Deliberation

Deliberation of the French Energy Regulatory Commission (CRE) dated 29 April 2010 providing guidelines/guidance on the development of gas interconnections with Spain as part of the Open Season 2015 procedure

The following were present at the meeting: Philippe de LADOUCETTE, Chairman, Maurice MEDA and Michel THIOLLIERE, Vice-Chairmen, Jean-Paul AGHETTI, Jean-Christophe LE DUIGOU and Emmanuel RODRIGUEZ, commissioners.

1. Purpose and background

a) The development of interconnections between France and Spain

The development of gas interconnections with Spain is the priority of work conducted by the ERGEG[1] South Gas Regional Initiative. This project is backed by French and Spanish public authorities and the European Commission. The development of interconnections between France and Spain aims to step up the integration of Iberian, French and North-European markets. The project is set to improve the security of supply for France and the Iberian Peninsula and to develop the French gas market in the southern part of the country. The development plan coordinated by the French and Spanish transmission system operators (TSO) and published in 2007 provided for the consolidation of the Western axis (Larrau and Biriatou) by 2013 and the creation of a new Eastern axis (Perthus) for 2015 (called the Midcat project).

The investments required to develop interconnections with Spain are decided, as concerns France, on the basis of long-term commitments (ten or more years) taken by shippers through market tenders (Open Seasons).

During the Open Season 2013, long-term capacity available as of 1 April 2013 was marketed in both directions at the Larrau and Biriatou interconnection points between France and Spain and at the interface between the GRTgaz South zone and the TIGF zone, and at the link between the GRTgaz South and North zones from the south to the north only.

The application of the economic test drawn up for the Open Season 2013 validated capacity allocation at the Larrau interconnection point, but not at the Biriatou interconnection point. The French transmission system operators GRTgaz and TIGF announced in January 2010 the final investment decisions corresponding to this capacity allocation. These investments were selected as part of the European Economic Recovery Plan and as such will receive EU funding of €98M, i.e. €50M for TIGF and €48M for GRTgaz.

Given the strong demand for capacity from Spain to France expressed during the Open Season 2013, it was decided to market long-term capacity at Biriatou once again as part of the Open Season 2015. The Open Season 2015 concerns the marketing of long-term capacity available as from 1 December 2015:

[1] ERGEG: European Regulators' Group for Electricity and Gas

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- At the Biriatou interconnection point in both directions,
- At the Perthus interconnection point in both directions,
- At the interface between the TIGF and GRTgaz South zones, in both directions,
- At the link between the GRTgaz North and GRTgaz South zones, in both directions.

The investments to be made by GRTgaz to develop the capacities proposed as part of this Open Season procedure will also be subject to a European subsidy to the tune of €74M.

As announced in the CRE Decision dated 10 September 2009, the Open Season 2015 is launched on the basis of the structure of access to the French transmission network in force since 1 January 2009. In the event of changes to the organisation of transmission zones in France, the commitments corresponding to capacity reserved either at the interface between TIGF and GRTgaz South, or at the link between GRTgaz North and GRTgaz South would become null and void.

b) The Decisions of CRE dated 25 October 2007 and 10 September 2009

The Decision of the French Energy Regulatory Commission (CRE) dated 25 October 2007 on the rules for allocating capacities available at the link between the North and South zones on the GRTgaz system and at the interface between the GRTgaz and TIGF systems as from 1 January 2009, provides for the following rules:

"Part of the capacities is reserved for annual and seasonal subscriptions, corresponding to:
- *20% of technical capacities for the link between the new North zone and the South zone of GRTgaz, in both directions and for the interface between the GRTgaz South zone and the TIGF zone from the TIGF zone to the South zone,*
- *30% of marketable capacities as from 1 January 2009 for the interface between the GRTgaz south zone and the TIGF zone, from the South zone to the TIGF zone.*

The balance of the capacities is assigned to multi-year and multi-season subscriptions for a maximum duration of 4 years."

This Decision was modified by the Decision dated 10 September 2009[2] in order to allow for long-term (10 years and over) capacities to be marketed at the link between the GRTgaz North and South zones and at the interface between the GRTgaz South zone and the TIGF zone as from 1 April 2013 as part of the Open Seasons 2013 and 2015 concerning the development of interconnections with Spain.

2. Guidelines concerning the Open Season 2015 for the development of interconnections with Spain

a) Marketed capacity

The documents concerning the capacities and costs of the OS 2015 projects submitted by the TSOs in April 2010 and approved during the meeting of TSOs, regulators and relevant administrations ("Implementation Group") of the South Gas Regional Initiative held on 12 April 2010 are available on the ERGEG website.

Part of marketable capacities is reserved for subscriptions for one year or less at the interconnection points between Spain and the TIGF zone and at the interface points between the French balancing zones.

The volume of marketed capacity at the link between GRTgaz North and South zones corresponds to:

- 160 GWh/day in the direction North to South, i.e. 80% of newly created capacity,
- 160 GWh/day in the direction South to North, i.e. 80% of newly created capacity and in addition 80 GWh/day of available capacity not sold during the Open Season 2013.

