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REPONSE D'ENI SpA ET D'ENI GAS&POWER FRANCE

A LA CONSULTATION PUBLIQUE N°2019-013 DU 23 JUILLET 2019 RELATIVE À LA STRUCTURE DU PROCHAIN TARIF D'UTILISATION DES RÉSEAUX DE TRANSPORT DE GAZ NATUREL DE GRTGAZ ET TEREGA

We welcome the opportunity to provide our comments to the CRE's consultation on the ATRT7. We have structured our contributions in two parts: one part on our general remarks and a second part with our answers to the questions included in the consultation document.

General remarks

Eni agrees with most of the proposals presented by CRE in chapters 2 and 3 of the consultation document. On the contrary, Eni is concerned by the proposals made in chapter 4 on the reference price methodology for the following reasons.

1. *Lack of information*

- It has not been possible for Eni to perform a comprehensive and detailed assessment of the CRE's proposal because some parameters required by the European Tariff Network Code[1] – TAR NC - (art. 26 and 30) are missing in the published documents;
- For example, "the justification of the parameters used that are related to the technical characteristics of the system", required by art. 26, par. 1 "a" "i" "1" is not complete as the distances used for the calculation of the tariffs for entry points and for entry/exit points for storages are not available;
- Moreover, the justification behind the choice to calculate distance for domestic exit points from the closest entry point(s) is not provided;
- We noticed that the publication of "the results, the components and the details of these components for the cost allocation assessments set out in the Code in art. 5" provided by art. 26, par. 1 "a" "iv" is not fully available. In particular, it is not clear whether the components "RatioIntraCap" and "RatioCrossCap" (including the details of these components) have been calculated with the formula provided by the TAR NC;
- From the consultation document it is not clear what are the used "forecasted contracted capacities at entry and exit points and the associated assumptions", as per art. 30, par. 1 "a" "i". In fact, the "simplified tariff model" provided by CRE does not include capacities and it is not clear whether CRE is using the (currently) booked capacities published by the TSOs on their

[1] EU Regulation 2017/460

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website or a forecast. Without access to this and without including the allowed revenues in the model, it is not possible for "network users to calculate the transmission tariffs applicable for the prevailing tariff period and to estimate their possible evolution beyond such tariff period" as provided by art. 30 par. 2 "b";

- Without access to the full list of details provided by the TAR NC it is not possible to fully understand the French reference price methodology. On this, we believe that the consultation does not meet the principle set by art. 7 par. "a" according to which the methodology should enable "*network users to reproduce the calculation of reference prices and their accurate forecast*";

- In the following paragraphs, we have grouped our main concerns on the main features of the methodology provided in the consultation document.

2. *Lack of cost-reflectivity and distortion to cross-border trade*

- According to our understanding, the proposed French tariff methodology is based on the following elements:

  a) The allowed revenues of the transportation network are fully recovered via a capacity charge, applying an entry/exit split 34/66. On this, the consultation document does not provide a quantitative assessment to justify such decision[2];

  b) In order to calculate tariffs, CRE has created two categories of users of the network: (i) transit users and (ii) domestic users;

  c) Regarding entry tariffs, details on the way they are calculated (e.g. distances) are not available. What is known is that entry tariffs are equalized and then a discount applies to entry points from LNG terminals (10%) and entry points from storage (~80%);

  d) The <u>first</u> main driver to calculate exit tariffs is distance which is calculated differently for "cross-border" exit points (with neighboring systems) and "domestic" exit points:

     - <u>Cross-border</u>: the distance for the "cross-border" exit points Oltingue and Pirineos is measured starting from a single entry point (Dunkerque, one of the furthest entry point for both interconnections). As a result, the distance for Oltingue is 762km, while the one for Pirineos is 1.072 km;

     - <u>Domestic</u>: distance for domestic exit-points is measured from the closest entry point which gives an average distance for such exit points of 237 km, much lower than the one for cross-border exit points.

[2] In the document CRE stated that a 50/50 split cannot be used given the significant storage capacities present in the French system. The quantitative assessment behind this statement is not available.

