

**PRICING FOR USE OF THE NATURAL GAS TRANSMISSION NETWORKS  
AS FROM 1<sup>ST</sup> JANUARY 2009  
Summary of the public consultation held in May 2008**

From 13<sup>th</sup> May to 6<sup>th</sup> June 2008, CRE organised a public consultation on the forthcoming gas transmission tariffs applicable as from 1<sup>st</sup> January 2009.

CRE received 45 contributions (list appended):

- 12 from gas end-consumers or organisations representing them;
- 18 from shippers or organisations representing them;
- 2 from French transmission system operators;
- 6 from gas infrastructure operators (distribution system operators, LNG terminals, storage facilities or foreign networks);
- 7 from other market players (producers, associations and energy consultancy firms...).

Most of the contributors would like to see the tariff period extended to 4 years while retaining the option of adjustment after two years in the event of structural changes. They are also in favour of incentive regulation for operator costs on the condition that this is linked to a service quality regulation.

Contributors' opinions are more divided when it comes to schemes for return on assets and incentive for investment in gas transmission networks. Most approve the projected changes in the scheme for incentive to invest. They are more receptive to TSO requests to cover stranded costs and provisions for decommissioning than to those concerning the RAB revaluation index and return on fully depreciated assets.

Concerning the tariff structure, contributors are largely in favour of the overall structure comprising three balancing zones proposed by CRE. They are also favourable to the tariff rules proposed at transport-storage interfaces (scheme for interface tariff equalisation) and those at LNG terminals (tariff equalisation based on an economic test).

Finally, concerning changes in tariff charges, most contributors are in favour of the projected tariff levels at the GRTgaz-TIGF network interface. On the other hand, they consider that the tariff level proposed at the GRTgaz network North-South link in the South-to-North direction is too high.

## **A. QUESTIONS CONCERNING THE REGULATION FRAMEWORK AS FROM 1<sup>st</sup> JANUARY 2009**

Question 1: *Do you agree with extending the tariff period? Do you think that a 4-year period is suitable?*

Industrial consumers are in favour of extending the tariff period. They even think that a 10-year tariff period would be a good idea. According to them, this would enable them to set up a long-term supply policy. Such economic visibility would contribute to ensuring the continued existence of French industrial sites.

Tariffs would be automatically revised each year according to principles determined beforehand (rate of return, rules governing RAB integration, tariff charge calculation methods...). These principles would only be modified in the event of major structural changes such as the merger of GRTgaz's North and South zones.

One consumer is in favour of an initial 4-year period. He believes that launching the incentive regulation will require feedback after this period.

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9 shippers are in favour of extending the tariff period to 4 years. In their view, this would ensure the continued existence of offers to end-consumers and help them in their decision-making regarding investments, especially in the case of combined cycle gas turbines (CCGT). Several of these shippers suggest that the tariff period should be extended to 4 years but with a "review clause" after two years, so that any changes in tariff structure can be taken into consideration, should this be necessary. They believe that a 4-year tariff structure should not lead to a freeze in Transmission System Operator (TSO) investments, in particular with a view to reducing the number of zones on the territory, and that modifications to tariff level should be transparent. They would also like the regulator to check that projected investments are indeed made, and justify revenues allocated to TSOs. One of these shippers suggests reconciling the expenses and revenues clawback account (CRCP) after two years.

On the other hand, 8 shippers, most of whom are newcomers with an activity on the retail market, are against extension of the tariff period. In their view, the French market is in a transitional phase. There will be many changes in the short term: the construction of a large number of CCGT will impact transportation rules; commissioning of the Fos Cavaou LNG terminal and the creation of new interconnections will modify the transportation system in the south of the territory; the launch of the gas exchange in 2009 will influence French market players' behaviour. Moreover, these players would like the feasibility and cost of merging the GRTgaz North and South zones by 2011 to be studied.

Thus, in order to adapt to the new system of three balancing zones and avoid freezing any future changes in the transmission system, shippers feel that a two-year tariff period would be appropriate.

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The TSOs support the proposal to extend the tariff period to 4 years. They believe that conditions are right: the tariff structure is stabilised (3 zones in series with an entry/exit tariff); the OPEX trajectories and investment projects are sufficiently reliable. In addition to which, they feel that it is necessary to give visibility to market players and choose a tariff period which is coherent with European standards. However, TIGF points out that extending the tariff period increases its exposure to the risk of changes in regulations.

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Two adjacent infrastructure operators are in favour of extending the tariff period, creating stability which is favourable both to TSOs and network users. One points out that a 4-year period is consistent with practice in other European countries and that the beginning of the following tariff period will coincide with the commissioning of transmission capacities between France and Spain.

