



The French Energy Regulatory Commission (CRE) is consulting market participants.

PUBLIC CONSULTATION OF 18 MAY NO. 2017-006 ON THE EXTENSION OF THE SMALL-SCALE LNG VESSEL LOADING SERVICE AT THE FOS CAVAOU TERMINAL

Small-scale LNG requirements are increasing and LNG terminal operators expect a major growth in this market in the medium term. The small-scale LNG vessel loading service at Fos Cavaou serves the French Mediterranean market.

The existing facilities at the Fos Cavaou terminal are unable to receive vessels whose volumes are lower than 15,000 m³, but the small-scale LNG market needs identified by Fosmax LNG range mainly between 5,000 and 7,500 m³.

The present public consultation concerns the conditions for extending the current small-scale LNG vessel loading service offered by Fosmax LNG to volumes lower than 15,000 m³ for the start of 2019.

To prevent this service from affecting the operation of the main services at the terminal, this extension is based on the creation of specific scheduling rules for small-scale LNG vessels. Fosmax LNG also wishes to adapt the pricing of the current small-scale LNG vessel loading service. Lastly, the present public consultation addresses the rules for the small-scale LNG vessel loading slot offering.

Paris, 18 May 2017

For the Energy Regulatory Commission,
The Chairman,

Jean-François CARENCO

Translated from the French: only the original in French is authentic

CONTENTS

1. BACKGROUND	3
1.1 SMALL-SCALE LNG VESSEL LOADING SERVICE AT FOS CAVAOU	3
1.2 INVESTMENTS ENVISAGED BY FOSMAX LNG	3
1.3 SCHEDULE AND CRE'S DECISION.....	3
1.4 CRE'S ANALYSIS	4
2. SCHEDULING RULES	4
2.1 FOSMAX LNG'S PROPOSAL.....	4
2.2 CRE'S PRELIMINARY ANALYSIS.....	4
3. SERVICE PRICING	5
3.1 FOSMAX LNG'S PROPOSAL.....	5
3.2 CRE'S PRELIMINARY ANALYSIS.....	5
4. RULES FOR THE LOADING SLOT OFFERING	6
4.1 FOSMAX LNG'S PROPOSAL.....	6
4.2 CRE'S PRELIMINARY ANALYSIS.....	7
5. SUMMARY OF QUESTIONS	7
6. HOW TO PARTICIPATE IN THE PUBLIC CONSULTATION.....	7



1. BACKGROUND

1.1 Small-scale LNG vessel loading service at Fos Cavaou

In preparation for the development of new uses of LNG, Elengy and Fosmax LNG proposed for CRE to introduce a specific tariff for the offloading and loading operations of small-scale LNG vessels with the update of the tariffs for accessing LNG terminals (ATTM4 tariffs). CRE's deliberation of 5 February 2015¹ deciding on the evolution, as at 1 April 2015, of the tariff for the use of regulated LNG terminals, introduced a specific tariff for offloading and loading small-scale LNG vessels (volumes lower than 20,000 m³). This development was continued for the ATTM5² period.

However, the existing facilities at the Fos Cavaou terminal can receive only vessels of a size between 15,000 and 20,000 m³. Fosmax LNG observed that the market's interest in small-scale LNG vessel loading for the greater part covers lower volumes between 5,000 and 7,500 m³. Therefore, within the framework of the existing offering, there has been no loading of small-scale LNG vessels to date.

1.2 Investments envisaged by Fosmax LNG

In order to adapt its terminal to smaller vessels, Fosmax LNG plans to carry out work on its facilities.

An initial investment of about €3 million will be required. It will enable Fosmax LNG to receive up to 50 small-scale vessels per year, of a size between 5,000 and 20,000 m³.

The investments envisaged by Fosmax LNG concern the loading arms, the mooring systems and boarding and terminal access:

- the loading arms will be adapted to enable connection of smaller vessels;
- new hooks will be placed on the jetty to receive vessels 100 metres or more length overall;
- boarding mechanisms will also be modified to take into account the lower deck height of small-scale LNG vessels;
- as for the terminal, the installation of a check valve on a second loading arm to secure the loading service, including for large LNG vessels, through redundancy.

