

PUBLIC CONSULTATION

Public consultation by the French Energy Regulatory Commission of 14 December 2016 relating to the evolution of the products of capacity marketed by GRTgaz and TIGF

This public consultation focuses on the developments in products of capacity marketed by GRTgaz and TIGF concerning, on one hand, the creation of a virtual interconnection point (VIP) between France and Belgium and, on the other hand, the introduction of a capacity conversion service for unbundled capacities.

Answering the consultation

The CRE invites interested parties to submit their contribution, no later than Friday 13th January 2017:

- by electronic mail to the following address: dr.cp5@cre.fr;
- by postal mail: 15, rue Pasquier - F-75379 Paris Cedex 08.

The non-confidential contributions will be published by the CRE. Please indicate in your response whether you want your response to be considered confidential or anonymous. Otherwise, your contribution will be considered as non-confidential and non-anonymous.

Interested parties are invited to send their observations whilst arguing their positions.

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1. LEGAL FRAMEWORK

1.1 Competence of the CRE

Article L.134-2, 4 of the energy code, gives jurisdiction to the CRE to specify the conditions for the use of natural gas transport networks.

1.2 The CAM code and its changes

1.2.1 Establishment of a virtual interconnection point

Paragraph 9 of article 19 of the CAM network code¹ stipulates that *"where two or more interconnection points connect the same two adjacent entry-exit systems, the adjacent transmission system operators concerned shall offer the available capacities at the interconnection points at one virtual interconnection point (VIP)"*. This type of interconnection point, which must be put in place no later than 1st November, 2018, can only be established if two conditions are met:

- the total technical capabilities at the VIP *"are greater than or equal to the sum of the technical capabilities at each of the interconnection points contributing to the virtual interconnection points"*;
- the VIP must contribute to *"an economic and efficient use of the system"*.

The CAM network code defines the virtual interconnection point (VIP) as *"two or more interconnection points which connect the same two adjacent entry-exit systems, integrated together for the purposes of providing a single capacity service"*.

1.2.2 Offer of substitution

Article 21§3 of the new CAM regulation², whose amendment has been adopted in comitology on 13th October 2016 and which should apply from 1st April 2017, stipulates that the GRT should offer a service of conversion of bundled capacities to unbundled capacities from 1st January 2018. Thus, shippers with an asymmetry of subscription will be able to benefit from a free capacity conversion mechanism and this on the pace of annual, quarterly and monthly time.

The CAM network code specifies that the conversion service must not result in the application of additional costs to network users for the capacities they already hold, beyond a possible auction premium and that the ENTSOG will propose a mechanism of conversion no later than 1st October 2017.

2. VIRTUAL INTERCONNECTION POINT BETWEEN FRANCE AND BELGIUM

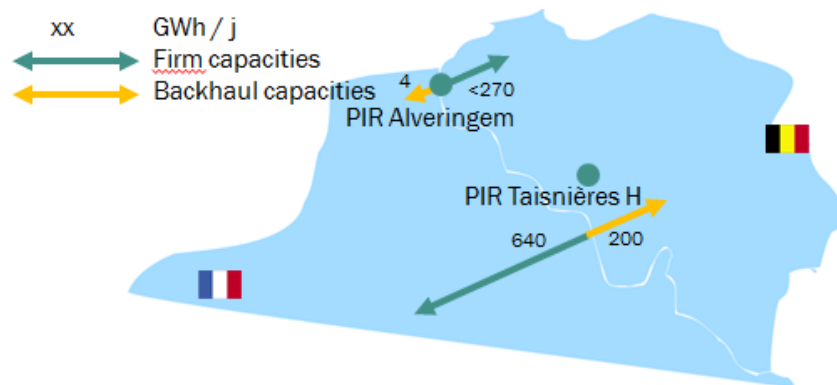
2.1 Current mechanism for the allocation of capacities between France and Belgium

The achievement of the "Artère de Flandres" pipeline, commissioned in November 2015, routes deodorised gas from France to Belgium. Thus, since 1st November 2015, firm capacities are marketed between France and Belgium in both directions, at the network interconnection point (IP) Taisnières H whose physical flow rates can only go from Belgium to France, and from IP Alveringem whose physical flows can only go from France to Belgium. Backhaul capacities are also marketed to each of these two IPs.

