



Public consultation no. 2019-013 of 23 July 2019 relating to the next tariff for the use of natural gas transmission networks of GRTgaz and Teréga

Enagás comments
NON-CONFIDENTIAL RESPONSE

4th October 2019

1. General remarks and executive summary

1. Enagás welcomes CRE's new opportunity to contribute to the public consultation on new tariffs for the use of gas transmission networks of GRTgaz and Teréga.
2. Enagás participation in the third consultation on the tariff framework for next period is motivated by the measures related to transmission tariffs, which may have a relevant impact on the Spanish system.

3. Enagás view is that (a) the information provided by CRE is insufficient to reasonably understand or replicate the model, and (b) that the methodology does not meet essential TAR NC requisites, strongly discriminating against gas exiting to adjacent transmission systems, in particular to Spain.

4. Therefore, Enagás considers that a new consultation with complete information, following a proper implementation of the TAR NC should be launched.

5. More specifically, Enagás would like to emphasise the following messages:

- **"Transit"/national consumption.** The methodology proposed by CRE is **not compliant with art 6 of the TAR NC** as it distinguishes between "transit" (assimilating any gas export to transit) and national consumption. Article 6 of TAR NC clearly states that the same reference price methodology shall be applied to all entry and exit points in a given entry-exit system. Thus, TAR NC does not allow applying different reference prices methodologies to cross-system (gas exported) and intra-system (national consumption) as CRE's proposes in the consultation document.
- **Flow scenario chosen**
 - The utilisation of different flow scenarios for gas exported and national consumption as CRE's foresees in the consultation is **not compliant with the definition of flow scenario provided in article 3 of the TAR NC.**
 - Taking into account there is not a pipeline that connects Dunkerque with Pirineos, these two points cannot be combined into a flow scenario. Thus, CRE proposal is **not compliant with article 8(1)(c) of TAR NC.**
 - The flow **scenarios chosen by the CRE do not match physical reality**, creating an artificial separation of the origin of gas flowing to the same areas, neglecting that national consumption in South France and gas exports at VIP Pirineos have the same physical origin made to a large extent from gas from Fos LNG terminals, and not taking into account restrictions that CRE and French operators claim that remain in mid-France. This is an **artificial construct to allocate higher costs to gas exports.**



- **Cost allocation assessment.** CRE does not provide the detailed calculation of the cost allocation assessment as required by art. 5 of the TAR NC and only gives the result (0%). Besides, CRE includes an *ad hoc* cost allocation test apparently aimed at justifying the distinction between "transit" routes and national consumption, and therefore at providing different flow scenarios for national consumption and for gas exports.
- **Discounts at entry points from LNG terminals.** The discount foreseen by CRE (10%) is **not compliant with the requirements of art. 9 of TAR NC**: France is neither isolated nor needs to increase security of supply (according to the CRE itself). The application of this discount could lead to a negative impact on the level playing field between terminals.
- **Reference price methodology.** **The consultation is not compliant with art. 26 of TAR NC**, which states that where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the indicative reference prices subject to consultation. However, **CRE only provides the comparison of the indicative reserve prices, not the comparison between the methodology applied and the methodology as required by article 8 of TAR NC.**
- **Entry/exit split.** The 34/66 split proposed by CRE penalises certain exit points, in particular VIP Pirineos and its **deviation from the TAR NC recommended split in art 8.1(e) is not substantiated.**

2. Questions

Question 11 Do you have any comments regarding the pricing principles and the method that CRE plans to retain for the ATRT7 tariff?

National/transit distinction

1. **The methodology proposed by CRE is not compliant with the TAR NC as it distinguishes between transit and national consumption.** Article 6 of TAR NC clearly states that the *same reference price methodology shall be applied to all entry and exit points in a given entry-exit system*. Thus, TAR NC does not allow applying different reference prices methodologies to cross-system (transit gas) and intra-system (national consumption) as CRE's proposes in the consultation document.

