



**Public consultation on transportation of natural gas on transmission networks
as from 1 January 2009**

Technical consultation document

Current tariffs for use of natural gas transmission networks, which have been in force since 1 January 2007, are designed for application up until 31 December 2008.

New tariffs for the use of natural gas transmission network will be necessary as from 1 January 2009, to take into account:

- fusion of north, east, and west balancing zones on the GRTgaz network;
- simplification of transportation rules in the South of France.

The above changes also necessitate definition of new allocation rules for link capacities within the GRTgaz network, as well as for interface capacities between the GRTgaz and TIGF networks.

In order to prepare for this deadline, CRE would like to consult all market players on the most significant changes in the tariffs structure, and on mechanisms for allocating available capacities as from January 2009. Interested parties are invited to reply to the questions appearing at the end of this document.

In autumn 2007, after analysis of contributions made to this consultation, CRE will decide upon the main features of the upcoming transmission tariff, and on rules for allocation of capacities. Marketing of capacities will take place in late 2007 or early 2008.

CRE envisages communicating its tariff proposal to the Ministers for the Economy and for Energy in summer 2008 at the latest, after public consultation with market players during the first half of 2008.

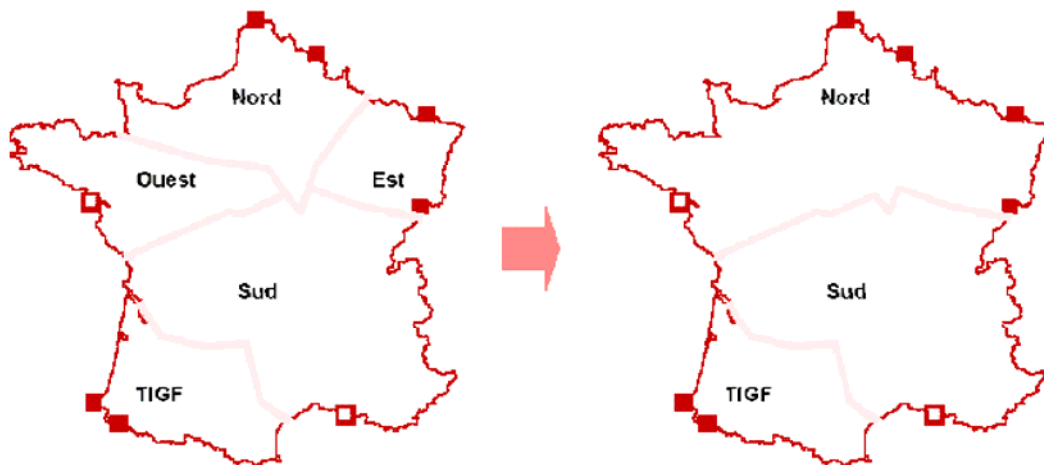
Adjustments proposed in this document, in particular as regards envisaged tariff terms, constitute initial food for thought, and are likely to change as work in progress advances and in the light of observations made by parties concerned.

I – Tariff structure envisaged as from 1 January 2009

The French natural gas transmission network currently includes five balancing zones – four on the GRTgaz network (known as the ‘North’, ‘East’, ‘West’ and ‘South’ zones), and one on the TIGF network (the ‘TIGF’ zone).

1. Creation of a single major balancing zone in northern France

On 1 January 2009, GRTgaz’s North, East and West zones will be combined into a single zone, referred to hereunder as the ‘great North zone’.



Set-up of the great North zone will be accompanied by maintenance of firm capacities for zone entry:

- 570 GWh / day for Dunkirk;
- 370 GWh / day for Montoir;
- 550 GWh / day, then 620 GWh / day in late 2009, for Obergailbach;
- 590 GWh / day for Taisnières.

