

26 July 2012

## Public consultation regarding the next tariff for the use of gas transmission network

Articles L. 452-2 and L.452-3 of the French Energy Code, entered into effect on 1 June 2011, modified the powers of the French Energy Regulation Commission (CRE), which now defines the methodology used to establish the tariffs for the use of natural gas networks and any modifications to tariff levels and structures that it deems justified following, notably, an analysis of the operators' accounts and any expected changes in operating expenses or investment costs.

The current tariffs for the use of GRTgaz's and TIGF's natural gas transmission networks, termed "ATRT4 tariffs", entered into effect on 1 January 2009 for a period of four years, in accordance with the Order of 6 October 2008 approving CRE's tariff proposal of 10 July 2008.

CRE intends to define new tariffs for the use of the natural gas transmission networks for GRTgaz and TIGF, termed "ATRT5 tariffs", which would apply from 1 April 2013.

The changes envisaged for the next GRTgaz and TIGF tariff aim to:

- take into account a new cost trajectory to be covered;
- complete the incentive system implemented by the ATRT4 tariff;
- continue streamlining the contractual structure of the French natural gas market;
- take into account future changes related, in particular, to the entry into effect of the European network codes.

In accordance with the provisions of Article L.452-3, paragraph 2 of the French Energy Code, CRE wishes to consult all stakeholders before its deliberation on the ATRT5 tariff, scheduled for end 2012. Interested parties are invited to answer the questions at the end of this document by 21 September 2012 at the latest.

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# 1. Context and purpose of the public consultation

## 1.1. Active transmission system operators (TSOs) in France

### 1.1.1. GRTgaz

GRTgaz, 75% owned by GDF Suez and 25% by the Société d'Infrastructures Gazières (SIG), a public consortium comprising CNP Assurance, CDC Infrastructure and the Caisse des Dépôts, operates, maintains and develops a high-pressure gas transmission network of over 32,000 km covering a large part of the French territory except the south west. GRTgaz transmits approximately 700 TWh of gas per year. Its 2011 sales totalled €1,563.6 M and its average workforce was 3,062.

### 1.1.2. TIGF

TIGF, fully owned by the TOTAL group, operates, maintains and develops a high-pressure gas transmission network of 5,000 km in the south west of France. TIGF transmits approximately 80 TWh of gas per year. It is also an operator of natural gas storage infrastructure and has separate accounts for its transmission and storage activities. Its 2011 sales totalled €207.5 million for its transmission activity and its average workforce stood at 418.

### 1.1.3. GRTgaz and TIGF certification

The Third Energy Package has introduced reinforced independence obligations for the TSOs, especially for the Independent Transmission Operators (ITO). Requirements of directive 2009/73/EC were transposed on French law by the ordonnance of 9 May 2011.

CRE's decision of 26 January 2012 stated that both GRTgaz and TIGF were relevant to be certified as ITO. After a several-month procedure, CRE confirmed the respect by GRTgaz and TIGF of governance and independence rules vis-à-vis the vertically integrated companies to which they belong.

## 1.2. Current tariffs for GRTgaz and TIGF

The tariffs for the use of the natural gas transmission networks, termed "ATRT4", in effect for the 2009-2012 period, are based on a common regulatory framework set for four years, which includes:

- the terms governing the rate of return on assets, with, in particular, a weighted average cost of capital (WACC) set at 7.25% and a 3% incentive bonus for making certain investments for 10 years;
- the operation of the income and expenses clawback account (CRCP);
- the incentive mechanism for minimising operating expenses (OPEX) and improving service quality.

The tariff structure and the services proposed by the TSOs may be modified by CRE during the tariff period.

GRTgaz's tariff trajectory was set for four years. Capacity subscription and energy cost projections are reviewed each year, with the tariff terms changing on 1 April each year.

TIGF's tariff was set for two years. At the end of that period, a complete revision of capital cost trajectories, OPEX and capacity subscription projections was carried out and a new tariff was defined for the following two years.

## 2. Regulatory framework

### 2.1. General assessment of the regulatory framework of the ATRT4 tariff

The current tariff period defined a stable regulatory framework for a period of four years and led to annual changes carried out in compliance with the initially established rules.

With regard to investments, this regulatory framework enabled numerous investments to be completed or launched with a view to improving the operation of the market (debottlenecking of the GRTgaz North zone, France-Spain open seasons, connection of the Dunkirk LNG terminal, looping of the Rhône pipeline, Taisnières open season).

GRTgaz's net OPEX were generally higher than the initially projected trajectory.

TIGF's net OPEX were lower than forecasts for the 2009-2010 period. However, the net OPEX in 2011 exceeded forecasts. These were generally the same level as projections, excluding the flat-rate tax on network businesses (IFER).

CRE considers that the ATRT4 regulatory framework was satisfactory, since it led first of all to the implementation of necessary developments to the French transmission network by reinforcing their integration within European networks, and also to the introduction of incentive mechanisms to encourage the TSOs to control costs while improving the quality of service for the benefit of clients.

### 2.2. Duration of tariff application and terms and conditions for tariff updates

The TSOs have requested a longer regulatory period; eight years for GRTgaz and six years for TIGF, in order to have more visibility. The operators consider however, that they are unable to predict the development of their expenses beyond four years and therefore request for their expenses to be covered by the tariffs to be fully reviewed every two years in order to minimise their risks.

CRE has doubts about the added value of lengthening the duration of the regulatory framework, since the only quantitative elements that the TSOs propose to set for this extended period would be the investment incentive for GRTgaz and the rate of return on the regulatory asset base, as well as the investment incentive for TIGF. CRE considers that tariff visibility is important for the TSOs but also for the users and that this proposal would not provide more visibility for the latter.

Consequently, CRE intends to maintain a period of four years for the ATRT5 tariff framework.

With regard to the terms and conditions for the development of tariffs, CRE plans to set a four-year OPEX trajectory for both TSOs in order to:

- give more visibility to users;
- set productivity objectives for the TSOs over a sufficiently long period that would enable them to reach those objectives.

In order to take into account the uncertainties related to subscription forecasts and energy prices, CRE plans to update these two parameters mid-term into the tariff period. It is also in favour of a mid-term revision of the OPEX trajectory under certain conditions, in particular, to take into account any regulatory developments that may have significant consequences on the tariff balance.

Therefore, after the first two years of the ATRT5 tariff, i.e. 1 April 2015, CRE plans to revise the tariff terms applicable for both TSOs taking into account the following elements:

- updating of capacity subscription estimates, as well as costs related to the energy line item (gas, electricity and CO<sub>2</sub>) given market conditions;
- reconciliation of the income and expenses clawback account (CRCP) as described in section 2.3.3 of this consultation;
- revision, if necessary, of the OPEX trajectory (revision clause), based on the following principle: at the end of the first two years during which the tariffs are applied, the difference between the effective operating expenses and the operating expenses taken into account in the tariffs is measured. If this difference exceeds 1% and is the result of new expenses related to legislative, regulatory or jurisdictional provisions independent of the activity of an efficient operator, the levels of operating expenses to be

covered by the tariffs may be re-evaluated to take into account these new expenses for the following two years.

**Question 1: Do you agree with maintaining a four-year tariff period? Do you agree with the tariff update terms envisaged?**

## **2.3. Incentive mechanisms**

### **2.3.1. Operating expenses incentive mechanism**

ATRT4 introduced an incentive to minimise operating expenses. For GRTgaz, an OPEX trajectory was defined for the 2009-2012 period based on an annual increase equal to inflation + 1.1%. The 1.1% factor takes into account the combined effect of the annual productivity objective set by CRE and the projected rise in the TSOs activity over the tariff period.