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A professional association in the gas sector is also in favour of a 4-year tariff period but believes that a “review clause” after 2 years is necessary given the remaining uncertainties regarding changes in the French market (start-up of CCGTs, LNG terminals, impact of the merger of GRTgaz north, west and east zones...).

**Market players are divided on the question of extending the tariff period to 4 years. However, most of them would like to see the possibility of reviewing the tariff structure after 2 years, either by determining the tariff for a 2-year period or by determining it for 4 years with a review clause.**

Question 2: *What do you think of the principle of incentive regulation for TSOs?*

All end consumers are in favour of the incentive regulation principle. Setting up annual productivity objectives would encourage TSO efficiency and most end consumers would like to participate in determining these objectives. However, one consumer stipulates that improved productivity should not be achieved to the detriment of service quality.

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The incentive regulation principle meets with the approval of practically all shippers. This principle would encourage TSOs to optimise their network use and reduce their costs. Only one shipper is against the measure. In his view, a stable transmission network structure is a prerequisite for establishing productivity objectives for network operators.

Several shippers who are in favour of incentive regulation emphasise the need to maintain, or even improve, the TSOs’ quality of service simultaneously with their productivity efforts. One shipper would like to see implementation of an incentive system similar to the one governing the gas distribution tariff.

There are several comments on the necessary level of incentive.

Two shippers in favour of incentive regulation feel that it is too soon to consider a financial incentive and that feedback based on a 2-year experience is necessary. One shipper maintains that productivity gains should be shared between TSOs and their customers and that small-scale achievements of objectives should not be rewarded. Two shippers feel that TSOs should be fined if they do not fulfil their contractual obligations but should not be eligible for a bonus for merely meeting these obligations.

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TSOs come out in favour of the incentive regulation principle but with several reservations. In their view, the authorised OPEX level should enable them to achieve their objectives. In a context of changing regulations (multi-fluid decree) and heavy investment, productivity efforts must be reasonable in order to maintain service quality.

Moreover, GRTgaz considers that the expenses and revenues clawback account (CRCP) should cover any risk of delay in commissioning when developing capacities jointly with a neighbouring operator.

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An infrastructure operator feels that productivity should only apply to operating and manageable costs.

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A producer and a professional association in the gas sector support the incentive regulation principle while calling to mind that service quality should not be deteriorated.

Two employee organisations have reservations. According to them, productivity gains imposed on transmission network employees over the past years have already had a negative impact on working conditions. In the long term, this situation could have an impact on quality of service and safety. They would not be against implementing an incentive regulation on the condition that staffing expenditure related to productivity efforts is discussed with trade unions first.

<b>Most contributors are in favour of the incentive regulation principle.</b>
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*Question 3: Concerning quality of service, do you have any comments on the proposed list of indicators to be monitored and those specified for financial incentive? Do you have any additional proposals for these two categories?*

The end consumers who replied wish to participate in determining any objectives. Additional indicators should be set up regarding connections (time necessary to modify delivery stations, guaranteed pressures, capacity requests, quality of gas delivered...) and network maintenance (publication of and compliance with plans, amount of capacity down-time, coordination with adjacent operators...).

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In the view of shippers, indicators for quality of service should concern:

- maintenance and construction plans as a priority, for 11 shippers. The time taken to publish and compliance with these plans should be assessed. The amount of capacity reduction should be measured. 5 shippers are in favour of a financial incentive concerning this point. In particular, capacities made unavailable could be refunded as a financial incentive;
- allocation quality in the opinion of 9 shippers. These data are in fact essential to shippers' balancing. Keeping to deadlines in publishing provisional allocations at D+1 and discrepancies in provisional and actual allocations could give rise to a financial incentive. One shipper insists that a financial incentive is necessary here. Another would like to see monitoring of the quality of infra day readings at industrial delivery points;
- the availability (or existence) of a TSO customer portal and the quality of data published on TSO websites are cited by 5 shippers;
- customer relations in the view of 3 shippers, notably monitoring of how disputes between TSOs and users are processed;
- TSO methane emissions for 3 shippers;
- keeping to deadlines for transmitting gas collection information at transport distribution interface points (PITD) to distribution system operators for LDCs.

Finally, two shippers feel that there is no need to assess the time taken to process requests for capacity reservations.

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The TSOs are against creating indicators related to maintenance plans, in particular the amount of reduction in available capacity (GRTgaz) and the amount of overlapping in maintenance plans with adjacent operators (GRTgaz and TIGF). As far as they are concerned, it is particularly important for there to be no inconsistency between such indicators and their security obligations.

TIGF also questions the distinction between indicators for remote-read and estimated data.

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One infrastructure operator is against any incentive involving the amount of overlapping in maintenance plans between operators which would be contrary to his statutory obligations. Another operator points out that quality of service regulation is being considered in other European countries and that objectives must be determined with caution. In his view, the operator should be rewarded in addition to his authorised revenue if he meets the objectives he has been assigned.