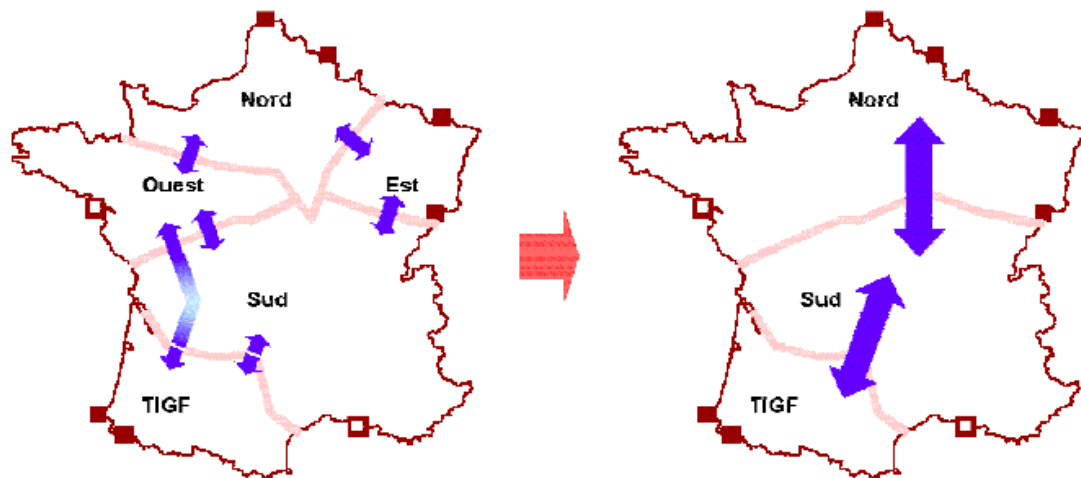
Set-up of the great North zone will mean loss of revenue generated by sale of link capacities between North and East zones and between North and West zones. In order to compensate for this, it is envisaged that, all things being equal, an increase of around 8% should be made to entry and exit terms regarding GRTgaz’s main network.

Finally, set-up of the great North zone might provide an opportunity to group together a number of transmission-storage interface points (PITS), - on 1 April 2009, for example.

2. Improvement of transport in the South of France

In its communication of 21 March 2007, CRE invited GRTgaz and TIGF to set up a taskforce to consider proposals for improving management of gas transportation in the South of France. The taskforce submitted its conclusions on 31 May 2007. As a result of its report, the following changes are envisaged:

Simplification of tariff structure, by setting up three balancing zones connected up in series: the great North zone, the South zone, and the TIGF zone. All Dordogne link capacities would be transferred to the North-South link and the South-TIGF interface.



In this new scheme of things, the Centre storage group would still be accessible from the great North and South zones.

Marketing of a single product between the South zone and the TIGF zone. At present, in order to transport gas between the GRTgaz and TIGF networks, shippers must book exit capacities on the former and entry capacities on the latter, with different allocation rules and means of calculating capacities existing at the two transmission system operators. It is envisaged that, as from January 2009, the two transmission system operators would market a single product, grouping together exit and entry capacities.

Set-up of an organised gas market. In their report, GRTgaz and TIGF propose promoting development of an organised gas market in each balancing zone. Such a project might be completed in the summer of 2008, provided the right conditions were in place.

The report also states that the possibility of coupling South and TIGF PEGs (gas exchange points) will be studied, on the assumption that an organised gas market would be set up. To enable such a coupling, the market operator would have to have firm capacities for transportation between zones. Two means of making such capacities available were identified in the report:

- reservation, for the coupling, of a part of annual firm capacities;
- use, for the coupling, of part of the capacities held by shippers but non-nominated (firm UIOLI principle). This would mean restriction of renomination rights for primary holders of such capacities.

Finally, the two transmission system operators' report indicates that there is long-lasting congestion between their networks and that, in consequence, it would seem to be impossible, on 1 January 2009, to:

- enable all suppliers to have gas at their disposal in the South or TIGF zones, for unrestricted supply to end consumers in the two zones without booking at the interface;
- adjust imbalances between shippers within a geographical area grouping together the South zone and the TIGF zone.

3. Changes in gas flows between the North and South of France

At present, flows on French gas transmission networks are largely from north to south. That is why the tariff for South-to-East and South-to-West capacities was set at 20 % of that for the same capacities in

opposite directions. Similarly, the tariff for transportation of gas from the TIGF zone to the South zone is around 50% of the tariff for transportation of gas from the South zone to the TIGF zone.

Start-up of the Fos Cavaou LNG terminal in spring 2008, followed by possible creation of physical capacities for importing gas from Spain by 2010, will modify gas flows in the territory.

Moreover, commissioning of the Guyenne trunk main (phase I) will enable major increases in firm capacities in the South-to-TIGF direction, which will lead to reduction or disappearance of present congestion.

In order to reflect such changes, it is envisaged that link terms between the great North zone and the South zone be equalised, along with interface terms between the South zone and the TIGF zone:

- the tariff for links between the great North and South zones might correspond to the current tariff for East-to-South transportation of gas, which stands at around 150 €/ MWh / day / year. It would appear consistent to maintain this charge at its present level, taking into account the long-lasting congestion between the North and South of France;
- the tariff for interfaces between the South and TIGF zones might correspond to the current tariff for TIGF-to-South transportation of gas, which stands at around 100 €/ MWh / day / year. This change would continue reduction in the cost of GRTgaz-to-TIGF transportation, facilitating access to the TIGF zone and helping future creation of a gas hub in the South of France.