[2] Deliberation of CRE dated 10 September 2009 modifying the Decision of the French Energy Regulatory Commission (CRE) dated 25 October 2007 on the rules for allocating capacities available at the link between the North and South zones on the GRTgaz system and at the interface between the GRTgaz and TIGF systems.

The volume of marketed capacity at the interface between the TIGF and GRTgaz South zones corresponds to:

- 239 GWh/day in the direction TIGF to South, totalling 80% of newly created capacity, i.e. 184 GWh/d, and in addition 55 GWh/day of available capacity not sold during the Open Season 2013,
- 192 GWh/day in the direction South to TIGF, i.e. 80% of newly created capacity.

Firm capacity marketed from Spain to France:

GWh/day	Type of capacity	Capacity marketed
Spain → TIGF	yearly	229
TIGF → GRTgaz South	yearly	239
GRTgaz South → GRTgaz North	yearly	160

Firm capacity marketed from France to Spain:

GWh/day	Type of capacity	Capacity marketed
GRTgaz North → GRTgaz South	yearly	160
GRTgaz South → TIGF	yearly	192
TIGF → Spain	yearly	192

Based on the binding requests received, capacity created in the direction France to Spain (from GRTgaz South to Spain) may be adjusted as intermediary levels of investment are possible. This optimisation of investments could be used to develop different levels of capacity: 192 GWh/d, 144 GWh/d, 64 GWh/d or no capacity.

In accordance with article 2 of the French law dated 3 January 2003, the allocation rules for the Open Season 2015 on the development of interconnections with Spain will be sent to CRE, then published by the TSOs prior to the procedure’s launch.

b) Capacity allocation validation conditions

The Open Season is an appropriate procedure to assess demand and successfully develop capacity that meets market requirements. With this in mind, a test based on expressed demand is planned to validate the economic relevance of capacity allocation at the end of the Open Season 2015 procedure.

The economic test for the Open Season 2015 procedure is based on the coverage of investment costs, as presented by French TSOs, by the income generated by long-term commitments (ten or more years) made by shippers as part of the Open Season.

Capacity allocations will be validated if the income generated through long-term commitments made through the Open Season covers 70% or more of investment costs. The validation threshold of 70% has been selected given that:

- only 80% of created capacity is marketed as long-term in the Open Season and all capacity not sold during the Open Season could be sold subsequently,
- in the event of low demand, the pooling of a part of the costs of this project in the French transmission tariffs might be acceptable, insofar as it will have a positive impact on the security of supply and the development of competition on the gas market in the south of France, which will benefit end users.

In addition, the current situation on the gas markets, the results of the Open Season 2013 and the non-binding requests expressed for the Open Season 2015 suggest significant demand from shippers for the direction Spain to France, but low demand for the opposite direction. In order to give the 2015 project every chance of success, in particular if only capacity from Spain to France is requested, the entry tariff from Spain would be increased to validate the economic test, following the example of the tariff rules in force since 1 January 2009 for the connection of new LNG terminals.

To achieve this, as part of the Open Season 2015, shippers will be asked to make six capacity requests depending on the entry price from Spain. This price may vary between the price in force at the other land entry points and the same price incremented by blocks of €10/MWh/day/year, up to a maximum of €50/MWh/day/year.

During the application of the economic test, investments in the direction France to Spain will be optimised to start with, according to binding requests received. If, despite this reduction in costs, the 70% criterion is not reached, the entry tariff charge from Spain will be gradually increased up to a maximum of €50/MWh/day/year. If neither of these two measures result in the 70% cost coverage threshold being reached, the economic test would not validate capacity allocations.

In its deliberation dated 2 July 2009, CRE estimated that by 2013, the tariff charge for entry to France from Spain should be between €100 and €150/MWh/day/year (prices were in 2009 Euros and at the same levels of operating costs as those used to define the tariffs in force).

In these conditions, if the Open Season 2015 results are validated, the tariff charge for entry to France from Spain applicable to all available capacity as from 2015 would be based on the tariff that would be applicable at this date on the other land entry points and in addition the tariff increase applied to validate the Open Season 2015 economic test.

An economic test will also be applied to the development of capacity between GRTgaz North and GRTgaz South. The same principle of a cost coverage threshold of 70% to validate allocations is envisaged. However, there is no plan to increase the price of this capacity to validate the project by economic test.

c) Distribution of income from the “Midi-Cataluña” project (Midcat)

The completion of the Midcat project requires investments on the TIGF and GRTgaz networks. Through the current pricing structure, TIGF will receive most of the income from the sale of newly created capacity at this new interconnection point whereas most investments will be made by GRTgaz.

Consequently, the distribution terms for income from the Midcat project between the two TSOs must be defined.

Paris, 29 April 2010

On behalf of the Energy Regulatory Commission (CRE)

The Chairman,

Philippe de LADOUCETTE