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Finally, one producer would like to see fines for TSOs in the event of unavailability of transmission capacities. A professional association in the gas sector comes out in favour of quality of service but points out that it is very difficult to assess with respect to the TSO maintenance plans. An employee organisation would like to see the integration of indicators for safety, security and sustainable development (environmental and social).

**Market players respond favourably to the proposed indicators. Concerning TSO maintenance plans, there are opposing points of view: consumers and shippers are strongly in favour of incentives for quality of service in this area, whereas TSOs are against this principle since they maintain that quality of service during maintenance and construction phases must not be detrimental to properly fulfilling their statutory obligations in terms of safety.**

## B. FINANCIAL QUESTIONS

Question 4: *Do you think that the rate of return on natural gas transmission assets in force is adequate given the nature of and risks involved in this activity?*

4 shippers and 1 adjacent operator consider that the current rate of return on assets is adequate on the basis of the information they have.

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5 shippers, industrial consumers, one producer and an adjacent operator consider that the current rate of return on natural gas transmission assets is too high. They give two main reasons. First of all, the regulated activity of TSOs entails little risk and their returns seem too high compared to the risks taken. The second reason is based on results of a comparison between the current rate of return on the French market and rates of return observed in other countries for comparable activities. These results tend to show that the current rate of return in France is among the highest in Europe with no apparent justification.

Industrial consumers feel that the rate of return on assets should be set at a level in the vicinity of the long-term risk-free rate on financial markets.

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TSOs point out that the current return is a minimum given the size of their future investment plans. They also indicate that any changes in ruling which they deem hostile would be unfavourable to investment.

<b>The question of rate of return on transmission assets is a point of disagreement among market players.</b>
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Question 5: *What do you think of the TSOs' requests concerning the RAB calculation method?*

Four requests were submitted for consultation by market players. Several of them did not reply in the absence of more detailed figures.

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Request no 1: Annual RAB revaluation with an index which is more representative, according to TSOs, of the changes in investment costs than the INSEE index excluding tobacco adopted for the tariff in force:

3 shippers and 2 adjacent operators consider that the TSOs' request is justified. They underline the pertinence of indexing the RAB to indices representing cost-inducers correlated to those supported by TSOs in the course of their activity. However, they also recall the importance of reliability, availability and transparency criteria in choosing a revaluation index.

One shipper and the industrial consumers are against this request. The latter consider moreover that assets in the RAB should be taken into account at their net book value (depreciated book value).

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Request no 2: return on fully depreciated assets, according to their economic lifetime set in the tariffs, but which are still in use:

1 shipper and 3 adjacent operators are in favour of this. They believe that return on fully depreciated assets is totally justifiable from an economic point of view. It would encourage optimising assets in use by

TSOs and would avoid renewing an asset merely on the grounds that it no longer warrants return in the RAB.

2 shippers and the industrial consumers are against this measure. They consider that only taking into account operating charges linked to fully depreciated assets in the tariff can be justified.

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Request no 3: Taking into account assets removed from the inventory before the end of their economic lifetime (stranded costs):

3 shippers, 3 adjacent operators and the industrial consumers are in favour of this request. They emphasize that the removal of certain assets can be justifiable (regulations, safety, environment, optimisation). However, they specify that integration of stranded costs into the RAB should be subject to CRE approval on the basis of a file justifying removal of the assets concerned.

One shipper considers that this request is “questionable”.

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Request no 4: Cover of provisions for decommissioning facilities and restoring sites to their initial state:

5 shippers, 2 adjacent operators and the end consumers are favourable to the principle of this request on the grounds that these costs are supported by the TSOs and that covering these costs through tariffs is justifiable in theory.

They stipulate that the amounts in question are subject to CRE approval.

Given the lack of further information, the other market players preferred not to comment on this request.

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One shipper points out that for the sake of consistency, if all or some of these requests are taken into account, the risk level decreases and this should therefore lead to a revision of the rate of return on assets.

<p><b>On the whole, market players respond favourable to requests concerning stranded costs and covering provisions for facility decommissioning. They feel however that TSO requests concerning change in the RAB revaluation index and return on fully depreciated assets still in use are less justifiable.</b></p>
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*Question 6: What do you think of the proposal to change the investment incentive scheme for gas transmission networks?*

8 shippers and 1 adjacent operator emphasised the advantages of the proposed incentive scheme for investment particularly with respect to creating capacity and facilitating exchanges.

Certain players moreover wish to participate in defining projects which could possibly benefit from incentives.

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One shipper, one producer and the industrial consumers are against the very idea of incentive for investment in gas transmission networks.

They believe that an incentive mechanism is not justified with respect to a regulated activity. The regulation authorities should make the required investments mandatory for TSOs and not subject to specific financial incentives.