2. This statement is also been reinforced by [ENTSOG Implementation Document for the TAR NC \(iDoc\)](#). In page 21 ENTSOG clarifies the following:

A general requirement is to apply the same reference price methodology ('RPM') at all the entry and exit points within an entry-exit system: both IPs and non-IPs.

3. Additionally, it is incorrect to make reference to transit routes or transit systems in a system like the French one that:
 - has limited export flows (in comparison with the entry flows),
 - has no dedicated infrastructures for transit, and
 - where even commercially many of the exports are not transits but gas acquired at the PEG or nominated by shippers who introduce gas in other entries than the one allocated by the CRE to gas exiting from the French system to Switzerland/Italy or Spain (i.e. Dunkerque).
4. This approach is clearly discriminatory, overcharges exit flows to Spain (and Italy, via Switzerland) and is not in line with article 8 of the TAR NC.

Flow scenarios

5. **The utilisation of different flow scenarios as CRE's foresees in the consultation is not compliant with the definition of flow scenario provided in article 3 of the TAR NC.**

6. According to ENTSOG iDoc (page 62) states the following:

In addition, the concept of distance is closely linked to the one of 'flow scenario' in Article 8 for CWD. The definition of a flow scenario is provided in Article 3 of the TAR NC and it is illustrated in Annex E. In simplified terms, an entry point and an exit point may be combined in a flow scenario if there is at least a pipeline to connect them. As regards cases which do not constitute a flow scenario, ENTSOG believes that:

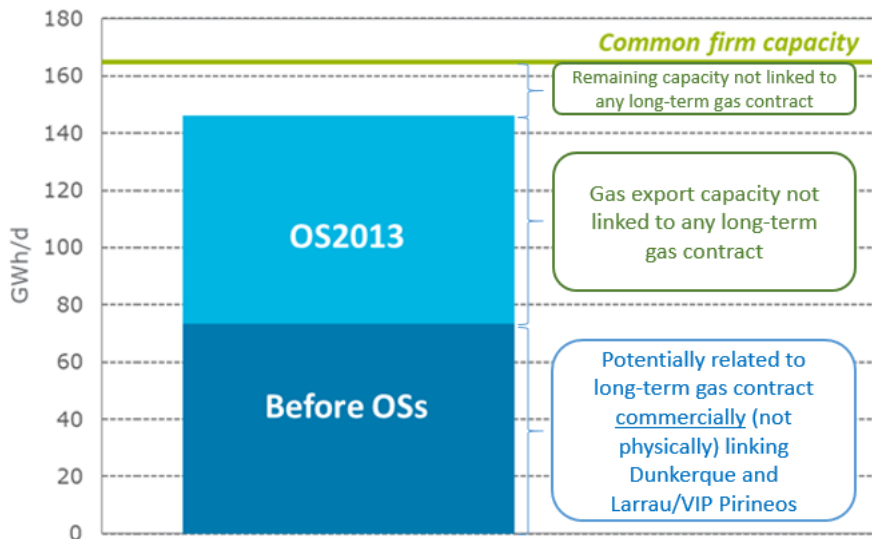
- *If there exists no pipeline to connect a specific entry point and a specific exit point in a given network, these two points cannot be combined into a flow scenario.*
 - *If a network point is both an entry and an exit point, the entry followed by the exit at this point does not constitute a flow scenario. Such use of TSO networks is very insignificant in most networks, and considering it as a flow scenario would distort relative distances and tariffs calculated for CWD compared to combinations of distinct entry and exit points.*
7. **Taking into account there is not a dedicated pipeline that connects Dunkerque with Pirineos, and they are only connected through a meshed network as any other two entry-exit point combination in the French network, these two points cannot be combined into a flow scenario. Thus, CRE proposal is not compliant with article 8(1)(c) of TAR NC.**
8. Besides, **it is discriminatory to use different flow scenarios for national consumption and transit.** Instead of establishing an objective flow model common to all calculations, CRE proposed to:
- One flow pattern that assumes that 100% of the gas that arrives at VIP Pirineos comes from Dunkerque, pipeline distance: 1,072 km, and
 - Two flow patterns that assume that the gas for national consumption in France comes from the closest point. This is, on average, 237 km (285 in winter, 170 in summer)¹
9. **CRE does not provide the flow scenarios under which the above circumstances might occur, which is not in line with the publication requirements of article 26(1)(a)(i) of the TAR NC** (e.g. the quantity and the direction of the gas flow for entry and exit points and associated assumptions, such as demand and supply scenarios for the gas flow under peak conditions).
10. Moreover, **the flow scenarios chosen by the CRE do not match physical reality**, creating an artificial separation of the origin of gas flowing to the same areas, neglecting that national consumption in South France and gas exports at VIP Pirineos have the same physical origin made to a large extent from gas from Fos LNG terminals, and not taking into account restrictions that CRE and French operators claim that remain in mid-France. This is an **artificial construct to allocate higher costs to gas exports, aimed at maintaining an already abnormally high exit tariff.** In more detail:
- With no dedicated pipelines, it is obvious that the effective distance of the gas physically arriving to VIP Pirineos and to other points of Southern France is similar. Assuming more than 1,000 km for VIP Pirineos and a different, much lower distance for national consumption in Southern France is

