

## Public consultation on the creation of a single gas marketplace in France in 2018

Since 1 January 2009, the French gas market is comprised of three marketplaces called *Points d'échange de gaz* (title transfer points – PEG): the North and South PEGs on GRTgaz's network and TIGF's PEG.

The French Energy Regulation Commission (CRE) has decided to reduce the number of marketplaces in France in order to improve the functioning of wholesale and retail gas markets for end customers.

This reduction is scheduled in two stages:

- as at 1 April 2015, creation of a marketplace common to the GRTgaz South and TIGF balancing zones. On 10 February 2014, CRE launched a public consultation on the arrangements for implementing a marketplace common to GRTgaz's and TIGF's balancing zones as at 1 April 2015;
- in 2018, creation of a single marketplace in France, after carrying out the investments necessary for eliminating congestion in the gas transmission systems.

The North zone may be supplied indifferently by liquefied natural gas (LNG) imported via LNG terminals or by gas transported by pipeline from the markets in the north-west of Europe. However, the South zone depends on LNG for approximately half of its supply.

Since 2012, because of the situation of the global market of LNG, which is more expensive than pipeline gas, and the south zone's dependence mentioned above, the price of gas in the wholesale market at the South PEG is disconnected from that of the North PEG.

In addition to progressively reducing the number of marketplaces in France, CRE has also made decisions to release tensions in the South of France (maximization of the capacities volume offered at the North-South link and its use, improvement of volume and quality of information published by infrastructures operators, monitoring of price formation on wholesale markets, etc.).

In winter 2013-2014, price differences between the north and south of France increased significantly. These price conditions in the south negatively affect the competitiveness of industrial customers, in particular, gas-intensive customers. If they were to persist, they could also put a stop to the opening up of markets to other client segments, particularly in view of the end of the regulated tariffs for the sale of gas for consumers whose consumption is above 30 GWh<sup>1</sup> at the end of 2015.

Given all of these elements, the present public consultation covers:

- the creation of a single gas marketplace in France by 2018 and the investments necessary for its implementation;
- the measures that may be envisaged to reduce tension in supply and in the prices of gas in the south of France during the transition period up to 2018.

It will be followed by a decision by CRE in the second quarter of 2014.

Interested parties are invited to answer the questions in the consultation note by 21 March 2014 at the latest.

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<sup>1</sup> Companies, local authorities, associations or householders

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## **I. Background**

### **1. Market conditions in the south of France**

Half of the needs in the south of France is supplied by liquefied natural gas (LNG) imported via LNG terminals located in the Fos-sur-Mer area. The other half is imported from the north of France through the North-South link in GRTgaz's network, whose physical capacity is limited. Moreover, it is interconnected with the Iberian Peninsula, whose wholesale market is not very developed, and which also depends largely on LNG.

The high increase in LNG prices in Asia linked in particular to the increase in Japanese demand following the Fukushima accident, encouraged LNG players, producers and importers, to redirect LNG cargoes to these better paid markets, to the detriment of European markets. This LNG arbitrage in favour of Asian and also South American markets have led to supply tensions in the south of France, which resulted in the appearance of price differences between the North PEG and the South PEG since 2012.

Since November 2013, the price differential between the North and South PEGs has increased sharply, even exceeding €17/MWh on 26 December 2013. Since January 2014, it has been between €5/MWh and €7/MWh. To date, there is no indication to affirm that these spreads may disappear in the following months.

These price conditions in the south negatively affect the competitiveness of industrial customers, in particular, gas-intensive customers. They could also put a stop to the opening up of markets to other client segments. If they were to persist, this would be particularly troublesome in view of the end of the regulated tariffs for the sale of gas for companies at the end of 2015.

### **2. Actions conducted by CRE to improve the functioning of the market in the south**

Since 2009, CRE has systematically encouraged the implementation of measures to improve the functioning of the market in the south of France.

In its deliberations of 19 July 2012 and 13 December 2012, it decided to merge the existing marketplaces in the south in order to give rise to a single gas price in France and therefore structurally manage supply difficulties in the south of France.

