to take account of the needs of the South zone seemed to be acceptable to a majority of stakeholders.**

#### Shippers (14):

##### *Conditional capacities on the North to South link:*

7 shippers were favourable to the conditional capacities system, which they judged workable or capable of resolving the difficulties that they face:

- this system should be associated with a strong reduction in the impact of network maintenance and with the abolition of the requirement for nomination at the North-South link, according to 1 shipper;
- there was a risk that only a few privileged shippers would benefit from these conditional capacities, according to 2 shippers;
- detailed analyses must be carried out, according to 5 shippers;
- these firm additional capacities should be attributed as a priority to the shippers whose aim was to supply customers in the South of France, according to 1 shipper;
- such a system would only be acceptable to shippers on condition that it created no additional uncertainty as to the overall capacity level to which they currently had access. Such a system could be put in place as soon as the chief uncertainties about capacity levels and flows on the entry points covered by the system were lifted, according to the same shipper.

7 shippers were opposed or doubtful about a system of conditional capacities at the North-South link:

- this system only partly dealt with the difficulties they faced, according to 3 shippers, especially the fractioning of capacities, according to 2 shippers and the competitiveness gap between suppliers holding direct access to the South and the others, according to 2 shippers;
- this system would imply for GDF SUEZ B3G flow commitments at Montoir and Fos of the same magnitude as those resulting from the North and South zone merger proposal, according to 3 shippers;
- priority should be given to the implementation of a system of normalised capacities, according to 1 shipper; the needs of shippers over and above the consumption of their customers could then be covered by firm capacities made available through a conditional capacity system;
- this system would not be efficient, according to 2 shippers: a total flow commitments of 600 GWh/day jointly at Montoir, Fos and Obergailbach would only allow 100 GWh/d of firm capacity to be released at the North→South link, while the flow commitments mechanism proposed in the framework of the North/South merger required a flow commitment of only 350 GWh/day at Fos to guarantee the complete merger of the zones;
- this proposal was a bad solution to a real problem, according to 1 shipper.

#### *Auction system:*

2 shippers were opposed to an auction system, which would not be sufficiently transparent, according to 1 shipper, and which could lead to an increase in the price of gas, according to both shippers.

1 shipper considered such a mechanism potentially interesting, as it would allow shippers to obtain the capacity they needed for a given price, show the value of North-South congestion, develop the wholesale market in the South, and encourage the use of import capacities to the South. According to this shipper, certain mechanisms could be put in place to avoid manipulation and impact on the customer.

2 shippers proposed that this mechanism should be looked at in detail.

#### *Normalised capacity allocation system:*

2 shippers were opposed to a normalised capacity allocation system, which would make management of the capacity portfolio too cumbersome, according to 1 shipper. It would be difficult to put in place, and prevent the traders who arbitrate the markets and ensure liquidity from reserving capacity, according to 1 shipper; such a system would not send the right economic signals for investment.

1 shipper considered this type of mechanism potentially interesting. He added that these allocations (transmission & storage) should be reviewed frequently at least four times a year, in order to take better account of the rapid changes in the customer portfolios of the newcomers. In addition, he proposed to define an additional mechanism of rationalisation with the storage rights actually attributed in each zone being linked to the consumption of each shipper in the said zone.

1 shipper proposed that this mechanism should be looked at in detail.

#### *OSP with order of priority:*

3 shippers were in favour of the implementation of an order of priority, either in accordance with the overall entry capacities in the zone, according to 1 shipper, or on a 'first come first served' basis, according to 1 shipper.

#### Final industrial consumers (11):

9 final industrial consumers including Uniden were opposed to this conditional capacities system:

- it did not resolve the difficulties faced by certain shippers in accessing the south of the country, according to 3 consumers;

- even though it might seem appealing in theory, its practical application seemed complex and uncertain to 1 consumer;
- the release of 100GWh/day was quite inadequate to meet the need for access to the South zone, according to 5 consumers including Uniden.

2 final industrial consumers stressed that the auction system should be proscribed, as it could be used to fix a dominant position and would be likely to generate price inflation for the final consumer, according to 1 consumer.

1 final consumer industrial considered that capacities should be attributed to the shippers in accordance with their customer portfolios, without penalising low-module industrial customers.

#### Gas infrastructure operators (2):

1 gas infrastructure operator was in favour of the conditional capacities system, as it supported the operation of the market:

- the transfer of interruptible rights on the North->South link to shippers who were in control of their related availability factors should improve overall accessibility to the south of the country. Though the conditions governing the availability of conditional capacities were related to the flow conditions necessary to merge the zones, compliance was only required when the holder of these conditional capacities actually needed them. This system was based on market signals and thus contributed to the optimisation of supply to the final customer;
- the release of a large amount of firm capacity would enable other shippers to hold significant rights independently of flows over which they had no control. This system would give these shippers conditions on the transmission network that would tend to increase their market share in the South zone.

