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

A LA 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 TERECA

General considerations

Eni disagrees with the cost allocation methodology proposed by CRE for the main following reasons, which are further elaborated in our below answers to the questions included in the consultation document:

- **Firstly**, according to the methodology, distance is the main driver to calculate tariffs. However, distance is calculated differently between cross-border and domestic exit points, impacting significantly the final tariffs applicable for these points (very high for cross-border users):
 - Distance for domestic exit points is calculated point-to-point for each exit point from its **closest** entry point;
 - Distance for cross-border exit points is calculated point-to-point from the entry point Dunkerque, which is one of the **furthest** entry points for both cross-border exit points Oltingue and Pirineos;
- In an entry-exit system with the presence of a liquid hub, as it is the case for France, calculating distances point-to-point is not reasonable. In fact, gas consumed domestically or exported to other markets is traded/exchanged/sourced at the hub and might be coming from any of the entry points in the system;
- In this framework, high cross-border exit tariffs represent a barrier to flow gas to neighbouring markets, negatively impacting the integration of gas markets and further worsening the so called pancaking effect on the routes to transport gas to Italy and Spain;
- The “unitary cost per km” assessment provided by CRE considers distances for “domestic” and “transit” users, which are calculated with the differences highlighted above. We believe that this makes the assessment not reliable as it does not compare, for the two categories of users, similar parameters;
- **Secondly**, regarding the entry/exit split, the document does not provide any quantitative assessment showing that the proposed split reflects a correct allocation of costs in the system;
- **Thirdly**, in the consultation document CRE considers the Capacity Weighted Distance methodology, provided in article 8 of the European Network Code on Tariffs¹ (NC TAR), not applicable. This is apparently due to the fact that “a single entry point cannot source several exit points, as in France, without creating relevant cross subsidies”. We highlight that NC TAR

¹ Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas



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provides the obligation to perform and publish a comparison of the chosen tariff methodology against the CWD methodology. The application of the CWD methodology, or the comparison with the benchmark CWD methodology, has been performed in the consultations already issued by countries with entry-exit systems functioning similarly to the French one (e.g. Belgium, Netherlands, Italy).

We believe that, in order to (i) have a methodology in line with an entry-exit system with the presence of a liquid hub, (ii) support cross-border trade and (iii) improve market integration with neighbouring markets, CRE should adopt the CWD methodology provided by the NC TAR. According to such methodology, the (capacity weighted) distances for each exit (or entry) point are calculated as the average distance from all entry (or exit) points in the system. This would avoid the inconsistencies highlighted above.

Question 1 Partagez-vous le bilan de la CRE sur le dimensionnement des réseaux français de transport de gaz naturel et sur la nécessaire prudence dans le lancement de nouveaux projets d'investissement?

The French transportation network is well developed and interconnected; it allows gas to enter from many different sources, including Norway, the UK, the Netherlands, Russia and global LNG. Gas volumes imported into France are exchanged and traded on the French *Point d'Echange de Gaz* (PEG) to be then consumed domestically or exported further south to Spain and Switzerland/Italy.

It is important to highlight that in an entry-exit system, the old point-to-point approach to the definition of import/export routes does not apply any longer and, therefore, gas exported to other (neighbouring) markets is mostly sourced at the PEG, similarly to what happens with regard to the volumes consumed domestically.

In such a well interconnected entry-exit system, the way relevant distances are measured in order to calculate the tariffs at Oltingue/Pirineos exit points and at the domestic exit points (towards the regional network), described in paragraph 2.1.3.6 of the consultation, is not reasonable. In fact, the methodology assumes that (i) the PEG does not exist, (ii) exported gas enters the system from one single entry point, Dunkerque (which is one of the **furthest** entry points in the system for Oltingue and Pirineos), as if an old point-to-point system was still in place, while (iii) gas consumed domestically is imported from the **closest** entry point. With the development of entry-exit systems and gas hubs, this is not the case anymore and gas exiting the French market or being consumed domestically may be coming from any of the entry points in the system. This is the main logic of an entry-exit system which has replaced the previous point-to-point system whereby gas followed predetermined routes.

