

14 June 2011

Public consultation on the rules for the sale of transmission capacity at the link between the GRTgaz North and South balancing zones and at the interface between GRTgaz and TIGF

1. Context and purpose

The current rules for the sale of transmission capacities between the North and South zones of GRTgaz and the interface between GRTgaz and TIGF were laid down by deliberation of the French Energy Regulation Commission (CRE) of 8 July 2010¹. These rules were established as part of the 'Concertation gaz' work and public consultation instigated in 2010 that led to these capacities being marketed on an 'improved' pro rata basis. These rules enabled GRTgaz to allocate available capacities from 1 April 2011 on the link between the North and South balancing zones.

Moreover, in a deliberation of 19 April 2011², the CRE approved the launch by GRTgaz of a market coupling experiment between the North and South zones of its network. Performing this experiment, which is scheduled to begin on 1 July 2011, involved dedicating 10 GWh/j of unsold firm annual capacities on the North/South link in either direction to market coupling. In its deliberation of 19 April 2011, CRE also asked GRTgaz and TIGF to work together to examine the issue of extending the market coupling process at the interface between the GRTgaz South and TIGF zones.

Commercialisation of available capacities from 1 April 2012 on the link between the North and South zones of GRTgaz and the interface between GRTgaz south and TIGF zones are to be marketed during the months of August and September 2011. Adaptations needed on the rules for the sale of such capacities have to be defined without delay.

Sustainability of market coupling beyond 31 March 2012 implies that existing rules for allocating existing capacity on the North/South link, especially by defining the manner in which part of the capacities on the link between the North and South zones of GRTgaz are dedicated to the market coupling mechanism before they are proposed to the market.

The adaptations made to the rules for marketing capacity on the link between the North and South zones of GRTgaz should be extended to cover the interface between GRTgaz and TIGF to ensure that process governing capacity allocation are consistent throughout the French market.

To this end, GRTgaz submitted a proposal to the CRE on 9 June 2011 on how the capacities marketed during future sales might be adapted. This proposal has been discussed within the 'capacity allocation' working group of the Concertation gaz. CRE is keen to obtain views of market players on this proposal.

After analysing the responses of market players to the present consultation, CRE will take a deliberation on the rules for marketing transmission capacities at the link between the North and South zones of GRTgaz and the interface between GRTgaz and TIGF.

¹ Deliberation of 8 July 2010 on the rules for the sale of transmission capacity at the link between the North and South balancing zones of GRTgaz and at the interconnection between GRTgaz and TIGF, as of April 1st, 2011

² Deliberation of 19 April 2011 deciding on GRTgaz's proposal to experiment a market coupling mechanism on its transmission network

2. GRTgaz's proposal

GRTgaz's proposal is attached to the present consultation. GRTgaz is proposing to retain the current marketing rules.

Furthermore, provided further experiment feedback on market coupling, GRTgaz proposes not to commercialize 10 GWh/d of annual firm capacities on the North/South link between North to South and by symmetry between South to North in order to be able to potentially affect them to the sustainability of market coupling mechanism beyond 31 March 2012. This volume of capacity is equivalent to the one currently used in the experiment.

In addition, GRTgaz proposes to definitely fix the capacity level dedicated to the market coupling mechanism after the feedback planned in autumn 2011. This capacity level could be increased by eventual unsold capacities during the Open Subscription Period (OSP) or be decreased.

GRTgaz proposes that the commercialisation calendar of capacities on the North/South link set in the general terms of the transmission contract remain unchanged.

3. CRE's preliminary analysis

3.1. *Maintaining the marketing rules*

The results of the commercialisation process implemented in summer 2010 on the North / South link were presented to all market players in the Concertation gaz framework. It has been agreed that the allocation rules set in 2010 had functioned satisfactorily. CRE agrees with this conclusion and has, moreover, not been informed of any particular malfunction. Therefore, CRE proposal is to maintain current marketing rules, as proposed by GRTgaz.

Q1. Are you in favour of maintaining the current marketing rules?

3.2. *No commercialization of link and interface capacities beyond 1 April 2015*

As set out in its deliberation of 19 April 2011, CRE considers that experimenting with a coupling mechanism will enable the wholesale markets of the North and South zones to be gradually brought closer together with a view to merging these zones in the future.

GRTgaz has been asked by the CRE³ to carry out a study by the end of 2011 on the feasibility and cost of the different possible methods of merging the North and South zones. Until the results of this study have been obtained, it is important at this stage not to commercialize capacities beyond 1 April 2015. Indeed, it can not be excluded that the North and South zones of the GRTgaz network might be merged as early as this date.

CRE considers accordingly that the next allocation of capacities on the link between the North and South zones of GRTgaz must not cover capacities lasting longer than 3 years. All multi-year firm and interruptible capacities available from 1 April 2012 onwards must thus be offered for periods of 3 and 2 years.

