

Deliberation of the French Energy Regulatory Commission of 19 December 2013 concerning the examination of the ten-year development plan and approving the 2014 investment programme of GRTgaz

Present: Philippe de LADOUCKETTE, Chairman, Olivier CHALLAN BELVAL and Jean-Pierre SOTURA, Commissioners.

I. Background and purpose

1. Regulatory framework

The directive 2009/73/EC dated 13 July 2009 concerning common rules for the internal market in natural gas and the Energy Code define the legal framework applicable to investments made by transmission system operators (TSOs).

Furthermore, on 14 October 2013 the European Commission published a list of Projects of Common Interest¹ (PCI), based on Regulation (EU) No. 347/2013² on guidelines for trans-European energy infrastructure. These projects, deemed essential for the integration of European energy markets, will benefit from the advantages provided for in the aforementioned Regulation: fast-track procedure for granting administrative authorisations, specific regulatory treatment (option of cross-border cost allocation and incentives for high-risk projects) and eligibility for European subsidies.

a) At European level

The European Network of Transmission System Operators for Gas (ENTSOG) has to define every two years a non-binding ten-year European network development plan (hereinafter referred to as the ENTSOG ten-year plan), after an open and transparent consultation with all market players concerned. The Agency for the Cooperation of Energy Regulators (ACER) has to issue an opinion on this plan and monitors its implementation, following an assessment of the consistency with national TSOs' ten-year plans.

The ENTSOG ten-year plan for the 2013-2022 period was published on 21 February 2013 and subject to a public consultation until 21 May 2013. The final version of the plan³ was published and submitted by ENTSOG to ACER on 10 July 2013.

This development plan, based on the data transmitted by the European TSOs and project promoters, identifies potential and confirmed projects to develop the transmission networks, LNG terminals and storage in Europe. The infrastructure projects are analysed in light of the forecast gas supply and demand trends at European level in order to assess their relevance.

This plan also presents a modelling of the European network as well as the ability of the European

¹ For gas, nine French projects, contributing to the creation of the North-South priority corridor in Western Europe, have been selected. http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm

² Regulation (EU) No. 347/2013 of the European Parliament and of the Council dated 17 April 2013 on guidelines for trans-European energy infrastructure.

³ ENTSOG's ten-year development plan
<http://www.entsog.eu/publications/tyndp#ENTSOG-TEN-YEAR-NETWORK-DEVELOPMENT-PLAN-2013-2022>

system to cope with supply disruptions. ACER published its opinion⁴ on the ENTSOG ten-year plan on 10 September 2013.

b) At national level

Article L. 431-6 of the French Energy Code sets out that every year TSOs must submit to the French Energy Regulatory Commission (CRE) a ten-year development plan (hereinafter ten-year plan) for their network based on the existing and forecasted gas supply and demand, after consulting all stakeholders.

This plan should indicate to market players the main transmission infrastructure that has to be built or upgraded over the following ten years, list the investment projects already decided, identify new investments to be made over the upcoming three years and provide a projected schedule for all investment projects.

2. Purpose

In application of Article L. 431-6 of the French Energy Code, CRE organised a public consultation from 7 to 25 November 2013, in order to collect the market's comments on the ten-year plans of GRTgaz and TIGF. If there is any doubt with regard to the consistency of the French TSOs' ten-year plans with the ENTSOG plan, CRE may consult ACER and request that GRTgaz and TIGF modify their ten-year plans.

Moreover, in application of 2° of Article L. 134-3 and II of Article L. 431-6 of the French Energy Code, TSOs have to submit their annual investment programmes to CRE for approval. GRTgaz submitted its programme to CRE in November 2013 and was received by CRE during a hearing on 5 December 2013.

The purpose of this deliberation is firstly to examine GRTgaz's ten-year plan and its consistency with the ENTSOG ten-year plan, and secondly, to approve its 2014 investment programme.