It attentively monitors price-forming conditions in wholesale markets in the south and has reported the conclusions of this work on several occasions, in particular, in its deliberation of 29 May 2013 and its 2012-2013 report on the functioning of wholesale markets.

In coordination with GRTgaz, it has taken short-term measures to improve the functioning of the market pending the merging of the zones. These measures consisted in:

- optimising the capacity offered at the North-South link and its use (setting up of market coupling between the North and South PEGs, specific access conditions for gas-intensive customers located in the south of France, sale of additional firm daily capacity, etc.);
- improving the quality and volume of information published, in particular by LNG terminal operators.

These measures have contributed in particular to the gradual improvement of the functioning of the market in the south zone and the development of competition in the retail market, which is currently at a level similar to that of the North zone.

However, they have not resolved the structural problems related to supply conditions in the south zone (prices higher than at the North PEG and liquidity deficit in the marketplaces).

### **3. European framework**

The above-mentioned CRE decisions fall within the framework of the target model for the European gas market, developed by the Council of European Energy Regulators (CEER). This model aims to achieve an internal European gas market guaranteeing the security of supply and competitive prices for European customers.

It plans for the implementation of liquid and interconnected marketplaces. It recommends in particular, that each marketplace should cover a zone whose annual consumption is higher than 20 Bcm and should have more than three supply sources. While the GRTgaz North zone meets these criteria, this

is not the case for the GRTgaz South and TIGF zones, which are currently supplied by only two entry points and whose combined consumption totalled 15 Bcm in 2013.

In addition, France's geographical position makes it the only interface between the Iberian Peninsula and the rest of the European market. The questions relating to the organisation and functioning of the French market therefore have a major international dimension.

## II. Creation of a single marketplace in France by 2018

Since 1 January 2009, the French gas market is comprised of three marketplaces called *Points d'échange de gaz* (title transfer points – PEG): the North and South PEGs in GRTgaz's network and TIGF's PEG.

At CRE's request, GRTgaz conducted a study on the merger of the North and South zones in 2011. This study, carried out by KEMA, concluded that the contractual mechanisms necessary for balancing the system in the event of the merger of these two zones, with no other investment other than those put into service in 2016 at the latest (Eridan project, Arc de Dierrey, etc.), would be very costly. The conclusions of this study are available on CRE's website.

Following this work and after consulting all market players, CRE abandoned the immediate merger of the North and South zones without any additional investment. It retained the following decisions in its deliberations of 19 July 2012<sup>2</sup> and 13 December 2012<sup>3</sup>:

- creation of a PEG common to the GRTgaz South and TIGF balancing zones as at 1 April 2015, for which CRE launched a public consultation on 10 February 2014 on the arrangements for its implementation;
- objective of creating a single marketplace in France by 2018, through investments that will eliminate the main congestions at the North-South link of the GRTgaz network (Val de Saône project) and the possible use of additional contractual tools.

Moreover, in its deliberation of 19 July 2012, CRE announced that it would conduct a cost/benefit study on the investments required for creating a single PEG in France before making a final decision. It also requested GRTgaz to launch the preliminary studies on the Val de Saône project, including the public debate, and to implement all measures that would reduce supply tensions in the south of France.

### 1. Results of CRE's cost/benefit study

CRE commissioned the Pöyry firm to perform a cost/benefit analysis of the investments necessary for the creation of a single marketplace in France by 2018.

Pöyry conducted this study between July and November 2013. It interviewed a large number of market players (shippers, customer and supplier associations, infrastructure operators, public organisations, etc.). In addition to the methodology retained, it also presented the intermediary results obtained within the framework of Concertation Gaz on a regularly basis.

The final report of the study<sup>4</sup> will be published on CRE's website along with the present public consultation.

