4 October 2012

Deliberation of the French Energy Regulatory Commission (CRE) on the rules for the sale of transmission capacity at the link between GRTgaz's North and South zones and at the interface between GRTgaz and TIGF

Present: Philippe de LADOUCETTE, Chairman, Frédéric GONAND and Jean-Christophe LE DUIGOU, Commissioners.

Having regard to the French Energy Code and article L. 134-2 in particular,

The purpose of this deliberation is to define the rules for the sale of available transmission capacity at the link between GRTgaz's North and South zones and at the interface between GRTgaz and TIGF as of 1 April 2013.

1. Background

The current rules for the sale of transmission capacity at the link between GRTgaz's North and South zones and at the interface between GRTgaz and TIGF were defined in CRE's deliberation dated 7 July 2011. Extensive working group sessions and a public consultation were carried out to prepare these rules, which led to the sale of this capacity based on an "improved" pro rata mechanism and successive allocation rounds to increase shipper visibility, particularly for shippers with limited requirements (less than or equal to 1.5 GWh/d). The implementation of these rules was satisfactory in 2010 and 2011.

However, market conditions in the South of France have changed in recent months. The difference in day-ahead prices between the North and South Gas Exchange Points (*Points d'Echange de Gaz* - PEG) has increased sharply since 1 April 2012, with the price at the South PEG being the highest. This price difference noted on the Powernext Gas Spot exchange averaged at 0.16 €/MWh in 2011. Since 1 April 2012, it has averaged at 2.7 €/MWh and has exceeded the level of 6 €/MWh on several occasions. This situation can be explained, in particular, by the considerable drop in LNG imports and the high level of gas exports to the Spanish market, resulting in congestion on the North – South link from North to South.

At the end of July 2012, CRE announced the launch of a survey on the conditions for setting wholesale prices in the South of France as part of its role to monitor natural gas wholesale markets.

Given these circumstances, the access conditions at the link between GRTgaz's North and South zones, from North to South, are especially important for proper market operations in the GRTgaz South and TIGF zones.

Between 30 July 2012 and 7 September 2012, the draft rules for the sale of transmission capacity at the link between GRTgaz's North and South zones and at the interface between GRTgaz and TIGF proposed by GRTgaz and TIGF were subject to a public consultation launched by CRE. Twenty-three contributions were received: four from end customers connected to the transmission network, ten from shippers, three from associations and six from gas system operators.

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2. Allocation of interruptible capacity to market coupling between the North and South PEGs as of 1 April 2013

2.1. GRTgaz's proposal

Given the physical congestion on the North-South link from North to South, GRTgaz proposes to devote 30 GWh/d of interruptible capacity instead of 14.5 GWh/d of firm capacity to the market coupling mechanism from 1 April 2013. Due to the absence of congestion from South to North, GRTgaz proposes to maintain the allocation of 14.5 GWh/d of firm capacity to the market coupling mechanism.

GRTgaz proposes to deduct these 30 GWh/d from the total pluriannual interruptible capacity available as of 1 April 2013[1]. Availability will be set every day under the same conditions as conventional interruptible capacity.

2.2. Public consultation

All contributors are in favour of continuing the market coupling mechanism beyond 1 April 2013.

A large majority are in favour of GRTgaz's proposal to allocate a portion of interruptible capacity to the market coupling mechanism. However, some players would like any capacity that remains unsold following the sale phases to be the only capacity devoted to market coupling.

2.3. CRE's analysis

CRE believes that the feedback on the market coupling mechanism is positive with regard to market coordination and liquidity development in the South zone, while the effects of this are difficult to quantify.

This mechanism has the disadvantage of reducing available capacity for other the allocation methods. Against the current backdrop of congestion on the North to South link, CRE deems it preferable not to reduce the volume of firm capacity that could be sold. It therefore approves GRTgaz's proposal to allocate interruptible capacity to market coupling.

In addition, CRE has recently noted that capacity allocated to market coupling is not always sold, even in the event of high levels of spread. Due to this, the flows between the North and the South of the country are not at their maximum, which is undesirable in the current situation of congestion.

Consequently, CRE has selected the following:

- 30 GWh/d of annual interruptible capacity will be reserved for allocation to market coupling for the period from 1 April 2013 to 31 March 2014,
- CRE will request that GRTgaz and Powernext present an extensive assessment of the operation and results of market coupling to the Concertation Gaz working group by the end of 2012.

[1] Out of a total of 122.9 GWh/d of pluriannual interruptible capacity available as of 1 April 2013

3. Sale of annual and pluriannual capacity on the North-South link as of 1 April 2013

3.1. GRTgaz's proposal

GRTgaz proposes to continue with the rules of sale currently in force. It is an "improved" pro rata in a two-phase open season each proposing 50% of capacity. For annual capacity, the first phase is exclusively open to shippers with an authorisation to supply gas to end customers and to shippers who are themselves end customers and holders of a connection contract with GRTgaz, and provides for "guaranteed allocation" of up to 1.5 GWh/d.

GRTgaz proposes to maintain the guaranteed allocation mechanism for annual capacity and extend it to pluriannual capacity up to 0.75 GWh/d.

3.2. Public consultation

A large majority of players are in favour of maintaining the current mechanism for annual capacity. Most contributors are against GRTgaz's proposal to extend the guaranteed allocation mechanism to pluriannual capacity.

