29 july 2013

# Public Consultation by the Energy Regulatory Commission on conditions for access to gas transmission networks for gas intensive consumers

The purpose of this Public Consultation is to collect market players opinion on the consequences of the introduction of the natural gas intensive consumer status in the French Energy Code regarding gas transmission network access conditions.

Interested parties are invited to send in their responses before 9 September 2013.

## 1. Context

From 5 to 26 June 2013, the French Energy Regulatory Commission (CRE) organised a public consultation on the marketing of transmission capacity between GRTgaz North and South zones, South and TIGF zones, and the TIGF zone and Spain[1].

Article 39 of Law 2013-619 of 16 July 2013 containing various provisions adapting EU law on sustainable development[2] created the status of intensive natural gas consumers and in particular stipulates that they "*may benefit from special conditions for the supply of and access to natural gas transmission and distribution networks for some of their sites*". These new provisions, adopted after the end of the previous public consultation, stipulates that they "may benefit from special conditions for the supply of and access to natural gas transmission and distribution networks for some of their sites"

The law stipulates that additional provisions taken by the ministry will specify the criteria and thresholds that the companies and sites involved should meet in order to benefit from this status. The implementation of these special conditions could affect transmission capacity commercialisation rules, especially between GRTgaz North and South zones.

In accordance with Articles L. 452-1 and L. 134-2 of the French Energy Code, CRE sets tariffs for the use of natural gas transmission and distribution networks and specifies their conditions of use.

In this context, the CRE has decided to postpone its deliberation on the rules for the commercialisation of transmission capacity between the GRTgaz North and South zones, GRTgaz South and TIGF zones, and the TIGF zone and Spain in order to consult stakeholders on the possible consequences of the new legislation.

Given the need to give visibility to market players on the rules for the sale of these capacities in a reasonable time prior to their sale, CRE will deliberate on these rules in October 2013.

[1] Public consultation by the French Energy Regulation Commission on the allocation of transmission capacity between GRTgaz’s North zone, GRTgaz’s South zone, TIGF’s zone and Spain as from 1 April 2014
[2] http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000027713399&dateTexte=&categorieLien=id

## 2. Summary of responses to the CRE's Public Consultation in June 2013

A first public Consultation was held between 5 and 26 June 2013. CRE received forty-one responses to this consultation: 16 from shippers, 14 from industrial consumers (of which 8 are identical to those of the UNIDEN), 8 from infrastructure operators, and 3 from associations. Non-confidential responses are available on CRE's website along with this consultation[3].

Regarding the need for visibility, contributors are generally satisfied with the timeframe of four years to market the North-South link's capacity proposed in the consultation. However, some point out that this timeframe is too remote in time and would prefer it to be limited to two or three years. CRE believes that the decrease in the volume of capacity sold up to 30 September 2018 and in particular the reduction to 25% of these volumes from 1 October 2016 - 30 September 2018 meets the need for visibility of certain shippers while avoiding freezing the market then. It intends to maintain this four-year timeframe in its deliberations.

With regard to the allocation of the six-month readjustment product from 1 April 1 2014 - 30 September 2014 at the North-South link in the North to South direction, contributors are largely in favour of CRE's proposal to allocate this capacity in proportion to physical delivery commitments. Many contributors suggested developments in practical arrangements without a consensus on these developments emerging. The majority of suppliers called for the removal of phase 1 in the marketing of this product.

For the sale of the North to South capacity from 1 October 2014, responses were divided between the different categories of contributors. Shippers are almost unanimously in favour of auctions and overwhelmingly wish to see phase 1 removed. On the other hand, industrial consumers are largely opposed to the sale of these capabilities at auction and all support the principle of phase 1.

Regarding the allocation of interruptible capacity, Elengy and GRTgaz have proposed evolutions to increase the number of unloading at the Montoir-de-Bretagne LNG terminal. Contributors are unfavourable to these proposals, considering them potentially discriminatory and ineffective. Moreover, the majority of contributors are in favour of maintaining 30 GWh/d of interruptible capacity for market coupling. CRE plans to retain the same marketing rules for firm and interruptible capacity and to maintain 30 GWh/d of interruptible capacity for market coupling.

Regarding the allocation of capacity in the South-North direction, at the Midi Network Interconnection Point and at the interface with Spain, CRE proposed to apply allocation rules in coherence with them proposed for the North-South link in the North to South direction. Contributors are overwhelmingly in favour of the guidelines submitted for consultation. CRE plans to retain these guidelines.