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<sup>2</sup> [Deliberation of 19 July 2012 defining guidelines for the development of gas marketplaces in France](#)

<sup>3</sup> [Deliberation of 13 December 2012 deciding on the tariff for the use of natural gas transmission networks](#)

<sup>4</sup> [Final report of the cost/benefit study conducted by the Pöyry firm](#) (only in French)

a) Methodology retained for this study

i. *Methodology for market scenarios*

To carry out its study, the Pöyry firm retained the following three market scenarios:

- the “Tomorrow as Today” scenario which is based on the current situation. The global gas prices penalise LNG imports in Europe and lead, with the lack of investments, to significant spreads between the north and south of France;
- the “European Golden Age of Gas” is based on an inversion of global gas prices leading to the return of LNG in Europe and in France in particular. The gas price differentials between the north and south of France is structurally zero in this scenario;
- the “Middle of the Road” scenario lies between the two previous scenarios in terms of the development of global gas prices. It is characterised by alternating periods in which Europe and France are more or less attractive for global LNG.

These market scenarios are analysed taking into account different investment possibilities in the French gas transmission systems.

ii. *Methodology for investment possibilities*

GRTgaz's system considered as a reference for the study is that which is planned for after the commissioning of the Dunkirk LNG terminal and the Arc de Dierrey project in the North zone after 2015.

Three investment possibilities were initially identified:

- the Eridan project alone: the reinforcement of the Rhône pipeline, approved by CRE in its deliberation of 19 April 2011<sup>5</sup> is scheduled for commissioning early 2017. The cost of the project is currently estimated at €620 M, i.e. a 30% increase following detailed studies and the public debate;
- the Val de Saône project alone: the reinforcement of the Bourgogne pipeline is estimated at €650 M. In its deliberation of 19 July 2012, CRE requested GRTgaz to launch the studies on this project;
- the two projects described above.

During the study, an alternative solution to the approach combining the Val de Saône and Eridan projects emerged. It involves the Val de Saône project for GRTgaz and the Gascogne/Midi project for TIGF. TIGF's project, estimated at €120 M, consists in strengthening the pipeline located between Lussagnet and Barran and adapting the Barbaïra compression station. For GRTgaz, the adaptation of the Cruzy and Saint-Martin de Crau stations, for an estimated €20 M, will be necessary in addition to the Val de Saône project.

iii. *Methodology for calculating costs and benefits*

For each market scenario and each investment possibility, Pöyry, in collaboration with GRTgaz and TIGF, determined the gas flows in the French transmission systems. On that basis, it simulated the levels of prices obtained each month in the French and European marketplaces over the 2018-2038 period. It deducted the net present value (NPV) for France and for Europe for each case studied.

The calculation of the NPV takes into account:

- capital and operating expenses related to investments, and, depending on the case, the costs of the necessary additional contractual mechanisms;
- the quantitative gains related to the cost of gas, the reduction in risk premiums for volatility and liquidity of marketplaces and LNG arbitrages (in part).

Moreover, Pöyry identified additional qualitative gains that it recommends taking into account in the decision-making process.

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<sup>5</sup> Eridan project has been approved by CRE and decided by GRTgaz on the ground that it contributes to the development of several French and European projects ([deliberation of 19 April 2011](#))

iv. CRE's analysis

Pöyry's choice to retain three contrasting market scenarios is simplified, but seems reasonable since it is not possible to precisely anticipate the development of global gas prices over the 2018-2038 period.

These three scenarios cover a wide spectrum of possible developments. In all likelihood, none of these three scenarios will occur over the entire 2018-2038 period. More likely, there will be alternating periods during which one or the other of these scenarios will be closest to reality.

With regard to the calculation of NPVs, Pöyry used two methods:

- the first is based on the use of a proprietary algorithm for modelling gas prices in the European and global markets;
- the second is based on a direct calculation of gains due to additional gas flows made possible by each investment scenario (replacement of an expensive source of gas by a more competitive source of gas).

CRE considers that these two methods are complementary and serve to strengthen the accuracy of the results obtained.

**Question 1: Do you agree with CRE's analysis concerning the methodology retained in the Pöyry study?**

b) Conclusions of the study for France

i. *Optimal investment possibility*

The Pöyry study highlighted that the investment approach with the best cost/benefit relationship for the merger of the North and South zones is the one that combines the Val de Saône and Gascogne/Midi projects.