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The TSOs are in two minds over the changes in the incentive mechanism:

GRTgaz believes in particular that the proposed changes in the incentive for investment scheme are on the right track regarding clarification of the rules, even if they penalise the transmission operator financially. TIGF is against the proposed changes and maintains that the loss in return brought about by implementing this change in the system should be compensated financially by taking into consideration some of its requests related to RAB calculation.

**Most contributors approve the measures envisaged by CRE. The different market players emphasise the need to implement a unambiguous system contributing to the achievement of clearly defined objectives.**



## C. QUESTIONS RELATED TO THE TARIFF STRUCTURE BEGINNING ON 1<sup>st</sup> JANUARY 2009

Question 7: *What do you think of the range of tariff charges being considered for the North-South link and South-TIGF interface?*

The industrial consumers are against the proposed changes in tariff charges for GRTgaz's North-South link. The level of the North-to-South charge could be detrimental to competition in the South zone, currently supplied mainly by the North. In their view, there is no justification for a rise in the South-to-North charge since there is no congestion in this direction. Moreover, 3 other end consumers believe that increasing the cost of gas from the south to the north would weaken the competitiveness of supply sources located in the south.

End consumers would prefer to see an increase in exit charges from the territory to avoid trading operations on foreign hubs resulting in gas leaving the territory.

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The shippers have different opinions regarding the range of charges at GRTgaz's North-South link:

- for 6 shippers, the North-to-South charge should be reasonable. For too high a level could be detrimental to the market in the South zone;
- on the other hand, 6 shippers respond favourably to the North-to-South charge. One of them feels however that the revenues from this link should be used to alleviate congestion;
- one shipper feels that the North-to-South charge is too low to encourage the investments needed to decongest the network;
- 8 shippers consider that the South-to-North charge should be well below the North-to-South charge. They feel that to begin with, supply from the south should be advantaged (Fos Cavaou and Verdon terminals, new interconnections with Spain) to help rebalance flows;
- whereas for one shipper, the North-to-South and South-to-North charges should be equalised since the arrival of new supply sources in the south will lead to a rebalancing of flows in both directions.

One shipper maintains that the open subscription periods organised by GRTgaz do not give an efficient economic signal regarding congestion at the North-South link. Auction of these capacities would impart a clear economic signal, thus facilitating GRTgaz decision-making with respect to investments for mitigating congestion. Any additional revenues generated by auctions could be offset through the expenses and revenues clawback account (CRCP).

Few shippers have anything to say about the GRTgaz South zone interface with TIGF. One of them states that he is satisfied with the adopted level. Another says that he is in favour of equalising the South-to-TIGF and TIGF-to-South charges but at a lower level than the one proposed. A third shipper feels that the level adopted for TIGF-to-South is detrimental to the potential cost-effectiveness of the Verdon LNG-terminal project.

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GRTgaz maintains that it would be better to equalise the charges for both directions at the North-South link, as proposed for the South-TIGF interface, to give the relevant signal to the market, particularly in view of a future open season for developing capacity at the North-South link.

Both TSOs consider that the level adopted at the South-TIGF interface is insufficient to cover development costs at this point of the network in the long term.

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One infrastructure operator feels that the level proposed for the South-to-North charge is too high and contradicts the open subscription period results.

**Concerning the North-South link, most market players find the price of capacity too high, especially in the backhaul direction, from the south to the north.**

Question 8: *What do you think of setting up a nomination system between the North and South zones? Do you have additional proposals for facilitating the implementation of such a system?*

Industrial consumers are against setting up a nomination system between the GRTgaz North and South zones. They feel that such a system would advantage the historical supplier by increasing shippers' balancing constraints and that the increase in cost would be borne by the industrial customers.

Industrial consumers also request that rules for allocating balancing tolerance should be amended. In their view, newcomers and industrial purchasers do not benefit from as wide a range as the historical suppliers since they only supply a limited number of sites. For this reason, a larger balancing tolerance should be allocated to small portfolios.

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Shippers are divided with respect to implementing a nomination system at the North-South link:

Seven shippers support this proposal. Nomination at the North-South link will enable a more transparent, optimised use of capacities in their view.

One of them points out that this will notably make a short-term use-it-or-lose-it mechanism feasible. For 2 shippers, the development of the delivery capacity second market should be a positive outcome of the nomination system and should be advantaged compared to the UIOLI system, insofar as this is possible.

Although they respond favourable to the nomination system, some shippers consider that additional measures are necessary. Measures such as the redistribution of tolerances in favour of the south zone or the implementation of indicators for the quality of temporary and final allocations are mentioned.

One shipper points out that the nomination system should encourage shippers to be better balanced per zone. As a result, GRTgaz's OPEX linked to balancing should decrease.