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e) The second main driver to calculate exit tariffs is the additional constraint set by CRE through which the unitary cost per km for the two categories of users (transit and domestic) shall be equal:

$$\frac{Entry_{DKQ}+Exit_{OLT}}{762} = \frac{Entry_{DKQ}+Exit_{PIR}}{1.072} = \frac{Entry_{NAZ}+Exit_{NAZ}}{237} = \sim 0{,}67\ €/MWh/d/y/km$$

- In this framework, considering that:
  - Entry tariffs are the same (and low) for both transit and domestic users
  - The unitary cost is equalized by the distance (unitary cost per km)
  - Distances for cross-border exit-points are much higher than distance for domestic exit points
- …such additional constraint implies that the difference in distances for the different groups of users is fully charged on the exit points. The below table sums up such distortion as demonstrated in tariff proposal for 2020:

	Km distance Entry -Exit (hp. CRE)	***Ratio vs. domestic distance***	**Tariff proposal 2020**		***Ratio vs. domestic exit tariff***
			€/MWh/d/y	**€/MWh @ LF =1**	
Exit Domestic	237		91,89	0,3	
Exit Oltingue	762	*322%*	406,12	1,1	*442%*
Exit Pirineos	1.072	*452%*	614,34	1,7	*669%*

- The assumptions made by CRE in measuring distances do not allow a proper allocation of costs in the system. The main reasons behind this statement are the following:

a) Regarding cross-border exit points, CRE justifies the choice to apply a point-to-point approach in calculating distance by stating that Dunkerque is the only point "economically relevant". According to their assessment, it is economically reasonable to flow only gas from the North Sea to Italy/Spain via France. In the latest consultation document, CRE states that for all other transit routes (e.g. Russian and Dutch gas) it is too expensive (and not attractive) to transit via France in order to reach the Spanish and Italian markets. In such assessment, CRE does not consider the presence of hubs in the European markets. In fact, gas is mostly traded and exchanged at virtual hubs, making the concept of "transit routes" not relevant any longer. Gas exiting France is fed by the hub and its origin can be from any sources (not only Dunkerque) depending on the price signal of the adjacent markets and/or LNG, which vary on a daily basis;

b) Regarding domestic exit points, CRE does not provide any justifications on the choice to measure their distances from the closest entry point(s). Also on this, the methodology does not consider the existence of a hub in the French market;

c) Finally, the two different methodologies to calculate distances for cross-border and domestic exit points are conflicting and not coherent. This is demonstrated by taking as an example the domestic exit points located near the cross-border exit points

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Oltingue and Pirineos. In these cases, even though the two type of exit points are very close, their distance is calculated using two opposite flow scenarios (in one case the closest entry point and in the other case one of the furthest entry points, Dunkerque). A system where two exit points located close to each other are subject to extremely different tariffs is not cost-reflective.

- The latter point raises the concern that the methodology is not in line with the principle provided by art. 7 par. "b" of the TAR NC according to which the methodology shall take "*into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network"*.

- Moreover, by (i) calculating distances differently between cross-border and domestic exit points and (ii) setting very high tariffs for the cross-border exit points (Oltingue and Pirineos), much higher than the ones for domestic exit points (see above), the methodology creates an economic barrier to flow gas out of the country towards Italy/Spain and, therefore, distorts cross-border trade;

- Such a distortion is against the principle set out by art. 7 par. "e" of the TAR NC which provides that the methodology shall ensure "*that the resulting reference prices do not distort cross-border trade"*;

- Regarding the distortion of cross-border trade and the related negative effects on market integration, we highlight that:

  - in 2020, the tariffs at Oltingue and Pirineos would be (with CRE's proposal) respectively 440% and 670% higher than the French domestic exit tariffs;

  - with regards to the logistic costs to connect the PEG with the Italian hub PSV, with the current tariff levels, the only exit point Oltingue represents 50% of the total costs to transport gas sourced at the French hub to be transported to Italy;

  - for the Italian market, this issue is of growing importance as flows from Oltingue can often become the marginal source of supply, given the current situation of partial unavailability of the TENP pipeline in Germany;

- Moreover, high cross-border exit tariffs (i) negatively impact the competitiveness of the Italian economic and industrial system; and (ii) represent an issue for the security of supply of downstream countries, as most of the French network costs are charged to flows directed to neighbouring markets.