Fosmax LNG plans to make its investment decision based on an economic test aimed at ensuring that the initial subscriptions to the small-scale LNG vessel loading service will be sufficient to cover the marginal costs generated, essentially comprising the abovementioned investment sums. Because of the structure of the small-scale LNG market and given the results of the call for expressions of interest it launched, Fosmax LNG expects initial subscription commitments of a duration of roughly five years. Considering a minimum commitment of approximately €50,000 per operation, it concluded that the economic test would be successful if about 60 operations were booked over the five-year period.

If market demand was considerably higher than 50 small-scale LNG vessels per year, greater investments would be necessary to construct a second jetty. Such investments are not envisaged at this stage.

1.3 Schedule and CRE's decision

Fosmax LNG presented the proposal to extend the service within the framework of the working group of Concertation GNL of 31 January 2017.

From 23 February 2017 to 30 March 2017, Fosmax LNG organised a call for expressions of interest, to collect market participants' needs and expectations concerning the small-scale LNG vessel loading service. Several participants expressed their interest in the extension of the existing service to smaller cargo volumes. The need expressed varies between 30 and 118 operations over the 2019-2023 period.

On 20 April 2017, Fosmax LNG forwarded a proposal to CRE concerning the arrangements for extending the service, in particular the modification of the tariffs for small-scale LNG vessel loading and the rules for allocating loading slots during the selling phase.

At the end of the present public consultation, CRE may decide to grant Fosmax LNG the possibility of extending the current service, together with the conditions for such an extension.

If CRE rules in favour of the extension of the service, Fosmax LNG will launch a binding selling phase with market participants. According to the subscription level, Fosmax LNG will make its final investment decision in summer 2017 based on the economic test described above.

¹ CRE's deliberation of 5 February 2015 deciding on the evolution as at 1 April 2015 of the tariff for the use of the regulated LNG terminals

² CRE's deliberation of 18 January 2017 deciding on the tariffs for the use of the regulated LNG terminals

As the case may be, Fosmax LNG will perform work in autumn 2018. It will be coordinated with annual maintenance work and will render the terminal unavailable for three consecutive weeks. All offloading capacity booked will be rescheduled over the remaining 49 weeks.

1.4 CRE's analysis

CRE considers that the extension of the small-scale LNG vessel loading service to cargo volumes lower than 15,000 m³ can improve the attractiveness of Fosmax LNG's offer, and meet the increasing LNG needs for uses other than injection into the gas transmission networks.

It considers that the economic test proposed by Fosmax LNG to decide whether or not to make the planned investments can be used to initiate these expenses without them leading to an increase in the terminal tariff in the long term, and that it corresponds to the behaviour expected of an efficient operator.

Question 1: Are you in favour of Fosmax LNG making the necessary investments, under the conditions provided for by the economic test, for extending the small-scale LNG vessel loading service at the Fos Cavaou terminal in order to receive cargo volumes lower than 15,000 m³?

2. SCHEDULING RULES

2.1 Fosmax LNG's proposal

Fosmax LNG wishes to sell each year up to 50 slots dedicated to the small-scale LNG vessel loading service.

Small-scale LNG vessel loading operations will be scheduled when the annual programme is established. In order to not disturb the scheduling of vessel offloading, the operations scheduled during the establishment of the annual programme will be allocated a calendar week during which they may be carried out (and not a specific date). At the latest, by each Thursday preceding the week in question, this time period will be reduced to a three-day window. At least 24 hours before the start of the three-day window, the exact day during which the operation will take place will be decided.

2.2 CRE's preliminary analysis

CRE considers that the vessel offloading operations must remain a priority over the other operations carried out by Fosmax LNG.

The scheduling method proposed by Fosmax LNG gives visibility to clients wanting to load small-scale vessels, while prioritising vessel offloading, including in the event of a delayed rescheduling of such an operation.

At this stage, CRE is in favour of the scheduling method proposed by Fosmax LNG.

Question 2: Are you in favour, like CRE, of the scheduling method proposed by Fosmax LNG?