Seven other shippers have reservations. They are in favour of the principle of nomination at the links but want to avoid allocated quantities being exactly equal to nominated quantities. If this were the case, it would be the end of dispatching imbalances between the GRTgaz balancing zones. One shipper considers that this would amount to deterioration in services proposed by GRTgaz. Four shippers emphasise that fully independent balancing of the South zone would be far more restricting for them.

And so these shippers call for additional measures such as redistribution of the tolerance to the advantage of the south and small portfolios, an algorithm for optimising North-South flows ex post, real-time availability of remote-read data, a forecast system for readjustment factors k...

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TSOs wish to see the implementation of a nomination system at the North-South link: TIGF believes that this position complies with European recommendations. GRTgaz indicates that allocated and nominated quantities at the same level and therefore, an end to imbalance dispatch a posteriori, will be a good indicator to shippers of where their imbalances occur. Another positive outcome would be the optimisation of link marketing and use as a result of UIOLI implementation.

However, GRTgaz realises that this measure will make South-zone operation less flexible. It specifies that it is working on redistribution of balancing tolerance to the advantage of this zone.

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The adjacent infrastructure operators are in favour of a nomination system at the north-south link. Two of them believe that it will increase transparency and optimise capacity use as a result of UIOLI implementation. One infrastructure operator points out that implementing this system is a prerequisite for the new storage structure. Another operator maintains that such a system would foster the creation of a European energy corridor.

**Most players are not against a nomination system between the GRTgaz North and South zones as long as additional measures are adopted to avoid limiting supplies in the South zone.**

Question 9: *What do you think of the new transport-storage interface scheme on the GRTgaz network as from 1<sup>st</sup> April 2009?*

Consumers are in favour of implementing this new scheme.

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Seven shippers approve of this new scheme which simplifies things compared to the current situation. However, one shipper recalls that he is still waiting for the technical details of the future storage groups. Another shipper suggests going even further towards simplification with only one transport storage interface point (PITS) per balancing zone (with the various storage groups remaining as proposed).

On the other hand, four shippers have reservations concerning this new scheme. They feel that the division of the Centre group is not physically justifiable, that it brings about a loss in flexibility for shippers and could cause increased congestion of link capacities between the GRTgaz North and South zones. In the view of these shippers, the proposed scheme is at odds with the possible future merger of GRTgaz's two balancing zones. The shipper group points out the lack of discussion with Gaz de France DGI related to changes in its storage offer.

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GRTgaz approves of the new scheme. It makes the transmission network requirements consistent with the storage offer.

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One infrastructure operator is also in favour of the proposed scheme.

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An employee organisation shares this opinion.

**Contributors are largely in favour of the proposed transport storage interface scheme.**

Question 10: *What do you think of equalising the tariff charges at transport-storage interface points (PITS) on the GRTgaz network as from 1<sup>st</sup> April 2009?*

A priori, industrial consumers are in favour of equalising the tariff charges at transport storage interface points (PITS). However, they do not feel in a position to assess the real impact of the change.

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Nearly all shippers support equalising the charges at transport storage interface points (PITS). This measure will simplify matters and is consistent with putting an end to the Centre group's specificity.

Only one shipper is against equalisation. His main preoccupation is the level adopted for charges at transport storage interface points (PITS) which seem to increase far more than other tariff charges. Such a decision would mainly penalise shippers not using the Centre storage facility.

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One infrastructure operator comes out in favour of equalising tariff charges at transport storage interface points (PITS) since the Centre group's specificity no longer exists. However, he is also against increasing charges at transport storage interface points (PITS) above the average tariff charge increase.

<b>Contributors are largely in favour of equalising the tariff charges at transport storage interface points (PITS) on the GRTgaz network.</b>
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*Question 11: What do you think of the distribution between the North-to-South link and injection at the "Atlantique" transport storage interface point (PITS) of capacities made firm thanks to the Montoir gas send-out?*

Industrial consumers either have no opinion on this matter or feel that they do not have enough information to give one. However, one of them emphasises the need for transparency with respect to shippers concerning the availability of North-South link capacities and injection at the Atlantique transport storage interface point (PITS). He recommends that the distribution between the North-South link and injection at the Atlantique transport storage interface point (PITS) should not be final and that it should be possible to adjust it during the tariff period to account for changes in actual flows.

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Three shippers are in favour of the proposed distribution.

