

## **Decision of the Commission de Régulation de l'Énergie of 12 December 2007 concerning the investment programmes of GRTgaz and TIGF for 2008**

Pursuant to Article 21 of the law No. 2003-08 of 3 January 2003, the transmission system operators (TSOs) GRTgaz and TIGF submitted their 2008 investment programmes to the Commission de Régulation de l'Énergie (CRE) for approval.

### **1. Context**

- 1.1 Article 21 of the law of 3 January 2003, amended by the law of 7 December 2006, defines CRE's approval authority as follows: *"the investment programmes of transmission system operators are subject to the approval of the Commission de Régulation de l'Énergie which ensures the provision of the necessary investments for the development of the networks and that access to them is transparent and non-discriminatory. The Commission de Régulation de l'Énergie can only refuse to approve an annual investment programme on grounds arising from the missions assigned to it by law"*.
- 1.2 Article 18 of the French law of 10 February 2000, amended by the law of 7 December 2006, sets out the missions assigned to CRE: *"In accordance with the areas of competence assigned it, the Commission de Régulation de l'Énergie contributes, for the benefit of the end consumers, to the proper functioning of the electricity and natural gas markets. In particular, it ensures that the conditions of access to the transmission and distribution systems of electricity and natural gas do not hinder the development of competition [...]"*.
- 1.3 Consequently, CRE bases its decision regarding the analysis of the TSOs' investment programmes on the following main criteria:
  - the investment programme includes projects or studies on the projects which are necessary for the proper functioning of the market;
  - transparent and non-discriminatory treatment of market players, for example as regards the connection of LNG terminals and gas combined cycles;
  - cost control of projects included in the investment programme.
- 1.4 However, to approve these programmes, CRE does not give an opinion on compliance with the statutory obligations incumbent on the TSOs. These mainly concern extreme cold conditions, the reduction of pollutant emissions from compression stations and the physical control of the installations.

## **2. Description of investment programmes submitted by the transmission system operators**

### ***GRTgaz investment programme***

- 2.1 The investment programme submitted by GRTgaz is 585 M€ for 2008.
- 2.2 The investment expenditure related to development projects for the main network is 211 M€. Almost all the expenditure concerns three projects: the reinforcement of entry capacities at Obergailbach, for 80 M€, the creation of the new North zone, for 69 M€, and the completion of Phase I of the Guyenne pipeline, for 41 M€.
- 2.3 The investment expenditure related to development projects for the regional network is 85 M€ and is concentrated on the Centre Atlantique et Rhône Méditerranée regions.
- 2.4 The investment expenditure related to projects for improved safety and renewal of obsolescent assets is 95 M€. More than half of this expenditure concerns the renewal of interconnection stations within the network.
- 2.5 The investment expenditure related to environmental projects is 121 M€ and essentially concerns the adaptation of compression stations to statutory requirements in terms of pollutant emissions.
- 2.6 The investment expenditure related to connections is 47 M€, approximately two-thirds of which is for the connection of electric power plants<sup>1</sup>.
- 2.7 Other investment expenditure (real estate, gas quality, etc) is 26 M€, including 8 M€ for information systems.

### ***TIGF investment programme***

- 2.8 The investment programme submitted by TIGF is 191 M€ for 2008.
- 2.9 The investment expenditure related to development projects for the main network is 137 M€, very largely concentrated on Phase I of the Guyenne pipeline (i.e. 132 M€).
- 2.10 The investment expenditure related to development projects for the regional network is 18 M€.
- 2.11 The investment expenditure related to projects for improved safety and renewal of obsolescent assets is 18 M€, shared equally between the main network and the regional network.
- 2.12 TIGF does not plan any investment expenditure related to environmental projects in 2008.
- 2.13 The investment expenditure related to connections is 5 M€, and mainly concerns new supplies to industrial customers.

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<sup>1</sup> For connections of industrial customers and gas-fired electric power plants, the investment expenditure is made by the TSOs and invoiced to the project sponsors. The corresponding income is deducted from the operating costs covered by the transport tariff but, on the other hand, the investment becomes part of the regulated assets base.

2.14 Other investment expenditure (real estate, gas quality, etc) is 13 M€ including 6 M€ for information systems.

### **3. Comments by CRE**

#### *General comments*

3.1 For both operators, the investment budget planned for 2008 is significantly up compared with previous years:

- the average annual investment expenditure by GRTgaz for the years 2005 to 2007 was 250 M€
- the average annual investment expenditure by TIGF for the years 2005 to 2007 was approximately 80 M€

These increases are part of a long-term trend illustrated by the TSOs' ten-year investment plans, which forecast approximately 5 billion euros for GRTgaz and 1 billion euros for TIGF over this period.

3.2 There are three main reasons for the increase in the TSOs' investment expenditure:

- significant development of the gas transmission network, which is reflected in an increase in the number of projects. The development of the transmission network, which is due particularly to the increase in gas entry capacities in France (land-based interconnections, LNG terminals), meets market demand and will have a positive impact on the development of competition. In addition, it will help to improve security of supply of natural gas;
- compliance with new statutory obligations, in particular regarding safety (order of 4 August 2006) and the environment (new emission standards);
- significant increase in the unit costs of projects, particularly as concerns expenditure for engineering, materials and civil works. This evolution reflects the present tension on the service market for oil and gas projects.