II. GRTgaz's ten-year development plan and consistency with the ENTSOG plan

1. Reminder of the main points of GRTgaz's ten-year development plan

Based on gas demand forecasts for the coming years, GRTgaz's ten-year plan identifies the principal gas transmission infrastructures to be built or further developed over the period from 2013 to 2022. It lists the investments that have been decided or are to be made within a three-year period and presents a projected schedule for all investments planned, broken down into decided and non-decided projects. This plan, which was presented to the market on 5 July 2013, is published on the GRTgaz⁵ website.

2. Summary of the public consultation

From 7 to 25 November 2013, CRE organised a public consultation on the consistency of the ten-year development plans of GRTgaz and TIGF with the ENTSOG ten-year plan. The ten contributions received were submitted by:

- Four infrastructure operators: Dunkerque LNG (confidential), GDF Suez Branche Infrastructures, GrDF, Storengy,
- Four shippers: Eni, Eon, GDF Suez and TGP (confidential),
- Two associations: AFG, Uprigaz.

The non-confidential contributions have been published on CRE's website at the same time as this deliberation.

Most of the contributors are in favour of the current market consultation procedures for TSOs and

⁴ ACER's opinion on ENTSOG's ten-year development plan

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Opinions/Pages/default.aspx

⁵ GRTgaz's ten-year development plan

http://www.grtgaz.com/fileadmin/plaquettes/en/10years2013_2022_EN.pdf

support CRE's proposal to request that the TSOs present their ten-year plans as part of the Concertation Gaz⁶ working group prior to publication.

With regard to demand forecasts, most contributors agree with the TSOs' analysis with regard to downward revision of demand scenarios over the plan's period, in particular for industrial and residential consumption. Some believe that the gas-based electricity generation hypotheses are ambitious in view of the current uncertain situation. One market player suggests considering different demand forecasts when drafting ten-year plans.

As regards the transmission capacity offer in 2013, all contributors are concerned by capacity congestion at the North-South link. Some note that the conversion of 40 GWh/d of interruptible capacity into firm capacity does not appear in GRTgaz's plan. They believe that this conversion adversely impacts interruptible capacity availability. Storengy notes that congestion on the North-South line also has an impact on transmission conditions to and from the Atlantic transmission storage interface points (PITS).

There is a mixed response to the investments planned with a view to creating a single market zone in France by 2018. Several contributors are waiting for the conclusions of the cost/benefit analysis commissioned by CRE before stating their opinion. One operator has noted that the merger between the North and South zones must be a priority. Two other contributors believe that the sale of additional firm daily transmission capacity ("JTS" mechanism) since May 2013 partly meets shippers' requirements on this link.

With regard to the development of interconnection capacity at the France-Germany interconnection point, all players who responded to this question (seven out of ten contributions) share CRE's concerns with regard to the reductions in firm capacity made by the German TSOs in 2012. They confirm in particular the negative impact of this situation on the security of supply in France. Others regret that these reductions are not mentioned in the ENTSOG plan, believing that this would have been an opportunity to argue the point with ACER, the Bundesnetzagentur and the German TSOs.

For the project aiming at creating a third interconnection between France and Spain east of the Pyrenees (Midcat project), most contributors believe that the market conditions are not favourable today for this investment.

In general terms, several contributors call for caution with regard to investments in gas infrastructures given the uncertain nature of gas demand. Some market players have expressed their reservations with regard to several projects that have not been decided, stated in the TSOs' ten-year plans, including the development of interconnection capacity or decentralised odourisation. Some contributors note in particular that the development of interconnections must reflect market requirements and be consistent with the results of open season procedures.

Lastly, several contributors agree with CRE's analysis regarding the good overall consistency of French TSOs' ten-year plans with the ENTSOG ten-year plan.

3. CRE's analysis

CRE believes that the projects presented by GRTgaz in its ten-year plan reflect the requirements expressed by market players and are on the whole consistent with the ENTSOG ten-year plan.

a) Drafting of the ten-year plan by the TSOs

In order to improve market dialogue on investment projects, CRE asks GRTgaz to present its draft ten-year plan as part of the Concertation Gaz working group in order to collect observations of market players prior to its finalisation.