However, they have several reservations:

- four shippers regret the lack of information made available, particularly by Gaz de France DGI. They do not feel in a position to assess this proposal properly;
- For four shippers, the availability of capacity at the North-South link and for injection in the Atlantique group will depend on gas send outs from the Montoir LNG terminal. This gives considerable market power to those holding capacities on the terminal. To avoid any competitive distortion, either holders of capacity on the terminal should be compelled to send out gas, or complete transparency must be guaranteed regarding the availability of transmission capacities at the North-South link and injection at the Atlantique transport storage interface point (PITS), or regarding the Montoir terminal's send-out schedule, through publication with adequate notice;
- two shippers would like Montoir send-outs to be dedicated mainly to the North-South link;
- on the contrary, two shippers give preference to availability of injection capacities in the Atlantique group.

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One infrastructure operator supports the proposed distribution which he justifies by demands on the transmission network preventing a perfect match between transport and storage offers. He recommends that it should be possible to change the distribution of capacities contingent on Montoir send-outs between

injection in the Atlantique group and the North-South link after feedback on experience. To conclude, this operator points out that GRTgaz will have to make a special effort to secure the operational implementation of this measure.

Another infrastructure operator would like to see the distribution of Montoir send-outs take into account projects for interconnection with foreign networks and foster the creation of European energy corridors.

**A large majority is in favour of the distribution proposed between the North-to-South link and injection at the “Atlantique” transport storage interface point (PITS) of capacities made firm thanks to the Montoir gas send-out. There is a strong call for transparency regarding the Montoir terminal send-out schedule.**

Question 12: *Do you have any comments on the allocation rules for entry point capacities from LNG terminals?*

Consumers approved the proposed allocation rules. In their view, automatic allocation of transmission network entry capacities according to the regasification capacities held will make for better operational coordination between operators and better coordination of investments.

One consumer would like to see a portion of these capacities reserved for newcomers.

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Eight shippers approve the proposed allocation rules. There are nevertheless some comments on operation:

- 2 shippers would like more flexibility in transferring capacities at entry points;
- 1 shipper would like to see capacity allocation automatically shifted if unloading is shifted and more flexibility in processing capacity overshoots (provided it is not detrimental to other users).

Three shippers have reservations concerning the allocation rules as they currently stand:

- 2 of them believe that TSOs should be under obligation to develop capacities enabling the evacuation of the terminals’ full gas send-out potential. Capacities at the transport-LNG terminal interface points (PITTM) should amount to 100 % of the terminal’s regasification capacity;
- 1 shipper believes that transport-LNG terminal interface points (PITTM) should be dealt with in the same way as the other network entry points;
- 1 shipper indicates that he subscribes to long-term regasification capacities but that he refuses to commit to long-term agreements related to transport-LNG terminal interface points (PITTM) without any visibility on the level of tariff charges for the full duration of his contract. This shipper even goes as far as to suggest abandoning the subscription system at transport-LNG terminal interface points (PITTM) in favour of an automatic capacity allocation established over time.

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The TSOs approve the allocation rules for capacities at transport-LNG terminal interface points (PITTM). However, GRTgaz believes that it will not be able to control the level of subscriptions at these points and asks for this item to be 100 % included in the expenses and revenues clawback account (CRCP).

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The infrastructure operators also approve of these new rules as they enable the optimisation of terminal and network capacities. On the one hand, the TSO is guaranteed return to the level of the capacities he makes available. And the LNG terminal can be assured of having enough transmission capacities for his users.

Two LNG-terminal operators would like more flexibility for shippers to transfer their capacities at the entry points.

One LNG-terminal operator is preoccupied by possible competitive distortions between terminals leading to different definitions of entry capacities depending on the terminal. In his opinion, the transmission network constraints could push the TSOs in this direction. The question of capacity processing at a transport-LNG terminal interface point (PITTM) where two terminals are linked is also mentioned.

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A professional organisation in the gas sector supports automatic allocation of transmission network entry capacity because it fosters consistency between infrastructures.

**A majority of contributors are in favour of the allocation rules for LNG-terminal entry point capacities.**

*Question 13: What do you think of proposals concerning transmission network entry charges from LNG terminals? What do you think of the idea of introducing an economic test for LNG terminals?*

Industrial consumers see two possibilities: either the terminal is regulated and the equalising principle should be applied, or the terminal is exempt from third party access and end consumers are against applying equalisation.

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Shippers are divided on this question.

Six shippers support both the entry charge equalising principle and the introduction of an economic test. These shippers believe that terminal construction projects should be advantaged while determining a level of investment which can be spread reasonably among the network users.

Three shippers would like to see total equalisation which is not conditional on an economic test. For one of them, the improvement in supply security due to the terminal would be sufficient justification for equalisation. For another shipper, it is important that the new terminals should be competitive compared to infrastructures already amortised.

And then there are three shippers against entry charge equalisation. In their opinion, investments should be made where demands on the network are the lowest, i.e. where the costs of connection and reinforcement are limited. This means it is essential to give a true indication of costs to encourage investors to choose the best location.

