Public consultation of the Regulatory Commission of Energy (CRE) of 29th October 2015 regarding the experimentation of a pooling service for intra-monthly capacities in regulated LNG terminals

There are currently three LNG terminals in operation in France. The terminals of Montoir-de-Bretagne and Fos Tonkin are operated by Elengy, a 100% subsidiary of Engie, whereas the terminal of Fos Cavaou is operated by Fosmax LNG, a subsidiary owned 72.5% by Elengy and 27.5% by Total Gaz Electricité Holding France (TGEHF). Access to these three terminals is regulated.

The terminal of Dunkirk belonging to Dunkerque LNG, a subsidiary owned by EDF (65%), Fluxys (25%) and Total (10%), is scheduled to enter into service at the beginning of 2016. This terminal benefits from an exemption to regulated third-party access rules.

On 3 July 2015, Elengy and Fosmax LNG sent CRE a joint proposal to launch an experimental pooling service for intra-monthly capacity in the three regulated terminals, until the new tariffs for the use of regulated LNG terminals (ATTM5) come into force on 1 April 2017.

The aim of the pooling service is to allow subscribers with *ship or pay*[1] obligations to valorise their subscribed but unused capacities at a given terminal in another regulated terminal. The service was presented in the LNG Concertation group of 21 May 2015, and was well received by the majority of the present stakeholders.

Before deliberating on the subject, CRE would like to consult market actors on the terminal operators' proposal.

Interested parties are asked to respond to the questions listed at the end of this document by Monday 23 November 2015 at the latest.

The technical proposal of the terminals operators is appended to this consultation document.

[1] CRE's decision of 13 December 2012 on the tariffs for use of regulated LNG terminals provides that 100% of subscribed capacities must be paid for, regardless of whether they are used (*ship or pay*).

1. General principle

1.1. Operators' proposals

The operators believe that the pooling service would enable any shipper with a subscription in at least one of the three regulated terminals, and who is not expecting to use it in its entirety, to valorise these unused capacities in one of the other regulated terminals, by accessing capacity that is still available in this second terminal after the 20th day of month M-1 at a discounted price.

The operators estimate that this service would offer mid-term and long-term capacity subscribers the opportunity to unload their cargo on another coastline, for a reduced price. This would thus allow LNG actors to react rapidly to market signals, for example in the event of congestion on the North-South connection, leading to a price differential between the North PEG and the Trading Region South.

1.2. CRE's preliminary analysis

CRE believes that the proposed service would increase the value of mid-term and long-term subscriptions in the regulated terminals, which could improve their attractiveness for new mid-term and long-term subscribers. Against the current backdrop of low usage of regasification capacities[2], the pooling service may also encourage the re-routing of ships rather than to completely cancel an unloading operation.

Question 1: Are you in favour of the principle of launching a pooling service for the regulated LNG terminals?

2. Method for calculating the "pooling credit" and the tariff of a pooling operation

2.1. Operators' proposals

2.1.1. Pooling credit

All shippers who do not expect to use the entirety of their subscription in terminal A during month M would have a "pooling credit" that they could use in the other regulated terminals during the same month. This credit, expressed in euros, would be equal to the difference between the contracted capacity and the capacity actually used by the shipper during month M, valued on the basis of the tariff term applicable to the number of berthing operations (TNA (A)) and the tariff term applicable to unloaded volumes (TQD (A)) in terminal A[3].

Formula for determining a shipper's "pooling credit" (C) for month M in terminal A:

$$\mathbf{C_{(euros)} = (NCu - NU) \times TNA(A) + (QCu - QU) \times TQD(A)}$$

Where:

NCu: *Number of contracted unloading operations*
NU: *Number of actual unloading operations*
QCu: *Contractual unloaded quantity*
QU: *Actual unloaded quantity*
TNA: *Applicable term for number of berthing operations in the terminal*
TQD: *Applicable term for unloaded quantity in the terminal*

The pooling credit could be estimated during the course of month M upon request by the shipper, but would not be definitively calculated until M+1 on the basis of actual usage of subscribed capacities.