At the end of the tariff period, any additional productivity gains made by GRTgaz beyond the predefined trajectory are shared equally between the operator and the users of the network. This mechanism was extended to TIGF for the 2011-2012 period.

For the next tariff period, GRTgaz proposes that its efforts to increase productivity should be measured according to the effective volume of capacity sold, which would involve distinguishing between the increase in costs related to the forecast growth in GRTgaz's activity and an annual productivity objective with like-for-like activity.

The implementation of GRTgaz's proposal appears to be complex. The fact is that it is difficult to accurately quantify the actual effect of the increase in a TSO's activity on its operating expenses. However, CRE is in favour of developing indicators to follow the development of the TSOs' costs based on different parameters enabling the development of their activity to be quantified. These indicators may be published.

Consequently, CRE intends, at this stage, to maintain the current formula for establishing GRTgaz's projected costs, updating the annual productivity objective, and to define a similar formula for TIGF. In addition, in order to strengthen operators' incentive to increase productivity, CRE plans to allow them to keep all additional productivity gains that exceed the trajectory set.

**Question 2: Are you in favour of developing the incentive regulation for operating expenses as defined above?**

### **2.3.2. Investment costs incentive mechanism**

#### **2.3.2.1. Investment incentive regime**

Within the current tariff, CRE implemented an investment incentive regime for gas transmission networks based on the following principles:

- the elimination of the bonus of 125 basis points previously granted for all investments on the transmission network commissioned as from 1 January 2004;
- the granting of an increase of 300 basis points, applied for 10 years, to investments in the main network that create additional transmission capacity or that reduce the number of balancing zones.

The goal of this mechanism was to better target investment incentives, while improving TSOs' visibility.

With regard to the next tariff period, the TSOs have expressed their wish to maintain the level of this bonus and to extend its scope to other investments: market integration, high value added services for the market or the environment and the security of networks for TIGF. According to the TSOs, this would reflect the high risks of not covering expenses and capital employed, given the availability of the capacity arbitrage market to supply sources.

CRE presently considers that:

- this mechanism has been efficient: it led to major investments in gas transmission to support the opening of the market to competition and European market integration (decongestion of GRTgaz's North zone,

Taisnières and France-Spain open seasons, connection of the Dunkirk LNG terminal, the Eridan project). Since its implementation, the 3% bonus has been granted to investments for €2,285 M during ATRT4 and €469 M during ATRT3;

- the high cost of energy has become a major challenge for end customers and for their suppliers, particularly with the current economic crisis. Despite the low proportion of transport in the final price of gas, CRE considers that it is necessary to limit cost increases for gas infrastructure;
- market operation has already improved greatly (all interconnections have been strengthened, a major portion of congestion has been lifted). CRE considers at this stage in its analysis, that two major projects have yet to be completed in order to optimise market operation;
  - the looping of the Bourgogne pipeline, for a total of approximately €575 M, which is essential for the merging of the North and South zones;
  - decentralised odourisation of natural gas, in order to enable a physical flow of gas from France to Germany or Belgium.

In compliance with Article L.452-3 of the French Energy Code that provides for the application of incentives aimed in particular at "encouraging operators to improve their performance related in particular to [...] the integration of the internal market for natural gas, the security of supply", CRE intends, at this stage, to limit the granting of the 3% bonus, for investments decided during the next tariff period, to these two projects. Projects to which this bonus has already been granted as decided in previous tariffs, would continue to receive the bonus.

**Question 3: Are you in favour of the evolution of the scope of the investment incentive?**

### **2.3.3. Investment costs incentive**

The current tariff does not provide for any *ex ante* incentive for TSOs to control their investment costs. In its deliberation of 22 December 2011 deciding on the terms and conditions for the connection of the Dunkirk LNG terminal to GRTgaz's network, CRE introduced an incentive mechanism to control the cost of this project. This mechanism provided for a variation in the rate of return on the investments for this project based on the difference between the projected and actual cost.

The incentive mechanism envisaged by CRE, based on the mechanism used for the connection of the Dunkirk terminal, is as follows:

- a rate of return that depends on the difference between the reference investment sum and the actual investment cost;
- an application of the capacity development incentive bonus of 3% for 10 years limited to the forecast budget, for projects to which this bonus is applied;
- discontinuation of the return on fixed assets in progress, beyond the forecast date of commissioning.

GRTgaz is not opposed to the implementation of an incentive mechanism to control costs for projects with a budget exceeding €200 M. However, it requests for the projected cost taken into account by this mechanism to correspond to the cost assessed following calls for tenders for the procurement of material and for carrying out the project. In fact, the TSO considers that certain costs, particularly for labour and materials, depend heavily on the context and are therefore not controllable.

CRE considers at this stage that the incentive principles set within the framework of the connection of the Dunkirk LNG terminal have led to balanced risk sharing between the TSOs and users.

CRE therefore intends to extend this mechanism, for both TSOs, to all significant investments decided during the upcoming tariff period. The parameters of this incentive mechanism would be adjusted based on the particularities of each project and in particular their eligibility for the development incentive bonus. Indexation parameters could be taken into account to adjust the projected cost of projects, in order to take into account the changes in steel prices in particular.

**Question 4: Do you agree with the implementation of an investment incentive as defined above?**

#### **2.3.4. Service quality incentive**

As part of the current tariff framework, a service quality incentive mechanism was implemented in order to improve the service and data provided by the TSOs, and to prevent any deterioration that may result from requests for operators to increase productivity.

This mechanism covers the following fields: environment, maintenance programme, quality of the relationship with shippers and quality of allocations and metering.

The service quality incentive mechanism comprises three types of indicators:

- indicators followed by CRE, with publication of results;
- indicators followed by CRE, with publication of results and definition of an objective;
- indicators followed by CRE, with publication of results and financial incentive or penalty if the previously defined objectives are not reached or are exceeded. This financial incentive and/or penalty are entered into the CRCP.

During the tariff period, CRE modified this service quality regulation mechanism based on successive feedback.

Since 2009, GRTgaz and TIGF have made significant progress in terms of service quality. For example, the quality of data made available to shippers to assist them in minimising their imbalances improved considerably. The quality of intraday consumption measurements for industrial clients connected to GRTgaz's transmission network thus went from approximately 70% to 90% compliance since January 2011. The equivalent indicator for the compliance of daily metering of industrial clients has remained higher than 98% since June 2011.

CRE intends to maintain this service quality mechanism and adapt it to:

- re-evaluate the objectives and the level of financial incentive based on the TSOs' results;
- integrate new indicators related to the publication of data by the TSOs for network balancing;
- give financial incentive to TSOs to minimise the differences between the projected reduction in available capacity and the actual reduction of capacity related to the maintenance programme;
- introduce an indicator for connection time.

**Question 5: What do you think of the development of GRTgaz's and TIGF's service quality over the past few years? Do you agree with the changes envisaged? Do you have any other comments?**

#### **2.3.5. The income and expenses clawback account (CRCP)**

The current tariffs include a CRCP to correct ex post facto all or part of the differences in expenses and income observed for the following line items:

- income related to the transmission in the network;
- capital expenses;
- energy expenses and income and expenses related to CO<sub>2</sub> quotas;
- income from the connection of combined-cycle gas turbines;
- financial incentive and penalties generated by the service quality incentive;
- the service contract between GRTgaz and TIGF;
- the results of audits conducted by CRE;
- the difference between actual inflation and projected inflation taken into account for the operating expenses trajectory.