CRE has observed that GRTgaz's ten-year plan does not take into consideration some information on storage development. It therefore requests that GRTgaz formally consult the operators of LNG terminals and storage infrastructure in order to collect information concerning any projects they may have to develop capacity on their infrastructures.

⁶ Forum bringing together all market players for dialogue on the rules governing access to the natural gas transmission networks, set up by the CRE deliberation dated 18 September 2008.

b) Acknowledgement of requirements identified by the market

GRTgaz's ten-year plan acknowledges the existing congestions on its network. The TSO has in particular identified the investments required for the creation of the North-South corridor. This congestion will be studied in depth by CRE in consultation with the French TSOs and all market players. The study conducted in 2011 by KEMA on behalf of GRTgaz showed that contractual mechanisms alone do not allow for a French Title Transfer Point (PEG) to be created in satisfactory conditions. In 2013, CRE commissioned the external firm Pöyry Management Consulting to conduct a cost/benefit study on the various investment schemes for the creation of a single France PEG by 2018.

Moreover, many investments identified by GRTgaz to relieve congestion on the North-South line of its network have been labelled as PCIs. These investments could contribute to:

- The creation of a single PEG in France, in line with the construction of the European gas market,
- The creation of the North-South corridor, which would integrate the Iberian Peninsula into the European market.

GRTgaz's ten-year plan also takes into consideration projects for the development of new capacity at interconnection points. As regards these projects, CRE reminds that investments are validated in France on the basis of open season procedures, in accordance with ACER's recommendations on the development of amendments to the CAM network code on the matter of new capacity⁷. It is for this reason that the project to create firm entry capacity at Otingue⁸ was not validated, due to insufficient demand on the market. CRE is in favour of GRTgaz launching a new open season on the basis of an alternative product requiring less investment and better suited to demand.

GRTgaz's ten-year plan includes the development of capacity at the France-Germany interconnection at Obergailbach. CRE reminds that the successive transfers of firm capacity conducted by the German TSOs to other exit points on the German networks from 1 October 2012 and 1 January 2013 mean that firm exit capacity at Medelsheim is now lower by roughly 50 GWh/d than firm marketable entry capacity in France at Obergailbach. These unilaterally decided reductions have a negative impact on the French market, in particular given the importance of the Obergailbach point, which represents roughly 20% of firm entry capacity in the French network. CRE is continuing its discussions with the Bundesnetzagentur to find a satisfactory solution to this problem.

Lastly, GRTgaz duly notes the practical differences of gas odourisation between France and Germany, which are an obstacle to physical flows from France to Germany. It is a key challenge for the attractiveness of the French market and its integration in the European market. The draft network code on interoperability provides for the harmonisation of odourisation practices in Europe if result in obstacles to trade or if the TSOs do not find an agreement within a six-month deadline on contractual solutions such as swaps and flow commitments. GRTgaz's pilot project on the installation of two odourisation stations at delivery points on the distribution network in the North zone by 2015 is in line with this framework and aims to validate the industrial feasibility and technical reliability of a change in odourisation practices on the French transmission networks.

Given the results of the consultation that it conducted and the above analysis, CRE considers that GRTgaz's ten-year plan takes into account market requirements.

c) Consistency of GRTgaz's ten-year plan with the ENTSOG plan

With the exception of a few minor inconsistencies between the ten-year plans of GRTgaz and ENTSOG, mainly concerning different commissioning dates (for exit capacity from France to Germany and interconnection capacity between Switzerland and France), CRE considers that GRTgaz's ten-year plan is on the whole consistent with ENTSOG's plan.

It has requested that GRTgaz submit to ENTSOG any useful information for the drafting of the European ten-year plan, in particular during the public consultation organised by ENTSOG.