The diagram below represents the situation at the France - Belgium interface since 1st November 2015:

¹ Regulation (EU) No. 984/2013 of the Commission of 14th October 2013 relating to the establishment of a network code on capacity allocation mechanisms in the gas transport systems and completing Regulation (EC) No. 715/2009 of the European Parliament and of the Council.

² Version anglaise du §3 de l'article 21 de CAM: "3. As from 1 January 2018, transmission system operators shall offer network users holding mismatched unbundled capacity at one side of an interconnection point a free-of-charge capacity conversion service. Such a capacity conversion service shall apply to annual, quarterly or monthly capacity products for bundled firm capacity at that interconnection point which the network user had to acquire because insufficient unbundled capacity on the other side of the interconnection point was offered by an adjacent transmission system operator. This service shall be offered on a non-discriminatory basis and shall prevent additional charges from being applied to network users for capacity they already hold. In particular, payments for the part of the contracted bundled capacity which network users already hold as mismatched unbundled capacity shall be limited to a possible auction premium. This service shall be based on the conversion model under development by ENTSOG and to be finalised at the latest by 1 October 2017 after consulting stakeholders and the Agency. The implementation may be facilitated by the capacity booking platform(s) referred to in Article 37. The use of this service shall be reported annually to the respective national regulatory authorities."



Firm and backhaul capacities at Taisnières H and Alveringem are marketed at auction on the PRISMA platform³, over annual, quarterly, monthly, daily, and infra-daily time paces.

In addition, when all the available firm capacities have been subscribed, the *Use-it-and-Buy-It (UBI)*⁴ offer of capacity is open for the acquisition of intra-daily capacities. This offer allows shippers to acquire additional capacity in the way of main routing during the gas day, by providing the capacity subscribed but not used by their owners. At each cycle of nomination, GRTgaz determines the available *UBI* capacity on a given point by calculating the difference between the sum of the capacities held and the sum of the nominations of the shippers on the same point. To obtain the *UBI* capacity, a shipper nominates beyond his capacities.

In addition, the “*netting*” mechanism, implemented by GRTgaz, allows a shipper who nominates in the reverse direction to release an identical volume capacity in the main direction. The *netting* does not change physical flows on the network but allows shippers to nominate more in the main direction. During a work period, this mechanism for example allows shippers committed by delivery contracts to respect their commitments, especially the *Take-or-Pay ones*.

Finally, in case of maintenance, the “*rebound*” is a mechanism which allows a shipper to nominate free of charge in the backhaul direction the volume of firm capacity which is interrupted in the main direction, and this even if the latter has no backhaul capacity.

2.2 Calendar for the implementation of the Belgium-France VIP

In its tariff decision of 19th March 2015⁵, the CRE asked GRTgaz “to move closer to Fluxys to prepare for the creation of a virtual IP in H gas between France and Belgium”. In the first public consultation on the ATRT6⁶, the CRE interviewed stakeholders about their interest in the implementation of this VIP. Most of them consider that this evolution would simplify the system and are favourable. Some stakeholders are favourable in theory to such an evolution but wish to know the details of its implementation before pronouncing. In the second public consultation on the ATRT6⁷, the CRE has indicated that it does not have enough elements to implement this evolution in the framework of the ATRT6 tariff.

Over 2016, GRTgaz and Fluxys have worked jointly with the implementation of this VIP, allowing them to propose its implementation as from 1st October 2017. The proposed rules have been presented by the two GRTs on 15th November 2016 in the framework of the “Concertation gaz” in the “allocation of capacities” working group.

³ Sales platform for transport capacity accessible from 1st April 2013 and used by 37 of the 43 European GRT

⁴ Note of GRTgaz on the *UBI* offer

⁵ Deliberation of the CRE of 19th March 2015 on the decision on the evolution of tariffs for the use of networks for natural gas transport on 1st April 2015

