

Deliberation of the Commission de régulation de l'énergie of 10 April 2014 taking decision on the request for cross-border cost allocation between France and Spain for the project of common interest Val de Saône

Present: Philippe de LADOUCKETTE, président, Olivier CHALLAN BELVAL, Catherine Edwige et Jean-Pierre SOTURA, commissioners.

1. Purpose of the deliberation

The present deliberation is taken pursuant to the provisions of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructures. Pursuant to article 12 of this Regulation, its purpose is to establish a decision on the cross-border allocation of the costs of the project of common interest Val de Saône between France and Spain at the request of the transmission system operator GRTgaz, project promoter. This decision builds upon the conclusions reached by CRE and the Spanish national regulatory authority, the Comisión Nacional de los Mercados y la Competencia (CNMC), with regards to the evaluation of the benefits yielded by this project to France and Spain, on the basis of the analysis of the costs and benefits of the project as submitted by GRTgaz.

2. General provisions of Regulation (EU) No 347/2013

Regulation (EU) No 347/2013 has introduced a set of provisions aiming at promoting the interconnection of the European networks. This Regulation is an essential tool to reach the objectives of the European Union's energy policy, i.e. enable a competitive and functioning market, reach an optimal use of the energy infrastructures, improve energy efficiency and integrate the renewable energies. It should contribute to reducing the fragmentation of the European market and to end the isolation of the least-favoured areas.

This Regulation introduces the concept of project of common interest (PCI), which, in the gas sector, can cover transmission, storage and LNG regasification infrastructures. These projects are necessary for the implementation of the priority corridors. France belongs to two priority corridors out of four in the gas sector:

- The North-South interconnections in Western Europe, aiming at diversifying the supply routes and improving short-term capacity delivery. The other Member States included in this group are Germany, Belgium, Denmark, Spain, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal and the United Kingdom ;
- The Southern corridor, aiming at building infrastructures that could bring gas from the Caspian sea, Central Asia, the Middle East and the East of the Mediterranean basin. The other Member States included in this group are Germany, Austria, Bulgaria, Cyprus, Croatia, Greece, Hungary, Italy, Poland, Czech Republic, Romania, Slovakia and Slovenia.

The Member States belonging to a priority corridor form a regional group in charge of the selection of projects of common interest, to which participate representatives from the Member States, the national regulatory authorities and infrastructure operators, as well as the European Commission, the Agency for the Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators (ENTSO). The regional lists of projects of common interest are established on the basis of an application submitted by the project promoters.

As part of the measures aiming at facilitating the implementation of PCIs, Regulation (EU) No 347/2013 foresees the use of financing mechanisms that could mitigate the commercial viability issues, when those are an obstacle to the investment decision. Article 12 of this Regulation provides that, at the request of project promoters and on the basis of an analysis of the cost and benefits of the project for the beneficiary countries, the concerned national regulatory authorities decide on coordinated allocation of the investment costs. This decision opens the possibility of requesting financial help from the European Union in accordance with article 14 of the Regulation.

3. GRTgaz's request for a cross-border costs allocation of the Val de Saône project

The Val de Saône project is one of the projects of common interest selected by the regional group North-South Western Europe; it is one of the 248 projects of the list published by the European Commission in October 2013.

The Val de Saône project consists in the implementation of a 200km long pipeline in the North-East part of the French territory, in building a compressor station and renovating three interconnections. The implementation of the Val de Saône project is essential to remove the congestion between the North and the South of France. It is necessary to create a single market area in France, in combination with reinforcements in the Southern part of the territory (Eridan or Gascogne-Midi). Although it does not directly create additional interconnection capacity with adjacent countries, this project reduces the constraints on the flow of gas between Southern Europe, in particular the Iberian Peninsula, and North-West Europe, and it leads to reducing the isolation of the Southern part of the French market.

On 31 October 2013, the request for a cross-border sharing of the costs of the Val de Saône project between France and Spain, submitted by GRTgaz, was received by CRE; an equivalent request was received by CNMC on 6 November 2013. Article 12(4) of Regulation (EU) No 347/2013 provides that the national regulatory authorities take coordinated decisions on the allocation of the investment costs that should be borne by each network operator, within six months after the receipt of the last investment request by the national regulatory authorities concerned.