1 gas infrastructure operator wished to point out the advantages of taking customer needs into account relative to storage in the South zone in the allocation rules of North > South and also South > North capacity.

#### Other market stakeholders (1):

1 market stakeholders was in favour of the conditional capacities system, which he thought workable or capable of resolving the faced difficulties. According to this stakeholder, the upstream positions held by the GDF SUEZ group both on the interconnection with Germany and on the Montoir LNG terminal should enable a supply of conditional capacities to be managed satisfactorily.

#### **Question 7 : *What is your view of the releasable capacity mechanism developed by the CRE for regulated LNG terminals?***

**Most of the shippers and some final industrial consumers were in favour of a releasable capacity mechanism for regulated LNG terminals, which would facilitate competition and provide better access to the South of France.**

**However, many shippers demanded that the mechanism proposed should be adjusted, especially as regards the imposition of the high minimum rate of use mentioned in the consultation document.**

**The gas infrastructure operators were opposed to this type of mechanism, which would tend to reduce the appeal of the French LNG terminals and constitute a brake on investment.**

### Shippers (14):

9 shippers were in favour of a mechanism of releasable capacities for the regulated LNG terminals in order to facilitate competition at the terminals and thus provide better access to the south:

- this system of releasable capacities should be introduced as quickly as possible in the rules of access to the regulated LNG terminals, with the exception of the Fos Tonkin terminal, as proposed by the CRE, because of the major restrictions on its use due to the size of admissible vessels, according to 1 shipper.

Among these 9 shippers however, 7 shippers proposed adjustments to the rules proposed by the CRE, and wanted further analyses:

- the regasification capacity volumes concerned seemed insufficient for Fos Cavaou (1 bcm) and Montoir (2 bcm), according to 3 shippers:
  - according to 1 shipper, the limit of 1 bcm/year for Fos Cavaou should be lifted in cases where, after operation of the conditional capacities mechanism, firm North > South capacities prove insufficient for certain suppliers in regard of their South needs and their South entry capacities. The two holders of long term capacities at Fos Cavaou might then be brought to release additional capacities;
  - the maximum threshold of 2 bcm/year limit for Montoir should be increased in case of congestion at this terminal, according to 1 shipper, if GDF SUEZ B3G's use of its capacities in Montoir during the last 12 months proved to be inferior to the minimum threshold of use required for suppliers obtaining releasable capacities;
  - 1 shipper wondered about the values of 1 bcm at Fos and 2 bcm at Montoir when the main problem was in the South zone;
- batches of 1 bcm per year were not necessarily appropriate, according to 3 shippers:
  - for Montoir only a minimum quantity corresponding to the exercise of continuous service (i.e. 10 cargos a year according to the most recent CRE project) should be required, according to 1 shipper;
  - they were not compatible with the LNG supply contracts that can be negotiated at present, according to 2 shippers;
  - supplier groups should be avoided, according to 1 shipper;
- limiting capacity sales to new assignees for 3 calendar years was not appropriate, according to 5 shippers:
  - it did not accord with the much longer observed contractual periods on the LNG markets, according to 1 shipper;
  - LNG supply contract periods could be dated otherwise than on the basis of the calendar year, according to 1 shipper;
  - the sale of capacities should be permitted on shorter periods, according to 1 shipper; the only restriction as regards duration should be a minimum duration of 1 year, according to 1 other shipper; the period of 3 years tended to limit the contracting of long term LNG supplies and thus harm the competitiveness of suppliers wishing to supply LNG to markets in France, according to this shipper;
- a minimum rate of use of 80%:
  - the minimum rate of use proposed for Montoir was not justified at a level equivalent to that of Cavaou and should be lowered (60% or even less), according to 1 shipper; the situation regarding entry capacity congestion was not as difficult in the North zone as in the South zone;
  - it would be discriminatory to impose a rate of use of 80% on newcomers while the primary holders had no such obligation, according to 4 shippers. It would mean that tariffs for releasable capacities could not be identical, according to 1 shipper;
  - the 80% minimum use rate should be verified over the entire period or, at the least, over a period of not less than a year, according to 1 shipper;

- the attribution of releasable capacities should moreover be linked to the rationale of holding LNG supplies sufficient to meet demand, having a corresponding final market in France (in the South for Fos Cavaou) and the operation of a continuous service (which alone permits supply to the final customer), according to 1 shipper.