In this framework, it cannot be counter-argued the fact that the use of different methodologies to calculate distance for cross-border and domestic exit points leads to a significant difference in tariffs for these two groups of points. On this, we highlight that in 2018, the tariffs at Oltingue and Pirineos were respectively 400% and 600% higher than the domestic exit tariffs. By taking the extreme case, the tariff for a domestic exit point next to Oltingue is, therefore, four times lower than what a network user pays to transport gas via the exit point Oltingue towards Switzerland.

In the consultation document, it is stated that by having the same unitary cost per km for the transit and the domestic routes the issue is not relevant because it does not lead to any type of cross-subsidization. In our opinion, as long as the measurement of distances is carried out by using two



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different methodologies for cross-border and domestic exit points (i.e. distance calculated from the closest entry point for domestic exits and from one of the furthest entry points for cross-border exits), the calculation of the unitary cost per km does not, *per se*, ensure that the way tariffs are calculated is fair.

To better understand the consequences of this approach, we make the example of the logistic costs to connect the PEG with the Italian hub PSV. With the current tariff levels, the only exit point Oltingue represents 40% of the total costs to transport gas sourced at the French hub to be transported to Italy. This is definitely an issue as it negatively impacts cross-border trades and market integration.

Therefore, while the French network system is well developed and interconnected, the way tariffs are calculated does not allow an efficient use of the network given that cross-border exit points are exposed to very high tariffs which distort gas flows to neighbouring markets.

Question 2 Etes-vous favorable au maintien du calendrier tarifaire actuel d'avril à avril, à l'exception des termes tarifaires applicables aux PIR qui évolueraient au 1er octobre de chaque année ?

We believe that the timing of the tariff year should be as straightforward as possible. At the same time, the timing of the publication of the transportation tariffs should be compliant with the requirement of the TAR NC, which provides (article 29) that *"the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction"* shall be published *"before the annual yearly capacity auction"*.

In this framework, in order to keep it simple for market players, we would prefer to maintain a single date for all tariffs evolutions. This date could be maintained on the 1st of April but the CRE will have to publish the tariff for 2 years in order to give enough visibility for capacity auctions.

Question 3 Etes-vous favorable au maintien de la classification des réseaux, principal et régional, envisagée par la CRE ?

We support the proposal to keep the distinction between principal and regional networks.

Question 4 Etes-vous favorable au maintien de la classification de la compensation stockage envisagée par la CRE ?

Yes

Question 5 Etes-vous favorable au maintien des principes de tarification (tarification à la capacité, selon un modèle entrée-sortie) et de péréquation en vigueur dans le tarif ATRT6 ?

We do not have any specific inputs on this section of the consultation document. However, we do not agree with the statement made on page 19 *"Le tarif ATRT6 satisfait déjà à la plupart des exigences du code de réseau Tarif, même si ce dernier n'était pas encore en vigueur au moment de son élaboration. [...] les décisions tarifaires publiées par la CRE respectent déjà le niveau de transparence imposé par le code de réseau Tarif"*.

In our answer to question 7, you can find our reasoning on why the methodology provided by CRE is not in line with Reference Price Methodology provided by the TAR NC.

In this section of the document we would like to highlight our concerns regarding the compliance with the transparency and publication requirements of the TAR NC:



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- In annex 1, CRE considers the CWD reference methodology inapplicable due to the fact that a “single entry point cannot source several exit points without creating relevant cross-subsidies”. This conclusion is based on a theoretical example made in the consultation document which does not represent the functioning of the French gas market. Moreover, the example made by CRE is not even consistent with the methodology proposed in the document which provides a point-to-point approach whereby the entry points used to calculate distances for exit points are not the same (i.e. closest entry point for domestic exit points and Dunkerque for cross-border exit points). We highlight that the benchmark calculation has been performed in many other national consultations (e.g. Belgium, Netherlands and Italy) by countries with a similar functioning of the transportation network. We believe that the CRE should carry out the calculation of the benchmark provided by article 8. In particular, and as provided by the TAR NC, it should calculate what would be the level of tariffs in the network if the (capacity weighted) distance for each exit (or entry) point (both for transit and domestic) is calculated as an average distance from all the entry (or exit) points in the system;
- the timeframe provided by this consultation document does not seem to meet the deadline set by Article 27, §5 of the NC TAR which states that “*the procedure consisting of the final consultation on the reference price methodology [...], the decision by the national regulatory authority [...], the calculation of tariffs on the basis of this decision, and the publication of the tariffs [...] shall be concluded no later than 31 May 2019*”;
- transportation tariffs will not be finalised and published before the auctions for the next gas year 2019-2020, as provided by NC TAR.

