Public consultation

Paris, October 15, 2015

Public consultation of the Regulatory Commission of Energy regarding the updating of tariffs for using the GRTgaz and TIGF gas transmission systems on April 1, 2016

The current tariffs for using the natural gas transmission networks run by the transmission system operators (TSOs), GRTgaz and TIGF, the so-called "ATRT5 tariffs", came into force on April 1, 2013 for a period of approximatively four years.

They provide for an update of the fee schedule of both TSOs on April 1st of each year, according to the terms established in CRE's pricing decision of December 13, 2012[1]:

- Taking into account the authorized revenue trajectory defined for four years and consisting of:
  - the trajectory of normative capital costs defined by CRE ;
  - the trajectory of operating costs set by CRE and which evolves each year based on inflation and a predefined factor ;
  - updating of the "Energy and CO_2 quotas" item ;
- discharging of a quarter of the overall CRCP balance;
- updating of capacity subscription assumptions;
- possible changes to the tariff structure determined by CRE, particularly in the context of creating the common PEG on the areas of GRTgaz South and TIGF, and the implementation of European network codes.

Moreover, the ATRT5 tariffs include incentive regulatory mechanisms regarding three different aspects:

- one incentive regulation for certain major investment projects : the mechanism is based, firstly, on a project target budget and, secondly, on a financial bonus/surcharge depending on the commissioning date of the infrastructure compared to the timetable chosen. This was defined in the aforementioned tariff decision and extended to the Gascogne Midi project in the tariff decision of October 30, 2014[2];
- incentive regulation on operating costs: net operating costs of TSOs evolve each year from the level used for 2013, based on an index equal to the sum of inflation and an annual change factor that incorporates a productivity target on a constant scope of activity in relation to the ATRT4 period. Productivity gains or losses that may be generated relative to this trajectory are kept by each TSO;
- an incentive regulation regarding service quality that aims to improve the quality of the service provided to users of transmission systems in areas deemed important for the proper functioning of the market.

This public consultation aims at obtaining feedback from stakeholders on the changes in ATRT5 tariffs as of April 1, 2016 regarding:

[1] CRE's deliberation of December 13, 2012 to decide on the tariff for using the natural gas transmission system.
[2] CRE's deliberation of October 30, 2014 concerning the decision on the incentive regulatory mechanism for the Val de Saône and Gascogne Midi projects.

- changes in the tariff structure;
- the incentive regulation regarding TSO service quality.

This consultation paper also presents the requests of the TSOs in terms of tariff levels. These requests will be subject to a thorough analysis by CRE in order to set the level of tariffs as of April 1, 2016.

Interested parties are invited to respond to the questions contained in the consultation paper no later than November 9, 2015.

1. Changes to the 2016 authorized revenue: TSO requests

With each update to the tariffs for using the transmission system, TSOs shall submit to CRE, for line items "Energy and CO_2 quotas", "CRCP", and "subscriptions":

- the final data for the year N-1;
- the estimated data for the current year, based on the final data for the period from January to August of the year N, and forecast data for the period from August to December of the year N;
- the forecast data for the year N+1.

In the rest of the document, references will be made to "actual 2014", to describe the final data for the year 2014, to "estimated 2015", to describe the data estimated by the TSOs for the current year, to "forecast 2015" to describe the forecasts used by CRE for 2015 when updating the tariff as of April 1, 2015[3] and "forecast 2016" to describe the forecasts that have been submitted by the TSOs to CRE for the year 2016. Finally, reference will be made to the "ATRT5 tariff" when it comes to trajectories defined by CRE for the year considered in the ATRT5 deliberation of December 13, 2012.

1.1. Capital costs trajectories

The trajectory of the normative capital costs (NCC) is set for the ATRT5 tariff period. Any differences between forecast and actual expenses are 100% covered by the expenses and revenue clawback account (CRCP).

Normative Capital costs (€ million)	2013	2014	2015	2016
GRTgaz	893.6	973.8	1,044.8	1,142.0
TIGF	143.8	157.3	164.5	176.8

1.2. Update of the "Energy and CO_2 quotas" item

1.2.1. GRTgaz

GRTgaz estimates that the "Energy and CO_2 quotas" item will come to € 113.2 million in 2015, compared to €114.9 million, the level used for the 2015 forecast in the most recent ATRT5 tariff update. GRTgaz justifies this decrease primarily by lower gas prices, as well as less use of the North-South link, which resulted in less use of the compressors than in the tariff forecasts. This decrease was partially offset by a technical Imbalance (EBT) up from the 2015 forecast.