The reconciliation of this account's balance is performed over a period of four years by reducing or



increasing the income to be collected through the tariffs.

This mechanism worked as expected during ATRT4.

GRTgaz and TIGF propose to develop the CRCP mechanism by including new line items or modifying the rate of coverage. The proposals are as follows:

- the income related to subscriptions at the exit points of the LNG terminals should be covered 100% (instead of 50%);
- the income related to subscriptions at upstream network points excluding transport storage interface points (PITS) and LNG terminal transmission interface points (PITTM), should be covered 80% (instead of 50%) if the difference between forecast and actual subscriptions is less than or equal to +/-10%, otherwise 100%;
- taxes;
- income from work requested by third party developers and from the connection of biogas production installations;
- income and expenses related to service contracts, and in particular for GRTgaz, the flexibility contract with Storengy, intraday flexibility contracts with adjacent operators, the H gas to L gas swap contract with GDF Suez (including the flexibility portion related to the L network).

With regard to any contractual mechanisms (in particular any flow commitment contracts) related to the merging of the North and South zones, GRTgaz requests the implementation of a specific mechanism for the recovery of differences with infra-annual reconciliation.

CRE notes that the general effect of the TSOs' requests would be the significant increase in the income and expense base covered by the CRCP. At this stage, it does not intend to add new line items to be covered via the CRCP, except for the integration of any developments in the cost of the H gas to L gas swap contract if GDF Suez's costs for transmission of L gas vary. The "taxes" line item will be handled by the revision clause. A specific mechanism will be defined for any contractual mechanisms related to the merging of the North and South zones.

## **2.4. The calculation of capital expenses**

### **2.4.1. Regulatory asset base (RAB)**

Capital expenses include depreciation and financial return on fixed capital. The calculation of these two elements is established based on the valuation of the regulatory asset base (RAB) which is carried out using a "current economic costs" method, whose main principles were decided by the Special Commission set up under Article 81 of the amending Finance Law of 28 December 2001, to determine the transfer price for the State's natural gas transmission networks.

The lifetimes retained for the main categories of industrial assets are:

- 50 years for pipelines;
- 30 years for compression equipment.

Assets are re-valued on 1 January each year. The re-evaluation index used is the July-to-July consumer price index excluding tobacco products, as calculated by INSEE for all households in France.

Since 2006, the conventional date for the entry of assets into the RAB has been 1 January of the year following their commissioning (instead of 1 July of the year of commissioning for assets commissioned before).

The calculation of the RAB and capital expenses for the period during which the tariffs are valid takes into account investment and commissioning projections provided by the operators.

### **2.4.2. The rate of return on assets**

The rate of return on the RAB retained for the current tariffs is 7.25% (real before taxes).

CRE will re-examine the projections and parameters used to calculate the rate of return. In particular, it commissioned an external consultant to perform a study on the weighted average cost of capital for

electricity and gas infrastructure carried out in summer 2011. In addition, it regularly conducts assessment work in-house on the parameters of the rate of return.

At the start of 2012, CRE also defined the rate of return on gas distribution activities for GrDF's new distribution tariff, which entered into effect on 1 July 2012.

As part of the tariff preparations, the TSOs have jointly commissioned an external consultant to conduct a study on the analysis of the profitability of the gas transmission activity in France. In addition, TIGF has requested for the rate applied to an individual asset to be the same throughout its depreciation period.

CRE will use all these elements to set the rate of return for the next tariff period.

### **2.4.3. Rate of return on fixed assets in progress**

The current tariff provides for a rate of return on fixed assets in progress at the cost of debt.

GRTgaz has requested a rate of return on fixed assets in progress based on the rate applied to the RAB. It considers that the profitability of a project takes into account the financial flows over the entire life of the project and not from the date at which it enters into service.

At this stage, CRE intends to maintain the current terms governing the rate of return on fixed assets, in line with the project financing process that consists in capitalising interest at the cost of debt. This would also provide financial incentive to TSOs to commission infrastructure under development earlier.

**Question 6: Do you agree with maintaining the rate of return on fixed assets in progress based on the cost of debt?**

## **2.5. Miscellaneous**

### **2.5.1. Treatment of stranded costs**

In the current tariff framework, the residual book value of assets withdrawn from inventory before the end of their service life (stranded costs), as well as expenses related to upstream technical studies and procedures, which cannot be capitalised if the projects concerned are not followed through, are included in the capital expenses to be covered by the tariff. These costs are taken into account on a case-by-case basis, based on well-argued files submitted by the operators to CRE. Income from any transfer of assets is deducted, if necessary, from the net book value covered by the capital expenses.

This mechanism was implemented in particular to facilitate decision-making concerning new investments, by reducing the long-term financial risks for operators.

GRTgaz expects a major increase in inventory withdrawals during the next tariff period. GRTgaz's request and the tariff treatment of stranded costs are being analysed.

**Question 7: Do you agree with maintaining the mechanism for the coverage of stranded costs?**

### **2.5.2. Costs related to the promotion of new gas uses and to innovation**

The current tariff does not cover any expenditure related to actions to promote new gas uses or innovations.

The TSOs request for the next tariff to take into account the costs related to these new activities in the operating expenses trajectory, similar to what was implemented in the last GrDF tariff.

In accordance with this principle, GRTgaz has requested the coverage of an action plan for €8 M per year, based on four courses of action:

- study of the potential of certain industrial sites that currently use fuel oil or coal to move to natural gas;
- development of new uses (improvement of energy efficiency, limitation on nitrogen oxide emissions) and new segments (biogas, synthesis gas, biomass/natural gas complementarity);
- participation in a hydrogen injection experiment with a private stakeholder;

- participation in an international carbon capture and transport project.

CRE is not opposed to the principle of covering costs for the development of new gas uses and innovation, provided that at least the following points are complied with:

- the TSOs must show, for the promotion of new gas uses, that the actions conducted will generate additional income leading, in net terms, to a drop in transmission tariffs.
- the TSOs must ensure that the projects are carried out independently with regard to VIUs;
- the treatment of any benefits from these actions, in the short or medium term, must be clarified.

**Question 8: Are you in favour of the coverage by ATRT5 of expenses related to the promotion of new gas uses and innovation?**

**Question 9: What do you think of the criteria envisaged by CRE? Do you have any other comments?**

### 3. Tariff level

#### 3.1. Assessment of the ATRT4 tariffs

##### 3.1.1. GRTgaz

###### 3.1.1.1. Tariff developments:

	2009	2010	2011	2012	Average increase 10-12
Authorised income (in €M)	1,334.9	1,366.7	1,414.1	1,483.3	+49.5
Annual tariff increase	6.0%	2.9%	2.2%	4.5%	3.2%
Tariff increase as at 1 April (except 2009)	-	3.9%	2.9%	6%	4.3%

ATRT4 provided for an average tariff increase of 2.8% per year for the 2010-2012 period. The actual increase was 3.2% per year due mainly to capacity subscriptions that were lower than initial projections.

###### 3.1.1.2. Net operating expenses:

Net operating expenses, excluding energy costs, for 2009, 2010 and 2011 were an average €521.2 M per year, i.e. a difference of €25.8 M per year compared to the tariff forecast of an average of €495.3 M per year. These actual net expenses increased by an average 8.3% per year for the 2009-2011 period, whereas the average increase expected for this period, which integrated the productivity objective (cost control) and a growth in income (connections, moving of materials, services at the request of third parties, etc.), was an average 5.1% per year. These differences are mainly related to income and expenses that are not included in the CRCP.