3.3 The TSOs' investment programmes for 2008 are consistent with the other documents on investments published during 2007, and in particular:

- the ten-year plans, published on the TSOs' websites;
- the development plans for French-Spanish interconnections, published jointly by the French and Spanish TSOs, in the context of the South regional initiative, coordinated by ERGEG;
- the indicative pluri-annual investment plan for the gas sector ("gas PIP"), published by the Minister for Energy in March 2007.

#### *GRTgaz investment programme*

3.4 The investments for development of the main network, which were decided on during or prior to 2007, to which CRE pays special attention in view of their significant impact on the proper functioning of the market, appear in GRTgaz's investment programme, with a schedule and amounts which match CRE's expectations.

These are:

- the connection of the Fos Cavaou terminal to the main transmission network, planned during 2008;
- increased entry capacities at Obergailbach, in November 2008 and then November 2009;
- merging of the North, East and West balancing zones, as of 1 January 2009;
- increased transmission capacities between the GRTgaz South zone and the TIGF zone ("Guyenne pipeline Phase I"), in early 2009;
- investments for gas deodorisation at Taisnières, allowing the physical evacuation of gas toward Belgium, which is scheduled for commissioning in November 2010.

3.5 Studies on investments to improve the functioning of the gas market, which are not yet decided upon but for which a decision could be taken in 2008, appear in the investment programme of GRTgaz, with a schedule and amounts which match CRE's expectations.

These are:

- increased entry capacities at Taisnières, planned for 2012;
- increased entry capacities at Dunkirk, Antifer and Montoir, in relation with projects for the creation or extension of LNG terminals on these sites;
- increased transmission capacities between the GRTgaz North zone and the GRTgaz South zone;
- increased transmission capacities between the GRTgaz South zone and the TIGF zone ("Guyenne pipeline" Phase III), planned for 2011.

3.6 The investments for connection of gas combined cycles which appear in the 2008 programme are compliant with the maturity of the projects. Three connection contracts were signed in 2007, bringing to eight the total number of connections of gas combined cycles currently under way on the GRTgaz network.

3.7 The investments for connection of LNG terminal projects which appear in the 2008 programme are compliant with the maturity of the projects. Three study agreements were signed in 2007 for the Dunkirk, Antifer and Montoir projects.

#### ***TIGF investment programme***

3.8 The investments for development of the main network, which were decided on during or prior to 2007, to which CRE pays special attention in view of their significant impact on the proper functioning of the market, appear in TIGF's investment programme, with a schedule and amounts that match CRE's expectations.

These are:

- increased transmission capacities between the GRTgaz South zone and the TIGF zone ("Guyenne pipeline" phase I), in early 2009;
- the first phase of the development of interconnection capacities with Spain at the Larrau point, for commissioning scheduled during the winter of 2009 - 2010.

- 3.9 Studies on investments to improve the functioning of the gas market, which are not yet decided upon but for which a decision could be taken in 2008, appear in TIGF's investment programme, with a schedule and amounts which match CRE's expectations.

These are:

- the second phase of development of the interconnection capacities with Spain at the Larrau point, scheduled for 2011;
  - increased transmission capacities between the GRTgaz South zone and the TIGF zone ("Guyenne pipeline" Phases II and III), scheduled for 2010 and 2011.
- 3.10 Studies for the connection of a gas combined cycle were carried out by TIGF in 2007. Investment expenditure for the connection of this facility appear in TIGF's 2008 investment programme.
- 3.11 Studies for the connection of an LNG terminal project on the Verdon site appear in TIGF's investment programme, following the signature of a study agreement with the project sponsor in 2007.

*Consistency of investment programmes*

- 3.12 The investment programmes of GRTgaz and TIGF are in agreement regarding investment projects under the joint responsibility of the two TSOs (projects for "Guyenne pipeline" Phases I, II, and III).

**4. Decision on GRTgaz investment programme**

- 4.1. CRE approves the 2008 investment programme of GRTgaz, in an amount of 585 M€ broken down as follows:

2008	In millions of €
Main network – development	211
Regional network – development	85
Safety and obsolescence	95
Environment	121
Connections	47
Other	26
<b>Total</b>	<b>585</b>

- 4.2 CRE asks GRTgaz to submit a report, during July 2008, on the execution of this decision. Any change to the investment programme must be submitted to it for approval.

When presenting this report, GRTgaz will also supply:

- a study on the trend in actual unit costs of the investment projects;
- a study on investments in the information systems planned by GRTgaz;
- a study on the best schedule for provision of the investments intended to increase the transmission capacities between the GRTgaz North zone and the GRTgaz South zone.

## 5. Decision on TIGF investment programme

5.1 CRE approves the 2008 investment programme of TIGF, in an amount of 191 M€ broken down as follows:

2008	In millions of €
Main network – development	137
Regional network – development	18
Safety and obsolescence	18
Environment	-
Connections	5
Other	13
<b>Total</b>	<b>191</b>

5.2 CRE asks TIGF to submit a report, during July 2008, on the execution of this decision. Any change to the investment programme must be submitted to it for approval.

When presenting this report, TIGF will also supply:

- a study on the trend in actual unit costs of the investment projects;
- a study on investments in the information systems planned by TIGF.

Signed in Paris, 12 December 2007

For the Commission de Régulation de l'Energie

President

Philippe de Ladoucette