The cost/benefit analysis, which has to complement the request for cross-border cost allocation, was submitted to CRE and CNMC by GRTgaz on 24 January 2014. Given that there was no methodology prepared by ENTSOG¹ that project promoters could use, GRTgaz has used the results of the study that CRE commissioned from the consultancy firm Pöyry, which aimed at evaluating the impact of the creation of the single trading point (PEG) in France. In addition, GRTgaz consulted the Spanish transmission network operator Enagas.

4. CRE and CNMC's analysis of the benefits of the project

The cost/benefit analysis presented by GRTgaz builds upon the results of the study conducted by Pöyry, which analysed three scenarios on the evolution of the global context, in particular with regards to the price of liquefied natural gas. The methodology retained consists in evaluation the effects of the creation of a single market place on the formation of prices, depending on the arbitrages performed by market playing and on the evolution of the flow patterns associated with the removal of the north to south congestion.

In the reference scenario, in which current market conditions persist, GRTgaz puts forward that the Val de Saône project generates a benefit evaluated at 1681 million euros over 2019-2038. Taking into account the price spreads observed between PEG North and PEG South, 7,4 €/MWh on average between November 2013 and January 2014, the benefits could be even more significant. The sensibility analysis shows however that, if Europe should sustainably become more attractive for LNG, the benefits could decrease significantly.

¹ Article 12.3(a) of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructures

With regards to the cross-border benefits, the Pöyry study shows that the creation of a single market place could bring benefits to Spain, with the connection to a liquid market place, which itself is well-connected to the market places of North-West Europe. In the reference scenario, over 2019-2038, the benefits for Spain linked to a decrease of the gas price are evaluated at 515 million euros, independently of the improvement of arbitrage opportunities for market players located in Spain. In alternative scenarios, in which the LNG price would decrease, these benefits would be less significant and could even be zero from the strict point of view of price formation.

CRE and CNMC have jointly assessed the results. They have balanced these results, in view of the current functioning of the Spanish market and not taking into account the arbitrage gains on the LNG market for Spanish players. However, CRE and CNMC have underlined the advantage for the Iberian Peninsula to be connected with a market place of the size of the PEG France. Taking into consideration the results from the cost/benefit analysis and in light of the qualitative benefits of the Val de Saône project and the perspective of a single market place, the project has a positive net benefit for France justifying its implementation. The benefits for Spain characterize the cross-border impact of the project.

5. Estimation of the costs and of the tariff impact of the project

The costs of the Val de Saône project, estimated by GRTgaz in the framework of the cost/benefit analysis at 650 million euros with a possible variation evaluated at more or less 20%. Consisting in the reinforcement of the core network of GRTgaz, and in so far as the creation of a single market place would lead to a loss of the revenues collected at the North-South link, the implementation of the Val de Saône project would lead to an average increase of GRTgaz's tariff levels of 9.5% in 2018. In parallel, France has engaged in an important program of investments that are complementary to the Val de Saône project for the creation of a single market place, and in the implementation of other investments aiming in particular at connecting the Dunkirk terminal and creating physical capacity from France to Belgium.

Considering the location of France within the European market, all these investments contribute to the achievement of the single market and to security of supply. A financial help from the European Union for the Val de Saône project would therefore be an efficient way to reduce the impact of the transmission tariff increase for the users of the infrastructures located in France, in particular for the cross-border trades. It would reduce the uncertainty on the effective benefits of the project from the point of view of market prices in case of significant decrease of the international LNG prices.

6. CRE's decision

CRE adopts the decision on the treatment of GRTgaz's request for cross-border cost allocation, which has been jointly drafted by CRE and CNMC and which is annexed to the present deliberation.

This joint decision takes into account ACER's recommendations published on 25 September 2013, advocating that, for projects of common interest belonging to the first list established by the European Commission, cross-border compensations should be restricted to situations where the project generates a negative net benefit for the hosting country. After assessing the cost/benefit analysis as presented by GRTgaz and concluding that the Val de Saône project generates a positive net benefit for France, CRE and CNMC decide that France will bear all the costs. These costs, in so far as they correspond to those of an efficient operator, will be integrated into the tariffs of GRTgaz, after deducting the potential financial help from the European Union. Therefore, Spain will not be requested to contribute financially to the investment costs.