3 shippers were unsure or indicated only that they were not opposed to a mechanism of releasable capacities for the regulated LNG terminals:

- the advantages of this mechanism were very small, according to 1 shipper, as it would be impossible for a supplier who benefited from these capacities to optimise them through long-term contracts with the producers. In addition, making a commitment to use capacities at a minimum rate of 80 % without having access to long-term resources would be a risk that no supplier would be willing to run;
- 1 shipper indicated that he was not opposed, pointing out that this subject had already been dealt with and that the contract of access at Fos Cavaou already included a UIOLI mechanism;
- 1 shipper stressed that the reinforcement of the France-Spain route in 2013 might limit the long-term advantages of the releasable capacity mechanism to be implemented in 2011.

1 shipper was opposed to a mechanism of releasable capacities for the regulated LNG terminals, which would have negative financial consequences for him and might lead to artificial congestion on the North-South link:

- this system would be financially prejudicial insofar as it would oblige shippers to contract additional capacities at other entry points in order to be able to fulfil their public service obligations when the releasable capacities found a buyer yet oblige shippers to pay for these capacities when they did not;
- the 6-month advance-warning period seemed insufficient and should be longer than a year to optimize subscription of the capacities sold by GRTgaz and also avoid any artificial congestion on the North-South link;
- limiting the duration of holding releasable capacities to 3 years would make this de-optimisation an enduring burden and prevent the definition of an adequate long term capacity reservation policy. Releasable capacities should be attributed in priority to those who were ready to commit to the longest subscriptions;
- the Montoir terminal should be excluded from such a system, as it was not directly concerned by the adjustment of the South zone;
- a 50% capacity holding rate in the terminals was very low and in contradiction with the maximum rates that a shipper can subscribe in practice in an LNG terminal having requested a regime of exemption. Such a measure should be applied to the terminals in development, whether they were exempt or not, in order to avoid any discriminatory treatment between the LNG terminals;
- the obligation of a capacity use rate of around 80% would be difficult to impose if it were not required by the balancing needs of the zone, and could lead shippers under this obligation to sell quantities of gas at PEG South in unfavourable conditions. One solution might be to reserve these capacities in priority for shippers who would provide the CRE with a business plan showing a development of their sales to customers in the South zone that was consistent with their demand for capacities in the terminals.

1 shipper proposed that this mechanism should be looked at in further detail.

#### Final industrial consumers (5):

3 final industrial consumers were opposed to a releasable capacity mechanism for the regulated LNG terminals, which would not resolve the issues of the South zone.

2 final industrial consumers were in favour of a releasable capacity mechanism for the regulated LNG terminals, as it would increase the rate of use of Fos.

#### Gas infrastructure operators (2):

2 gas infrastructure operators were not in favour or opposed to the implementation of releasable capacities on the LNG terminals:

- it would reduce the appeal of the access capacities at the regulated terminals and could constitute a brake on investment in possible extensions, according to these 2 operators;
- the penalisation of shippers who did not comply with a minimum rate of charge could not be justified by any prejudice caused to the terminal operator, or to other shippers, according to these 2 operators, and would cast a long shadow over the sustainability of the contractual links offered by the LNG terminal operator, according to 1 operator;
- the shippers, who in general contract firm supplies or Take-or-Pay, could not accept the risk of having to cede their capacities and become hostage to short or medium term arbitrage decisions by other LNG stakeholders, according to 1 operator;
- this mechanism should be applied to the projected terminals in France, in order to avoid the risk of distorting competition with existing terminals, according to 1 operator;
- there were available capacities at the Fos Tonkin terminal, as well as available 'med-max' class vessels, in the short and medium term, according to 1 operator;
- the rate of use of terminals observed currently in France must change, according to 1 operator.

#### Other market stakeholders (1):

1 market stakeholder was in favour of a releasable capacity mechanism for the regulated LNG terminals in order to facilitate competition at the terminals and thus provide better access to the south. According to this stakeholder, such a mechanism was necessary to offset the risk of a dominant position being abused, to allow newcomers to benefit from the opportunity of penetrating the market on the basis of short term supplies and to prevent the historical operators who control the LNG terminals from transferring the benefit linked to short term arbitrage to the downstream market.