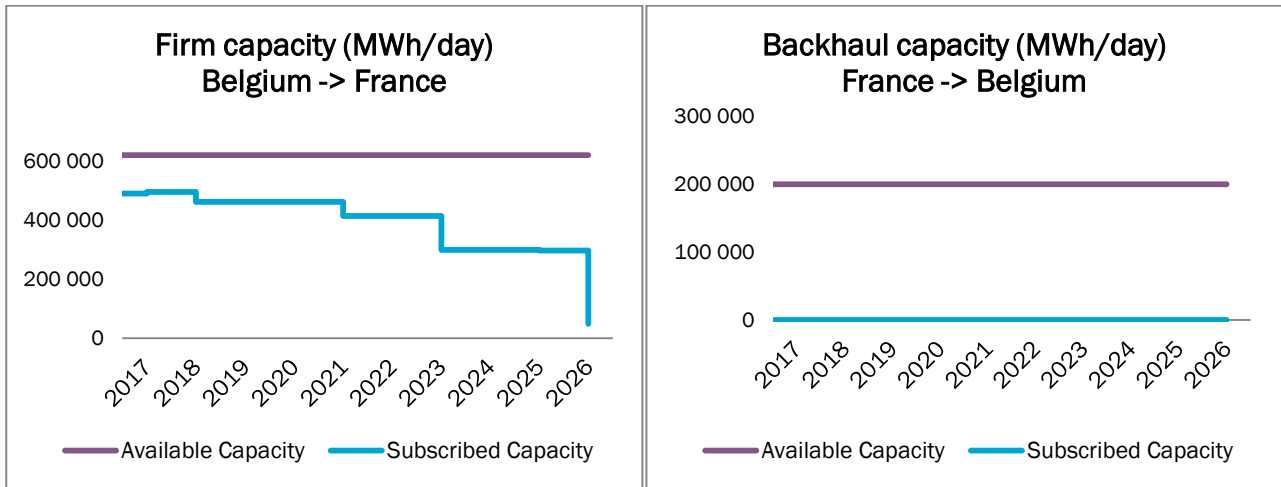
⁶ Public consultation of the CRE on the coming costs for the use of gas transport networks of GRTgaz and TIGF and future rates of use of the regulated methane terminals

⁷ Public consultation of the CRE of 27th July 2016 on the next rate for use of the natural gas transport networks of GRTgaz and TIGF

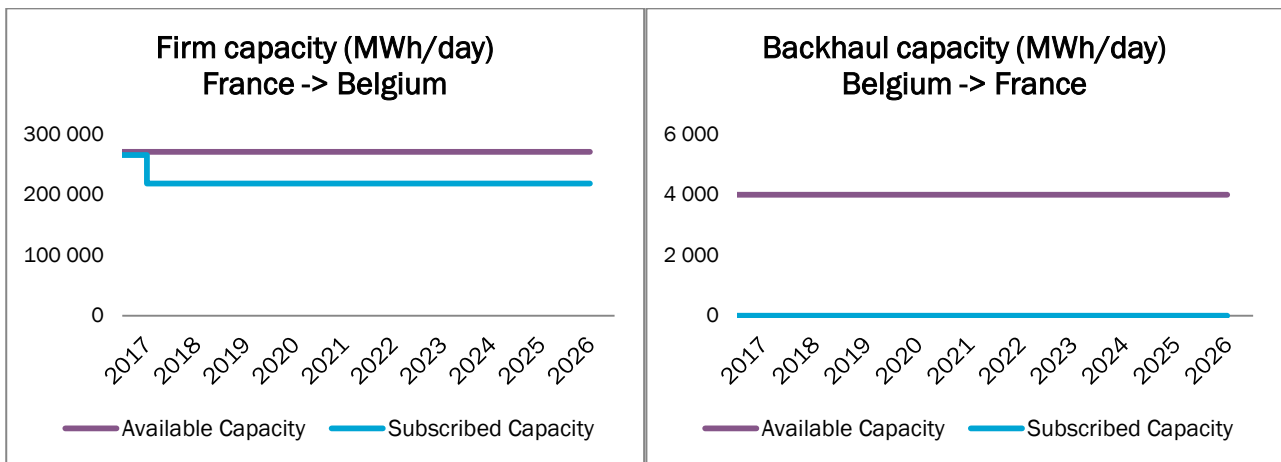
2.3 Current subscriptions at the IP of Taisnières H and Alveringem

The capacities marketed and subscribed at Taisnières H and Alveringem are presented on the figures below:

- Taisnières H



- Alveringem



2.4 Volumes and rate of marketed capacities

Currently, the capacities are marketed by GRTgaz separately on two points, Taisnières H and Alveringem, and nominated on three points, Quévy, Blaregnies and Alveringem. On the Belgian side, the capacities are marketed and nominated at three points: Quévy, Blaregnies and Alveringem.

