

Paris, 17 February 2010

Public consultation of the French Energy Regulatory Commission (*Commission de régulation de l'énergie* - CRE) on developing firm natural gas transmission capacities from France towards Belgium

Shippers transporting gas in France have the possibility to book firm exit capacities from France towards Southern Europe (Iberian Peninsula) and to the East (Switzerland). However, it is impossible to reverse gas flows at the interconnection points with Belgium (Taisnières) and Germany (Obergaillbach) because gas is odourised across the transmission network in France, whereas it is not odourised neither in Belgium nor in Germany.

In a context of increasing gas import capacities in France by 2015 (LNG terminals and development of interconnections with Spain), the possibility of physically exporting gas from the French market towards the Belgian and German markets may contribute to the development of the French market and enhance its attractiveness.

Creating physical firm transmission capacities from France towards neighbouring countries in Northern Europe would also be in line with a greater integration of European gas markets and with the improvement of the security of supply in Europe.

Within the framework of their merger, Gaz de France and Suez have committed vis-à-vis the European Commission to install a deodorisation plant at Taisnières H enabling physical flow towards Belgium up to 300 000 m³ per hour.

At the same time, GRTgaz and Fluxys have initiated a common reflection on a joint Open Season to develop firm natural gas transmission capacities from France towards Belgium, through the creation of a new interconnection point allowing non-odourised gas arriving in Dunkirk to be exported towards Belgium.

In the perspective of this Open Season, CRE, after communication with CREG, the Belgian regulator, would like to collect comments from market players on:

- the different types of capacities from France towards Belgium;
- the different technical solutions and the tariff principles envisaged;
- the Open Season procedure.

All interested parties are invited to answer the questions included at the end of this document, **by 17 March 2010 at the latest**.

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1. Context

The gas transmission contractual scheme in France is based on the existence of three balancing zones. Each balancing zone constitutes an entry/exit system. Shippers transporting gas in France can book entry capacity and exit capacity separately. However, only three products to physically exit gas from the French transmission network are currently commercialised - at Oltingue (towards Switzerland), Larrau and Biriadou (towards Spain).

In addition, shippers can book reverse capacity at Taisnières H exit point towards Belgium and at Obergailbach towards Germany. These contractual capacities are based on the presence of dominant flows at these interconnection points and can be interrupted.

This limited offer of exit products is explained by France's specific position in the European gas network. Traditionally, dominant gas flows in Europe go from East to West and from North to South, coming primarily from Russia or the North Sea towards the consumer countries. Thus, besides the transit contracts which supply the Spanish and Italian markets, France is above all an outlet market for gas.

The gradual integration of the European gas markets has led to rethinking this configuration.

A number of arguments, on European and French levels, are in favour of the creation of gas transmission capacities from France towards Belgium. Several solutions are possible.

1.1. Integration of European markets

The creation of firm gas capacities towards Belgium is coherent with a greater integration of European gas markets. Indeed, by increasing flows and facilitating exchanges between both countries, this new product is likely to promote the emergence of an internal gas market in Europe. It should particularly promote the convergence of market prices between North PEG and Zeebrugge, thus fostering the development of a reference gas price on a European level.

This project also contributes to improving the security of supply in Europe. The unexpected interruption in January 2009 of Russian supply transiting through Ukraine confirmed the need to enhance the European market integration and revealed points of vulnerability in the European gas system. In particular, the technical possibility to export gas towards the most affected markets was insufficient. Enabling reverse flows from West to East in Europe is one of the possible measures explored by the European transmission system operators in ENTSOG (European Network of Transmission System Operators for Gas). Developing a firm capacity product from France towards Belgium would meet this requirement.

1.2. Development of the French market

Beyond the European issues at stakes with this project, the development of firm physical capacity from France to Belgium addresses a market need too. The current impossibility to export physical capacity from the French market to neighbouring markets (Belgium and Germany), due to the constraints of gas odourisation on the transmission network, is considered by shippers as an obstacle to the development of the French gas market. As new gas infrastructures are about to be developed in France, increasing arbitrage possibilities with North European markets would make the French market more attractive. This project would contribute to increasing liquidity and developing the North PEG marketplace.