For the year 2016, GRTgaz forecasts an expenditure level of €107.6 million. GRTgaz explains this forecast, down from 2015, by:

- the continuing decline in the use of the North-South link, in a market environment that is less strained on LNG;
- lower purchase prices for fuel gas and electricity, particularly after the release of GRTgaz sites from regulated electricity tariffs.

In view of the decline in North-South flows and gas and electricity prices, CRE considers, at this stage, that the assumptions used by GRTgaz are too high. An adjustment may be decided upon, following the current analysis.

3 CRE's deliberation of March 19, 2015 to decide on the tariff for using the gas transmission system as of April 1, 2015

"Energy and CO_2 quotas" line item	2014			2015			2016		
€ million	Est.	Act.	Var.	Fcst.	Est.	Var.	Tariff	Request	Var.
Gas costs	75.2	74.8	-0.4	74.1	75.6	1.5	90.2	73.8	-16.4
Electricity costs	32.2	28.1	-4.1	35.4	32.6	-2.8	28.7	25.9	-2.8
Other costs, including TICGN	2.0	1.9	-0.1	5.4	5.0	-0.4	0.0	7.9	7.9
CO_2 quotas	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	-1.9
Total energy costs	**109.4**	**104.8**	**-4.6**	**114.9**	**113.2**	**-1.7**	**120.8**	**107.6**	**-13.2**

1.2.2. TIGF

TIGF estimates that the "Energy and CO_2 quotas" item will come to € 8.9 million in 2015, compared to € 11.4 million, the level used for the 2015 forecast in the most recent ATRT5 tariff update. TIGF justifies this decrease primarily by lower purchase prices for gas and the reduced flows at the Spanish border.

In 2016, TIGF requests the inclusion of an amount of € 9.8 million under the "Energy and CO_2 quotas" item, representing an increase of 10% from its estimated 2015 forecast. TIGF explains this forecast by the uncertainty of the flows at the Spanish border, leading it to calculate its energy costs based on the actual and forecast subscriptions, without repeating in 2016 the decline in flows recorded in 2015.

In view of the decline in North-South flows and gas and electricity prices, CRE considers, at this stage, that the assumptions used by TIGF are too high. An adjustment may be decided upon following the current analysis.

"Energy and CO_2 quotas" line item	2014			2015			2016		
€ million	Est.	Act.	Var.	Fcst.	Est.	Var.	Tariff	Request	Var.
Gas costs	9.9	10.4	0.5	10.0	7.5	-2.6	4.7	8.2	3.5
Electricity costs	1.4	1.4	0.0	1.4	1.3	-0.1	1.3	1.6	0.3
CO_2 quotas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total energy costs	**11.3**	**11.8**	**0.5**	**11.4**	**8.9**	**-2.5**	**6.0**	**9.8**	**3.8**

1.3. Trajectory of net operating costs, excluding revision of energy costs

For the year 2015, net operating costs, excluding revision of energy expenses, used in the updated tariff, were € 754.0 million for GRTgaz and € 68.2 million for TIGF.

The ATRT5 tariff provides that, excluding changes in energy prices, the net operating expenses for 2016 are calculated by applying to the net operating expenses for the previous year a percentage variation equal to CPI -1.45% for GRTgaz and CPI +2.45% for TIGF, *"where CPI is the average annual change, actually recorded over the previous calendar year, of the consumer price index excluding tobacco, as calculated by INSEE for all households all over France.*"

The inflation assumption for 2015, which is based on the draft budget law (PLF) for 2016, is + 0.1%; net operating expenses for 2016, excluding changes in energy prices, fall by 1.35% for GRTgaz, i.e., € -10.2 million and increase by 2.55% for TIGF, i.e., € 1.7 million compared to those used for 2015.

The difference between the forecast inflation for 2015 considered by CRE for updating the net operating expenses of the TSOs and actually observed inflation will be 100% covered by the CRCP.

Net operating expenses, excluding energy change (€ million)	2013	2014	2015	2016
GRTgaz	**766.7**	**761.2**	**753.3**	**743.1**
TIGF	**64.2**	**66.2**	**68.1**	**69.9**

1.4. Calculation of CRCP

According to the current tariff rules, the CRCP is discharged over four years. To ensure the financial neutrality of the mechanism, the amounts considered are discounted at the equivalent of the risk-free rate, i.e., 4.0% per year.