¹ In the previous consultation, the average distance for national consumption in France was 280km; it has been reduced to 237km in this consultation. No details are provided as regards these flow scenarios.

discriminatory. However, the CRE does not provide information on flow scenarios to verify what is the effective distance assumed for national consumption in Southern France, though it obviously is under CRE's hypothesis, since all the gas entering the French system at the Fos LNG terminals is allocated, for no objective reason, to national consumption instead being pro-rated between national consumption and exports.

- Flows exiting at VIP Pirineos (or in Southern France, in general) cannot physically be only originated in Dunkerque due to the restrictions that CRE claims that remain in mid-France. It is just physically impossible that all of them are originated in Northern France. Historically, even when in the past 100% of the gas was contractually crossing France from Dunkerque to Larrau (now VIP Pirineos), the gas exported to Spain was physically moving from gas field in Southern France to the Spanish border, while gas entering in Dunkerque was predominantly remaining in Northern France. Significant volumes are necessarily served from Fos LNG terminals. It is incorrect to calculate a unit cost per km based on the concept that gas exported to Spain is imported to France through points in the North.
11. It is not clear the meaning behind of "economically relevant" (page 19) for linking VIP Pirineos and Oltingue to Dunkerque (while not doing the same for national consumption). CRE is maybe referring to contracts that were only commercially relevant in the past and have nothing to do with the physical flows. This reinforces the idea that the clustering of points is a tailor-made decision, not based on physical flows. The CRE is linking VIP Pirineos and Oltingue to Dunkerque, the furthest exit point, without providing substantiated arguments, apparently cherry-picking routes to allocate large distances to transits and short distances to national consumption.
 12. As shown below, more than 50% of capacity in VIP Pirineos is not, even commercially, linked in any way to Dunkerque, while around 73 GWh/d was already contracted and is potentially linked with the historical import contract to Spain from Norway. The Norwegian gas has traditionally been consumed in Northern France, while gas physically exported to Spain has traditionally has the same origin as the rest of gas supplied to consumers in South France, being the transit of Norwegian gas a virtual one.