One shipper thinks that the increase in entry charges at transport-LNG terminal interface points (PITTM) should be limited to avoid standing in the way of terminal projects and deteriorating the competitiveness of combined cycle gas turbines (CCGT) set up near these terminals.

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GRTgaz supports the idea of equalising and economic test. It does however point out the difficulty of carrying out such a test: if network node reinforcement costs are taken into account, the order in which projects are initiated will be of fundamental importance.

GRTgaz also suggests extending the idea of equalisation to land-based entry points which would share the same expenditure on network node reinforcement as the LNG terminals.

TIGF is against equalising the entry charges. It feels that all costs induced by an LNG terminal should be borne by the users of this terminal.

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Two infrastructure operators do not want to see equalisation conditional on an economic test. In their view, an LNG terminal improves supply security and fosters opening up of the market which in itself compensates investment costs made by the network-user community.

One operator is against the principle of equalisation. Entry charges should give a perfectly true picture of connection and reinforcement costs so that investments are rational.

Three LNG terminal operators are preoccupied by the special treatment from which the Verdon terminal could benefit given that it is linked to both the GRTgaz South and the TIGF zones.

**The market is divided on this question. Nevertheless, most players seem to be in favour of equalising the transmission network entry charges from LNG terminals on the condition that this is subject to an economic test.**

*Question 14: Are you in favour of the proposal to limit marketing of downstream interruptible capacities at transport distribution interface points (PITD) to only when strictly necessary?*

Industrial consumers have nothing in particular to say against this idea as long as any changes are made clearly and openly.

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Most shippers are in favour of this measure. Some additional measures are requested: setting up of a notice period, consultation of any customers concerned and communication to shippers of the complete, updated list of transport distribution interface points (PITD) with interruptible capacities.

Only two shippers are against limiting marketing of interruptible capacities at transport distribution interface points (PITS). In their view, these interruptible capacities really do contribute to avoiding investments in the network. One of the shippers maintains that if they were eliminated, adapting supply contracts would take time. The other shipper believes that this would have a negative impact on his commercial offer.

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The TSOs support this proposal.

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One producer asks for more details on the definition of interruptible delivery capacities at transport distribution interface points (PITD). One employee organisation is in favour of the proposed measure.

**The market largely supports the proposal to limit marketing of downstream interruptible capacities at transport distribution interface points (PITD) to when only strictly necessary.**

Question 15: *What do you think of the GRTgaz plan to facilitate industrial client access to gas exchange points (PEG)?*

All industrial consumers support this plan. They feel that it is simple and efficient. It increases an industry's room for manoeuvre, encourages newcomers and the development of a French wholesale market. It also establishes a commercial relationship between end consumers and TSOs. The end consumers who participated in testing the plan are particularly satisfied.

However, one consumer prefers to wait until the end of the test-period to give an opinion. He is not convinced that such a scheme will lead to a competitive price for supplies.

This supply scheme should be limited to industries of a certain size according to one consumer.

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The shippers are also largely in favour of this scheme. There are however some comments:

- 3 shippers doubt that there is any economic advantage in being a balancing shipper;
- 2 shippers suggest that TSOs should invoice the industrial customer directly for transmission capacities between the gas exchange point (PEG) and the delivery point;
- 3 shippers maintain that this plan would increase liquidity at gas exchange points (PEG) and encourage the establishment of a market price. 2 shippers even suggest that this scheme should be made compulsory for industries exceeding a certain delivery capacity;
- 1 shipper asks for this supply scheme to be made available to CCGTs;
- 1 shipper reminds us that this scheme should entail a modification in the allocation rules for storage rights.

Two local distribution companies would like to be able to use this sort of supply scheme. One of them even asks for it to be reserved exclusively for LDCs.

Only one shipper is against the proposed scheme. He believes that it would enable end consumers to choose between different suppliers or between suppliers and the wholesale market (which the current situation already allows to a certain extent). As a result, supplying end consumers would be based on a market reference price. This shipper is not convinced of the economic advantage of such a measure for consumers.

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The TSOs consider results of the test to be positive and are in favour of the proposed scheme.

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An infrastructure operator reminds us that this scheme will entail modifications in the allocation rules for storage rights. The matter is under study, led by the Demand and Energy Markets Department, under the authority of the French Minister (DIDEME). An answer should be forthcoming before 1<sup>st</sup> November 2008.

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One producer is against this scheme. He feels that it is detrimental to small gas suppliers and favours the big industrial consumers and also leads to network access difficulties for the suppliers. An employee organisation reserves judgement until there is sufficient experience feedback and there has been a cold winter. It is concerned that an increased number of shippers may disturb transmission network management.