The shippers would remain liable for the totality of their *ship or pay* obligations in terminal A, including the case where they have used some of their pooling credit in terminal B.

2.1.2. Tariff of a pooling operation

A shipper's pooling credit for month M in terminal A could be used - during the same month only – to get

[2] Falling since 2011, the average usage rate of regasification capacities in the three regulated terminals has been less than 50% since 2014.
[3] The tariff terms that have applied since 1 April 2015 in regulated terminals are defined by [CRE's decision of 5 February 2015 on the updating of tariffs for use of regulated LNG terminals]().

a discount for a new subscription in one of the other regulated terminals.

The operators propose that the tariff for a pooling operation in a terminal B be at least the same as the berthing tariff applicable in this terminal. The tariff for the pooling operation would be the sum of two terms:

- the first term is the difference between the normal tariff of an additional intra-monthly subscription in terminal B (excluding the regularity term TR and the term for use of regasification capacities TUCR, calculated independently) and the shipper's pooling credit for month M, where this term cannot be negative, and
- a second term that is proportional to the normal tariff of an additional intra-monthly subscription in terminal B (excluding TR and TUCR). For this term, the operators propose a fixed ratio of 30%.

The pooling operation tariff would be calculated using the following formula:

$$\mathbf{P_{(euros)} = Max\ [\ Max(S - C\ ;\ 0) + Min(0.3\ x\ S\ ;\ C)\ ;\ Max(1\ ;\ NAu)\ x\ TNA(B)\ ]}$$

Where:

P:	*Pooling operation tariff billed by terminal B with pooling credit used*
S:	*Normal subscription tariff in terminal B*
C:	*Shipper's pooling credit for month M*
NAu:	*Number of additional unloading operations subscribed by the shipper in terminal B*
TNA(B):	*Applicable term for number of berthing operations in terminal B*

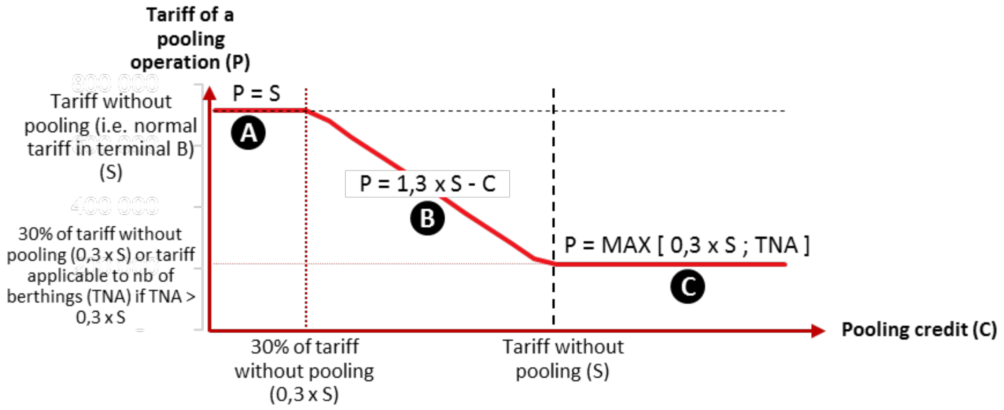
The regularity terms (TR) and the terms for use of regasification capacities (TUCR) would be updated by the operator of terminal B to account for additional subscribed capacities.

For the same pooling operation, the shipper could also use the pooling credits created by its mid-term and long-term subscriptions in two regulated terminals.

2.2. CRE's preliminary analysis

CRE considers that methods proposed by the operators for calculating the pooling credit and the tariff of the pooling operation are consistent with each other:

- for a pooling credit of less than 30% of the normal tariff applicable for additional spot subscriptions in terminal B, the tariff of a pooling operation is equal to the tariff of a spot operation in terminal B (see case (A) illustration below);
- as soon as the pooling credit is greater than 30% of the normal tariff for additional intra-monthly subscriptions in terminal B, the tariff of the pooling operation decreases linearly as the pooling credit increases (see case (B) illustration below);
- when the pooling credit exceeds the normal tariff for additional intra-monthly subscriptions in terminal B, the pooling tariff reaches a threshold that is at least equal to the berthing tariff in terminal B (see case (C) illustration below).