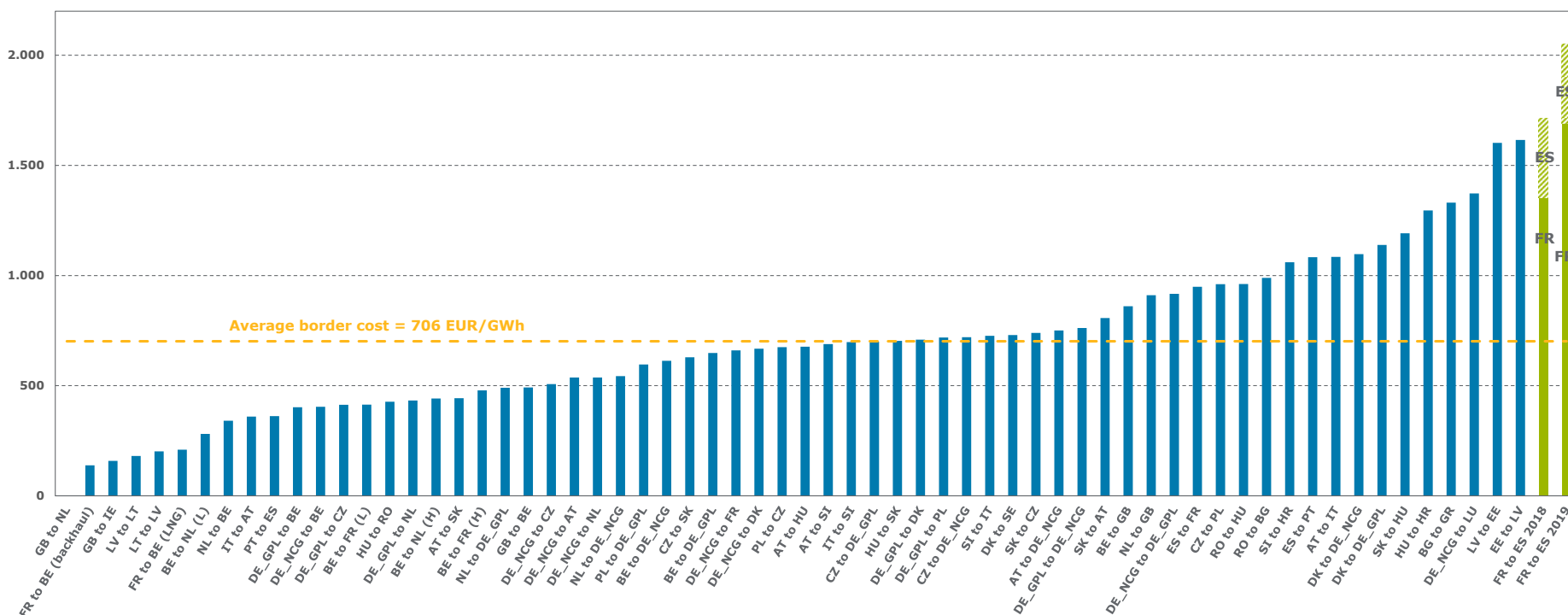
Figure 1: Long-term capacity contracts in VIP Pirineos (France>Spain) from Open Season 2015, Open Season 2013 and before



13. The decision of considering different distances for national consumption and transit has direct impact on the exit tariffs: cross-border exit tariffs are significantly higher than the national exit tariffs.
14. This situation together with the lack of enough interconnection capacity hampers a proper integration of the Iberian gas market with the rest of Europe.
15. **A proper implementation of the TAR NC to this respect is of utmost importance. Exit tariff at VIP Pirineos is already, and by far, the highest in Europe: 1,690.63 €/GWh.²** The CRE has argued in the past that the cost driver for fixing tariffs in France is distance, France is one of the largest countries in Europe, and therefore gas travels many kilometres across the country. However, this argument can be easily refuted:
 - As previously described, flows exiting at VIP Pirineos are not necessarily originated in Dunkerque, and cannot physically be exclusively in Dunkerque. The origin of flows for national consumption in South France and for VIP Pirineos is necessarily the same.
 - There are other countries in Europe where gas travels long distances, and no tariffs of such magnitude are in force.
16. Observing figure 1 below, it becomes apparent that the closest IP tariffs to the IP tariff from France to Spain are related to new cross border interconnections which are not yet close to full depreciation (Estonia - Latvia).

² The total tariff at the IP adding the entry tariff to Spain is 2,052.23 €/GWh, for a firm yearly product. These tariffs are higher for short-term products.