**Most market players approve the GRTgaz plan to facilitate industrial access to gas exchange points (PEG) and would like it to be extended.**

Question 16: *Have you any comments on the TSOs forecasts and the tariff structure estimates in the present document?*

Industrial consumers consider the intended tariff increases unwarranted and therefore, unacceptable as they stand. They believe that new TSO investments should not impact the tariffs until they are commissioned. And finally, they see no evidence of productivity efforts in the figures announced. They would prefer to see an increase in exit charges out of the territory and are against an overall increase in main network tariff charges.

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Shippers make several comments:

- 5 shippers feel that the intended increase in charges impacting the regional network (as well as main network exit) is excessive. In their view, the investment effort is focused on the main network and this should be reflected in the tariff (only in the link charges or at interface points with foreign networks and not in the main network exit charges);
- 1 shipper feels on the contrary that the increase in main network charges is too high. Such a change would be detrimental to the French market where transmission tariffs are already among the most expensive in north-western Europe. Another shipper specifically regrets the increase in entry charges to the territory;
- 2 shippers call attention to the low level of competitiveness observed in the GRTgaz North B balancing zone. This zone is only accessible to newcomers through a service for converting H gas into L gas. So these shippers suggest that the entry charge at Taisnières B should be in line with the sum of the entry charge at Taisnières H and the cost of conversion. In this way, the historical supplier would no longer benefit from an unjustified competitive advantage;
- the backhaul capacities should be invoiced at a very low price because using them relieves congestion according to 1 shipper;
- 2 local distribution companies believe that the equalising principle and the merger of the GRTgaz North, East and West zones are in essence unfavourable to LDCs whose portfolios are grouped geographically near borders;
- 3 shippers recall that the transmission tariff increase should be reflected in the regulated sales tariffs.

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TIGF feels that the drop in tariff charge at Larrau and Biriadou is untimely because it does not reflect costs.

**Industrial consumers feel that they do not have all the relevant information for analysing the proposed increases. Most shippers are of the opinion that the tariff increase should have less impact on the regional network and more on the main network where most of the investments are focused.**

Question 17: *Do you have any other remarks or comments on the tariff in force or the proposed changes for the new tariffs?*

Industrial consumers are preoccupied by the large number of CCGT projects currently under study. They are worried that the advent of these power stations will make great demands on the network and

deteriorate the quality of their connection. They therefore wish to participate in the working group on CCGTs led by GRTgaz.

Industrial consumers would also like to see North-South link capacities allocated to them in priority during open subscription periods (OSP). They believe a measure of this sort would limit speculation.

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Shippers make a variety of comments:

- 4 shippers request the suppression of the variable access charge to gas exchange points (PEG). In their view, charges linked to PEG access are stable for the TSOs. There is therefore no justification for a variable charge;
- 3 shippers recall the issues raised by the CCGT projects. One of them believes that if operational constraints imposed by GRTgaz are too stringent, the drop in asset value (CCGT) should be compensated by a drop in the tariff charge applied to it. A second shipper even asks that CCGTs should be given special consideration regarding the transmission tariff. A third suggests the setting up of a proximity tariff to incite CCGTs to set up near load-balancing points (storage facilities and LNG terminals);
- 3 shippers would like to see an increase in the notice period before tariff changes for the purpose of visibility, reducing risks and updating their sales contracts;
- 3 shippers would like tariff changes for the various infrastructures to coincide, e.g. all on 1st April ;
- 2 shippers are preoccupied by the level of charges invoiced to TSOs by their respective parent companies and are working to achieve separation of assets;
- 1 shipper regrets the transformation of firm capacities into interruptible capacities (Dordogne) to access the TIGF zone from the north;
- 2 shippers would like to see discussion concerning potential mergers of balancing zones. For one of them, the North B zone should be merged with the GRTgaz great North zone for competition to really develop there. The second shipper regrets that CRE does not envisage coupling the GRTgaz and TIGF zones.

## D. APPENDICES : LIST OF CONTRIBUTORS

<b>TSOs</b>
GRTgaz
TIGF

<b>Adjacent operators</b>
4Gas
Direction des Grandes Infrastructures (DGI)
Enagas
Gaz de Normandie
GrDF
STMFC

<b>End consumers</b>
Air Liquide
Alcan
ArcelorMittal
Arkema
Dalkia
DEFA
GPN
O-I Manufacturing
Omya
Rhodia Energy
St Gobain
Uniden

<b>Shippers</b>
Altergaz
Distrigaz
EDF
Energie Ouest Suisse (EOS)
ENI Spa
Gas Natural
Gaz de Strasbourg
Gazprom
Gaz de France
Merrill Lynch
Poweo
SNET
Soteg
SPE
StatoilHydro
Total Gas & Power
Uprigaz
Vialis

<b>Other</b>
Association Française du Gaz (AFG)
CFDT Energie
Comité d'entreprise de TIGF (employee representative committee)
EnergyView
Club BioGaz
Gazonor
Méthanéva