⁷ ACER's guidance on the development of amendment proposals to the Network Code on Capacity Allocation Mechanisms on the matter of incremental and new capacity:

http://www.acer.europa.eu/Official_documents/Pages/Other-documents.aspx

⁸ In the list of PCIs

d) Compliance with GRTgaz's 2011-2013 three-year plan

Article L. 431-6-II of the French Energy Code provides that "If, for reasons other than urgent grounds over which [the operator] has no control, the Transmission System Operator does not make an investment that it should have within three years, CRE [...] may: a) send a formal warning to the TSO to fulfil its obligation; b) organise, following a three-month period after the unheeded formal warning, a call for tenders open to third-party investors".

In its new three-year plan, GRTgaz acknowledges a delay in the commissioning of the Eridan project, from 2016 to 2017 and the upward revision of the project's costs, from €484M to approximately €620M, due to technical limitations that are more considerable than previously expected.

This project, which has received a European subsidy of €74M under the European Energy Programme for Recovery, mainly involves reinforcing the Rhône pipeline in South-East France. It was approved by CRE on 19 April 2011, as was identified as an effective component relieving congestion on the North-South line. This investment allows for both:

- Gas flows to be facilitated from North to South, in view of creating a single France PEG,
- The necessary increase in gas flows from South to North to be dealt with, in view of developing entry capacity directly in the South of France, either from Spain, or from the LNG terminals in Fos-sur-Mer, or from storage in Manosque.

As regards the creation of a single France PEG, the implementation timeframe for such a development, if confirmed, was set at 2018 by CRE in its deliberation dated 19 July 2012, due to the necessary timeframe for the implementation of the Val de Saône project. Moreover, as part of the cost/benefit study concerning the possible creation of a single market zone in France by 2018 entrusted by CRE to Pöyry, an alternative investment programme based on the completion of the Val de Saône project on the GRTgaz network and the Gascony-Midi project on the TIGF network was identified. In the first half of 2014, CRE will consult all market players before taking its final decision on the creation of a French marketplace, and, if applicable, the investment programme decided for this creation.

With regard to the development of entry capacity in the South of France, five projects are under study:

- Midcat (project to develop interconnection capacity with Spain east of the Pyrenees, planned for 2019 and listed as a PCI),
- The reinforcement of regasification capacity on the Fos Cavaou terminal (project to increase the terminal's capacity from 8.25Gm³ to 16.5Gm³ by 2020). The conclusions of the public consultation conducted by Fosmax LNG in 2013 were published in September 2013,
- The commissioning of Fos Faster (project to build a new LNG terminal in the Fos-sur-Mer area, increasing capacity from 8Gm³ to 16Gm³). Following the public debate held in 2011, an application for an operating permit was filed in September 2013 by project leaders Shell and Vopak. These two companies have a period of eighteen months to study the project before making the decision to invest for a commissioning of the terminal possibly in 2019),
- The development of storage in Manosque (by 2016 for injection and 2018 for withdrawal),
- The development of the Fos Tonkin terminal after 2019.

CRE observes that the postponement of the implementation date of the Eridan project to 2017 does not have any impact on the projects to which it contributes, to the extent that the provisional commissioning of these projects is after 2017.

CRE also reminds that the Eridan project is subject to a mechanism for incentive-based regulation of costs, defined in GRTgaz's ATRT5 tariff.

III. The GRTgaz investment programme for 2014

By exercising its power of approval of the investment programmes of the gas transmission system operators, CRE ensures that the investments necessary for the proper functioning of the market and transparent and non-discriminatory access to the transmission networks are realised.