**Question 8 : *If the arrangement in paragraph 4.2, based on adjustments to the three-zone structure, were to be adopted, would you be in favour of equalizing the tariff charges at PITS? What is your opinion of the other proposed tariff changes that compensate for the revenue lost by abolishing the tariff charge at the interface between the GRTgaz and TIGF networks?***

**Most of the market stakeholders were in favour of equalizing the tariff charge at PITS, in order to promote competition between the storage operators. The gas infrastructure operators were divided but stressed the necessity of avoiding any distortion of competition and the importance of reflecting costs.**

**Most market stakeholders, principally shippers but also final industrial consumers and gas infrastructure operators, were opposed to increasing the charge on the North->South link, which would accentuate the difference in the cost of access to the south, between the shippers entering from the North zone and those entering directly via the LNG terminals.**

**Finally, a majority of stakeholders reaffirmed the necessity of maintaining the cost of transmission between the north of France and Spain.**

#### Shippers (11):

*Concerning the equalization of the tariff charge at PITS:*

10 shippers were in favour of equalizing the tariff charge at PITS:

- the overall tariff revenue at PITS must however be conserved, according to 2 shippers;



- it would put all offers from the storage operators on an equal footing geographically and thus avoid any distortion of competition, according to 2 shippers. It would therefore force them to compete on price, according to 1 shipper.

1 shipper considered that the relevance of this equalization should be examined, since the GRTgaz North zone might not benefit from the abolition of the charge at the interface between GRTgaz and TIGF, as the link between the North zone and South would still be congested and apply a high charge.

*Concerning the principle of tariff distribution used to compensate for the loss of revenue:*

- tariff distribution should be transparent, non-discriminatory and justified by the investments carried out by the GRTs, according to 1 shipper;
- 1 shipper supported the proposition of applying the compensation only on the increase in the tariff of the principal network, since the charge that would disappear was also situated on this network;
- tariff distribution would have to be taken in account:
  - at PIRs, including the entry points towards other countries, according to 1 shipper;
  - at PIRs and PITMs, according to 2 shippers because the French entry tariff charge (gas pipeline and LNG) would be determined as a loop charge used to offset the abolition of the charge at the GRTgaz and TIGF interface, in particular to balance the income/expenditure of the main transmission system. This charge would have to be identical for all entry points, according to 1 shipper;
  - in the entry charge at Fos, according to 3 shippers, especially by increasing the entry charge at Fos so that the cost of entering the South zone at Fos would be identical to bringing LNG from Montoir to the South zone, according to 1 shipper;
- 2 shippers considered that the charges for transport capacities on the regional network in the TIGF zone should also be increased and contribute to compensation since the final customers of the TIGF zone today bear a part of the costs associated with the Midi interconnection;
- 1 shipper considered, conversely, that the charges for transport on the regional network and exit charges should be reduced in the TIGF zone so as to make them equal to those of the GRTgaz South zone;
- 1 shipper considered that a revision of the costs at PITD and PLT should be envisaged ('reflective cost') rather than a revision of the tariff rules applicable at the entry points, in order to compensate for the abolition of this charge;
- 1 shipper considered that adjusting the exit capacity charges of the principal network or the regional charges to compensate for this loss of revenue would not allow any improvement in the competitiveness of supply in the TIGF zone.

*Concerning the increase in the charge on the North->South and South->North link:*

- 3 shippers were opposed to an increase in the charge on the North->South link, which would have the following effects:
  - it would increase the tariff for access to the South & TIGF zones from the North zone without increasing fluidity and unduly raise the price of supplying customers in the South from the North zone according to 1 shipper;
  - it would increase the market distortion in the South between the historical stakeholders and the others, according to 1 shipper;
  - it would create discrimination between users of the network by making consumers present in the South of France pay a part of the transit to the TIGF zone and Spain according to 1 shipper;
- 1 shipper considered that North-South link charges should be adjusted so as to balance the revenues of TIGF and GRTgaz, after applying the adjustments proposed;

- 1 shipper considered that the increase in the charge on the North->South link would only be acceptable for shippers who transport gas from the GRTgaz North zone to customers in the GRTgaz South zone on condition that they could benefit from competitive supplies from Spain.

*Concerning the increase in the exit charge towards Spain, so as to maintain the cost of the transmission from the north of France to Spain:*

- 3 shippers insisted on the necessity of maintaining the cost of transmission from the north of France to Spain;
- 2 shippers considered the increase of the exit charge towards Spain insufficient to stop gas being shipped to the South, according to 1 shipper, to maintain the cost of transmission from Dunkirk to Larrau at its present level, according to the other shipper;
- 1 shipper considered that this exit charge should be adjusted according to the type of capacity in order to continue to reflect costs:
  - for firm capacities without limitation of origin: the sum of this charge plus the North > South tariff charge plus the gaseous gas (North) entry charge should correspond to the transit tariff from the North;
  - for capacities with a limited or identified use (conditional capacities in accordance with the overall accumulated flow from France to Spain over a period of several months, or capacities linked to South-West storage use, or the Fos terminals etc.): this charge should correspond to the costs of a local connection. This principle moreover matches that applied to Spanish third party access since the tariffs for transmission from the LNG terminals in the north of Spain to the French frontier are low relative to the normal entry/exit tariff.