Figure 2: Simulation of the cost of flowing 1 GWh daily through EU internal borders in EUR (Jan 2018 data, FR data from 2018 and 2019)



Source: ACER MMR 2018 and self-made³

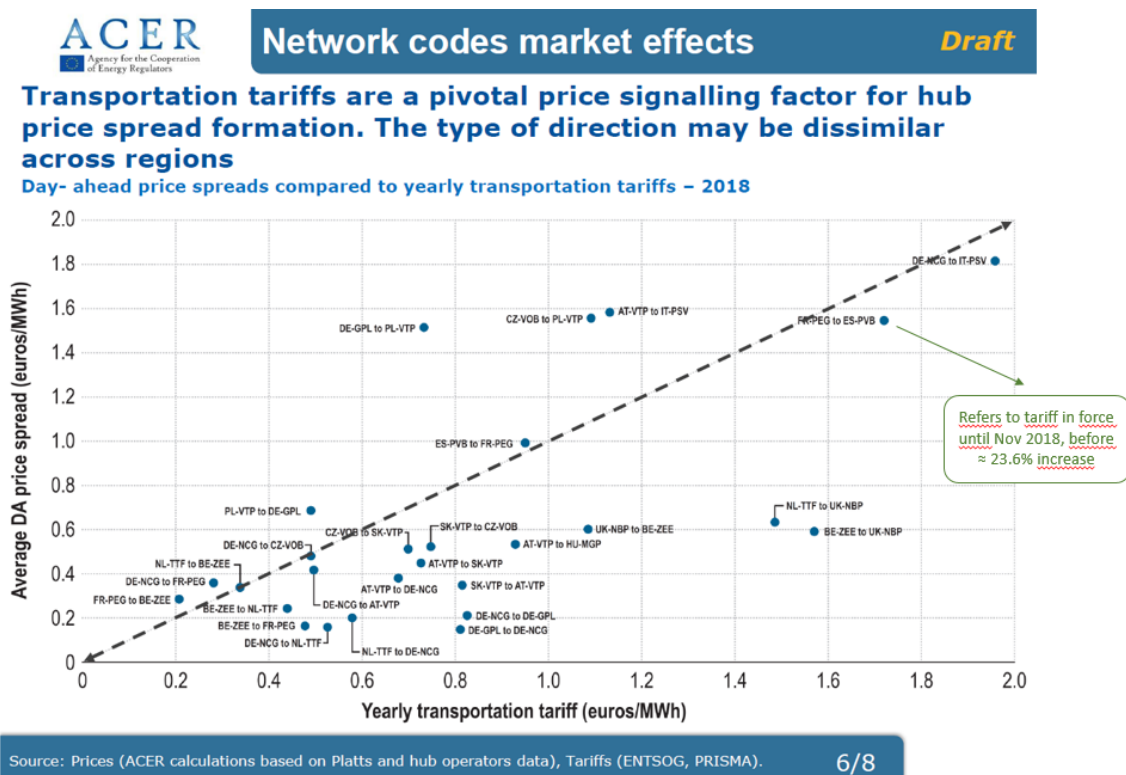
³https://acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202017%20-%20Gas%20Wholesale%20Markets%20Volume.pdf

Figure 3: Day-ahead prices France (PEGs), Spain (PVB) and The Netherlands (TTF)



17. The exit tariff from France to Spain alone is more expensive than any combination of (exit+entry) tariff between two EU Member States.
18. The high level of this tariff is having an influence on price differentials between hubs and, consequently, in the completion of the internal market. While prices in The Netherlands (TTF, the reference hub in Europe) and France (PEG TRF) are usually aligned, gas exported from France to Spain is frequently, and in particular in winter, setting the marginal price for the Spanish market (PVB). Therefore, the price in the Spanish market is frequently the price of the French market, plus the tariff at the IP (2.05 €/MWh, which in the short-term, adding the effect of multipliers, totals 3.65 €/MWh).