1. Main elements of the GRTgaz 2014 investment programme

The investment programme presented by GRTgaz for 2014 totals €704M, down €114M (- 14%) with respect to the revised budget of €818M for 2013. It is up €57M (+ 9%) with respect to the level of investments for 2014 approved by CRE in the ATRT5 tariff scheme (€647M).

a) Expenditure to smooth operations on the main network

The projected expenditure for smoothing operations totals €364M in GRTgaz's 2014 investment programme, down €103M with respect to the amount revised at the end of the year for 2013.

i. Investments related to decided projects

Projected expenditure related to projects that have already been decided totals €346M for 2014, a sharp decrease (- €104M) compared to the revised 2013 budget (€450M). Expenditure mainly concerns four major projects:

- €86M for the connection of the Dunkirk terminal by 2015. This project was approved by CRE on 22 December 2011,
- €164M to strengthen the core network in the North zone, including €109M for the Arc de Dierrey pipeline. This project was approved by CRE on 22 December 2011,
- €35M for the creation of physical exit capacity from France to Belgium at the Veurne interconnection point. This project was approved by CRE on 22 December 2011,
- €52M for the Eridan project, which was approved by CRE on 19 April 2011.

ii. Expenditure for studies of projects that have not yet been decided

GRTgaz forecasts a study budget of €18M for projects for which no final investment decision was taken, close to the 2013 budget revised to €17M. It mainly concerns the Val de Saône and Arc lyonnais projects to the tune of €15M.

Other expenditure mainly concerns the GRTgaz pilot project on the decentralised odorisation of gas in the North zone, for €1M.

b) Other investment expenditure for GRTgaz

Expenditure related to obsolescence represents €100M, down 19% in relation to the revised 2013 budget. Safety expenditure represents €81M, i.e. an equivalent amount to the revised 2013 budget. The majority of this expenditure concerns the implementation of new safety requirements provided for in the multi-fluid ruling dated 4 August 2006.

Expenditure related to the environment totals €35M, up 17% in relation to the revised 2013 budget. It mostly concerns bringing the compression stations in line with the regulatory requirements for pollutant emissions (Beynes compression station to the tune of €25M and end of the OSCAR II project to the tune of €10M).

Expenditure related to information systems represents €41M, close to the revised 2013 budget. €14M are earmarked to finalise the separation of the GRTgaz and GDF Suez information systems as requested by CRE in its deliberation dated 26 January 2012 deciding on GRTgaz certification.

The investment expenditure for connections and services for third parties totals €35M, down 10% in relation to the revised 2013 budget. €5M are related to studies of the connection of combined cycle gas power plants.

Expenditure for the implementation of public service obligations represents €31M, up 48% in relation to the revised 2013 budget. €23M are related to continuous delivery.

2. CRE's analysis

a) Investments dedicated to smoothing the operation of the network

CRE has noted the completion of several significant projects in 2013, within the agreed timeframe and

in accordance with the projected budgets:

- The open season procedure conducted in 2010 to develop capacity at Taisnières H brought about the creation of 50 GWh/d of additional firm entry capacity from Belgium. CRE's deliberation dated 27 May 2010 provided for a total budget of €151M. The capacity increase was implemented in October 2013, two months ahead of the projected deadline, with an end budget of approximately €133M,
- The open season procedure conducted in 2013 to develop interconnection capacity between France and Spain has resulted in the construction of the Chazelles compression station on the GRTgaz network, in order to strengthen capacity between the TIGF and GRTgaz South zones. CRE's deliberation dated 17 December 2009 provided for an initial budget of €98M. The compressor station was commissioned in 2013 for an end budget of €95M.

i. Investments related to decided projects

With regard to the connection of the Dunkirk terminal and the reinforcement of the North core network, CRE's deliberation dated 22 December 2012 stated a total budget of €1,185M. GRTgaz now projects an end budget of €1,136M. This €49M decrease is due to two main factors:

- Favourable price conditions for the installation and purchase of tubes for the reinforcement of Hauts de France pipeline, to the tune of €67M,
- The installation work progressed more slowly than projected, resulting in an increase in costs, particularly with regard to the Arc de Dierrey project, to the tune of €35M in comparison to the initial budget.