The capacity volumes marketed since 1st November 2015 are summarized in the table below:

Capacity (GWh/day)		Belgium to France	France to Belgium
Taisnières H	Firm	640	-
	Backhaul	-	200
Alveringem	Firm	-	270 - DKB ⁸
	Backhaul	4	-

During the implementation of the VIP, GRTgaz proposes maintaining the capacity levels currently marketed to PIR Taisnières H and Alveringem. Concerning the backhaul to Alveringem, GRTgaz wondered about the relevance of maintaining a backhaul capacity level if low.

⁸ The capacity offer at Alveringem is 270 GWh/day minus the quantity which has been subscribed at the output from the Dunkerque terminal to Belgium. Until October 2017, 100 GWh/day of firm capacities are subscribed from PEG North to Belgium and 170 GWh/day from the Dunkerque LNG terminal to Belgium. Beyond, no other capacity is subscribed since the PEG North to IP Alveringem. The reservations from the terminal to the Belgium amount to 220 GWh/day until 2030.



Thus, the capacity volumes which would be marketed in the VIP are summarized below:

Capacity (GWh/day)		Belgium to France	France to Belgium
VIP France Belgium	Firm	640	270 - DKB
	Backhaul	4 or 0	200

The table below summarizes the rates applicable on 1st April 2017 contained in the deliberation of the CRE of 17th November 2016⁹ to the ATRT6 tariff:

€/MWh/day/year		Belgium to France	France to Belgium
Taisnières H	Firm	102.30	-
	Backhaul	-	20.46
Alveringem	Firm	-	40.32
	Backhaul	50.40	-

The tariffs in force when the VIP is implemented would not be modified:

€/MWh/day/year		Belgium to France	France to Belgium
VIP France Belgium	Firm	102.30	40.32
	Backhaul	50.40	20.46

On its side, Fluxys proposes maintaining the currently marketed capacities and the tariffs in force on the implementation of the VIP.

2.5 Operational procedures

2.5.1 Contractual aspect and flow management

The existing contracts of shippers who have reserved capacity at Taisnières H and Alveringem will be fulfilled in the same conditions.

2.5.2 Mode of marketing

The capacity marketed to the France-Belgium VIP would be of firm and backhaul types. As is the case for the Taisnières H and Alveringem IP, they would be marketed on the PRISMA platform according to the CAM network code calendar.

When the VIP is implemented, the backhaul capacity would be marketed only if all the available firm capacities in the same direction have been allocated or if a premium has appeared in the auction of the firm product. Indeed, if backhaul capacities were marketed before the entire firm capacities are sold, these capabilities would only be very little interrupted and would have the same value as firm capacities for a lower price.

To prepare for the creation of the VIP, to ensure that there is no backhaul capacity subscribed in the VIP before all the firm capacities are sold, starting October 1st 2017, GRTgaz proposes to market, during the auctions of March 2017 on the annual products for the years from the gas year 2017 - 2018:

- the backhaul to Alveringem only if all the firm capacity to Taisnières H is allocated or if a prime was held during the auction of the firm product;
- the backhaul to Taisnières H only if all the firm capacity to Alveringem is allocated or if a prime was held during the auction of the firm product;

This operation would be identical for the quarterly auction of August 2017 on the quarterly products from Q4 2017, and for the monthly auction for October 2017.

2.5.3 Mechanisms applicable to the interconnection

In the short term, GRTgaz reports not being able to maintain the *UBI* and the *netting rebound* in both directions without significant computer developments. GRTgaz proposes maintaining the *netting rebound* and the *UBI* in the

⁹ Deliberation of the CRE of 17th November 2016 on the draft decision rate for using the natural gas transport networks of GRTgaz and TIGF

Belgium to France direction, this solution being the one which, according to him, presents the greatest advantage in the market regularly using the *netting* mechanism. Another solution would be to keep the *UBI* in both directions by abandoning the *netting rebound*.

2.6 Analysis of the CRE

The CRE considers that the proposal from GRTgaz meets its request made during the pricing deliberation of 19th March 2015 and that it complies with the CAM network code. Furthermore, it responds to the request of the market and simplifies the offer whilst ensuring the continuity of existing contracts.

With regard to keeping the marketing of 4 GWh/day of backhaul capacities in the Belgium to France direction, the CRE is wondering. Although this volume is low, it could present an interest for the market in certain flow configurations.

As is currently the case at the France Belgium interface, the CRE considers at this stage that GRTgaz should allow shippers to benefit from the *UBI* in both directions as well as of *netting rebound in the France-Belgium direction*.