*Concerning the increase of the entry charge towards France:*

- 2 shippers considered the increase in the entry charge towards France insufficient and 1 shipper thought it inadequate to maintain the cost of transmission from Spain towards the north of France. According to this shipper this point was all the more valid since TIGF had made major investments to receive gas originating from the Spanish network.

Final industrial consumers (10):

3 final industrial consumers were opposed to equalizing the tariff charge at PITS and to the tariff changes envisaged to compensate for the loss of revenue linked to the abolition of the charge at the interface between GRTgaz and TIGF. These measures would not resolve the issues of the South zone.

*Concerning the equalization of the tariff charge at PITS:*

1 final consumer industrial was in favour of equalizing of the tariff charge at PITS.

*Concerning the principle of tariff distribution used to compensate for loss of revenue:*

- 6 final industrial consumers, including Uniden pointed out that there was a risk of having transit subsidised by French consumers.

*Concerning the increase in the charge on the North->South and South->North link:*

- 1 final industrial consumer thought that the charge at the South > North link should on the contrary be reduced, or even abolished, in order to allow shippers to move product easily to the north when there were no takers in the south;
- 2 final industrial consumers considered that the increase of the charge on the North->South link would work against the desired objective: it would not increase available capacities and would tax the consumers in the South zone.

*Concerning the increase of the exit charge towards Spain, to maintain the cost of the transmission from the north of France to Spain, and the entry charge towards France:*

- 1 final consumer industrial was in favour of increasing the exit charge to Spain and the entry charge to France;
- 1 final industrial consumer thought that increasing the charges at the frontiers would have no effect.

Gas infrastructure operators (4):

*Concerning the equalization of the tariff charge at PITS:*

1 gas infrastructure operator was in favour of equalizing of the tariff charge at PITS: if the tariff at the interface between GRTgaz and TIGF were reduced to zero, TIGF and Storengy storage would de facto be in the same tariff zone.

1 gas infrastructure operator was opposed to equalizing of the tariff charges at PITS:

- it would mean a large increase in the tariff charges at the storage entry and exit points on the GRTgaz network, charges which had already been increased significantly between 2008 and 2009;
- the entry/exit tariff charges at PITS of TIGF were fundamentally different from those of GRTgaz, as they represented very different transmission costs: equalization would be thus contentious as it would not be representative of costs and not ensure equal treatment of users of the network;
- it would result in a rise in the overall cost of access to storage in the GRTgaz North zone, which would mean less use of storage to the profit of other sources of flexibility outside the GRTgaz network and a reduction of the quantities stored in France, with a possible impact on security of supply;
- it would presuppose conditions of availability that were identical for all the entry and exit capacities at PITS. Any restrictions on the use of these capacities would justify a reduction in the tariff.

*Concerning the principle of tariff distribution used to compensate for the loss of revenue:*

- 1 gas infrastructure operator thought that the distribution of the increase of the other tariff terms should be equitable;
- 1 gas infrastructure operator considered that the economic balance between the different operators and the absence of distortion of competition or cross-subsidies between operators or between consumers should be preserved;
- 1 gas infrastructure operator considered that an equalization of the interconnection and link tariffs in both directions would be more appropriate.

*Concerning the increase in the charge on the North->South and South->North links:*

- 1 gas infrastructure operator was not in favour of increasing the cost of transmission between the North and South zones, which could increase difficulties of access in the South of France; this operator added that the overall excess cost for shippers wishing to transmit load-balancing between the North and South zones would be added to the increase in tariffs at PITS on the GRTgaz network, aggravating the issue of access to storage in the south, with possible repercussions on security of supply.

#### Other market stakeholders (1):

1 market stakeholder was in favour of equalizing the tariff charge at PITS, which would contribute to the competitiveness of suppliers across all the balancing zones and allow greater transparency regarding transportation and load-balancing costs in offers to final customers.