Tariff for a pooling operation in terminal B, based on pooling credit

The threshold for the tariff of a pooling operation in terminal B, equal to the tariff term applicable to the number of berthing operations (TNA) in terminal B, ensures that variable costs linked to the additional operation are covered, with the terminal's fixed costs still covered by the 100% *ship or pay* principle. At this stage, CRE is in favour of the proposed calculation methods.

Furthermore, the subscriptions taken out using the pooling service are additional subscriptions of regasification capacities, and the corresponding receipts would be covered 75% in the CRCP[4].

Question 2: Are you in favour of the proposed method for calculating the pooling credit?

Question 3: Are you in favour of the method for calculating the tariff of a pooling operation as proposed by the operators?

3. Service billing arrangements

3.1. Operators' proposals

The detailed reservation and billing arrangements proposed by the operators are described in the technical proposal appended to this consultation.

In particular:

- the final pooling credit would be calculated at the end of month M by the operator of terminal A (the departure terminal) based on the actual volumes unloaded by the shipper and the actual number of berthing operations in terminal A;
- on the basis of this final credit amount, the operator of terminal B (the arrival terminal) would calculate the amount billable to the shipper as part of a pooling operation.

If the final pooling credit for month M is different to the estimate sent by the operator of terminal A during the month in question, the shipper would be billed the more expensive amount between the estimate and the actual.

Where the shipper would like to use their pooling credit for several pooling operations during month M, the credit would be allocated to operations in the order in which they are reserved. It will therefore be gradually subtracted from the amount allocated to each preceding subscription via the pooling service.

3.2. CRE's preliminary analysis

CRE has no comment on the arrangements for reserving and billing the service as proposed by the operators.

Question 4: Are you in favour of the arrangements for reserving and billing a pooling operation as proposed by the operators?

4. Operational management arrangements

4.1. Operators' proposals

In the event a shipper has no framework agreement with the terminal in which it would like to unload using the pooling service, such an agreement would have to be signed before the operation date.

The pooling request will be processed as an intra-monthly subscription request described in the operators' access agreements, especially in terms of acceptable impact on scheduled send-outs for other shippers and the send-out profile. A shipper who would like to use their pooling credit would benefit from the same prioritisation as a shipper who would like to take out an intra-monthly subscription (regardless of the operation type: unloading, reloading or trans-shipment).

4.2. CRE's preliminary analysis

CRE is in favour of the proposed operational management arrangements, which ensure that the pooling operations for month M would not adversely affect unloading operations scheduled before the 20th of month M-1.

[4] CRE's decision of 13 December 2012 on the tariff for use of regulated LNG terminals.

Question 5: Are you in favour of the operational management rules proposed by the operators?

5. Question summary

Question 1: Are you in favour of the principle of establishing a pooling service for the regulated LNG terminals?

Question 2: Are you in favour of the proposed method for calculating the pooling credit?

Question 3: Are you in favour of the method for calculating the tariff of a pooling operation as proposed by the operators?

Question 4: Are you in favour of the arrangements for reserving and billing a pooling operation as proposed by the operators?

Question 5: Are you in favour of the operational management rules proposed by the operators?

CRE would like to invite all parties involved to send their input by no later than **Monday 23 November 2015**:

- by email to: dr.cp5@cre.fr ;
- via the "Documents/Public Consultations" section on the CRE website (www.cre.fr).

The non-confidential answers will be published on CRE's website. Please indicate in your answers whether you would like them to be considered **confidential** or **anonymous**. By default, your responses will be considered as non-confidential and non-anonymous, and will be published on CRE's website.
Interested parties are invited to send us their observations and argue in favour of their positions.

Appendix:

- Elengy and Fosmax LNG joint proposal for experimenting a pooling service of intra-monthly available capacities in the regulated terminals.