However, this approach, which is very effective for debottlenecking the system in the north to south direction, does not create capacity in the reverse south to north direction.

ii. *Results of the cost/benefit analysis for the Val de Saône + Gascogne/Midi approach*

This investment possibility returns a positive NPV or an NPV close to zero for two of the three market scenarios. In France, the gains depend essentially on the drop in the price of gas in the south of France compared to the current situation and the improvement of liquidity and price volatility at the France PEG, compared to the existing PEGs (in particular the South PEG).

€M <sub>2013</sub>	<i>Tomorrow as Today</i>	<i>Middle of the Road</i>	<i>EU Golden Age of Gas</i>
France NPV	[+961;+1585]	[-161 ; +15]	[-886]

In addition to these quantitative benefits, Pöyry identified the following qualitative gains:

- socio-economic gains related to the strengthening of the competitiveness of industrial customers, in particular gas-intensive customers, located in the south of France;
- improvement of the attractiveness of the French gas market;
- development of competition in the wholesale market.

*iii. CRE's analysis*

- Of quantitative results

CRE favourably welcomes the identification of a new investment possibility enabling the creation of a single marketplace in France, whose costs are lower than for the approach combining the Eridan and Val de Saône projects. This approach was identified on the basis of preliminary elements provided by GRTgaz and TIGF. AT CRE's request, during the last quarter of 2013, GRTgaz and TIGF jointly conducted a system study which confirmed the results obtained by Pöyry and served to scale the necessary infrastructure. It shows in particular, that a flow of 100 GWh/d at the Eastern interface point between the TIGF and GRTgaz zones, will serve, for the scenarios retained by Pöyry, to limit the use of flow commitments in the Fos sur Mer terminals. The results of this study<sup>6</sup> will be published along with the present public consultation.

During the presentations of the preliminary results of the Pöyry study within the framework of Concertation Gaz, the principles of the overall methodology used were not questioned. However, some stakeholders criticised specific points of this methodology (the base for calculating gains, level of volatility and liquidity premiums).

CRE considers that these criticisms do not question the general conclusions of the study.

It notes in particular that the Pöyry firm largely consulted market players throughout the study and that the parameters retained result from these exchanges. The final report submitted to CRE by Pöyry take into account the remarks made during the presentation of the preliminary report within the framework of Concertation Gaz.

Moreover, the second method for quantifying gains used by Pöyry, which is more simple and robust but less accurate, resulted in a higher NPV for the investment scenario retained. It therefore confirms the positive results obtained by the first method.

- Of qualitative results

CRE shares the conclusions of the Pöyry study regarding the importance of the qualitative gains associated with the creation of a single PEG in France. The creation in 2009 of an efficient marketplace in the North zone significantly improved the functioning of the wholesale and retail markets for end customers in that zone. It is desirable that all French customers benefit from more competitive gas sources:

- gas-intensive customers for which the price of gas is a decisive factor for their competitiveness;
- other companies, given the end of the regulated sale tariffs in 2015;
- domestic customers that should be able to enjoy the same level of competition and prices across the national territory.

**Question 2: Do you agree with CRE's analysis regarding the quantitative and qualitative results of the Pöyry study for France?**

c) Conclusions of the study at European level

*i. Results of the cost/benefit analysis for the Val de Saône + Gascogne/Midi approach*

The Pöyry study extended the analysis conducted on the French market to Europe, taking into account gas consumption in countries in Northern Europe and the Iberian Peninsula.

The benefits expected are significantly higher at European level than in France because the gains generated for the Iberian Peninsula were taken into account. These significant gains are mainly due to the possibility of exporting from France to Spain gas coming mostly from the north-west of Europe. The Iberian market therefore depends less on LNG for its supply and enjoys a lower cost price for its gas when LNG is less competitive.

<sup>6</sup> [Complementary study led by GRTgaz and TIGF](#)

€M <sub>2013</sub>	Tomorrow as Today	Middle of the Road	EU Golden Age of Gas
Europe NPV	[+1703 ; +2327]	[+330 ; +495]	[-887]

In addition to creating a single marketplace in France, this investment approach will improve price convergence in Europe by bringing Spanish prices closer to prices in the north-west of Europe. The Pöyry study concluded that the strengthening of the north-south axis of the gas transmission system and the creation of a single marketplace in France may contribute to establishing a European gas price index, as is the case with the Henry Hub price in North America, which could influence the formation of global gas prices.