***Question 9:*** *Are you in favour of the long-term sale (10 years and more) of a part of capacities between balancing zones in France? What is your opinion of the GRT proposal (paragraph 1.2 c) to sell 80 % of these capacities long term in the framework of the West zone open season? What is your opinion of the other option, described in paragraph 4.4, which involves selling only newly created capacities long term?*

**Most of the market stakeholders were in favour of the long term commercialisation of the newly created capacities between balancing zones in France, with the other capacities continuing to be sold on a short and medium term basis.**

**Several shippers consider that this kind of commercialisation could only be envisaged if the capacities at the interface between the GRTgaz and TIGF networks disappeared.**

**The gas infrastructure operators were divided. Several of them stressed that the link capacities between the North and the South must not be reserved in priority to holders of interconnection capacities with Spain, as that would especially penalize the development of the LNG terminals.**

**Most of the final consumers were opposed to the long-term commercialisation of link capacities between the balancing zones in France.**

#### Shippers (14):

12 shippers were in favour of the long-term sale (10 years and more) of a part of the capacities between balancing zones in France:

- 7 shippers were in favour of long term commercialisation only for newly created capacities:
  - it would ensure that the operators' investments were cost-effective, according to 1 shipper;
  - according to 2 shippers, the long-term commercialisation of these capacities should be linked to the commercialisation of capacities at entry points in France: 1 shipper thought it would ensure that the long term capacities allocated were used for the transportation of new gas from Spain and not only for the transmission of gas between the balancing zones in France; according to the other shipper, it would give priority to transit shippers targeting the Spanish market over suppliers of the French market who might not be able to make such a financial commitment;
  - according to 1 shipper, Open Seasons for the development of new capacities should be organised in the form of auctions, so that the result of the procedure would determine not only the need for capacity on the North-South link, and consequently the amount of investment necessary to meet that need, but also the readiness of operators to finance the investment required;
  - this kind of commercialisation could only be envisaged on condition that the capacity and the charge at the interface between GRTgaz and TIGF disappeared, according to 5 shippers. Otherwise, such commercialisation could block access to the TIGF zone and generate a major risk of oversubscription at this interface. This in turn could cause the France/Spain OS to fail;
  - 3 shippers thought that if capacities always had to be reserved at the interface between GRTgaz and TIGF, then the commercialisation of 3 linked capacity products (Spain-TIGF, Spain-TIGF-South, Spain-TIGF-South-North) should replace the sale of the 5 products envisaged in the Open Season;

- new investments should be carried out to develop this available contractual capacity, since the link was not congested and its reservation would condition the development of other capacities that would require investment, according to 1 shipper;
- North→South capacities could only be sold in the long term on condition that they were new capacities developed in the framework of the OS coordinated with Midcat, according to 1 shipper;
- other capacities should continue be sold according to the rules currently in effect, according to 1 shipper; a shorter mechanism of commercialisation for already existing capacities would allow shippers to be able to adjust these better to their needs, which necessarily change from one year to the next, according to 1 shipper;
- 1 shipper suggested that capacities freed by the end of historical contracts could be excluded from long-term commercialisation;
- 3 shippers were in favour of the long term commercialisation of 80% of capacities in the framework of the West route Open Season:
  - it would ensure the construction of infrastructure and permit adequate remuneration, according to 1 shipper;
  - it would afford visibility to shippers and to the GRTs, and simplify investment decisions and programs; in addition, the remaining short term capacities sold would be used to limit the dominant positions that lock the market down, thus facilitating access to capacities for newcomers, according to 1 shipper; an optimisation of the mechanism could consist in adjusting the quota of the remaining capacities sold at short term.

2 shippers were not in favour of the long-term sale (10 years and more) of a part of the capacities between balancing zones in France:

- it would not be compatible with the normalisation of capacities between zones and would rather be to the advantage of the shippers who would benefit henceforth from a stable portfolio, according to 1 shipper;
- such a sale would be liable to be a major hindrance to the operation of competition in the domestic market and would amplify scarcity, according to 1 shipper;
- the target system with one balancing zone should be defined and implemented well before the 2030 timescale currently envisaged for the sale of capacities on the internal link, according to 1 shipper;
- because stakeholders needed transparency and visibility, 1 shipper thought that this target system should be mentioned in the framework of the France/Spain Open Season, and in particular that the consequences for tariffs should be spelt out. Moreover, by April 2013, the competent authorities should make a commitment to merge the three zones GRTgaz North, South et TIGF;
- while awaiting a single zone system, the mode of attribution of the capacities on the remaining links should be as flexible as possible to respond to the real needs of the shippers, according to 1 shipper;
- decisions to reinforce the core of the network should be taken by the public authorities, on the basis of proposals by the GRTs, and should not be dependent on the taking of long-term commitments by shippers, which can only be based on long-term projections of their market share, with a global risk of major overinvestment, according to 1 shipper.

#### Final industrial consumers (5):

5 final industrial consumers were opposed to the long-term sale (10 years and more) of a part of the capacities between balancing zones in France:

- it would not be able to resolve the issues of the South zone, according to 3 final industrial consumers;
- it would result in the stability of the current status quo, according to 2 final industrial consumers.