3. *Issues with the implementation of the CWD comparison*

- Art. 26 (par. 1 "a" "vi") of the TAR NC provides that national regulators shall publish a comparison between the tariffs of their chosen methodology with the tariffs calculated using the benchmark tariff methodology, so called Capacity Weighted Distance (CWD);

- The CWD is fully described in art. 8 of the TAR NC. The main driver to calculate tariffs under this methodology is the average distance weighted on the capacities. The entry/exit split is set

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at 50/50. In other words, the CWD measures distances for each exit (and entry) point by taking the average distance of such point from all the entry (or exit) points in the system, to be then weighted by the corresponding booked capacities at those points;

- It must be noted that art. 8 allows national regulators to calculate the capacity weighted distances by grouping entry and exit points, where some entry points and some exit points can be combined in a relevant flow scenario;
- On this, the TAR NC defines "flow scenario" (art. 3 par. 20) as a "combination of an entry point and an exit point which, besides being physically connected via at least one pipeline route, reflects the use of the transmission system according to likely supply and demand patterns". The way CRE combines exit and entry points in the calculation of distances is not in line with such definition as it is not demonstrated that such combinations reflect "supply and demand patterns". In particular, this has to be demonstrated for exit points that are located close to each other (i.e. domestic exit points located close to cross-border exit points) and are treated in the opposite way when defining their entry point/flow scenario;
- In the latest public consultation launched in July, CRE provided the comparison between their methodology and the CWD;
- As highlighted above, the methodology to calculate distances in France is significantly different from the benchmark CWD provided by the TAR NC. In particular, CRE calculates distance point-to-point from (i) the closest entry point(s) for domestic exit points and (ii) Dunkerque for the "cross-border" exit points. According to the CWD, distance for each exit (entry) point shall be, instead, calculated as an average distance from all entry (exit) points;
- Such a difference in methodologies should lead to different results in the comparison, highlighting the lower tariffs that would be paid at Oltingue and Pirineos with the different way of calculating distances;
- However, the comparison provided by CRE is not in line with the above. In applying the CWD, CRE stated that "the parameters of the reference price calculation methodology based on capacity and distance as weighting factors are similar to those of CRE's methodology. The main difference with CRE's methodology is the use of a 50/50 ratio for the distribution of revenues between entry and exit points";
- If the parameters used (including the calculation of distances) are similar to their existing methodology, as stated by CRE, the comparison is not indicative;
- On the basis of the above, we believe that the comparison between the French methodology and the CWD provided by CRE is not in line with the TAR NC and does not show entirely the distortions to the disadvantage of the "cross-border" exit points.

4. *Issues with the implementation of cost-allocation assessment (art. 5 of the TAR NC)*

- In the published consultations, CRE states that the risk of cross-subsidization between domestic and transit users in France is entirely prevented in its methodology;

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- In particular, CRE makes reference to the art. 5 of the TAR NC which requires national regulators to carry out the so called cost allocation assessment to ensure that the degree of cross-subsidization is below a certain threshold. According to CRE, the cross-subsidization in France is equal to 0;
- On this, the following two remarks need to be highlighted:
    a. CRE does not carry out the procedure provided by art. 5 of the TAR NC in order to calculate the degree of cross-subsidization. In fact, it is just stated that by having the same unitary costs per km for the different routes (Oltingue vs Pirineos vs domestic) the result of such assessment is by default equal to 0;
    b. It is important to note that the unitary cost per km is calculated assuming distances measured differently for cross-border and domestic exit points. In order to assess the level of cross-subsidization, one cannot avoid considering how distances are measured for the cross-border exit points (from one of the furthest entry points in the system) and for the domestic exit points (from the closest entry point).

Answers to CRE's questions

Question 1: What is your position regarding the possible introduction of differentiation between the remuneration of historic assets and new assets for the ATRT7 tariff?

We support the proposal to introduce a differentiation between the remuneration of historic assets and new assets for the ATRT7 tariff if it enables to better take into account the evolution of financing conditions and to improve investment signals.

Question 2: Do you have any comments regarding the processing of transferred assets considered by CRE for the ATRT7 tariff?

Eni endorses CRE's proposal on sharing the value of sold assets with the network users given they have financed them. Eni supports option 2.