The present deliberation will be forwarded to CNMC and ACER.

The present deliberation will be published in the *Official Journal of the French Republic*.

Done in Paris, 10 April 2014

For the Commission de régulation de l'énergie,
The President,

Philippe de LADoucette

Annex

Joint decision between CNMC and CRE on the treatment of GRTgaz's request for cross-border cost allocation for the project of common interest Val de Saône

In the framework of the new guidelines for trans-European energy infrastructures², the European Commission adopted on 14 October 2013 a list of 248 energy infrastructure projects, which are deemed to have significant benefits for the European Union and were thus granted the status of Projects of Common Interest (PCI). If the promoters of PCIs demonstrate with a cost-benefit analysis that their project generates benefits beyond the borders of the Member State(s) hosting the project, they have the possibility to submit requests for cross-border cost allocation (CBCA). These requests are to be addressed to the National Regulatory Authorities (NRA) of the Member States concerned. Only PCIs for which coordinated decisions on cross-border cost allocation have been taken by the NRAs are then eligible to Union financial assistance in the form of grants for work.

In this context, GRTgaz has submitted a request for cross-border cost allocation for the Project of Common Interest 5.7 (called Val de Saône) to the Comisión Nacional de los Mercados y la Competencia (CNMC) and the Commission de Régulation de l'Énergie (CRE). The request was received by CRE on 31 October 2013 and by CNMC on 6 November 2013. It was complemented with a cost-benefit analysis, received by e-mail on 24 January 2014, providing a monetized assessment of the benefits that the Val de Saône project is deemed to generate for France and Spain.

CNMC and CRE have jointly assessed GRTgaz's request, taking into account the Recommendation issued by the Agency for the Cooperation of Energy Regulators on 25 September 2013³. After having consulted the project promoter, GRTgaz, CNMC and CRE have concluded that the costs of the Val de Saône project should be fully allocated to France. Considering that this project does not create bookable capacities, its costs would need to be spread over the transmission tariffs of GRTgaz.

This joint decision is based on the analysis set out below.

1. Description of the project

1.1 Objective

The Val de Saône project comprises the construction of a 200 kilometer pipeline along the North-South axis of GRTgaz network in the east of France, the revamping of three interconnections and the addition of a compressor station on this segment.

The objective of the project is to reduce the transmission constraints on the North-South corridor in Western Europe by relieving the physical congestion at the interconnection point between the GRTgaz North and South areas, which is currently one of the most congested points within the European Union, and enabling the creation of a single market place in France. This objective is fulfilled with the implementation of Val de Saône, in addition to other projects such as Eridan or Gascogne/Midi.

1.2 Investment costs

In the CBCA request, the cost and benefit analysis is based on cost estimations provided by GRTgaz. The capital expenditures associated with the Val de Saône project are estimated at 650M€ and the operational expenditures discounted over 20 years are estimated at 299M€. Considering that the detailed cost studies

² Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructures and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009

³ Recommendation of the Agency for the Cooperation of Energy Regulators No 07/2013 of 25 September 2013 regarding the cross-border cost allocation requests submitted in the framework of the first union list of electricity and gas projects of common interest

are to be finalised by June 2014, GRTgaz expects these costs to potentially vary downward or upward within a range of 20%.

1.3 Maturity of the project

The Val de Saône project is considered mature enough to be eligible for a CBCA decision. The design studies are well-advanced and the public debate has been completed (held from 18 September 2013 to 18 December 2013).

CRE has organized a public consultation on the creation of a single market place in France between 18 February and 21 March 2014. Based on the results of this consultation and of the final cost studies, CRE should issue a deliberation on the launch of the Val de Saône project during the second quarter of 2014.