Finally, with regard to managing surplus auction income, options based on financing decongestion investments and redistribution to shippers delivering consumers in the South are widely preferred. CRE will decide between these two methods based on the results of further work on the financing of investments.

## 3. Specific market environment in the South of France

### *3.1. Market environment and impact on supply conditions in the South of France*

The price spread between the North gas exchange point (PEG) and the PEG South on the gas spot market in France has increased sharply since the first half of 2011 and the PEG South price is currently higher. On the Powernext Gas Spot stock market, the day ahead spread was around €0.16/MWh on average in 2011. It reached an average €1.65/MWh in 2012 and exceeded €6/MWh several times. These differences were accompanied by very high volatility in PEG South prices which could vary by over €5/MWh in the same day. In the first half of 2013, the average difference between South and North PEG prices stood at €2.26/MWh.

In its decision of 29 May 2013[4], CRE stated that price developments in the South of France primarily responded to the global context of gas markets and structural tension in supply due to low levels of liquefied natural gas (LNG) unloading in Europe resulting from its diversion to Asian markets.

[3] Réponses non confidentielles à la consultation publique de la CRE relative à la commercialisation des capacités de transport entre les zones Nord et Sud de GRTgaz, TIGF et l'Espagne disponibles à compter du 1er avril 2014

[4] Deliberation of the French Energy Regulatory Commission (CRE) dated 29 May 2013 on the formation of gas prices in the South of France

Firstly, these market conditions have led to replacing LNG supply by supply via gas pipelines from the North European markets and secondly, an increase in gas exports to Spain. The combination of these factors has led to increased use of the link between the North and South zones of the GRTgaz network. This link was saturated during most of 2012 in the North-South direction with a utilisation rate of nearly 100%.

This stress in gas supply in the South of France and the development of lasting price spread between PEG South /TIGF and PEG North weigh on the economic conditions of natural gas supply to consumers in the South buying their supply on the market. This context is reflected by a competitiveness differential between Northern French industrial sites and those in South France, especially for companies with natural gas purchases representing a substantial part of their costs.

### *3.2. Reminder of CRE guidelines on the creation of a single market place by 2018*

CRE began work on simplifying the French gas market structure in 2009. In 2012, it conducted a wide consultation with all market players on ways to merge the three existing market places into one.

Following this work, CRE retained the following decisions and guidelines (deliberations of 19 July[5] and 13 December 2012[6]):

- creation of a common PEG GRTgaz South- TIGF before 1 April 2015 by reducing French market places from three to two,
- objective of creating a single PEG before 2018, after doubling the Burgundy artery (Saône Valley Project) estimated at €600 million in 2012 by GRTgaz.

As planned in its decision of 19 July 2012, CRE has assigned a cost / benefit study on the creation of a PEG France to a consulting firm. The results of this study in consultation with all market players are expected in Quarter 3 2013. Following this study, CRE should make its decision in late 2013-early 2014.

### *3.3. North-South link capacity optimisation measures*

Following CRE's request in its deliberation of 19 July 2012, GRTgaz is reviewing measures to improve the operation of the South France gas market since the beginning of 2013.

In April 2013, the TSO proposed to sell up 15 GWh/d of additional firm capacity at the North-South link over the summer of 2013. This offer is based on the coordinated use of gas transmission and storage infrastructures in the GRTgaz North zone. In its decision of 23 May 2013[7], the CRE clarified the rules for the commercialisation of these additional capacities. Marketing began on 11 June 2013.

GRTgaz is continuing to work with Storengy to increase capacity available in summer and provide a similar service in winter. The results of these analyses will be presented to all market players in the context of Concertation Gaz.

GRTgaz has also optimised its maintenance programme over the summer of 2013 in order to limit restrictions of capacity at the North-South link and at the North Atlantic transmission-storage interface point (PITS). Thanks to these measures, the TSO has given back the equivalent of 3.4 TWh to the market over the summer.

Finally, based on the feedback on the availability of interruptible capacity and recent studies on the network following the Kema study, GRTgaz is considering whether to make firm a portion of the North-South link’s interruptible capacity. At this stage, the TSO believes that such a measure could provide a maximum of 40 GWh/d. GRTgaz's analysis, based on 2012 data, emphasize that average remaining interruptible capacity availability rates would have been about 40% instead of 66%.