1.4.1. GRTgaz

Adjustment of 2014 CRCP

During the tariff update work for FY 2015, the estimated amount of the CRCP for 2014 came to € -62.7 million, to be returned to consumers, in addition to the CRCP balance for the previous fiscal years, or a cumulative amount of € -65.6 million. Discharge of one quarter of the estimated amount of the CRCP for 2014 over 2015 led GRTgaz to return € 18.1 million to consumers. The stock remaining to be discharged is € -50.2 million, before adjustment of the 2014 CRCP account.

The amount of the final CRCP for 2014 is € 0.5 million higher than the estimate, this amount is to be returned to GRTgaz.

In € million	Estimated 2014	Actual 2014	Difference	Paid into CRCP account
Downstream transportation revenues, 100% covered	1223.9	1229.4	+5.5	-5.5
Upstream transportation revenues, 50% covered	509.3	512.4	+3.1	-1.6
Normative capital costs, 100% covered	934.0	945.7	+11.7	+11.7
"Energy and CO_2 quotas" line item, 80% covered	109.4	104.8	-4.6	-3.7
CCGT connection revenue, 100% covered	2.3	3.1	+0.8	-0.8
Delivery contract between GRTgaz and TIGF, 100% covered	33.2	33.2	0.0	0.0
Payouts related to service quality incentive regulation mechanism, 100% covered	1.1	1.5	+0.4	+0.4
OPEX Goodwill due to inflation, 100% covered	761.2	761.2	0.0	0.0
				+0.5

2015 CRCP account forecast

In the request from GRTgaz, the estimated amount of the CRCP for 2015 comes to **€ -18.6 million.** The

assumptions leading to this result will be analyzed by CRE.

In € million	2015 tariff	Estimated 2015	Difference	Paid into CRCP account
Downstream transportation revenues, 100% covered	1277.7	1263.7	-13.9	+13.9
Upstream transportation revenues, 50% covered	486.0	474.6	-11.4	+5.7
Normative capital costs, 100% covered	1044.8	997.3	-47.5	-47.5
"Energy and CO_2 quotas" line item, 80% covered	114.9	113.2	-1.7	-1.4
CCGT connection revenue, 100% covered	12.3	0.0	-12.3	+12.3
Delivery contract between GRTgaz and TIGF, 100% covered	34.2	33.2	-1.0	-1.0
Payouts related to service quality incentive regulation mechanism, 100% covered	0.0	0.0	+0.0	+0.0
OPEX Goodwill due to inflation, 100% covered	754.0	753.3	-0.7	-0.7
				-18.6

By adding to the stock not yet discharged over the 2014 CRCP and the provisional 2015 CRCP, this comes to a total CRCP amount of € -68.2 million to be returned to consumers.

In € million	Remaining amount to be adjusted	Final 2014 CRCP to be adjusted	Forecast 2015 CRCP	Global CRCP
Estimated discharge - Euros 2015	-50.2	+0.5	-18.6	-68.2

The inclusion of these elements would lead to reduce the authorized GRTgaz revenue by **€ 18.8 million** in 2016.

1.4.2. TIGF

Adjustment of 2014 CRCP

During the tariff update work for FY 2015, the estimated amount of the CRCP for 2014 came to €-5.6 million, to be returned by TIGF to consumers, in addition to the CRCP balance for the previous fiscal years, or a cumulative amount of € -4.7 million. Discharge of one quarter of the estimated amount of the CRCP for 2014 over 2015 led TIGF to return €1.3 million to consumers. The stock remaining to be discharged is €-3.6 million, before adjustment of the 2014 CRCP.

The amount of the final CRCP for 2014 is € 0.9 million lower than the estimate, this amount is to be returned by TIGF to consumers.

In € million	Estimated 2014	Actual 2014	Difference	Paid into CRCP account
Downstream transportation revenues, 100% covered	122.3	122.0	-0.3	+0.3
Upstream transportation revenues, 50% covered	100.0	103.0	+3.0	-1.5
Normative capital costs, 100% covered	150.4	150.1	-0.3	-0.3
"Energy and CO_2 quotas" line item, 80% covered	11.3	11.8	+0.5	+0.4
Delivery contract between GRTgaz and TIGF, 100% covered	33.2	33.2	0.0	0.0
Payouts related to service quality incentive regulation mechanism, 100% covered	0.1	0.2	+0.1	+0.1
OPEX Goodwill due to inflation, 100% covered	66.2	66.2	0.0	0.0
				-0.9

2015 CRCP account forecast

In the request from TIGF, the estimated amount of the CRCP account for 2015, comes to **€ -2.7 million.** The assumptions leading to this result will be analyzed by CRE.