GRTgaz also increased its workforce significantly for the 2009-2011 period, from 2,733 to 3,062 employees, particularly to take into account the effects of the 3<sup>rd</sup> Energy Package in terms of autonomy contingencies. In particular, GRTgaz incorporated 271 former GDF Suez workers in its staff as at 1 January 2011.

An analysis of the actual operating expenses for 2009-2011 and estimates for 2012 is being audited by an external consultant commissioned by CRE.

### 3.1.1.3. Capital expenses:

€M	2009	2010	2011	2012
<b>Expected investments</b>	573	487	436	756
<b>Actual investments</b>	658	554	524	742 <sup>1</sup>

Between 2009 and 2012, GRTgaz invested €2,478 M compared to €2,252 M taken into account in the tariff, i.e. a 10% increase. These investments were approved each year by CRE.

€M	2009	2010	2011	2012
<b>Expected capital expenses</b>	756	801	862	890
<b>Actual capital expenses</b>	743	812	861	913 <sup>2</sup>

The capital expenses are in line with ATRT4 projections. The main projects commissioned during the period include the Etrez project, the strengthening of the Beauce pipeline, several compression stations developed to fluidify the network and/or to comply with environmental standards.

€M	2009	2010	2011	2012
<b>Projected RAB as at 1/1/n</b>	5,934	6,346	6,933	7,045
<b>Actual RAB as at 1/1/n</b>	5,796	6,279	6,587	6,850

The difference between the forecast RAB (ATRT4) and the actual RAB is mainly due to the difference between the forecast and actual rate of inflation.

### 3.1.1.4. 2009-2012 subscriptions:

Capacity subscriptions were lower than ATRT4 initial projections. While the tariff initially projected an average increase in subscriptions of 1.9% per year between 2009 and 2011, subscriptions only actually increased by 0.3% per year on average over this period.

Downstream capacity subscription increased by 1% over the period; subscriptions at transmission distribution interface points (PITDs) did not increase as expected because of the downward trend in gas distribution consumption. Industrial client subscriptions increased less than expected because of the economic crisis and certain power plant projects were postponed or cancelled. In addition, subscriptions at PITS strongly decreased.

Upstream capacity subscriptions decreased by 1.1%, with shippers more markedly optimising their capacity subscriptions than expected.

### 3.1.1.5. 2011-2012 CRCP:

GRTgaz's estimate for the 2011-2012 CRCP is €-46.2M. This sum will be returned to GRTgaz over the upcoming tariff period with annual reconciliation of €13.1 M per year, provided that it is confirmed by CRE's analyses. This sum is partially compensated by the reconciliation of the 2009-2010 CRCP, of which €-8.4 M per year will be deducted from GRTgaz's authorised income over the 2013-2014 period.

<sup>1</sup> Forecast data as approved by CRE in its deliberation of 10 July 2012.

<sup>2</sup> Values are currently being analysed.

### 3.1.2. TIGF

#### 3.1.2.1. Tariff developments

	2009-2010	2011-2012
<b>Authorised revenue (M€)</b>	179.5	167.5
<b>Tariff increase</b>	+10.0%	-10.2%

Given the uncertainties related to TIGF's projected operating expenses trajectory for 2011 and 2012, the transmission tariff on the TIGF network was set in 2008 for a period limited to two years (2009-2010). A new tariff for the use of TIGF's transmission network was therefore prepared in 2010 for the 2011-2012 period, which entered into effect on 1 April 2011.

TIGF tariff increase forecasts made in 2008 were in fact too high, which led to a 10.2% drop in the tariff as at 1 April 2011.

#### 3.1.2.2. Net operating expenses

Net operating expenses for 2011 totalled €59.6 M, i.e. a difference of €5.7 M compared to the tariff forecast of €54 M. This difference is mainly related to income and expenses that are not included in the CRCP.

TIGF increased its workforce significantly for the 2009-2011 period, from 338 to 390 employees, to take into account the effects of the 3<sup>rd</sup> Energy Package, new expenses related to security and an increase in its gas transmission activity.

An analysis of the actual operating expenses for 2011 and estimates for 2012 is being audited by an external consultant commissioned by CRE.

#### 3.1.2.3. Capital expenses

€M	2011	2012
<b>Expected investments</b>	81	146
<b>Actual investments</b>	86	144 <sup>3</sup>

The sum of investments carried out over the period is in line with ATRT4 projections: between 2011 and 2012, TIGF investment €230 M compared to a projected €227 M.

The main development investments over the 2011-2012 period include the Béarn pipeline and the strengthening of capacity at the France-Spain interconnections following the 2013 and 2015 open season.

€M	2011	2012
<b>Expected capital expenses</b>	128	135
<b>Actual capital expenses</b>	127	136 <sup>4</sup>

<sup>3</sup> Forecast data as approved by CRE in its deliberation of 10 July 2012.

<sup>4</sup> Values are currently being analysed.

The capital expenses are also in line with tariff projections. Projects commissioned comply with forecasts taken into account in the tariff.

€M	2011	2012
Projected RAB as at 1/1/n	998	1,023
Actual RAB as at 1/1/n	984	1,011 <sup>5</sup>

#### 3.1.2.4. 2009-2012 subscriptions

Over the 2009-2010 period, capacity subscriptions were an average 2.5% higher per year compared to tariff forecasts. While actual subscriptions on the main network were higher than forecasts by 11.6%, those on TIGF's regional network (including at the main network exit point) were lower than forecasts by 4.3%.

For 2011, capacity subscriptions were 0.6% lower than tariff forecasts.

#### 3.1.2.5. 2011-2012 CRCP:

TIGF's estimates for the 2011-2012 CRCP is €-11.4 M. This sum will be returned to TIGF over the upcoming tariff period with annual reconciliation of €3.2 M per year, provided that it is confirmed by CRE's analyses. This sum is partially compensated by the reconciliation of the 2009-2010 CRCP, of which €-12.6 M per year will be deducted from TIGF's authorised income over the 2013-2014 period (i.e. a total of €9.4 M per year).

## 3.2. Operators' requests

The tariff levels requested by operators are considerably higher than the current tariff level. The main factors for this are:

- the commissioning of major investments decided during previous tariff periods (network strengthening, new security and environmental requirements), partly compensated by new capacity subscriptions;
- the implementation of the ITO model enhancing operators' independence from their mother companies;
- the increase in taxes and social security costs;
- requests concerning new activities (promotion of new gas uses, innovation).

### 3.2.1. GRTgaz's request

#### 3.2.1.1. Projected operating expenses

Net operating expenses excluding energy projected by GRTgaz are an average €716.3 M per year for the 2013-2016 period. This sum is 35% higher than the level of expenses taken into account in the current tariff for 2012. GRTgaz justifies this increase with the following elements:

- increase in taxes and social security costs;
- the implementation of the 3<sup>rd</sup> Energy Package, in accordance with the Energy Code (internalisation of support functions, GRTgaz's own IT systems etc.);
- the valuation at €37 M per year of flexibility provided by GDF Suez to GRTgaz for the L network, within the framework of the H gas to L gas swap contract;
- research efforts for innovative technology (€4 M per year);
- promotion of different gas uses (€4 M per year).

<sup>5</sup> Values are currently being analysed.

GRTgaz anticipates an increase of its staff during the next period.