[5] Deliberation of the Energy Regulation Commission of 19 July 2012 relating to guidelines for gas marketplace evolution in France

[6] Deliberation of the French Energy Regulation Commission of 13 December 2012 deciding on the tariffs for the use of natural gas transmission networks

[7] Deliberation of the French Energy Regulation Commission of 23 May 2013 deciding on the rules for the commercialisation by GRTgaz of additional transmission capacities at the link between the North and South zones on an experimental basis

## 4. Analysis of possible modalities concerning the application of the law on special network access conditions for gas intensive consumers

The above mentioned law provides, among other things that gas intensive consumers can benefit from special conditions for access to gas transmission networks.

Given the particular market situation in the South of France, CRE considers that such conditions could be considered for gas intensive consumers physically located in the South of France.

As such, two alternative options are being considered.

### *4.1. Option 1: contractual linkage of intensive southern French gas consumers to the North zone*

#### *4.1.1. Description of the option*

This option, which was requested by Uniden, involves contractually affiliating to the North GRTgaz zone the gas intensive consumers that are physically located in the South of France.

In this case, these consumers would be directly supplied by their suppliers in the GRTgaz North zone. GRTgaz would be responsible for delivering gas from the North zone to the concerned consumers located in the South. To do this, part of the North-South link capacity would be dedicated to the operational implementation of this mechanism and would therefore no longer be commercialised. Regarding shipper balancing obligations, the consumption of these sites would be recorded in their balancing records in North GRTgaz zone. GRTgaz would be in charge of the physical balancing of these consumers in the South zone.

The implementation of this option would require a change in gas transmission prices to:

- modify the tariff annexes listing the delivery points associated with each balancing zone;
- take into account GRTgaz's loss of income from not commercialising a part of the North-South link's capacity.

#### *4.1.2. Preliminary analysis*

This option could only be considered in the context of CRE’s decision confirming the guidelines on the merger of North and South market places.

Affiliating these sites to the PEG North would constitute a first stage in the progressive implementation of a single market place. Such an option would require an in-depth study by GRTgaz on its implementation.

Capacity dedicated to implementing this option should be limited to avoid reducing the link's capacity available to the market. As such, the allocation to this mechanism of the 40 GWh/d made firm capacity should be proportionated. Under these conditions, affiliation should be limited to gas intensive consumers with a stable consumption profile. Affiliating gas intensive consumers with strongly fluctuating consumption profiles would require that GRTgaz provide a much larger volume of capacity to the North-South link that would reduce access to the capacity by other users and/or require GRTgaz to subscribe additional contractual flexibility tools in the South.

The non-commercialisation of 40 GWh/d of currently interruptible North to South capacity would incur a loss of income for GRTgaz of around €4 million per year or about 0.2% of its authorised income.

This option could not be applied to gas intensive consumers connected to distribution networks. Indeed, given the gas chain's organisation, TSOs are not able to individually manage consumers located downstream of Transmission-Distribution Interface Points (PITD).

The feasibility of linking contractually gas intensive consumers connected to the TIGF's transmission network should be analysed further. In any case, it would require coordinated management between GRTgaz and the TIGF to ensure the supply of gas from the North GRTgaz zone to the sites concerned and located in TIGF zone. It would also require dedicating to this mechanism a part of the PIR Midi's capacity up to 1 April 2015 when the single South PEG would be created.

To optimise North-South link use, affiliation should be accompanied by an obligation of daily nomination for the following day consumption. Non nominated capacities would be put on the market.

Implementing natural gas intensive consumers' affiliation to the North PEG could only begin after 1 October 2014 for the following reasons:

- the work schedule on the creation of a single PEG France expects a decision to be taken in late 2013 at the earliest;
- uncertainty over the gas intensive status granting schedule (publication of necessary complementary legislative texts, process of individual grantings) ;
- implementing this option requires changes in tariffs and operational evolutions for the TSOs (coordination process, SI, balancing management…).

### 4.2. Option 2: special North-South link capacity access conditions

#### 4.2.1. Description of the option

A second option would be based on priority access to part of the North-South capacity for gas intensive consumers with a transmission contract.

In this context, North-South link capacity would be commercialised in two phases, according CRE's proposal in its first public consultation. Under Phase 1, if demand exceeds supply, gas intensive consumers would be allocated in priority.

Capacity sold in phase 1 should be limited to avoid reducing the link's capacity available to the entire market. As such, the CRE considers that allocating 40 GWh/d of firm capacity to this phase would be appropriate.

#### 4.2.2. Preliminary analysis

Implementing this option would not raise any operational difficulty for TSOs. In addition, unlike the first option, it would be accessible to all gas intensive consumers in the South.