In € million	2015 tariff	Estimated 2015	Difference	Paid into CRCP account
Downstream transportation revenues, 100% covered	134.9	133.3	-1.6	+1.6
Upstream transportation revenues, 50% covered	100.5	96.2	-4.4	+2.2
Normative capital costs, 100% covered	164.5	158.3	-6.2	-6.2
"Energy and CO_2 quotas" line item, 80% covered	11.4	8.9	-2.5	-2.0
Delivery contract between GRTgaz and TIGF, 100% covered	34.4	33.2	-1.2	+1.2
Payouts related to service quality incentive regulation mechanism, 100% covered	0.0	0.6	+0.6	+0.6
OPEX Goodwill due to inflation, 100% covered	68.2	68.1	-0.1	-0.1
				-2.7

By adding to the stock not yet discharged over the 2014 CRCP and the provisional 2015 CRCP, this comes to a total CRCP amount of € -7.2 million to be returned to consumers.

In € million	Remaining amount to be adjusted	Final 2014 CRCP to be adjusted	Forecast 2015 CRCP	Global CRCP
Estimated discharge - Euros 2015	-3.6	-0.9	-2.7	-7.2

The inclusion of these elements would lead to reduce the authorized TIGF revenue by **€ 2 million** in 2016.

1.5. 2016 authorized revenue for TSOs

The authorized income for 2016 is the sum of:

- capital costs for the year 2016, whose trajectory is set by the ATRT5 deliberation;
- net operating costs for the year 2016;
- the variation in the amount of the energy line item between the 2016 forecast provided by the operators and the amount provided for by the ATRT5 tariff for that year;
- the discharge of one quarter of the CRCP balance, estimated at the end of 2015.

1.5.1. GRTgaz:

The requests by GRTgaz result in an authorized revenue for 2016 of €1,853.0 million (an increase of 4.5% compared to the authorized revenue for 2015), broken down as follows:

Authorized revenue (€ million)	2015	2016
Capital costs	**1,044.8**	**1142.0**
Net operating costs	**754.0**	**743.1**
Change in energy line item	**+7.9**	**-13.2**
CRCP	**-18.1**	**-18.8**
Authorized revenue	**1,772.8**	**1,853.0**
Change in authorized revenue		**+4.5%**

1.5.2. TIGF:

The requests by TIGF result in an authorized revenue for 2016 of €248.5 million (an increase of 4.8% compared to the authorized revenue for 2015), broken down as follows:

Authorized revenue (€ million)	**2015**	**2016**
Capital costs	**164.5**	**176.8**
Net operating costs	**68.2**	**69.9**
Change in energy line item	**+5.8**	**+3.8**
CRCP	**-1.3**	**-2.0**
Authorized revenue	**237.2**	**248.5**
Change in authorized revenue		**+4.8%**

1.6. Update of capacity subscription assumptions

The following section outlines the TSO subscription forecasts, and their construction assumptions. These will be analyzed by CRE, which will choose, in the tariff update, the most relevant assumptions given the market environment.

1.6.1. GRTgaz

The new subscription assumptions submitted by GRTgaz for 2016 were a 7.2% decrease for upstream capacity, and a slight increase of 0.4% for downstream capacity, for an average decrease of approximately 2.0% compared to the subscription forecasts used for 2015 at the last update of the ATRT5 tariff. The trajectory of subscription assumptions defined for ATRT5, however, provided for an average annual increase in subscriptions of approximately 1.0% from 2013 to 2016.

GRTgaz explained the decrease in subscriptions in 2016, compared to the assumptions used for 2015, by consideration of the sourcing choices of suppliers observed since the beginning of 2015.

GRTgaz anticipates a lower use of the North-South link due to the arrival of LNG in the LNG terminals in Spain and southern France, which results in the reduced tension in the South zone. This change is reflected in particular by the sharp drop in revenue from products such as JTS or market coupling.

In 2015, subscriptions to PITS estimated by GRTgaz are on average 4.0% lower than the forecasts used in the latest ATRT5 tariff update. In 2016, GRTgaz proposes renewing for the whole year the subscription levels seen at year-end 2015, for a decrease of 13% compared to the 2015 forecast.

At interconnection points, GRTgaz anticipates a slight decline in France entry subscriptions, while the commissioning of the Alveringem point (Belgium) leads to increased subscriptions on exit points.

Finally, GRTgaz anticipates a slight increase (0.4%) of subscriptions for downstream capacity, which is explained by an increase in subscriptions by industrials (4.2%) and combined cycle power plants (8.7%), offset by the 0.8% drop in subscriptions on Transport Distribution Interface Points (PITDs).