Question 1: Are you favourable to the implementation by GRTgaz and Fluxys of a virtual interconnection point between France and Belgium on 1st October 2017 in the conditions proposed by GRTgaz?

Question 2: Are you favourable to keeping the marketing of 4 GWh/day of backhaul capacities in the Belgium to France direction?

Question 3: On 1st October 2017, do you prefer to keep the *netting rebound* mechanism with the *UBI* in the Belgium to France direction or the removal of *netting rebound* to the benefit of keeping the *UBI* in both directions?

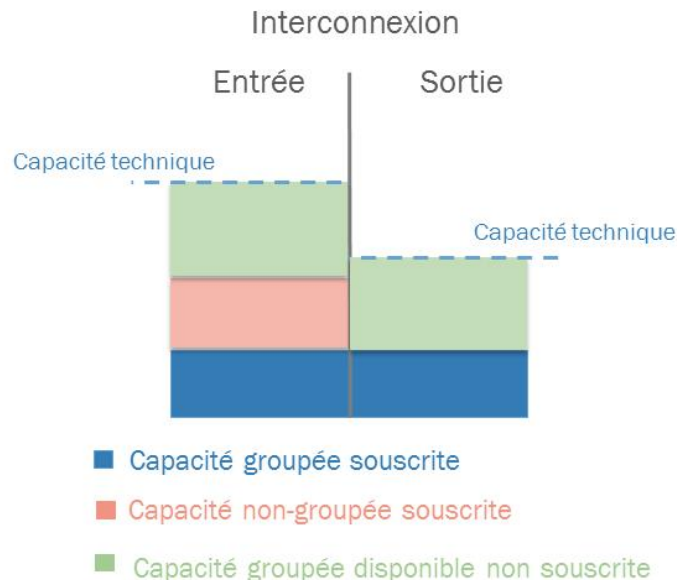
Question 4: Do you consider, like the CRE, that GRTgaz must continue its efforts to propose the *UBI* in both directions and the *netting rebound* in the end?

Question 5: Do you have other remarks concerning the modalities of implementation of the VIP?

3. SUBSTITUTION OF BUNDLED CAPACITIES BY UNBUNDLED CAPACITIES

3.1 Problem of unbundled capacities

The CAM code required GRTs to maximize the bundled capacity proposed at the interconnections points. Now, some borders have asymmetrical subscribed capacity levels and some shippers have unbundled capacity on one side of the border and not the other. In some cases, the technical capacities are different on both sides of the border.



This situation is explained by:

- strategic behaviour of some of the shippers who have been able to cancel a part of their capacity contracts (especially in Germany or Spain);
- a bad anticipation of the CAM network code by some shippers who have continued to subscribe the unbundled capacity.

Moreover, as a result of these decommitments, some adjacent GRTs have proceeded to the capacity reallocation to other points in their networks, especially in Germany.

For this reason, the shippers concerned can no longer acquire the missing capacity on one side of the border: a shipper holding asymmetric capacities which would like to increase his portfolio of capacities can be obliged to subscribe from the bundled capacity, which does not solve his asymmetry problem.

There are also cases of subscription asymmetry with identical technical capacities either side of an interconnection, for example at the interconnection with Spain. In such cases, the residual unbundled capacity is offered for sale by the GRT, which allows shippers with asymmetric profiles to acquire the necessary capacity to rebalance their portfolio.

3.2 Proposal of the GRT

3.2.1 Principles of the measure

In anticipation of Article 21§3 of the new CAM regulation, from the next annual auctions of March 2017, in the case of excess capacity from the France side compared with the other side of the interconnection, GRTgaz and TIGF propose allowing shippers who have the unbundled interconnection capacity on the French side and could not subscribe to an equivalent level of unbundled capacity on the other side of this same point, to participate in the PRISMA auctions for the sale of bundled capacities at this point, and then use the conversion service.

By the application of this mechanism, the unbundled capacity in the portfolio over the same period substitutes itself for the newly acquired capacity and constitutes a capacity identical to this one from every point of view. The client would retain his rights and obligations on the previously reserved capacity. The rights and obligations of the shipper are then extinguished on the French part of the newly acquired bundled capacity, which would therefore not be invoiced.

Access to this trade measure is free of charge outside of the payment of a possible auction premium for the acquisition of the new bundled capacity.