Question 6 Etes-vous favorable à conserver globalement la répartition entrée/sortie actuelle ?

We believe that the entry/exit split should by default be 50/50. A different split should be considered only in those cases where it fully reflects a correct allocation of the costs of the system. In the consultation document, CRE only provides a qualitative assessment without providing any numbers showing the impact that the use of storages has on the correct allocation of costs in the system. We believe that a quantitative and analytical assessment needs to be made before taking a decision on the final entry/exit split. For this reason, we do not consider the arguments brought forward by CRE as a valid justification for applying a different split than 50/50.

Question 7 Etes-vous favorable aux principes de tarification envisagés par la CRE pour le réseau principal ?

Eni strongly disagrees with the methodology being proposed by CRE and, for the reasons highlighted in our answer to Q1, we do not believe it is realistic to use an approach which still considers distances (to calculate tariffs) point-to-point in a well interconnected entry-exit system with the presence of a liquid hub, as it is the case in France.

In the consultation document, it is given the message that the ATRT6 methodology is in line with the reference price methodology provided by the TAR NC. This is not the case for the following reasons:

1. On page 21 it is stated that “*Le code de réseau Tarif prévoit que lorsque certains points d’entrée et de sortie peuvent être combinés dans un scénario de flux pertinent, la distance de référence à considérer est égale à la distance la plus courte en parcourant les gazoducs entre un point d’entrée ou un groupe de points d’entrée et un point de sortie ou un groupe de points de sortie.*”



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La CRE considère qu'il est pertinent économiquement de retenir le PIR Dunkerque comme le point principal d'entrée du gaz transitant par les points PIR Pirineos, Oltingue et Alveringem [...]".

Most likely, this quote is referring to article 8 of the TAR NC which, however, does not support what is stated above. In fact, the above-mentioned article on paragraph 1 states the following: *"The parameters for the capacity weighted distance reference price methodology shall be as follows: [...] (c) where entry points and exit points can be combined in a relevant flow scenario, the shortest distance of the pipeline routes between an entry point or a cluster of entry points and an exit point or a cluster of exit points; (d) the combinations of entry points and exit points, where some entry points and some exit points can be combined in a relevant flow scenario; [...]. Where entry points and exit points cannot be combined in a flow scenario, this combination of entry and exit points shall not be taken into account"*.

According to paragraph "c", the methodology should calculate the shortest distance between each entry point and each exit point *"for which there is at least one pipeline route allowing to flow gas into the transmission network at that entry point and out of the transmission network at that exit point"* (definition of "flow scenario" provided by article 3, paragraph. 20). In the following paragraph "d", it is stated that entry and exit points connected to each other should be combined together in the so-called *"relevant flow scenario"*. In case gas cannot physically flow from one entry point to an exit point (e.g. missing internal interconnections or flows in the opposite direction) the two points should not be combined.

Article 8 continues by defining how such parameters should be used to calculate the reference prices and, for exit points, it states the following (paragraph 2, point "ii"): *"for an exit point or cluster of exit points, as the sum of the products of capacity at each entry point or cluster of entry points and the **distance** to this exit point or cluster of exit points from each entry point or cluster of entry points, divided by the sum of capacities at each entry point or cluster of entry points"*.

It is, therefore, clear that article 8 of the TAR NC does not allow a tailor-made selection of the entry points to be linked to the exit points to calculate distance, as it is the case in the methodology proposed by the consultation document whereby the domestic exit points are arbitrarily linked to the closest entry point while the cross-border exit points (i.e. Oltingue and Pirineos) are arbitrarily linked to Dunkerque (one of the furthest entry points for both) as the only entry point. On the contrary, the methodology provided by the TAR NC clearly states that all entry points physically connected to exit points should be combined together in order to calculate the (capacity weighted) distance. To be in line with such methodology, the CRE should consider also the other entry points (physically connected) in order to calculate the distances for both the domestic and the cross-border exit points.