1.3. Possibility of a deodorisation plant at Taisnières H

In November 2006, within the framework of their merger, Gaz de France and Suez agreed to undertake a number of commitments vis-à-vis the European Commission.¹ Amongst these "remedies" were commitments to make investments which would enable physical gas flows from France to Belgium. Insofar as the artificial sulphur compound (THT) used in France to odourise gas throughout the

¹ See the public version of the Commission Decision under the document number C(2006) 5419 dated 14 November 2006, declaring a concentration compatible with the common market and the functioning of the EEA agreement (Case COMP/M.4180 — Gaz de France/Suez)

transmission network is prohibited in Belgium, GRTgaz has undertaken to install a deodorisation plant at Taisnières H interconnection point which will be able to provide a physical flow towards Belgium of up to 300,000 m³ per hour (about 80 GWh per day) by 2013.

Two main risks are associated with this project. Firstly, this industrial process has never been implemented on an industrial scale in Europe. Since 2008, one pilot installation has been under test before building a full-size plant at Taisnières. Secondly, some of the equipments required make the project's acceptability by the French authorities rather uncertain for safety and environmental reasons. GRTgaz has asked Fluxys about the possibility of sending out deodorized gas on the Belgium network. The latter wishes to consult the consumers connected to its transmission network and adjacent operators before giving an answer.

At this stage of the studies, the required investments total €51m₂₀₀₉². According to GRTgaz, the initial estimates for the operating costs of the deodorisation plant come to around €/0.9 MWh. The commissioning date, scheduled for early 2013, assumes a management of the administrative permission phase and the manufacturing delays at the same time.

1.4. Flow commitments at Taisnières

A contractual solution can be envisaged to develop firm reverse capacity from France towards Belgium. This option would rely on a minimum level of "flow commitments" to GRTgaz and/or Fluxys at Taisnières H interconnection point from Belgium towards France.

2. Open Season project

In addition to the commissioning of a deodorisation plant at Taisnières H, the construction of a pipeline enabling non-odorised gas arriving at Dunkirk (through the Franpipe and the Dunkerque LNG terminal) to be exported towards Belgium could allow the development of firm capacity from France towards Belgium.

2.1. Possibility of re-exporting non-odorised gas flows from the Dunkirk region

This technical solution would consist in transporting towards Belgium gas which has not been odorised yet on the French transmission network. Two arrival points near the French-Belgian border could supply this gas: the Franpipe transporting gas from Norway and the Dunkerque LNG terminal, for which the final investment decision is expected in the second quarter of 2010.

Commissioned in 1998 and operated by Gassco, the Franpipe has a technical capacity of 570 GWh per day (up to approximately 18 bcm per year). It transports gas from Norwegian gas fields. According to the data published by GRTgaz, the flows recorded on the pipeline have remained at a level of approximately 270 GWh per day (maintenance periods excepted) since its commercial launch. The gas is odorised on the landfall, in upstream of the Pitgam station.

The Dunkerque LNG terminal², which will be connected to the GRTgaz network in upstream of the Pitgam odorization station, has two development alternatives: 10 bcm per year (or 363 GWh per day) or 13 bcm per year (492 GWh per day). The commissioning of the terminal is expected by the end of 2014. On 26 June 2009, the company Dunkerque LNG applied for a total exemption from third party access and tariff regulation for 20 years.