3.2.2 Framework for the application

The GRT proposes applying this measure to all CAM points, including the Taisnières H and Obergailbach IP where subscription asymmetries exist, as well as Pirineos, although the problem of asymmetry is now settled by the possibility subscribing the unbundled capacity on the Spanish side. The measure would apply for the bundled capacities purchased for a duration of at least a month during the PRISMA auctions. The capacity that is the subject of the conversion mechanism must be less than or equal to the unbundled capacity already subscribed at the time of the substitution request.

3.2.3 Operational procedures

3.2.3.1 Treatment of interconnection congestion

The CAM network code does not expressly require the application of this mechanism in the case of congestion at the interconnection.

The GRTs feel that the application of this conversion mechanism in the event of congestion may create a distortion of the market. Indeed, the auction would be biased by the interest of the unbundled capacity holder who wishes to substitute it, since this unbundled capacity represents a failed cost for him. The player would therefore be ready to buy the new capacity at a higher price than the rest of the market, which would artificially inflate the tender price of the auction.

For this reason, GRTgaz and TIGF want the conversion mechanism not to be applicable in the case of congestion.

Nevertheless, TIGF proposes allocating the remaining bundled capacity at the outcome of the last round of bidding to the sender wishing to substitute his unbundled capacity, at the final auction price.

3.2.3.2 Triggering the measure

To benefit from the conversion mechanism, GRTgaz proposes that the shipper may have a period of five working days after the auction to make his substitution request with the GRT.

TIGF proposes that the shipper wishing to have recourse to this mechanism shows up to the GRT upstream of the auction.

3.3 Analysis of the CRE

The CRE considers at this stage that the proposal of the GRT complies with article 21, as amended, of the CAM network code and that it meets a need in the market.

Concerning the treatment of congestion, the CRE considers, like the GRT, that the participation in the auction of shippers having the prospect of using the conversion service, would be likely to distort the price. It is therefore favourable to the mechanism not applying in the case of congestion.

The CRE considers that the balance of the auction generally corresponds with a very low volume capacity, which would not help to resolve the problems of asymmetries significantly. Nevertheless, it is not unfavourable at this stage to the implementation of the proposal of TIGF and wishes to question the shippers on the advantages they see on it. If the shippers deem it useful, the allocation of the balance of capacities would be at the price of tender for the auction and in *proportion* to the volumes of the required capacities.

Question 6: Are you in favour of the implementation of the substitute service in advance, in March 2017, to the IP to which the CAM code is applied (Alveringem, Jura, Obergailbach, Oltingue, Pirineos, Taisnières B and Taisnières H)?

Question 7: Are you in favour, like the CRE, to the proposal by the GRTs not to apply the substitution mechanism in the event of congestion of the interconnection?

Question 8: Do you want, as proposed by TIGF, the remaining capacity at the end of the auction to be allocated to shippers, with asymmetric capacities, which make the demand?

Question 9: Do you have other remarks concerning the procedures of implementation of this mechanism?

4. SUMMARY OF QUESTIONS

Question 1: Are you favourable to the implementation by GRTgaz and Fluxys of a virtual interconnection point between France and Belgium on 1st October 2017 in the conditions proposed by GRTgaz?

Question 2: Are you favourable to keeping the marketing of 4 GWh/day of backhaul capacities in the Belgium to France direction?

Question 3: On 1st October 2017, do you prefer to keep the *netting rebound* mechanism with the *UBI* in the Belgium to France direction or the removal of *netting rebound* to the benefit of keeping the *UBI* in both directions?

Question 4: Do you consider, like the CRE, that GRTgaz must continue its efforts to propose the *UBI* in both directions and the *netting rebound* in the end?

Question 5: Do you have other remarks concerning the modalities of implementation of the VIP?

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Question 8: Do you want, as proposed by TIGF, the remaining capacity at the end of the auction to be allocated to shippers, with asymmetric capacities, which make the demand?

Question 9: Do you have other remarks concerning the procedures of implementation of this mechanism?

Annexes:

Proposal from GRTgaz under the France Belgium VIP dated 29th November 2016

Proposal from GRTgaz under the substitution measure dated 5th December 2016

Proposal from TIGF under the substitution measure dated 23rd November 2016

Links to the documents on the capacity reservation mechanisms in force:

GRTgaz: www.grtgaz.com/acces-direct/clients/fournisseur-trader/amont/souscrire-des-capacites.html

TIGF: www.tigf.fr/nos-offres/transport/commercialisation-de-capacites/restitution-et-commercialisation.html