3. SERVICE PRICING

3.1 Fosmax LNG's proposal

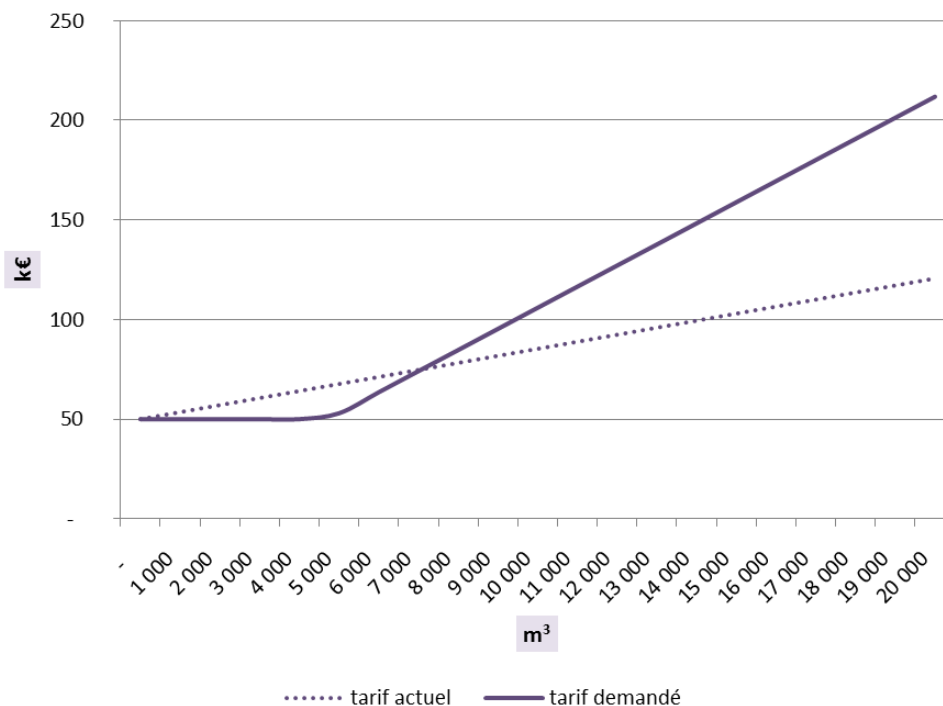
Fosmax LNG proposes, for each small-scale LNG vessel loading operation, a price equal to the maximum between a fixed rate of €50,000 and a variable rate applied to the volume loaded, of €1.5/MWh.

The calculation formula proposed is therefore as follows: Price = Max (€50 k; €1.5/MWh)

3.2 CRE's preliminary analysis

In its deliberation of 18 January 2017³ deciding on the tariffs for the use of regulated LNG terminals, CRE maintained the price for small-scale LNG vessel loading operations at the price in effect during the second period of the ATTM4 tariffs, i.e. a fixed rate of €50,000 per operation and a variable rate of €0.5/MWh.

The following graph compares the price proposed by Fosmax LNG with the current price.



CRE considers it necessary for the price of small-scale LNG vessel loading operations to cover the additional costs generated by the provision of this service, and also for it to reduce the price of the other services proposed by Fosmax LNG since these services share the same infrastructure.

- Additional costs generated by the provision of the small-scale LNG vessel loading service.

The additional costs generated by the provision of this service are mainly the capital expenses associated with new investments. On the basis of the elements forwarded by Fosmax LNG, these capital expenses are estimated at an average €0.3 million/year over the 2019-2023 period.

Marginal operating expenses are estimated by Fosmax at €17,000/year on the basis of 40 operations per year, which corresponds to the annual subscriptions expected during the ATTM5 tariff period once the service is launched.

Item	Overall annual cost to be covered by the service	Average cost to be covered per operation
Marginal capital expenses	€0.3 million	€~7 k
Marginal operating expenses	€0.02 million	€~0.2 k
Total	€0.32 million	€~7.2 k

³ CRE's deliberation of 18 January 2017 deciding on the tariffs for the use of the regulated LNG terminals

- Costs related to the shared use of infrastructure between the loading service and the other services proposed by Fosmax LNG.

The costs shared between this service and existing services are the capital expenses related to the use of the jetty and this service's contribution to the operating expenses of the terminal.

Hereunder, CRE proposes an assessment, based on 40 small-scale LNG vessel loading operations per year, of the amounts that will be deducted from the price of the other services proposed by Fosmax LNG, as part of shared infrastructure use. For this assessment, the distribution key for the capital expenses is the duration of use of each service.