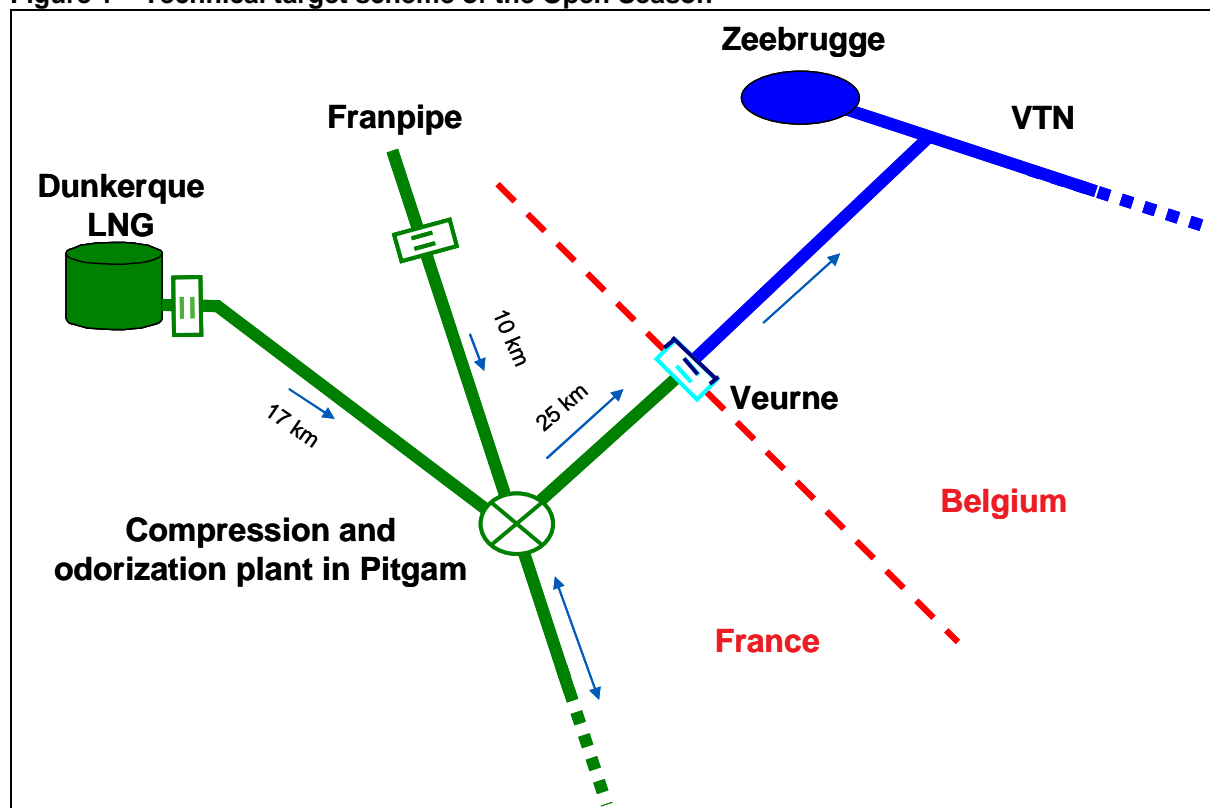
Moreover, without calling into question its connection to the French gas transmission network, Dunkerque LNG asked for an additional connection between the LNG terminal and the Belgian transmission network. This connection may be carried out either by an exempted direct pipeline for the exclusive use of the users of the LNG terminal, or as part of a regulated infrastructure exploited by GRTgaz which all the shippers could benefit from.

² For a detailed project description, see the technical consultation notice of CRE on the preliminary exemption request file for regulated access by third parties of the Dunkirk LNG available on CRE website in French and English (www.cre.fr, Public Consultations, 16/02/09).

In the absence of request, the case of an exempted infrastructure is not addressed by this public consultation.

The project studied by GRTgaz and Fluxys would lead to building a new interconnection point with the Fluxys network, located at Veurne. The indicative commissioning date is late 2014, early 2015.

Figure 1 – Technical target scheme of the Open Season



The studied project corresponds to the creation of a capacity of around 400 GWh per day (around 1 million to 1.5 million m³/hour), and would comprise the following investments:

- a pipeline of approximately 25 km in length and 1050 mm in diameter between Pitgam and Veurne;
- the modification of the Pitgam station (including the transfer of the odorization).

GRTgaz and Fluxys may study a project developing more capacity if there is a demand.

The possible need for a compression station at Pitgam shall be studied. Depending on the pressure required at Veurne, the project would cost between €75m and €135m for the French part.

Q1 Do you see an interest for you in the development of firm physical capacities from France towards Belgium through the creation of a new interconnection point at Veurne?

In this context, GRTgaz and Fluxys plan to launch in 2010 a joint Open Season to develop firm exit capacity between France and Belgium, if there is a sufficient demand from the market.

2.2. Proposed capacities

The implementation of a deodorisation plant at Taisnières H meets one of the commitments undertaken by GDF Suez vis-à-vis the European Commission within the framework of the merger. As such, the capacity proposed for this project is pre-dimensioned at 80 GWh per day. This capacity, available for all shippers, will have to be allocated by an appropriate mechanism. GRTgaz and Fluxys are currently studying the possibility to include the commercialisation of this capacity in the framework of the Open Season.

Only gas which has not been already odorised would be physically exported towards Belgium via the new interconnection at Veurne. Three types of subscribers may be interested in the created capacity:

- the shippers present in GRTgaz's North zone but who do not have non-odorised gas, meaning who do not have entry capacity at Dunkirk PIR or at PITTM³ Dunkerque LNG;
- the shippers holding entry capacity in France at Dunkirk PIR. They have non-odorised gas, near the new interconnection point at Veurne;
- the shippers present at the Dunkerque LNG terminal. They have non-odorised gas, near the new interconnection point at Veurne but their send-out might be non-continuous due to their dependence on the unloading schedule of the LNG terminal.