Figure 4: Effect of transmission tariffs in price formation at hubs



Source: Denis HESSELING, Head of Gas Department, "European gas market: developments and needs", European Energy Policy and Law Conference, Brussels, 11.9.2019

19. Paradoxically, the CRE itself (as well as ARERA, the Italian regulator) has complained of the increase of export tariffs proposed by BNetzA due to the effect it could have in the French market.⁴ In the case of ARERA, it argued that the reform proposed by BNetzA would have significant impacts on Italy's wholesale gas market, since gas imported from Germany is directly setting the Italian wholesale price. Therefore, any additional cost associated to this transportation route affects the Italian gas market as a whole. Moreover, it argued that the new system would exacerbate the "pancaking effect" and distort gas price formation across different EU countries. According to ARERA,

⁴ Euractiv, "Italy squeals on German gas tariff reform, EU ready to step in", <https://www.euractiv.com/section/energy/news/italy-squeals-on-german-gas-tariff-reform-eu-ready-to-step-in/>

the forecast increase in transportation costs due to the German tariff reform amounts to 0,387 €/MWh, which represents an additional cost of roughly €300,000,000 per year for Italy's gas supply.

20. The effect on the Spanish market is proportionally higher, having been the exit tariff from France abnormally high already for many years, and much higher in absolute values.

Cost allocation assessment

21. **CRE does not provide the detailed calculation of the cost allocation assessment as required by article 5 of the TAR NC** and only gives the result (0%). Besides, CRE includes an ad hoc cost allocation test which, in Enagás view, tries to justify the decisions of distinguishing transit routes (in a system that does not have dedicated assets for transit) and of providing different flow scenarios for national consumption and transit.

Discounts at entry points from LNG terminals

22. TAR NC allows discounts at entry points from LNG terminals with the purpose of ending the isolation of Member States in respect of their gas transmission systems and increasing security of supply.
23. The discount foreseen by CRE (10%) is **not compliant with the requirements of article 9 of TAR NC**: France is neither isolated nor needs to increase security of supply. The application of this discount could lead to a negative impact on the level playing field between terminals.
24. CRE should reconsider the proposal and comply with the requirements of EU Regulation.

PIR Virtualys exit

25. It is worth having in mind that the provisions argued by CRE for having different pricing methodology only apply to incremental capacity, which according to CAM NC has the following definition:

'incremental capacity' means a possible future increase via market-based procedures in technical capacity or possible new capacity created where none currently exists that may be offered based on investment in physical infrastructure or long-term capacity optimisation and subsequently allocated subject to the positive outcome of an economic test, [...]

26. Taking into account that Virtualys is already in operation, CRE could not apply the provisions of Chapter IX of TAR NC and Chapter V of CAM NC to this point.
27. Thus, Enagás welcomes CRE's initiative of aligning Virtualys pricing with the rest of the network. However, Enagás would like to ask for clarification on this will be done, the public consultation does not provide any further information on this point.

Multipliers and seasonal factors

28. Taking into account that CRE only consults on multipliers and not on seasonal factors, Enagás understanding is that at VIP Pirineos only multipliers will apply and no seasonal factors will be introduced; otherwise, CRE will **not be compliant with article 28 (1) of TAR NC**.

Reference price methodology

29. The consultation lacks of many details needed to better understand how the capacity weighted distance methodology (CWD) has been applied. In fact, the methodology applied is not the pure CWD included in the TAR NC as it includes significant changes such as the modification of the entry/exit split, the clustering of points, ...
30. In particular according to article 26 of TAR NC states that *where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the indicative reference prices subject to consultation*. However, **CRE only provides the comparison of the indicative reserve prices, not the comparison between the methodology applied and the methodology as required by article 8 of TAR NC**.

