PITTM allocation rules		
	July 25, 2012	

1 Purpose of the document

The purpose of this document is to propose a change to the PITTM allocation mechanism with a view to recovering the revenue relating to the LNG terminals' connections, whilst protecting shippers against adverse effects, in particular when subscribing for "continuous" services with LNG terminal operators.

2 Background

2.1 Management of subscribed annual capacity overruns

Within the framework of the "Concertation Gaz" consultation process, a certain number of shippers that have subscribed for a "continuous" service have complained about being invoiced for additional monthly capacity which, in their view, generates an undue extra revenue, since an emission period in excess of just one day compared with the subscribed annual capacity is invoiced for a whole month.

The ATRT4 tariff provides that:
"At PITTM Montoir and PITTM Fos,
any shipper subscribing for a "continuous" service with the LNG terminal operators shall be allocated firm annual capacity equal to:

$C = Q_{Ae} / Q_{TM} * C_{PITTM}$

Where:

Q_{Ae} *= Annual regasification capacity subscribed by the said shipper at the terminal in question;*

Q_{TM} *= Total annual firm technical regasification capacity of the Montoir LNG terminal for PITTM Montoir or sum of the total annual firm technical regasification capacity of the Fos Cavaou LNG terminal plus the total annual firm subscribed regasification capacity of the Fos Tonkin LNG terminal for PITTM Fos;*

C_{PITTM} *= Daily firm entry capacity at the PITTM*

At the beginning of each month, the TSO calculates, for each shipper, the maximum daily emission from the previous month. If this capacity exceeds the annual firm capacity C (…), then the TSO invoices the shipper a monthly subscription of additional daily capacity equal to the difference between the maximum daily emission for the previous month and capacity C, at a price equal to 1/12th of the price for the annual firm capacity subscription".

As a result, invoicing an additional monthly capacity may lead to invoicing, for a given day, a quantity obviously greater than the actual emission volume.

3 Analysis

3.1 Management of subscribed annual capacity overruns and automatic capacity allocation principle

The principle of automatic PITTM capacity allocation as introduced since January 1, 2007, and upgraded from January 1, 2009, which takes into account the actual ratio of volumes subscribed at LNG terminals, has undoubtedly brought clarity and enhanced the development of LNG terminal subscriptions.

Besides, LNG terminal emissions are very fluctuating and cannot be controlled by each shipper individually. For example, Fos emissions vary from 0 to 620 GWh/d depending on the period of the year, for a published annual marketable firm capacity of 410 GWh/d at PITTM Fos. This means that GRTgaz does not process, at PITTMs, the usual operational controls relating to the subscribed capacity.
It should be noted that in case of capacity restriction at PITTMs due to maintenance works, the LNG terminal operator could be required to adjust their emission programs, which would result in increased annual capacity overruns, through no fault of the shipper! Amazingly enough, there are known cases where the LNG terminal operator has underoptimised the emissions in order to "mitigate" the overruns!

Lastly, it should be mentioned that additional monthly capacity revenues are not re-distributed and should not, under no circumstances, constitute an incentive for the shipper not to make overruns, in the same way as provided for at industrial customer delivery points or in respect of the balancing tolerance mechanism – since it would make no sense here when considering the previous analysis.

3.2 Specific case of PITTM Fos

PITTM Fos is used as a single entry point for 2 LNG terminals (Fos Tonkin and Fos Cavaou), whose regasification capacities are marketed through two different companies. For that reason, and due to specific requests for capacity from one or the other of these two LNG terminals, clarification is required with regard to PITTM Fos allocations, in particular in order to prevent any variation in allocation on a given terminal from unduly affecting allocations on the other terminal, while at the same time maintaining the concept of a single entry point at this PITTM so as to properly reflect the actual design of GRTgaz' network.

4 Proposal

On the grounds of the analysis carried out, the following elements should be taken into consideration within the framework of a change to the existing rules:

- ➔ A PITTM capacity is a purely tariff-based item with the only purpose of recovering revenues
- ➔ Determining the marketable capacity at the PITTM is a critical issue: besides, it should be possible to publish such capacity either on an annual or seasonal (possibly monthly) time step, depending on the LNG terminal under consideration.
- ➔ There is no objective reason for PITTM Fos to be "split"; it is however advisable to define and publish the share of each of the terminals attached to this PITTM as far as marketable capacity is concerned.
- ➔ Wherever possible, automatic capacity allocations should be perpetuated.

Given these elements as well as the background and analysis described above, the following principles are proposed with a view to improving the PITTM allocation rules:

1. *Principle of annual recovery of revenues relating to LNG terminals' connections*: for each PITTM, the capacity to be allocated to all shippers using the LNG terminals shall be defined and published every year. Such capacity may be annual or even seasonal depending on the actual configuration of entry flows. No extra cost will be charged in the event of allocated quantities being higher than the "capacity" (removal of "additional monthly capacity").
2. *Principle of proportionality of allocated regasification and transmission capacity*: the purpose of allocating a PITTM capacity to a shipper is to invoice it the share of marketable capacity it has actually used. This share must correspond to the proportion of the volume it has subscribed over the invoicing period.