3.3. CRE's analysis

The current market conditions feature a North PEG / South PEG price spread that is much greater than the regulated tariff for link capacity. The spread came close to an average of 3 €/MWh in recent months while the regulated tariff, supposing full use of the link, is approximately 0.6 €/MWh. The market value of North – South capacity is therefore probably greater than its regulated tariff, the difference between the two forming a congestion income.

Under these conditions, the sale of this capacity via a pro rata mechanism could indeed lead to a high level of demand, which would result in a high and unpredictable demand reduction coefficient. Moreover, in such a mechanism, the entire congestion income is covered by the shippers who were allocated capacity.

In the event of congestion, it is generally preferable to allocate capacity at a price commensurate to its value, i.e. via an auction mechanism. In this case, the congestion income is entirely covered by the TSOs. As TSO revenues are regulated, this surplus revenue is then redistributed to network users according to a mechanism defined by the regulator.

CRE is therefore in favour of the auction of North – South capacity. Such a mechanism would be in line with the future European network code on capacity allocation (CAM code), which will require the auction of capacity between balancing zones.

CRE notes that the current tariff framework (ATRT4) does not allow the early implementation of an auction mechanism. Given the current tariff decision process, a tariff decision cannot come into play until the beginning of 2013. It is therefore impossible to implement auctions for capacity as of 1 April 2013, given the timeframes required to give notice to market players.

Consequently, CRE has selected the following:

- Only capacity from North to South, available from 1 April 2013 to 31 March 2014 will be sold by GRTgaz in the next booking window,
- Capacity from North to South, i.e. approximately 99 GWh/d of firm capacity and 137 GWh/d of interruptible capacity, will be sold according to the terms proposed by GRTgaz, in two phases each proposing 50% of capacity. In consideration of the increase in capacity sold over one year, CRE has asked GRTgaz to set the guaranteed allocation amount at 2.5 GWh/d over the first phase,
- Available capacity in both directions will be auctioned as of 1 April 2014. CRE has asked GRTgaz to submit a proposal, after consulting market players, for an auction mechanism compatible with the network code on capacity allocation (CAM code) by 1 May 2013.

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4. Sale of capacity at the interface between GRTgaz and TIGF

For capacity sold at the interface between GRTgaz and TIGF, CRE has selected the same principles as those for the sale of capacity on the North-South link:

- Capacity available from 1 April 2013 to 31 March 2014 at the interface between GRTgaz and TIGF will be sold according to the rules proposed by the two TSOs,
- Capacity available as of 1 April 2014 may be sold via auction.

CRE has asked GRTgaz and TIGF to submit a proposal, after consulting market players, for allocation rules by 1 May 2013 at the latest. These rules must take into account the creation of a joint GRTgaz South – TIGF PEG by 2015 at the latest.

In addition, CRE has not approved, at this stage, the proposal to convert any unsold firm capacity at the interface between GRTgaz South and TIGF into interruptible capacity. It notes the request made to GRTgaz and TIGF, in its deliberation dated 19 July 2012[2], to analyse the feasibility of this measure and to quantify the expected savings.

5. Creation of a service for the "coordinated" sale of monthly capacity at the Fos LNG terminal transmission interface (PITTM) and on the South to North link

5.1. GRTgaz's proposal

In order to strengthen consistency in capacity subscription rules between the LNG terminals and the transmission network, GRTgaz proposes to sell monthly capacity on the South to North link as of the first day of a carrier's send-out in banded or spot service, without this date necessarily being the first day of a calendar month.

GRTgaz proposes to allocate this monthly capacity up to three working days before the first day of send-out, in accordance with the send-out rules for LNG terminals. It proposes to bill this capacity according to the current monthly tariff, i.e. 1/8th of the corresponding annual tariff.

5.2. Public consultation

Most players are in favour of GRTgaz's proposal.

5.3. CRE's analysis

CRE is in favour of GRTgaz's proposal. It believes that increasing consistency in the capacity subscription rules between the various gas infrastructures helps to simplify the rules for the use of the network and the proper operation of the market.

[2] Deliberation dated 19 July 2012 relating to guidelines for gas marketplace evolution in France

6. CRE's decision

CRE approves the rules for the allocation of transmission capacity proposed by GRTgaz in July 2012, subject to the following modifications:

- GRTgaz and TIGF will not sell capacity available beyond 31 March 2014 in the next booking window,
- For North to South capacity, GRTgaz will increase the maximum level of capacity entitled to the guaranteed allocation mechanism to 2.5 GWh/d.

Following consultation, GRTgaz shall submit to CRE a proposal for the implementation of auctions in line with the CAM network code by 1 May 2013 at the latest, for the sale of capacity available on the North-South link as of 1 April 2014.

Following consultation, GRTgaz and TIGF shall submit to CRE by 1 May 2013 at the latest a proposal on the allocation rules for available capacity at the GRTgaz – TIGF interface as of 1 April 2014. These rules will take into account the creation of a joint GRTgaz South – TIGF PEG by 2015 at the latest.

This deliberation will be published in the *Journal officiel de la République française* (official bulletin of laws and official announcements).

Executed in Paris, 4 October 2012

On behalf of the French Energy Regulatory Commission (CRE),

The Chairman,

Philippe de LADOUCETTE