2. The same methodology for calculating reference prices should also be used with regard to the entry points. This is not the case for the CRE methodology because such distances are not calculated as an average distance from all exit points in the system. On this point, in the consultation document it is proposed to continue having different (and lower) entry tariffs from LNG terminals because, according to the document, such points are closer to the areas of consumption. This arbitrary reduction does not reflect the reality, and this is demonstrated by the entry point at Dunkerque where the tariff is different between the entry from Norway and the entry from LNG even though the two points are geographically located in the same place.

Above, we highlighted the concerns of non-compliance of the CRE methodology with the provisions of the TAR NC. It needs to be added that the CRE methodology is also not in line with the general



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objectives of increasing (European) market integration and promoting cross-border trade. Indeed, as explained above the proposed methodology considers distance as the main driver for the calculation of tariffs but it measures it differently for cross-border exit points and domestic exit points. For cross-border exit points distance is measured from one of the furthest entry points in the system (Dunkerque) while for domestic exit points is measured from the closest entry point. This difference has direct implications on the final exit tariffs, whereby cross-border exit tariffs are significantly higher than the domestic exit tariffs. In this framework, high cross-border exit tariffs do not help achieving a better integration of markets and promoting cross-border trade.

Regarding the calculation of the unitary costs per km, as long as distances are calculated differently for each category of network users (cross-border vs domestic) the outcome is not reliable as it does not compare similar parameters.

For the reasons highlighted above, we believe that CRE should adopt, in the French system, the Capacity Weighted Distance methodology provided by the TAR NC (article 8). This would (i) reflect the main characteristics of an entry-exit system with the presence of a liquid hub, (ii) support cross-border trade and (iii) improve market integration with neighbouring markets. In fact, according to this methodology, the (capacity weighted) distances for each exit (or entry) point are calculated as the average distance from all entry (or exit) points in the system.

Question 9 Etes-vous favorable au maintien des rabais tarifaires envisagés par la CRE pour les capacités interruptibles ?

The discount to the interruptible products should reflect the risk of interruption of the specific product. In the consultation document, it is stated that the risk of interruption has been calculated by the two TSOs around 15,3% at Oltingue and 11,6% at Pirineos. The CRE has, however, concluded that a 25% discount for interruptible products should apply at these two points. We question why the 25% has been chosen even if the calculated risk of interruption seems to be lower.

Question 10 Etes-vous favorable à l'apurement du CRCP sur l'ensemble des termes tarifaires ou préférez-vous le maintien d'un apurement sur les seuls termes du réseau aval ?

Question 11 Etes-vous favorable à la proposition de la CRE de répercuter la baisse des souscriptions en entrée et en sortie du réseau de manière équivalente sur l'ensemble des termes tarifaires du réseau amont ?

We do not agree with the proposal presented by CRE.

To our understanding, the document states that there is an expected decrease in capacity bookings in ATRT7 at the entry points from neighbouring systems. If this is the case, it means that there is overcapacity at the entry points into the French system. Such an overcapacity it is not *per se* an issue as it might help the French gas market's security of supply in case of emergency and/or supply disruptions. The beneficiaries of such security of supply are the French domestic consumers and, ideally, the costs of such overcapacity should not be charged at the cross-border exit points, otherwise other systems would end up paying for the security of supply of another system.

In its document, CRE states that missing revenues from such a decrease in entry capacity bookings should be recovered equally from all the points in the system: this would lead to a redefinition of the entry/exit split towards the end of ATRT7 to 30/70 (from 35/65). We do not agree with the way this issue is being treated. We believe that the expected capacity bookings should be an input to the



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methodology when setting the transportation tariffs in the system and that tariffs are to be calculated taking into consideration i) the predetermined entry/exit split and ii) what the future level of capacity subscriptions will be. It is not fair to consider the missing revenues from future (lower) subscriptions as a separate exercise to be treated differently from the rest of the revenues and to be socialized as if this was not expected at the beginning of the tariff period (ATRT7).

We therefore propose to include the predetermined entry/exit split and the lower expected subscriptions from entry points as inputs for the calculation of ATRT7 entry tariffs.