## ii. CRE's analysis

In addition to the gains for the French market, the Pöyry study confirmed the high added value of investments for the gas market of the Iberian Peninsula, whose dependence on LNG imports would decrease.

CRE considers that the decongestion of the north-south axis of the French system and the creation of a single PEG will favour price convergence between the south-west and north-west markets in Europe and will contribute more widely to the construction of a European gas market composed of liquid and interconnected marketplaces.

The creation of a north-south corridor (in both ways) in Western Europe is one of the priorities identified by the European Commission for the construction of the European gas market. In that regard, the Eridan and Val de Saône projects have been deemed necessary for its implementation. The Eridan project has been granted a European subsidy and the Val de Saône project has been recognised as a project of common interest (PCI) within the framework of the implementation of the new regulation on trans-European energy infrastructure<sup>7</sup>.

On the basis of the results of the Pöyry study and in compliance with the procedure specified in Article 12 of the above-mentioned European regulation, GRTgaz requested that cost of the Val de Saône PCI be distributed between France and Spain. CRE and its Spanish counterpart must make a decision concerning this request by 30 April 2014. Once the decision is made, GRTgaz will be able to participate in the call for projects to receive European subsidies, if the other two eligibility criteria are met: existence of significant positive externalities and the commercial viability of the project not guaranteed (the project does not generate any revenue related to capacity subscriptions).

**Question 3: Do you agree with CRE's analysis regarding the results of the Pöyry study at European level?**

## 2. Summary and CRE's preliminary lines of action

The Pöyry study shows that investment based on the Val de Saône and Gascogne/Midi projects is profitable in two out of three scenarios. The third scenario (EU Golden Age of Gas) is the furthest from the current situation.

In addition, the Pöyry study, carried out before winter 2013/2014, does not take into account the high price differentials observed this winter, including in the most favourable (Tomorrow as today scenario). Two years with spread levels similar to those of this winter (€7.4/MWh on average over the November 2013 to January 2014 period) would suffice to make the investment viable. On the basis of a redirected gas flow thanks to investments of 70 TWh and a spread of €7/MWh, the annual gain would be about €500 M.

<sup>7</sup> Regulation (EU) No. 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009



Therefore, it would appear that the investment is likely to protect the French gas market against all crisis or high-tension situations in the long term. This additional advantage is not taken into account in the calculation of the NPV in Pöyry's study.

Lastly, the qualitative benefits brought by the creation of a single marketplace in France are considerable.

On the basis of these elements, CRE intends to:

- request the two TSOs to implement the Val de Saône and Gascogne/Midi projects as soon as possible. As requested by the CRE, studies related to the Val de Saône project has already been launched by GRTgaz and the public debate is finalized. GRTgaz must draw on the PCI status of the Val de Saône project, which provides for a fast-track procedure for the granting of administrative authorisations to finalize it as soon as possible. TIGF must submit a request to the European Commission as soon as possible for the Gascogne/Midi project to receive this status;
- decide on the creation of a single marketplace in France by 2018 at the latest.

To illustrate, the additional annual cost in the transmission tariff due to this investment would be around €100 M in 2018, i.e. approximately 5% of the TSOs' total authorised revenue. That represents an increase of roughly 0.3% of the price of gas for a domestic customer heating with gas.

#### **Question 4: Do you agree with the lines of action envisaged by CRE?**

### **III. Measures that may be envisaged during the transition period up to 2018**

Commissioning investment projects necessary for resorbing congestion between the north and the south of GRTgaz's transmission system can only be performed from 2018. During the transition period up to 2018, the supply conditions in the north and south of France will remain fundamentally different:

- the North zone is strongly interconnected with the markets of north-east Europe and have a high LNG import capacity. Therefore, it does not depend on any source of gas in particular;
- the South zone has major LNG import capacity and is interconnected with the market of the Iberian Peninsula which itself depends largely on LNG. However, it is only partially interconnected with the markets of north-west Europe. Therefore, for about half of its supply needs, it depends on LNG, which offers its holders the flexibility of being freely transportable towards the most profitable markets, contrary to pipeline gas.