€M current euros	2012 ATRT4	2012 GRTgaz estimate	2013	2014	Average 2013-14	2015	2016	Average 2015-16
Net operating expenses	624.4	712.7	824.7	842.8	833.8	852.9	881.5	867.2
of which energy	89.8	95.2	120.2	132.1		140.4	143.8	

### 3.2.1.2. Normative capital costs

The data provided by GRTgaz was calculated with an unchanged regulatory framework. All of this information is being analysed by CRE.

in €M	2013	2014	2015	2016
RAB as at 1/1/n	7,105	7,592	7,982	8,906
Capital expenses	975.1	1 057.2	1,127.8	1,239.8
Investments excluding subsidies	908	675	859	726

The level of investment projected for the next tariff period is higher than the previous years. GRTgaz intends to invest an average €792 M per year during ATRT5 compared to €620 M per year during ATRT4. Development investments account for more than 60% of the overall investment envelope for the period, with, in particular, the construction of works for the connection of the Dunkirk terminal and the looping of the Rhône pipeline (Eridan project).

This transmission network development, required to improve the operation of the market and strengthen security of supply, leads to an increase in costs which is not always compensated by additional capacity subscriptions. This is the case, for example, of Arc de Dierrey (2015) and Eridan (2016), which will contribute to fluidifying the transmission networks and facilitating the merging of GRTgaz's North and South zones.

### 3.2.1.3. Projected subscriptions

#### For the 2013-2014 period:

GRTgaz projects a 2.4% increase in capacity subscriptions for the 2013-2014 period compared to the 2011-2012 period due in particular to the commitments made by shippers within the framework of interconnection development with Spain (Larrau) and Belgium (Taisnières).

Capacity subscriptions at interconnections, at entry points from LNG terminals and on links have increased by 9.5%. This increase partly compensates for a drop in subscriptions on other points of the main network, in particular at storage points (-10.2%).

Subscriptions on the regional network have decreased slightly from one period to the next (-0.1%). Subscriptions of industrial clients and at PITDs will drop by 3.4% and 0.3% respectively, while subscriptions of highly modulated sites will increase by 13.4%

#### For the 2015-2016 period:

GRTgaz projects a 1.8% increase in capacity subscriptions for the 2015-2016 period compared to the 2013-15/26

2014 period due in particular to the commitments made by shippers within the framework of interconnection development with Spain (Biriadou) and Belgium (Veurne) and the commissioning of the Dunkirk terminal.

Capacity subscriptions at interconnections, at entry points from LNG terminals and on links will increase by 4.8%.

Subscriptions on the regional network will decrease slightly from one period to the next (-0.2%). Subscriptions of industrial clients and at PITDs will drop by 1.2% and 1.8% respectively, while subscriptions of highly modulated sites will increase by 21%.

#### 3.2.1.4. Tariff developments:

##### Increase in authorised income

In €M <sub>current</sub> <sup>6</sup>	2012	2013	2014	Avg. 13-14	2015	2016	Avg. 15-16
Net OPEX	624.4	824.7	842.8	<b>833.8</b>	852.9	881.5	<b>867.2</b>
Normative capital costs	890.4	975.1	1,057.2	<b>1,016.1</b>	1,127.8	1,239.8	<b>1,183.8</b>
Previous CRCP reconciliation	-31.5	-8.4	-8.4	<b>-8,4</b>	-	-	-
2011-2012 CRCP reconciliation	-	13.1	13.1	<b>13,1</b>	13.1	13.1	<b>13.1</b>
Authorised revenue	1,483.3	1,804.5	1,904.7	<b>1,854.6</b>	1,993.8	2,134.4	<b>2,064.1</b>
increase	-	+21.7%	+5.6%	<b>+25%<sup>7</sup></b>	+4.7%	+7.1%	<b>+11.3%<sup>8</sup></b>

##### Increase in the tariff for the use of the network:

Excluding CRCP, GRTgaz's request for ATRT5 would lead to an average 17.4% increase in its tariff in 2013, followed by average increases of 4.6%, 4.2% and 4.6% in current euros in 2014, 2015 and 2016 respectively. In July, GRTgaz brought before the CRE a revised trajectory, leading to an additional increase of €M 14.8 in 2013 leading to a 18.4% revised increase on April 1<sup>st</sup> 2013.

### 3.2.2. TIGF's request

#### 3.2.2.1. Projected operating expenses

Net operating expenses excluding energy projected by TIGF are an average €73.9 M per year for the 2013-2016 period. This sum is 49% higher than for the 2012 tariff. TIGF justifies this increase with the following elements:

- effects of the 3rd Energy Package (separation between TIGF's and the Total Group's IT systems);
- effects related to the European Network Codes;
- regulatory developments (tax, social and environmental provisions).

Over the 2013-2016 period, TIGF envisages an increase in its workforce.

<sup>6</sup> GRTgaz inflation projections of +1.9% per year

<sup>7</sup> Compared to 2012 authorised income

<sup>8</sup> Compared to the average 2013-2014 authorised income



<b>€M current euros</b>	<b>2012 ATRT4</b>	<b>2012 Estimate TIGF</b>	<b>2013</b>	<b>2014</b>	<b>Average 2013-14</b>	<b>2015</b>	<b>2016</b>	<b>Average 2015-16</b>
Net operating expenses	54.0	60.6	72.5	77.4	75.0	81.2	87.3	84.3
<i>of which energy</i>	4.2	5.9	5.7	5.2		5.6	6.2	

### 3.2.2.2. Normative capital costs

The data provided by TIGF was calculated with an unchanged regulatory framework. All of this information is being analysed by CRE.

<b>€M</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>RAB as at 1/1/n</b>	1,136	1,258	1,303	1,448
<b>Capital expenses</b>	154	170	180	196
<b>Investments excluding subsidies</b>	153	119	106	93

The investment trajectory is sustained at the start of the tariff period. Costs related to development investments account for 50% of investments projected by TIGF during the next tariff period, with, in particular, the development of interconnections with Spain for 2015.

The increase in the RAB and capital expenses is due to the commissioning of developmental projects decided for ATRT4 such as the strengthening of capacity at France-Spain interconnections following the 2013 and 2015 open seasons.

### 3.2.2.3. Projected subscriptions

#### For the 2013-2014 period:

TIGF projects a 14.1% increase in capacity subscriptions for the 2013-2014 period compared to the 2011-2012 period due in particular to the commitments made by shippers within the framework of interconnection development at Larrau.

Capacity subscriptions at interconnections and on links are projected to increase by 46.2%. This increase would partly compensate a 14.9% drop in subscriptions at the PITS. Income related to subscriptions on the regional network would be stable from one period to the next.

#### For the 2015-2016 period:

TIGF projects a 2.7% increase in capacity subscriptions for the 2015-2016 period compared to the 2013-2014 period due in particular to the commitments made by shippers within the framework of interconnection development at Biriadou.

Capacity subscriptions at interconnections and on links are projected to increase by 6.3%.

Income related to subscriptions on the regional network would be stable from one period to the next.

### 3.2.2.4. Tariff developments

#### Increase in authorised income

In €M <sub>current</sub> <sup>9</sup>	Avg. 11-12	2013	2014	Avg. 13-14	2015	2016	Avg. 15-16
Net OPEX	<b>131.8</b>	153.4	169.8	<b>161.6</b>	178.5	194.4	<b>186.4</b>
Normative capital costs	<b>54</b>	72.5	77.4	<b>74.9</b>	81.2	87.3	<b>84.3</b>
CRCP	<b>-18.3</b>	-9.4	-9.4	<b>-9.4</b>	3.2	3.2	<b>3.2</b>
Authorised revenue	<b>167.4</b>	216.5	237.8	<b>227.1</b>	262.9	284.8	<b>273.8</b>
increase	-	+29.3%	+9.8%	<b>+35.6%</b> <sup>10</sup>	+10.6%	+8.3%	<b>+20.6%</b> <sup>11</sup>

#### Increase in the tariff for the use of the network:

If tariffs were to increase annually, TIGF's request would lead to an average 18.6% increase in its tariff in 2013, followed by average increases of 8.1%, 10.4% and 4.8% in current euros in 2014, 2015 and 2016 respectively.