At this stage, CRE considers the GRTgaz capacity subscription forecasts to be too conservative. An adjustment may be decided upon, following the current analysis.

1.6.2. TIGF

The new subscription assumptions submitted by TIGF for 2016 were a 5.5% decrease for upstream capacity, and a decrease of 1.0% for downstream capacity, for an average decrease of approximately 2.4% compared to the subscription forecasts used for 2015 at the last update of the ATRT5 tariff. The trajectory of subscription assumptions defined for ATRT5, however, provided for an average annual increase in

subscriptions of approximately 2.5% from 2013 to 2016.

TIGF explains this development mainly by the reduced demand of market participants for the exit capacity to Spain. TIGF, in its forecasts, is only using low additional capacity subscriptions on this point.

In 2015, subscriptions to PITS estimated by TIGF are on average 11.0% higher than the forecasts used in the latest ATRT5 tariff update. In 2016, TIGF proposes renewing for the whole year the subscription levels seen at year-end 2015.

Finally, TIGF anticipates lower subscriptions on the regional network (1.0%), mainly due to lower subscriptions on PITDs (0.9%).

At this stage, CRE considers the TIGF capacity subscription forecasts to be too cautious. An adjustment may be decided upon, following the current analysis.

1.7. Rate changes requested by the TSOs and preliminary analysis of CRE

Rate increases discussed below are average increases.

1.7.1. GRTgaz

In € million	Impact of change in authorized income	Impact of changes in capacity subscriptions	Change in tariff
2016	+4.5%	+2.0%	+6.6%

The tariff increase request by GRTgaz of 6.6% in 2016 would generate an average annual increase over 3 years of 4.3% (3.9% in 2014 and 2.5% in 2015), compared with the average increase of 3.8% provided for in the ATRT5 tariff. In particular, capacity subscriptions, down an average of 0.8% over 3 years, are largely out of step with the tariff forecast, which anticipated an increase of 1.0%.

1.7.2. TIGF

In € million	Impact of change in authorized income	Impact of changes in capacity subscriptions	Change in tariff
2016	+4.8%	+2.4%	+7.2%

The tariff increase request by TIGF of 7.2% in 2016 would generate an average annual increase over 3 years of 6.0% (7.7% in 2014 and 3.1% in 2015), compared with the average increase of 3.6% provided for in the ATRT5 tariff. In particular, capacity subscriptions, up an average of 1.1% over 3 years, are largely out of step with tariff forecast, which anticipated an increase of 2.5%.

1.7.3. Preliminary analysis by CRE

CRE notes that the proposals of the TSOs depart from the trajectories provided for in the ATRT5 tariff, leading to demands for higher increases in tariffs. A number of assumptions used by the TSOs relating to energy costs forecasts and capacity subscription forecasts, appear too conservative. These assumptions will be the subject of corrections by CRE.

At this stage of its analysis, CRE believes that tariff increases could be between 4 and 5% for both TSOs.

2. Change in the tariff structure

2.1. Tariff offer at GRTgaz's PITS

2.1.1. Change of the in-year pricing on PITS

2.1.1.1. Storengy Proposal

The ATRT5 tariff provides for surcharge factors at the Transport Storage Interface Points (PITS) for tariffs of products with in-year maturity, compared to the tariffs of annual products. Thus the prices applicable to quarterly, monthly, and daily capacity subscriptions respectively are equal to 1/3, 1/8, and 1/240 of the price of the corresponding annual firm subscription.

In a note dated September 22, 2015, Storengy asked CRE to remove the surcharge factors for in-year products at the PITSs, which according to Storengy deter some suppliers from purchasing storage capacity beyond their storage obligations in a context where the summer/winter price spreads are low.

According to the Storengy request, the prices applicable to quarterly, monthly, and daily capacity subscriptions respectively would be set at 1/4, 1/12, and 1/365 of the price of the corresponding annual firm subscription.

GRTgaz believes that the removal of surcharge factors applicable to prices for quarterly and monthly subscriptions would represent an operational simplification for capacity billing. However, GRTgaz is against this proposal for daily capacity subscriptions, which involve additional management costs.

2.1.1.2. Preliminary analysis by CRE

An eventual elimination of in-year surcharge factors at PITS would eliminate, in gas transportation tariffs, any incentive for shippers to reserve annual products at PITS. No impact assessment has been conducted on possible reductions in GRTgaz PITS tariff revenues these changes would cause.

Moreover, the DGEC launched a public consultation in March 2015 in which it proposed changing the current system of third party access to storage (ATS) to a regulated system in which storage tariffs would be overseen by CRE. If such a change were approved, it could lead to a change in the commercial offer of storage operators and a consequent adaptation at the PITS.