5 Conclusion

Applying the proposed principles no. 2 & 3 (allocation of all marketable capacity on the basis of the breakdown of the regasification volumes subscribed) means considering each PITTM individually.
Besides, this new allocation rule must remain neutral in terms of tariff: the unit price of the capacity allocated at the PITTM under the "continuous" service must therefore be adjusted taking into account a reference period, which should result in a relative differentiation between the unit prices of the capacity allocated at the PITTM under the "continuous" and the "band"/spot services. This adjustment will take place with everything else being equal, in particular with the exclusion of overall change in the transmission tariff that would also apply to the PITTM, as the case may be.

5.1 Designations

P_{TM}: period of time during which the regasification capacity allocated under the continuous service applies to LNG terminal "TM" (current situation: 1 calendar year for Montoir and the Fos terminals)

P_{PITTM}: period of time during which the transmission capacity corresponding to the regasification capacity allocated under the continuous service is allocated at the PITTM.

M: calendar month during which a transmission capacity is allocated at the PITTM

C_{TM}: marketable capacity of the PITTM to which LNG terminal "TM" is attached, defined and published by GRTgaz every year, specifying the corresponding P_{PITTM} period(s).

Q_{ec}: regasification capacity allocated to shipper "e" under the continuous service

Q_{es}: regasification capacity allocated to shipper "e" under the "band"/spot service

Q_c: total regasification capacity allocated by the terminal operator under the continuous service (this capacity being currently allocated over a period of 1 year)

Q_s: total regasification capacity allocated by the terminal operator under the "band"/spot service (this capacity is allocated over a period of 30 days)

$C_e(M, P_{TM})$: daily transmission capacity allocated to shipper "e" at the PITTM to which LNG terminal "TM" is attached, on a daily basis and for a given calendar month in the P_{TM} period. The capacity is invoiced each month M on the basis of $1/12^{th}$ of the annual unit price.

5.2 "Band"/spot service (all PITTMs):

For each PITTM, any shipper subscribing a short-term regasification ("band" or spot) capacity is automatically allocated a firm monthly capacity equal to $1/30^{th}$ of the regasification capacity. The applicable price is $1/12^{th}$ of the annual capacity price.
This capacity is deemed allocated and the month invoiced is the calendar month in which the 1^{st} day of confirmed emission falls.

$$\mathbf{C_e(M) = Q_{es}/30}$$

5.3 Continuous service: specific case of PITTM Montoir:

Marketable capacity at PITTM Montoir is currently "seasonal": $C_{Montoir}$ = 370,000 MWh/d in summer ($P_{PITTMMontoirété}$ = 7 months from April 1 to October 31) and $C_{Montoir}$ = 400,000 MWh/d in winter ($P_{PITTMMontoirhiver}$ = 5 months from November 1 to March 31).

For any shipper "e", the capacity used for PITTM Montoir, allocated each month M in the seasonal period, is determined using the following overall formula:

$$\mathbf{C_e(M, P_{TMMontoir}) = (C_{Montoir} - Q_s/30) \times Q_{ec}/Q_c}$$

5.4 Continuous service: specific case of PITTM Fos:

At present, marketable capacity at PITTM Fos is annual: C_{Fos} = 410,000 MWh/d from January 1 to December 31.
The respective shares of Fos Tonkin (C_{Tonkin}) and Fos Cavaou (C_{Cavaou}) capacity are determined as follows:
$C_{Fos} = C_{Tonkin} + C_{Cavaou}$, in proportion to the respective annual volumes of the two LNG terminals, currently set at 5.5 bcm and, respectively, 8.25 bcm, i.e 40% for Fos Tonkin (C_{Tonkin} = 164,000 MWh/d) and, respectively, 60% for Fos Cavaou (C_{Cavaou} = 246,000 MWh/d). These proportions will change to 120,000 MWh/d for Fos Tonkin and, respectively, 327,000 MWh/d for Fos Cavaou when marketable regasification capacity of Fos Tonkin will be equal to 3 bcm/year as from the end of 2014, and marketable capacity of PITTM Fos will be increased to 447,000 MWh/d by 2016 following completion of the "Eridan" project (see Ruling of the French Energy Regulatory Commission of December 13, 2011, on the long-term development of the Fos Tonkin LNG terminal beyond October 1, 2014).

For any shipper "e", the capacity used for PITTM Fos, allocated each month M in the annual period, is determined using the following overall formula:

$$\mathbf{C_e(M, P_{TMFos}) = (C_{Tonkin} - Q_{sTonkin}/30) \times Q_{ecTonkin}/ Q_{cTonkin} + (C_{Cavaou} - Q_{sCavaou}/30) \times Q_{ecCavaou}/ Q_{cCavaou}}$$