It is envisaged that the products commercialised within the framework of the Open Season reflect this user segmentation. Two types of capacities could thus be proposed:

- firm capacities, accessible to all shippers from the North zone. To guarantee their availability, commercialised firm capacities would be limited taking into account the minimum flows delivered by Franpipe (approximately 270 GWh per day);
- conditional capacities, accessible to shippers present at the Dunkerque LNG terminal. These capacities would be guaranteed up to the terminal's send-out level for each shipper.

Q2 What do you think of the exit capacity products at the interconnection point of Veurne to be proposed during the Open Season between France and Belgium?

2.3. Tariff visibility in France

There is currently no firm capacity from France towards Belgium. It is therefore necessary to create a specific tariff for this new product.

The tariff charges stated below are indicative.

The tariff principles should be representative of the different types of proposed capacities and adapted to the project's technical characteristics.

Concerning the firm capacities, given the uncertainty over the direction of dominant flows between France and Belgium after 2015, the tariff charge for the France → Belgium direction at Veurne could be set up at the same level as the tariff charge in the Belgium → France direction at Taisnières H. This would result in a tariff ranging from €100 and €150/MWh/day/year, in line with the estimates presented by CRE in its deliberation of 2 July 2009, providing guidance on the organisation of access to natural gas transmission networks and on capacity traded within the framework of gas interconnections with Spain.

For conditional capacities, the tariff charge could be set 30% lower than the tariff charge applied to firm capacities in order to take into account the send-out limit at PITTM.

Moreover, a proximity tariff could be envisaged for shippers transporting gas towards Belgium from Dunkirk PIR and Dunkerque LNG terminal. This provision would better reflect the costs by taking into account the nearness of Dunkirk to Veurne. This type of proximity tariff already exists for some users in the tariffs in force and consists in a reduction of 50% compared to the standard tariff.

These tariff levels would cover the estimated costs incurred by the project assuming that the capacities at Veurne are fully booked.

Broken down by user category, this scheme would enable:

- the shippers wishing to transport gas from North PEG to book firm exit capacities at Veurne;
- the shippers having entry capacities at Dunkirk PIR to book firm exit capacities at Veurne and benefit from a proximity tariff;
- the shippers having send-out capacities at Dunkerque LNG to book conditional exit capacities at Veurne and benefit from a proximity tariff.

³ Transport LNG Terminal Interface Point ("Point d'Interface Transport Terminal Méthanier")

Q3 What do you think of applying a proximity tariff to shippers transporting gas towards the new interconnection point at Veurne from Dunkirk PIR or Dunkerque LNG terminal?

Q4 What do you think of the difference in tariff principles applied to firm and conditional capacities?

As a comparison, building a deodorisation plant of a capacity of 80 GWh per day would require an investment of around €50m₂₀₀₉ and incur operational expenses ranging from €2.7 and €10.2 per 1000m³ of deodorised gas, i.e. approximately €0.2 to €0.9 per MWh.

In a scenario where 100% of the deodorisation capacities are booked, the tariff could be around €75 per MWh/day/year and €0.2 to €0.9 per MWh of deodorised gas. Such a mixed tariff mode would be applied to take into account the significant share of costs which are proportional to the quantities of deodorised gas produced.

Q5 Do you support the considered tariff mode for the capacities developed through the deodorisation plant at Taisnières H?

2.4. Short-term capacities at Veurne

In France, there is currently a reverse gas product available at Taisnières H providing interruptible capacities from France to Belgium on a short-term basis (duration inferior or equal to 1 year). This capacity is commercialised at 20% of the price of firm annual capacity in the dominant direction (Belgium → France), i.e. €18 per MWh. In 2009, subscribers booked this capacity up to an average of 45 GWh per day out of the available 122 GWh per day. This capacity has hardly been interrupted to date.

Considering the availability of such a reverse capacity, it may be chosen not to set aside a quota of short-term capacity at the Veurne interconnection point.

Q6 Do you see an interest in setting a quota of short-term capacities at the Veurne interconnection point?

3. Open Season procedure

To evaluate the market interest in developing a new capacity product between France and Belgium, GRTgaz and France are considering the launch of an Open Season in April 2010. In accordance with the GGPOS⁴ published by ERGEG, this Open Season would be closely coordinated between the Belgian and French transmission system operators, under the monitoring of both regulators.