Depending on the balances in global gas markets, market prices in the north and south zones are therefore likely to differ significantly. The price in the south zone cannot be sustainably lower than that in the north, but can be much higher when the LNG market is tight, as is currently the case. Moreover, the south of France has a structural deficit in market liquidity and major price volatility.

Under these conditions, CRE deems it desirable, in the interest of gas customers, to take measures to reduce as much as possible the effects of the structural disadvantage to which the south zone is confronted.

#### **1. Measures already implemented**

Since 2009, along with work relating to the development of the structure of French wholesale markets, CRE has systematically encouraged the implementation of measures to improve the functioning of the market in the south of France.

It attentively monitors price formation conditions in the wholesale markets in the south. It has reported the conclusions of its work on several occasions, in particular, in its deliberation of 29 May 2013 and its 2013-2013 report on the functioning of wholesale markets.

It has taken short-term measures to improve the functioning of the market pending the merging of the zones. In particular, it requested GRTgaz, in its deliberation of 19 July 2012, to work on implementing all measures to reduce supply tensions in the south zone. The main measures already taken or authorised by CRE are as follows:

a) Optimisation of capacity offered at the North-South link and of its use

- allocation by auction of capacity at the North-South link for the period from 1 April 2014 to 30 September 2018, which enables the redistribution to network users of the bottleneck income, and implementation of specific conditions for access to North-South capacity for gas-intensive customers located in the south of France (deliberation of 17 October 2013);
- sale of additional firm daily capacity at the North-South link: Joint transport storage (JTS) service resulting from the coordinated use of the transmission systems and Storengy's underground storage facilities (deliberations of 23 May 2013 and of 30 October 2013);
- firming of interruptible capacity at the North-South link: transformation of 40 GWh/d of interruptible capacity into firm capacity at the link in the north to south direction (deliberation of 29 January 2014);
- optimisation of maintenance programmes in order to improve visibility into the availability of capacity at the North-South link and the information provided by GRTgaz on the consequences of its maintenance operations on capacity reduction;
- transfer of gas in storage between certain storage facilities in the North and South zones proposed by Storengy<sup>8</sup>.

b) Improved market functioning in the south

- implementation and improvement of the functioning of market coupling between the North and South PEGs: implicit sale of North-South capacity at the same time as gas (first deliberation dates back to 19 April 2011)
- creation of a single marketplace in the south of France as at 1 April 2015;
- use-it-or-buy-it (UBI) service which enables maximum use of capacity at the North-South link (non-subscribed and non-nominated capacity), (deliberation of 13 December 2012).

c) Improved transparency for infrastructure use

- improvement of the transparency of information published by LNG terminal operators<sup>9</sup>.

The measures described above contributed to improving the functioning of the market in the south zone, with, in particular, the development of liquidity in the short-term market. They also contributed to the development of competition in the retail market, which is currently at a level similar to that of the North zone.

However, these measures have not resolved the structural problems related to supply conditions in the south zone (prices higher than at the North PEG and liquidity deficit compared to the North PEG despite significant progress in the short-term market).

Given the current difficult conditions in the south of France, other measures have been envisaged during the transition period up to 2018.

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<sup>8</sup> CRE's deliberation of 26 July 2012 regarding the service of transfer of gas in storage from storage group Sediene Littoral to storage group Serene Sud proposed by Storengy

<sup>9</sup> Deliberation of 20 June 2013 deciding on the information published on the use of LNG terminals

## **2. Complementary measures envisaged**

All of the measures envisaged would contribute to the improvement of market conditions in the south of France. However, these measures could lead to a valuation of gas in the south of France that would not correctly reflect the supply conditions in the zone.

First of all, it should be noted that certain measures described below do not fall within CRE's powers, but those of the government and other measures could require legislative or regulatory texts to be adapted, in particular concerning the missions of transmission system operators.

### **a) Early merger of the north and south zones prior to debottleneck investments**

This measure would serve to guarantee identical market conditions across all of France before 2018.