At this stage, CRE does not see a particular urgency to addressing this issue within the framework of the tariff update as of April 1, 2016 and therefore considers that a change in the PITS structure would be premature. Storengy's proposal is intended to be studied in the coming tariffs for using the transmission system (ATRT6), which will be applicable starting from April 1, 2017.

Question 1: Do you agree with CRE's analysis that a change in in-year surcharge factors at PITS should be considered in the broader context of ATRT6?

2.1.2. Creating a unique product at PITSs

2.1.2.1. GRTgaz proposal

The entry/exit capacities marketed by GRTgaz at PITSs are firm for all PITSs except North Atlantic and South Atlantic PITSs, situated on both sides of the North-South link, for which GRTgaz markets firm capacity and interruptible capacity. GRTgaz wishes to simplify its offering at PITSs, particularly North Atlantic and South Atlantic, by marketing, instead of firm and interruptible capacity, a new capacity product called Transport – Storage Interface Capacity (CITS). This proposal, presented in Concertation Gaz on June 15, 2015, received a favorable reception from shippers.

In the current system, where the sum of the capacity subscribed by shippers at the North Atlantic and South Atlantic PITSs is greater than the firm capacity marketed, GRTgaz allocates interruptible capacity to shippers in proportion to their subscribed capacity. For all new subscriptions from a shipper, GRTgaz recalculates the firm and interruptible capacity allocated to each, so as to prevent the last subscriber having access only to interruptible capacity. This system imposes a ten-day subscription notice before the start of the storage offer and the result is that the firm and interruptible capacity levels allocated to each shipper are only frozen belatedly.

The allocation and management arrangements are often a source of misunderstanding between GRTgaz and its customers, with the shippers seeing the firm and interruptible capacity shares they have subscribed to changing over time. This lack of understanding is reinforced by the fact that these are firm capacities are "climatic": the volume of firm capacity made available by GRTgaz on the PITS is a function of temperature.

The introduction of a single PITS product would eliminate the process of reallocating firm and interruptible shares for each new subscription by a shipper. This would make it possible to reduce the ten day subscription notice to three days. However, the process would remain unchanged for determining the effective technical capacity for a given day (in D-1 for D) and the capping in the event of restrictions, conducted in proportion to the capacity subscribed by the shippers[4]. The level of firm climatic shares guaranteed by GRTgaz in the current system would remain unchanged.

This proposal requires uniform tariff to be applied to the CITS. GRTgaz proposes that this tariff be calculated to maintain its income at a constant level at the GRTgaz PITSs.

2.1.2.2. Preliminary analysis by CRE

GRTgaz's proposal simplifies the North Atlantic and South Atlantic PITS offering. Since the capping in the event of restrictions is made, as now, in proportion to the capacity subscribed by shippers, business processes and effective use of capacity are not changed.

The introduction of a single tariff would lead to a tariff at the North Atlantic and South Atlantic PITS (input and output) down 3.9% compared to the going tariff for firm capacity, with constant revenue for the TSO. This percentage is calculated based on the firm capacity subscription forecasts, and also the interruptible capacity forecasts transmitted by GRTgaz for 2016. The tariff decrease thus reflects the proportion of interruptible capacity to be included in this new product.

This percentage may be modified by CRE based on the subscription forecasts for 2016 that will ultimately be used to update the tariff.

At this stage, CRE is in favor of GRTgaz's proposal.

Question 2: Are you in favor of introducing, as described above, a new capacity product at the GRTgaz PITS interface called Transport-Storage Interface Capacity (CITS), instead of firm and interruptible capacity?

2.2. Marketing additional firm capacity at Obergailbach in the direction from France to Germany

2.2.1. GRTgaz proposal

In addition to the 150 GWh/day backhaul capacities currently available at PIR Obergailbach in the direction from France to Germany, GRTgaz proposes offering 20 GWh/d of firm daily capacity to April 1, 2016.

This initiative is part of the target model for the European gas market *('Gas Target Model* "), approved at the forum in Madrid in March 2012, which calls for the reversibility of marketplaces interconnections with a goal of creating physical flows. It also aims to test the market interest in firm capacity in the direction from France to Germany.