### 3.2.3. CRE's preliminary analysis of the TSOs' requests concerning operating expenses

The operators' requests include a significant increase in operating expenses trajectories. Part of this increase is related to external objective factors, such as costs for the separation of IT systems and the increase in taxes and social security costs.

CRE considers that the increases presented by the TSOs must be limited to the strict minimum and correspond to efficient management of their activity, which means that TSOs have to commit to obtaining productivity gains. CRE will draw on the results of the audit of operating expenses that is currently being conducted in order to set productivity goals for the TSOs in compliance with Article L. 452-3 of the French Energy Code.

## 4. Tariff structure

### 4.1. Assessment of the tariff structure

The overall tariff structure implemented by the ATRT4 tariff enabled significant improvement in the operation of the French market. However, this structure did not develop during the tariff period as expected initially.

While the North zone is dynamic with a satisfactory level of competition both in the wholesale and retail markets, there is little liquidity in GRTgaz's South and TIGF's gas transfer points (PEGs). Consequently, consumers, in particular industrial clients, do not take benefit equally from market conditions as in the North zone.

In its deliberations of 29 May 2012 and 19 July 2012, CRE traced the prospects for the future development of the contractual structure for access to the gas transmission networks:

- as at 1 April 2013, the creation of a single North PEG with the merging of the North H and North L balancing zones;
- in 2015 at the latest, the creation of a GRTgaz South – TIGF South PEG, with the possibility for the two balancing zones of the two operators to remain separate;
- in 2018 at the latest, the creation of a France-wide PEG.

<sup>9</sup> TIGF inflation projections of 2.5% per year

<sup>10</sup> Compared to the 2011-2012 authorised income

<sup>11</sup> Compared to the 2013-2014 authorised income

## 4.2. Development of the contractual structure for access to the gas transmission networks

### 4.2.1. Creation of a common marketplace (North PEG) for H gas and L gas

This development would lead to a drop in income related to the discontinuation of the billing of the conversion service, estimated at approximately €8 M per year. CRE intends to pass this loss of income onto all of GRTgaz's tariff terms, by increasing these terms, all other things being equal, by about 0.5%.

**Question 10: Do you agree with the arrangements for compensating the loss of income envisaged by CRE?**

### 4.2.2. Development of GRTgaz North, GRTgaz South and TIGF marketplaces (PEG)

In order to anticipate PEG developments, CRE will work with the TSOs based on the following proposals that may be implemented as at 1 April 2013:

- decrease the tariff at the interface between the GRTgaz South zones and TIGF's zone to €100 MWh/day (i.e. by about 1/3rd);
- begin rebalancing the tariff terms at the PITS between the South zone and the TIGF zone. The creation of a common PEG for these two zones will enable the development of effective competition between the two currently active storage operators. CRE considers that the tariff terms at the PITS will have to have been harmonised by that time.

These developments would result in a drop in income. CRE intends to pass this loss on to all of GRTgaz's and TIGF's tariff terms. It will also ensure that the tariff for transmission from the North of France to Spain continues to reflect costs.

In addition, with a view to the creation of a France PEG in the medium term, CRE plans to maintain the tariff for GRTgaz's North-South link at its current level in current euros during the tariff period.

**Question 11: Do you agree with the measures envisaged by CRE to anticipate PEG development?**

## 4.3. Development of services proposed by the TSOs

The developments proposed below by the TSOs are the result of work conducted by the operators within the framework of *Concertation Gaz*.

### 4.3.1. Sale of daily capacity on GRTgaz's main network

GRTgaz's daily capacity on the main network (at entry and exit points at interconnections and on the North-South link) is currently sold through several different processes:

#### Firm daily capacity:

- first come, first served from the 21<sup>st</sup> of the month preceding the day the capacity is used until the day before at 1.00 p.m.;
- auctioning of available capacity the day before between 2.00 p.m. and 3.00 p.m.;
- for capacity on the North-South link, the market coupling mechanism between 4.30 p.m. and 5.30 p.m.;

#### Interruptible daily capacity:

- use-it-or-lose-it (UIOLI) at points from 2.00 p.m. the day before until 3.00 a.m. on the actual day, which makes subscribed but unused capacity available again.

At this stage, GRTgaz proposes to simplify the mechanism for the sale of daily capacity from 1 April 2013, by using the following mechanisms:

- first come, first served from the 21<sup>st</sup> of the month preceding the day the capacity is used until the day before at 12 noon;

- for capacity on the North-South link, sale of capacity through the market coupling mechanism;
- UIOLI from 2.00 p.m. the day before until 3.00 a.m. the actual day, taking into account capacity subscribed but not used and also available unsubscribed capacity. Daily capacity must be billed in accordance with the type of capacity (firm or interruptible).

At this stage, CRE agrees with GRTgaz's proposal.

**Question 12: Are you in favour of the mechanisms for the sale of daily capacity proposed by GRTgaz?**

#### **4.3.2. Sale of interruptible capacity on the exit point of GRTgaz's main network and on its regional network**

Within the framework of the current tariff, GRTgaz sells only firm capacity at the exit point of the main network. This capacity must be higher than or equal to the sum of firm delivery capacity subscribed by a shipper. Shippers therefore have the possibility of not subscribing, at the exit of the main network, the equivalent of all of the firm and interruptible delivery capacity subscribed.

GRTgaz proposes to complete its offer and sell interruptible exit capacity on the main network. The shipper's subscription of this capacity must be higher or equal to the interruptible delivery capacity subscription.

According to GRTgaz, this would enable shippers to adapt the type of capacity subscribed (firm or interruptible) at the exit point of the main network to the type of delivery capacity subscribed. This measure would allow, in particular, shippers with limited capacity merging opportunity, to avoid subscribing firm capacity at the exit point of the main network that correspond with interruptible delivery capacity so as to not be billed for overrun penalties.

Given the limited probability of interruption of this capacity, GRTgaz proposes to sell the annual interruptible capacity at the exit of the main network at 75% of the price of annual firm capacity.

At this stage, CRE agrees with the sale of interruptible capacity at the exit point of the main network.

**Question 13: Do you agree with GRTgaz's proposal to sell annual interruptible capacity at the exit point of the main network?**

#### **4.3.3. Development of tariff rules at the LNG terminal transmission interface points (PITTM)**

##### *4.3.3.1. Billing of entry capacity on the transmission network from LNG terminals*

Currently, all shippers that subscribe to a "continuous" service with a regulated LNG terminal operator are allocated firm annual capacity. At the beginning of each month, GRTgaz calculates for each shipper the maximum daily send-out for the previous month. If it is higher than the annual subscribed capacity, GRTgaz bills the shipper for an additional monthly subscription equal to the difference between the maximum daily send-out for the previous month and the annual capacity, at a price equal to 1/12<sup>th</sup> of the firm annual capacity.