1.4 Commercial viability of the project

Once the congestion is relieved and a single market area is implemented, the GRTgaz North-South interconnection point will no longer be subject to capacity bookings. Hence, the project does not lead to additional revenues from capacity bookings but rather generates a decrease of revenues. As an illustration, the revenues generated by capacity bookings at the North-South link were of around 75M€ in 2013, representing 4.5% of the total allowed revenue of GRTgaz for the same year (1,662.4M€). This will need to be compensated by an increase of the tariffs at other points of GRTgaz's network. As a result, the aggregated impact on GRTgaz tariffs, including the integration of the new assets in GRTgaz's asset base, would amount to 9.5% in 2018.

2. Assessment of the benefits of the project

2.1 Benefits for France

The cost-benefit analysis (CBA) submitted by GRTgaz, provides a monetized assessment of the evolution of pricing mechanisms on the wholesale markets due to new flow patterns and the creation of a single hub in France. This CBA shows that, in the reference scenario, the Val de Saône project generates benefits for France in terms of cheaper overall supply price, reduction of the volatility premium and improved liquidity of the market place, as well as increased LNG arbitrage gains of which 50% are expected to benefit to mid-streamers active on the French market.

These benefits, calculated over the period 2018-2038, are estimated at 1680M€, which is significantly higher than the investment costs. The sensitivity analysis indicates that the benefits for France would decrease in scenarios where Europe becomes more attractive for LNG imports.

CRE considers that the results of the CBA are reliable enough to conclude that the Val de Saône project generates a positive net present value for France, if the market conditions observed in 2012-2013 continue. In addition, CRE highlights that the CBA study was conducted before winter 2013/2014. Taking into account the much higher price spreads observed between PEG Nord and PEG Sud between November and January 2013 (7.4€/MWh on average), the profitability of the investment would be increased in the reference scenario.

2.2 Cross-border benefits

CNMC and CRE agree that the introduction of a single PEG France is a step forward in the implementation of the European Gas Target Model and is beneficial to the European market as a whole. The proximity with a liquid PEG France is an advantage for the further development of the wholesale market in the Iberian Peninsula and will contribute to price convergence between the South-West and North-West markets in Europe. More widely, the implementation of a single PEG France favours the completion of the European gas market and the establishment of a European gas price index. With regards to the monetization exercise, the CBA analysis indicates that, in the reference scenario, relieving the North-South congestion enables increased pipeline flows from North-West Europe, thus reducing Spain's dependence on LNG supplies. Calculated over the period 2018-2038, this benefit in terms of lower supply price for Spain is estimated at 515M€. Additional benefits could be considered as a result of increased arbitrage possibilities for market players. As for France, the sensitivity analysis indicates that the benefits for Spain would decrease in scenarios where Europe becomes more attractive for LNG imports. In those circumstances, with LNG cheaper than gas through pipeline, CNMC believe these benefits for Spain could be negative.

CNMC agrees that the Iberian Peninsula could benefit from increased pipeline imports from North-West Europe, considered cheaper than the other sources of supply of the region in the reference scenario. Nonetheless, the monetized results cannot be confirmed because the calculation relies on the assumption that the Iberian customers contract their gas on hub-related pricing terms. This assumption is not accurate at this stage, although reforms are being discussed to favour the development of a deep and liquid wholesale market in Spain, in line with the European orientations. Thus, with regards to increased LNG arbitrage gains for Iberian mid-streamers, CNMC expresses doubts as to the extent these gains would be reflected in the price to be paid by the Iberian final customers and thus cannot confirm the monetized result. In addition, with regard to other scenarios, i.e. excess of LNG, CNMC express its concerns about if Val de Saône project alone is sufficient. Bidirectional flow should be fostered, so, other additional reinforcements, like Eridan and MIDCAT, should be considered.

3. Allocation of costs

In its Recommendation of September 2013, ACER takes the view that cross-border compensations should be restricted to situations where the country hosting the project is deemed to have a negative net benefit. According to the CBA presented in the previous section, the Val de Saône project is deemed to have a positive net benefit for France.

As a conclusion, **CNMC and CRE have reached the following joint decision:**

The project will not be subject to cross-border compensation and, thus, the investment costs of the Val de Saône project corresponding to those of an efficient operator should be fully assigned to France. Capital expenditures and operating costs will have to be recovered through the transmission tariffs of GRTgaz.