Question 3: Are you in favour of the main tariff principles that CRE envisages for the ATRT7 tariff?

Eni agrees with the harmonization of the CRCP cleared for a period of 1 year within the limit of an annual tariff change of +/- 2% excluding inflation. This principle contributes to limiting the volatility of the tariffs while covering an important part of the risks borne by the TSOs.

Question 4: Are you in favour of the schedule and the tariff evolution principles planned by CRE for the ATRT7 tariff?

Eni supports the yearly update of tariffs. However, as already stated in the previous consultation on ATRT7, we disagree with the proposal to change the way the CRCP is recovered and we propose to keep the existing system whereby tariffs on the *reseau principal* are only adjusted by inflation as this

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will provide more predictability and stability to the system. These elements are necessary for the further development of liquidity on the PEG.

Question 5: Are you in favour of the scope of the expenses and revenues covered by the CRCP envisaged by CRE for the ATRT7 tariff?

By principle, Eni endorses the renewal of the incentive-based regulation on cost control as well as the perimeter of the different items covered by the CRCP foreseen by the CRE for ATRT7.

However, Eni draws CRE's attention on the incentives to keep costs under control regarding the two following items:

- The different mechanisms for congestion management: the feedback on the single market place has shown a strong use of the local spreads at a high cost. It would be detrimental for the system to see the benefits associated with the implementation of the single market offset by some congestion tools whose costs are uncontrolled and unjustified regarding the current market conditions. In order to encourage the operators to optimize those tools, Eni recommends to cover the differences related to the congestion management mechanisms via the CRCP up to 95%.
- The price for the conversion service of area B to H gas: the "deliberation n° 2019-013 du 13 juillet" stipulates that CRE shall ensure the cost of this service retained in the transmission tariff is optimized by ENGIE and GRTgaz. More broadly, Eni recommends that the gap with the provisional charges related to the conversion of B area to H gas is covered at 95% by the CRCP and not 100% in order to oblige the TSOs to "incentivize" the optimization of the costs of conversion.

Question 6: Are you in favour of the incentive-based regulation mechanisms for investments proposed by CRE for the ATRT7 tariff?

Eni considers that the networks operators must be incentivized to build the projects in the shorter time and at the least cost, and consequently agrees with the incentive-based regulation mechanisms for investments proposed by CRE for the ATRT7 tariffs.

In the absence of appreciation of the costs for the 'non network' investments, in particular SI, and considering the growing weight of data management, the current incentive-based regulation mechanism for the ' non network' costs should be kept in order to optimize the costs management.

Question 7: Are you in favour of changes to the incentive regulation mechanism for service quality planned by CRE for the ATRT7 tariff?

Eni endorses CRE's analysis on the need for an evolution of the indicators.

Eni also considers that a malus should be applied to the indicators having reached a level of significant performance to keep a "safeguard".

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Question 8: Do you have any comments regarding the incentive regulation framework and R&D foreseen by CRE for the ATRT7 tariff?

Eni agrees with CRE's proposal to request the operators to consult the market actors on the main research projects they schedule to develop. Eni also considers that the budget for R&D should be limited to the innovations and activities which are relevant for their core businesses.

Finally, Eni endorses CRE's analysis regarding the need for a coordination between the operators of gas networks on R&D projects related to the injection of hydrogen.

Question 9: Are you in favour of the orientations envisaged by CRE concerning the level of charges to be covered for the ATRT7 period for GRTgaz and Teréga?

Eni agrees with CRE's results on the main challenges:

- The gas network is well established and as a consequence doesn't require new big projects given the anticipated decrease of gas consumption in medium and long term;
- The innovative solutions should be developed only if they will reduce the total costs and/or the risks of over-investments or avoid stranded assets;
- All new projects should be assessed by taking into account the uncertainties (evolution of the consumption, development of renewable energies and new uses, etc.) and the objectives of the energy multi-annual programme (PPE). The identification of perennial uses for natural gas should be a priority in order to adapt and optimize the existing gas network;
- The expenses for developing the injection of renewable gases (hydrogen, biomethane) should be coherent with the objectives of the PPE.

In addition, Eni strongly supports a better control of the current financing conditions to evaluate more accurately the level of the CMPC, and this to avoid any over-remuneration of TSO's activities.