Using the common assets necessary for small-scale LNG vessel loading operations identified by Fosmax and by applying a key related to the duration of use proposed by Fosmax, the capital expenses for the use of the jetty which can be allocated to the small-scale LNG vessel loading service are estimated at an average €1.1 million/year over the 2019-2023 period.

By comparing this amount to the terminal's overall capital expenses, a key is deducted, which, when applied to the terminal's operating expenses gives an assessment of this service's contribution to the terminal's operating expenses. This amount is estimated at an average €0.6 million/year over the 2019-2023 period.

Item	Overall annual cost to be covered by the service	Average cost to be covered per operation
Common capital expenses	€1.1 million	€~28 k
Common operating expenses	€0.6 million	€~15 k
Total	€1.7 million	€~43 k

On the basis of the service subscription assumptions presented above, the price proposed by Fosmax LNG:

- covers the costs of small-scale LNG vessel loading operations,
- reduces the price of the other services proposed by Fosmax LNG as part of shared infrastructure use.

CRE is therefore in favour.

Question 3: Are you in favour of Fosmax LNG's proposal concerning the price of small-scale LNG vessel loading operations?

4. RULES FOR THE LOADING SLOT OFFERING

4.1 Fosmax LNG's proposal

Fosmax LNG proposes to launch a binding selling phase with market participants in summer 2017.

It proposes to allocate loading slots according to the demands received and with the following priority rules:

- if demand is higher than supply, priority is given to the subscriber requesting the greatest number of slots over the 2019-2030 period;
- in the event of a tie, priority is given to the subscriber requesting the greatest number of slots over the 2019-2020 period;
- in the event of a tie, priority is given to the subscriber requesting the greatest number of slots over the closest period, year by year, from 2021-2030;
- in the event of a tie, the subscriber having priority over the allocation of slots will be designated by a drawing of lots. This will be done under the supervision of a bailiff.

If all of a participant's demands are not met, this participant may either choose to be given any remaining capacity or withdraw its subscription demand. At the end of this selling phase, and if Fosmax LNG decides to launch this service, slot reservation will be done on a first-come, first-served basis.

4.2 CRE's preliminary analysis

An alternative to the solution proposed by Fosmax LNG would be that in the event of supply greater than demand, the allocation of slots will be done in proportion to demands. However, this presents the risk that a participant wanting a precise number of slots may not have use for a number of slots lower than the number it demands.

CRE considers that the rules for the loading slot offering proposed by Fosmax LNG are coherent and it is therefore in favour.

Question 4: Are you in favour, like CRE, of the rules for the small-scale LNG vessel loading slot offering proposed by Fosmax LNG?

Question 5: Do you have any other comments about the extension of the service proposed?

5. SUMMARY OF QUESTIONS

Question 1: Are you in favour of Fosmax LNG making the necessary investments, under the conditions provided for by the economic test, for extending the small-scale LNG vessel loading service at the Fos Cavaou terminal in order to receive cargo volumes lower than 15,000 m³?

Question 2: Are you in favour, like CRE, of the scheduling method proposed by Fosmax LNG?

Question 3: Are you in favour of Fosmax LNG's proposal concerning the price of small-scale LNG vessel loading operations?

Question 4: Are you in favour, like CRE, of the rules for the small-scale LNG vessel loading slot offering proposed by Fosmax LNG?

Question 5: Do you have any other comments about the extension of the service proposed?

6. HOW TO PARTICIPATE IN THE PUBLIC CONSULTATION

CRE invites all interested parties to submit their contributions by Friday, 9 June 2017 (3 weeks) at the latest:

- by email to the following address: dr.cp4@cre.fr;
- by contributing directly on CRE's website (www.cre.fr) in the "Documents/Public Consultations" section;
- by post to: 15, rue Pasquier - F-75379 Paris Cedex 08, France.

Non-confidential contributions will be published by CRE. Please state in your response whether you wish for your contribution to remain confidential or anonymous. Otherwise, your contribution will be considered as non-confidential and non-anonymous.

Interested parties are invited to submit their observations by explaining their positions.

Annex:

Fosmax LNG's accompanying note