At present, it is not physically possible to bring gas from France to Germany, due to different odorization practices, decentralized in Germany and centralized in France. New capacity would therefore only be offered by GRTgaz, the day before for the next day, when Germany to France nominations are sufficient to operate a contractual flow, i.e., about 85% of the time.
GRTgaz proposes that these 20 GWh/d of capacity between France and Germany be sold at auction on PRISMA, on one day for the next day. The reserve price offered would be equal to €45.68/MWh/day/year,

[4] Note: in parallel, GRTgaz and Storengy are working to simplify the PITS nomination and scheduling process the ("single nomination" project), which will optimize the provision of capacity on these points.

or 40% of the tariff in the direction from Germany to France, or twice the tariff of the backhaul capacities.
Since firm capacity has priority over backhaul capacity, interruptible by nature, GRTgaz proposes that the current holders of backhaul capacity receive the opportunity to participate in the auction and only pay the price difference between the auction price on D day and the backhaul.

2.2.2. Preliminary analysis by CRE

CRE finds that a PEG North - NCG contractual flow can be justified by the price differential between the two marketplaces, the price at PEG North being lower than the prices on the NCG a third of the time in the last five years. Moreover, GRTgaz's proposal generates no capital investment and little IT and business developments.

The tariff level proposed by GRTgaz is near the France-Belgium Capacity tariff at PIR Alveringem (€45/MWh/day/year).

Nevertheless, CRE notes that the GRTgaz proposal is not based on requests from shippers and the backhaul capacities currently offered at Obergailbach are not fully subscribed. Moreover, this offer would not result in the creation of physical flows, since they are not currently possible in the direction from France to Germany. In addition, this offer would result in a structural change and the introduction of a new tariff term, during the ATRT5 period. Finally, this proposal has not been submitted in Concertation Gaz.
Therefore, CRE considers at this stage that it would be better to study the creation of these 20 GWh/d of daily firm capacity and pricing under ATRT6.

Question 3: Do you support the marketing of 20 GWh/d of daily firm capacity at Obergailbach in the direction from France to Germany starting April 1, 2016 under the conditions proposed by GRTgaz? If you are a shipper, would you consider purchasing this product?

2.3. Changes to service quality incentives

2.3.1. Reminder on existing arrangement

Today, TSO service quality is tracked by nineteen indicators, which were developed after consultation with shippers.

Six indicators, subject to financial incentives, concern the quality of consumption metrics available to shippers for the best balance:

- *Availability Rate of TSO user portals,* which ensure interactions of shippers with the TSOs (data access, nominations, scheduling, contract information).
- *Quality quantities of gas measured at the Transport Distribution Interface Points (PITDs).* These data are transmitted on D+1 to the DSOs for calculating interim daily allocations of quantities of gas delivered to PITDs by transport shippers.
- *Quality of the telemetered gas quantities at delivery points for industrial consumers connected to the transmission network.* These consumption data are transmitted to shippers on D+1.
- *Quality of the telemetered gas quantities at delivery points for industrial consumers connected to the transmission network and transported during the day.* This data is transmitted to shippers during the day, for five time slots (6am-10am, 6am-2pm, 6am-6pm, 6am-10pm, 6am-1am).
- *Quality end-of-day gas consumption forecasts generated the previous day for the following day (D+1).* These estimates cover each balancing zone and are transmitted the day before.
- *Quality end-of-day gas consumption forecasts generated during the day (D).* These estimates cover each balancing zone and are transmitted the same day.

Three indicators were created on April 1, 2015, without financial incentives, to supplement the balancing supervision system:

- *Availability on public sites of TSOs (Smart and Datagas) of the 5 most useful pieces of information to balancing for shippers.*
- *Monitoring of TSO interventions on the markets in the capacity of balancing.*
- *Maintenance of the working stock within the "dark green" terminals.*

Finally, ten non-incentive indicators are related to the provision of additional capacity to the North-South link, environmental impact, compliance with maintenance programs and the relationship with shippers and DSOs[5].

2.3.2. Preliminary analysis by CRE

Although the quality of service shows a steady improvement trend, documented in the annual reports published by CRE[6], there are still margins for progress.

It appears that the availability of portals and the quality of consumption metrics for industrial sites in D and D+1 is satisfactory, both on the GRTgaz network and on the TIGF network. The quality of consumption forecasts submitted for the day and during the day is constantly improving, particularly on the TIGF network.

The two indicators, *Monitoring of TSO interventions on the markets in the capacity of balancing and Maintenance of the working stock within the "dark green" terminals* are intended to make sure of the effectiveness of the TSO market intervention strategy and that it has no adverse effect on the behavior of the network. For the months of April to September 2015, the difference between the GRTgaz maximum purchase price or minimum sale price and the average price for the day was less than 0.7%. During this period, the second indicator shows that the working stock regains its equilibrium level (dark green terminals) three-quarters of the time in the South zone, and 60% of the time in the North zone. CRE requests that the TSOs present an initial feedback from these indicators in Concertation Gaz before the end of 2015.