The KEMA firm studied this option in 2011. Its conclusions were as follows:

- this solution, technically feasible, would require GRTgaz to purchase considerable quantities of gas in the south of France to balance its system;
- the cost of these mechanisms had been estimated by KEMA at approximately €170 M per year on the basis of an annual gas deficit of 34 TWh and additional cost for the purchase of gas in the south of €5/MWh.

Since 2011, market conditions have developed. The price difference between Asian LNG and the north-west markets of Europe is currently around €10 to €15/MWh. In addition, the possibilities of LNG arbitrage between the different global markets are developing considerably.

The gas deficit would most likely be higher than the 34 TWh estimated by KEMA. Under worst-case assumptions, this deficit could reach 80 to 100 TWh per year. The cost of an early merger, to be shared in GRTgaz's expenses could thus reach €1 billion per year. It would have to be borne by all of the users of the system, both in the north and south. If this were to happen, GRTgaz's tariff would increase by 60%, which would result in about a 4% increase in the price of gas for a domestic customer heating with gas.

This cost would reflect the price for GRTgaz to purchase gas from players committed to bringing the missing gas in the south, whether this is LNG at Fos or gas at the French-Spanish interconnection. However, with the zones not being merged, a large portion of this gas comes naturally because of the public service and balancing obligations of the different players, in particular suppliers within the south zone. The merger would therefore enable LNG players present in the south of Europe, to freely redirect LNG cargoes destined for the south of France towards more profitable markets, or to sell this LNG to GRTgaz at a price related to that of Asian LNG.

Moreover, all complementary measures for the purchase of gas making the arrival of all or a portion of the missing gas in the south mandatory would reduce the volume of gas to be purchased by GRTgaz and therefore the cost of the early merger of the north and south zones. Such a measure could result from a revision of the obligation to diversify supply sources specified in suppliers' public service obligations under the security of supply.

If this obligation falls only on holders of regasification capacity in the Fos terminals, it would reduce the windfall effect related to redirections of LNG cargoes for the players concerned.

If the obligation falls on all shippers delivering to customers in the south of France or exporting gas in Spain, it would require the setting up an "LNG certificate" exchange market or any other equivalent mechanism, because all shippers do not have the technical and financial capacity to access LNG contracts.

In any case, placing such an obligation on shippers does not fall within CRE's powers, but within those of the government.

**Question 5: Are you in favour of the early merger of the North and South zones before the commissioning of decongestion investments?**

**Question 6: In your opinion, should this merger be based only on purchases of gas in the south by the TSOs or on LNG flow obligations? In the latter case, what type of obligation would you recommend?**

b) Sale of additional north to south capacity

With such an approach, the North and South zones would be maintained until 2018. The measure envisaged aims to release price tensions in the south, by offering shippers additional north to south capacity, without any investments. The cost of such a measure is lower than that of an early merger, but its effect on the price of gas in the South zone is difficult to predict.

GRTgaz currently sells all the technical gas transmission capacity from the north to the south that it holds. It also offers through short-term services the capacity resulting from the optimised use of gas infrastructure. In the most recent tariff update, CRE introduced a financial incentive for GRTgaz to maximise the firm capacity sold at the North-South link.

In addition, GRTgaz offers a service enabling maximum use of the capacity subscribed. Therefore, the average rate of use of North-South capacity in 2013 was 93%.

Under these conditions, the only way to sell additional capacity at the North to South link is to draw on contractual tools. The following mechanism, based on flow commitments, may be envisaged:

- GRTgaz purchases via calls for tenders a daily nomination service at the North-South link in the South to North direction. To be certain that these flow commitments would really improve supply conditions in the zone, the daily South to North nomination commitments would be accompanied by a flow commitment for the same quantities at the Fos entry point or at the Pirineos entry point;
- this service enables GRTgaz to release additional firm North to South capacity;
- GRTgaz sells this capacity through auctions, according to the rules of the CAM network code.

The sale of this capacity could be conducted first of all in the form of quarterly products, which would have the advantage of regularly proposing North to South capacity for sale. The purchase price of the nominations service would be shared in GRTgaz's expenses and would therefore be borne by all users of its system, as was the case in the past for investments and operating expenses related to the contractual tools enabling the merger of zones or reducing congestion.