Regarding the changes in tariffs during the regulatory period (ATRT7) we propose to keep the existing system whereby tariffs on the *reseau principal* are only adjusted by inflation as this will provide more predictability and stability to the system. These elements are necessary for the further development of liquidity on the PEG.

Question 12 Quelle est votre position sur l'offre de transfert de capacités entre PIR à prix préférentiel selon les modalités proposées par GRTgaz ?

Eni supports the ongoing work aimed at the definition of a reshuffling service to be introduced in the French system. This would increase the flexibility for suppliers and would allow a more efficient use of the network.

We do not fully agree with the reshuffling service as described in the consultation document, for the following reasons:

1. From our experience of this service in other systems (e.g. Belgium and Italy), the proposed 10% fee is not justified as it does not reflect the costs for the TSO in providing this service. The fee should be significantly lower, otherwise it might represent a barrier to the use of such service;
2. Besides the geographic reshuffling foreseen by GRTgaz, we believe that the French system would benefit from having also a "temporal" reshuffling service. This means that network users should be offered the opportunity to move part of their subscribed capacities to the following gas years, also beyond the termination of their capacity contracts. This option would help the system avoiding a drastic reduction of subscribed capacities (and, subsequently, revenues for the TSOs) when these contracts come to an end.

We believe that the above-mentioned concerns should be addressed before introducing this service. Moreover, the regulatory framework should ensure that in case the reshuffling service led to a reduction in revenues for the TSOs, this should be addressed by avoiding any cross-subsidies between different users.

Question 16 Etes-vous favorable au maintien dans le tarif ATRT7 des principes de tarification du réseau régional en vigueur dans le tarif ATRT6 ?

Yes, Eni agrees to keep the existing rules regarding the calculation of tariffs for the regional network.

Question 18 Etes-vous favorable à la suppression du 2eme seuil des pénalités pour dépassement de capacité comme proposé par GRTgaz ?

Yes, Eni is in favour to use the formula proposed by GRTgaz and to align the calculation method for both TSOs. The proposal presented by Terega should be further clarified.



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Question 19 Etes-vous favorable à l'arrêt du système de redistribution des pénalités, qui seraient reversées par les GRT via le tarif ?

Yes, Eni agrees with the proposal presented by CRE to pay back the penalties via the CRCP.

Question 20 Etes-vous favorable à la suppression de l'offre d'acheminement interruptible à préavis court ? Si oui, considérez-vous que cette suppression devrait intervenir en parallèle de la mise en oeuvre de l'interruptibilité ?

Yes, Eni agrees with both proposals.

Question 21 Etes-vous favorable à la suppression du terme de proximité ?

Eni does not agree with the proposal to remove the *terme de proximité*. In our opinion, the main advantage of keeping this *terme* is that it incentivises the end consumers not to build its independent connection with an adjacent TSO. At the same time, such *terme* allows to have a consistent approach with the TP tariff on the distribution network, aimed at avoiding the development of direct connections with the transportation network.

Question 22 Etes-vous favorable au maintien de la remise raccordement selon les modalités en vigueur ?

Yes, Eni agrees to keep the existing rules regarding the *remise raccordement*.

Question 23 Considérez-vous comme la CRE qu'une extension du périmètre de la compensation stockage aux consommateurs raccordés aux réseaux de transport n'est envisageable qu'avec la mise en oeuvre d'un dispositif d'interruptibilité permettant une exonération partielle ou totale de la compensation stockage ?

Yes, Eni strongly agrees with the proposal presented by CRE to extend the scope of the *terme stockage* to customers connected to the transmission network only with an interruptibility mechanism enabling partial or full exemption from the *terme*. In fact, we believe that there needs to be alignment between the rules provided on the distribution and transportation level and to ensure consistency with the scope used for the storage obligation determined by Ministerial order. In this framework, the TSOs should also provide to the shippers the CAR and profile code for each site.

Question 24 Etes-vous favorable à l'envoi d'un signal économique aux producteurs de biométhane concernant la localisation des installations, afin de réaliser en priorité les installations engendrant le moins de contraintes sur le réseau ?

We agree with the approach presented so far by CRE.