### Gas infrastructure operators (6):

2 gas infrastructure operators were in favour of the long-term sale (10 years and more) of a part of the capacities between balancing zones in France:

- according to 1 operator, the long-term commercialisation of newly created capacities should be encouraged as it would be more consistent with the current mode of storage capacity allocation and with the necessary allowance for subscribed storage capacities in the allocation of North-South transmission capacities;
- 1 operator suggested that the West route Open Season should be used to reserve South > North capacities independently of any demand for Spain > France capacity, in order to meet the specific needs of the French market, especially as these were changing with the opening of the LNG terminals.

1 gas infrastructure operator stressed that the proposition of long-term commercialisation of the newly created capacities would not be totally consistent with the memorandum of information from the GRTs. He insisted that the CRE should rapidly clarify its position concerning this point.

1 gas infrastructure operator stressed that it was necessary to propose as much long term capacity as possible, at least equal to that offered at the Franco-Spanish interface, in order to give the Open Season the maximum chances of success, as the main advantages of these developments was to link two important consumer zones, the North of France and Spain.

2 gas infrastructure operators pointed out that the LNG terminals in the South zone played a vital role in balancing the transmission network, that large quantities of gas would be brought to Fos, often well in excess of the needs of the closest consumer zones, and that terminal development projects were currently being studied for commissioning at the same time as the development of the interconnections with Spain:

- link capacities, if they were limited, must not be pre-empted massively solely to the benefit of the subscribers by way of the France/Spain Open-Season procedure(s), according to 1 operator;
- a 'first project come, first project served' rule would not be suitable and the mode of assessing and allocating the capacities to be built needs more work, according to 1 operator;
- a system of reserving South > North link capacities that would prevent current or future customers of the LNG terminals from discharging their South zone gas would penalize the operation of the terminals, and consequently the market in the South zone, according to 1 operator;
- the newly created transmission capacities would be used in the same way to secure the development of the regasification capacities at Fos. It was vital not to penalize these developments, so that subscribers of the terminal extensions could have access to them in due time in the same way as the subscribers of the France-Spain link, according to 1 operator.

### Other market stakeholders (1):

1 market stakeholder was in favour of limiting long term commercialisation to newly created capacities, which would help avoid the risk of the historical operators abusing their dominant position while encouraging the appearance of newcomers. In addition, this market stakeholder suggested adjusting the timescales for the commercialisation of capacities on these infrastructures (networks, storage, LNG terminals) to fit in with the timetable for supply contract negotiations for the downstream market:

- 10% to 20% of short term (1 year and less) allowing shippers to adapt their positions to the commercial results of suppliers in the downstream market;
- 40% à 70% medium term (1 to 5 years) so that shippers and suppliers can build development plans that allow downstream supplies to be proposed for the duration;
- 20% to 40% long term (more than 5 years) linked to the Open Seasons, to encourage the necessary investments upstream in infrastructure (subscription of interconnection capacities at frontiers and abroad for the development of transportation routes, storage, LNG terminals etc.), but also for the negotiation of long-term import contracts that would contribute to security of supply.

**Question 10 : *Have you any additional comments?***

**The majority of the stakeholders stressed the need for the CRE to publish, at the agreed date and consistent with the timing of the Open Season, their medium or long term guidance for the 2011 and 2013 timescales regarding the overall structure of access to the natural gas transmission network in France.**

Shippers (13):

8 shippers pointed out that they were in favour of simplifying the tariff model, especially by a progressive reduction of the number of balancing zones and a future merger of all the balancing zones on the French network. In particular, 1 shipper insisted on the necessity of limiting the intermediate stages in order to achieve an effective and coherent system.

3 shippers considered it necessary that the CRE should publish its medium or long term guidance as clearly as possible and by the agreed date; the 15 September Open Season response date left shippers only a very short window.

2 shippers considered that any subsidy granted in the framework of the European stimulus plan should be used to reduce the requirement for the economic tests that condition final investment decisions, the proportion of long term capacities sold and the tariff ultimately associated with access to the infrastructures developed.

Uprigaz considered that the CRE should urgently adopt a global model for the national transmission network, developed transparently by the GRT under the aegis of the minister, in order to identify congestion points, optimise the investment schedule and supply the elements used to determine who would pay the additional costs generated by the services rendered to the users concerned.

1 shipper thought it unacceptable that the entry capacities in the South zone from the Fos Cavaou terminal should remain as announced, lower than the regasification capacities.