4. Nomination to links between the great North zone and the GRTgaz South zone

At present, shippers do not make nominations at links between GRTgaz network balancing zones. Quantities allocated to shippers at such links are determined *a posteriori* by GRTgaz, with the help of an algorithm designed to minimise volumes of overall imbalance for each shipper. It is envisaged that nominations be introduced between the great North zone and the South zone, in both directions. Quantities allocated on the link would then be equal to nominated quantities.

5. Proposal of a 'border-to-border' product

Two transit contracts exist at the present time, one between the north of the territory and the French-Spanish border (Larrau), and the other between the north of the territory and the French-Swiss border (Oltingue).

Shippers holding such transit contracts are subject to the tariffs for use of transmission networks in force, in the same way as other shippers.

For the upcoming tariffs, GRTgaz proposes defining a specific border-to-border product, as envisaged changes to the tariff structure (disappearance of links between North, East and West zones, and reduction in transportation tariffs between the South and TIGF zones) will reinforce balancing out of tariffs on the main network. Consequently, continued application of the entry-exit tariff to transits would lead to French consumers subsidising foreign consumers, or would necessitate a steep increase in exit terms at Oltingue and Larrau, which would be counter to development of regional gas markets.

The border-to-border product would be applied to current transit contracts and to possible future contracts. Its main characteristics would be as follows:

- subscriptions would be made on the very long term – for a period of over ten years – between an entry point in the territory and an exit point in the territory;

- subscription of capacities on the product would automatically mean subscription to the same level of capacities over the entire route, i.e. the entry point, possible links and interfaces, and the exit point;
- the tariff for the border-to-border product would be set on the basis of forecast normative costs for development of the network along the route in question – costs currently estimated by GRTgaz as standing at around 0.8 to 1.0 €/ MWh / day / year / km;
- shippers holding this product could make different nominations at entry and exit points, interruptibly, within the limits of the network's operating conditions, which in practice would enable them to sell a part of the gas on French territory.

Implementation of such a product would require close coordination between GRTgaz and TIGF.

Set-up of the border-to-border product would enable exit terms to Oltingue and Larrau to be significantly reduced.

In parallel, it is envisaged that entry terms from Spain (Biriadou and Larrau), currently set at 130 €/ MWh / day, be reduced, so as to encourage development of regional markets at European level.

6. Entry to the transmission system from LNG terminals

Several projects for creation or reinforcement of LNG terminals are currently under study. If they see completion, commissioning of infrastructures could occur during the period of application of upcoming natural gas transmission tariffs.

It is envisaged that transmission system operators, in coordination with LNG terminal operators, will automatically allocate, to shippers holding regasification capacities, entry capacities on the transmission network for quantities and periods equal to those for regasification capacities subscribed.

II – Allocation of link and interface capacities as from 1 January 2009

The start-up of the great North zone on 1 January 2009 will require creation of a new link, non-existent at present, between it and the South zone. Marketing of capacities at this link has not yet begun. Similarly, the change in transportation rules in the South of France will require replacement of existing interfaces by a new interface.

This section concerns means of allocating link and interface capacities as from 1 January 2009.

1. Definition of the level of marketable capacities

Some shippers hold capacities beyond December 2008 for products that will soon no longer exist (East-to-South link, West-to-South link, and the Dordogne and Hérault links). Determination of levels of capacities actually marketable on 1 January 2009 involves deciding upon how to deal with such previously subscribed capacities.

One possibility would be for the upcoming tariff structure to transform all old capacities already subscribed into new capacities of identical quantity and duration. Another would be to transpose only those capacities subscribed in existing transit contracts, calculated on the basis of exit capacities booked at Larrau, i.e. 77 GWh / day from North to South and from South to TIGF.

Levels of capacities marketable on 1 January 2009 at the North-South link and the South-TIGF interface, depending on the two above possibilities, are shown in the table below.

Interface between the South zone and the TIGF zone

in GWh / day	South to TIGF				TIGF to South			
	Summer		Winter		Summer		Winter	
	Firm	Interruptible	Firm	Interruptible-	Firm	Interruptible	Firm	Interruptible
Total capacities	355	15	325	5	30	40	30	40
Marketable capacities if transit only priority	278	15	248	5	30	40	30	40
Marketable capacities if previous subscriptions priority	106	15	181	5	20	40	20	40

Link between the great North zone and the South zone

in GWh / j	Great North zone to South		South to great North zone	
	Firm	Interruptible	Firm	Interruptible
Total capacities	230	220	120	130
Marketable capacities if transit only priority	153	220	120	130
Marketable capacities if previous subscriptions priority	143	171	120	130

2. Definition of rules for allocation of capacities on 1 January 2009

It is envisaged that marketing of capacities on the North-South link and the South-TIGF interface take place during winter 2007 - 2008, so as to give shippers a year's delay to adapt their supply policy.