The Open Season would be held in two stages: a non-binding phase (market test) and a binding phase (allocation of capacities and signature of contracts). Both these phases would allow an iterative and progressive process of validation of the investment. During the non-binding phase, shippers would be invited to submit an initial estimate of their capacity requirements on the basis of an Information Memorandum published prior to the Open Season by the transmission system operators. GRTgaz and Fluxys are currently working on an Open Season scheme where the capacities developed through the deodorisation plant would also be proposed during the non-binding phase. If the non-binding phase shows there is a market interest, a binding phase would then be held, the Open Season scheme being fine-tuned according to the results of the first phase.

The validation of the investments would depend on the long-term commitment level of the subscribers. In France, these commitments may mean a duration exceeding or equal to 10 years for the firm capacities and a duration exceeding or equal to 20 years for the conditional capacities.

⁴ "ERGEG Guidelines for Good Practice on Open Season Procedures (GGPOS)", C06-GWG-29-05c, 21 May 2007

Q7 What do you think of the proposed Open Season procedure?

Q8 What do you think of the durations of the commitments which could be requested from the market?

In order to properly inform the shippers on the project and enable them to stake out their position during the first phase, an Information Memorandum would be jointly published by both transmission system operators and updated for the binding phase if necessary. This notice would include elements of visibility necessary for the manifestation of a market demand. This would include *inter alia*:

- indicative products and levels of capacities proposed to the market on both sides of the border;
- elements of tariff visibility for each of the products proposed;
- the description of planned investments;
- the technical and financial framework for the validation of the investments;
- the selected allocation rules for the binding phase;
- the detailed Open Season timetable (launch and closure of both phases, dates of shippers' information meetings, dates of the publication of results, etc.).

As the process unfolds, the transmission system operators would also jointly transmit to the shippers certain documents required for the proper running of the Open Season, such as the definitive allocation rules, the capacities request form (non-binding phase), a sample letter of commitment (binding phase), confidentiality agreements and the capacities booking contracts.

4. Timetable

The timetable envisaged at this stage is as follows:

Date	Stage
February/March 2010	CRE's public consultation
Early April 2010	Publication of the public consultation results and CRE's deliberation on the Open Season
April/October 2010	Open Season jointly held by GRTgaz and Fluxys
November 2010	Signature of the capacities booking contracts

Q9 What do you think of the envisaged timetable?

5. Questions

The CRE invites interested parties to submit their answers, by 17 March 2010 at the latest:

- by email, to the following address: webmestre@cre.fr ;
- by adding comments on CRE website (www.cre.fr) under "Publications/Public consultations" section;
- by letter to: 15, rue Pasquier - F-75379 Paris Cedex 08 France;
- by calling the *Direction des infrastructures et réseaux de gaz* (Gas Infrastructures and Networks Directorate) Tel: + 33.1.44.50.42.12;
- by requesting a hearing by the Commission

CRE will, subject to laws on confidentiality, publish a synthesis of the contributions. Please indicate in your response if you wish any information to remain confidential and/or anonymous. Interested parties are invited to respond to the following questions substantiating their answers.

- Q1** Do you see an interest for you in the development of firm physical capacities from France towards Belgium through the creation of a new interconnection point at Veurne?
- Q2** What do you think of the exit capacity products at the interconnection point of Veurne to be proposed during the Open Season between France and Belgium?
- Q3** What do you think of applying a proximity tariff to shippers transporting gas towards the new interconnection point at Veurne from Dunkirk PIR or Dunkerque LNG terminal?
- Q4** What do you think of the tariff difference applied to firm and conditional capacities?
- Q5** Do you support the tariff mode considered for the capacities developed through the deodorisation plant at Taisnières H?
- Q6** Do you see an interest in setting a quota of short-term capacities at the Veurne interconnection point?
- Q7** What do you think of the proposed Open Season procedure?
- Q8** What do you think of the durations of the commitments which could be requested from the market?
- Q9** What do you think of the envisaged timetable?
- Q10** Do you see an interest in developing “firm reverse capacities” from France towards Belgium by a “flow commitments” system compared to the existing reverse capacity?
- Q11** Do you have additional comments?

6. Appendix

Links to the transmission system operators' websites in France and in Belgium:

- Fluxys, Belgium: www.fluxys.com
- GRTgaz, France: www.grtgaz.com

Links to the national regulatory authorities' websites in France and in Belgium:

- CRE, France: www.cre.fr
- CREG, Belgium: www.creg.be

Links to ENTSOG website (European Network of Transmission System Operators for Gas):

- ENTSOG : www.entsog.eu
- ENTSOG contribution on reverse flows:
http://www.gie.eu.com/publications/indexframe_plus_reverse.html