Entry/exit split

31. The 34/66 split proposed by CRE penalises certain exit points, in particular VIP Pirineos.
32. The proposed deviation from the TAR NC recommended split is not substantiated. CRE argues that because of the presence in France of major storage capacity ensuring that the winter peak is covered, capacity booked by shippers at entry points in the French transmission networks is significantly less than exit capacity booked. CRE therefore considers that a split other than 50%/50% is justified given the particular configuration of the French network.
33. If transits existed, they would have a very similar capacity bookings at entry and exits, thus, the proposal would be contradictory with the nature of transits and should only be applied to national consumption.

Simplified model

34. The simplified model provided by CRE in the consultation is too simplified as it only mimics the tariffs and does not give any information on how tariffs have been calculated. Enagás doubts that this simplified model is compliant with the requirements of the TAR NC.

Comments by other stakeholders in the previous consultation

35. CRE has already conducted in 2019 two previous consultations on ATRT7 tariffs, getting significant feedback from stakeholders. **It is worth recalling that in the previous consultation,**⁵ at least, in alphabetical order:

- **ANIGAS** (Italian gas sector association),
- **ARERA** (Italian regulator),
- **Confindustria** (Italian industry association),
- **EFET** (European Federation of Energy Traders),
- **Enagás** (Spanish TSO),
- **ENI** (Italian shipper operating in several gas markets),
- **GasIndustrial** (Spanish industrial gas consumers association),
- **Iberdrola** (Spanish shipper operating in several gas markets),
- **SEDIGAS** (Spanish gas sector association), and
- **Shell** (global energy group operating in several gas markets)

have all noted the discriminatory, or potentially discriminatory, treatment given to gas exports in CRE's proposal, which has not been changed for this consultation.

36. Most of the other respondents were French industrial consumers, associations or operators, in most cases directly benefitting from the allocation of costs proposed by CRE, and representing in total less stakeholders than the ones represented by the respondents cited above.

Question 12. Are you in favour of the discount levels envisaged by CRE for interruptible capacities at the PITS?

37. Interruptible capacity is offered at VIP Pirineos on a daily basis when the following conditions are met:

- 98% of total firm capacity has already been booked, and
- There is no maintenance on the day concerned

38. Besides, the interruption conditions of this capacity depend on the congestion limits where VIP Pirineos is involved on downstream (NS2, NS3, S1 and EO2); if the info vigilance took shows on gas day D-1 that no physical congestion is foreseen for the following gas day (additionally to the reasons above); then,

⁵ "Consultation publique n°2019-006 du 27 mars 2019 relative à la structure du prochain tarif d'utilisation des réseaux de transport de gaz naturel de GRTgaz et TEREGA", available at <https://www.cre.fr/Documents/Consultations-publiques/Structure-du-prochain-tarif-d-utilisation-des-reseaux-de-transport-de-gaz-naturel-de-GRTgaz-et-TEREGA>

interruptible capacity is offered at VIP Pirineos. Thus, when this capacity is offered at VIP Pirineos is no longer interruptible but firm.

39. From 1st November 2018 to 31st March 2019 (151 days) the interruptible capacity at VIP Pirineos has been offered every day and has never been interrupted.
40. Enagás welcomes CRE's reconsiderations of the tariff reduction at exit through VIP Pirineos (from 25% tariff discount in March's consultation to 15% in this consultation); however, **taking into account that when interruptible capacity is offered at VIP Pirineos is already firm it should be priced as firm products, no tariff reduction should be applied.**

Question 14. Are you in favour of adapting the calculation formula of the winter modulation for "subscription" customers planned by CRE for 1 April 2020? Are you in favour of adapting the calculation formula of the winter modulation for "subscription" customers planned by the CRE from 1 April 2020?

41. Given that the reason of regulating storages in France mainly their desirability in terms of security of supply, the compensation term should be borne by domestic users and not by users of the IPs. I.e. the consumers benefitting from such security of supply should pay for it.
42. The CRE's proposal is to recover the potential gap by including a dedicated term in the transmission tariff, to be paid ultimately charged to certain national consumers. Therefore, Enagás has no objections to the proposed mechanism to that regard.