On 16 May and 19 June 2012, GRTgaz presented to the "capacity allocation" working group of *Concertation Gaz* a proposal for the development of the allocation rule for PITTM<sup>12</sup> whose goal is to reconcile the bias related to the ex-post billing of additional monthly capacity with the need to preserve the balance of GRTgaz's income. The fact is that shippers do not have operational control of their gas send-out at the LNG terminals. In this context, the billing of additional capacity is not an incentive for shippers not to exceed the allocated annual capacity.

GRTgaz proposes to allocate this capacity to all users of the LNG terminals' continuous services proportionate to the regasification capacity subscribed, net of any regasification capacity subscribed by users of the LNG terminals' short-term services (uniform/spot).

<sup>12</sup> Proposal contained in the Annex

GRTgaz's proposal would not modify the allocation rule for shippers subscribing to a "uniform" or "spot" service with an LNG terminal operator: all shippers that have subscribed regasification capacity under the "uniform" or "spot" service will be automatically allocated monthly capacity equal to 1/30<sup>th</sup> of the regasification capacity over the same 30-day period.

In addition, GRTgaz will no longer bill additional monthly capacity if send-out exceeds the annual capacity.

Furthermore, it has been proposed to make allocations at the Fos PITTMs more readable by distinguishing between the portion reserved for Fos Tonkin and for Fos Cavaou, while maintaining a single entry point. GRTgaz proposes splitting the entry capacity at the Fos PITTMs in proportion to the respective regasification capacity available for sale at Fos Tonkin (164 GWh/d) and Cavaou (246 GWh/d) by considering the current annual entry capacity of 410 GWh/d and the respective regasification capacity available for sale of 5.5 bcm/year for Tonkin and 8.25 bcm/year for Cavaou.

At this stage, CRE considers that GRTgaz's proposal does not reflect shippers' actual use of capacity at the PITTMs and is therefore not favourable to this proposal. Furthermore, this proposal which lead to recede to the capacity tariffication principle:

- in case of decrease of capacities of regasification, subscriptions of "continuous" service shippers would be higher than their effective physical needs;
- additional capacities would no longer be billed.

The case of Dunkirk PITTMs is not dealt in GRTgaz's proposal.

**Question 14: Are you in favour of GRTgaz's proposal concerning the development of the billing of entry capacity at the PITTMs?**

#### *4.3.3.2. Sale of daily backhaul capacity at PITTMs*

GRTgaz proposes to introduce daily reverse capacity at PITTMs in order to streamline the process for sharing send-out between shippers subscribed to the "continuous" service, implemented by Elengy.

This backhaul capacity would enable shippers subscribing to the "continuous" service to compensate for an unexpected reduction in its send-out with a gas entry from the PEG, without disturbing the send-out at the PITTMs of other shippers subscribed to a "continuous" service. GRTgaz proposes to bill this service at the same price as that for backhaul capacity at interconnection points, i.e. 1/800<sup>th</sup> of the price of annual firm capacity at the PITTMs.

At this stage, CRE is in favour of this proposal if the access to this capacity is limited to terminal shippers that must compensate gas quantities among themselves.

**Question 15: Are you in favour of GRTgaz's proposal concerning the sale of daily reverse capacity at the PITTMs?**

#### **4.3.4. Coverage of investment and maintenance costs related to connection works for GRTgaz and TIGF**

##### *4.3.4.1. Coverage of investment costs related to connection works*

Currently, for the connection to the gas transmission networks (construction of a new connection pipe and/or a new delivery station), industrial clients or distribution system operators (DSOs) pay for all of the investments made by the TSO. Clients have the possibility of making a cash payment or yearly payments.

##### GRTgaz's proposal:

In order to promote the connection of new industrial clients and new public distributions to its network, GRTgaz proposes, for new clients, to share a portion of the connection costs in the tariff:

- industrial clients will pay, the difference, if it is positive, between the total cost of the connection and the projected transmission income over 10 years (related to income forecasts following subscriptions for exit capacity on the main network, transmission capacity on the regional network and delivery capacity).

Delivery stations will continue to be borne by clients. Industrial clients will have the obligation to make their supplier subscribe to these capacities for 10 years;

- DSOs will pay, the difference, if it is positive, between the total cost of the connection (station and connection pipe) and the projected transmission income over 15 years (exit on the main network, regional network and delivery).

The sharing of a portion of costs for connecting new industrial clients and a part of costs for the connection of new public distributions would lead to an increase in all of its tariff terms estimated by GRTgaz at approximately 0.10 - 0.15%.

#### TIGF's proposal:

TIGF also proposes to share, at 60%, the investment costs related to new connections of industrial clients and DSOs.

CRE has observed that these proposals would make existing clients pay for a portion of the costs related to the connection of new clients. However, if these clients are present on the transmission network after the period of reimbursement of connection costs, they would generate additional income for the TSOs. CRE wishes to obtain stakeholders' opinion on these TSO's proposals.

#### **Question 16: Are you in favour of the TSOs' proposal concerning the coverage of investment costs related to connection works?**

##### *4.3.4.2. Coverage of maintenance costs related to connection works*

Currently, GRTgaz bills maintenance costs related to the repair, renovation and replacement (called 3R or 2R operations) of delivery station equipment (for industrial clients and DSOs) through an annual fee equal to 5.5% of the cost for creating the delivery station concerned). However, the client can pay for a portion of these operations on a case-by-case basis.

GRTgaz proposes to transfer these costs (estimated to approximately €6 M per year) to the delivery term. This proposal would lead, ceteris paribus, to an increase of €2/MWh/d/y leading the term to €29.6/MWh/d/y.

TIGF proposes to partially transfer the maintenance costs to delivery terms. This proposal would lead to an increase of €21.6/MWh/d/y leading the delivery term at the delivery point for final consumers directly connected to the TIGF's network to €32/MWh/d/y. Concerning the TSOs this proposal would lead to an increase of €12.7/MWh/d/y leading the delivery term to €26.6/MWh/d/y.

For the TSOs, such a development would be financially neutral. For network users, this sharing in the tariff would not reflect the actual costs that they generate whereas the TSOs can easily identify the costs related to each user.

CRE is presently not favourable to this proposal.

#### **Question 17: Are you in favour of the TSOs' proposal concerning the coverage of maintenance costs related to connection works?**

##### **4.3.5. Sale of monthly capacity at transmission storage interface points (PITS) on the networks**

TIGF proposes to sell monthly capacity at the PITS. This would enable the sale of monthly capacity at storage points which would allow, for example, shippers to obtain injection capacity for a given month and withdrawal capacity for a different month.

TIGF proposes to apply the existing automatic capacity allocation principle at the PITS. It proposes billing this new capacity at 1/8<sup>th</sup> of the price of the annual subscription.

In any event, if this development was accepted, it would also apply to the GRTgaz network.

CRE wishes to obtain stakeholders' opinion on this proposal.

**Question 18: Are you in favour of TIGF's proposal concerning the sale of monthly capacity at the PITD?**

**4.3.6. Consequences off the improvement of metering at the Paris PITD**

Due to the absence of meters at the delivery points at the Paris PITD entry point (annual consumption of about 68 TWh in an average climate), the quantity of gas delivered by GRTgaz to this PITD were determined until presently each day by an indirect calculation method. This calculation takes into account the quantity of gas entering and exiting the main network of the Ile-de-France region and the Oise zone: storage injections and withdrawals, exchanges with other regions, consumption of industrial clients connected to the transmission network of the given zone, deliveries at other PITDs with one or several meters, GRTgaz's own consumption as well as line-pack variations.