It seems therefore necessary to define capacity allocation rules before the above deadline. At this point, the following principles are to be envisaged:

- a minimum of 50 % of capacities would be marketed with over 6 months' notice, for a period of 2 to 4 years, employing an 'open subscription period' system in which all offers received by a transmission system operator before a certain date would be considered as having been received simultaneously. Capacities would be allocated in proportion to requests. At the North-South link and the South-TIGF interface, capacities would be sold in the form of flat annual bands. At the South-TIGF interface, surplus capacities available in summer would be sold over several seasons.
- remaining capacities would be marketed with less than 6 months' notice, and would be sold in the form of flat annual bands at the North-South link, and seasonally or annually at the South-TIGF interface, employing an 'open subscription period' system. If congestion occurred, the aim would be to ensure that capacities were allocated in line with shippers' real needs regarding supply to end consumers.

Limiting marketing periods to 4 years and the 50% of capacities at short notice will enable regular redistribution of capacities.

Detailed rules governing capacity allocation will be defined in autumn 2007.

CRE invites interested parties to send in their contribution, **by 4 September 2007 at the latest:**

- by email: webmestre@cre.fr;

- by post: 2, rue du Quatre Septembre - F-75084 Paris Cedex 02;
- by contacting the Direction des Réseaux et Infrastructures de Gaz: +33.1.44.50.41.72;
- by requesting to be heard by the Commission.

A summary of contributions will be published by the Commission, subject to secrecy protected by law. At contributors' request, confidentiality and/or anonymity of information will be guaranteed. Interested parties are invited to reply to the following questions in particular:

QUESTIONS RELATING TO THE TARIFF STRUCTURE APPLICABLE AS FROM 1 JANUARY 2009

1. What do you think of the proposal to compensate, all things being equal, loss of revenue from links within the great North zone by raising entry and exit terms on the main GRTgaz network ?

2. Do you think it advisable to group together some of the great North zone PITs?

3. Are you in favour of the 'three zones in series' tariff structure?

4. Are you in favour of setting up a single product at the GRTgaz-TIGF interface, which would include exit capacity on one transmission system operator's network and the same exit capacity on the other's?

5. What do you think of GRTgaz and TIGF's proposal to promote the setting up of an organised gas market?

6. What do you think of GRTgaz and TIGF's proposal to couple market places as from 1 January 2009? What do you think of the various options under study to ensure existence of firm daily transmission capacities from one zone to another, a requirement if such coupling is to take place?

7. Do you think that the changes proposed in order to facilitate transportation in the south of the territory are adequate? What do you think of transmission system operators' observation that long-lasting congestion exists at the South-TIGF zone interface? What do you think of the scenarios envisaged in their report?

8. What do you think of the proposal to equalise North-to-South and South-to-North terms, and South-to-TIGF and TIGF-to South terms? What do you think of the envisaged levels of tariff terms?

9. Are you in favour of setting up a nomination system between the great North zone and the South zone?

10. What do you think of the proposal to set up a specific product for 'border to border' transmission? What do you think of the characteristics envisaged for such a product?

11. Are you in favour of the envisaged reduction in terms for exit from the territory, excluding transit contracts? Are you in favour of the envisaged reduction in terms for entry from Spain?

12. What do you think of the proposal to automatically allocate, to shippers holding regasification capacities at an LNG terminal, entry capacities on a transmission network for the same level and duration?

QUESTIONS RELATING TO MECHANISMS FOR ALLOCATION OF AVAILABLE CAPACITIES' AT THE NORTH-SOUTH LINK AND THE SOUTH-TIGF INTERFACE AS FROM 1 JANUARY 2009

13. Are you in favour of priority allocation, to shippers holding transit contracts of capacities provided for in such contracts? Are you in favour of priority allocation to shippers holding capacities on soon-to-disappear products?

14. Are you in favour of the 4-year limit on subscriptions to capacities at links and interface? Are you in favour of the proposed division of short-term and long-term capacities?

15. Do you approve of the proposal, regarding the South-TIGF interface, to limit marketing of long-term seasonal capacities to surplus capacities available in summer?

16. Have you any proposals on mechanisms enabling shippers' needs in supplying end consumers to be taken into account?

17. Have you any other observations to make on allocation of available capacities at the North-South link and the South-TIGF interface as from 1 January 2009?

APPENDIX:

GRTgaz and TIGF report of 31 May 2007 on prospects for improvement of transportation in the South of France by 2009.