Secondly, the quality of the gas quantities measured at Transport Distribution Interface Points (PITDs) deteriorated slightly for the GRTgaz network in 2014 and 2015 (the number of days of non-compliance has increased from 19 in 2013 to 24 in 2014, to 20 for the first nine months of 2015). Since this information is essential for balancing profiled customers, CRE plans to strengthen the financial incentive associated with this indicator.

Question 4: Are you in favor of strengthening the incentive on the quality of the consumptions measured at the PITD?

The indicator, *Availability on public sites of TSOs (Smart and Datagas) of the 5 most useful pieces of information to balancing for shippers* concerns the publication, for each of the GRTgaz and TIGF balancing zones, the projected working stock, the forecast imbalance, consumption forecasts and imbalance payment prices, and allocation to Pirineos for TIGF.

In particular, the projected working stock indicator dictates the TSO market interventions. Thus, it serves as a signal both of the tension of the network and the availability of flexibility services based on the working stock.

The results of this indicator[7] for the last five months show that the publication by GRTgaz every hour of the projected working stock and the estimated imbalance is not timely enough (about 70% of hourly publications without delay in June and July 2015). The results for TIGF are not available. CRE requests that the TSOs present an initial feedback in Concertation Gaz before the end of 2015.

Furthermore, CRE is questioning the need to create a new indicator to track the quality of this information, in addition to the timeliness of its publication.

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[5] The set of service quality indicators, as well as their method of calculation is detailed in Chapter VIII of CRE's deliberation of March 19, 2015 to decide on the tariff for using the gas transmission system as of April 1, 2015 (p.54)

[6] Incentive regulation of the service quality of the natural gas system operators and the ERDF - 2013 Report

[7] The results are available on the TSO websites: http://www.grtgaz.com/nos-engagements/qualite-de-service.html and https://www.tigf.fr/nos-publications/publications-transport/qualite-de-service.html

Question 5: Do you have any comments on the indicator on the projected working stock and the opportunity to track the reliability of that information in addition to the timeliness of its publication?

Finally, CRE feels that efforts are needed to improve the service quality of TSOs in the field of maintenance. Three indicators have been tracked since 2012 without being incentivized: the availability of firm capacity and compliance with forecast maintenance programs published one year and two months before.

The average tariff of firm capacity unavailability on the GRTgaz network is high (~5%) compared with the European TSOs. In addition, maintenance forecasts, too conservative in M-12 and M-2, generate significant hedging costs for shippers, while the reality frequently diverges. CRE wants GRTgaz to improve its management of maintenance, while preserving the safety of its network. To do this, it might be appropriate to introduce a financial incentive, however, CRE considers that this is a structural change that can be considered as part of the ATRT6 tariff period.

Question 6: Are you in favor of the creation of a new indicator on maintenance program compliance? If so, do you have any indicator suggestions?

Question 7: Do you have any other comments or suggestions regarding the incentive regulation system regarding TSO service quality?

3. Summary of questions

Question 1: Do you agree with CRE's analysis that a change in in-year surcharge factors at PITSs should be considered in the broader context of ATRT6?

Question 2: Are you in favor of introducing, as described above, a new capacity product at the GRTgaz PITS interface called Transport-Storage Interface Capacity (CITS), instead of firm and interruptible capacity?

Question 3: Do you support the marketing of 20 GWh/d of daily firm capacity at Obergailbach in the direction from France to Germany startingApril 1, 2016 under the conditions proposed by GRTgaz? If you are a shipper, would you consider subscribing to this product?

Question 4: Are you in favor of strengthening the incentive on the quality of the consumptions measured at the PITD? If so, what changes to the indicator would you suggest?

Question 5: Are you in favor of the creation of a new indicator on the reliability of the projected working stock indicator?

Question 6: Are you in favor of the creation of a new indicator on maintenance program compliance?

Question 7: Do you have any other comments or suggestions regarding the incentive regulation system regarding TSO service quality?

CRE invites interested parties to send in their contributions, no later than November 9, 2015:

- by email to the following address: dr.cp1@cre.fr;
- by mail: 15, rue Pasquier - F-75379 Paris Cedex 08.

The non-confidential contributions will be published by CRE, subject to secrets protected by law.

Thank you kindly indicate in your response if you want your response to be considered **confidential or anonymous.** Otherwise, your input will be considered non-confidential and not anonymous. Interested parties are invited to submit their observations arguing their positions.