In order to improve the accuracy and quality of measurements of gas quantities delivered at the Paris PITD, GRTgaz launched a programme to equip 120 stations at the regional network entry point with meters, which was completed at the end of 2010.

Based on a record of one and a half years, the analyses conducted by GRTgaz to compare both methods of determining gas quantities delivered at the Paris PITD show that:

- the quantity uncertainties were reduced by half and the quality of allocations at the PITD improved with the calculation method taking into account the measurements from the 120 meters at the regional network entry point;
- the gas quantities delivered by GRTgaz to GrDF at the Paris PITD, calculated by this method, are lower by about 1.3 TWh per year than the quantities determined by the indirect method at the main network.

The calculation method taking into account the measurements of the 120 meters improves the accuracy and quality of the measurement of gas quantities delivered to the Paris PITD. CRE is therefore favourable to the use of this method from 2013, replacing the indirect calculation method at the level of the main network.

The consequences of this change in method will have to be taken into account by the next ATRT5 tariff for GRTgaz and the ATRD4 tariff for GrDF:

- for GRTgaz, an increase of about 1.3 TWh in its technical imbalance (EBT), i.e. an increase in expenses to be covered by the ATRT5 tariff estimated at this stage at approximately €35 M per year;
- for GrDF, a decrease of about 1.3 TWh in losses, i.e. a drop in expenses to be covered by the ATRD4 tariff of approximately €35 M per year. GrDF's loss rate would be about 0.33%.

The consideration of the new method in GRTgaz's ATRT5 tariff and in GrDF's ATRD4 tariff would be simultaneous, in order for this operation to be financially neutral for consumers.

**Question 19: Do you have any comments on the metering of gas volumes at the Paris PITD?**

**4.4. Anticipation of the implementation of European network codes and European guidelines**

Regulation (EC) No. 715/2009 of 13 July 2009 provides that ENTSOG<sup>13</sup> must prepare European network codes based on the principles defined by ACER<sup>14</sup> in its framework guidelines. The codes must enable harmonisation of the operational rules for gas transmission networks in order to promote market integration. They may be annexed to Regulation No. 715/2009 after their adoption by Member States and therefore become legally binding.

**4.4.1. Network code on Capacity allocation mechanism (CAM)**

The network code on capacity allocation was submitted by ENTSOG to ACER on 9 March 2012. In particular, it provides for the grouped sale of exit capacity of one zone and entry capacity of another zone (bundling). These capacity products, which are yearly, quarterly, monthly, daily and within-day, will be sold

<sup>13</sup> European Network of Transmission System Operators for Gas

<sup>14</sup> Agency for the Cooperation of Energy Regulators

based on an ascending clock auction system and following a standard calendar. The reserve price of the different products proposed for auction must be equal to the sum of the regulated tariffs that apply to the exit and entry capacity at the interconnection point concerned. At this stage, the CAM network code provides for an implementation period of 18 months starting from the date of its entry into effect. The deadline for the implementation of the code may be in 2015.

The capacity products sold in France comply with those defined in the network code. Two changes are however necessary:

- the elimination of seasonal products currently sold at the interface between GRTgaz's and TIGF's networks and at interconnections with Spain;
- the introduction of quarterly products.

CRE intends to suspend the sale of seasonal products from 1 April 2014. The pricing of seasonal capacity will be maintained since some subscriptions for this capacity are long term. Holders of seasonal capacity will be able to convert it into annual capacity, if the levels subscribed allow it.

CRE does not intend to anticipate at this stage the implementation of quarterly products since work on the Tariff framework guideline has not been finalised. CRE will welcome any pilot project proposal from the TSOs.

Moreover, CRE does not intend to introduce the auctioning of capacity on the North-South link and at the GRTgaz South-TIGF interface given that these products will no longer be available in the medium term. At the interconnections, its implementation requires additional work with adjacent operators. CRE will also welcome any pilot project proposal from the TSOs.

#### **4.4.2. Guidelines on Congestion management procedure (CMP)**

The European Commission has submitted for approval by Member States guidelines on congestion management to complete the CAM network code. These guidelines provide in particular for the introduction of a capacity overbooking incentive scheme, whose volume will be set above technical capacity, based on statistical scenarios for the use of contracted capacity. In addition, the TSOs must also propose a capacity buyback mechanism in order to ensure that the capacity sold is firm. These mechanisms will have to be implemented from 1 October 2013.

The mechanism allowing TSOs to buy back capacity may potentially generate significant and fluctuating expenses. GRTgaz proposes to treat these expenses via a clawback account for imbalances which would be given specific treatment.

Presently, CRE considers that this point has been insufficiently analysed. The means for implementing these provisions will be addressed within the framework of *Concertation Gaz* and through a public consultation by CRE in 2013.

**Question 20: Do you have any comments on the anticipation of the implementation of the European network codes and framework guidelines?**

**Question 21: Do you have any other comment concerning the next tariff for the use of gas transmission network?**



## 5. Summary of questions

Question 1: Do you agree with maintaining a four-year tariff period? Do you agree with the tariff update terms envisaged?

Question 2: Are you in favour of developing the incentive regulation for operating expenses as defined above?

Question 3: Are you in favour of the evolution of the scope of the investment incentive?

Question 4: Do you agree with the implementation of an investment incentive as defined above?

Question 5: What do you think of the development of GRTgaz's and TIGF's service quality over the past few years? Do you agree with the changes envisaged? Do you have any other comments?

Question 6: Do you agree with maintaining the rate of return on fixed assets in progress based on the cost of debt?

Question 7: Do you agree with maintaining the mechanism for the coverage of stranded costs?

Question 8: Are you in favour of the coverage by ATRT5 of expenses related to the promotion of new gas uses and innovation?

Question 9: What do you think of the criteria envisaged by CRE? Do you have any other comments?

Question 10: Do you agree with the arrangements for compensating the loss of income envisaged by CRE?

Question 11: Do you agree with the measures envisaged by CRE to anticipate PEG development?

Question 12: Are you in favour of the mechanisms for the sale of daily capacity proposed by GRTgaz?

Question 13: Do you agree with GRTgaz's proposal to sell annual interruptible capacity at the exit point of the main network?

Question 14: Are you in favour of GRTgaz's proposal concerning the development of the billing of entry capacity at the PITTMs?

Question 15: Are you in favour of GRTgaz's proposal concerning the sale of daily backhaul capacity at the PITTMs?

Question 16: Are you in favour of the TSOs' proposal concerning the coverage of investment costs related to connection works?

Question 17: Are you in favour of the TSOs' proposal concerning the coverage of maintenance costs related to connection works?

Question 18: Are you in favour of TIGF's proposal concerning the sale of monthly capacity at the PITS?

Question 19: Do you have any comments on the metering of gas volumes at the Paris PITD?

Question 20: Do you have any comments on the anticipation of the implementation of the European network codes and framework guidelines?

Question 21: Do you have any other comments regarding the next tariff for the use of gas transmission network?

CRE invites all interested parties to submit their contributions by 21 September 2012 at the latest:

- by email, to the following address: [dirgaz.cp2@cre.fr](mailto:dirgaz.cp2@cre.fr);
- by post to: 15, rue Pasquier - F-75379 Paris Cedex 08 – France;
- by directly contacting the Gas Infrastructure and Networks Department: + 33.1.44.50.42.03;
- by requesting an audience with the Commission.

A summary of contributions will be published by CRE respecting secrets protected by law.

Please state in your answer whether you wish for your contribution to remain **confidential and/or anonymous**. Interested parties are invited to provide well-grounded answers to the questions above.