To illustrate, for an additional capacity of 50 GWh/d over a year and in the most costly case for the tariff, the cost to be shared in GRTgaz's tariff could reach over €200 M per year, i.e. an increase in the price of gas of roughly 0.8% for a domestic customer heating with gas (based on a price difference between Asian LNG and the north-western European markets of around €10 to €15/MWh.)

**Question 7: Are you in favour of the sale by GRTgaz of additional North to South capacity until 2018 based on contractual tools? Do you support the mechanism envisaged by CRE? If not, in your opinion, what would be the most suitable tools?**

c) Other measures that may be envisaged

End 2013, GRTgaz was confronted with the South Eastern bottleneck on its system due to low volumes of gas emitted from the Fos-sur-Mer terminals. In order to encourage shippers to bring more gas in this zone, GRTgaz was forced to significantly reduce the availability of interruptible capacity at the North-South link, which worsened the tension in gas prices in the south.

CRE considers that it is highly desirable to avoid the recurrence of such a capacity reduction. In order to prevent the appearance of south-east congestion, the following tools may be examined:

- the launch by GRTgaz of calls for tenders for the purchase of gas located in the south-east part of its system;
- increase in GRTgaz's buffer stock in Storengy's storage facilities;
- interruption of the tanker reloading service proposed by Elengy at the Fos Cavaou terminal if there is a risk of bottleneck in the south-east;

- sale, in conditional form, of firm capacity left unsold after an initial capacity sale at the France-Spain interconnection. This conditional capacity would be interrupted if there is a risk of bottleneck in the south-east.

**Question 8: Are you in favour of the implementation of the tools envisaged by CRE for avoiding congestion in the south-east?**

### **3. Summary and CRE's preliminary lines of action**

The existence of two very different gas prices in France would have a significant impact on the economic development of the country and on the territorial equality.

The least expensive and most robust long-term method for ensuring a single gas price in France is the merging of the marketplaces by way of investments to debottleneck the system.

The measures envisaged during the transition period up to 2018 have a high cost. Nevertheless, CRE considers that keeping the status quo until 2018 has major risks for gas customers, in particular the industrials in the South of France, given the situation of the gas market and its possible evolution. CRE intends to request the TSOs, in coordination with the adjacent infrastructure operators, to study, within the framework of Concertation Gaz, the arrangements for implementing the measures that will be retained following the present public consultation.

Depending on the results of this work, some of these measures could be implemented as early as 2014.

**Question 9: Do you agree with the lines of action envisaged by CRE?**

**Question 10: Do you have any other comments or proposals?**

#### IV. Summary of questions

Question 1: Do you agree with CRE's analysis concerning the methodology retained in the Pöyry study?

Question 2: Do you agree with CRE's analysis regarding the quantitative and qualitative results of the Pöyry study for France?

Question 3: Do you agree with CRE's analysis regarding the results of the Pöyry study at European level?

Question 4: Do you agree with the lines of action envisaged by CRE?

Question 5: Are you in favour of the early merger of the North and South zones before the commissioning of decongestion investments?

Question 6: In your opinion, should this merger be based only on purchases of gas in the south by the TSOs or on LNG flow obligations? In the latter case, what type of obligation do you recommend?

Question 7: Are you in favour of the sale by GRTgaz of additional North to South capacity until 2018 based on contractual tools? Do you support the mechanism envisaged by CRE? If not, in your opinion, what would be the most suitable tools?

Question 8: Are you in favour of the implementation of the tools envisaged by CRE for avoiding congestion in the south east?

Question 9: Do you agree with the lines of action envisaged by CRE?

Question 10: Do you have any other comments or proposals?

CRE invites interested parties to send their observations on the tariff levels and structures it intends to adopt by 21 March 2014 at the latest:

- by email at the following address: [dirgaz.cp6@cre.fr](mailto:dirgaz.cp6@cre.fr);
- by post to: 15, rue Pasquier - F-75379 Paris Cedex 08, France.

Non-confidential contributions will be published by CRE, provided that no secret protected by law is disclosed.

Please state in your answer whether you wish for your contribution to **remain confidential or anonymous**. Interested parties are invited to submit their observations by explaining their positions.