As regards the Eridan project, the expenditure projected by GRTgaz in 2014, i.e. €52M, mainly concerns the first deadline for the purchase of equipment and the granting of the structure's declaration as a public utility, ministerial authorizations and the necessary conventions to reserve the route.

ii. Investments related to study budgets for projects not yet decided

In the second half of 2013, GRTgaz conducted a public debate on two projects, listed as PCIs by the European Commission:

- Val de Saône, for which commissioning is planned for 2018. A study budget of €12M is projected in 2014 for this project, which will be decided if CRE confirms its guidelines concerning the creation of a single marketplace in France. Pending a final investment decision and due to the project's PCI status, GRTgaz filed an application for the cross-border costs allocation in October 2013 with CRE and the Spanish regulator (CNMC),
- Arc lyonnais, for which the public debate procedure was conducted by GRTgaz at the same time as that for the Val de Saône project due to the geographical continuity of the two projects. The aim of this investment is to finalise the reinforcement of the North-South line on the GRTgaz network between Arc de Dierrey and Eridan. GRTgaz has stated a projected budget of €3M in 2014 for this project, with provisional commissioning in 2019.

b) Other investment expenditure by GRTgaz

Expenditure for other purposes is generally stable and related to GRTgaz's regulatory obligations in terms of safety, the environment, consumer connection, supply continuity and independence.

IV. CRE's decision

1. CRE's decision concerning GRTgaz's ten-year plan

CRE notes that the projects presented by GRTgaz in its ten-year plan reflect the requirements expressed by stakeholders and are globally consistent with the ENTSOG ten-year plan.

CRE requests that GRTgaz:

- Undertake to provide ENTSOG with any useful information for the drafting of the European ten-year plan, in particular during the public consultation organised by ENTSOG,

- Organise as part of the Concertation Gaz working group, in coordination with TIGF, a meeting with market players prior to the official publication of its ten-year plan,
- Formally consult the operators of LNG terminals and storage infrastructures, in order to collect information on any capacity development projects they may have for their infrastructures.

CRE recommends that the operators of LNG terminals and storage infrastructures undertake to provide ENTSOG with any useful information for the drafting of the European ten-year plan, in particular during the public consultation organised by ENTSOG.

2. CRE's decision concerning GRTgaz's 2014 investment programme

CRE approves GRTgaz's investment programme for 2014. The programme totals €704M, broken down as follows:

In millions of Euros	2013 (approved)	2013 (revised)	2014 (approved)
Network development	467	467	364
Safety/Obsolescence	198	201	181
Environment	37	30	35
Information systems	36	40	41
Connections	35	39	35
Public service obligations for supply, Quality	25	21	31
Other	21	20	17
Total	820	818	704

The approval of the investment programme does not prejudice the tariff processing of these expenses.

Any modifications to the investment programme must be submitted to CRE for approval.

CRE requests that GRTgaz provide a report on the implementation of this decision in June 2014, with in particular:

- A detailed progress report on the projects to connect the Dunkirk terminal, relieve congestion in the North zone and Eridan, specifying the budget already committed and the updated total projected end budget for each of these projects,
- The detailed content of studies related to projects not undertaken mentioned in the investment programme for 2014.

Paris, 19 December 2013

For the Energy Regulatory Commission,
The Chairman,

Philippe de LADOUCKETTE

V. APPENDICES

1. Main projects to be commissioned between 2013 and 2015

Project (€M)	Date of the Deliberation	Initial budget	Final budget / at end	Date of commissioning
Chazelles compression station	17 December 2009	98	95	1 April 2013
Increase in entry capacity at Taisnières H	27 May 2010	151	133	1 October 2013
Connection of the Dunkirk LNG terminal and decongestion of the North zone core network	12 July and 22 December 2011	1,185*	1,136*	2015 and 2016

* including €67M for the installation of a 17km pipeline of 900mm in diameter between the Dunkirk LNG terminal and the Pitgam interconnection station

2. Main projects to be commissioned after 2015

Project (€M)	Date of the Deliberation	Initial budget	End budget	Expenditure already made	Date of commissioning
Reinforcement of the Rhône pipeline (Eridan)	19 April 2011	484	613	28	2017
Val de Saône	Not decided	605	605	16	2018
Arc lyonnais	Not decided	450	450		2019