In order to ensure that allocation mechanisms remain consistent, the marketing rules at the interface between GRTgaz and TIGF must be adapted to the changes in the rules for marketing on the link between the North and South zones of the GRTgaz network. Therefore, CRE considers that any capacities marketed on the interface between GRTgaz and TIGF from 1 April 2012 onwards may not exceed a period of 3 years. Multi-year capacities intended to be allocated from 1 April 2012 onwards must therefore be divided equally between 3-year capacities and 2-year capacities.

Q2. What do you think about CRE's proposal not to commercialize any link or interface capacities beyond 1 April 2015?

³ Deliberation of 19 April 2011 deciding on the modification of GRTgaz's 2011 investment program

3.3. Dedication of a part of the capacity on the North/South link to market coupling

The CRE considers at this stage that the development of market coupling should be promoted from 1 April 2012 onwards, and it is advisable, to this end, to increase from 10 to 15 GWh/d the volume of capacity withdrawn from the capacity to commercialize on the link between North and South zones.

CRE proposes for this purpose, not to sell 10 GWh/d of firm capacity made available due to the end of a historical contract, and 5 GWh/d of capacity taken from the annual firm capacity.

These measures would thus result in:

- an increase of firm capacities marketed over 3 and 2 years (going from 10.8 to 16.2 GWh/d per maturity at the link between the North and South zones of GRTgaz; and interruptible capacities marketed over 3 and 2 years (going from 26.6 to 35.4 GWh/d per maturity);
- a reduction in the annual firm capacities marketed at the link between the North and South zones of GRTgaz (going from 46 to 41 GWh/d).

Moreover, CRE considers that GRTgaz proposal leading to dedicate to the market coupling mechanism all or part of annual capacity unsold at the end of the commercialization process is satisfactory. In addition, CRE proposes that the marketing of these capacities on a "first come, first served" basis as provided in the general terms and conditions of the transmission contract has to be temporarily suspended in order to preserve the possibility to dedicate a maximum volume of capacity at autumn 2011 to the market coupling.

CRE also believes that the level of capacity that would actually be devoted to market coupling could be determined after the first feedback of the market coupling experiment expected in October 2011. By this date, it will be possible to take a decision how to allocate the eventual unsold capacities. These capacities could be allocated to the market coupling, to add to the 15 GWh/d capacity already reserved, or alternatively reoffered for marketing from April 2012 onwards. Furthermore, if the feedback of the experiment prove negative, it would also be possible to sell off in fine the 15 GWh/d reserve in the form of annual capacities from 1 April 2012 onwards.

Q3. Are you in favour of the CRE's proposal to dedicate to the market coupling mechanism:
- 15 GWh/d of capacity on the North/South link?
- the capacities left unsold after the marketing process, in the manner described above?

3.4. Adapting the tariff for transport on the South to North connection of the GRTgaz network

The link between the North and South zones of the GRTgaz network, which shows a significant rate of booking for the North to South direction, has, in contrast, a particularly low rate of reservation for the South to North direction. As an example, 100% of firm marketable capacities in the North to South direction were subscribed for the period from 1 March to 31 August 2011, as against only 8.7% in the South to North direction.

These elements have led CRE to launch a reflexion of how use of the South to North direction can be encouraged on the North/South link of the GRTgaz network.

Thus, CRE is contemplating lowering significantly the tariff for using the link in the South-North direction, decreasing from 156.03 €/MWh/d/year to 50 €/MWh/d/year from 1 April 2012 onwards.

This change would provide a better signal of market conditions and would promote the attractiveness of the South zone of the GRTgaz network by facilitating access to PEG Nord for gas originating from TIGF zone or Fos LNG terminals. It would also contribute towards converging the prices observed in the North and South marketplaces of GRTgaz.

Given the low rate of booking in the South to North direction, this evolution could result in a lower income on the link which would be compensated, considering a constant level of booking, with a maximum increase of 0.3% on the other tariff charges.

Q4. Are you in favour of the CRE's proposal to reduce the tariff for the link from the South to the North from 156,03 €/MWh/d/year to 50 €/MWh/d/year from 1 April 2012 onwards?

Questions:

1. Are you in favour of maintaining the current marketing rules?
2. What do you think about CRE's proposal not to commercialize any link or interface capacities beyond 1 April 2015?
3. Are you in favour of the CRE's proposal to dedicate to the market coupling mechanism:
 - 15 GWh/d of capacity on the North/South link?
 - the capacities left unsold after the marketing process, in the manner described above?
4. Are you in favour of the CRE's proposal to reduce the tariff for the link from the South to the North from 156,03 €/MWh/d/year to 50 €/MWh/d/year from 1 April 2012 onwards?
5. Do you have any other comments on this subject?

The CRE invites the interested parties to send their contribution **by 28 June 2011 at the latest:**

- by email to the following address: webmestre@cre.fr;
- by contributing directly on the CRE website (www.cre.fr), under the "Documents/ Public consultations" section;
- by post: 15, rue Pasquier - F-75379 Paris Cedex 08;
- by contacting the Infrastructures and Gas Networks Department: + 33.1.44.50.41.87.

Please let us know if you wish your contribution to remain confidential.