However, several items have drawn our attention:

- Regarding operational expenses, the significant increase in the number of employees and the budget for the energy transition, whereas CRE had already taken into account in the ATRT6 the TSO's request to reinforce their capacity to participate in the energy transition and to prepare the future of the gas transmission networks through the projects "GRTgaz 2020" and Terega's project " research and innovation". Also, the internal training of employees should be privileged noted that some job positions are no longer needed (example: the development of interconnections);

- With regards to capital charges, the investment expenditure trajectories estimated by GRTgaz and Terega are in the upper range of the estimate despite the dual structuring observation for the gas market (the functioning of the gas network is efficient and well dimensioned, anticipated reduction in gas consumption). Eni is therefore surprised that CRE validates these trajectories even though it makes observations.

- In the last years, the TSO have managed to respect the forecast trajectories, but GRTgaz's CRCP gaps are significantly negative in the range of 20% to 50% of the estimated budget.

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As a result of the above observations, ENI would suggest to CRE two recommendations:

- CRE should be vigilant regarding the results of the audit on the interpellant items (biomethane, SI expenses, staff costs);
- In addition, Eni proposes that TSO's requests for budgetary evolutions should be based on the average of the expenses made in the previous years and no longer solely on the previous year in order to give users the benefit from the productivity efforts made by the TSOs.

Question 10: Do you have any comments regarding the forecast subscriptions for GRTgaz and Teréga for the 2020-2023 period?

The consultation document does not provide the "*forecasted contracted capacities at entry and exit points and the associated assumptions*" as provided by art. 30, par. 1 "a" "i" of the TAR NC. Without access to such information, it is extremely difficult to have a comprehensive understanding of the functioning of the methodology.

In particular, the consultation document does not specify whether CRE uses a forecast or the current booking levels published by the TSOs on their websites.

In fact, on the websites of the TSOs, only the technical and booked capacities are available. The requirement of the TAR NC is to publish the forecasted contracted capacities used in the reference price methodology and it is not clear whether there is a difference between the booked levels and the forecast used in the methodology.

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

Eni strongly disagrees with the tariff methodology proposed by CRE for the reasons highlighted in the section "general remarks" of this document.

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

No remark.

Question 13: Are you in favour of the removal of the IAPC and the reduction, or even bringing to zero, of the delivery tariff term for highly-modulated sites?

The IAPC offer was put in place to encourage CCGTs to set up near gas entry points and thereby limit tensions on the gas transmission system. But the interruption of the sites concerned is very unlikely with regard to the interruption criteria defined in the offer. On the other hand, this economic signal was effective as the majority of the CCCGs had subscribed to IPAC, which made it possible to avoid the costs of strengthening the network.

The introduction of the new interruptible mechanism, which could benefit the CCGTs, does indeed question the interest of keeping the IAPC offers.

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By principle, Eni is therefore in favour of the deletion of the IAPC offers but only if it does not give rise to any additional remuneration for these sites, beyond the alignment of the delivery charge with that of the other industrials directly connected to the transmission network. Any additional benefit would be difficult to the extent that not all CCGTs have subscribed to the IAPC offer. The latter would therefore benefit from an undue gain. Moreover, regarding the advantage that the CCGTs should take of in view of the operational constraints they face, Eni recalls that the obligations of transmitting to the TSO an hourly consumption profile for the highly modulated consumers result solely from the constraints they create on the network and are essential to better coordinate the needs between the electricity and gas systems.

Finally, if the IAPC is maintained, CRE will have to define clear rules to avoid a double remuneration of the CCGTs for a same service offered to the TSOs.

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?

Eni welcomes the establishment by CRE of the extension of the storage compensation to consumers that cannot interrupt or reduce their consumption during the winter peak period connected to the transmission networks.

However, Eni is against the evolution of the calculation formula for the winter modulation for “subscription” customers. Indeed, the specific cases identified by CRE (like “counter-modulated customers”) are already taken into account by the current rules which exclude the profiles P013 and P014 from the compensation. We could envisage to extend those profiles to the sites T4. On the other side, the modalities proposed by the CRE are too complex since the suppliers cannot easily access to those data (confidentiality). They will consequently limit the well-functioning of the supply market and the development of competition.