1 shipper mentioned the difficulties generated by the inconsistencies in GRT capacity transfer rules.

Final industrial consumers (3):

1 final industrial consumer considered that the only alternative to the North/South merger would be to reintroduce regulated return tariffs temporarily in order to protect consumers in the GRTgaz South and TIGF zones until the necessary investments had been carried out.

Several final industrial consumers pointed out that they were in favour of simplifying the tariff model, especially by a progressive reduction of the number of balancing zones, and a future merger of all the balancing zones on the French network.

Gas infrastructure operators (4):

1 gas infrastructure operator pointed out that it was necessary to guarantee the transmission of gas in both directions along the corridor between the North of France and the South of Spain. To this end, investment and allocation procedures at frontiers and between balancing zones must be coordinated.

This operator recalled that investments on the Spanish side were already defined and committed, or were dependent on investment decisions on the French side. This operator added, moreover, that the Spanish regulatory framework had already been modified with the aim of harmonising allocation procedures on both sides of the frontier.

This operator considered it essential to define a stable long term regulatory framework that would enable shippers to undertake the subscription of long term capacities with confidence. According to this operator, the CRE should be required to publish its guidance by the agreed dates, in line with the timetable of the Open Season. According to this operator, this guidance should be published and approved at the latest in July 2009. Any additional hold-up would delay investment decisions until 2010, and thus postpone the future availability of interconnection capacities.

1 gas infrastructure operator considered it vital to avoid turmoil, or even worse disruption, in recommended developments; proper investment management demanded at least medium term visibility with regard to the network structure, and settled rules.

In addition, according to this operator, the measures envisaged on the LNG terminals had nothing to do with access to the transmission networks and to the interconnections with Spain, but would utterly transform the risk profiles of the terminal operators and constitute a major transformation in their regulation, which in addition would be legally incompatible with agreed contracts.

1 gas infrastructure operator considered that, before any examination of the CRE proposal, a global study of the operation of the French network, whose conclusions would be published, should be carried by the 2 GRTs, under the oversight of the MEEDDAT and with the participation of the CRE, in order to identify existing congestion and prepare possible optimisations. This operator thought that it would be inadmissible if the rush to implement the CRE proposal should result in restrictions on the use of other infrastructures. He added that, as long as such regulatory instability existed, especially as regards tariffs, as a brake on long-term investment decisions, he would reserve the right to act in his own interest.

According to this operator, maintaining the current contractual model was perfectly practical, as the development of the Franco-Spanish interconnections was wholly feasible within the existing regulatory framework, i.e. with the existence of an independent TIGF zone and an entry/exit tariff system.

1 gas infrastructure operator considered that the tariff level of €120 /MWh/day for the entry charges mentioned in the consultation seemed to this operator to be an under-estimation in regard of the investments envisaged in the framework of the France/Spain and Taisnières Open Seasons.

#### Other market stakeholders (2):

1 market stakeholder considered that it was necessary to assess whether the changes envisaged could realistically lead to increased competition in the downstream market, or whether there was a risk that the profits made upstream would not benefit final customers.

This market stakeholder also wanted new gas release operations to be proposed.

The AFG considered that it was not appropriate to make the situation still more confused by shooting off in one direction or the other, but that it was however important to recall the fundamental principles that must guide the organisation of the gas sector: the need for a stable legal and regulatory framework to encourage investment, and for oversight by the public authorities to ensure that the regulations in force are conducive to the public interest and comply with the rules of competition.

The AFG was in favour of the implementation of simple market mechanisms based on incentives rather than administrated mechanisms, the negative effects of which became especially obvious when the international dimension is considered.



## List of respondents

### Shippers (19):

- BP
- Direct Energie
- Distrigas
- EDF
- EFET
- Endesa
- Enel
- Eni
- EON France
- GasNatural
- GasNatural Commercialisation
- Gaz de Bordeaux
- Gazprom Marketing & Trading
- GDF SUEZ B3G
- Poweo
- Rhodia Energy
- StatoilHydro
- Total Gas & Power Limited
- Uprigaz

### Gas infrastructure operators (7):

- Elengy
- Enagas
- GDF SUEZ Branche Infrastructures
- GRTgaz
- STMFC
- Storengy
- TIGF

### Other market stakeholders (4):

- AFG
- Bergen Energi
- Powernext
- Total Gaz Electricité Holdings France

### Final industrial consumers (12):

- Alcan Rhenalu
- Aluminium Pechiney
- ArcelorMittal
- Arjowiggins
- Carbone Savoie
- Ineos
- OI Manufacturing France
- Omya
- Renault
- Groupe Rhodia
- Saint-Gobain
- Uniden