Capacity sold in phase 1 should be limited to avoid reducing the link's capacity available to the entire market. As such, the CRE considers that dedicating the 40 GWh/d of interruptible capacity which would be made firm for 1 April 2014 would be proportionated. This 40 GWh/d would replace the previously planned 23 GWh/d of firm capacity.

Implementation of this option could begin on 1 April 2014 or 1 October 2014 according to the schedule of gas intensive status effective granting (publication of necessary complementary legislative texts, process of individual grantings).

### 4.3. Consequences of the two options on the sale of North-South link capacity

Implementing either of these two options is based on the 40 GWh/d of interruptible capacity that GRTgaz is considering to make firm from 1 April 2014. As such, these mechanisms would not lower the firm capacity level currently available on the market. Compared to the current situation, 23 GWh/d of additional firm capacity would be put on the market. 23 GWh/d of additional interruptible capacity would be available to the entire market in the context of implementing the contractual affiliation of natural gas intensive consumers to the North PEG.

#### 4.3.1. Consequences of selling the readjustment product

For the readjustment product (available capacity between 1 April and 30 September 2014), North-South capacity would be sold in proportion to physical delivery commitments in accordance with the rules proposed in June 2013's Public Consultation with the following changes:

- phase 1 volume would be increased to 40 GWh/d for firm capacity and maintained at 23 GWh/d for interruptible capacity. Phase 2 volume would be increased to 23 GWh/d for firm capacity and reduced to 40 GWh/d for interruptible capacity;
- phase 1 would remain open to all shippers with. In the event that demand should outstrip supply capacity would be allocated on a pro rata with a rank 1 priority for gas intensive consumers and a rank 2 priority for shippers with a connection contract ;

- the shippers which supply gas intensive consumers or having a connection contract would not be eligible neither to priority 1 nor priority 2, ever in case of detention of the rights of use of the delivery capacity ;
- capacity allocated through phase 1 could not be sold on the secondary market at a price superior to the regulated price ;
- the cap of 2.5 GWh/j for individual demand would be abolished.

#### *4.3.2. Consequences on the sale of available capacity from 1 October 2014*

In case of southern intensive gas consumer contractual affiliation to the PEG North, 40 GWh/d of currently interruptible capacity would no more be commercialised for 1 October 2014. Available capacity would be sold at auction, over a period of four years, with decreasing volumes as provided in June's Public Consultation.

In case of priority access to capacity for large natural gas intensive consumers in the South, the capacity available from 1 October 2014 will be sold in two phases:

- a phase 1 for a volume of 40 GWh/d of firm capacity (currently firm) and 23 GWh/d of interruptible capacity. This phase would be open to all shippers. This capacity would be commercialised over a 4 years period according to the rules proposed for the readjustment product.
- a phase 2 for the rest of firm and interruptible capacity available and unsold capacity from phase 1. This capacity would be sold at auction, over a period of four years, with decreasing volumes as provided in June's Public Consultation.

In both cases, the commercialisation of this capacity would be organised in March 2014. With regard to auctioning, sale would be conducted via the PRISMA platform in compliance with the provisions of the Network Code on transmission Capacity Allocation Mechanisms (CAM).

In compliance with the CAM Network Code, 10% of technical capacity would be sold as short-term products from 1 October 2015.

Finally, the auction system would be accompanied by a rule capping individual requests as described in the first Public Consultation.

## 5. Questions

**Question 1:** Are you in favour of the option to contractually affiliate to the North PEG natural gas intensive plants situated in the South of France?

**Question 2:** Do you have any comments on the planned implementation methods for this first option?

**Question 3**: Are you in favour of the option of priority allocation of North-South link capacity for large natural gas intensive plants situated in the south of France?

**Question 4:** Do you have any comments on the planned implementation methods for this second option?

**Question 5:** Do you have any other suggestion or remarks?

## 6. **Consultation schedule**

The CRE invites interested parties to send in their contributions before 9 September 2013:

- by email to: dirgaz.cp1@cre.fr;
- by contributing directly on the CRE's site (www.cre.fr), in the section "Public consultations - Documents - CRE"
- by post: 15, rue Pasquier - F-75379 Paris Cedex 08;



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- by calling the Directorate of Infrastructures and Gas Networks: + 33.1.44.50.41.44

Please expressly indicate the confidential nature of your contribution if relevant. In the absence of this indication, responses shall be considered to be non-confidential and shall be published.